The Costs of the Crisis in Puerto Rico

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Added Costs of Federal Aid Delays

Puerto Rico has been devastated by the hurricanes that hit the island in September 2017. The loss of lives, the destruction of people’s homes, and the decimation of the economy have been a monumental tragedy. Moreover, Puerto Ricans had already been suffering a decade of economic decline, with GNP (adjusted for inflation) falling by 15%.

Puerto Ricans are U.S. citizens, though half of U.S. voters are not aware of this fact. As is the case with any other citizens in such dire conditions, Puerto Ricans deserve federal support. The cost of recovery from the hurricanes’ devastation could be as great as $90 billion, and much of this must come from the federal government. Yet, six months after the hurricanes, only a small share of what is needed has come from Washington.

This low level of federal support for Puerto Rico is not new. On a per capita basis, Puerto Rico receives less federal funds than any state. Indeed, per capita, the island receives only about half of the average of federal funds that go to states each year.

As U.S. citizens, Puerto Ricans are free to move to the states. The recession that has plagued the island since 2006 had already led to a mass migration. Between 2006 and 2017 (before the hurricanes) the Puerto Rican population declined by over 12% (468 thousand people) as several hundred thousand departed for the U.S. mainland. In the wake of the hurricanes, *hundreds of thousands more are leaving*. *The longer that substantial amounts of federal aid are delayed, the greater will be the economic decline and the migration to the states.*

While the tragedy in Puerto Rico cannot be described simply in terms of dollars, those costs need to be recognized. In addition to the tens of millions that are needed simply for rebuilding homes, business buildings, and infrastructure, these costs include:

* *A sharp decline in economic activity is taking place.* The Puerto Rican government predicts an 11.2% fall of GNP in FY2018 and no full recovery to the FY2017 level until mid-FY2022. These predictions are based on optimistic assumptions, but if correct, the loss of GNP relative to FY2017, will be about $8 billion in FY2008 and about $5 billion more in the subsequent three and a half years.
* Substantial additional federal aid to Puerto Rico could attenuate the tragedy. *But if that aid is delayed by six months, the positive economic impact on output would be reduced by more than 6%.* If, for example, a total of $20 billion in federal aid were spread evenly over a decade, with the six month delay the total addition to output in the decade would be about $5.6 billion less, an average of $560 million less per year or $1.5 million less per day—over $160 per year for each Puerto Rican.
* The employment loss due to delay would be similar: Again, if the total additional aid amounted to $20 billion spread over ten years, the cost of the six month delay would be 26 less jobs created per day on average, or a loss of 47 thousand job-years over the decade.
* Regardless of the federal aid (and other funds) that come to Puerto Rico, the post-hurricane emigration will continue for some time. Beyond the disruption of this exodus, both to people’s lives and to the economy, substantial costs will be created for Puerto Rico, states, and the U.S. Treasury. Assuming that this migration amounts to a 10% reduction in the island’s population as compared to July 1, 2017, the costs will include the following:
* *The substantial flow of funds that go to Puerto Rican’s as Social Security and Medicare will be greatly reduced as the exodus continues*. The loss will be over $1 billion per year, and will (because of the multiplier effect) reduce total demand by over $1.5 billion per year. In addition, because Medicare payments are higher in the states than in Puerto Rico, the Medicare costs to the federal government would increase by between $100 million and $300 million.[[1]](#footnote-1)\*

About one-quarter of the migrants would be Social Security recipients, with the average recipient receiving about $10,000 annually. About 11% would be Medicare recipients, with the average cost per recipient in Puerto Rico about $5,200, and the average cost in the states about $8,700.

* The states where Puerto Ricans go when they leave the island will receive a stimulus provided by the Social Security and Medicare funds that will come with the migrants. However, *the state government’s budgets will bear burdens*. Florida, for example, where the largest share of the migrants is resettling, could experience as much as a $100 million increase in Medicaid costs (despite that fact that the federal government picks up a majority of the Medicaid costs).

With approximately 85,000 of the migrants covered by Medicaid or CHIP, this would mean the average recipient migrant would cost the states about $1,200 under these programs.

* Also, *the influx of children from Puerto Rico to the schools will also create costs for state and local governments*. Florida, again, could see its school budgets rise by over $200 million, and Pennsylvania (the state with the second largest share of school-aged migrants) would suffer a similar burden (as higher costs per student could bring its budget to a level similar of that in Florida, even with a smaller number of new Puerto Rican students; costs per pupil in Florida are about $8,900 per year, while they are about $15,000 in Pennsylvania).

1. \* In 2012, about one in four Puerto Rican residents received Social Security—retirees, people with disabilities, children, widows and widowers, and spouses. Here, the assumption is that the population’s structure of migrants is the same as that of the population at large. The share of the population receiving Medicare or military health coverage is about 11% (the same as in the states). However, a very large share of the populations is on Medicaid/CHIP—49%, whereas the figure of the states is 20%. [↑](#footnote-ref-1)