**The Puerto Rican Economy: Fifteen Theses**

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1. *Both the immediate debacle of the Puerto Rican economy and the longer run economic malaise can be mainly attributed to the island’s political status as a territory of the United States.* Substantial and lasting economic development will not come under territorial status.
2. *Economics cannot be separated from politics. Puerto Rico’s political status and its poor economic condition are bound together.* In particular, lacking as it does a voice in Washington, Puerto Rico is treated poorly compared to the states in many federal programs (see below).
3. *Although officials in Puerto Rico have followed poor economic policies and taken actions that contributed to the current poor economic conditions, basic responsibility for conditions on the island lies with the U.S. government.* As a territory of the United States, Puerto Rico is literally owned by the U.S. government. According to the U.S. Constitution, “The Congress shall have Power to dispose of and make all needful Rules and Regulations respecting the Territory or other Property belonging to the United States.” With ownership comes responsibility.
4. *The Puerto Rican economy has been performing poorly for decades, lagging further and further behind the U.S. economy.* When compared with some national economies with which it was on a similar level in 1970 in terms of income per capita, Puerto Rico has done quite poorly. The Puerto Rican economic record is dismal, for example, when compared to the economy of the Republic of Korea.
5. *The severe recession that has plagued Puerto Rico for the last decade, while having particular causes, should be understood in the context of the decades-long poor performance. It is the extreme expression of this long-term poor performance.*
6. *Policy makers in Puerto Rico have been mired in a history of dependence on Washington and externally based firms.* Working from a position of subordination in the U.S. polity, they have been unable to extricate themselves from a pattern of short-run and misdirected economic policies.
7. *Continually looking outside the island for economic stimulus, either from U.S. firms’ investments or federal government favors, policy makers have failed to focus on creating the social foundations for economic progress, Puerto Rican-based businesses and a more highly skilled labor force.*
8. *The general economic strategy pursued by the Puerto Rican government and encouraged and enabled by the U.S. government has long been a failure.* *This strategy has been the combined actions to (a) provide special tax breaks to firms, ostensibly to encourage their investment on the island and (b) attract externally based firms (especially those based in the states) to invest and undertake production on the island.* Although these policies contributed to the high rate of economic growth and structural transformation of the economy in the quarter century following World War II, they have been relatively ineffective since the mid-1970s. To a large extent, the early success of this strategy was possible because of the context: relatively low wages in Puerto Rico and the special access that firms operating in Puerto Rico had to the U.S. market (compared to firms operating in other low-wage regions of the world). This context was ephemeral. Moreover, the success that was attained in the post-World War II period depended on a huge out-migration, as hundreds of thousands of Puerto Ricans departed for life in the states.
9. *Section 936 of the U.S. tax code failed to generate substantial economic growth and employment, and the current recession cannot be attributed to the elimination of 936 over the 1996 to 2006 period.* Indeed, it is more reasonable to attribute the current economic problems to the existence of 936, for it led to a distortion of the economy and economic policies. This distortion is evident in the over-reliance on manufacturing and the failure of the government to support other lines of economic activity (e.g., everything from tourism to IT) and to build the foundations for broadly-based economic growth though enhancement of the social and physical infrastructure. During the 1980s and 1990s, Section 936 was costing the U.S. Treasure about $4 billion a year (in today’s dollars). While it was not a good program for Puerto Ricans, it did yield substantial gains for several U.S. based firms, especially pharmaceutical firms, and is thus a fine example of “corporate welfare.”
10. *The long-term poor economic record of Puerto Rico was largely ignored, as policy makers and analysts seemed to think that the rapid growth era of the 1950s and 1960s—with its reliance on low-wage labor, tax breaks for U.S. investors, and special access to the U.S. market— had never ended.* The federal government paid little attention to this poor performance until the current severe crisis led to a surge of migration to the states and threatened the financial investments of U.S. bond holders—often large mutual funds and hedge funds.
11. *This myth of continuing economic success was maintained by a focus on Gross Domestic Product (GDP), which includes the large profits of U.S.-based firms operating in Puerto Rico and is a misleading measure of the well-being of the Puerto Rican people or Puerto Rican firms.* Gross National Product (GNP) is a better measure of the health of the Puerto Rican economy, and GNP has grown more slowly than GDP since 1970. By 2000, the GDP-GNP gap had grown to the point where GNP was only two-thirds as large as GDP, and this wide gap continues to the present day.
12. *Contrary to the view that Puerto Rico is treated “generously” by the federal government in terms of economic support programs, Puerto Rico is treated poorly compared to the states in many such programs.* Prime examples include Medicare and Medicaid, the Earned Income Tax Credit, the Supplemental Nutritional Assistance Program, and the Child Tax Credit, as well as federal procurement programs. Administration of these programs in Puerto Rico on the same basis (i.e., by the same criteria) as they are administered in the states would provide (a) an immediate gain for tens of thousands of Puerto Rican families, moving many out of poverty, and (b) a major boost to the Puerto Rican economy.
13. *Stanching the current decline and putting Puerto Rico on a path of economic development will require at least four major steps:*

* *A resolution of the government’s debt crisis that would substantially reduce annual debt service obligatio*ns.
* *Equitable treatment in federal government programs. (See 12 above.)*
* *Substantial and continuing investment in the social and economic infrastructure.* A large share of this investment will need to be public investment, and this is unlikely to be attained without support from the federal government, at least, for example, through steps to reduce the public debt and perhaps some sort of guarantees that would facilitate future borrowing.
* *A major reformation of public administration*, including at least more effective tax collection, the elimination of unnecessary regulation and a major improvement in the efficiency of the regulatory system, and substantial reduction (if not elimination) of corruption.

*These steps would lay the foundation for and provide a catalyst to an expansion of private business activity. However, these steps are unlikely, if not impossible, while Puerto Rico remains under the current territorial status.*

1. *Economic analysis and policy development in Puerto Rico are seriously hampered by the poor quality of economic data. Indeed, not only are the data poor, but they are often managed—sometimes hidden—to serve political interests.* A prime example of the poor quality is that “real” aggregate economic figures are presented in terms of 1954 prices, rendering, for example, GDP and GNP figures virtually meaningless. Regarding the political influence over data, in 2010, the government attempted to prevent the release of a new consumer price index, and threated to fire the Director of the Instituto de Estadísticas when he ignored the government’s efforts to suppress the data. More broadly, a Puerto Rican law called for certain data not to be released in an election year until after the election.
2. *The current political status of Puerto Rico is not a viable foundation for economic progress, and it also a violation of fundamental human rights.* Both statehood and independence are options. Statehood offers a clear and promising foundation for economic gains, not least because it would give Puerto Rico a role in the operation of the federal government with a full complement of congressional delegates and votes for president. Economic gains from independence are less likely. There are few examples of major economic progress among small, island countries. Moreover, the loss of U.S. citizenship that would come with independence is unacceptable to most Puerto Ricans, and for that and other reasons independence has little support on the island.