

Fact Sheet:

Economic Benefits of Puerto Rico Statehood

February 2021

Territorial Inequality Inherently Limits Puerto Rico's Economic Development: Under the current territory status over 3.2 million U.S. citizens in Puerto Rico can and do get treated unequally under various federal laws and programs, which results in lower economic performance, lower federal investments on the island and a lower quality of life for its residents. Some of the most egregious examples of this federal inequality include: health benefits for impoverished and elderly people (Medicaid and Medicare); nutritional assistance for low-income families (SNAP); tax relief for families with one or two children (Child Tax Credit); tax incentives to encourage labor force participation (Earned Income Tax Credit); low federal procurement; among countless others. This increases the demographic pressure on Puerto Ricans to move stateside, which has led to a massive population decrease on the island further weakening the local economy and propagating a negative feedback loop.

- **Statehood Means Equal Treatment Under Federal Laws & Programs:** Under statehood U.S. citizens in Puerto Rico would be treated equally under federal laws and programs, providing them equal benefits as well as equal responsibilities. This would boost the local economy, increase federal investments and significantly increase the quality of life in Puerto Rico. This would attract people to return to Puerto Rico and boost the economy, creating a positive feedback loop.

Piecemeal Approaches to Puerto Rico's Problems Help, But are Just Not Enough: Even though Congress has paid increasing amounts of attention to Puerto Rico in the last decade due to the various crises that the island has faced, it has taken a sporadic and piecemeal approach. While this type of action helps to temporarily alleviate some issues (such as the periodic extensions of funding to postpone the "Medicaid cliff," or funding for disaster recovery after Hurricane Maria), it fails to allow for long-term progress because they have to be continually renegotiated in Congress, and because the ultimate trajectory of the Island remains in limbo. The failure by Congress to recognize how the economic, fiscal, social and governance challenges of Puerto Rico are inherently connected to the inequality and lack of full democracy inherent to territorial status presents a real threat to the island's long-term recovery and directly undermine all efforts to help Puerto Rico develop to its full potential. The Puerto Rican government itself also faces enormous challenges when crafting policy on the local level precisely because the island's final status is unknown.

- **Statehood Would Provide Stability Needed for Long Term Planning, Recovery & Sustainable Development:** While statehood will not be a panacea to Puerto Rico's problems, it would allow the development of a coherent and long-term policy framework necessary to maximize Puerto Rico's potential by providing certainty and stability. Statehood would give Puerto Rico the representation needed in Congress and the votes for President needed to ensure the best usage possible of federal laws, policies and programs for the island's benefit. Additionally, state level decision makers would have a stable view of the island's legal and constitutional terrain as they plan and implement policies and laws in a way that can support long-term recovery and sustainable economic development.

Risk of Territory Status Reduces Investment in Puerto Rico: The uncertainty about Puerto Rico's future propagated by its current territory status also generates a significant disincentive for investors (local, stateside and foreign) because of the risk it represents that Puerto Rico could someday be made independent or more likely continue as a territory with the U.S. Congress treating it unequally and arbitrarily under federal laws, programs and policies. Puerto Rico's tax system is a patchwork of laws

and regulations which treat the jurisdiction as domestic for some purposes but foreign for others generating complexity and confusion that deter investment. While certain tax loopholes possible under the current status have allowed for periods of economic growth, particularly in certain sectors such as pharmaceutical manufacturing, they have failed to generate sufficient jobs, local wealth and capital creation to fundamentally change the island's economic satiation. Additionally, an overemphasis on "industrialization by invitation" based on tax exemption has created a fragile economy that has underdeveloped the various other sectors of the economy where Puerto Rico can have real competitive advantages vis a vis competitors stateside and globally.

- **Statehood Would Help Unleash Puerto Rico's Full Economic Potential:** Under statehood investment in the island would increase from the certainty that the question of Puerto Rico's future political status has been definitively resolved as well as the knowledge that the island would be treated equally under federal laws, programs and regulations compared to other states. When the aspect of certainty for investors and equality under federal laws are combined, statehood would enable Puerto Rico to develop to its full economic potential. Local businesses especially would appreciate a definitive and permanent change that would provide clarity and certainty about the future tax and regulatory environment. Just the news of Puerto Rico's admission as a state alone would make global headlines and spur interest in the island as a destination for both tourists and investors. This would follow a trend of increased economic growth that has been observed historically in territories that were admitted as states, most recently in both Alaska and Hawaii.

Territorial Inequality Promotes Continued Debt Crisis: While the 2018 [GAO report on factors contributing to Puerto Rico's debt crisis](#) rightfully pointed out the local government's inadequate financial management and oversight practices, and bad policy decisions regarding debt spending and pension shortfalls, it failed to recognize the systemic connection between Puerto Rico's prolonged economic contraction and its territorial status. However, comments from the Government of Puerto Rico found in that report provide a structural analysis of the inherent limitations of Puerto Rico's territorial status where the island's inequality and lack of democracy create perverse incentives for large deficits and debt spending, and fiscal crisis due to the ease of borrowing and underinvestment by the federal government. So while increased responsibility, transparency and accountability in local government decision-making is essential to resolving the debt crisis, it is not sufficient because federal underinvestment under territory status will always hamper Puerto Rico's aggregate demand and cause outmigration making sustainable economic growth a difficult if not impossible proposition.

- **Statehood Would Facilitate Debt Restructuring by Fostering Economic Growth:** Expert after expert has indicated that on top of all the good governance measures which have been implemented since PROMESA was enacted, the critical factor for successful debt restructuring and reentry into financial markets for Puerto Rico is economic growth. Statehood would provide the stability of recurring federal funding streams to increase aggregate demand, tax incentives for employment, liquidity and the velocity of money in the local economy, factors critical to sustained economic growth. As the economy grows the capacity for debt repayment increases and the access to capital markets for the responsible use of debt instruments as a means of making critical investments to generate even more growth can be restored.

Territory Status Prevents Puerto Rico's Full Integration into U.S. Economy: Puerto Rico's territorial status also prevents it from being fully integrated into the U.S. economy. While Puerto Rico does enjoy full and free access to the U.S. market for its products, and is included in U.S. trade agreements with foreign nations, its unique regulatory and tax environment make many U.S. firms reluctant to do business on the island. Other U.S. firms are hesitant to invest because they fear an ultimate change of status would upend their business models. For example, exporting firms would lose access to

U.S. free trade agreements if Puerto Rico became independent. Puerto Rico's lack of representation on the Federal level severely limits its ability to impact Federal legislative and rulemaking processes which further hampers its integration into the broader U.S. economy.

- **Statehood would Increase Interstate Commerce:** Even with all of the economic hardship that Puerto Rico has experienced in the last several decades, under the current territory status the island engages in tens of billions of dollars in interstate commerce per year. Unleashing Puerto Rico's full economic potential under statehood would significantly boost consumer demand and interstate commerce between the island and other states. This would support the growth of businesses and jobs both in Puerto Rico and all states that it engages in interstate commerce with.
- **Statehood Enables Puerto Rico to Become a Bridge to Latin America and the Caribbean:** Under the current territory status Puerto Rico is a political liability to the U.S. at the international level where America has been repeatedly chastised at the UN, OAS and other international bodies for keeping a modern-day colony. Under statehood America would regain its moral standing in the international community by honoring the full civil and political rights of its citizens in Puerto Rico. Additionally, unleashing Puerto Rico's full economic potential can enable the island to serve as a more powerful bridge to increase commerce and trade with other countries in Latin America and the Caribbean. This is because of the highly capable, culturally competent and bilingual workforce on the island, as well as its geographic proximity to the region.

Independence and Free Association are Valid Options for Puerto Rico, but their Economic Prospects Are Much More Uncertain than Statehood: While a growing minority of voters in Puerto Rico have come to support full independence or independence with "free association," which are the only other non-territorial options other than statehood, the economic prospects of the island under these alternatives is significantly less certain and more-risky than under statehood. As a small independent country Puerto Rico would face the significant challenge of fundamentally restructuring its economy to be more competitive with its international neighbors whose currency is weaker making their exports less expensive, wage rates are lower, labor laws provide less benefits to workers, environmental standards are worse, and general public welfare safety net system is weaker if not nonexistent compared to the states. So while it's definitely possible for Puerto Rico to develop economically under independence the potential benefits of that status are distant and uncertain, and the policies needed to achieve them are likely to be politically toxic.

- **Statehood is the Only Alternative to Territory Status with Majority Support and with a Clear Path to Sustainable Economic Growth and Prosperity:** Support for statehood at the ballot box has become increasingly clear with three votes in favor in the last eight years, including an undisputable majority of 52.5% in the November 2020 statehood "YES" or "NO" vote. Given that neither full independence or independence with free association is able to get anywhere close to majority support at the ballot box, then statehood really is the only alternative to continued territory status that has been able to garner majority voter support. The growing popularity of statehood among voters is fundamentally rooted in the understanding that full equality and democracy for Puerto Rico as a state of the Union would have more immediate and certain economic, social and political benefits for the island than any other non-territory option.

Justice Delayed is Justice Denied: Delaying Congressional action on the resolution of Puerto Rico's ultimate political status would only serve to prolong the injustice of territorial inequality and dysfunction.

- **Congress Must Act Now to End Territory Status & Offer Statehood to Puerto Rico!**