

Testimony by  
Miguel A. Ferrer  
on the Hearings on  
the Puerto Rico Status Question  
before the  
Subcommittee on Interior, Insular & International Affairs  
of the U.S. House of Representatives,  
Hon. Ron de Lugo, Chairman.

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Miguel A. Ferrer is the President of PaineWebber Incorporated of Puerto Rico. The views he presents in this essay are personal and therefore not necessarily those of the firm he presides.

My name is Miguel A. Ferrer.

I am here as a concerned Puerto Rican and U.S. citizen who wants to share with Congress his questions about the economic implications of the political status determination process.

A fair starting point is to consider that in the normal course of events Puerto Rico is a generally unknown factor in the National political arena. As a result, the feeling here in San Juan is that the status process is not being correctly perceived or weighed.

So I am taking the liberty of projecting the economic stakes of a status change in Puerto Rico to the equivalency of those stakes in the National scale.

You will be amazed, I trust, at the magnitudes of the problem at hand.

For example, a careful look at the 936 Corporation question demonstrates that a status change could impact:

**70% of Puerto Rico's G.N.P.** Puerto Rico is an export based economy. 70% of its Gross National Product comes from exports. The island's export industry is mainly comprised of U.S. manufacturing corporations which were attracted to Puerto Rico for tax advantages; i.e., 936 Corporations. To the extent a change in status negatively affects the advantages of a Puerto Rico location, to that extent is 70% of the GNP at stake. Projected to the National scale we are dealing with the equivalent of placing \$3.5 trillion at stake.

**58 % of the island's manufacturing jobs.** 936 Corporations provide 58% of the total manufacturing based jobs in Puerto Rico. To the extent a change in status negatively affects the advantages of maintaining a Puerto Rico manufacturing operation, to that extent are those jobs at risk. Projected to the National scale we are dealing with the equivalent risking of 32 million jobs.

**35 % of our bank assets.** The deposits of 936 corporations make up 35% of total bank assets and about 50% of all financial assets in Puerto Rico. To the extent a change in status negatively affects the advantages of maintaining such funds in Puerto Rico, to that extent are those funds jeopardized. Projected to the National scale we are dealing with the equivalent of jeopardizing \$1.2 trillion.

At the immense stakes of status change, prudence is an absolute requirement.

Therefore, great import must be given so that every significant economic dimension is examined and understood in a process open to the Puerto Rico electorate.

I deal with economic issues and questions every day; it is part of my job. Yet, as I give thought to the economic areas which will be affected by a status change-- 936 Corporations, Federal Transfer Payments, Taxes and local Institutions-- I feel confused.

And I ask:

What will happen with Federal Transfer Payments?

What will happen with 936 Corporations?

What will happen with Taxes?

What will happen with our local Institutions?.

In face of such economic considerations, which remain adequately unanswered, I believe Puerto Rico's current status provides a proven economic structure and as such should be left untouched.

But there are other opinions. And therefore my interest in participating in these hearings.

The average Puerto Rico voter has no meaningful measure by which to judge how the island's economy would fare without its historic tax advantages. Even more difficult to visualize are the economic scenarios of independence or statehood being presented.

Developing and presenting to the Puerto Rico electorate an accurate and understandable picture of the economic probabilities of each status alternative is a must.

Senator J. Bennett Johnston, the Chairman of the U.S. Senate Committee with responsibility for the Puerto Rico status issue announced his commitment to developing a fair plebiscite process. We understand that Representative Ron de Lugo, the Chairman of this Subcommittee has adopted the same goal.

In the case of the economic questions of the Puerto Rico Status process, the term "fair" has two sides:

First, the U.S. Government must make sure it does not inadvertently fuel the confusion or hamper Puerto Rico's ability to intelligently decide its future.

Secondly Congress should assume the responsibility of providing whatever resources required to provide adequate information to the people of Puerto Rico.

The bet here is that, given top technical talent & resources, each of the status groups will be able to develop its particular economic scenario in sufficient detail to make it understandable to the average Puerto Rico voter as the model for implementing the economics aspects of the resulting status decision.

Congress would then ascertain thru its own means that the factual information is correct, that the projections being introduced are reasonable and the conclusions viable, and thus acceptable as a document upon which to base this important determination.

Widely disseminated, this information will allow Puerto Rico voters to understand the probable economic future of each status alternative and thus make a knowledgeable, intelligent choice. Anything less would not be fair.

Finally, I am including for the record, a more complete presentation on this matter.

Thank you.