

Written Testimony

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I present this testimony as a Puerto Rican and U.S. citizen who wants to share his concerns about the economic implications of the proposed political status determination process being considered under a bill (S. 712) now before Congress.

Recently (April, 1990) the Congressional Budget Office (CBO) issued a relatively ambitious report which, in terms of the economic consequences a political status change to statehood or independence entail, raises as many questions as it answers while indirectly validating the multiple advantages of the existing Commonwealth status.

In this testimony we will address some of the findings of the CBO Report.

A fair starting point toward that objective is to state that in the normal course of events Puerto Rico is a generally unknown factor in the National political arena.

Even those most intimately related to the Puerto Rico issue within the Federal Government, what the San Juan press calls "Washington", are only now beginning to perceive the momentous economic questions linked to a status change.

To make sure my comments are understood, first I will present, in a nutshell, how the current Puerto Rico economic situation came to be and then, secondly, present the enormous economic stakes of a status change for the island.

Soon after the end of World War II, Puerto Rico started to shed its label as the "poorhouse of the Caribbean" by shifting its human and fiscal resources from its traditional uses (sugar, coffee and tobacco agriculture) into the development of a modern industrial platform.

Two concurrent events framed the effort: on the political front Congress granted Puerto Rico a significant measure of self government thru its Commonwealth status, while on the economic side the island launched "Operation Bootstrap", an economic development program based on attracting U.S. industrial firms to set up manufacturing operations in Puerto Rico via tax benefits.

Reviewing the Puerto Rico's social and economic achievements over the past 40 years one needs to conclude that the design of the present Commonwealth status has provided the basic foundation for a "Puerto Rican Miracle".

And a miracle it is since the average real GNP growth for these four decades has been 4.4%, a full 25% over the USA continental U.S. growth rate for that period .

Puerto Rico is still a long way from being the "rich" land its name implies, yet the process to provide a decent life for all its citizens is well underway and significant social betterment is within grasp.

For example, Puerto Rico's standard of living is only one third that of the United States, half that of the state with the lowest per capita income and its unemployment still stands at 15%; roughly three times the current level of unemployment (under 5%) in the continental U.S.

On the other hand, Puerto Rico's standard of living is currently the highest in Latin America and but a stepping stone away from the level of Industrial Market Economies.

This achievement has been obtained without a major political upheaval and in harmony with the United States. In 40 years we have transformed Puerto Rico from a poverty stricken agriculture based economy with an unemployment in excess of 30% to an industrial and services based emerging economy that has ranked high among the industrial nations in consistent GNP growth.

Today Puerto Rico is the 8th largest trading partner of the U.S. in the world. And measured on a per capita basis, the island is by far the largest importer of U.S. goods in the world.

A projection of Puerto Rico's historic growth vs. that of the U.S. indicates that in approximately 85 years Puerto Rico will reach the expected standard of living of the continental U.S. at that moment. Were Puerto Rico, as presently expected, to accelerate its growth, while the continental U.S. economy maintained its historic growth levels, per capita parity would be achieved much sooner.

So when we talk of the political status determination process we are speaking of risking a well proven system.

I believe that for Congress to appreciate the magnitude of what Puerto Rico will be forced to put at stake in a status change it is necessary to project the island's social & economic realities to their equivalency in the National scale.

For example, let us consider Puerto Rico's population density: 3.3 million persons living within a 4,000 square mile island.

Was the continental U.S. to have a similar density it would have 2.2 billion inhabitants, nine times the present U.S. population, twice China's current population. With such a population pressure, the continental U.S. would need and have, as Puerto Rico needs and has, an economic development strategy suited to those particular circumstances.

In the case of Puerto Rico, the island's industrial surge over the last four decades is the result of coupling Puerto Rico's own tax advantages with those offered by the two applicable sectors of the IRS Code to US corporations doing business outside the continental U.S., in a U.S. "possession" - first Section 931 and more recently Section 936. It is understood that section 936 is only sustainable under Commonwealth Status.

In this light, 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 our GNP is at stake. Projected to the National scale we are dealing with the equivalent of placing \$3.5 trillion of 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 financial assets of \$1.2 trillion.

These potential risks are confirmed by the CBO Report:
".....Statehood...may eventually bring about a significant reduction in the growth of the Puerto Rican economy... initiated because, under statehood,Puerto Rico would no longer enjoy tax advantages provided by Section 936 of the Internal Revenue Code... "

Thus, the CBO report implies by differentiation, that Commonwealth is the status most suited to the island's best economic interests.

It would seem that as the CBO report confirms the enlightened economic wisdom of the Commonwealth status, and current events in Eastern Europe strongly suggest by reflection the validity of the pragmatic & flexible nature

of its political design, we can feel proud of having devised and developed a political status concept which is ideally suited to our economic and social circumstances.

It is the tax benefits that Puerto Rico uniquely can offer to attract industry to its doorsteps, that have been able to overcome its significant disadvantages as a manufacturing site.

Similarly as of late Puerto Rico has effectively offered broad tax benefits to capital formation and entrepreneurial activities. These are expected to propel Puerto Rico a new level of economic momentum; where local risk capital will meld with the 936 corporate funds to provide the extra dimension of growth Puerto Rico needs to catch up with the continental U.S. during the 21st Century.

More so as a status allowing local autonomy in many matters, the Commonwealth concept is deeply rooted in Puerto Rican history.

In real terms Commonwealth offers Puerto Rico, a densely populated tropical island nested in the Caribbean with a dynamic Spanish speaking Afro-Hispanic culture, the most comfortable fit within US constitutional limits.

In other words, Commonwealth provides many of the best features of statehood, while allowing the island autonomy in most local matters and therefore giving Puerto Rico breathing space for the survival and growth of its unique culture.

Without hesitation I submit that Puerto Rico's current status provides the island with an effective and proven economic and political structure which should be left untouched.

But there are other opinions. The plebiscite process launched by President George Bush continues ... And therefore my interest in presenting this testimony.

As a result of the adverse publicity arising from the statehood proponents against the conclusions of the CBO report, the average Puerto Rico voter still has no meaningful measure by which to judge how the island's economy would fare under a status other than Commonwealth.

I deal with economic issues and questions every day; it is part of my job. Yet, as I give thought to the economic uncertainties which will originate from a status change--

* the assumption by Puerto Ricans of their share of the National Debt on top of Puerto Rico's substantial Debt,

* the survival of our 936 industrial base and its collateral jobs,

* the social impact of increased Federal Transfer Payments on a devastated economy,

* the new tax burdens and

* the destiny of Local Institutions

-- I feel deeply concerned, and quite honestly, confused.

The economic projections being offered by the proponents of an immediate status change are fraught with unfounded expectations on how Puerto Rico would substitute its present condition. That is to say that the fate of many is currently being weighted on truly voodoo economics. As such, the conclusion presented in the CBO report that a statehood preference implies a leap of faith could be better described as a fall into the abyss.

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

Both President George Bush and Senator J. Bennett Johnston, the Chairman of the U.S. Senate Committee which authored S 712, have stated their commitment to developing a fair plebiscite process. We understand that the Senate Finance Committee has adopted the same standard.

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 are required to provide adequate information to the people of Puerto Rico.

Here the CBO Report sheds some indirect hope by calling for the development of new economic methods able to quantify the economic implications of a status change: "...Many of the **most important economic implications of the changes in status are impossible to quantify with the usual economic methods...**"

Only by taking advantage of this opportunity and supporting the development of the techniques & methods required to objectively quantify and project the probable economic condition and trends of Puerto Rico in, let's say, year 2000 under the three different political status alternatives, can Congress guarantee a fair, even playing field for the process at hand.

How else can the average Puerto Rico voter be given access to the information he needs to make a make an educated status decision?

No one is as motivated to take this challenge by the horns than each of our three political status groups.

In addition to adequately supporting this essential, partisan research, Congress would also ascertain thru its own means, for example the CBO, 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 unfolding of each status alternative and thus make a knowledgeable, intelligent choice. Anything less would not be fair.

Finally, I will answer to the unasked question of why we should expect Congress to provide assistance to Puerto Rico in its quest toward realizing its goals by quoting a belief true to many cultures: "If one saves a life one assumes responsibility for that life's wellbeing"

When in the name of freedom and democracy U.S. troops landed in Guánica in 1898, the USA took upon itself the responsibility for the wellbeing of Puerto Rico's inhabitants.

The World Community expects no less.

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