Congressman Pedro R. Pierluisi
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Good afternoon.

I want to thank your president Jorge Cañellas Fidalgo, your president-elect José "Pepe" Izquierdo, and all of you at the Puerto Rico Chamber of Commerce for inviting me to speak today.

The subject of my remarks is the recent report by the Government Accountability Office, known as the GAO, about the fiscal impact of Puerto Rico statehood on the federal government—that is, on federal spending and federal tax revenues.

Once I conclude my presentation, there will be a conversation with Dr. Carlos Colón de Armas and Professor Antonio Fernós Sagebién, during which we can delve more deeply into this topic and I can answer any questions you might have.

All of you are aware that I oppose Puerto Rico's current political status—which is an unincorporated territory of the United States—and that I support statehood for the island. I recognize that not everybody here shares my view. Nevertheless, I know that you are open-minded and that you form judgments based on facts and figures.

To frame my remarks, I should note that my opposition to the current status and my support for statehood emanate from two principles.

First, I believe it is morally unacceptable in the 21st century that the 3.6 million American citizens that reside in Puerto Rico cannot vote for the president and members of Congress that make the national laws that govern every aspect of our lives. I think it is intolerable that the federal government can—and regularly does—enact important laws that treat us worse than our fellow citizens in the states. Puerto Ricans are a proud people, and rightfully so. We should never accept having an undemocratic status that deprives us of political rights and political power.

Second, I oppose the current status because decades of empirical data make clear that the current status has held back Puerto Rico's economy and harmed quality of life on the island, and I support statehood because it is the status option that is most likely to strengthen our economy and create jobs, improve the business and investment climate, enable our government to surmount its severe fiscal problems, and reverse the current trend in which about 1,000 men, women and children leave Puerto Rico for the states every week.

I respect those who support nationhood for Puerto Rico, because nationhood is also a democratic and dignified status. But, as any comparative analysis will confirm, there is no question that statehood would improve the standard of living in Puerto Rico to a far greater extent than nationhood. In general, I urge you to reject the tired argument that Puerto Rico should focus on fixing its economy first and then focus on fixing its status afterwards, because the reality is that our status problem is the root cause of our economic problems.

With that as backdrop, let me turn to the GAO report. This report was requested by two of my colleagues in Congress in 2011. Since GAO began work on the report, two historic events have occurred. As you know, in a 2012 referendum sponsored by the local government, a majority of voters in Puerto Rico said they do not want Puerto Rico to remain a territory, and more voters expressed a desire for statehood than for any other status option. Moreover, in January, as a result of my initiative, Congress enacted a $2.5 million appropriation to enable Puerto Rico to conduct the first federally-sponsored referendum ever. The law states that the purpose of the referendum is to "resolve" the territory's ultimate status. I, supported by 132 Members of the U.S. House and Senate, have proposed to the local government that it use this appropriation to conduct a straightforward vote on Puerto Rico's admission as a state, with those supporting statehood able to vote "Yes" and those who oppose it able to vote "No." Nevertheless, to date, the Governor and Legislative Assembly have not indicated how, if at all, they intend to proceed. Such inaction is both troubling and highly revealing.

Meanwhile, over the past year, as you know better than anyone, Puerto Rico's longstanding economic and fiscal problems have devolved into the worst crisis in the island's history. The three credit rating agencies have downgraded the government's bonds to non-investment grade. Our unemployment rate stands at nearly 15 percent, compared to a U.S. national average of less than 7.0 percent, and more than 172,000 men and women on the island are looking for a job but cannot obtain one. The median household income in Puerto Rico is a little over $19,000 a year, while it is $51,000 in the states and, indeed, about $40,000 for Puerto Ricans in the states. Finally, as mentioned earlier, we are witnessing an extraordinary exodus of island residents—including many young, well-educated professionals—to the states. In short, GAO has released its report at a moment when territory status has driven Puerto Rico into a deep downward spiral and island residents are voting for statehood—at the ballot box and with their feet—to an unprecedented degree.

Having discussed the context of the GAO report, let me turn to its contents. It is important to bear in mind that the report is limited in scope. It examines statehood through a purely economic lens, and does so from the perspective of the federal government, as opposed to the Puerto Rico government or the Puerto Rico public. The methodology GAO uses to estimate the effect of Puerto Rico statehood on federal spending and revenues is straightforward. GAO observes how much funding Puerto Rico actually received under a specific federal program—or how much Puerto Rico actually paid in federal taxes—in a particular fiscal year, and then estimates how much Puerto Rico would have received—or paid—in that fiscal year if it had been a state. As GAO acknowledges, this methodology is static and backward-looking, rather than dynamic and forward-looking, so it cannot account for the full range of benefits that statehood would provide to Puerto Rico and the nation over time. Those mutual benefits would be enormous, as the most recent examples of Alaska and Hawaii prove.

In general, the GAO report reinforces the view that statehood would improve economic conditions and enhance quality of life in Puerto Rico.

On the spending side of the ledger, the report notes that Puerto Rico is treated unequally under important federal programs, and that it would receive equal treatment as a state. Based on GAO's analysis of Medicaid, Medicare, Supplemental Security Income, nutrition assistance, and highway funding—and taking into account programs GAO did not examine, like long-term care under Medicaid and federal subsidies for health insurance created by the 2010 *Affordable Care Act*—it can be calculated that statehood would inject an additional $9 to $10 billion into Puerto Rico's economy each year. This figure, which underscores the severity of the discrimination Puerto Rico confronts as a territory, is consistent with other federal reporting. For example, the U.S. Census Bureau reported that Oregon, a relatively wealthy state that has a population size similar to Puerto Rico, received over $29 billion from the federal government in 2010, whereas Puerto Rico received $19 billion—a $10 billion difference.

Over a decade, then, statehood can be expected to infuse $90 to $100 billion into Puerto Rico's economy. It is difficult to overstate the positive impact these funds would have on the quality of public services, the strength of the social safety net, consumer demand, corporate sales, and overall economic growth. Simply put, it would be a game changer, creating a new economic reality for Puerto Rico.

And let me be very clear—this is funding that is currently available to our fellow citizens who live in Florida, Texas, or New York. This is funding available to residents of Puerto Rico who *move* to any state. This isn't welfare. This isn't special treatment. This is the essence of equality.

Now, let me turn to the revenue side of the ledger. The GAO report is valuable because it debunks the argument that statehood would have an adverse fiscal impact on the U.S. treasury, since new federal outlays to Puerto Rico will be significantly counterbalanced by new federal revenues generated from the island, which could amount to $7 billion a year, depending on many variables. As Puerto Rico prospers—with individuals earning more and businesses becoming more profitable—federal tax collections will increase further.

The report thus reinforces that statehood, which is so plainly in Puerto Rico's interest, is also in the national interest. The United States will benefit when Puerto Rico's economy is strong, when its residents are not compelled to move to the states to achieve their dreams or vote for their national leaders, and when the island's tax base expands.

Now, let's dig a bit deeper into the subject of taxes, because—let's be honest—the Puerto Rico public has been bombarded by a misinformation campaign from statehood opponents regarding this matter.

With respect to individual income taxes, I have heard it alleged that hard-working island residents would have a large federal tax burden under statehood. The GAO report says no such thing, and the assertion is false. A typical household in Puerto Rico will pay the same or less in total taxes under statehood than it pays now. This is due to the application of federal tax credits like the Earned Income Tax Credit, the Child Tax Credit and the American Opportunity Tax Credit—which GAO estimates that, in the aggregate, could total $718 million annually. This is also due to the fact that the Puerto Rico government will be able to reduce its local tax rates—which are far higher than any state—once it no longer needs to finance a disproportionate share of public services.

Let me elaborate. First, as you know, under Puerto Rico's current status, employees and employers on the island pay all federal payroll taxes, which are used to fund the Medicare Trust Fund, the Social Security Trust Fund, and the federal unemployment system. According to the latest data, at least 80 percent of individuals in the United States pay more to the federal government through payroll taxes than they do through income taxes—and we are *already* subject to these payroll taxes. That is a critical point that statehood opponents either do not understand or choose to ignore.

In addition, it can be estimated that, given current income levels in Puerto Rico, 7 out of 10 households on the island will either have no federal tax liability or a negative federal tax liability—meaning that the household will receive a check from the federal government because it is entitled to one or more tax credits that exceed the amount of its preliminary tax liability.

To illustrate what I mean, let's examine the most recent statistics from the U.S. Census Bureau, which state that, of the 1.2 million households in Puerto Rico, 905,000 households—about 72 percent—earn income and receive benefits that total less than $35,000 a year. Many of these households will not meet what is called the "tax entry threshold." If your annual income falls below that threshold, you do not owe any federal taxes, although you can still choose to report your income to the IRS in order to receive refundable tax credits. The exact amount of the threshold depends on your relationship status and the number of children you have. For instance, it is around $10,000 a year for a single person with no children and about $32,000 for a married couple with three children.

Let me give three real-life examples of how federal taxation would apply in Puerto Rico under statehood:

- First, consider a single woman with one child who earns $12,000 a year. Once the standard deduction and personal exemptions are applied, she would have no taxable income. Moreover, she would be eligible for both an Earned Income Tax Credit of over $3,300 and a Child Tax Credit of $1,000, meaning she would receive a check from the federal government for $4,400. That is money in her pocket, to be saved or spent as she desires.

- Next, consider a married couple with no children that earns $15,000 a year. After deductions and exemptions, that couple would have no taxable income, and would receive an Earned Income Tax Credit of over $340.

- Finally, consider a married couple with two children that earns $30,000 a year. They would have taxable income of $5,750 and their preliminary tax liability would be $575. However, they would be eligible for both an Earned Income Tax Credit of over $4,000 and a Child Tax Credit of $2,000, meaning their initial tax liability would be wiped out and they would instead receive a check for nearly $5,500. By way of comparison, under the current territory status, this same family is taxed by the Puerto Rico government at 14 percent and does not benefit from federal tax credits, meaning they owe about $3,000 in income taxes.

I could provide more examples, but my overarching point is clear. If Puerto Rico becomes a state, about 70 percent of households will not owe federal taxes and many households—especially those with children—will fare much better than they do now as a result of federal tax credits. From the perspective of businesses, this is very good news because, according to economists, every additional dollar received by low and moderate income families in the form of tax credits has a significant multiplier effect in terms of increasing local consumer spending, stimulating economic activity, and spurring job creation.

Finally, on the issue of corporate income taxes, I want to be clear about what the GAO does and does not say, because—again—the other side has mischaracterized the report.

GAO observes that, in Fiscal Year 2009, the federal government collected corporate income taxes of $4.3 billion from Puerto Rico, which GAO notes is significantly higher than a typical year. GAO estimates that, if Puerto Rico had been a state in 2009, the federal government would have collected between $5 billion and $9.3 billion in corporate income taxes from the island. GAO also produced an alternative set of estimates to account for a scenario in which some businesses with activities in Puerto Rico could relocate under statehood.

As GAO acknowledges, and as its wide-ranging estimates confirm, it is extraordinarily difficult to make predictions about the impact of Puerto Rico statehood on federal corporate tax revenues given the number of assumptions and variables at play. So, let me just make several broader points.

First, GAO makes an important statement that I want to highlight. It says: "Statehood could raise Puerto Rico's visibility as a place for U.S. producers to locate. Likewise, statehood could eliminate any risk associated with Puerto Rico's uncertain political status and any related deterrent to business investment." In this regard, it is worth noting that corporate investment in Alaska and Hawaii—both domestic and foreign—dramatically increased after those territories became states.

Second, most corporations in Puerto Rico are local corporations, not controlled foreign corporations. Likewise, most workers in Puerto Rico are employed by local corporations, not CFCs. Under the current status, most local corporations have a very high tax burden. Accordingly, it is likely that, once Puerto Rico becomes a state and the island's corporate tax rates are adjusted downwards, most local Puerto Rico corporations—just like most Puerto Rico individuals—would owe the same or less in annual taxes than they do now.

Finally, with respect to CFCs, GAO explicitly cautions that the extent, if any, to which such corporations might relocate from Puerto Rico is "unknown." GAO also expressly notes that: "Taxes are only one of various factors corporations generally take into account when determining where to locate their operations." That is exactly right. Good business leaders also look at the health of the local economy; the ease of obtaining permits; the availability of skilled, educated workers; the price of electricity; the soundness of the legal system; the quality of infrastructure like seaports, airports, and roads; public security; the level of government corruption; and the availability of financing.

Puerto Rico is a highly attractive locale with respect to some of these areas, and clearly needs to improve in other areas. The first thing we need to do is reject the absolutely false notion that we will only be able to attract investment and compete with other jurisdictions if we offer massive tax breaks to large companies. This is the economic model we have followed for decades, and look where it has brought us. According to every economic indicator, we lag far behind every U.S. state, and the gap is only growing wider. And, of course, if Puerto Rico becomes a state, we will still be able to offer favorable tax and other incentives for companies to locate in Puerto Rico, just as New York, Washington and most other states do.

In closing, the GAO report has provided us with a great deal of relevant information, and it is important for us to continue discussing and debating this topic in a constructive manner. Thank you again for inviting me to speak, and I look forward to answering any questions you may have.