

Committee on Resources

Witness Testimony

STATEMENT OF THE CHAMBER OF COMMERCE OF PUERTO RICO BEFORE THE COMMITTEE ON RESOURCES U.S. HOUSE OF REPRESENTATIVES

*San Juan, Puerto Rico
April 19, 1997*

Introduction

The Chamber of Commerce of Puerto Rico wishes to thank this Committee for its efforts in addressing the status issue, as well as for allowing us to express the positions of our institution. The issue of the political status has been an open and unresolved question in the history of Puerto Rico. It creates serious divisions among our society, forcing us to devote valuable human and economic resources in its debate, without reaching yet a definite solution. The Chamber of Commerce certainly appreciates present Congressional efforts to find a democratic solution to this issue. In this paper we want to present our concerns and suggestions to your Committee, to promote the most democratic way to resolve this issue. This paper is based upon the resolutions adopted by the Assembly of our members on this issue from the year 1985 to 1996, as well as the positions adopted by the Executive Committee and the Board of Directors of our Chamber. The central focus in our analysis is the economic and social circumstances of our members and, what is more important, those of the Puerto Rican people. We identified several critical issues that your Committee has to address in the plebiscite legislation under consideration, to guarantee a fair and equitable process and an orderly economic transition, if the Puerto Rican people chose to change the actual relationship with the United States.

We want to point out that the Chamber is a nonpartisan organization which includes the full spectrum of private enterprise in Puerto Rico. It is one of the oldest private sector organizations on the Island, and its membership includes more than 1,600 firms, as well as 60 affiliated private associations.

The Puerto Rico Chamber of Commerce does not favor any particular form of political status. Its membership includes individuals from all perspectives. In this diversity it is a consensus on the need to resolve the status issue and bring stability to our society.

The position of our institution revolves around two main concerns. One is that the plebiscite process ought to be fair and well informed, for the people to make an enlightened decision. The other is that, if the Puerto Rican people chose to change the present status, an orderly and well-defined transition has to be clearly stated. This is of outmost relevance, because the people should know not only the final outcome of its decision, but the road to reach it, if they are going to issue a responsible vote.

The Plebiscite Process

The plebiscite process should be dealt on its own merits. It should not be mixed with the normal electoral process. Voters have to be able to focus upon the status issue, apart from any distractions and confusions with other issues. The plebiscite process should be separate and apart from the normal electoral process. In consequence, the plebiscite should be held in 1998, two years prior to our normal elections.

All political parties in the Island have different positions with regard to their desired solutions to the status question. Indeed, each one of them uses the status as the principal issue in their political platforms and as their main identifier. As a result, the issues of governance and administrative policies are mingled in the electoral process with those related to the status and the type and form of future political relations between Puerto Rico and the United States. This situation creates confusion among voters, obscuring their ability to focus on the real issues to be decided at each electoral process.

The status question is an ideological and emotional issue, becoming one of the most divisive issues in Puerto Rico. Too many human and economic resources have been spent in debating this issue. Moreover, the status uncertainty and the recent plebiscite processes create uncertainty among present and potential investors. Uncertainty is an enemy of economic prosperity; therefore, this uncertainty should be resolved as quickly as possible. Neither Congress nor the Puerto Rican people should wait another century to decide this issue. Once the status question is resolved, efforts could be more efficiently channeled to deal with the various social and economic problems of our society.

It is clear that a final solution on this issue is of foremost relevance for the future of our people. At a plebiscite we will be deciding not only our future, but also the one for the generations to come. The long-term performance of the status question requires that voters be well-informed on the consequences of their decisions. Before Puerto Ricans are asked to mark their status preference on the plebiscite ballot, it is necessary to clearly spell-out the cultural, political and socioeconomic consequences of each political status. Each status alternative to be presented to the will of the people must be accurately defined, incorporate terms and conditions fully acceptable to Congress, and be explained in a manner so the people can understand the implications of each status option. The information transmitted to the people should be based upon accurate and unbiased data.

In this connection, the Chamber of Commerce is deeply concerned with the consistency of the data that federal agencies have presented in the past about the consequences, costs and benefits of each status alternative. Even objective issues are veiled by confusion, caused by data produced on different basis. Different and contradictory statements have been issued about the nature of our American citizenship. A recent GAO report on the implications of federal taxation under statehood indicates that its estimates for federal taxation of personal income are merely gross computations. The same report refuses to estimate corporate income tax liability, and totally skips the question of federal excise taxation. That kind of information is not only confusing, but it also contributes to misinform. Hereby we offer the resources of our institution to help in obtaining additional information about the socioeconomic consequences of each status alternative to supplement what has already been produced, and what needs to be produced in order to allow the people to make an informed decision.

The legislation that your Committee will develop for this process should delineate each step and action in this process, the participating institutions for each step in the process, and, very importantly, the responsibility and role of each participant at each step. Our institution believes that the private sector must have a role and a consequent responsibility in this important undertaking. Political parties should welcome the private sector's contributions to this process. Your Committee should encourage a broader participation among Puerto Rican institutions to complement the contributions of political parties.

The Outcome and Its Transition

1. The Transition

Puerto Rico's economy has been directed and structured on the basis of its present status. Our economy has achieved a high and increasing degree of integration to the U.S. economy. It should be noted that, on the average, 89 percent of our exports of merchandises go to the U.S. market, and that exports of merchandises represent about 84 percent of our local GNP. Most of our imports come from the continental U.S., and our financial markets are totally integrated to the national market. The capital stock of Puerto Rico, which has been slowly built up over the past years, has been put in place based upon our existing political relationship with the U.S. It cannot change overnight. To do otherwise risks grave dislocations and suffering for the people of Puerto Rico if the change is not accompanied with countervailing measures.

Our tax structure is based upon present economic conditions, as any tax system ought to be. Any change in the status will require a major restructuring in taxation. A drastic and fast change in the local tax system could destabilize the whole economic fabric, and dislocate economic relations.

Whatever alternative is democratically chosen by the people of Puerto Rico will probably result in economic adjustments and could entail sacrifices on our part. Private enterprise is ready to shoulder its responsibility; however, even in times of budgetary restraint, Congress should be sensitive to our needs and economic realities. Self-sustained

economic development can only be achieved through a long term process. With your help, and a great deal of work on our part, we are confident that we can achieve our mutual goal of human progress for the people of Puerto Rico. But an adequate transition period is necessary. It ought to be designed in all relevant details and informed to the people before they are asked to choose.

2. U.S. Citizenship

We are American citizens since 1917, accepting with honor the responsibilities of such citizenship. Our gallant participation in U.S. wars and conflicts from World War I to the Desert Storm Operation is clear evidence for this point.

Various federal officials have lately issued confuse and contradictory statements about the nature of our citizenship and of its future under different status options, including the present one. We feel that Congress has the moral duty to state without ambiguity what will be the situation of present U.S. citizenship of the Puerto Rican people, and of our children, under each status alternative. A clear expression from Congress is necessary to spell out the confusions created by federal officials, and for Puerto Ricans to make appropriate decisions.

3. Federal Tax Treatment of U. S. Corporations

Our industrialization program has been developed on the basis of preferential federal tax treatment of U.S. corporations doing business in Puerto Rico. Drastic modifications made in 1993 and 1996 to Section 936 severely eroded that industrialization strategy, not only because tax benefits were diminished, but also because they created uncertainty about the stability of federal policies toward Puerto Rico. Since uncertainty is a formidable enemy of productive investment and economic growth, we now face more difficult conditions to promote prosperity for our people.

No matter if Puerto Rico chooses to maintain the present commonwealth status, or to become a state or a republic, there is a common interest in promoting the economic development of the Island. We obviously want to prosper. It is not in the best interest of the United States to have a pauper possession, state or a republican neighbor. Over the past half century Puerto Rico has made, with the assistance of the federal government, big efforts to promote its economic growth. We have worked hard, and achieved great improvements in economic conditions. But more efforts are needed to reach the goal of economic development. Even the status quo should be regarded as a transition from poverty to progress, and our economic strategies are designed from this perspective. Any change in status has to provide instruments to achieve our common goal of economic development.

It is important for Congress to realize that any successful transition requires an efficient instrument. For that reason, we actively support the efforts of private organizations and of the Government of Puerto Rico to enhance Section 30A, to make it an efficient and effective instrument for transforming this Island into a developed and prosper economy. At the very least, Congress ought to clearly state what will be the federal tax treatment to U.S. corporations under each status formula, as well as under the corresponding transition periods, including the period of time for which the corresponding tax treatment is guaranteed.

4. Federal Tax Treatment to Residents and Local Business

People know that the local tax system will have to be adjusted if there is a change in status. We all realize that the present tax structure is consistent with existing conditions, and that any transformation in conditions, as it will be the case if the political status is changed, will result in deep modifications in taxation. The problem is that no reliable information has been produced about how those changes might be.

The role, functions and activities of government differ under each status formula. In a state, the U.S. federal government is in charge of many activities that, at present time, are the responsibility of local authorities, and federal taxes will be levied on local residents. In a republic, all or most of the activities actually performed by the federal government in Puerto Rico will be transferred to the local government, and it won't be subject to federal laws and regulations. Both scenarios drastically change the needs and tax handles for government financing. Transformations of that nature cannot be done overnight without a grave risk of serious economic dislocation.

We know of no serious study to document and analyze this most important aspect. It is unfair to ask people to choose between status options and do not tell them the consequences of their possible decisions. At the very least, Congress ought to clearly establish which will be the federal tax treatment to residents under each status, as well as during the different stages of each transition period.

5. Access to U.S. Commercial and Financial Markets

Over the past century Puerto Rico integrated its economy to the U.S., with obvious mutual benefits. It has been already shown that 89 percent of our exports of merchandise are sold in the U.S., and that we depend upon external trade for our economic survival, since exports of merchandise account for 84% of our local GNP. Our monetary and financial systems are also totally integrated to the U.S. Most of our productive and infrastructural investments are financed with funds lent from U.S. individuals and institutions, while Puerto Rican savers hold some \$20 billion in assets issued by the federal government and private U.S. institutions.

Any modification in the status quo will have consequences in our economic organization. These effects ought to be clearly identified, and measures designed to take advantage from favorable opportunities and to minimize any adverse effect. Again, limited information has been produced at this respect. Here is necessary to clarify what will be the terms and conditions for Puerto Rico's access to the United States commercial and financial markets under each status formula, including what will be its position with respect to present and future trade agreements that the U.S. engages with foreign countries.

6. Access to Foreign Commercial and Financial Markets

The *New Economic Model* of the Government of Puerto Rico is predicated upon the diversification of our economy. It calls for promoting growth in all industrial sectors, to reduce our dependency on manufacturing, as well as for the diversification of export markets and sources of investment funds. Such policy is consistent with U.S. interest in reducing its trade deficit.

A change in status would modify conditions for the implementation of this economic model. In order to know what modifications we will have to make in our economic strategies, it is necessary to know which will be the conditions and restrictions to Puerto Rico's access to foreign commercial and financial markets under each status formula, as well as the market penetration of foreign goods in our economy.

7. Long Term Public Debt

The topic of the long term public debt under each status formula is important by itself, as well as in relation to the design of modifications in our tax structure. Our long term public debt has been issued to finance investments in the infrastructure. Many of these investments are responsibility of the federal government in the states of the Union. On the other hand, some of these investments were made to comply with federal laws and regulations, and they would have been unnecessary in a republic. Also, in a republic, the design of the projects does not have to follow federal regulations, and construction costs would have been lower, diminishing the amount needed for debt financing.

Long term public debt represents 57 percent of Puerto Rico's GNP. Given the tax handles presently available, the Island has no problem in paying for the service of that debt. But with a change in status, the government's ability to raise revenues will also change, and adjustments have to be made to recognize that fact.

Also, Puerto Rico needs to continue its present aggressive program to enhance its infrastructure. That is essential for the competitiveness of our economy. It is, therefore, necessary to know if there will be any constrain for issuing new public debt under the transition periods of the different status formulas.

8. U.S. Transfers

The issue of federal transfers is another that should be properly addressed before the Puerto Rican people is asked to make a decision about the status. Federal transfers to individuals totaled \$6,594 million in fiscal year 1996, accounting for 30.6 percent of personal income in the Island. Of these transfers, 72.2 percent were earned benefits, such as social

security pensions and veterans benefits. It is essential for the people to know about what will be the amount and terms of U.S. transfers to Puerto Rico under each status option. That information is vital for the persons to make an informed decision. Particular attention has to be paid to what is going to happen to contributions that Puerto Rico make to earmarked funds, such as Social Security, Medicare, Unemployment Insurance and the FDIC, among others.

9. Travel and Migration

Almost all families have close relatives living in the continental United States. For family ties to be maintained, it is necessary to keep unrestricted travel between the U.S. and Puerto Rico.

Migrations of Puerto Ricans to the continent happened as a derived effect of U.S. citizenship and of high unemployment and low income levels in the Island. In consequence, the issue of migration is related to the previously mentioned of U.S. citizenship and economic development, but has a humanitarian dimension by itself. Hence, voters must know conditions for travel and migration between Puerto Rico and the United States under each status alternative.

Final Remark

Should it become apparent that, for whatever reason, these basic concerns about the plebiscite process cannot be properly addressed for 1998, and the Puerto Rican voters cannot be afforded the opportunity to make an informed decision in selecting among the status options at that time, the plebiscite should not be held in 1998. The plebiscite ought to take place only when sufficient information is available to each voter, so he can make an informed decision at the earliest possible date that does not coincide with the regular electoral process.

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