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Puerto Rico: Quantifying Federal Expenditures

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Foreword

Puerto Rico has been in the headlines in 2016 and as a result the public is slightly more familiar with Puerto Rico's status as a territory and its economic crisis. Myths and misinformation persist, however, to Puerto Rico's detriment, so it is imperative to examine the facts and correct inaccuracies as policy makers look ahead to creating sustained growth in Puerto Rico. This paper, "Puerto Rico: Quantifying Federal Expenditures", addresses one such myth, that Puerto Rico is a "welfare island", and proves, through an examination of federal expenditures, what a misnomer it is.

In 2004 and 2010, seventeen states and the District of Columbia received more in "net federal expenditures per capita" than did Puerto Rico. That is, in more than one-third of all the states, in these two years, the net amount per capita received from the federal government—federal expenditures minus federal taxes—was greater than the net amount per capita received from the federal government in Puerto Rico. There is no reason to think that 2004 and 2010 were unusual with respect to federal expenditures and taxes.

The Heller school has had a long-standing interest in Puerto Rico and there are several reasons why this paper fits with issues of exclusion and inequality in the Heller School and in the Center for Global Development and Sustainability. First, in the winter of 2001 SID decided to offer a course on Puerto Rico as part of its Country Development Studies Program. The idea of the Country Development Studies Program was to examine a broad range of topics—social, political, cultural, economic—that affected the development of a country or region. The current paper updates some of the findings from SID's early work on Puerto Rico. Second, though part of the USA, the commonwealth of Puerto Rico displays many of the attributes of a developing nation—low income, high unemployment, migration, brain drain, and linguistic and cultural barriers—that make it hard for Puerto Rico to achieve the quality of life that one might expect from a region in the USA. Like other excluded regions and groups of interest to the Center for Global Development and Sustainability, Puerto Rico is a region that has been excluded from development by its better-off neighbors. Puerto Rico illustrates in a microcosm many of the larger themes central to international economic development. Third, Puerto Rico has remained the poorest region of the United States since the Spanish-American War, 1898, with no signs that it is converging to the standard of living in the mainland of the USA. Exclusion tends to persist, unless these myths about what's best for Puerto Rico's economy are addressed. Last, the paper matters because it redresses the shortage of information about Puerto Rico in the media and in academia.

Puerto Rico: Quantifying Federal Expenditures

Arthur MacEwan and J. Tomas Hexner[1]

In 2004 and 2010, seventeen states and the District of Columbia received more in "net federal expenditures per capita" than did Puerto Rico. That is, in more than one-third of all the states, in these two years, the net amount per capita received from the federal government—federal expenditures minus federal taxes—was greater than the net amount per capita received from the federal government in Puerto Rico. There is no reason to think that 2004 and 2010 were unusual with respect to federal expenditures and taxes.

How much financial support does Puerto Rico receive from the federal government? The conventional wisdom, expressed in Washington and in the media, is that Puerto Rico is a "welfare island" andreceives a large amount from the federal government. This flow of funds is often referred to as "generous" support for Puerto Rico.

Yet, to determine whether or not something is a "large amount," it is necessary to have a basis for comparison. When a relevant comparison is made, it turns out, as is often the case, the conventional wisdom is incorrect.

First of all, to determine the amount of financial support that Puerto Rico receives from the federal government, it would be misleading to look only at the amount of federal spending that goes to Puerto Rico. It is necessary to look also at how much goes from Puerto Rico to the federal government—i.e., taxes. So it is necessary to look at the *net federal expenditures*—expenditures minus taxes—from Washington to Puerto Rico.

Second, the total amount of this net flow has to be adjusted for the size of the population. So the relevant figure is the *net federal expenditures per capita*.

Third, as a basis of comparison, the net federal expenditures per capita from the federal government to Puerto Rico should be examined alongside of the net federalexpenditures per capita to each of the states and the District of Columbia.

Data to calculate net federal expenditures per capita for the states, Puerto Rico, and D.C. have been available in the annual *Consolidated Federal Funds Report* from the U.S. Department of Commerce and *Internal Revenue Service Data Book* from the Department of the Treasury. However, and unfortunately, the former of these sources has not been published since 2010, and the data it contained are not available for later years.

Nonetheless, the two tables below, present the "net" figures for 2004 and 2010. *The tables show that in 2004 and 2010, seventeen states and the District of Columbia received more in net federal expenditures per capita than did Puerto Rico.* That is, in more than one-third of all the states, in these two years, the net amount per capita received from the federal government—federal expenditures minus federal taxes—was greater than the net amount per capita received in Puerto Rico from the federal government. The reality demonstrated in the tables, then, belies the conventional wisdom and indicates that, by a reasonable comparative standard, Puerto Rico is not treated "generously" by the federal government.[2]

It would be desirable to have data for years since 2010. The data for these two years, however, suggest a high degree of stability in the financial relation between Puerto Rico and the federal government as compared to the states and D.C. There is no apparent reason to believe that this relation of how Puerto Rico compares to the states and D.C. has changed significantly since 2010.

Puerto Rico's position in the two tables might seem odd. After all, Puerto Ricans do not pay federal income taxes, and U.S. firms operating in Puerto Rico do not pay federal corporate taxes. Puerto Ricans, however, do pay Social Security and Medicare taxes at the same rates as do people in the states. Also, Puerto Rico is excluded from some major federal expenditure programs (e.g., the Earned Income Tax Credit) and is treated less favorably than states in some others (e.g. Medicare). Further,Puerto Rico is virtually excluded from federal procurement and employment expenditures. These various exclusions from federal expenditures appear to more than balance the privilege of not paying personal and corporate taxes.

There is, of course, no good reason that states and Puerto Rico should receive the same net federal expenditure per capita as one another. Federal spending is determined by many factors, but one of these is ostensibly to aid low-income parts of the country. By that criterion Puerto Rico would be right at the top. However, another factor is the political power of a state's representatives in Washington, and Puerto Rico has no such power. If Puerto Rico were to have political power as a state, the sobriquet of "welfare island" would soon be forgotten.

Table 1: Net Federal Expenditures Per Capita(Expenditures Minus Taxes) by State, the District of Columbia and Puerto Rico, FY2004

	Net Federal Expenditures	Rank		Net Federal Expenditures	Rank
District of Columbia	37,457	1	Missouri	1,381	27
Alaska	8,005	2	Kansas	1,282	28
New Mexico	7,348	3	Indiana	1,019	29
Virginia	5,940	4	Oregon	916	30
West Virginia	5,562	5	New Hampshire	689	31
North Dakota	5,157	6	Pennsylvania	658	32
Montana	4,792	7	Washington	525	33
Mississippi	4,700	8	North Carolina	236	34
Alabama	4,629	9	California	-62	35
South Dakota	4,389	10	Nevada	-129	36
Maryland	4,383	11	Rhode Island	-188	37
Maine	4,175	12	Michigan	-225	38
South Carolina	3,586	13	Arkansas	-310	39
Kentucky	3,514	14	Georgia	-350	40
Hawaii	3,093	15	Texas	-380	41
Arizona	2,984	16	Wisconsin	-473	42
Wyoming	2,980	17	Massachusetts	-837	43
Louisiana	2,887	18	Colorado	-906	44
Puerto Rico	**2,823**	**19**	Ohio	-1,181	45
Vermont	2,596	20	New York	-1,370	46
Idaho	1,887	21	Nebraska	-1,385	46
Oklahoma	1,858	22	Illinois	-2,393	48
Utah	1,826	23	Connecticut	-3,223	49
Iowa	1,768	24	New Jersey	-4,025	50
Florida	1,677	25	Minnesota	-5,639	51
Tennessee	1,557	26	Delaware	-7,010	52

Source: See text.

Table 2: Net Federal Expenditures Per Capita (Expenditures Minus Taxes), States, the District of Columbia, and Puerto Rico, FY2010

	Net Federal Expenditures	Rank		Net Federal Expenditures	Rank
District of Columbia	72,292.40	1	Utah	3,618.10	27
Alaska	11,123.10	2	Kansas	3,575.04	28
Hawaii	10,732.90	3	Iowa	3,545.22	29
New Mexico	9,906.86	4	North Carolina	3,481.73	30
Virginia	9,761.25	5	Pennsylvania	3,463.92	31
Maryland	8,417.70	6	Oregon	3,367.20	32
West Virginia	8,364.84	7	Connecticut	3,357.49	33
Kentucky	7,812.20	8	Georgia	3,292.85	34
Alabama	7,657.33	9	Washington	3,271.60	35
Mississippi	7,515.26	10	Wisconsin	2,936.53	36
Montana	6,872.75	11	Nevada	2,555.03	37
Vermont	6,712.04	12	Indiana	2,359.73	38
Maine	6,549.42	13	New Hampshire	2,202.86	39
North Dakota	6,541.87	14	Colorado	2,067.92	40
South Dakota	6,386.79	15	Massachusetts	1,695.27	41
South Carolina	6,313.02	16	California	1,621.30	42
Idaho	5,167.19	17	Texas	1,455.53	43
Arizona	5,115.76	18	Rhode Island	1,235.08	44
Puerto Rico	4,696.73	19	Arkansas	240.06	45
Wyoming	4,258.14	20	New York	108.37	46
Louisiana	4,102.91	21	Ohio	-8.67	47
Missouri	4,057.49	22	Illinois	-77.94	48
Oklahoma	4,025.22	23	Nebraska	-602.30	49
Florida	4,005.04	24	New Jersey	-4,310.79	50
Tennessee	3,829.12	25	Minnesota	-4,449.54	51
Michigan	3,753.68	26	Delaware	-8,018.41	52

Source: See text.

[1]Arthur MacEwan is Professor Emeritus of Economics at the University of Massachusetts Boston. J. Tomas Hexner is an independent consultant based in Cambridge, Massachusetts.

[2]A reader might wonder how so many more states can receive net positive federal expenditures while relatively few are net negative recipients. However, because in both 2004 and 2010 the federal government ran deficits, the total net positive flows of funds to the states will outweigh the negative flows (though there are some funds that do not go to the states—e.g., foreign expenditures). Furthermore, the tables show per capita figures. If the table figures were weighted by states' populations, the balance would be different—though the existence of the federal deficit would still be evident in the mix of positive and negative figures in the tables.