Funds for Puerto Rico from Washington

Puerto Rico does not receive a fair share of funds disbursed by the federal government in Washington. Various reports have suggested that Puerto Rico is the recipient of a “generous” amount of funds from Washington and also that these funds are a cause of economic difficulties on the island. Yet, a detailed examination of disbursements from Washington to Puerto Rico and to the states has demonstrated that on a per capita basis Puerto Rico receives less federal funds than any state, about half of the state average.*

Of course the level of income in Puerto Rico is much less than in any of states. However, even when the per capita flow of federal funds is compared to per capita income, there are still states that receive larger amounts of support from Washington than does Puerto Rico. As explanation for Puerto Rico’s small share of federal funds, it is sometimes argued that because Puerto Ricans do not pay federal income taxes, less funds should go to the island. Yet, Puerto Ricans do pay federal payroll taxes, and when Puerto Rico, DC and the states are ranked by net receipts per capita from the federal government – that is, receipts less federal taxes – Puerto Rico is far from the top of the list. For 2004, when all categories of federal expenditures are taken into account, Puerto Rico’s rank is 19th.

The detailed examination of the disbursement of funds from Washington to Puerto Rico and the states was based on 2004 data. However, Puerto Rico’s relative position (as compared to the states) deteriorated in recent years. Whereas in 2004, total federal disbursements to Puerto Rico were 0.715 percent of total disbursements to the states and outlying areas, in each of the subsequent years that percentage fell slightly and was 0.657 in 2007. In 2007, while Puerto Rico accounted for 1.3% of the population, the island received only 0.7% of federal funds. Many states received a smaller share of funds than their share of the population, but for no state was the percentage discrepancy as large as that for Puerto Rico.

Puerto Rico’s share of federal funds disbursements is especially small in the procurement category, accounting for only 0.208% of the total in 2007. (While the 2007 figure was up from 0.136% in 2004, it was still below the 1999 peak of the last decade – 0.241%). Also, Puerto Ricans are generally not eligible for the Earned Income Tax Credit and have very limited eligibility for the Child Tax Credit. Thus the share of these tax expenditures that go to Puerto Ricans are miniscule; combined, the EITC and CTC going to Puerto Ricans was only 16% of the average for the states in 2004.

Bills pending before Congress would extend the EITC and CTC to Puerto Ricans. These bills need immediate passage to treat Puerto Ricans fairly in relation to the rest of U.S. citizens and to provide a much needed stimulus to the Puerto Rican economy. In addition, immediate attention should be given to increasing federal procurement in Puerto Rico. While the distribution of procurement funds depend upon the ability of the regions to deliver the goods that are needed by the federal government, surely Puerto Rico can deliver more than the two-tenths of one percent of the total. Moreover, procurement expenditures are regularly used to stimulate economic activity in the relatively low-income parts of the country, and Puerto Rico should receive high priority on this criterion. There are ways in which federal funds coming to Puerto Rico may create perverse incentive that are against the interests of Puerto Ricans, and these need attention. However, inclusion of Puerto Rican’s under EITC and CTC and greater federal procurement expenditures on the island can only work in a positive direction.

Beyond first steps with EITC, CTC and procurement, federal policies overall need examination to assure that Puerto Ricans are treated fairly with regard to all programs.