

Marie T. Mora, Alberto Davila and Havidán Rodríguez, *Population, Migration and Socioeconomic Outcomes among Island and Mainland Puerto Ricans: La Crisis Boricua*,
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Foreword

By

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FOREWORD

Over the past decade Puerto Rico has suffered one of its deepest economic and social crises in recent history. News stories about the Island's fiscal collapse and huge public debt appear on a weekly basis in the New York Times, the Wall Street Journal, the Economist, and on the financial and economic pages of newspapers worldwide. This careful and well-researched volume by three prominent social scientists analyzes the sources of the crisis and its impact on the Puerto Rican population both on the Island and in the U.S. Mainland. Tracing the demographics, migration patterns and socioeconomic outcomes of Puerto Ricans, this book presents a detailed picture of the changing and ultimately worrying landscape generated by the crisis.

Puerto Rico is at a critical juncture as a result of what the authors in this book call the "perfect storm" of economic shocks and long-standing trends that has affected its economy. The first, and most immediate, challenge arises from the government's dire financial situation.

Underlying the fiscal crisis is the growth of public debt from \$24 billion in 2000 to \$74 billion in 2017. As a result, the ratio of debt to Gross National Product (GNP) rose from close to 58% in 2000 to 104% in 2017. This ballooning debt, which is compounded by \$49 billion in pension obligations, is linked to decades of populist government over-spending. The accumulating debt eventually became impossible to service and in May 2017, Puerto Rico's Governor Ricardo Rosselló declared his intention to start bankruptcy-style procedures under the statutes of the Puerto Rico Oversight, Management and Economic Stability Act (PROMESA) enacted by the U.S. Congress to manage the Island's fiscal crisis.

As the book documents, the second challenge facing Puerto Rico is its collapsing economy. The economic development strategy adopted by the government since the late 1940s -- initially through the initiative called Operation Bootstrap-- relied heavily on integrating Puerto Rico into the U.S. economy and attracting U.S. foreign direct investment to the island. This development model started to break down in the 1970s, partly as a result of rising competition from emerging markets in East Asia and Latin America. However, manufacturing employment in Puerto Rico remained strong because of a federal tax law that exempted U.S. firms operating on the Island from paying federal taxes on their profits (Section 936 of the Internal Revenue Service tax code). This sustained Puerto Rico as a pharmaceutical and manufacturing powerhouse. Furthermore, profits from these mostly American companies were deposited in the Puerto Rican financial system, which allowed the banking industry to grow as well, supporting a robust construction and real estate industry.

But most of the components of the development strategy pursued since the 1940s have been drastically undermined one by one over the last 10 to 15 years. First, the phase-out of Section 936, which began under the administration of President William Clinton in the mid-

1990s and ended in 2005, led to a significant reduction of manufacturing production, as many pharmaceuticals and other firms closed their operations. Manufacturing employment in the Island dropped from 120,000 in 2003 to less than 79,000 in 2015. Foreign direct investment has shrunk and shows no sign of recovery in any significant way since then.

The American financial crisis of 2007-2008 had a particularly severe impact on Puerto Rico. The period since the Great Recession started has been associated with a decline in the total number of employed workers in Puerto Rico from 1.3 million in 2006 to 990,000 in 2015, both through rising unemployment rates but also because of declining labor force participation rates, which are now below 40%. And linked to the collapse of the real estate and construction industries in the island has been the downfall of a number of major, local financial institutions. As a result, the assets of commercial banks in Puerto Rico decreased from \$101.5 billion in 2005 to \$59 billion in 2015, a decline that was matched by a sharp reduction of the banking sector's loan portfolios. The lack of access to credit has had a deep impact on the island's private sector. Investment in physical capital declined sharply from 27% of GNP in 2001 to 13% in 2015. Compounding these changes has been a demographic transition that has reduced the natural rate of population growth and increased the fiscal burden of supporting an older, retired population.

This volume provides a timely and detailed analysis of the demographic and socioeconomic consequences of La Crisis Boricua. These consequences are deep and, as detailed in this book, they constitute historical changes for both the Island and for the United States.

First is the outflow of people. The authors estimate that 583,500 people migrated out of Puerto Rico on a net basis between 2006 and 2015. This represents the largest population loss of the Island in any given decade since it became a territory of the United States in 1898. The out-migration cuts across any class and income lines in Puerto Rican society. Contrary to popular

belief, the authors do find that, on average, less-skilled persons were more likely to abandon the Island than the rest of the population, but at the same time they also find that there has been a substantial net outflow in specific fields, such as doctors and health professionals, a trend that may have severe consequences for health care. The drop in consumer demand associated with the population decline has also had a negative, multiplier impact on the Puerto Rican economy, sponsoring a vicious cycle of declining economic and population changes.

The substantial growth of the Puerto Rican population in the United States mainland is leading to significant social, economic and political consequences that the book identifies with great clarity. According to the estimates provided by the authors, there are now over five million Puerto Ricans residing in the continental U.S., as compared to the 3.3 million residing on the Island. This has been accompanied by a shift from traditional migration areas, such as the New York metropolitan area, to others, such as Florida and Texas. Furthermore, there appear to be significant differences in the characteristics of migrants moving to different regions –such as in education and skills-- which may compound inequalities among the different recipient areas. For instance, the authors of the volume estimate that poverty rates of recent Puerto Rican migrants in New York and Massachusetts are close to 60 percent while in Florida it is 33 percent and in Texas 14 percent. Notwithstanding these differentials, the overall poverty rates of Puerto Ricans in the U.S. remain distressingly higher than for the overall American population. The authors also find significant differences in migration patterns and socioeconomic outcomes on the basis of gender.

The consequences of the growth of Puerto Ricans on politics in the United States is examined in this volume. Puerto Ricans tend to vote Democratic and in a country where elections are closely contested, this can have a major impact. In Florida, for example, Puerto

Ricans are likely to soon surpass the Cuban population –which has traditionally voted Republican. But Florida elections have been relatively close now for a number of election cycles and Florida is one of the key states involved in turning around the balance of electoral votes one way or another. In fact, the vote of Puerto Ricans may very well decide who will be the next President of the United States.

Puerto Rico and Puerto Ricans are currently at a crossroads both in their economic development and in their situation as a people. A fiscal crisis and a long-term secular stagnation threaten the socioeconomic status of the Island's population and have led to migration flows with deep consequences. The economic development strategies adopted in the past are collapsing. And while the political influence of Puerto Ricans in the mainland is growing, the political status of the Island as a territory of the United States is increasingly being questioned. The authors of this book provide a fresh, rigorous, state-of-the-art look to Puerto Rico's conundrum and its socioeconomic and policy implications. This book is required reading for anyone interested on Puerto Rico, Puerto Ricans, Latinos, and American society.