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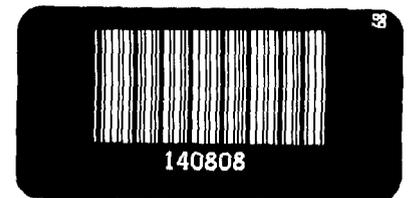
United States General Accounting Office

Briefing Report to the Chairman,  
Subcommittee on Insular and  
International Affairs, Committee on  
Interior and Insular Affairs, House of  
Representatives

March 1990

# PUERTO RICO

## Information for Status Deliberations



**Human Resources Division**

B-234765

March 7, 1990

The Honorable Ron de Lugo  
Chairman, Subcommittee on Insular  
and International Affairs  
Committee on Interior and  
Insular Affairs  
House of Representatives

Dear Mr. Chairman:

This report provides background information on Puerto Rico's history and culture, its relationship with the federal government, and its governmental structure, economy, and socioeconomic conditions. The report also summarizes several key transition issues facing the Congress as it defines the three options to be voted on by the Puerto Rican people—statehood, independence, and enhanced commonwealth.

The report was prepared jointly with the Congressional Research Service in order to brief the Subcommittee. We undertook this effort, at your request, to assist the Subcommittee as it prepares to consider the future political status of Puerto Rico.

As agreed with your office, we obtained oral comments from Puerto Rican government and key political party officials on a draft of this report. We are sending copies of this report to the Governor of Puerto Rico, the Resident Commissioner, members of the Puerto Rico legislature, the leaders of the three major political parties in Puerto Rico, as well as appropriate congressional committees and Members of Congress. We will make copies available to others upon request. If you or your staff have any questions about this report, please call me on (202) 275-1655. Other major contributors are listed in appendix II.

Sincerely yours,



Linda G. Morra  
Director, Intergovernmental  
and Management Issues

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**Abbreviations**

AIDS	acquired immunodeficiency syndrome
AFDC	Aid to Families With Dependent Children
CRS	Congressional Research Service
GAO	General Accounting Office
HHS	Department of Health and Human Services
SSI	Supplemental Security Income

# Puerto Rico: Information for Status Deliberations

## Background

In 1898, Spain ceded Puerto Rico to the United States, which began to administer it as a territory. Located about 1,032 miles southeast of Florida (see fig. 1), Puerto Rico consists of six islands in the Caribbean. The main island is about 110 miles long and 35 miles wide. The island's population has grown steadily from approximately 1 million in 1900 to 2.7 million in 1970, reaching about 3.3 million in 1988. That makes Puerto Rico more populous than 25 states, ranking behind Arizona, the 25th largest state with 3.5 million people.

Puerto Rico's population is predominately urban, with about one-third of the residents living in the San Juan-Bayamon-Carolina metropolitan area in 1989. Puerto Rico's population density was estimated to be 947 persons per square mile in 1986; this is 14 times greater than that of the United States as a whole and comparable with Rhode Island, which has a population density of 924 persons per square mile. Further, about 51 percent of Puerto Rico's population was under 25 years old in 1980.

In 1952, the island became a commonwealth when its constitution received congressional and local approval. This provided greater self-government, but the issue of political status remains a central focus of Puerto Rican politics. Since 1952, Puerto Rico has exercised local executive, legislative, and judicial authority similar to that of the states. The island's constitution, patterned after the federal and state models, provides for three branches of government and guarantees a democratic political system. Although Puerto Ricans are U.S. citizens, they cannot vote in presidential elections unless they are registered in a state or the District of Columbia. They do, however, vote in general elections for local officials representing the major political parties (see app. I). There are about 2.2 million registered voters in Puerto Rico.

In addition to its political evolution, Puerto Rico's economy, led by manufacturing, has grown significantly. Once based primarily on agriculture, the economy has been transformed from an agrarian to an industrialized one. The island's per capita income is the highest in Latin America and one of the highest in the Caribbean. However, it is 47 percent of Mississippi's, the state with the lowest per capita income. There have been significant improvements in social conditions in areas such as health care, education, and housing since 1950. While Puerto Rico has suffered a temporary setback from the destruction caused by Hurricane Hugo, both the availability and quality of the island's housing stock have increased. Despite these gains, Puerto Rico faces various problems. Unemployment on the island exceeds the U.S. average and remains a chronic problem. In fiscal year 1988, Puerto Rico's unemployment rate

Puerto Rico: Information for Status Deliberations

Figure 1: Map of the Caribbean



was 15.9 percent, compared with the U.S. average of 5.5 percent. Further, Puerto Rico faces other problems, such as crime, alcoholism, drug addiction, acquired immunodeficiency syndrome (AIDS), mental illness, and infant mortality.

Resolving Puerto Rico's social and economic problems has been tied to the longstanding debates over the political status of the island. In November 1988, the three major Puerto Rican political parties addressed the issue of Puerto Rico's status in the platforms they presented to the electorate. In January 1989, a letter and a joint declaration were signed by the leaders of the three major political parties to pursue resolution of the status issue. And President George Bush, in his February 1989 State of the Union address, reaffirmed the right of self-determination for the Puerto Rican people, but expressed his preference for statehood. As a result, the political status of Puerto Rico has reemerged as an issue in the Congress.

## **Objectives, Scope, and Methodology**

The Chairman of the Subcommittee on Insular and International Affairs, House Committee on Interior and Insular Affairs, asked us, in conjunction with the Congressional Research Service (CRS), to brief the Subcommittee on background information about Puerto Rico in preparation for hearings on the island's future political status. This report summarizes the information provided in that briefing on Puerto Rico's history and culture; its relationship with the federal government; and its governmental structure, economy, and socioeconomic conditions. This report also summarizes selected transition issues facing the Congress as it defines the three status options to be voted on by the Puerto Rican people—statehood, independence, or enhanced commonwealth.

CRS prepared the information on Puerto Rico's history and culture. That information was primarily obtained from our 1981 report<sup>1</sup> and documents published by the Commonwealth government. We developed the remaining information contained in this report. We obtained our information on Puerto Rico's relationship with the federal government, economy, and socioeconomic conditions primarily from our 1989 report.<sup>2</sup> Other information was obtained from various federal agencies—primarily the Departments of the Treasury, Labor, Health and Human Services,

<sup>1</sup>Puerto Rico's Political Future: A Divisive Issue With Many Dimensions (GGD-81-48, March 2, 1981).

<sup>2</sup>PUERTO RICO: Update of Selected Information Contained in a 1981 GAO Report (GAO/HRD-89-104FS, Aug. 9, 1990).

and the Bureau of the Census—and from documents published by Commonwealth government agencies and universities. We noted some differences in the information in recently published reports, particularly for socioeconomic and financial data. For example, information on Puerto Rico's population varies among published documents, and some financial classifications of revenues by source were not comparable. We did not seek to resolve these discrepancies, but we give dates and sources for data cited in this report. We recognize, however, that there are other sources that may have different or more recent information for the same category of data. We did not verify the data contained in documents published by federal and commonwealth government agencies or universities.

Our work was performed between October and November 1989, in accordance with generally accepted government auditing standards, with the exception noted above.

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# History

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Spain ceded Puerto Rico to the United States in 1898. Administered as a territory, the island became a commonwealth of the United States in 1952. Throughout the political history of Puerto Rico—during both the Spanish period (1493-1898) and the U.S. period—there runs a recurring theme: Puerto Rico's quest for political autonomy.

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## Spanish Period

Christopher Columbus discovered Puerto Rico in 1493 and claimed its territory for Spain. The island remained under Spanish rule until the Spanish-American War ended in 1898. During this period, Puerto Rico developed beyond the point of being merely a base for defense of Spanish shipping and a port for replenishing fresh water supplies. Puerto Rico began to press for increased political autonomy. Responding to that pressure, Spain granted Puerto Ricans Spanish citizenship and, for a time, representation in the Spanish Parliament.

In 1897, shortly before the outbreak of the Spanish-American War, Spain approved a Charter of Autonomy for Puerto Rico. Although the Charter was never put into effect because of the outbreak of the war, Puerto Rico has not forgotten the Charter's provisions and has not hesitated to use them as a bench mark against which to compare political arrangements established in Puerto Rico by the Congress since becoming associated with the United States.

The Charter provided for universal male suffrage and created an Insular Parliament with power to legislate matters for the island not specifically reserved by Spain. It was empowered, for example, to create and control an insular tariff and to levy local taxes. Any change in the organization of the island's government had to be first approved by the Insular Parliament. The Parliament had two co-equal bodies—an eight member



## History

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- Spanish Period (1493-1898)
- U.S. Period (1898-Present)
- Political Status

Chamber of Representatives and a 15-member Council of Administration. Puerto Rican voters elected all the members of the Chamber and eight members of the Council. The other seven members of the Council were to be appointed by the Governor General. The Charter also increased Puerto Rican representation in the Spanish Parliament.

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## History

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Further, although the Charter reduced the power of Spain's Governor General in Puerto Rico, he continued to have significant authority. He controlled the military and chose his cabinet secretaries from the Chamber and Council membership. Additionally, he could dissolve the Parliament, suspend civil rights, and refer to Spain any legislation that appeared to be detrimental or unconstitutional.

The Charter never went into effect because the Spanish-American War broke out shortly before the legislature's first meeting on July 17, 1898. American troops arrived 8 days later to begin a 2-year military occupation.

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## U.S. Period

The Treaty of Paris ended the Spanish-American War and ceded Puerto Rico to the United States. It also provided that Puerto Rico's political status and civil rights were to be determined by the U.S. Congress. After 2 years of military administration, two commissions found that most islanders were willing to be associated with the United States and both recommended that a civilian government be formed. The Foraker Act of 1900, which implemented the commissions' recommendations, was the first of several legislative and judicial steps toward increasing the home rule of Puerto Rico.

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## Political Status

The question of political status has remained a persistent and significant sociopolitical and economic issue since well before U.S. rule. Now, as throughout recent history, the Puerto Rican people are divided in their quest for an alternative to the current political status. Three alternatives—statehood, independence, or enhanced commonwealth—have been proposed to accelerate Puerto Rico's economic and social development and its future relationship with the United States.



## History

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### **Major Developments in the Relationship With the United States**

- Foraker Act (1900)
- Insular Cases
- Jones Act (1917)
- Elective Governor Act (1947)
- Puerto Rico Federal Relations Act (Public Law 81-600) (1950)
- Commonwealth (1952)

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### **Major Developments in the Relationship With the United States**

Puerto Rico has pursued increased control over its internal matters since the latter stages of Spanish dominion. Such efforts persisted after the island was ceded to the United States. Since that cession, Puerto Rico has gradually attained local self-governing powers. During this development, the Congress passed legislation in 1900 providing for three branches of government and guaranteeing a democratic political system. This legislation vested executive authority primarily in a presidentially appointed government. The Congress passed legislation in 1917 authorizing a popularly elected legislature and extended U.S. citizenship in response to the people of Puerto Rico pressing for greater self-government. In 1952, Puerto Rico became a commonwealth.

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## Foraker Act

The Foraker Act of 1900 created a civil government to replace military rule and is considered to be the island's first Organic Act.<sup>3</sup> It vested executive authority in a Governor and an 11-member Executive Council appointed by the President. It also vested legislative authority in a bicameral legislature consisting of a locally elected 35-member House of Delegates and an 11-member Executive Council appointed by the President with at least 5 Puerto Rican members. Judicial institutions consisted of a local District Court appointed by the Governor and a Supreme Court appointed by the President. Further, the act established a U.S. District Court.

All U.S. laws were to apply to Puerto Rico except where specifically identified as being inapplicable. The act declared U.S. currency to be the legal tender, and provided for a resident commissioner to represent the island in the U.S. Congress. The act also provided that the U.S. tariffs on goods imported into Puerto Rico would be remitted to the Puerto Rican government, and that temporary duties and taxes on goods shipped between Puerto Rico and the United States would be returned to the Puerto Rican treasury.

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## The Insular Cases

The Foraker Act, however, did not resolve some important questions on Puerto Rican legal status. These unresolved questions led to a series of U.S. Supreme Court cases, known as the Insular cases, which were heard early in this century. The Court found that the fundamental rights of U.S. citizenship applied to Puerto Ricans. It also decided that Puerto Rico was an "unincorporated territory;" that is, one to which all the provisions of the U.S. Constitution had not been expressly extended. It therefore held that the Congress could continue to impose duties on goods coming into the United States from Puerto Rico.

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## The Jones Act

The Jones Act of 1917 was a new Organic Act for the island passed in response to Puerto Rico's continued argument that the Foraker Act provided less self-government than the earlier Spanish Charter of Autonomy. The Jones Act, which repealed certain sections of the Foraker Act, created both a popularly elected House and Senate. The Senate replaced the Executive Council appointed by the President. But appointment of Supreme Court Justices, the Governor, and several council members, continued to be vested in the President, and the Congress retained the power to annul Puerto Rican legislation. The act also provided a bill of

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<sup>3</sup>An Organic Act is a law that confers powers of government upon a territory.

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rights and granted U.S. citizenship for Puerto Ricans. In 1918, the Congress authorized Puerto Rico to adopt its own tax system and exempted resident Puerto Ricans and island corporations from U.S. income taxes.

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**The Elective Governor Act**

Although the Jones Act provided a locally elected legislature, questions concerning the island's ultimate status remained, and requests for increased autonomy continued. The Congress passed the Elective Governor Act in 1947, enabling Puerto Ricans to elect their first governor. The Governor is responsible for executing Commonwealth laws and can make appointments, grant pardons and reprieves, and approve or disapprove joint resolutions and bills passed by the legislature. However, like all its predecessors, the act did not determine the island's final status, and the Congress still retained the power to annul legislation.

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**Puerto Rico Federal Relations Act**

Continued Puerto Rican dissatisfaction with this remaining federal jurisdiction led to the passage of the Puerto Rico Federal Relations Act in 1950 (P.L. 81-600). This act provided for the adoption of a local constitution and was ratified by a referendum in June 1951. This set in motion the process of drafting a constitution for the island. This process entailed electing a constitutional convention and was completed when the people ratified the Commonwealth Constitution at a referendum in March 1952.

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**Commonwealth Status**

When the U.S. Congress approved the Commonwealth Constitution in July 1952, the U.S. role ended in local matters, thereby granting full local executive, legislative, and judicial authority to Puerto Rico.



## History

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### **Post-Commonwealth Developments**

- National Political Representation
- Status Commission (1966)
- Referendum (1967)
- Advisory Groups
- Compact (1975)
- Ford Proposal (1976)
- House Resolution (1979)
- 100th Congress Legislation
- Current Legislation

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### **Post-Commonwealth Developments**

Creation of the Commonwealth in 1952, however, did not lay to rest all issues in the continuing debate over Puerto Rico's political status. For example, although islanders have been represented in national political parties, both in the party national committees and at presidential nominating conventions, Puerto Ricans still cannot cast votes for President in the quadrennial presidential elections. And despite the ratification of the Commonwealth Constitution, dissatisfaction remains with the current relationship between the United States and Puerto Rico. The past 38 years have been marked by repeated efforts on the part of the Government of the Commonwealth of Puerto Rico to make further adjustments and enhancements in that relationship with the goal of expanding

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the sphere of self government. Throughout the nearly four decades, the Congress, presidential administrations, and two advisory bodies have reaffirmed a commitment to the principle of self-determination and urged expressions of the popular will.

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## National Political Representation

Although Puerto Rican delegations were first accorded representation at both the Republican and Democratic National Conventions of 1904, shifts in political alliances and frequent changes in party name characterized Puerto Rico's first four decades under the United States. The current alignment of political parties in the Commonwealth dates from a later period.

The three political parties are not formally affiliated with the national Democratic or Republican Parties. The formal Democratic and Republican Parties, however, have allowed delegates who are members of these political parties to participate in their conventions. Puerto Rican delegates have been represented on the Democratic National Committee since 1940, and at every Democratic National Convention since 1944. Likewise, Puerto Ricans have been represented on the Republican National Committee and at Republican National Conventions since 1968.

The Popular Democratic Party, which supports Commonwealth status, was established in 1938. Its leadership has historically had strong ties with the Democratic Party. The New Progressive Party, which supports statehood status, was established in 1967 as a successor to the Republican Statehood Party. Its bylaws, however, encourage its members to also join either of the two major U.S. political parties. The Puerto Rican Independence Party, which advocates independence from the United States, is not represented in U.S. political parties.

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## Early Efforts to Enhance Commonwealth

Shortly after the Commonwealth was created, it began expressing dissatisfaction over its relationship with the United States. A number of bills were introduced in the Congress to amend the Federal Relations Act to expand the Commonwealth's sphere of self-government. Several of these bills were formally requested by the Commonwealth government, including the 1953 "Cosmetic Bill," the 1959 Fernos-Murray bill, and the 1963 Aspinall bill. None were approved by the Congress.

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**1966 Status Commission**

After a 1963 congressional proposal to draft a new compact failed, the Congress created the U.S.-Puerto Rico Commission on the Status of Puerto Rico, with the charge to investigate status issues.

In 1966, the United States-Puerto Rico Commission on the Status of Puerto Rico called for a referendum on political status. The Commission also cautioned against immediate or rapid changes from the current Commonwealth status in order to avoid the adverse economic effects of such changes. Nevertheless, 10 individual statehood bills were introduced in the House during 1966 and early 1967. No action was taken.

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**The 1967 Referendum**

The referendum recommended by the Commission was held in July 1967 and authorized by the Commonwealth Legislature. About 60 percent of the voters expressed a preference for an enhanced commonwealth, 39 percent for statehood, and less than 1 percent supported independence. About 66 percent of registered voters participated in the election.

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**Post-Referendum  
Advisory Groups**

In 1968, Puerto Rico elected the first governor favoring statehood, Luis A. Ferre. The Governor and, at his behest, President Richard Nixon appointed an advisory group to study the possibility of extending the right to vote in presidential elections to Puerto Ricans. It concluded that such a right was not incompatible with commonwealth status and recommended a Puerto Rican referendum on the issue. The referendum was never held because of a lack of agreement within the Commonwealth Legislature.

In 1972, Rafael Hernandez-Colon, a supporter of commonwealth, was elected governor. In 1973, President Nixon and Governor Hernandez-Colon established another advisory group to study possible revisions in the Commonwealth agreement. The group's recommendations called for adjustments in the agreement to achieve greater autonomy for the island.

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**Compact Proposal**

Principal elements of the advisory group's recommendations appeared in legislation introduced in the House in October 1975 to enhance commonwealth status through the establishment of the Compact of Permanent Union between Puerto Rico and the United States. Despite approval of an amended version of the bill by the House Subcommittee on Territorial and Insular Affairs, no further action took place in either the House or the Senate, where a similar bill had been introduced.

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**Ford Proposal**

In December 1976, President Gerald Ford expressed support for Puerto Rican statehood, upon approval by the Puerto Rican people. Legislation to provide statehood was introduced in the House but there was no action on the bill (H.R. 2201).

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**House Resolution**

In 1979, the House of Representatives passed a concurrent resolution (H. Con. Res. 165, with the Senate concurring). This resolution reaffirmed the House's commitment to support the Puerto Rican people's right to self-determination.

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**Legislation of the 100th Congress**

In the 100th Congress, a bill was introduced in both the House and Senate (H.R. 2849 and S.1182) to hold a statehood referendum and to implement its results. Amendments, however, were drafted to the House statehood bill to broaden the choices to include enhanced commonwealth status, independence, and free association,<sup>5</sup> as well as statehood. During this period, the Congress received 350,000 individual petitions requesting statehood for Puerto Rico from a grass roots non-partisan Puerto Rican civic organization. Another bill (H.J.Res.218) was introduced to give Puerto Rico independence. No action was taken on any of the three bills.

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**Current Legislation**

During the 101st Congress, a bill (S.712) was introduced in the Senate in April 1989, calling for a referendum on Puerto Rico's political future. The referendum would allow the Puerto Rican people to make a choice among three options—statehood, independence, or enhanced commonwealth. S.712 was reported out of the Senate Energy and Natural Resources Committee in September 1989. In October 1989, H.R. 3536 was introduced in the House and referred to the Committees on Interior and Insular Affairs and on Rules. It resembles S.712, as reported, without the specific tax and trade provisions for each status option.

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<sup>5</sup>Free association has no precise definition in international law but is recognized in U.N. resolutions as an alternative to independent status for jurisdictions emerging from trusteeship status. Among the Pacific trust territories, it consists of a self-governing state with defense responsibilities resting with the United States.



## History

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### **International and Regional Dimensions**

- Role of the United Nations
  - United Nations Resolutions
- Regional Interests

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#### **International and Regional Dimensions**

There are two international dimensions to the Puerto Rico status debate. First is the role of the United Nations and its resolutions on self-determination, and second are the regional interests of Puerto Rico as represented by the United States in international organizations.

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#### **Role of the United Nations**

The United Nations has historically monitored the political evolution of non-self-governing territories. In the late 1940s, the United States voluntarily included Puerto Rico within this category and reported information on the island's political developments annually to the United Nations. In 1953, after Puerto Rico had established its commonwealth

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relationship with the United States, the United Nations removed Puerto Rico from its list of non-self-governing territories, but the island's political status remains a recurring question.

In 1960, the U.N. General Assembly passed Resolution 1514 (XV) on the granting of independence to colonial countries and peoples. Then in 1961, the General Assembly created "The Committee of Twenty-four," later known as the Decolonization Committee. This committee was authorized to examine political, constitutional, economic, social, and educational conditions of territories where people had not yet attained self-government. In 1971, this committee began urging the United States to take all necessary measures to transfer total sovereignty to Puerto Rico.

In 1972, the committee, in considering the island's status, adopted a resolution recognizing "the inalienable right of the people of Puerto Rico to self-determination and independence." Since then, discussions on Puerto Rico's status in the General Assembly have been held annually by the Decolonization Committee. In 1978, leaders of the major Puerto Rican political parties testified as to their dissatisfaction with the current status. In the early 1980s, the debates culminated with a recommendation by the Decolonization Committee that the issue of Puerto Rico be brought before the General Assembly. But that resolution was never voted on by the General Assembly. However, in its latest resolutions, the Decolonization Committee decided to keep the question of Puerto Rico under continuing review.

The United States maintains that the 1953 U.N. resolution which recognized that Puerto Rico had exercised its right to self determination, leaves the United Nations with no jurisdiction in the matter. Recently, the U.N. General Assembly adopted a resolution calling for the decolonization of all territories by the year 2000. Puerto Rico was not mentioned specifically in the resolution. The United States voted against it.

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## Regional Interests

The United States represents regional interests of Puerto Rico in international government organizations and negotiations by the United States.<sup>6</sup> Puerto Rico, like a state, may enter into international agreements with the consent of the Department of State or the U.S. Congress, which, for example, authorized membership for Puerto Rico in the Caribbean Development Bank.

As a commonwealth, Puerto Rico has separate participation from the United States in the Olympics.

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## Status Precedents

Other U.S. territories have followed varying paths in establishing their political relationship with the United States. The U.S. Constitution grants the Congress authority over territories and the power to admit new states or grant independence. Historically, the Congress has been guided by tradition, but it has also been adaptable when considering and legislating changes to the status of territories. The Congress' broad authority and the diversity of each applicant have produced some patterns and many variations in the status of U.S. territories.

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## Statehood

Thirty-seven territories have eventually become states, satisfying the Congress of their readiness for statehood by meeting three traditional requirements: (1) establishing a republican form of government; (2) expressing a majority preference for statehood through referendums, through direct petitions to the Congress, through the creation of constitutional conventions, or through ratification of a state constitution; and (3) having sufficient population and demonstrating the economic capability to support a state government and provide its share of the cost of the federal government.

Of the 37 territories that have become states, 11 held referendums to express the electorate's popular will for statehood by a yes or no vote, as shown in table 1. Of these 11, 7 voted for statehood by majority votes ranging from 59 to 80 percent. Voters in the other four territories initially rejected statehood for various reasons, but later expressed a desire for statehood by majority votes of from 76 to 83 percent.

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<sup>6</sup>Regional interests include negotiations with Caribbean countries and territories surrounding Puerto Rico's borders. For example, the Caribbean Basin Economic Recovery Act, has special provisions applying to Puerto Rico, Virgin Islands, and American Samoa. The act allows duty-free treatment of products produced or processed in Puerto Rico and sold by one of the Caribbean beneficiary nations.



## History

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### **Status Precedents**

- Statehood
  - Congressional Representation
  - Congressional Reapportionment
- Independence
- Commonwealth
- Free Association

The 26 territories not holding referendums used other means to demonstrate that the majority of the people desired statehood. As mentioned earlier, these included directly petitioning the Congress, convening a state constitutional convention, or ratifying a proposed state constitution.<sup>7</sup>

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<sup>7</sup>See *Experiences of Past Territories Can Assist Puerto Rico Status Deliberations* (GGD-80-26, Mar. 7, 1980) for more detail on the experiences of territories in gaining statehood.

History

**Table 1: Results of Referendums on the Question of Statehood in 11 U.S. Territories**

Territory	Year of referendum	Results of referendum
Alaska	1946	Approved statehood by a 3:2 margin (59-percent majority).
Arizona	1906	Rejected joint statehood with New Mexico by 4:1. In 1912, 76 percent of voters ratified a state constitution.
Colorado	1859	Rejected statehood. <sup>a</sup> Rejection attributed to concern over taxation and a sense of unreadiness. In 1876, 79 percent of voters ratified a state constitution.
Florida	1837	Approved statehood by a 2:1 margin (63-percent majority).
Hawaii	1940	Approved statehood by a 2:1 margin (67-percent majority).
Michigan	1832	Approved statehood by 3:2 margin (60-percent majority).
Nevada	1863	Approved statehood by 4:1 margin (80-percent majority).
New Mexico	1906	Approved joint statehood with Arizona by 2:1 margin (64-percent majority).
Oregon	1854-1856	Rejected statehood three times by narrow margins (51 to 56 percent of votes). An 1857 referendum approved statehood by a 5:1 margin (82-percent majority).
Tennessee	1795	Approved statehood by 5:2 margin (72-percent majority).
Wisconsin	1840-1844	Rejected statehood four times by 2:1 margins ranging from 2:1 to 4:1. Rejections attributed largely to light vote and indifference. An 1846 referendum approved statehood by a 5:1 margin (83-percent majority).

<sup>a</sup>Voter margin not available.

Source: Congressional Research Service and state archives.

The admission of new states and population increases caused the House of Representatives to grow from 65 members representing 13 states to 435 members representing 50 states. New states' admission or enabling acts normally prescribed at least one representative until the next apportionment. Apportionment acts from 1850 to 1911 allowed for increasing the House size should a new state be admitted, and House membership was increased following each decennial census until 1911.

In that year an apportionment act fixed House membership at 433 and provided that Arizona and New Mexico each have 1 representative should they become states. In 1912 both were admitted and the House size set at the present 435. Although a 1929 act changed the method for apportionment, it did not change the House size. The number has

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remained at 435 since then with the exception of the cases of Alaska and Hawaii in the 1950s, when the Congress temporarily increased the size of the House of Representatives until the decennial census in 1960. After the census, the number returned to 435.

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## Independence

Independence has occurred only in the case of the Philippines. Like Puerto Rico, the Philippines was ceded to the United States by Spain in 1898. In 1916, the Congress declared its intent to recognize Philippine independence as soon as a stable government was established. In 1934, the Philippine Independence Act was adopted and it set forth a 10-year transitional commonwealth government. The Philippine legislature drafted a constitution, within certain parameters set by the Congress, and it was approved by the United States and ratified by the Filipinos in 1935. Independence was granted in July 1946.

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## Commonwealth

Only one territory other than Puerto Rico is known as a “commonwealth”—the Northern Mariana Islands, which has been part of the Trust Territory of the Pacific Islands. The Northern Mariana Islands was one of four territories that the United Nations designated the United States to oversee, with the ultimate goal of helping it develop into self-government. A covenant between the United States and the Northern Mariana Islands went into full effect in 1986. Unlike Puerto Rico, however, the U.S. Department of the Interior plays a large role in the administration of the Northern Mariana Islands. The territory does not have a delegate in the Congress, but has a “representative” in Washington, D.C.

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## Free Association

The other three U.N. trust territories administered by the United States have chosen what is called “free association” with the United States. The Republic of the Marshall Islands and the Federated States of Micronesia became associated free states in 1986. Only Palau remains under U.S. trusteeship because its people have yet to approve a compact of free association between Palau and the United States, within the terms of their constitution.<sup>8</sup>

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<sup>8</sup>The most recent referendum on this issue was held on February 6, 1990. The results fell short of the required 75- percent majority needed to change the existing constitution and accept the compact.

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# Culture and Society

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## Cultural Dimensions

Puerto Rican heritage stems from Spanish, Indian, African, and European cultures, with more recent influences coming from the United States. The Spanish had substantial influence in Puerto Rico from 1493 until 1898. The Spanish also brought their language—a characteristic that has endured to the present day.

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## Heritage

Puerto Ricans are proud of their unique heritage, which is diverse and distinctly rich. The Taino Indians were the island's inhabitants in 1493 when Columbus first set foot on the island. Initial cordial relations between the European settlers and the Tainos did not last long. The early Spaniards craved gold, but the island's supply was limited, and they soon had to settle down to farming and raising livestock to make a living.

During the next three centuries, settlers spent much time defending Puerto Rico from the Spanish Empire's traditional enemies. The walled fortress, El Morro, provided protection from harbor attacks, but the fort was captured by the English in 1598 by land. The English conquerors, however, were driven out by a dysentery epidemic. Other aggressors included the Dutch in 1625, but the island's troops refused to surrender, forcing the Dutch to flee. During the early 1800s, many settlers from Spain and new Latin American republics migrated to the island. Since 1898, migration between Puerto Rico and the United States has further contributed to a cultural and social interchange. Migration to the states totaled about 700,000 persons from 1947 to 1972. Net out-migration is estimated at 280,000 from 1980 to 1988. About 2.3 million Puerto Ricans now reside in the states.

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## Language

Puerto Rico's cultural heritage reflects the presence of its native inhabitants and the blend of various cultures, but the Spanish language predominates. Spanish is the language of day-to-day affairs, of most newspapers, television shows, and radio stations, reflecting Puerto Rico's lasting Spanish legacy. While the population is predominantly Spanish-speaking, about 42 percent has some English proficiency, according to the 1980 census.

American influence has also contributed to Puerto Rico's culture, particularly in introducing English. Federal government and federal court proceedings have been conducted in English since 1900. House hearings disclosed, however, that the defendants, plaintiffs, and witnesses are overwhelmingly Spanish-speaking, as well as the judges, attorneys, and



## Culture and Society

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### Cultural Dimensions

- Heritage
  - Population Characteristics
  - Spanish Culture
  
- Language
  - Predominantly Spanish-Speaking
  - Federal Court Proceedings
  - Public Schools

court personnel. In 1980, the U.S. House of Representatives passed a bill to allow Spanish to be used for a 12-year period in the Puerto Rico Federal District Court. The bill also provided that Spanish-speaking people could serve on the petit or grand juries if trials were to be held in Spanish. The Senate, however, did not act on this legislation. Presently, because of the English-language requirement, half the population cannot sit on juries in the federal court, but they can sit on juries in local courts.

Language policy regarding public schools in Puerto Rico has fluctuated greatly since 1900. In 1900, Spanish was the medium of instruction at the elementary level, while English was the medium at the secondary level. In 1905, English became the medium of instruction in all grades. In

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1916, the policy changed again with Spanish being taught in the lower grades and English in the higher grades. President Franklin D. Roosevelt stated in 1937 that Puerto Rico should become bilingual and, in 1942, the policy changed to further emphasize bilingual instruction. Emphasizing English, however, still caused considerable controversy. In 1948, Puerto Rico was given total control of its education system. Since then, Spanish has been the medium of instruction of public schools with English taught at all levels beginning with first grade.



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# Federal Relations

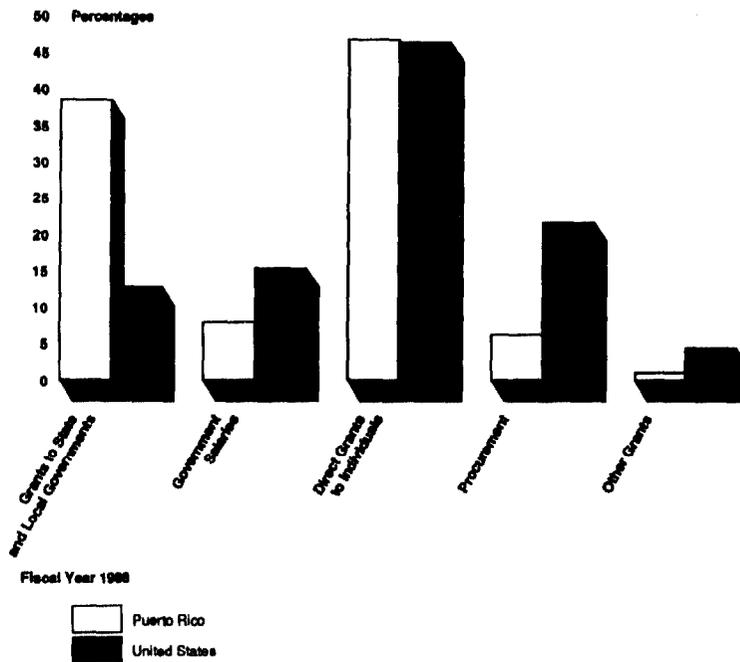
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## Federal Spending

Total federal spending, at \$6.2 billion in 1988, comprises about 34 percent of Puerto Rico's \$18 billion gross product. In the 50 states, the average is about 18 percent. About 38 percent of the federal spending—about \$2.4 billion—was in grants to the commonwealth or its local governments. This includes welfare assistance, education, highway aid, and customs duties shared with the island. Another 47 percent was for direct payments to individuals, including those for retirement, disability, and veterans' benefits. Most of the remaining 15 percent was for the wages of federal employees on the island, such as postal workers, and for procurement, such as military purchases.

Additionally, the federal government provided \$703 million to Puerto Rico in direct loans, loan guarantees, and insurance in fiscal year 1988. For example, the federal government guaranteed \$50 million in student loans, \$454 million in mortgage insurance, and \$9 million in the Department of Veterans Affairs home loans.

# GAO Federal Relations: Federal Spending



Source: Census Bureau, Federal Expenditures by State for Fiscal Year 1988.

**GAO Federal Relations:  
Programs and Laws**

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**Puerto Rico Is Generally  
Treated the Same as a State**

- Areas Where There Are Notable Differences
  - Tax Laws
  - Income Support Programs
  - Health Care Programs

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**Programs and Laws**

Under most federal programs and laws Puerto Rico is treated the same as a state. Under some, however, Puerto Rico is treated differently in some notable ways. The three most significant areas in which Puerto Rico is treated differently are tax laws, income support programs, and health care programs.

## GAO Federal Relations: Tax Laws

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- No Federal Individual or Corporate Income Tax
- Internal Revenue Code
  - Section 936  
(Corporation Tax Credit)
  - Section 7652(a)  
(Shipment of Goods to U.S.)
- Customs Duties and Excise Taxes

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### Tax Laws

Puerto Rico is not subject to federal individual or corporate income tax. Since the passage of the Revenue Act of 1918, Puerto Rico has had its own tax law. In this respect, it is similar to a foreign country. Two provisions in federal tax law are designed to encourage industry and improve the Puerto Rican economy.<sup>9</sup> The first, section 936 of the Internal Revenue Code, provides for a corporate tax credit. The second, section 7652(a) of the Code, imposes a tax on shipments of Puerto Rican

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<sup>9</sup>See Welfare and Taxes: Extending Benefits to Puerto Rico, Virgin Islands, Guam, and American Samoa (GAO/HRD-87-60, Sept. 15, 1987) for more detailed information on section 936 and foreign tax credits.

goods to the United States that are to be paid into the Puerto Rican treasury.

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**Section 936**

Section 936 of the Code provides for a tax credit that has the effect of exempting income that U.S. corporations earn from business operations and certain financial investments in Puerto Rico and U.S. possessions from federal income tax. This tax credit, in effect in one form or another since 1921, provides a significant incentive for U.S. businesses to establish operations in Puerto Rico. According to the Department of the Treasury, in 1983 (which is the most current published data available), 625 corporations in Puerto Rico received credits equaling \$1.6 billion. These companies employed about 89,000 people. The estimated tax benefit per employee varies greatly by industry and averaged \$18,523, or 125 percent of the average compensation per employee. Forty-six percent of the benefits went to pharmaceutical companies, which accounted for about 15 percent of the total employed by the companies receiving these benefits.

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**Section 7652(A)**

Section 7652(a) imposes a tax on goods manufactured in Puerto Rico and shipped to the United States. It also provides that taxes collected under the federal internal revenue laws on items produced in Puerto Rico and transported to the United States or consumed in Puerto Rico are to be paid into the treasury of Puerto Rico. The island received \$227 million under this provision in 1987.

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**Federal Customs Duties and Excise Taxes**

U.S. customs duties and excise taxes collected in Puerto Rico are deposited in a special U.S. Treasury account. After providing for the expenses of administering customs activities in Puerto Rico, the remaining amounts are transferred to the Treasury of Puerto Rico. The island received \$291 million in 1988.

**GAO Federal Relations:  
Income Support Programs**

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**Federal Funding Capped,  
Benefits Lower**

- **Adult Assistance  
(Supplemental Security Income)**
- **Aid to Families With  
Dependent Children**
- **Nutrition Assistance  
(Food Stamps)**

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**Income Support  
Programs**

Of the six largest income support programs, three are applied in the same way as they are in the states, and three are applied differently to Puerto Rico. The three that are applied the same are social security, unemployment insurance, and child nutrition. Those that differ are Adult Assistance (the predecessor program to Supplemental Security Income (SSI)), Aid to Families With Dependent Children (AFDC), and Nutrition Assistance (which is similar to Food Stamps). For these programs, federal funding is capped and benefits are lower than they are in the 50 states. According to a CRS memorandum, fully extending benefits

for these three social programs would significantly expand the eligible population in Puerto Rico, thereby increasing federal costs.<sup>10</sup>

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### Adult Assistance Program

Under the Adult Assistance program, which is the equivalent for Puerto Rico of the SSI program for the states, cash assistance is provided to needy, aged, blind, or disabled individuals. Unlike SSI, which is fully funded by the federal government, the Adult Assistance program is jointly funded by the federal and Puerto Rican governments. The federal government pays 75 percent of Puerto Rico's costs of the Adult Assistance benefit and training programs and 50 percent of the administrative costs. However, the Adult Assistance program is subject to a federal funding cap. The cap (which includes several other income support programs) for fiscal year 1990 is \$82 million (42 U.S.C. 1308(a)).

In fiscal year 1989, the federal share of Puerto Rico's Adult Assistance benefits program was \$13.7 million. The average monthly payment was \$32 for an Adult Assistance recipient, and 50 percent of actual housing costs. The U.S. average under SSI was \$362 a month.

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### Aid to Families With Dependent Children

AFDC provides cash payments for needy children (and their caretaker relatives) through state-administered programs that are jointly funded by states and the federal government. The federal share is an open-ended match ranging from 50 to 83 percent of total costs, depending on a state's per capita income. However, the federal share of benefits for Puerto Rico is 75 percent and is capped. For fiscal year 1990, AFDC (together with the AFDC program and several other income support programs) for Puerto Rico is set at \$82 million. The federal share of Puerto Rico's AFDC program was about \$53 million in fiscal year 1988.

Puerto Rico, like the states, defines need, establishes income and resource requirements, and sets benefit levels within federal limits. In 1988, the basic monthly benefit was \$80 for a family of three, plus half their housing cost. The average total monthly benefit to a family of three was \$90, which is \$28 lower than the lowest maximum payment in the 50 states and U.S. territories.

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<sup>10</sup>CRS prepared a memorandum to Senator Daniel P. Moynihan entitled, "Effects of the Proposal for a Referendum on the Status of Puerto Rico," (Aug. 1, 1989) that presents an analysis of how selected social welfare programs would be affected by a change in the island's status.

Puerto Rico is reimbursed for its costs under the program at a lower statutory rate than it would be if it were a state. This treatment was challenged in 1980 in a Supreme Court case, *Harris v. Rosario*, 446 U.S. 651 (1980). The Court found the lower reimbursement rate constitutional because there was a rational basis for it: Puerto Rican residents do not contribute to the federal treasury, the cost of treating Puerto Rico as a state would be high, and there was a concern that higher benefits could disrupt the Puerto Rican economy.

### Nutrition Assistance Program

Among the states, the Food Stamp program provides federal open-ended funding for a state-administered food assistance program. Puerto Rico has been excluded from participating in this program since 1982. In its place, the federal government created a separate Nutrition Assistance program. However, unlike the Food Stamp program, this grant is not open ended. Federal funding for administrative and benefits costs of food assistance in Puerto Rico is capped. The cap for fiscal year 1990 is \$936.75 million (7 U.S.C. 2028(a)). About 44 percent of the Puerto Rican population received benefits in cash under this program in fiscal year 1988, and benefit levels are similar to those under Food Stamps (about \$48 monthly per person, on average, versus about \$50). The program is administered by Puerto Rico within funding and other limits set by federal law and under a plan reviewed and approved annually by the Department of Agriculture.<sup>11</sup>

<sup>11</sup>The 1991 federal budget proposes eliminating the Nutrition Assistance program and establishing a new fiscal assistance block grant to include other services to the poor. It also would transfer the federal administration of this program from the Department of Agriculture to HHS.

## GAO Federal Relations: Health Care Programs

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### **Federal Funding Is Lower**

- Medicaid Has a Federal Funding Cap
- Medicare Reimbursement Rates Are Lower Based on Puerto Rican Hospital Costs, Not the National Average

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#### **Health Care Programs**

Puerto Rico participates in both federal Medicaid and Medicare programs. The difference between Puerto Rico and the states under these programs is that the level of funding for Puerto Rico is lower than that of the states.

#### **Medicaid Has a Federal Funding Cap**

Medicaid provides funding for medical assistance to low-income persons who are aged, blind, disabled, or members of families with dependent children. The federal government shares part of total program costs through a formula grant available to the states and other jurisdictions, including Puerto Rico. The program is designed and administered by the

states and Puerto Rico within federal limits and in accordance with plans approved by HHS. Federal funding for the Medicaid program in the states is open ended; in Puerto Rico it is capped. The cap for fiscal year 1990 for Medicaid in Puerto Rico is \$79 million (42 U.S.C. 1308(c)).

The federal financing participation rates for states' Medicaid benefits (except for family planning, which is reimbursed at 90 percent) is based on a formula that takes into account states' per capita income, with limits that may be no lower than 50 percent and no higher than 83 percent. The rate for Puerto Rico is fixed at 50 percent by federal law, up to the funding cap. The sharing rates for administrative expenses are 75 percent for training, conducting utilization reviews, operating mechanized claims processing, information retrieval, fraud control, and hospital costs-determination systems; 90 percent for establishing the mechanized claims processing and fraud control systems; and 50 percent for the remaining administrative costs.

### **Medicare Reimbursement Rates Are Lower Based on Puerto Rican Hospital Costs, Not the National Average**

Medicare pays much of the health care costs of people aged 65 years old and over and certain disabled people. Puerto Rico is generally treated as a state under this program. The difference in Puerto Rico's treatment under the program is that its prospective payment rate (the established payments under Medicare for various medical procedures) is based on the cost of hospitalization in Puerto Rico, whereas, in the states these costs are based on a national average.

## **GAO Federal Relations: Lands and Properties**

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- **Military Bases and Installations**
- **National Forests and Parks**
- **Other Real Property**
- **Coastal Jurisdiction**

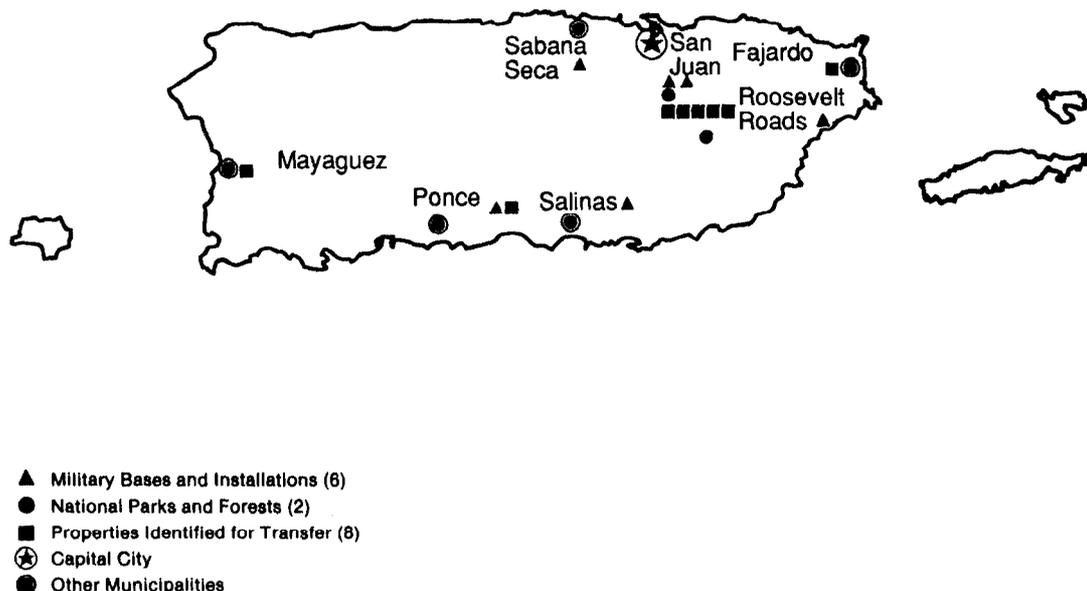
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### **Federal Lands and Properties**

The United States owns about 125 square miles of land in Puerto Rico, which is about 3.6 percent of the land in Puerto Rico. The Defense Department operates several military bases and installations that are strategically important to the United States. Various federal departments and agencies also own significant amounts of property in Puerto Rico. In addition, the United States owns several historic sites and lands that the Congress is considering transferring to Puerto Rico (see fig. 2).

Figure 2: Federal Lands and Properties

# GAO Federal Relations: Lands and Properties



## Military Bases and Installations

Since 1898, Puerto Rico has afforded the United States a secure position for protecting U.S. interests and training military personnel. The services of the U.S. Armed Forces maintained 5,833 full-time permanently assigned personnel in fiscal year 1987 to conduct operations in Puerto Rico. The Navy has the largest presence (see table 2). U.S. Naval Station Roosevelt Roads, on Puerto Rico's eastern coast, is one of the United States' largest naval bases. Roosevelt Roads is described by high-ranking Naval personnel as the world's best naval training area. In addition to affording a major training facility for the U.S. Navy and allied forces, Roosevelt Roads provides a strategic U.S. presence.

Table 2: Military Bases and Installations

Installation	Location	Acres
<b>Navy:</b>		
Roosevelt Roads Naval Station	Roosevelt Roads	32,161
Naval Security Group	Sabana Seca	2,618
Naval Communications Station	Ponce	1,913
<b>Army:</b>		
Camp Santiago	Salinas	11,431
Fort Buchanan	San Juan	828
<b>Air Force:</b>		
Air National Guard Tactical Fighter Group	San Juan	44
<b>Total</b>		<b>48,995</b>

Source: "Department of Defense List of Military Installations Including FY 1987 Authorized Full Time Assigned Personnel," provided by the Office of the Assistant Secretary of Defense/Legislative Affairs.

## National Forests and Parks

The United States owns about 28,000 acres of forest land in Puerto Rico, as shown in table 3. The Caribbean National Forest is the largest tract of forest land in Puerto Rico and is the largest tropical forest in the U.S. National Forest System. The San Juan Historic Site includes the walled fortress, El Morro, which was built in 1540.

Table 3: National Forests and Parks

Site	Location	Acres
<b>Department of Agriculture:</b>		
Forest Service		
Caribbean National Forest	Luquillo Mountain range	27,846
<b>Department of the Interior:</b>		
National Park Service		
San Juan National Historic Site	San Juan	53
<b>Total</b>		<b>27,899</b>

Source: "Real Property Owned by the United States Government," as of September 30, 1987, provided by the General Services Administration.

## Other Real Properties

Various federal departments and agencies have nearly 400 buildings in Puerto Rico that total about 2.8 million square feet of office and storage space, and they control nearly 3,000 acres of land. The General Services Administration owns the largest share of real property, totaling 667,829 square feet, while the Fish and Wildlife Service owns most of the land acreage. Table 4 identifies all real property owned by the United States government in Puerto Rico as of September 1987.

**Federal Relations**

**Table 4: Other Real Properties**

<b>Federal agency</b>			
Department of Agriculture:			
Agricultural Research Service	38	77,095	0
Forest Service	30	57,637	0
Department of Commerce:			
National Oceanic and Atmospheric Administration	2	800	0
Department of Interior:			
Geological Survey	14	9,702	36
National Park Service	20	42,450	53
Fish and Wildlife Service	10	26,058	2,425
Department of Justice:			
Immigration and Naturalization Service	1	4,800	3
U.S. Postal Service	21	194,902	20
Department of the Treasury:			
Customs Bureau	8	110,024	3
Federal Communications Commission	0	0	69
Department of Veteran Affairs	4	542,919	160
General Services Administration	4	667,829	46
National Science Foundation	21	52,993	118
Department of Transportation:			
Coast Guard	178	499,604	47
Federal Aviation Administration	20	72,542	2
Department of Energy	9	68,512	0
Department of Education	8	302,057	0
Corps of Engineers	6	29,298	6
<b>Total</b>	<b>394</b>	<b>2,759,222</b>	<b>2,988</b>

Source: "Real Property Owned by the United States Government," as of September 30, 1987, provided by the General Services Administration.

**Properties Identified for Possible Transfer**

The enhanced commonwealth option in S.712, as reported by the Senate Committee on Energy and Natural Resources, states that unless the President finds there is a national interest requiring continued federal ownership of certain properties, the properties listed in table 5 shall be transferred to the Commonwealth of Puerto Rico (see fig. 2).

**Table 5: Properties Identified for Transfer**

Property	Location
Federal Courthouse in Old San Juan	San Juan
Former Stop 7-1/2 Naval Residence	Guaynabo
San Geronimo Quarters	San Juan
Custom House in San Juan	San Juan
Custom House in Mayaguez	Mayaguez
Custom House in Ponce	Ponce
Custom House in Fajardo	Fajardo
Coast Guard Facility at Puntilla	San Juan

### Coastal Jurisdiction

Control of the waters surrounding Puerto Rico is of great interest to those living on the island as well as to the United States. There are three measures of coastal jurisdiction surrounding Puerto Rico's coast line. First, Puerto Rico's boundaries extend 3 Spanish leagues (a little more than 10 miles) from its shore. Puerto Rico has extensive control over activities in this area.

Second, the territorial sea of the United States, including Puerto Rico, extends 12 nautical miles from the shore. The territorial sea is a maritime zone extending beyond the land territory and internal waters of the United States over which the United States exercises sovereignty and jurisdiction.

And third, the United States claims an exclusive economic zone that extends 200 nautical miles from the coast line of the states and Puerto Rico. In this zone, the United States claims exclusive rights regarding the establishment and use of artificial islands, structures having an economic purpose, protection of the marine environment, and fishing.

## GAO Federal Relations: Key Transition Issues

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- Taxes
- Programs
- Laws
- Lands and Properties

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### Key Transition Issues

Historically, the Congress has exercised broad authority in deliberations leading to statehood or independence. The approaches used have varied, depending on each territory's unique characteristics. As a result, the admission procedures for statehood, any prerequisite conditions, the amount of assistance provided, and the time that elapsed before attaining statehood (or in the case of the Philippines, independence) varied considerably.<sup>12</sup>

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<sup>12</sup>See *Experiences of Past Territories Can Assist Puerto Rico Status Deliberations* (GGD-80-26, Mar. 7, 1980).

In the case of Puerto Rico, the most recent legislative initiative to resolve its political status, S.712, has been premised on the immediate implementation of the status option chosen, once the referendum's results are certified. Providing multiple options before a referendum is novel, but it fits the historical circumstances surrounding the Puerto Rican status debate. However, this requires the Congress to define many transition issues before the referendum is held.

While there are many issues the Congress will have to resolve ahead of time under this approach is to be enacted into law, we see four as paramount:

- the transition toward the imposition of federal income taxes if Puerto Rico becomes a state;
- the phasing out of section 936 under statehood or independence;
- the transition toward the implementation of various grant-in-aid programs, which Puerto Rico does not currently receive, if it becomes a state; and
- a close scrutiny of existing federal laws under any new or changed status, including the ownership of lands and properties in Puerto Rico currently held by the United States.

Each of the three major Puerto Rican political parties have offered a variety of proposals in each of these areas, but the Congress will ultimately have to decide.

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## Taxes

The tax implications would vary with the form of political status chosen. Under statehood the imposition of federal personal and corporate income taxes would be phased in, and section 936 tax credits would be phased out. The timing on imposing income taxes, and the timing of the phasing out provisions for section 936, however, are important because if they are done too soon, unnecessary economic dislocations could occur. The U.S. Constitution require taxes to be uniform among the states. The phasing in of U.S. taxes and the phasing out of section 936 once Puerto Rico becomes a state could raise a constitutional issue. Under independence, section 936 would become void upon the date of independence. However, a foreign tax credit might be created in its place to avoid potential economic dislocations. Under the enhanced commonwealth option, the existing tax structure would not change; that is, Puerto Rico would continue to collect its own taxes and receive excise tax and custom duties back from the federal government.

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Programs

Puerto Rico's participation in federal grant programs would also vary with the form of political status chosen. Under statehood, Puerto Rico would become eligible for certain federal programs for the first time. However, the pace of implementation of certain income support programs will have to be carefully phased to avoid unnecessary economic dislocations. Under independence, a transition could include block grants to replace federal grants for a period of time, and the protection of federal pensions and Social Security vesting. Both governments would need to coordinate existing social security and medicare credits with new retirement programs to be established by the Republic of Puerto Rico. Most programs would not change under the enhanced commonwealth option. Enhancement could include treating Puerto Rico the same as the states in benefit programs or increasing flexibility. Increased flexibility could include the consolidation of certain federal grant programs, with these funds provided as a lump sum to be allocated among different grant programs at the discretion of the responsible federal agency, or at the request of the Puerto Rican government.

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Laws

The application of federal laws would vary with the form of political status chosen. Under statehood, all U.S. laws would ultimately apply to Puerto Rico. Under independence, the United States would withdraw and surrender all existing rights of possession and sovereignty to the Republic of Puerto Rico and U.S. laws would no longer apply. The timing of the transition toward these goals under either statehood or independence would have to consider a number of administrative implications. Increased flexibility under the enhanced commonwealth option could give the Governor of Puerto Rico the authority to certify to the Congress that a particular law is either inconsistent with Puerto Rico statutes or undermines local interests. If the U.S. Congress upholds the Governor's certification, the law would no longer apply to the Commonwealth of Puerto Rico.

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Lands and Properties

Federal ownership of land and property in Puerto Rico could also vary with the form of political status chosen. Under statehood, the federal government could reassess its need for properties it currently holds in Puerto Rico. Like territories accepted into the Union in the past, Puerto Rico could be compensated for lands retained, with these funds earmarked to reduce Puerto Rico's public debt, or improve education. The process for determining how this would occur, and how much would be paid would need to be developed. Under independence, the United States could withdraw all existing rights of possession with exceptions such as

unrestricted access to maintain and preserve present military installations. Determining these exceptions, and any compensation mechanisms would also need to be developed. Under enhanced commonwealth, the continued need for selected federal properties could be reassessed by the United States, with provisions for transfer to Puerto Rico. Again, a mechanism to do this would need to be created.



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# Governmental Structure

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## Similar to States With Some Exceptions

Government in Puerto Rico includes the Commonwealth central government (with its 52 public corporations) and 78 municipalities. Unlike most states, the great majority of governmental functions are administered and financed by the central government and its public corporations and limited responsibilities have been delegated to the municipalities.

Puerto Rico's Constitution provides for a government structure similar to that of the federal government and the states. The island freely manages local affairs and also operates within the broader federal political system. Presently, like states, Puerto Rico does not exercise responsibilities within the federal government's purview, such as levying duties or imposts on imports or exports, entering into treaties with foreign governments, coining money, and establishing rules for naturalization.

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## Public Corporations

Puerto Rico's 52 public corporations are governmental entities of the Commonwealth, with varying degrees of independence from the central government, particularly with respect to the custody of funds. In 1987, 11 of the largest of these corporations had net assets of about \$5 billion and revenues of about \$2.7 billion, as shown in table 6. While most of these corporations obtained their revenues from charges for services or products, a number of the corporations, such as the Sugar Corporation and the Maritime Shipping Authority, operated with a net loss and were subsidized by the central government.

## GAO Governmental Structure

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### **Similar to States With Some Exceptions**

- Public Corporations
- Commonwealth Provides Many Local Services

**Governmental Structure**

**Table 6: Financial Data on 11 Public Corporations of the Commonwealth** (Fiscal Year 1987)

Dollars in millions

<b>Public Corporations</b>	<b>Total assets</b>	<b>Total liabilities</b>	<b>Net assets</b>	<b>FY87 revenues</b>
Government Development Bank	\$5,687.6	\$5,304.0	\$383.5	\$383.6
Highway Authority	2,524.3	710.4	1,813.9	70.0
Electric Power Authority	2,552.8	2,218.9	333.9	860.5
Aqueduct and Sewer Authority	2,040.2	735.7	1,304.6	259.8
Telephone Authority	1,296.6	937.9	358.8	485.1
Public Buildings Authority	1,075.2	803.7	271.5	122.2
Industrial Development Company	574.8	195.4	379.4	50.1
Ports Authority	352.4	154.3	198.1	60.7
Maritime Shipping Authority	214.3	424.4	(210.1)	311.8
Communications Authority	186.7	122.8	63.9	53.4
Land Authority	63.6	20.0	43.6	37.6
<b>Total</b>	<b>\$16,568.5</b>	<b>\$11,627.5</b>	<b>\$4,941.1</b>	<b>\$2,694.8</b>

Source: Annual reports for each public corporation, and the Fiscal Year 1989-90 Budget for the Commonwealth of Puerto Rico.

**Commonwealth Provides Many Local Services**

The Commonwealth government provides most government services, such as local police and fire protection, public education, welfare, and economic development. Puerto Rico's 78 municipalities are responsible for the administration of local services, such as street cleaning, garbage collection, and some public works. To a limited extent, the municipalities share responsibility for education and health by providing various services, such as drivers for school buses and ambulances.

**Commonwealth Constitution**

Most of the Commonwealth's constitutional provisions were adopted directly from the U.S. and state constitutions. Puerto Rico's Constitution provides for three separate independent branches of government—executive, legislative, and judicial—with appropriate checks and balances. The Commonwealth Constitution also includes an extensive bill of rights essentially derived from the traditional protections contained in federal and state constitutions.

**Executive Branch**

Executive branch responsibilities are similar to those in states, but more extensive. For example, they include: education, health, police and fire

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protection, telephone communications, electricity, and water. The executive branch includes the Office of the Governor, 15 departments, 42 executive agencies and offices, and 52 public corporations.

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**Legislative Assembly**

The Legislative Assembly is bicameral and consists of 27 senators and 51 representatives. There is also an independent Controller, appointed by the Governor with consent of the Legislative Assembly. The Controller is charged with auditing all revenues, accounts, and expenditures of the Commonwealth, its agencies and instrumentalities, as well as local municipalities.

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**Judicial System**

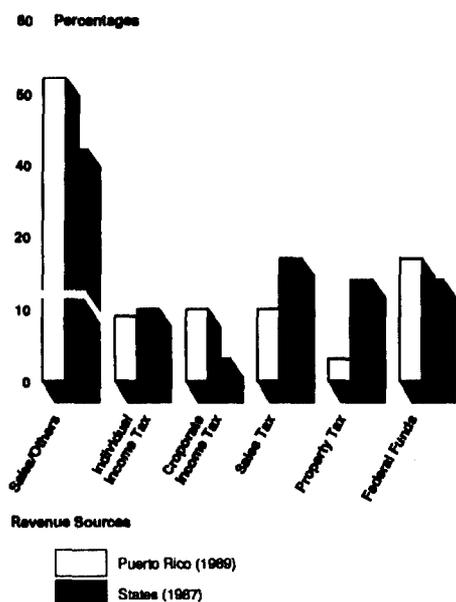
The Commonwealth Constitution provides for a unified judicial system for purposes of jurisdiction, operation, and administration. Puerto Rico's Judiciary Act of 1952 authorized a General Court of Justice—composed of the Supreme Court, local superior courts, and local district courts. The members of Puerto Rico's Supreme Court are appointed by the governor with the advice and consent of the Puerto Rican Senate. The Court is almost exclusively a court of appellate jurisdiction although it does have original jurisdiction to hear habeas corpus petitions and other causes and procedures conferred on it by law.

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**Revenue Sources**

We analyzed the Commonwealth's 1989 revenues (including commercial and public utilities) and contrasted them with the averages for state and local governments in the 50 states and the District of Columbia. While the comparison with state and local revenues provides a useful context for describing Puerto Rico's revenue pattern, the comparison is approximate for a number of reasons. First, some financial classifications of revenues by source were not comparable because such data were not readily available. Second, the Commonwealth's governmental activities in some respects, such as supplying agriculture credit, correspond more closely to those of the federal government than those of state and local governments. And finally, differences in the pattern of Commonwealth revenues and the averages for state and local governments may not necessarily be significant, because wide variations exist among the states.

# GAO Governmental Structure: Revenue Sources

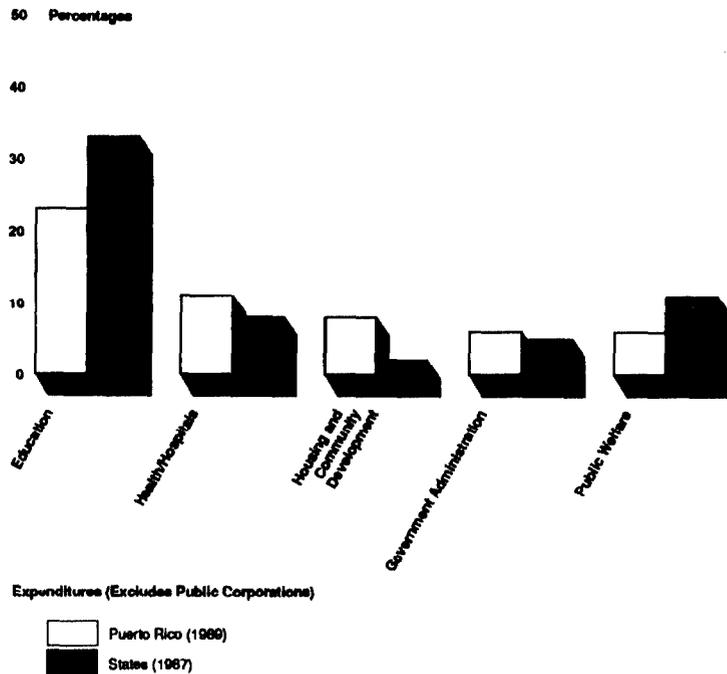


Sources: Governor's Economic Advisory Council, and Census Bureau's Government Finances in 1986-87.

Total revenues (including commercial and public utilities) for Puerto Rico's central and municipal governments were about \$10.5 billion in 1989. As a percent of total revenues, the largest single share, at 52 percent, is the category of "sales of goods and services and all other revenue sources." This category includes a significant amount of revenues generated by its public corporations. For state and local governments this category is 42 percent, and includes revenues from government owned and operated water, gas, and transit systems, and liquor store receipts. The second largest source of Puerto Rican revenues is federal aid (17 percent). This is about 3 percent more than the average for the 50 states.

The other three major components, almost equally divided, are sales taxes, and individual and corporate income taxes. Puerto Rico relies more heavily on individual and corporate income taxes (19 percent), compared with an average of 13 percent for states and their localities. However, Puerto Rico relies less on the use of property taxes and sales taxes than do states and their localities, on average (3 percent versus 14 percent; and 10 percent versus 17 percent, respectively).

# GAO Governmental Structure: Selected Expenditures



Sources: Governor's Economic Advisory Council, and Census Bureau's Government Finances in 1986-87.

## Expenditures

Puerto Rico spends about 29 percent less per capita than state and local governments. It tends to spend less on education than states. Education is 23 percent of total expenditures, compared with 33 percent in the states. Puerto Rico also spends less on welfare (6 percent versus 11 percent). But it spends more on housing and community development (8 percent versus 2 percent), and more on health care and hospitals (11 percent versus 8 percent).

We analyzed the Commonwealth's 1989 expenditures (excluding the municipalities and the commercial activities of public corporations) and contrasted them with the averages for state and local governments in the 50 states and the District of Columbia. For the reasons mentioned

earlier, the comparison is not precise. Also, personal income levels vary significantly between the United States and Puerto Rico, so these numbers are not appropriate indicators of levels of effort. For example even though Puerto Rico spends less per capita than states on education, if expenditures were measured per \$1,000 of personal income, Puerto Rico spends \$85 and the states and the localities, \$62.

## Puerto Rico's Debt to Gross Product Ratio

Puerto Rico's debt, including that of the Commonwealth, its municipalities, and its public corporations, totaled about \$10.1 billion in 1987. But the public corporations' debt accounted for 71 percent of Puerto Rico's total debt. To make the percent of the Commonwealth's and municipalities' debt in relation to its gross product more comparable with that of state and local governments, we excluded Puerto Rico's debt attributable to public corporations.

On a per capita basis, Puerto Rico's debt (excluding the public corporations) was estimated at \$882 in 1987, which is equivalent to 17 percent of its gross product. For state and local governments, the per capita debt was much higher (\$2,471), but a lower proportion of gross product (13 percent). However, a comparison with state and local governments' debt is not exact, because some of Puerto Rico's credit activities may be considered similar to some of those of the federal government and private corporations.

Puerto Rico's total public debt as a percent of its gross product has declined since 1975. In 1975, it was 20 percent and dropped to 17 percent in 1987. By comparison, state and local governments' debt as a percent of the U.S. gross national product was 12 percent in 1975, and rose to 13 percent in 1987.

The level of total debt per capita is about that of state and local governments, but excluding the debt of public corporations, it is less than state and local borrowing. The debt of these public corporations is generally financed by the revenues of these corporations, similar to private corporate borrowing. Puerto Rico's debt per capita rose from \$493 to \$882 (current dollars) between 1975 and 1987. State and local government debt per capita rose from \$886 to \$2,471 over the same period.

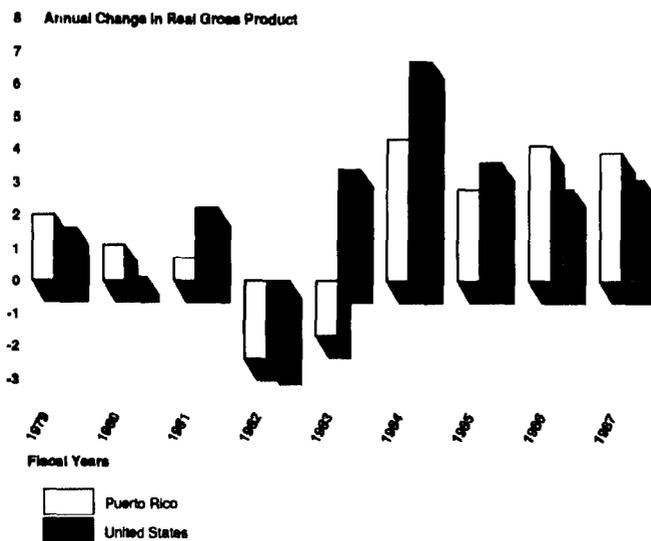


# Economy

## Puerto Rico's Gross Product

Puerto Rico's gross product—the total annual output produced within the commonwealth—increased each year from 1979 to 1981 but at declining rates of growth. As with the United States, Puerto Rico experienced a recession in 1982, which resulted in a decrease in real gross product. While the U.S. economy began to recover in 1983, Puerto Rico's gross product again declined for that year. Puerto Rico experienced real growth rates of nearly 4 percent a year from 1984 to 1987, compared with 3.5 percent in the United States as a whole.

## GAO Economy: Annual Growth in Gross Product

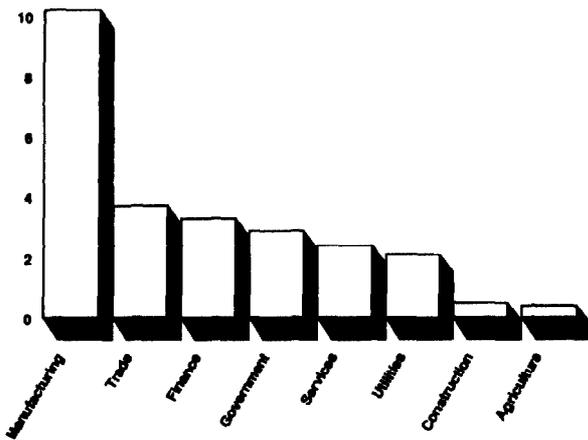


Note: Each change represents growth or decline in gross product in percentages using constant 1982 dollars.

Sources: Puerto Rico Planning Board, Economic Report of the Governor (1988), and Economic Report of the President (January 1989).

# GAO Economy: Manufacturing Is Key Sector

12 Output in Billions of Dollars



Sectors of the Economy (Fiscal Year 1988)

Source: Puerto Rico Planning Board, Economic Report of the Governor (1988).

## Manufacturing Is Key Sector

Spurred almost entirely by the investments of U.S. firms, manufacturing has become the most important sector in Puerto Rico's economy. Manufacturing contributes more than twice as much to gross product as any other sector, totaling about \$10.2 billion in 1988.

# GAO Economy: Government Is the Largest Employer



Sectors of the Economy (Fiscal Year 1988)

Source: Puerto Rico Planning Board, Economic Report of the Governor (1988).

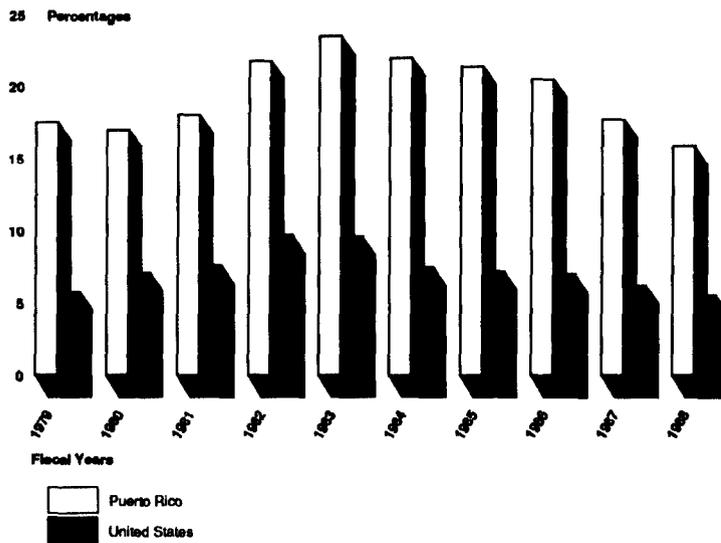
## Government Is the Largest Employer

While manufacturing is the largest contributor to Puerto Rico's gross product, government is the leader in terms of employment. By 1988, the government employed 201,000 people at all levels—federal, commonwealth, and municipal—and comprised 23 percent of the total workforce. That compares with 15.5 percent in 1986 in the United States.<sup>13</sup> In addition, spending by the federal, commonwealth, and municipal governments contributed 24.1 percent of the island's gross product in 1988.

<sup>13</sup>The U.S. public sector employment figure includes federal, state, and local employees. Local government employment includes personnel such as school teachers, police, and sanitation workers.

Manufacturing jobs grew from 9 to 20 percent of total employment from 1950 to 1979. But between 1980 and 1988, manufacturing declined as a share of total employment to 18 percent, in part because of more rapid employment growth in other sectors of the economy. In 1988, manufacturing employment stood at about 157,000 jobs. However, there was a shift from labor- to capital-intensive industries. Among all manufacturing industries, electrical equipment and chemical manufacturing employment grew at the fastest rate from 1980 to 1988. Each grew at over 20 percent and added about 8,300 new jobs during the same period. The apparel industry remained the largest employer although employment stayed constant at about 33,600 jobs between 1980 and 1988.

# GAO Economy: Unemployment Rates

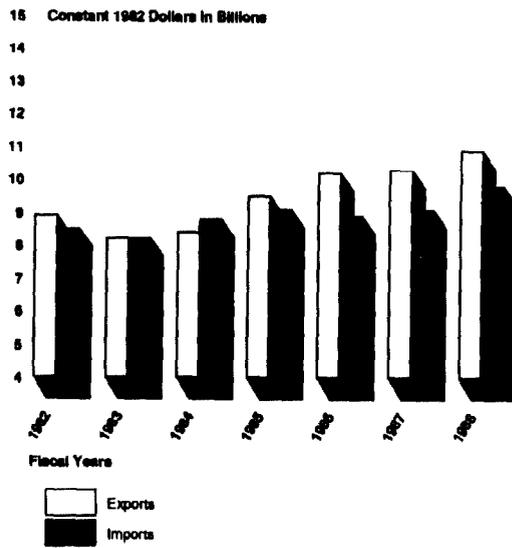


Sources: Puerto Rico Planning Board, Economic Report of the Governor (1988); Bureau of Labor Statistics, Employment and Earnings (May 1989).

## Unemployment Persists

Net job creation increased at nearly three times the rate of population growth from 1979 to 1988. Unemployment is down from the 23.5 percent peak reported in 1983. But Puerto Rico's unemployment rate continues to be two to three times greater than the national average and incomes remain relatively low. In fiscal year 1988, the unemployment rate was 15.9 percent compared with the U.S. average of 5.5 percent (Louisiana had the highest unemployment rate, 10.9 percent in 1988). This high rate of unemployment has been coincident with high levels of participation in public assistance programs. For example, in 1988, about 44 percent of the population was eligible for the Nutrition Assistance program.

# GAO Economy: Exports Exceed Imports



Source: Puerto Rico Planning Board, Socioeconomic Statistics (1988).

## Exports Exceed Imports

Puerto Rico experienced a trade surplus in 1982. When exports and imports are expressed in constant dollars, annual surpluses resumed in 1985 and continued through 1988. The island's exports increased from \$8.9 billion in 1982 to \$10.9 billion in 1988. Puerto Rico's imports increased from \$8.5 billion in 1982 to \$9.8 billion in 1988.

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# Socioeconomic Conditions

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## Social Problems

Despite progress on a number of fronts, Puerto Rico faces various problems such as crime, poverty, alcoholism, drug addiction, and mental health. For example, 46 states (including the District of Columbia) had higher crime rates than Puerto Rico. Puerto Rico's crime rate was 3,358.8 per 100,000 population in 1987, compared with 5,550 per 100,000 in the United States. However, only seven states had a higher violent crime rate than Puerto Rico.

Chronically high poverty rates persist in Puerto Rico despite an improving economy. In 1979, the Bureau of the Census reported that 62.4 percent of Puerto Rico's population had incomes below the federal poverty level, compared with 12.4 percent of the U.S. population (the most recent comparable data available).<sup>14</sup> Puerto Rico's 1979 per capita personal income of \$3,149 was the highest in Latin America and one of the highest in the Caribbean. The island's per capita personal income reached \$5,157 in 1988, but it is still 47 percent of Mississippi's \$10,992, the state with the lowest per capita income. Nevertheless, this is an improvement over 1950, when the island's per capita income was 39 percent of that of the lowest state.

Also, the island's 1987 infant mortality rate was 14.2 per thousand live births, compared with 10.1 per thousand in the United States in 1987. Only the District of Columbia's 1987 infant mortality rate was higher than Puerto Rico's 14.2 rate.

Puerto Rico faces a serious AIDS epidemic. It ranked second among the states and the District of Columbia between October 1988 and September 1989. Puerto Rico reported 44.5 AIDS cases per 100,000 population in that year. Only the District of Columbia had a higher rate. Cumulatively, Puerto Rico had the eighth highest number of AIDS cases through September 1989.

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## Social Gains

The island's housing stock and quality have increased greatly. In 1940, for example, 80 percent of Puerto Rico's housing was considered inadequate. This number was reduced to 18.2 percent by 1980, according to the latest U.S. Census of Housing (the most recent data available). While the island has suffered a temporary setback because of the destruction caused by Hurricane Hugo, federal assistance and mortgage insurance

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<sup>14</sup>In 1979, the Bureau of the Census reported that the federal poverty level was \$7,412 for a family of four, and \$3,686 for an individual.

**GAO Socioeconomic Conditions**

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**Social Conditions**

- Problems
  - Crime
  - Poverty
  - Health
  
- Gains
  - Housing
  - Medical
  - Education

continue to contribute to improved housing. However, in 1980, 12.4 percent of occupied housing in Puerto Rico lacked complete plumbing facilities, compared with 2.2 percent in the United States.

Better medical and sanitation services, among other factors, contributed greatly to controlling infectious diseases and reducing infant mortality rates in Puerto Rico. Although the island's infant mortality rate is still high, its life expectancy was 74 years in 1986, slightly higher than the U.S. average and one of the highest in the world.

Educational opportunities have also improved markedly. While only one-half of the eligible children attended school in 1940, four of five

were enrolled in 1976 (the most recent data available), and significant progress has been made in reducing illiteracy, which was 80 percent at the turn of the century.

Despite this educational progress, severe problems exist. The island's illiteracy rate was about 11 percent in 1986. In the United States as a whole, between 17 and 21 million adults were functionally illiterate,<sup>15</sup> for an overall rate of nearly 13 percent in 1986. And the island's public high school graduation rate was 63.2 percent in school year 1987-88, compared with 72.6 percent in the United States. Only two states and the District of Columbia had a lower graduation rate.

Furthermore, elementary and secondary educational expenditures are estimated at nearly \$1,400 per pupil in fiscal year 1988 in Puerto Rico. In fiscal year 1985, the lowest state expenditure was \$1,594 per pupil. Nevertheless, higher education is increasingly in demand in Puerto Rico. From 1970 to 1987, the percentage of persons aged 18-24 attending college more than doubled, from 17 to 40 percent. While 48 percent of the 18-24 population attended college in the United States, the rate of increase has been much faster in Puerto Rico. Enrollment in public and private colleges totalled about 157,000 in 1989.

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<sup>15</sup>The U.S. rate is based on the number of U.S. adults, ages 20 and over, who are illiterate, according to the English Language Proficiency Survey commissioned by the Department of Education and conducted by the Census Bureau.



# General Election Results Since 1952 (Percentages of Votes Cast for Each Party)

<b>Election year</b>	<b>Party(ies) favoring Commonwealth</b>	<b>Party(ies) favoring Statehood</b>	<b>Party(ies) favoring Independence</b>
1952	64.8	12.9	19.0
1956	62.5	25.0	12.0
1960	62.4	34.3	3.3
1964	59.4	34.6	2.7
1968	51.8	45.2 <sup>a</sup>	3.0
1972	50.7	43.4	5.4
1976	45.3	48.3	6.4
1980	47.0	47.2	5.7
1984	47.8	44.6 <sup>a</sup>	3.6
1988	48.6	45.8	5.6

<sup>a</sup>In 1968, a small portion of these votes went to the Republican Statehood Party. In 1984, the Puerto Rican Renewal Party, which favors statehood, received 4.1 percent of the vote. Its votes are excluded from the statehood total to clarify that the candidate of the party favoring commonwealth won the election.

Source: GAO's Puerto Rico's Political Future: A Divisive Issue with Many Dimensions, GGD-81-48, March, 1981; and Puerto Rico Commonwealth Elections Commission.

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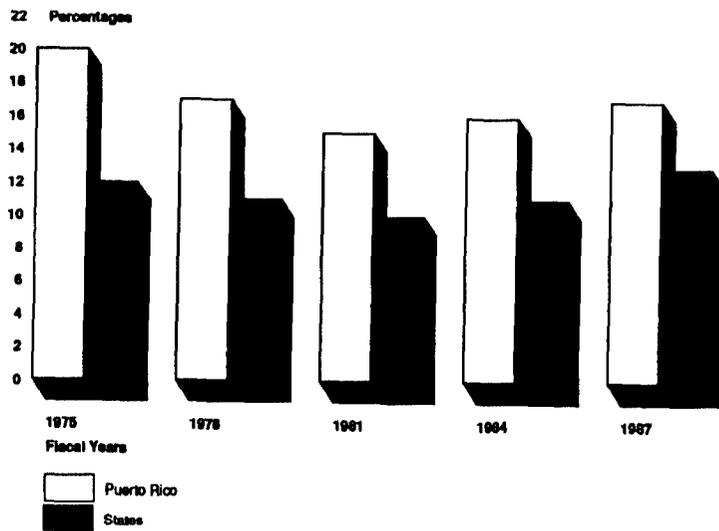
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# GAO Governmental Structure: Debt to Gross Product Ratio



Note. Excludes Public Corporations

Sources: Puerto Rico Planning Board, Economic Report of the Governor (1988), Economic Report of the President (January 1989), and Census Bureau's Government Finances, 1975-1987.