

**Address by**  
**Hon. Rafael Hernandez Colon**  
**President of the Senate of**  
**the Commonwealth of Puerto Rico**  
**at**  
**Columbia University**  
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There is an increasing amount of the talk in both the United States and Puerto Rico recently about whether the island should become a state or whether it might even become independent. And yet there is a strange unreality about such discussions. For the basic fact is that Puerto Rico could not survive economically or culturally as a state and could not survive economically under independence.

Indeed, Puerto Rico can only survive, and have realistic chances of prospering and developing, as a Commonwealth. Moreover, retention and fruitful evolution of the present Commonwealth relationship is not only vital for Puerto Rico, but is also important to the United States.

If Puerto Rico were to sever its present economic and political ties with the United States, it would quickly become as tragically impoverished as the Dominican Republic or even Haiti, and would undoubtedly become a focus of social and political turmoil which could spill over in the rest of the Caribbean.

And as a state, it would shortly become bankrupt. Its vital industrial sector, which is the muscle of the island's impressive economic growth, would certainly wither under statehood, and the island and its 2,700,000 people would become the dispirited wards of the Federal Treasury and the burden on all American taxpayers.

Either of these two alternatives would constitute a sad ending for what is widely recognized as a remarkably fruitful evolution from colonialism, one in which both Americans and Puerto Ricans can take legitimate pride.

Partly because of the very success of the Commonwealth, there is a dangerous tendency to take it and its accomplishments for granted. And these accomplishments are spectacular. Speaking only of the measurable economic gains, Puerto Rico's per capita income has shot up from \$121 yearly in 1940 to over \$1,400 today. Though the Commonwealth did not come normally into being until 1952, 1940 was the year in which its political leadership began under Luis Muñoz Marin, and when programs such as Operation Bootstrap were conceived and organized.

Yet there was nothing automatic about these formidable gains, which make Puerto Rico-- along with Japan and Israel -- the fastest growing economies in the world in the last 20 years.

One basic fact which should never be forgotten is that Puerto Rico was and is one of the most disadvantaged places in the world in terms of population pressure on resources. We have 2,700,000 people on a mountainous island 100 miles long and 35 miles across, and our economically usable resources -- aside from tourism attraction-- are almost zero. Everything which has been done in Puerto Rico is a man-made phenomenon, and could easily be man-unmade.

The most rapid way to unmake Puerto Rico's economic gains would be to change its political status. In the case of statehood, this is decisively related to our fiscal relations with the United States. The fundamental reason why it has been possible to induce large-scale industrial investment in the Commonwealth-- which is the very heart of our economic development -- is that Puerto Rico is within the customs union of the United States while being outside the Federal systems. Without this basic fact, there would be practically no industry in Puerto Rico today, and the island would be living on sugar cane and some tourism -- and certainly not nearly as much tourism as it now enjoys.

I would like to talk candidly about this fiscal relationship, which is easily misunderstood in the United States and too easily taken for granted in Puerto Rico.

I have already stated that, without it, Puerto Rico's industrial and economic development would not have been possible. As such, retention of the present fiscal relationship is a matter of sheer survival for Puerto Rico. Yet come Americans, quite under stably, feel that Puerto Rico is getting a "free ride" by this exemption from Federal taxes. Why, they ask, should they pay Federal taxes while people in Puerto Rico pay none?

The answer is partly constitutional and historical and partly pragmatic. Puerto Ricans are U.S. citizens but the Commonwealth is an autonomous and self-governing entity within Federal system, with powers defined un 1952, including the fundamental one that Puerto Ricans retain the exclusive right to tax themselves. They do not vote in U.S. presidential or congressional elections, so the American principle of "no taxation without representation" is also relevant on moral grounds. At the same time, pragmatically, U.S. as well as Puerto Rican leaders were well aware that Federal taxation would break the economic back of Puerto Rico, and make its development an impossibility.

That said, however, exemption from Federal taxes has created no automatic bonanza for Puerto Rico. Indeed, the island was exempt from Federal taxes long before the Commonwealth existed, and its living standards remained at an almost Asiatic level. It was only when Governor Muñoz, first took over political leadership of the island that he, with some remarkably able lieutenants such as Teodoro Moscoso and Rafael Pico, realized that thus exemption offered at least a hope for creating an industrial center which could provide the jobs and income which the island so desperately needed. And then the saga of "Operation Bootstrap" began.

It was never easy, I can assure you. Moscoso and his dedicated team at the Economic Development Administration had uphill going for many, many years. But they deployed such imagination and energy in developing new promotional techniques that they gradually made a breakthrough. U.S. industry began to come in appreciable numbers in the 1950's, then much more in the 1960's. Net income from manufacturing rose from \$90 million in 1952 to \$635 million un

1967 -- a period of barely 15 years. But even today, the staff of EDA's offices in New York will tell you that it is by no means easy to induce investors to come to Puerto Rico-- even with exemption from Federal taxes.

Against this background, let us examine what would happen if Puerto Rico were to become a state. First of all, Federal taxes would apply immediately. It would not be constitutionally possible, as Senator Jackson has recently pointed out, for Puerto Rico to come into the Union without assuming its full obligation to pay Federal taxes.

Yet today, as 20 years ago, exemption from these taxes is still the sine qua non of the viability of the industrial sector of Puerto Rico. I doubt if FDA could promote any new plants to Puerto Rico without the inducement of tax exemption, and I believe it would lose many of those which we already have.

Nor is this all. Though Puerto Ricans do not pay Federal taxes, they do pay very heavy Commonwealth taxes -- to support our educational programs, public health services, police, roads and all the services essential to a modern community. In the upper income brackets, these commonwealth taxes are actually higher than Federal personal income taxes. If Puerto Rico were to become a state, its citizens would face the crushing burden of having to pay combined taxes far higher than those of other US citizens at the same time that the island's industrial sector would have received a shattering blow.

I know of no qualified economist, except those retained by pro-statehood forces in Puerto Rico. Who does not conclude that statehood would therefore be utterly ruinous to the island's economy and to its people. Indeed, one does not have to be an expert economist to foresee economic collapse and social chaos as a result.

For this economic reason alone, aside from some very real cultural reasons, I do not believe that Puerto Rico could or should set in train any steps which would tend to put it on the road toward statehood. While many Americans tend to accept, almost without question, that statehood is the desirable and ultimate goal of any U.S. citizen, I know very few who would

recommend it at the cost of crippling Puerto Rico's economy and thereby shattering our hopes for creating jobs. For we still have an extremely serious unemployment problem, with 12% of the labor force officially unemployed, and many more who are unemployed in fact but who do not show up in the statistics. Even with everything in our favor, including tax exemption, we will have to work enormously hard to accelerate our economic growth enough to bring down unemployment to an acceptable level. And only under Commonwealth is there any hope of doing this.

It is curious that it should be necessary at this stage to have to defend Commonwealth, and to set forth the reasons why it is so vital to Puerto Rico. Yet it is necessary, if only because many people in both Puerto Rico and the United States are beginning to forget the fundamental underpinnings of Puerto Rico's relative prosperity. It is very human to take gains under Commonwealth for granted, and to assume that they would continue even if the political relationship with the U.S. were radically altered. But this is the most dangerous kind of delusion. It is rather like the dog in Aesop's fables who looks down into a pond from a bridge. There he sees the bone in his mouth reflected many times larger in the water, and drops his real bone in order to try to seize the chimera below. Commonwealth is a reality; statehood is a chimera.

In its most simplistic form, one hears the argument for statehood somewhat along these lines: the 50 states of the union have a higher living standard than Puerto Rico; therefore, if Puerto Rico becomes a state, its living standards will rise to the level of the 50 states. This kind of logic would get short shrift from any economist versed in the realities of Puerto Rico, however.

What does this all add up to for the United States? The posture of the U.S. government and of most Americans is that they will go along with almost any solution Puerto Rico wants: whether Commonwealth, statehood, or independence. It is certainly a measure of the political maturity of the American people that they have accepted so completely the fundamental principle of self-determination as regards Puerto Rico.

But the United States would lose almost as much as Puerto Rico if the island's impressive progress were to be undermined, and if the 'success story' of Puerto Rico were to tumble down in a sort of social and political shades which would certainly follow economic collapse. As long ago as 1958, Puerto Rico's progress under Bootstrap had gained world-wide renown as a 'showcase of development'. And since that time, thousands of officials, educators and technicians from virtually every country in the world, and particularly from the developing countries, have journeyed to the Commonwealth to study various phases of the island's development to see what might be transferable to their own needs. In the process, the United States has -- and very rightfully-- gained great credit in the eyes of the world.

In the larger political context, at a time when U.S. relations with Latin America have been deteriorating to a disquieting degree, it is increasingly important for the United States that its ties with Puerto Rico continue to be not only warm but also economically fruitful, as they have been so spectacularly under Commonwealth. Yet the current drive for Commonwealth not only threatens the island's economic underpinnings, it has also already triggered a political reaction which has greatly stimulated the pro-independence forces in Puerto Rico which were, until recently, politically insignificant. We now see an increasingly emotional situation in which statehooders on the right and independentists on the left are mounting an all-out assault on Commonwealth advocates in the center. Politically, these bitterly opposed forces "feed" on one another. Neither offers any realistic hope of being able to sustain Puerto Rico's economy, but both are trying to destroy Commonwealth, the only status which can sustain the economy.

But if this basic fact should be disregarded or underestimated in the U.S. and in Puerto Rico, and if they should succeed in undermining our Commonwealth ties, Puerto Rico faces a long, dark night of economic ruin and political Balkanization in which both we and the United States have everything to lose.