

On Education, Minimum Wages, Welfare, Employment and Incomes in Puerto Rico: A Critique of the Krueger Report.

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DRAFT for comments

Puerto Rico's Crisis

- By now it is broadly acknowledged across a range of sectors in Puerto Rico and beyond that the island is in a deep crisis.
- The current crisis in Puerto Rico has various dimensions and manifestations:
 - There is a social dimension reflected in declining population and increased outmigration;
 - an economic dimension reflected in reductions in employment and flattening of incomes;
 - a fiscal dimension manifested in high levels of government debt, and
 - a political dimension manifested by increasing calls among political parties and social sectors that the relationship between the United States and Puerto Rico needs to be discussed and made more effective.
- A recent report prepared by former IMF officials and led by economist Anne O. Krueger (Krueger Report) summarizes the nature of the economic and fiscal crisis and makes a number of recommendations that the authors estimate can lead to economic growth in Puerto Rico.
- Conversations on Puerto Rico's crisis and the Krueger Report have focused on the interest of government, political parties, the private sector, lenders, and bondholders but there has been less attention paid to the socio-economic characteristics of the people of Puerto Rico and the challenges faced by the various segments of the population that are being asked to make additional sacrifices to follow economic and fiscal recipes with a mixed record and an ambiguous chance of success.

The Krueger Report & the Crisis

- The Krueger Report recommends, inter alia, cuts in services, changes to welfare benefits to low income segments of the population; changes in employment and labor laws and regulations; reductions in the minimum wage and exemptions for young workers; cuts in the number of teachers and government subsidies to the University of Puerto Rico; consolidations of government agencies; reductions in government expenses and increased privatization; and a number of other “cost-cutting” measures.
- The report also recommends increases in taxes, particularly consumption-based (IVA\IVU) taxes, and increases in fees and other forms of government revenue.
- **The report, however, does not make any mention of poverty, income distribution, or inequality in Puerto Rico.**

Goals of this Report

- This short report seeks to present some data that can help us understand and evaluate the key arguments and policy recommendations related to labor, employment, wages and welfare in Puerto Rico made in the Krueger Report.
- This report also focuses on presenting some data on the demographic characteristics of the population, including the population below poverty, and Puerto Rico's income distribution to shed light on the size of key populations likely to be most affected by the crisis, and on some of the income resources available to the population and their distribution.
- The data presented in this paper is based on an analysis of a number of sources including the Bureau of Labor Statistics (BLS), The US Department of Health and Human Services (HHS-ACF) and the Puerto Rico Community Survey (PRCS 5yr file) for 2013. The large sample size in the PRCS allows for fairly accurate estimates at the population level.
- As discussions of the way out of the crisis continue in Puerto Rico, Washington, New York, and elsewhere, it is essential that policy discussions are robust and that the recommendations made are based on, and tested against, empirical research and data analysis.
- Any views and opinions expressed in this report are those of the author and the author is responsible for compiling and analyzing the data presented in this report.

Krueger's Basic Argument

- Puerto Rico is a low skilled place
- Welfare is too generous
- Employment laws are too generous
- The minimum wage is too high and generous
- Welfare is a disincentive to work
- Therefore, labor force participation is low

Krueger on Employment and Minimum Wage

- Puerto Rico is a low skilled place
- Employment laws are too generous
- The minimum wage is too high and generous

5. **But even more significant forces on the supply side have been gnawing at growth:**

- *Employment and labor costs.* The single most telling statistic in Puerto Rico is that only 40% of the adult population – versus 63% on the US mainland – is employed or looking for work; the rest are economically idle or working in the grey economy. In an economy with an abundance of unskilled labor, the reasons boil down to two.
 - Employers are disinclined to hire workers because (a) the US federal minimum wage is very high relative to the local average (full-time employment at the minimum wage is equivalent to 77% of per capita income, versus 28% on the mainland) and a more binding constraint on employment (28% of hourly workers in Puerto Rico earn \$8.50 or less versus only 3% on the mainland); and (b) local regulations pertaining to overtime, paid vacation, and dismissal are costly and more onerous than on the US mainland.

KRUEGER, TEJA, AND WOLFE

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23. **To raise employment, it is imperative to remove the disincentives for firms to hire workers and for workers to accept jobs.** As suggested earlier, the key issues are as follows:

- The US federal minimum wage of \$7.25 per hour is too high relative to local incomes and regional competitors. Puerto Rico should seek an exemption until such time as its per capita income approaches that of the poorest US state, which currently is still 50% higher than Puerto Rico's. If full exemption is not possible, then an alternative might be to set the rate for Puerto Rico at one-third the general rate (per capita income in Puerto Rico is about one-third that on the mainland).

KRUEGER, TEJA, AND WOLFE

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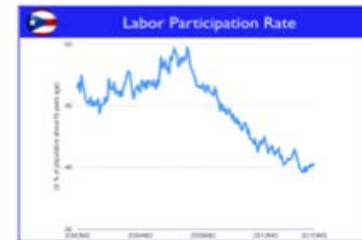
Krueger on Welfare and Employment

PUERTO RICO – A WAY FORWARD

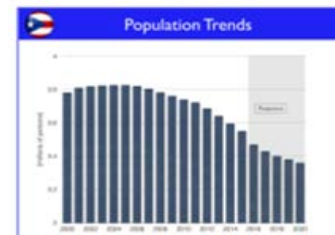
- Welfare is too generous
- Welfare is a disincentive to work
- Therefore labor force participation is low

- Workers are disinclined to take up jobs because the welfare system provides generous benefits that often exceed what minimum wage employment yields; one estimate shows that a household of three eligible for food stamps, AFDC, Medicaid and utilities subsidies could receive \$1,743 per month – as compared to a minimum wage earner's take-home earnings of \$1,159.

The result of all of the above is massive underutilization of labor, foregone output, and waning competitiveness.



- *Outmigration and population loss.* Diminished job opportunities have also prompted a sharp rise in outmigration, greater even than that in the 1950s. As a result, after growing continuously for almost two centuries, Puerto Rico's population declined for the first time in 2006, and has since shrunk from its peak to about 3.5 million in 2015. Even if there is no intensification in economic problems, which is a big if, the Planning Board projects that the population will continue to fall through 2020. The loss of 1% of population each year – ten times more than the rate in Japan or West Virginia, the only US state with subzero growth – obviously decreases demand on the island but also potential growth as the labor force shrinks.



Krueger on Eliminating Labor Laws and Cutting Welfare Benefits

- Employment laws are too generous
- Welfare is too generous
- Welfare is a disincentive to work
- Employment laws should be eliminated
- Welfare payments should be cut

PUERTO RICO – A WAY FORWARD

- Local labor laws magnify employment costs. Undoing this entails: (i) redefining overtime as on the mainland (excess over a 40-hour week, not 8-hour day); (ii) cutting paid vacation days to mainland levels (for public sector workers, from 30 days to 15 days); (iii) eliminating the mandatory end-of-year bonus; (iv) reducing onerous requirements for proving just cause in layoffs to mainland levels; (v) extending the probationary period for new employees from 3 months to 1-2 years; and (vi) relaxing labor laws for youth/new entrants for the first few years.
- Federal welfare payments are generous relative to the low incomes in Puerto Rico, and as such are a disincentive for the unskilled to accept work (lest they lose benefits). Welfare needs to be made consistent with local labor market conditions rather than with US mainland conditions. The federal government should therefore give the Commonwealth more latitude to adjust welfare requirements and benefits – e.g., to continue food stamps for a while even after a person returns to work; or to provide lower housing benefits to more people rather than higher benefits to a few (the Commonwealth block grant is capped and insufficient for all those who qualify). Puerto Rico too can act here, cutting back the Medicaid benefits it pays out over and above the Federal minimum standard (thus saving some \$150 million per year).

On Mythologies and Facts about Puerto Rico

- As the economic crisis in Puerto Rico and the various reports that describe it continue to attract media interest a number of myths about Puerto Rico have gained some traction.
- None of the studies or reports that mention these myths as fact bothers to really look at a wide range of data and make a more comprehensive assessment.
- What makes this mythology powerful is that it obscures the real problems and helps advance particularistic agendas.
- Also, a lot of people in Puerto Rico and beyond actually believe these myths and can point to all kinds of stories and anecdotal information that confirm these myths “are true.”

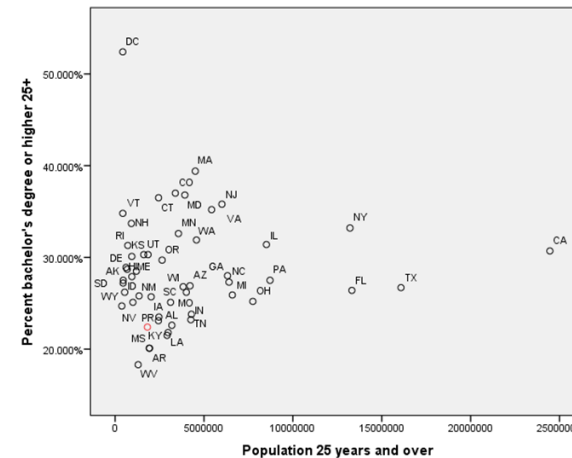
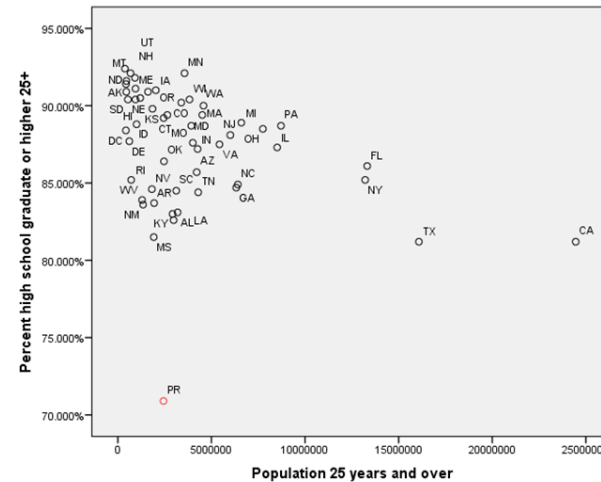
Key Myths about Puerto Rico

1. Puerto Rico has low levels of education
2. People in Puerto Rico do not want to work
3. Welfare payments are too generous
4. Welfare is a disincentive to work and able bodied working age males can get welfare easily
5. The minimum wage is too high
6. Low wage workers, the poor, and other vulnerable populations are to blame for the financial and economic crisis in Puerto Rico.

1-Puerto Rico has Low Levels of Education and is a Low Human Capital Economy

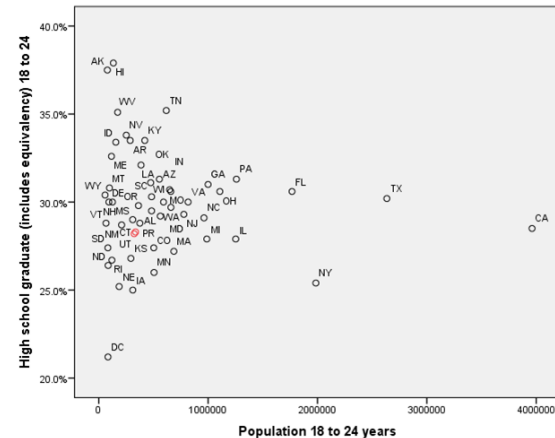
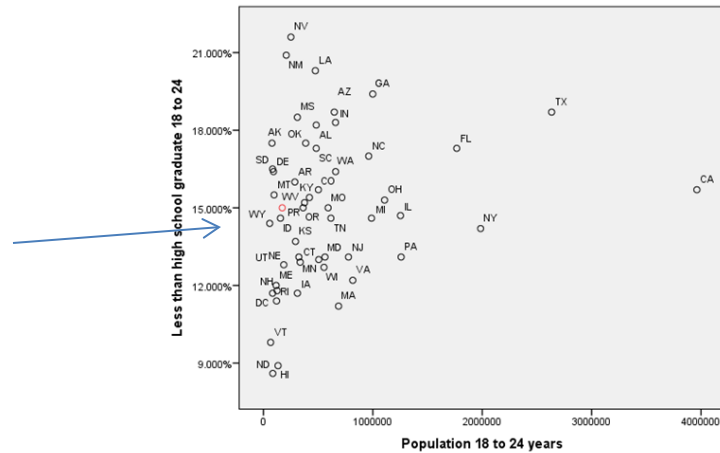
Education Level for Persons over 25

- **Puerto Rico has relatively low levels of high school graduation and is on the lower end in terms of the proportion with college degree.**
- The table below includes data from all states and territories on the proportion of the population older than 25 years of age with a high school diploma or higher on the y-axis and the total population over 25 years of age on the x-axis. The data show that Puerto Rico had the lowest levels of high school graduation and beyond for the population 25 years and older.
- This table shows the percent of the population older than 25 years of age with a bachelors degree on the y-axis on the total population 25 years of age and over on the x-axis. Data show that Puerto Rico is at the lower end of the distribution but has a rate higher than four or five states with about 23% of the population 25 years of age and older having a college degree or more education.



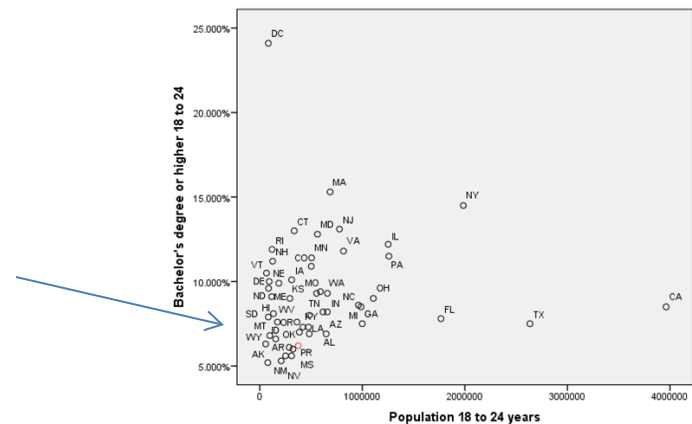
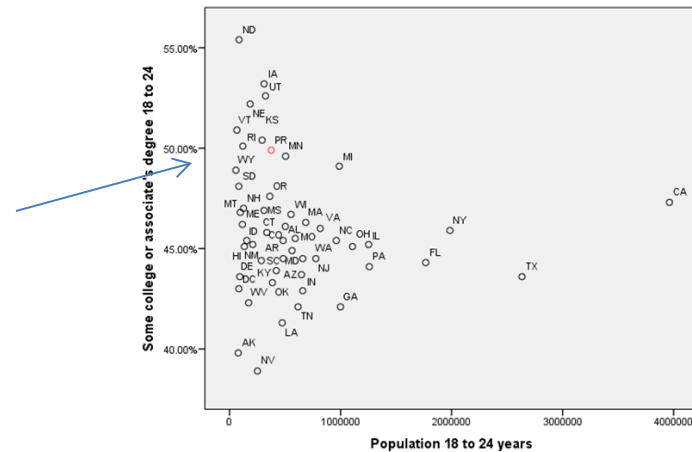
Education Level for Persons 18-24

- Younger cohorts in Puerto Rico are much closer to the US counterparts
- If we focus on the population ages 18 to 24 we see that Puerto Rico looks much closer to the rest of the states in levels of education. The table below presents the proportion of the population 18 to 24 years of age with less than a high school degree on the y-axis and the total population 18 to 24 years of age on the x-axis. As you can see, Puerto Rico is closer to the middle with about 15% of the population 18 to 24 years of age with less than a high school degree.
- If we examine the proportion of the population 18 to 24 years of age that have a high school degree (including GED equivalency) we see that Puerto Rico is near the bottom with a rate close to 27% but similar to about 12 or 13 states.



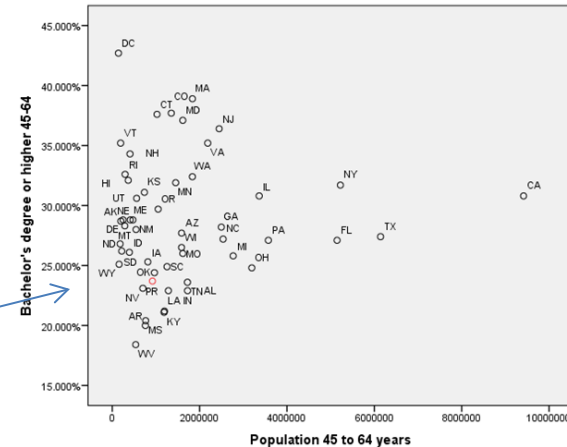
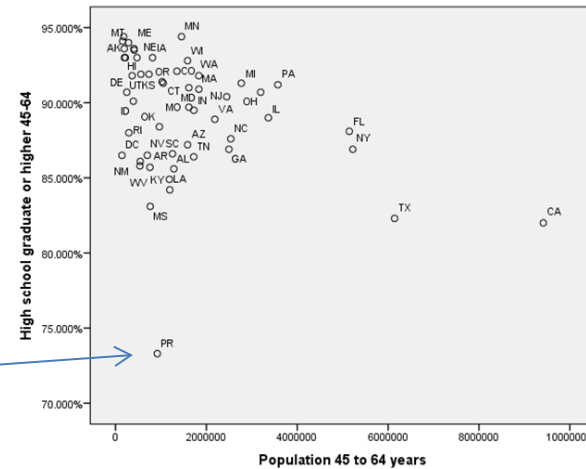
Education Level for Persons 18 to 24

- **College attendance rates are relatively high but graduation rates are on the lower end relative to attendance.**
- The proportion of Puerto Ricans ages 18 to 24 with some college experience or an associate degree is actually on the high end of the distribution at about 50%.
- Looking at the proportion of the population 18 to 24 years of age with a bachelors degree or more to see again that Puerto Rico clusters near the bottom of the distribution with a college graduation rate higher than six or seven states.
- Looking at the population 18 to 24 years of age, we see that Puerto Rico has been able to catch up over time and while it still has education levels that are at the lower end of the distribution they are getting closer to the average for the United States.



Education Level for Persons 45 to 64

- **The education gap, particularly at the high school level is much larger for older cohorts.**
- Looking at the population 45 to 64 years of age we begin to notice a large gap in the proportion of Puerto Ricans with a high school degree or more as compared to the other states with Puerto Rico lagging other states by about 10 percentage points.
- We notice that when you look at the population ages 45 to 64 with a bachelors degree or more that Puerto Rico clusters at the bottom of the distribution with a college graduation rate higher than about eight states for the population 45 to 64 years of age. This suggest that Puerto Rico's education distribution was more bifurcated a few decades ago and over time showed improvements in the proportion with a high school degree, attending college, and with a college degree or more.



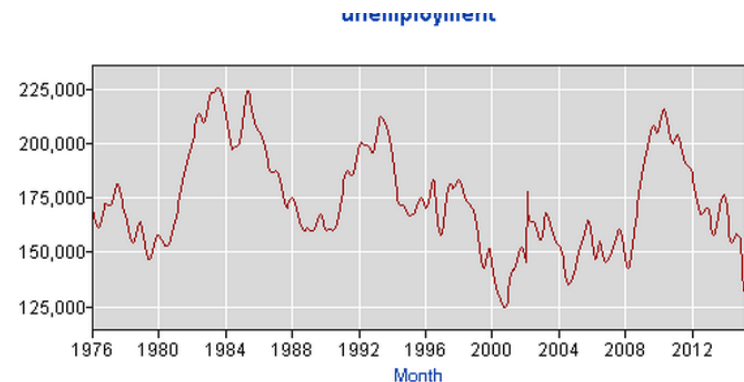
1-Puerto Rico has Low Levels of Education and is a Low Human Capital Economy

- High school graduation rates are low for older cohorts
- Education levels have converged over time and younger cohorts are closer to US average
- Puerto Rico has had much closer to US average college graduation rates
- Younger cohorts have relatively high college attendance rates but lower than expected college graduation rates.
- There appear to be bifurcated education outcomes in Puerto Rico and still significant proportions without high school degree.
- Additional considerations:
 - College graduation rates and quality of higher education appear to be a challenge
 - Rates of return to education appear to be a challenge

2-People in Puerto Rico Do Not Want to Work

Trends in Unemployment (Number of Persons Looking for Work)

- There have been over 125,000 and upwards to 200,000 persons in Puerto Rico looking for work at various points in the business cycle.
- Unemployment rates are declining because a higher proportion of the population is discouraged and leaving the labor force (and the country).



Trends in Migration and Population Change

- Migration movements out of Puerto Rico and into the US looking for work are increasing. Thousands of families are leaving Puerto Rico in search for more stable work opportunities and higher wages.
- The Puerto Rican population in the Mainland has been increasing while the Island population has been decreasing.

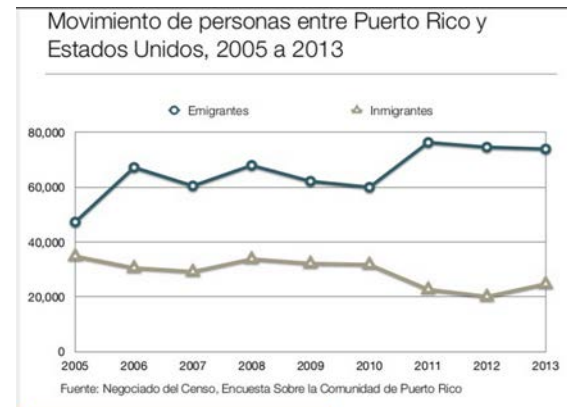
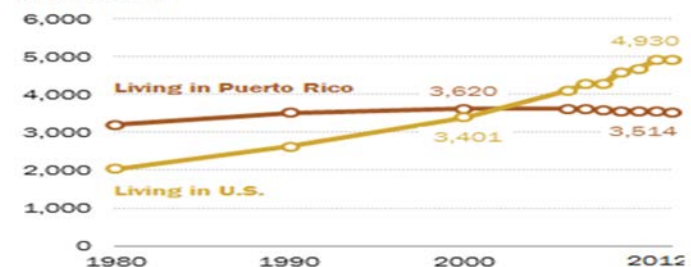


FIGURE 3

Puerto Rican Population Grows on Mainland, Declines on Island

In thousands



Note: "Living in Puerto Rico" is based on Hispanics of Puerto Rican origin for all years, except 1980 and 1990, when based on total population in Puerto Rico.

Source: Pew Research Center analysis of data from the American Community Survey (2006-2012), Puerto Rico Community Survey (2006-2012) and Decennial Censuses (1980, 1990, 2000), Integrated Public Use Microdata Series (IPUMS). 2006-2009 ACS and PRCS use Pew Research Center revised weights.

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2-People in Puerto Rico Do Not Want to Work

- Unemployment rate has been high for decades and thousands of persons are looking for work in Puerto Rico
- There is a high proportion of the population that is leaving the labor force and migrating out of Puerto Rico in search for work.
- There is a high proportion of the population in Puerto Rico, including persons with various levels of education, working for low wages.
- Puerto Ricans work, look for work, and want to work.

3-Welfare Payments are too Generous

Where do the Krueger Report Estimates on Welfare and Work come From?

- Krueger uses numbers from just one study.
- Assumptions and numbers in the study are questionable.
- Assumes everyone uses all subsidies. Data presented in report shows not all eligible use health (Mi Salud) or housing (Section 8) subsidies, for example.
- Does not account for fact that families can retain some PAN and Health Care subsidies and earn income.
- Assumes everyone gets the maximum potential payment. Very few cases get maximum potential because funds are capped.
- Assumes household labor supply is same and unaffected by household size.
- Does not provide nuanced estimates by household composition and different mix of ages, gender, or adults and children. Those matter for eligibility and work.

Beneficios de Personas Elegibles al TANF vs. el Salario mí...

tiempo completo cuando la familia alcanza los dos (2) miembros.

Tabla 2:

Estimado de Beneficios con TANF y Sección 8 comparado con los Ingresos del Salario Mínimo a Tiempo Completo						
Miembros en el hogar	Estimado de Ayudas			Total Ayudas Económicas	Estimado de Salario Mínimo a Tiempo Completo	
	Económicas	TANF	Sección 8		Tiempo Completo	Diferencia
1	\$296	\$166	\$409	\$871	\$1,159	\$288
2	\$556	\$290	\$409	\$1,255	\$1,159	\$96
3	\$829	\$414	\$500	\$1,743	\$1,159	\$585
4	\$924	\$538	\$500	\$1,962	\$1,159	\$804
5	\$1,013	\$662	\$679	\$2,354	\$1,159	\$1,196
6	\$1,113	\$786	\$679	\$2,578	\$1,159	\$1,420
7	\$1,195	\$910	\$780	\$2,883	\$1,159	\$1,725
8	\$1,290	\$1,034	\$780	\$3,104	\$1,159	\$1,946

PUERTO RICO – A WAY FORWARD

- Workers are disinclined to take up jobs because the welfare system provides generous benefits that often exceed what minimum wage employment yields; one estimate shows that a household of three eligible for food stamps, AFDC, Medicaid and utilities subsidies could receive \$1,743 per month – as compared to a minimum wage earner's take-home earnings of \$1,159.

The result of all of the above is massive underutilization of labor, foregone output, and waning competitiveness.

Challenges and Changes to Original Estimates

- Corrected numbers for TANF using real estimates of benefits
- Changes labor supply assumptions for larger households
- The “advantages” of welfare over work shrink significantly
- Added real data on TANF case load by household size
- Data shows 71% of cases are 1 or 2 person households (where the economic advantage of work over the program benefits are largest)
- 16.7% of all TANF cases (or close to 10,876 cases) are in 3 person households where there is presumably some advantage of program participation over work
- 3 person households are assumed to include one female adult and two minor children. For those limited number of households there may be an advantage of program participation over work and that is likely to be desirable from a social and public policy perspective.

Adjusted TANF Payment and Work Supply Estimates

TANF Data
June 2015

Family Size	Ayudas	TANF	house	total original	tanf real	adj total	worker	orig	adj	adj worker	adj diff	% of cases	cases TANF	Cumulative Percent
1	\$ 296	\$ 166	\$ 409	\$ 871	\$ 67	\$ 772	\$ 1,159	\$ (288)	\$ (387)	\$ 1,159	\$ (387)	54.2	35657	54.2
2	\$ 556	\$ 290	\$ 409	\$ 1,255	\$ 139	\$ 1,104	\$ 1,159	\$ 96	\$ (55)	\$ 1,159	\$ (55)	16.8	11045	71.0
3	\$ 829	\$ 414	\$ 500	\$ 1,743	\$ 210	\$ 1,539	\$ 1,159	\$ 584	\$ 380	\$ 1,159	\$ 380	16.5	10876	87.6
4	\$ 924	\$ 538	\$ 500	\$ 1,962	\$ 267	\$ 1,691	\$ 1,159	\$ 803	\$ 532	\$ 1,449	\$ 242	8.9	5852	96.5
5	\$ 1,013	\$ 662	\$ 679	\$ 2,354	\$ 320	\$ 2,012	\$ 1,159	\$ 1,195	\$ 853	\$ 1,739	\$ 273	2.8	1833	99.3
6	\$ 1,113	\$ 786	\$ 679	\$ 2,578	\$ 378	\$ 2,170	\$ 1,159	\$ 1,419	\$ 1,011	\$ 1,739	\$ 431	.6	378	99.8
7	\$ 1,193	\$ 910	\$ 780	\$ 2,883	\$ 374	\$ 2,347	\$ 1,159	\$ 1,724	\$ 1,188	\$ 2,318	\$ 29	.1	84	100.0
8	\$ 1,290	\$ 1,034	\$ 780	\$ 3,104	\$ 617	\$ 2,687	\$ 1,159	\$ 1,945	\$ 1,528	\$ 2,318	\$ 369	.0	8	100.0
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Adjusted TANF

Adjusted work supply

Adjusted difference

Data on TANF benefit levels and Average Duration

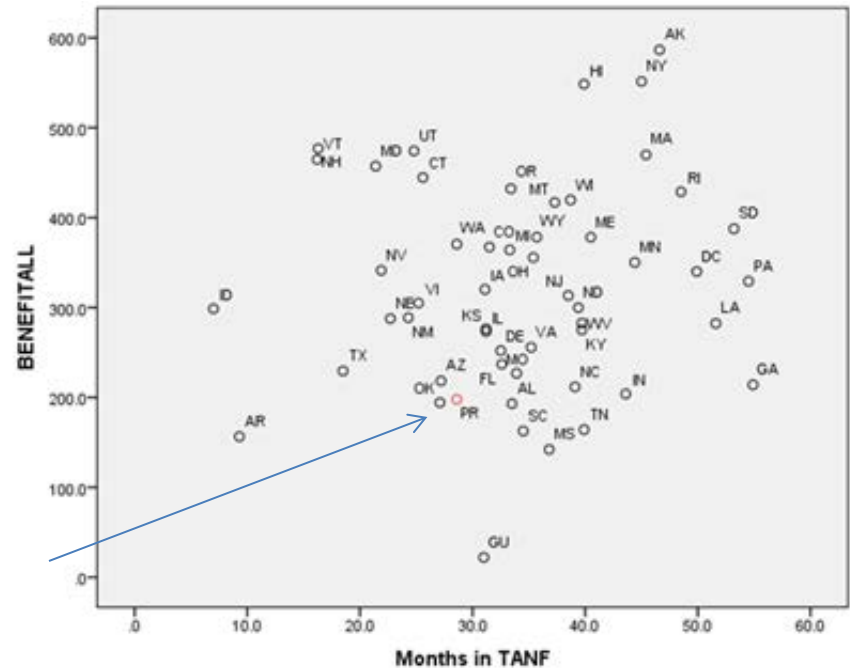
- Data on duration in program (average number of months) and benefit levels by state and territory.
- Puerto Rico has among the lowest benefit levels and duration rates in the TANF program.

state	MonthsTANF	BENEFITALL <input type="checkbox"/>
Alaska	46.6	\$586.6
New York	45.0	\$551.5
Hawaii	39.9	\$548.5
New Hampshire	16.3	\$476.9
Utah	24.8	\$474.3
Massachusetts	45.4	\$469.8
Vermont	16.2	\$464.6
California	40.6	\$461.4
Maryland	21.4	\$457.3
Connecticut	25.6	\$444.6
Oregon	33.4	\$432.2
Rhode Island	48.5	\$428.7
Wisconsin	38.7	\$419.7
Montana	37.3	\$416.9
South Dakota	53.2	\$387.6
Wyoming	35.7	\$378.3
Maine	40.5	\$378.1
Washington	28.6	\$370.4
Colorado	31.5	\$367.3
Michigan	33.3	\$364.1
Ohio	35.4	\$355.6
Minnesota	44.4	\$350.2
Nevada	21.9	\$341.3
District of Columbia	49.9	\$340.0
Pennsylvania	54.5	\$329.2
Iowa	31.1	\$320.2
New Jersey	38.5	\$313.3
Virgin Islands	25.2	\$305.0
North Dakota	39.4	\$299.9
Idaho	7.0	\$298.7
New Mexico	24.3	\$288.7
Nebraska	22.7	\$287.7
West Virginia	39.7	\$282.6
Louisiana	51.6	\$282.3
Kansas	31.2	\$276.3
Kentucky	39.7	\$275.1
Illinois	31.2	\$273.4
Virginia	35.2	\$255.8
Delaware	32.5	\$252.0
Florida	32.6	\$236.9
Texas	18.5	\$229.4
Missouri	33.9	\$226.8
Arizona	27.2	\$218.4
Georgia	54.9	\$214.0
North Carolina	39.1	\$211.6
Indiana	43.6	\$203.9
Puerto Rico	28.6	\$197.9
Oklahoma	27.1	\$194.3
Alabama	33.5	\$193.1
Tennessee	39.9	\$164.2
South Carolina	34.5	\$162.7
Arkansas	33.3	\$156.5
Mississippi	36.8	\$142.2
Guam	31.0	\$22.0



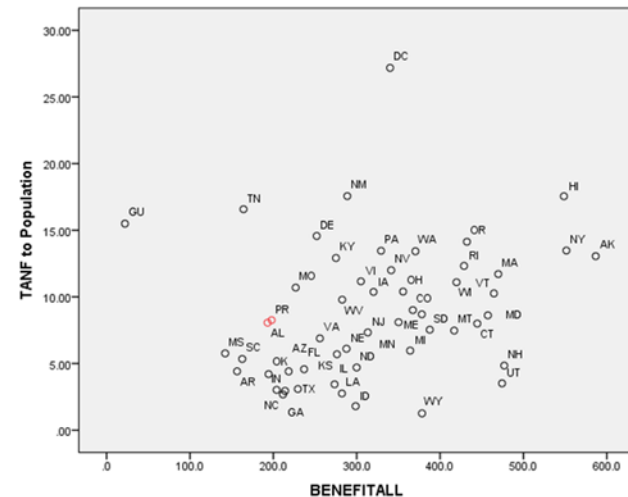
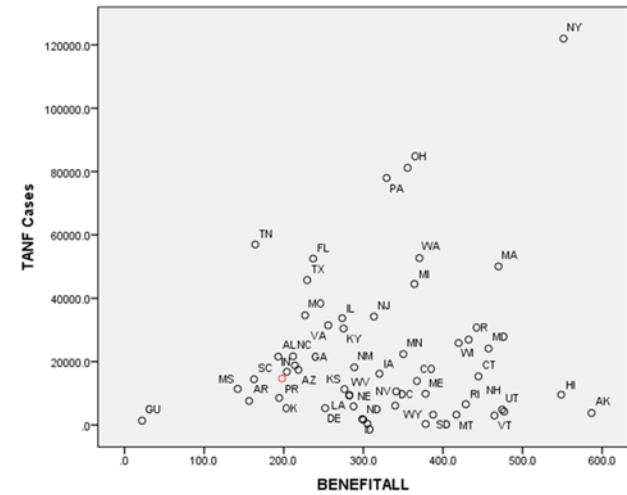
Relation between Benefit Levels and Months in TANF

- Data suggest that relative to other states and territories, Puerto Rico has low benefit levels and low average duration in the program. Most states have much higher benefit levels and duration in TANF program.



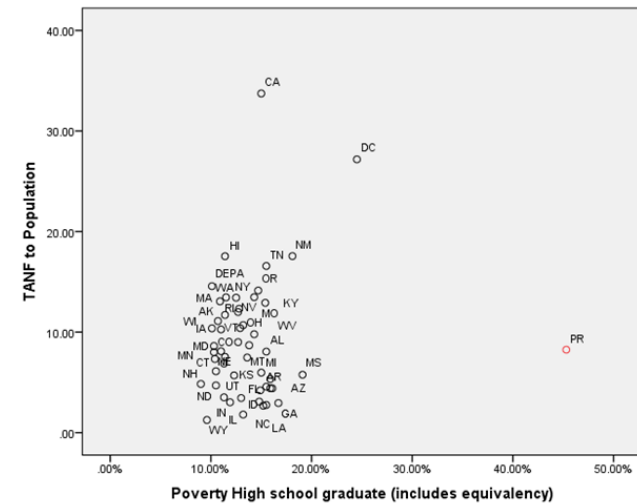
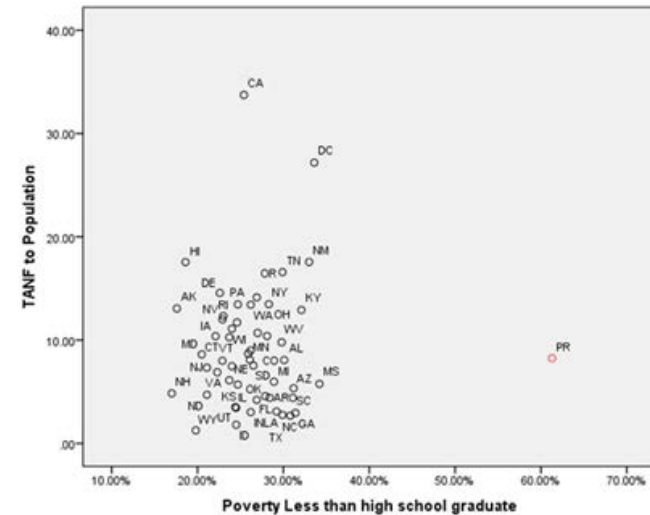
Relation between Benefit Levels and TANF Caseload

- Puerto Rico has relatively low benefit levels and relatively low levels of participation in the TANF program in terms of number of cases and the proportion of the population that participates in the program.



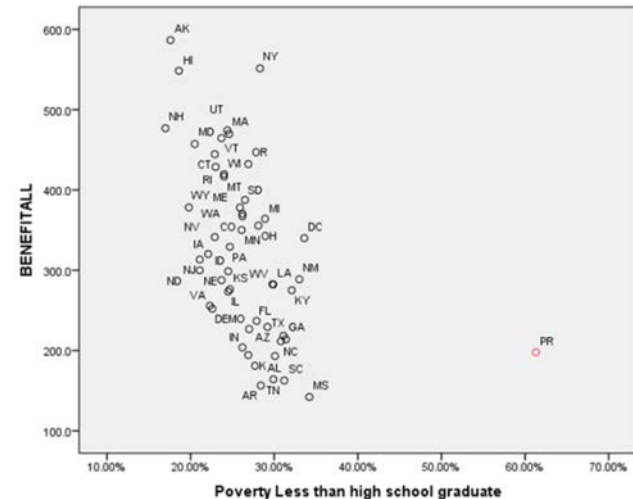
Relation between TANF Participation Levels and Poverty

- Relative to its very high poverty rate for persons with less than high school education (a key target population), Puerto Rico has low levels of participation in the TANF program and low levels of program benefits.



Relation between TANF Benefit Levels and Poverty

- Relative to the high poverty rate for high school graduates in Puerto Rico, the island has low levels of participation in the TANF program.



Are Transfers to Puerto Rico relatively High?

- Study by MacEwan and Ruiz shows that compared to other states, there is no evidence of relatively high transfer rates for Puerto Rico.



While increased federal procurements do not embody the explicit work incentives that are embodied in tax credits, they are certainly employment generating.

V. Conclusions

The data and discussion presented here do not support the assertion that Puerto Rico is the unusual case, the extreme exception, with regard to its receipt of federal funds. When compared to the situation of the various states and DC, by none of the measures presented here does Puerto Rico stand out alone; by few measures it is at the top of the list, and by many measures it is at the bottom. Also, with regard to simply the transfer payments component of the funds that flow from Washington to Puerto Rico, the term "generous," with all its implications, does not seem appropriate.

Furthermore, if a major reason for the federal government to provide funds to states and other localities is to generate a greater degree of income equality across the country – a convergence of income levels – then Puerto Rico and the low income states (several of the highest ranking states in Table 3) will necessarily get larger amounts of federal funds. Thus it is important to recognize the fact that Puerto Rico does not receive more federal funds, in spite of the ostensible equalizing goal of federal expenditures and in spite of the island's low level of income relative to the states.

Of course what distinguishes Puerto Rico in any comparisons with the states is that it is not a state. While the flow of funds from Washington to the various sections of the country is in part determined by general goals, such as the goal of achieving a convergence of incomes, it is also determined politically, by the influence of each state's representatives in Congress and by the concern of the Executive for the popular vote in each state. Puerto Rico does not have representatives in Congress and Puerto Ricans do not vote in presidential elections. Thus the fact that Puerto Rico does not receive more federal funds – especially in the salaries and wages and procurement categories – should be no surprise.¹⁸

There are ways that the form of Puerto Rico's receipts from the federal government could be improved, providing a better foundation for the economic development of the island. Such improvement could be achieved by positive rather than punitive changes. In particular, the extension to Puerto Rico of the Earned Income Tax Credit and the Child Tax Credit would be a good start, and this start could be followed by an increase in Puerto Rico's share of federal procurement expenditures.

¹⁸ The generally high ranking of West Virginia in the various measures discussed above is perhaps a good illustration of the importance of political representation in affecting the flow of federal funds. Its ranking might be dubbed "The Byrd Effect," though other factors are surely involved.

3-Welfare Payments are too Generous

- Assumptions and numbers in the study on estimates of the supposed advantage of welfare over work are highly questionable.
- TANF cash welfare levels in Puerto Rico are low compared to poverty rates and other states
- Welfare payments are low compared to other states and to costs of living in Puerto Rico.
- Welfare duration is low relative to employment and poverty levels in Puerto Rico.
- Welfare payments in Puerto Rico are not too generous relative to others states and territories.

4-Welfare is a Disincentive to Work and Able Bodied Working Age Males Can Get Welfare Easily

Labor Force Participation for Persons 25 to 64 Years of Age by Gender

- The table presents the data on the employment status of Puerto Rico's population between 25 and 64 years of age by gender. There were close to 1.87 million persons in that age category in Puerto Rico including 882,684 males and 991,483 females.
- In terms of employment status, about 51.4% of the population reported being employed. This includes about 56.9% of the males and 46.6% of the females between 25 and 64 years of age.
- Approximately 177,937 persons (or 9.5%) reported being unemployed, that is not working but actively looking for work, and that includes 94,048 males (or 10.7%) and 83,889 females or (8.5%).
- There was a significant proportion that reported being "out of the labor force" including 285,505 males (or 32.3% of the male population) and 445,637 females (or 44.9% of the female population) ages 25 to 64 in Puerto Rico.
- The unemployment rate suggested by these figures is approximately 15.6% (or 177,937 persons) out of a total labor force of 1,141,827 persons.
- The unemployment rate for males was 15.8% and the unemployment rate for females was 15.4%.

Employment Status by Gender for Ages 25 to 64							
		Employment Status				Total	
		Employed	Unemployed	Military	NILF		
Gender	Male	Count	502057	94048	1074	285505	882684
		% within Gender	56.9%	10.7%	.1%	32.3%	100.0%
		% within Employment Status	52.1%	52.9%	89.6%	39.0%	47.1%
	Female	Count	461833	83889	124	445637	991483
		% within Gender	46.6%	8.5%	.0%	44.9%	100.0%
		% within Employment Status	47.9%	47.1%	10.4%	61.0%	52.9%
Total	Count	963890	177937	1198	731142	1874167	
	% within Gender	51.4%	9.5%	.1%	39.0%	100.0%	
	% within Employment Status	100.0%	100.0%	100.0%	100.0%	100.0%	

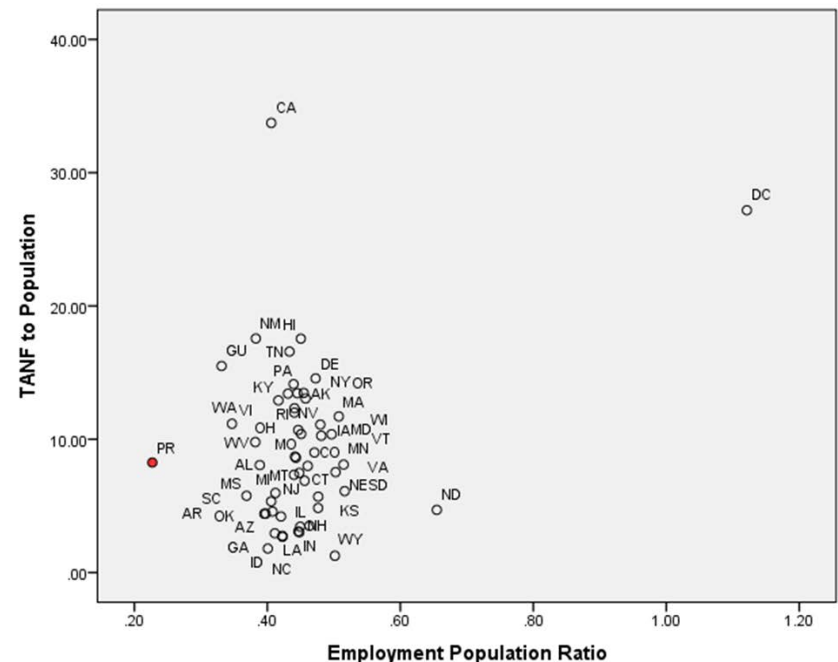
Gender, Age, Disability and TANF Participation

- Data show that the majority of TANF users are children, seniors or women.
- The proportion of non-disabled male adults in the program is 1.2% of 790 out of 65,744 Puerto Rico TANF cases in June 2015.

Gender, Age & Disability					
		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Missing	3	.0	.0	.0
	Male, Young, Not Disabled	9119	13.9	13.9	13.9
	Male, Adult, Not Disabled	790	1.2	1.2	15.1
	Male, Senior, Not Disabled	3200	4.9	4.9	19.9
	Male, Young, Disabled	116	.2	.2	20.1
	Male, Adult, Disabled	9940	15.1	15.1	35.2
	Male, Senior, Disabled	1773	2.7	2.7	37.9
	Female, Young, Not Disabled	8796	13.4	13.4	51.3
	Female, Adult, Not Disabled	9320	14.2	14.2	65.5
	Female, Senior, Not Disabled	7701	11.7	11.7	77.2
	Female, Young, Disabled	68	.1	.1	77.3
	Female, Adult, Disabled	11137	16.9	16.9	94.2
	Female, Senior, Disabled	3781	5.8	5.8	100.0
	Total	65744	100.0	100.0	

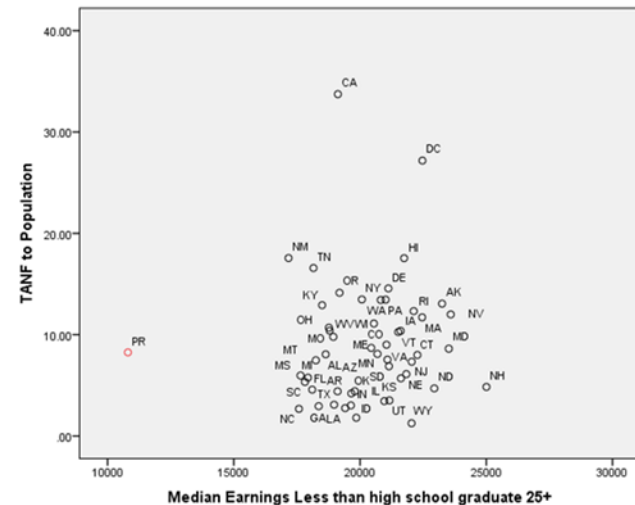
Relationship between TANF Participation and Employment Level

- This scatterplot shows the relationship between the employment population ratio the y-axis and the rate of participation in the TANF program on the x-axis. The plot suggests there does not appear to be much of a relationship. Puerto Rico is in the low quadrant of low employment and low TANF use relative to other states. There are many states with much higher employment levels and much higher TANF rates that Puerto Rico.



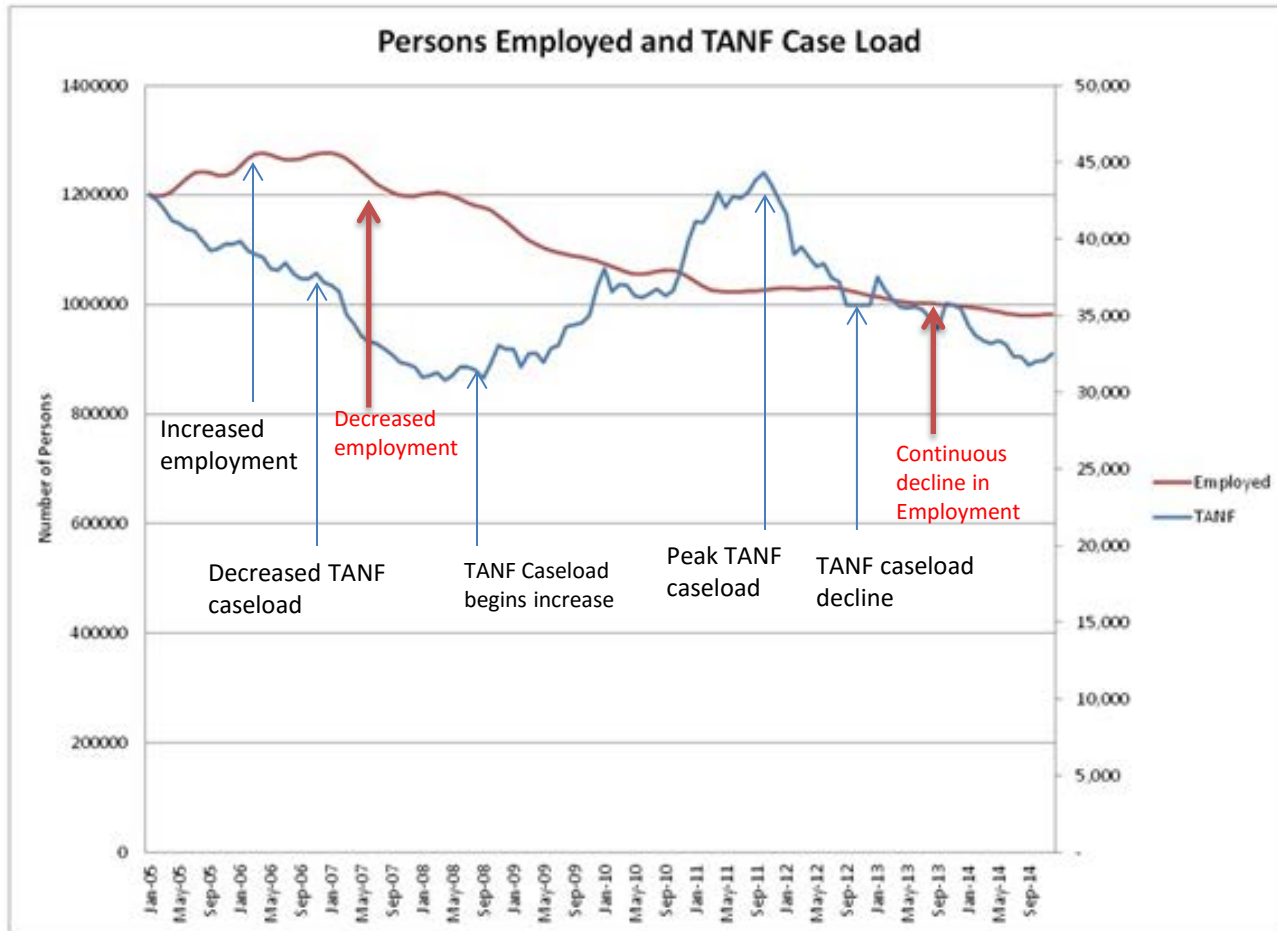
Relationship between TANF Participation and Median Earnings for Persons over 25 with Less than High School

- Puerto Rico is in the low quadrant of median earnings for those over 25 years of age with less than high school degree and proportion of TANF use relative to other states. There are many states with much higher earnings levels and also much higher TANF rates that Puerto Rico.



Relationship Between Changes in Employment and TANF Caseload

- Looking at historical trend of employment levels and TANF case load helps clarify the relationship between employment and TANF participation.
- The data show that as employment grew, TANF participation declined but about a year after employment started to collapse there was an increase in TANF use until the rate of employment decline leveled off, and time limits started to kick in, leading to a reduction in the TANF case load.
- The timing of the data are clear that changes in the TANF caseload follow changes in employment and not the other way around.



Source: BLS and HHS-ACF Data

Prepared by Hector Cordero-Guzman (Hcordero@aol.com) 7/18/2015

Page 1

Is Welfare a Disincentive to Work or a Consequence of Lack of Jobs?

- Commentary on the 2006 CNE\Brookings Burtless & Sotomayor study written by Eileen Sierra from 10 years ago concludes:

The authors proceed to link the evolution of transfer payments in five programs to these labor force participation rate trends. They conclude that two of the programs—unemployment insurance and Temporary Assistance for Needy Families—are of little importance in explaining the low labor force participation rates and high level of transfers. Unemployment insurance benefits in Puerto Rico have been low relative to the United States (34–37 percent replacement rates in 1968–89 and 26 percent thereafter), and the authors therefore believe that the longer duration of unemployment must be a function of poor labor market conditions. Temporary Assistance for Needy Families, established in 1996, is a relatively small transfer program in Puerto Rico and is not likely to have had much of an impact, as not many adults and households collect benefits under this scheme.

4-Welfare is a Disincentive to Work and Able Bodied Working Age Males Can Get Welfare Easily

- Puerto Rico has relatively low TANF participation rates
- Puerto Rico has relatively low TANF benefit levels
- There are no males without disability in the TANF program
- TANF caseloads follow the pattern of changes in employment
- Welfare participation does not appear to explain male labor supply and may have a limited role explaining the labor supply of females.

5-The Minimum Wage Is Too High

Trends in Labor Force and Employment

- Do changes in the minimum wage explain the historical trend in the size of the labor force and employment in Puerto Rico?
- **The figure on labor force** from the Bureau of Labor Statistics of the Department of Labor shows the trend in the size of the labor force in Puerto Rico between 1976 and 2014. As we can see the Puerto Rican labor force grew from around 850,000 in 1976 to peak of about 1.4 million workers around 2005 – 2006 but has declined precipitously since then almost to the level it was in 1990. Close to 22 years of growth in the labor force appear to have been wiped out in the last six years.
- **The figure on employment** includes the data from the Bureau of Labor Statistics of the US Department of Labor on the number of persons employed in Puerto Rico and the trend follows a pattern similar to the total labor force. The labor force includes both persons employed and persons looking for work (what are considered “the unemployed”).
- The figure focuses on the number of persons employed and again shows a precipitous decline since 2006.



Wages in Puerto Rico Compared to States and Territories

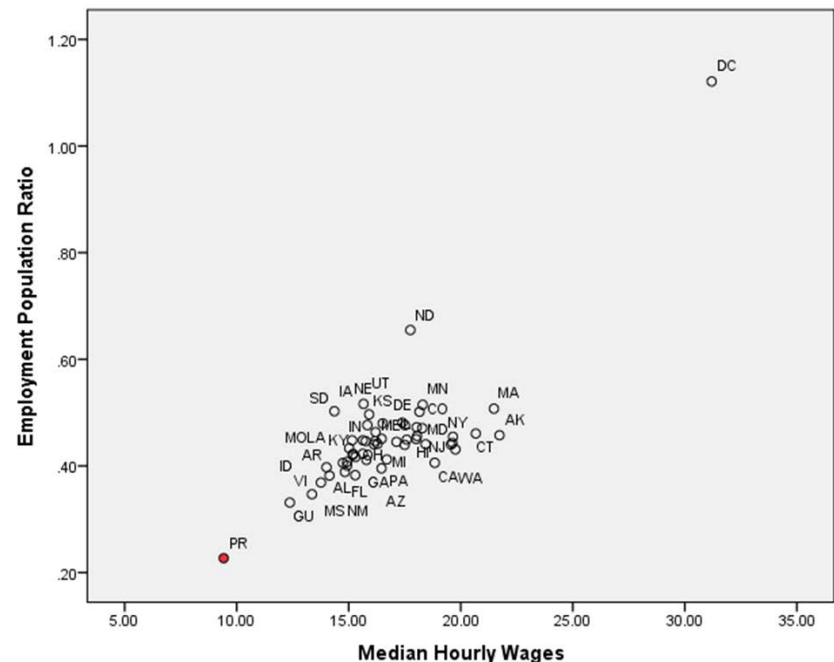
- What do data say about wage levels in Puerto Rico compared to the states and territories?
- Data on Median and Average Hourly Wages
- Data for Bottom 10th Percentile and top 90th Percentile
- Data on ratios between Puerto Rico and all other states and territories.

State/Territory	Median Hourly Wages	PR Gap	Average Hourly Wages	PR Gap	Bottom 10 ntile	PR Gap	Top 90 ntile	PR Gap
District of Columbia	\$ 31.20	30%	\$ 37.78	35%	\$ 11.42	68%	\$ 72.11	32%
Alaska	\$ 21.73	43%	\$ 25.98	51%	\$ 10.36	75%	\$ 45.57	50%
Massachusetts	\$ 21.48	44%	\$ 27.70	48%	\$ 9.69	81%	\$ 52.88	43%
Connecticut	\$ 20.67	46%	\$ 26.47	50%	\$ 9.45	83%	\$ 48.08	47%
Washington	\$ 19.76	48%	\$ 25.26	52%	\$ 10.18	77%	\$ 47.44	48%
New York	\$ 19.65	48%	\$ 26.75	49%	\$ 9.08	86%	\$ 51.88	44%
Maryland	\$ 19.63	48%	\$ 25.70	51%	\$ 8.86	88%	\$ 50.43	45%
New Jersey	\$ 19.56	48%	\$ 25.92	51%	\$ 9.20	85%	\$ 49.29	46%
California	\$ 18.84	50%	\$ 25.91	51%	\$ 9.15	85%	\$ 51.68	44%
Rhode Island	\$ 18.43	51%	\$ 23.83	56%	\$ 9.03	87%	\$ 44.45	51%
Minnesota	\$ 18.30	51%	\$ 23.23	57%	\$ 8.98	87%	\$ 43.26	53%
Colorado	\$ 18.28	52%	\$ 23.97	55%	\$ 9.07	86%	\$ 45.31	50%
Wyoming	\$ 18.16	52%	\$ 21.60	61%	\$ 9.05	86%	\$ 36.70	62%
Virginia	\$ 18.05	52%	\$ 24.40	54%	\$ 8.73	90%	\$ 48.88	47%
Delaware	\$ 18.03	52%	\$ 23.81	56%	\$ 8.98	87%	\$ 44.82	51%
Hawaii	\$ 18.01	52%	\$ 22.23	60%	\$ 9.03	87%	\$ 40.44	56%
North Dakota	\$ 17.75	53%	\$ 21.20	62%	\$ 9.34	84%	\$ 35.98	63%
Illinois	\$ 17.59	54%	\$ 23.45	56%	\$ 9.08	86%	\$ 44.63	51%
New Hampshire	\$ 17.51	54%	\$ 22.63	58%	\$ 8.98	87%	\$ 41.30	55%
Oregon	\$ 17.50	54%	\$ 22.53	59%	\$ 9.47	83%	\$ 41.64	55%
Vermont	\$ 17.39	54%	\$ 21.41	62%	\$ 9.75	80%	\$ 36.74	62%
Pennsylvania	\$ 17.13	55%	\$ 22.00	60%	\$ 8.75	89%	\$ 40.39	56%
Michigan	\$ 16.70	56%	\$ 21.70	61%	\$ 8.68	90%	\$ 40.24	56%
Wisconsin	\$ 16.52	57%	\$ 20.62	64%	\$ 8.66	90%	\$ 36.53	62%
Ohio	\$ 16.47	57%	\$ 21.11	63%	\$ 8.77	89%	\$ 37.64	60%
Arizona	\$ 16.46	57%	\$ 21.43	62%	\$ 8.83	89%	\$ 40.17	57%
Maine	\$ 16.29	58%	\$ 20.26	65%	\$ 8.92	88%	\$ 35.25	64%
Utah	\$ 16.20	58%	\$ 20.94	63%	\$ 8.71	90%	\$ 38.42	59%
Texas	\$ 16.18	58%	\$ 21.79	61%	\$ 8.45	93%	\$ 41.42	55%
Nevada	\$ 16.13	58%	\$ 20.34	65%	\$ 8.62	91%	\$ 36.76	62%
Iowa	\$ 15.91	59%	\$ 19.77	67%	\$ 8.62	91%	\$ 34.78	65%
Kansas	\$ 15.83	60%	\$ 20.20	65%	\$ 8.58	91%	\$ 36.14	63%
Georgia	\$ 15.79	60%	\$ 21.48	62%	\$ 8.40	93%	\$ 40.57	56%
Missouri	\$ 15.76	60%	\$ 20.57	64%	\$ 8.50	92%	\$ 37.69	60%
Nebraska	\$ 15.66	60%	\$ 19.75	67%	\$ 8.61	91%	\$ 35.20	65%
Indiana	\$ 15.63	60%	\$ 19.94	66%	\$ 8.49	92%	\$ 35.73	64%
North Carolina	\$ 15.63	60%	\$ 20.81	64%	\$ 8.46	92%	\$ 38.23	59%
Kentucky	\$ 15.30	62%	\$ 19.25	69%	\$ 8.44	93%	\$ 34.13	67%
New Mexico	\$ 15.29	62%	\$ 20.31	65%	\$ 8.55	91%	\$ 37.86	60%
Louisiana	\$ 15.20	62%	\$ 19.32	68%	\$ 8.32	94%	\$ 34.59	66%
Oklahoma	\$ 15.17	62%	\$ 19.64	67%	\$ 8.42	93%	\$ 35.25	64%
Montana	\$ 15.15	62%	\$ 19.17	69%	\$ 8.77	89%	\$ 34.02	67%
Tennessee	\$ 15.02	63%	\$ 19.55	68%	\$ 8.43	93%	\$ 35.12	65%
Florida	\$ 14.93	63%	\$ 20.11	66%	\$ 8.69	90%	\$ 36.56	62%
Idaho	\$ 14.93	63%	\$ 19.12	69%	\$ 8.43	93%	\$ 34.50	66%
Alabama	\$ 14.83	64%	\$ 19.66	67%	\$ 8.30	94%	\$ 36.04	63%
South Carolina	\$ 14.74	64%	\$ 19.03	70%	\$ 8.32	94%	\$ 34.46	66%
South Dakota	\$ 14.36	66%	\$ 17.93	74%	\$ 8.66	90%	\$ 30.26	75%
West Virginia	\$ 14.14	67%	\$ 18.21	73%	\$ 8.24	95%	\$ 32.67	70%
Arkansas	\$ 14.01	67%	\$ 18.24	73%	\$ 8.23	95%	\$ 32.55	70%
Mississippi	\$ 13.76	68%	\$ 17.67	75%	\$ 8.22	95%	\$ 30.91	74%
Virgin Islands	\$ 13.36	71%	\$ 16.81	79%	\$ 8.27	95%	\$ 29.28	78%
Guam	\$ 12.37	76%	\$ 16.00	83%	\$ 8.01	98%	\$ 28.72	79%
Puerto Rico	\$ 9.42	100%	\$ 13.23	100%	\$ 7.82	100%	\$ 22.73	100%
Total	\$ 16.81	56%	\$ 21.62	61%	\$ 8.83	89%	\$ 39.60	57%



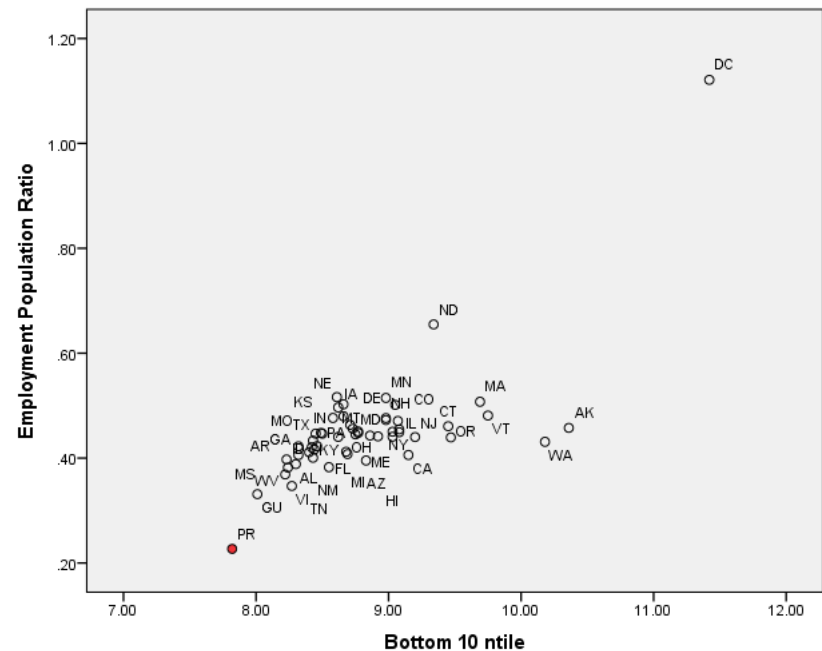
The Relationship Between Wages and Employment in States and Territories

- Higher wages are related to higher employment levels.
- This scatterplot shows the relationship between the employment population ratio the y-axis and median hourly wages at the state level and the x-axis.
- The plot suggests there is a positive relationship with the median hourly wages and employment levels.



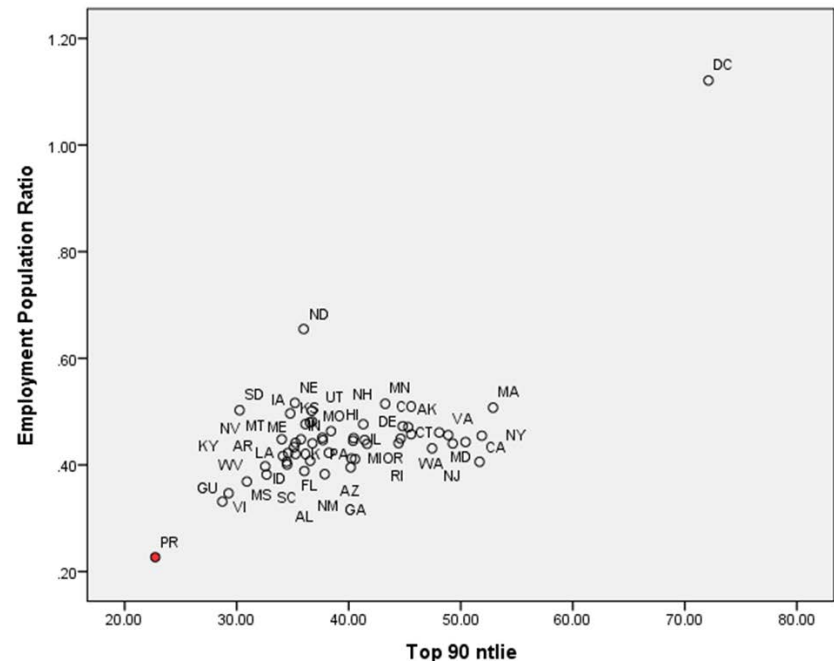
The Relationship Between Wages and Employment in States and Territories

- This scatterplot shows the relationship between the employment population ratio on the y-axis and median hourly wages at the state level on the x-axis.
- The plot suggests there is a positive relationship between the hourly wages of the bottom 10th percentile of earners and employment levels.



The Relationship Between Wages and Employment in States and Territories

- This scatterplot shows the relationship between the employment population ratio on the y-axis and median hourly wages at the state level on the x-axis.
- The plot suggests there is a flatter but still positive relationship between the hourly wages of the top 90th percentile of earners and employment levels.

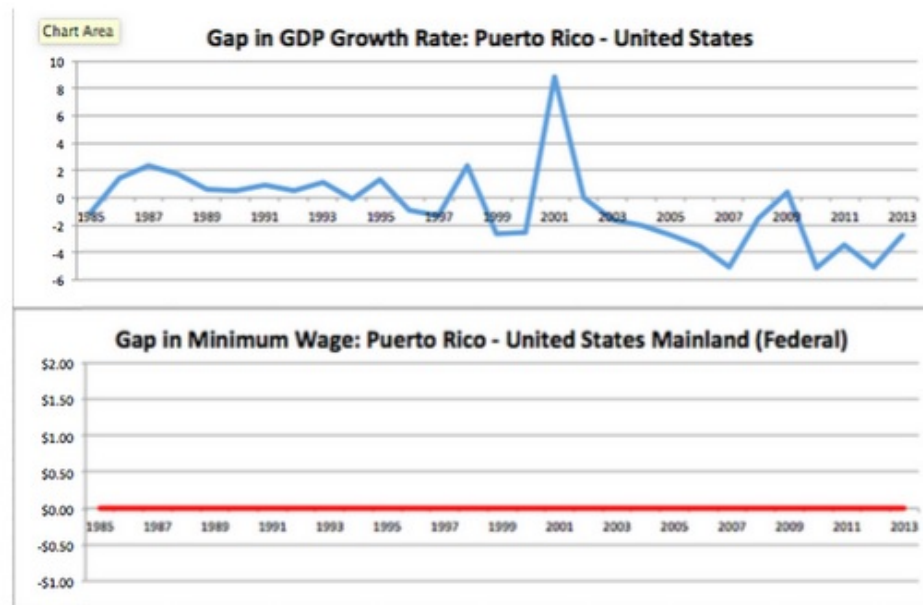


Arin Dube Weights in on Twitter



Arindrajit Dube @arindube · Jul 1

The difficulty in using minimum wage policy to explain Puerto Rico's economic problems, in one graph.



RETWEETS 12 FAVORITES 7



1:33 PM - 1 Jul 2015 · Details



5-The Minimum Wage Is Too High

- Do minimum wage changes in PR explain historical employment pattern?
- Puerto Rico has the lowest average and median wages of all states and territories including Guam and the Virgin Islands.
- Average and median wages in Puerto Rico are lower than all states in all occupations.
- Wage gap between Puerto Rico and all other US states and territories is large and larger for the top 90 percentile than for the bottom 10 percentile.
- Wages rates are positively related to employment levels for states and territories.
- Minimum wage gap has been constant but gap in GDP growth rates between Puerto Rico and the US has not. The constant minimum wage gap does not explain differences in economic growth rates between Puerto Rico and the US.

6-Low Wage Workers, the Poor and Other Vulnerable Populations are to Blame for the Financial and Economic Crisis in Puerto Rico.

- No they are not!

Key Socio-Economic Characteristics in Puerto Rico

- Education Levels
- Income Levels
- Poverty Levels
- Income Distribution

Education Levels in Puerto Rico

- The table presents data on the educational attainment of the population in Puerto Rico older than 25 years of age. It suggests that about 28.9% of the population did not graduate from high school while an additional 23.3% graduated with a high school diploma. This means that about 52.2% of the population older than 25 years of age in Puerto Rico has a high school degree or less. If we add the 3.1% of the population that received a general equivalency diploma (or GED) the proportion with a high school degree or less is 55.3% of the population. About 12.7% of the population (or 310,751) persons have some college education and close to 8.8% received an associate degree. Approximately 16.8% of the population older than 25 years of age in Puerto Rico (or 409,876 persons) reported a bachelor's degree, and about 6.4% of the population (or close to 154,872 persons) reported a master degree, professional degree, doctorate, or other post-baccalaureate education.

Completed Education					
		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	LT 1	72884	3.0	3.0	3.0
	1-8	390547	16.0	16.0	19.0
	9-11	207407	8.5	8.5	27.5
	12 No diploma	34430	1.4	1.4	28.9
	HS Diploma	567113	23.3	23.3	52.2
	GED	75559	3.1	3.1	55.3
	Some College	310751	12.7	12.7	68.0
	Associate	215391	8.8	8.8	76.8
	Bachelors	409876	16.8	16.8	93.6
	Masters +	154872	6.4	6.4	100.0
	Total	2438830	100.0	100.0	

Income in Puerto Rico

- This table includes the data on the income of the approximated 3.68 million persons living in Puerto Rico in the period between 2009 and 2013. The table excludes persons 15 years of age and younger (about 19.1% of the total population) labeled as “system missing” at the bottom of the table. There is income information for about 80.9% of the population.
- The table shows that an astonishing 27.1% of Puerto Rico’s population 16 years of age and older reported negative or zero income. That is close to 807,012 persons. Another 930,339 persons, or 31.2% of the population, reported incomes between one dollar and \$9,999.
- Data suggest that close to 58.3% of the population earned less than \$9,999 per year. Another 633,086 persons, or 21.3% of the population, earned between \$10,000 and \$19,999 per year. That means that close to 79.6% of Puerto Rico’s population earned less than \$19,999.
- Another 273,873 (or 9.2% of the population) earned between \$20,000 and \$29,999 and about 147,615 (or 5% of the population) earned between \$30,000 and \$39,999 per year.
- At the bottom of the table we see the top of the income distribution that includes an estimated 24,147 persons (or .8% of the population) earning over \$150,000 per year.
- The average income of all persons in Puerto Rico was \$13,063 and the median income was \$7,200.
- About 95% of persons over 16 years of age reported incomes below \$44,200 and close to 99% of the population reported incomes below \$92,000.

Persons Total Income					
		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Lowest thru 0	807012	21.9	27.1	27.1
	1 to 9999	930339	25.3	31.2	58.3
	10k to 19,999	633086	17.2	21.3	79.6
	20k to 29,999	273873	7.4	9.2	88.8
	30k to 39999	147615	4.0	5.0	93.7
	40k to 49999	65059	1.8	2.2	95.9
	50k to 59999	36083	1.0	1.2	97.1
	60k to 79999	41208	1.1	1.4	98.5
	80k to 99999	17165	.5	.6	99.1
	100k to 124999	2994	.1	.1	99.2
	Over 150,000	24147	.7	.8	100.0
	Total	2978581	80.9	100.0	
Missing	System	704385	19.1		
Total		3682966	100.0		

Poverty in Puerto Rico

- This table** presents the poverty level for Puerto Rico’s population but this table includes all age groups with younger persons assigned to their family income. The federal poverty level is calculated based on the composition of the family and is about \$10,890 for one person, around \$14,710 for two persons, and around \$18,530 for three persons. The first row of the table includes persons that are below 50% of the poverty threshold (or extreme poverty)--meaning about \$5,500 per year for one person. The row labeled “in poverty” includes persons at between 51% and 100% of the poverty line as described above. The third row labeled “near poverty” includes persons at between 100% and 150% of the poverty threshold while the next row labeled “low income” includes persons at between 151% and 200% of the poverty threshold. Persons labeled “not in poverty” are those with incomes over 201% of the poverty threshold.
- The data suggest that close to 932,540 persons (or 25.6% of the population) in Puerto Rico had incomes below half of the poverty threshold. Another 728,565 (or 20.0% of the population) had incomes between 51% and 100% of the poverty threshold. This means that close to 45.5% of the population in Puerto Rico is below the federal poverty level with close to 25.6% of the population in what can be considered extreme poverty (or less than approx. \$5,500 per year).
- There are another 588,140 persons, or 16.1% of the population, near poverty at between 100% and 151% of the poverty threshold and potentially at risk of falling below poverty.

		Poverty Level			
		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Extreme Poverty (below 50%)	932540	25.3	25.6	25.6
	Below Poverty (51-100%)	728565	19.8	20.0	45.5
	Near Poverty (101-150%)	588140	16.0	16.1	61.7
	Low Income (151-200%)	433957	11.8	11.9	73.6
	Middle Income + (over 201%)	964717	26.2	26.4	100.0
	Total	3647919	99.0	100.0	
Missing	System	35047	1.0		
Total		3682966	100.0		

Population Quintiles

- Table 3** breaks the population of Puerto Rico into quintiles and estimates the size of the various population quintiles divided into the bottom 20%, the second 20%, the third 20%, the fourth 20%, and the top 20% of the population. Each group includes approximately 725,000 persons.

		Poverty Quintile			
		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Bottom 20%	740924	20.1	20.3	20.3
	Second 20%	724967	19.7	19.9	40.2
	Third 20%	725819	19.7	19.9	60.1
	Fourth 20%	729040	19.8	20.0	80.1
	Top 20%	727169	19.7	19.9	100.0
	Total	3647919	99.0	100.0	
Missing	System	35047	1.0		
Total		3682966	100.0		

Income for Population over 25

- Table 4** includes data on the population over 25 years of age and presents the income distribution for the population living in Puerto Rico. The data suggest that close to 448,707 (or 18.4% of the population over 25) reported zero or less income. Close to 32.5% of the population (or 792,370 persons) reported incomes between the dollar and \$9,999. This means that close to 50.9% of persons in Puerto Rico over 25 years of age had incomes below \$9,999. Another 596,237 persons (or 24.4% of the population over 25 years of age) reported incomes between \$10,000 and \$19,999 per year. The top 1% of earners in Puerto Rico includes about 24,067 persons earning over \$150,000 per year. The average income for persons older than 25 years of age in Puerto Rico was \$15,454.25 and the median income was \$9,600. Close to 95% of persons over 25 years of age had incomes below \$49,600 and about 99% of persons over 25 years of age in Puerto Rico had incomes below \$118,800 per year.

Persons Total Income					
		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Lowest thru 0	448707	18.4	18.4	18.4
	1 to 9999	792370	32.5	32.5	50.9
	10k to 19,999	596237	24.4	24.4	75.3
	20k to 29,999	269048	11.0	11.0	86.4
	30k to 39999	146506	6.0	6.0	92.4
	40k to 49999	64692	2.7	2.7	95.0
	50k to 59999	35983	1.5	1.5	96.5
	60k to 79999	41109	1.7	1.7	98.2
	80k to 99999	17117	.7	.7	98.9
	100k to 124999	2994	.1	.1	99.0
	Over 150,000	24067	1.0	1.0	100.0
	Total	2438830	100.0	100.0	

Poverty for Population over 25

- Table 5** shows data on the poverty level of the population that was 25 years of age or older. Close to 20.4% of the population (about 492,603 persons) earned less than half of the federal poverty threshold. Another 480,509 (or 19.9% of the population) earned between 51% and 100% of the poverty level. Close to 40.2% of Puerto Rico's population over 25 years of age had incomes below the poverty level. Another 413,589 persons, or 17.1% of the population, are considered near poverty at between 100% and 150% of the poverty threshold. This means that close to 57.4% of Puerto Rico's population over 25 years of age is below the poverty level or very close to it.

		Poverty Level			
		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Extreme Poverty (below 50%)	492603	20.2	20.4	20.4
	Below Poverty (51-100%)	480509	19.7	19.9	40.2
	Near Poverty (101-150%)	413589	17.0	17.1	57.4
	Low Income (151-200%)	308099	12.6	12.7	70.1
	Middle Income + (over 201%)	723024	29.6	29.9	100.0
	Total	2417824	99.1	100.0	
Missing	System	21006	.9		
Total		2438830	100.0		

Income by Quintile

- This table presents information on the average income and the median income for persons over 16 years of age in each of the income/poverty quintiles. The average income for those in the bottom quintile (or the bottom 20% of the population) was \$1,095.30, for the second quintile the average income was \$5,074.44 and for the third quintile the average income was \$8,989.77. At the top of the income distribution, the average income for the fourth quintile was \$14,766.68 and the average income for the top 20% of the population was \$33,368.

Income by Quintile (all)				
Poverty Quintile	Mean	Std. Deviation	Median	N
Bottom 20%	1095.30	1881.869	0.00	518749
Second 20%	5074.44	4728.548	5000.00	575832
Third 20%	8989.77	7135.018	9400.00	610273
Fourth 20%	14166.68	10565.940	14300.00	615736
Top 20%	33368.29	38468.887	26000.00	630430
Total	13126.22	22007.774	7200.00	2951020

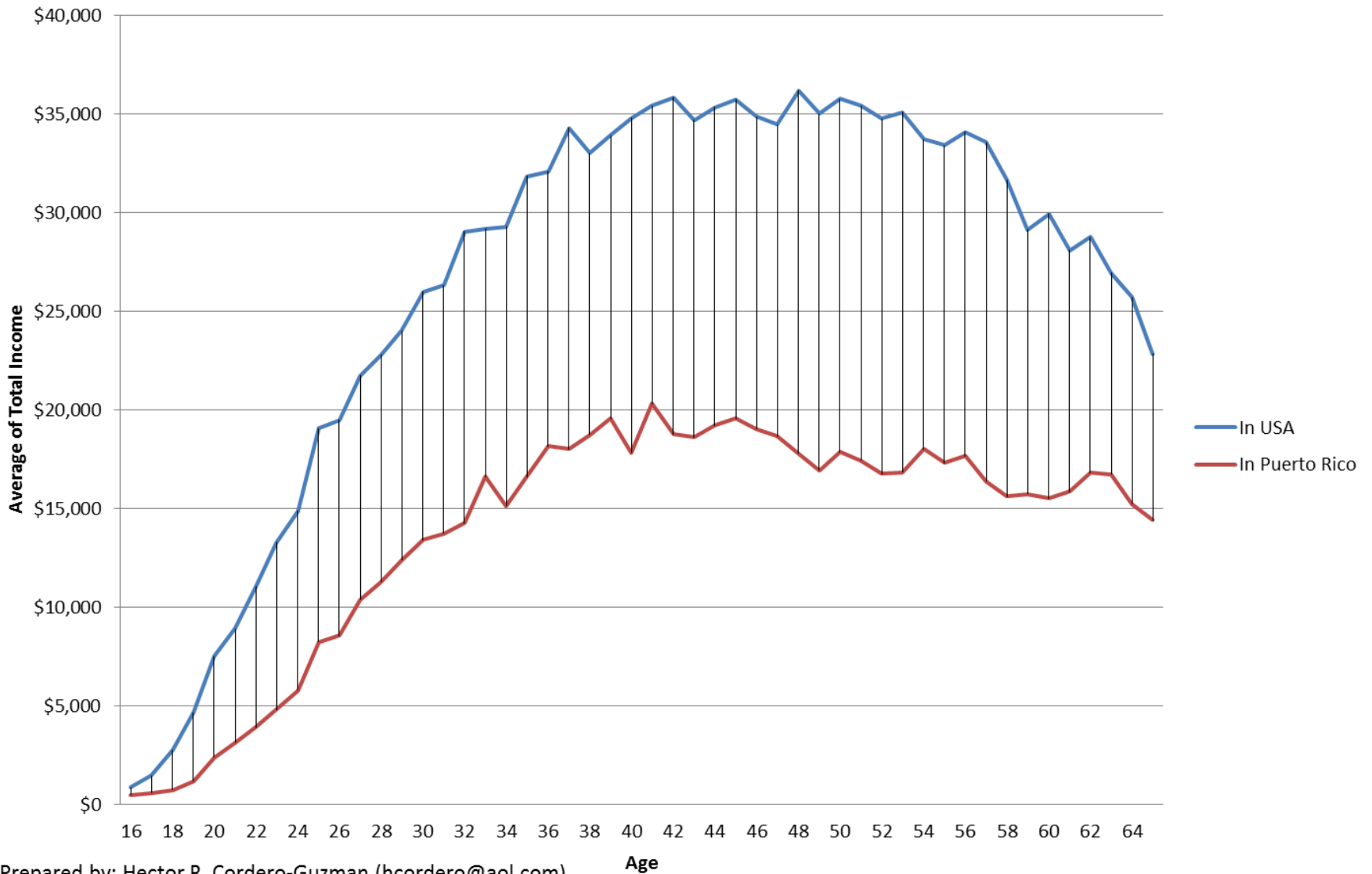
What is the Right Comparison Group for Puerto Rico?

- The 50 states?
- The three other territories of Guam, Virgin Islands and Washington, DC?
- The Caribbean?
- The Dominican Republic and Mexico?
- Latin America?
- Puerto Ricans living in the continental United States?

Puerto Ricans in Puerto Rico and the Continental USA

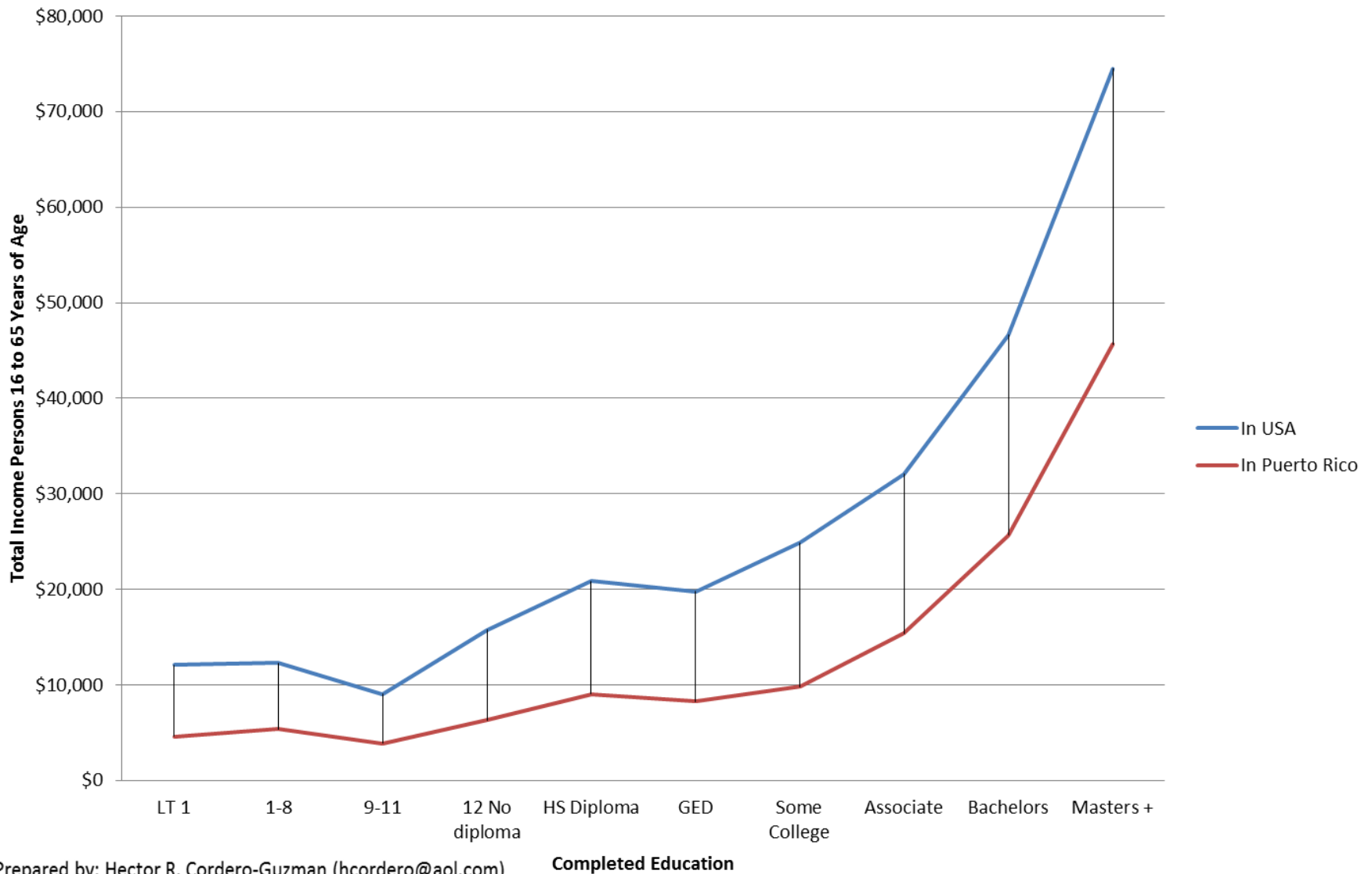
- There are significant differences in income between Puerto Ricans in Puerto Rico and those living in the continental United States.
- There are differences in income by age and education between Puerto Ricans in Puerto Rico and those living in the continental United States.
- The income distributions are also quite different.
- Differences reflect notable economic differences between Puerto Rico and the continental US.

Age Income Profile for Puerto Ricans Ages 16-65 (PRCS 2013, 5yr file)



Prepared by: Hector R. Cordero-Guzman (hcordero@aol.com)

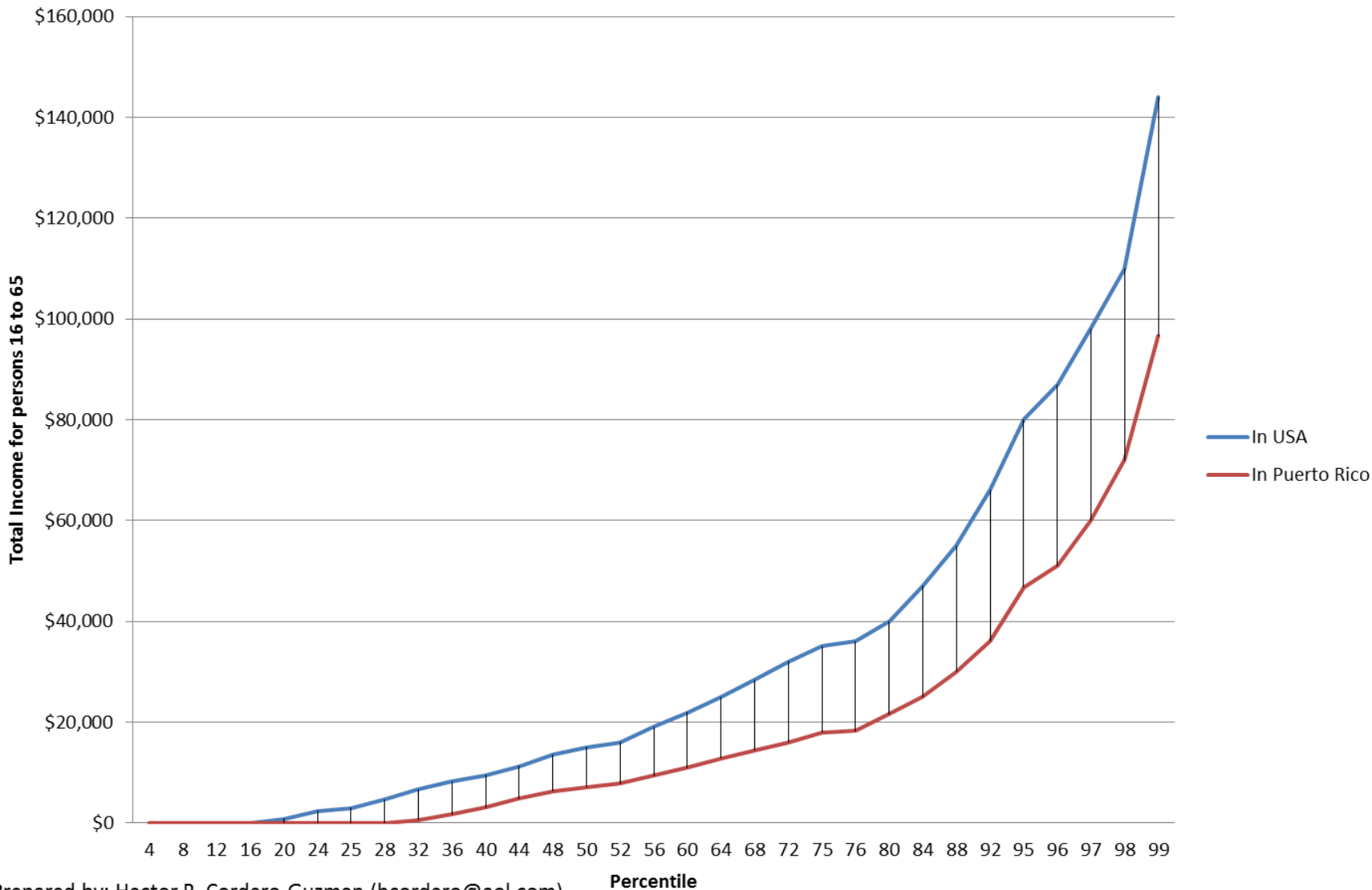
Income Differences by Education Among Puerto Ricans (PRCS 2013, 5yr file)



Prepared by: Hector R. Cordero-Guzman (hcordero@aol.com)

Completed Education

Income by Percentile in Puerto Rico and Puerto Ricans in the USA (PRCS 2013, 5yr file)



Prepared by: Hector R. Cordero-Guzman (hcordero@aol.com)

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Distribution of Income: Share by Quintile in Puerto Rico and the US

- **This table** uses the data on incomes by quintile to estimate the total income earned by each quintile in the distribution and the share of total income going to each quintile of the distribution. These data are then compared to similar information on US households and families from the US Census Bureau.
- The data show that the bottom 20% of the income distribution in Puerto Rico earned about 1% of the total income. The second quintile earned about 8% of the total income. This means that the bottom 40% of persons in Puerto Rico earned about 9% of the total income.
- The third quintile earned about 14% of the total income in Puerto Rico while the fourth quintile took about 22% of total income.
- The top 20% of earners in Puerto Rico took about 55% of the total income earned in Puerto Rico while the very top 5% of earners in Puerto Rico took about 25% of all income in Puerto Rico.
- The data suggest that there is more inequality in Puerto Rico than in the United States with the bottom 40% earning significantly less than their US counterparts (1% vs. 4%) and the top 20% taking a significantly higher share of total income at 55% (compared to 49% in the United States).
- Data on the richest top 5% of the distribution also shows that while the top 5% in Puerto Rico earned about 25% of all income the top 5% of US families earned about 21% of total income.

	PR	USA-Households	USA-Families
Bottom 20%	1%	3%	4%
second 20%	8%	8%	9%
third 20%	14%	14%	15%
fourth 20%	22%	23%	23%
Top 20%	55%	51%	49%
	100%	100%	
Top 5%	25%	22%	21%

Prepared by: Hector Cordero-Guzman

Krueger Anticipates Some Criticism on Minimum Wage

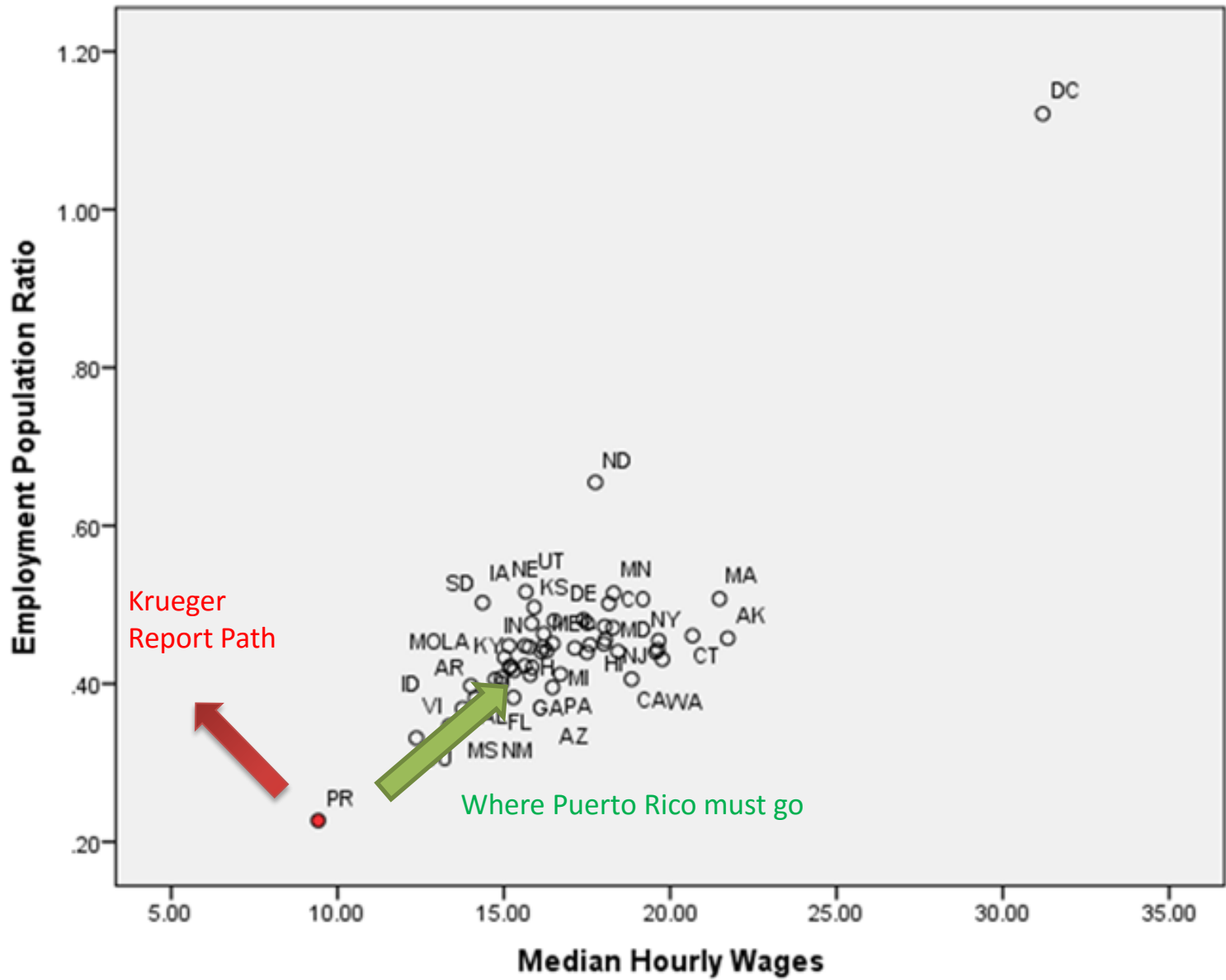
- Towards the end of the report, Krueger offers this anticipated objection and response to the argument made in the report about lowering minimum wages in Puerto Rico.
- The response is weak and inadequate.
- First, everything takes time to play out.
- No evidence is presented on below minimum wage market wages in the informal sector.
- Second, if the argument made in Krueger report that welfare payments are too generous is correct then there should not be an offset in the higher spending of the newly employed (*ceteris paribus*).
- Not clear how reducing the minimum wage increases consumer confidence, consumption, and investment. That sounds like wishful thinking.
- The Krueger report does not present any convincing evidence that reducing minimum wages in Puerto Rico is going to increase the earnings, quality employment, or quality of life of workers in Puerto Rico.

45. *Objections – minimum wage.* Even if one accepts that there may eventually be positive effects on hiring from lower wages, one has also to take into account that lower wage earnings by the currently employed will reduce domestic spending and growth.

46. *Response.* First, it is unlikely that a reduction in the minimum wage will induce an instantaneous fall in all wages in Puerto Rico. The downward pressure on wages, like the upward pressure on employment, will take time to play out; and anyway, below minimum-wage market wages already exist in the large informal sector. Second, even if currently employed workers reduce their spending by some fraction of lost earnings, this should be offset – more than offset – by the higher spending of the newly employed. Third, labor reform should be seen in a wider context of the effort to restore confidence in future growth, which should raise consumption and investment.

The Krueger Path to Employment Growth versus the Right Path to Wage and Employment Growth

- Krueger suggests that the path forward for Puerto Rico is to:
 - reduce labor protections and benefits,
 - reduce minimum wages
 - cut welfare benefits,
- Goal is for Puerto Rico to “compete” with the \$1 and \$2 dollar per hour jobs in Mexico and the Dominican Republic.
- Puerto Rico should try a more sensible path forward towards increased employment, higher wages, and better jobs and working conditions and closing the gap with all the other states and territories.



Revisiting the Key Myths about Puerto Rico

- Krueger Report does not present evidence for many of the points made on employment, labor, wages and welfare in Puerto Rico.
- Krueger Report analysis of welfare and work relies on one study with questionable assumptions and estimates.
- Revisiting the Key Myths about Puerto Rico-What we know:
 - Education levels between Puerto Rico and the US are converging
 - Puerto Ricans want to work and hundreds of thousands look for work and migrate
 - Wages in Puerto Rico are the lowest of any state or territory
 - The wage gap between Puerto Rico and all other states and territories is largest for those at the higher ends of the wage distribution
 - Minimum wage does not look high relative to costs of living, education levels, and wages in all other states and territories. It may be high relative to Mexico and the Dominican Republic.
 - Able bodied males, a group with low labor force participation, cannot get any welfare
 - Welfare is not generous compared to other states and territories and just provides for low subsistence level consumption.
 - The TANF case load follows trends in employment
 - Welfare does not appear to be a disincentive to work
 - There appears to be a positive relationship between employment levels and median hourly wages. States and territories with higher median hourly wages appear to also have higher employment to population ratios.

The Krueger Recipe for Puerto Rico

- The **Problem** Krueger sees:
 - Puerto Rico is a low skilled place
 - Employment laws are too generous
 - The minimum wage is too high
 - Welfare is too generous
 - Welfare is a disincentive to work
 - Therefore labor force participation is low
- **Solution:** to cut welfare, cut wages, cut benefits, and eliminate labor laws.
- **Consequences** I see:
 - Reduced power of workers
 - Lower labor protections and more abuse at work
 - More desperate workers and labor market circulation
 - Lower levels of consumption
 - Higher poverty rates and needier populations
 - Lower standards of living and quality of life
 - Increased wage gap and continued outmigration

Some Socio-Economic Realities and Challenges Puerto Rico Must Address (draft in progress)

- There is a human capital problem in PR—low production, low returns and low quality at the intermediate, high school, and post-secondary levels remain a challenge.
- There is a serious employment problem that is related to the proliferation of bad jobs and the lack of good jobs...Job creation is complicated and related to market size, demand for goods and services, to the nature of local investments, and to low wages.
- There is a low wage problem in Puerto Rico. Too many jobs pay too little
- There is a low income and high poverty problem in Puerto Rico. Too many people earn too little.
- Welfare system covers survival needs but does not cover needed services and investments.
- There is a misallocation of limited resources, subsidies, and taxation in Puerto Rico—that is why the debt has increased so much.
- There is a mismanagement and corruption problem in PR and lack of evidence-based policy making, program evaluation, and independent fact based policy making. Politics and patronage are king.
- There is an income distribution problem in Puerto Rico. Too few people (5%) make most of the money (25%) and top 20% makes 55% of all income.
- The segments of the population that make the big money are not those that are paying the proportionate taxes.
- The current debt financing and tax exemption based economic development model has not led to significant job growth and continues to exacerbate the economic problem.
- The Federal government and, particularly Congress, have been absent on Puerto Rico and share responsibility for the economic and fiscal challenges faced by the Island. Puerto Rico is a US colony.
- Puerto Rico's government (with local economic and political elites) shares the bulk of the blame for the debt and economic crisis and for its inability to develop and find support for a coherent and implementable economic development plan. Too many mistakes and false starts.