

**PAY TO THE ORDER OF
PUERTO RICO**

**Alexander Odishelidze
and Arthur Laffer**

Allegiance Press

The Right Answers for America

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Pay to the Order of Puerto Rico
by Alexander Odishelidze

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Foreword



The United States was founded on economic and political freedom. A “City on the Hill,” to use Ronald Reagan’s phrase, metaphorically describes American exceptionalism. This freedom enables all our citizens to successfully pursue unlimited opportunities to use their God-given talents to work, produce, take risks, invest, and grow wealthy while keeping the prosperous fruits of their enterprise.

All too often in the 20th century, opportunities to do just this were being taken for granted. But not by a young Alex Odishelidze, who risked life and limb to escape communist oppression and make a new start in America.

Mr. Odishelidze’s passion to succeed in business should be taught in American business schools. As World War II raged across the European continent, a young Alexander Odishelidze witnessed carnage by Communists and murder of his own family members in his mother country. He vividly recalls indoctrination through loudspeakers placed in the public squares, and before his escape to freedom, first in Canada and then New York, was honored by Marshall Tito for his devotion to the Party.

He charged head-first into the insurance business and was quickly spotted as a go-getter. And no one was going faster than Alex Odishelidze. With every deal, every sale, every promotion, he knew that more opportunities were around the corner.

Through his work in the insurance industry, Mr. Odishelidze has

uncovered a gaping hole in Puerto Rico's economic system. U.S. companies can now not only manufacture their products in Puerto Rico tax free, but also assign the licenses to manufacture those products to its Puerto Rican subsidiaries and keep the tax-free profits, even if the actual work was done in China or elsewhere. This takes even more jobs from American workers. Americans are subsidizing Puerto Rico to the tune of \$22 billion per year!

My dear friend Arthur Laffer, who nearly single-handedly revolutionized American economic thought, brings a great deal of insight to this book. By developing the Laffer Curve, he captured the incentive effects on work and investment from changing tax-rates.

Dr. Laffer shows how higher after-tax economic rewards from lower tax-rates will expand the economic pie as human behavior responds to growth incentives by supplying added work, investment, and risk-taking. In short, when it pays more, after-tax, to work and produce, then people respond immediately. As a result, rising national income and production from lower tax-rates actually throw off higher tax revenues within a relatively short time.

For years, Art Laffer has advised top Puerto Rican officials and is in a unique position to analyze this situation. In 1979, Art Laffer drafted a report for the incoming governor of Puerto Rico on how to mend the island's economic ills. He notes that the purpose of this book is to shine more light on the myriad opportunities for economic prosperity.

Laffer points out that in 1987, Puerto Rico cut the top marginal rate on personal income taxes. A respected study showed that Puerto Rican taxpayers declared 50 percent more income than the previous year. The total number of taxpayers increased by one third and total tax revenues increased by 28 percent.

These extremely able and insightful men have combined their efforts to show the American people that the current support system for Puerto Rico is unfair to American taxpayers and unjust for the residents of Puerto Rico. However, unlike the days when empires ruled colonies around the world, rules and regulations could be changed by executive decision.

Such is not the case with Puerto Rico. Only the Congress can alter Puerto Rico's status. Numerous Members of Congress from

diverse parts of the country agree with Odishelidze and Laffer's position to allow Puerto Rican self-determination. However, many Americans are unfamiliar with Puerto Rico's unique status and its impact on the American economy. Odishelidze and Laffer provide an eye-opening look at how Puerto Rico's status siphons tax dollars from hard-working Americans, while impeding its own economic progress.

The authors give a detailed chronology of Section 931 of the Internal Revenue Code. From its inception in 1921, which exempted from federal income taxes all income of individuals and corporations that originates in U.S. possessions, including Puerto Rico, subject to certain key limitations.

Mr. Odishelidze and Dr. Laffer reveal key facts about Puerto Rico under this system such as the fact that unemployment has risen significantly and has outpaced that of the mainland United States. They also show the intense lobbying efforts by pharmaceutical companies and other U.S. concerns to preserve the status quo in Puerto Rico's tax system.

This tax structure, while well-meaning in the early 20th century, no longer has any purpose in the Puerto Rican economy, and in fact, is counterproductive. During the more than eighty years it has been in effect it has only helped to create jobs in a fifteen to twenty year period.

Odishelidze and Laffer show that every working middle and upper-middle class American contributes \$400 annually to the upkeep of Puerto Rico.

Yet, what are the results of this misguided tax and political status policy when we compare Puerto Rico to the other fifty states?

Puerto Rico is second in out-of-wedlock births, fourth in high energy costs, and dead last in per capita income. The United States has also spent billions on improving Puerto Rico from 1981-2001. Some of those expenditures include: Food Stamps, \$19.25 billion; Educationally Deprived Children Program, \$3.59 billion; nearly \$1 billion on public housing and a half billion dollars on a school lunch program.

Even more alarming, grants given to Puerto Rico from the United States account for significant portions of local departmental budgets. For example, the Public Housing Administration in Puerto

Rico received a grant of \$200 million from the federal government. This accounted for 92.9% of its budget. The Puerto Rican Education Department received \$875.9 million, which accounts for 35% of its budget.

The poverty level in Puerto Rico is extremely high, despite a close relationship with the United States.

The authors also demonstrate how Washington works with the 1996 effort to change Puerto Rico's status. Mr. Odishelidze shows the strong power of the pharmaceutical lobbies, which benefit handsomely from Section 936. He takes the reader inside breakfast meetings with then-Vice President Al Gore and stands his ground against the Vice President's skepticism.

The authors go on to document that the United States is not getting a return on its investment. They make the case that the federal government should move away from the current system of tax subsidies for corporations. They show that Puerto Rico has splendid opportunities ahead of it, but needs a new fiscal system to realize its long-term potential. The work of Alexander Odishelidze and Arthur Laffer will surely open that discussion.

Lawrence Kudlow

Introduction 1



If anyone had told me 43 years ago, when I first came to America, that the years of my youth in Nazi-occupied Belgrade and later in Communist Yugoslavia would drive me to develop a passion for Puerto Rico's self-determination, I would have advised them to seek professional help.

Back then ideology wasn't even on my radar screen. I was 19 years old and I had just arrived in the land of my fantasies, America, the land of opportunity that made millionaires out of anyone who dared dream the dream. I was here, in the country of gleaming alabaster cities and amber waves of grain, where you could open a business, make a profit and not have to go to jail for it. Your only price for this great privilege was just to pay a few dollars in taxes, and only if you made the money. How much better could life get?

To most native-born Americans, raised in the protective cocoon of this nation's freedoms, the above words may seem silly, even to the point of being ridiculously obvious. Perhaps it is precisely because those freedoms are so obvious that they are ignored by those who were born here, where the main focus in life becomes a good job, a house in the suburbs, and a gold watch when the company puts you out to pasture. If you were raised, however, where those "obvious" freedoms did not exist, coming to America allows you to see them clearly, to touch them, to feel them, and to mold them into a life of unimaginable possibility.

In the beginning, I thought that the freedom to accumulate capital was the only thing that mattered. It wasn't until some 25 years later, when I no longer needed to amass capital in order to live my lifestyle, that I discovered that capital was not an end in itself. It was merely the measure of progress in only one department. Life, I learned, had many other, equally if not more important departments.

Even today, I hear people ask me about some of the things that I do now. The question comes up time and again in discussions of my efforts in support of Puerto Rican self-determination: "What's in it for you?" Anywhere else and this question would be pure cynicism. Here in the United States, I have found, people ask the question with a kind of cynicism that is anxious for idealistic reassurance. The question often means, "Please persuade me that there is some altruistic reason for your actions."

This book was written in response to that question. It seeks to answer whether there is an altruistic position on Puerto Rico's future and to urge people of goodwill to take that position and pursue it to its conclusion. My colleague Arthur Laffer and I have written these words with that aim in mind. In these pages the reader will learn some details about my early life and how I came to New York City and its Puerto Rican neighborhoods, and, through them, to a business career in San Juan and the Caribbean. This journey from wartime and tyranny, to sunshine and liberty, was not unique to me. Many others, from every corner of the globe, have made this trek. What compels me to write is that, because my destination was Puerto Rico, this journey is incomplete.

In the vignettes and chapters that follow, we lay out the essential nature of Puerto Rico's economy, status, character, and identity. Because we seek change (change with the goal of permanence), we write a great deal that is critical. Because human beings – Puerto Ricans, mainlanders, lawmakers and lobbyists, businessmen and politicians – are at the center of this drama, it is a tale of courage and conviction, of flaws and folly. The underlying theme here is not criticism, however, but love: of equality, prosperity, human fulfillment, and the blessings of freedom. We merely want to see these blessings secured for an island whose courageous though, like all of us, flawed people we have come to know and love.

The legal status of Puerto Rico lies at the physical center of this

book, and it truly is the heart of the matter. We argue that the dependent notion of the current territorial status cannot last, that it is colonialism in modern dress. We make the case for what either independence or statehood, both of which are permanent forms of self-government, will accomplish for Puerto Rico. In fact, each of us has been making this case for many years, and in the course of our labors we have come across some of the best and the worst in our fellow citizens.

At this point, you may be asking yourself, “Why, as a resident of the U.S. mainland, should I care about these issues involving some distant island in the Caribbean?” My answer is simple: “Because this distant island is costing you, the American taxpayer, more than \$22 billion a year to maintain.” That’s about \$400 for every American tax-paying family. You are offering up this sum of money (which is growing every year), and the typical Puerto Rican is gladly receiving it, but neither you nor that average resident of Puerto Rico is likely to know all the adverse ways in which this transfer is affecting the well being of both parties to the transaction.

Bringing up the truth about U.S. dealings with Puerto Rico makes a great many people uncomfortable these days, whether they live on the mainland or on the island. Allow me to relate an example. I first met the plainspoken Congressman Dan Burton in the early 1990s. Burton, an Indiana Republican, was a key member of the House International Relations Committee. We had just begun our efforts to eliminate the obscenely expensive tax shelter called Section 936 that was funneling profits through Puerto Rico but doing precious little for its people. We were also working on the closely related matter of Rep. Don Young’s bill to fashion the first real Puerto Rican plebiscite on its future status. Burton came down to Puerto Rico for a visit. I had heard he was an avid fisherman. I made arrangements for a fishing trip with Mike Benitez, a local deep sea fishing professional who was well known for his ability to deliver a solid catch for those who booked his services.

Before the fishing trip, which was to take place the day after Mr. Burton arrived, I had arranged for him to speak at the local Rotary club. These were the first days of our struggle to set the record straight on what Puerto Rico’s status really was. We wanted our fellow business and community leaders in San Juan to know

that we did have a problem and that it was in the best interest of Puerto Rico to have it resolved once and for all.

Up to this point, the majority of Puerto Ricans actually believed that the island had some kind of special status, that it was outside the territorial clause of the U.S. Constitution, and that it had some kind of “bilateral agreement” with the United States that made this status permanent and impossible to change without mutual consent.

During the luncheon, when Dan Burton began talking about a change in Puerto Rico status that could be initiated at any time by the U.S. Congress, there were a lot of exclamations of surprise among the audience. Tarring and feathering is out of fashion these days, but it wasn’t hard to imagine bread rolls flying through the air at the visiting congressman.

During the question and answer period, one indignant attendee, who was visibly shaken by Mr. Burton’s words, stood up and, in a voice bordering on panic, asked, “But isn’t Puerto Rico an ‘Associated Free State’ of the United States and isn’t that association based on an unbreakable ‘compact’?” Mr. Burton, with his usual blunt honesty, blurted back, “I don’t know of any ‘compact’ between Puerto Rico and the United States. All I know is that Puerto Rico is under the U.S. territorial clause, a possession of the United States, and that Congress can change that relationship any time it wants to and, besides, if there were any agreement between Puerto Rico and the United States passed by Congress that I do not know about, it is a simple fact that the acts of any one Congress do not bind the actions of any future Congress.”

The audience was shocked by this reply. It was the first time that any member of the U.S. Congress had told the people of Puerto Rico the truth about their status. The next day, the local newspapers had a field day with Mr. Burton’s comments. Some accused him of being uninformed. Others were outraged that a representative from Washington had dared to question Puerto Rico’s “sovereignty.” As events over the next few years bore out, Mr. Burton’s plain talk was right on the mark. Congress could alter the terms of Puerto Rico’s relationship with the United States by majority vote. In the end, the passage of Rep. Young’s bill in the House of Representatives left no doubt about Puerto Rico’s current status. Today Puerto Ricans are no longer kidding themselves

about the bill of goods sold to them by Muñoz Marin.

The next day we went fishing as planned, and I brought along my son Michael to meet Mr. Burton. They got along very well because Mr. Burton was an Indiana State graduate and Michael graduated from Purdue, so that during the trip they were constantly razzing each other about their respective alma maters' football teams. I think that Mr. Burton must have won the arguments, not just with the people of Puerto Rico but with Michael, because, toward the end of the day, Michael got violently sick (which he never does, because he has been raised on boats) and emptied his stomach onto Mr. Burton's sneakers. It was the second day in a row that Mr. Burton had given some of his hosts a little nausea.

For the first time in history, Mike Benitez, the famous fisherman who guarantees every customer a catch, came back empty-handed. Our group didn't even get a strike. I guess all the fish in Puerto Rican waters that day must have been busy debating the status issues Mr. Burton had raised to the Rotary audience. Even they had lost some of their appetite.

A final word about the organization of this book. I am a semi-retired businessman who has lived and worked many years in Puerto Rico. Some of the chapters that follow tell the story of my transit from Eastern Europe to the States and finally to the Caribbean.

Other chapters tell the full story of the Young bill and those who worked for and against it, describe the dilemmas posed by Puerto Rico's massive role in the drug trade and money laundering, and ponder the meaning of Puerto Rican identity in our rapidly changing world. All of these chapters contain first-person narrative. The vignettes at the beginning of Chapters 13 and 14 are fiction, depictions of various aspects of Puerto Rico's social dilemmas. These vignettes are in third person.

Arthur Laffer, as he relates in his introduction has seen Puerto Rico as an adviser who has made a tremendous impact on both U.S. and Puerto Rican economic policy. His analysis is set forth in Chapters 4, 6 and 8, and he has given me excellent advice on the other chapters that touch upon Puerto Rico's economic well-being, specifically the chapters on the drug trade and money laundering. The remaining chapters and stories are all my own, and I am solely

responsible for their content.

“What’s in it for me?” My answer is: “If you have a couple of hours, let me tell you my story and perhaps then you might understand. But I will give you one clue; it is what America is all about. And it is about what all the Americas can be.”

Alexander Odishelidze

Introduction 2



Alexander Odishelidze and I have reached similar conclusions about the future of Puerto Rico, about that island territory's best hopes and great promise, but we have done so with very different personal histories. Perhaps this lends some added authenticity to the confluence in our views.

Alex is a businessman who grew up in conditions of warfare and repression that most of us in the West have never faced. He came to Canada and then the United States because of the allure of freedom that has drawn millions of people to these shores to seek a better life for themselves and their families. Unlike the vast majority of those people, however, Alex took a second step that led from America's financial capital, New York City, to its economic nadir, the island territory of Puerto Rico. The ethnic connections that link these two places, at the top and bottom of the U.S. economic ladder, have formed a powerful bond that, examined as Alex has examined it, tells a compelling tale of a failed promise of opportunity for millions of our fellow citizens, the people of Puerto Rico.

It was not biography, but the history of ideas, that drew me to a less personal, but just as personally compelling examination of Puerto Rico's promise. The island has long been a political and economic curiosity. It is part of the United States, undeniably, but just as undeniably it is a creature of economic extremes and experiments that are unique in our hemisphere and perhaps in the world. For most of the past century, Puerto Rico has been torn between

forces driving for independence and other forces driving, with growing vigor, for full integration with the United States. As part of the United States, it has lived inside the American tariff wall, as that wall has been, in turn, raised and lowered, and it has responded inevitably to economic events and cycles on the mainland. As a political commonwealth, however, it has developed a web of economic policies that have partially insulated the island from outside events, including those on the mainland. Unfortunately, that insulation, which is described in great detail in this book, has generally operated to depress Puerto Rico and to delay if not defeat its economic convergence with the mainland. A handful of mainland U.S. industries have profited, handsomely, under this regime; the vast majority of industries and individuals on the island have only suffered from the “insulation” that was designed to safeguard them.

Worldwide, a great revolution has taken place over the last few decades. Marxism has lost ground. Socialisms great and small have retained significant influence, but, in general, the maxims of high and progressive taxation and state-run economies are on the defensive. Trends toward the privatization of government-run corporations have moved sometimes fitfully, but with genuine progress toward the private sector in places as diverse as Russia, Eastern Europe, Great Britain, and Chile. Open trade policies have strengthened their foothold and the great debate at present, despite the anti-globalization demonstrations that have sprung up to bedevil international meetings, is not over whether such policies are to be pursued but over whether any or a few human rights, labor and environmental conditions should be attached to them.

Against this background, Puerto Rico’s evolution is all the more striking for the way it continues to lag behind the economic systems with which the island is most closely associated. As 2004 begins, an election year on both the mainland and in Puerto Rico, the debate over tax policy and economic growth is suddenly, once more, intensifying. Not surprisingly, one of the first tremors in that debate is being felt in California, where Proposition 13, an economic event with which I have some deep familiarity, helped reshape the “landscape of the possible” for American tax policy in the 1970s. Today the issue is California’s fiscal crisis, which led to a crisis of leadership, the first successful gubernatorial recall vote in

the nation's history, and the installation of Republican Arnold Schwarzenegger as governor on November 17, 2003. California is once again proving a test case, as an administration promising tax relief comes into office facing a budget deficit that is a direct result of an omnipresent, progressive tax code.

As I have written elsewhere, the State of California, where I live, has a tax regime that is more burdensome than any other jurisdiction within 2,500 miles. Not only is that tax system oppressive and hostile to the creation of wealth, but it is also ingeniously detailed and pervasive. For a recent report, Laffer and Associates compiled a list of the manifold ways that California taxes its citizens at every turn; the list occupied an entire appendix of the report and even readers who *know* they are overtaxed were astonished to see gathered in one place the incredible variety of ways their state government punishes work and discourages entrepreneurship. As long as people and businesses have options (and may they always have options!), they will flee such regimes and look for places that allow them to build wealth and strengthen their communities.

Puerto Rico, of course, is more than 2,500 miles away from California, but even if it were next door, it would hold little attraction for the capital that has disappeared from and the people who have fled the Golden State. I was privileged to play a role in Puerto Rico in the 1970s when I visited there and helped the incoming Romero-Barcelo administration to begin the process of lifting the island's oppressive local tax burden. In April 1979 Laffer Associates delivered a comprehensive report to the governor that further detailed the steps needed to reverse the island's economic decline in that period and put it on a path of long-term economic growth. As I relate in more detail in Chapter 6, this process had a beneficent effect on the island, which was reeling under the weight of the Popular Democratic Party's central planning model.

No economic battle is ever finished, however, and the island, isolated in many ways in its complex political and economic struggle, has continued to veer in allegiance between its two major parties over the past two decades. In this book, we argue more than anything else for an end to the veering. Puerto Rico must dispense with the chimera of commonwealth, and become either an independent state along the lines of a model like South Korea, or finally

welcome statehood and use that opportunity to overhaul its tax system and engineer it for growth and prosperity. The island can and should make improvements in local policy in the meantime, and the federal government can and should continue to move away from the system of tax subsidies for mainland corporations that is the focus of the discussion in Chapter 8, but these measures must not substitute for an ultimate resolution of the status issue.

The year to come will be an intensely exciting one. The tax rate reductions President George W. Bush has made the centerpiece of his economic policy are squarely on the table in 2004. His Democratic opponents are split between those who would repeal them immediately and those who would radically and swiftly alter them. As the ideas I have expounded for a lifetime predicted, the year 2003 is coming to a close with an impressive resumption and acceleration of national economic growth responding to the Bush tax cuts. Economics, after all, is a common language. This phenomenon of accelerated growth could be Puerto Rico's future as well, and its economic well-being (as well as its status) is squarely on the table in 2004. It is too soon to know whether the possibilities that exist for economic hope and opportunity will be seized, as the protagonists have promised from Sacramento to Washington, D.C., to San Juan, but these arguments are not being raised in the shadows. They are in the platforms and at the podiums, in the headlines and among the web blogs. In our political "world without walls," they are coursing through the heart of public discussion.

The road to serfdom still exists and any nation or people can travel it, but now it is lit by a billion spotlights. Puerto Rico, like California, like all of the United States, can see the avenues before it and choose the one that will lead to real freedom and economic vibrancy. It is the mission of this book to switch on a few more of those spotlights. Our aim is to add the illumination of the many roads we have already traveled as businessmen and theorists, as practitioners and policy makers, and as individuals who have witnessed the blessings of liberty in the land one of us adopted and into which the other, by the grace of God, was born.

To some, Puerto Rico may be a distant place unworthy of such attention. To us, this anomalous half-colony, indelibly part of the American scene, is another acid test of our national character. No

man is an island, and no island should be another man's possession. The last century proved this truism once more. Let this century quickly become the one in which the phrase "American colony" finally passes into antiquity.

Arthur Laffer
San Diego, California

December 2003

Section I

Economy



CHAPTER 1

My Odyssey to Freedom



The seeds of my passion for freedom were sown early, in wartime.

My first memory of this is neither a sight nor a sound. It is a sensation. It is possible that it is not a memory at all, but a recollection of what someone told me had happened. It was a death. My aunt was holding me in the garage of my grandfather's house in Belgrade. For some reason, the family regarded this dark, cramped space as safer than the house when the air raid sirens went off. It was 1945, the last year of the war and I was four years old. Wartime was all I knew. Freedom was not even an abstraction.

My aunt had scooped me up and carried me to the garage. I remember the neighbors there, along with other aunts, uncles and cousins. It was cramped. Some sat on the floor, others on low wooden stools. A goat was tied to the leg of one of the chairs. Dogs ran around among us, barking at the noise and confusion. I was a small child but I had already learned that when the bombing began one should listen for the whine and then the thump. The thump might be disaster to someone else, but to us it was word that we had not been hit. It was the whine you heard and the thump you did not that you learned to fear. That was a missile with your name on it.

Suddenly, this time, all was quiet. I remember looking up and there was open sky above us. I saw some people higher up and they were throwing ropes down to us, to raise us. Smoke and dust were

everywhere. I could only move my head; the rest of my body was immobile. I felt a warm liquid pouring onto my face. I turned and saw my aunt's neck, her head torn away from it, veins protruding and spurting blood her blood all over me.

Somehow that day I was spared. That my life could have ended then and there is no less astonishing to me than that it has taken me to so many places so far removed from that garage and the city of my birth. A woman died in whose arms I was being cradled for safekeeping. Neither she nor I had any part in that war. If that were not irony enough, the bomb that killed my aunt was likely dropped by an airplane flown by men on a mission to liberate her and my family from Nazi domination. Here is a further irony: chances are that these American airmen were aided in some way by the information my dead father, an airplane parts manufacturer, had smuggled out of Yugoslavia to help the Allies understand and counter the capabilities of the Luftwaffe.

In that last year of World War II, liberation was still, for me, many years away. Before my 10th birthday, I had learned no firmer lesson than that devastation can come from any direction and tyranny can come in any form. The man or woman who lives life beginning to end in a single place, a town or address, and lives that life in peace and prosperity, is a person of great fortune. For most of us, certainly for most 20th century Europeans, life was a succession of dislocations and deaths, a session of fragmentation and fear. It was true that we yearned for freedom, but the definitions we gave it were limited. We were hungry even for crusts of freedom. My first definitions of liberty were always embodied in far-off places, even that place from which the bombs had come that killed half my family. But I knew this too: freedom comes from within. Most of us forge our own chains.

We Odishelidzes were Russians. Our roots were in what is now the Republic of Georgia and in old St. Petersburg. It was my maternal grandparents who began our family's journey to the west, a journey many generations would take in search of a better life. My father came west on his own, from Georgia, to escape the Bolsheviks. He died for freedom having had little chance to live for it. It fell to me and to my widowed mother to take the last phase of our family's journey, to the United States of America. But I am

getting ahead of my story. Be forewarned that the United States is not the end of the story, but the place where the story of freedom, this story, awaits the beginning of a new chapter.

My grandparents on both sides were prominent Russian citizens, though in quite different senses. My mother's parents met as university students in St. Petersburg, before the Revolution. They were involved in the Bolshevik movement but became disillusioned and focused instead on their careers. They settled in Evpatoria, in the Crimea, where eventually my grandfather, a physician, opened a small hospital. He and my grandmother had five children. A few years after the Revolution, they decided to move the family out of Russia. My grandfather's family had gone to Russia in the mid-1800s from Serbia; they decided to return there because there were still relatives in the area.

The move tended to refute the proposition that you cannot go home again. They settled in Belgrade where my grandfather started a new practice. They enjoyed all the trappings of prosperity – a big house, live-in maids, a chauffeur. Their children also did well. Three of them, including the aunt killed in the Allied bombing, earned engineering degrees.

On my father Ilija's side adventure was added to the story of migration. My grandfather, I am told, was the Governor General of the Republic of Georgia in Tbilisi when the Revolution came. When the Bolsheviks seized power, they came after those who had been in charge. My father managed to escape (he was only 13 at the time) and he traveled first to Turkey. From there he went to Belgrade where his mother lived. She had left my grandfather shortly after my father was born and went to Belgrade with a young officer with ability and interest in aeronautics.

The Bolsheviks were ruthless, but the Georgian leaders they replaced were not provincial gentlemen. In the time of the Tsar, Georgia was a country like Afghanistan and the similar nations around it, predominantly Moslem. It was run by a tribe of Cossacks who maintained their independence from the Tsar by their willingness to be his storm troopers. Whenever a Russian village would get out of hand, the Tsar would send the Cossacks in to murder the men, rape the women, and steal everything they could carry. Through these pogroms, the Tsars managed to keep the villages in

check without having to deploy any of their own soldiers.

Even if my grandfather was not the Governor General, he must have earned enemies, because that side of my family, apart from my father, was totally wiped out by the Bolsheviks. I still have a stamp from that era that bears my father's picture when he was six or seven; one can only conclude that my grandfather was, in the vernacular, a big shot. The family has also handed down from that era a collection of pictures and medals that were given to my murderous Georgian forebears by the grateful Tsars. Unfortunately, no one now alive can tell me what these mementoes signify. My pride in this side of the family, as you can gather, is not immense, but my father steered our heritage in a new and welcome direction.

When my father reached Belgrade, he located my grandmother and moved in with her and her husband. He attended one of the private Russian schools in Belgrade. There he met my mother. My father proceeded to become an engineer, a career path that now attracted both sides of my family tree. My mother was a musician, a concert pianist. Eventually, my father inherited the airplane parts business his stepfather had built up, and he made it very successful. My parents prospered anew, and before World War II they managed to travel all over Europe, leaving us many pictures of their travels in those days when the great excursions were taken by ordinary citizens and not the German Army.

I was born six months after Germany, Italy and other neighboring Axis Powers invaded and partitioned Yugoslavia. Our country was a stepping-stone for the Germans on their way to Greece. The killing field that Yugoslavia became has been compared to the carnage that ravaged Poland, and, as in Poland, much of the killing was carried out by the local population engaged in score settling. There was also a resistance movement, and it took different forms in various regions of the former nation that were now annexed to Germany, Italy and Bulgaria or under the domination of Nazi puppets. Marshal Tito led one band of partisans that represented an actual coalition of ethnic groups united against Nazi rule. Tito was a communist but not a Soviet communist and he detested the Nazis. The forces he led were willing to risk the savage reprisals the Nazis would visit upon the civilian population anytime their forces came under local attack.

During the occupation, my father quickly decided where he would cast his lot. Because of his business, he was a valuable commodity in wartime and he was presumed by the Germans to be loyal. Part of his business was to represent German airplane manufacturers in Yugoslavia and this gave him unusual access. He would make trips into Germany to visit the Reich's airplane factories and on these trips he would collect useful information, which he began to pass to the Allies. These actions marked him as a spy destined to summary execution if caught. He was also involved in the resistance in other ways, and in the summer of 1944 things became hot for him in Belgrade and he disappeared into the hills with the partisans. We not only had the Germans physically to fear, but also the American bombers. They would drop their ordinance on civilian sectors of Belgrade to hit the anti-aircraft guns the Germans had stationed outside the Americans' real targets, military installations.

It was in the early fall of 1944 that one of those bombs destroyed my grandfather's garage and killed my aunt. I suppose I should have resented the Americans ever after, even if there was military justification for this action. If I have learned nothing else in life, it is that the refusal to let go of even deep hurts and resentments not only is a futile dwelling on the past but a potent destroyer of the future. My surviving uncles concluded from these events that Belgrade was no longer safe. They decided to take the family into the countryside and they found us refuge with farmers. My cousin Lillian, seven years older than I and now living in Florida, recounts for me how she and I were walking through the cornfields when a German Stuka shot down an American plane. We ran through the fields and found the American, wounded but able to walk. We helped him to the house and he stayed there until the Partisans picked him up and hid him.

During the winter of 1944 my grandmother was taken to Dachau. Her crime was that she was not Aryan and for the Nazis, of course, that was enough. By 1945 my father had spent many years as a spy for the Allies. In gratitude the Allies arranged passage for our family to the United States. It had been agreed that we would reunite with him at the train station in Belgrade to begin our journey to freedom. The appointed hour came and my father did not appear. Only later did we learn that he had been caught on his way to the

train station and murdered. Our hopes were crushed. We were later able only to retrieve bloody clothing he had worn. His body was never recovered.

In October 1945, with the help of the Partisans, the Red Army liberated Belgrade. I am an American of Russian ancestry so I may be forgiven for speaking frankly of this new occupying force. The Red Army's foot soldiers were fierce fighters, but they were a rabble of various extractions, including descendants of the Huns, Tartars, Siberian Chinese, and Arabs. They were a cruel, uncouth and uneducated lot, and they did not seem to know the difference between liberation and occupation. We hated them. They took whatever they wanted and shot people for so much as blinking the wrong way.

One joke that made the rounds during this time was that the Russian soldiers had never seen a watch. When they saw someone wearing a timepiece, they would say, "Davay, davay!" which means "Give, give!" They would walk around with 10 watches on each arm. The story had it that on one occasion a Russian got his hands on an alarm clock and took it to a watch repair shop, asking the owner if he could make him "10 little ones out of this one big one"!

Shortly after this, the Americans arrived and the difference was like night and day. I must have been like the little boy at the end of the movie *Life Is Beautiful*. The American G.I.s always had chocolates and other candy for the kids, and they were very respectful of the people. It was after I met these American soldiers and tasted my first marshmallow – I remember that moment like it was only yesterday – that I resolved on my own to go to America and eat marshmallows every day.

In postwar Belgrade we children had no toys to play with, so we invented games and found things to entertain us in the bombed-out buildings that filled the city. We picked up grenades, machine guns, rifles and the ammo that went with them. We would try to clean up the weapons and shoot them. Some of them didn't work, but some of them did, and some of our friends got killed or maimed. Our favorite sport was to take the gunpowder out of the bullets and pour it into a can, then stick a piece of paper into the can with one end sticking out, then light it and run like hell. Setting off these undoubtedly endeared us to everyone. A few of the explosions even managed to

bring down walls. We thought this was especially exciting!

The transition to Tito's rule thrust the nation once again in a new direction. The Communists moved quickly in the wake of liberation to establish a provisional government, and, after the war's end, to establish a permanent government under Tito's lifetime rule. There was no doubt that the Partisans, having fought in a unified and often-effective way against Nazi rule, enjoyed a popularity that had little to do with their ideology under Tito. They quickly established a provisional government and moved to hold elections in November 1945. These elections pitted a single list of what was now called the People's Front versus a separate box for the opposition. Royalists connected with the provisional government had already resigned in protest over this state of affairs. Tito's People's Front scored a resounding victory.

I began my school years, therefore, as a young Communist, Yugoslavian-style. It was a very regimented system. The children were organized into military cells called "Pioneers." I must admit I was very gung-ho for this system. We were inculcated with the language of Marxism, with the importance of volunteering for all the things we were required to do, and with the plight of the proletariat. Over time, we saw how often the "proletariat" were dragged from their homes and made to disappear for no apparent reason. We saw the members of the Communist Party, by virtue of that fact alone and no merit that we could see, driving around in big cars, living in plush homes, and dining in luxury while the "proles" starved.

My father's involvement with the Partisans cost him his life, but it won for his family the privilege of keeping our grandfather's house. At first there were only eight of us to live in the house's six bedrooms. Despite our status, this was not the Communist way. Soon seven complete strangers were brought in (each accompanied by more relatives) and these new arrivals soon took over the house. Our family was squeezed into two bedrooms, all the while the party leadership lived like kings. Later, as an adult, I would learn how this aspect of Communism seemed to transcend all the variations that existed in Europe and around the world. Tito marched to his own drummer, and even though Yugoslavia modeled its first post-war constitution on the Soviet model of 1936, he pursued relationships with the West that irritated the Politburo in Moscow.

I was a good enough young Pioneer that I can recall being honored personally by Tito on May Day 1954. As he reviewed the day's parade, Tito summoned me to the platform where he personally presented me with a book written by a party leader. By this time I was 13 years old but, in truth, my mind was thriving on a literary tradition that spoke deeply to my heritage and my imagination. This real education had begun in a parallel universe outside the formal schools. My grandmother Cleopatra, one of the fortunate ones, survived Dachau and returned to Yugoslavia after the war. As one can imagine, she was a changed woman. She became very withdrawn and very religious. I became very close to her, and she would often take me to church, even though this practice was strongly discouraged by the regime. We were Russian Orthodox, and the ancient rites of the church were conducted in Old Russian. The anti-religious propaganda of the schools set up powerful currents of conflict, with the result that my interest in spiritual matters was piqued for a lifetime.

My real education in those days, however, came from my other grandmother, Eugenia. She had decided that my cousin Lillian and I were to be the intellectuals of the family, and so she taught us to read in Russian by the time we were four years old. We began with English adventure writer, Edgar Rice-Burroughs, and the first book I finished was *Tarzan*. Eugenia would not be content with that and she made me memorize the august Russian poets like Pushkin and Lermontov. She introduced me to Tolstoy, Dostoyevsky and even Zoschenko, a Soviet humorist who dared make fun of the system and not get sent to Siberia. At the age of five I had read all of Pushkin, memorizing long passages of the romantic poem "Ruslan and Ludmilla."

Pushkin's short stories were my favorite. I read them over and over again. One of the most important lessons this literature taught me was the proper way of letting go of baggage. If life is an Everest climb – if you are lucky, maybe it is only Annapurna – it's impossible to carry all your struggles and pain up the mountainside. Your friends can help you accomplish your goals, but so too can your enemies. I learned this lesson, most of all, from Pushkin's "The Captain's Daughter." It isn't just a matter of the saying, "What doesn't kill me, makes me stronger." We cannot walk through life

sampling arsenic just so that we can survive the poisoner's attempt. This attitude is more a matter of avoiding the nursing of grievances that grow up around our hopes and our better natures like weeds, choking off our aspirations and our imagination.

Yugoslavia under Tito may have been one of the best places to live in the world of Communism, but the lives of the Odishelidzes there were uneasy. Tito pursued an independent brand of Marxism, and he valued his ties with the West and the economic aid from Britain and the United States that flowed, in the many millions, into his country. But he was jealous of control, and he cast a cold eye on the Soviet bloc to the East. He feared the Russians, quite reasonably, and this put Russian émigrés, even those who had been in the country for decades, under suspicion. Finally, one day in 1954, soldiers came to our house and loaded me and my mother into a truck. We were transferred to the railway and taken to Trieste, on the border between Italy and Yugoslavia and a place that had been disputed territory.

It was not that my family constituted a threat to Tito. He was under pressure to move firmly into the Soviet orbit. Our presence could become a pretext for a Soviet invasion to "protect" its citizens. To be a Communist leader one must be well versed in the matter of pretexts. Tito wanted all the Russians out of Yugoslavia. When we were placed on the train, the people around us were panicking. They knew the conditions in the DP (Displaced Persons) camps. Families lived in tents. Mud floors. Outside latrines and washing facilities. No hot water, no medical facilities, and no nutritious food. People sleeping in double bunks, with blankets hung down the side for privacy. Cold winds blowing from the side through the tent flaps. Tuberculosis rampant, easily caught and expensive and difficult to treat. We had heard the stories of people coughing all night and their bodies being carried out in the morning. No one survived more than five or six years.

It is amazing what political leaders can consider "humanitarian." The DP camps were an evil terminus almost as frightful to the passengers on the train as a concentration camp would be. There was another factor: if you caught TB, you knew for certain that no other country would accept you. At that point, you were stuck in the camp until you died. Sixty-five percent of those who were interned in DP

camps died of disease or malnutrition, or both. I had to invent ways for my mother and me to get food that would sustain us.

My resolve was formed in the midst of the fearful crowd on the train trip to Trieste. I was only 13 years old and my life could not possibly be coming to an end. I was determined to go to America and to become a cowboy. There had to be a way.

As soon as you arrive at a DP camp, you make application to leave. Canada, Australia, Mexico, the United States, Venezuela, New Zealand, Argentina – just to name a few – were among the countries accepting application at that time. From then on, it was a race between admission and TB. Getting food outside the camp became the obsession. This was how I acquired my first taste of business and what a good commodity could do to open doors. I noticed that the guards' ears got cold under their helmets. I learned to knit and invented an earmuff that fit nicely under the helmet band. I scrounged for old sweaters and converted them into earmuffs, trading them into chocolates, milk and other survival goods.

In the summer I would sneak out of the camp and go down to where the cruise ships docked. It was not exactly summering on the Adriatic, but I would dive for the pennies that the passengers threw over the side just to see the scruffy ragamuffins dive for them and nearly die trying. It was cruel sport, but it worked and I am still here!

In truth, as I learned later, the camps were not intended to be anything more than rapid transit points. The goal was to move refugees through in 60 to 90 days, and this was the reason why no medical facilities had been set up for the internees. The camps, which dotted Europe (we were sent on from Trieste to Germany for a time), were run by the International Relief Organization, which was subsidized by many other organizations around the globe.

After two years of this uncertainty, my mother and I were accepted by Canada. It was the winter of 1956. I remember vividly the passage on the Scoubirin. We sailed up the St. Lawrence River and settled in Toronto. It was a long way to go for a 15-year-old boy and his widowed mother, but we were not unique during that tumultuous time. Once we reached Toronto, my mother, who had played the piano before appreciative audiences in Europe, took a job as a house-cleaning maid. She struggled and saved money so that she could buy a used piano and start giving lessons. We survived.

My three years of school in Canada were unremarkable and I left in 10th grade. I did not relate to the “normal” world of teenagers from protected environments. Canadians had served in the war and families grieved there, too, but their cities and their culture were unscathed. I spent some time with migrant farmers and in Canadian logging camps, then became a door-to-door salesman peddling pots and pans and sewing machines. I was still very shaken by the experiences of the war and the expulsion from our home. Witnessing death and misery had taken a silent toll on me, and focusing on the future was impossible.

Focus was thrust upon me when word came that my mother and I were now eligible to go to America. She had signed up for the U.S. admissions quota when we were in Trieste. In that desperate circumstance, one signed up for every option.

My life was about to take a radical turn for the better. It was the fall of 1960. A script was being written, with ink flowing from a source I could not see. Its font was freedom and the chance – another chance – to make something of a life that, until that time, had been driven by the rattle of war and TB. I did not yet know what freedom could do for me, but it beckoned, like a distant light on the horizon, and I stepped toward it.

CHAPTER 2

The Last Colony



The asterisk next to the name of Roger Maris may be the most famous punctuation mark in modern history. Until recent times, when the great Yankee slugger's name was superseded by those of McGwire, Sosa, and, finally, Bonds, the renowned asterisk in the baseball record book informed the reader to look more deeply. At the bottom of the page the reader would find the truth that Maris had hit his 61 home runs in a season that was eight games longer than the one that produced the Babe's legendary 60. Used this way, the asterisk meant, "More explanation needed."

In the year 2003, the name of the island territory nearly 1,000 miles to the southeast of the United States should always be written Puerto Rico*. Here, in this chain of islands spreading like a necklace of seashells from the Yucatan Channel to the tip of Venezuela, Puerto Rico is the ultimate anomaly, a place where things cannot be understood at a first, a second, or even a third glance. The economy, the form of democracy, the position in the Hemisphere. The past, the present, the future. Mark them all with an asterisk. More explanation is needed.

At the end of the warm, wet summer of 2003, the Robert Clemente Arena in San Juan, Puerto Rico, was filled to the rafters. Mark it with an asterisk. It was a merely a basketball game between two teams of American citizens. One was composed entirely of professionals representing the mainland United States. The opposi-

tion was composed of both professionals and amateurs, representing an unincorporated territory of the United States only 3,515 square miles in size, no bigger than the Los Angeles basin. But it was the mainland players who were looking for payback. *More explanation needed.*

The USA Team of NBA All-Stars in San Juan that late summer day was well aware that Puerto Rico had just weeks earlier scored an upset victory in the Pan Am games over a squad of U.S. college all stars. It was an earth-shaking event in San Juan, a kind of hard-court Alamo, and the hostility of the San Juan crowd to a team of their fellow citizens from the mainland had been intense, according to the losing coach from recent NCAA champion Michigan State. Surely, the American pros would not repeat the disaster of the Pan Am games, or the shock of 2000, when they lost the Olympic gold to an upstart team from Yugoslavia.

Late in the first half, the spark that almost lit a bonfire occurred. Tracy McGrady of the U.S. team made a steal and knocked down Eddie Casiano, one of the Puerto Rican stars. McGrady scored. Casiano wanted the foul but none was called. When McGrady approached him as the buzzer sounded, hot words were exchanged. Both teams rushed the floor, the partisan crowd jeered, and a brawl nearly ensued. As the crowd pelted the floor with plastic cups and other objects, the teams finally retreated to their locker rooms. Sure, it was just basketball. Mark it with an asterisk.

That asterisk may mask a larger one. Why, indeed, if mainlanders are Americans and Puerto Ricans are Americans, are there two teams vying with each other for a place in the Olympic Games? Alaska does not field its own biathlon team. Colorado does not have its own slalom competitors. New York City does not seek a basketball gold, though it might have a good chance of winning one if the rules allowed. But Puerto Rico has an Olympic team, and that Olympic team has a basketball squad. And if, on a broiling Sunday afternoon, that squad could beat one featuring names like McGrady, Allen, Iverson, Duncan, and Carter, it would be as if the U.S. hockey team had skated out of the past and defeated the Russians all over again at Lake Placid.

Or would it? The truth is that, despite the peculiarities of the strangest relationship in the lexicon of American foreign/domestic

policy, Puerto Rico* is very much a part of, and very much in love with, the rest of America. You only hurt the one you love, the saying goes, or, to put it a happier way, you only care about the hurts of the ones you love.

The story of Puerto Rico's unique and evolving relationship with the United States has all the elements of comedy and tragedy, of competition and cooperation. Chest-thumping on the basketball court or on a military firing range is about as contentious as it has gotten in a long while, even though previous eras of confrontation have seen gunfire outside Blair House, inside the House of Representatives in Washington, and outside the Governor's mansion, with lives lost, in Puerto Rico. All in all, the story of the dance between Puerto Rico and the mainland, more than a century long since the change of partners in 1898, has produced both exhilaration and exhaustion.

Today that relationship teeters more on the edge of exhaustion. Its very temperate nature, secured at the cost of billions in American taxpayer subsidies and Puerto Rican dependence, conceals the profound injustice that lies at its heart. A Latin people is very capable of tormenting an oppressor, or of following one. Like other peoples, it can produce a Simon Bolivar or a Trujillo, a Muñoz Marin or a Noriega. Perhaps the greatest injustice of all is that, given the passage of time in which Puerto Rico has been an American possession, the reaction of most of the island's people to their unequal yoke has been tempered and accepting. Somehow, in a world of violent revolution, where violence has been spurred by both just and unjust demands, Puerto Rico's lack of combustion should help to bring it the reward of a full measure of freedom. Today, in the fall of 2003, it is nowhere near that measure.

Instead, Puerto Rico has entered a state of economic and political hibernation called commonwealth. Ambiguous at its core, this status has increasingly allowed the island to claim the hallmarks of self-rule while barring it, under the U.S. Constitution, from the exercise of the sovereignty routinely available either to states in the American Union or to free nations. Every day the Congress of the United States is in session, its elected representatives can vote on and adopt laws over which the Puerto Rican people have no say. The House of Representatives can initiate a spending bill that

includes the island to any degree or to no degree. The Senate of the United States can debate and ratify treaties to which Puerto Rico thereby becomes a party, with no vote or even presence of any person representing the perspective of the island on the issues at stake. That is the way it has been since 1898. No other U.S. territory, certainly no other cluster of 3.89 million Americans, is treated this way.

No one will ever know how truly expensive Puerto Rico's status is to itself and to the taxpayers across the 50 states who daily underwrite this experiment in disordered liberty. In the pages that follow, drawing from numerous sources, we attempt to calculate much of that expense, but it is all but impossible to summarize the diminution of human potential in dollar signs. The total cost was well past the \$200 billion dollar mark over the past 20 years. The pace shows little sign of slackening. Even more important, the longer Puerto Rico's stultified status exists, the more the worst elements in both the Puerto Rican and mainland character come to the fore. If no long-term solution is at hand to a pressing problem, people logically reach for short-term advantage, or, worse still, cling to the narrowest prejudices.

Is racism a part of Puerto Rico's unusual story? Some evidence to the contrary exists. Alaska and Hawaii are the most two recent territories to join the Union. Both have now and had then native populations – Aleuts, Eskimos, and the Hawaiian people – who did not follow “American” ways and who spoke foreign languages. Yet these splendid places became the 49th and 50th states, and their representatives in Congress have included people of Western European as well as Polynesian and Japanese-American descent. Surely, the melting pot society that the United States has become is above every obtuse feeling? A nagging sense of doubt endures, however. Would Puerto Rico still be a territory and not a state or nation of its own if its people were half German and half Irish?

Ah, it's not the nationality, many say, it's the language. They speak Spanish there and want to preserve their culture.

But Spanish is also spoken in the United States, in Spanish Harlem and in the barrios of Los Angeles. In pockets of Wisconsin, German is the lingua franca, and in other parts of New York, Russian and other languages predominate. The local grocer speaks

Arabic to his cashier and the Chinese restaurateur rarely speaks anything but Chinese to his employees. They work hard and stick together for many purposes. The nation does not fall apart. Can it really be just language? Sometimes it is a champion of civil rights, a President Bill Clinton, or a senator less famed for his broadmindedness, a Trent Lott, who indirectly, even faintly, says or does something that suggests that a kind of prejudice, subtly racial, is at work in the hypocritical decisions that are made about the nature of Puerto Rico.

In his book about the Clinton presidency titled *The Agenda*, reporter Bob Woodward talks about a major debate in Congress over the repeal of special tax preferences for U.S. corporations that set up shop in Puerto Rico. The Clinton Administration had proposed a repeal of the preferences, based on its well-justified conclusion that they were benefiting certain well-heeled U.S. manufacturers and doing very little to boost employment and income for Puerto Ricans. The late Pat Moynihan, then-senator from New York, went to see Bill Clinton at the White House to complain about the President's economic plan. As chairman of the Senate Finance Committee, Moynihan felt he had not been sufficiently consulted. Moynihan, Woodward writes, focused on a part of the plan he insisted would have to be dropped, the President's proposal for Puerto Rico.

According to Woodward, Moynihan conceded to Clinton what every serious economist who had looked at these preferences had concluded: they were "indefensible." He then proceeded to defend them. Yes, one company had gotten tax breaks that amounted to about \$500,000 per worker. The price tag for another's taxpayer giveaway was \$150,000 per worker. Still, Moynihan "painted a doomsday scenario" for Clinton of what would happen if the preferences were repealed. The U.S. firms on the island would flee their tax haven and the unemployment rate on the island would double to 30 percent. A political crisis would follow. A plebiscite on the island's status – whether to remain a territory or seek admission to the Union or the path of independence – was imminent, and the panicked Puerto Ricans would approve statehood. Congress would reject it. It "would be a political nightmare. How would the United States look to the world?"¹

None of these points could be made publicly (put an asterisk beside them). They were to be the private reasons for public actions. There was another point it would be indelicate to raise publicly, Moynihan noted. If the tax breaks went away, there would be “revolution in the Caribbean.” Why, the loss of the preferences could even “vastly increase immigration to New York” from the island and, in Woodward’s summation of Moynihan’s message, “the increased welfare and other social service costs would outstrip the savings achieved from abolishing the tax [preferences].” Three liberal members of Congress, all of Puerto Rican heritage, one Chicagoan and two New Yorkers, agreed with Moynihan’s analysis. They did not come away from the White House empty-handed. Watered-down but still generous, the tax breaks were preserved.²

Thus, for several more years, faulty public policy survived that helped, and in new forms still helps, to keep Puerto Rico shackled to something less than liberty. Had conservatives gone to a president of their party and made these arguments, warning that special tax breaks for big U.S. companies were needed to keep Puerto Ricans away from our shores, the cries of bigotry would be deafening, as would the complaints of corporate welfare and tax cuts for the rich. For decades, Puerto Ricans in New York City, Chicago and elsewhere across the country had voted reliably for the Democrats. Now here was their reward: to have their own presence, and the prospect that this presence might increase, used as an argument in favor of an “undefensible” tax gimmick that lined the pockets of the rich. Did it make sense for liberal Democrats to act this way about a reliable constituency? Is it “immigration” when American citizens move from one U.S. jurisdiction to another? Only if the place one is dealing with is Puerto Rico*.

In the fall of 2003, the United States of America is embarked on a project designed to bring democratic institutions and a functional constitution to Iraq. It is far too early to tell how that experiment will play out, but it is ironic indeed that our leaders believe they can bring the blessings of self-government to a nation that has no heritage of liberty. For 105 years now, we have been unable to bring about a permanent form of self-government in a place far closer to us, far more admiring of our way of life, a place that has such a heritage and surely has such a yearning.

The longer commonwealth lingers, the more difficult a permanent solution may be. The longer any person falls behind and fails to realize its dreams, the more fractious their politics becomes, and the less attractive their polity becomes to their fellow citizens. Substantive issues become symbolic and symbolic issues become substantive. A gubernatorial candidate who favors statehood can earn attention for a fracas involving proper display of the American flag. At a celebration in 2000 for the new Puerto Rican middleweight boxing champion, fans can force the organizers to remove the U.S. flags from the stage. A sitting governor can decamp to a hotel room in the Dominican Republic as she futilely awaits admission as an equal to a meeting of Latin American heads of state. The U.S. Navy can be tossed off a firing range it has used for decades to teach soldiers how to conduct themselves in battle. A heroin addict can see the sum total of his universe in the cost of a vial.

That last epiphany was reported in an article in *National Geographic* published in March 2003. The addict, Luis by name, complained to the writer about the high price of his fix relative to the cost of street drugs in New York. It was, he intoned, “another example of the unfair trade relations between Puerto Rico and the U.S.”³ Here, the words of the prophets echo off the walls of El Morro, the 17th century fort in Old San Juan where the shooting galleries hum in a zone the overmatched police seldom enter. What emotion resonates in the addict’s bitter words? Resentment? Envy? A cruel joke? The dependency on drugs is perhaps the worst of all, but the dependency of 60 percent of a population eligible for welfare assistance is ultimately more debilitating.⁴

Puerto Rico has had less than full freedom within the American system for more than a century. Indeed, in that period, the Congress of the United States has not once passed legislation that would permit Puerto Rico to stage a clear, and consequential, vote on acceptable options for a permanent status. In fits and starts, the political parties on the island, shift their positions and their names, devising statuses of various definitions and seeking clarifications from Washington. They stage votes and some parties boycott them. They ponder the establishment of committees and assemblies, task forces and study groups, argue with one another, argue with the wind, looking for formulas that will satisfy the factions’ desires and

command the attention of Washington. It is the contradiction of Santayana's maxim: Puerto Ricans remember the past, and still they seem doomed to relive it.

Puerto Ricans are not exactly what an observer sees at first glance. More explanation is needed. The people of the island are part-Spaniard, part African American, and part Taino Indian. There is the blood of Corsicans and Irish in their midst, white Catholic settlers invited in at various periods. A handful were pirates, not invited in. Many were smugglers, self-taught in a craft born of dire necessity as first Spain and then the United States sought to limit what Puerto Ricans could buy and sell overseas, most of it legal goods, some of it contraband. Everything is not what it seems. Mark it with an asterisk.

Freedom House, in its annual report assessing the level of liberty enjoyed by various peoples, labels Puerto Rico "free." Relative to billions of other people around the world, this characterization is fair, the heated rhetoric of the island's *independentistas* to the contrary. Puerto Ricans hold effective elections for every local office. When they march in the streets, as 150,000 people did in February 2000 to protest the Navy exercises at Vieques, Washington, though reluctantly in many quarters, listens. Crowds of this size do not determine policies in China regarding the location of factories, much less military bases. In fact, crowds of this size do not form in China at all, unless it is to watch an official parade. No, Puerto Rico is assessed accurately as "free": it is as part of one of the freest countries on earth that its dearth of key liberties is incongruous.

Living in the shadow land between colonization and self-determination makes a people feel its way forward tentatively. A son complains of the "debilitating deference" many Puerto Ricans pay to the mainland United States, thinking that the island's association with the giant to the north has brought it prosperity. A father, a four-year veteran of the U.S. Navy, replies to his son, "If Puerto Rico ever became independent, I'd move to the U.S. This place would be bust in a minute – no more Social Security, no more checks every month." A generation gap does exist, with more older Puerto Ricans valuing their long-standing ties with the United States and the cash income they have earned in its service, and more young Puerto

Ricans, who have seen only the economic stagnation detailed in the pages that follow, willing to try something new.

In the fall of 2003, the mind of Washington is not focused on the populous island that bridges the Greater and Lesser Antilles. Looking toward its own wounds, from terrorism and several years of a cool economy, the American people and the Congress are paying little attention to the restiveness brewing in Puerto Rico. One in 70 of their fellow citizens lives there, but for most of us it might as well be one in 7,000. The average net transfer of taxpayer funds to each of those citizens now runs some \$1,500, but the cost of rebuilding Iraq, \$100 billion or more, is in the headlines. Per capita income in Puerto Rico is a national scandal, roughly \$9,000, less than half that of Mississippi, the poorest state, but Americans are focused more on the 2.7 million jobs lost nationwide since the economy soured in 2000.

The lull in Washington is deceptive, however. The United States is a superpower and there is more to the world than Iraq. Changes are coming, swift and certain, across the whole terrain of national affairs. Domestically, the United States is “Hispanicizing,” and African Americans have given up their place in the demographic pecking order as the nation’s largest minority. California is the perennial political bellwether state, the home of future trends that usually overtake the rest of the country, Florida is the state that decided the last presidential election, and Texas is home to the nation’s president. All of these states are seeing an influx of Hispanic Americans. Many of them cannot legally vote. Puerto Ricans can, and they are making their way in dramatic numbers to areas like Orlando, where the daily newspaper, *The Orlando Sentinel*, does some of the most thorough reporting in the states about Puerto Rico’s condition.

In 2005, little more than a year away as this is written, the Section 936 tax that substituted so long for a development policy for Puerto Rico will sink at last into the sands of time. A new governor, likely the former two-term governor, Pedro Rossello, or the current pro-commonwealth Resident Commissioner, Anibal Acevedo Vila, will take office. The promises made by the Bush Administration in education and for Medicare, plus whatever promises are added on to these by the dynamics of the 2004 election season, will come due,

and new taxpayer funds will begin to circulate, like some hurricane in reverse, from the mainland to the island. All the while, closer to home, an Hispanic nation that has always fascinated Americans, a long-captive nation whose capital is just 90 miles from our shores, may undergo a wrenching and epoch-making change.

One might soon be tempted to put an asterisk by the name Cuba as well. That “other island” has had a very predictable history for many decades, but the near future may bring it, too, into the realm of the not easily explained. If we are fortunate, our leaders will look beyond the policies and prejudices of the past and begin to perceive that a whole new era is about to begin in the Caribbean. How our president and our Congress handle that era may have more impact on the future of the entire Western Hemisphere, and much of the developing world, than any other factor on the scene today, save the threat of terrorism. The Caribbean has never had any success in avoiding the ancient Chinese curse of being compelled to live in interesting times.

Fifty years ago next June a band of Puerto Rican nationalists stood in the Visitors Gallery of the U.S. House of Representatives and fired shots, wounding five members of Congress. Five years ago, the real character of the Puerto Rican, our fellow Americans, was on display in the actions of one man in that same chamber. He was 100 years old, a veteran of the First World War, the war that induced Congress to make Puerto Ricans citizens of the United States. He had come to the House gallery to witness the first-ever extended debate and vote on legislation by which Congress would define the options it would accept for Puerto Rico’s future. He witnessed a debate that was at once vigorous and principled, gnarled with petty politics and patent prejudices, ragged and messy, but democratic at its heart – the epitome of self-rule, the object of every civilized populace.

When at last, that debate was over and the amendments were all accepted or rejected, the House voted. By a margin of a single vote, the decision of one person in the chamber, the House approved a bill to set a date for Puerto Rico’s rendezvous with self-determination. The centenarian had come, he said, “to see the values I fought for redeemed by Congress before I die.” As one observer wrote, this gentleman was “just one of many with tears in their eyes that night

after the deliberations ended with a nerve-crunching vote of 209 for the bill, and 208 against.”⁵ That bill died soon after in the United States Senate. The fate of that aged veteran is unknown to us. This we do know. Congress still has an act of redemption to perform.

CHAPTER 3

America Delivers



It was September of 1960. I was looking forward to celebrating my 19th birthday that October in America. Few 18-year-olds know what life has in store for them. That life had Puerto Rico in store for me could not have been further from my mind.

Events had conspired at every turn to sharpen my appreciation for freedom. I had lived under Nazism as a toddler, under communism as a teenager, and with fear, disease, and uncertainty in the Displaced Persons camps of Italy and Germany. Coming to North America was for me, as it has been for millions of immigrants from war-torn Europe, an unimagined liberation. Belgrade was my birthplace, but it was more crucible than cradle. Half my friends did not escape the tides of terror that swept through the city from the west and then the east. They were either wiped out in the years of the German occupation, or “disappeared” as people had a habit of doing under Tito, or blown away, in a final irony, by the unexploded ordinance that still littered the streets and bombed-out buildings as late as the fifties.

My thoughts were on the future as I crossed the Canadian border at Niagara Falls in my 1955 Meteor (named for a combination of space and speed, the car was an emblem of its era, but it was really nothing more than the Canadian version of a Ford). As I got closer to New York City, flicking my radio from station to station, I suddenly picked up music that caught my attention. It was very

different from the American popular music that had captivated me. I had been pushing the buttons for Elvis Presley, Jerry Lee Lewis, Bill Haley and the Comets, or Bobby Wilson. What I now heard was a silky rhythm, punctuated by percussion, that just grabbed me and kept me chained to the station for the rest of the trip.

For most of us, freedom has some kind of soundtrack. This was mine. I didn't know it at the time, but that seductive beat would help drive my life from that point on. Suddenly I forgot that after all this time I had finally made it to the land of my dreams. Here was my fortune, waiting for me just to reach out and take it. In Yugoslavia and the DP camps, I had imagined this moment, making it to America, and here I was, in the heart of Manhattan, listening to this strange music that just wouldn't let me go.

I had very few dollars in my pocket, but I had something more valuable. They were slips of paper with names and addresses of friends of my deceased parents. Some were Russians from Yugoslavia, like my parents, others were people I had met in the DP camps who had made it to New York a few years before me.

Sherwood Anderson once wrote that old age has arrived when you begin to take "the backward look at life." I had next to nothing to look back to, and that was why, basically penniless and with almost no formal education, I had all the optimism of youth. I believed at that moment that life had never been better. My schooling had been disrupted by the war and the camps and the death of my parents. I had no profession, no job prospects, no chance to go to college, but I was nearly nineteen and I had survived. Experience had made me feel more like forty-nine. Armed with confidence and a green card, I could move about as I pleased in America. What more did I need to sample its bounty? I had walked through the golden door, and there was nothing but opportunity and wealth on the other side.

Here at last I had made a shore where everyone, refugees and seekers from every other part of the globe, shared the same creed.

Gleb, my first friend in New York, was the son of an associate of my deceased father. It was he who told me that the music that mesmerized me was called "mambo" and that it was usually played in Puerto Rican and Cuban neighborhoods. He must have seen the excitement in my eyes. It was a red flag to him. As a white person,

he said, I should stay away from those places.

There was a subtle difference in rhythms between the Cuban “mambo” and what I later learned was the Puerto Rican “salsa.” The Puerto Rican version was just beginning at the time. It was played in nightspots like Club Caborojeno on Broadway and 145th Street and the Hunt’s Point Casino in the Hunt’s Point section of the Bronx. New Yorkers don’t mince words. Hunt’s Point was nicknamed Korea, because rumor had it that as many people had been killed in that neighborhood as there had been during the Korean War. Banking on the notion that this was probably pure exaggeration and that I was immortal anyway, I headed there first.

Enchantment and blindness are boon companions. I didn’t notice that most of the people hanging around outside the casino had much darker skin than I did. Some had kinky hair. They stood around, fearless, smoking marijuana and drinking rum and coke from paper cups. I wasn’t in Kansas anymore. This was “Korea.” It didn’t matter. All I heard was the music coming from the dark interior and it drew me in.

Inside it was near-pitch dark, and people were milling around the dance floor, the couples dancing in the middle. You could smell tobacco smoke mixed with the pungency of marijuana and human sweat. Most of the crowd was speaking Spanish. The conga player appeared to be in a trance, beating out the rhythm, and those who were not dancing as couples swayed to his cadence. Couples made out in the shrouded corners of the room. The dancers swam in the hypnotic stream of sexual chemistry. This was not the impersonal gyration of rock-and-roll or the formal cheek-to-cheek of ballroom. This was up close and very personal. The atmosphere was alive with exotic sensuality. I did not need to understand the words. I was hooked.

Gleb was not impressed with my sense of adventure. He refused to return with me to the real “salsa” clubs. “Alex, it’s lunacy for a white person to go anywhere around there.” In my heart I had to agree, but that, for me, was part of the allure.

Still, there were relatively safe places to go to hear similar music (never the kind of true “salsa” rhythm you heard in Club Caborojeno or the Hunt’s Point Casino). Any truly popular music form eventually migrates, transmuted, into houses of respectability.

In the 1950s for mambo, these were places like the Palladium, the Taft Hotel or Roseland in midtown Manhattan. The music there was, by my standards, “tame” and so was the crowd, but it was passable, and I finally persuaded Gleb to accompany me there.

That is where I met Julie.

Julie was from Puerto Rico, and to me, she was everything a Latin lady was supposed to be. Straight out of West Side Story, “a beautiful Maria of my soul,” as the Mambo Kings would sing it. She had just come to New York from Puerto Rico, possessed a college degree (which impressed me), and moved beautifully to that salsa rhythm. I was in paradise.

When I asked her if she had ever been to Club Caborojeno or the Hunt’s Point Casino, she looked at me and snapped back, “Not my crowd!” That’s when I first realized that there were two Puerto Rico’s, and geography had nothing to do with it. In some ways, it was like every nationality’s split about the “old country,” but it had its own Latin twist of class and economic status. It was around November of 1960 when I met Julie. I had been in the United States but two short months. Revolutions, I learned, can be made in days.

It was not long after I discovered the United States that the United States discovered me.

In February of 1961 I received my draft notice. By that summer, I was in basic training and by the fall of ’61 I was sent to Fairbanks. The direction of my life was hard to discern, but for the most part at least it was westward. Alaska had been a state but two years (joining the Union in January 1959 with Hawaii following seven months later, facts which will figure in this narrative later) and was an exciting frontier. In the summer of ‘62 Julie came up to Alaska and we got married. I was all of 20 at that time.

I spent my two years in the Army on the U.S. biathlon (skiing and shooting) team, which afforded me time to go to school. I received my high school equivalency diploma and completed about 32 college credits. Like the person who is starving, when given a plate with meat and potatoes, I skipped the potatoes and went for a second helping of the meat. I loaded up with courses in accounting, business law and economics. Having spent the better part of my life under the communist system, I did not want others to determine my economic fortunes. I had no desire to endure the vagaries of being

an employee. I was going to be a businessman, and I wanted to get what I needed to be one.

The 1964 winter Olympics were to be held in Innsbruck, a few hundred miles from my birthplace. I was given an opportunity to reenlist in the Army with a chance to attend the Olympics as a substitute member of the U.S. biathlon team. Many people would have regarded this as a once-in-a-lifetime opportunity. My eyes were focused on other opportunities, however. The American business world was waiting for me. That is where I wanted to claim my medals.

I was discharged from the Army on July 1, 1963 and my son was born on July 3, 1963. Any illusions of instant wealth I had were tempered by immediate experience with the rules of the game. When my wife was in labor, I took her to the military hospital in Queens, New York for the delivery. The personnel there explained to me that if my son had decided to be born two days before, they could take care of the birth, but since I was officially out of the Army, my wife could no longer get medical care at a military hospital. "So where do I go?" I said. They suggested some taxi drivers could help out in a pinch. I wasn't amused at all, and Julie was even less so.

We made the best of it and returned to New York City. Reality set in like a mid-summer heat wave. I wanted to be a businessman. To go into business, you need capital. To get capital, if you are just starting out, you need to borrow it. To borrow it, you need a job. Try getting a job that will feed a family in New York City when all you have is a high school equivalency diploma and a year's worth of college education.

As others learned before me, when all else fails, there is always the insurance business. There, more than anything, you need contacts, circles of potential clients and referrals, and of these I had none. Thus I began my career at the lowest rung of the ladder, the one with the top that reaches the ground floor. I became a debit collector for Metropolitan Life in East New York, Brooklyn, working the tenements and low-income projects where many Puerto Ricans lived. Life has a way of keeping you focused in certain directions whether you like it or not.

I carried a lead pipe to make sure I got back to the office with the money I collected. Word got around quickly that the "Anglo"-

looking man on the elevator carried cash along with his ledger book. Later I found out that MetLife couldn't get anyone else to go into those neighborhoods. But I had had experience in "Korea," and Belgrade long before that, so the danger didn't bother me. Necessity is the mother of many things besides invention.

I sold more insurance than most other people, moved out of being a debit collector to selling "regular people," became a unit supervisor, and took all the insurance-related degrees I could get my hands on. America is more than a theory: the hard work paid off. I won a position as manager for Mutual of New York at a prestigious Manhattan location, became a training director for MONY at age 26, and took over a full agency in midtown at age 27. It was heady stuff, overseeing the operations of more than 20 salespeople, unit managers and clerical staff, being the youngest agency head in their history, in the nation's financial capital.

There was more to come. I became rookie manager of the year. It was like being the Walter Alston of insurance. I was invited to give a speech in Los Angeles about my overachievements to a couple of hundred insurance executives. A few insurance companies even started sending me serious offers to join their ranks as a Vice President.

God bless America. I was now 28 years old and there were no further questions about my high school equivalency diploma.

But I wasn't looking for a high salary with bonuses, perks, stock options and a corner office. Even though being in the life insurance business was as close to entrepreneurship as you could get because your income, whether you were a salesperson or a unit manager or a full agency manager was always dependent on the bottom line results that your area of responsibility produced, full entrepreneurship had eluded me up to this point.

This kind of success could have been the end of my story. I might have earned an excellent income and occupied a mahogany desk in an office tower in Hartford or Boston or one of the other insurance capitals. There would have been no island with a storm-swept past and uncertain future weighing on my thoughts and beckoning with its hurts and hopes. I would have seen all I know of Puerto Rico and its people in the dark clubs of the Bronx or in the dazzling eyes of my wife. Fate had a different plan.

Agency managers in the insurance business receive what is called an “override” on the business that their agents produce. Essentially, the manager receives a continuing cut of the premiums from every policy the agent sells. The bigger the agency, the bigger the manager’s take, but the company, of course, still owns the operations. To me, the epitome of entrepreneurship in this business was to be a “General Agent.” On this basis, the company grants a franchise for a certain geographical area and provides some start up money to hire salespeople and set up an office. The general agent, however, pays the expenses, keeps the profits, and owns the business. When he leaves, the company pays for the agency based on the amount of business put on the books during his tenure

That became my goal because, besides earning a high income, I could also create capital. In my immigrant’s eyes, amassing capital was what the capitalist system was all about. Even in the late 1960’s there weren’t that many agency opportunities left, as most of the major companies were operating on the managerial system, a far more lucrative way for them to promote sales and funnel profits to the top. This was all perfectly natural in the business world. As I would come to learn, it was all perfectly natural in the realm of politics, where decisions are made not about insurance agents’ territories but about real territories.

Life was about to teach me some major lessons about the realpolitik of real estate. All of my histories - personal, political and familial, were about to converge on a slab of tropical mountains and beach in the Tropic of Cancer. To Julie, it was the past. To me, it was the uncharted future.

CHAPTER 4

The Price of Dependence



Some 8,500,000 travelers, most of them tourists, land every year at Puerto Rico's San Juan International Airport. Another 2,500,000 make the island a port of call on the cruise ships that ply Caribbean waters year-round. Millions of Americans have made this trip, some repeatedly. It is a romantic destination, sun-splashed, a place of beaches with a swatch of tropical rain forest, across the blue sea, yet still part of home, like some secret garden at the perimeter of a familiar park.

An advanced purchase, non-refundable air ticket from New York to San Juan on U.S. Airways could be had in the summer of 2003 for \$188. Let us imagine that a desire has overwhelmed you, the reader, to become one of these 11 million annual visitors to one of the Caribbean's glamour spots, a shopping and beach-going Mecca for Americans and Europeans alike. It is the lure of Borinquen.

You and your spouse go on-line and, with a few keystrokes, select your dates and times of travel, enter your seat selections, and type in your credit card information, including the all-important expiration date. As a final warning, the web page informs you to be careful not to click "enter" more than once while you wait, as this will result in duplicate charges of \$376.00 plus tax appearing on your statement. You are asked a final time to verify your information and confirm your decision to purchase twin airfares to your island destination.

You carefully click “enter” a single time and, after a minute’s delay, this message appears:

*Thank you for your contribution to the economy of the Commonwealth of Puerto Rico. Your funds have been transferred to the people of Puerto Rico in fulfillment of your annual allotment as an American citizen to the upkeep and progress of this territory. **Please do not go to the airport in expectation of being permitted to take your flight.** Your willingness to transfer these funds to your fellow citizens in the Commonwealth is deeply appreciated. We have taken the liberty of placing a cookie on your computer to assist you in making your automatic \$400 contribution next year and every year thereafter, adjusted for inflation. Bon voyage! Or, as we say in the realm of economic subsidies for the needy few and the politically potent, “Thank you for paying up and staying put!”*

This is not a scenario under which any airline could stay in business. Nor is it a scenario under which any person would long keep his or her computer. But it is not a fanciful scenario in its essence, because the simple truth is that every middle-income American taxpayer forks over an average of \$400 per year to subsidize the unique relationship between the United States and Puerto Rico. It has been this way a long time, and it may be this way for a long time to come. The unwholesome roots of this plot are not difficult to disentangle.

Puerto Rico is neither a nation nor a state. It occupies a shadow-land, a kind of Limbo, where each and every aspect of its affairs, from law enforcement, to banking, to citizenship, to federal program eligibility, to taxation, is handled in a way peculiar to the island and its unique history. The keeping of African Americans as slaves was once referred to as the “peculiar institution.” Today, the peculiar institution is that middle kingdom called a “commonwealth” territory, and in that kingdom, as in a Gilbert and Sullivan operetta, “nothing is as it seems.”

The heart of the imbalance consists in this: while, for the purposes of most programs that tap the federal Treasury, Puerto Ricans operate like other American citizens and receive benefits, the people of the island do not pay federal income tax. Moreover, through a series of decisions decades ago designed to spark Puerto Rico's tortured and flailing economy, industries on the island, particularly U.S. pharmaceutical companies, have enjoyed a targeted tax break that essentially relieved them of all U.S. corporate income tax on their earnings there. This tax giveaway, it turns out, and as we will describe in detail, no longer accomplishes any meaningful purpose for the Puerto Rican economy. Instead, it benefits a wealthy and well-connected few. Moreover, it punishes the many, not only the hypothetical tourists in our fictional example, but also the Puerto Rican people who suffer the fraud of dependency.

This mass injustice is perpetuated by an iron law that is well understood by the armed camps of lobbyists that surround Washington, D.C. like so many Confederate regiments. The I.R.S. code, thick as a Sequoia, is replete with sections, exemptions, and preferences that stand poorly, or not at all, on their own merits. Nonetheless, because they benefit a particular party, class of parties, or sector in very direct ways, and the parties they harm are diffuse or even uninformed about the existence of the special benefit, lobbying efforts invariably favor the status quo. This is especially true in a political scheme dominated by campaign money. Every member of Congress knows where the pharmaceutical industry sends its millions in political cash. Where does the "American taxpayer" send his or her political donations? Everywhere and nowhere. It is not difficult to see who will win the debate over an obscure spending program or tax break. It's the party that can focus its own efforts and deflect those of its opposition.

How do we derive the \$400 figure used in the tale of the tourist? Simple! We take the total cost to U.S. taxpayers of maintaining Puerto Rico as a territory and divide it by the approximate number of middle and upper income, tax paying families in America. In some respects this is a very conservative number. It does not reflect the huge losses, for example, in productivity and individual health that flow from Puerto Rico's massive role in the narcotics trade. It

does not include the costs, direct and indirect, of other crimes associated with drug abuse. Nearly a third of the most serious illegal narcotics that reach our shores transit Puerto Rico in some way on their journey north. The Office of National Drug Control Policy issued a study in September 2001 that estimated the overall cost to the United States of drug abuse in 1998 as \$143.4 billion and likely to rise to as much as \$160.7 billion in 2001.¹

A figure this high is difficult to comprehend. Here is one scale of value. The *Canadian Journal of Cardiology* in February 2003 cited a Health Canada report that the direct and indirect cost of *all* illnesses in Canada was approximately \$160 billion for 1998.² The drug “tax” alone on the American people rivals this amount. If Puerto Rican smugglers and dealers handle 30 percent or more of the major narcotics, it is not unreasonable to state that the island has a major role in imposing annual society-wide costs of some \$50 billion or more on the United States. But the \$400 figure does not include a penny of these costs.

Instead, look at a few sums that can be attributed to the major federal programs and special tax breaks Congress has, over time, made available to Puerto Rico. U.S. taxpayers foot the bill for \$39,000,000 in fiscal year 2001 to build and maintain Puerto Rican highways. Puerto Rico has never been self-sufficient in foodstuffs, so it is no surprise that the 2001 federal budget saw \$3.58 billion going to the island in the form of nutritional assistance for its poor. Medicare checked in at \$1.32 billion, and the bill to Uncle Sam for housing assistance was \$407 million.

To be sure, some of the estimated \$17.8 billion that taxpayers spent on assistance to Puerto Rico in 2001 represents earned income (this figure does not include the value of business tax credits). As former soldiers whose physical and psychological battle scars are as real as every other citizen’s, Puerto Rican veterans who have served the United States are eligible for veterans benefits and medical care. It is one mark of the extent of that service that these benefits cost the U.S. Treasury \$379 million in 2001. Social Security benefits also flow to the island, totaling \$4.56 billion that same year. This is technically an earned benefit, although under Social Security’s pay-as-you-go structure both revenue-in and benefits paid out vary from year to year and are rarely balanced.

Many individuals receive more than they paid into the system, even adjusted for inflation, as longevity has increased and the retirement age has gone unchanged.

The more one drills into the nature of the Puerto Rican relationship with the federal government, and thereby with the U.S. public, the more anomalous it seems. Disease, as outbreaks of Mad Cow Disease and SARS have potently reminded us, is no respecter of boundaries. The U.S. Centers for Disease Control, based in Atlanta, Georgia, has a series of regional offices that carry on administrative functions and perform surveillance on infectious diseases. One of the CDC's 10 area offices is located in San Juan. Congress, finding it difficult to deny U.S. responsibility for the well being of the Puerto Rican people even as it has been unable to resolve their status or include them on the tax rolls, has steadily included the island in one program after another. The table on page 65 lists a number of the most common federal programs and the status of Puerto Rico's participation.

Federal obligations to Puerto Rico are growing, and the cost of fighting the drug trade in the Caribbean will drive them up further. Between fiscal years 2000 and 2001, overall federal assistance to Puerto Rico grew more than 16 percent. From 1993 onward, the average annual increase in funding from Washington was a solid 3.6 percent.³ Even so, measured on a per capita basis, as Table 1 notes, the level of federal funding of Puerto Rico ranks it among the lowest of the U.S. states and territories. That does not mean the money is modest.

In a special report for the American Alliance for Tax Equity, economist Robert J. Shapiro provided a detailed account of the cumulative cost of U.S. government expenditures and tax credits from 1981 to 2001. The combined cost of federal spending and tax preferences over this 20-year period was \$192.8 billion, or an average of \$9.64 billion per year. Table 2 on page 65 sets forth this spending and breaks down each major category by specific program. Note that this table excludes the amounts spent over this period on Social Security, Medicare and other programs that are financed, at least in theory, by employee contributions. Those "financed" payments totaled nearly \$67 billion over this period. In addition, some of the categories in the table represent earned but not financed

Table 1

Leading Cultural and Economic Indicators: Puerto Rico and the 50 States	
Per capita income	52 nd
Profits from manufacturing as a percentage of Gross Domestic Product	1 st
Population	27 th
Population Density	4 th
Civilian Labor Force	33 rd
Infant Mortality Rate	2 nd
Percent of Persons on Disability	16 th
Out-of-Wedlock Births (Percentage of All Births)	2 nd
Death Rate	46 th
Total Number of Food Stamp Recipients	4 th
Local Income Tax Collections	1 st
Total U.S. Direct Federal Transfer Payments Received	47 th
Total Federal Expenditures, 2000	36 th
High Energy Cost	4 th *
High-Tech Employment	37 th
Tech Exports	16 th
Number of "suspicious activity reports" (SARs) filed with the U.S. Treasury regarding potentially criminal activity and/or money laundering in banks and financial institutions.	33 rd
National Assessment of Education Progress	Experimental participation begins in 2003

- Base of comparison 60 U.S. power regions (includes cities and states)

(i.e., by individual contribution) benefits (e.g., veterans benefits), financed benefits (federal retirement), and benefits that are subsidized but must be repaid (student loans). Overall, federal grants produced about the same benefit for Puerto Rico as did the Section 936 tax gimmick, an average of just over \$3 billion per year.

Chart 1 on page 67 shows the relative contribution to federal expenditures for Puerto Rico from each category of funding, including tax breaks. As the chart makes clear, this spending pie can be sliced into three fairly equal pieces: the special tax breaks from Section 936 and other measures; federal grants paid into Puerto Rico's operating budget; and "other," which includes insurance, defense contracts, and payments directly to individuals. As pies go, this one is neatly divided by the income characteristics of the recipients. The vast majority of the federal grants that make their way to the island go to its poor, through such programs as

Table 2. Federal Expenditures and Tax Credits for Puerto Rico, 1981-2001

Federal Program	Spending	Share of Spending
Federal Grants	\$62.01 billion	32.2%
Nutritional Assistance (Food Stamps)	\$19.25 billion	10.0%
Customs and ATF Rebates	\$7.34 billion	3.8%
Educationally Deprived Children Program	\$3.59 billion	1.9%
Disaster Relief	\$2.36 billion	1.2%
Medicaid	\$2.10 billion	1.1%
WIC Program (food for young mothers)	\$1.98 billion	1.0%
Community Development	\$1.79 billion	0.9%
Section 8 Housing	\$1.59 billion	0.8%
Child Nutrition Program	\$1.96 billion	1.0%
Family Support Payments (AFDC/TANF)	\$1.48 billion	0.8%
Public Housing	\$0.93 billion	0.5%
Low-Rent Housing Operating Assistance	\$0.79 billion	0.4%
Community Development Block Grants	\$0.57 billion	0.3%
Public and Indian Housing	\$0.48 billion	0.2%
School Lunch program	\$0.47 billion	0.2%
Highway Planning and Construction	\$0.39 billion	0.2%
Other	\$14.94 billion	7.8%
Federal Salaries	\$8.77 billion	4.6%
Defense	\$3.16 billion	1.6%
Postal Service	\$1.99 billion	1.0%
Other Non-defense	\$3.63 billion	1.9%
Federal Payments to Individuals	\$21.04 billion	10.9%
Veterans Benefits	\$6.32 billion	3.3%
Pell Grants	\$5.48 billion	2.8%
Federal Retirement	\$3.38 billion	1.8%
Housing Assistance	\$3.00 billion	1.6%
Guaranteed Student Loan Interest Subsidy	\$0.17 billion	0.1%
Other	\$2.69 billion	1.4%
Federal Procurement Contracts	\$3.61 billion	1.9%
Defense	\$2.48 billion	1.3%
Non-defense	\$1.13 billion	0.6%
Other Federal Assistance	\$32.61 billion	16.9%
Direct Loans	\$2.18 billion	1.1%
Guaranteed Loans	\$11.55 billion	6.0%
Insurance	\$18.88 billion	9.8%
Total Spending	\$129.59 billion	67.2%
Section 936 Tax Credit	\$63.21 billion	32.8 %
TOTAL	\$192.80 billion	100.0%

Source: Shapiro, et al., "The Costs of Puerto Rico's Status to American Taxpayers"⁴

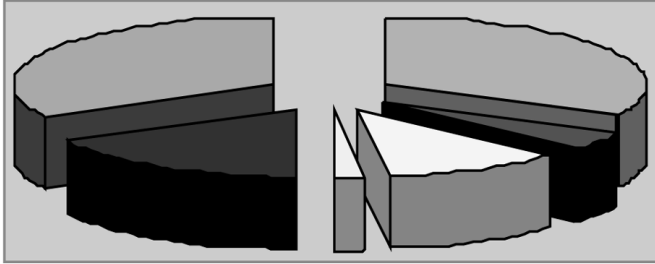
Head Start, Title I education funding, the WIC program (which provides food for women taking care of newborn children), rental assistance, and school lunches. The tax third of the pie, as we will describe in detail in the next two chapters, benefits disproportionately some of the largest and richest companies in the United States. The remaining third, while it includes some spending (like Pell Grants) that is restricted by income level, is the only segment that is widely distributed across the Puerto Rican population.

As noted above, total federal assistance to Puerto Rico reached \$17.8 billion in 2001, a sharp 16.3 percent increase from the previous year. This number is likely to climb sharply in the years ahead if Washington follows through on certain commitments, particularly in the area of education and health care, where prescription drug coverage under Medicare could provide new benefits to an estimated 500,000 senior citizens in Puerto Rico, roughly one of every eight people on the island. The numbers for FY 2002 show that federal spending, exclusive of business tax credits, totaled \$18.5 billion, an increase of almost 4.0 percent from 2001. Add those business credits back in (the Section 936 credit is sunsetting, and companies are migrating to another tax benefit called Controlled Foreign Corporation status), and this federal transfer to Puerto Rico may be in the neighborhood of \$22 billion for FY 2002. As we mentioned in the beginning of this chapter, our method of calculating the \$400 it costs each American's family to maintain Puerto Rico involves merely dividing this sum by the estimated 50 million middle- and upper-income tax returns filed in the United States each year.

The typical Puerto Rican pays no federal income tax to buy into the baseline benefits included in these numbers. Even the U.S. family that does not have a son or daughter in uniform pays taxes to supply our Armed Forces with pay and equipment. While Puerto Ricans serve honorably and even courageously in the U.S. military as citizens, the typical Puerto Rican family has no one in uniform and enjoys the security umbrella of our missiles, planes, and naval forces, but pays not a penny to support that umbrella, even if our government gets something "in return" for the salaries and procurement dollars it pays to Puerto Ricans. Thus, while a significant amount of this \$22 billion price tag is no outright gift to Puerto

Chart 1

Federal Spending by Category, Puerto Rico, 1981-2001



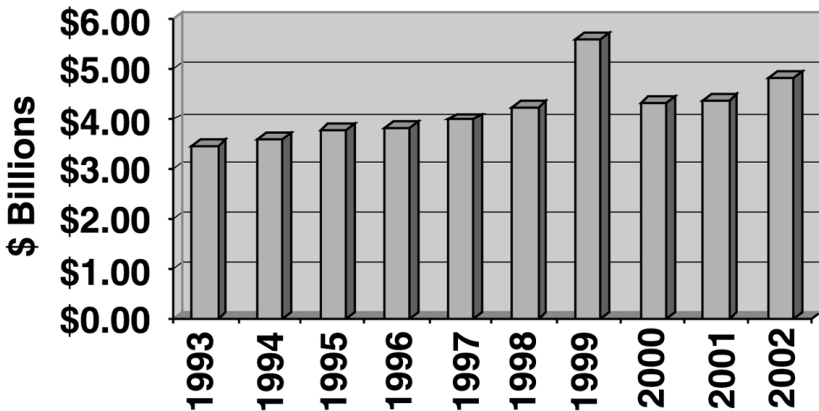
Rico, and even if a portion of it returns to the mainland in the form of purchases of American goods, there is no doubt that the net loss involved in the current arrangement with Puerto Rico averages several hundred dollars per year for Mr. and Mrs. America.

Let's home in even more closely on that portion of this \$22 billion annual cost that is targeted on Puerto Rico's poor, a near majority of the island's population even at the dawn of the 21st century. Here the dismal, and even declining, fortunes of the current commonwealth status of Puerto Rico stands in sharp relief against the trends at work in the 50 states. As noted above, roughly one-third of the federal transfer pie for Puerto Rico, exclusive of special tax gimmicks, is composed of grants designed to reach this target group. Over the years, while leaving the island's federal income tax exemption untouched, the U.S. Congress has made Puerto Rico eligible for more and more of the federal government's multitude of means-tested programs. With the exception of

welfare, which was radically reformed in 1996, individual and household eligibility for many of these programs has been expanded over the years. Today (see Table 3 on page 69), Puerto Ricans have been made eligible for most, but not all, federal grant and cash transfer programs.

Chart 2 on this page shows the track of these grant programs over the last 10 federal fiscal years.⁵ The chart shows a significant spike in 1999 due to U.S. disaster relief after Hurricane Georges devastated the island. Still the overall trend in these numbers has been steadily upward, and there is nothing in sight to break the momentum. An estimated 80 percent of these grants will be applied to programs that assist impoverished and low-income Puerto Ricans. Washington in 2004 (Puerto Rican fiscal year, or PR-FY) is boosting the Puerto Rican General Fund by 49 percent and supplying 30 percent of the local government's operating budget. The percentage supplied by the mainland taxpayer varies

Chart 2
Federal Grants to Puerto Rico,
1993-2002



department by department, depending on the nature of the program and the history of the national government's responsibility for it.

Here are some percentages for the federal component of various Puerto Rican education and social service agencies:

Table 3

Department	Federal Contribution	Percentage of Agency Budget
Public Housing Administration	\$200 million	92.9%
Public Housing Administration (capital fund)	\$151.2 million	98.7%
Education Department	\$875.9 million	35%
Family Socioeconomic Administration (USDA)	\$1,350 million	85.4%
Family Socioeconomic Administration (TANF/Family Support)	\$129 million	8.2%
Adfan (Child Care)	\$233.6 million	67%
Vocational and Rehabilitation Administration (Labor Department)	\$67.0 million	75%
Health Department	\$309.9 million	53.4%
Medicaid Allotment	-	15%

Source: Caribbean Business, August 2003

The grants enumerated here go to the core social service agencies that make up the Puerto Rican government. Overall, there are some 100 agencies of this kind that provide services to the public, helping to maintain Puerto Rico's extraordinarily high government share of Gross National Product. Clearly, agency after agency of the Puerto Rican government depends on the appropriations it receives from the federal government, and, therefore, from U.S. taxpayers. In a few instances, like the island's public housing authority, the program is a specifically federal creation and the federal share is likely to remain high as long as Puerto Rico's current relationship with the United States continues.

These grant totals omit a raft of money that Washington spends on Puerto Rico's public corporations. Uncle Sam will spend \$183.4 million on Puerto Rican transportation infrastructure in 2004. Washington will buy 30 new buses for the Metropolitan Bus Authority. The Health Insurance Administration (if you are looking for it in the Puerto Rican budget, its acronym is ASES for its Spanish equivalent and it is found in the first place you would naturally look for it, the Puerto Rican Treasury Department) will receive

\$189.2 million from U.S. taxpayers. This bureau negotiates and underwrites health plans for the needy. The total Washington tab for Puerto Rican public corporations will run an estimated \$800 million in PR-FY 2004.⁶

Dependency always has a momentum of its own, a tendency to reinforce the very needs that stake a claim on the conscience. Franklin D. Roosevelt, though acting to the contrary, said it well when he called welfare “a narcotic, a subtle destroyer of the human spirit.” Puerto Rico is a special case in this human drama, because its claim is reinforced by the denial to its people of full participation in the American story. Congress has not so much been a Hamlet to Puerto Rico, unable to make up its mind about what to do regarding this teeming island of U.S. citizens, as it has been a Pontius Pilate, washing its hands of Puerto Rico’s ultimate fate, sending it ever larger sums of money but offering it no clear opportunity to choose a permanent status. The troubled conscience of Congress is likely only to drive these contribution numbers higher and higher.

Take the Medicaid figure cited above. Medicaid covers a wide variety of medical services for the indigent. States and territories must provide coverage for particular services up to a federally defined income level, which they can supplement with their own funds if they choose to do so. The matching rate for federal funding varies under the program, from 50 to 83 percent (higher for a handful of mandatory services that are more generously reimbursed), but for Puerto Rico’s Medicaid program the federal contribution is capped at 15 percent. This is another Puerto Rican anomaly, and, over time, Congress has tended to notice such anomalies and address them, either by bringing Puerto Rico up to the funding level of the states (even though it pays no income taxes into the federal treasury) or providing stop-gap funds when the program gets in trouble. In the case of Medicaid, this was done in May 2003 with a \$10 billion supplemental that will yield Puerto Rico an added \$130 million over two years.

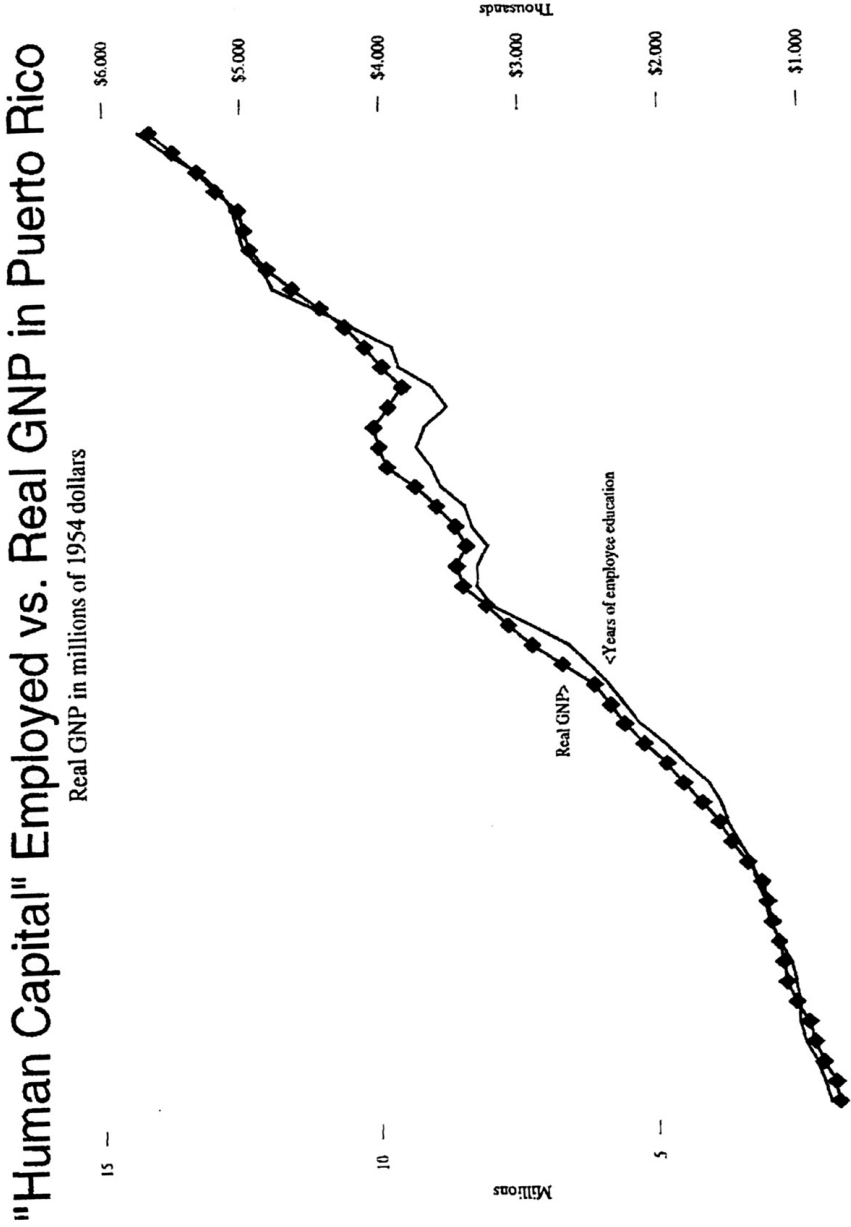
Education is another example. The quality of the Puerto Rican work force and the general education level of the populace has long been a source of pride. By 1990, according to the *Statistical Abstract of the United States* (yes, of course, Puerto Rico is not listed among the states but has its own data tables, along with other U.S. territo-

ries), the literacy level across Puerto Rico, defined as the percentage of the population above the age of 10 who are able to read and write, was 89.4%. The link between education level and future earnings is well-established as an economic fact of life. While it is true that Puerto Rico has always prized education (it was made compulsory in 1899, just after the cession of the island to the United States), it is also true that the pace at which Puerto Ricans are elevating their average level of completed education has slowed significantly.

Economists John Mueller and Marc Miles, who are strong advocates of a “human capital” model of economic development, have traced this deceleration of Puerto Rico’s drive toward higher education for a greater proportion of its citizens. They write, “Labor compensation is the return on ‘human capital’ – the wage-earning ability resulting from the expenses of child-rearing, education, health, safety and mobility of Puerto Rico’s workers.” Under this form of analysis, times of economic weakness should follow diminishing investments in human capital, which is exactly what they found regarding schooling. “[B]etween 1940 and the mid-1970s, the median education level of Puerto Rico’s workforce shot up from less than fourth-grade to almost twelfth-grade level: a tripling. Since then, the median education level has risen much more slowly (to about 13th grade today), and each extra year of education represents a smaller increase” in the ability to earn.⁷ This economic truism, combined with the fact that the island’s best minds continue to be drawn to better opportunities on the mainland – opportunities U.S. tax laws actually skew away from Puerto Rico! – represents a brain drain that translates into a steady leakage of human capital where it is needed most.

Mueller and Miles have produced an astonishing chart, reproduced as Chart 3 on page 72, that shows how closely the rise in median education level and annual growth in the Gross National Product of Puerto Rico have tracked one another over half a century. All investments in education are certainly not equal, but it is near-certain that the next decade of decisions in Washington, whether a Republican or Democratic administration holds sway, will mean a massive new infusion of education funds into Puerto Rico. George W. Bush has made education investments and education reforms, particularly testing combined with a limited experiment in school

Chart 3



choice, one of the top priorities of his presidency. This fact, combined with the needy character of the vast majority of Puerto Rico's elementary schools, will exert yet another upward thrust on the percentage of the island budget that flows from the largesse of American taxpayers.

Already, new funds are set to go to Puerto Rico because of the No Child Left Behind legislation, the education funding and reform bill that President Bush signed in 2001 as his first domestic policy goal. This legislation aims fresh federal resources at the nation's poorest and least successful schools. Puerto Rico has an abundance of the former. The situation is partly a function of the island's poverty. As we discuss in the next chapter, nearly half the population of Puerto Rico remains below the poverty line, despite the pervasive government programs and tax preferences that have been established to meet the goal of development. Because those programs and preferences have not worked as they should, most of the 1,538 schools in the 84 school districts across Puerto Rico qualify for federal Title I funds. Private schools are eligible, too, and in 2002, some 219 of these schools accessed Title I.

The sum total of these funds was \$270 million in fiscal year 2002. On an island of 3.88 million people, more than 533,000 students receive these benefits, an average of approximately \$510. With all this, Puerto Rico could make a reasonable claim to being shortchanged (at least it could if its citizens paid federal income taxes). Prior to 2002, Congress had applied a separate funding formula to Puerto Rico that limited its Title I funds to 75 percent of what its allocation would be if the island were a state. Given the No Child Left Behind mood of largesse (no Puerto Rican child should in fact be left behind), Congress voted to increase Puerto Rico's allocation to 100 percent equivalence with the 50 states by 2006. This will mean an infusion of some \$540 million in Title I for the 2006-2007 school year, assuming that Congress does not renege on its promises through the annual appropriations process.

By moving in this direction, Congress is merely behaving as its predecessors have done, taking note of the fact that Puerto Ricans are U.S. citizens and that Hispanics are a growing part of the U.S. electorate and that they live in key states like Florida, where the 2000 election was ultimately decided. The net cost to the United

States of Puerto Rico under commonwealth status is therefore high and likely only to rise. Health care costs are also likely to be a factor in pushing up the “cost of commonwealth” to the U.S. taxpayer. At one end of the spectrum is the prescription drug benefit that will be added, in one form or another, to the Medicare program. Puerto Rico’s median age is three years younger (32.1 in 2000)⁸ years than the rest of the United States, but in that same year there were 850,000 residents of the island age 65 or over, with another 812,000 more Baby Boomers age 45 to 65 who will reach their Medicare years before 2020.

Fairness requires acknowledgment that some portion, occasionally a significant portion of the federal grant money sent to Puerto Rico returns to our shores in the form of purchased goods. The simplest case is Puerto Rico’s version of the food stamp program, known on the island as the Nutritional Assistance Program (PAN, under its Spanish acronym). This program has consumed 10 percent of all the federal grants and tax subsidies for Puerto Rico. The island has never been self-sufficient in foodstuffs and most of its produce is in the form of cash crops that it has bartered for the multitude of needs its natural resources cannot furnish. Between 1981 and 2001, the U.S. taxpayers sent \$19.25 billion to Puerto Rico to provide food for its poorest residents. The program will cost about \$1.35 billion in FY 2004. The average benefit was about \$94 per month in 2001.⁹

Most of the dollars spent by food stamp recipients return to mainland food manufacturers. The program is both an anti-poverty measure and a domestic agricultural subsidy. James Dietz, an American economist who has sharply criticized various aspects of Puerto Rico’s dependency model of development, has performed calculations, based on Puerto Rican Planning Board data, that show some 77 cents of every PAN dollar re-entered the United States as either a food purchase or as earnings to U.S. corporations operating on the island. This profit to American farmers does not diminish the fact that the program is a drain on American taxpayers to provide for people who do not pay any federal income taxes, even when they leave the program. Dietz calculates the *net cost* to American taxpayers of the PAN program as \$20.466 billion from 1975-2000.¹⁰

Even here, Puerto Ricans have a claim of being shortchanged. Congress, in its eternal wisdom, has treated Puerto Rico at various times in different ways from the mainland with regard to food stamps. Congress extended the food stamp program to Puerto Rico in 1971, but funding did not flow until 1975. In 1983 the program was converted into a special block grant and funding was cut by 13 percent, though it was allowed to rise two years later. Nonetheless, the 1983 funding level was less than a comparable state (Kentucky and South Carolina are the closest in terms of population) would have received, and, most importantly, the income threshold for receipt of food stamps was set at 100 percent of the poverty line, not 130 percent as it is for the 50 states. Puerto Rico is treated differently and inequitably, and this practice, sometimes to Puerto Rico's harm, usually to its benefit, permeates U.S. policy. According to various sources, the net benefit to Puerto Rico of all the federal policies and programs applied to it is some \$6 billion a year.¹¹

By any definition, Puerto Rico is in a state of dependency. Its economic relationship with the United States involves a massive and widening drain on the taxpayer, with benefits flowing southward to a people not attaining their potential and northward to an array of U.S. corporations receiving earnings they have not merited. A condition of dependency, of course, is not objectionable solely or even primarily because of its economic effects. The current structure of U.S. policy for Puerto Rico, inextricably linked with and reinforcing the colonial status masked by the euphonic word "common-wealth," plays havoc with incentives to work, with the desire to gain additional education, with the structure and well-being of the family, with the propensity to drug abuse and crime, and with the prevalence of corruption and a general disordering of civil society.

All of these sad results are on display in Puerto Rico. In gross terms, look once again at Table 1, in many ways the heart of this book. The Leading Cultural and Economic Indicators for Puerto Rico, with a few interesting exceptions, show a society that ranks near the bottom of measurements of U.S. economic health and near the top of such sensitive measures of personal well-being as the out-of-wedlock childbearing rate, infant mortality, and the percentage of the population who are in prison. Contrast these rankings with the fact that Puerto Rico ranks number one against the 50 states in the

percentage of U.S. corporate income that represents profit margin. It is an intolerable state of affairs that Congress and the Puerto Rico people must squarely face. Consider the lineaments of the social fracturing at work among our fellow citizens in Puerto Rico.

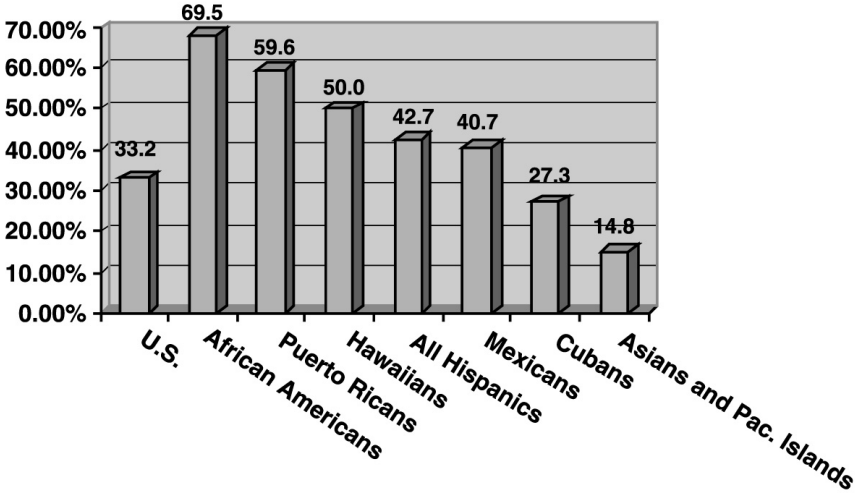
One of the linchpins of social stability is the presence of two parents in the home. Puerto Rico, however, ranks very high in both the percentage of children born out of wedlock and the percentage born to teenage mothers. Among the nation's political jurisdictions, Puerto Rico ranks second only to the District of Columbia in the percentage of births to single mothers: 49.7 percent of all births were to unmarried women in 2000. One immediate effect of this statistic is a persistent health deficit among Puerto Rican babies, who, despite receiving prenatal care to nearly the same extent as mainland American women, suffer from disproportionately high rates of low-birth-weight and its correlated mortality. In fact at 11 deaths per 1,000 births, Puerto Rico has the second highest infant mortality rate in the United States; again, only the rate for the District of Columbia is higher.

Interestingly enough, this high non-marital birth rate persists and is even higher for mainland Americans of Puerto Rican extraction. Chart 4 shows the prevailing rates for various U.S. ethnic subgroups. Puerto Ricans living in the United States are closer to the highest other ethnic group, African Americans (whose rate is falling), than they are to the American mainland average (which has been steadily rising, albeit more slowly in recent years). Marital status and the presence of both a mother and father in the home are positively related to a host of outcomes, most particularly educational achievement, household income, and the likelihood of forming a two-parent family in the next generation, and negatively correlated with welfare dependency, drug and alcohol abuse, sexual activity, and criminality.¹²

It is tempting to say that public policy can do little about such a personal issue. It is more accurate to say that public policy is one of the prime determinants of such personal issues. As long as government rewards the behaviors that lead to out-of-wedlock childbearing by creating financial incentives for single parenthood and homemaking, these phenomena will increase. The 1996 federal welfare reform law created a system of rewards for states and territories that

Chart 4

**Unwed Births as a Percent of All Births, 2000, U.S.
Ethnic Groups**



reduce their out-of-wedlock birth rate without accomplishing this result by increasing their abortion rate. The Secretary of Health and Human Services announced in September 2003 that the U.S. Virgin Islands was one of a handful of jurisdictions that would receive a large incentive grant for its success in this area. Evidently, it is not the Caribbean climate and its starlit nights that alone determine how often children are born to mothers without wedding rings.

The Puerto Rico family is in serious trouble, a disproportionate amount of trouble, in a Western world in which families are facing a new level of disintegration (or failure to form in the first place) from Mexico City to Moscow. Some of this trouble, as is well-known, is ideological, in the sense that while public policy increasingly supports marriage and family formation (encouraging marriage is an explicit goal of reforms adopted in 1996 under the Temporary Assistance to Needy Families program, in which Puerto Rico participates), cultural forces have driven cohabitation rates to an all-time high and are now moving public opinion toward complete redefinitions of the family that make either a father or

mother expendable. The success of these cultural forces would do irreversible damage to Puerto Rico's long-term economic prospects.

For a time, Puerto Rico's educational level relative to its Caribbean neighbors helped sustained its leap forward under Operation Bootstrap. But the achievement curve is steeper now, and Puerto Rico must demonstrate its ability to climb higher. Doing so will not be easy, first of all, because insistence of results has been problematic in the unionized public school system of the United States, and second, because Spanish is the language of education and testing for Puerto Rican schoolchildren. The island has not participated in the National Assessment of Educational Progress, the U.S. Department of Education's sampling method for determining the relative performance of school systems and individual schools via their test scores. The NAEP has been in place since 1969, and it provides a variety of information for comparative evaluation of school systems, but, in deference to the decentralized system of U.S. education, the NAEP gives the states a great deal of authority regarding their participation and the release of the data gleaned from evaluations.

For example, the law mandates only that states take part in the NAEP testing for grades 4 and 8 in mathematics and reading. For the purposes of Title I of the Elementary and Secondary Education Act (ESEA), the source of the NAEP mandate, Puerto Rico is now defined as a state (yes, another legal anomaly in its variegated relationship with Washington). The 2001 amendments to the ESEA, in the No Child Left Behind legislation, required Puerto Rico for the first time to participate in the NAEP assessments, beginning in 2003 and continuing every other year after. These assessments will be used to trigger new funding for struggling schools and, if the schools fail to improve, to determine the eligibility of their pupils for limited school choice. The law is meant to provide means and incentives for schools to improve learning, with the ultimate leverage of aid to parents to put their children in other schools.

Despite the law, this will not be happening in Puerto Rico right away. On August 3, 2002, the National Assessment Governing Board adopted a resolution that noted this new mandate for Puerto Rico and then exempted the island. The Board, reasonably enough, concluded that the translation of standardized tests into Spanish,

while achievable, raised legitimate issues of comparability with the English-language tests administered in the rest of the United States. Such translations, the Board affirmed, have “not previously been attempted as a part of the NAEP.” As a consequence, though the Board will translate the tests and Puerto Rico will administer them, the results will not be used for comparison with the school systems of the 50 states and the District of Columbia. Rather, they will be used to evaluate the testing process itself and to determine when and if Puerto Rico’s results can be compared to the rest of the country.

Naturally, the same concerns hold for testing in Puerto Rico’s secondary schools. Puerto Rico does not report island-wide results for its students who take the primary college admissions tests, the SAT and the ACT. How will Puerto Rico then know how it is doing against national norms, and against its own norms year-in and year-out? At the dawn of the 21st century, when educational advantages matter more than ever, Puerto Rican and U.S. experts are some years away from having the answer. Both Spanish and English may be official languages of Puerto Rico (a brief enactment of Spanish as the official language was superseded by the local legislature in 1993 under the Rossello administration), and English may be the language of the business and governing class, but Spanish rules the classroom in the lower grades. This situation is a direct product of the commonwealth status. The first elected governor of Puerto Rico, Luis Muñoz Marin in 1954, changed the language of instruction in public schools from English (as it had been for almost 50 years) to Spanish. Yet he sent his own kids to English speaking private schools. He was sure where the future for his children lay, but he did not want that same future for the rest of Puerto Rico.

One of the popular expressions of that future may wind up playing a significant role in unknotting the NAEP’s dilemma over Spanish-language testing. Increasingly, young Puerto Rican children are learning English from U.S. cable channels. There is a barbell in the graph of Puerto Ricans who speak English, as the grandparents of these children tend to speak it well because of the influence of U.S. efforts in the first half of the 20th century to impose English-language education on the populace. One of the

legacies of Muñoz Marin was a renewed emphasis, once Puerto Rico acquired its own constitution, on restoring Spanish-language instruction in the classroom. That is still the policy today for the typical schoolchild, but popular culture, in both television and music, means that the classroom is not the only, and may not even be the primary, tutor.

Parenthetically, Muñoz Marin betrayed some of the same hypocrisy advocates of certain forms of education show in the United States. Despite his public posture on Spanish in the classroom, Muñoz Marin sent his own children to a private academy that conducted its instruction in English. In doing so, he was being realistic about the skills his own children would require in order to maximize their personal potential. In the United States, a similar phenomenon occurs when “champions” of the quality of public education routinely pass by the local public school and send their own sons and daughters to private academies.

At present, the numbers at the other end of the education cycle offer little more encouragement in Puerto Rico’s drive to raise its GDP through advances in education. Here, Puerto Rico’s status, and the tax system that has grown up around it, does promote the export of its best minds to high-tech and research-oriented opportunities on the mainland. Given the relative size of the two economies and the wealth of technical and engineering jobs in the United States, this is a long-term fact of life, but, as the next two chapters describe in detail, U.S. corporate tax policy disfavors the location of research facilities in Puerto Rico. Such centers not only employ Ph.D.’s but they also provide grounds for graduate training and internships that can coax young people into technical fields.

The U.S.-government funded National Science Foundation maintains an information service called EPSCOR, which tracks information on the research and scientific climate in various states. EPSCOR stands for Experimental Program to Stimulate Competitive Research. The tally for Puerto Rico in this area of endeavor shows a great deal of room for improvement, too. Puerto Rico has every reason, including the basic issue of population density, to envision its future as tied to the development of new technical prowess. Its climate and proximity to the United States and even Europe give it room to develop tourism further, but its

limited landmass and continuing urbanization suggest that its best hopes lie in such areas as financial services and technology. Puerto Rico has the fourth highest population density among U.S. jurisdictions, third highest if one omits the city of Washington, D.C. (only New Jersey and Rhode Island have more people per square mile) and its slightly higher-than-average, though converging, birth rate will maintain that rank.

EPSCOR's data ranks Puerto Rico both in terms of the number of science and engineering graduate students and Ph.D.'s it has produced, and also in terms of the amount of federal funds committed by federal agencies for research and development performed on the island, whether by the government, private firms, nonprofits, or, the largest recipient, colleges and universities. Some of the general EPSCOR findings are shown below in Table 4. The findings for the

Table 4

Science and Engineering Profile

Characteristic	State**	U.S.	Rank
Doctoral scientists, 1999	1,120	518,670	50 th
Doctoral engineers, 1999	200	107,100	46 th
Science & Engineering Doctorates Awarded, 2000	84	25,979	41 st
S & E postdoctorates in doctorate-granting institutions	12	41,548	50 th
S & E graduate students in doctorate-granting institutions	3,928	435,612	31 st
Federal R&D Obligations, 1999 (millions)	\$73	\$73,718	47 th
Academic R & D, 1999 (millions)	\$91	\$27,036	39 th
Public higher education current-fund expenditures, 1997 (millions)	\$723	\$125,236	38 th
Number of Small Business innovative research (SBIR) grants	4	26,424	52 nd
Patents issued	26	85,068	52 nd

Source: National Science Foundation, EPSCOR

** Once again, Puerto Rico is a state for NSF data purposes.

top 10 federal departments engaged in underwriting research are shown in Table 5. Puerto Rico ranks 46th or even lower in six of the 10 categories reported in Table 4. The silver lining is that the better numbers are for current graduate students in engineering and science, and for expenditures for current academic research and development and for public higher education generally. These

investments, if they can help keep highly skilled Puerto Ricans at home, will pay dividends for the island down the road. Even so, these better rankings merely put Puerto Rico closer to where it should be relative to other states in terms of the size of its population, where it ranks 27th.

Turning to the current funds Puerto Rico receives from the various U.S. departments, the figures are by and large discouraging, too. These figures may reflect the brain drain, but they probably reflect something else as well, a factor related to status. Because Puerto Rico has a non-voting delegate in Congress, this person has less than the typical influence of an elected official in the daily decisions of Congress. Where there ought to be seven votes cast on every bill before the House of Representatives, based on Puerto Rico's population, there is today one voice with no vote. This member of Congress cannot directly affect the outcome of debates, he cannot trade or sweeten his vote when a project of interest to Puerto Rico is at stake. The heads of federal departments know that, other than by indirect means, the delegate from Puerto Rico does not influence the U.S. Presidential election, and other members of Congress, whose constituents can, will precede him for appointments and perhaps for grants and contracts.

The Resident Commissioner of Puerto Rico, as he is called, leaves home, as it were, without a larder, and therefore comes back with less bacon. Thus, commonwealth status, even as it maintains a level of poverty that attracts support under mean-tested programs, helps to diminish it under discretionary authorities.

Of the federal departments and agencies shown in Table 5, only the National Science Foundation, which, ironically, compiled this data, conferred grants on Puerto Rico that moved its ranking as high as 31st, close to its population standing vis-à-vis the rest of the United States. The number for state and local government is particularly striking; it means that Puerto Rico received less in the way of science and engineering grants than the District of Columbia. Again, as with the number of graduate students in science and engineering and other academic indicators, Puerto Rico's prospects look a little better for the future. Raising these numbers, and accessing federal funds to assist the process, is one area where Puerto Rico could justifiably and profitably increase its draw on the federal treasury.

Table 5. Science and Engineering Grants, Puerto Rico, by Department and Type of Recipient, Fiscal Year 1999

Department	Amount*	Rank
Department of Agriculture	\$9,542	40
Department of Commerce	\$966	39
Department of Defense	\$1,363	51
Department of Energy	\$985	47
Department of Health and Human Services	\$37,065	40
Department of the Interior	\$1,847	49
Department of Transportation	\$74	52
Environmental Protection Agency	\$0	-
National Aeronautics and Space Administration (NASA)	\$3,755	41
National Science Foundation	\$17,112	31
Overall Rank, All Agencies	\$72,709	47
Overall Rank, Grants to Industrial Firms	\$4,193	48
Overall Rank, Universities and Colleges	\$50,661	41
Overall Rank, State and Local Government	\$548	52

* Amounts are in thousands.

Source: National Science Foundation, EPSCOR

It is no surprise that the weakness of Puerto Rico's overall economy, and the condition of dependency facing so many of its families, operates to promote the narcotics trade as well as political corruption. Ultimately, involvement in these practices is a question of personal character. The vast majority of poor people do not take part in crime waves. Even so, the lure of the incredible profits to be made as drug couriers and sellers draws many young men into an enterprise that requires little training and confers no small prestige in certain quarters. Chapters 7 and 8 of this book discuss Puerto Rico's role as the drug capital of the Caribbean. For the purposes of this chapter, we discuss only the impact of the drug problem on federal spending on Puerto Rico. Once again, the pressures of a social problem, one with particular impacts on the mainland, are driving up the dollars Washington is forced to spend in Puerto Rico and across the region.

Multiple federal agencies have a stake in various phases of the anti-drug battle. The new Department of Homeland Security brings together many, but not all of these agencies and functions, a process that itself will result in increased spending for a time. DHS houses the Coast Guard, the U.S. Customs Service, the Secret Service, and certain border security functions of the Immigration and Naturalization Service. The FBI, the Drug Enforcement Administration, the Bureau of Alcohol, Tobacco and Firearms, and

the Department of Defense drug interdiction projects remain separate, and all of these assets, within and without DHS, are being deployed to counter Puerto Rican narco-trafficking. Anti-drug spending was a major reason why Department of Justice operating expenditures in Puerto Rico doubled between 1990 and 1995, from \$23.7 million to \$48.5 million, and rose sharply again, to \$81.2 million by 2000.¹³ Treasury Department spending also increased by nearly 150 percent during the decade.

As the new 21st century begins, the U.S. faces new challenges from terrorism that are taxing some of the very agencies that are engaged in the drug war. The federal budget deficit is soaring. The Congress faces an unpalatable choice between reallocating resources from one needy program to another, or seeing the deficit rise further. For now, Washington is trying to fight on both fronts. In April 2003 the Department of Justice announced that special funding from just two Department of Justice programs, including the community policing program instituted by the Clinton Administration, brought an additional \$21.44 million to Puerto Rico in 2002. These funds included \$7.53 million for substance abuse programs and a new, separate account in the amount of \$7.28 million for counter-terrorism activity.¹⁴

This money is sorely needed. Puerto Rico's police face a daunting environment of increasing violence and insufficient resources. In 2002, there were 503 murders on the island, but by September 3, 2003, there were 526 and by the end of the next day there were 530. Gov. Sila Calderon claims that 70 percent of the murders are related to the island's burgeoning drug trade, but the Police Superintendent Victor Rivera claims that the real figure is 97 percent. It is hard to be reassured that progress is being made, or will be made, without a massive infusion of new funds. That was the message from the revolution in New York City achieved under former Mayor Rudy Giuliani, where a vast increase in police resources was allied with a revival of such measures as foot patrols and a new intolerance for nagging, open air street crime like the shakedown carried out by the so-called "squeegee men."

Puerto Ricans may be satisfied if the police are able to crack down on the increasingly brazen major crime rate on the island. According to the Public Broadcasting Service program *Frontline*,

the San Juan area now sees an average of 10 carjackings a day, as thieves seize vehicles for one-time, untraceable use in transporting narcotics. Four people were murdered in one recent seven-hour period in the towns of Ciales, Guanica, Mayagüez, and Santurce. The latest step announced by the embattled police department was a decision to put its officers on 12-hour shifts in order to have 500 police on the streets at the most dangerous hours, between 11:00 p.m. and 4:00 a.m. Twelve hundred new police officers are expected to join the Puerto Rican force in January 2004.¹⁵ The cost of maintaining these officers, who are critical to maintaining public safety, will undoubtedly come back, in some measure, to the federal government.

Crime is a feature of big city, or even just high-density living today, but Puerto Rico's mixture of economic futility, family breakdown, and a culture of dependency is a toxic brew. In the end, state dependency and individual dependency are inseparable matters. The lack of real data on this aspect of Puerto Rico's social turmoil only adds to the discouragement. Superintendent Rivera believes that violent crimes have recently decreased in Puerto Rico, but declines to offer numbers because, as a media source summarized his statement, "statistics prepared by the past administration are not trustworthy."¹⁶ Numbers are also shaky for narcotics and alcohol addiction, with estimates of 38,000 drug addicts (1.4 percent of the population) and 130,000 alcoholics (4.8 percent of the population) in 2000. If these numbers are accurate, one of every 16 Puerto Ricans is addicted to narcotics or alcohol.¹⁷ Another source, *Iniciativa Comunitaria*, estimates the number of drug addicts may be twice as high at 75,000.

Coordination among social welfare agencies is a problem everywhere (most families have multiple problems, and most government agencies deal with a problem or two at a time), but in Puerto Rico the problem is compounded by the sheer size of the government role. U.S. drug treatment and law enforcement funds flow through such entities as the Public and Indian Housing drug elimination program to the Puerto Rican police (\$9.2 million in 2000) and to the chief mental health agency on the island, ASSMCA (\$2.8 million in 2000). ASSMCA received some \$24.5 million from seven different federal anti-drug programs in 2001;

the local health department received \$33.1 million for HIV/AIDS programs, many of them drug-linked, from six different sources; and the police department \$2.5 million more from two sources. Yet, as economist Emilio Pantojas-Garcia points out, despite these programs (15 in all), neither ASSMCA nor the health department can say how much drug addiction is costing either the island or the mainland.¹⁸

Wherever a community is awash in both drug money and in government funds, corruption is a perennial problem. Unfortunately for Puerto Rico's statehood party, the PNP, the latter half of the 1990s brought many instances of corruption in public office. The Rossello administration's Secretary of Education pleaded guilty to a kickback scheme in which he misappropriated more than \$3 million. Island officials have been prosecuted in cases involving misuse of money from the Federal Emergency Management Agency meant for Hurricane Hugo reconstruction, from the Housing and Urban Renewal Corporation of Puerto Rico, and from the federally funded AIDS Institute. The practice of soliciting kickbacks for government contracts became so common during the Rossello Administration that it was generally referred to as the "tithe."¹⁹

The President and the Congress of the United States can continue to nurse this sick patient of commonwealth along, but his condition is deteriorating and decades of experience have shown that he cannot be cured by more of the same measures. If Puerto Rico's dependency is so costly – to U.S. taxpayers, to U.S. tourists, to Puerto Rican families, job seekers, and everyday citizens caught in literal crossfires between drug gangs – why does this situation persist? In many ways, the seeming intractability of Puerto Rico's problem is an illusion. It is not just that a growing number of Puerto Ricans are voting for change in the form of statehood, albeit that long-term trend is real enough. It is an even more compelling fact that next to no Puerto Rican is willing to vote to endorse Puerto Rico's territorial dependency as it truly and actually exists today. Nonetheless, another illusion has been built up, by politically motivated forces as well as by a handful of inaccurate reports, to suggest that any alternative to commonwealth would cause Puerto Rico to crash both economically and in terms of the fiscal aid it receives from Washington.

The first, and perhaps most important, of these reports is the one

carried out by the Congressional Budget Office (CBO) in 1990. This report has had enduring influence, and it was even cited in the most detailed Congressional debate ever held on Puerto Rican status, the 1998 floor battle over the Young bill (see Chapters 9 and 10 for a full description of this key debate). CBO's model of the Puerto Rican economy caused it to project that the abandonment of commonwealth for statehood would result in a drop of 10 to 15 percent in the island's Gross Product and a reduction of two thirds or more in investments through special U.S. tax breaks for investment in Puerto Rico. The report also predicted an increase of between four and seven percent in Puerto Rico's unemployment rate.²⁰

In a study prepared for the Citizens Education Foundation, J. Tomas Hexner and Glenn Jenkins used a Computable General Equilibrium model that is better suited to Puerto Rico's actual economy. It found that Gross Product would decline by much less (5.6 percent), special tax-spurred investment would decrease about the same (63.3 percent, the low end of CBO's range), and unemployment would rise by one half to one third the CBO estimate (2.3 percent).²¹ The general difficulty with the CBO model is that it did not account for policy changes that Puerto Rico can, and indeed should, make to supplant what have become increasingly counter-productive tax and spending policies. If Puerto Rico did nothing and unemployment grew, then the cost of federal transfer payments to the nonworking population would indeed rise as the model depicts.

On closer examination, Hexner and Jenkins show persuasively that both the United States and Puerto Rico would benefit economically from a change of status that leads to statehood. Because their analysis was prepared in 1998 and relies on 1995 figures, we will omit most of the specific figures used in their calculations. With regard to changes in federal spending, Hexner and Jenkins found that there would be increases in Supplemental Security Income payments because this program for the aged, blind and disabled, an adjunct to Social Security, is not available to Puerto Ricans under current law. Puerto Ricans are already eligible for most other federal programs. Additionally, if Puerto Rico were a state, it would be eligible for the same Medicaid reimbursement level as the states, resulting in an almost fourfold increase in the cost of that program.

The per capita cost of the federal food stamp program is higher

than Puerto Rico's current cost under the PAN program; thus, the cost of this program would increase, and an increase in unemployment might drive it up even further. Hexner and Jenkins then posited a modest increase in federal employment on the island under statehood (this is likely to happen in any case), and they calculated its cost based on bringing Puerto Rico into line with the average of the five states with the lowest per capita federal wage and benefits cost. Finally, Hexner and Jenkins excluded federal procurement spending from their analysis, inferring that Puerto Rico's status might impact where procurement dollars would be spent but would not affect the amount of such expenditures. These considerations prompted these authors to calculate an increase of some 14 percent in overall federal transfer payments to Puerto Rico.

Hexner and Jenkins then offset these transfer payments with calculations of the revenue gain to the U.S. Treasury from collection of both corporate and individual income taxes. The corporate taxes represent the lion's share of the increased revenue. Under statehood, corporations in Puerto Rico would have to be treated the same way as corporations in every other U.S. jurisdiction. Section 936, which is being phased out, could not be extended or reinstated, and the Controlled Foreign Corporation status now being used by a growing number of Puerto Rico-based companies could not exist. As a consequence of these changes, Hexner and Jenkins conclude, new tax revenue flowing to the U.S. treasury from Puerto Rico would be roughly 2.5 times the amount of new federal transfers there. The result: a net gain in the range of \$2.12 billion to \$2.72 billion for the American taxpayer.

What about Puerto Rico? It, too, would gain under statehood, principally because the reversal of the funding flow to Washington would come from U.S. businesses that benefit disproportionately merely because of existing tax preferences. Hexner and Jenkins estimate that new corporate and individual taxes that would be paid by Puerto Ricans average only 18 to 21 percent of the new tax revenue that would flow northward as a result of statehood. The rest represents tax increases imposed on mainland companies that have their "legal residence" on the island. Using this figure, Hexner and Jenkins derive an estimate of \$720 million for the amount of Puerto Rico's increased tax burden. With new federal transfer payments of

\$1.4 billion, the net receipts for Puerto Rico in 1995 would have been \$680 million. In short, Puerto Rico would be paying more due to its participation in the federal income tax system, but that system's yield for the island would actually increase by an even larger amount.

In truth, Puerto Rican fiscal policy operates, as all state or territorial policies do, in a dynamic environment. The current policy regime is replete with incentives that discourage individuals and families from working, saving and investing. Mueller and Miles have described especially well how the application of minimum wage laws to Puerto Rico, when combined with generous federal and commonwealth transfer payments, has contributed to its excessive unemployment levels by raising the "net cost of labor" to Puerto Rico's private sector. They point out that popular notions of labor cost, basically the cost of wages and benefits per person hired, have historically fallen short of explaining why chronic unemployment exists. It is also necessary to understand what a given worker will add to productivity, measured in terms of the worker's output per hour and the expected price of each unit produced. Moreover, employers must push against two factors, taxes on labor and transfer payments to the unemployed, that increase the price they must pay to lure workers out of idleness.

Concern about the impact of transfer payments, particularly welfare benefits, on the willingness of beneficiaries to seek paid employment was a linchpin of the adoption by Congress of the Temporary Assistance to Needy Families (TANF) program. The program imposed work requirements on TANF recipients, even single mothers after their child reaches its first birthday, and imposed a five-year lifetime limit on benefits. States were given new flexibility to design programs to promote work and marriage. Moving away from welfare's structure as a lifetime entitlement program restored the federal government's fiscal control and shifted the incentives for the unemployed poor in favor of seeking and holding jobs. Because Puerto Rico's scheme of benefits for the poor is so extensive, and also because it does not participate in the federal income tax program called the EITC, the effective "transition tax" on many families moving from dependence to independence is more than 100 percent.

Mueller and Miles offer the example of an intact (mother and father present) family with four school-age (below college-level) children. Because there are two parents at home, the family is not eligible for TANF money. However, they do qualify for the PAN food program and for rental assistance almost wholly paid for by Uncle Sam under the Section 8 public housing program. If one parent goes to work, the first \$400 in gross income will net the family only \$200 in take-home pay, for an effective “tax” rate of 50 percent on their decision to work. Mueller and Miles list the various ways in which this potent marginal tax rate accumulates:

For every dollar earned, NAP [Spanish acronym PAN] benefits are reduced about 18 cents. Housing assistance falls about 27 cents, and Social Security and Medicare claim another 7.65 cents. The family also starts to pay [local] income tax at around \$1000 per month of gross income. NAP subsidies end around \$1300 per month. These two factors imply that the tax rate increases and then rises to over 100 percent in this range. Out of the first \$1,000 per month of income, money available to the family rises by only about \$460. At \$1,400 per month the available money is only \$490 more than with no income at all.²²

When unemployment benefits are added to the mix (they are time-limited, of course, to 26 weeks) and they phase out with higher reemployment, the “marginal” tax rate on going to work can exceed 100 percent. Poor people are rational beings. If the government’s treatment of labor provides severe initial penalties on the decisions to seek and hold low-wage work, many people will either delay accepting employment or defer it until benefits expire. Because these same effects were observed on the mainland, Congress made adjustments not only in welfare, but in the adoption and expansion of the Earned Income Tax Credit, a kind of wage subsidy or supplement for the working poor that reduces this “marginal” tax on decisions to work.

Under commonwealth status, the EITC does not exist because

Puerto Rican workers do not pay federal income tax. They do pay the Social Security and Medicare tax (7.65% of gross pay, plus, indirectly, the employer share of 7.65%), but the EITC cannot be credited against these taxes by law. If Puerto Rico were to become a state and be integrated into the federal tax system, the array of adjustments that Congress has made to bolster incentives for the working poor could be made for the island's population. Of course, the Puerto Rican government could adopt its own form of the EITC to apply against the local income tax, and the Congress could, as Mueller and Miles suggest, make the EITC available as a credit against payroll (Social Security/Medicare taxes) without resolving Puerto Rico's status, but the latter is a very expensive proposition and is unlikely to happen anytime soon.

The same could be said with respect to the unfunded federal mandate called the minimum wage. As Mueller and Miles note, the minimum wage makes it essentially illegal to hire a worker whose skills are worth less than the minimum – and it provides no alternative for that worker.²³ If transfer payments are to lower, rather than raise, the net cost of labor and reduce unemployment, they must be conditioned upon keeping a job and not upon being out of the workforce. These principles are especially important in a lagging economy like Puerto Rico's, where a long history of unemployment and the use by nearly half the population of government anti-poverty programs dilutes any stigma associated with dependency.

Who is to blame for the continued bloat of government and blight of dependency in Puerto Rico? There is plenty to go around to explain this Partnership for Little Progress.

From one perspective, the Puerto Ricans might be the last people to blame for this situation, though for many residents of the island it has become a comfortable status quo. Puerto Ricans are American citizens, and they bear many of the same rights and duties as residents of the 50 states, but not all. They serve in our all-volunteer Armed Forces. If the draft is ever reinstated, young Puerto Rican men will be subject to it when they turn 18. At this age, they can also vote in U.S. Presidential elections, but only if they reside in one of the 50 states or have a mainland residence and vote by absentee ballot overseas. Every fourth November there are polling places open on the island to elect the Governor, the island

legislature, and the “resident commissioner.” But there is no ballot space for the President and Vice President of the United States, a slight even residents of the District of Columbia do not endure.²⁴

Consistent with the territory’s Limbo status, Puerto Ricans can be ordered into battle (and were so ordered as members of units in Iraq in 2003), but they cannot vote for or against the Commander-in-Chief who calls upon their heroism or may send them to their deaths. A similar conundrum applies to the non-voting representative Puerto Rico sends to Congress. He has all the rights of a member of Congress except the one that matters most, the right to vote on legislation on the floor of the House of Representatives. A parking pass, yes. The right to attend hearings and ask questions, yes. The right to introduce and cosponsor bills. The right to give speeches and appear on C-Span, yes. The right to represent the views of the people he represents when push comes to shove and cast his vote on whether a bill may become a law, no.

Thus, Puerto Ricans have not passed on the federal laws that apply to them, and, other than a brief period when the House of Representatives was in the control of the Democratic Party and the non-voting member’s privileges were expanded under House rules to committee situations, their delegate can merely argue his case to U.S. elected officials, much as an ambassador would do. As a consequence, the federal funds that flow into Puerto Rico do so for a combination of reasons, which cannot rise to the level of a coherent public policy. Some of it is due to beneficence, some of it the desire of Congressional majorities to do the island a measure of justice, some of it to the portability of certain benefits that Puerto Ricans earn by virtue of their federal service in various roles.

From another perspective, the Puerto Rican people must bear the responsibility for the incomplete citizenship they possess and the excess benefits that reinforce it. The island is the “last colony” only because other U.S. territories found their uncertain status unendurable, and did something about it. It can hardly be said that Americans care less about Puerto Rico now than they did about Alaska and Hawaii before they became states, or at least before the second World War when events underscored the strategic value of those two territories (we learned to value them as our enemies showed how much they coveted them). Key issues move in

Congress all the time without widespread public interest or pressure. In the case of Puerto Rico, consensus interest and pressure from the people most directly involved (the governments of the two entities) should be enough to establish a routine and orderly process for the consideration of status. Given, as objective economic analysis has consistently shown, that the failure to resolve status hurts both the island and the mainland, the demands of self-interest and statesmanship coincide.

Those demands have converged in neither capital. Given the chance to address the Congress in a common voice, the Puerto Rican political leadership has failed time and again to draft a common position that frames the island's options realistically in terms of even the legal fundamentals at stake. With the gun of economic stagnation pointed at its back, many in the island continue only to plead for Congress to intervene and write a larger check for benefits and a blank check for Puerto Rico to exercise independence in the international sphere. Meanwhile, in Washington, statesmanship takes a back seat in a vehicle as long as a Greyhound coach, with every row of seats in-between filled with one special interest or another, here a drug company lobbyist, there a political hack looking for a temporary advantage with the Hispanic vote, here a "principled conservative" who thinks that language is destiny, and everywhere the free riders, drug lords and their minions who love the vulnerability of America's Achilles Heel in the Caribbean.

Who is driving the bus? While it is tempting to say that there is nobody at the wheel, the man in the blue cap most resembles a member of Congress. Every member of Congress. The people of Puerto Rico will continue to devise and vote upon definitions of the future that are so many mirages for just as long as the U.S. Congress allows them to do so. A handful of valiant Congressmen labored for years to convince their colleagues of the need for a status process that included definitions of the options consistent with the U.S. Constitution and acceptable to Washington. That effort, as we will see, survived by a single vote in the House of Representatives and failed to achieve a floor vote at all in the U.S. Senate in 1998. Five years later, no similar effort is in sight. Members of Congress are now twice shy of the Puerto Rican chal-

lenge. The cost of that position is evident in every one of the 13 appropriations bills that move through the Congress each year.

Which way is Puerto Rico itself headed? The worst of all worlds is on display. Domestically, the dependency is deepening. More federal involvement in and regulation of education are on their way. The Puerto Rican food stamp program has gone plastic, as beneficiaries are outfitted with debit cards to allow them to make their food purchases up to their benefit limit without having to handle coupons that other customers can see. Congress is poised to add a prescription drug benefit whose price tag for Puerto Rico will run into the billions of dollars (at least here the people will be receiving some benefit from the drugs the island has helped to produce and make profitable for the past three decades). Internationally, the local government yearns for Washington to look the other way and sign checks while it signs treaties and ejects the U.S. Navy from Vieques and Roosevelt Roads.

This, too, is the fruit of dependency. People bite the hand that feeds them because, at heart, they resent the conditions of subservience that make them hungry. It needn't have come to this, and it needn't stay this way. If change is to happen, statesmanship must refuse any longer to sit at the back of the bus.

CHAPTER 5

Pitorro and Panas (Moonshine and Breadfruit)



Four hundred and seventy years after Columbus, I discovered and rediscovered Puerto Rico. In 1964, a little over a year after Sasha, my older son, was born, Julie and I decided to go to the island for Christmas so that I could meet her relatives. We stayed in her aunt's house on the southern coast in a small town called Patillas. Readers of *100 Years of Solitude*, the novel by the Nobel Prizewinning Gabriel Garcia Marquez, would immediately recognize Patillas as "Macondo."

The southern coast is far less developed than the north, where stand the ever-spreading concrete towers of San Juan. Patillas in 1964 felt more like the Puerto Rico of old. We slept under mosquito nets. We were awakened by roosters. We went to the market early to avoid the blistering sun and to buy groceries for the day's meals. In the afternoons, after all the men had come back from work, I would sit around with Julie's Uncle Victor, a local policeman, and his friends. We would drink "Pitorro," a homemade moonshine whisky, and get silly drunk by the time Julie's Aunt Hela had dinner ready.

What impressed me immediately was the total lack of awareness of the color of anyone's skin. Heritage in most parts of Puerto Rico is a complex and therefore almost irrelevant characteristic. The admixtures of many generations have produced nearly every hue. The family that lived across the street from Hela and Victor

were not just black, they were blue. The father's name was Nin Plaud, and he and his wife had eleven kids. The rest of Victor's drinking buddies had skin tones across a taffeta range of colors and a similar array of hair textures.

The dinner table was always full of people. Even though I didn't understand the conversation, I could tune into the mood of the meal and the vibes were very upbeat, even in the face of the poverty that surrounded us. Strangers and guests were always welcome to join in, no special invitations necessary. The Puerto Ricans have a saying: "Donde comen dos, comen tres." Translated it means, "Where two people eat, three people can eat." There is always room for one more person at the table and whatever there is to eat can be shared. Like Hemingway's Paris, Patillas, in its own small way, was a movable feast.

Here is a story that reflects the prevailing attitude. One day during our visit, a man knocked on the door and handed Aunt Hela a live chicken. Naturally, she asked what it was for. The man replied that he had promised Victor he wouldn't tell her the reason for this present of poultry. Hela prodded him, made him a cup of coffee, and in due course he confessed. It seems that Victor had given the man a parking ticket. He hardly ever issued tickets, but the man had gotten drunk and parked in a spot that created a traffic jam. Victor had no choice but to write him the ticket.

When the man came to the police station to pay the \$5 fine, he told Victor that he didn't have any money. He then asked Victor to lend him the \$5! More Valjean than Javert, obviously, Victor lent him the \$5 on the condition that he swear never to tell Hela about the loan. The man repaid the sum the following week, but his conscience did not let him rest. He felt a sense of obligation to Victor because of his kindness. The next time he had some extra chickens, he decided to go to Victor's house and offer up this cackling token of thanks. When Victor wasn't home the bird went to Hela. He was no match for her skill at prying secrets loose, a feminine ability inversely proportionate to their skill at keeping them.

Having spent a couple of years in New York, I could imagine myself asking the cop who gave me a ticket to lend me money for the fine. In 1964 the reply would have been, "What are you, a wise guy?" My guess is the answer wouldn't be half so pleasant today.

This is how I passed my first Christmas in the sun. This kind of relaxed courtesy and mutual respect among people of different backgrounds, features, and economic status was outside my experience. Nazism, of course, was the mortal enemy of ethnic and every other form of toleration. Communism was a hollow hymn to the workingman. In Puerto Rico, superficial differences did not matter, and neither did some deeper ones. In Europe at mid-century, such differences sent tanks smashing across borders and bombs crashing into apartment blocks.

For the first time in my life, I felt completely at home.

Six years later, by 1970, I had made my reputation and could pretty much write my own ticket in the life insurance and securities business. With my dream of entrepreneurship still alive, I turned my eyes to the “unincorporated territory” to the south. I made a deal with Aetna, one of the few firms still operating on the general agency system, to give me the franchise for Puerto Rico. They threw in the Virgin Islands to boot and some other parts of Latin America where incomes had finally begun to rise a little. I landed in San Juan ready to start an insurance operation from scratch, entering a Spanish-speaking territory with English as my own third language and no Spanish at all. I had learned English, I told myself, so this new tongue should come quickly. It was January 1971, and I had just turned 29.

When I was negotiating for my deal, everyone was saying: “Why do you want to go to some poverty-stricken banana republic when you can stay in New York where all the action in finance is?” I had no logical explanation, but later I learned that using only logic to make a decision, especially a business decision, is the kiss of death. As Joseph Campbell has written, “We must be willing to get rid of the life we’ve planned, so as to have the life that is waiting for us.”¹ My plan had been to make it big in New York; like the song says, “if I can make it there, I can make it anywhere.” No, I thought, I know I can make it in New York, but in Puerto Rico, the bruised heel of the Caribbean?

I rented a two-bedroom apartment in an area of San Juan called Hato Rey, in a building called El Monte and began making phone calls from the kitchen. That’s how I started my business. I hired my first secretary, Yolanda, within a month and my first agent, within

two months. Within three months I found approximately 600 square feet of office space in the most prestigious building in Hato Rey, the Banco Popular Center. I was in business.

Doing business in Puerto Rico is a lot different from doing business on the mainland. In the United States you could just start knocking on doors and pretty soon someone would say yes. In Puerto Rico, everything was done through contacts, influence, and what the locals call “pana.” Literally, “pana” means breadfruit, but the word has nothing to do with breadfruit or any other plant for that matter. It had its origins with the U.S. soldiers who landed in Puerto Rico in 1898. They would call each other “partner.” When the locals heard this, they assumed it applied to people who seem to take care of each other. But partner did not sound very Spanish, so they pronounced it “pana.” The word came to denote a kind of “you scratch my back, I’ll watch your back” friendship. “Oye Pana!” the Puerto Ricans say.

The American GI’s imported other words. “Zafacon,” for one. In Puerto Rico it means “garbage can,” but if you say zafacon to anyone else in Latin America they won’t know what you are talking about. It came from the U.S. military term “safety can,” jargon for trashcan. The Puerto Ricans “Latinized” the term and made it “zafacon.” These and other wartime gifts to linguistics are why Puerto Rican Spanish is sometimes referred to as “Spanglish.”

To make a short story even shorter, if I were to survive in Puerto Rico, I very quickly had to find some panas or my business was headed for the zafacon. The most natural start is with people who need your products. We used a local law firm and a local CPA firm to open the office, so I pumped them for contacts. First, I got a cousin of my office landlord to get me into the “Banker’s Club,” the most prestigious luncheon spot in Puerto Rico. That put me in front of some important people in town. Next I joined the local Rotary and became a board member of a number of civic and charitable organizations. Planning to give back before you had received was not a bad thing to do.

One clear need was the large and growing youth population of the island. That led to my role in starting the “Boys Clubs of Puerto Rico.” I called W. Clement Stone, a billionaire insurance tycoon, a champion of “positive mental attitude,” the Bill Gates of his day.

Stone was an almost legendary figure who once roused the passengers on an overnight flight that landed in London by shouting, "Stand up. Raise your arms. Repeat after me: I feel healthy! I feel happy! I feel terrific!" Stone, I knew, was a major donor to Boys Clubs on the mainland. He put up some money to start the local club and even came down for a cocktail party to which I had invited San Juan's economic VIPs. These people later became board members and benefactors. Today, Puerto Rico has four Boys Clubs.

To get further funding for the Boys Clubs, I joined the board of the local United Fund and later became its campaign chairman. All this activity put me in touch with people who became my "panas" and helped me get business. They also helped with the peculiar regulatory issues on the island that helped my business survive and thrive. Despite my success in the states, survival in the Caribbean was not a given. The cultural and personal friendliness of the people was prodigious. Business was another story. Most Americans who come down here seeking their treasure either stay as alcoholics or flee as bankrupts. Puerto Rico becomes their Waterloo.

A certain notion of friendliness is part of the problem. Puerto Ricans, by nature, never want to offend anyone, and they would prefer to lie than to say no. They promise you anything you want but seldom follow through. Entrepreneurs from other shores need to develop both a sixth sense and a third eye to be able to distinguish an agreement from a desire to please.

Inviting someone for a business lunch was an experience. If you made the appointment for noon, your guest would arrive around 1.30 p.m., if he came at all. Usually I would take my invitees to the Banker's Club, where the bar was both the first stop and the last stop. You would sit around for two hours, talking about sports, politics, and women, and put away three or four drinks. Then the menu would come and you would place your order. Another round of drinks. Next, at last, the waiters would come and bring you to the table where your food was already served. Each guest had his own waiter to steady him to the table.

After lunch, it was time for more drinks to accompany the espresso. Now it was around 5.30 p.m. As you exited the dining room, a crowd of people had already gathered in the bar, playing "Generale." If you didn't join in, they would suspect you were a

“gringo” and your guest would never do business with you again. Next came cocktail hour at the Banker’s. Finally, you went out with some of the crowd to local joints so the serious drinking could begin. Around midnight you crawled home, never having discussed the essence of the business for which you had scheduled the lunch.

New York might be this way once in awhile on the weekend. This was the mid-week business lunch in Puerto Rico. Measured in paperwork, there was little output. But the Puerto Rico way produced “panas” by the dozen. And that was all you needed. If you ordered iced tea for lunch in those days, your bar tab would be manageable but your business career wouldn’t last six months.

By 1974, I had the largest life insurance operation in Puerto Rico and one of the ten largest within the Aetna system. Aetna had some 200 agencies like mine nationwide. I now had some 5,000 square feet of office space in Banco Popular Center, housing 50 agents and clerical staff. I was 33. All this material success came at a high price. I was divorced from my wife Julie the previous year. My life had centered on business and prosperity. Personal life went on the back burner, and eventually there were ashes.

Life is not all roses, and business relationships in Puerto Rico were not all panas y cervezas. When I started my Aetna operation, I was resented by much of the local competition. Some did everything they could to derail me. They were irked by this New Yorker who spoke no Spanish (I am fluent today) and who had the nerve to beat them at their own game right in their backyard. Most insurance operations were started by Americans who came to Puerto Rico and, after a year or two, scampered back to the U.S. because they couldn’t deal with the local customs and the language. Those operations were then taken over by Puerto Ricans, who continued to build them at their own comfortable pace.

The Odishelidze agency had long since warmed to local customs and I quickly learned the language, but I was still on New York time. The phrase “New York minute” had not yet been invented, but the reality existed. I wanted success quickly. My rivals used their panas to harass me with licensing and regulatory issues. My own panas fired back. This aspect of American mainlanders doing business in Puerto Rico has changed little. It was and is O.K. for the “gringos” to bring their capital and spend their money, but, sooner or later, the

“gringo” had to retreat and cede control to a local.

I was something of a man without a country. What was local and what was foreign to me after three decades of migration from Eastern Europe to Canada to the Caribbean was an academic question. A better future had long been my true homeland, and the allure of Puerto Rico was the towline pulling me forward. I wasn't going to walk away from that future. The pressure increased, so I mingled even more with the locals. When they finally realized I wasn't going away, rivals became fast friends. They reinterpreted me. I was not a gringo, I was a Russian. It was no matter that I had never set foot inside my parents' Georgian homeland. Soon I was admitted to the local General Agents and Managers Association. They even elected me its president one year. I was a full-fledged pana, fighting off the real gringos.

The antagonism to the outside that I had overcome was not an anti-Americanism. True anti-Americanism in Puerto Rico is a rare, and usually organized event. There is, however, a feeling about the “outsider,” and centuries of being under the control, direction, or influence of foreign forces have bred in most Puerto Ricans a sense that gaining and preserving an upper hand against the outsider is an event whose infrequency renders some excesses acceptable. A friend of mine, Peter, came into rather direct contact with this phenomenon.

Peter came to Puerto Rico from the States to run a small loan company. One day he caught a branch manager stealing from the company. He assembled all the proof and confronted the man, who admitted the theft. Peter fired him but did not press charges. The ex-employee came back and stabbed Peter seven times. When I heard what had happened, I went to the hospital and he told me the story. When Peter got well enough to return to work, he learned that he had been fired. The employee had filed a lawsuit against Peter and the company for wrongful termination. The man had three kids and he claimed he couldn't feed his family because of his dismissal. The local labor department found in his favor even though he admitted stealing the money. Peter's firing and the employee's reinstatement were part of the company's settlement. They put a Puerto Rican in Peter's place. I recruited Peter and he was an agent with me until 1985.

Another friend, Don, ran the Puerto Rican division of a U.S.-based auto supply company. One day a former employee, whose tenure preceded Don's, came in and asked for an employment recommendation. Since Don did not know the man, he called the home office in the States to find out who he was. They told him that he was a former store manager who had been caught stealing. Don's predecessor had fired him. The employee had come back and shot his boss three times, killing him. The murderer turned himself in and claimed he did it because he had "lost his head" and had five kids to support. He never spent a day in jail. The home office VP who was talking to Don told him to look on the wall behind him. Don saw a hole from one of the bullets that missed. He was instructed by headquarters to give the man anything he wanted. It was advice he swiftly took.

Bienvenidos a Puerto Rico!

My business grew and my friendships blossomed. Eventually, my wanderlust kicked in again. The first two decades of my life had been nothing but forced moves. Nesting wasn't my cure; choosing my moves was, or so it seemed. Puerto Rico is roughly three times the size of Rhode Island. I told myself I needed new challenges. In 1976, a friend of mine approached me about taking over a group of life insurance companies in Florida, Texas, California, Indiana and Ohio. We put a team together and made the acquisition.

Talk about "BigShot-itis." I had it in spades. Suddenly, I was president of a mid-size insurance company, with thousands of agents and employees, and reams of stock options that made me an instant multi-millionaire. I lived the life. Watching some of recent history's "dot.com" wizards get wildly rich through their IPO's and stock options and then come crashing down brought my exhilaration and despair back to me in a rush. There are no new business cycles, only new kinds of business.

When the balloon burst and the sun set on my newest adventure in personal wealth, it was 1978 and the shock wave of the Carter economy was about to hit its peak. It had taken me two years to come to the realization that I had finally reached my level of incompetence. I went back to the only place on Earth that spoke to me of home, sweet home. With my tail between my legs, I booked a flight to Puerto Rico.