



The impact of disparities in SNAP and SSI on Puerto Rico's poverty and economic growth

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EXECUTIVE SUMMARY

The disparities in Puerto Rico (PR) related to SSI and NAP benefits are evident. Contrary to popular belief, NAP and SSI transfers do not discourage people from working. The possibility of overcoming poverty through a steady job complemented by NAP or SSI, especially for those closest to the poverty line, strengthens job commitment. Furthermore, these monies do not only favor the direct beneficiaries, they also benefit banks, businesses and the economy at large through an indirect multiplier effect. Therefore, if SS and NAP parity were extended to PR, it would lift people out of poverty, encourage job retention, increase retail sales and bank deposits, among scores of other economic activities generated as money circulates within the local economy.

- Puerto Rico has participated in the Supplemental Nutrition Assistance Program (SNAP) since fiscal year 1975, but in June 1982 Puerto Rico's participation ended, when it started to receive a block grant that set the basis of the Nutritional Assistance Program (NAP).
- Other disparities identified:
 - the average monthly benefit is lower in PR than in the United States (US). Income eligibility is 157% greater in the states than in PR; in 48 states of the US, SNAP income eligibility was \$1,838 monthly for a household of four in 2011, in contrast to \$713 for Puerto Rico (PR). However, PR's cost of living is greater than in many states
 - the benefit per person received in 2015 was \$125.50 per month in the states, while in PR it was \$117.46.
- As a result, most of those that are in the 63% below the poverty line would have escaped poverty on the Island if they would have been able to complement their income with the NAP.
- Also, parity in the NAP program with respect to SNAP would have represented an additional \$242.7 million to the funding given to NAP in 2016.
- Employment in Puerto Rico does not appear to be impacted by the introduction of the NAP program: the employment to population ratio was higher after the NAP extension to the Island than before.
- One of the economic sectors most benefited by the parity between NAP and SNAP is the retail sector, such as supermarkets. Corporations related to personal consumption would have seen direct and indirect effects of the initial \$368.7 million in NAP parity on their sales.

- Puerto Rico residents are banned from Supplemental Security Income (SSI) and a fixed block transfer with much lower funds is provided to Puerto Ricans under the Aged, Blind, and Disabled Program (ABD). The General Accounting Office (GAO) estimated in 2011 that PR would have received almost \$1.8 billion if SSI PR would have been extended to the Island. According to recent available data, with parity in SSI, PR would have received as much as \$2.7 billion in 2016, reducing poverty to 36.4% in 2016, 7.1 percentage points below the 43.5% registered.
- Thus, with parity in NAP and in SSI, the poverty rate in PR would have probably been reduced to 30% in the 2016.
- Direct funds related to parity in SSI and NAP would have represented an additional \$3.02 billion in the Puerto Rico economy; 4% of Puerto Rico's 2016 Gross National Product. Overall, this would have created 39,026 additional jobs, including 18,012 direct and 21,014 indirect jobs.
- In 2016 the total output effect, including the indirect effects, of parity in SSI and NAP would have been close to \$5.56 billion.
- Stores in PR selling personal consumption components, such as food, alcohol/tobacco products, clothing and accessories, and personal care, would sell \$1,860 million. And other personal consumption components, such as housing, household operations, medical and funeral services, transportation, recreation, education, NGOs not elsewhere classified, foreign travel, and miscellaneous purchases, would have been an additional \$3,702 million in sales.
- GNI with parity in 2016 would have been closed to the real GNI (in constant prices) observed in 2000 and in 2009. However, the real GNI in 2016 was closed to the real GNI of 1998 and 5% below the real GNI of 2009. In other words, with parity in SSI and NAP, the downturn of the economic cycle would have been much lower.
- Banks and credits unions would also benefit from this parity in terms of new deposits. Total direct deposits in the local financial sector would be approximately \$3,802.59 million.
- New direct deposits in the banking system are known to enhance even further the money supply circulating thanks to the new credits that can generate. Being pessimistic with the credit market on the Island, the total new money circulating in PR with parity in SSI and in NAP would probably be tantamount to more than \$5.7 billion.

- Finally, the local Treasury would also benefit from all these new economic activities created by parity. Therefore, the total annual Sales and Use Tax (SUT) to be collected by the treasury would approximate \$145.34 million.

CHAPTER 1. BACKGROUND

Puerto Rico's economy was modernized mainly by attracting U.S. factories to the Island. Local and federal incentives were combined to create a relatively solid manufacturing enclave. However, the economy suffered a structural break when the federal government removed Section 936 of the federal tax code in 1995-1996, essentially eroding Puerto Rico's competitive advantages. As economic growth slowed in the 1990s, the central government, many municipalities, and some of the larger state-owned corporations began to run current deficits. By 2005, the central government acknowledged the existence of a structural deficit approaching 2% of GNP, and debt rating agencies began to downgrade government bonds.

In 2006 Puerto Rico entered its greatest depression in more than 100 years. Real Gross National Income (GNI) in 2016 was close to the real GNI of 1998 and public debt represented over 98% of the GNI. Close to 282,000 jobs were lost from 2006 to 2016. For the past 12 years, the real average wage has remained static. The decline in manufacturing employment is the main factor explaining the indebtedness of Puerto Rico, while the government workforce and federal transfers do not appear to bear a significant influence over real debt.¹ As a backdrop to debt negotiations, from 2016 to 2018, the Puerto Rican government and a special fiscal control board (imposed by the U.S. Congress through the PROMESA law) have drafted five fiscal adjustment plans in line.

On the other hand, Puerto Rico has historically suffered from relatively high structural unemployment, as stated by ECLAC (2005). According to the World Bank, the formal employment to population ratio averages 58.5% for the world, but in Puerto Rico it has never been greater than 35%. In terms of poverty, the rates increased from 44% in 2006 to 46% in 2015. But it is important to point out that if the 278,000 poor migrants of the period 2006-2014 would not have left, the poverty rate would have been 54% in 2014. One potential cause for this type of poverty distribution is the geography of economic activity on the Island. The bulk of GNP is being made in a few districts, especially in San Juan and surrounding municipalities. Thus, the farther one lives from these areas, the lower the access to economic opportunities, and the higher the poverty rate. In terms of income inequality, Puerto Rico had one of the worst Gini coefficients in the world before Hurricane Maria. In 2010-13, it ranked as the fifth most unequal country in the world with an average Gini coefficient of 0.55, which increased from 0.535 in 2006.

¹ For more details, please see <https://www.degruyter.com/view/j/jgd.2017.8.issue-2/jgd-2017-0009/jgd-2017-0009.xml?format=INT>

Nutritional Assistance Program (NAP)

On August 31, 1964 the US Congress approved the Food Stamp Act. To reduce stigma, the program name was changed in 2008 to the Supplemental Nutrition Assistance Program (SNAP).² According to the United States Department of Agriculture, SNAP is a federal program that offers nutrition assistance to millions of eligible, low-income individuals and families and provides economic benefits to communities in United States, Guam and US Virgin Islands. Participation was extended to Puerto Rico in fiscal year 1975.

In June 1982 Puerto Rico's participation ended. Instead, Puerto Rico started to receive a block grant that set the basis for NAP. In 48 states, SNAP income eligibility (the income threshold that determines eligibility to receive benefits) closely matches the poverty level, which was \$1,838 monthly for a household of four in 2011.³ Income eligibility is higher in Alaska and Hawaii than in the 48 states because in these two states the cost of living is relatively higher than on the US mainland. In Puerto Rico income eligibility is much lower than in the mainland (\$713 monthly in 2011 for a household of four). Thus, as compared to the US, most of the working poor in PR receive no benefits.

It is important to point out that in Puerto Rico the cost of living is higher than in many states,⁴ but its income eligibility is lower. In other words, benefits are lost in Puerto Rico to many who live below the poverty line, in stark contrast to the states, thereby limiting the ability of poor families to complement their relatively low incomes.

Supplemental Security Income (SSI)

The United States Social Security Administration established the SSI, a federal income supplement program, in 1973. The program provides additional income (on top of Social Security Income) to low-income citizens 65 years and older or to aged, blind and disabled people with reduced incomes. Puerto Rico residents are excluded from this program and, instead, provided with a fixed block transfer with much lower funding. However, residents of territories, such as the District of Columbia and Northern Mariana Islands, do receive SSI.

² Retrieved from <https://www.fns.usda.gov/snap/short-history-snap>.

³ Retrieved from <https://www.gao.gov/assets/670/661334.pdf>.

⁴ Retrieved from <http://asheweb.net/wp-content/uploads/2018/05/HEOReport-Spring-2018-PR-Edition.pdf>.

CHAPTER 2. DISPARITIES

SSI

The General Accounting Office (GAO) estimated that in 2011 Puerto Rico would have received almost \$1.8 billion if the SSI would have been extended to the Island, a calculation based upon the assumption that only 76 out of every 100 eligible participants would have applied for SSI in Puerto Rico. This assumption follows the mainland pattern. However, current socioeconomic conditions in PR would push almost all of the eligible participants to apply. Therefore, in Table 1 we show the total number individuals that are eligible because of age or disability (but not both), the average payment in the U.S., and the total transfers associated with SSI in Puerto Rico.

Thus, with parity Puerto Rico would have received as much as \$2.65 billion in 2016 in SSI benefits. This parity would have reduced poverty in Puerto Rico and stimulated aggregate demand, as shown in the next sections.

Table 1. Projected incomes in Puerto Rico with SSI, 2016

	Average Monthly Payment	Receiving Population	Total
Population aged 65 or more	\$ 428.64	243,600	\$1,253,000,448
Disabled Population (younger than 65 years old)	\$ 560.51	208,426	\$1,401,898,287
Total Participants		452,026	\$2,654,898,735

Source: Author's calculations based on PRCS⁵ and SSA⁶

NAP

The Government Accounting Office (GAO) in 2011 confirmed that there is a disparity in funds allocated to Puerto Rico under the NAP program. We identified two sources of disparity under this program: the average monthly benefit in Puerto Rico is lower than in the U.S. and the income eligibility is 63% lower than in the US. The

⁵ <https://factfinder.census.gov/faces/nav/jsf/pages/searchresults.xhtml?refresh=t>

⁶ Retrieved from <https://www.ssa.gov/policy/docs/statcomps/supplement/2018/7a.pdf>.

benefits per person received in 2015 were \$125.50 per month in the states while in Puerto Rico they were \$117.46. Just this difference represented \$126 million in 2015.

However, the bulk of the disparity is caused by income eligibility. By holding a lower income cap, NAP is not able to complement the incomes of those whose monthly earnings are below the poverty threshold. For instance, in 48 states, if a family of four have a monthly household income between \$1,200 and \$1,838 (which is tantamount to two part-time jobs at minimum wage), they would have received close to \$500 per month, potentially exiting poverty. In other words, most of those that are 63% below the poverty level would have escaped poverty if (holding other factors constant) they would have been able to complement their income with NAP benefits.

Table 2. Population under poverty with and without parity, 2005-2016

Year	Total Population	Current Population below poverty levels (without parity)	Current Poverty Rates (without parity)	Population aged 65+ with Incomes 50-99% of poverty line	Population Blind and Disable with Incomes 50-99% of poverty line (aged less than 65 years)	Population below poverty with SSI	Remainder Population with Incomes 50-99% of poverty line	Projected Population below poverty with parity in NAP and SSI	Poverty Rates with parity in NAP and SSI
2005	3,829,719	1,718,373	44.9%	128,213	143,086	1,447,074	495,736	1,199,206	31.3%
2006	3,865,264	1,753,410	45.4%	134,880	152,772	1,465,758	485,501	1,223,008	31.6%
2007	3,878,136	1,763,078	45.5%	140,873	140,513	1,481,692	472,863	1,245,261	32.1%
2008	3,907,696	1,750,559	44.8%	143,241	118,863	1,488,455	509,983	1,233,464	31.6%
2009	3,924,557	1,764,635	45.0%	142,163	119,224	1,503,248	540,357	1,233,070	31.4%
2010	3,685,731	1,659,792	45.0%	137,211	98,080	1,424,501	492,879	1,178,062	32.0%
2011	3,672,090	1,673,610	45.6%	140,519	113,975	1,419,116	490,604	1,173,814	32.0%
2012	3,633,892	1,632,533	44.9%	139,336	108,751	1,384,446	484,889	1,142,002	31.4%
2013	3,581,841	1,626,879	45.4%	148,307	100,942	1,377,630	451,443	1,151,909	32.2%
2014	3,515,261	1,624,453	46.2%	156,517	108,553	1,359,383	463,653	1,127,557	32.1%
2015	3,443,611	1,586,285	46.1%	162,463	101,037	1,322,785	433,699	1,105,936	32.1%
2016	3,379,483	1,469,382	43.5%	152,505	87,292	1,229,585	424,173	1,017,499	30.1%

Source: Puerto Rico Community Survey (2005-2016)

Without parity in SSI, in 2016 there were 661,000 inhabitants living in Puerto Rico with incomes that were between 51% and 99% of the poverty threshold, most of whom were ineligible for benefits. With parity in SSI, that number would have been reduced to 424,173 individuals in 2016. An extension of NAP benefits to this half of the population that was closer to the poverty threshold, combined with parity in SSI, would have reduced poverty rates

in Puerto Rico to 30% instead of the 44% observed in 2016, as shown in Table 2. With respect to SNAP, parity in the NAP program would have represented an additional \$242.7 million in 2016.⁷

In the first column of Table 2 we observe the total population of Puerto Rico in the period from 2005-2016 and in the last column we observe the poverty rates per year. The second column shows the total population under poverty levels for each year; the poverty rate is in the third column. Now, the fourth column shows the population 65 years or older close to the poverty threshold and the fifth shows the disabled population in a similar position to the poverty level. These two populations are the ones that could have been lifted out of poverty if SSI were extended to Puerto Rico. Thus, just with parity in SSI, Puerto Rico would have had a poverty rate of 36.4% in 2016, 7.1 percentage points below the 43.5% registered.

In the seventh column we grouped the remainder of the population that, after parity in SSI, had incomes that represented 50-99% of the poverty level. We show above that if those poor with incomes at 63% or more of the poverty level would have received NAP benefits, they would have escaped poverty. Thus, it is reasonable to assume that half of the remainder of the population with incomes between 50% and 99% would have surpassed the poverty line if NAP would have complemented their incomes, as done by SNAP in the states.

Thus, with parity in NAP and in SSI, the poverty rate in Puerto Rico would have probably been 30% in 2016, instead of the 44% observed. Some would argue that 30% is an optimistic estimate. However, this rate is much closer to the poverty rate of the Puerto Ricans in the U.S. (24%), where SSI and SNAP participation extends to more people under the poverty line.

On average, Puerto Rico's poverty rate was inflated by 14 percentage points in the period from 2005-2016 due to, among other factors, the lack of parity in these programs. In other words, 451,000 individuals would have improved their living conditions at least to rise above the poverty line.

⁷ Without parity in SSI, the U.S.D.A. estimated that parity in SNAP for Puerto Rico would have represented in 2009, "\$420 million is a result of additional benefit costs". Retrieved from <https://www.fns.usda.gov/snap/implementing-supplemental-nutrition-assistance-program-puerto-rico-feasibility-study>.

CHAPTER 3. IMPACT ON THE PRODUCT MARKET

An additional dollar received by a resident on the Island also implies an additional dollar circulating in the local economy, generating multiplier impacts. Parity in NAP and SSI would represent an additional \$3.02 billion for the Puerto Rican economy; 4% of Puerto Rico's 2016 Gross National Product. Overall, this would create 39,026 additional jobs, including 18,012 direct and 21,014 indirect jobs. This is because these benefits would enhance the purchasing power of more than 450,000 individuals who would purchase more goods and services, effectively stimulating job creation in the private sector.

For instance, NAP has benefited the retail sector. Owners of supermarkets in low-income areas are currently one of the largest economic actors that benefit from NAP. Given that parity in NAP represents close to an additional \$368.7 million, corporations related to personal consumption would have seen the direct and indirect effect of those initial \$368.7 million on their sales.

According to regulations, 75% of NAP has to be spent on food. Thus, Table 3 shows how the 25% of NAP that can be used in cash would have been spent in other sectors by scaling up the proportions that other components of personal consumption represent in Table 6 of the Planning Board's macroeconomic data. For instance, because Household Operations represent the largest percentage of total personal consumption in macroeconomic data, it is the sector that would have received the largest impact with the 25% of NAP that can be used in cash.

Table 3. Direct and indirect effect of parity in NAP, 2016

Components of personal consumption	Percentage of components in personal consumption in 2016*	Direct Effect (in million of dollars)	Total Effect (direct and indirect, in million of dollars)
Food	75.0%	\$ 276.5	\$ 508.81
Alcohol and tobacco products	0.3%	1.3	2.32
Clothing and accessories	4.5%	16.6	30.62
Personal care	0.7%	2.7	4.93
Housing	3.9%	14.3	26.32
Household operations	6.3%	23.2	42.64
Medical and funeral services	2.9%	10.7	19.61
Business services	0.7%	2.4	4.45
Transportation	2.2%	8.0	14.79
Recreation	2.5%	9.4	17.26
Education	0.5%	1.9	3.47
NGOs not elsewhere classified	0.1%	0.3	0.46
Foreign travel	0.3%	0.9	1.71
Miscellaneous purchases	0.2%	0.6	1.07
Total	100%	\$ 368.7	\$ 678.45

Note: *75% of NAP is earmarked for food by regulation. Using the 25% of NAP that can be used in cash, we scaled up the proportions of official trends in personal consumption.

Source: Author's calculation based on Planning Board (2017)

Let us assume that the proportions observed in the components of personal consumption in 2016 would have not changed if parity in these federal programs would have been extended to Puerto Rico. Thus, with NAP parity, sales in clothing and accessories would have increased by \$30.62 million. This figure considers the indirect effect. The indirect effect is defined as the resulting expenditure in a given sector due to the multiplier effect of new income injection. For instance, once the first \$368.7 million were spent, businesses would probably have hired more workers to meet the new levels of demand. Thus, both business owners and employees would have had new incomes to spend in the economy (indirect effect).

The impact on the rest of the sectors are shown in Table 3. The last column considers both the direct and indirect effects of the initial expenditures. Total output effect of parity in NAP would have represented close to \$678.4 million in 2016. Supermarkets would have received the largest benefit from parity in NAP. From anecdotal evidence, we know that there are supermarkets located in low-income areas that currently benefit significantly from NAP. Other firms related to the sectors Clothing and accessories, Housing, Household operations, Medical and funeral services, and Recreation would have observed the second largest benefits of parity in NAP.

We repeat this analysis for the case of SSI parity. In Section 2.1 we estimate that parity in SSI could have been \$2.7 billion in 2016. Thus, enterprises related to the sectors Personal Care and Clothing and Accessories would have seen an increase in sales of approximately \$963 million, as shown in Table 4. The impact on the rest of the sectors are shown in Table 4. The last column considers both direct and indirect effect of the initial expenditures. Total output effect of parity in SSI would have been close to \$4.9 billion in 2016.

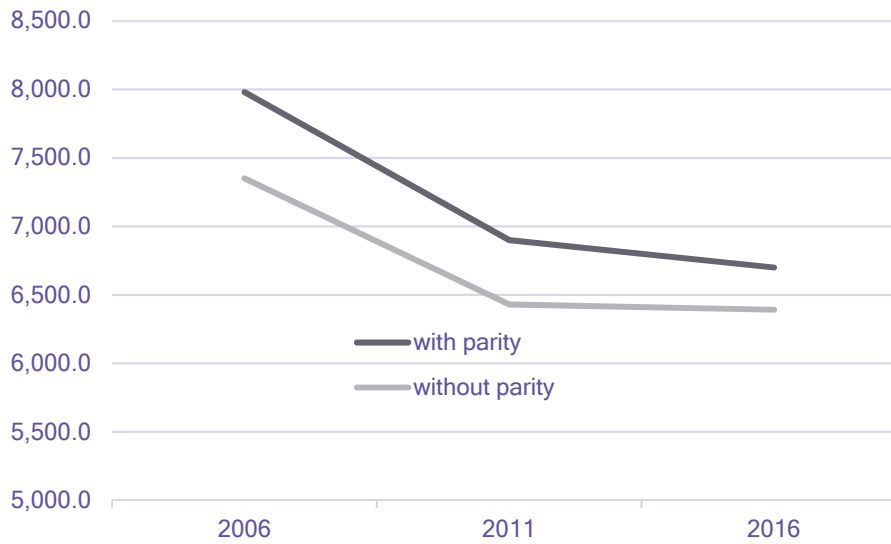
Table 4. Direct and indirect effect of parity in SSI, 2016

Components of personal consumption	Percentage of components in personal consumption in 2016 in macroeconomic data	Direct Effect (in million of dollars)	Total Effect (direct and indirect, in million of dollars)
Food	5.9%	\$155.92	286.89
Alcohol and tobacco products	1.3%	34.20	62.94
Clothing and accessories	17.0%	450.89	829.64
Personal care	2.7%	72.58	133.55
Housing	14.6%	387.63	713.24
Household operations	23.7%	627.86	1,155.26
Medical and funeral services	10.9%	288.73	531.27
Business services	2.5%	65.49	120.50
Transportation	8.2%	217.72	400.61
Recreation	9.6%	254.19	467.70
Education	1.9%	51.11	94.04
NGOs not elsewhere classified	0.3%	6.81	12.52
Foreign travel	0.9%	25.14	46.25
Miscellaneous purchases	0.6%	15.70	28.89
Total	100%	\$2,654	\$4,883.31

Source: Author's calculation based on Planning Board (2017)

GNI with parity in 2016 (\$6,700 in constant prices) would have been closed to the real GNI observed in 2000 and in 2009. However, the real GNI in 2016 was closed to the real GNI of 1998 and 5% below the real GNI of 2009. In other words, with parity in SSI and NAP, the downturn of the economic cycle would have been much lower. If one considers that outmigration is directly linked to the economic crisis,⁸ the levels of outmigration would have been much lower as well with parity in both federal programs.

Figure 1. Real GNIs with and without parity, 2006-2016



Sources: Author's calculation based on GAO (2014), Planning Board (2017), PRCS (2018), SSA (2018)⁹

Banks and credit unions would also benefit from parity in SSI and NAP. As mentioned earlier, the direct and indirect effect of parity in these two programs would potentially amount to \$5,562 million annually. How much would deposits increase on the Island? To approximate the amount of new deposits, it would be reasonable to assume that local businesses leave all their sales in local checking accounts and multinational businesses deposit their sales abroad.

Based on the 2012 Economic Census (the latest available), almost 72% of the retail sector sales were made by large retailers, presumably multinational enterprises.¹⁰ The components of personal consumption related

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https://www.researchgate.net/publication/293482512_Some_Determinants_of_the_Puerto_Rican_Migration_to_the_US_in_1950-2014

⁹ https://www.ssa.gov/policy/docs/statcomps/ssi_asr/2006/sect02.html#table4

¹⁰ In 2017 is probably lower the percentage of sales made in multinational retailers because some of them already close. However, internet sales also increase. Retrieved from <http://online.pubhtml5.com/cbpt/xusp/>.

to retailing are: Food, Alcohol/tobacco products, Clothing and accessories, and Personal care. Thus, we can assume that 72% of the new sales in these categories would be made by multinational retailers, equaling \$1,339 million. On the other hand, local stores selling these components of personal consumption would sell \$520.72 million, which would directly impact the money supply circulating in the local financial sector.

Except for business services, the rest of the components of personal consumption (Housing, Household operations, Medical and funeral services, Transportation, Recreation, Education, NGOs not elsewhere classified, Foreign travel, and Miscellaneous purchases) are mostly provided by local businesses. Thus, we assume that 90% of new sales in businesses related to these components are local and that 50% of business services are provided by local corporations. In doing so, we estimate that local corporations related to these other components of personal consumption would have \$3,802.59 million in additional sales. These figures are shown separately in Table 5 below.

Table 5. Potential New Deposits in Puerto Rico Financial System with Parity in SSI and NAP

Components of Personal Consumption	Potential Sales in sector with Parity in SSI and NAP (in millions)	Potential direct deposits (in millions)
Food, Alcohol/Tobacco Products, Clothing, Personal Care	\$ 1,859.7	\$ 520.72
Business Services	124.95	62.48
Rest of Sectors	3,577.1	3,219.40
Total	\$ 5,561.75	\$ 3,802.60
Total (potential) new money circulating		5,703.88

Source: Author's calculation based on Planning Board (2017)

Hence, total direct deposits in the local financial sector would approximate \$3,802.60 million. We call it "direct deposits" because new deposits in the banking system are known to enhance even further the money supply circulating thanks to the new credits that it can generate. For instance, one additional dollar in deposits provides the financial institution with the opportunity to lend up an amount that equals that dollar minus the reserve required. This is called the money multiplier effect of new deposits.

There is no accurate measure of currency circulation in Puerto Rico to calculate the money multiplier effect of new deposits. However, if we assume that the ratio of currency in circulation to verifiable deposits is around 0.5

and the excess reserve ratio is close to 0.001, then we approximate the money multiplier effect to be around 2.5. However, if we are extremely pessimistic about the Island's credit market, we can reduce the estimated money multiplier effect even further, to 1.5. Hence, the total new money circulating in Puerto Rico with parity in SSI and in NAP would probably amount to more than \$5.7 billion.

Finally, one can state that the local Treasury would also benefit from all these new economic activities created by parity in SSI and NAP. In particular, the Sales and Use Tax (SUT) would have a significant permanent increase, especially in the non-food sectors where SUT cannot be applied.

Table 6. Potential SUT revenues with parity in NAP and SSI (in million)

Total new sales of taxable components:	
Tobacco/Alcohol Products, Clothing and accessories, Personal Care, Recreation, Miscellaneous Purchases	\$1,522.72
Potential SUT	175.11
Total SUT with compliance rate of 83%	145.34
Source: Author's calculation based on Planning Board and Treasury Department	

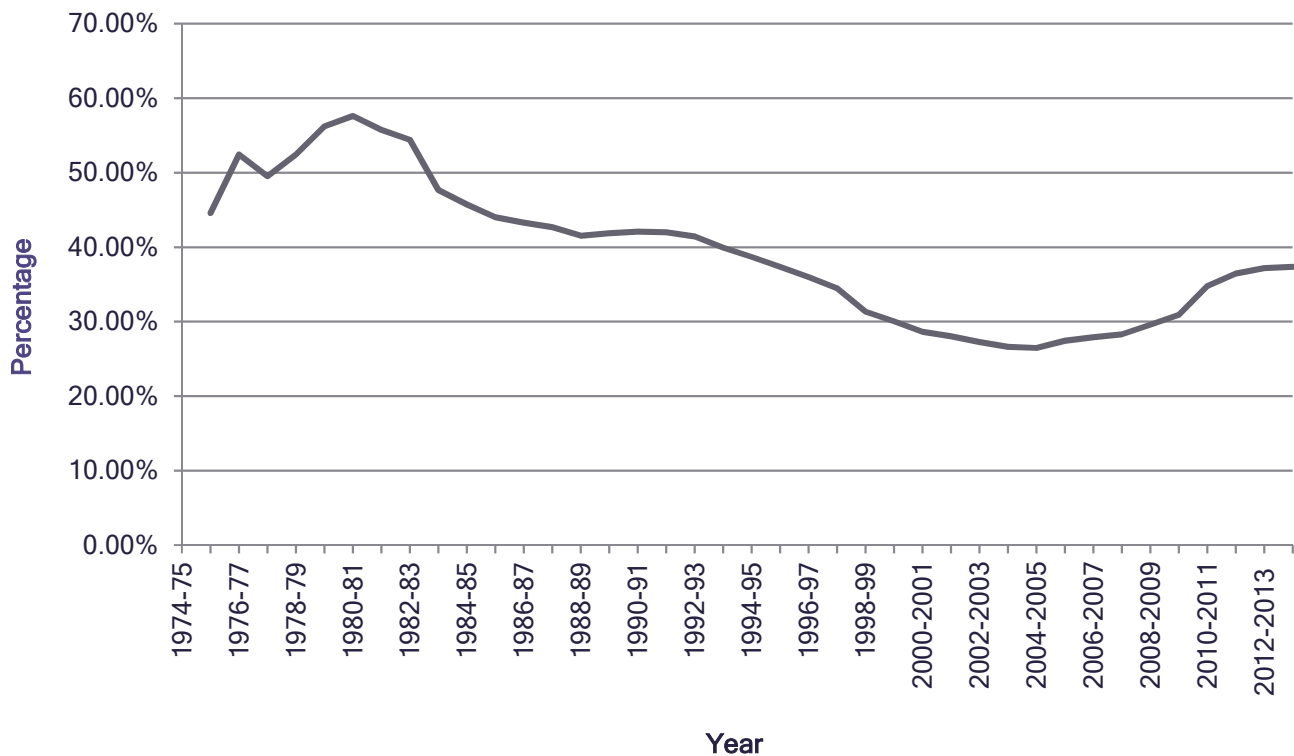
Table 6 shows the taxable components of personal consumption. The total direct and indirect effect of these five components amounts to \$1,522.72 million. The potential SUT generated by these new sales would be \$175.11 million. However, if we used a compliance rate of 83%,¹¹ the total annual SUT to be collected by the treasury would be approximately \$145.34 million.

¹¹ Retrieved from <https://www.elnuevodia.com/negocios/finanzas/nota/estudioubicatasadecaptaciondelivuen83-2105681/>.

CHAPTER 4. IMPACT ON THE LABOR MARKET

Some would argue that providing parity with the US would create dependency among residents in Puerto Rico because it would discourage people from working. However, Figure 1 shows that participation in NAP declined from 1980 to 2006. If NAP were a job discouraging factor, the decline in NAP would have led to an ever-growing employment participation throughout the whole period. NAP participation only started to increase after 2006, which is the year that marked the beginning of the economic depression that Puerto Rico is currently undergoing, showing the role of NAP as a safety net.

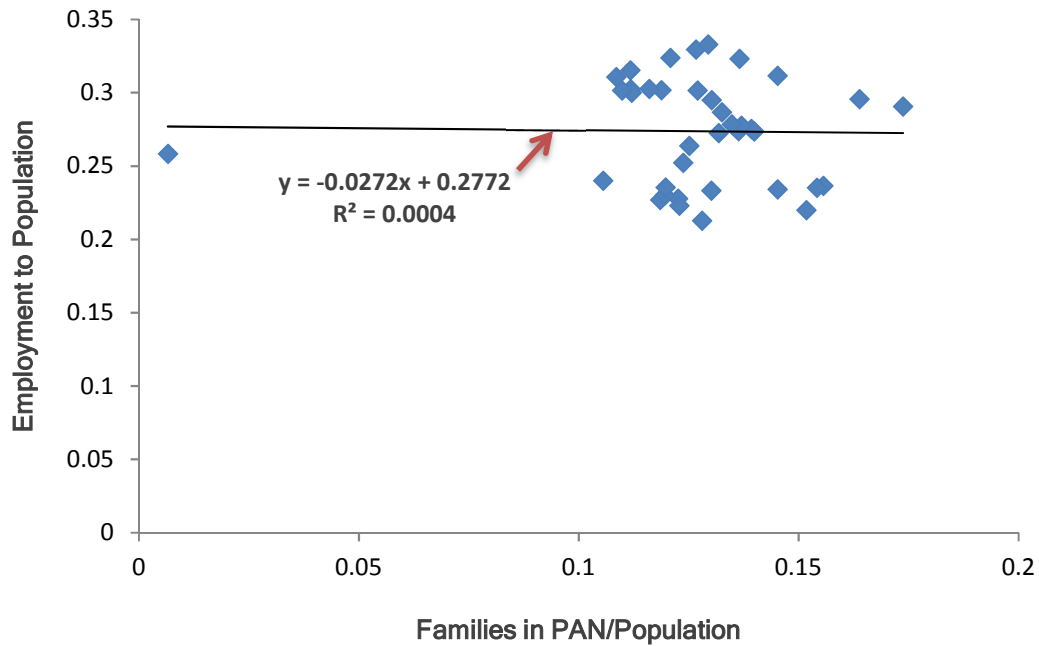
Figure 1. Percentage of total population participating in NAP, 1974-2014



Source: Department of Family (2016)

Furthermore, Figure 2 shows that there is virtually no correlation between the ratio of individuals employed and the number of families participating in NAP in the period from 1974-2014. That is, more families participating in NAP did not lower the amount of people working.

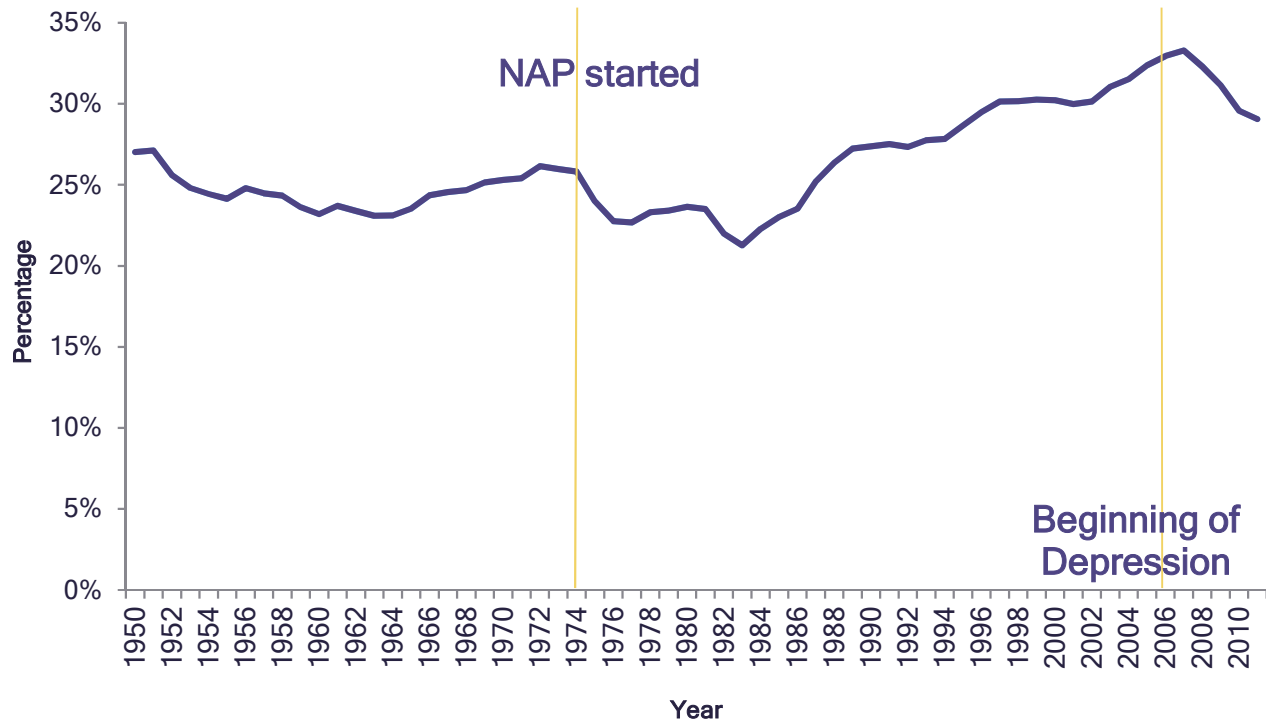
Figure 2. Correlation between employment and families in NAP, 1974-2014



Source: Department of Family (2016)

One can argue that, in the long run, the welfare state has harmed employment prospects in Puerto Rico. Yet, Figure 3 shows that, in general, the employment to population ratio was higher after the NAP extension to the Island than before. This graph does not necessarily establish that NAP created job in Puerto Rico, but it cast doubts on the arguments that NAP has discouraged job creation.

Figure 3. Employment to Population Ratio, 1950-2011



Source: Author's calculation based on Planning Board (2016)

Others may argue that parity in NAP would harm Puerto Rico's labor supply because it is a program designed for the U.S. where the cost of living is higher than in Puerto Rico. However, there are at least three arguments against such a claim. Firstly, we show above that the cost of living of Puerto Rico is on par with the average of the states in the U.S. One reason for this relatively high cost of living on the Island is the Jones Act,¹² a series of laws imposed by the U.S. on Puerto Rico that force the Island to hire the most expensive vessels in the world in order to trade with the U.S. (its largest trade partner). Secondly, one can argue the opposite: by limiting income eligibility, NAP has pushed more people to work informally in order to complement their low incomes with NAP. Thirdly, parity in NAP and SSI would also imply a stimulus to economic activity, as described in the previous section.

¹² Retrieved from <http://asheweb.net/wp-content/uploads/2018/05/HEORReport-Spring-2018-PR-Edition.pdf>.