



Congressman Pedro R. Pierluisi
Remarks to Puerto Rico Manufacturers Association
As Prepared for Delivery
November 13, 2009

Good afternoon.

I would like to thank the Puerto Rico Manufacturers Association for inviting me here today.

I also want to express my gratitude to Congresswoman Nydia Velázquez for making the trip to be with us this afternoon. Nydia and I—along with our colleagues José Serrano and Luis Gutierrez—work closely together on many matters to promote policy that is fair and beneficial to the economy of Puerto Rico. For example, the four of us have jointly undertaken efforts to protect the Island’s rum industry from unfair competition, by seeking to prohibit excessive subsidies to rum producers paid for with revenue from the federal rum tax program. Unreasonable subsidies undermine the integrity of this longstanding federal program and put its future at risk.

As all of you know, in addition to serving as the Chair of the Congressional Hispanic Caucus, Congresswoman Velázquez is the Chairwoman of the House Committee on Small Business. She possesses an understanding of the complex issues that affect the private sector, the engine of our economy. The American people, particularly those in the small business community, are lucky to have her as their chairwoman—and we are privileged to have her here today as our guest.

Welcome Nydia.

I also want to thank today's moderator, Teresita Fuentes. Teresita is highly respected for her work at Ernst & Young and, prior to that, as the Assistant Secretary for Tax Policy at the Puerto Rico Treasury Department. She is also my good friend and the proud mother of Eduardo Hilera, a valued employee in my Washington office.

I will make some brief opening remarks and then would be happy to answer any specific questions you might have during the question-and-answer session. Remember that I have a law degree, not an MBA. So please be gentle. I am kidding, of course. This is a smart and sophisticated crowd, and I welcome your tough questions, particularly if they are directed at Chairwoman Velázquez.

Let me begin by stating the obvious. All of us, together, confront a profoundly challenging economic environment, both nationally and locally here in Puerto Rico.

On the national level, President Obama's has implemented a two-step economic program. First, the Administration is using a variety of stimulus measures to help get the economy onto the right track, even if those measures add to the deficit. And second, as the recovery takes hold, the Administration is gradually taking steps to reduce the deficit.

The deficit for fiscal year 2009, which ended on September 30th, was approximately \$1.5 trillion dollars. This is more than 11% of the nation's GDP, and is the largest deficit ever recorded in current dollars. The deficit reflects spending on stimulus measures enacted in both the Bush and Obama administrations. It also reflects spending associated with the Troubled Asset Relief Program—better known as TARP—through which the federal government provided assistance to banks and other financial institutions. Although the national economy has begun to experience

some modest growth, absent a strong rebound in the near term, the deficit for fiscal year 2010 may not be much smaller than the deficit recorded in fiscal year 2009.

On January 1, 2011, all of the tax cuts for individuals that were enacted during the Bush Administration will expire, including the lower tax rate on capital gains, and the higher individual rates that were in place prior to 2001 will again take effect. However, because the federal budget was prepared on the assumption that these tax rates would increase, no new revenue will be raised when they do. In fact, some revenue is likely to be lost if and when Congress enacts legislation to implement President Obama's pledge to preserve the lower individual tax rates for the middle class.

As a result of all this, President Obama and Democratic leaders in Congress are searching far and wide for ways to raise revenue. They have focused much of their attention on the so-called "tax gap," \$350 billion dollars in potential revenue that is estimated to escape the U.S. tax system each year because some taxpayers take actions that Congress did not intend in order to reduce their tax obligations. It is no secret that many Administration officials and many of my colleagues in Congress believe that American companies have set up business entities overseas primarily for the purpose of shifting revenue outside of the United States.

During the debate in Washington earlier this year over the economic stimulus package, the American Recovery and Reinvestment Act, I emphasized to the Obama Administration and my colleagues on the Hill that the effects of the national economic downturn must also be addressed in Puerto Rico, which has been in a recession for over three years. Governor Fortuño and I made our argument in strong and simple terms: Puerto Rico is an integral part of the American family, its residents are U.S. citizens, and the Island should therefore benefit fully from all

measures designed to provide relief to individuals, to create jobs, and to revive the broader economy.

The result, I think it is fair to say, was a resounding success. Along with their fellow citizens in the states, workers in Puerto Rico are receiving the Making Work Pay tax credit established by the bill. Alongside their counterparts in the states, students and their families on the Island are receiving the American Opportunity tax credit created by the legislation. More generally, Puerto Rico is receiving billions of dollars in stimulus funding under the bill. This money is being used to save and create jobs in various sectors, to improve health care services, to help Island schools and students, to construct roads and bridges, to support and retrain unemployed workers, to provide food aid and affordable housing to low-income residents, to improve the quality of our drinking water, and to support clean-energy projects.

Now, as the President and Congress consider measures to raise revenue, I am focused on a similar task: to remind these decisionmakers that jobs in Puerto Rico are Americans jobs, and that the Puerto Rican economy is an integral part of the American economy. As was ultimately the case with the stimulus bill, I believe my colleagues will be receptive to this message.

Therefore, I want to use this opportunity to explicitly reiterate a pledge I have made before. In the coming months, I intend to make the following argument in Washington: the international tax measures proposed by President Obama and under consideration by Congress, including proposals to impose certain limits on deferral and to minimize the export of jobs to overseas jurisdictions, must be informed and tempered by the understanding that Puerto Rican jobs are American jobs and Puerto Rico is part of the U.S. economy.

Together with Governor Fortuno and you—members of the corporate community in Puerto Rico—I signed a Memorandum of Understanding earlier this year in which we made a commitment to oppose any measures whose consequence, intended or inadvertent, would be to harm investment in Puerto Rico. And we all recognize that deferral became one of the primary mechanisms used by manufacturers on the Island after Section 936 was phased out.

I want to be very clear with you. As all of you know, I am an unbending believer that statehood is the best political status for Puerto Rico. Island residents have contributed immeasurably to the life of this nation in times of peace and war. For generations, our sons and daughters have served alongside their fellow citizens from the states on battlefields in Europe, Asia and the Middle East. I support statehood because I believe the people of Puerto Rico have earned the right, should they choose to exercise it, to become full and equal citizens of the United States.

I also support statehood because I believe it would provide the people of Puerto Rico with the best chance to achieve economic prosperity and security. I think the experiences of Hawaii, Alaska, Arizona, Oklahoma, and every other former territory provide clear evidence that the greatest economic boost to individuals and companies in Puerto Rico will come through full equality and full integration.

But the people of Puerto Rico have not made the decision for statehood yet. And, until they do, we must protect our current economy. Otherwise, Puerto Rico will be fighting with one hand tied behind its back.

For that reason, Governor Fortuño and I are pursuing a two-pronged economic strategy in Washington.

First, as I have noted, we are working hard to ensure that any changes aimed at the international tax system do no harm to the U.S. jurisdiction of Puerto Rico. I am very grateful to you and to other members of our corporate community for your input on this matter. You have made some valuable suggestions that are reflected in our efforts.

Second, we continue to pursue every possible avenue to enhance Puerto Rico economically. For example, we are seeking application to Puerto Rico of tax and other programs for economic development that do not currently apply. We are also fighting for every dollar for Puerto Rico under economic legislation, including measures incorporating tax-based incentives for individuals and companies. My colleagues in Congress are contemplating legislation, likely to be taken up early next year, to spur job creation. I assure you that, just as we did with respect to this year's economic stimulus package, Governor Fortuno and I will fight for Puerto Rico's inclusion in every aspect of this bill.

Individuals and businesses in Puerto Rico deserve a comprehensive economic strategy, touching all the bases. And we have one.

Thank you again for inviting me. I will be happy to answer your questions.