

# "No one gets out of poverty with food stamps"

Experts consider appropriate a discussion on welfare reform

Friday, August 4, 2017 - 8:06 AM

By José A. Delgado



In Puerto Rico, about 660,000 families receive the Nutrition Assistance Program . (Archivo / GFR Media)

**Washington** - Independent studies have highlighted the importance of reviving the credit for earned income in Puerto Rico that reforms access to social welfare programs and encourages incorporation into the workforce without an economic penalty.

"This is a discussion that must be taken," said economist and professor María Enchautegui, welcoming the debate generated by the proposal of the Board, entity in charge of the financial decisions of the Puerto Rico government, to allow a portion of the federal assistance that the Island receives to fund a new credit for earned income.

From the Urban Institute of Washington D.C. and for the Group Espacios Abiertos (Open Spaces in English), Enchautegui published in December 2014 a study on the urgency of creating a new credit for labor on the Island that aims to "stimulate work, strengthen the tax base, neutralize the regressivity of taxes on consumption and reduce the economic need of working families with low incomes."

Her research was carried out at a time when former governor Alejandro Garcia Padilla proposed a reform to the tax system to create the Value Added Tax (VAT). By then Enchautegui highlighted that between 2010 and 2014, only 54% of the Island's households had a salaried worker.

The federal earned income tax credit (EITC) is generally not available to those residing in Puerto Rico and its extension to the Island did not reach consensus within the Congressional Task Force on Economic Growth, which delivered a report last December. Locally there was a similar credit for labor that was active between 2007 and 2014.

"Due to the reduced maximum amount (\$ 450), credit for work had a small impact on household incomes. But, its wide coverage made many taxpayers able to claim it. In 2012, more than 460,000 spreadsheets or 45% of the total, claimed the credit," says Enchautegui's study.

While the EITC is based on the income of the entire contributory unit, the one in Puerto Rico depended on individual income.

Another study, from 2003, of the Center for a New Economy (CNE) also recommended the creole credit.

"The elimination of the credit for earned income in Puerto Rico was ill-advised and a serious public policy error," said Sergio Marxuach and Deepak Lamba Nieves, researchers at the Center for a New Economy (CNE), in a November 2014 analysis.

The Board, as part of its annual report to Congress, proposed on Monday that a portion of the funds from the Nutrition Assistance Program (NAP), Temporary Assistance to Needy Families (TANF) and the Section 8 of the Housing Act, serve to finance a new creole credit. Federal assistance provided by such programs, according to the plan of Board, would remain unchanged for children, the disabled, and the elderly.

In her analysis of December 2014, Enchautegui proposed that the credit should apply to people of working age, with incomes between \$ 7,500 and \$ 25,000 annually. So the estimation was that it could benefit 119,000 to 128,000 working families.

In Puerto Rico, about 660,000 families receive NAP.

"The group that has grown the most is the elderly," said Enchautegui, a sector of the population with which "the state has to maintain its commitment due to their age or because they are out of the workforce."

"It's a good opportunity to look at the aids and reform them. It is necessary to do a better job with people who are not in the disabled or elderly groups, to see how to define a strategy to incorporate them into the labor market," said Enchautegui, a professor at the University of Puerto Rico (UPR), in a telephone interview.

On one hand, she warned, any plan should take into account the lack of jobs in Puerto Rico and the possibility of access to available jobs for people who depend on federal aid.

Although she acknowledges that it is a controversial issue, she thinks that the ideal thing would be that Puerto Rico received a transfer of funds as a unit.

"The federal government should give the funds for Puerto Rico as a unit to be used in what is most needed," Enchautegui noted. The ultimate intention, she said, should be to get people out of poverty.

"With food stamps no one gets out of poverty. In Puerto Rico, few people combine NAP with work," said Enchautegui, also remarking the importance that any program promoting work should not represent a penalty for those who now depend on social welfare programs.

## **Under Tax Reform**

From the conservative side, Ryan Ellis, Senior Advisor for Contributory Public Policy for the Conservative Reform Network, considered the proposals for economic development made by the Board to be very limited, a year after PROMESA.

In an opinion piece at Forbes, Ellis said that Congress should take advantage of a possible federal tax reform to extend to Puerto Rico the concept of "business zones" for economically affected areas, a proposal to which sectors such as Detroit (Michigan), the Appalachian and poor rural counties should be incorporated.

Resident commissioner in Washington, Jenniffer Gonzalez, who has proposed legislation to extend the EITC to Puerto Rico, has indicated that she will take the opportunity of the upcoming debate in Congress on a possible federal tax reform to introduce a bill that integrates tax benefits of business and economic development areas, for companies that invest on the Island.

"The tax rates to do business must be radically lower, tax rates for capital gains should be close to zero, and all first year investments should be eligible to be taxed as expenses," Ellis said.

In his article, Ellis also recommended that President Donald Trump should put his emphasis on the Board and replace the person appointed directly by Barack Obama in the tax authority.

The White House never announced it like that, but it is known that banker José Ramón González, president of the Federal Home Loan Bank of New York, is the member of the board appointed by the former president Obama.

The appointments of González and the other six full-fledged members at the federal board expire in August 2020.