

# Think Strategically



**BIRLING**  
CAPITAL ADVISORS, LLC

# Focusing on Puerto Rico's Income Inequality and Poverty

June 11, 2023

by Francisco Rodríguez-Castro  
[frc@birlingcapital.com](mailto:frc@birlingcapital.com)

## Puerto Rico's Income Inequality creates severe poverty levels.

A while back, we briefly discussed the Ten Potholes in the P.R. Economy, and the very first was the income inequality in the Puerto Rico economy. Within the beautiful and idyllic landscape of Puerto Rico, where tropical beauty intertwines with vibrant culture, a tale of two islands unfolds. If we were to draw an imaginary blue line from Manati down to Juana Diaz, we would realize that the median household income to the west is as low as \$22,419. In contrast, in Puerto Rico to the east of the line, the median household income is as high as \$32,949, and in the San Juan-Guaynabo area as high as \$43,479. Beneath the shimmering surface of the paradise we call home, an undeniable chasm separates the haves from the have-nots. Like dark clouds overshadowing the Island's potential, income inequality and poverty cast a shadow on countless Puerto Ricans' lives. As we embark on this journey of understanding, let us peel back the layers of statistics and economic jargon to reveal the human stories at the heart of this pressing issue. It is time to confront the challenges head-on, armed with compassion and an unwavering determination to create a more just and equitable Puerto Rico for all its inhabitants.



The divide between the affluent and the impoverished has widened over the years, leaving scars on the collective spirit of the Puerto Rican people.

However, this article is not intended to paint a picture of despair and desolation. It serves as a rallying call for compassion and collective action.

Let us embark on this expedition together, honoring the resilience of those affected and striving for a Puerto Rico that embodies unity, fairness, and shared prosperity.

We made a comparative analysis of income inequality in Puerto Rico vs. the 50 States of the U.S., which we discuss in detail; let's begin.

Income inequality is a pressing socioeconomic issue that affects individuals and communities worldwide. This analysis examines the condition of income inequality in Puerto Rico compared to the 50 states of the United States. By analyzing relevant data and statistics, this study sheds light on the unique challenges faced by Puerto Rico and explores potential causes and implications of income inequality within the Island.

Income inequality refers to the unequal income distribution among individuals or households within a given population. It is typically measured by indicators such as the Gini coefficient, which quantifies income distribution on a scale from 0 (perfect equality) to 1 (maximum inequality). This analysis compares income inequality in Puerto Rico with that of the 50 states of the U.S., taking into account various factors and data points.

As we understand the condition of income inequality in Puerto Rico, it is crucial to consider the Island's unique economic and social context. Puerto Rico faces challenges like high poverty, limited access to quality education and healthcare, and significant dependence on federal transfers. These factors contribute to income disparities among its population.

**As we perform a comparative analysis of Puerto Rico vs. the 50 States of the U.S., we find the following:**

- 1. The Gini coefficient** is key for comparing income inequality across different regions. According to recent data, Puerto Rico's Gini coefficient is approximately 0.545, significantly higher than the U.S. average of 0.411. Puerto Rico has a 24.58% higher income inequality than the 50 states.
- 2. Poverty Rates:** Puerto Rico's poverty rate has consistently been higher than the national average. As of the latest available data, the poverty rate in Puerto Rico stands at around 43%, while the U.S. average is approximately 11%, a whopping 290.9% higher. These figures highlight the magnitude of the income disparity in Puerto Rico.
- 3. Median household income** can further illuminate the income gap between Puerto Rico and the states. The median household income in Puerto Rico is significantly lower than the U.S. average. As of the latest data, the median household income in Puerto Rico is approximately \$22,419, whereas the U.S. average is around \$65,000 or 189.9% above the U.S. median household income. This vast difference underscores the income disparities that exist.
- 4. K-12 Education and Skill Disparities:** the Island faces significant challenges in funding and resources for its K-12 education system. Wasteful spending in the Department of Education has led to inadequate infrastructure, outdated materials, and a lack of resources for teachers and students, which results in lower academic performance compared to the mainland United

States. Students in Puerto Rico have scored lower on reading and mathematics assessments, as measured by the National Assessment of Educational Progress (NAEP): language barriers and limited access to quality education have widened the gap.

5. **Education Reform:** education is crucial for breaking the cycle of income inequality. Puerto Rico needs comprehensive education reforms that focus on improving the quality of teaching, modernizing school infrastructure, and promoting vocational training programs. While there is broad access to higher education, we must foster partnerships between educational institutions and the private sector to help bridge the skill gap and promote economic mobility. With the generous federal programs that allow the population to study in Universities free of charge, the graduation rate for Puerto Rico is 52.2%, higher than the U.S. graduation rate of 46.4% or 11.11% more. However, when we evaluate the total population with a bachelor's degree in the U.S., the rate is 53.7% of the total population. In contrast, in Puerto Rico, the rate is 27.4% of the total population, 51.05% lower in Puerto Rico, shaping the broader income inequality differences for Puerto Rico.
6. **Natural Disasters:** Puerto Rico is in the middle of hurricane alley and is vulnerable to natural disasters, such as Hurricane Maria in 2017. These catastrophic events exacerbate income inequality by disproportionately affecting vulnerable communities, damaging infrastructure, and disrupting economic activities.
7. **Brain Drain:** another critical contributor to income inequality can contribute to a phenomenon known as "brain drain." Talented individuals and professionals leave Puerto Rico for better economic opportunities elsewhere, resulting in a loss of human capital. Since 2000, Puerto Rico has lost a Population of -525,126 or 13.77% less. This fact further hinders the Islands's ability to address income inequality and achieve sustainable development.
8. **Economic Diversification:** a concerted effort to diversify our economy beyond its historical dependence on a few industries is the key. Currently, the Department of Economic Development and Commerce has a much broader focus on many industries and sectors outside of the traditional manufacturing expertise on which Puerto Rico depends. Encouraging the growth of small and medium-sized enterprises, promoting innovation and entrepreneurship, and attracting investment in sectors such as renewable energy, technology, and tourism can create more job opportunities and growth.
9. **Labor Market Reforms:** market policies can help address income disparities. While the current unemployment rate is a low 6%, the lowest in years, the labor force participation rate is a low 45.1%, which means that 55% of the population is living with either federal funds, the informal economy, or some form of disability. Changing how unemployed persons are required to seek and maintain jobs must be altered to promote more work and less assistance, breaking the chains of dependence. Encouraging investment in sectors with high job potential and facilitating access to credit and financing for small businesses accelerates economic growth and dents income inequality.
10. **Social Safety Nets:** implementing programs can provide a safety net for vulnerable populations and mitigate the impact of income inequality. While access to healthcare, social assistance programs, and affordable housing is available, it has not alleviated poverty and reduced income disparities. The fact is that more than 44% or 1.408 million of the population lives in poverty, and over half of our children in Puerto Rico, or 57% live in poverty levels, according to the most recent U.S. Census Bureau data.

In conclusion, the income inequality problem in Puerto Rico remains a significant challenge that requires attention and comprehensive solutions.

Addressing income inequality requires a multifaceted approach that includes economic Diversification, education reform, labor market reforms, and social safety nets to achieve significant economic equity, social stability, and sustainable development for our population.

By prioritizing economic growth, implementing progressive tax reforms, strengthening the social safety net, promoting transparency and good governance, and investing in education and infrastructure, Puerto Rico can pave the way for a more equitable future. Via these combined actions, the Island can create a society where opportunities are accessible to all, regardless of their background, and where income inequality becomes a thing of the past.

Think Strategically, © is a weekly column prepared by Birling Capital LLC and is a summary of recent geopolitical, economic, market, and other developments that may be of interest to clients of Birling Capital LLC. This report is intended for general information purposes only, is not a complete summary of the matters referred to, and does not represent investment, legal, regulatory, or tax advice. Recipients of this report are cautioned to seek appropriate professional counsel regarding any of the matters discussed in this report considering the recipients' particular situation. Birling Capital does not undertake to keep the recipients of this report advised of future developments or changes in any of the matters discussed in this report. Birling Capital. The man and log symbol and Birling Capital are among the registered trademarks of Birling Capital. All rights reserved.