

Policy Brief

Puerto Rico: Analyzing Federal Policy Changes

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Potatoes and Beer: When Trade Wars Hit Home

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INTRODUCTION

When a new president is elected in the United States, their transition team is quickly assembled to propose and implement policies that will define the trajectory of the Administration. The performance of the Administration during its first 100 days has been used since the time of Franklin D. Roosevelt as a benchmark to assess its effectiveness.

Though we have yet to reach the 100-day mark of the second Trump administration, it is no exaggeration to suggest it has already made a significant impact, in less than the average or expected timeframe. Puerto Rico's history has shown that institutional destruction (or dismantling) is far easier and occurs quite faster than institutional building or rebuilding, a lesson we should remember when comparing the policy proposals of different presidential administrations.

For many decades the knowledge and understanding in the federal sphere of the U.S.'s role in Puerto Rico and the historical factors that contribute to its current challenges has been limited. Over the last 125 years or so, the White House has attempted to delegate these matters to various actors within its purview, but the efforts have often been superficial - a mile wide and an inch deep with inadequate results.

Initially, Puerto Rico and other territories acquired after the Spanish-American War were under the jurisdiction of the War Department (now the Department of Defense). After thirty or so years, jurisdiction over Puerto Rico was transferred to the U.S. Department of the Interior, which traditionally had jurisdiction over tribal and territorial affairs. However, in 1961, President John F. Kennedy reshaped this approach for Puerto Rico by [directing](#) that all matters concerning the island's relationship with the U.S. be handled by the Office of The President. Over the years, multiple administrations sought to address issues related to Puerto Rico by establishing interagency task forces aimed at examining and managing federal engagement with the island.

In 1992, President George H.W. Bush [mandated](#) that all executive departments, agencies, and officials treat Puerto Rico administratively "as if it were a state," to the extent possible. Amid ongoing debates over Puerto Rico's political status and how it directly impacts its governance, limits decision-making authorities, and shapes federal intervention, the Clinton administration established the *President's Task Force on Puerto Rico's Status* in 2000. Its goal was to guide discussions on potential status options and the processes required to implement them. Following suit, the George W. Bush Administration issued two reports expanding on the relationship with the Government of the United States and explored possible future directions for U.S.-Puerto Rico relations. The Obama administration continued this approach in 2011, undertaking a more in-depth review of federal policies toward Puerto Rico. However, the island's fiscal crisis prompted negotiations between the Executive and Congress, which ultimately led to the approval of the PROMESA law in 2016—a measure widely opposed by Puerto Ricans—which imposed an unelected financial oversight board in exchange for access to a court-supervised debt restructuring mechanism for Puerto Rico.

Given the scope and complexities that stem from a prolonged economic recession, back-to-back hurricanes, earthquakes, and a global pandemic, the prior Administration took some targeted steps to help understand Puerto Rico and accelerate long-term recovery efforts. The Biden Administration appointed a Director for Puerto Rico and the Territories in the White House; officially delegated Puerto

Rico's energy grid recovery and modernization to a top cabinet-level official, the Secretary of Energy; and designated an Economic Growth Coordinator for Puerto Rico, assembling a mixed team of both career and civil servants to oversee a whole-of-government effort.

Now, in the early weeks of a new Trump Administration, Puerto Rico no longer has these dedicated resources within federal agencies—and because they were designed to focus on long-term results, the jury is still out regarding the policies that were planned and partially implemented by the previous administration. This kind of abrupt shift between administrations is all too familiar to Puerto Rico, where government leadership—and, with it, a significant portion of senior staff and policies—change every four years. However, as far as we can tell, keeping a low profile at the federal level is perhaps the preferable strategy, especially when the alternative could mean being singled out or specifically targeted for some of the harmful, cost-cutting policies currently under implementation across the federal government.

EXECUTIVE ORDERS

On January 20, 2025, Donald J. Trump was sworn in as the 47th president of the United States and he and his policies have taken Washington, DC by storm. President Trump has issued (at last count) more than 90 Executive Orders that seek to implement, without Congressional action, any number of unprecedented policies.

What is an Executive Order?

Executive orders are official directives from the president that carry the force of law unless overturned by Congress, the courts, or future presidents. They derive authority from either the **Constitution (Article II)** or from powers delegated by Congress. Executive orders are particularly popular during presidential transitions, where new and outgoing presidents use them to quickly set or change policy.

Advantages

1. **Speed and Efficiency:** Quickly implement policies without waiting for Congress or regulatory processes.
2. **Direct Control over Policy:** Allow presidents to manage federal agencies and set national priorities.
3. **Immediate Action in Transitions:** Enable rapid fulfillment of campaign promises or reversal of predecessor's policies.
4. **Influence on Congress:** Can shape legislative debates and pressure Congress to act.
5. **Flexibility in Foreign and Domestic Affairs:** Especially useful where the president has broad authority (e.g., foreign policy).

Disadvantages

1. **Temporary and Reversible:** Easily revoked, amended, or replaced by future presidents.
2. **Constitutional and Legal Limits:** Cannot override Congressional powers; subject to judicial review.
3. **Insufficient for Complex Goals:** May not fully achieve large-scale or controversial objectives.
4. **Perception of Executive Overreach:** Bypassing Congress may undermine democratic processes and legitimacy.
5. **Risks of Poor Preparation:** Orders drafted hastily during transitions may lack legal and policy vetting, leading to weak or flawed directives.

Some of the Executive Orders signed by President Trump are just performative, such as changing the name of the Gulf of Mexico to the “Gulf of America,” but others are quite substantive, such as those that seek to stop billions in federal funding.

Among other things, his orders seek to eliminate birthright citizenship to all those born in the United States (ignoring language of the 14th Amendment to the U.S. Constitution); impose tariffs on both geopolitical adversaries and allies; cut back on both legal and undocumented immigration; reduce the career, nonpartisan federal workforce; reduce by 50% the amount of overhead costs that can be covered with funds from NIH research grants; paralyze almost all foreign aid programs, including in sensitive areas such as public health, nutrition, and access to clean water; erase all federal Diversity, Equity, and Inclusion (“DEI”) programs; and “pause” all federal spending regarding loans and grants to state and local governments, as well as to NGOs and in some cases private companies.

IMPACT TO PUERTO RICO

To the best of our knowledge, no Executive Order has singled out or focused on programs or government funding earmarked specifically for Puerto Rico. However, state and municipal governments, as well as certain NGOs, could be adversely affected to the extent they had already been assigned federal funding for DEI initiatives, green energy projects, or climate change programs, all of which seem to be high on the list of federal programs to be eliminated immediately.

In addition, federal employees working and living in Puerto Rico have been subject to layoffs, just like their counterparts in the U.S. These reductions in federal employment would have an adverse impact on the Puerto Rican economy as well as a negative effect on the availability of certain federal services on the island, depending on the magnitude of the cuts and the specific agencies affected.

Finally, many private sector companies in Puerto Rico receive or are paid with federal funds for goods and services they sell to Puerto Rico state agencies in their role as contractors, suppliers, or merchants. Significant cuts to federal expenditures in Puerto Rico would, therefore, have a direct negative effect on these firms, as well as an indirect impact, to the extent that a reduction in overall economic activity further decreases other demand for these firms’ goods and services.

Looking forward over the next few months, three areas are cause for particular concern. First, Congress has allocated funding of approximately \$52 billion through FEMA to finance Puerto Rico’s reconstruction after Hurricanes Irma and Maria. According to the [Puerto Rico Central Office for Recovery, Reconstruction, and Resiliency](#), as of late February 2025, about \$23 billion of the amount allocated had been spent. In theory, the other \$30 billion or so, should be safe from rescission or clawback to the extent they have been legally “obligated,” which represents a binding commitment. However, as mentioned above, we know of several instances where the disbursement of federal funds already has been withheld or frozen, even when the money has been already legally obligated. In the case that reconstruction funds are rescinded or clawed back, the Government of Puerto Rico’s sole recourse would be to file a lawsuit against the federal government.

The Trump Administration has also stated its intention to dismantle FEMA. Right now, it is unclear where all this would land and how it could affect Puerto Rico, but that is the point: the island government must be vigilant and keep abreast of developments in Washington. Needless to say, the rescission of any federal reconstruction funds would have a material adverse effect on Puerto Rico's reconstruction process and its economy.

Second, the Trump administration has announced its intention to eliminate the U.S. Department of Education, and several thousand employees have already been informed of their dismissal. The effect of these layoffs on the operations of the Department of Education is unknown at this time but attempts to dismantle the Department could impact the disbursement of billions of dollars under Title I of the Elementary and Secondary Education Act and the Individual with Disabilities Education Act, which are currently managed by the federal government. In turn, \$2.4 billion, or 45%, of the \$5.3 billion FY2025 budget of the Puerto Rico Department of Education is provided by the U.S. federal government. Any significant changes in that funding could affect the education of some of the most vulnerable children in Puerto Rico.

Finally, federal Medicaid funding is another area of concern in the short term. The U.S. House of Representatives approved a budget resolution for FY2026 that orders the House Energy and Commerce Committee to cut \$880 billion in federal spending. Achieving that spending objective is essentially mathematically impossible without cutting the Medicaid program, which is under the jurisdiction of that committee. Currently, approximately 72% of the cost (some \$3.4 billion out of a total cost of \$4.7 billion) of Puerto Rico's Medicaid program, which provides health care insurance to about 50% of the island's population, is funded by the federal government. Again, any significant cuts in federal funding for Medicaid in Puerto Rico or the imposition of a lower cap on federal spending would directly affect access to healthcare for an estimated 1.5 million beneficiaries in Puerto Rico and would have dire effects on the primary balance of the central government. For instance, if Congress decides to revert Medicaid funding for Puerto Rico to its pre-ACA formula during FY2028, federal funding would be capped at 55% of total costs up to a maximum of approximately \$500 million. The FOMB estimates the cost of Puerto Rico's Medicaid program for that year to be \$5.3 billion. This means the government of Puerto Rico would, somehow, have to (1) come up with \$4.8 billion just to keep the program going as is, or (2) cut back sharply the number of people covered or the services offered.

So far, Puerto Rico has avoided the worst effects of President Trump's policies, in large part because federal courts have temporarily stayed the implementation of many of the recently signed Executive Orders. However, we note that keeping a low profile and hoping for the best is not a strategy. The government of Puerto Rico would be well advised to start thinking about its strategies to curtail the foreseeable economic and social damage that could befall the island during the next three years and ten months.

BLITZ OF EXECUTIVE DECREES

The Executive Orders have created a lot of uncertainty among many grant recipients, service providers, and federal workers. The order regarding the "pause" on the spending of federal financial assistance has been particularly damaging. That order was followed by a [memorandum](#) from the Office of Management

and Budget (“OMB”), dated January 27, 2025, which set forth the parameters for the spending freeze. According to the January 27 memo,

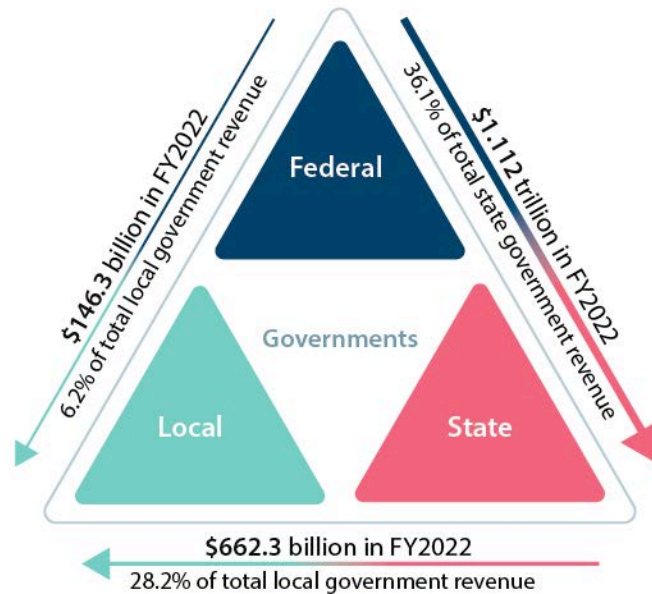
Financial assistance should be dedicated to advancing Administration priorities, focusing taxpayer dollars to advance a stronger and safer America, eliminating the financial burden of inflation for citizens, unleashing American energy and manufacturing, ending "wokeness" and the weaponization of government, promoting efficiency in government, and Making America Healthy Again. The use of Federal resources to advance Marxist equity, transgenderism, and green new deal social engineering policies is a waste of taxpayer dollars that does not improve the day-to-day lives of those we serve.

As shown above, the language of the memo was extremely broad, many terms were left undefined and at least in theory, the pause could affect as much as \$3 trillion of federal spending. Many state and local governments, as well as NGOs, were left scrambling to figure out whether the spending pause impacted their funding and which programs were covered (or not). A later memo sought to “clarify” the scope of the spending freeze, but it only added to the confusion.

Many recipients of federal assistance ran to the courts to file petitions for injunctive relief, temporarily staying the application of several Executive Orders, while the courts figured things out. The OMB eventually withdrew the January 27 memorandum and at least two courts have ordered the federal government to leave the pause without effect until the courts had time to hear arguments on the merits of the issues.

Nonetheless, several organizations and grant recipients still complained their funding was missing, withheld, or impossible to access through traditional means (mostly web-based portals that went offline). For example, [Politico reports](#) that eight nonprofit groups, which were awarded **\$20 billion** in funds from the Greenhouse Gas Reduction Fund administered by the Environmental Protection Agency, “have been shut out of their accounts at Citibank since Feb. 18 because of a still-unexplained freeze imposed amid criticism from President Donald Trump’s administration.” In addition, many organizations, out of an abundance of caution or perhaps acts of anticipatory obedience, have stopped providing certain services or refrained from engaging in certain actions. This type of self-imposed spending freeze has already affected financing for green energy projects, and the provision of services to vulnerable populations, such as low-income women and children, seniors, and HIV patients, among other groups.

To give you an idea of the potential magnitude of the impact, the [Congressional Research Service](#) (“CRS”) estimates the federal government “sent state governments \$1.112 trillion in FY2022, 36.1% of total state government revenue (in some cases, portions of this funding was passed through to local governments). That same year, states provided \$662.3 million to local governments, 28% of local government revenue, (some of this funding was federal funding “passed through” states to local governments.” (see chart below) That figure does not include direct funding to NGOs and nonprofits that provide direct services to people.



Source: U.S. Census Bureau, Annual Survey of State and Local Government Finances.

As mentioned before, the only recourse local government, recipients, or grantees have is to file a judicial action against the federal government. As of this writing, the organization Just Security has identified through its [litigation tracker](#) at least 129 lawsuits against the federal government arising out of or in connection with the issuance of executive orders. It will take a while for this docket to get through the court system. In the meantime, uncertainty prevails and the administration keeps pushing on its extremist agenda.

The damage inflicted by these decisions will be long-term, and in some cases, we fear, permanent. During a recent press conference, Elon Musk, who leads the Department of Government Efficiency, reorganized by Executive Order, stated that they expected to make mistakes and to reverse them if and when called out on them. The problem is that this “move fast and break things” philosophy, regardless of its merit in the tech world, is not a good guide to streamlining government services. Do we really want to eliminate the jobs of those who work on regulating aircraft security, the use of hazardous chemicals, or the maintenance of nuclear weapons? In the [words of Martin Wolf](#), Chief Economics Commentator at the Financial Times, “one does not make a complex system more efficient by hacking away at it at random.” And in some cases, it just could be too late to reverse the damage already inflicted by reckless budget cuts.

To be sure, the Federal government, which is on track to [spend \\$6.9 trillion during the current fiscal year](#), is bound to have operational inefficiencies and some of its spending can probably be described as wasteful. It is also true that federal regulations accumulate much like sediment in an old riverbed as time goes by. As far as we can tell, though, no one opposes reasonable efforts to make the federal government more effective or to eliminate real waste, fraud, and abuse.

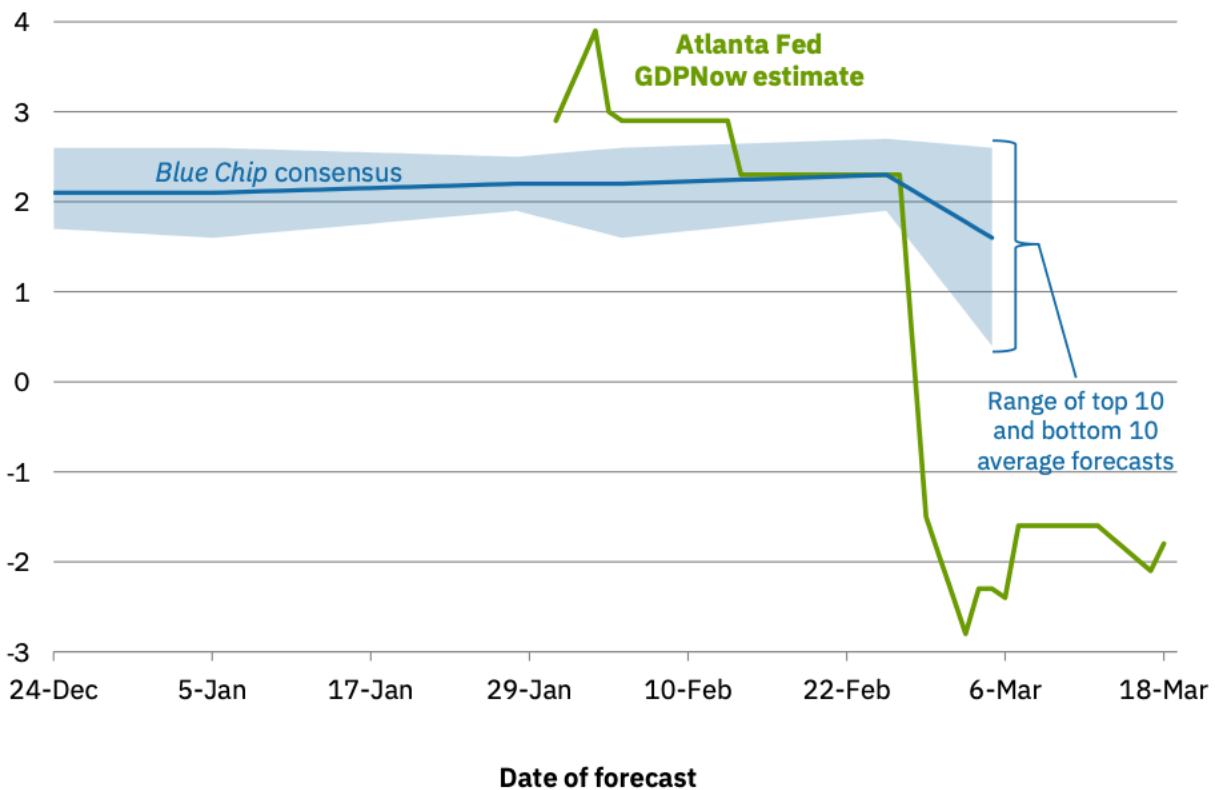
As Jennifer Pahlka and Andrew Greenway [write in a recent paper for the Niskanen Center](#), the federal government's capacity to execute and implement public policy has decreased significantly during the last forty years or so. The challenge of "rebuilding our state capacity — the *how* of our government — is an arduous task that requires a stomach for learning and fixing the rules and culture of the bureaucracy." However, blindly cutting programs and reducing the federal workforce does not improve operations nor does it build the state capacity we need. According to Pahlka and Greenway, smartly building state capacity requires a whole new approach to how the government works by focusing on (1) hiring the right people, (2) reducing excessive procedures, (3) investing in digital infrastructure, and (4) implementing continuous "test and learn" approaches in the pursuit of policy outcomes. A very different approach from the Trump Administration's method of government reform.

In the short term, in addition to the damage done to the federal government's capacity to function and to important government agencies and programs that are negligently and unwisely cut, some economists are openly wondering about the risk that the United States could be sleepwalking into a financial crisis. According to [Wendy Edelberg and Ben Harris](#), from the Brookings Institution, the "true risk" to our economy "is our political leaders doing something wildly irresponsible that unnerves financial markets." For example, "the president declaring he can pick and choose which holders of United States Treasury securities should be paid." With Elon Musk running loose around Washington, gaining access to the Treasury payment system, taxpayer information at the IRS, and social security data for heretofore unknown and undisclosed purposes, the occurrence of a grave mistake cannot be ruled out.

There is also some evidence regarding the negative economic effect of all the uncertainty created by the Trump Administration's new policies. [The GDPNow](#) forecast from the Federal Reserve Bank of Atlanta estimates "real GDP growth (seasonally adjusted annual rate) in the first quarter of 2025 is -1.8 percent on March 18, up from -2.1 percent on March 17.

Evolution of Atlanta Fed GDPNow real GDP estimate for 2025: Q1

Quarterly percent change (SAAR)



Sources: *Blue Chip Economic Indicators* and *Blue Chip Financial Forecasts*

Note: The top (bottom) 10 average forecast is an average of the highest (lowest) 10 forecasts in the *Blue Chip* survey.

While we should be careful not to read too much into one short-term indicator, it is only fair to point out that President Trump's actions to reduce the civil workforce, to cut back billions of dollars' worth of federal investments, to punish trade partners with new tariffs, and to crack down on migrant workers do not bode well for the health of the U.S. economy nor do these policies inspire the confidence necessary to sustain long-term consumption and investment in the United States. It is also clear that, some of the soft economic indicators, such as consumer confidence, labor market prospects, and inflation expectations, are pointing in a negative direction.

Take the issue of tariffs on products from Canada and Mexico. According to [Brad Setser from the Council on Foreign Relations](#), "The 25% tariffs on Mexico and Canada [are] **a move that is likely to be considered one of the most self-destructive economic policy steps in recent history**. Tariffing the U.S. auto supply chain—and imports of autos from Canada and Mexico that have a ton of embedded U.S. content—while leaving the market for imports from [South] Korea and Japan open is a bit mad. . . Tariffing Mexico but not Southeast Asia is equally crazy—it is a massive gift to all the Chinese firms using Chinese parts to supply the U.S. consumer market from [Southeast] Asia."

What Are Tariffs and What Powers Does the President Have Over Them?

A tariff is a tax on imported goods and services.

Historically, tariffs were a major source of U.S. federal revenue until the late 1800s. Today, tariffs are mainly used to:

- Protect domestic industries.
- Advance foreign policy objectives.
- Leverage negotiations in trade agreements.

Under modern trade systems, about 70% of U.S. imports enter duty-free due to trade deals and preferences.

Tariffs now account for a small share of federal revenue (e.g., 1.57% of total revenue in FY2024).

Congress holds constitutional authority over tariffs but has delegated significant power to the president.

The president can adjust tariffs without new congressional action under various laws, especially for national security, emergency situations or sudden import surges.

Source: CRS Report IF11030 Version 14

Over the long term, the main threat is the potential damage to American institutions such as the rule of law, due process, and the separation of powers. The Trump Administration has taken a maximalist view of the scope of executive, specifically presidential, power. This perspective runs contrary to American constitutional law and well-established democratic norms and practices. For example, the President's assertion in an [Executive Order issued on February 18](#) that the "President and the Attorney General (subject to the President's supervision and control) will interpret the law for the executive branch, instead of having separate agencies adopt conflicting interpretations" is simply flat-out wrong and unconstitutional.

Under the American constitutional system, it is up to the courts to interpret what the law means. Congress also has the power of the purse (the spending power) under Article I, section 9, clause 7 of the U.S. Constitution. The president doesn't get to rewrite appropriation laws, impose additional requirements or conditions on spending not legislated by Congress, or refuse to spend duly appropriated funds. Yet, Congress has been surprisingly acquiescent to President Trump's strong assertion of executive power.

This is a dangerous situation. As Steven Levitsky and Daniel Ziblatt have pointed out in *How Democracies Die* (Crown, 2018), the American political system is not designed to withstand this kind of "Constitutional hardball", which they define as a "form of institutional combat aimed at permanently defeating one's partisan rivals—and not caring whether the democratic game continues."

They also note that adherence to two informal norms is key for the functioning of American democracy: (1) mutual toleration, defined “as the idea that as long as our rivals play by constitutional rules, we accept they have an equal right to exist, compete for power, and govern”; and (2) institutional forbearance, which they define as restraining from exercising a legal right or institutional prerogative to its full extent if “such an action could imperil the existing system.” In the six weeks or so since January 20, the Trump Administration has shown little willingness to exercise either tolerance or institutional forbearance. Instead, it has chosen, over and over again, to test the limits of the resilience of the American political system.

To be fair, the Trump Administration has not yet flat-out refused to comply with a court order, but is coming close to crossing that line. So far, according to the New York Times, 41 court rulings have paused Trump’s initiatives, at least temporarily. And, recently, the Supreme Court refused to reverse a lower court ruling ordering the Trump Administration to disburse \$2 billion in foreign aid that had been frozen. Thus, the courts appear to be doing their job, but many lawyers and scholars are concerned we may be heading towards a constitutional crisis. That moment would arrive, for example, if the Supreme Court permanently reverses an Executive Order cutting spending or orders the president to implement a specific spending law and then the president decides to ignore the court order.

In this sense, the stability of the American political system is wholly contingent on elected officials abiding by a sort of honor code: we all agree the courts have the last word regarding the constitutionality or legality of any action or omission on the part of the executive or the legislative branch. Undermining the courts’ authority or legitimacy to act could cause the collapse of the entire house of cards. That is why in the event Trump decides to challenge the rule of law this time around, the only effective remedy available to the opposition could be to “shut down the country” in the [words of Anthony Romero](#), Executive Director of the A.C.L.U. At that point, the only deterrent available would be an impeachment proceeding, a threat that has been ineffective in the past against President Donald Trump.

Potatoes and Beer: When Trade Wars Hit Home

By: Enrique Figueroa Grillasca, Research Associate

The next four years are expected to be marked by economic uncertainty and shifting trade policies. One key issue is the brewing trade war between the U.S., Canada, and Mexico.

Estimating the impacts of changes in tariffs is a complex task. When we add the current high level of uncertainty and take into account the constantly evolving situation, deciphering the specific regional effects of these tariffs becomes even more difficult, amounting to nothing more than a shot in the dark. This is because effects from a tariff shift cannot simply be assumed to be a straight-line increase in prices by the amount of the tariff.

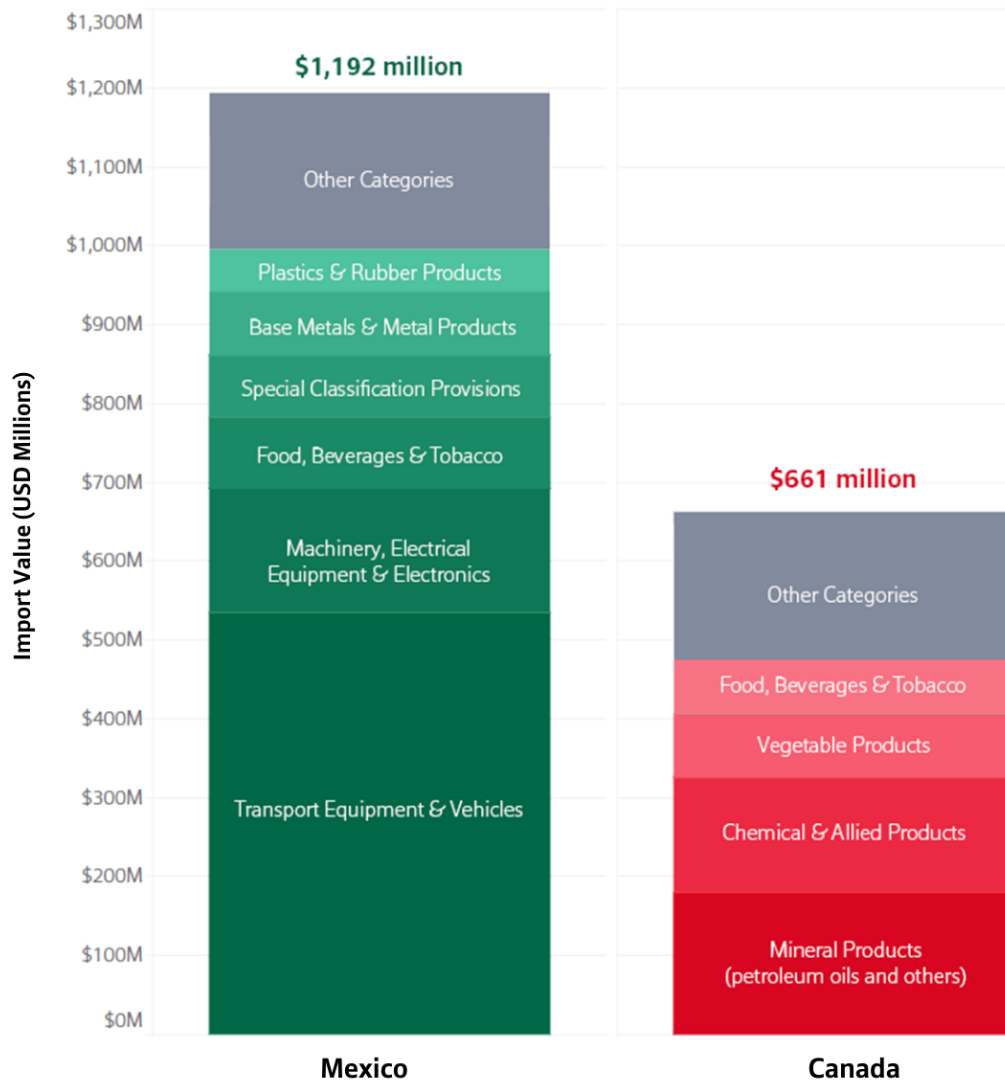
Both consumers and producers respond to price shifts through a variety of mechanisms, primarily substitution. As prices for any one good increase, consumers will substitute it with a comparable good at a lower price. In the case of tariffs and their impacts one could imagine that as the price of Mexican beer increases due to tariffs, consumers will buy less Mexican beer and shift towards other alternatives, say Dominican or Spanish beer. These are known as first order effects, or the immediate response to a change in conditions.

Similarly, producers substitute their inputs where possible. One example could be local environmental control system manufacturers and suppliers who import a large amount of their compressors and related components from Mexico. These substitutions are not immediate, perfect, nor necessarily possible (the degree of this is measured econometrically by estimating elasticities), which can lead to temporary increases in prices and supply disruptions. These same dynamics apply to producers in the US which Puerto Rico imports goods from making yet another channel through which tariffs will impact the island's economy. There are subsequent responses as well, as consumers modify their preferences and producers reallocate their resources to shift their product mix in response.

As events unfold and policies stabilize it will become more feasible to tease out the effects of these tariffs. Although the following is not an analysis of the potential impacts of any specific tariff, we believe that understanding the trading relationship between Puerto Rico, Canada, and Mexico is a crucial first step.

Puerto Rico imports a significant volume of goods from Canada and Mexico, both as final products for consumption—such as \$72 million worth of Canadian potatoes or \$26 million worth of beer from Mexico—and as intermediate inputs for local manufacturing, including \$24 million in compressors from Mexico.

2023 Total Imports from Mexico and Canada to Puerto Rico



Source: Compiled using the U.S. International Trade Commission's DataWeb (<https://dataweb.usitc.gov>) from official U.S. merchandise trade statistics published by the U.S. Department of Commerce, Census Bureau



Any increase in tariffs will affect the prices of goods, employment, and economic output. However, predicting the precise impact is difficult due to their dependence on consumer and producer responses, which in turn depend on income and price elasticities, the availability of substitute goods, and shifting production strategies.

However, these tariffs, if they become permanent, would mark a major shift in U.S. economic policy, and will have global consequences. The ultimate effects, though, will depend on the final policies adopted by all countries involved and how markets adapt in response.



The Center for a New Economy (CNE) is Puerto Rico's first and foremost policy think tank, an independent, nonpartisan group that advocates for the development of a new economy for Puerto Rico. For more than 25 years, CNE has championed the cause of a more productive and stable Puerto Rico through its offices in San Juan, Puerto Rico, Washington, D.C., and Madrid, Spain. We seek to inform current policy debates and find solutions to today's most pressing and complex economic development problems by rigorously analyzing hard data and producing robust empirical research. CNE is organized as a 501(c)(3) nonprofit that does not solicit or accept government funding. It relies solely on funding by individuals, private institutions, and philanthropic organizations.