



The Daily Dish

## August 4th Edition

DOUGLAS HOLTZ-EAKIN | AUGUST 4, 2015

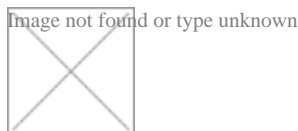
[Obamacare enrollees are less satisfied](#) with their plans than others who purchased their insurance outside of the exchange. The new poll from the Deloitte Center for Health found that only 30 percent of people with Obamacare insurance purchased through an exchange are satisfied. Costs were cited as the most common reason, not a surprise given that other surveys have found that “a silver-level ObamaCare plan was \$2,907, more than twice as much as the average deductible in an employer-sponsored plan.”

Individuals who invest in securities will face a 73 to 196 percent fee increase on their trades due to the Obama Administration’s fiduciary rule. [The AAF research shows](#) that the rule will cost firms, on average, \$21.5 million in initial compliance costs and recurring annual costs of over \$5 million. This is just the most recent financial regulation to come out of the Dodd-Frank law, which will [reduce economic growth by \\$895 billion over the next decade](#).

[A number of states, led by West Virginia, have filed a lawsuit against](#) the administration over the President’s new “Clean Power Plan.” The plan promises to close coal and natural gas power plants in favor of renewable energy, likely driving up the costs of energy for consumers. According to the Attorney General of West Virginia, “This final rule adopts a radical, unprecedented regime, transforming EPA from an environmental regulator into a central planning authority for electricity generation.”

### ***Eakinomics: Puerto Rico: The Default Solution is Growth***

Yesterday Puerto Rico [defaulted](#) on bond payments for the first time. Financial problems have created a cottage industry analyzing its problems. (See the “[Krueger Report](#)” and the “[Centennial Report](#)” for opposing views.) At the center of the problem is poor growth in Puerto Rico. As the chart below (reproduced from the Krueger report) shows, Puerto Rico has had negative growth for years — poor growth that cannot be laid at the feet of the Great Recession on the mainland.



The poor economic performance has produced an exodus of productive workers to the mainland U.S. As a result, Puerto Rico’s population has been shrinking and its labor force participation is now down to 40 percent.

The primary objective, then, has to be to improve the growth performance. This will require a host of important reforms:

- Improve labor market flexibility and work incentives. Congress should reduce the minimum wage for Puerto Rico. The current minimum wage is at 77 percent of per capita income compared to 28 percent on the mainland. Puerto Rico should reform its onerous overtime, paid vacation, and dismissal policies.

Congress should also pare back its overly-generous social safety net which provides greater income than a minimum wage job.

- The government-owned utility should be privatized and reformed; high electricity costs hurt the manufacturing sector.
- Congress should exempt Puerto Rico from the Jones Act, which requires costly American-flagged ships to carry all cargo.
- Improve the regulatory and new-business climate.
- The Commonwealth needs a comprehensive fiscal overhaul that improves tax incentives, raises tax compliance, exerts effective control over the myriad quasi-government entities and lowers projected spending.

The list of particulars could go on. The basic point, however, is that a combination of structured growth reforms and deep fiscal reforms are needed. Self-help is the key to Puerto Rico's future.

One thing not on this list is the recent proposal to extend Chapter 9 bankruptcy protection to Puerto Rican government-owned entities. This would be a mechanism for giving bondholders a haircut, but there is nothing about a one-time haircut that would solve the ongoing, chronic economic and fiscal challenges. Moreover, general obligation bonds account for nearly half (40 percent) of the \$72 billion in debt load; these cannot be addressed in Chapter 9, so it would be an incomplete one-time fix. And, of course, it is the classic example of changing the rules in the middle of the game; this will doubtless lead to unintended consequences.

Puerto Rico's problem is bad growth. The primary emphasis should be on restoring its capacity to grow and succeed.

### ***From the Forum***

[Primer: Miscellaneous Tariff Bills](#) by Laura Collins, AAF Director of Immigration Policy

[DOL's Proposed Fiduciary Rule: Not in the Best Interest of Investors](#) by Meghan Milloy, AAF Director of Financial Services Policy

### ***Fact of the Day***

What has the administration's supposedly deregulatory "retrospective review" program produced? Nearly [\\$3 billion in new net costs](#).