

The Daily Dish

Puerto Rico Debt

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Eakinomics: Puerto Rico Debt

"You know, they owe a lot of money to your friends on Wall Street, and we're going to have to wipe that out. You can say goodbye to that. I don't know if it's Goldman Sachs, but whoever it is, you can wave goodbye to that." Those were the words of President Trump to a correspondent for the Fox News show "Hannity" after visiting the devastated territory of Puerto Rico. The statement sent Puerto Rican debt into a tailspin. Almost immediately, however, the White House began walking back the president's remarks. When asked on CNN about the president's suggestion that the United States might wipe out Puerto Rico's liabilities, Mick Mulvaney, director of the Office of Management and Budget, cautioned "I wouldn't take it word for word with that."

Indeed, it is not entirely clear to what the president might have been referring. Puerto Rico does not have access to conventional municipal bankruptcy protections. However, under the Puerto Rico Oversight, Management, and Economic Stability Act (PROMESA) passed last year, there is a special, court-supervised bankruptcy procedure available to the island if negotiations with creditors mediated by a fiscal control board (set up by PROMESA) fail. This procedure is already underway to resolve bonds issued by the central government; eventually, it is likely to apply to all of the over $70 billion in liabilities of the government, agencies, government-run businesses, and localities.

Certainly, the idea of eliminating the obligation to repay the $72 billion in borrowing would be a relief to the territory — and a blow to investors. But even that would be far from a panacea. Puerto Rico has suffered from decades of poor economic policy, has chronically high poverty and unemployment, and continues to suffer an outmigration of skilled workers to the mainland. The devastating impacts of Hurricane Maria simply exacerbate the situation. A real solution will involve not only debt restructuring (and relief) but also reforms to generate pro-growth policies. From this perspective, federal involvement should be a two-step initiative. The first step is emergency relief for those suffering the impacts of Maria. The second step is to embed reform into the rebuilding effort. Reviving Puerto Rico to mirror its former self would be a disservice.