Insight

# On Bailouts and Puerto Rico

GORDON GRAY | MAY 10, 2016

A search of Meriam-Webster's online dictionary for the term "bailout," provides the following definition, "the act of saving or rescuing something (such as a business) from money problems." In and of itself, a bailout would appear as fairly benign, and indeed, inasmuch as the term is derived from pumping or "bailing" water out of a foundering boat, might seem rather noble. But with it bit more context, charity by sea becomes theft by land.

The history of financial bailouts typically involves taxpayer money being used to shore up private enterprises engaged in risky behavior, such as Savings and Loan firms in the 1980s and on much larger scale with financial institutions (plus a few car companies) at the end of the last decade. Needless to say, the public takes a dim view of anything that reeks of a "bailout."

It is no surprise then, that the term is thrown about in political discourse with more frequency and less rigor. This tendency figures prominently in the debate over Congressional action over Puerto Rico's budget and economic challenges.

The commonwealth of Puerto Rico has been facing the vicious cycle of slow growth and rising debt for over a decade, and is now beginning to default on its portfolio of $70 billion in debt, spread across several government and quasi-governmental entities. The specter of greater financial disorder and the diminution of public services on the island has prompted a debate in Washington on how best to address the near and long-term challenges confronting the Commonwealth.

The right mix of solutions would address both, but would focus on structural weaknesses in Puerto Rico's budget and economy. The House of Representatives is considering a bill that would jumpstart this process.

Predictably, opponents of the House bill have been quick on the "bailout" draw.

To be clear, the House bill neither spends nor pledges federal funds to shore up Puerto Rico's finances. Rather, the House bill would create a financial management board to provide needed fiscal oversight of the Commonwealth's budgeting and establish a means of reorganizing the Commonwealth's debts. The House bill also includes some important labor market reforms, among other provisions. None of these provisions contemplate the use of federal taxpayer funds to bail out Puerto Rico.

This policy approach stands in stark contrast with the Obama Administration's proposals for Puerto Rico: $30 billion in additional health spending and $7 billion in a new refundable federal income tax credit (ever though residents of Puerto Rico do not pay federal income taxes), and new debt restructuring regime designed to benefit its politically-favored constituents in public sector unions.

One approach would put in place mechanisms for addressing short and long term budget and economic challenges for the Commonwealth without a dime in federal costs. The alternative approach would pledge upwards of $40 billion taxpayer funds and continue to abet the financial mismanagement that contributed to Puerto Rico’s problems in the first place.

That the former could be derided as a bailout would be laughable if the epithet wasn’t starting to stick. When Congress comes back into session, it has the opportunity to make the case for why the legislation it is considering is a responsible approach to Puerto Rico’s challenges, and safeguards taxpayer dollars against bailouts as we’ve come to know them – now or in the future.