

Puerto Rican government-debt crisis / Puerto Rico should be allowed to declare bankruptcy

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Position: Puerto Rico should be allowed to declare bankruptcy

This position addresses the topic Puerto Rican government-debt crisis.

For this position

“ True, the commonwealth's problems are, in part, its own fault, due to overspending and reported corruption. But many of its woes stem from its decades as a second-class U.S. citizen. A humanitarian crisis in Puerto Rico is Connecticut's crisis, and the nation's, too. We can't turn our backs on it. ”

From Give Puerto Rico A Way Out Of Crushing Default, by The Hartford Courant editorial board (*The Hartford Courant*, October 28, 2015) (view)

“ In return for making bankruptcy protection available to Puerto Rico, the Obama administration has proposed a sensible trade-off: the creation of an independent board to oversee the island's finances. The board would help ensure that Puerto Rico's leaders don't revert in the future to the kinds of fiscally irresponsible policies, including excessive spending and borrowing, that helped wreck the government's finances. ”

From Give hand to Puerto Rico to ease crisis, by Orlando Sentinel editorial board (*Orlando Sentinel*, October 28, 2015) (view)

“ Many investors who have lent money to Puerto Rico and stand to lose under any debt restructuring are bitterly opposed to the Obama plan. They say Puerto Rico can repay all of its debt if it tightens its belt and privatizes utilities and other government-owned businesses. Changing the law now, they argue, is deeply unfair. But the record of what has happened in troubled countries like Greece is clear: Austerity policies have only worsened the crisis. As for the fairness argument, legislators change laws all the time to meet new circumstances. ”

From Save Puerto Rico Before It Goes Broke, by The New York Times editorial board (*The New York Times*, October 24, 2015) (view)

“ An earlier House Natural Resources Committee proposal stalled after some Republicans carped that allowing Puerto Rico to write down its debt is tantamount to a bailout. But doing nothing, as some have proposed, will result in anarchy and a back-door bailout as tens of thousands of Puerto Ricans flee to the mainland where they will land on the U.S. public dole. ”

From Puerto Rico's Debt Portent, by The Wall Street Journal editorial board (*The Wall Street Journal*, May 2, 2016) (view)

“ Some Republican lawmakers remain skeptical. They've raised an important point: Allowing Puerto Rico to enter into a financial restructuring might weaken investor confidence in general obligation bonds issued by the 50 states, raising their costs of borrowing in the future. To avoid this outcome, Congress should craft a restructuring under the Territorial Clause of the U.S. Constitution that is designed only for Puerto Rico — and only this time. Puerto Ricans won't like it, but the deal must include a federal oversight board to ensure that Puerto Rico lives within its means and meets its reduced debt obligations. ”

From Congress must help Puerto Rico by restructuring its debt burden, by The Miami Herald editorial board (*The Miami Herald*, March 9, 2016) (view)

“ In the United States proper, the bankruptcy courts provide well-established roadmaps for going broke and starting over for individuals, businesses and, under Chapter 9, for municipalities. But, in 1984, for reasons no one can divine, Congress enacted legislation specifically stripping Puerto Rico's localities access to the federal system that determines who will get paid what and who will lose how much. ”

From Tough love for Puerto Rico: Let the indebted island commonwealth declare bankruptcy, by New York Daily News editorial board (*New York Daily News*, March 28, 2016) (view)

“ There are remedies when governments run up debt. If Puerto Rico were an American city, it could declare bankruptcy, as Detroit did in 2013. If it were a state, the federal government would surely have already declared emergency measures to help the most vulnerable. But since it is a territory of the United States, there is no system in place to handle the financial and humanitarian crisis that is happening right now. ”

From Give Puerto Rico Its Chance to Thrive, by Lin-Manuel Miranda (*The New York Times*, March 28, 2016) (view)

“ The bill should give the island the ability to go to federal court so that a judge can oversee the restructuring and impose new terms on creditors who refuse to negotiate. Puerto Rico has been in talks with creditors for months with little progress. Many creditors are unwilling to compromise in the hope that they can recover more money if the island is forced into asset sales, higher taxes or more spending cuts. ”

From Congress Needs to Throw Puerto Rico a Lifeline, by The New York Times editorial board (*The New York Times*, March 12, 2016) (view)

“ Ultimately, though, the hedge funds and mutual funds that bought Puerto Rico's tax-free bonds will have to support the government's effort to reignite the economy. That means dropping their opposition to the needed change in bankruptcy law, accepting some losses and helping the government develop a restructuring plan that emphasizes growth in addition to responsibility. ”

From How to handle Puerto Rico's debt crisis, by Los Angeles Times editorial board (*Los Angeles Times*, July 2, 2015) (view)

“ This plan can work only if Congress acts. Federal lawmakers have to allow the island’s public corporations, such as its electric utility and highway authority, to restructure their \$25 billion in debt in bankruptcy court (as cities and government-owned businesses in the rest of the country can). A bill to change the bankruptcy law has been introduced in the House, but has not advanced because of opposition from some hedge funds. ”

From Puerto Rico Needs Debt Relief, by The New York Times editorial board (*The New York Times*, July 1, 2015) (view)

“ As the former U.S. Treasury economist Ike Brannon has pointed out, one way or another, Puerto Rico is going to have its debt burden lifted, either through a federal bailout or bankruptcy. While not ideal, allowing the island to simply go bankrupt would have the benefit of not leaving John Q. Taxpayer on the hook for Puerto Rico’s profligacy. Of course, if bondholders are not paid, Puerto Rico will have an especially hard time borrowing again and getting back on its feet. ”

From P.R. disaster, by The Providence Journal editorial board (*The Providence Journal*, January 4, 2016) (view)

“ Still, we see no alternative to a robust supervisory authority as part of the ultimate Puerto Rico solution. As D.C.’s experience proves, such an authority is necessary not only financially but politically, because Congress — especially a Republican Congress — will not help without plausible, institutional guarantees that any rescue is a one-time occurrence. ”

From A way out for Puerto Rico, by The Washington Post editorial board (*The Washington Post*, February 5, 2016) (view)

“ There are two main objections to the bill: that it amounts to changing the rules under which investors agreed to buy Puerto Rico’s debt and that the island could scrape together the cash to pay its creditors if it were to reform the entities in question, especially the notoriously inefficient electric utility, which is owed hundreds of millions of dollars by the island government. Both points are valid, to an extent — just as it’s valid to point out that investors in Puerto Rican debt heretofore enjoyed an especially sweet deal because it paid tax-free interest. ”

From Congress can help ease Puerto Rico’s debt crisis, by The Washington Post editorial board (*The Washington Post*, February 26, 2015) (view)

“ Employment laws, such as mandatory 15 days of paid vacation, and stringent job protections provide disincentives to hire. Generous welfare, housing, food stamp and health benefits discourage work. Nearly half of island residents are on Medicaid. A household can rake in 50% more in government assistance than the take-home monthly minimum wage. ”

From Saving Puerto Rico From Itself, by The Wall Street Journal editorial board (*The Wall Street Journal*, December 25, 2015) (view)

“ But the choice isn’t between bankruptcy and full repayment; it’s between a disorderly default, and an established judicial process in which both sides can make their cases to a court. And the moral hazard argument runs both ways: Investors involved in Puerto Rico’s ongoing attempts to borrow its way out of its problems had to know there was political risk in lending to the overleveraged government. The question here is not what’s best only for creditors, but what’s best to put the island on the path to economic recovery. ”

From Bankruptcy can give Puerto Rico the help it needs, by The Boston Globe editorial board (*The Boston Globe*, August 6, 2015) (view)

“ The government could also improve its finances by raising taxes, which are very low by international standards. Puerto Rico only collects about 11 percent of its gross domestic product in taxes, compared with the 33 percent average for advanced countries. Gov. Alejandro García Padilla has proposed replacing the island’s 7 percent sales tax with a 16 percent value-added tax. That might be too large an increase given the economy’s weakness, but a smaller increase phased over time and higher income tax rates could help, as would better policing of tax evasion. ”

From Puerto Rico on the Brink, by The New York Times editorial board (*The New York Times*, April 29, 2015) (view)

“ PROMESA offers several pragmatic steps to set a path for recovery that should remain in the new version of the bill that emerges from current negotiations. These include: a federal control board to oversee Puerto Rico’s finances, albeit one that recognizes Puerto Rico’s sovereignty in at least some way; and granting the island the tools needed to restructure some of its debt under court supervision. ”

From Congress must act to give Puerto Rico relief, by The Boston Globe editorial board (*The Boston Globe*, April 26, 2016) (view)

“ Done right, legislation that would help Puerto Rico through its financial crisis would not cost the federal government any money. And allowing the island to restructure its debt would not mean that Congress would have to give states like Illinois that also owe a lot of money to investors the ability to do the same. ”

From Only Congress Can Rescue Puerto Rico, by The New York Times editorial board (*The New York Times*, April 23, 2016) (view)

“ Bankruptcy protection should be enacted, to ensure that creditors rather than taxpayers take the hit from the island’s insolvency. This is not ideal, since it involves retroactively changing the rules on creditors. But most major changes in bankruptcy law have had retroactive application; this change is needed because of a hole in the old law; and it is better than the likely alternative of taxpayer exposure. ”

From The Puerto Rico Debt Bill Is a Good Start, by National Review editorial board (*National Review*, April 20, 2016) (view)

“ This bill is far from perfect. But it’s clear that if all sides fail to come to an agreement soon, dominoes will begin to fall. Puerto Rico must be allowed to restructure its debt and in a manner that does not do serious injury to its sovereignty. ”

From Congress must rescue Puerto Rico, by San Antonio Express-News editorial board (*San Antonio Express-News*, April 17, 2016) (view)

“ It would establish a financial control board similar to the one that helped bring the District back from financial near-death in the 1990s. The proposed design of the board includes a number of provisions that respect and protect the legitimate prerogatives of the island’s legislature and governor, while ensuring that they would not be able to prevent necessary fiscal reforms imposed by the board. Importantly, the bill would present Puerto Rico with a tough but realistic goal — four straight years of balanced budgets — which, once achieved, would release it from board control. ”

From A Puerto Rico rescue would be progress, not a bailout, by The Washington Post editorial board (*The Washington Post*, April 14, 2016) (view)

“ The measure represents what has been sorely lacking in Congress in recent years: a good-faith effort to solve a festering problem through pragmatism and cross-party consultation. Although some Democrats and Puerto Rican leaders have criticized the control board aspect of the plan, such boards are necessary and highly effective when governments get too far into debt. A board has helped Detroit address its debt problems, and a similar one got Washington, D.C., back onto its feet in the 1990s. ”

From Fixing Puerto Rico, by USA Today editorial board (*USA Today*, April 12, 2016) (view)

Against this position

“ If Congress is committed to trying to help even beyond the establishment of a financial control board, it should consider granting exemptions to the federal minimum wage requirement and the Jones Act, the latter of which has already been done for the U.S. Virgin Islands. These options would amount only to a first step toward a pro-growth, market economy, but nonetheless provide the prospect of a new path for Puerto Rico. In contrast, both a bailout and Chapter 9 bankruptcy would mean just more of the same for years to come. ”

From Puerto Rico needs reform, not bailout, by Andrew Quinlan (*The Detroit News*, March 4, 2016) (view)

“ What makes this story particularly obnoxious is that Padilla sought out private investment capital to balance the books, promising investors the government would never (fingers crossed!) seek or declare bankruptcy protection... while at the same time hiring bankruptcy advisers under the proverbial table. ”

From Closing time for Puerto Rico, by Eric Peters (*The Detroit News*, March 18, 2016) (view)

“ Bankruptcy will increase the Commonwealth's borrowing costs by decreasing its credit rating for years to come. This increase will only cost the taxpayers far more for the financing of Puerto Rico's debt. Bankruptcy will severely discourage private investment and cause enormous opportunity costs to the economy. Bankruptcy will also not do anything to reform the government, economy and financial system of the Commonwealth. ”

From No bankruptcy for Puerto Rico, by Dean Chambers (*The Washington Times*, March 16, 2016) (view)

“ Mr. Pierluisi's insistence that Puerto Rico needs chapter 9 also has been undermined by the voluntary restructuring worked out between the Puerto Rico Electric Power Authority (Prepa), the largest public corporation on the island, and its creditors, who are owed some \$8 billion. In February Puerto Rico's legislature approved the deal, in which the face value of most bonds is cut by 15% and coupons are cut by approximately 1 percentage point in exchange for a dedicated revenue line on customer bills to pay debt service. ”

From Just Say No to a Puerto Rico Bankruptcy, by Mary Anastasia O'Grady (*The Wall Street*

Journal, March 13, 2016) (view)

“ And it is far from clear that Congress has the power to use Chapter 9 to manage Puerto Rico’s current crisis in any case: Extending Chapter 9 would constitute a clear ex post facto impairment of the property rights of Puerto Rico’s creditors, and as such is a constitutional no-no, not that such constitutional niceties carry much weight in the Obama era. ”

From What to Do About Puerto Rico, by National Review editorial board (*National Review*, July 6, 2015) (view)

“ If the Caribbean commonwealth’s leaders have their way, the net result would have U.S. taxpayers underwriting a bailout — and U.S. seniors and working Americans being forced to absorb financial losses for problems they had no part in creating. With \$18 trillion in national debt and continued unfettered federal spending in Washington, don’t we have plenty of financial problems of our own? ”

From Chapter 9 bankruptcy for Puerto Rico is a taxpayer bailout, by Mike Watson (*Richmond Times-Dispatch*, July 11, 2015) (view)

“ Now is the time to show Puerto Rico the way, not lead them down the path to destruction. No bailout. No bankruptcy protection. Make the hard choices. Revamp the entire system leaving nothing sacred. Then Puerto Rico would see investment capital flood their island followed by a horde of Americans looking for a safe, English-speaking, white sand beach experience. ”

From Don’t bail out Puerto Rico, by Steve Sherman (*The Des Moines Register*, February 11, 2016) (view)

“ P3s offer the government the ability to privatize public assets. This eliminates the day-to-day costs of operation while improving local services and infrastructure. There remain significant opportunities for future P3s that could collectively eliminate up to a quarter of their debt. These include other roads, airports, seaports and utilities. Privatizing just the Puerto Rico Electric Power Authority and the Puerto Rico Aqueduct and Sewer Authority would eliminate \$15 billion of government debt alone. ”

From To save Puerto Rico from bankruptcy, face the facts, by Jorge San Miguel (*New York Post*, August 31, 2015) (view)

“ Bankruptcy protection rewards bad behavior by allowing Puerto Rico to walk away from financial responsibilities without making real changes to the policies that created this fiscal disaster in the first place. Enacting bankruptcy laws now is also tantamount to changing the rules in mid-game. As an alternative, politicians and some investors are backing a financial control board not unlike the state-created Emergency Financial Control Board that held extraordinary power following New York City’s financial crisis. ”

From Puerto Rico must remake its finances, by John Sununu (*The Boston Globe*, August 3, 2015) (view)

“ Shed few tears for those who, by buying Puerto Rico’s (or Illinois’) debt, enable the sort of high-spending, vote-buying governance that bankrupted Detroit and soon will have Illinois begging for what does not and should not exist — a bankruptcy option for states. Puerto Rico’s debts should not be restructured in a way that sets a precedent allowing Illinois to dodge both debts and reforms, particularly reforms pertaining to government employee unions that have contributed to the territory’s dysfunction. The more Puerto Rico is allowed to evade existing legal processes and the need to negotiate with creditors, the more leeway it will have to resist reforms. ”

From What happens in Puerto Rico won't stay there, by George F. Will (*The Washington Post*, April 27, 2016) (view)

“ The Ryan bill would enable Puerto Rico to take refuge in a kind of super Chapter 9 bankruptcy, under which its debts would be “restructured,” including the general obligation debt, backed by the “full faith and credit,” such as it is, of the Puerto Rican territorial government. Unfortunately, this would set a precedent for profligate states, making it difficult to say no when Connecticut, California or Illinois come calling to say that what was good enough for Puerto Rico is good enough for them, too. ”

From Saving Puerto Rico, by The Washington Times editorial board (*The Washington Times*, April 19, 2016) (view)

“ Puerto Rico's politicians want to give creditors a haircut but maintain the political status quo. What the island needs is to restructure its bloated government and debt including pensions, which won't happen without strict federal supervision. ”

From Puerto Rico's Pension Bailout, by The Wall Street Journal editorial board (*The Wall Street Journal*, April 12, 2016) (view)

“ In order to access attractive rates, Puerto Rico made certain commitments to investors. Now it wants to change the rules after the fact. Federal intervention to retroactively change the legal rules would reward bloated spending in Puerto Rico and spill over into increased debt costs for state and local governments around the country. This, in turn, would adversely impact the ability of municipalities to raise capital for infrastructure and other needs. ”

From Don't reward mismanagement, by Dominic Frederico (*USA Today*, April 12, 2016) (view)

Mixed on this position

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