Position: Puerto Rico should be managed by a financial control board

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

For this position

“ 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)

“ 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.


“ 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.


“ 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)

“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)

“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.”


“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)

“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)

“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)

“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)

“A bill in Congress would create a financial control board to take charge of Puerto Rico’s finances and budget. This is a model that helped Washington, D.C., to recover when it faced a similar stage of financial crisis. A control board also worked well in managing Detroit’s bankruptcy. Also, and this is key, the financial control board is not a taxpayer bailout of Puerto Rico.

From For Puerto Rico: Taxpayer Bailout, No; Control Board, Yes, by Investor's Business Daily editorial board (Investor's Business Daily, April 13, 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)

“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)

Against this position

“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.
