

BLUE MODEL BLUES

The Next Car on the Bankruptcy Train

Congress's 2016 legislation allowing Puerto Rico to declare bankruptcy has thrown into question the integrity of debts held by other U.S. territories facing underinvestment and ballooning pension obligations. *The New York Times* reports on the fiscal crisis now brewing in the Virgin Islands:

The public debts of the Virgin Islands are much smaller than those of Puerto Rico, which effectively declared bankruptcy in May. But so is its population, and therefore its ability to pay. This tropical territory of roughly 100,000 people owes some \$6.5 billion to pensioners and creditors.

Now, a combination of factors — insufficient tax revenue, a weak pension system, the loss of a major employer and a new reluctance in the markets to lend the Virgin Islands any more money — has made it almost impossible for the government to meet its obligations.

The fiscal strains in places like Puerto Rico, the Virgin Islands, and Guam are more acute than in most U.S. states. But comparable crises may be coming soon to the mainland. Illinois recently faced devastating debt downgrades. California's pension system is cutting payments to retired workers for the first time. Actuarial projections show that even as states funnel more and more money in to their pension funds, they are falling deeper into the red.

That's the bad news. The really bad news is that all this is happening after years of strong investment returns. What happens when the next recession hits is anybody's guess.

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