

BLUE MODEL BLUES

Puerto Rico Crisis: Coming Soon to the Mainland

The problems that forced Puerto Rico belly-up—first and foremost, a bloated public sector and untenable pension obligations—are not confined to Puerto Rico, the island’s governor reminded U.S. policy wonks in a speech last week. Alejandro Padilla’s government may be the largest to go bankrupt so far, but that dubious distinction may be tested in the near future. *Governing* magazine:

Puerto Rico, like states and many cities, can’t legally declare bankruptcy. Saddled with \$70 billion in debt, Gov. Alejandro Garcia Padilla’s administration has spent the last few years unsuccessfully trying to reach an agreement with creditors. During that time, the commonwealth watched its tax base decline as residents fled stateside and Puerto Rican government entities defaulted on debt.

That’s what life without bankruptcy protection is like for governments, Padilla said this week in a speech at the Brookings Institution in Washington, D.C. He went on to suggest that Puerto Rico, with its smaller economy and population size, might simply be farther along on a path other U.S. governments are also traveling. “We are only ahead of the curve — the curve that looms for many states and municipalities,” he said.

Padilla is entirely right. At over three trillion dollars, according to some estimates, America’s state and local pension crisis is much worse than most policymakers understand. Cities like Stockton and Detroit have already filed for Chapter Nine, and there are murmurs that Chicago might do the same if it experiences another blow to its fiscal health. In fact, it seems downright likely that the next recession will bring a wave of Puerto Rico-style municipal bankruptcies.

The collapse of recklessly-managed state and local finances on the mainland will create a political crisis of far greater proportions than Puerto Rico’s struggles. Congress should heed Padilla’s advice and start pressuring states and localities to get back on track. It should also develop a framework for managing these meltdowns if and when they do occur (Will assistance be available? On what terms?) as they do occur, so as to avoid extended squabbling and gridlock when the rubber meets the road.

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