



Written by [Bob Adelman](#) on July 6, 2015

## Is Puerto Rico America's Greece?

After running deficits every year since 1973 and paying for them by borrowing, the U.S. commonwealth of Puerto Rico has finally run out of options. On June 28, the island's Governor Garcia Padilla [admitted](#) that its \$73 billion in "debt is not payable.... We will [shortly] be in a death spiral." Padilla added: "There is no other option. I would love to have an easier option. This is not politics, this is math."



The math is persuasive. Padilla's Public Finance Corporation, which has in the past issued some of those bonds that need to be repaid, owes \$94 million on July 15. His Government Development Bank has a \$140 million bill due by August 1. As Steven Rhodes, the retired federal judge who oversaw Detroit's bankruptcy case and has been hired by Padilla to find a way out, put it:

There are way too many creditors and way too many kinds of debt. [Puerto Rico] needs a Chapter 9 for the whole commonwealth.

Even that won't solve the problem, even if it could be managed. Puerto Rico, as a commonwealth, is prohibited from using Chapter 9 to escape its horrendous debt overhang. So it does what it can to keep the lights on: On July 1, it raised the sales tax from an already onerous 7.5 percent to a death-spiral inducing 11 percent, with another increase due in October.

Proving once again the adage that borrowing is death, Puerto Rico is exhibiting the signs of imminent death by asphyxiation:

- Its unemployment rate is more than twice that of the United States;
- It's poorer than Mississippi, the poorest of the 50 states;
- 41 percent of its citizens live below the poverty line;
- Its economy barely generates \$100 billion a year, and is declining;
- In January 2014, all three credit rating agencies downgraded the island's \$73 billion in debt to junk status;
- \* Its publicly owned electric utility just barely made a \$400 million payment on its debt last month; and
- Its brightest and best continue to leave the island for the mainland for better opportunities, leaving behind an older and poorer population more dependent upon the welfare state that can no longer afford them.

The U.S. government is not stepping in to fill the breach, and in fact, laws are aggravating the situation. The White House has repeatedly said there would be no bailouts coming. And the Jones Act is forcing importers to pay excessively high shipping costs as, under that 1920 law, only American ships with American crews that are serviced and maintained in American ports can deliver the resources that Puerto Rico, naturally short of its own, desperately needs.

It's no wonder that in the last referendum Puerto Ricans expressed their desire to leave the



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commonwealth and become an independent country. In the meantime, it is lobbying Congress to allow it to declare bankruptcy under Chapter 9.

But even that wouldn't cure what ails Puerto Rico. Puerto Rico needs the same remedy that is sadly missing in the conversation over the referendum on Sunday in Greece: unleashing the forces of the free market. That will only happen when politicians get out of the way, reduce personal and corporate income taxes, eliminate sales taxes, and toss any idea of a value-added-tax. In other words, turn the island into a replica of Singapore, which has managed to become one of the top-tier economic powerhouses in the world, while laboring under many of the same natural constraints as Puerto Rico.

Instead, all the conversation is directed to what the government can do, what the government should do, what the government might do, etc. Government is the problem, as always, not the solution. Until that truth is discovered and applied, Padilla will turn out to be a prophet in his own country: "We will [shortly] be in a death spiral." Just like Greece.

Photo of San Juan, Puerto Rico: [Breezy Baldwin](#)

*A graduate of an Ivy League school and a former investment advisor, Bob is a regular contributor to The New American magazine and blogs frequently at [www.LightFromTheRight.com](http://www.LightFromTheRight.com), primarily on economics and politics.*



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