

Comments on *There Is Another Way: A Fiscal Responsibility Law for Puerto Rico*

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“Is a Federal Fiscal Control Board the Only Option for Puerto Rico?” Center for a New Economy, National Press Club, Washington, DC



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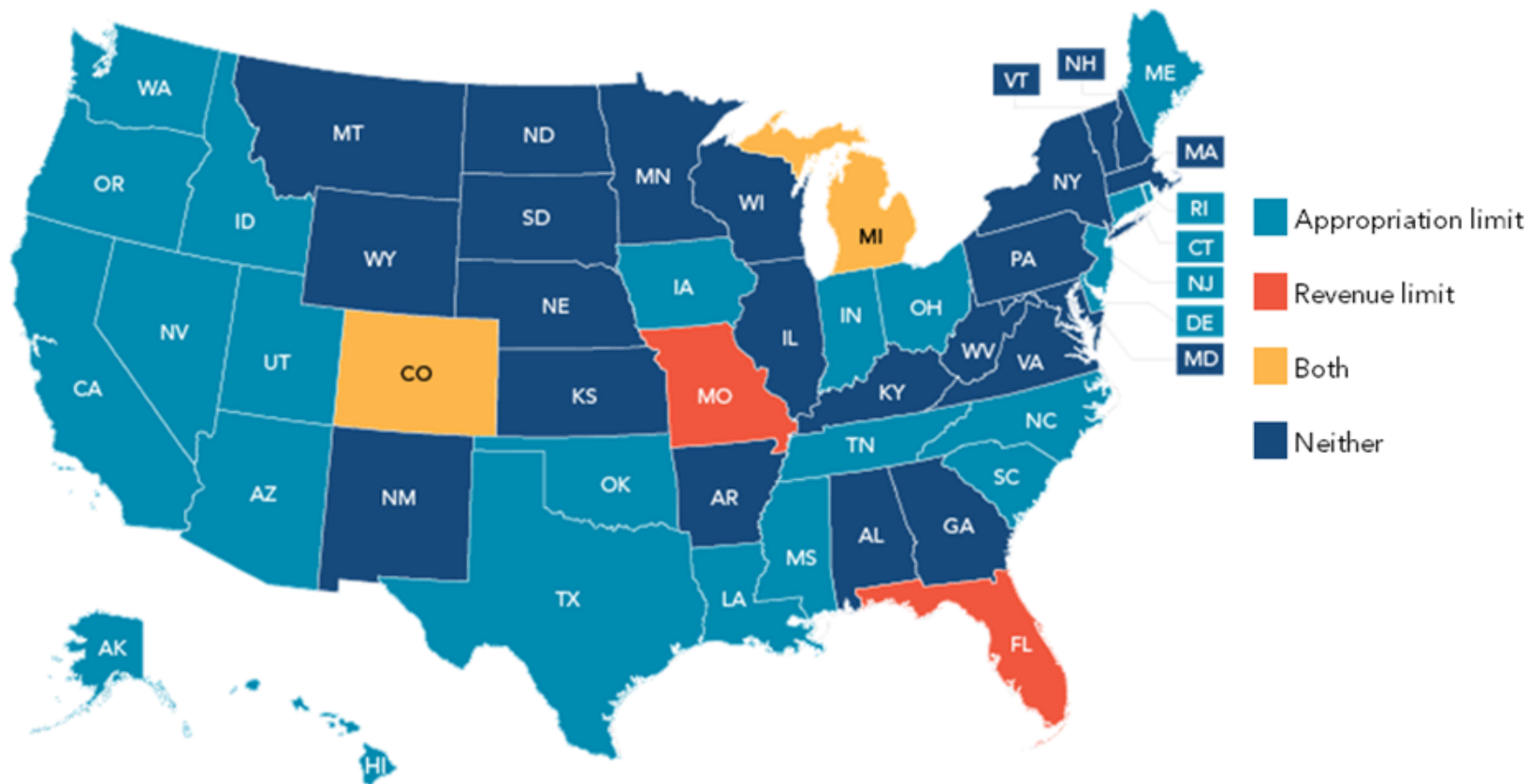


This Paper Builds on A History of Fiscal Institutions in U.S. and Overseas



FIGURE 1

Tax and Expenditure Limits by State
2015



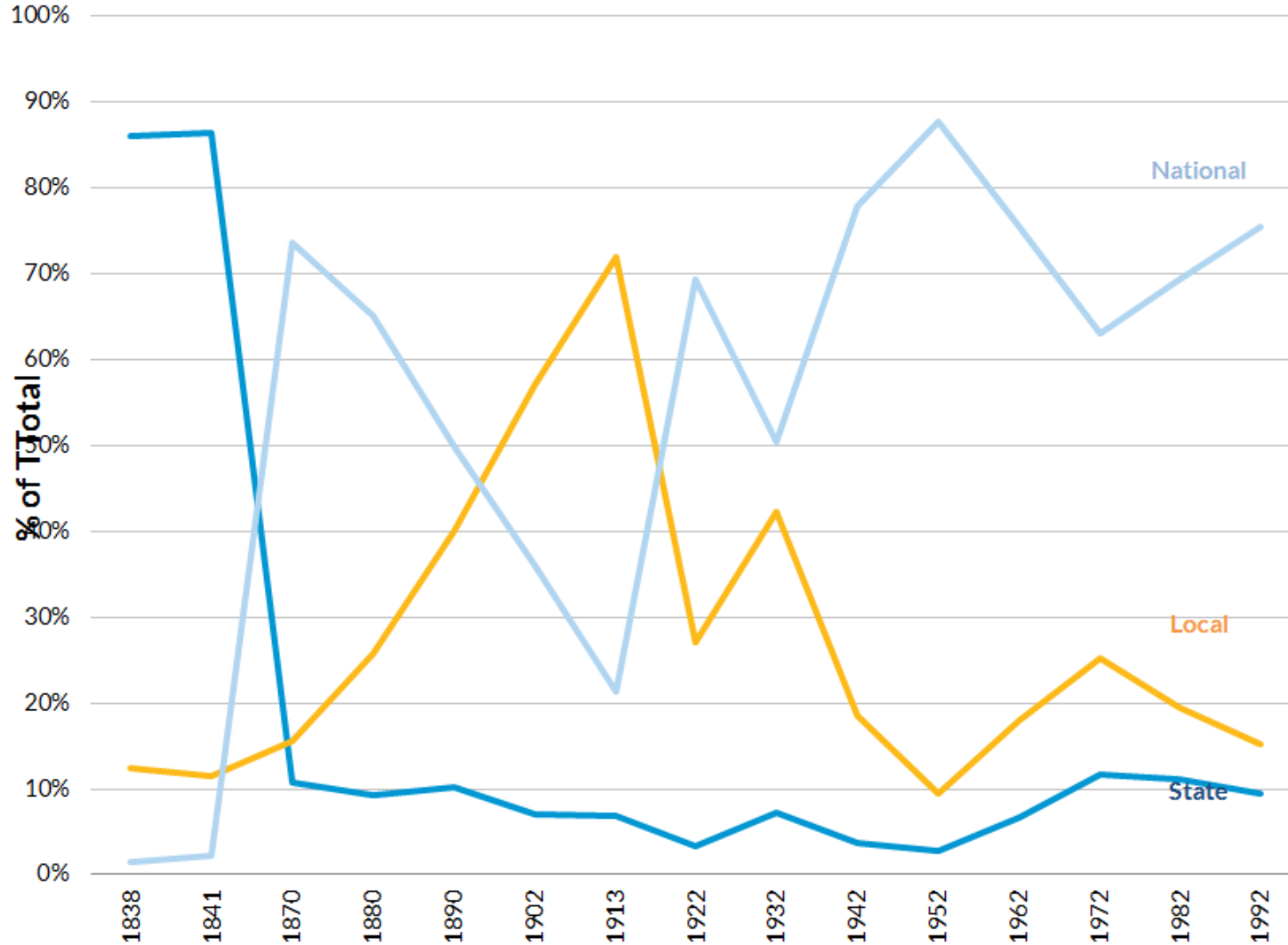
Source: NASBO, 2015.

Notes: Delaware has been added and Illinois removed from source data. Alaska and Hawaii are not drawn to size.

In U.S., Many State Fiscal Institutions Are Legacy of 1837 Financial Panic and Waves of Defaults



Historic Government Debt



Source: Wallis, 2000.

But, Fiscal Institutions Are Not a Panacea



- Enforcement is a critical issue
 - GAO has noted that state BBRs apply at most to 75% of total spending
 - While laws stipulate removal from office, jail, fines, zero reported instances of sanctions
 - Lawsuits tend to be brought by those concerned about spending cuts vs. rules
- External mechanisms work (e.g., DC, NYC)
- Outsourcing also possible (firefighters vs. police patrols, Ravitch NYS proposal) but to whom?

What About Oversight?



- 19 states have laws allowing state to intervene when a city, town, or county is in financial crisis
- Questions to consider:

What is it?	Who sets up?	Why?	What are powers?
Receiver, manager, overseer	Typically state with local input	Stigma	Restructuring debt & labor contracts
State agency head	Local representation varies (e.g., Miami vs. DC)	Downgrades	Increasing taxes & fees
Financial control board		Contagion	Offering state-backed loans, grants, bond guarantees or reinsurance
		Public welfare	Providing technical assistance
		Econ stability & growth	Dissolving a local government

Source: Adapted from Pew Charitable Trusts, 2013.

Looking Ahead, Everyone Agrees Focus Should be on Economic Growth. But How?



STRENGTHS AND WEAKNESS OF THE PUERTO RICAN ECONOMY

Factor	Strength	Weakness
Macroeconomic stability	Stable US currency Low inflation	No ability to devalue Excessive debt
Openness to global economy	Access to US markets and trade Gateway to Latin America	US laws (e.g., Jones Act) a poor fit High costs relative to region High outmigration Poorly diversified exports
Institutions and business climate	US laws and regulation (e.g., FDIC) US social safety net	Complicated tax treatment High regulatory costs US minimum wage and dependency issues
Physical and human capital	High educational attainment English-speaking workforce Strong infrastructure for region	Concerns about K-12 education quality Weak infrastructure for US

Source: Adapted from *The Economy of Puerto Rico: Restoring Growth*, Susan M. Collins, Barry P. Bostworth, and Miguel A. Soto-Claseds. Brookings Institution Press and Center for the New Economy, 2006: p.570.

THANK YOU

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