

October 15, 2017 – PUERTO RICO

Megan McArdle writes on problems in Puerto Rico.

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Bond markets didn’t appreciate the verbal wave. The territory’s bonds, already weak from the pounding of Hurricane Maria, fell another 31 percent. White House budget director Mick Mulvaney hastened to say the president didn’t mean what he said. “I wouldn’t take it word for word with that,” he said demurely. Nor should you; as debt expert Cate Long told CNN Money, “Trump does not have the ability to wave a magic wand and wipe out the debt.”

Yet the fact remains that Puerto Rico is not going to be able to pay all of its debts. Prior to the hurricane, the territory had \$73 billion in outstanding debt, and a population of 3.4 million people. That’s approximately \$21,500 for every man, woman and child on the island – just about enough to buy each of them a brand new Mini Cooper, provided that they don’t insist on the sport package or the heated seats.

Puerto Rico couldn’t afford to buy 3.4 million Mini Coopers before; they certainly can’t now that Maria has washed out so many roads. Even before the hurricane, Puerto Rico’s GDP was around \$100 billion, meaning that repaying its debt would consume nearly nine months of everything the island earned. And while there will probably be a brief bump in economic activity as disaster relief funds pour in and the destruction is cleared away, over the long term the hurricane represents a huge setback: businesses destroyed, people killed or injured, funds that could be generating economic growth instead diverted to simply replacing what has been lost.

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McArdle has more on the unintended consequences of DC stupidity.

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Instapundit linked to McArdle and provided this thought.

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Roger Simon says the island has entered the "great American victim derby." *Seems like everyone's a victim in the USA these days, from college "snowflakes" who can't abide someone with views unlike theirs within miles of their campuses to allegedly assaulted women wearing sexually explicit hats to multi-millionaire football players who are sure there's something wrong but can't always remember what it is (other than Donald Trump). The latest of the many entries in this "Great American Victim Derby" is Puerto Rico -- or at least a significant part of the island's leadership.*

Who will win this derby?

It's anybody's guess, but the thing about playing the victim game is that even -- perhaps especially -- when you do win, you're even more likely to continue to be a victim and play some more. Victimhood is self-perpetuating -- a spiritual, emotional, political, and economic rerun out of the movie "Groundhog Day." Every year it's the same thing and nothing changes. Something bad happens and there you go again, drinking from the trough until you pass out like a fraternity boy being hazed for the thousandth time.

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More from the Economist.

AS THE mayor of Aguadilla, on Puerto Rico's north-west coast, Carlos Méndez is proud of his town. He likes to take visitors onto the balcony of the town hall and challenge them to spot a scrap of paper in the plaza. There are none; but here, and all around the centre of town, there are no busy people either. The shops and offices are shabby, with little going on in them. The buildings along the beautiful beachfront look run-down. A few men sit in the shade, and have apparently been planted there as long as the tree has.

Puerto Rico has been a United States territory for more than a century, and its people have been citizens since 1917. They do not vote in national elections or pay federal income taxes, but those are not the biggest differences between Puerto Rican residents and their fellow American citizens. The island is distinguished by its poverty and joblessness, which are far worse than in any of the 50 states. The territory's economy, moreover, has fallen further behind the national one over the past three decades. Bad government—not just locally, but also federally—is largely to blame. Yet most Americans are oblivious to the Caribbean island's problems.

The place did earn a rare and brief mention in some mainland newspapers earlier this month. Its government had hit a borrowing limit and partly shut down for a couple of weeks, putting 95,000 civil servants out of work. Then leaders in San Juan—the commonwealth's capital—agreed on a budget deal that let the government borrow more and resume paying people. The drama ended, and life there reverted to its depressing former state. ...

Not much humor in this so we'll celebrate Weinstein Week and other things.

Debt Alone Won't Crush Puerto Rico. Depopulation Is the Curse. **[Erasing the island's bond obligations would not be sufficient, if migration continues.](#)**

by Megan McArdle

“They owe a lot of money to your friends on Wall Street,” Donald Trump told Geraldo Rivera. “We’re going to have to wipe that out. That’s going to have to be -- you know, you can say goodbye to that. I don’t know if it’s Goldman Sachs but whoever it is, you can wave goodbye to that.”

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Puerto Rico couldn’t afford to buy 3.4 million Mini Coopers before; they certainly can’t now that Maria has washed out so many roads. Even before the hurricane, Puerto Rico’s GDP was around \$100 billion, meaning that repaying its debt would consume nearly nine months of everything the island earned. And while there will probably be a brief bump in economic activity as disaster relief funds pour in and the destruction is cleared away, over the long term the hurricane represents a huge setback: businesses destroyed, people killed or injured, funds that could be generating economic growth instead diverted to simply replacing what has been lost.

So whatever President Trump does, or does not do, investors in Puerto Rican bonds are going to have to take a substantial haircut. The problem is, we’re not going to wipe out the debt entirely. And even if we could, it wouldn’t be enough to get Puerto Rico back to economic or fiscal health.

“If it’s that bad,” you may be thinking, “surely we ought to simply wipe out the debt holders? After all, they’re investment professionals. They can afford to take the loss; ordinary Puerto Ricans can’t.” The problem is that most of the folks holding Puerto Rico’s debt aren’t vulture hedge funds sitting on wads of ill-gotten gains; the overwhelming majority of the debt is held by ordinary folks who buy bonds or bond funds. Like, say, your parents. Or maybe you. And also, [a lot of Puerto Ricans](#), who would be hit very hard if the value of their investments were wiped out.

That’s because Puerto Rican debt was doubly attractive to the prospective investor. It offered relatively high yields at time when interest rates were rock-bottom, and it was “triple exempt”: you didn’t have to pay federal, state or local taxes on the interest income. This allowed Puerto Rico to wildly overborrow its actual fiscal capacity to repay the debt.

And why was the government borrowing so much? For one thing, because the government doesn't work very well. The operations of the Puerto Rico Electric Power Authority, for example, defy belief: It essentially gave unlimited free power to municipalities and government-owned entities, which used it to do things like [operate skating rinks in the tropics](#). Everywhere you look, you see signs of a government struggling to perform basic tasks: [collect taxes](#), maintain the infrastructure, improve the health system. In the jargon of development economists, the island lacks "state capacity": It is simply unable to exert the amount of power over its operations that we on the mainland mostly take for granted.

But you can't entirely blame the Puerto Rican government for the state of the underlying economy, which is what had plunged the island into a bankruptcy crisis even before the hurricane. For that you have to [look to the federal government](#), which eliminated a tax break that had given companies incentives to locate in Puerto Rico, and then oversaw a financial crisis that sent them into an even deeper spiral. We also made sure that a relatively poor island was forced to adopt the federal minimum wage, which was too high for the local labor market. That has contributed to the 11.5 percent unemployment rate. And Puerto Rico uses the U.S. dollar, leaving it unable to adjust monetary policy to overcome economic stagnation.

None of those things will change just because we wipe out the bondholders. And the bondholders are not Puerto Rico's only creditors; it has an unfunded pension liability of roughly \$50 billion. Covering the current liability [will consume more 20 percent of the budget](#).

That figure will only grow, because the biggest problem of all is Puerto Rico's rapid demographic decline. There has long been a steady migration from Puerto Rico to the mainland. By 2008, there were more Puerto Ricans in the rest of the U.S. [than there were in Puerto Rico](#). But the economic crisis has accelerated that flow to staggering levels. Worse still, the flow is selective: young families, professionals and skilled workers migrate in search of better opportunity, while the old and the dependent stay home. In just one year, 2014, almost 3.5 percent of the young adult population [migrated](#).

Undoubtedly, the hurricane will make this worse. Some businesses will never reopen, and workers will start looking across the water. Some people will decide it's easier to move elsewhere and start over than to rebuild their destroyed home. A look at the experience of New Orleans after Katrina is instructive: Between the 2000 and 2010 censuses, [the city lost 30 percent of its population](#).

As people move, the effect won't only be economic. The debt burden will stay the same size, but it will be spread over fewer and fewer people. The same will happen to all the other fixed expenses of the government -- things that also cannot be easily ordered away by a president, or a court: the pension bill, the roads, the hospitals and airports. Whatever happens with Puerto Rico's debt, the Wall Street bankers will probably be fine. But unless we find a way to help the territory reverse these catastrophic trends, Puerto Rico will not.

Pajamas Media

[Instapundit](#)

by Glenn Reynolds

So I'm guessing that if Steve Bannon were still around, he'd be encouraging Trump to do things that would make Puerto Rico so attractive that not only would people want to stay there, but expat Puerto Ricans would want to return, since most of them vote Democrat, and Puerto Rico doesn't have any electoral votes. Which would be good for Puerto Rico, and also for Trump. In Bannon's absence, I'm not sure there's anyone in the White House who thinks that way.

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[Puerto Rico Enters the 'Great American Victim Derby'](#)

by Roger L. Simon

Seems like everyone's a victim in the USA these days, from college "snowflakes" who can't abide someone with views unlike theirs within miles of their campuses to allegedly assaulted women wearing sexually explicit hats to multi-millionaire football players who are sure there's something wrong but can't always remember what it is (other than Donald Trump). The latest of the many entries in this "Great American Victim Derby" is Puerto Rico -- or at least a significant part of the island's leadership.

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It's anybody's guess, but the thing about playing the victim game is that even -- perhaps *especially* -- when you do win, you're even more likely to continue *to be a victim and play some more*. Victimhood is self-perpetuating -- a spiritual, emotional, political, and economic rerun out of the movie "Groundhog Day." Every year it's the same thing and nothing changes. Something bad happens and there you go again, drinking from the trough until you pass out like a fraternity boy being hazed for the thousandth time.

Why not try something different for a change -- like taking responsibility?

Are you listening, Puerto Rico?

It's an old story. The island has always hovered on the brink of collapse. Self-sufficiency was an illusion. I remember growing up in New York City in the fifties and the non-stop immigration of Puerto Ricans (I lived on the edge of Spanish Harlem). No one seemed to be going the other way -- *to* Puerto Rico -- despite its balmy Caribbean climate and gorgeous beaches. Maybe that was part of the problem. If you visit a tropical island, the last thing on your mind is work. You want to kick back and enjoy neverneverland as long as you can. To some extent, it's the same for locals. *Dolce far niente* is a great lifestyle, if you can hack it -- seemingly stress free. I'm envious. But everything has a price. You look around and things are dissolving. No infrastructure. No nada. Calamity strikes. And there you are asking for a handout again.

I'm not saying we shouldn't help Puerto Rico. We must and should. The situation is dreadful. But this is a learning opportunity for the islanders. They should take it. Blaming Donald Trump is the most reactionary and self-destructive thing they can do. It's victimhood redux. Leave that

to the rapacious ideologues at CNN, the *New York Times*, etc. They'd blame the eruption of the Indonesian volcanoes on Trump, if that were possible -- and even if it weren't.

Despite what global warming fanatics might say, hurricanes are nothing new in Puerto Rico. There were obviously plenty of them from time immemorial, long before the island was even inhabited. If you're living on the island you know that from childhood. Every year brings a hurricane season. For the last decade it was pretty inconsequential, then it went crazy. It's God's lottery.

So you have choices: you can leave the island, you can stay and do nothing, or you can stay and do something -- that is, build a hurricane-mitigating infrastructure the way California has, at least to some extent, hardened itself against the inevitable earthquakes.

A fourth way exists, and unfortunately it seems prevalent in Puerto Rico if we listen to the self-serving blather of San Juan's mayor or trust the veracity -- on the same subject -- of this recorded phone call from a female Puerto Rican police officer. (Sadly, I do.) That is the way of evil, politically exploitative leadership:

Radio Announcer: What is your name?

Policewoman Caller: I cannot give my name because I work for Puerto Rico's Police Department. I need to pass this information out because the stuff that is being brought from the U.S. is not being distributed. They are not allowing the Puerto Rican people to receive the donations.

Radio Announcer: What part of Puerto Rico are you calling us from right now?

Policewoman Caller: I am right now in Guaynabo.

Radio Announcer 2: Wow.

Radio Announcer 3: But what information do you have? What have you seen?

Policewoman Caller: The Mayor, Carmen Yulin, is not allowing anyone to distribute... We need... what Puerto Ricans need is that the U.S. armed forces come in and distribute the aid. And that they stop the governor, Rosello, and the mayor, Yulin, on doing what they are doing... It's an abuse, it looks like communism, in our own island (sobbing)... (sobbing continues, inaudible translation due to cries)...

Communism. Interesting she says that because it has been my observation that in places (countries) where people are reluctant to act for themselves, communism, or some form of totalitarianism, moves in. It's almost biological, or chemical -- the abhorring of a vacuum. It's also yet more proof of Edmund Burke's oft-quoted dictum: "The only thing necessary for the triumph of evil is for good men to do nothing."

So this is a teaching moment for Puerto Rico. Will they take it?

Economist

Trouble on Welfare Island

Overbearing government and the welfare state are hurting the United States' poorest citizens

AS THE mayor of Aguadilla, on Puerto Rico's north-west coast, Carlos Méndez is proud of his town. He likes to take visitors onto the balcony of the town hall and challenge them to spot a scrap of paper in the plaza. There are none; but here, and all around the centre of town, there are no busy people either. The shops and offices are shabby, with little going on in them. The buildings along the beautiful beachfront look run-down. A few men sit in the shade, and have apparently been planted there as long as the tree has.

Puerto Rico has been a United States territory for more than a century, and its people have been citizens since 1917. They do not vote in national elections or pay federal income taxes, but those are not the biggest differences between Puerto Rican residents and their fellow American citizens. The island is distinguished by its poverty and joblessness, which are far worse than in any of the 50 states. The territory's economy, moreover, has fallen further behind the national one over the past three decades. Bad government—not just locally, but also federally—is largely to blame. Yet most Americans are oblivious to the Caribbean island's problems.

The place did earn a rare and brief mention in some mainland newspapers earlier this month. Its government had hit a borrowing limit and partly shut down for a couple of weeks, putting 95,000 civil servants out of work. Then leaders in San Juan—the commonwealth's capital—agreed on a budget deal that let the government borrow more and resume paying people. The drama ended, and life there reverted to its depressing former state.

Some Puerto Ricans are doing well. Most of Aguadilla's 70,000 people, for example, live in the richer suburbs that surround the city. The area has many of the same fast-food and retail chains that pervade the United States, and companies from the mainland, such as Hewlett-Packard and Micron Technology, have built factories nearby. Much of the island, however, is like Aguadilla's town centre, full of low incomes and idle hands.

Puerto Rico's annual income per person was around \$12,000 in 2004, less than half that of Mississippi, the poorest state. More than 48% of the island's people live below the federally defined poverty line. That poverty rate is nearly four times the national average, and more than twice as high as in poor states such as Kentucky, Louisiana, Mississippi and West Virginia.

Half the working-age men in Puerto Rico do not work. Officially, only 46% of those who are not pursuing a degree have formal jobs, compared with a United States average of 76%. The territory does have a big informal economy. But María Enchautegui at the University of Puerto Rico and Richard Freeman at Harvard University have looked into this, and reckon that counting unofficial workers boosts the employment rate only to 55%, at best. Their research is included in a new book on the island's problems, put together by two think-tanks: the Brookings Institution in Washington, DC, and the Centre for the New Economy in San Juan.*

Puerto Rico ought to be doing much better, because being part of the United States gives it many advantages over other low-income economies. Most important may be America's legal system, which offers excellent protection, by developing-economy standards, for private property, contracts, patents, free speech and so forth. These guarantees tend to attract outside capital, spur local investment and let commerce and innovation flourish. The island can also

trade freely with the giant mainland economy. And its workers can migrate to and from the 50 states at will, gaining skills, creating business connections and making money.

In some ways, generous United States taxpayers have also been useful. To help the territory catch up, they have paid for infrastructure and a huge leap in education levels. The average length of schooling in Puerto Rico rose from 3.7 years in 1950 to 11 years in 2000.

Crutch disease

With these advantages, Puerto Rico grew impressively in the decades after the second world war, even outperforming Asian "tigers" such as South Korea, Taiwan and Singapore (which has roughly Puerto Rico's population). Since the 1970s, however, Puerto Rico has been outpaced badly by the Asian tigers and Ireland, another place to which it is often compared. It has also diverged from the United States, losing ground even to lowly Mississippi.

Many things have gone wrong. Most important, however, is that the United States government assumed too big a role in the Puerto Rican economy, and its largesse enabled the commonwealth's government to do the same. Through hubris, clumsiness and sheer size, these governments knocked Puerto Rico off the promising path that it was following, and the island's economy is now lost in a thicket of bad incentives. Two federal intrusions stand out: an oversized welfare state, and misguided rules on business investment.

Federal transfer payments to Puerto Rico rose sharply in the 1970s. Some programmes have been modified since then, but transfers still make up more than 20% of the island's personal income. These federal handouts reflect the sensibilities of a wealthy country. So by Puerto Rican economic standards, they are huge. And the more a man or woman earns through paid work, the more they decrease.

Puerto Ricans are eligible for federal disability payments, for example, through Social Security. Ms Enchautegui and Mr Freeman point out that, in the territory, federal disability allowances are much higher than the United States average as a share of wages and pension income. Unsurprisingly, therefore, one in six working-age men in Puerto Rico are claiming disability benefits.

Many families do not view the federal handouts as temporary. Neither does Raúl Vega, who owns a consumer-finance outfit in Aguadilla. His firm treats the benefits as income when deciding whether to lend people money for new televisions.

Some Puerto Rican households, of course, would barely struggle along without federal assistance. For many people, however, the money that can be earned through federal transfers and a little informal work is more than the market wage—and requires much less effort. Meanwhile, in a strange echo of America's immigration debate, people from the Dominican Republic do many of the jobs in Puerto Rico that pay too little to attract the locals.

Relaxation without representation

What do Puerto Rico's men do all day? Some get into trouble. But many others hang out in pleasant places that require little money, such as beaches, shopping malls and the armchairs in Borders bookstores. They also watch plenty of television. Downtown Aguadilla may be shabby, but satellite dishes sprout from many rooftops. People always have money for that bill, says Mayor Méndez.

Through tax laws, the federal government has also favoured some business investments in Puerto Rico over others. Most notorious is "Section 936", a rule that skewed investment towards technologies that were too advanced for Puerto Rico's stage of development. Drug firms and chemical producers built factories that used lots of capital and few workers, because doing so lowered their global tax bills. In a recent book on the territory's economy, James Dietz described this distorted evolution well.†

High technology sounds wonderful. But what Puerto Rico has needed over the past few decades is more medium-tech plants. These would employ more people, teach them skills better suited to the island's level of development, and tighten links to local suppliers and business services. More service jobs for the unskilled would be good, too. Steven Davis at the University of Chicago's business school, another contributor to the Brookings/CNE studies, points out that jobs in tourism and recreation engage a lower share of the workforce in Puerto Rico—despite its beautiful beaches—than in any of the 50 states.

In short, by lowering demand for less educated workers, lopsided investment has exacerbated the welfare-driven distortions in the island's labour supply. The result is lots of idle poor. The Section 936 rules were phased out between the mid-1990s and 2005, but the damage will persist. Many Puerto Ricans have acquired few useful habits and skills over the past three decades; and the welfare state, though smaller than before, is still pervasive enough to lock many of the labour distortions in place.

Puerto Rico's bloated government also bears much of the blame. Around 30% of the territory's jobs are in the public sector. Among other things, a big and coddled bureaucracy undermines Puerto Rico's educational achievements in two ways. First, nearly half those on the education department's payroll are not teachers; quality has fallen because of low accountability and mismanagement. Second, because of the small private sector, too few well-educated Puerto Ricans are gaining useful skills and experience in the marketplace.

As he walked through Aguadilla's town hall recently, Mr Méndez boasted about each employee's university or graduate-school credentials as he introduced them. The trouble, he says, is that "All they want to do is find security only. They have no ambition...Everybody wants to work for the government." Manuel Reyes, of the Puerto Rico Manufacturers Association, also sees little hope that the government's role will shrink. "There is no light at the end of the tunnel," he says, "because we are still in denial." And the rest of America is still indifferent.

* *"The Economy of Puerto Rico: Restoring Growth"*, edited by Susan Collins, Barry Bosworth and Miguel Soto-Class. Centre for the New Economy, San Juan, Puerto Rico, and Brookings Institution Press, Washington, DC. □ □ † *"Puerto Rico: Negotiating Development and Change"*, by James Dietz; Lynn Rienner Publishers, Boulder, Colorado

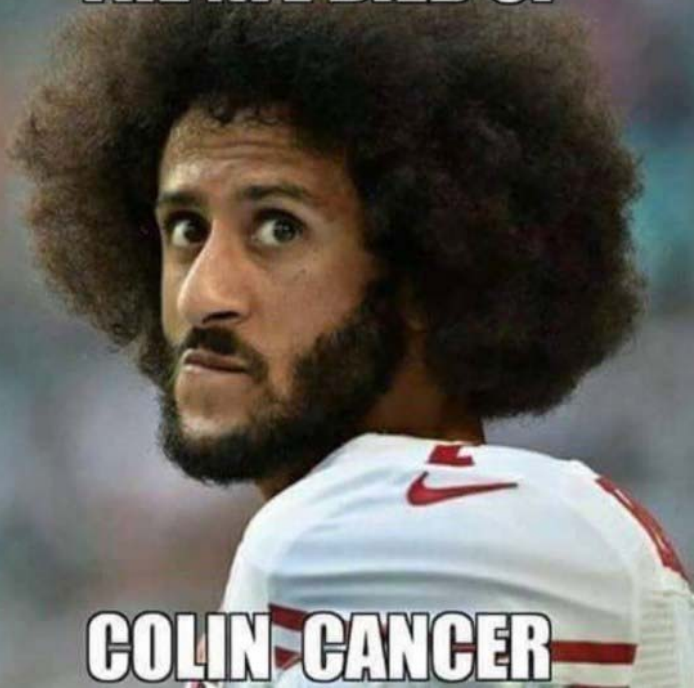


They share the same bra size



"I'll take that one!"

THE NFL DIED OF



COLIN KAPANEK

**ONE MONTH AGO,
THIS FLAG WAS THE
"SYMBOL OF RACISM"**



TODAY, IT'S THIS FLAG



@RealSusanSwift

**IT DIDN'T TAKE LONG FOR LIBERALS
TO REVEAL THEIR TRUE FEELINGS, DID IT?**



Wild pumpkins drained of their spice by illegal poachers. Please demand ethically sourced [#PumpkinSpice](#) lattes.



SOMEBODY HAD
A FACE-LIFT.



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