OPINION

Will: What happens in Puerto Rico will not stay in Puerto Rico

Antonio Weiss, left, counselor to Treasury Secretary Jacob J. Lew, testifies on Capitol Hill in Washington, April 13, before the House Natural Resources Committee during a legislative hearing on a discussion draft of the "Puerto Rico Oversight, Management, and Economic Stability Act." Weiss is joined at the table by former Washington, D.C. Mayor Anthony A. Williams, a Senior Advisory at Dentons US LLP, center, and John V. Miller, CFA Managing Director, Co-Head of Fixed Income Nuveen Asset Management, right.

By **SPECIAL TO THE DENVER POST** | and **THE WASHINGTON POST** |
April 29, 2016 | UPDATED: 3 weeks ago

Immigrant goes to America,

Many hellos in America;

Nobody knows in America

Puerto Rico's in America!

— "West Side Story"

Puerto Rico, an awkward legacy of America's 1898 testosterone spill, the Spanish-American War, is about to teach two things that few Americans know: If conditions get bad enough there, its residents, who are American citizens, can come here. And if Congress does not deal carefully with the mess made by the government in San Juan, Congress will find itself rescuing governments in Springfield, Illinois, and other state capitals.

Puerto Rico's approximately 18 debt-issuing entities have debts — approximately $72 billion — they cannot repay. The Government Development Bank might miss a $422 million payment due in May, and the central government might miss a $2 billion payment in July. Congress will not enact a "bailout," meaning an infusion of U.S. taxpayers' money.

But some Democrats — perhaps anticipating a day of reckoning for their one-party state of Illinois, and nurturing their indissoluble marriage to government employees unions, some of which have helped reduce Puerto Rico to prostration — want to reward the San Juan government's self-indulgence. They favor pouring more Medicare, Medicaid and other benefits into the island. They also favor giving protection of unionized government employees' pensions priority over payments even to holders of general obligation bonds guaranteed by the territory's constitution. Although Puerto Rico's per capita income ($11,331) is about half of that of the poorest state (Mississippi, $20,956), Democrats oppose allowing Puerto Rico to lower the hourly minimum wage.

The U.S. minimum, $7.25, which applies to the island, is two-thirds of the average islander's wage, which increases unemployment and hence emigration to the mainland. Some Democrats even want the earned income tax credit and child tax credits paid to Puerto Ricans even though they do not file personal federal income tax returns.

Sen. Orrin Hatch, R-Utah, may also have his eye on Illinois and other states subjugated by the axis of the Democratic Party and government employees unions. He wants legislation for Puerto Rico to require U.S. state and local governments, almost 60 percent of which last year failed to make full pension contributions, to honestly state their pension liabilities. Puerto Rico has a $44 billion unfunded pension liability.

The most complex Puerto Rico issue is what treatments should be authorized for various categories of bondholders. Shed few tears for those who, by buying Puerto Rico's (or Illinois') debt, enable the sort of high-spending, vote-buying governance that bankrupted Detroit and soon will have Illinois begging for what does not and should not exist — a bankruptcy option for states. Puerto Rico's debts should not be restructured in a way that sets a precedent allowing Illinois to dodge both debts and reforms, particularly reforms pertaining to government employee unions that have contributed to the territory's dysfunction. The more Puerto Rico is allowed to evade existing legal processes and the need to negotiate with creditors, the more leeway it will have to resist reforms.

Puerto Rico's political class recoils from a control board exercising federal oversight, which Gov. Alejandro Garcia Padilla calls a "shameful and degrading" measure to deprive the island "of its own government." But curtailing this class' discretion might not be seen as a deprivation by the 71 percent of Puerto Ricans who in a recent poll favored an oversight board for a government that is warning about being unable to fuel police cars and fund school services.

The president of the territory's senate likens federal oversight to "the worst colonial subjugations" and The Washington Post worries about "the legitimate prerogatives of the island's legislature." But what are the proper prerogatives of a mendicant legislature avidly seeking maximum leeway to repudiate debts?

Because the island is a U.S. territory, what happens there will not stay there: America needs to prevent, or minimize, a humanitarian crisis, some of which would be exported to America. But ameliorative measures must be made conditional on fiscal, labor and other reforms on the island.

America actually needs to have a salutary crisis in Illinois. It will be salutary because it will be a cautionary example for other states if Illinois suffers, without offloading pain on taxpayers elsewhere, the severe consequences of decades of ruinous choices. And Puerto Rico's troubles will benefit America if the bond market, sobered by a demonstration that government bonds can be risky, becomes a restraint on state legislatures by raising the cost of borrowing where the legislatures are most irresponsible.

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