



Experts note similarities between Illinois, bankrupt Puerto Rico

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Even though Illinois and the now-bankrupt American territory of Puerto Rico have different economies, experts are worried about their similarities.

The Caribbean island finally buckled under the weight of its own debt last week when it entered into a form of bankruptcy allowed last year by the U.S. government. American states and territories cannot file for bankruptcy protection under federal law, but Congress made it possible last year for Puerto Rico to enter a form of debt restructuring similar to a bankruptcy.

The country has roughly \$110 billion in debt and is still in an economic depression. It lost an average of 230 people every day in 2014.

While Illinois has an economy larger than most countries, let alone Puerto Rico's, the bond industry, economists and academics like CATO visiting fellow and central Illinois native Ike Brannon are speaking up about the similarities.

"Illinois is deep in debt. It's got a public pension system that is not far behind Puerto Rico's in terms of potential insolvency," Brannon said. "It's made promises to a whole lot of people that it simply cannot keep and the current legislature has shown itself uninterested in dealing with the situation. I think that how we deal with Puerto Rico is how the market is going to see a potential Illinois solution."

Financial site Wirepoints.com founder Mark Glennon wrote on the comparisons between Illinois and Puerto Rico. He too admits Illinois has a better outlook than Puerto Rico, but it's financial problems are deep.

"No, Illinois isn't Puerto Rico. Nor is it Chicago," Glennon said. "But Stockton and San Bernadino, California, weren't either. Not being Puerto Rico doesn't mean you can't run out of money."

Puerto Rico's debt is different than Illinois' in that it is largely comprised of general obligation bonds and other debt tied to its sales taxes. The island's constitution guarantees those bond holders a spot at the front of the line before pension payments or even core services can be

funded. Illinois lawmakers are considering a handful of bills that some say would give the state's debtors that same privilege.

Illinois' \$130 billion in pension debt to total expenditure ratio is the highest in the nation. The state's payments make up roughly a quarter of Illinois' annual budget. If they had a budget, that is. The state hasn't had one in almost two years.

Would Illinois' leaders ever ask Washington for permission to go bankrupt? Only if there's another economic collapse, Brannon said.

"I think at some point Illinois is going to have a moment where they simply cannot borrow enough to keep things going and they raise taxes and it's still not enough of what they need. They throw up their hands, stop making some payments and the U.S. government is obliged to step in," Brannon said. "[House Speaker Michael] Madigan's not going to sit down with Donald Trump and [Gov. Bruce] Rauner and sort something out. It's going to take an action-forcing event."