



Experts skeptical of Sanders' plan to have Fed rescue Puerto Rico

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Sen. Bernie Sanders' plan to have the Federal Reserve rescue Puerto Rico would stretch the bounds of the central bank's authority and take responsibility away from where it belongs with Congress, experts said in response to the presidential candidate's comments Monday.

Experts argued that the Fed would not have the authority to aid Puerto Rico, as Sanders called for in San Juan on Monday, under the limits on its emergency loan powers imposed as part of the 2010 Dodd-Frank financial reform law.

"The statute specifically forbids this kind of targeted bailout," said Peter Conti-Brown, a professor at the University of Pennsylvania and expert on the Fed's legal authorities.

"The intent and clear language forbids 'one-off' rescues to single entities," Cato Institute director of financial regulation studies Mark Calabria told the Washington Examiner. "In addition, there must be good collateral posted. It is extremely hard in this case to imagine what that collateral would be. As Sen. Sanders voted for Dodd-Frank, one would have expected him to have at least some knowledge of its provisions, particularly as they relate to Fed rescues."

There are additional hurdles to the Fed getting involved, noted Conti-Brown. One is that the new rules require the Treasury secretary to approve of emergency lending, meaning that the Obama administration would have to get involved. Another is that having the Fed intervene in Puerto Rico "would immediately result in a stunning attack on the Fed's ability to act as an independent monetary authority, and would heighten the risk (already present) that the Fed would cease to act as a lender of last resort. The Fed is mindful of all of this, and I think essentially certain not to take this proposal on board."

While it was not "implausible" that the Fed might have the legal authority to help Puerto Rico, said regulatory expert Justin Schardin, it would be "well outside precedent."

In the cases of cities that have run into fiscal crisis, such as the District of Columbia in the 1990s, Congress, not the Fed, stepped in to create financial control boards, Schardin noted. Puerto Rico's crisis, he said, "seems like a situation where Congress should do the same thing."

"First, it is not going to happen," said Barry Bosworth, an expert at the nonprofit Brookings Institution, referring to Sanders' call for a Fed rescue of Puerto Rico.

"Puerto Rico's debt situation is not that unusual," said Bosworth, explaining that states and cities such as Detroit are in the same situation and are not in line to receive aid from the Fed.

"Excessive borrowing created the financial problem. It cannot solve it."