



Puerto Rico's Padilla Considers Pro-Growth Reforms

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Responding to a burgeoning fiscal crisis, Puerto Rico Gov. Alejandro Garcia Padilla (PPD) is proposing significant economic reforms to revive the island's ailing economy.

In addition to bankruptcy negotiations with bondholders and creditors, a government report commissioned by Padilla recommended lowering the territory's minimum wage and replacing Puerto Rico's complex corporate income tax code with a flat-rate system.

Trouble in Paradise

Nicole Kaeding, a budget analyst at the Cato Institute, says Puerto Rico has been hit by a tsunami of economic problems.

"The situation in Puerto Rico is both a debt crisis and an economic crisis," Kaeding said. "The island has over \$70 billion in outstanding debt obligations that the governor says are unpayable. But the island is also suffering because of its economic hardships. The island has had negative economic growth since 2006."

Kaeding says Puerto Rico's problems are a mixture of self-inflicted wounds and economic meddling from Washington, DC.

"The reasons are plentiful: high minimum wage, restrictive labor laws, limits on shipping, lavish entitlement benefits, overspending, bad tax policy, among others," Kaeding said. "Puerto Rico must find a way to dramatically decrease spending and pass meaningful tax reform as a way to restructure its fiscal situation and its debt obligations.

"Congress should use its legislative powers to limit the minimum wage's effects on Puerto Rico and repeal the Jones Act, which makes shipping goods twice as expensive to Puerto Rico as its regional neighbors," Kaeding said.

'Path to Prosperity'

Jonathan Bydlak, president of the Coalition to Reduce Spending, a nonpartisan organization calling for balanced, reduced government spending, says the right reforms can turn around Puerto Rico's fortunes.

“The first and most important thing Puerto Rico must do is get its spending under control,” Bydlak said. “If it doesn’t address the underlying economic problems that led to its current levels of debt, then discharging that debt will do relatively little to put Puerto Rico on a path to prosperity.”

Bydlak says lawmakers in Washington, DC and fiscally irresponsible states should learn from Puerto Rico’s troubles.

“The next time someone suggests that maintaining large debts comes without consequences, it’s worth considering Puerto Rico’s experience,” Bydlak said. “By showing a willingness to reduce expenditures and impose fiscal restraint, Gov. Padilla is providing hope for millions of Puerto Ricans that economic prosperity can be a possibility again. If only U.S. leaders in Washington[,DC] had the same foresight and initiative.”

No ‘Magic Bullet’

Bydlak says the road to recovery for Puerto Rico may not be easy, but it’s worth the effort.

“That means reducing spending, implementing pro-growth reforms, and removing the many barriers to competition that exist in the economy,” Bydlak said. “There’s never a magic bullet in these kind of situations, but that’s the best place to start.

“The latest actions being undertaken in Puerto Rico give reason to believe the territory can rise like the phoenix from the ashes,” Bydlak said.