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The Solution to Puerto Rico's Debt Crisis Isn't Statehood — It's Default.

In an overwhelming majority, Puerto Rican citizens recently voted in favor of becoming the 51st U.S. state. According to poll results, nearly 97 percent of Puerto Ricans were in favor of statehood. Puerto Rico's governor, Ricardo Rosselló, declared the results a clear victory in favor of becoming a state — the solution he preferred. In a televised speech after announcing the results, he said, "the federal government will no longer be able to ignore the voice of the majority of the American citizens in Puerto Rico."

What he should have said was the federal government could no longer ignore the voice of 23 percent of the American citizens of Puerto Rico because those are all that bothered to turn out for the vote. In a country where voter turnout is normally closer to 80 percent, a 23 percent turnout is hardly exciting.

Here is a territory that is so thrilled to become a U.S. state that over three-quarters of the population did not bother to even show up at the polls. The reason for this low turnout: they are only considering statehood because it seems like the best option to get out of the more than \$70 billion debt crisis they are in.

How Puerto Rico got into this mess

Puerto Rico was forced to declare a form of bankruptcy in May. Its filing represented the largest municipal bankruptcy filing in U.S. history — seconded only by Detroit's \$17 billion bankruptcy under Chapter 9 bankruptcy code. Notably, the Puerto Rican bankruptcy surpasses Detroit by a vast margin, as it has managed to reach \$123 billion in debt across bonds and pensions payments outstanding.

To put the territory's size, and proportionate debt, into perspective, there are 20 states that are less populous and have vastly more expansive geographies than Puerto Rico, according to the U.S. Census Bureau. Since Puerto Rico is not a U.S. state, and thus not entitled to the privilege of bankruptcy — which is a recourse for all U.S. state and local governments — it is entering a court-supervised bankruptcy-esque proceeding made possible by legislation enacted by Congress last year.

With an uncertain outlook on just how its obligations will be restructured, to say the island is drowning in debt would not be an understatement. The island previously enjoyed an exemption from U.S. federal taxes that allowed many U.S. companies to set up manufacturing operations there. These tax breaks ended in 2006, leaving the island with a sudden loss of revenue.

The Puerto Rican government tried to offer tax exempt municipal bonds on the U.S. markets to generate ready cash, but this came at the cost of even more debt. Unable to pay off all its obligations, Puerto Rico is turning to the U.S. government for relief. The hope is that if they became a state, the federal government would take more responsibility for the island's overwhelming debt.

As U.S. states are not immune from similar troubles — even ones as wealthy as Illinois, which is

possibly headed towards a “junk” credit rating — sheltering Puerto Rico from its obligations by allowing it to become a state is not the solution. Debt of this magnitude cannot be whisked away with a granting of statehood.

The solution to get Puerto Rico out

It’s not that the U.S. should do nothing for the territory of more than 3 million, but the government shouldn’t pretend that statehood is the best solution. Allowing Puerto Rico to default on its debt would be the best thing the U.S. could do for the territory. Looking to Detroit as an example, its municipal default gave the Motor City some breathing room and has allowed for a nascent economic recovery from its crisis.

The best way to remedy the current and desperate financial condition of Puerto Rico is to stop lending money to the government so it can no longer be squandered. Contrary to what certain governments’ and stakeholders’ actions might suggest, nothing is too big to fail. It is also the best hope we have of ending the trend of countries, states, and cities needing to be bailed out after borrowing more money than they can repay.

Denying Puerto Rico statehood in its time of need may sound like callous indifference, but at the end of the day, it is the best thing for the island. What Puerto Rico needs more than statehood is to be forced to own up to its obligations. 77 percent of Puerto Ricans made it clear that if the U.S. was their only option, they would rather not vote.

If Puerto Rico becomes a U.S. state, let it be because its people want to be an official part of this nation, not because they are desperate for a way out of their debt.

THE HILL

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