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OPINION THE AMERICAS

Puerto Rico Is a Political Football

Washington uses the island for virtue-signaling, mostly at election time.



By **Mary Anastasia O'Grady** [Follow](#)

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The Monument to the Constitution stands outside the Luis Muñoz Marín Government Center in Dorado, Puerto Rico, Oct. 28. PHOTO: ALEJANDRO GRANADILLO/ASSOCIATED PRESS

Puerto Rico's per capita gross domestic product would make it the poorest state in the nation. Its anemic economy has impelled millions to leave their families for work on the U.S. mainland. Neither of the two big political parties in Washington gives a hoot about it except as a tool to virtue-signal—usually right before an election.

Comedian Tony Hinchcliff's reference to Puerto Rico as “a floating island of garbage” at a Trump rally will cost the former president votes on Tuesday. How many is hard to say. But if the election is as close as forecast it could turn out to be an unforced error that matters.

Some Trump supporters accused critics of being humorless. They point out that Mr. Hinchcliffe also made crude cracks about Jews, blacks and Hispanic culture more broadly. Bad taste and vulgarity are his stock in trade.

That hasn't cheered up Puerto Ricans. They're proud of their beautiful homeland, culture and record of service in the U.S. military. With hundreds of thousands of Puerto Rican voters concentrated in swing states, it's surprising Mr. Trump didn't try harder to reverse the damage.

Democrats were elated that Republicans had offended Puerto Rico. Rep. Alexandria Ocasio-Cortez (D., N.Y.) pounced. So did Kamala Harris, Tim Walz and CNN. Within a couple of days, Puerto Rico was again playing its most useful national role for the parties: political football.

The cause of Puerto Rico's economic malaise is no secret. A dominant public sector, born under New Deal central planner Rexford Tugwell, has ballooned over decades. Powerful special interests, notably organized labor, crony capitalists and a giant bureaucracy, drain resources from business and stand in the way of reshaping the economy toward something more dynamic.

A fiscal crisis can be a catalyst for change. But not when Washington backstops the status quo. That's what happened in 2016, when Gov. Alejandro García Padilla, who had run up huge deficits, decided to stop servicing some of the island's debt.

Since Puerto Rico, like the 50 states, wasn't permitted bankruptcy under the U.S. code, creditors prepared to go to court. The island government faced a reckoning.

But it was an election year. President Obama wanted to save Mr. García Padilla's political interests. The Republican-controlled House buckled from the pressure. Congress crafted bipartisan legislation to allow the commonwealth to restructure most of its debt under the guidance of a federal oversight board. The "O board" was charged with forcing lenders to take a haircut and driving reform.

Puerto Rico was happy to wipe away obligations to creditors, who had enabled its reckless spending. Downsizing and improving state services? Not so much.

Eight years later the O board remains at the helm, because under the law its exit requires that the island government be able to issue debt at reasonable rates again. That hasn't happened because credit-rating firms are waiting for it to get current on its audited financial statements.

An Oct. 22 report from the San Juan-based Institute of Economic Freedom shows how little of what matters to growth and development has changed. Ángel Carrión-Tavárez, the institute's director of research and public policy, notes that the island "has the highest number of government employees as a percentage of total employment" of any U.S. jurisdiction. As of May 2024, he writes, there were "166,122 jobs in state and local government, including career, confidential, and other positions," or "approximately 510 public employees per 10,000 inhabitants."

According to Mr. Carrión-Tavárez, "Puerto Rico has the second highest corporate tax rate in the world, at 37.5%." Some multinational corporations dodge that heavy burden. The rest take it on the chin. Small and medium-size local businesses make up "over 95% of businesses in Puerto Rico." The disincentives to investment are many. From creating a company and hiring workers to registering property and acquiring an occupational license, Puerto Rican government fails entrepreneurs.

The O board was tasked to restructure the debt of the electricity utility but its mess, dating back almost a decade, lingers. Citing Arizona State's "Doing Business North America 2022" report, Mr. Carrión-Tavárez observes that "Puerto Rico ranked last in terms of accessibility, reliability, and cost of electricity." These troubles "discourage private investment and entrepreneurship and are an obstacle to growth," especially for small and medium-size businesses. San Juan ranks at rock bottom among 83 U.S. jurisdictions for ease of running a business.

The oversight board has the authority to instruct Puerto Rico to clean up its inefficient bureaucracies but hasn't done so. Is it possible that its incentives don't align with the interests of Puerto Ricans? In 2016 the Congressional Budget Office estimated the board's work, including outside attorneys and consultants, would cost \$370 million over five years, charged back to Puerto Rico. To date it has cost \$1.5 billion. That's good work if you can get it. Why end it?

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