**Reconstruction and Economic Growth for Puerto Rico**

**What to Do? What Will It Cost? Where Will the Money Come From?**

**Summary**

The hurricanes have changed everything. Hurricane Irma was a harsh blow to Puerto Rico, and then, as one observer noted, Hurricane Maria raged across the island like a buzz saw. This devastation comes at a time when Puerto Rico is already in severe economic difficulties. The economy has continuously declined over the last decade, and the public debt, estimated at $74 billion, is larger than the island’s GNP.

Recovery from the hurricanes’ destruction will require federal funds. At the same time, now the economic development of the island will also require federal support. Failure by the federal government to take action would assure a humanitarian crisis, a downward spiral of the economy, and a surge of new migration from Puerto Rico to the states.

**Debt Relief**

Federal hurricane recovery funds can help in the short run. Full recovery and movement of the economy onto a path of economic growth will require substantial debt relief. This relief can come from the bankruptcy proceedings already underway. However, the PROMESA-created Oversight Board must switch its focus away from austerity and toward reconstruction and development. In the context of the bankruptcy judge’s decision, the federal government must undertake a debt relief program. One attractive option is for the U.S. Treasury to purchase the debt at the current market rate of 32 cents on the dollar and then either forgive the debt (wipe it out as President Trump has suggested) or charge the Puerto Rican government a low interest rate—2.5%, roughly the current rate on 15 year Treasury notes. This could be accomplished with no net cost to the Treasury—and thus is not a “bailout”.

**Recovery *and* Growth**

The immediate issue, of course, is recovery from the destruction of the hurricanes. As a first step the federal government should immediately provide at least $15 billion for initiating repair of the island’s infrastructure, supplying the food, water, medical, and fuel needs of the population, and starting repair and rebuilding of homes and businesses. This $15 billion will have to be followed with additional funding as needs become clearer. Recovery funds will put people to work and put money in their hands. That money will be spent and re-spent, giving an upward push to the economy. But much more will be needed to get growth going.

Puerto Rico needs to be treated in the same manner as the states with regard to federal economic programs—everything from the Earned Income Tax Credit to federal Procurement. Including Puerto Rico in these programs, putting the island on a level playing field with the states, and also abolishing the Jones Act, would mean about $4.5 billion annually in new funds for the island.

These funds, plus reductions in debt servicing along with actions to improve tax collections, can provide the basis for a $20 billion expansion of public infrastructure investment over the next decade, which will both directly generate jobs and economic expansion and stimulate further investment and employment by the private sector.

To be most effective, this public investment must not be directed simply to recreate the infrastructure destroyed or damaged by the hurricanes. It must be directed to create a more effective and more appropriate infrastructure for Puerto Rico. A prime example is replacing the inefficient and costly electric power system with a green energy system, less expensive, less polluting, and, by decentralization, less vulnerable to severe weather.