

Detroit Then and Puerto Rico Now: The Similarities and the Differences

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Detroit and Puerto Rico: Similarities and Differences

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- I. Similarities
 1. Total debt
 - a. Bond debt
 - b. Pension debt
 2. Constitutional protections for debt
 3. Inability to pay debt
 4. Kicking the can down the road – recent large borrowings
 5. Default – bond payments; pension plan payments
 6. Cutting budget will not solve problem
 7. New taxes will not solve problem
 8. “Service delivery insolvent”
 9. Bankruptcy “Insolvent” – unable to pay debts as due;
 10. Demographics – population loss
 11. Economy
 - a. Recession
 - b. High unemployment
 - c. Low household income
 12. Needs bankruptcy relief; fresh start
 13. Vehement creditor opposition to relief
 - a. Pensions in Detroit
 - b. Bondholders in PR
 14. Creditors have no moral high ground
 15. Bankruptcy not cause harm
 16. Shared sacrifice necessary
 17. Committed local leadership
 18. No effective alternative
- II. Differences
 1. No bankruptcy option for PR
 - a. No fresh start for PR
 - b. No bankruptcy protections for PR creditors
 2. PR negotiating with creditors one entity at a time
 3. No “Grand Bargain” in Detroit
 4. PR a territory; Detroit a “municipality”
 5. Unlike PR, Detroit on a path to revitalization
 6. Unlike Detroit, PR needs additional statutory changes
 7. Scope of debt - \$18B in Detroit vs. \$100B+ in PR
 8. PR one singular enterprise, but has many separate (but economically interrelated) public entities (Administrative consolidation? Substantive consolidation?)

9. In Detroit, committed state leadership—governor & legislature; for PR, president and Treasury Department are committed, but Congress is not
10. Detroit had Emergency Manager
11. Anger in Detroit; opposition in PR
12. Race issues?

III. Similarities

1. No “bailout”
2. Creditors not “stiffed”
3. Bankruptcy not “stick up”
4. PR needs bankruptcy