

Strike threats as 100,000 remain jobless

## Puerto Rico government-school shutdown enters second week

Bill Van Auken  
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The colonial administration in Puerto Rico has continued its shutdown of most government agencies as well as public schools into a second week, leaving nearly 100,000 public employees and hundreds of thousands of students locked out with no resolution in sight.

The crisis deepened Monday as the New York-based credit rating firm Moody's Investors Service downgraded Puerto Rican appropriation bonds to junk status and its general debt to just one notch above junk bonds. Meanwhile, the lower house of the island's congress went into recess until Thursday, with Governor Aníbal Acevedo Vilá and the opposition-dominated legislature still deadlocked over how to resolve the fiscal crisis.

The credit downgrade came despite an emergency trip to Wall Street by Puerto Rico's Development Bank president Alfredo Salazar to plead with the ratings agencies. The action will mean that the island territory will be compelled to pay higher interest to borrow money to cover its ballooning deficit.

Governor Acevedo Vilá ordered the shutdown on May 1, announcing that his government needed another \$531 million to cover its budget deficit until June 30, the end of the 2005-2006 fiscal year. The drastic action was applauded by the US finance houses, which are demanding increased austerity measures to confront the island's fiscal crisis.

The shutdown has hit 43 public agencies—all but police and healthcare. Meanwhile, thousands of municipal workers are joining the unemployment lines as payments from the central government in San Juan have dried up. At least 15 municipalities were either totally or partially shut down as of Wednesday

morning, and scores more could quickly follow suit.

Debate between the two major parties—Acevedo Vilá's Popular Democratic Party (PPD), which supports continuation of Puerto Rico's status as a US commonwealth, and the legislative leadership's New Progressive Party (PNP), which calls for the island to become the 51st US state—has centered on proposals for a new sales tax.

Acevedo Vilá has demanded a 7 percent sales tax. The Puerto Rican Senate approved a measure combining a special 5 percent tax on individual retirement accounts (to be paid in advance voluntarily in lieu of a higher tax later) combined with a 5.9 percent tax on sales. Meanwhile, the House of Representatives has shown no inclination to pass either measure, though a joint conference committee has continued to meet on the legislation.

The governmental gridlock has only deepened since the 2004 gubernatorial election won by Acevedo Vilá by barely 4,000 votes. The PNP has never accepted the outcome.

Commercial businesses, meanwhile, are reporting plummeting sales, and the cost of the government shutdown to the island's economy is estimated to be as much as \$20 million a day.

In a territory where close to half the population is living below the poverty line, the shutdown of public schools has had a particularly cruel impact. Many of the island's 600,000 school children, who, together with 40,000 teachers, have been locked out of their classrooms, depend upon free lunch programs as a major source of nutrition.

The fiscal crisis has its immediate source in the failure of the executive and legislative branches of the

island's colonial government to agree on a new budget for the last two years, meaning that it continues operating on a level of appropriations approved in 2004, even as costs have risen substantially.

More fundamentally, the development strategy supported by Washington and successive administrations on the island has been one of offering sweeping tax breaks and concessions to the hundreds of US-based firms operating in Puerto Rico. In 2004 alone, income reaped by these corporations from their Puerto Rican operations topped \$30 billion, much of it going straight to big US pharmaceutical companies with plants on the island. In some cases, the Puerto Rican government has granted corporations tax exemptions stretching for 25 years. Not only does Puerto Rico grant tax exemptions on most of this income, it offers corporate subsidies in the form of cheap electricity and spending on infrastructure

In many cases, companies that invested in Puerto Rico as a low-tax haven in an earlier period have moved on in search of even cheaper production costs in low-wage countries.

There is no serious proposal from either the PPD or the PNP to compel the corporations to pay for the crisis out of their massive profits, or to tighten collection from Puerto Rico's rich, who routinely evade taxes.

Instead, both parties are determined to impose the full burden of the deficit on Puerto Rican working people, whose median income is considerably below that of the poorest state in the US. The imposition of a sales tax—whether it is 5.9 percent or 7 percent—is a regressive policy that will inflict the greatest hardship on the poor.

Acevedo Vilá has referred to the proposed sales tax as “a permanent solution that prevents this from ever happening again.” It also would represent a permanent cut to already low incomes for Puerto Rican working people.

In response to the continued shutdown, one of Puerto Rico's main trade union federations, which includes the teachers and electrical workers unions, first announced a call for a 24-hour general strike on Tuesday. Its leaders then backed off from this announcement, indicating that they would be taking unspecified job actions aimed at “paralyzing the profits of the rich.”

A more conservative federation, linked to the US

AFL-CIO, disassociated itself from any strike plans and called for a mass demonstration on Thursday. Already, there have been demonstrations by teachers and other public employees on a daily basis. Within 24 hours of the shutdown, some 50,000 people marched on the capitol building in San Juan.

The government shutdown is one more indication of the politically unsustainable character of Puerto Rico's present colonial status. There has been some suspicion that the pro-statehood PNP is, for its own reasons, more than willing to see the crisis drag on precisely to make this point.

There is, however, little indication that the US government has any great incentive to directly annex the island, given its fiscal crisis, its Spanish-speaking population and the negative repercussions such a move would have throughout Latin America.

The fiscal crisis and the widespread hardship it has inflicted on the population has intensified popular anger triggered by the heavy-handed repression unleashed by the FBI against the pro-independence movement in Puerto Rico under the phony mantle of the “war against terror.” Last September the FBI organized the murder of Puerto Rican nationalist militant Filiberto Ojeda Rios. In February, paramilitary agents carried out a series of raids on the homes and offices of *independentistas*, launching violent attacks on journalists and bystanders in the process.



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