

# Puerto Rico steps up austerity after cut in credit rating

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Puerto Rico's government ordered across-the-board budget cuts of 2 percent on Wednesday and promised more austerity measures to come after the rating agency Standard & Poor's downgraded the island's general obligation bonds to junk status.

Governor Alejandro García Padilla sent a bill to the legislature Wednesday afternoon that would slash \$170 million from the existing budget, while announcing he would present a balanced budget for fiscal 2015, a year earlier than originally planned. He also acknowledged that the 2 percent budget cut for all government agencies would translate into considerably more than a 2 percent reduction in their spending.

"The full implications of this downgrade are a real unknown," Matt Fabian, managing director of Municipal Market Advisors, told the *Washington Post*. He warned that Puerto Rico "could be forced to put up cash to get out of derivative contracts and other financing deals that might be terminated by the change in its creditworthiness."

The island's government has already acknowledged that under the terms of two short-term loans it acquired, this week's credit downgrade triggers a clause requiring immediate repayment in full of the amount owing—some \$900 million. The governor said his administration was trying to negotiate payment by installments.

Coming in the wake of Detroit's bankruptcy, the downgrade has provoked increased anxiety that the island could be heading toward a default, which would have financial implications that are far more far-reaching and severe. Puerto Rico's debt is estimated at \$70 billion, compared to \$18 billion for Detroit. By law, Puerto Rico, like US state governments, is barred from declaring bankruptcy.

Because the island's bonds are exempt from federal,

state and local taxes and offer high yields, Puerto Rican debt is held by some 70 percent of US municipal mutual funds.

S&P said it decided on the downgrade in part because of the Puerto Rican government's "reduced capacity to access liquidity" from its Government Development Bank. The ratings agency's action, however, will have the effect of deepening San Juan's difficulties in borrowing money and extricating itself from its fiscal crisis.

Every indication is that Wall Street, Washington and the government of García Padilla are determined to place the full burden of this crisis on the backs of Puerto Rico's already impoverished working class. For its part, the Obama administration reiterated Wednesday that it had no intention of providing a bailout for the island. "There is no federal financial assistance being contemplated," a Treasury Department spokesman said.

The governor Wednesday called upon Puerto Rico's Supreme Court to rule quickly on his pension "reform," which unilaterally raises the retirement age for the island's teachers while increasing their contributions, measures that are supposed to cut government pension costs by \$700 million annually over the next 25 years. Teachers unions had secured a temporary injunction blocking immediate implementation of the plan.

After the downgrade was first announced on Tuesday, García Padilla told the Puerto Rican public that, "these are not going to be easy times." He acknowledged that a list of government agencies that could be consolidated had been drawn up, and a study had been conducted to determine how much could be saved by cutting the work-week of public employees. Also under consideration, he said, was a further increase in Puerto Rico's sales and use taxes. In the same breath, he

claimed that he was “trying to stay far away” from these measures.

On Wednesday afternoon, however, he met for hours with 20 union leaders at the La Fortaleza governor’s palace in San Juan, evidently to discuss collaboration in imposing new concessions on Puerto Rican workers. Describing the meeting as “productive,” José Rodríguez Báez, president of the AFL-CIO-affiliated Workers Federation of Puerto Rico, told the San Juan daily *El Nuevo Dia*, “There were requests for the union sector to be part of the search for solutions.”

In his remarks Tuesday, the governor assured the public that “tomorrow the sun will come out, we’ll get up, the government will offer the same services, employees will collect their checks, nothing will change in the daily functioning of the country tomorrow.”

Such assurances are needed because the last time Puerto Rico was thrown into a similar crisis by a ratings downgrade—in 2006—the government ran out of money to pay public-sector workers and shut down all operations for 15 days, including schools, which put 500,000 children out of their classes.

That crisis was precipitated in large measure by the ending of the island’s special tax status, which for three decades had offered corporations special tax breaks to set up manufacturing operations there. That and the opening up of cheap labor opportunities by the NAFTA treaty with Mexico led to capital flight and the onset of a recession that has continued to this day.

This has led to increasingly desperate conditions for large sections of the working class in the US colonial “commonwealth.” The official unemployment rate stands at over 15 percent—significantly higher than what exists in any US state and at least double the official rate in 42 of them. Forty-one percent of the island’s 3.7 million people live below the official poverty line, which is even lower than that set in the mainland United States.

One result of this deepening poverty has been a resurgence of emigration to the US on a level not seen since the major migration of Puerto Ricans in the 1950s, when large numbers of workers were displaced by the monopolization of the island’s wealth in the hands of US corporations and US employers recruited Puerto Ricans as cheap labor for manufacturing.

Since the onset of the Puerto Rican recession in 2006,

the island’s population has shrunk by 138,000 people.



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