

Puerto Rico's governor seeks to placate bond markets with austerity measures

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28 June 2014

Puerto Rican Governor Alejandro García Padilla has signed an emergency financial law, introduced a separate bill that would allow for restructuring of some public corporation debt and advocated in the legislature for an austerity budget for the fiscal year beginning July 1, 2014. García Padilla, a member of Puerto Rico's Popular Democratic Party and the US Democratic Party, is imposing this multi-pronged approach to austerity because of bond market worries that the island's continuing economic crisis could spread and affect municipal bond markets.

The emergency financial law freezes hiring of workers in the Executive Branch as of July 1 and imposes a 10 percent across-the-board cut to annual spending for professional services, according to a summary published by the Governor's Central Communications Office.

In addition, the law explicitly prohibits pay raises for merit or years of service, increases in fringe benefits — including government pension contributions — and bonuses of any sort for Executive Branch employees. It attacks workers' collective bargaining rights by allowing the extension of only the "non-economic clauses" in expiring union agreements.

While presenting these cuts as emergency measures, the law permanently caps the amount of sick leave that a public worker can accrue to 90 days. Even this capped benefit will be used by the capitalist press as fodder for arguments about pampered workers. Yet the US Census reported in January that Puerto Rico's median household income between 2010 and 2012 was only \$19,518.

On June 19 MSN.com reported that the Workers Federation Center, representing 35 unions, had voted to authorize a strike in response to the law. However, the organization would not reveal the date of the planned

action — it claimed to want an element of surprise against the government — nor would it say that the strike will be anything more than sporadic protests.

This bit of political theater is the most significant development since the head of the UTIER union threatened, at the beginning of June, to call a general strike if the emergency measures became law. As in the mainland US, Puerto Rico's unions are willing to strike deals with the government in order to maintain their own positions. At the beginning of February, the head of the Workers Federation met with García Padilla and other union leaders and then told the San Juan daily *El Nuevo Día* that "there were requests for the union sector to be part of the search for solutions."

Workers cannot rely on such organizations. In May, the Puerto Rican unemployment rate was 13.8 percent. While it had declined in recent months, it is higher than in May 2013 and remains higher than in any US state. Large numbers of people have left the workforce. In May, the number of non-farm jobs — 929,300 — was at its lowest since 1992. The total Puerto Rican workforce of 1.15 million is 2.7 percent smaller than it was a year ago, and, according to the US Census Bureau, Puerto Rico's population decreased by 1.6 percent — nearly 59,000 people — between 2010 and 2012. More than 50 percent of those who leave have at least some college education, according to the Puerto Rico Statistics Institute.

García Padilla, like the US Democrats, worries about such statistics only insofar as they impact capital flows or generate the threat of organized opposition from below. The bill he introduced on June 25, which would allow debt restructuring by the Puerto Rico Highways and Transportation Authority (PRHTA) and the Puerto Rico Electric Power Authority (PREPA), is meant as an end run around the inability of US states and territories

to declare bankruptcy. Because the two authorities are separately incorporated, the Governor's statement introducing the bill describes them as "public corporations" seeking "to achieve financial self-sufficiency."

The other benefit of this tactic for García Padilla — which he readily acknowledged in his announcement of the bill — is that it prevents the use of sales tax revenues and money raised through General Obligation Bonds for these PRHTA or PREPA debt servicing. While a payment missed by the Transportation or Electric Power authorities would not be well received by lenders, a default on General Obligation Bonds — issued by the government itself — would be catastrophic.

The *Wall Street Journal*, in a June 25 article about the bill, worries that it "potentially saddles investors with losses on about \$13.6 billion of debt." Puerto Rico's total outstanding debt is around \$70 billion. This amount is small compared to the total municipal bond market value of \$3.7 trillion, and the *Journal* is well aware of the crisis that a General Obligation default would touch off. It also fears the volatility in bond yields and prices resulting from Puerto Rican uncertainty. For example, the yield on some of PREPA's bonds has nearly doubled since April, from 12 percent to just under 24 percent.

David H. Chafey, Chairman of the Board of Puerto Rico's Governmental Development Bank, said in the statement announcing the restructuring bill that "should public corporations fail to comply with their obligations in a way that allowed creditors to exercise their remedies in a disorganized, unsystematic manner, the absence of an organized process would threaten the ability of the government of Puerto Rico to protect the public and promote the general well-being of the people."

Of less concern to the bond markets is the fact that Puerto Rico's 3.7 million people rely on these public authorities for basic social services and jobs. As an afterthought in its article on the bill, the *New York Times* speculated that "the public corporations employ thousands of people who could face pay cuts in a restructuring."

Capital, on the other hand, will always find a way to make profit off of the crises it creates. While Jones Day — the same law firm that planned Detroit's unconstitutional bankruptcy filing — held a seminar in

January on Puerto Rico's problems, the island's Governmental Development Bank has recently hired FTI Consulting to develop restructuring plans for the two public authorities. The Motley Fool web site gloated on June 16 that FTI's second quarter revenue came in higher than expected, resulting in a one-day increase of 11 percent in the company's stock price.



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