Puerto Rican government unveils anti-worker austerity plan

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On Wednesday September 9, Governor Alejandro Padilla announced his government's plan to deal with Puerto Rico's historic debt crisis. The plan is a frontal attack on education, health care, jobs and living standards.

The five-year plan, elaborated by Padilla and the Popular Party government, contains an extensive series of budget cuts to deal with the Island's $72 billion public debt. The government proposal also calls for a restructuring of the debt, asking bondholders to accept longer payment terms and lower interest payments.

The austerity and restructuring plan closely follows the recommendations outlined in a document entitled "Puerto Rico—a way forward," co-authored by former International Monetary Fund officials, including Anne Krueger and Andrew Wolfe. That paper recommended "pro-growth supply-side" measures to lower labor costs and business taxes in Puerto Rico. It advocated measures such as the elimination of the federal minimum wage, tightening of welfare eligibility, gutting of job-protection regulations, "relaxation" of labor laws for youth and new entrants into the jobs market, and an assault on public education.

Padilla recognized that these new measures come on top of a decade recession, budget cuts, regressive tax increases and higher fees for transportation and other public services ("We have asked our people to sacrifice a lot," he said). However, he now proposes to ratchet up the attacks on jobs and living standards.

To be slashed under the terms of the proposal are subsidies to cities, as well as funding for the University of Puerto Rico, public education, health care, and pensions.

The plan calls for freezing the minimum wage for youth under 25, abolishing seniority rights and laying off public employees. The plan freezes new hiring, wage increases and collective bargaining through 2021.

Probation for new employees would be lengthened; overtime pay would be based on an excess of 40 hours per week, not the current excess of eight hours per day. Workers would no longer be sacked according to seniority on the job, but according to productivity. Student fees at the University of Puerto Rico would be linked to students' incomes.

Government hospitals are to be handed over to public/private corporations. Health provider fees will be reduced and tied to performance

Regressive user fees are to be introduced and value added taxes increased to 11.5 percent on every purchase. It is expected that this new structure will add one billion dollars to government coffers. Government spending would be made dependent on projected revenue over a five-year span. A special reserve fund would be earmarked exclusively to pay off the debt

While Puerto Rican workers and youth bear the brunt of the austerity measures, businesses will be relieved of regulations and taxes.

Electricity and other government agencies, such as public transport, would be privatized and subject to the profit interests of their new owners.

Padilla's announcement took place the day after he met in San Juan with New York Governor Andrew Cuomo and a delegation of top New York State officials in a so-called "solidarity mission" with Puerto Rico. New York's Democratic governor has proposed that the Caribbean island colony be allowed to declare bankruptcy under US law. He is also proposing an "action-plan" to deal with the crisis. Cuomo warned that many of the problems that exist in Puerto Rico also exist in New York State. Therefore it was imperative that a solution be found before the debt crisis migrated north.

Cuomo's ties to the Wall Street hedge funds that are now picking up Puerto Rican bonds at fire-sale prices is well known. He has received well over $1.3 million in donations from 47 donors associated with 17 funds that have purchased and speculated on Puerto Rico's debt. Clearly, he is no friend of Puerto Rico. His presence on Tuesday, and his action plan have to do with the protection of the profit interests of Wall Street, at the expense of Puerto Rican workers.

Cuomo, together with presidential candidates Hillary Clinton and Jeb Bush, reflect the views of those Wall Street investors in favoring a federal bankruptcy process (Chapter 9) as a "more orderly" way out of the crisis.

Included in this group is Steven Rhodes, the judge who handled the Chapter 9 bankruptcy for Detroit (with disastrous consequences for the working class) and is now an advisor for Puerto Rico.

The plan also has Rhodes' fingerprints on it, derived from the Detroit bankruptcy, specifically in the creation of a Financial Control Agency, independent of political control and with the power to dictate measures and their implementation. The continuity of the agency would be assured by the restructuring agreement with the debt-holders themselves and could not be interfered with by any future Puerto Rican administration.

"I sincerely hope that the bondholders will see this report for what it is—a wake up call to come to the table," said Rhodes. "I don't see a way in which bondholders could be made whole."

There is little chance that the hedge funds will agree to the Puerto Rican government's proposal. Speculative funds such as the Oppenheimer Fund have already stated that they expect to be paid in full. Throughout 2014, Oppenheimer was among those funds buying up Puerto Rican debt at the same time that S&P was downgrading Puerto Rican debt to junk status.

"The debt restructuring is going to be the most difficult, I think, just because you're asking bondholders to accept less than they thought they were going to get," said Peter Hayes, head of asset manager BlackRock's Municipal Bonds Group, which owns various non-government Puerto Rico bonds.

"In litigation or a negotiation, there will be requests to do more, to cough up more money and yet I do think it's a fair statement to say that a very high debt burden absolutely has a negative impact on the economy and if you sit back and just continue with austerity it gets worse," said John Miller, co-head of fixed income for Nuveen Asset Management, which holds $300 million in Puerto Rico bonds.

On Thursday, Emilio Nieves Torres, president of the National Union of Educators and Education Workers (UNETE) denounced Padilla's education proposal. "The government plan represents the biggest attack in Puerto Rico's history against public education and teachers," declared Nieves, "they are proposals that are based on the idea that education is an expense, not an investment," he added. The UNETE and other unions have called for a protest march and rally on Friday in San Juan.

Behind Nieves' bluster is a record of betrayal. In January 2014, angry teachers, whose pensions were being degraded from a defined benefit plan to a defined contribution plan, were led into the dead-end of protest politics, with a 48-hour strike that in the end accomplished nothing.