

More austerity for Puerto Rico

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31 October 2015

Puerto Rico's debt crisis poses the real threat of a "humanitarian crisis" according to testimony delivered on Thursday October 22 by US Treasury Department counsel, Antonio Weiss.

Weiss made the warning over the crisis in Washington's Caribbean island colony in testimony to the Senate Committee on Energy and Natural Resources. Simply stated, he described how Puerto Rico is running out of cash reserves and faces a payments crisis that imperils public services and other government programs.

On Wednesday, confirming Weiss' warnings, the Puerto Rican Development Bank announced that its liquid reserves have fallen below \$1 billion. Puerto Rican debt holders are increasingly worried that this institution will not be making its next debt payment of \$335 million, due on December 1. The Puerto Rican Development Bank is charged with issuing government bonds.

The Treasury Department presented a list of proposals to the Senate Committee that would provide a legal platform to restructure Puerto Rico's debt under the umbrella of Chapter 9 of the United States bankruptcy code.

A second proposal is to increase federal subsidies for health benefits, and to allow Puerto Ricans to benefit from the earned income tax credit for the children of low-income households. A key element of this plan is to place Puerto Rico's government finances under the tutelage of an unelected fiscal regulatory commission.

Weiss urged the US Congress to act on the Obama administration's proposal to resolve the crisis in this US territory, which he attributed to nearly a decade of economic slump that has caused an explosion in rates of poverty and accelerated migration flows out of the island, to Florida and other parts of the United States.

Alejandro García Padilla, Puerto Rico's governor, also testified before the same Senate committee. "A

number of institutions are betting on a horrible financial outcome for Puerto Rico," declared governor García, referring to speculative hedge funds, known as vulture funds.

This consortium of creditors, called the Ad Hoc Group of Puerto Rico, includes Wall Street hedge funds Stone Lion Capital, which profited from the bankruptcy of Detroit, Fir Tree Capital, which made money off of the 2001-2002 Argentine debt crisis and the 2008 Lehman Brothers bankruptcy, and Canyon Capital and Perry Capital, both linked to Goldman Sachs, which have profited from the Greek crisis and the near-collapse of the Co-op Bank in the United Kingdom.

The Ad Hoc Group opposes bankruptcy protection for Puerto Rico, arguing that its government is able to meet its obligations by imposing harsh austerity measures on its population. Granting bankruptcy protection to Puerto Rico would force the hedge funds to accept discounted debt payments, i.e., to take a financial "haircut."

Committee member and Democratic presidential candidate Bernie Sanders echoed García's testimony, pointing out the common practice among these funds of demanding payment in full for bonds that they had purchased at lower prices. Sanders suggested that if payments exceeded limits imposed by the Puerto Rican constitution, this would justify non-payment by Puerto Rico. Sanders asked: "Should debt be repaid if in fact that debt was incurred in an unconstitutional way?" "No," the governor responded. The Puerto Rican constitution limits debt payments to 15 percent of government revenues.

García Padilla also asked the Senate committee to relieve Puerto Rico of the costly requirement that sea transportation between US ports be carried out by US registered vessels, a measure not endorsed by the Treasury Department.

Republican opposition in the US Senate makes it very

unlikely that any of the measures suggested by Weiss and the Obama administration will take effect.

The Ad Hoc Group commissioned a report by the Centennial Group International think tank (“For Puerto Rico, There is a Better Way; A Second Look at the Commonwealth’s Finances and Options Going Forward”) to support its opposition to Chapter 9 protection for the island, or in the case that the García Padilla administration decides not to pay. The commonwealth has a “deficit,” not a “debt” problem, according to the document. It gives examples of other countries that, under similar circumstances, overcame them with austerity policies, at the expense of the their working classes and poor, the privatization of public agencies, and the sale of government assets.

It calls for the privatization of highways, the Puerto Rican Industrial Development Company and of an advanced port facility in the southern city of Ponce (*Puerto de las Américas*). It also demands increases in regressive sales and value-added taxes, as well as cuts to public education and to subsidies to the University of Puerto Rico.

In a forum sponsored by the San Juan-based Center of Investigative Journalism (*Centro de Periodismo Investigativo*, CPI) on October 5, Argentine Journalist Carlos Burgueño, an expert on national bankruptcies and on the operation of vulture funds, compared the Puerto Rican crisis with previous debt crises.

“The premise of the [Centennial Group] study is that Puerto Rico is able to pay its debts. What is the purpose of such a study? It is to present as evidence, in case that Puerto Rico attempts to restructure its debts in a crisis situation, that Puerto Rico can pay 100 percent of its obligations,” declared Burgueño.

For Burgueño, that Latin American economists who formerly worked for the IMF are among the document’s authors makes it appear objective, when in fact it is a hack job commissioned by financial parasites involved in the Argentine defaults (2001-2003). These include Mark Brodsky of Aurelius Capital Management, and Paul Singer of NM Capital (subsidiary of Elliot Management).

The Puerto Rican House of Representatives is taking steps along the lines demanded by the Centennial report, beginning with laws for the establishment of a financial supervisory board and labor reform.

The legislature is currently discussing a “labor-

reform” law along the lines of the Centennial document. Among other things, in the name of labor flexibility, the draft legislation aims to make it easier for companies to fire workers. It proposes to lengthen probation periods, cut traditional Christmas bonuses and cut holiday and sick time. Other proposals include the lengthening of the workday to 10 or 12 hours.

Independently of the US Congress, the Puerto Rican legislature is also considering its own version of an unelected five-member Fiscal Supervisory Board with the “total power to operate continuously,” and to “pre-approve” spending proposals. This measure grants the board unprecedented executive and legislative powers.

Rafael Hernández Montañez (Popular Democratic Party representative) indicated that, as written, the draft law gives the Supervisory Agency powers that “are at the same level as those of the governor.”

Leaders of some Puerto Rican trade unions have indicated their readiness to launch a general strike to protest these and other draft reforms.



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