Puerto Rican government will not pay portion of its debt

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On Wednesday December 30, Puerto Rico's Governor Alejandro Garcia Padilla made it official: Puerto Rico would default on a $37.3 million interest payment on bonds issued by two of its public agencies: the Infrastructure Financing Agency ($35.9 million) and the Public Financing Corporation (PFC, $1.4 million). PFC bonds have been in default since last August, when it missed a $58 million payment.

Garcia Padilla did say that General Obligation bonds, which are guaranteed by the Puerto Rican Constitution, would be making a payout of $434 million. Eighty-five percent of the island's $72 billion debt consists of debt issued by Puerto Rican government agencies.

The governor indicated that the General Obligation bonds payment was being made on time by diverting $163 million from taxes and fees earmarked for other government agencies—the so-called "claw back." These are the Road Authority, Public Transport, the Bus Authority, and the Tourism Corporation.

Other agencies, including the Public Housing Authority, the University of Puerto Rico, the Convention Center Authority, the State Pension System and Industrial Development made payments totaling $383 million over the weekend and on Monday. These agencies will remain current for the time being.

According to Garcia Padilla, his administration was not able to divert funds from those agencies in time, due to the abrupt implementation of the "clawback."

When asked by reporters to predict future debt payments—some $3 billion due between now and the end of June 2016—the governor made future payments contingent on Puerto Rico recovering from its deep recession. At the same time, he reported that the January payments, absent a restructuring plan, are an obstacle to the Island's recovery:

"It places us in a crucible over which payments can be made with the few resources that we have. It has forced us to balance the risks that come from a non-payment. In this crucible we have had to weigh the risk of a general cessation of payments for the provision of essential social services that the government offers the people."

The *San Juan Star*, an English-language weekly, observed that the amount of the default was relatively small. It quoted financial analyst Daniel Hanse from the Washington, D.C.-based Height Securities who declared that the default was "remarkably mild," given that more than $900 million in debt service was paid out.

Clearly, the relatively small amount of this selective default is a message from the Garcia Padilla administration intended to pressure Wall Street and the US Congress to come up with a rescue package soon. "We would not be in this press conference with this announcement if [the US] Congress had acted," said the governor. "I expect that legislators will not forget the faces of those lobbyists that claimed that Puerto Rico was capable of making all its payments." He also raised the prospect of a government shutdown due to lack of funds.

"We are all aware that our creditors have spent a fortune lobbying Congress against Puerto Ricans and that they are willing—indeed, eager—to engage in costly court actions against Puerto Rico, and, as we know, eager to sequester our funds, to deprive us of the little cash that we have available to provide our people basic services, to put pressure on me," added Garcia Padilla.

Aside from severe austerity policies, Puerto Rico, mired in a decade of economic slump, does not have the resources to service its $72 billion debt. Like Greece (with which it is increasingly compared), Puerto Rico, cut out from credit markets, faces impossible choices.

The Puerto Rican economy continues to fall. The index of economic activity, driven by cement sales and gasoline consumption, fell again in November (cement sales fell 2.5 percent; gasoline consumption fell by 8.8 percent).

There are very few prospects that Puerto Rico, economically and politically dependent on the United States, will grow out of this crisis in the near future. Even tourism, which represents less than 10 percent of Puerto Rico's GDP, is expected to contract with the thaw in relations between Washington and Havana and tourists being able to opt for Cuba.

The magnitude of Puerto Rico's debt, the equivalent of 90 percent of its Gross Domestic Product, or $19,000 per capita (nearly four times as high as Massachusetts' $5,070 per capita debt), would require a massive contraction of living standards, education, pensions, and health and government services. This would in turn spell an acceleration in the wave of emigrants from the island and an explosion in the class struggle.

So far, both the White House and Congress have said no to a federal rescue package or to granting Puerto Rico bankruptcy protection. The capitalist alternative that Wall Street demands is the destruction of pensions, jobs, wages and social programs.

Government officials announced that negotiations with advisers to the thousands of individual creditors and many hedge funds would continue in the next few weeks.