

Puerto Rico declares moratorium on \$367 million debt payment

Rafael Azul
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On Monday May 2, what had been announced since last June finally took place; the government of Puerto Rico defaulted on part of a \$422 million debt payment that was due on May 1. This is the largest default in Puerto Rican history. It is anticipated that this will be the first of many non-payments this year.

Governor Alejandro García Padilla had declared on May 1 in a televised address to the island nation: “As we confront having no liquidity to satisfy both the demands of our creditors and the services to our people, I am forced to choose. I have chosen that your basic needs are above everything else.”

Such words ring hollow, given that, since 2014, the governor has carried out policies that have eliminated jobs, closed schools and cut health care.

The García Padilla administration announced a “moratorium” on \$367 million owed to Wall Street hedge funds by the Puerto Rican Development Bank. The government paid the balance of the \$422 million, an interest payment of \$22 million and \$33 million owed locally.

The Puerto Rican legislature recently approved legislation providing a legal basis for the moratorium. The passage of this law, however, does not prevent credit agencies from declaring Puerto Rico in default and lowering bond ratings to junk status. Both Moody’s and Standard and Poors have ignored the Puerto Rican measure.

It has been reported that vulture funds and speculators are buying up Puerto Rican bonds at steep discounts from face value (anywhere from 10 to 70 cents on the dollar). The Puerto Rican state has some \$72 billion in bond debt and will face another \$2 billion in debt service this summer.

The moratorium takes place in the context of the inability of the US Congress to decide on a so-called

rescue package for the island, known as PROMESA, which is centered on the imposition of a fiscal control board, a Wall Street dictatorship over the island with the power to impose austerity measures on Puerto Rican public employees, retirees, young workers and students.

The PROMESA bill, authored by Congressman Sean Duffy (Republican, Wisconsin), is stalled in Congress due to differences within the Republican Party majority. In its present form, it provides for a five-member financial control board, to be appointed by US President Barack Obama.

Puerto Rican authorities insist that they are not asking for a bailout or for bankruptcy protection, but for an extension of debt payments. “We neither desire a financial rescue, nor has it been offered [by the US Congress],” declared the governor on Sunday. “We only need the legal tools that will make it possible for us to confront this crisis and make for a more viable Puerto Rico.”

“We can’t wait longer. We need this restructuring mechanism now,” added Garcia Padilla.

While the US Congress has not yet reached agreement on PROMESA (in part because of fear that a rescue of Puerto Rico may encourage US states to ask for similar “bailouts”), a financial control board with veto authority over spending, like the one imposed most recently on Detroit, seems to be on the horizon. In its present form, elected Puerto Rican officials would have absolutely no power to decide anything having to do with government spending, taxes, pensions, or even the imposition of a sub-minimum wage for workers under 25, on the pretext of creating jobs.

Bondholders and hedge funds have pressured against PROMESA, insisting that Puerto Rico pay its debts on the basis of draconian austerity measures. At the same

time, privately, debt specialists and bond insurers are admitting that some sort of rescue, involving the downgrading of debt and extension of payments, is inevitable.

As the economy sinks, Puerto Rico faces an exodus of emigration to the US mainland. Compounding the social crisis has been the closure of hundreds of schools, and the outbreak of the Zika virus. At last count there were some 683 confirmed cases of Zika infections in Puerto Rico, including 49 pregnant women. Four have died from the disease and another four have developed paralysis.

A year ago, as the debt crisis was progressing, the Puerto Rican government cut appropriations for public health by \$250 million, resulting in the closure of hospitals and health care centers. Thousands of public employees needed for mosquito eradication efforts have been sacked. The government's response has been to offer early parole to imprisoned drug offenders in return for helping fight the Zika epidemic.

Also last year, the US Congress imposed cuts in Medicare and Medicaid for Puerto Rican households. Since 2014, thousands of doctors and health professionals have migrated to the United States, together with 144,000 others—an enormous “brain-drain” not seen since the mass emigrations of the 1950s.

About 50 percent of Puerto Ricans live in poverty, about three times the US rate. Median household income is less than \$19,000—half of the household income in the poorest state in the US, Mississippi.



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