US Senate gives last-minute approval to Puerto Rico debt package

Rafael Azul
1 July 2016

On Thursday, President Barack Obama signed into law debt-management legislation for Puerto Rico, the so-called PROMESA ("promise" in Spanish) bill. The measure was approved the day before in the US Senate by vote of 68 for and 30 against, with 2 abstentions.

In return for allowing Puerto Rico to resort to some of the elements of bankruptcy (such as the ability to negotiate with creditors), the island territory will be placed under a financial control board, unelected by the people, which will be able to impose what amounts to a financial dictatorship until it determines that Puerto Rico's financial health has been restored, an impossibility really, as is the case in Greece, Argentina, and other victims of draconian austerity.

As resources are shifted to Wall Street and the banks, the economy will shrink, requiring ever-deeper austerity measures, causing the economy to shrink once more, in a descending spiral of poverty and hunger. Already, Puerto Rico's poverty rate (45 percent) is causing a demographic exodus by those who are able to leave.

With the creation of a financial control board, the new law imposes an openly colonial relation between the US and Puerto Rico, a status that had been politically masked since 1952 with the creation of the Commonwealth that granted the island self-rule over internal matters.

In addition to being able to increase taxes, as well as impose more cuts in education and health care on Puerto Rican workers and youth and lower pensions on public employees, the financial control board has the power to impose a sub-minimum wage on young workers. The legislation also exempts Puerto Ricans from rules that protect overtime pay.

Under the terms of the bipartisan bill, the seven-member Fiscal Control Board will now negotiate with creditors over the terms of payment of Puerto Rico's $74 billion debt. It also has the power to sell off government assets, fire officials and modify laws and regulations.

Less than 24 hours after the Senate vote, on Thursday afternoon, Puerto Rico's governor, Alejandro Garcia Padilla, signed two executive orders imposing a moratorium on and suspending payment on Puerto Rican general obligation bonds (GO bonds), due on July 1st. President Obama signed the debt bill a few minutes after Garcia Padilla's announcements.

According to the San Juan daily *Nuevo Día*, the governor had decided that the default decrees would be issued independently of the Senate vote.

In addition to the GO bonds, the governor decreed other emergency measures designed to protect government agencies, such as the Metropolitan Bus Authority, the University of Puerto Rico, the Industrial Development Agency and public pension funds, from lawsuits.

At the same time, Garcia Padilla declared his approval of the federal debt bill.

Though Garcia Padilla presented his decrees as making it possible to protect Puerto Ricans from the worse effects of the debt default, his administration has already gone a long way in imposing austerity, closing 100 schools, cutting health care, refusing to fund public employee pensions and destroying public and private sector jobs. The appointment of the financial control board will now result in an acceleration of austerity measures.

Not defaulting is the public Electric Energy Authority (AEE), which announced its intentions to fully service its July 1st debt. This is made possible by a previous agreement with bondholders that in effect privatizes 70 percent of the AEE's assets.

Lisa Donahue, who is in charge of AEE's restructuring, declared that this "marked another step in the transformation of AEE."

Hundreds of electric utility workers rejected the AEE announcement by rallying in protest on Thursday outside of Puerto Rico's government house (*La Fortaleza*), which was heavily guarded. The electrical workers union (UTIER) launched a one-day protest strike this Thursday against the deterioration of workers' pension funds, the privatization of electricity plants and the loss of pension rights.

"We will win, no matter who is in there," UTIER leader Angel Figueroa declared demagogically, pointing to the government house.

Public employees, members of the SEIU-affiliated Puerto Rican Workers Union, also set up a picket line in San Juan, across from the US Federal Building, to denounce the Fiscal Control Board.

In both those job actions, the dominant perspective was that of flag-waving nationalism designed to limit the workers' anger to the level of protest and to discourage unity with US and Latin American workers. However, the large police presence at the Fortaleza demonstration suggests governmental fears that things could rapidly get out of control in a nation in which more than 80 percent of the workers are not affiliated with any trade union.

The deterioration of this island territory's economy began with a recession in 2006. Puerto Rican governments borrowed in the bond market from hedge funds that took advantage of generous tax incentives in Puerto Rico and the US for income generated by those bonds.

The tipping point for those policies took place in 2014, when hedge funds bought $3.5 billion in GO bonds. Further benefitting the hedge funds was a stipulation that placed jurisdiction over the debt with New York courts, generally known to favor Wall Street. Since then, many of those bonds have wound up in the hands of "hold outs," vulture funds that specialize in problem debt. Among them are some that were also involved in the 2001-2002 Argentine financial crisis and in the current Greek financial implosion: Aurelious Capital Management LP, Perry Capital LLC, and Fir Tree partners.

The broad powers granted the Fiscal Control Board ensure that the interests of the debt holders and hedge funds will be well protected at the expense of Puerto Rico's impoverished workers.

Nuevo Día indicted that this is the first US territory to declare itself in default since the State of Arkansas did so in 1933.