

Puerto Rican bankruptcy: A prelude to savage austerity and pension cuts

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Puerto Rico formally declared bankruptcy on May 3 before a special tribunal created last year. The island, a US territory, had budgeted \$800 million for the next five years' debt payments, far short of the \$3.5 billion creditors are demanding. As expected, the creditors, which include large Wall Street hedge funds, rejected the offer.

With this declaration, Puerto Rico became the first US territory or state to place itself into a process like the municipal bankruptcies, which have become increasingly common in the United States. Officially Puerto Rico owes some \$72 billion to various vulture funds and another \$50 billion for so-called unfunded pension liabilities to public employees.

Since January 2, when newly elected governor Ricardo Rosselló declared the island in a financial emergency it has been an open secret that the MIT-educated leader of the New Progressive Party (Partido Nuevo Progresista-PNP) and former Hillary Clinton delegate at the Democratic National Convention would throw the island into bankruptcy.

While Puerto Rico was historically barred from declaring bankruptcy, Congress enacted a law last year allowing bankruptcy-like proceedings. According to the PROMISE Act legislation passed last year in Congress and signed by Obama, a US Supreme Court justice will now appoint a tribunal to oversee the bankruptcy process. While this includes forcing creditors to accept a reduction in the principal and accumulated interest, it is certain that the interests of Wall Street will take precedence over those of working-class Puerto Ricans, just as it did in Detroit in 2013-14.

During the Detroit bankruptcy, US federal judge Steven Rhodes used the bankruptcy law to override state constitutional protections and slash the pensions and health benefits of city employees while organizing

a fire sale of public assets. Rhodes was hired as an adviser in 2015 by Puerto Rican Governor Alejandro García Padilla, along with former New York Lt. Governor Richard Ravitch, who co-chaired Obama's "State Budget Crisis Task Force" that called for nationwide pension cuts and financial restructuring.

At the time, Rhodes declared that Puerto Rico "was exactly like Detroit." In fact, the island's debt of more than \$120 billion is larger than Detroit's by a factor of nearly seven, and its liquidation will require even more savage attacks.

Accumulated interest represents at least two-thirds of the debt. The hedge fund managers and their high-powered legal firms are expected to fiercely oppose any measure that reduces their anticipated gains.

The new, and unelected, tribunal will be in charge of "restructuring" the island's economy, i.e., destroy education, pensions, social programs; privatize public property; sack and further destroy the living standards of Puerto Rican workers, in the interests of bondholders.

As the *New York Times* noted Wednesday, "While the court proceedings could eventually make the island solvent for the first time in decades, the more immediate repercussions will likely be grim: Government workers will forgo pension money, public health and infrastructure projects will go wanting, and the "brain drain" the island has been suffering as professionals move to the mainland could intensify."

The outcome is likely to be even worse than the fiscal plan outlined by Governor Rosselló, which calls for shifting all current government workers from pensions into 401(k)-style retirement plans. Current retirees will continue to receive their traditional monthly pensions, but the amounts are to be reduced by about 10 percent on average. The governor says this is the only

alternative to the sacking of 45,000 public sector employees.

The declaration of bankruptcy crowns a decade-long process of recession and austerity affecting the living standards of the Puerto Rican middle and working class, and causing an exodus of emigrants to the US mainland (an option not available to the thousands of undocumented Haitian, Dominican, Jamaican workers, and those of other nationalities, residing in Puerto Rico). Up until June 2015 the collapse in living standards had been tempered somewhat through the issuance of Puerto Rican bonds.

The bankruptcy declaration occurred two days after a general strike and massive Mayday protests and by thousands of Puerto Rican workers denouncing plans to gut workers' pensions and benefits. The demonstrators marched on San Juan's financial district, many wearing black shirts, and chanting, "Ricky is selling our island!" in a reference to the hated governor. Large numbers of workers consider the debt illegitimate and refuse to pay for it.

The trade unions, however, are determined to block any serious struggle against the political establishment and the Wall Street banks. After a meeting with the governor last week, Lee Saunders, the president of the American Federation of State, County and Municipal Employees called on Rosselló to include the unions in the restructuring process. AFSCME has 13,000 members in Puerto Rico inside the Union Servidores Públicos Unidos (SPU).

In an interview with elnuevodia.com, Saunders said, "We think we should have a seat at the table, especially in discussions that have to do with the reducing health benefits and pensions. We may have ideas that should be heard.

"We are not alien to these problems. Although in the case of Puerto Rico this is a larger problem, we were involved in the bankruptcy of Detroit and we were responsible partners but with a seat at the discussion table. Some of our ideas were accepted, and the union proved to be a responsible partner."

Indeed, AFSCME and the other unions played the key role in blocking the mobilization of the working class against the looting of pensions, health care and public assets and preventing the "civil unrest" bankruptcy officials anticipated.

Wednesday's announcement is bound to increase

social tensions and the class struggle on the island as the population faces the same predatory measures imposed on the workers of Detroit, Greece and elsewhere.

Since the announcement in June 2015 that Puerto Rican debt could not be paid, most of the austerity measures, including those under the terms of the PROMISE act, such as the closure of hundreds of schools and sacking of thousands of teachers, have impacted the working class and poor people. Already two-fifths of Puerto Ricans live in extreme poverty, by US and Caribbean standards.

Among those who oppose any federal rescue package is President Donald Trump himself, who declared his opposition in Twitter, saying that there should be "no bailout" for the island. However, the bankruptcy restructuring of Puerto Rico will set a new precedent for savage attacks on workers throughout the United States.

As the *Times* noted, "While many of Puerto Rico's circumstances are unique, its case is also a warning sign for many American states and municipalities—such as Illinois and Philadelphia—that are facing some of the same strains, including rising pension costs, crumbling infrastructure, departing taxpayers and credit downgrades that make it more expensive to raise money."



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