Vulture capitalists fight over pickings from bankrupt Puerto Rico

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22 May 2017

Federal US court proceedings began May 17 in San Juan on Puerto Rico's $123 billion bankruptcy. New York District Court is handling the bankruptcy. As with the Detroit bankruptcy of 2013-2014, the island faces privatization and cutbacks that will exacerbate a mass wave of emigration and further sink its economy into depression.

The court hearing took place two weeks after Puerto Rico's federal oversight board filed for Title III bankruptcy protection, on May 3, to tackle the mountain of debt and a public pension crisis.

The opening of the bankruptcy negotiations began with a dispute over which of two groups of creditors will have priority over sales tax revenue and other assets. According to the *New York Times*, the courtroom was packed with lawyers, signaling "intractable battles" ahead.

They may be fighting over who will be first in line to be paid, but they all agree that workers, pensioners and the poor will have to sacrifice their jobs and living standards. In fact Title III, a provision in the Puerto Rico relief law (Promesa) that the US Federal Legislature passed last year, was specifically designed to make possible an attack on public employee pensions.

Barred from the opening meeting, however, were the hundreds of thousands of Puerto Rican workers, retirees, and residents who have already suffered savage cuts in wages, health and educational benefits, pensions and government services; and are being told to brace for even more.

The lawyers, according to the *Times* "told Judge Swain about looming deadlines and said that certain fundamental disputes had to be resolved almost immediately or else nothing could happen." Among the bondholders are so-called "vulture" speculative hedge funds, which, having acquired bonds at fire-sale prices, now are demanding a return of one hundred cents on the dollar.

Puerto Rico's $123 billion debt is the result of over a decade of recession and mass emigration. Since 2007, the economy has shrunk 17 percent. It is expected to fall by another two percent this year. Its debts in default now exceed those of any municipal bankruptcy in US history. In addition to defaulting on tax-exempt bonds held by Wall Street financial institutions, Puerto Rico confronts $50 billion in unfunded pension obligations to its retired public employees. In all, the per capita debt burden on this island of 3.4 million inhabitants, amounts to $34,000 for every man, woman and child.

Puerto Rico is one of the most socially unequal US territories. Half the population is under the dismal poverty line, and the current official rate of unemployment is 11.5 percent. Average annual pension benefits are $14,000. One-third of workers are ineligible for Social Security benefits. The median household income of $19,350 compares very unfavorably with $53,889 for the US. These conditions are driving the migration of tens of thousands to Miami and other US cities. A record 400,000 Puerto Ricans have left since 2007, another 240,000 are expected to leave by 2025.

Given its status as a commonwealth, or associated state—a self-governing US colony with no representation in the US legislature—Puerto Rico's bankruptcy is being handled under special federal legislation, known as the Promise Act.

The bankruptcy is at the same time a warning to US rust belt states that may be considering asking for bankruptcy protection from their creditors. Such states, particularly Illinois, are teetering on the edge of default for many of the same reasons as Puerto Rico; these include accelerating pension costs, crumbling infrastructure, deindustrialization and the migration of younger workers. They will also face a Puerto Rican-style “solution” of draconian attacks on jobs and living standards.

Under the terms of the Promise Act, the debt burden can only be resolved through savage austerity measures that involve the dismantling of public budgets and social services. As in Detroit, Greece and elsewhere, the intention of Wall Street banks and hedge funds is that the poor and working class make good on their bonds. Most importantly, Wall Street continues to insist that there are enough resources to pay off the bondholders in full, providing that the government of Governor Ricardo Roselló becomes more efficient at collecting taxes, that it sack thousands more public employees, including education and health workers, and that pensions be sharply reduced.

Retirees are among the most vulnerable. Three years ago, the Puerto Rican government changed the retirement system that guaranteed public sector workers a full pension after 30 years of employment to a system that forces workers to work up to 15 additional years for full benefits. Driving discussions in bankruptcy court over public pension cuts is that the system is scheduled to run out of money this July. It is anticipated that ten percent or more may by slashed from existing pensions.