In face of protests, US judge imposes Puerto Rico debt restructuring plan

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On January 3, demonstrators rallied at the Federal Court House in San Juan, Puerto Rico, demanding that U.S. District Court Judge Laura Taylor Swain reject Puerto Rico's debt restructuring plan, proposed by the Financial Oversight and Management Board for Puerto Rico (FOMBPR).

Pointing out the precarious state of the island's economy, the protesters, who included retirees, teachers, government employees and students from the University of Puerto Rico, demanded legislation forbidding the payment of illegal government debt, and instead prioritizing education, such as funding for the University of Puerto Rico, other essential services and guaranteeing retirement pensions.

Judge Swain, who presides over the Puerto Rico bankruptcy case, while acknowledging the popular opposition in Puerto Rico, approved the FOMBPR plan on January 18.

Puerto Rico's 25 years of financial implosion and economic decline will now take a new turn with Swain's approval of the debt restructuring plan engineered by the Financial Oversight and Management Board for Puerto Rico, an unelected body established by the US Congress in June 2016 under the Obama administration to manage the US island territory's debt crisis. The seven members of the financial oversight board are well connected to European and US banks and to the Wall Street vulture funds.

Five years in the making, the restructuring plan cuts Puerto Rico's 2016 debt default in half, while assuring multi-million-dollar profits for Wall Street high risk hedge ("vulture") funds, at the expense of public employee pensions, jobs and wages.

The debt restructuring plan, which is expected to be approved by most debt holders, continues the island government's prolonged austerity policies, including replacing defined benefit pensions with 401K plans (subject to the vagaries of stock markets). It also reduces Puerto Rico's current public debt from $70 billion to $34 billion, lowering what the government pays in debt service. Investors will get $7 billion up front, plus billions more if tax collections exceed projections. The Financial Oversight Board is to remain in control until four years have passed with the government budget in balance.

Unresolved are other aspects of the island's financial crisis, such as the bankruptcy of the public Electrical Authority.

Puerto Rico defaulted on a $2 billion government bond payment on July 1, 2016. At the time it had already missed debt payments on tens of billions of dollars worth of other government debt and unfunded pension liabilities.

The effects of the 2008 global financial crisis worsened Puerto Rico's crisis, causing the collapse of labor-intensive firms (construction, agriculture, and small and medium businesses). The Puerto Rican establishment responded with a combination of austerity and borrowing. In 2009, the administration of Governor Luis Fortuño Burset passed emergency legislation that led to the sacking of 30,000 public workers, increasing rates of unemployment and encouraging mass emigration.

US firms that had established plants in Puerto Rico in the 1980s, due to US government tax breaks, such as big pharmaceutical firms, moved their production to other parts of the world, as these tax advantages were abolished during the Clinton administration. Puerto Rico witnessed a mass exodus of young skilled workers to the United States; its population fell by half a million, from 3.8 million in 1996 to 3.3 million in 2020.

As industries were shutting down and plants and jobs were disappearing, the borrowing continued. Old debt was paid with new debt, in violation of the island's constitution, which sets limits on how much the government can borrow. The crisis continued to worsen.

By 2014, as it became clear that the situation was untenable, Wall Street rating agencies downgraded Puerto Rican bonds to the status of junk bonds. Vulture hedge funds, such as Aurelius Capital, began buying bonds at a fraction of their face value, determined to collect full payment in the future.

The crisis became what the *New York Times* described as the "biggest financial collapse in United States history." The amount of money involved, $73 billion, was complemented by $50 billion in unfunded pension obligations.

In response to the debt crisis, the US Congress imposed the unelected seven-member Financial Oversight Board on Puerto Rico under the terms of the newly approved Puerto Rico Oversight Management and Economic Stability Act (PROMESA). Individual debt holders were barred from suing Puerto Rico, while the unelected Oversight Board came up with a plan to resolve the crisis.

The board's real purpose was to protect the investments of Wall Street's financial speculators by imposing deep austerity measures on wages, education, health services, electricity and government pensions. These measures included moves to privatize public education and electricity services.

Following the imposition of PROMESA and of the Financial Oversight Board, a series of natural disasters struck the island.

In September 2017, Hurricane Maria, a Category 5 storm, had a devastating effect, destroying much of the electrical infrastructure and resulting in more than 5,000 deaths, as well as damage exceeding $100 billion. By 2018, Puerto Rico had lost 15 percent of its medical specialists, leaving only 9,500 to serve the entire population of 3.2 million. Three years after Hurricane Maria, 130,000 people had left the island, while Puerto Rico had only received $1.5 billion in federal assistance, out of the $20 billion it had originally been promised.

All these events, austerity, unemployment, the debt crisis, and the disastrous response to Hurricane Maria combined to provoke mass demonstrations in 2019 that led to the collapse of the corrupt administration of then-Governor Ricardo Roselló, alarming the US and Puerto Rican ruling classes.

In 2020 the Guayanilla earthquake, which registered 6.4 on the Richter scale, the strongest in 102 years, left the island without electricity and destroyed parts of the southwestern coast, destroying 8,000 homes and creating conditions for a new wave of emigration.

These natural disasters also exposed the high rates of income inequality on the island, the highest in the Caribbean and the Western Hemisphere. Forty-five percent of the population subsist below the poverty line, including over 50 percent of Puerto Rican children. One third of adults report food insecurity, while one fifth report missing meals because of lack of money.

With the COVID-19 pandemic the situation is becoming even worse, due to high rates of unemployment and lower incomes.

The spread of the Omicron variant on the island is affecting hospitals and clinics, which are on the verge of collapse due to lack of supplies and personnel. As of January 23, Puerto Rico reported 3,338 deaths, out of a population of over 3 million, since the beginning of the pandemic in March 2020. It recorded a daily death toll of 14, the first double-digit figure since the summer of 2021, while nearly 700 patients are hospitalized, more than at the last peak of the pandemic.

The protests on January 3 were a warning of growing popular anger. Just as in 2019, all the elements are coming together for a social explosion of the Puerto Rican working class.