GlobalResearch
Center for Research on Globalization

Puerto Rico Governor Declares Debts “Not Payable”

By David Brown
Global Research, June 30, 2015
World Socialist Web Site

Region: Latin America & Caribbean, USA
Theme: Global Economy

On Sunday evening the governor of Puerto Rico, Alejandro García Padilla of the Popular Democratic Party, announced that the US commonwealth would need to restructure its $72 billion in debt. The island of 3.5 million people has been in a deep economic crisis since 2006, experiencing high unemployment, large-scale emigration and severe austerity measures.

Between 2004 and 2014 Puerto Rico had an average revenue shortfall of $1.5 billion a year, pushing its overall debt to 100 percent of its Gross National Product (GNP). Debt service took up $4.5 billion, or 16 percent of the government’s 2014-2015 budget.

After adjusting for inflation, Puerto Rico’s real GNP is only 87 percent of what it was a decade ago. The housing market has been particularly hard hit, with prices falling 27 percent in real terms since 2007. The island also has widespread unemployment with a labor participation rate of just over 40 percent as compared to the US average of 63 percent. The official jobless rate is just under 12 percent.

The government of Puerto Rico has tried to balance its budget through austerity measures implemented by both the Popular Democratic Party and the New Progressive Party, the local affiliates of the Democrats and the Republicans. The last budget, passed in May, included $674 million in cuts to public schools, the University of Puerto Rico system, and a variety of health and social services.

These local cuts have been combined with chronic underfunding by the US government. As part of the Affordable Care Act, reimbursement rates to Puerto Rico’s 250,000 Medicaid Advantage enrollees will be reduced by 11 percent, around $300 million in total. Although the island’s residents are US citizens who pay federal taxes, Medicaid reimbursements for Puerto Ricans are capped at 70 percent of the rate for US states.

The social devastation caused by these policies has produced a large-scale exodus from the island. Approximately 144,000 Puerto Ricans moved to the US mainland in 2014. Overall the population has declined from its peak of just over 3.8 million in 2006 to 3.5 million today.

In 1952 Puerto Rico adopted its current constitution that defined the island, which remains a US colony, as a commonwealth of the United States. The constitution sanctions the dominance of US financial firms over the island’s residents.

The fight against the financial aristocracy is the same for workers in Puerto Rico as it is for workers on the US mainland, and in many cases involves the same players. Like many US states and municipalities driven into greater indebtedness by the 2008 crash and federal budget cuts, Puerto Rico is deeply in debt to the bond markets and wealthy investors.

Two major US cities, Detroit and Stockton, California, recently used the federal bankruptcy courts to circumvent state constitutional protections, attack retiree pensions and health benefits and sell off public assets to satisfy the banks.

It is significant that Governor Padilla has hired the Detroit bankruptcy judge, Stephen Rhodes, as a consultant to assist in debt restructuring efforts. As the*World Socialist Web Site* wrote after Rhodes's November 2014 ruling in favor of the bankruptcy, "The decision is a landmark ruling in American jurisprudence, establishing a pseudo-legal framework for suspending democracy and the rule of law to facilitate the plundering of public assets, the shredding of contracts, and the theft of workers' life earnings."

Even though Puerto Rico cannot declare bankruptcy under US law, Rhodes will be looking to reprise his role as bagman for the banks.

Padilla is calling on creditors to voluntarily lower their debt demands in a public relations effort to peddle the claim that the banks are taking part in "shared sacrifice." Padilla told creditors writing off some of the debt was in their best interests. "If they don't come to the table, it will be bad for them," he told the *New York Times*. "What will happen is that our economy will get into a worse situation and we'll have less money to pay them. They will be shooting themselves in the foot."

While these statements are for public consumption, Padilla is preparing brutal austerity measures. A study by former IMF officials commissioned by the Government Development Bank for Puerto Rico has recommended anti-democratic measures on par with those the emergency manager imposed on Detroit during its bankruptcy, as well as brutal attacks on working class living standards.

The report calls for the creation of a fiscal board composed of experts to vet all budget proposals before they are submitted to the legislature. It further calls for reducing the number of public school teachers to save $400 million and increasing university fees to raise another $500 million.

The IMF also calls for the suspension of the minimum wage of $7.25 an hour, the cutting of public worker holidays from 30 to 15, and the relaxation of labor laws to make it easier to fire workers. It also recommends cutting federal welfare to Puerto Ricans because it "makes employment unattractive for workers whose productivity is not much above the minimum wage."

These recommendations and the hiring of Rhodes should serve as a warning to the Puerto Rican working class. The government is looking to extract extreme concessions from them in order to secure profits for creditors and potential investors that want to turn Puerto Rico into a cheap labor platform.

The original source of this article is World Socialist Web Site

---

Articles by: **David Brown**