Puerto Rico: The Debt Before the Storm

Puerto Rico needs disaster relief now to avert a humanitarian crisis--but as Lance Selfa explains, the colonial status quo has inflicted suffering on the island for decades.

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The Socialist German playwright Bertolt Brecht once wrote that "famines do not simply occur; they are organized by the grain trade."

A similar observation could be made about Puerto Rico today. Replace "famine" with "natural disaster," and the "grain trade" with "U.S. colonialism," and you have a succinct summation of the human disaster that is unfolding on the island today.

Puerto Rico is reeling in the aftermath of landfalls by two huge hurricanes, Irma and Maria, in the space of a few weeks. As this article was being written, most of the island remained without electricity, and 70,000 residents could be in danger if the damaged Guajataca Dam failed. People all over the island are contending with flooding and food shortages–malnutrition and outbreaks of disease are real possibilities.

Any area that suffered the blows of two powerful hurricanes in succession would face major challenges.

But Puerto Rico isn't just any area. It is a colony of the United States–its oldest, in fact.

Over the last two decades, Puerto Rico's economy has been systematically degraded while Wall Street and European capital loaded up its public sector with more than $70 billion of unpayable debt.

As a result, the basic infrastructure of the island–its health care, water and power systems–were already in the grips of a desperate crisis before the hurricanes hit. For ordinary Puerto Ricans, life under successive austerity regimes had become increasingly intolerable–and it will only become more so now.

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What does the colonial relationship between the U.S. and Puerto Rico have to do with all this? Start with the basic fact that Puerto Ricans have no say in the biggest economic and political decisions that affect their lives.

Since 1917, Puerto Ricans have been U.S. citizens. But their rights have always been curtailed. They cannot vote in federal elections while living on the island, for instance. And while they can vote for a local governor and assembly, the U.S. government can overrule any decision those elected officials make. Puerto Rico is ruled now by a seven-member unelected Fiscal Control Board created by the U.S. Congress in 2016.

One pillar of the colonial economic relationship, the 1920 Jones Act, requires all commerce shipped to the island to be on U.S.-flagged ships departing from a U.S. port. So international cargo destined for Puerto Rico has to first be unloaded in the U.S., then reloaded on a U.S. ship. As a consequence of this, ordinary consumer goods, from food to cars, are more expensive in Puerto Rico than they are in the U.S.–and in many other island nations in the Caribbean.

As Nelson Denis, author of *War Against All Puerto Ricans: Revolution and Terror in America's Colony*, put it, the

> Jones Act "makes as much sense as digging a hole and filling it up again. Any foreign registry vessel that enters directly into Puerto Rico must pay extreme tariffs, quotas, fees and taxes, which, again, are passed onto the Puerto Rican consumer. This is not a 'business.' It is a shakedown, a Mafia protection racket."

Since it conquered Puerto Rico from Spain in 1898, the U.S. has always treated it as a laboratory for economic experimentation and a military outpost to project U.S. power into Latin America and the Caribbean.

The U.S.-sponsored "Operation Bootstrap" of the 1940s and 1950s helped to transform Puerto Rico from a predominantly agricultural country. It was based on creating export processing zones on the island, akin to *maquiladoras* that took root in Mexico, particularly after the North American Free Trade Agreement went into effect.

In 1976, the U.S. Congress created section 936 of the U.S. tax code, which offered huge corporate tax breaks for manufacturers that set up in Puerto Rico. This led many multinationals, particularly pharmaceutical companies, to locate operations on the island.

While this helped to sustain a manufacturing sector in Puerto Rico, the capital-intensive nature of the industry meant that unemployment remained above 10 percent, even in good years.

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When the Cold War ended, the U.S. had less use for Puerto Rico as a showcase for Latin America, wrote José Nicolás Medina Fuentes in a June article about Puerto Rico's debt crisis.

Congress repealed section 936, phasing it out over the next decade, and then signed free trade agreements with countries throughout Latin American and the Caribbean. The Puerto Rican economy thus lost its "comparative advantage" over other countries in the region. Its economy contracted by more than 10 percent. Medina Fuentes summarized what happened:

> Since 2006, the following processes began: depression/recession for 11 years, the departure from the country of 500,000 Puerto Ricans, a decline in tax revenue, the degradation of the territory's credit, cuts in contributions to and payouts from retirement plans, and the loss of more than 200,000 jobs. The island's government, with federal approval, was forced to take out loans at triple the normal rate of interest, just to cover current spending, and to

> refinance and pay the debt.
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> The public debt grew to $24 billion by the end of 2000…Between then and 2014, the public debt increased 195 percent–that is to say $48 billion in only 14 years, for an unpayable total of $72 billion.

Throughout this period, Puerto Rico's neoliberal governments–whether under the Popular Democratic Party (PPD), which has links to the Democratic Party in the U.S., or the New Progressive Party (PNP), which is connected to the Republicans–had one answer to the crisis: austerity.

Anyone familiar with International Monetary Fund program of "structural adjustments" will recognize the menu of policies pursued by Puerto Rico's political class: privatization of public assets, like the international airport; increases in fees for utilities and sales taxes; mass layoffs of public-sector workers; restrictions on labor and union rights; and cuts to public services, from the health service to the University of Puerto Rico.

The PROMESA Financial Control Board wants to go even further–ordering cuts to federal standards in the minimum wage, Medicaid and Temporary Assistance to Needy Families to further lower labor costs on the island.

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While Puerto Rican workers are paying for the economic crisis with layoffs, cuts in social spending and a collapse of basic systems, the Wall Street hedge funds that own more than half of the debt are making out like bandits.

The U.S.-based and international financial industry pressed successive Puerto Rican local governments to take on greater amounts of debt, and hedge funds snapped it up.

In most situations of bankruptcy, courts can impose "haircuts" on creditors–forcing them to accept less than what they're owed–to allow an insolvent entity to get back on its feet.

But such is the political imbalance between Puerto Rico and its Washington overlords that the 2016 PROMESA–for "Puerto Rico Oversight, Management and Economic Stability Act," whose acronym means "promise" in Spanish–establishing the financial control board assures that the biggest losers will be ordinary Puerto Ricans, not irresponsible lenders.

In fact, key members of the financial control board are financiers whose policies helped push Puerto Rico to the brink. The story of the "Corpus Account" for infrastructure investment reads like the 21st century equivalent of the metropolitan looting of wealth from the colonies.

The 1998 privatization of the national telephone company–an act which prompted a massive, but unfortunately defeated, popular uprising known as the "Peoples' Strike"–produced almost $1.2 billion in proceeds that was supposed to be invested in plans to upgrade the country's water and power infrastructure.

However, Carlos M. Garcia, president of the Government Development Bank under the right-wing government of Luís Fortuño (2009-13), used most of that money to service a complex series of financial transactions.

These benefited his former employer, the Spanish-based Banco Santander–and left Puerto Rico holding long-term bonds that it's obligated to pay until 2043. As the financial watchdog website Hedgeclippers.org wrote:

> [T]he bulk of proceeds from the privatization of a profitable, publicly owned telephone company, earmarked for crucial Puerto Rican water projects, has been turned into paper dust. The Corpus Account no longer funds infrastructure development, but consists of bond notes due in 2043 that are obligations of COFINA and ultimately, the Puerto Rican sales and use taxpayers.

This scandal of how financial and government elites looted Puerto Rico's infrastructure fund took on greater significance as thousands fled from the area of the Guajataca Dam. And not coincidentally, Garcia is one of seven members of the current financial control board under PROMESA.

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Public Health officials had already warned–more than a year before Hurricanes Irma and Maria–that the country's disinvestment in its water and sewer systems was already making Puerto Ricans more susceptible to infection from the mosquito-borne Zika virus.

Austerity also took its toll on investments needed to upgrade the country's almost five-decade-old electric grid.

The system had declared bankruptcy in July 2017 after years of austerity had done nothing to reduce its debt. Instead, its managers focused on reducing staff, with 30 percent of the workforce–including its most skilled workers–leaving the utility through retirement, buyouts or migration since 2012, according to the *Washington Post's* Steven Mufson.

When the hurricanes hit, the Puerto Rican Electric Power Authority (PREPA) was operating on a cash-only basis, which led to deferred maintenance and frequent power outages. Despite the fact that ordinary Puerto Ricans pay, on average, *double* the rate of electric bills that people in the U.S. do, PREPA has struggled to maintain basic services.

> "A lot of the reason power has gone out is that PREPA has not been trimming the trees on the power line," Miguel A. Soto-Class, president of the Centro para una Nueva Economía (Center for a New Economy, or CNE) think tank, told Mufson.

When Irma took out part of the power grid in August, unionized utility workers, members of the Union of Electrical Industry and Irrigation (UTIER) union, worked heroically to restore power.

Meanwhile, two privately owned utilities, EcoEléctrica and AES, shut down to protect their machinery. They only reopened after the hobbled public utility came back online. "If it had been up to EcoEléctrica and AES, Puerto Rico would still be on its knees," wrote Carlos Fortuño Candelas in the socialist newspaper *Bandera Roja*.

That's worth remembering because the Financial Control Board, the hedge funds and local elites are pushing various schemes to "save" PREPA by privatizing it.

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Ordinary Puerto Ricans living on the island face a terrible situation.

The longer the island goes without power to support hospitals, sewage treatment and clean drinking water, the greater the chances for mass outbreaks of diseases.

> "Hysteria is starting to spread," Mayor Jose Sánchez González of Manati, crying, told a meeting of mayors in the capital of San Juan. "The hospital is about to collapse. It's at capacity. We need someone to help us immediately."

Given that Puerto Rico imports up to 85 percent of its food–another aspect of the colonial relationship with the U.S.–shortages will develop if a massive relief effort isn't mounted.

In the U.S., we need to press federal agencies to move quickly to avert a humanitarian catastrophe that is unfolding for the island's 3.4 million residents. And while it's necessary to help Puerto Ricans to rebuild their houses, schools, hospitals, workplaces and other parts of ordinary life, just restoring the status quo is no solution.

Those who want to organize solidarity for Puerto Rico in the U.S. should demand the repeal of the Jones Act, a moratorium on Puerto Rico's debt, and a repeal of PROMESA, with the liquidation of the Financial Control Board. Only measures like these can help to provide some relief to millions of Puerto Ricans.

Observing that the current austerity measures seek to "privatize gains" while "socializing losses," the CNE's Sergio M. Marxuach noted that:

> the responsibility for these socialized losses usually falls on the poor and the middle class, precisely those least prepared to absorb them. This pressure on the poorest sectors eventually produces a social explosion when the cuts to pensions, to health care and public education, along with the increase in unemployment, poverty and inequality, reaches intolerable levels.
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> In Puerto Rico, that pressure has been dissipated through migration to the U.S. But the possibility of a social crisis can't be disregarded.

Puerto Ricans have a great tradition of struggle, from movements for national independence to the 1930s "huelga en la caña" of sugar workers and strikes of dock workers; to protests against induction of Puerto Ricans into the U.S. military during the Vietnam War; to the 1998 "Peoples' Strike;" to the successful struggle to kick the U.S. Navy out of Vieques; to strikes and occupations at the University of Puerto Rico.

It's in this tradition–where Puerto Ricans have demanded a right to determine their own fate–that hope for the future lies.

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