

# US Hegemony and Puerto Rico's Economic Crisis

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*A major economic crisis is looming in the Caribbean. Puerto Rico, a US Commonwealth will be the center of attention in the world of finance in the coming months ahead. Puerto Rico's economy has been in a recession since 2006 and its bonds are close to junk status. Puerto Rico is facing an alarming economic downturn that is clearly unsustainable. The economy is headed for a major collapse, one not seen since the great depression, this time it could be far worse.*

Puerto Rico has \$70 billion in debt and an underfunded government pension system that will be eventually face cuts which only adds to more economic uncertainties for the population. Unemployment levels are at 14.7 percent and a mass migration of the Puerto Rican people to the United States in search of better opportunities has taking hold. Puerto Rico's economy is dependent upon the United States government and its corporations, which many are pharmaceutical conglomerates.

It is politically and socially a "Colonial Possession" of the United States since the Spanish-American war of 1898. However, Puerto Rico is not alone. The United States has other colonial possessions namely Guam, American Samoa in the Pacific and the U.S. Virgin Islands. France and Great Britain also has "Colonial Possessions" or "Overseas Territories" in a number of regions throughout the world. Puerto Rico is no exception to the rule; it is a colony that has been exploited politically and economically for more than a century under US rule.

Puerto Rico's economy is in a dire situation. As of October 2013, the official number of people who are unemployed is at 14.7 percent, perhaps a lot higher if you count those that have dropped out of the labor force because they are no longer looking for employment opportunities. The Public debt is currently at \$70 Billion and increasing daily. Early this month an article written by Justin Velez-Hagan who is executive director of The National Puerto Rican Chamber of Commerce for Forbes magazine titled '*Default: Puerto Rico's Inevitable Option*' describes what lead to Puerto Rico's debt crises:

With triple tax exemption (federal, state, and local), combined with higher-than-average yields, Puerto Rican bonds became so popular in recent years that it was able to rack up \$70 billion of debt now held by institutional investors and mutual funds alike. The debt-to-GDP ratio is now nearly 70% and growing, not including pension obligations, which raises the ratio to over 90%. With a per capita debt load of \$19,000 and growing, Puerto Ricans shoulder almost 4 times the burden of U.S. leader Massachusetts which carries a deficit of \$5,077 per citizen

 Puerto Rico's debt is 4 times larger than Massachusetts who Velez-Hagan acknowledges

as the most indebted state per citizen with \$19,000. The Washington Post also sounded alarm bells concerning Puerto Rico's economic crises. In *'Puerto Rico, with at least \$70 billion in debt, confronts a rising economic misery'* Michael A. Fletcher describes what the commonwealth faces with cuts to pensions and government jobs and a rise in taxes all across the board including small and big businesses causing a migration of Puerto Ricans to major US cities:

The economy here has been in recession for nearly eight years, crimping tax revenue and pushing the jobless rate to nearly 15 percent. Meanwhile, the government is burdened by staggering debt, spawning comparisons to bankrupt Detroit and forcing lawmakers to severely slash pensions, cut government jobs and raise taxes in a furious effort to avert default.

The implications are serious for Americans outside Puerto Rico both because a taxpayer bailout would be expensive and a default would be far more disruptive than Detroit's record bankruptcy filing in July. Officials in San Juan and Washington are adamant that a federal bailout is not on the table, but the situation is being closely monitored by the White House, which recently named an advisory team to help Puerto Rican officials navigate the crisis.

The island's problems have ignited an exodus not seen here since the 1950s, when 500,000 people left for jobs on the mainland. Now Puerto Ricans, who are U.S. citizens, are again leaving in droves. They are choosing the uncertainty of the job market in Orlando or New York City or Philadelphia over what they view as the certainty that their dreams would be crushed by the U.S. territory's grinding economic problems.

Bloomberg Businessweek also published an article with concerns affecting the *"Muni-Bond Market"* that can rattle Wall Street's Mutual Fund companies. *'Puerto Rico's Borrowing Binge Could Rock the Muni-Bond Market'* stated the facts:

The island's plight affects almost anyone with a mutual fund invested in the municipal-bond market. Exempt from local, state, and federal taxes in the U.S., Puerto Rican bonds are held by 77 percent of muni funds, according to research firm Morningstar (MORN). About 180 funds, including ones run by OppenheimerFunds, Franklin Templeton Investments (BEN), and Dreyfus (BK), have 5 percent of their assets or more in Puerto Rican bonds.

General-obligation bonds, or GOs, which account for about 15 percent of the commonwealth's public debt, carry the lowest investment-grade rating from Moody's Investors Service (MCO) and S&P. A downgrade could force many mutual funds to sell part of their Puerto Rican holdings, flooding the market. "Puerto Rico could represent a systemic issue for the municipal-bond market," says Carlos Colón de Armas, an economist and former official of the Government Development Bank, which conducts the island's capital-markets transactions. "We are now in a situation where the bonds are trading like junk. I think the ratings agencies have been careful not to lower the GOs further, to avoid creating havoc in the muni-bond market."

The Obama administration is sending a team of economic advisors according to Bloomberg News last month *"With a \$70 billion debt load and a substantially underfunded government pension system, the island has fueled market speculation it may need a bailout from Washington."* The report also stated what was on the agenda:

Most of the group's work will focus on improving Puerto Rico's management of federal funds to ensure officials are getting the amounts they are entitled to and putting them to effective use, according to the officials. "There is less here than some people think," said Jeffrey Farrow, who served as the Clinton White House's liaison on Puerto Rican affairs. "This is pretty straightforward and an extension of what they have been doing in the past, but more intense, formalized and public."

The first team of officials was scheduled to be from the Environmental Protection Agency and the Health, Education and Housing and Urban Development departments, officials said. Puerto Rico's education, health and housing departments are among of the biggest recipients of federal funding and have also been responsible for past Puerto Rico budget shortfalls.

The EPA's intervention may stem from concerns regarding the ability of the Puerto Rico Electric Power Authority to comply with new federal air quality regulations that take effect in 2015.

The Environmental Protection Agency (EPA) is one of the agencies participating under Washington's request. Washington has required that the Puerto Rico government and the Puerto Rico Electric Power Authority (PREPA) comply with new federal air quality regulations by 2015. The online news source Caribbean Business reported back on July 11th, 2013 '*PREPA falling behind on 2015 EPA Deadline*' that Puerto Rico is in a race to meet Washington's air-quality standards by 2015:

A high-ranking regulatory official is concerned that the Puerto Rico Electric Power Authority (Prepa) isn't moving fast enough to comply with strict federal air-quality standards taking effect in two years, as industry sources told CARIBBEAN BUSINESS that key decisions on the compliance process won't be taken until next spring. Prepa plans to either close or convert most of its oil-firing units to natural gas to comply with the new air-quality standards, but it won't select a liquefied natural gas (LNG) supplier and decide on a method to deliver the gas to north-coast plants until March 2014, according to industry sources. That means the final contracts would probably not be enacted and finalized until the fourth quarter of 2014, they added.

Meanwhile, Prepa has an agreement with Texas-based Exceleerate Energy to construct an offshore LNG terminal to feed the massive Aguirre powerplant in Guayama. A formal application with the Federal Energy Regulatory Commission was filed in April and the project remains in the permitting phase. Exceleerate officials have said they expect the facility to be in service in early 2015, but that outlook depends on getting timely federal approval on its environmental impact statement and several permits.

Puerto Rico's plan to convert most of its oil-firing units to natural gas will have an impact on its economy. Puerto Rico Electric Power Authority (PREPA) does not have the economic capacity to invest in the construction of new plants that would supply natural gas. "*While the cash-strapped public utility can't afford to build its own plants, there is interest from large energy companies to construct new generation units through public-private partnerships (P3s)*" the report stated. "*That is especially the case because the move to natural gas isn't just about compliance, but about bringing down power costs.*" Caribbean Business said that Edgardo Fábregas, a former member of PREPA's board confirmed that the public utility is considering a plan to construct a gas-fired plant "*The former Prepa board member said the public utility was considering a longer-term plan to construct, through a P3*

*initiative, a massive natural gas-fired plant, probably on the site of Arecibo's Cambalache plant, which is rarely used."* The report also said that Fábregas admitted to the costs associated with the project:

To do a project right, building a plant that could "flex up or down" rapidly and would have the capacity to power the entire north coast, would cost \$7 billion, and take six years to build. The project would allow for the elimination of the Palo Seco and San Juan plants, Fábregas said. "We have to move to natural gas as soon as we can, but at the end of the day, you have to renew your system. I understand the cost and time implications involved, but if we don't start, we will never finish," he added.

According to Robert Bryce, a senior fellow with the Center for Energy Policy and the Environment at the *Manhattan Institute for Policy Research*, a conservative think tank based in New York City produced a report called *'The High Cost of Renewable-Electricity Mandates'*. He wrote about the effects of Washington's new air-quality proposal:

Motivated by a desire to reduce carbon emissions, and in the absence of federal action to do so, 29 states (and the District of Columbia and Puerto Rico) have required utility companies to deliver specified minimum amounts of electricity from "renewable" sources, including wind and solar power. California recently adopted the most stringent of these so-called renewable portfolio standards (RPS), requiring 33 percent of its electricity to be renewable by 2020. Proponents of the RPS plans say that the mandated restrictions will reduce harmful emissions and spur job growth, by stimulating investment in green technologies.

But this patchwork of state rules—which now affects the electricity bills of about two-thirds of the U.S. population as well as countless businesses and industrial users—has sprung up in recent years without the benefit of the states fully calculating their costs. There is growing evidence that the costs may be too high—that the price tag for purchasing renewable energy, and for building new transmission lines to deliver it, may not only outweigh any environmental benefits but may also be detrimental to the economy, costing jobs rather than adding them. The mandates amount to a "back-end way to put a price on carbon," says one former federal regulator. Put another way, the higher cost of electricity is essentially a de facto carbon-reduction tax, one that is putting a strain on a struggling economy and is falling most heavily, in the way that regressive taxes do, on the least well-off among residential users.

*To be sure, the mandates aren't the only reason that electricity costs are rising—increased regulation of coal-fired power plants is also a major factor—and it is difficult to isolate the cost of the renewable mandates without rigorous cost-benefit analysis by the states.*

The new mandate is called Renewable Portfolio Standards (RPS) that automatically "require electricity providers to supply a specified minimum amount of power to their customers from sources that qualify as "renewable," a category that includes wind, solar, biomass, and geothermal." The report clarified what the results of the new energy plan would bring:

*The federal Environmental Protection Agency (EPA) is similarly bullish on the state programs. The RPS rules are designed "to stimulate market and technology development," the agency says, "so that, ultimately renewable energy will be economically competitive with conventional forms of electric power. States create RPS programs because of the*

*energy, environmental, and economic benefits of renewable energy.”[4]*

*Although supporters of renewable energy claim that the RPS mandates will bring benefits, their contribution to the economy is problematic because they also impose costs that must be incorporated into the utility bills paid by homeowners, commercial businesses, and industrial users. And those costs are or will be substantial. Electricity generated from renewable sources generally costs more—often much more—than that produced by conventional fuels such as coal and natural gas. In addition, large-scale renewable energy projects often require the construction of many miles of high-voltage transmission lines. The cost of those lines must also be incorporated into the bills paid by consumers.*

What Edgardo Fábregas forgets to mention is that Bryce’s analysis on the price of producing electricity through renewable energy sources can be astronomical. It is an amazing prediction given by the EPA under the Obama administration’s directives. It is important to note that the major players in the RPS programs are connected to Wall Street and major banks that includes Goldman Sachs who is one of President Obama’s major campaign contributors. Author and journalist Matt Taibbi wrote an article on the history of Goldman Sachs and the US government’s relationship for *Rolling Stone* magazine called ‘*The Great American Bubble Machine*’. Taibbi explains how Goldman Sachs would benefit from Washington’s air-quality mandates:

The new carbon credit market is a virtual repeat of the commodities-market casino that’s been kind to Goldman, except it has one delicious new wrinkle: If the plan goes forward as expected, the rise in prices will be government-mandated. Goldman won’t even have to rig the game. It will be rigged in advance.

Here’s how it works: If the bill passes, there will be limits for coal plants, utilities, natural-gas distributors and numerous other industries on the amount of carbon emissions (a.k.a. greenhouse gases) they can produce per year. If the companies go over their allotment, they will be able to buy “allocations” or credits from other companies that have managed to produce fewer emissions. President Obama conservatively estimates that about \$646 billion worth of carbon credits will be auctioned in the first seven years; one of his top economic aides speculates that the real number might be twice or even three times that amount.

The feature of this plan that has special appeal to speculators is that the “cap” on carbon will be continually lowered by the government, which means that carbon credits will become more and more scarce with each passing year. Which means that this is a brand new commodities market where the main commodity to be traded is guaranteed to rise in price over time. The volume of this new market will be upwards of a trillion dollars annually; for comparison’s sake, the annual combined revenues of all electricity suppliers in the U.S. total \$320 billion.

One other important factor to consider regarding Puerto Rico’s energy demands in the future is the supply of natural gas. Puerto Rico is hoping to secure a steady supply of natural gas from the United States for the next 100 years. “A key part of the plan is to secure a long-term LNG contract with the U.S., which has the most economical prices in the world, the result of a boon in U.S. natural gas exploration, which has unearthed a supply that experts say will last a century” according to the Caribbean Business report. In the 2012 State of the Union Address, US President Barack Obama said “We have a supply of natural



gas that can last America nearly 100 years, and my administration will take every possible action to safely develop this energy.” F. William Endahl, a research associate at Global Research wrote a ground breaking report, *‘The Fracked-up USA Shale Gas Bubble’* wrote that the 100 year supply of natural gas is in fact an inaccurate prediction:

In a sobering report, Arthur Berman, a veteran petroleum geologist specialized in well assessment, using existing well extraction data for major shale gas regions in the US since the boom started, reached sobering conclusions. His findings point to a new Ponzi scheme which well might play out in a colossal gas bust over the next months or at best, the next two or three years. Shale gas is anything but the “energy revolution” that will give US consumers or the world gas for 100 years as President Obama was told.

Berman wrote already in 2011, “Facts indicate that most wells are not commercial at current gas prices and require prices at least in the range of \$8.00 to \$9.00/mcf to break even on full-cycle prices, and \$5.00 to \$6.00/mcf on point-forward prices. Our price forecasts (\$4.00-4.55/mcf average through 2012) are below \$8.00/mcf for the next 18 months. It is, therefore, possible that some producers will be unable to maintain present drilling levels from cash flow, joint ventures, asset sales and stock offerings.” [16]

Berman continued, “Decline rates indicate that a decrease in drilling by any of the major producers in the shale gas plays would reveal the insecurity of supply. This is especially true in the case of the Haynesville Shale play where initial rates are about three times higher than in the Barnett or Fayetteville. Already, rig rates are dropping in the Haynesville as operators shift emphasis to more liquid-prone objectives that have even lower gas rates. This might create doubt about the paradigm of cheap and abundant shale gas supply and have a cascading effect on confidence and capital availability.” [17]

What Berman and others have also concluded is that the gas industry key players and their Wall Street bankers backing the shale boom have grossly inflated the volumes of recoverable shale gas reserves and hence its expected supply duration. He notes, “Reserves and economics depend on estimated ultimate recoveries (EUR) based on hyperbolic, or increasingly flattening, decline profiles that predict decades of commercial production. With only a few years of production history in most of these plays, this model has not been shown to be correct, and may be overly optimistic....Our analysis of shale gas well decline trends indicates that the Estimated Ultimate Recovery per well is approximately one-half the values commonly presented by operators.” [18] In brief, the gas producers have built the illusion that their unconventional and increasingly costly shale gas will last for decades.


However, Caribbean Business says that *“Prepa has invited several suppliers to bid on a project to supply the north-coast plants with natural gas. It is spelling out its gas needs at its Palo Seco and San Juan plants, letting the energy companies decide the best way to supply the natural gas”* and that *“Prepa has made some progress on its natural gas conversion plan, which energy experts say is the only way to bring down the high cost of electricity.”* Allowing energy companies decide how to supply gas would add to the price in the long run. Russia Today recently reported that “fracking technology” is causing major environmental problems within the United States. Since 2008, the state of Texas has been experiencing more earthquakes than ever before:

Between 1970 and 2007, the area around the Texas town of Azle (pop. 10,000) experienced just two earthquakes. The peace and quiet began to

change, however, at the start of 2008, when 74 minor quakes were reported in the region. Now an increasing number of people, including scientists, are speculating that natural gas production by fracking – a process that forces high pressure water and chemicals into rock in order to extract natural gas reserves – is the culprit. The problem, however, is proving the claims.

Cliff Frolich, earthquake researcher at the University of Texas, said waste water injection wells from fracking could be responsible for the recent spate of earthquake activity. “I’d say it certainly looks very possible that the earthquakes are related to injection wells,” he said in an interview with KHOU television.

Frolich left room for doubt when he said thousands of such wells have operated in Texas for decades with no quakes anywhere near them. Frolich co-authored a 2009 study on earthquake activity near Cleburne, just south of Azle, which concluded: “The possibility exists that earthquakes may be related to fluid injection.” A recent government study lent credence to Frolich’s findings.

There have been Anti-fracking protests around the world. Fracking or “hydraulic fracturing” is a water-intensive process where millions of  gallons of water, sand, and chemicals combined are injected underground with intensive pressure to fracture rocks that surround an oil or gas well. This process then releases extra oil and gas from the rock which flows into the well. “Fracking Technology” is proving to be environmentally dangerous for the health and safety of communities located in close proximity to these well sites. It causes many problems for the air we breathe and long-term environmental damage. For example, water can become contaminated from the toxins fracking has caused. It is an environmental hazard.

EPA rules and regulations also have the potential to impose a “carbon tax option” for states according to The Hill, A Washington D.C. based daily newspaper reported last month that Brookings Institution economist Adele Morris said that a carbon excise tax can be imposed on states:

Morris, a carbon tax supporter, argues that a carbon excise tax could be part of the “*menu of specific approaches*” that the agency gives states that will craft plans to meet the federal guidelines. Morris suggests that the EPA could “*allow states to adopt a specific state-level excise tax or fee on the carbon content of fuels combusted by the power plants regulated under this rule.*”


In other words, an excise tax associated with renewable energy supplies can be added only leading to higher energy costs for households, businesses and major industries. It would also allow Puerto Rico to contribute to the environmental degradation because of its future demands of natural gas which has no guarantee of supplies for the next 100 years. It is a recipe for disaster for both the economy and the environment.

### **Will new EPA rules bankrupt farmers?**

It is estimated that Puerto Rico imports at least 85% of the food supply from the United States according to the *Latin American Herald Tribune*. ‘*Puerto Rico Imports 85 Percent of Its Food*’ stated that “*Puerto Rico imports 85 percent of the food its residents consume due to the lack of competitiveness among companies in this U.S. commonwealth, Agriculture Secretary Javier Rivera told Efe.*” Agriculture Secretary Rivera admits that the majority of food is imported from the United States even though Puerto Rico has the capability to

produce its own food, but cannot compete with US food suppliers. Rivera continued *“Although we have the technical capacity, we’re not able to produce competitively”* Why? *“The secretary attributed the drop in production to the high operating costs of growing food on the island, which are, in turn, a result of high labor costs, as well as rising energy and fertilizer prices. Rivera acknowledged that therefore many farmers – of which there are fewer than 2,000 on the island, according to recent statistics – have come to depend on government subsidies to stay in business.”* With new EPA regulations, remaining farmers will bear higher-energy costs because of the EPA’s new federal air quality regulations that will start in 2015. Agriculture on the island would be affected and farmers would be economically bankrupt when energy prices begin to rise.

### **From the 1929 Great Depression to the Recession of 2014**

 Looking back to the 1930’s, Puerto Rico was in economic despair due to the effects of the Great Depression. In 1940, the Popular Democratic Party (PPD) under the leadership of Washington’s puppet governor Luis Munoz Marin came to power with 37.9% of the vote compared to 39.2% of the Republican-Socialist coalition. The PPD also won the 1944 elections with 64.8% of the vote. The PPD was determined to transform Puerto Rico’s economy from an Agricultural farm-based to an export-driven modern industrial economy.

The US and Puerto Rico governments wanted to fast track the urbanization in many areas from a rural society to a modern, industrial urban center that would resemble New York City’s economy. For a short period of time, the project did increase living wages, improved housing conditions, health care and education. It also led to equitable land reforms,. At the same time the plan increased unemployment rates because many Puerto Ricans were unqualified for the types of jobs the new Industrial economy provided. It increased the migration levels to the United States, namely New York, New Jersey and Pennsylvania.


Puerto Rico became more dependent on U.S. markets and created more public and private debts. The most important aspect of US economic and political control of Puerto Rico was the cultural transformation of the population. It became what sociologist call “Americanization”. They were subjected to American culture, media, laws, and even its foods under Washington’s economic and social plan. In *‘Economic History of Puerto Rico: Institutional Change and Capitalist Development’* by James L. Dietz, professor of economics and Latin American studies at California State University wrote:

Industrialization and the accompanying decline of agriculture after the late 1940s did nothing to expand and make permanent the relative autonomy of the early 1940s. Instead, the PPD program had just the opposite result: it laid the foundation for increased dominance by U.S. capital from the 1950s to the present. The PPD’s goal of eventual political independence, after the attainment of social justice and a solution to the island’s economic problems, faded further into the future and eventually disappeared altogether. It may be that Munoz and the PPD never really were committed to independence, as many have suggested, but it is more likely that, as the PPD’s redirection of the economy under Munoz’s leadership tied its destiny ever closer to that of the United States, what they had become what they wanted as what they had wanted slipped further and further from their grasp

In *‘How an Economy Grows and why it Crashes’* author and economist Peter Schiff stated that *“The evidence supporting these claims is largely emotional. What is far more certain is that the government’s monopoly control of public projects and services almost always leads*



to inefficiency, corruption, graft, and decay." Puerto Rico's economy was under US control then as it is now. Dietz says that "From 1941 to 1949, the government followed a program of land reform, control over and development of infrastructure and institutions, administrative organization, and limited industrialization through factories owned and operated by the government." Comparing to what Peter Schiff said the Puerto Rican government's control of certain economic sectors led to numerous "inefficiencies" and "Decay." The bleak economic growth of Puerto Rico did not improve through a program called 'Operacion Manos a la Obra' or 'Operation Bootstrap' in English. It was known as "Industrialization by Invitation" to attract foreign investment. It failed in the long-run. Dietz further wrote:

"Yet Operation Bootstrap made it difficult for Puerto Ricans to improve their standard of living through their own efforts, since it put control over that process in the hands of U.S. firms, whose interests did not necessarily coincide with those of the majority on the island. It is likely that no one consciously intended such results from a development program that seemed so promising, but Puerto Rico's colonial relation with the United States prevented, or at a minimum made more difficult, a more independent existence for the economy and society" 

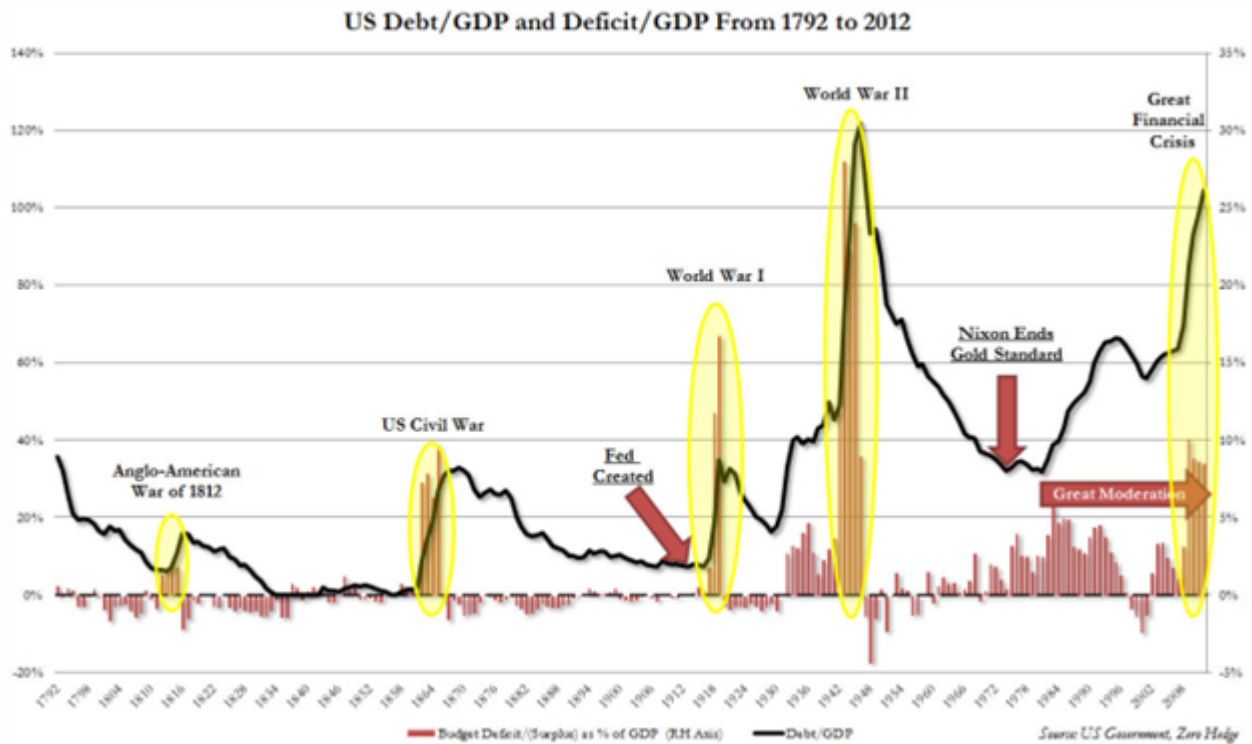
Puerto Rico's dependence on the US mainland became evident as the years went by, but right from the beginning of World War II, Puerto Rico's economy suffered. "The war shut Puerto Rico off from its primary export market and source of imported goods, and meanwhile, there were no war industries to absorb surplus labor; consequently, unemployment increased" according to Dietz. Today, Puerto Rico is suffering from a recession that started in 2006. In another report by Caribbean Business 'PR reverses growth forecast, now predicts another year of recession' and stated the dire predictions by the government of Puerto Rico, "The Puerto Rico government has dropped expectations for economic growth this fiscal year as the island struggles to pull out of a marathon downturn dating back to 2006. The Planning Board said Friday it is now projecting that the economy will shrink by 0.8 percent in fiscal 2014, dropping its previous forecast for razor-thin growth of 0.2 percent." Puerto Rico's economy will continue to decline as the US economy continues with its own economic problems. It will become more difficult as time progresses for Puerto Rico.

### **The Collapsing US Dollar and the Fall of Rome**

The US Dollar as a the world's reserve currency is in its last stages because the US owes trillions of dollars in household, corporate and financial debt and future underfunded welfare liabilities. The demand for U.S. dollars kept prices and interest rates low. It allowed the U.S. government to acquire the economic power it needed to dominate the world economically. It allowed the Federal Reserve Bank to print dollars unconditionally. Although the US dollar is still dominate with more the 50% of foreign currency reserves in the world, a gradual transition for other currencies is coming in the near future. The dollar will eventually lose its value. Interest rates on every loan and credit card will rise.

This is a recipe for disaster, because if a country such as Puerto Rico cannot produce its own food and is dependent on a foreign source that is the most indebted nation in world history with more than \$17 trillion dollars in debt which continues to increase each passing day is a serious problem for Puerto Rico's future. Tyler Durden of zero hedge.com provided a chart in 2012 to show the fiscal danger the United States faces in the near future. Durden explains:

We present the following chart showing total US Federal debt/GDP as well as Deficit/(Surplus)/GDP since inception, or in this case as close as feasible, or 1792, which appears to be the first recorded year of historical fiscal data. We can see why readers have been so eager to see the “real big picture” - the chart is nothing short of stunning.



The United States has been steadily accumulating debt that it cannot repay since 1792. It is a stark reality that Puerto Rico must face in its future. With an enormous amount of debt, how can the United States government keep its overseas territories financially stable? Puerto Rico’s citizenry is wholly dependent on the US financial system. With the US in stagnation financially and militarily, Puerto Rico will have a financial crises that will eclipse the Great Depression era. Durden wrote:

The increasingly more unstable system, which saw the additional layering of another \$23 trillion in shadow banking debt at its peak in 2008, as well as countless trillions in household, corporate and financial debt, as well as hundreds of trillions in underfunded welfare liabilities, led first to the Internet bubble, then the Housing and Credit bubble, and finally, to the Great Financial Crisis of 2008 which climaxed with the failure of Lehman brothers, and resulted in the central bank bailout of every developed bank, and shortly thereafter, the backstop of every peripheral country in Europe.

The future of the US Empire is on the same path as the Roman Empire. Joseph Tainter, an American anthropologist, historian and author wrote “The Collapse of Complex Societies” argued that the fall of the Roman Empire was due to a monetary collapse of its economy. He explained the outcome of Rome’s economic policies as followed:

“By debasing currency, increasing taxes and imposing stringent regulations on the lives of individuals, the Empire was, for a time able to survive. It did so however by vastly increasing its own costliness and in doing so decreased the marginal return it could offer its population. These costs drained the peasantry so thoroughly that population could not recover from outbreaks of plague,

producing lands were abandoned and the ability of the state to support itself deteriorated.”

## **Why Puerto Rico’s Economic Crises can lead to Social Unrest**

Detroit, Michigan declared bankruptcy on July 18th 2013. It was the largest recorded municipal bankruptcy in US history with an estimated \$18-20 Billion price tag. With Chapter 9 protection, the city of Detroit can withhold public pensions. *‘Detroit ruling opens door to pension cuts across the nation’* published by The Los Angeles Times stated what can occur in other states as well as US territories. *“It’s not just Detroit retirees who are worried about their pensions. Financially troubled cities in California, Illinois and Pennsylvania will soon face decisions on what to do with chronically underfunded pension funds, and experts say the Detroit ruling has made it easier for cities to argue that pensions must be cut”* the report said. Constitutional provisions have protected pensions from such actions in the past. But with the new bankruptcy proceedings, it leaves pensioners in limbo even those in Puerto Rico. The report clarified what Chapter 9 meant to states facing the same situation:

*For decades, representatives of public-sector pensions have depended on constitutional provisions in various states, including Michigan and Illinois that protected pensions. Now, U.S. Bankruptcy Judge Steven Rhodes’ ruling has shown that federal bankruptcy laws preempt those state provisions. Any city that has underfunded pensions and troubled finances could soon look to bankruptcy as a way out of paying pensions, experts say, as long as their state allows them to file for Chapter 9 protection.*

As the executive director of The National Puerto Rican Chamber of Commerce wrote in his Forbes article, Detroit’s bankruptcy can be seen as a solution to Puerto Rico’s debt problem in terms of bondholders getting a return on their investments, at the same time, cutting pensions for public workers. Restructuring the economy would seem less likely according to Velez-Hagan because bondholders would have to take a “cut” from their investments. This would not happen. Puerto Rico would most likely default on their debt obligations. Velez-Hagan wrote:

This past July Detroit filed the largest Chapter 9 municipal bankruptcy in U.S. history. As the judge sorts out fire and police pensioners’ claims versus creditors’, some eyes are shifting south and wondering whether this may be a template for what happens in Puerto Rico. It is clear that the current business model is unsustainable and default or restructure is not if, but when. Restructure to avoid bankruptcy would imply an agreement by bondholders to take a principal haircut usually with some demonstration of fiscal reform or an increase in collateral. A voluntary restructuring like this is unlikely given the vast numbers of bondholders and their disparate opinions to achieve their goal of getting paid back.

The Washington Post article mentioned earlier also agrees with Justin Velez-Hagan’s assessment as it stated that *“Not long after Padilla took office in January, Wall Street debt rating agencies downgraded the island’s bonds to just one rung above junk status. Like states, the commonwealth of Puerto Rico cannot file for bankruptcy. Also, Puerto Rico’s constitution offers bondholders strong guarantees that they would be paid before pensioners and public workers if the government went broke.”*

It is an economic crisis that is unavoidable. Puerto Rico will experience a depression not

seen since 1929. This time it will be a lot worse. New EPA guidelines and the threat of pension cuts are not the only problems for the Puerto Rican people. There is a large segment of the Puerto Rican population that depends on federal food stamp programs. According to a CNSNEWS.com article '*1/3 Population of Puerto Rico Gets Food Stamps- \$2 Billion in 2012*' stated that *"a spokesman from the USDA Food and Nutrition Service told CNSNews.com that, on average, 1.37 million people received food stamps in Puerto Rico each month in FY 2012. Puerto Rico has a population of 3.7 million, meaning 37 percent of Puerto Ricans are on food stamps paid by the federal government"*.

The Obama administration and congress recently decided to slash food stamp programs to meet the budget deal. Supplemental Nutrition Assistance Program or SNAP was cut on November 1st by \$36. Food stamp benefits cuts affected more than 47 million Americans with the 2009 federal stimulus program that expired on October 31 (which did temporarily increase the amount of food stamps) because of the failure of Congress to come up with a budget agreement which caused the government shutdown in October. The purchasing power of the US dollar has been in steady decline since the Federal Reserve Bank was created in 1913. The price of food and oil imports will increase along with increasing unemployment levels will become unsustainable for the Puerto Rican government. Due to EPA rules and regulations, many industries will face a difficult time especially farmers, who will face higher taxes and energy prices. Interest rates on US government debt will rise.

The rise in crime rates and drug use associated with the economy is at levels that outpaces cities within the US mainland namely Chicago, New Orleans, New York and Los Angeles that includes homicide rates. According to a study conducted by Michigan State University *"Plagued by drug and gang violence, Puerto Rico's homicide rate of 29 per 100,000 people is nearly six times higher than that of the continental United States."*

Puerto Rico is not the only nation that would suffer from the collapse of the United States and its colonial powers, Guam and the Commonwealth of the Northern Mariana Islands and the US Virgin Islands would also witness the most pivotal moment in history, one that will change the social fabrics of these societies. Puerto Rico is the most populous nation under US colonial rule with a population close to 4 million, many of them migrating to the United States and elsewhere. Statehood, Commonwealth and the Independence parties will experience the consequences of the America's economic policies. Puerto Rico's democracy follows American principles in relationship to a two-party system closely monitored by Washington.

The New Progressive Party (PNP) or what I call the *"If you can't beat them, Join Them party"*, which is for Puerto Rico Statehood wants to be part of the United States as the "51st state" and the Popular Democratic Party (PDP) wants to maintain its political status as a commonwealth with the United States. Both parties are under Washington's thumb. Under U.S. colonialism, all economic and political matters in Puerto Rico are decided by Washington, regardless if the Puerto Rican people are allowed a referendum periodically to vote on the island's status. The United States government holds the right to nullify the outcome regardless of what they vote for. U.S. corporations especially the pharmaceutical industry (that kills 100,000 American people annually) dominate Puerto Rico's economy. These same corporations that have been tax exempt for some time contribute very little to Puerto Rico's economy despite the small amount of jobs it provides. The profits reaped from the production and labor of the population goes back into the hands of US corporations, agribusiness, banking institutions and Washington's political and economic elite. Both parties have been instrumental in continuing its colonial ties to Washington since 1898. It is

time for an independent nation that can make decisions based on principles that would benefit Puerto Rico not Washington.

Puerto Ricans want voting rights for a two-Party System that has been a failure on many levels within the United States. Democrats and Republicans are two-sides of the same coin. In 2012, 61% voted for statehood compared to 33% who wanted Puerto Rico to remain a Commonwealth with 6% favoring Independence in a “nonbinding referendum” according to the Associated Press:

*On the second question, only about 1.3 million voters made a choice. Of those, nearly 800,000, or 61 percent of those expressing an opinion, chose statehood — the first majority after three previous referendums on the issue over the past 45 years. Some 437,000 backed sovereign free association and 72,560 chose independence. Nearly 500,000, however, left that question blank*

Puerto Rico under Statehood would experience an even more troubling scenario. They would be subject to federal taxes that would be imposed on businesses both big and small and investors would leave the island in search of better tax incentives. The mainland United States has many states within the union that are in the process of filing for bankruptcy or are already bankrupt such as ‘Detroit’. Washington has increased its security apparatus that has slowly stripped its constitutional rights with an increasing police state. It goes to war throughout the world for its corporate and political interests with American tax dollars.

Why do the Puerto Rican people want Puerto Rico to become part of the United States? They feel it would allow them more opportunities. But the opportunities are limited. It is most likely that many of the younger generation would join the US Military as way to earn money, but in the long run they all become “Cannon Fodder” for the Military-Industrial Complex. Many jobs have gone to other countries to save on labor costs. Many Puerto Ricans who have migrated to the United States will find it extremely difficult in the US labor market and will be greatly disappointed with their future prospects. The current Puerto Rico Independence Party has been trying to gain broad support from the population, but many have a colonial mentality that is hard to break away from. Many are dependent on US government funds. The independence party efforts are commendable, but it is not enough to break free from the psychological chains of colonialism.

Puerto Rico needs to start a grassroots movement that would allow them to obtain Independence from an empire that has tried to Americanize the population with American ideas and culture. It was also to retain the island nation as a captive market for its corporations to exploit and at the same time recruit Puerto Rican youths into the US military.

### **Will Puerto Rico Experience a New Renaissance or will it continue the American Way of Life?**

The only way to break the chains of colonialism is through a grassroots movement, a movement that goes back to its roots. Puerto Rico can become a sovereign nation if it follows basic human rights principles of a nation. Many nations were founded on human rights principles. One example Puerto Rico can use as a platform for a new constitution which is the Constitution of the Iroquois Nations known as the Great Binding Law (Gayanashagowa). It was the same platform the American Constitution was built on. The actual term for the ‘Iroquois’ is the Haudenosaunee. The word “Iroquois” was used by the



French which they derived from a Huron Indian name. The term “Iroquois” was and still is considered derogatory among the six nations meaning “black snakes.” According to [decolonizenorthamerica.org](http://decolonizenorthamerica.org) an anti-globalization organization based in Quebec summarizes the political structure of the Great Law of Peace:

The Peacemaker provided through the Great Law of Peace, a complex structure allowing for the separation of powers, checks and balances, ratification, public opinion, and equality of all peoples. As the Onondaga Clan Mother, Audrey Shenandoah, states:

“Within our society we maintain a balance between the responsibilities of the women, the responsibilities of the men, of the chiefs, of the faith keepers. All the people in between have a special job to do to help to keep this balance so that at no time do we come to a place within our society where anyone has more power than any of the rest, for our leadership all have equal power. They must be able to listen to one another.”

Each Nation has its own autonomy to deal with its internal affairs, and there is a Grand Council that deals with problems that may affect all of the nations within the Confederacy.

I understand that the way of the Haudenosaunee is difficult to implement in today’s world, but it is a fact that American Democracy has failed in every level of Puerto Rican society. Massive unemployment, high crime rates and generational poverty has not changed the landscape of the Puerto Rican population. American Democracy has contributed to divisive politics that has continued its colonial hold over economic and social aspects of everyday life for the Puerto Rican people. Real change has to come from within. A grassroots type of action is needed. New ways of thinking is crucial to the survival of Puerto Rico’s future. A new economic system that is free, fair and equitable that would benefit Puerto Rican citizens of all walks of life. A grassroots economic model would allow Puerto Rico’s economy to grow through its agriculture, fishing and the tourism industries. It won’t be easy, but it would be a start. Puerto Rico can reinvest in these industries through education and finance. Establish its foreign relations with Latin America, Russia and China that would allow foreign investments to grow the economy. Dedicate resources to clean the island of Vieques from the US Navy Depleted Uranium (DU) ammunition that contaminated the island from its military exercises for decades.



For its energy needs, *‘My Inventions and Other Writings’* by Nikola Tesla for ideas that were discovered decades ago may at least assist homeowners, farmers and small businesses with energy needs that can compete with “renewable” energy technology. Tesla invented technologies that can provide energy in many levels. According to a website dedicated to Tesla’s research at [www.releaseteslaresearch.weebly.com](http://www.releaseteslaresearch.weebly.com) stated what Nikola Tesla and his inventions can do for the world’s energy needs:

*The Energy Crisis is a lie, the problem was solved 100 years ago by a scientist named Nikola Tesla.*

*He had discovered a way to harness the naturally occurring electricity from the ionosphere, and then in turn rebroadcast it to individual relay stations that could be placed anywhere and were no larger than your average car antenna. Each primary tower could produce renewable, safe, clean electricity, and would then broadcast it wirelessly to points as far (as his experiments in Colorado springs showed) as 30 miles away from the primary tower. Nikola Tesla's primary investor, J.P. Morgan, thought he was investing in the world's first radio tower, but unknown to him, that was only one of its purposes and capabilities. The project was known as Wardenclyffe. When JP. Morgan learned of the true capabilities of Wardenclyffe, the ability to harness an almost infinite amount of power and freely broadcast it wirelessly to anyone who had the proper antenna (with no way to monitor energy consumption) he immediately canceled all of Tesla's funding.*

What if Puerto Rico solved its energy problems with Nikola Tesla's ideas? It would make a difference for every household and business on the island.

What about a military to protect Puerto Rico from a foreign invasion? For arguments sake, a military is only necessary and is the last resort after every diplomatic effort for peace was exhausted. Many countries around the world have a military for "defensive purposes" while others such as Costa Rica does not and yet lives in peace. A military would be established only if an invasion by a foreign country is inevitable. Peace is the only way for any country in the world. War has no place on planet earth. But with Western Empires dominating the earth in the last 500 years, it is always important for any country or tribal nation to defend themselves against a foreign aggressor if all else fails. Unfortunately that is reality in today's world run amok with Western powers seeking to control all countries around the world. War is always the last option and should only be to defend homes and family from a foreign invasion that threatens life and the liberty of its citizens. The Great Law of Peace formed a specific law to build a consensus among the people to decide if war was necessary. Section 37 of the Great Law of Peace states the following:

There shall be one war chief from each nation, and their duties shall be to carry messages for their chiefs, and to take up arms in case of emergency. They shall not participate in the proceedings of the Council of the League, but shall watch its progress and in case of an erroneous action by a chief, they shall receive the complaints of the people and convey the warnings of the women to him. The people who wish to convey messages to the chiefs of the League shall do so through the war chief of their nation. It shall always be his duty to lay the cases, questions, and propositions of the people before the council of the League.

The Puerto Rico Independence party (PIP) stated what human rights means for a sovereign nation. In '*Defense and Protection of Rights*' section it states the following:

The right to self-determination and independence for the PIP is the most fundamental of all human rights. Only to the extent that our destiny rijamos and political status, without the interference of a foreign country, we have the freedom to promote our well-being and therefore enjoy full and full realization of all other rights which are inherent in us as a people . Indeed, for more than 110 years of colonialism, the U.S. government has limited our ability to participate and enjoy economic, social, cultural and political that all peoples have the right development and has curtailed our inalienable right to full sovereignty over all our wealth and natural resources.

A democratic republic is the only solution for the nation of Puerto Rico. Natural law of every man, women and child within their nation to be free and sovereign should be a standard. The point is Puerto Rico needs a change. And that change needs to be in a direction that would lead to an independent nation that has a sustainable economy that would benefit the Puerto Rican People.

Puerto Rico is headed for a economic depression that will be even worse than the Great Depression of 1929.

Independence is the only viable option for Puerto Rico. It needs to get back to its roots.

I know it's difficult, but nothing is impossible. Puerto Rico's history is marked with 500 years of colonialism that began with Spain who did give Puerto Rico independence until America entered the world stage as an empire during the Spanish-American War. It will take a sometime, but nothing is impossible.

The Puerto Rican people need a revolution of the mind, a different way of thinking about its future. If not, endless exploitation by the United States will continue. The American Empire is in decline and will eventually collapse as did the Roman Empire. The question is what direction Puerto Rico will take when the time comes. Will they follow the sinking ship, or would they finally become the sovereign nation they deserve? Time will tell.

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