

PROMESA: The Puerto Rican Debt Crisis and its Restructuring

***By Evan Fagan, Research Associate
Council on Hemispheric Affairs***

On June 9, the House of Representatives passed a piece of legislation called the “Puerto Rico Oversight, Management and Economic Stability Act” (PROMESA), a bill focused on addressing Puerto Rico’s debt repayment of \$2 billion USD due on July 1, which is now moving along to the Senate for consideration.¹ PROMESA comes at a time when Puerto Rico is in dire need of financial assistance and economic restructuring. In the words of President Obama,

“Schools are closing. Power is being cut off at homes and hospitals. Teachers have to choose between turning on the lights and turning on the computers. Doctors can’t get medicine to treat newborns unless they pay in cash. And as the Zika virus threatens both the island and the mainland, workers dealing with mosquito control to help protect women and their unborn babies are at risk of being laid off.”²

Many lawmakers, like Senator Bob Menendez (D-N.J.) and Representative Luis Guterierrez (D-I.L.), have rejected the bill, asserting that it will lead to further exploitation of Puerto Ricans at the hands of vulture funds and big businesses.³ Menendez himself calls PROMESA, “blatant neocolonialism,” due to the fact that Puerto Ricans “will have absolutely no say over who is appointed [to the oversight board] or what action [the board members] decide to take.”⁴

The Puerto Rico Oversight, Management, and Economic Stability Act

In a major example of bi-partisan compromise, PROMESA was met with overwhelming support with a vote of 297 to 127.⁵ Many congressmen, senators, and Puerto

¹ Cowan, Richard. “U.S. House passes Puerto Rico debt relief bill.” *Reuters*, June 9, 2016. Accessed June 15, 2016. <http://www.reuters.com/article/us-puertorico-debt-house-idUSKCN0YV2CL>

² Azul, Rafael. “Congress, Obama call for a Financial Control Board for Puerto Rico.” *World Socialist Web Site*, June 13, 2016. Accessed June 15, 2016. <https://www.wsws.org/en/articles/2016/06/13/puer-j13.html>

³ “Democratic Legislators Vow to Block Promesa Bill.” *Caribbean Business*, May 27, 2016. Accessed June 15, 2016. <http://cb.pr/democratic-legislators-vow-to-block-promesa-bill/>

⁴ Menendez, Bob. “Menendez Speaks in Opposition to House Puerto Rico Bill.” Speech, Washington, DC, May 24, 2016. Bob Menendez for New Jersey. <https://www.menendez.senate.gov/news-and-events/press/menendez-speaks-in-opposition-to-house-puerto-rico-bill>

⁵ Domonoske, Camila. “House Approves Bipartisan Bill to Address Puerto Rico’s Debt Crisis.” *NPR*, June 10, 2016. Accessed June 16, 2016. <http://www.npr.org/sections/thetwo-way/2016/06/10/481518118/house-approves-bipartisan-bill-to-address-puerto-rico-s-debt-crisis>

Rican officials recognize its faults, while simultaneously rationalizing it by citing it as a means to avoid a humanitarian disaster. Already, there has been a mass exodus from Puerto Rico to the U.S. mainland, alongside a proliferation of closed schools and inadequately staffed and supplied hospitals on the island. Despite the unfolding crisis, resistance to the bill exists among U.S. senators, NGOs, and Puerto Rican officials. The reasoning behind such strong dissent and pessimism in the face of this now-or-never situation has to do with implications for the island's democracy, autonomy, environment, healthcare, and poverty alleviation.

The legislation will create an oversight board designed to restructure Puerto Rico's debt, and will grant the board the ability to override decisions made by the Puerto Rican government. The board will consist of four Republicans and three Democrats, directly appointed by President Obama and approved by Congress.⁶ Although the restructuring is absolutely necessary, Puerto Rico's Governor Alejandro García Padilla says that the oversight board is "not consistent with our country's basic democratic principles."⁷ García Padilla's statement compounded the criticisms made by other Puerto Rican and U.S. mainland officials towards the democratic legitimacy of the bill. Representative Raul Grijalva (D-A.Z.) is one lawmaker who, although pleased with the bipartisan initiative and the hope for tangible assistance in Puerto Rico, believes that the oversight board is "too powerful."⁸ This power is extremely problematic given the fact that no members of the oversight board will be accountable to the Puerto Rican government.⁹ Menendez also stated in an address to the Senate floor that the bill prioritizes hedge funds over Puerto Rican pensioners.¹⁰

The Puerto Rican pension system has been majorly underfunded. In 2013, the government attempted to reform these pension problems, but unfortunately, as *Reuters* journalist Nick Brown reports, "Governor Alejandro Garcia Padilla's government hasn't held up its end of the bargain."¹¹ Since 2014, government employers were supposed to have paid at least \$367.6 million USD in lump-sum payments. As of April 2016, only \$22.7 million USD had been paid.¹² The government's failure to provide pensioners with adequate funding will only be exacerbated if PROMESA is passed, since hedge funds are set to take priority in Puerto Rico's debt payments.

According to Nelson A. Denis, author of "War Against All Puerto Ricans: Revolution and Terror in America's Colony," the oversight board will also "make 'recommendations' with respect to all of the financial affairs of Puerto Rico. This will include the salaries of all personnel, firing of workers, reduction of pensions, privatization and commercialization."¹³

⁶ Menendez, Bob. "Menendez Speaks in Opposition to House Puerto Rico Bill."

⁷ Newkirk, Vann R., II. "Congress's Promise to Puerto Rico." *The Atlantic*, May 19, 2016. Accessed June 15, 2016. <http://www.theatlantic.com/politics/archive/2016/05/congress-puerto-rico-bill-promise/483572/>

⁸ Oleaga, Michael. "Puerto Rico Debt Crisis: PROMESA Bill Passes House, Allows Provision Cutting Minimum Wage to \$4.25 for Young Workers." *Latin Post*, June 10, 2016. Accessed June 15, 2016. <http://www.latinpost.com/articles/121440/20160610/puerto-rico-debt-crisis-promesa-bill-passes-house-and-cuts-minimum-wage-to-4-25-for-young-workers.htm>

⁹ Denis, Nelson A. "An empty Promesa for Puerto Rico: the 'new' Financial Control Bill." Accessed June 15, 2016. <https://waragainstopuertoricans.com/2016/03/27/another-empty-promesa-for-puerto-rico-the-new-financial-control-authority-bill/>

¹⁰ Menendez, Bob. "Menendez Speaks in Opposition to House Puerto Rico Bill."

¹¹ Brown, Nick. "Puerto Rico's other crisis: impoverished pensions." *Reuters*, April 7, 2016. Accessed June 20, 2016. <http://www.reuters.com/investigates/special-report/usa-puertorico-pensions/>

¹² Ibid.

¹³ Denis, Nelson A. "An empty Promesa for Puerto Rico: the 'new' Financial Control Bill."

PROMESA also dictates that if the Puerto Rican government refuses any recommendations, the oversight board can take whatever action it deems appropriate, in turn giving them the power to ignore any protest by the Puerto Rican governor or legislature. Anyone who obstructs the oversight board will be charged with a criminal misdemeanor, which could subject dissenters to unpaid suspension, removal from office, and imprisonment.¹⁴

One of the most alarming features of PROMESA is Section 403, which will effectively allow Puerto Rico to lower the minimum wage of Puerto Ricans between the ages of 20 and 24. PROMESA will cut the minimum wage from \$7.25 USD to \$4.25 USD for this particular age group, while protecting billionaire hedge funds' investments over young U.S. citizens, who will have a lower minimum wage than the U.S. federal standard.¹⁵ This cut comes at a time when Puerto Rico is already facing a poverty rate of 45 percent and a massive emigration to the U.S. mainland. This wage cut will only serve to exacerbate the current economic crisis in Puerto Rico. According to one Puerto Rican college student, "Many of us young people try hard to provide for ourselves and if we end up getting paid so little... with taxes on how expensive life already is, we wouldn't be able to survive."¹⁶

In a letter to Congress from several conservation and environmental groups, many environmentally damaging aspects of PROMESA were brought up. The first is a criticism of Section 411, which would enable the federal government to privatize thousands of acres of the Vieques National Wildlife Refuge, a protected natural habitat that is home to at least 14 threatened and endangered species, as part of a larger effort to sell public lands for the gain of private enterprises. Vieques is ranked among the top five best natural refuges in the United States, attracting over 300 thousand tourists every year. Conservation groups are also wary of Title V of PROMESA. Title V allows the oversight board to designate energy and infrastructure projects as "critical projects," which would in turn lead to the "removal of environmental review, public oversight and input."¹⁷ According to conservationists, this would undoubtedly jeopardize public safety, public health, and the environment.¹⁸

Another major issue is that the bill does nothing to address Puerto Rico's incoming Medicaid cliff, which could reduce the island's federal Medicaid spending by almost 75 percent.¹⁹ A group of Puerto Rican health officials wrote a letter to Speaker of the House Paul Ryan advising that whatever legislation Congress creates for the Puerto Rico economic crisis must also address the health crisis, for the two are inextricable. They say that because seven percent of the population has left the island between 2004 and 2014, the current population has a much higher concentration of older and poorer Puerto Ricans. This shift in demographics places a greater economic strain on Puerto Rico's Medicare and Medicaid

¹⁴ Ibid.

¹⁵ Ibid.

¹⁶ Brave New Films. "How Culture Hedge Funds Are Preying on Puerto Rico – 2. Barbara's Story – BRAVE NEW FILMS." YouTube video, 1:02. Posted June 6, 2016.
https://www.youtube.com/watch?v=HXPiegV2Wkc&index=3&list=PLQ9B-p5Q-YOM-4Eo1_z9yt7LQMP5lm4VV

¹⁷ American Bird Conservancy, Center for Biological Diversity, etc. *Conservation Groups to Congress*. Letter. E & E Publishing, LLC. http://www.eenews.net/assets/2016/04/12/document_daily_01.pdf (accessed June 15, 2016).

¹⁸ Ibid.

¹⁹ Cohan, Erin and Marc Jarsulic. "Congress Must Pass PROMESA to Prevent Crisis in Puerto Rico." *Center for American Progress*, June 14, 2016. Accessed June 16, 2016.
<https://www.americanprogress.org/issues/economy/news/2016/06/14/139439/congress-must-pass-promesa-to-prevent-crisis-in-puerto-rico/>

programs, which are already structurally deficient in comparison to those programs that exist in the 48 states of the mainland, Hawaii, Alaska, and the District of Columbia. With a 75 percent fall in federal Medicaid support, the impact will devastate Puerto Rico due to the fact that all health care providers on the island are Medicaid providers.²⁰

The Only Option

Despite its many flaws, PROMESA is still the best option for Puerto Rico given the time constraint and an impending humanitarian crisis. If the stakes were lower, PROMESA could go through the necessary revisions to ensure that Puerto Rico's economy is healthy while also providing adequate representation for Puerto Ricans in their own fiscal decision-making process. The oversight board would not infringe upon Puerto Ricans' rights, the island's health care system would be saved from collapse, important ecological land would remain public, and young people would not be further impoverished with an unrealistic minimum wage.

PROMESA will not pacify the people of Puerto Rico as there are still many issues the bill does not adequately deal with or address at all. It will, if successful, keep schools, hospitals, and emergency response programs functioning while also paying off the country's debt of \$2 billion USD through economic restructuring. However, if there is to be real change and improvement in the lives of Puerto Ricans, more legislation must follow PROMESA. Puerto Ricans are U.S. citizens and no different than residents of California, Maine, Oklahoma, etc., and they must be treated that way—PROMESA cannot continue to leave the island to fend for itself after its debt is paid. Our citizens deserve more.

By Evan Fagan, Research Associate at the Council on Hemispheric Affairs

²⁰ Puerto Rico Healthcare Community. *Puerto Rico Healthcare to Speaker Paul Ryan*. Letter. Washington, D.C. *Morning Consult*. <https://morningconsult.com/wp-content/uploads/2016/04/Puerto-Rico-Health-Care-Letter-to-Speaker-Ryan-Revised-4.2.16.pdf> (accessed June 15, 2016).