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Lauren Carasik

Western New England University School of Law, lcarasik@law.wne.edu

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Gutting schools won't solve Puerto Rico's debt crisis

Austerity measures will hurt the vulnerable to protect the wealthy

August 11, 2015 2:00AM ET

by [Lauren Carasik](#) @LCarasik

On Aug. 1, Puerto Rico [defaulted](#) on a bond payment, setting the stage for a protracted fiscal battle between the U.S. territory and its creditors. San Juan paid only \$628,000 toward the \$58 million on its Public Finance Corp. bonds, though [it managed to pay nearly \\$500 million in other debt payments](#) due on Aug. 3. The selective default may be a gambit because Puerto Rican residents, who are owed much of the overdue payment via credit unions, are unlikely to pursue the legal remedies that litigious hedge funds would be expected to aggressively undertake.

The island's economy is buckling under a staggering \$72 billion debt. In June, Gov. Alejandro Garcia Padilla urged investors to renegotiate the terms of repayment, [calling the debt "unpayable."](#) But hedge fund investors, who bought up Puerto Rico's distressed debt, are demanding austerity measures that would exact a toll on the public. And they have rejected proposals to restructure the debt, which would reduce their returns on investment but enable the economy to recover.

Proponents of severe austerity measures attribute Puerto Rico's debt crisis to fiscal mismanagement and corruption. They are calling for punitive reforms that suggest the island is solely responsible for its dire predicament. While Puerto Rican authorities have no doubt contributed to the island's economic distress, investors contributed to the troubles by wagering on risky investments. The island was attractive in the municipal bond market until the crisis hit because of high yields and exemptions from federal, state and local taxes. In addition, [its colonial history](#) and globalization played prominent roles in creating and

sustaining the structural deficits that made the commonwealth a target for the ruthless investors that are now demanding their pound of flesh.

And that [colonial legacy extends into the present](#). Puerto Rico does not enjoy many of the benefits afforded to U.S. states, including the right of its municipalities to file for bankruptcy. The [1st Circuit Court of Appeals](#) on July 8 affirmed a [federal district court's decision](#) in February that found that Puerto Rico's 2014 debt restructuring law was unconstitutional. In addition, the island lacks voting representation in Congress, which continues to dictate its fate. And because of its status as a U.S. territory, Puerto Rico is ineligible for multilateral loans made to sovereign countries.

Economic conditions on the island remain bleak. Puerto Rico's poverty rate is nearly triple that of U.S. mainland, and its 12 percent unemployment rate is more than double the national average. The lack of jobs has fueled outmigration, diminishing the tax base and eroding economic stability. From 2010 to 2013, about 50,000 people, mainly younger workers, left Puerto Rico for the U.S. mainland each year.

What's more, the island's [health care system is collapsing](#). Nearly 60 percent of the commonwealth's residents rely on Medicare and Medicaid, but the lower rate of reimbursement has prompted an exodus of doctors. The federal government is expected to impose an [11 percent cut](#) in Medicare Advantage plans in January, and Medicaid funding may also be curtailed.

Despite these dire circumstances, investors are calling on San Juan to slash public spending. A new report, "[For Puerto Rico, There Is a Better Way](#)," commissioned by a group of 34 hedge funds that hold an estimated \$5.2 billion of Puerto Rican bonds, recommended a typical austerity package: tax increases, harsh spending cuts — including teacher layoffs, school closures and health benefit reductions — privatizing public resources.

‘No people have ever prospered while being treated unequally, and it is not reasonable to expect Puerto Rico to be the exception to that rule.’

Pedro Pierluisi

Puerto Rico’s delegate in Congress

The report criticized Puerto Rico for excessive outlays on education. (The island spends \$8,400 per student, far below the U.S. average of \$10,667.) More than half of Puerto Rico’s children live in poverty, and the government has already closed nearly 100 schools this year, in addition to 60 closures last year. These arguments are self-serving and greedy: The hedge funds are asking the Puerto Rican people, especially its children, to make deep sacrifices, but they are unwilling to accept any themselves.

A June report authorized by [the Puerto Rican government](#) similarly recommended austerity measures, including steep spending cuts, reducing the island’s minimum wage and cutting health benefits. But the report emphasized that concessions from bondholders were also necessary for the island to recover.

Puerto Rico has few options. It cannot pay its bills, nor can it avail itself of bankruptcy protections. The White House has ruled out a federal bailout, though it has urged Congress to authorize debt restructuring.

Republican lawmakers have shown little support for a change. Efforts to make the island’s municipalities and public utilities eligible for bankruptcy have so far failed to garner enough support in the [House](#) and [Senate](#).

“No people have ever prospered while being treated unequally,” Pedro Pierluisi, Puerto Rico’s sole, nonvoting delegate in Congress, said in a letter to [The New York Times in May](#). “It is not reasonable to expect Puerto Rico to be the exception to that rule.”

To be sure, bankruptcy alone would not solve Puerto Rico’s economic problems. For one, it applies only to certain debts and would still likely include painful

austerity measures that [could worsen the crisis](#) and would certainly hurt the island's poor. And it wouldn't remedy the deleterious effects of globalization or colonialism. But it would provide some relief and allow the island to exercise some level of self-determination in its fiscal recovery.

Ultimately, Puerto Rico's municipalities and public utilities must be given the same rights as their mainland counterparts to restructure their debt through bankruptcy. It would be irresponsible and unfair to protect billionaire hedge fund investors at the expense of the island's poorest and most vulnerable residents. Vermont Sen. [Bernie Sanders](#) has called for restructuring the island's debt in ways that reduce the suffering of its people, including negotiating a repayment plan in which both sides make concessions.

"Let us not forget," Sanders, who is seeking the 2016 Democratic presidential nomination, said in a statement last month, "seven years ago, the U.S. Congress and the Federal Reserve acted with a fierce sense of urgency to bail out Wall Street and the largest financial institutions ... that were considered too big to fail." The children of Puerto Rico deserve nothing less.

Lauren Carasik is a clinical professor of law and the director of the international human rights clinic at the Western New England University School of Law.

The views expressed in this article are the author's own and do not necessarily reflect Al Jazeera America's editorial policy.