

Puerto Rico's Economic Crisis And Why Things Should Be Different (2018)

In Linda Backiel's article on the Puerto Rican economy, she states that "Puerto Rico has been sacked by colonial powers for half a millennium."¹ As a child, this statement would have been the last thing I expected to hear about those who had previously colonized my island, for I was taught to see those powers—the United States specifically—as ideals to look up to and rely on. The U.S. was set on such a high pedestal in my education that I only learned about their history and culture throughout most of my academic endeavors. It was only when I was a high-school senior and took my first class on the history of Puerto Rico that I truly learned the amount of power our previous colonizers held, and currently hold, over us.

As of today, Puerto Rico is a part of the United States of America, the land of the free. We lie under the rule of one of the greatest world powers yet suffer a grave economic crisis that slowly suffocates all Puerto Ricans alike. Our status as U.S. citizens is embellished with the impression that, somewhere within our range, we can make choices for the future of our island. However, within the statuses of being a U.S. territory and commonwealth underlie laws and constitutions that limit our ability to do so.

I realized this last year when a hurricane destroyed my island and left us without water and electricity for months. All I could think of, as the roaring winds of Maria shook the house I was sheltered in, was about the aftermath of hurricanes Harvey and Irma in the United States. The scenes of destroyed homes plagued my mind, and I tried to push away the thought that I wouldn't have a home once the winds calmed down. However, what I didn't think about were the terrors that would occur soon after the hurricane, for I believed, since we are U.S. citizens,

¹ Linda Backiel, "Puerto Rico: The Crisis Is About Colonialism, Not Debt." Monthly Review (Oct 01, 2015), ¶ 2

we would receive help if the worst came to the worst, just as Texas and Florida did in their moment of need.

After weeks of having no electricity or water, I realized those were only dreams of mine. I lived in a decent side of town, where prior to the hurricane we only had a few cases of gang-related crimes and could walk around town with a bit of intuition and basic street-smarts, but I was scared for my life—I can't imagine what it was like for those in the more secluded and dangerous sides of town. I couldn't sleep at night, since I knew people were walking around my neighborhood with machetes and stealing whatever they could to survive. I couldn't walk to school because a ten-minute walk sounded like a death sentence to me after hearing about all the assaults going on in broad daylight and being followed by vans and men on multiple occasions. If anything happened, we couldn't contact anyone, not even the police, for help thanks to the lack of reception due to the power outages.

My family couldn't leave my town because the roads were blocked by fallen trees and debris and there wasn't any gasoline we could waste to see if there were any alternate routes to take for getting resources. Acquiring gasoline was a classic game of chance. One would leave the house before dawn hoping the nearest gas station would have gasoline that morning, but ran the chance of getting assaulted, lost, or—the more likely of options in my area—wasting more gasoline than you previously had due to the station running out of gasoline or simply not receiving any. Thanks to this, I didn't want to eat out of fear that there wouldn't be a chance to restock, since we couldn't know if the nearest grocery store or Walmart was stocked or safe—much like the gas stations. The only way my family heard about the news or what was going on was by word of mouth or a battery powered radio we had prior to the hurricane, the

former being the main source of useful information since we were disconnected not only from the rest of the world but other towns that were in worse conditions than my own.

I feared for my life, yet the president minimized the destruction and chaos that occurred. He spoke of there being a low death rate while my family, who are mortitions, had to drive around town in a single vehicle to collect the bodies of family members that were buried in a backyard because they couldn't call someone to pick up the decomposing body. I heard stories of patients that needed to be connected to machines dying because of the lack of power, but the focus was only on the death rate and how Puerto Ricans were exaggerating their problems, not on the struggles that people endured to survive.

To add onto that, when some began to think there was no hope in staying—for it would impact their education and/or careers—they were denied help, for passports were, at the time, suddenly a requirement for Puerto Rican, U.S. citizens to travel to the mainland—limiting travel to those who either already had passports or those who had the money, time, and gasoline to go through the process of getting a passport. People were struggling to survive, and the little hope we had for relief was crushed when Donald Trump openly spoke about how Puerto Rico was quickly recovering from the hurricane after throwing toilet paper and water bottles at people who believed that he would help them.

This was when all of the puzzle pieces fell together in my head, and I knew that Puerto Rico would never receive relief, for it benefits the U.S. government for the island to remain struggling under an economic crisis. This, I am aware, is quite a bold statement, but Puerto Rico is not a topic of mainstream conversation, and nothing will change unless people talk about it.

A Very Brief History Lesson

To talk about the economic downfall of Puerto Rico, we must first talk about the issues that lie within the relationship between the U.S. and the island in terms of its economy. After the Spanish-American war ended in 1898, Puerto Rico changed from being a Spanish territory to a U.S. territory. This meant that “Congress shall have the power to dispose of and make all needful rules and regulations respecting the territory or other property of the United States,” as it is proclaimed in the “Territorial Clause.”² A series of governors were appointed by the U.S. president for decades; it was only until 1948 that Puerto Ricans “finally got” to elect their own governors.³ In 1952, the island received its own constitution and officially became the “Estado Libre Asociado de Puerto Rico”—the direct translation in English being “Free Associated State of Puerto Rico”—or the insisted translation: “Commonwealth of Puerto Rico”.⁴ The Jones Shafroth Act of 1917 provided the island with a U.S. citizenship without granting statehood nor the right to elect representatives to Congress or the president. On top of that, the Jones Act retains a section that forces the island to pay high transportation costs when shipping goods, for they are constricted to only the use of the costliest shipping service in the world—that of the United States. Finally, as the U.S. Code Title 3 states, Puerto Rico would promptly be sued in federal court if they do not follow these laws. This is because they are not an official state of the United States, meaning they cannot apply for their own structural adjustment funding without permission from the U.S.

Currently, Puerto Rico’s Constitution—which is subject only to modification and approval by Congress—makes payment interest and amortization of debt its first priorities, all

² Linda Backiel, “Puerto Rico: The Crisis Is About Colonialism, Not Debt.” *Monthly Review* (Oct 01, 2015), ¶ 3

³ Glenville Rawlins, “Puerto Rico’s Economic Missteps.” *North American Business Press* (Oct 2018), ¶ 5

⁴ Linda Backiel, “Puerto Rico: The Crisis Is About Colonialism, Not Debt.” *Monthly Review* (Oct 01, 2015), ¶ 21

while paying salaries to keep schools, hospitals, busses, and ferries operating as well as being providing free university education to every qualifying student. They are also obliged to give mandatory Christmas bonuses and mandatory paid leave—including sick days and maternity leave—to employees. If Puerto Rico weren't in such an economic crisis, this wouldn't be an issue, but when you consider what is being prioritized, many schools and hospitals are closing and/or losing funds because of these prioritized payments.

This basic root—the U.S. Congress and their power over the island—of what eventually grows to become Puerto Rico's economic crisis is something many conservatives fail to fully acknowledge and discuss in their arguments regarding what the U.S. and Puerto Rico should do.

Population and Workforce Decrease

A factor that limits Puerto Rico's capability for financial growth is its shrinking population and labor force. Over the years there has been a negative population growth—with most Puerto Ricans seeking employment on the mainland due to the economic crisis—that has led to the high levels of unemployment in the island. This decline in labor force participation (LFP) was followed by factory closings, the firing of one-third of government employees, and early retirement incentives being taken by those relying on an underfunded pension fund, leaving behind a population that does not pay taxes. As those who are successful in their respective fields leave, the amount of Puerto Ricans in poverty heighten. This percentage—being 45.4% as of November 2017—is over twice the rate for the United States, the median household income in Puerto Rico is half of the poorest state, and there is a higher rate of income disparity than any

state.⁵ This drives up the cost of formal employment, leading to many workers' preferences for "off-the-book" jobs.⁶

Debt and Funds

On the left side of the political spectrum, Wall Street and Congress are often drawn out as the villains regarding Puerto Rico and their financial crisis. Regarding this, Linda Backiel brings up a valid point: "Wall Street is literally paved with Puerto Rican debt".⁷ In other terms, Puerto Rico's economic crisis majorly benefits the United States.

However, this debt will only worsen because "the island's \$72 billion in debt does not include roughly \$35 billion in unfunded pension liabilities, which will soon affect the island's budgets and further increase the debt."⁸ Puerto Rico attempted to alleviate its debt problems by raising the import tariff on crude oil and sales tax, which ends up doing "more harm than good in an already declining economy",⁹ since an already struggling population is being weighed down with even more economic burdens. It has been officially projected that, throughout the next decade, the Puerto Rican economy was to decline by another 10% than it already has.¹⁰ This means, if nothing changes this decade, the outlook on Puerto Rico's economy isn't as positive as those affected by it would like to hope for.

⁵ Linda Backiel, "Puerto Rico: The Crisis Is About Colonialism, Not Debt." *Monthly Review* (Oct 01, 2015), ¶ 12

⁶ Rachel Greszler and Salim Furth, "An Economic Crisis Is the Heart of Puerto Rico's Financial Crisis." *The Heritage Foundation* (July 27, 2015), ¶ 7

⁷ Linda Backiel, "Puerto Rico: The Crisis Is About Colonialism, Not Debt." *Monthly Review* (Oct 01, 2015), ¶ 8

⁸ Rachel Greszler and Salim Furth, "An Economic Crisis Is the Heart of Puerto Rico's Financial Crisis." *The Heritage Foundation* (July 27, 2015), ¶ 13

⁹ Rachel Greszler and Salim Furth, "An Economic Crisis Is the Heart of Puerto Rico's Financial Crisis." *The Heritage Foundation* (July 27, 2015), ¶ 14

¹⁰ Desmond Lachman, "3 myths Puerto Rico should ignore about its debt crisis." *The Hill* (July 12, 2017), ¶ 3

An Agricultural and Business Problem

Some believe a factor in Puerto Rico's economic decline is its low gross national product (GNP). The production and profit made off goods from the island has fallen significantly over the past decade, and since 90% percent of their products are imported from U.S. ports, Puerto Rico is unable to compete with other agribusinesses.¹¹ At this point, "Puerto Rico's debt is now more than 100 percent of its [GNP]",¹² meaning Puerto Rico's in more debt than it can actively earn in profit in order to pay this debt.

Rachel Greszler and Salim Furth state that, although the high employee costs and regulations affect the economy, "the business climate in Puerto Rico has been growing worse, not better."¹³ The factors weighing it down are specifically the difficulties regarding registering property, dealing with construction permits, paying taxes, and enforcing contracts—making improvements on basic government services and allowing more opportunities for investors and employees in the island significantly harder.¹⁴

¹¹ Linda Backiel, "Puerto Rico: The Crisis Is About Colonialism, Not Debt." *Monthly Review* (Oct 01, 2015), ¶ 16

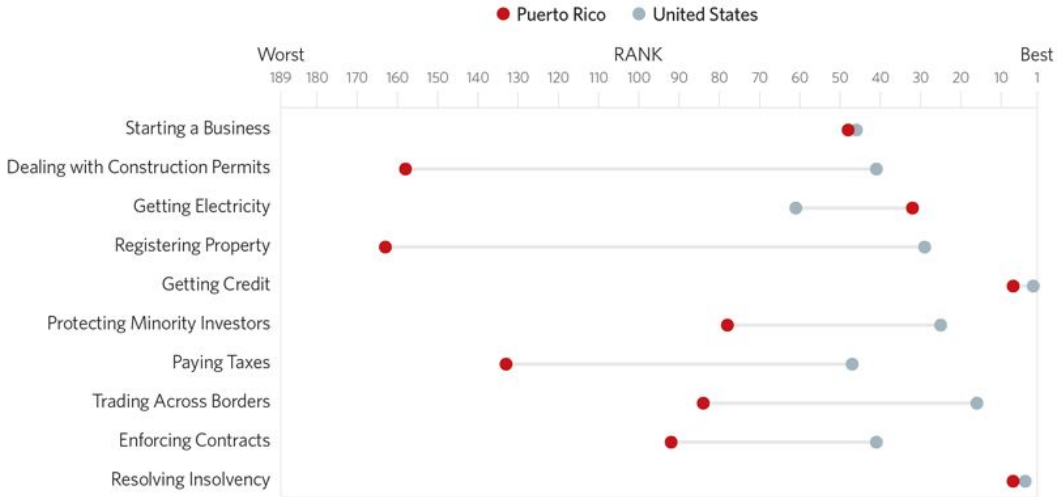
¹² Rachel Greszler and Salim Furth, "An Economic Crisis Is the Heart of Puerto Rico's Financial Crisis." *The Heritage Foundation* (July 27, 2015), ¶ 2

¹³ Rachel Greszler and Salim Furth, "An Economic Crisis Is the Heart of Puerto Rico's Financial Crisis." *The Heritage Foundation* (July 27, 2015), ¶ 10

¹⁴ *Ibid*, ¶ 11

Figure 1
Puerto Rico a Challenging Place to Do Business

Puerto Rico lags significantly behind the U.S. in six of the 10 metrics the World Bank uses to rank countries in its “Doing Business” report. Overall, Puerto Rico ranks No. 47 in the world out of 189 countries while the U.S. ranks No. 7.



Source: World Bank Group, “Doing Business 2015: Going Beyond Efficiency,” October 29, 2014, Economy Rankings, <http://www.doingbusiness.org/rankings> (accessed July 16, 2015).

IB 4442 heritage.org

This graph compares Puerto Rico’s ranking in terms of how easy it is to do business to the United State’s ranking.¹⁵

However, Grezler and Salim Furth concede that the Jones Act does play a part in this, for it “limits economic growth in Puerto Rico by significantly raising the cost of shipping between Puerto Rico and the mainland.”¹⁶

Grezler and Furth, like many people on the right, suggest that to produce economic growth in Puerto Rico, the island itself must take matters into their own hands. They agree that even if Congress could do a few things to stimulate economic growth—like freeing the island from the Jones Act and the federal minimum wage—Puerto Rico must “do its part to retain and attract businesses and people by making it easier to employ workers and by reducing regulatory

¹⁵ Ibid, Fig. 4

¹⁶ Ibid, ¶ 12

and tax burdens”,¹⁷ for the creditors that take the risk of lending to the Puerto Rican government “will most likely suffer financial losses” as well.¹⁸

However, Desmond Lachman believes the island has no “ability to fully service its debt mountain without any need of relief”,¹⁹ no way to “restructure its debt on a voluntary basis without recourse to formal bankruptcy procedures”,²⁰ and, “should the island default on its debts, it will be barred from future international capital market access”.²¹ He suggests the best course of action would be to lessen budget tightening, add a structural adjustment program, and get Congress to have substantial support in the design of this program.²²

When it comes to the left, most agree Puerto Rico’s economy was vulnerable “to decisions made in Washington with little input from [the island]” that, eventually, “tied the hands of policy practitioners in Puerto Rico”.²³ Linda Backiel implores the five centuries of colonialism and “centuries-long economic devastation” inflicted onto the “men, women, and children—especially the children—that live in Puerto Rico” are also factors that play into the current situation the island finds itself in.²⁴ Both she and Glenville Rawlins agree the problem lies with those who have control over Puerto Rico, yet their ideas to solve this problem are not the same. While Rawlins suggests that Congress should make a final decision on Puerto Rico’s political status—either make the island independent or a state—and that bondholders should

¹⁷ Ibid, ¶ 15

¹⁸ Ibid, ¶ 3

¹⁹ Desmond Lachman, “3 myths Puerto Rico should ignore about its debt crisis.” The Hill (July 12, 2017), ¶ 2

²⁰ Desmond Lachman, “3 myths Puerto Rico should ignore about its debt crisis.” The Hill (July 12, 2017), ¶ 5

²¹ Ibid, ¶ 9

²² Desmond Lachman, “Puerto Rico’s Economic challenges.” American Enterprise Institute (Dec 05, 2017), ¶ 3-17

²³ Glenville Rawlins, “Puerto Rico’s Economic Missteps.” North American Business Press (Oct 2018), ¶ 40

²⁴ Linda Backiel, “Puerto Rico: The Crisis Is About Colonialism, Not Debt.” Monthly Review (Oct 01, 2015), ¶ 10

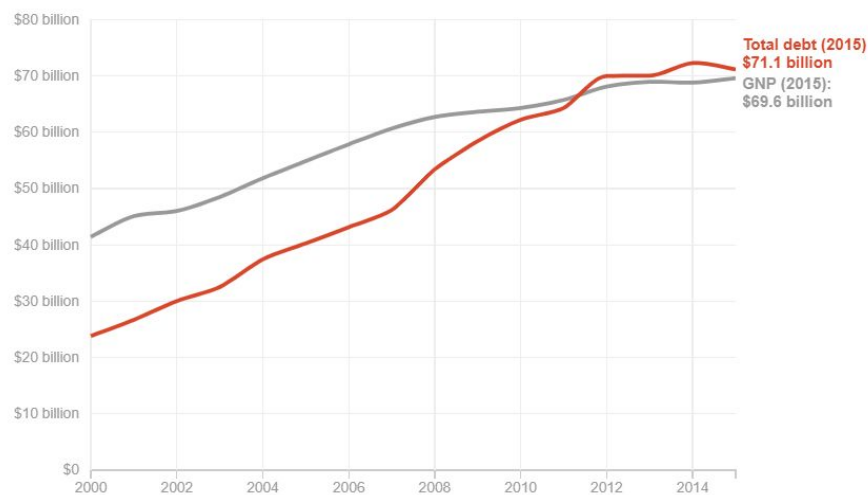
work together with the island’s government to facilitate an economic reform, Backiel simply believes the islanders should organize themselves and defend what is rightfully theirs.

The Economic Crisis from Puerto Rico’s Point of View

The fact that Puerto Rico was, and still is, in an economic crisis before the hurricane is nothing new. In 2015, it was estimated that the total debt of the island was 71.1 billion dollars.

Figure 2

Puerto Rico’s Public Debt Exceeds Its Gross National Product



Note

The debt includes all public debt except bonds issued by the Government Development Bank of Puerto Rico. Those bonds are used to make loans to other government entities in Puerto Rico. The government of Puerto Rico excludes them from debt reports to avoid double counting.

Source: Government Development Bank for Puerto Rico; The Center for a New Economy

Credit: NPR

This graph compares Puerto Rico’s GNP with its debt from 2000 to 2015.²⁵

Two years later, the amount of debt rose up to 123 billion dollars in debt, 74 billion in bond debt and 49 billion in unfunded pension obligations.²⁶ Many people, even Puerto Ricans themselves, assume that is due to poor management from the island’s government, but they haven’t been aware of the actual reason behind it: the U.S. government.

²⁵ Laura Sullivan, “How Puerto Rico's Debt Created A Perfect Storm Before The Storm.” National Public Radio (May 02, 2018), Fig. 3

²⁶ Mary Williams Walsh, “Puerto Rico Declares a Form of Bankruptcy.” The New York Times (May 03, 2017), ¶ 2

In 2012, Rosario Rivera Negrón, a professor at the University of Puerto Rico at Cayey with a PhD in Economic Development, appeared in a segment of “Boricuazo” in a Puerto Rican radio show called “El Circo de La Mega” to discuss how much Puerto Rico received in federal aid and how much it paid the United States annually. She informed the audience that, from 2008 to 2009, the island officially received a total of 4.6 billion in federal aid, but they paid a total of 71.6 billion dollars each year.²⁷

Twenty-two billion six million dollars are paid in merchandise, this being only the amount paid to the United States. Why does Puerto Rico pay for imported merchandise? For centuries, the island’s agricultural industry has been diminishing. Instead of producing their own food, they rely on imported goods to survive. This means the island does not have the capability to be self-sufficient. In fact, they are the U.S.’s number one consumer when it comes to buying its merchandise. This is due to megastores that have replaced many of the previously existing Puerto Rican franchises.²⁸

Stores like Walmart, Sam’s Club, and Walgreens earn 34 billion dollars. These earnings do not circulate around the island, for they go straight to the U.S. economy. The jobs provided by these stores are unstable, and frequently the people that work there are underpaid. On top of that, job positions are being taken away as technology advances, causing people to become unemployed. Puerto Rican franchises have been replaced by these stores due to the difference in prices, for people prefer to buy more for less in an American store. This leads to less money being circulated back into the island’s economy, and, if compared to every other country in the

²⁷ elcircodelamega, “Boricuazo en El Circo de La Mega 17/2/12.” YouTube (Mar 09, 2012), 12:45-13:35

²⁸ elcircodelamega, “Boricuazo en El Circo de La Mega 17/2/12.” YouTube (Mar 09, 2012), 7:32-8:07

world, is the top country that takes most of its national wealth from into another economy—being that of the United States.²⁹

The remaining 1.5 billion dollars that Puerto Rico pays the U.S.—which only circulates in the mainland’s economy—lie in tariffs. The U.S. maritime commerce is the most expensive in the entire world, and their number one consumer is, once again, Puerto Rico. Due to the Jones–Shafroth Act, the island has no choice but to use this commerce, for all imported goods are only allowed to arrive via U.S. ships. This is where the difference in store prices really come into play. While American franchises can pay to import these products in bulk, Puerto Rican franchises must double the prices of the products they sell to be able to afford the imported items.³⁰

Things like social security, Medicare, retirement, and unemployment are covered in the 8.9 billion dollars the people on the island pay in taxes. This money is supposed to circle back to Puerto Ricans. However, it is only if they claim the right to the money. Even then, most of what Puerto Ricans pay in these taxes are not returned to them since the U.S. keeps some of what is paid. This means that, normally, people receive less than what they paid for.³¹

Over the years, the amount Puerto Rico pays has been getting higher, and less money has been circulating on the island. However, Wall Street has taken advantage of Puerto Rico’s crisis to profit off them. The Wall Street Journal reported that in 87 bond deals made since 2006, Puerto Rico sold \$61 billion in bonds which resulted in fees of \$1.4 billion dollars that profited Wall Street firms and their associates. These fees were higher than other financially troubled U.S. states and cities, forcing Puerto Rico’s investors to liquidate due to margin calls and vulture

²⁹ Ibid, 8:46-11:07

³⁰ Ibid, 11:08-12:45

³¹ Ibid, 5:37-7:28

hedge funds. These hedge funds are buying Puerto Rican bonds at discounts of 30% to 50% of par value, further worsening the island's economy.³²

These factors lead to the economic crisis they have today. Due to the lack of money, establishments in Puerto Rico have reduced the number of employees they have and how much they pay those that remain. If the island already had this issue prior to the hurricane, how could anyone expect them to be able to recover when things had gotten worse? It was only in August of this year that the unemployment rate lowered from 10.3% (in March) to 8.0% (in October).³³

When you take into account how Puerto Rico's economy doesn't circulate within the island, Greszler and Fruth's suggestion on what would be the best way to produce economic growth in Puerto Rico falls short. What they believe is a major issue with the island's economic crisis is the lack of interest businesses have on the island due to the regulations they have to follow. First of all, as I stated prior, all regulations and laws Puerto Rico follow were made by the U.S. government—the only ones who can modify these limitations. These limitations were the primary factor that caused Puerto Rico's economy and market—both in terms of agriculture and general business—to deteriorate.

However, I do understand where Greszler and Fruth are coming from. Introducing more businesses would indeed create a boost in the number of people with employment, along with increasing the number of job opportunities. What they fail to take into account is how the economy currently circulates. Due to foreign businesses settling into the island, most of the profits travel outside of Puerto Rico. What the economy needs are more local businesses. This

³² Jake Zamansky, "How Wall Street Has Profited From Puerto Rico's Misery." *Forbes* (Nov 13, 2013), ¶ 7

³³ U.S. Bureau of Labor Statistics, "Puerto Rico Economy at a Glance." United States Department of Labor (Date Accessed: Dec 07, 2018), https://data.bls.gov/timeseries/LASST720000000000003?amp%253bdata_tool=XGtable&output_view=data&include_graphs=true

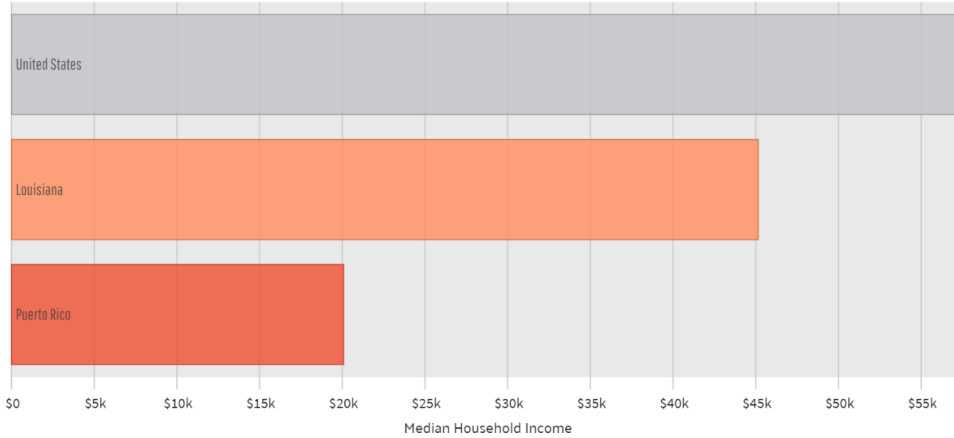
may sound simple, but, due to the amount that must be paid in merchandise and their transport, it is hard for local, family-owned businesses to buy the products they wish to sell in bulk. Usually, this forces small, Puerto Rican businesses to compete with larger, American megastores in both product variety and pricing, meaning that citizens are more likely to buy from these megastores—since they are more likely to have merchandise that is cheaper and more diverse than the ones in struggling local businesses. With more local businesses, the economy will circulate within Puerto Rico, which ultimately serves as a solution to one of the island's current problems—their money ultimately ending up within the United States.

Comparing Puerto Rico's Debt

What is the difference between Puerto Rico's debt and the debt of other U.S. states? Why is the island's debt so detrimental? When someone asked me these questions, I couldn't help but wonder if the other states that were economically disadvantaged were in the same, sinking boat as Puerto Ricans were. I quickly discovered that, as of today, the state of Louisiana—the state in the mainland that has the worst economy as of today³⁴—is still better off economically than those in the Caribbean are.

³⁴ Andy Kiersz, "Every US state economy ranked from worst to best." Business Insider (Mar 15, 2018), ¶ 9

Figure 3



Dataset: ACS 1-year Estimate
Source: Census Bureau

DATAUSA:

This graph compares Puerto Rico’s median household income to that of Louisiana and the United States in 2016.³⁵

Based on the data found in Data USA, in 2016, people in Louisiana earned a little over double the amount a Puerto Rican made that same year. Puerto Rico’s population that year consisted of 3.41 million people, 2.46 million of those people either unemployed³⁶ or working in an “off-the-books”³⁷ job. Meanwhile, in Louisiana, 2.74 million of 4.68 million people were unemployed.³⁸ When you compare these numbers, it’s not surprising to see that the poverty rate in Louisiana—20.2%—was half the rate found in Puerto Rico—43.5%. As of today, Puerto Rico is \$72 billion in debt, while the bills Louisiana has accumulated are worth \$35.6 billion.³⁹ While this information is jarring on its own, it becomes much more of an issue when you realize Puerto Rico cannot declare bankruptcy, unlike the states, in an economy that, since then, has grown far

³⁵ Data USA, “Puerto Rico & Louisiana.” (Date Accessed: Dec 16, 2018), <https://datausa.io/profile/geo/puerto-rico/?compare=louisiana>

³⁶ Data USA, “Puerto Rico.” (Date Accessed: Dec 16, 2018), <https://datausa.io/profile/geo/puerto-rico/>

³⁷ Rachel Greszler and Salim Furth, “An Economic Crisis Is the Heart of Puerto Rico’s Financial Crisis.” The Heritage Foundation (July 27, 2015), ¶ 7

³⁸ Data USA, “Louisiana.” (Date Accessed: Dec 16, 2018), <https://datausa.io/profile/geo/louisiana/>

³⁹ State Data Lab, “Louisiana: State Data and Comparisons.” (Date Accessed: Dec 16, 2018), https://www.statedatalab.org/state_data_and_comparisons/detail/louisiana

worse. Louisiana is well known for being an economically disadvantaged state by many in the United States; Puerto Rico, however, has rarely been a topic of conversation.

In the end, why should we care? Why not just let things stay as they are? The answer is: Puerto Rico is entitled to financial stability because not only are we people in need, we are U.S. citizens. We are a part of the United States of America—we serve in the U.S. military and contribute to the U.S. economy more than our own. If we are citizens enough to die in wars under the U.S. flag and serve as a benefit to the mainland's economy, we should be allowed to declare bankruptcy just like any other state. We should be allowed to partake in the U.S. government and negotiate an actual, long-term solution to this problem, and not be forced to accept this situation as a byproduct of being a U.S. territory. This is not a debate on whether Puerto Rico should become a state, it is a debate on how—for decades—U.S. citizens have needed economic relief, yet their cries for help have been ignored by the U.S. government. Puerto Rico's economic situation should be more of a topic of conversation, so, when financial stability is a long-time guarantee, Puerto Ricans can choose whether they wish to become the 51st state. We are not something a colonial power can simply profit off; we are human beings.