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Puerto Rico's
Colonial Legacy
and its Continuing
Economic
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Merling, Lara

*Center for Economic Policy and
Research*

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Lara Merling

Center for Economic Policy and Research

When Puerto Rico was hit by Hurricane Maria, the island was ill-equipped to handle the storm that claimed [thousands](#) of lives and devastated most of the island's infrastructure, leaving it in the dark for [months](#). Prior to the storm, Puerto Rico's economy had already experienced two [decades](#) without economic growth, a rare occurrence in the history of modern capitalism. Neither a sovereign country nor a US state, Puerto Rico has had constrained ability to respond to negative economic shocks, while only receiving limited federal support. The island's prolonged economic failure resulted in the accumulation of an unsustainable debt burden, and Puerto Rico's bankruptcy.

Puerto Rico became a territory of the United States in the aftermath of the Spanish-American War of 1898. While residents of Puerto Rico were given US citizenship in 1917, they still cannot vote in US presidential elections on the island and have no voting representation in the US Congress. The UN officially [removed](#) the island from its list of colonies in 1953 after the US Congress approved a new name, the "Commonwealth of Puerto Rico," along with a constitution that granted the island authority over internal matters.

Despite this semblance of autonomy, Puerto Rico continued to be subject to the [Territory Clause](#) of the US Constitution, which grants the US Congress "power to dispose of and make all needful Rules and Regulations." Recent developments have shown beyond doubt that Puerto Rico continues to be a colony, with the island now effectively [ruled](#) by a Federal Oversight and Management Board (the Board), created by the US Congress, which supersedes the authority of the island's elected government.

After Puerto Rico defaulted on its \$74 billion debt in 2015, the US Supreme Court [struck](#) down a bankruptcy law passed by the island. In 2016, the US Congress then passed the "Puerto Rico Oversight, Management, and Economic Stability Act" (PROMESA), to create a framework for Puerto Rico to restructure its debt. While many attribute Puerto Rico's accumulation of unsustainable debt to irresponsible government spending, this narrative ignores the fact that much of what led to Puerto Rico's prolonged economic failure was out of the island's control.

During the last two [decades](#) of the twentieth century, Puerto Rico's economy more than doubled in real terms as it became an attractive destination for US manufacturing, offering strong legal protections and relatively cheap labor. As the rules of the global economy were rewritten with the creation of the World Trade Organization and the passage of trade deals such as the North American Free Trade Agreement, Puerto Rico became much less attractive as a manufacturing hub.

The island's [economy](#) has not registered any growth since 2005. Puerto Rico did not have the policy tools available to sovereign nations that could have allowed it to more effectively address the shifting global trade environment, e.g., by adjusting its exchange rate. Between 2005 and 2016, Puerto Rico's economy was shrinking at an annual real rate of 1 percent per year. Investment, which was over 20 percent of GDP in the late 1990s, fell to less than 8 percent of GDP in 2016.

Furthermore, Puerto Rico did not receive the same federal [support](#) that US states do, meaning that as the economy worsened, its government had to foot the bill for a large share of social programs. Just in terms of [health care](#), it is estimated that the Puerto Rican government has had to spend more than \$1 billion per year more than it would have had it received the same reimbursements from the US federal government that states do.

By 2016, [before](#) Hurricane Maria, Puerto Rico had a poverty rate of 46 percent, and 58 percent for children, and had already lost 10 percent of its population to migration. With higher overall living costs than the mainland US, and lower incomes, many Puerto Ricans have chosen to leave the island and seek better opportunities on the mainland. In Maria's aftermath, Puerto Rico is predicted to lose [another](#) 14 percent of its population by 2019.

As Puerto Rico's economy declined, so did the revenues of the government, which increasingly financed operations through borrowing. Puerto Rican bonds were part of US municipal bond markets, and carried special tax exemptions that made them sufficiently attractive that buyers ignored the island's macroeconomic reality — something explicitly [mentioned](#) in Puerto Rico's credit assessments. The bonds were only downgraded to "junk" in 2014 after Puerto Rico could no longer make interest payments on its debt.

PROMESA [established](#) a process to reach a consensus with creditors, and, were that to fail, it created a legal path to access bankruptcy court, where the Board would also represent Puerto Rico. As part of the consensus process, the board was tasked with certifying a 10-year fiscal plan that would keep the government operational, provide essential services to residents, adequately fund public pensions, and set funds aside for debt repayment in agreement with creditors.

The Board has taken an [austerity](#) approach that fails to address any of Puerto Rico's long-term economic problems and is likely to exacerbate the downward spiral of economic decline and outmigration. In the aftermath of Maria, despite inadequate relief, the Board is using the increase in liquidity provided by relief funds to set aside more funds for [creditors](#).

Yet many creditors continue to demand even harsher austerity, and the bankruptcy case is currently being heard by a bankruptcy judge in the New York District Court. Ironically, many of the most aggressive creditors are hedge funds that bought bonds at a steep [discount](#) after the default, and in the [aftermath](#) of Hurricane Maria.

To add insult to injury, the undemocratically appointed Board is setting aside [\\$1.5 billion](#) of the island's budget for its own expenses, including legal and consulting fees for the next five years. Many of the advisors and lawyers now [profiting](#) from the bankruptcy process are the [same actors](#) who were involved in issuing the unsustainable debt. Meanwhile, island residents face [pension cuts, layoffs, benefit freezes, and school closures](#). Given that the people of Puerto Rico have no democratic representation or say in this process, it is not surprising that their colonial rulers are ignoring their needs.