

# Puerto Rico is Bankrupt: Will the IMF Bail-Out Puerto Rico?

Former IMF Officials Propose Austerity Measures to Solve Puerto Rico's Debt Crisis, Governor Agrees

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*Puerto Rico is bankrupt according to Governor Alejandro Padilla because it is mathematically impossible to pay its \$73 billion debt it owes to creditors. In an interesting turn of events, the Associated Press reported that Padilla met privately with the New York Times before he met with Puerto Rico's political leaders to discuss the uncontrollable debt problem the island-nation was facing. Padilla was quoted as saying that "the last four administrations have kicked the can down the road," he continued "At this point; there is no more can to kick. So we're going to take some very strict measures and some very profound measures. It's going to hurt, but there's no way out" the AP reported.*

According to a Reuter's article titled 'Report Gives Damning Review of Puerto Rico's Finances, Calls for Reforms and Restructuring of Debts':

Puerto Rico needs to restructure its debts and should make reforms including cutting the number of teachers and raising property taxes, a report by former International Monetary Fund economists on the Caribbean island's financial woes said. The report, which was obtained by Reuters, gave a damning review of how Puerto Rico has arrived at its current state, which it said requires both structural reform and debt restructuring to fix. "Puerto Rico faces hard times," the report said. "Structural problems, economic shocks and weak public finances have yielded a decade of stagnation, outmigration and debt... A crisis looms

The report titled 'Puerto Rico-A Way Forward' was produced by Anne O. Krueger, Ranjit Teja and Andrew Wolfe, all former members of the Washington, D.C. based *International Monetary Fund* (IMF). The report determined that Puerto Rico will need to "restructure its debts" which will include eliminating public school teachers, raising property taxes and suspending minimum wage laws. According to Reuters, Anne O. Krueger mentioned that "the situation is dire, and I mean really dire" she said "the needed measures may face political resistance but failure to address the issues would affect even more the people of Puerto Rico". Reuters also reported that the White House "is not contemplating a federal bailout of Puerto Rico to help the island deal with its debt crisis". Can the IMF bail-out Puerto Rico if Washington steps aside? The Puerto Rico government and hedge fund companies did seek financial advice from former officials of the IMF earlier this year. There is no indication that the IMF would get involved at this point, but the main-stream media, in this case the Wall Street Journal suggested otherwise. The article titled 'Puerto Rico, Investors Enlist Ex-IMF Officials' from April of this year said that Puerto Rico "resembles" emerging-market

countries, a qualification that can possibly enlist the help of the IMF as an option:

Puerto Rico has retained Anne Krueger, the IMF's former first deputy managing director, as a consultant, while a committee representing the hedge funds is in talks about an engagement with Claudio Loser, the former director of the IMF's Western Hemisphere department, said people familiar with the matter.

*The involvement of IMF veterans highlights how market perception of Puerto Rico—a former darling of the \$3.7 trillion municipal-bond market—has changed. The IMF serves as the lender of last resort to emerging-market countries, something some investors say Puerto Rico increasingly resembles*

The Wall Street Journal also says that Puerto Rico qualifies for IMF assistance since they borrowed excessively; are inconsistent with their financial reports and administer an inefficient tax collection policy. Can Puerto Rico become a potential candidate for IMF loans? The Wall Street Journal says Puerto Rico is similar to countries whose economies are under IMF supervision:

As a U.S. commonwealth, the island also doesn't qualify for IMF aid, but the excessive borrowing, inconsistent financial reporting and low tax collection that landed Puerto Rico in hot water are common in the developing countries that IMF economists deal with. Like a lot of those countries, Puerto Rico is wrestling with how to make politically contentious budget cuts and tax increases without strangling already-weak economic growth

The Bureau of Labor Statistics (BLS) estimates that Puerto Rico has the highest unemployment rate in comparison to other U.S. states with 12.4% as of May of this year. Of course the numbers are much higher if you count those who dropped out of the labor force. One third of the Puerto Rican population receives food stamps. Since there is also a steady rise in crime, more gated communities have sprung up for security concerns. There is a mass exodus of Puerto Ricans ending up in the already struggling U.S. states such as Florida and New York. Many Public Schools have shut down due to the declining population and hazardous buildings that have never been repaired due to budget shortfalls. Puerto Rico's has a lower income per capita than any State, including Mississippi which happens to be the poorest state in the U.S. mainland. Small businesses have closed due to high electricity, water and tax bills. Retailers have also seen a decline in sales since many live on maxed-out credit cards and public assistance. Poverty in Puerto Rico is close to 45 percent but will increase dramatically if Padilla follows through with the IMF's proposals. Padilla said that Puerto Rico's economic situation is in a "death Spiral" which happens to be accurate. Puerto Rico carries more debt than any U.S. state and it is much worse than Detroit's debt crises which declared bankruptcy in 2013.

What will happen if Puerto Rico Defaults?

Puerto Rico cannot file for bankruptcy under current U.S. bankruptcy laws including chapter 9 of the U.S. Bankruptcy Code which is for municipalities such as Detroit, Michigan or Chapter 11 which is another option for business entities. Puerto Rico does not qualify for any form of bankruptcy because it is under the "Commonwealth" status; it is not a state of the union. Many questions linger about Puerto Rico's possibility of defaulting on its loans. Will

the Puerto Rico government shutdown if it defaults? Will the U.S. congress pass emergency measures with a bailout plan that will leave U.S. taxpayers footing the bill? Or will Washington allow Puerto Rico to fail so that the IMF can impose a bail-out plan that would include a structural adjustment program? So far there is no indication that the IMF or Washington for that matter will bail-out Puerto Rico at this time. One thing is certain; there is an unpredictable financial crisis that will make its way to the U.S. mainland since Puerto Rico's bonds are traded in the U.S. municipal bond markets affecting other debt-ridden states.

If Puerto Rico were to move forward with recommendations from the IMF, it would result in an economic disaster. Countries that followed the IMF's prescription, for example during the 1995 Mexican Peso Crisis due to the Mexican government's currency devaluation are an example of how the IMF's recommendations resulted in more poverty and despair. According to Global exchange.org *"Under the IMF imposed economic reforms after the peso bailout in 1995, the number of Mexicans living in extreme poverty increased more than 50 percent and the national average minimum wage fell 20 percent."* The IMF managed a \$50 billion bail-out plan for Mexico which led to hyperinflation and a collapse of the banking institutions who were exposed to bad loans. Interest rates increased on home mortgages resulting in repossessions leaving tens of thousands of Mexicans (many were the new middle-class) homeless. Extreme poverty increased, real wages plummeted and the unemployment rate nearly doubled.

It is important to remember that the IMF published a report in October 2013 that called for *"global wealth confiscation"* with new capital controls and exit regulations. The Report titled *"Taxing Times"* calls for the confiscation of household assets through a "Capital Levy" against citizens who have a "positive net wealth" to pay outstanding debts and stabilize global bond markets. This is something Puerto Ricans should be seriously concerned with.

If the IMF were to administer a rescue package for the Puerto Rican economy, it will be devastating. Former IMF officials are already proposing that the Puerto Rican people must face *"tough austerity measures"*. What will happen to Puerto Rico's economy if the Padilla administration were to follow through with austerity measures? There is the real possibility of civil unrest. Will the Puerto Rico government and the people finally cut its financial and political ties with its colonial masters to the North? No one knows, but maybe it's time to think about a future without the U.S. government, a government that will eventually default on its own debt obligations. The U.S. currently holds the largest debt in financial history with over \$70 trillion according to University of California-San Diego economics Professor James Hamilton. U.S. colonialism has turned Puerto Rico into a modern day slave plantation where the people are dependent on public assistance, food stamps and government jobs (although public school teacher positions will face job losses with IMF proposals).

Unfortunately, sometimes a bad situation makes good medicine. Maybe the Puerto Rican people can finally have a referendum and vote for Puerto Rico to leave the United States. Puerto Rico can rebuild itself and open up its own independent economy without Washington and its Wall Street cronies. Puerto Rico is a nation that has been under an Imperial power since the Spanish-American war. Puerto Rico needs a revolution, "a revolution of the mind", a new way to think about its future as an independent nation. However until that vote happens, Puerto Rico must deal with Washington and its financial institutions under its *"Commonwealth status"*. There is no evidence that the IMF will be the *"lender of last resort"* to bail-out Puerto Rico and Washington has said publically that it is not considering a federal bail-out plan of the cash-strapped island-nation. Governor Padilla

is seeking to postpone its debt repayment plan for at least several years because *"it's about math"* although he did mention that there is *"no more can to kick"* down the road. Puerto Rico will continue its path down a financial rabbit hole like Greece and Detroit, Michigan and we all know how that ends.

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