Puerto Rico's Peculiar Case: Bankruptcy of an Unincorporated Territory

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Abstract

As Puerto Rico continues to face an uphill road to recovery from Hurricane Maria, a devastating storm the island was ill-equipped to handle, it is also in the midst of a fiscal crisis and saddled with unpayable debt. Puerto Rico's attempts at declaring bankruptcy and receiving some sort of reprieve from its creditors started in 2015, with an attempt by its government to pass its own bankruptcy laws. However, the US Supreme Court struck down that law and instructed the US Congress to legislate the bankruptcy process for the island, an unincorporated territory of the United States. This paper will provide an overview of Puerto Rico's debt crisis and restructuring efforts, with an emphasis on the role played by its political status in this process. We highlight some of the similarities to Argentina's experience, particularly in the aggressive litigation strategies pursued by creditors, and the consequences of a prolonged debt restructuring process. We also discuss some of the similarities between Puerto Rico and Greece, in terms of being part of a monetary union and not having any monetary policy tools to mitigate the effects of the crisis. However, Puerto Rico's situation is unique, since it is neither a sovereign country nor a state, which results in the need to create an entirely new bankruptcy framework. While the outcome of the proceedings is still unknown, the uncertainty surrounding it is holding Puerto Rico's recovery efforts back.

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Introduction

Until the 2000s, Puerto Rico's economy grew as it established itself as a manufacturing hub for US companies seeking cheaper labor and lower taxes. However, Washington-led changes to the rules of global commerce that opened access to much cheaper labor markets made Puerto Rico less attractive to investors and resulted in a series of negative shocks to its economy.[1] Puerto Rico's political status limited its ability to respond to those shocks, and a slow economic decline began. Between 2005 and 2016, Puerto Rico's economy was shrinking at an annual real rate of 1 percent per year.[2] Investment, which was over 20 percent of GDP in the late 1990s, fell to less than 8 percent of GDP in 2016.[3] As the economy declined, so did the revenues of its government, which started to increasingly finance operations through borrowing.

Before Hurricane Maria hit, Puerto Rico's economy was already in dire straits: after a lost decade in terms of growth, the island had lost about 10 percent of its population, had a poverty rate of 46 percent, and the government was effectively bankrupt.[4] The economy had already entered a downward spiral of economic decline and population loss, precipitated by austerity measures imposed in an attempt to reduce spending. 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 the aftermath of the storm, Puerto Rico is predicted to lose another 14 percent of its population by 2019.[5]

As the economy continued to shrink, the debt continued to grow. Puerto Rico's fiscal crisis worsened and it eventually became clear that the island could no longer afford to service its debt. This created an unprecedented situation due to the island's political status. Neither a country nor a US state, it was unclear under what type of framework Puerto Rico could use to address its liquidity crisis and attempt to restructure its debts. The scope of this paper is to provide an overview of the debt crisis in Puerto Rico and the process created to resolve it, contrasting it to the experiences of two somewhat similar debt defaults: Argentina and Greece.

Puerto Rico's Political Status and its Implications

In the aftermath of the Spanish-American War of 1898, the United States assumed control of Puerto Rico, turning the island into a "territory." Puerto Rico remains a US territory and is subject to US

1 Merling and Johnston (2017).
2 IMF WEO (2018).
3 Government Development Bank for Puerto Rico (2016).
4 Merling et al. (2017).
5 Melendez and Hinojosa (2017).

congressional authority under the Territory Clause[6] of the US Constitution.[7] The island was granted authority over internal matters in 1952 when the US Congress approved its constitution and the new name of the "Commonwealth of Puerto Rico." This was sufficient for the UN to officially remove Puerto Rico from the list of colonies and to create something of an illusion of sovereignty. Yet, as recent developments have shown, the US maintains its ultimate authority over Puerto Rico. The issue of political status is to this day contentious in Puerto Rico, with a clear consensus against the status quo but disagreements between pursuing independence or US statehood.[8]

As a territory Puerto Rico is subject to US monetary policy and does not have its own currency or central bank. The island also follows US trade policy and is bound by all the treaties signed by the US. Furthermore, Puerto Rico is considered a US port under the "Merchant Marine Act" of 1920 that bars foreign vessels from transporting goods between US ports. Effectively, this means that all imports to Puerto Rico from other countries need to first stop in a US mainland port, then be brought to the island on a domestic ship, thereby significantly increasing the cost of goods.[9]

Puerto Ricans received US citizenship in 1917, just in time to be eligible for the World War I military draft. However, despite being granted citizenship, residents of Puerto Rico are not represented by any voting members in the US Congress and cannot vote in presidential elections. Furthermore, residents of Puerto Rico are not eligible for the same benefits as citizens residing in the stateside US. The differential treatment under federal laws has been upheld by the US Supreme Court based on the Territory Clause.[10] It is thus fair to say that Puerto Ricans are treated as second-class citizens, since most of the major policy decisions that directly impact Puerto Rico are made in Washington, DC, without their input.

The same law that granted Puerto Ricans citizenship also granted special tax exemptions for bonds issued in Puerto Rico. These bonds were "triple tax-exempt" — meaning buyers did not have to pay local, state, or federal taxes on those bonds, regardless of where they resided.[11] Furthermore, Puerto Rico's constitution also includes a provision for prioritizing debt repayment over any other expenses. The constitution does, however, set a limit on how much debt can be issued: debt service must remain lower than 15 percent of revenues. The combination of tax breaks, constitutional guarantees, and the

6 Article IV, Section 3, Clause 2 of the US Constitution grants Congress "Power to dispose of and make all needful Rules and Regulations respecting the Territory or other Property belonging to the United States."
7 Garrett (2017).
8 Garrett (2017).
9 US Government Accountability Office (2013).
10 A full list of federal programs under which Puerto Rico receives differential treatment can be found in Appendix 2 of US Congressional Taskforce on Economic Growth in Puerto Rico (2016).
11 Some states grant a similar tax exemption for buyers who reside in the issuing state but only Puerto Rico grants the exemption to non-residents.

fact that the bonds were issued under US legal jurisdiction made the bonds extremely attractive to investors.

Later, in 1984, the US Congress decided to exclude Puerto Rico from Chapter 9 bankruptcy law that allows public companies and municipalities to declare bankruptcy and restructure their debts. Under US bankruptcy law, Chapter 9 provides a favorable framework for restructuring debts of public local entities, which respects the sovereignty of the debtor and does not allow courts to require liquidations of assets. The reasons behind why Puerto Rico was excluded from Chapter 9 remain a mystery, with no explanation for the amendment to be found.[12]

The federal funding disparity between states and Puerto Rico is striking. It is best illustrated by Medicaid, where a hard cap on payments from the federal government, introduced by the US Congress in 1968, means that Puerto Rico receives much lower reimbursements than it would receive under the formula used to calculate reimbursements for states. To understand the scope of this difference, based on 2016 expenses, the total cost of the program was $2.4 billion and the cap for Puerto Rico was set at $355 million, an effective reimbursement rate of less than 14 percent. However, under the formula used for states, Puerto Rico would have received about $2 billion in support from the federal government.[13] It is clear that the lack of federal support meant that Puerto Rico's government had to cover billions in extra expenses over the years, adding to its debt burden. However, given the favorable treatment of its bonds, Puerto Rico had no problem borrowing funds to cover its expenses.

Debt Crisis

As Puerto Rico's economy stopped growing, so did revenues for its government. To cover the gap in revenues, Puerto Rico's borrowing increased substantially. However, being included in domestic US bond markets gave Puerto Rico very easy access to credit. Despite years of no growth and missed revenue targets, Puerto Rico's creditors turned a blind eye for as long as it was possible. The legal protections and the tax-exempt status made the bonds sufficiently attractive to ignore the island's macroeconomic reality, something explicitly mentioned in Puerto Rico's credit assessments.[14]
Puerto Rico registered negative real GDP growth every year since 2005, with the exception of 2012, when growth was 0.03 percent.[15] By the end of 2013, before the bonds were downgraded to below investment grade by credit rating agencies, Puerto Rico's economy had already shrunk by over 8

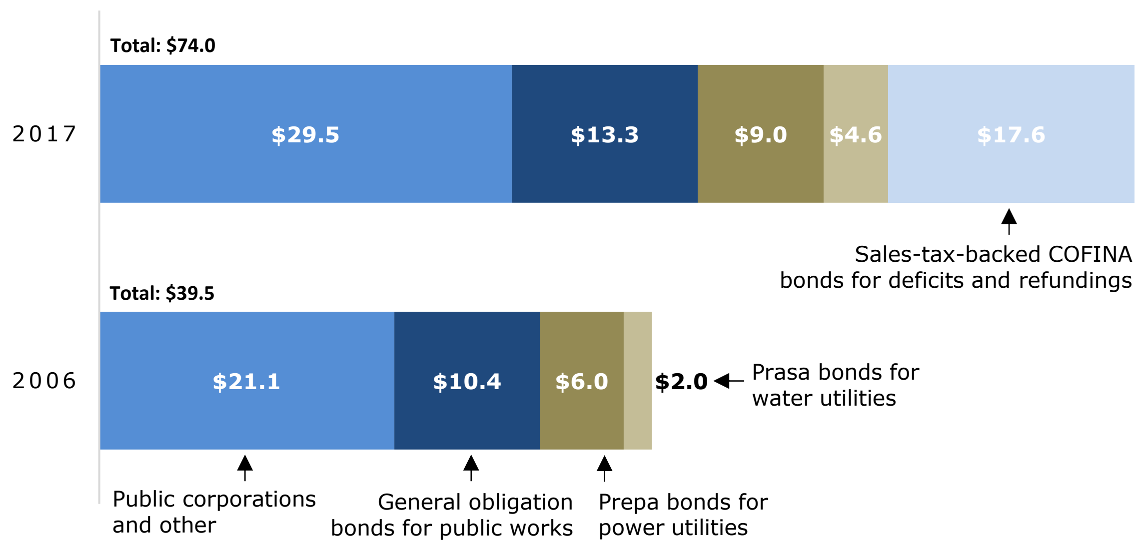
12 The exemption applied to both Puerto Rico and the District of Columbia. Walsh (2017).
13 Note that the Affordable Care Act offered Puerto Rico a block grant to support the program, and in the aftermath of Hurricane Maria, the US Congress has granted extra funds for Medicaid. However, the hard cap is still in place. Merling and Johnston (2017).
14 Moody's Investor Service (2012).
15 IMF WEO (2018).

percent in real terms from its 2005 level, and its population had decreased by 6 percent.[16] It is hard to believe that no one saw the crisis coming given the steady decline in output. The investor confidence was based on Puerto Rico's constitutional obligations and legal jurisdiction rather than economic performance.

As Puerto Rico approached its constitutional debt issuing limit, it created the Puerto Rico Sales Tax Financing Corporation (COFINA), which issued debt based on anticipated sales tax revenues that it claimed were separate from other government revenue.

FIGURE 1

Debt Issued by Puerto Rico, billions of dollars



Source: Puerto Rico Fiscal Agency and Financial Advisory Authority (2017).

The explosion in Puerto Rican debt is clearly illustrated in **Figure 1**. Between 2006 and 2017, COFINA alone issued $17.6 billion in debt. Various public corporations and entities had been issuing their own bonds, all of which ballooned over this period. Meanwhile, general obligation bonds only increased from $10.4 to $13.3 billion.

By 2014, Puerto Rico's inability to make payments on its debt became clear, and credit rating agencies started to downgrade bonds. However, knowing Puerto Rico had no legal path to bankruptcy, hedge funds stepped in and started buying discounted bonds, which were trading at the time as low as 30 cents on the dollar. In 2014, it was estimated that hedge funds owned about 24 percent of the total

16 IMF WEO (2018).

debt. By 2015, that number was already at 50 percent.[17] Yields on Puerto Rico's bonds increased to 11 percent from under 5 percent in 2006, making it even harder for Puerto Rico to finance expenses.[18] Despite attempts to cut spending, Puerto Rico was projected to run out of cash by the end of 2015 at the latest.[19]

In June 2014, in an attempt to address the crisis, Puerto Rico passed the Public Corporation Debt and Enforcement and Recovery Act (Recovery Act). This bill created a restructuring process similar to Chapter 9 bankruptcy that would have offered a path for Puerto Rico's public corporations to restructure their debt and help the island remain solvent. This would have allowed for the restructuring of about $43 billion out of the $74 total debt, leaving general obligation and COFINA bonds outside of the scope of the bill. While holders of general obligation and COFINA bonds welcomed the development, the holders of the public corporation bonds sued Puerto Rico in US Federal Court to annul the Recovery Act, claiming that Puerto Rico does not have the authority to enact such a law.

The case made it all the way to the US Supreme Court, which affirmed Puerto Rico's colonial status by siding with the creditors and agreeing that as a territory, Puerto Rico cannot create its own bankruptcy law, and it was up to the US Congress to address the solvency crisis. By the end of 2015, Puerto Rico had defaulted on most debt payments and the need for debt restructuring became clear. At that point, one-third of projected revenues was required to cover all debt payments, while the economy continued to shrink, worsening the prospects for debt sustainability.[20] Puerto Rico's relationship with the US also meant that it could not receive loans or support from international financial organizations such as the IMF.

PROMESA

The response from the US Congress came in the form of the bipartisan Puerto Rico Oversight, Management, and Economic Stability Act (PROMESA), which President Obama signed into law on June 30, 2016. Rather than simply re-including Puerto Rico in Chapter 9 bankruptcy protections, PROMESA designed an entirely new framework to address both the fiscal and debt crisis in Puerto Rico. Neither creditors nor Puerto Rico was satisfied with the final result of the bill, which included provisions each side strongly opposed. The bill required that first an attempt be made to reach a consensus with creditors. In case that failed, a path to a legal bankruptcy process was designed by the bill.

17 Fitch Ratings (2014).
18 US Treasury (2016).
19 Conway (2015).
20 Working Group for the Fiscal and Economic Recovery of Puerto Rico (2015).

The bankruptcy process did not include all the debtor-friendly Chapter 9 but, in a major blow to creditors, it covered a restructuring for all types of debt, including general obligation and COFINA debt. These would have not been included under a Chapter 9 process. Another important aspect of PROMESA that litigious hedge funds vehemently opposed is the inclusion of a collective action clause (CAC) that states that any offer or agreement reached with at least 75 percent of the bondholders in a specific class applies to all the bonds in that class. This provision makes it harder for creditors to hold off in the hope of receiving a better deal through prolonged litigation. While negotiations took place, PROMESA put a stay on all Puerto Rican debt.

However, PROMESA also sidelined Puerto Rico's elected government from the process and created a Financial Oversight and Management Board (the Board). The Board is in charge of all major fiscal decisions as well as creditor negotiations, and its authority supersedes Puerto Rico's government. The members of the Board were appointed by the president based on nominations made by the US Congress. The Board then hired full-time staff to fulfill its duties, paid for by Puerto Rico. The Board is in charge of Puerto Rico's finances until the island balances its budget for four consecutive years and regains access to credit markets.

As part of PROMESA's consensus process, the Board was tasked with certifying a 10-year fiscal plan that would keep the government operational, provided essential services to residents, adequately fund public pensions, and set funds aside for debt repayment in agreement with creditors — all this while not relying on any financial support from the federal government, and assuring necessary public investments to promote growth.[21] However, the stated goals leave plenty of room for interpretation as to what services are essential and what level of pension funding can be considered adequate. While the government of Puerto Rico is allowed to propose a plan for the Board to certify, the Board has the authority to overrule it and create its own version.

The first fiscal plan certified by the Board in 2017 aggressively pushed for prioritizing debt repayment, demanding austerity measures that would have resulted in at least another decade of economic decline.[22] Furthermore, the supply-side measures proposed by the plan did not address any of Puerto Rico's structural issues stemming from its political status. By worsening the recession, the plan actually hurt Puerto Rico's long-term debt sustainability.[23] Creditors were still not satisfied with the $7.9 billion that the plan made available for debt repayment over the next 10 years and refused a restructuring

21 Austin et al. (2016).
22 Merling et al. (2017).
23 Gluzman et al. (2018).

offer of 77 cents on the dollar for general obligation debt, and 58 cents on the dollar for COFINA bonds.[24]

As a result, following PROMESA guidelines, the bankruptcy process began in the US District Court for the Southern District of New York, overseen by Judge Laura Taylor Swain. While legal proceedings move forward, Puerto Rico is still expected to follow the certified fiscal plan. Ironically, in a court filing submitted by the Board, it did acknowledge the dire situation of the Puerto Rican economy and the likely continuation of a downward spiral of out-migration and economic decline. Furthermore, this filing also acknowledged that institutional problems linked to Puerto Rico's political status had contributed to the economic and debt crisis.[25]

Puerto Rico's circumstances changed in the aftermath of Hurricane Maria, so Court proceedings paused while the Board certified a new fiscal plan to reflect the changes in Puerto Rico's situation. The new plan was going to only cover six years instead of 10 and take into account the federal relief funds earmarked for Puerto Rico. As part of the process, the Board also had to again attempt to reach a consensual restructuring agreement with creditors. A number of prominent economists pled with the Board to change its austerity approach and allow Puerto Rico to have some space to grow while it recovered from the storm. The economists explained in a letter that restoring sustainable growth would benefit both Puerto Rico and its creditors, which would have better chances of being repaid. On the other hand, more austerity would provoke further out-migration and economic decline, which in turn affects Puerto Rico's ability to raise any revenues.[26]

Hurricane Maria is estimated to have caused about $95 billion in damage to Puerto Rico, and the island expects about $62 billion in relief funds from federal agencies and private insurance.[27] While these funds are less than what Puerto Rico needs to rebuild, they do represent a significant influx of cash to the island. In the new plan certified by the Board, the extra funds, however, seem to make room for more budget cuts, while also increasing the funds available for debt service. The new plan proposes a series of spending cuts, many of which target the compensation of public sector employees and retirees directly, while others reduce public services available to residents. Along with the cuts, the plan calls for a number of supply-side labor reforms and takes aim at benefits and workers' rights. The plan also calls for privatizing a large number of public entities and relying on the private sector for much-needed infrastructure repairs. The measures do not address any of the specific problems that are holding

24 Merling et al. (2017).
25 The Board (2017).
26 Acemoglu et al. (2018).
27 Rosselló (2017).

Puerto Rico's development back. If anything, these measures are likely to increase out-migration and worsen the recession.[28]

The revenue and growth estimates from the plan assume the cuts would have little negative impact on the economy, an assumption that given the prolonged recession on the island seems very unrealistic. The reforms proposed by the Board are modeled after IMF structural reform programs, something the board uses to defend its approach.[29] However, the IMF's track record on accurately predicting the negative feedback from such reforms is not particularly good, especially during recessions, with a long pattern of overshooting growth estimates.[30] The predictions from the plan are used for the debt sustainability analysis presented to the court; thus this issue needs to be seriously taken into account when reaching any type of settlement, or allocating funds to repay debt, in order to achieve a sustainable debt level that Puerto Rico can actually afford to make payments on long-term.

Given that this is the first court case under PROMESA, Judge Swain has a lot of leeway on how she will interpret the various provisions of the bill. It is now up to the court to also decide on issues varying from what essential services are and what debt service level is sustainable, to what group of bondholders has priority in being repaid. Among bondholder classes, the main conflict is between general obligation bonds, which are backed by Puerto Rico's constitutional obligations, and COFINA bonds that claim to have priority over sales-tax revenue. The court case is extremely complex, with a large number of conflicting legal claims from various stakeholders, and is expected to take a long time to reach a resolution. And while the outcome is hard to predict until a final settlement is reached, Puerto Rico continues to be subject to austerity, and its economic downward spiral continues.

International Comparisons

The implications of Puerto Rico's political status as a US colony played a major part in the way the default on its debt crisis is being handled, leaving aside the role played in accumulating the debt in the first place. The characteristics of its debt situation are similar to a sovereign debt crisis: despite Puerto Rico's lack of sovereignty, it had little federal oversight in the years leading up to PROMESA. To better understand how this political status impacted the restructuring process, particularly as Puerto Rico continues to question that status, it is worth looking at how sovereigns have coped with defaulting on their debts.

28 Merling and Johnston (2018).
29 The Board (2018).
30 Blanchard and Leigh (2013).

There is no official legal framework that addresses sovereign defaults, which means each country undergoes its own negotiations and efforts to restructure its debt, usually with the involvement of the IMF, with varying outcomes. In recent history, Argentina and Greece are examples of sovereign defaults comparable in scope with Puerto Rico. While in each case the circumstances are unique, there are similarities to Puerto Rico's situation, along with lessons to be learned.

In 1991, Argentina, with the IMF's support and blessing, adopted the "convertibility plan," which included a fixed exchange rate regime that pegged the peso to the US dollar. While this was successful in quickly stabilizing the economy from hyperinflation, the peso became increasingly overvalued at its fixed nominal exchange rate over the ensuing years. The economy was also subject to serious external shocks. When a recession began in mid-1998, the IMF continued to lend Argentina money to maintain its fixed exchange rate, while requiring the government to impose austerity measures. Despite the worsening situation, the IMF continued to require additional spending cuts. By the end of 2001, Argentina had lost about 15 percent of its GDP, poverty surpassed 45 percent, and unemployment rose to over 21 percent. The massive public unrest led to the fall of the government and a default on its debt. At the time of the default, Argentina's public debt service burden was about 10 percent of GDP, which was clearly not sustainable.[31]

The default at the end of 2001, and devaluation (to a floating exchange rate) in January 2002, caused severe shocks to the economy, with a 5 percent drop in GDP in the first quarter of 2002. However, after that the economy started to recover and grow steadily, eventually surpassing its pre-1998 recession level by 2005.[32] The default allowed Argentina to step away from the IMF-imposed austerity, devalue its currency, and pursue domestic expansionary policies. As the country continued to recover, it repaid the IMF in full and sought to settle with its private creditors. Eventually, the IMF's Independent Evaluation Office admitted that it had been a mistake for Argentina to incur more debt to maintain a fixed exchange rate.[33]

The decision to default did have long-standing negative consequences for Argentina, which was lost access to credit markets for a long time. To make matters worse, after its default, vulture funds stepped in to purchase discounted bonds with the intention to litigate. While Argentina managed to settle with over 90 percent of its creditors, the hedge funds that bought the debt on the cheap were not willing to accept any offer lower than full repayment.[34] The vultures sued Argentina in the US District Court of New York in a case where the judge issued a highly unusual and widely criticized decision that

31 Guzman (2016).
32 IMF WEO (2018).
33 IMF (2004).
34 Guzman (2016).

Argentina could not pay any of the holders of the restructured debt (about 90 percent of its bondholders) until it paid the vulture funds. This outcome shows the extensive reach of the US legal system, mainly due to the fact that most financial intermediaries involved in international debt issuances are based in the US. The decision also appeared to be political, as the judge lifted the injunction after the Macri government was elected in December 2015.

The vultures in the Argentina case made exorbitant profits, which validated their business model and discouraged future creditors from accepting early settlements. This appetite for litigation and unwillingness to settle is prevalent among the vultures now involved in Puerto Rican bonds.

Greece flirted with the idea of a default on its debt by missing some debt payments yet has repeatedly agreed to enter bailout programs with the European authorities (IMF, European Central Bank, European Commission, and eurogroup of finance ministers) and has continued to service its debt. The Greek recession started in 2008, and by 2010, faced with unaffordable borrowing costs, Greece could no longer afford its debt service. The European authorities stepped in with assistance but the help came with many strings attached and required harsh austerity measures. To make matters worse, most of the money Greece received was immediately directed toward its creditors, leaving the country's citizens no better off.[35] As Greece consistently failed to meet revenue and growth projections, two additional bailouts followed, in 2012 and 2015.[36]

Eight years and three bailout packages later, Greece is no closer to a more sustainable debt burden. In 2018, Greek GDP is about 24 percent lower in real terms than it was in 2014, and unemployment remains stubbornly high at almost 20 percent. Greece's debt increased from 103 percent of GDP in 2007 to 191 percent in 2018.[37] The sharp increase in the debt-to-GDP ratio shows how forcing an austerity-driven adjustment (or "internal devaluation") that hurts the economy actually decreases debt sustainability. By 2013, the IMF was forced to admit that it was wrong about its projections for Greece and had vastly underestimated the damage that austerity would inflict on the economy.[38]

Greece faced increased pressure to accept the unfavorable terms of the bailouts due to the fact that as a member of the eurozone it no longer had its own currency and all domestic banks depended on the European Central Bank for liquidity. Thus, logistically speaking, taking a path similar to Argentina would have been difficult for Greece, since it would have had to leave the euro in order to reintroduce its own currency and pursue a devaluation. Although Greece (unlike Puerto Rico) is nominally a

35 Jansen (2010).
36 ESM (2018).
37 IMF WEO (2018).
38 Stevis and Talley (2013).

sovereign country, as a member of the eurozone it found itself without sovereignty over its most important economic policies: monetary, exchange rate, and then fiscal policy. In that sense, its situation was similar to that of Puerto Rico. And also, like Puerto Rico, the people who had control over these policies had a political agenda that did not prioritize, and was often at odds with, the policies needed for economic recovery.[39]

For Puerto Rico, a default similar to Argentina's is not an option under its current status, since it has no actual power to make those decisions, and it is very unlikely that the Board or US courts would allow that to happen. Even if Puerto Rico would have sufficient autonomy to attempt a default, having the US dollar as a currency would make the process much harder. Puerto Rico's current status virtually assures it cannot take charge over its own debt restructuring, or refuse to pay its creditors.

There seem to be some advantages to PROMESA over the option of dealing directly with the IMF. As seen prior to Argentina's default, and in the case of Greece, multilateral loans are often given to repay previous creditors, and not to stimulate growth, eventually increasing overall debt burdens. PROMESA created an actual legal bankruptcy process that is unlikely to ask Puerto Rico to borrow money in order to repay previous debt. By including a CAC in PROMESA, the authorities have reduced the likelihood of a situation in which holdouts can continue to litigate for years. However, it is still too early to predict the outcome of the bankruptcy case and thus truly evaluate the overall impact of PROMESA on the debt restructuring process.

On the negative side, PROMESA infringes on Puerto Rican's right to be governed by elected representatives and has put the island's destiny in the hands of a control board eager to push Puerto Rico into an IMF-inspired austerity trap, at least until the courts issue a ruling in the case.

Conclusion

The direct intervention in Puerto Rico's internal affairs and sidelining of its elected government in favor of a US-appointed oversight board makes Puerto Rico's colonial status glaringly obvious. The US treats Puerto Rico as a "possession" and does not grant its citizens living there the same rights, privileges, or support that it offers to stateside citizens. Despite the clear limitations in terms of available policy tools, it remains a popular narrative to blame Puerto Rico's economic woes on corruption and mismanagement. However, its overvalued currency, along with the strict control over the shipment of goods to the island, are just examples of structural issues that stem directly from

39 Weisbrot (2015).

Puerto Rico's status.[40] These restrictions are also paired with inadequate federal support for Puerto Rico, which receives significantly less funding than if it were a state.[41]

Instead of acting to remedy this unfair treatment, the US Congress has appointed a board that continues the same pattern of treating Puerto Ricans like second-class citizens, showing more concern for the island's creditors than for the quality of life for people there.

While it is at this point unlikely for the Board to voluntarily change its approach, both the courts and the US Congress can intervene to make sure the rights of people in Puerto Rico are not being infringed upon and that none of the relief funds Puerto Rico received after the devastating hurricane are counted in any revenue streams that creditors can make claims on.

Hopefully, the end result of the framework created through PROMESA will be a fair and sustainable debt restructuring that will end the harmful austerity Puerto Rico is being subjected to.

40 GAO (2018).
41 GAO (2014).

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