Prepared by Mark Langevin, April 12, 2016

Sovereign Debt, a Global Problem: International Experiences and the Situation of Puerto Rico

A Public Services International Seminar
San Juan, Puerto Rico
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The participants of the International Seminar "Public Debt, a Global Problem: International Experiences and Puerto Rico's Situation" held on March 30, 2016 in San Juan, Puerto Rico expressed their strong support and solidarity with the Puerto Rican people in their struggle to overcome the fiscal, economic and social crisis they confront.

The Sindicato Puertorriqueño de Trabajadores, SEIU Local 1996 and Public Services International (PSI)-Interamerican Region hosted experts from around the world an 92 attendees from 21 countries. The seminar served to deepen the debate on sovereign debt and sensible solutions to restructuring. Members and leaders of the UGT, AFL-CIO, Servidores Públicos Unidos/AFSCME, and UAW as well as representatives from the cooperative, health, religious, environmental, and other Puerto Rican civil society movements where present.

Those gathered at the seminar recognized that public debt is spreading worldwide to undermine the fiscal stability of local and national governments. In Latin America, falling prices of oil and other commodities erode the ability to pay the debts and invest in public services and infrastructure. Also, lessons learned from the United States, including the dramatic cases of Detroit and Flint, Michigan, demonstrate how public services are degraded under the weight of the debt burden and ensuing austerity. In Flint, the imposition of severe austerity measures under an authoritarian emergency manager led to the widespread contamination of the public water system harming citizens with lead posioning. Today, Puerto Rico faces a similar fate if measures are not taken to restructure its debt, revive its economy, and rebuild its public services.

David Prentis, PSI President and General Secretary of Unison (UK), welcomed the participants and attendees. He emphasized the importance of discussing the sovereign debt challenge throughout the world and linking the issue to an overall attack on the public sector and labor unionism.

Rosa Pavanelli, PSI General Secretary, also welcomed the participants and attendees. She thanked the Sindicato Puertorriqueño de Trabajadores, SEIU Local 1996 and its president, Roberto Pagán (PSI male Titular for the United States). She reflected on the dire consequences of successive debt crises around the world, including the deepening dependency on financial institutions, such as the IMF and the World Bank. She highlighted that in many cases public debts are illegitimately generated, fed by private interests and too often reinforced by the International Financial Institutions to deepen many countries' financial dependency. General Secretary Pavanelli reported that

"on too many occasions, sovereign debt stems from corruption, tax breaks for the wealthy, and unjust tax systems. So it is important to know what is the origin of the public debt, in order to know how to challenge it."

She placed Puerto Rico within this context.

"Today, Puerto Rico stands at the brink of default. Wall Street demands austerity, but recent history demonstrates that neoliberal prescriptions for solving fiscal and debt crises only promise more pain, inequality and less economic growth. Solving Puerto Rico's debt crisis requires difficult choices and a shared burden, but it cannot be resolved by fiscal consolidation that usurps democracy and undermines the economic development of the island and the government's capacity to achieve fiscal stability and carry out the policies and programs needed for economic recovery after successive years of contraction."

General Secretary Pavanelli's pledged PSI's support to Puerto Rican affiliates in the struggle to overcome the debt crisis and preserve the island's democracy. She applauded and introduced Roberto Pagán, Sindicato Puertorriqueño de Trabajadores, SEIU Local 1996 and Chair of Puerto Rico's Debt Audit Commission.

Roberto Pagan reviewed the statistics on Puerto Rico's growing debt and recession to show that the island's economy has contracted by over 10% since 2006. The combination of debt and recession undermine the fiscal stability of the government and consequently its capacity to address the growing social problems, including an official poverty rate of 45%. Budgets have been slashed, 100 schools have been closed, and educational and social services directed to the most needy have been eliminated. The government employees' pension fund is totally broke with a 0.7% asset to liability ratio. These conditions have led to an exodus with over 200,000 citizens leaving the island in the past four years. For Pagán, Puerto Rico's debt crisis must be resolved in a way that leads to economic recovery without cutting the public services that the most needy and the economy need.

Panel I:

The International Financial Institutions: Impacts and Responses in Greece and Iceland

Mr. Ögmundur Jonásson
Member of the Icelandic Parliament
Chairman of the Constitutional and Supervisory Committee
Iceland's Representative in the Parliamentary Assembly of the Council of Europe. Minister of Health (2009) and Minister of Interior (2010-2013) in the Icelandic government and Titular member for the Nordic Constituency on the PSI Executive Board

(2002-2010)

According to Ögmundur Jonásson, Iceland was the first victim of the 2007-2008 global financial crisis. In the run up to the crisis, the banking sector was privatized and expanded from 2 to 11 times the size of the Gross Domestic Product by 2008. Prior to the crisis, Iceland was home to a wealthy society with full employment and high social cohesion reinforced by a strong labor movement with recognition from government and employers. At the peak of the crisis, insolvency rates reached 90 percent as Iceland's private banking system failed due to its increased engagement and access to international financial markets (including increasing dependency on Wall Street products and United Kingdom and Dutch private financial interests). The country held two national referendums to decide whether the government should assume the private debts of the banks, and both times this initiative failed. The national currency depreciated and the standard of living fell for nearly all citizens, but the government tried to restrain cuts in the essential public services of health care and other services needed by the most vulnerable in society. Often, budget cuts were inefficient because they led to additional costs, such as when citizens would go to emergency wards at hospitals rather than attend regular doctor visits for prevention.

With the support of society, the government chose to prosecute those responsible for the banking crisis by using a special prosecutor to investigate and bring bankers to justice. In Iceland, we understand that everyone is impacted by such a crisis, so prosecution was necessary to renew our social cohesion, implement new banking sector reforms, and revise the tax code to insure economic and fiscal stability.

Mr. Bodo Ellmers
Policy and Advocacy Manager - Debt and Responsible Finance-Eurodad
(European Network on Debt and Development)

With respect to Greece, the debt crisis grew initially from carrying out several expensive "white elephant" projects, including the rapid expansion of the defense forces and the 2004 Summer Olympic Games in Athens. These national projects were then followed by the global financial crisis and the ensuring debt crisis in 2010. According to Bodo Ellmers, the debt crisis did trigger a "bailout," but not a restructuring of the debt that would have allowed Greece to quickly recover and resume economic expansion and achieve fiscal stability. The so-called troika that included the European Union Commission, the EU Development Bank, and the International Monetary Fund (IMF) formulated the bailout. It was modeled after IMF restructuring packages, but included many more conditions than any other case in European history. Since Greece could not devaluate its currency, the country was left with the only option of cutting production costs across all sectors, including government expenditures (while also bailing out private banks). Greece carried out 15-30 percent cuts across public services, including healthcare and defense. These cuts also came with rising demand for public services, fueled by both recession and huge flows of refugees fleeing war torn Syria and the

Middle East. Without any form of democratic consultations, the conditions of the bailout were imposed by the troika. Political forces on the left have attempted to support a platform of “hard bargaining” with the troika, but have not yet obtained significant concessions or modifications in the conditions of the bailout or long term restructuring arrangements.

Panel II:

The Construction of Alternatives in Argentina and the Possibilities in the United States

Mr. Martín Burgos
Economist - University of Buenos Aires
Master’s degree in comparative studies - EHESS Paris, France
Coordinator, Department of Political Economy and the Global System of the Floreal Gorini Cultural Center

According to Martín Burgos, at the end of 2001 Argentina entered into default on some $102 billion USD in foreign debts, the largest default in its history. This default followed the “dollarization” of the Argentine economy and significant capital flight. The national government engaged in a successful restructuring process that reduced the debt load by 43% through an agreement with 93% of its creditors. The remainder of the debt was targeted by “vulture” funds that sought to retain or purchase Argentine debt at bargain prices, but these investors sought 100% bond return through aggressive judicial action. Since the restructuring, Argentine’s debt to Gross Domestic Production ratio returned to sustainable levels by the 2008 global financial crisis.

In contrast to the Greek bailout, the Argentine debt restructuring demonstrated that such a strategy can achieve success, fiscal stability and economic recovery. The treatment of the Greek debt crisis is an international setback that undermines the ability of other nations to restructure their sovereign debts during economic downturns or external shocks such as the global financial crisis. The United Nations’ resolution on the need for debt restructuring is a good start, but such an initiative must be ratified by national governments.

Mr. Alvin A. Velazquez, J.D.
Legal Advisor to the Services Employees International Union (SEIU)
Graduate of Harvard Law School

The people of Puerto Rico owe more than $70 Billion to private investors and banks. Debt service is financed by taxes and fees paid by Puerto Rico residents and business. More than $4 billion in annual tax revenues fund debt service and are not available for public services. Debt service is expected to grow for decades to come. Comparing

Puerto Rico with the rest of the United States, each Puerto Rican owes approximately $18,000 USD on a per capita basis while U.S. residents owe $936 on a per capita basis. This comparative difference is enormous if we consider that Puerto Ricans on average earn approximately 36% of the U.S. average. U.S. sovereign debt amounts to less than 3% of each state's gross product while the Puerto Rican sovereign debt surpasses 75% of the island gross product. By all accounts the Puerto Rican debt crisis requires significant restructuring to return the island to fiscal stability and economic expansion.

For years, the Puerto Rican government slashed public services and raised taxes to service the growing debt. The debt burden of government utility (electricity, water, sanitation) authorities is staggering and leads to higher bills and less service. Sales tax revenues are directed to COFINA, a special fund that services the debt rather than fund essential public services and economic development. Highway tolls, motor fuel taxes, vehicle fees, and subway fares all go toward debt service rather than maintenance and the expansion of transportation services and infrastructure. Even university tuition pays for the commonwealth's debt!

Successive governments, including the current governor, have tried to balance the budget and close a $1.3 billion budget gap by raiding the Workers Compensation Fund and Employee Pension Fund to cover operations. The budget is increasingly reliant on U.S. federal government transfers as the population and economy contract under the pressure of a nearly decade long recession. While Puerto Ricans and government employees are called upon to sacrifice and shoulder the burden of debt, creditors continue to derive huge profits from the island's growing misery.

Puerto Ricans are now calling for a comprehensive sovereign debt audit to understand how these debts were arranged and who has profited the most. Also, an audit is required to examine the legality of all the debt transactions and bond sales. These measures are essential to setting the conditions for a successful debt restructuring process that includes leadership from the U.S. President and Congress.

In addition to debt restructuring, Puerto Rico needs an immediate acceleration and expansion of federal domestic assistance programs as well as the extension and possible expansion of the foreign corporation business tax regime pursuant to Act 154. Such measures could also include the provision of an Earned Income Tax Credit to Puerto Rican workers. The island needs the establishment of a process to recover the costs of debt service in order to rebuild essential public services and move toward the fiscal stability of the Commonwealth's public corporations. Also, measures should be adopted to improve revenue and tax collection. The Commonwealth should also consider instituting a cap on debt service payments at 15% of revenues that could play a prominent role in framing efforts to restructure the debt, as was the case in Detroit.

Discussion

Participants and attendees discussed and debated the experiences presented by the panelists. Emphasis was placed on the prosecution of those responsible for the global financial crisis at both international and national levels, as was the case in Iceland. Also, attendees pointed to the cases of Greece and Puerto Rico as examples of illegal or illegitimate accumulated debt through political pressure to issue bonds in the marketplace. Greater emphasis should be placed on the legal and ethical practices related to the tender of sovereign debt bonds with appropriate controls to squeeze out dubious practices. Many attendees called into question the legality of the Puerto Rican debt and the role of the U.S. government, including efforts within the U.S. Congress to impose some sort of an emergency fiscal control board that could usurp Puerto Rican democracy in an effort to avoid restructuring the island's debt. Panelists and attendees agreed that Public Service International should continue its work in this area, including tax-justice and anti-corruption campaigns that shed light on the sovereign debt crises around the world.