

# PUERTO RICO IN CRISIS

## — T I M E L I N E —



1823



1933



1948



2017



# PUERTO RICO NEWS

**Puerto Rico News** provides current information about events related to Puerto Rico's economic crisis. It is a repository that includes news briefs on recent developments, links to articles from media outlets across the United States, and other resources such as public records, reports, presentations, and documents related to events happening on the island.

PUERTO RICO NEWS IS AVAILABLE ON CENTRO'S WEBSITE: [HTTPS://CENTROPR.HUNTER.CUNY.EDU/EVENTS-NEWS/PUERTO-RICO-NEWS](https://centropr.hunter.cuny.edu/events-news/puerto-rico-news)



# Puerto Rico's Economic Crisis Timeline



Fifth American President  
James Monroe.  
Public domain.



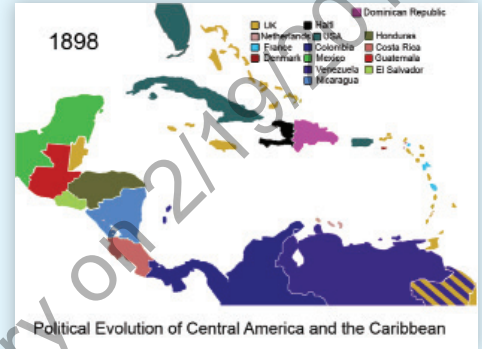
Discussion of the Monroe doctrine by President Monroe.  
Library of Congress.

The **Monroe Doctrine** stated that further efforts by European governments to colonize land or interfere with states in the Americas would not be accepted by the U.S.; Spain's colony in Cuba was exempted.

For the second time, Spain grants **Puerto Rico autonomy**, including the vote for all literate males. Puerto Rico can now establish its own import duties and foreign trade relations.



Puerto Rico's self-government: Last Spanish officials in Puerto Rico after the Charter Economy of 1897 was established.



Public domain

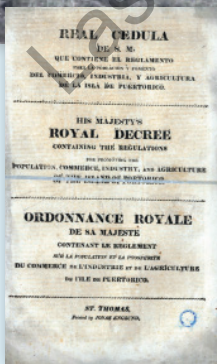
The ten-week **Spanish American War** led to the **Treaty of Paris**, the agreement that gave the U.S. control of Cuba and indefinite colonial authority of **Puerto Rico**, **Guam** and the **Philippines**. The treaty transferred sovereignty from Spain to the U.S. That sovereignty is governed by the U.S. Congress.



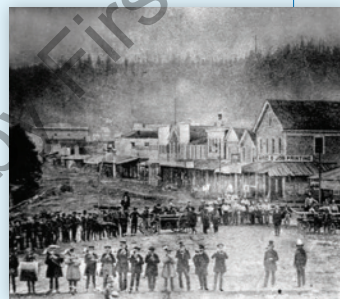
Real Cédula de Gracias opened Puerto Rico's economy to trade, lowered tariffs and duties and stimulated immigration. Its trade with the United States and population increased as a result.



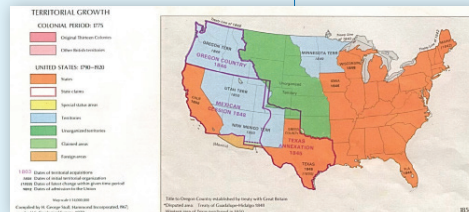
Public domain



(Fundación Puertorriqueña de las Humanidades)



Parade celebrating admission of Oregon to the union, 1859.



Belief in **Manifest Destiny** gave support for U.S. expansion throughout the American continent, and justified the war with Mexico and the splitting of Oregon with the United Kingdom.



Supreme Court Members after the implemented Foraker Act, 1900.  
Library of Congress.

The **Foraker Act**, also known as the Organic Act of 1900, extended all federal laws of the United States to be in effect on the island. The Act also created a "Puerto Rican citizenship," the nature of which was not defined.

- A governor and an executive council appointed by the President.
- A House of Representatives with 35 locally elected members.
- A non-voting Resident Commissioner in Congress.
- A judicial system with a Supreme Court.
- U.S. oversight of the National Guard and defense.

The **Foraker Act Economic Structure**:

- The application of U.S. maritime and international trade laws, and,
- Exemption from federal income taxes, including **Section 931 of the U.S. Internal Revenue Code** granting tax exemption to possessions' income.

The U.S. Supreme Court, in its ruling on *Gonzales v. Williams*, reaffirmed Puerto Rican citizenship which denied that Puerto Ricans were United States citizens and labeled them as **non-citizen US nationals**.<sup>[5]</sup>



Jones Act (1917). William A. Jones, Insular Affairs Committee chairman. (Collection of the US House of Representatives)

The Jones Act amends the Foraker Act to confer U.S. citizenship on Puerto Ricans.

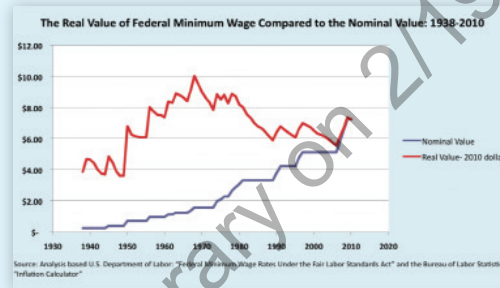
- The Jones Act established **triple tax exempt bonds**: "All bonds issued by the Government of Puerto Rico, or by its authority, shall be exempt from taxation by the Government of the United States... or by any State, Territory, or possession, or by any county, municipality, or other municipal subdivision..."

## FAIR LABOR STANDARDS ACT OF 1938

On June 25, 1938, FDR signed a landmark bill aimed at protecting American working people: the Fair Labor Standards Act of 1938 (FLSA). The law is one of the cornerstones of worker rights in the U.S. FLSA established the creation of the first federal minimum wage (25 cents an hour), put in place restrictions on child labor, and mandated overtime for working longer than the standard work week. FLSA's passage was not easy. Conservatives, especially those in the South, feared that minimum wage, maximum hours and abolition of child labor would eliminate their competitive advantage. Still others had overtly racist motives in opposing FLSA. Rep. J. Mark Wilcox of Florida famously said during the debate: "You cannot put the Negro and the white man on the same basis and get away with it. Not only would such a situation result in grave social and racial conflicts but it would also result in throwing the Negro out of employment and in making him a public charge." Contrary to the fear mongers, minimum wage and maximum hours legislation was not disastrous for American business. Raising the minimum wage has been good for the economy and business overall because it increases purchasing power of the working families. Since its creation, FLSA has been amended, it simplified several times to ban wage discrimination based on age and to enact periodic (though today long overdue) increases to the federal minimum wage.



**Fair Labor Standards Act** introduces federal minimum wage, industry committees are established.



As part of the New Deal, President Franklin D. Roosevelt creates the **Puerto Rican Reconstruction Administration (PRRA)**, which provides for agricultural development, public works, and electrification of the island.

1904

1909

1917

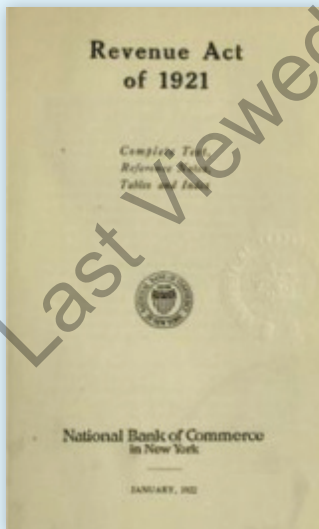
1921

1933

1935

1938

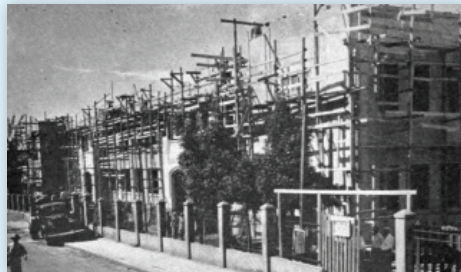
The **Olmsted Act** gives the U.S. president a direct role in Puerto Rican affairs. However, a majority of Puerto Ricans demands greater local control.



Revenue Act (1921).  
Cornell University Library.

The **Revenue Act** exempted from U.S. taxation all corporations that received at least 80% of their income from U.S. possessions, if at least 50% came from active business; income was taxable on repatriation but liquidated distributions were tax free.

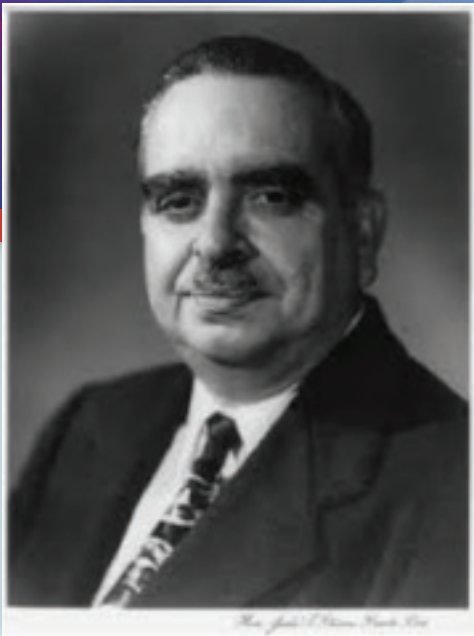
Puerto Rican Emergency Relief Administration (1933) and The Puerto Rican Reconstruction Administration (1935). Infrastructure development after hurricane San Ciprián. Photos by FERA 1934



The **Puerto Rican Emergency Relief Administration** is created to operate relief programs after the island was devastated by hurricane "San Ciprián" that killed 257 and over 4,820 persons were injured.







First Puerto Rican Governor (1946), Jesús T. Piñero. Source: loc.gov

President Harry S. Truman appoints the island's first Puerto Rican governor, **Jesús T. Piñero**.



First Puerto Rican Governor Elected by the people (1948), Luis Muñoz Marín. Public domain.

Amendments to **Fair Labor Standards Act** mandates increases to establish the **U.S. minimum wage** in Puerto Rico.

The United States allowed Puerto Ricans to elect their own governor, **Luis Munoz Marin** (1898-1980).

Congress adopted **Section 903(1) of the Bankruptcy Code** and introduced a new definition of "State" that excluded Puerto Rico's municipalities from municipal bankruptcy. Prior to 1984 Puerto Rico had the option of declaring municipal bankruptcy under the Bankruptcy Code.

1946

1948

1950

1952

1976

1977

1984

The U.S. Congress approved **Public Law 600** (P.L. 81-600), which led to Puerto Rico's own local constitution but left most of the provisions of the Jones Act unchanged. Law 600 was ratified in plebiscite by the voters in Puerto Rico.

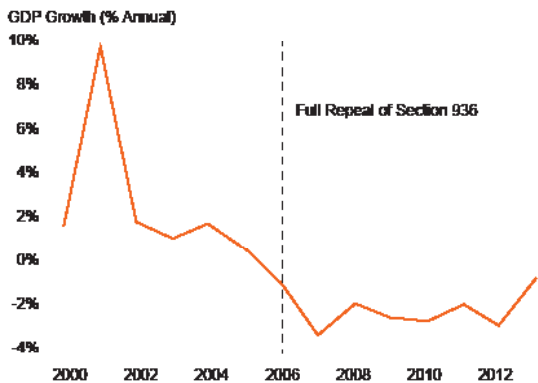
Puerto Rico adopted the name of **Estado Libre Asociado** (literally translated as "Free Associated State"), officially translated into English as **Commonwealth**.

**Section 936** converts tax exemption to a foreign tax credit that exempts mainland companies from Federal taxes on income earned in Puerto Rico.



The Commonwealth of Puerto Rico (Estado Libre Asociado) is adopted (1952). Source: ipsnews.net

Puerto Rico's Growth Before & After Repeal of Section 936 in the U.S. Internal Revenue Code



Before and after repeal of Section 936. Source: World Bank Database

Puerto Rico's economy entered into a recession earlier than the U.S., and factors other than the global financial crisis were at play. At least three major structural factors triggered the current economic crisis in Puerto Rico:

- The decline in manufacturing jobs induced by the elimination of **Section 936** federal tax credits,
- The crisis in public finances and the rise of **public debt**, and
- Congressional and presidential neglect to enact **effective policies** toward the island.

**March 9, 2009**

Governor Luis Fortuño signed Public Law 7, which declared a State of Fiscal Emergency and established a Comprehensive Fiscal Stabilization Plan.

**1993**

President **Bill Clinton** proposes for the first time to phase out **Section 936 of the Internal Revenue Code**. A stateside and island coalition of politicians and businesses lobbied to prevent the law from passing. An upcoming nonbinding plebiscite on whether the island should remain a commonwealth or become a state or new nation influenced Congress to extend the tax credits.

**1996**

As part of the Small Business Job Protection Act of 1996, Congress approved a **10-year phase-out of Sec. 936 tax credit**; the program ended completely on December 31 2005. A coalition of island-based pro-statehood supporters and conservative members of Congress prevailed in phasing out the tax credit. PR's economy entered into a steady decline since the sunset of section 936.

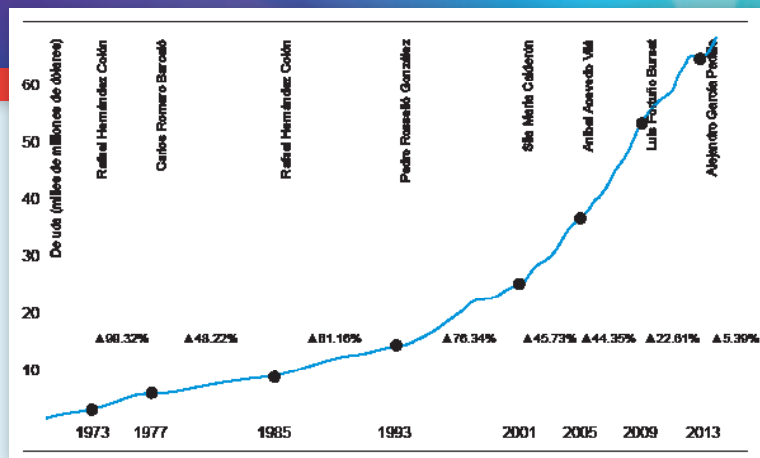
**2006**

Puerto Rico Sales Tax Financing Corporation (COFINA, from Spanish Corporación del Fondo de Interés Apremiante) is created to issues government bonds paid for by Puerto Rico Sales and Use Tax (SUT) of 2.75%, or half of the out of the state government's portion of 6%).

**2009**

Governor Luis Fortuño signed Public Law 7, which declared a State of Fiscal Emergency and established a Comprehensive Fiscal Stabilization Plan. Thousands of government employees were laid off, causing many protests against these measures.





Puerto Rico's debt (1973-2014)

Source: "Economía política de Puerto Rico: 1950-2000, para años 1970-200," and "Junta de planificación para años 2000-2012."

Puerto Rico's debt (including those from municipalities, special authorities and public corporations) reaches **\$72 billion** and is estimated that obligations to pension funds may exceed another **\$40 billion**.

Puerto Rican bonds are downgraded to non-investment grade (better known as "junk status" or speculative grade) by three bond credit rating agencies.

| Issuer  | S&P | Moody's | Fitch | Outlook        |
|---|-----|---------|-------|----------------|
| Puerto Rico GO  | BB+ | Ba2     | BB    | Neg/Neg/Neg    |
| Puerto Rico Highway & Transportation Authority (PRHTA)                      | BB+ | Ba2     | N/A   | Neg/Neg/-      |
| Government Development Bank (GDB)   | BB  | Ba2     | N/A   | Neg/Neg/-      |
| University of Puerto Rico   | BB+ | Ba3     | N/A   | Neg/Neg/-      |
| Puerto Rico Infrastructure Financing Authority (PRIFA)                      | BB+ | Ba2     | N/A   | Neg/Neg/-      |
| Puerto Rico Municipal Finance Agency (MFA)                                  | BB  | Ba2     | N/A   | Neg/Neg/-      |
| Puerto Rico Employees Retirement System (PRERS)                             | BB  | Ba2     | BB    | Neg/Neg/Neg    |
| Puerto Rico Electric Power Authority (PREPA)                                | BBB | Ba2     | BB+   | Neg/Neg/Neg    |
| Puerto Rico Aqueduct and Sewer Authority (PRASA)                            | BB+ | Ba2     | BB    | Neg/Neg/Neg    |
| Puerto Rico Sales Tax Financing Corporation (COFINA) Senior Lien            | AA- | Baa1    | AA-   | Neg/Neg/Stable |
| Puerto Rico Sales Tax Financing Corporation (COFINA) First Subordinate Lien | A+  | Baa2    | A+    | Neg/Neg/Stable |

Source: S&P, Moody's and Fitch

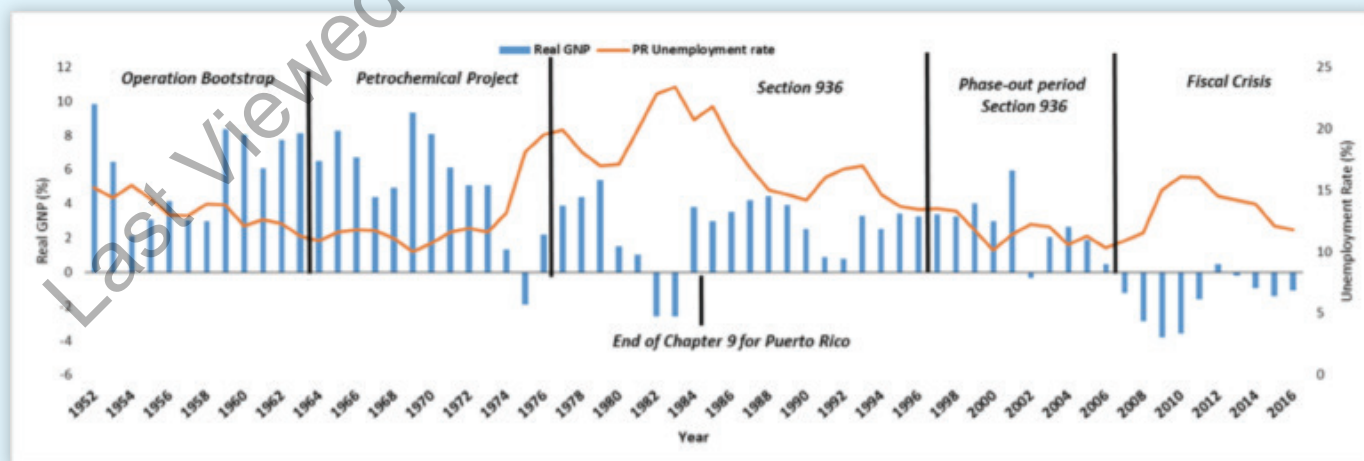
The Puerto Rico government **defaulted** for the second time on payments of \$35.9 million of non-Commonwealth-guaranteed Puerto Rico Infrastructure Financing Authority debt and \$1.4 million of Public Finance Corp. bonds. The money is diverted to pay investors who are owed \$328.7 million of interest on general-obligation debt, which has legal priority.

Enactment of the "Puerto Rico Oversight, Management, and Economic Stability Act" or PROMESA (Spanish for "promise"), which set a Financial Oversight and Management Board and granted debt restructuring authority to Puerto Rico. It includes a stay on debt payments.

Almost **\$2 billion in debt payments were due July 1** from various branches of the Puerto Rican government (general obligation bonds guaranteed by the full faith and credit of the Commonwealth government). The prospect of a disorderly default is likely since Puerto Rico does not have the liquidity to make these payments.

## LEY 7 2009

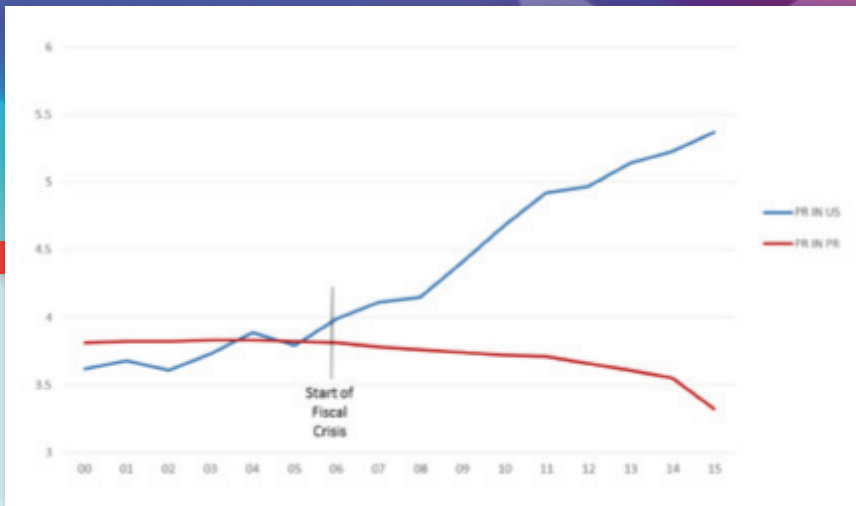
Between May and June 2010, Students from the University of Puerto Rico were part of a strike, which closed 10 of 11 campuses of the public system. Students fought against a tuition hike and other measures approved by the Board of Trustees.



Real GNP and Puerto Rico Unemployment rate 1952-2016

Source: Puerto Rico Planning Board





Puerto Rican Population in Puerto Rico and the United States  
Source: US Census Bureau, ACS 2000-2015 (1-year estimates) and 2010 Intercensal Estimates



On November 5, different social groups participated of “Unidos por la Salud”, a march that urged U.S. Congress to support equal treatment for Puerto Rico and prevent cuts in programs such as Medicare and Medicaid.

Business owners, students, and other sectors protested against the implementation of a Value-Added Tax, which replaced the Sales tax with the purpose of increasing revenues for the government.

On 29 May 2015, Puerto Rican government enacted a new Value-Added Tax of 10.5% to become effective April 1, 2016. Business owners, students, and other sectors protested against the implementation of a Value-Added Tax, which would have replaced the Sales tax with the purpose of increasing revenues for the government. The VAT was eliminated before its implementation date of June 1, 2016.

2015



The government of Puerto Rico releases the “**Krueger Report.**” It calls for structural reforms in government services, pension systems and public finances.

For the first time in history the Puerto Rico government **defaults** on \$58 million of principal and interest due on Public Finance Corp. bonds (“moral obligation” bonds).

Anne O. Krueger’s Report: “A Way Forward” (2015).  
Source: [newsismybusiness.com](http://newsismybusiness.com)



# PROMESA Timeline

**The economic and fiscal crisis has led to an ensuing humanitarian crisis in Puerto Rico**

- 46% live in poverty — the highest poverty rate of any state or territory
- At 12.2% in 2015, unemployment rate in Puerto Rico is two times the national average of 5.4%
- Median household income in Puerto Rico is \$19,518, approximately one-third of the U.S. median
- Over \$40 billion government obligations to pension funds, already sold assets and depleted reserves



**May 18, 2016**

H.R. 5276 is introduced in U.S. House of Representatives. This is a second version of the PROMESA act.

**2016**

**April 12, 2016**

H.R. 4900 is introduced in U.S. House of Representatives. This is the first version of the PROMESA act, which does not go to vote.

Curtis of Claridad de Puerto Rico



## **Mixed Reactions to PROMESA in Puerto Rico**

- Protest camp is established in front of the Federal Court building in San Juan
- Majority of the public has “little knowledge of the law,” according to would have polls
- Support increased from 46% in poll prior to the enactment of PROMESA to 62% by the end of August, prior to the elections
- After elections, Governor Garcia-Padilla submits budget that is rejected by Oversight Board

**June 9, 2016**

The House votes to pass the PROMESA act, in a 297 to 127 vote. The bill is passed to the Senate.



**June 30, 2016**

President Obama signs the PROMESA act, which establishes a Financial Oversight and Management Board and a mechanism to restructure Puerto Rico's debt.

**July 1, 2016**

Almost \$2 billion in debt payments were due July 1 from various branches of the Puerto Rican government (general obligation bonds guaranteed by the full faith and credit of the Commonwealth government). The prospect of a disorderly default is likely since Puerto Rico does not have the liquidity to make these payments. Source: El Nuevo Dia.com-Aug 18, 2016



**June 29, 2016**

The U.S. Senate votes to pass S. 2328 (H.R. 5276), the PROMESA act, with 68 votes in favor and 30 against the bill.

**August 18, 2016**

"Mayor apoyo a la Junta después de aprobada," Sources: El Nuevo Dia.com-Aug 18, 2016.







**August 31, 2016**

President Obama appoints the seven members of the Oversight Board.

**September 30, 2016**

The first public meeting of the PROMESA Oversight Board takes place at the Alexander Hamilton U.S. Custom House in New York City.



**October 14, 2016**

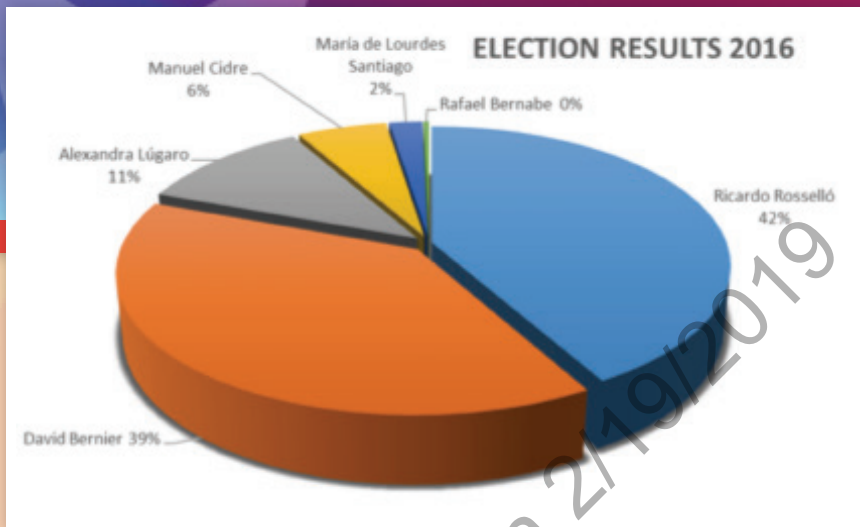
Governor Alejandro García Padilla presents his fiscal and economic growth plan to the Oversight Board. This plan presents an estimate of cumulative budget gap of around \$59 billion until 2026.

### Puerto Ricans Distrust Their Own Institutions

The Confidence Barometer reveals that Puerto Ricans do not trust Federal agencies

- **Trust** of Federal Institutions:
  - FBI 84%
  - Supreme Court 81%
  - Oversight Board 79%
- **Distrust** of Puerto Rico Political leaders:
  - 95% agree Puerto Rico is governed by a few groups that seek their own benefit

El Nuevo Dia.com-22 de mayo de 2016



Source: Comisión Estatal de Elecciones Puerto Rico

### November 8, 2016

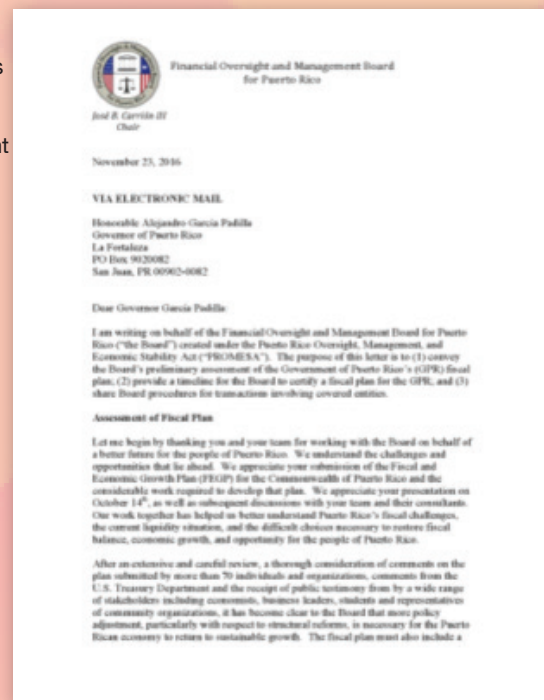
In an unusual election, Governor Candidate Ricardo Rosselló wins the election with only 42% of the votes. This is the lowest percent for a winning candidate in Puerto Rico's history. Surprisingly, two independent candidates received 17% of the votes. The number of registered voters who did not vote in this election is estimated to be between 877,566 and 1,277,566. This number depends on the number of registered voters that migrated and are not residing in Puerto Rico—representing a participation rate of between 55.45% to 64.43%. This is the lowest recorded voter turnout, possibly due to the effects of disillusionment with the political process.

### November 18, 2016

The third Public Meeting of the Oversight Board is held at El Conquistador, Puerto Rico. The board holds a public hearing where different representatives of different groups and organizations are present.

### November 23, 2016

The Oversight Board sends a letter to Governor Alejandro García Padilla stating that more policy adjustment and debt sustainability analyses need to be made. At the same time, it asks the governor to present a revised fiscal plan by December 15, 2016.







**November 29, 2016**

In response to the letter about the fiscal plan, Governor Alejandro García Padilla, asks for Federal Action to extent Affordable Care Act funds and Medicaid parity for Puerto Rico. Also, he warns the Oversight Board not to consider austerity measures that can affect the people of Puerto Rico.



Curtisy of Claridad de Puerto Rico

**January 18, 2017**

The Oversight Board sends a letter to Governor Ricardo Rosselló recommending deep cuts to the government right-sizing, reduction on health care spending and higher education, and a pension reform in order to meet a balance budget by fiscal year 2019. On January 21, Governor Rosselló rejects most of the Oversight Board recommendations.



**December 20, 2016**

The Congressional Task Force on Economic Growth released its final report about policy options for the economic growth of Puerto Rico.

**December 20, 2016**

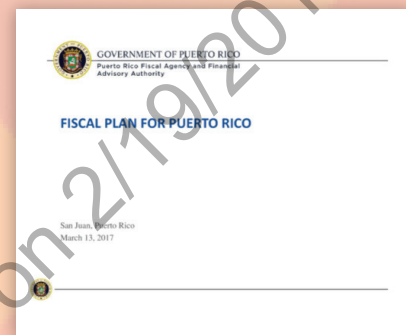
The Oversight Board changes the estimate of the cumulative budget gap to \$67.5 billion.



Se aprueba la cuestionada reforma laboral y denuncian recorte de derechos (2017) Source: nodal.am

#### January 25, 2017

Governor Ricardo Rosselló signed Public Law 4, known as Labor Transformation and Flexibility Act, which looks to reduce benefits to workers in the private sector.



#### March 13, 2017

Fifth public meeting of the Oversight Board. The Oversight Board approves the Governor's Fiscal Plan, which includes more taxes and cutbacks.

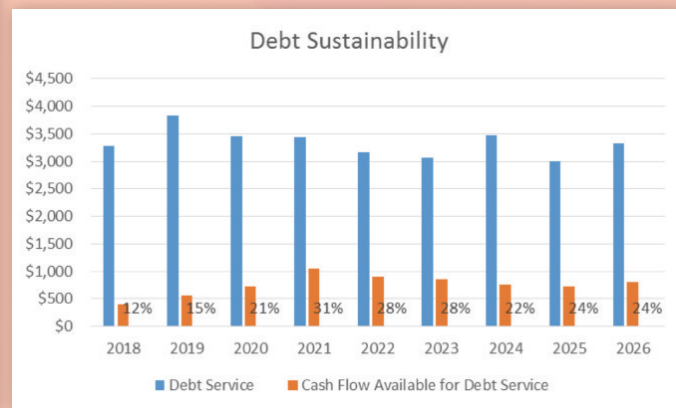
#### January 28, 2017

The fourth public meeting of the Oversight Board is held at El Conquistador, Puerto Rico. The Oversight Board presents targets, objectives, and fiscal guidelines for the fiscal plan to be submitted by the Commonwealth government, and selects Ramon Ruiz Comas as interim executive director.



#### February 28, 2017

Governor Rosselló presents his fiscal plan to the Oversight Board.



Source: Fiscal Plan for Puerto Rico submitted by Governor Ricardo Rossello Nevares, and approved by the Oversight Board.





**March 23, 2017**

The Oversight Board appoints Natalie Jaresko, former minister of finance of Ukraine, as executive director.



Curtisy of Claridad de Puerto Rico

**May 5, 2017**

U.S. Chief Justice John Roberts appointed a federal judge based in Manhattan to oversee Puerto Rico's landmark bankruptcy case.

In a brief statement, Roberts said he had designated U.S. District Judge Laura Taylor Swain of the Southern District of New York to oversee what could be the biggest municipal debt reorganization in U.S. history. Puerto Rico has \$70 billion in debt.



Curtisy of Claridad de Puerto Rico

**May 1, 2017**

Unions, political leaders, and students' organizations participated in a march against austerity measures recommended by the Fiscal Oversight Board, and in favor of an audit of Puerto Rico's public debt. Groups from the diaspora supported the cause by doing the same in New York.

**May 1, 2017**

The end of the stay on bondholders' litigations. After this bondholders can take the government of Puerto Rico to a federal court for its payments. At the same time, the government can use Title III of the PROMESA act, which authorizes the government of Puerto Rico to take negotiations to the federal court.

**May 3, 2017**

In an unprecedented move, the Fiscal Oversight Board requests for bankruptcy-like protection under Title III of the PROMESA Act. The petition was made in Puerto Rico's federal district court after members of the FOB determined that this was the best option to solve Puerto Rico's debt crisis. According to law, this request needed the approval of at least 5 members of the FOB. Nevertheless, the decision was approved by all members of the FOB.

## Our Mission

The Center for Puerto Rican Studies at Hunter College-CUNY is a research institute that is dedicated to the study and interpretation of the Puerto Rican experience in the United States and that produces and disseminates relevant interdisciplinary research. Centro also collects, preserves, and provides access to library resources documenting Puerto Rican history and culture. We seek to link scholarship to social action and policy debates and to contribute to the betterment of our community and enrichment of Puerto Rican studies.

## Research

Our research department investigates, documents, and broadens the understanding of the Puerto Rican experience in the U.S. We heighten the impact of the data by sharing it in research-based conferences and publishing in original publications and refereed journals.

## Library and Archives

The Centro Library and Archives is the world's only institution solely dedicated to collecting, preserving, and disseminating the story of the stateside Puerto Rican. Our collections include audio and video oral histories, photographs, original works by prominent writers and artists, papers of elected officials, early records of major community organizations, and other primary materials available nowhere else. A major strength of the Library collection is the history of Puerto Ricans in the United States, particularly in New York and the Northeast region, and also in all the areas of the humanities, the social sciences and the arts.

## Education

We support and expand the area of Puerto Rican Studies by offering opportunities for students and educators. Our Cultural Ambassadors Program educates our young people to be ambassadors of our rich history. For more information: [centropr.nationbuilder.com/ambassador](http://centropr.nationbuilder.com/ambassador)

## Publications

Centro Press enables us to engage in robust participation in the fields of Puerto Rican, Latino, New York City, and American Studies. By taking advantage of our vast archival resources and connections in the Puerto Rican community, we disseminate crucial information about the Puerto Rican experience and contribution to the political, economic, and social cultures of the United States through the following mediums:

- CENTRO Journal - the premier journal of Puerto Rican studies and the place to go for contemporary analyses of the Puerto Rican experience.
- Centro Voices - our e-magazine profiles the multiple manifestations of Puerto Rican identity and culture.
- Puerto Rican Voices - videos highlighting the contributions of Puerto Ricans in the U.S.

## Data Center

The Data Center packages and disseminates the most current information about Puerto Ricans. This information is provided to present socioeconomic and demographic portraits of the Puerto Rican population. The purpose is to provide basic descriptive information to scholars, policy makers and the public in general. The sources for this information are publically available repositories, such as the U.S. Census Bureau.

## Events

Centro events look into our past, portray our present and explore our future, with lectures, panel discussions, performances, art exhibits and more.

The series Puerto Rico, Puerto Ricans conferences bring together stateside Puerto Ricans to gain a broader understanding of how the economic and humanitarian crisis in Puerto Rico have affected those stateside.

Visit us on the web at:

<https://centropr.hunter.cuny.edu>

[Centropr.nationbuilder.com](http://Centropr.nationbuilder.com)



@centropr