

# Punitive Neoliberalism in Puerto Rico

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Isolating the situation of Puerto Rico is one of the mechanisms used to seek acceptance of the austerity policies that are now being imposed on the Island.(1) If the crisis is seen as the result of actions by Puerto Ricans or their government — if the responsibility lies, exclusively or fundamentally, in Puerto Rico — then it is logical that it bears the consequences of its own deeds or misdeeds, painful as they may be.



On the contrary, to recognize that the crisis of indebtedness is a global phenomenon, that the debate over fiscal crises and austerity policies spans the planet, indicates that the crisis in Puerto Rico, with all its colonial particularities, is in fact not unique. This also suggests that the crisis has structural, systemic roots, linked to the contradictions of the dominant economic order in its present stage. It cannot be attributed to some specifically Puerto Rican pathology.

From this, two conclusions may follow. First, just as austerity policies are resisted elsewhere, we should not acquiesce to them in Puerto Rico. Second, we need to connect with resistances elsewhere, including of course the United States.

Here I examine current debates in Puerto Rico using two concepts, punitive neoliberalism and financial melancholia, elaborated by several students of similar debates in Great Britain, among them William Davies and Liam Stanley (see references below).

I begin with some general points regarding unemployment and debt.

## **A Global Ideology ...**

Unemployment is a normal aspect of capitalism. During its recurrent recessions and depressions, unemployment increases above normal levels.

In colonial and underdeveloped economies, unemployment is typically much higher, not periodically but chronically. In response to this, and often thanks to labor and social reform movements, many governments have instituted programs that lessen the privations provoked by lack of employment in a market economy.

Nevertheless, we are all aware of the popularity of the notion that unemployment results from the fact that “people don’t want to work” and that welfare, that is to say, programs that compensate for no or low income, promote and reward “laziness.”

According to this logic, the problem is laziness, not capitalism or colonial capitalism; the poor, not the system that impoverishes them; welfare, not the system that does not generate employment.

It would be hard to exaggerate the reach of this ideology that exonerates capitalism while blaming others — indeed blaming some of its victims — for its consequences. This misrepresentation of reality, perfectly fitted to the reproduction of the existing social system, has penetrated all social sectors.

Something similar happens in the case of debt, over-indebtedness and fiscal crises. To put it briefly: in its present epoch capitalism cannot exist without very high levels of debt.

For example, capital seeks to lower its tax burden and to freeze or cut real wages, yet it must increase its sales to individuals and the state. The bridge between these contradictory impulses is built on debt.

Meanwhile, deregulation frees speculation with debt-based financial instruments, one of the key factors leading to the financial meltdown of 2008, at which point governments organized massive bailouts of their banking and financial sectors, for which they incurred new and massive debts.

This is the real source of the present fiscal crises: not excessive spending or overgenerous social programs, but three decades of corporate tax cuts; not fiscal excesses, but the cost of rescuing capital from its speculative irresponsibility and excesses.

Yet personal over-indebtedness is not attributed to the dominant economic system, but to individual negligence. The system is not the problem, but rather the individuals who have irresponsibly “lived beyond their means.”

Similarly, the fiscal crisis is blamed on excessive spending, high public sector wages, and overgenerous social programs or subsidies. Capital is again exonerated: the source of the crisis is the irresponsibility of individuals and governments.

All this has practical consequences. If welfare and a bloated public sector are considered to be the causes of unemployment and of the fiscal and debt crises, the solution must then consist of welfare and public spending cuts. This may be painful — so we are told — but it is inevitable.

Yet there is a discordant fact: austerity policies do not have the promised effect. In country after country they have had a depressive impact. Thus, justifying them in spite of their manifest failure requires turning the economic debate into a moral drama: perhaps austerity policies do not function as well as expected, but they are morally deserved. Austerity is the deserved if bitter consequence of our irresponsibility.

William Davies thus speaks of a third stage of neoliberalism: punitive neoliberalism, characterized by the justification of austerity as punishment, a deserved punishment for past excesses that must be administered regardless of other considerations.(2)

From that punitive perspective, to protest against austerity seems particularly perverse: such protests perpetuate the very same irresponsible behavior that lies at the root of the crisis, affirming the infantile desire to live whichever way without facing any consequences. There’s more: individuals and governments must regain the “trust” of the financial markets. That is to say: capital, which has caused the crisis, becomes the moral authority, the arbiter of probity whose absolution we must seek.

Furthermore, if the fiscal and debt crisis is the result of the irresponsible actions of citizens or politicians, then it must be concluded that both the electorate and its representatives are part of the problem (either because elected officials obey an irresponsible electorate or because they seek its support by enacting popular but unaffordable programs, or both). As they can hardly be expected to lead in the solution if left without proper guidance, an authority “above electoral pressures” is needed to impose the required discipline.

For neoliberalism, people have a tendency to demand interventions that interfere with the infallible discipline of the market, and democratic governments tend to yield to those “populist” pressures.

Thus, from its inception neoliberalism demands reduced democratic accountability, as it shifts key policy decisions to unelected bodies (such as the independent powers conferred on central bank

directors). This is often done and justified in the name of “depoliticizing” decisions, of creating “non-party,” “non-partisan” or technocratic institutions or placing decisions in the hands of professionals or so-called “experts.”

### **... And its Puerto Rican Version**

All this applies to the crisis in Puerto Rico. I already referred to the widespread notion of chronic unemployment as the result of purported laziness and of the demoralizing impact of welfare.

Regarding debt it is no different: Public debt, we are told, is the consequence of fiscal excess, government overspending or government overexpansion. (“Gigantismo gubernamental” is the most common term in Puerto Rico.)

Individually and collectively we have lived “beyond our means.” But the unavoidable day of reckoning is upon us. This is the logic that is to be found in editorials, opinion columns, radio and TV programs, policy papers and interventions in public hearings.(3)

The “party is over,” the “mirage” we tried to inhabit, the “false glitz” covering our misery has dissolved: readjustment will be painful, but deserved. To protest is unrealistic, irresponsible and infantile.

Davies and Liam Stanley have also studied what they call “financial melancholia,” which afflicts persons who internalize the guilt for their situation of over-indebtedness, who blame themselves for it in spite of evidence that speaks to the contrary and who feel they deserve punishment for it.(4)

Needless to say, this is the mindset that best corresponds to an attitude of acceptance toward the policies of austerity typical of punitive neoliberalism. And this is the mentality incessantly promoted by editorialists, columnists, commentators and analysts.

In Puerto Rico this comes with an additional twist. As mentioned above, Puerto Rico is usually portrayed as isolated from the global crisis, as if this were the only place undergoing a fiscal and debt crisis.

What allegedly we face is not a particular case in a global crisis, but a strictly Puerto Rican disaster, rooted in the incapacity of Puerto Ricans to adequately manage their own affairs.

The alleged specifically Puerto Rican pathology at the root of the crisis justifies that an external agent, such as the Federal Fiscal Control Board created by Congress in 2016 through the Puerto Rico Oversight Management and Stability Act (PROMESA), be put in charge of rectifying Puerto Rico’s fiscal practices. (As the cynicism of Congress has no limits, the promesa means “promise” in Spanish.)

In our case, the neoliberal explanation of the debt crisis as the result of personal or public irresponsibility — and therefore austerity enforced by non-elected, undemocratic bodies as the necessary corrective — both draws upon and reaffirms colonial notions of native inadequacy for self-government that long pre-dated this crisis.(5)

But we know that austerity policies have an unjust and counterproductive impact. Economist Sergio Marxuach, associated with the mainstream Center for a New Economy, recently calculated that the budget cuts adopted by Governor Rosselló in collaboration with the Federal Control Board will depress Puerto Rico’s GNP by at least 6.5%.(6) Under existing policies, most economists predict continued stagnation of Puerto Rico’s economy through 2024.(7)

This is not the place to detail the present austerity program; suffice it to say that it includes more than halving the state's contribution to Puerto Rico's public university.

### **Resistance: To Act and Connect**

The struggle against punitive neoliberalism and its ideology begins with the rejection of its myths. Unemployment is not the result of laziness, but an aspect of capitalism and of colonial and dependent capitalism. Debt and over-indebtedness are not caused by personal irresponsibility or over-generous public spending, but are inherent to capitalism, particularly in its most recent period, with its anti-labor policies, corporate tax cuts and bailouts.

People and states "owe" capital but only because capital owes all of society. In Puerto Rico this manifests itself in a paradox: a stagnant economy with a bankrupt government still generates massive profits for a handful of primarily U.S. corporations.

The fiscal and debt crisis is not a Puerto Rican particularity but a global process. Austerity is not inevitable, it is the policy that global capital seeks to impose to make us pay for its crisis. The extent to which it is imposed is not preordained, but rather depends on the outcome of the clash, or series of clashes, between its promoters and the resistance to it.

In Puerto Rico, the prevailing orthodoxy repeats that since austerity and neoliberal policies have been adopted globally, we cannot do otherwise. This discourse is deployed everywhere: since such policies are dominant elsewhere they must be adopted everywhere.

To break the chain of global neoliberalism — ultimately an international task, if there ever was one — we need two things. First, nobody anywhere, no people, can afford or should wait for others to resist or struggle.

If all wait for others to act elsewhere, then nobody will act anywhere. If all wait for a more favorable international situation, then the international situation will remain unfavorable. We must act, wherever we are, even when initially isolated, if such is the case.

Admittedly, this is a more challenging task in small and economically weak countries, since it is harder for them to alter the international balance of forces. This is a reason to discard any facile optimism and to prepare for a long struggle, not for quietism or passivity. Help will only come to those who help themselves.

Second, we must understand that nobody, no people can succeed on their own. We cannot wait for anybody to initiate the struggle, yes, but we must count on others and immediately seek to link our struggle with resistance elsewhere, beginning in our case with U.S. struggles.

Puerto Rico urgently needs (a) a program of economic reconstruction; (b) the political powers necessary for it; (c) a movement capable of formulating and pressuring for the former and of demanding and attaining the latter; (d) international allies without which no alternative to the dictates of capital can succeed; and (e) a true process of decolonization and national self-determination.

In other texts, I have summarized some of the key aspects of Puerto Rican society under U.S. rule. Allow me to restate six of them.(8)

First, since 1900 Puerto Rico's economy has been shaped by the priorities and preferences of U.S. capital. It has been, and remains, a classically dependent and colonial economy.(9)

Secondly, while specializing in the production for export, largely controlled by U.S. capital, the island has imported most of the consumer goods needed for its reproduction. An example this one-sidedness is the destruction of Puerto Rico's agriculture. Today Puerto Rico imports around 85% of our food.

Thirdly, a further consequence of the domination by U.S. capital has been the outflow of a significant portion of the income generated in Puerto Rico. Presently, around \$35 billion leave every year, in the form of payments to external investors. This is around 35% of Puerto Rico's Gross Domestic Product.

Needless to say, this is capital that is not reinvested in Puerto Rico, leading to a fourth feature of its economy since 1900: Puerto Rico's dependent economy has never been able to provide sufficient employment for its workforce. At present, Puerto Rico has a 40% labor participation rate. The official unemployment rate is 12%.<sup>(10)</sup>

Fifth: Given the lack of employment, considerable migration has been another feature of Puerto Rican life since the early 20th century.<sup>(11)</sup>

High unemployment also conspires against higher wages, which deepens economic inequality and ensures high levels of poverty. This helps explain the sixth feature: the persistence of the wide gap in living standards between Puerto Rico and the U.S. mainland. Puerto Rico's per capita income is a third of the U.S. figure. It is half of the per capita income of the poorest state.

Around 45% of the people in Puerto Rico live under the U.S. poverty level. The corresponding figure in the mainland is 15%.

Whatever material progress Puerto Rico has made over the last century, and that progress is undeniable, must be tempered by the acknowledgement of these limitations and contradictions. They are not, it should be underlined, the result of restrictions on movement of capital or goods between Puerto Rico and the United States. They are, if anything, the result of free trade, of unfettered capital, not of restrictions to it.<sup>(12)</sup>

In other words, the dogmas of free trade are part of the problem, not the solution. We need a planned reconstruction of our economy, with broadened public and cooperative sectors. Unfortunately, nothing could be further from the proposals emanating at present from Puerto Rico's government, the Federal Fiscal Control Board or Congress, for that matter.

To orient our resistance to their punitive neoliberal agenda, we have presented a program that, in general terms, includes:

- Revoke PROMESA.
- Maintain the stay on the claims by creditors on Puerto Rico's public debts.
- Audit, annul the illegitimate portion, and renegotiate the remainder of the debt with three priorities: protecting pensions, essential public services and retaining resources required for economic renewal.
- Declare a moratorium on all debt payments until the audit has been completed.
- Adopt an economic reconstruction plan centered on reinvesting profits generated in the Island that must include a reconsideration of the existing tax-exemption policies.
- Democratically reform the public sector with active labor and citizen participation.

- Self-initiate a process of decolonization and self-determination through a constitutional status convention.
- Seek and obtain sizable funding from Congress for Puerto Rico's economic reconstruction as well as action for Puerto Rico's decolonization.(13)

## **Mobilization and Alliances**

Are these goals attainable? Yes, but only through consistent and growing mobilization on the Island and of our allies in the U.S. mainland. Is it possible to find such allies? Yes, although that alliance can and should be based not only on sympathy for Puerto Rico, not only on links with the Puerto Rican Diaspora, important as these are, but on a shared agenda of resistance against policies that affect all working, poor and oppressed peoples in the United States.

There is a solid objective basis for such a shared agenda: Working and poor people in the United States today face the impact of several decades of neoliberal corporate tax, fiscal, social and economic policies, to which we must now add the frankly racist and universally reactionary agenda of the Trump administration.

As much as we in Puerto Rico, they need a vast program of economic reconstruction, geared toward the creation of jobs and the satisfaction of basic social needs. Such a project that would require an expansion (and transformation) of the public sector and which must be financed through a radical redistribution of wealth.(14)

We must connect with all movements pointing in that direction. We should ensure that our program and demands for economic reconstruction and political self-determination become part of their program, which begins by mobilizing for them in Puerto Rico.

The fact that these movements are still minority forces in both the United States and Puerto Rico makes it all the more urgent that those seeking to build them join forces and collaborate as effectively as possible.

## **Notes**

1. I thank Maritza Stanchich for her help in editing this text. I am solely responsible for all mistakes.  
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2. William Davies, "The New Neoliberalism" (*New Left Review* 101, Sept.-Oct. 2016, 121-134).  
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3. It is to be found, for example, in the editorials and news items of *El Nuevo Día*, in the articles of economists such as Elías Gutiérrez, Gustavo Vélez and Juan Lara, of columnists such as Mayra Montero, of political commentators such as Carlos Díaz Olivo, to mention some, among many others.  
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4. Will Davies, Johna Montgomerte, Sara Wallin, *Financial Melancholia: Mental Health and Indebtedness* (PDF Edition, 2015); Liam Stanley, "'We're reaping what we sowed': Everyday crisis narratives and acquiescence to the age of austerity" (*New Political Economy*, Vol. 19, issue 6, 2014, 895-917).  
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5. Economist Gustavo Vélez was one of the earliest proponents of a federal control board. His logic was as follows: for years, Puerto Rico has been mismanaged by its two ruling parties; it needs administrative and policy changes; ergo, Congress must create a board to oversee the

situation. Could the people of Puerto Rico organize to bring about the required changes? The possibility is not even considered: native impotence is taken for granted.

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6. This, he warns, “would be a devastating blow to an economy as weak as Puerto Rico’s economy.” Sergio Marxuach, “Ante el ajuste fiscal y la realidad económica” (*Nuevo Día*, 12 marzo 2017).

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7. See Lara Merling, Kevin Cashman, Jake Johnston, Mark Weisbrot, *Life After Debt in Puerto Rico: How Many More Lost Decades?* (Washington D.C.: Center for Economic and Policy Research, 2017).

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8. For more background on Puerto Rico’s present crisis see my book with César Ayala, *Puerto Rico in the American Century. A History Since 1898* (Chapel Hill: University of North Carolina, 2006).

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9. Such was the case before WWII, when sugar production was the main industry, during the expansion of light-manufacturing from the 1940s to the 1970s, and during the following period, characterized by capital intensive manufacturing (pharmaceuticals, for example).

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10. Even between 1950 and 1964, the period of rapid postwar growth, the number of jobs fell. Manufacturing was never able to compensate for the jobs lost in agriculture and the needlework industry.

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11. This was the case in the 1910s and 1920s, when the first Puerto Rican colonia took shape in New York, as well as in the mass migration of the 1950s and during the last decade.

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12. Contrary to the doctrines of market fundamentalism, these are the results we should expect. Economist Anwar Shaikh: “Simply opening up the markets of a developing country exposes its businesses to powerful international competition, whether or not they are internationally competitive. And if they are not, they will lose out on a large scale. This can be offset to some extent by foreign investment... But... the unemployment created by the displaced domestic industries need not be absorbed by any new production by foreign firms, for the latter will generally be far less labor intensive... Without the intervention by appropriate institutions that counter these tendencies of free trade, the problems will tend to be chronic.” *Globalization and the Myth of Free Trade* (London/New York: Routledge, 2007), 63-64.

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13. The recent study by the Center for Economic and Policy Research, quoted above, concludes that “there is a substantial case for federal aid to Puerto Rico, as well as sufficient debt cancellation, to allow for speedy economic recovery.”

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14. In the 1930s, during the Great Depression, the Puerto Rico Reconstruction Administration sought to redistribute land, diversify production, operate mills as public corporations, promote cooperatives, electrify and build other infrastructure. We need a suitably modified equivalent of those initiatives. Allow me to underline the word modified in the previous sentence. I bring up the P.R.R.A. merely as an example of federal funding for a plan of economic reconstruction, not as a project to be mechanically copied with its many limitations (beginning with its control by federally appointed officials). Needless to say, those projects emerged in the context of the New Deal and of an upsurge of labor organization and struggles in the United States. We need the 21st century equivalent of those too, if the interests of working people in the United States and Puerto Rico are to advance.

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## **Related/background publications**

Puerto Rico: crisis y alternativas, (Río Piedras: Huracán, 2014)

"¿Desahogo contra el espejismo o los espejismos del desahogo?" (17 July 2014) <http://www.80grados.net/desahogo-contra-el-espejismo-o-espejismos-del-desahogo/>

"Ni Kruegger, ni Krugman" (7 August 2015) <http://www.80grados.net/ni-krueger-ni-krugman/>

"La amnesia del capital" (26 September 2014) <http://www.80grados.net/la-amnesia-del-capital/>

"La noche oscura del neoliberalismo" (21 July 2015) <http://www.80grados.net/la-noche-oscura-del-neoliberalismo/>

"Detrás de la crisis de la deuda de Puerto Rico" (30 July 2015) <http://www.cadtm.org/Detras-de-las-crisis-de-la-deuda>

"El régimen de los acreedores y la crisis de la deuda" (21 August 2015) <http://www.80grados.net/el-regimen-de-los-acreedores-y-la-crisis-de-la-deuda/>

"The End of an Era: From Dependence to Self-Propelled Development" (*Caribbean Business*, 2 September 2016) <http://caribbeanbusiness.com/the-end-of-an-era-from-dependence-to-self-propelled-development/>

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