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**Vulture funds demand brutal austerity measures from bankrupt Puerto Rico**

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A group of hedge funds that hold a large proportion of Puerto Rico's debt have demanded that its government fires teachers, collects more taxes and reforms labor laws, as the US territory contemplates default.

The demand was stated in a [report](#) written by three economists with strong links to the International Monetary Fund and was commissioned by the Ad Hoc Group of Puerto Rico, which comprises 34 hedge funds. The financial organizations specialize in buying "*distressed debt*" – finances owed by borrowers who have no capacity to pay – for pennies on the dollar, and then attempting to extract at least some of the money. Known by the derogatory monicker "*vulture funds*," many of the 34 funds were involved in prominent bankruptcies during the 2008 financial crisis, and previous national defaults.

Together they are owed \$5.2 billion in bonds issued by the Caribbean island, which belongs to the US, but is not considered a part of it. Last month, Alejandro Garcia Padilla said the island's \$72 billion overall debt was "*unpayable*."

But the authors of the report say Puerto Rico "can avoid a costly default" and "*generate a growing surplus*" through revenue increases that can bring in \$3 billion a year by 2020, and expense cuts that can lop off \$2 billion from the budget by the same date.

The authors accused the island, where an estimated 56 percent of children live in poverty, of spending too much on education, while the government has already closed down almost 100 schools so far this year.

Among the suggested measures are "*reducing the number of teachers to fit the size of the student population*" and cutting "*subsidy to University of Puerto Rico*" as well as "*excess Medicaid benefits*."

Puerto Rico spends about 80 percent of the US average on education, despite having a median household income at one-third of that in the mainland. Meanwhile, it suffers from some of the lowest graduation rates, and

performance scores of all the US states and territories.

*"The real expense per student has increased enormously without increasing the quality of education. It's for the government to decide how much to cut spending by, but you don't want to waste government resources. There has to be efficiencies. It is more important to establish a position for growth,"* Jose Fajgenbaum, one of the authors of the report, told The Guardian.

The authors also advocate an increase in one of the lowest income tax rates in the world – 4 percent – and bigger property taxes.

Local officials, who are pushing for a bailout from Washington, or renegotiated terms with creditors, dismissed the report.

*"The simple fact remains that extreme austerity is not a viable solution for an economy already on its knees,"* Víctor Suárez, chief of staff to the governor, said in a statement.

Luis Gallardo, majority municipal legislator for Aguas Buenas, a rural city on the island, told the Guardian it was a *"typically IMF recipe"* that ignores the problems of the local population.

The island suffers from a brain drain – with the seventh-fastest speed of population decline of any territory in the world last year, and one of the highest violent crime rates in the region.

A decision on the financial future of Puerto Rico is expected to be announced in the coming days.

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