VOXXI

Puerto Rico's financial crisis worsens

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Since 2006, the Puerto Rican economy has been in and out of recession, and their financial crisis is only worsening with large companies that are pulling out of the island.

This week, Puerto Rico's debt status has officially been downgraded to junk status after acquiring $70 billion in debt.

The financial crisis of Puerto Rico could impact the U.S. mainland, and the situation has become so serious that experts are comparing it to that of Detroit and even Greece.

More and more companies are getting nervous about this Caribbean island's economy, and are pulling stores and factories out of the country.

Once considered a desirable pharmaceutical hub, Puerto Rico is now losing some of its major pharmaceutical employers. Pfizer shut down one of its three plants in Puerto Rico, and Merck has stopped its active ingredient production in one of its plants as well.

With the loss of so many jobs and the turbulent financial climate, tens of thousands of Puerto Rico's 3.62 million citizens are fleeing in a low-key exodus to places like the mainland U.S., where the crime rates are lower and the potential to find jobs is more promising.

Juan Carlos Hidalgo, a Latin America policy analyst at the Cato Institute, told Fox News, "Not only is there a debt problem, but there's a deep [economic] structural problem. Puerto Rico has one of the lowest labor participation rates in the world. Only about 40 percent of the working age population is in the labor force."

Essentially, this means that only a small percentage of the population is contributing to the economy.

Since unemployment is so rampant, highly skilled and educated workers often have no choice but to work for minimum wage. This means that the job market for younger or less educated people is abysmal.

According to Reuters, the island’s finance officials believe they have enough liquidity to last until June 30 of this year. They are also hopeful that they can reign in this economic crisis without the U.S. taking on a heavy role in helping the island’s economy.

US News announced that Gov. Alejandro Garcia Padilla plans to renegotiate the payment of short-term debt and is also reducing the budgets of all government agencies by two percent. Through various budget cuts and tax cuts, he aims to cut the deficit to $75 million.

“Given the unprecedented fiscal situation that we find ourselves in, I’m sending this project to legislators and trust they will address it with the urgency it warrants,” Padilla said.

Padilla and his officials say there will be no U.S. federal takeover of Puerto Rico. Instead, Ingrid Vila, Padilla’s chief of staff, said they will look to the “Obama Administration for advice on how we can maximize our federal resources, so that we can grow the Commonwealth’s economy.”

In response to the S&P rating, Treasury Secretary Melba Acosta Febo and Government Development Bank for Puerto Rico (GDB) Chairman David H. Chafey issued a statement to the media that read in part:

“While we are disappointed with Standard & Poor’s decision, we remain committed to the implementation of our fiscal and economic development plans. We believe the investment community will recognize the positive impact of the reforms that the Garcia Padilla Administration has enacted in due course.

Even though a once vibrant sugar industry thrived on the island, it has been superseded by manufacturing. The agricultural sector now relies mostly on livestock and dairy production, but this industry itself is now dwarfed by dwindling pharmaceutical petrochemical textile and processed food industries.