



The Hon. Pedro R. Pierluisi
Opening Statement As Prepared for Delivery
“The U.S. Department of the Treasury’s Analysis of the Situation in Puerto Rico”
House Committee on Natural Resources
February 25, 2016

Thank you, Chairman Bishop.

At a Senate hearing last year, the governor of Puerto Rico compared the territory to a ship at sea, issuing a distress call to Congress.

I want to clarify this metaphor. The passengers on this ship are not only the 3.5 million U.S. citizens that reside in Puerto Rico. They are also the individuals and institutions, located in Puerto Rico and the states, that own bonds issued by the territory and its instrumentalities.

Puerto Rico and its creditors are on the same ship. We are going to sail safely to shore together, or we are going to sink together. Our common fate depends on whether leaders in Washington and San Juan rise to the occasion. Principled compromise is the only course to harbor.

How did our ship arrive in such perilous waters in the first place? Precisely because, over the years, the people of Puerto Rico have been poorly served by their national and local leaders.

In Puerto Rico, inequality at the national level has led to mismanagement at the local level. Federal policy towards Puerto Rico is a national disgrace, contradicting the claim that the United States desires democracy and dignity for all of its citizens. Under this policy, my constituents are American enough to serve, fight and die for this country—a duty they have performed proudly since World War I. But they are not American enough to vote for president, senators or voting members of the House. They are American enough to win nine Medals of Honor, and to form the backbone of a U.S. Army unit that recently earned the Congressional Gold Medal. But, as long as they remain in Puerto Rico, my constituents are not American enough to receive fair treatment under federal programs that improve quality of life and promote work. And so they are moving to the states in huge numbers, because it is human nature to go where you have the best chance to survive and to thrive.

The excuse given by federal policymakers for such disparate treatment is always the same. ‘You don’t pay federal taxes,’ they proclaim. Never mind that individuals and businesses in Puerto Rico pay about \$3.6 billion in federal taxes to the IRS every year. Never mind that it was Congress, not Puerto

Rico, that chose to exempt island residents from certain federal income taxes. And never mind that because the federal tax code combines tax obligations with tax credits, the average working family in Puerto Rico contributes more in federal payroll and income taxes than the average working family in the states. As a statehood supporter, I aspire for American citizens in Puerto Rico to have the same rights and responsibilities as American citizens in every state. I don't appreciate being told—falsely—that the appalling treatment we receive as a territory is, in fact, preferential treatment.

As noted, inequality at the national level has enabled, even compelled, mismanagement at the local level. To compensate for the shortfall in federal support, political leaders in Puerto Rico have tended to over-tax local residents and businesses, impeding economic growth, and to over-borrow in the bond market, creating excessive deficits and debt. Under certain administrations in San Juan, policymaking crossed the line from imprudent to negligent. We in Puerto Rico must be candid and courageous, accepting rather than denying this fact, resolving to do better in the future and refusing to repeat the mistakes of the past. Discipline is required, and so disciplined we must be.

If our ship is to weather the present storm, Congress must enact legislation that authorizes Puerto Rico to restructure a meaningful portion of its debt in a fair and orderly manner, a step that will ultimately benefit Puerto Rico and the vast majority of its creditors. Today we will have a constructive conversation about the contours of this debt restructuring mechanism, but it is no longer reasonable to question whether such a mechanism is needed at all.

In addition, because inequality has bred mismanagement, the bill should address both cause and effect. With respect to the former, the bill cannot fix every disparity Puerto Rico faces, because only statehood can do that, but it should make a good-faith effort to rectify certain disparities—and it is important to emphasize that Puerto Rico and its creditors agree on the point.

With respect to the latter, I understand that the issue of an independent oversight board is a sensitive one, especially for a territory that has no democracy at the national level. Three points are in order.

First, if the composition and powers of the board are properly calibrated, the board will supplement—not displace—local elected officials. Second, if Puerto Rico officials act in a disciplined way, the board will be dissolved within a short period of time. Finally, it is my sense that the people of Puerto Rico recognize the potential benefits of a temporary board, and it is the people—not island politicians—that matter most.

Following this hearing, it is my hope and expectation that Congress will craft a balanced and bipartisan bill that can be enacted into law.

Thank you.