



The Hon. Pedro R. Pierluisi
Oral Testimony
“Puerto Rico: Economy, Debt, and Options for Congress”
Senate Committee on Energy and Natural Resources
October 22, 2015

Chairman Murkowski, Ranking Member Cantwell, and Members of the Committee:

For Puerto Rico to overcome its challenges, leaders in San Juan and Washington, D.C. must take swift and serious steps.

The main economic problem in Puerto Rico is lack of growth. This is the result of low private investment, which is due to the lack of investor confidence in the economic and fiscal policies of the Puerto Rico government.

The territory government has an outdated economic model that relies on government-owned enterprises, tax preferences and subsidies. The government must streamline operations, expand public-private partnerships, and empower the private sector. There are no silver bullets or shortcuts; progress requires smart, steadfast work.

The Puerto Rico government must break its entrenched spending habits, which have not adjusted to changing economic and demographic realities. Our government must be a better steward of funds received from taxpayers and lenders, accounting for every dollar it spends. The local tax system requires reform, because it is complicated and unfair. Some taxpayers owe too little, while others owe too much. And the government does a poor job of collecting what it levies.

With improved economic and fiscal policy, Puerto Rico can eliminate deficits and be better positioned to meet its obligations to creditors.

In short, the Puerto Rico government must be transformed. We owe this to our constituents. No excuses.

Let me turn to the federal government. I am a proud American citizen, but I am also a Puerto Rican patriot. I have spoken forcefully about the need for the Puerto Rico government to chart a new path forward. The federal government should now speak with equal force about the need to correct its immoral and illogical policy towards Puerto Rico.

Because Puerto Rico is a territory, it can be—and is—treated worse than the states under programs like Medicaid, Medicare, refundable tax credits, SSI, and Chapter 9 of the bankruptcy code.

You cannot treat the people of Puerto Rico like second-class citizens, and then profess to be surprised that we don't have a first-class economy. Nor can you claim to be shocked that, in the last decade alone, over 300,000 island residents have relocated to the states in search of equal opportunity. This was easily foreseeable, but only if your eyes are open.

I join the Treasury Department, the National Economic Council and HHS in urging Congress to enact a legislative package for Puerto Rico that contains provisions to give Puerto Rico more equitable treatment under spending and tax credit programs, and to grant Puerto Rico access to a fair and orderly legal process to restructure a meaningful portion of its debt. The package could also contain language authorizing Treasury to guarantee repayment of principal and interest on future Puerto Rico bonds. Puerto Rico is currently locked out of the capital markets, and this provision would ensure that the government has the cash necessary to meet its immediate obligations. Finally, the package could provide for enhanced federal oversight of the Puerto Rico government's financial management practices, with the goal of helping the territory to budget, spend and tax in more responsible and transparent fashion. I believe such assistance would be welcomed by citizens and creditors alike.

While I am open to federal oversight, I oppose federal control. If Puerto Rico is better governed at the local level and receives fair treatment at the federal level, we can overcome our challenges. My constituents already endure the indignity of not being able to vote for their national leaders. Further eroding democracy in Puerto Rico is not the answer.

Finally, let me address the fundamental problem from which nearly all of Puerto Rico's other problems emanate—our undemocratic and unequal political status. No Senator would accept territory status for their constituents, and I do not accept it for mine. Puerto Rico's status is not an abstract or theoretical problem. It is a moral, social and political wrong with crushing practical consequences for the American citizens I represent.

One day soon, my constituents—including hundreds of thousands of military veterans—will have the same rights and responsibilities as your constituents. In a 2012 local referendum, Puerto Rico voters rejected territory status and expressed a preference for statehood. In 2017, it is very likely that voters in the territory will confirm their desire for statehood in the first *federally-sponsored* vote in our history. The government of Puerto Rico will then use all appropriate means to petition Congress to enact legislation making the territory a state. For Puerto Rico to prosper, it must be treated equally. And to be treated equally, it must become a state.

Until then, there is much the Puerto Rico government and the federal government can do to help the territory. There has been enough discussion; it is time for action.