

Ending the Puerto Rico Debt Crisis, Preventing Austerity and Promoting Transparency

Comments as submitted for presentation by Eric LeCompte,
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House Committee on Natural Resources
Subcommittee on Indian, Insular and Alaska Native Affairs
Congressional Hearing:
"The Need for the Establishment of a Puerto Rico Financial Stability and Economic Growth Authority"

Thank you Chairman Young and Members of the Committee.

I'm the Executive Director of Jubilee USA – and we represent national US religious bodies, congregations and institutions. Our founders and member groups range from the US Conference of Catholic Bishops to American Jewish World Service to most of the national Protestant denominations. We represent 550 faith communities across our great country. We focus on how the most vulnerable are impacted by global issues such as trade, debt, corruption and taxes.

We've worked with Congress and successive administrations on global debt issues for almost 20 years. Because of the agreements we've achieved together, our financial system is more responsible and transparent and developing countries have seen over 130 billion dollars in debt relief to build schools and medical centers. It's thanks to President George W. Bush that in 2005 the cornerstone of US policy on debt restructuring and financial accountability was laid, the Multi-Lateral Debt Relief Initiative (MDRI). Not only did this legislation enable innovative financing to countries who need it most for poor populations, it also set standards around government accountability and public budget transparency.

In Puerto Rico we partner with religious leaders representing more than 95% of the island's people. These leaders include the Catholic Archbishop

of San Juan and the head of Puerto Rico's Bible Society. Along with my testimony, I submit an August statement signed by all of Puerto Rico's major religious leaders asking Congress to take action regarding the crisis in Puerto Rico. I also submit a letter from Archbishop Wenski on behalf of the US Conference of Catholic Bishops urging Congress to pass bankruptcy protection for the indebted territory.

From a religious perspective, we recognize that this is not simply a debt crisis - this is a humanitarian crisis. Consider:

- Nearly 50% of Puerto Rico's people live in poverty
- 50% of Puerto Rico's children live in homes that receive some form of welfare benefits
- 80% of Puerto Rico's children live in high-poverty areas
- Because pension accounts have been used to pay the debt, Government pensions may not have enough funds to meet their obligations by 2020
- The current unemployment rate in Puerto Rico is over 12%
- Over the past decade, 10% of the population has left for the US mainland in search of work

Like our religious partners on the island, we pray for two things:

First: long-term solutions to Puerto Rico's economic troubles that address the underlying problems that led the island into this mess in the first place

Second: immediate measures to help Puerto Rico's people who are suffering right now.

This committee has an important role to play in both the short-term and the long-term.

In the short-term, the reality is, Puerto Rico can't cut its way out of this crisis. It can't tax its way out of this crisis. There is no path to economic growth for Puerto Rico that doesn't include debt restructuring.

Self-imposed austerity in Puerto Rico is already proving harmful and counter-productive:

- Funding for law enforcement has dropped three years in a row
- Special education teachers are no longer being paid, directly harming some of the most vulnerable kids on the island
- 200 schools have closed
- Puerto Rico cut its health spending by \$42 million this year. This takes place as the Zika virus now spreads in Puerto Rico.

These types of measures push more people on the island to leave for the US Mainland, which further erodes Puerto Rico's tax base. It's a cycle that's only getting worse.

The good news is that we can solve this crisis in ways that promote economic growth and reduce child poverty. A step in this direction is enacting bankruptcy protection for Puerto Rico – the same type of protection US municipalities have access to. We applaud the efforts of Representatives Duffy and Pierluisi for introducing bankruptcy legislation. We are grateful to Speaker Ryan for setting a timeline for action.

Our opposition to austerity should not be confused with opposition to reform.

At the root of today's hearing lie the questions, "How do we prevent future debt crises in Puerto Rico and how do we ensure greater accountability from Puerto Rico's government?"

Part of the answer to this question is that through an orderly debt restructuring process we bring the debt back to sustainable, payable levels. However, this committee is concerned also with how there is more accountability from Puerto Rico's government.

From the beginning of this crisis, Jubilee USA and its religious partners in Puerto Rico called for increased budget transparency and accountability in the island's government. We want more citizen participation in economic decision making, policies that we've pursued successfully on other heavily-indebted Caribbean islands and countries around the world. To this end, we are pleased that Puerto Rico's audit commission has begun its work.

We are grateful that Congress made available Treasury's Office of Technical Assistance (OTA) to the government of Puerto Rico. This vital expertise from Treasury helps counties all over the world raise revenues, keep their debt stock in order and become more accountable to their citizens. This Congressional action can show powerful results.

In terms of the financial control board that this committee is looking at today. We've seen this type of fiscal authority utilized during other economic crises in the United States. In terms of Puerto Rico, the White House has acknowledged the need for some authority and Representative Duffy's legislation details how one would be constructed. As Congress looks to pass bankruptcy and greater accountability provisions, any control board must look at how Puerto Rico is represented in the process. If Congress passes bankruptcy protection with a control board, Congress should ensure that such a control board is co-chaired by appointments from the federal government and the government of Puerto Rico. Local democracy must be respected.

In the long-run, we believe the island needs reforms that ensure Puerto Rico's economy serves its people, debt restructuring to allow for economic growth and accountability measures to stave corruption.

3.5 million Americans face a humanitarian crisis. We look forward to working with the committee to find a solution to end the crisis, promote economic growth and ensure greater transparency.

Thank you.

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Attachments:

Letter from United States Conference of Catholic Bishops to Congress in support of legislation granting Puerto Rico access to Chapter 9 bankruptcy protection

Statement from Puerto Rico religious leaders calling for solutions to the island's debt crisis