



FOR IMMEDIATE RELEASE
September 29, 2015

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Hatch Statement at Finance Hearing on Puerto Rico's Debt Crisis

WASHINGTON – Senate Finance Committee Chairman Orrin Hatch (R-Utah) today delivered the following opening statement at a hearing to examine Puerto Rico's current economic conditions and long-term fiscal health:

Good morning and welcome to today's hearing to consider the various financial and economic challenges in Puerto Rico.

We've all watched with great interest as the debt situation in Puerto Rico has unfolded. Whenever we talk about this issue, there are a number of interested parties, including policymakers here in Washington, bond holders, and, of course, the people of Puerto Rico.

According to statements from the Puerto Rican government, the territory's debt of more than \$72 billion is "not payable." Some of that debt includes General Obligation bonds which have a constitutional first priority, and some includes debt of public corporations. In all, we're talking about roughly 17 different debt-issuing entities in Puerto Rico.

Puerto Rico's debt has more than doubled since 2000, despite the billions of dollars infused into its coffers from the federal stimulus enacted in 2009 and from health care funding increases included in the Affordable Care Act. Even with those boosts in federal funding and the related increases in Commonwealth spending, all we see is added Commonwealth debt. Moreover, there is a lack of reliable data indicating what Puerto Rico has to show in return in terms of infrastructure, efficiencies, and improved economic performance.

One reason we're having this hearing today is to give us a chance to gather additional information. As Senator Grassley – a former Chairman of the Finance Committee – can attest, this panel has done a great deal over the years to clarify the interplay between issues like federal tax and health care policy and the impact they have on Puerto Rico and other territories.

I know that Ranking Member Wyden is committed to working with me to update and improve our understanding of this situation so that Congress can make decisions using the best available information. I think it would be extremely difficult to ask Congress to make important

decisions and appropriately allocate resources without first understanding what the facts are and what problems need to be fixed.

Accompanying today's hearing, we have made available an updated overview of federal tax policy and its interplay with Puerto Rico. This document was produced by our friends at the Joint Committee on Taxation. We also have several reports addressing federal health care policies and Puerto Rico provided by the Congressional Research Service. And, I've made public responses that I received from inquiries I made to the Department of Health and Human Services on this issue.

In the days leading up to this hearing, I have heard from many interested parties, virtually all of whom have their own ideas about what needs to be done here. Some of these proposals have been helpful; others, not so much.

For example, I have heard that we can expect to see increased strains on Puerto Rico's health care system, especially given the demographic and economic realities on the island. One source of this stress seems to stem from the Affordable Care Act, which contains future cliffs where funding will be pared down and, according to some, these cliffs will hit Puerto Rico particularly hard.

Of course, for me, it is not surprising to learn that there are inequities and financial harms resulting from the health care law. Even so, these problems and any proposed solutions are multidimensional and extremely complicated. Questions of funding and resource allocation are always difficult, and they implicate a number of issues. It isn't as simple as just deciding to give more health funds to Puerto Rico, because doing so would necessarily mean reduced funding for other priorities, increased taxes, or even more federal debt.

That is the unpleasant budget arithmetic that we face. There are no easy answers.

For a long time, the people of Puerto Rico have suffered under a weak economy, including double-digit unemployment rates, very low labor force participation rates, and a bloated public sector. With many residents of the island facing a lack of opportunity or any expectations of a brighter future, Puerto Rico has increasingly seen out-migration.

All of this contributes to the fiscal challenges the territory now faces.

According to independent analysts, there are significant barriers to job creation and labor force participation in Puerto Rico. Some of these barriers stem from federal entitlement programs. Others can be attributed to the application of other federal laws and regulations.

For example, analysts across the political spectrum agree that federal laws have increased the cost of energy in Puerto Rico and that the island's regulatory processes and bureaucratic red tape stifle business activity. And, sadly, for the children in Puerto Rico, its

education system, to quote Secretary of Education Duncan, “has been plagued by a revolving door of leaders and political patronage.”

In short, and to put it mildly, Puerto Rico faces enormous fiscal and economic challenges. While the government of Puerto Rico has taken some steps in recent years to address these matters, many more changes – significant and fundamental changes – needed to be made.

Fortunately, Puerto Rico has a number of advantages to its credit, and we have seen successful turnarounds from over-indebtedness elsewhere, such as here in the District of Columbia and in New York City. I hope to see Puerto Rico join the list of successful turnaround experiences and I know that everyone here wants the people of Puerto Rico to experience a future with increased economic opportunity and growth.

Before I conclude, I just want to make sure we acknowledge the negative long-term impact Puerto Rico’s unsustainable debt has had and will continue to have on the island’s residents and what lessons we should take from their experience.

As the Congressional Budget Office has repeatedly warned over the past several years, despite some recent declines, our federal deficits under current law will soon rise again and federal debt will grow, as it has in Puerto Rico, to beyond 100 percent of the size of our economy. According to CBO, if we don’t change course, we will increasingly have less fiscal flexibility and we run the risk of a fiscal crisis at the federal level. Absent some kind of fundamental correction, it is not hard to imagine the devastating effects from unsustainable debt that are now being felt by Americans living and trying to work in Puerto Rico also being felt throughout the entire country.

Now, I will close by noting that this is the Finance Committee, with broad areas of jurisdiction, including federal tax policy and health care policy. There are, of course, many other aspects of federal policy that are also relevant to Puerto Rico’s situation but fall into other committees’ areas of jurisdiction, including federal labor policies, federal laws governing shipping vessels, bankruptcy law, and others. However, I ask that our witnesses keep their focus on areas of Finance Committee jurisdiction.

This is not, for example, a hearing on Chapter 9 of the bankruptcy code or a hearing on Puerto Rico’s status as a territory.

With that, I wish to welcome all of our witnesses, and I will now recognize Ranking Member Wyden for his opening statement.

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