



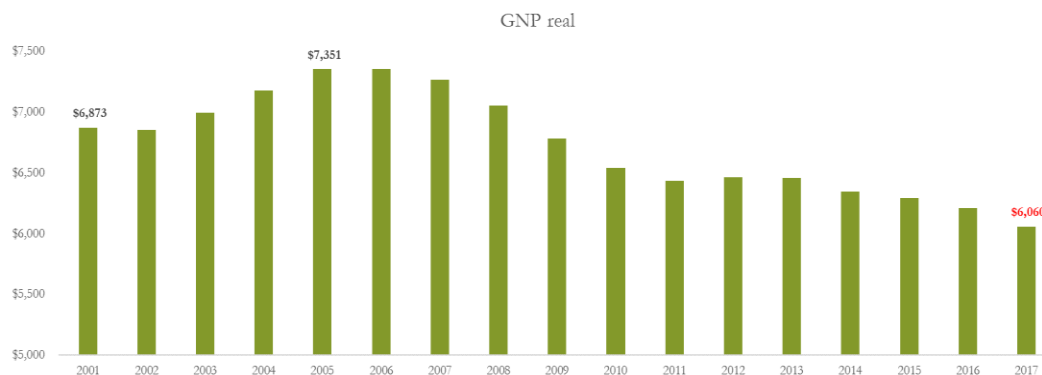
October 28, 2019

Good afternoon, Chairman Grijalva, members of the committee. My name is Heriberto Martínez-Otero, I am the president of the Association of Economists of Puerto Rico. I appreciate the opportunity this committee has offered me to express my opinion on possible amendments to the PROMESA Act. However, before going into the subject, I would like to identify some ideas shared by a large group of economists in Puerto Rico to understand the tremendous economic depression caused by government bankruptcy, a fundamental reason why Congress approved the PROMESA Act.

At the end of the '70s up to 2006, the development model of Puerto Rico's economy was based on the pharmaceutical industry, which was implemented in our country as a result of the approval of Section 936 of the Federal Internal Revenue Code.¹ As a consequence of Section 936 and a local talented human capital, the pharmaceutical industry in Puerto Rico reported billions of dollars in earnings per year, which were deposited within the domestic financial system, creating a liquidity surplus. The liquidity surplus was used for credit for consumers and firms, generating a robust macroeconomic performance during the '80s and '90s in four major sectors: construction, manufacturing, finance, and insurance.

¹ Dietz, James. "Economic History of Puerto Rico: Institutional Change and Capitalist Development". (1987).

During this period, the economy grew consistently at rates that ranged from 3% to 5% of the Gross National Product ². The repeal of Section 936 in 1996 (phased out in a period of 10 years) brought adverse consequences for the economy of Puerto Rico. In 2006, the construction bubble collapsed, the phasing out of Section 936 ended, there was a government shutdown, and since then, the economy began to decrease, and unemployment increased. In 2009, massive layoffs in the public sector and cuts in government spending began under the ideology of “expansive austerity”.³



Source: Planning Board of Puerto Rico

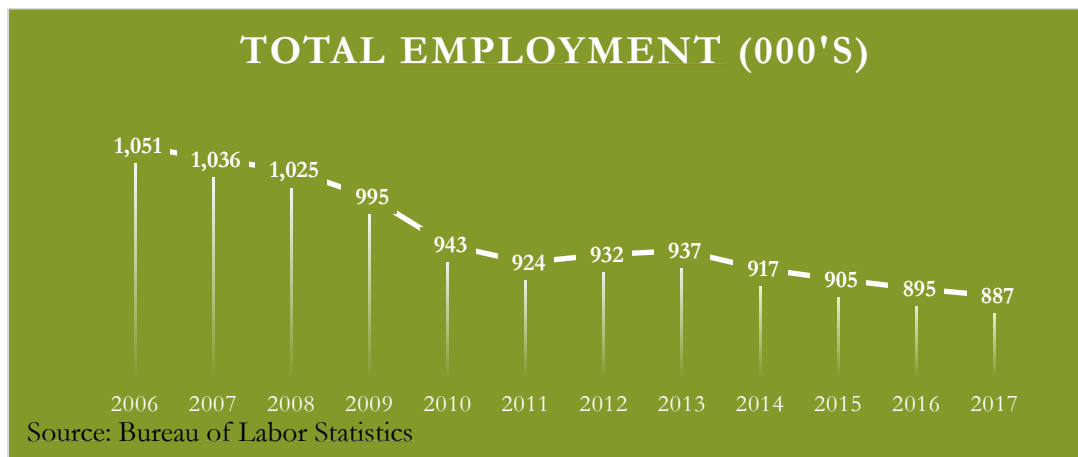
In 2016, the Promise Law was approved, which allowed the deepening of the cuts under the austerity logic. Hurricane Maria caused more damage than anticipated because our institutions were dismantled due to austerity policies.

That is the main reason why I am here before you on behalf of the Association of Economists of Puerto Rico, and I tell you: if austerity policies are not stopped, the proposed

² Dietz, James. “Economy of Puerto Rico: Negotiating Development and Change”. (May 1, 2013)

³ Martinez-Otero, Heriberto; Seda-Irizarry, Ian. “The Origins of the Puerto Rico debt crisis”. Jacobin Magazine

changes to the PROMESA Act will be insufficient because my country's economy will collapse. Now, I want to comment some of the proposed amendments.



SEC. 3. FEDERAL FUNDING FOR OPERATION OF OVERSIGHT BOARD AND TITLE III PROCEEDINGS.

Having the federal government fund the Board is a favorable idea. This proposal should release about \$ 80 million annually. What you have to keep an eye on is how the money will be distributed. If the Board determines that the money saved will go to a fund for the payment of the debt of Puerto Rico or any of its municipalities, then it will have no positive impact on the local economy. The way PROMESA Act is designed allows the Board to put a cap on the budget. If that ceiling contemplates the reduction of the federal money that previously went to the Board, we will not be able to count on it for essential services in its other areas of social investment.

SEC. 4. DEFINITION OF ESSENTIAL PUBLIC SERVICES

The definition of essential services has been a constant grievance by the citizens of Puerto Rico. The Association of Economists of Puerto Rico approved a resolution to request that the government of Puerto Rico and the Board establish a list of essential services: education, health, safety, retirement, and the preservation of the only public higher education institution that we have, the University of Puerto Rico. We must all be clear that the most important consequences of the cuts to essential services are poverty and migration. Therefore, it seems to me that this amendment is adequate, emphasizing the need to finance the UPR as an engine for economic growth and development.

SEC. 318. DISCLOSURE BY PROFESSIONAL PERSONS EMPLOYED BY COURT ORDER

This issue is critical because, in Puerto Rico, hundreds of millions of dollars have been spent on consulting without any assessments to ensure transparency. We have learned from the media that the FBI investigates local government agencies, including arresting public officials, for hiring fraud and corruption. While we support this amendment, we would like to see that the hiring money is concentrated in local companies so that the multiplier effect on the economy could be more significant.

The economy of Puerto Rico is going through its worst moment in decades. At this time, it remains afloat thanks to the positive shock caused by federal funds for reconstruction. The main reason for the economy to go through such a prolonged period of economic depression is the application of austerity policies, which have caused migration,

loss of wealth, and deterioration of industrial infrastructure. Puerto Rico is a colony of the United States; the power to make structural changes to the country's economy rests on Congress and the federal government. The amendments to the PROMESA Law are an excellent start to soften economic conditions on the island, but insufficient to achieve sustained long-term growth. However, the indispensable decision that should come out of this process is the definition of essential services and to ensure financing for retirement systems and to save the University of Puerto Rico. Thank you very much for your time.