

U.S. DEPARTMENT OF THE TREASURY

Press Center



Secretary Lew: Congress Must Act on Puerto Rico to Avoid Bailout

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WASHINGTON – Treasury Secretary Jacob J. Lew, in an interview with Univision’s Enrique Acevedo that aired Friday night, discussed the urgent crisis in Puerto Rico and the need for Congressional action to provide the Commonwealth with access to an orderly restructuring regime, paired with independent oversight that respects Puerto Rico’s self-governance. “Restructuring is the alternative to a bailout,” explains Secretary Lew.

Watch the interview here: <http://www.univision.com/noticias/deuda-economica/secretario-del-tesoro-de-eeuu-es-necesario-priorizar-los-intereses-de-los-puertorriquenos-y-evitar-un-caos>

A full transcript of the interview follows.

ACEVEDO: Thank you so much for taking the time to speak with us today.

LEW: It’s great to be with you. Thanks for coming in.

ACEVEDO: A two billion dollar payment is due on July 1st for Puerto Rico, and another over 400 million is coming up in a couple of weeks. The government of the island is struggling to keep schools open and now the Zika virus is threatening to cause a humanitarian crisis on the island. Is there a real sense of urgency of the situation in Puerto Rico here in Washington DC?

LEW: Well, Enrique, we have considered this an urgent situation for quite some time. It has been, really over a year, almost two years that we’ve been deeply engaged with the Commonwealth. But it took us a long time to be able to create an understanding and a sense of urgency. Even as late as November-December there wasn’t a clear understanding. The facts right now make it impossible to ignore that there’s a crisis now. When you look at the hospital wards that are closing down, the schools that are closing down, the challenges that Puerto Rico faces to deal with Zika in time when it can’t meet its current obligations—the defaults that you mention are real. There have been defaults, there will be more defaults in a few days, in the beginning of May, the crisis is now. That’s why there is an urgent need for Congress to act because the alternative to Congressional action that will give Puerto Rico the structure and have an oversight authority put in place, the alternative is chaos for 3.5 million Americans who call Puerto Rico home. That’s not acceptable.

ACEVEDO: Just this week, Ranking Member on Senate Committee on Finance, Senator [Hatch] said it looks like the current bill is dead. The draft they have is not going to work. So they have to pass the Senate. Would you consider, would the administration consider Executive Action if Congress doesn’t act?

LEW: Well, I don’t agree with that assessment. There are ongoing discussions with particularly in the House of Representatives on legislation. It’s not finished. It’s not yet in a form that works, but we have seen the Republican Speaker of the House Paul Ryan the chairman of their Committee that has jurisdiction over Puerto Rico. Chairman Bishop has put forth a set of ideas, worked with Democrats in the house, and worked with the Administration and outside parties to try and fashion an approach that works. It’s hard because there are competing views. I think that what’s critical is that the House has to finish the work. They have to put in place restructuring that actually works. Our test is pretty simple: does it work or doesn’t it work? And there are a lot of voices that Congress is hearing from. And they’re not all voices that represent the 3.5 million Americans who live in Puerto Rico. There are a lot of interests that want to protect themselves against whatever happens. This is going to take legislation that puts the interests of 3.5 million Americans first, and then avoids having the kind of unwinding, the chaotic unwinding that won’t be good for anyone. It won’t be good for creditors, it won’t be good for the economy of Puerto Rico. Right now we’re seeing almost 100,000 Puerto Ricans leave every year, that doubled from last year. That is terrible for the island. What that means is that the future of the island is leaving. So it needs to be addressed and it needs to be addressed soon. If the House can pass legislation, I think we will be able to enact legislation. But it has to start somewhere which is why the process has to go forward and it has to be completed.

ACEVEDO: You mentioned some special interests involved. Wall Street has benefitted from the poorly managed or poorly managed finances in the island for years and now they’re very much involved in the discussion of what’s going on in Congress. Do you think those special interests are getting in the way of a possible solution for Puerto Rico?

LEW: I don’t want to paint with one brush. I think that Puerto Rico has had important access to capital markets and the goal should be that at the end of a restructuring that Puerto Rico will again have access to capital markets. It’s not a bad thing for Puerto Rico to have access to capital markets. But when you have an insolvency, whether it’s a company, or a municipality, or a jurisdiction. You need a restructuring. That’s what happens when a country has problems and they go to the IMF. Puerto Rico has no system of law to restructure and what you have without that is everyone fighting for their own interests. You need to have there be some way for collective action where the best interests of all can be considered. I believe that with a restructuring, it will actually be better for creditors as well. Creditors won’t do well if they get zero and that is a possible outcome if there is a complete unwinding. That may not be how each class of creditors sees it, Congress has to take action that’s in the public interest. Having the economy of Puerto Rico go into a chaotic unwinding is bad for Puerto Rico and it’s a bad thing in general for municipalities around the country. The idea that municipalities go into uncontrolled, chaotic unwinding will be very scary. That is a bigger fear than taking action.

ACEVEDO: Do you see bipartisan support for this approach?

LEW: I think that there are Republicans and Democrats working together. I think that there are pressures that are trying to pull that apart. Those who want to get this resolved have to stay determined, they can’t get the forces that want to pull it apart, prevail. And frankly there are creditors who want this to work. So there are creditors are divided. So it’s not as if all creditors are against this. The interest of the sub group that are against it can’t be allowed to become the dominant consideration.

ACEVEDO: We talked about the urgency around the debt crisis in Puerto Rico, both Congress and the Administration have said there won’t a bailout for Puerto Rico that instead the island should tackle its debt and restructure, reform their economy, but that seems like a long term solution. Governor Padilla said it’s like having 3.5 million Americans have been lost at sea. Is the federal government doing everything we can to help Puerto Rico?

LEW: Well first, it is not a long term solution, it is a short term solution because part of the restructuring will relieve Puerto Rico of some of the immediate obligations to pay bills they can't afford to pay. So it will provide relief in the short run, it will provide a foundation for economic growth in the long run. So it is a combination of short and long run, I believe we need to do everything we can using the traditional tools the federal government has to make sure Puerto Rico gets everything it's entitled to. Whether that's highway funding, school support, health funding, and we've worked with the commonwealth to expedite things and frankly to help in areas where the commonwealth wasn't taking advantage of things. We don't have a magic bullet, there isn't, the solution here is restructuring authority and an oversight authority. That is the solution. The idea that there is a better alternative, frankly this is the alternative to a bail out. Restructuring is the alternative to a bailout. So to anyone who thinks that a bailout is on the horizon should want the restructuring. I don't think there are the tools for a bailout that would work. I think that restructuring is the only path for getting Puerto Rico where it needs to go.

ACEVEDO: How concerned are you about the history of corruption and the latest allegations about conflicts of interest in the island's leadership and is that part of ongoing discussions about how to move forward?

LEW: You know I think there has been a history both in terms of financial management, governmental management, issues of corruption that need to be addressed. The oversight board will have a fairly important role in helping to build the tools for Puerto Rico to solve some of those problems. What I don't think is that 3.5 million Americans can be made to suffer because there's a history that leaders may not have built the right foundation. That's where you need to have an oversight board, you need to have a restructuring, you need to build up the institutions in Puerto Rico so that the economic future can be one where so there's a positive outlook, not a negative outlook and right now, in the absence of action, it's a very very negative outlook, its economic chaos.

ACEVEDO: There's a saying that when you can't pay you can't argue the terms that much. Are you confident that whatever the solution is to the debt crisis in Puerto Rico will be taking the best interests of the Puerto Rican people?

LEW: Well that's certainly our commitment. Our commitment has been to put together tools for the interest of Puerto Rico and 3.5 million Americans, including many veterans and people who are loyal citizens of the United States, putting their interest first. This is about making sure that you can reorganize the obligations so that creditors are paid as agreed to in a restructuring. So that the bills of the commonwealth can be paid, and you don't have a shutdown of services completely and that the people of Puerto Rico have the ability to look to an economic growth plan not continued out migration which is shrinkage of the economy and a decline of the economy. I think time is of the essence, I don't think time will make this get better. I think it's important that Congress act quickly, we have made every effort to help Congress with technical support. I see a willingness to compromise on the part of many, it hasn't happened yet and time is running out.

ACEVEDO: Before I ask you about the changes in our currency, after everything we've discussed today, can we say that an Executive Action, or the possibility of an Executive Action is off the table for Puerto Rico?

LEW: We have been using the tools that we have to provide the support to Puerto Rico that the existing mechanisms call for and provide for. I think it would be a mistake to think that there's a magic wand could just be pulled out to solve this problem. Congress needs to act.

ACEVEDO: So on Wednesday you announced what the New York Times calls the most sweeping and historically and symbolic makeover of American currency in a century. You are going to replace Andrew Jackson on the \$20 dollar bill with Harriet Tubman and to add women and civil rights leaders to the five and ten dollar bills. Can we have a preview of what that's going to look like?

LEW: It's a very exciting announcement that we've made, the last time our currency was redesigned in a significant way was in 1928. That's a long time ago. And it's over 100 years since we've had the picture of a woman on our currency. What I've announced is that we're going to be redesigning the \$20, \$10, and \$5 dollar bill and we're going to have the image of a woman on the \$20 dollar bill, Harriet Tubman who has an inspirational story about how a person can change the course of history in this country, freeing individuals but also leading to changes that are as far sweeping as having the right to vote. We're going to try to bring to life the buildings on the back of many of our bills, the reverse side. Most people don't even know that you have the Lincoln Memorial, and the Treasury Department, the White House—we're going to have depictions of some of the iconic events that happened at the Lincoln Memorial. The Martin Luther King "I Have A Dream Speech" like Marian Anderson giving a concert on the steps of the Lincoln Memorial when segregated concert halls wouldn't let an African American sing in the concert hall. And the \$10 dollar bill will have the story of suffrage, women who brought about the change almost 100 years ago that gave women the right to vote. Now I think it's exciting, I think we have people around the country talking about American history in a way that they don't often and we have young people and old people talking with their family and friends. I heard from well over a million individual respondents in getting ideas and I think it's an exciting announcement, it's one that doesn't solve all of the issues we have. We have the policy issues that underlie some of the inequities which are very much on the forefront of our minds but these symbolic things matter. When you look at the money, you ought to see that we are a nation of men and women and that women have an awful lot to do in building this great country.

ACEVEDO: Finally, eight former Secretaries of the US Treasury have thrown their weight behind the UK remaining in the European Union. They said that in a signed letter just before Obama arrives in London do you support and share their concerns about the UK exiting or staying in the European Union?

LEW: Obviously this is a judgement for the citizens of the United Kingdom to make, but I've made clear in several public comments that I think it's in the best interest of both the UK, Europe, the Global Economy for the UK to stay in. I also think, apart from the economy, that it's a time where the need for geopolitical stability is great and having the UK as part of Europe is important.

ACEVEDO: Thank you so much for your time Mr. Secretary.

LEW: Great to be with you.

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