

# Time for an All Out Stand



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There is a stirring line in Lin-Manuel Miranda's hit Broadway musical *Hamilton* where General Washington despairs that the colonies are "outgunned, outmanned / outnumbered, outplanned".

It is a familiar feeling for those of us living in a modern tropical colony, Puerto Rico, which is buckling under the weight of over seventy billion dollars of government debt. We find ourselves outspent and outmaneuvered by hedge funds, mutual funds and their lobbyists who have convinced Congress to oppose allowing Puerto Rico to restructure this debt in a fair and equitable fashion and within a legally proven framework.

Puerto Rico's debt is now a massive albatross around the neck of the island's economy, which must spend almost \$5 billion a year or near 20% of the government's consolidated budget just to pay the debt service. This is equivalent to three times the money Puerto Rico invests in the entire eleven campus University of Puerto Rico system and more than five times what is spent on the entire island's police force. In the next couple of months almost a billion dollars in bond payments will be due. Time is running out for Puerto Rico, which must choose between keeping schools and hospitals open or making those payments.

In response to this emergency, the White House has put forward a thoughtful set of proposals which include what is undoubtedly the most urgent need at this moment: providing a legal framework for Puerto Rico to restructure its debt in a fair and orderly manner under the supervision of a federal bankruptcy court.

The White House roadmap is certainly not perfect. But it is the only feasible proposal on the table. Hoping for an alternative is not only wishful thinking but irresponsible given the extremely short timeframe before a likely default, an outcome that, as Nobel Prize winner in economics Joseph Stiglitz has recently warned, would be disastrous not only for Puerto Rico, but could also provoke contagion and impact borrowing costs in the \$4 trillion U.S. municipal bond market.

Say what you will about how we got here, but the next few weeks provide a small window of opportunity for a constructive resolution. It would be catastrophic for Congress not to take full advantage. Moreover, the lack of financial data is not a credible excuse for not moving forward because while it is certainly a massive failure of governance for Puerto Rico not to have audited financial data available, this information, once it finally becomes available, will in all likelihood only serve to validate the current scenario or just confirm an even worse state of affairs.

For its part, it behooves the government of Puerto Rico not only to speak clearly and with one voice about its resolve to put the people of Puerto Rico first, but also to stop its damaging penchant for irresponsible financial gimmickry such as the recent confiscation of tax refunds, as well as the poorly thought-out proposal of a debt-exchange which hinges on the pollyannaish notion that creditors will quickly and voluntarily accept less than what they are owed. These ill-conceived distractions do nothing but frustrate and foil the genuine and achievable options on the table.

Up until now Puerto Rico's debt crisis has been framed as a binary one, with the people of Puerto Rico facing off against foreign hedge funds and mutual funds. This needs to change. Local businesses as well as multinational firms operating in Puerto Rico need to understand that they also have skin in this game and that it is in their best interests to stand up for an orderly restructuring such as the one proposed by the White House. Only then will Puerto Rico be able to move forward with a credible and ambitious long-term economic plan that can restore growth to the island's economy.

This is a situation of great urgency that can no longer be postponed. Congress must act to adopt the White House proposal now, or face greater chaos with fewer options later.

In their moment of trial, Washington and Hamilton took an all out stand. Now it's time for Congress to rise up with equal courage.