

July 24, 2017

## FACT CHECKING AEI'S DESMOND LACHMAN

In his recent [blog](#) post for the American Enterprise Institute (AEI), resident fellow Desmond Lachman spun an outrageously inaccurate picture of Puerto Rico's debt situation.

To label Mr. Lachman's article as misleading would be too charitable. The article "3 Myths Puerto Rico Should Ignore About its Debt Crisis" reads more like propaganda coming from a left-wing NGO than something normally published by AEI. Lachman misrepresents Puerto Rico's economic situation by perpetuating a false crisis narrative, ignores creditor seniority established by Puerto Rico's Constitution, and mischaracterizes Argentina's reentry into global credit markets. Despite the title of his article, Mr. Lachman perpetuates the same myths about Puerto Rico that the Obama-era Federal Oversight Board has used to push the island into a preventable bankruptcy.

**Lachman's Myth:** *"[T]he Puerto Rican economy is already in a deep economic slump that has caused its output to decline by 10 percent over the past decade."*

### The Facts:

- **This is an effort to obfuscate the truth, and reflects a pattern of deception and black box economics used by the Oversight Board to make Puerto Rico's economic situation appear far worse. Output is at an all-time high. Far from contracting, the objective measures of output (nominal GNP and GDP) are up by more than 20% from a decade ago.**
- Puerto Rico's [revenues are up](#), powered by robust consumer consumption, and general fund net revenues have [exceeded projections by \\$234.9mm year-to-date](#). Tax collections, GNP, and GDP [are at all-time highs](#).
- Puerto Rico has budgeted a [\\$3 billion primary surplus for 2018](#), yet it claims it has virtually no money for debt service.
- Puerto Rico's massive primary surplus exists in spite of the fact that the Oversight Board allowed the Commonwealth to [increase year over year spending by \\$575mm](#) from FY17 to FY18.
- Recent disclosures of official financial statements show that Puerto Rico has built up approximately [\\$1bn in additional cash, and reduced accounts payable by approximately \\$1bn](#).
- Rather than correct the Fiscal Plan to comply with the law and financial reality, the Oversight Board is engaged in subterfuge, including by engaging charlatans like Mr. Lachman to misrepresent facts and perpetuate a false crisis narrative.

**Lachman's Myth:** *Creditors believe that "[T]he island has the ability to fully service its debt mountain without the need for any debt relief."*

**Fact:** Lachman's dishonest characterization of a "debt mountain" ignores the fact that not all "debt" is the same. Puerto Rico's Constitution requires that payment of the Commonwealth's General Obligation debt come before all other disbursements, including payment of other debts.

Puerto Rico's Constitution does not prohibit the restructuring of non-General Obligation debt, and PROMESA provides a framework for doing so under a Title 6 or a Title 3 proceeding. We have previously pointed out that Puerto Rico clearly has the means to service its General Obligation debt, the total amount of which is currently \$19.6 billion (*includes interest on overdue principal and interest*), or an average of \$1.4bn per year over the next 10 years.

Governor Rosselló himself once seemed to understand the importance of paying Puerto Rico's debt:

- “Of course we can pay... You have to cut back on government spending.” - [Ricardo Rosselló \(August 20, 2015\)](#)
- “From our perspective, debt can be paid.” – [Ricardo Rosselló \(June 7, 2016\)](#)
- “Why have we believed that debt is unpayable? You have to find the consolidated budget, 16% of the budget goes towards debt. You can pay.” – [Ricardo Rosselló \(June 28, 2016\)](#)
- “The debt is payable. There are people who try to play with this and I'm glad we can clarify it.” – [Ricardo Rosselló \(August 14, 2016\)](#)

Despite these previous statements while campaigning for office, Governor Rosselló has caved to pressure from the Oversight Board and is showing no more regard for Puerto Rico's Constitution or for PROMESA than his predecessor. Puerto Rico's Constitution is unequivocal in its requirement that the payment of General Obligation debt comes before all other payments. PROMESA incorporates this same priority. Still, the Oversight Board, Governor Rosselló, and Lachman are ignoring this requirement.

**Lachman's Myth:** *"If, at its creditors' behest, Puerto Rico were to take budget-tightening measures over the next few years beyond the 6 percent of GDP that its Oversight Board has already demanded of it, the island's slump would only deepen."*

**Fact:** It is simply untrue that Puerto Rico will be cutting spending by 6 percent of GDP in the near-term. In fact, the FY 2018 budget recently approved by the Oversight Board **increases** spending by \$575mm – or 6.4% - year-over-year. **The Commonwealth is increasing, not decreasing, spending.**

**Lachman's Myth:** *"[H]ow is it that a country like Argentina, which as recently as 2001 repaid most creditors only 30 cents on the dollar in what was then the world's largest sovereign debt default, can today place a \$2.75 billion 100-year bond in the international capital market on relatively favorable terms?"*

**Fact:** Like Argentina under Presidents Nestor and Cristina Kirchner, Puerto Rico under Governor Rosselló and the Obama-era Oversight Board falsely claims that it cannot pay its debts, attacks and villainizes its creditors, and steals money from American retirees, including thousands of Americans living in Puerto Rico who own bonds.

For its actions, Argentina was frozen out of capital markets in self-imposed economic isolation for more than a decade. During this period of time, the Argentine economy cratered, and middle class citizens were harmed the most. Despite Lachman's claims to the contrary, only with the

election of President Mauricio Macri did Argentina finally negotiate a deal with its creditors, allowing it to reenter capital markets.

Sometimes a change in leadership is necessary to achieve results. Macri's election provided Argentina with an opportunity to forge a deal with its creditors and get its economy on track. Similarly, we've said before that the Trump Administration and Congress should require the Oversight Board to begin complying with PROMESA, or replace the Board with one that will.