



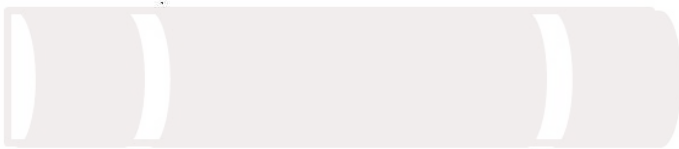
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MESSAGE OF GOVERNOR RAFAEL HERNANDEZ COLON
TO THE MONTHLY MEETING OF THE NATIONAL
ASSOCIATION OF ACCOUNTANTS

RIIC

AUGUST 11, 1976



Mr. Vicente León, President, members of the Head
Table, friends:

I am very pleased to be with you today.

During the past months we have witnessed unmistakable signs of economic recovery. One of these signs is the registered increase in estimated government resources for the current fiscal year which I recently announced.

I would like to talk to you today about our economic recovery and our fiscal resources.

I think this is a particularly suitable forum to talk about these subjects. Accountants, because of their knowledge and the nature of their work, are the professional group in closest contact with our every day economic reality and in the best condition to understand the relationship between economy and the public treasury.

Thus, you are the most indicated to enlighten our fellow citizens, on these subjects, specially your clients, your friends, and all persons related to your daily work.

Let's go to the point. There are clear indications that in the past months we have started to experience a recovery in the economic activity of our country. The best evidence of this economic recovery was the increase in personal income to 7.5% in the months from Jan. to June of this year, as compared to the semester before, and as a result of the productive activity of the private sector.

This increase in personal income as a result of the productive activity within the private sector was mainly brought on by manufacture. There was a 16% increase in this sector compared to the same semester of the year before.

In agriculture, in spite of the price fall of sugar, the income increased 4.4% in the second semester. And in Tourism, an increase of 2.6% was registered after three consecutive, descending semesters.

Employment also showed improvement from Jan. to June, 1976. There were 13,700 more jobs than the semester before.

It has to be pointed out that this income and employment improvement came together with a noticeable reduction of the inflation rate.

These signs of frank recovery fill us with confidence and hope. Puerto Rico, together with the U.S.A., and all the nations of the free world, went through a period of accelerated inflation and suffered the worst and longest economic recession since the great depression of the thirties. In order to face this situation and to lessen its effects on our country, it was necessary to act quickly, with great determination, and with great responsibility.

It has been necessary to take measures of a wide and deep scope, some of them disagreeable, but all of them needful and effective. We rapidly implanted the Food Stamp program which has helped so

much to soften inflation effects on low income families and which has stimulated the economic activity of the country. We shortened the budget for government expenses and levied new taxes so as to protect our fiscal integrity. We were able to acquire a substantial increase in federal funds, and we succeeded in getting from the different government agencies regulating energy, resolutions which were beneficial to consumers, to gasoline retailers, and to petrochemical industries. And we have taken effective action to offer new vitality and new paths to the basic sectors of our economy: manufacture, agriculture, and tourism.

It is very satisfying to see now, that thanks to these measures and to the efforts of all those who participate in the productive activity of our country, and to the favourable economic turn in the United States, our economy is rising again, making up for past losses.

In spite of all our improvement, we still have much to do. There are still some negative elements in our economic portrait. Our greatest concern lies within the construction sector because despite the great help given to it, it has registered only slight improvement. There is still a high unemployment rate, even though we hope to cope with it as the different sectors continue improving. It is interesting to notice that the unemployment rate in the States has

stayed at levels of approximately twice the usual normal rate in that country.

Nevertheless, the up to now recovery must fill us with hope; and everything points to the fact that this recovery will continue as a part of the great economic revival taking place not only in the U. S. A., but in the whole world.

The purpose of the Summit Conference of Dorado at the end of June was to coordinate the policies of the participating countries to deal with existing problems and to keep up the economic recovery.

As a consequence of this registered recovery during the past months, estimated government resources of the Commonwealth of P. R. for the budget of fiscal year 1976 had a noticeable increase during the months between January and June, 1976, a very remarkable increase surpassing what was predicted when the budget was approved a year ago, in June, 1975.

At that time it was estimated that general fund resources, from which the greatest portion of the Commonwealth government expenses comes out, would come to net resources of \$1,267 million during that fiscal year. Actually, at the close of fiscal year, 1976, resources reached \$1,333 million, according to preliminary data. This means \$66 million more than originally predicted in June, 1975, when recession was at full blast.

These resources, added to those originally foreseen, were used mainly to satisfy previous obligations, whose fulfillment had been postponed for lack of funds. They were also used to fill gaps in some essential public services such as health, education, the police department, and others. Consequently there was no significant surplus in fiscal year 1976.

This increase in the general fund resources in fiscal year 1976, which I have just mentioned, was mainly the result of the registered increase in Commonwealth income which constitutes the mainspring of resources for the government of Puerto Rico.

This income did not show a significant raise tendency during the first seven months of fiscal year 1976, that is, from July, 1975 to January, 1976. In fact, during the period from November to January of that fiscal year, collection for this concept was almost equal as that of the same period the year before. However, during the last four months of the fiscal year - that is, from March to June, 1976 - collections exceeded those of the same period the year before by almost 20%. At the beginning of June the Secretary of the Treasury had already publicly informed an increase in funds for fiscal year 1976, on the basis of the collection made during March, April, and May.

As it is to be expected, the items showing higher increase were those closely linked with economic activity. Among these we have:

individual and corporation income tax, general excise tax, duty on crude oil, and duty on cars. There has also been a noticeable raise in the collection of federal excise tax on rum shippings.

Economic improvement has been the main element in the fund increase registered between March and June, 1976; but there have been other ones. One of them is the intensive investigation and tax collection accomplished by the Department of the Treasury. Another element which has helped significantly has been the series of legislative measures adopted in 1975. Among these, it is worth mentioning the new law on automobile taxes, which by lowering the tax on medium sized cars, has contributed to stimulate sales during recent months. The law which liberalizes bulk shipments of rum also stands out; and so does the one that exempts payment of income tax on exports of distilled spirits in excess of the average amounts exported during a five year period ending June 30, 1974.

The increase shown in resources collected in fiscal year 1976, just ending, as compared to those initially estimated for that same year, has made it necessary to modify the estimates of expected resources in fiscal year 1977, just starting. The budget for current fiscal year, 1977, which was submitted to the Legislative Assembly in March, but which was prepared on the basis of collections up to January, assigned funds reaching \$1,291 million. The recently accomplished routine revision of estimated resources of the general fund for

fiscal year 1977, part of the budget making process, showed an \$86 million increase in the available resources for the current fiscal year.

This \$86 million is the additional resource available which I announced on my July 25th. speech, and which, through legislative action, has been assigned to enlarge and improve essential government services. As you will realize, this is not a question of a surplus of funds already collected by cutting expenses and raising taxes, and which will now be at the government's disposal, as some people who don't know anything about public finances have proclaimed. It is a question of an increase in the estimated income to be collected throughout the current fiscal year, from now and ten and a half more months to come; and it is justified, as I pointed out before, by the ascending course of the economic activity of our country.

It is important to make clear, that even with this substantial and welcomed increase in the expected resources for this fiscal year, our tight budget situation is not totally surpassed. We still have to fulfill postponed obligations reaching some \$54 million. We have also important debts pending with public corporations contracted by the central government, and we still owe around \$100 million to the public employes retirement system. And of course, we still have a long way to go in order to reach satisfactory levels in availability and quality of public services.

As you can well see, we are still far from reaching that rhythm of economic growth which we once had. But undoubtedly, the worst has passed, and we are coming to better times. This recovery is the result of the joint effort of a people and a government who knew how to face a difficult situation.

In January, 1973, when I undertook the position of governor, I never dreamed that we had ahead of us two years of the worst economical storm of our recent history. Nevertheless, our ship, with a firm - though not always nice hand on the rudder, and with the strong collaboration of its good crew and all the passengers, has endured all the beatings of the storm.

We, Puerto Ricans in general, without party differences or any others, can be proud for the way in which our country faced this bad stroke of destiny. Contrary to other countries, we have come afloat, maintaining our credit and without suffering serious economic or social losses.

All the contrary, now that the danger is over and we are reaching port, we are facing a more attractive future with new strength and new hopes in the certainty that all united, we shall be able to construct a better Puerto Rico for ourselves and for our children.