



FUNDACION

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GOVERNOR OF PUERTO RICO,
RAFAEL HERNANDEZ COLON,
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I am happy to have the opportunity of meeting with this distinguished group of representatives from the financial community. It is gratifying to know that such close ties have been built up over the years between Puerto Rico and the U. S. financial community. You can be assured that under my administration we shall strive to strengthen these ties in every way possible. In view of this close relationship, I feel that it is especially fitting that my first stateside speech as Governor be addressed to an audience such as we have here today.

We are all aware that investment is a prime ingredient in the process of economic development, and the creation of a strong and orderly financial environment is fundamental to the attraction of financial resources in any expanding economy. It is generally recognized that the financial aspects of the economic process must be given top priority when designing any programs aimed at strengthening the economy.

Today I shall try to give you some idea of the course which Puerto Rico will strive to follow in this vital area of finance and economic development. First of all, it will be a primary objective of my administration to foster the highest rate of economic growth which conditions will permit. You are all aware that Puerto Rico's economy has been expanding at a favorable rate for many years, but

we still have a long way to go to catch up to the per capita income levels of even the lowest per capita income state of the United States. We also continue to have an unemployment rate which must be brought down to more tolerable levels. All sectors of our economy must be further strengthened.

As you know, industrial development has been the principal factor responsible for our forward march over the years since the original "Bootstrap Program" was inaugurated in the 1940's, under the administration of Governor Luis Muñoz Marín. We are indeed fortunate to have the principal architect of that program back on my development team, Mr. Teodoro Moscoso. Mr. Moscoso has returned to his old post as Administrator of the Economic Development Administration. We now intend to strengthen and expand Puerto Rico's incentive program, so that the Commonwealth will remain attractive and competitive with other areas. We shall encourage the expansion of manufacturing industries wherever possible.

Tourism is another area that continues to offer great promise for the future. We intend to exert every effort to assure that this sector of the economy will also maintain a healthy record of growth.

In the agricultural sector we will have to move ahead with new vision, seeking to improve performance. We must maximize efficiency and concentrate on the production of those items which offer the greatest opportunities. Our programs in agriculture must be aimed at achieving economic viability. Certain programs which are

now heavily subsidized will be reexamined with the objective of achieving a higher level of productivity.

In dealing with the economy, however we should keep foremost in our minds that economic system must serve human beings --those who participate in the system and make it run. A civilized system also cares for those who can only participate marginally or not at all, victims of circumstances which deny them an adequate standard of living sufficient to meet basic needs. We will strive to bring into the lives of all at least the satisfaction of these basic needs. Social justice demands this.

Toward this end we intend to tighten up our tax collection system to make sure that all really pay their fair share in this moral undertaking. We also anticipate a review and reform of the tax system itself, seeking to iron out inequities. We intend to review the existing system of supplying health services in order to develop better and more equitable methods for delivering those services to all Puerto Ricans.

In bringing about these changes we are fully aware that they must be devised in such a manner that our basic objective of economic growth will not be crippled. Certainly, we will do nothing which would undermine our system of industrial incentives.

Despite an outstanding rate of economic growth and the growth in absolute employment, a high ~~un~~employment rate continues

to be one of the painful realities afflicting Puerto Rico. Unfortunately the problem often originates through an inability of available hands and minds to offer the skills needed to satisfy existing or potential job opportunities. Further changes in productive technology generally, and changes in Puerto Rico's economy in particular, put a premium on trained workers. Further, life in a growingly complex society makes the lot of an unskilled and undereducated human being a very unsatisfying experience.

We must hold more of our young in school and offer them a basic education which they can use on a day to day basis. We must find better means of preparing the young adult to hold down a job, to learn and perform technical skills with diligence. Aside from the preparation of more of the young to enter the labor force as skilled workers, we must step up our efforts to prepare those already in the labor force for positions where higher levels of skill are required, or for a marketable skill if they are unemployed. We will strengthen the family planning program established during the previous administration. We do not have all the answers and the process of developing them is difficult, but it must be done. We cannot afford to do otherwise.

We also look forward to improvements in the area of public administration. In Puerto Rico the organization of public services

is almost entirely the function of the Commonwealth Government, while the role of the municipal subdivision is more restricted than is the case generally on the U. S. mainland. The Commonwealth Government invests directly in certain traditional activities such as education and public protection. However, services which can be placed on an economic self-sustaining basis are administered in Puerto Rico by autonomous public corporations. Over the years this arrangement has generally worked well. However, it is our firm intention to look for every means to improve and better coordinate the work of the various agencies; to secure from each the maximum possible efficiency and highest quality of service in their operation.

We intend to make sure that the sum of the efforts of all the agencies fully serves our society and our economy in the most effective possible manner. We must insist that when each invests, when each borrows, it will be done with prudence and a conscious purpose, and according to a well thought out plan which integrates the efforts of all. Naturally, in seeking these ends, Puerto Rico will scrupulously respect the financial autonomy of its public corporations and the interest of investors in their debt obligations. Our good credit is a highly prized asset and every move will be taken with the understanding that it can and will be enhanced.

In describing our intentions for the future, the logical question in is who is going to manage Puerto Rico's public effort. Who is

responsible to make intentions stick and to convert aspirations into reality? The government which I head as Governor has been very fortunate to recruit highly capable and motivated men and women. Some are of an older generation than my own; who have accumulated a treasurehouse of experience and have a demonstrated record of performance. Many are of my generation. They are young. They are serious, well trained, performance --oriented, with a record of participation in the real world.

In broad outline I have presented a picture of our economy what we intend to do, and the type of public officials who will carry out our purposes. However, there is still one more ingredient. It involves each of you. We need your continued interest in a people, U. S. citizens, on an island some 1600/distant from New York. We trust that you will have faith in our efforts. To do what we must do requires a continued process of investment and this requires a continued process of investment and this requires a steady flow of financial resources, greater than can be generated locally at this time. Hence, we must continue to borrow externally. When our governmental bodies go to the investment community in search of funds, you can be certain that they will come as units of a responsible government, both morally and financially.

You are all aware that recently Puerto Rico has been going to the market with greater frequency. But I would like to emphasize

that in the face of Puerto Rico's sustained economic advances, its debt burden remains at reasonable levels. As you know, the general obligations issued by the Commonwealth are governed by an up-to-date limitation written in our constitution which directly relates debt incurring capacity to income. The formula operates as follows: debt service is limited to 15 per cent of the average annual internally derived income of government calculated for two previous years. Under this formula, the Commonwealth has an ample free margin today.

Municipal debt is also carefully administered and judiciously controlled in Puerto Rico. The debt limitations are 5 per cent of assessed value on real property for small municipalities and 10 per cent for large municipalities. There are no further overlapping tax and debt jurisdictions such as town, country or special districts.

The third type of Puerto Rican government debt arises through the marketing of revenue bonds issued by the public corporations. These issues, as you know, are selfsupporting. Debt payments are made from earnings, and ample coverage must constantly be maintained.

Just a word about political status --I am sure that you all recognize the important advantages of our Commonwealth arrangement, both to Puerto Rico and to the United States. In the economic

sphere, Puerto Rico's position within the U. S. monetary and credit area has greatly facilitated public borrowing, just as it has fostered an influx of private capital. The fact that income on Puerto Rican public debt issues is exempted not only from Federal but also from state and local taxation, has added to the attraction of these securities in the United States.

I might add that we hope to develop further this unique Commonwealth status --a concept in creative federalism that binds together, in common purpose, Puerto Rico and the United States in permanent and dynamic union.

As partners in the vigorous and purposeful efforts which I have outlined, I assure you that we will do our utmost to keep you fully informed. The Government Development Bank will continue to serve as Puerto Rico's principal point of contact with the financial community, a role --I am sure you will agree-- which is has carried out effectively and efficiently in the past.

As I have indicated, a steady flow of investment from abroad, both public and private, must be maintained. The support and cooperation of the U. S. financial community in this endeavor is indeed indispensable. I assure you that we will strive to merit the continued confidence of investors, and I trust that you will continue to participate with us in creating a brighter future for Puerto Rico.

Thank you.