



MESSAGE OF THE GOVERNOR OF PUERTO RICO
HON. RAFAEL HERNANDEZ COLON
TO THE MEMBERS OF THE DIEBOLD GROUP AT THE
CERROMAR HOTEL
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All over the world, the growth of government as an active participant in the general realm of economics and business has become an evident, though sometimes unsettling reality. To you who are closely linked with multi-national business, the role of government is not only evident, but has become a factor of increasing importance. Problems of competition in products and services, international and economic boundaries, labor conflicts and inflation all have become everyday fare for industries and businesses great and small, and in every one of these areas the government's role has shifted from onlooker to active partner. A close relationship between government and business is now an established fact.

Areas outside the purely economic which today see the direct intervention of government are population, the growth of which the state must cope with in one form or another, education without which no nation can expect to grow and develop; health, which has come to be considered as a social right, not a privilege; and citizen protection, a matter everyday more complex and difficult as urban growth creates

new situations and new problems.

As society has grown and prospered, so has the business world. Production, sales, and profits are today at levels never before imagined. The stock market broke the 1000 barrier, U.S. Gross National Product has gone beyond the trillion mark, and man can think of commercially exploiting the moon without being labeled a lunatic.

So now we find ourselves in a situation in which government and business must coexist if progress is to be kept from becoming our end instead of our goal.

It is easy to understand the need for pollution and auto safety legislation; in other areas, however, where the health or survival of mankind is not at stake, the justification for the developing relation between government and business is equally as important. Its fundamental basis is the Common Welfare.

This is true for the whole world. But in the case of developing societies which are reaching or have passed over the threshold of industrialization, this relationship is of crucial importance. This is certainly the case of Puerto Rico, a country which was almost completely agricultural only 35 years ago.

In Puerto Rico, as in the other developing societies, we have found that rapid economic development can take place only when the

government works actively with private enterprise. We have also seen that economic theory doesn't provide all the answers to the problems of our modern, complex society. Value judgements must enter into play to temper and mold cold theory to the vital realities and needs of people.

Thus, we found 30 years ago that if government did not itself take the initiative, the tourist industry would not have become a reality in Puerto Rico, as it did once the famed Caribe Hilton was built under public auspices. This was to be the seed out of which has developed an entire hotel industry. We also found that government had to take the initiative in stimulating such industries as cement, paper, glass, fruit canning, and other industrial concerns which we had to start and operate until private enterprise was convinced that such concerns were indeed viable.

However, to industrialize an entire society another approach was necessary. Thus began the world-famous Operation Bootstrap, a model for fruitful government-business cooperation. This cooperation took the form of incentives and benefits in order to attract private enterprise to Puerto Rico. Thus, our Economic Development Administration, Puerto Rico Industrial Development Company, and the Government Development Bank, offer tax exemptions for up to 25 years, flexible depreciation after tax exemption to effectively prolong the no-tax

effect, pre-developed plant sites and buildings and long-and-mid-term financing to industries.

The records show that we in Puerto Rico have fared reasonably well in our efforts to stimulate business and to cooperate with the industrial sector for the Public Welfare. Prior to June 30, 1949, there were only 52 industrial enterprises operating in Puerto Rico. In July 1949, our government began the industrialization program through its development agencies which continues today. Before five years of the program had gone by, 313 new industries had been promoted, with more than 102,000 jobs created. Today the thousands of industries and businesses, testify to the immense significance of what has taken place here; a complete reordering of the infrastructure of Puerto Rican society along the classic lines of an industrially developed community. Puerto Rico is today much more than a tax haven, it is a good place to operate from, to work in and to live in.

As a result of our industrialization, we are subject to the same interplay of economic forces which affect the older developed societies. None of these factors has had more serious implications for the Common Welfare than the rising spiral of inflation. Rising prices have been inexorably eroding the community's capacity to maintain adequate standards of living and consumption, in an even more alarming fashion in Puerto Rico than in the United States itself.

Realizing that we in Puerto Rico have no control over the prices of commodities in world markets, we are attempting to deal vigorously with those internal factors which are subject or amenable to government intervention. To this end we set up a three phase attack, similar in many ways to the experience in the United States. In the first phase the Consumer Services Administration and Price Stabilization Board froze prices on articles of prime necessity. In that period we studied all the alternatives to make the system more flexible to our reality.

Second, a profit guarantee plan based on subsidies to importers and producers has been implemented and funded by a special temporary tax on corporate incomes. Third, we have created a public Import and Distribution Corporation with powers to buy basic food stuffs on the international market, and import and distribute these commodities to wholesalers and retailers. Through this mechanism we are leading the way in an effort to show the private importers how to make use of modern market tools such as hedging. This agency will make use of these modern techniques to stabilize prices for the retailer and consumer and to stimulate competition.

The stimulating of competition is thus an important factor in the relationship between government and business. The food import sector in the Puerto Rican economy has been characterized by certain monopolistic tendencies. When these tendencies affect the Common

Good, then it is the duty of the government to step in to protect society - in this case from a drastic and in some areas, unnecessary rise in prices.

In both the short and the long run, the special effect on business caused by the government's intervention is beneficial. The result will be streamlined and modernized business methods by the import and distribution companies which will help to maximize profits and at the same time provide better services to the consumer. These measures have met with mixed reception, as have the President's attempts to control inflation in the States. Knowing full well that in terms of a traditional demand and supply analysis the active intervention of government in price control is anathema, we have gone on with the measures described earlier on the basis of the general welfare.

Even in specific problems such as inflation and pollution are discounted, our very special condition as a small and developing country virtually insures that our government will continue playing an important and very active role in relation to private enterprise. Our country requires growth of capital investment, be it from private or public sources. That this does not represent the demise of private enterprise has been historically a concept which is difficult for private enterprise to assimilate. I have the firm conviction that acceptance of an overall

plan for the economy is a function of meaningful communications between government and business. It is not our goal to infringe on the rights of private enterprises, but to include the effective participation of private enterprise in the government planning functions.

We have defined one side of the relationship between government and business in developing societies such as Puerto Rico. The side that corresponds to business turns out to be relatively easy to specify once the government's role is clear. The categorical imperative of the public welfare must also be paramount for business, if for no other reason than that its own self-interest is gratified in proportion to the economic growth and well-being of the community as a whole.

This well being of the community as a whole is not to be achieved at the expense of individual citizens. Neither does it imply that certain businesses or industries must suffer in order that a government master plan be achieved. This should be a given for developing societies.

It does imply, however, that enterprises must look beyond that narrow and immediate conception of private gain which excludes the common good. It means taking the long view that input into a host society must match to a certain extent the output of that society into the industry. It means modernizing operations and business methods to permit the lowest possible prices to the society in general. Above all, it means working with government to define common objectives in common terms.

These are some of the social Obligations and Opportunities for Business in a society which is rapidly developing such as Puerto Rico.

It is a happy corollary to our devotion to personal and corporate freedom that obligations and opportunities merge in the long run into the Common Good. It is imperative that both government and business develop the vision which will permit this merger to take place, thus achieving the maximum economic and social justice for all.

Thank you very much.

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