



REMARKS BY THE GOVERNOR OF THE
COMMONWEALTH OF PUERTO RICO
HONORABLE RAFAEL HERNANDEZ COLON
AT THE MUNICIPAL FORUM OF NEW YORK

APRIL 5, 1974

Thank you Mr. Thompson and a good afternoon friends.

In order to keep within my allotted time and allow maximum time for the questions which I am sure you have, I have kept my prepared remarks brief.

The friendly relationship between the investment community that you represent and the Commonwealth of Puerto Rico has been a long and mutually beneficial one. The confidence and support that you have given us in the past have contributed most significantly to the economic and social well-being of the people of Puerto Rico.

I am here today, therefore, representing your friends and fellow citizens in Puerto Rico, to thank you for your faith in our ability and determination to accomplish what may at times have seemed an impossible task -- the transformation of Puerto Rico into a dynamic, democratic society.

The people of Puerto Rico have come a long way in the past three decades.

Consider, for example, the fact that in 1940 net per capita income was a meager \$121; in 1973, it stood at \$1,834, higher than anywhere in Latin America. Consider also that life expectancy in 1940 stood at 46 years; today, it is 71 years, an increase of more than 50 percent and actually above the United States national average of

70.2 years.

Beginning in the mid-1950's, Puerto Rico undertook an extraordinary effort to improve the educational level of its people. Since then, public expenditures for education have accounted for a third of the Commonwealth's total annual budget. As a result, primary and secondary public school enrollment has increased from 431,000 in 1950 to 711,000 in 1973. Enrollment at the University of Puerto Rico has gone from 11,000 in 1950 to 48,000 in 1973, with another 28,000 attending private universities on the island. This year, total university enrollment is estimated at nearly 90,000.

Over the past three decades, our ability to upgrade the quality of life in Puerto Rico, to develop a new generation of healthy and better-educated people, depended almost entirely on our ability to provide for their economic well-being.

That was -and is- a primary challenge. It has required innovation and dedication to overcome the harsh economic realities of a small overpopulated island lacking natural resources.

People were our basic resource then. People who tried to survive in our failing sugar economy. People who needed the dignity of steady employment at a decent wage.

Clearly, the need was to industrialize and to make full use of the fiscal autonomy provided by Puerto Rico's unique relationship with the United States; that of a Freely Associated State - Estado Libre Asociado.

To achieve this goal, "Operation Bootstrap" was created and the Economic Development Administration or Fomento as we refer to it in Spanish carried forth this energetic development program, based on such attractive incentives as 100 percent exemption from federal taxation, Commonwealth tax holidays of from 10 to 25 years, free access to the mainland U.S. market, and the stability of operating within the United States dollar area.

In two decades these efforts produced the following dramatic results:

-- Manufacturing represented 24 percent of a total net income of \$5.3 billion in 1974, as opposed to 14 percent of a total net income of only \$614 million in 1950.

-- The economic growth rate, one of the highest in the world since 1960, was 11 percent in 1973, as against 5 percent in 1950.

-- Manufacturing net income increased from \$80 million in 1950 to \$1.2 billion in 1973. And average manufacturing employment went from 55,000 in 1950 to

151,000 in 1973.

The successes of Puerto Rico's economic development can be recounted endlessly in statistical form, but the real significance of Puerto Rico's accomplishments is in human terms -- in better housing, health services and education opportunities.

Our task, however, is far from complete and, while Puerto Rico is an island, it is not isolated from the pressures of the world in which we all live.

The energy crisis, for example, can have a major impact on a society such as ours where 99% of energy needs are met by oil.

Inflation is a major problem throughout the world, but in Puerto Rico, where imports represent a very large percent of consumer goods, it can have greater impact on the purchasing power of the people.

These new factors have added to the long standing problems of Puerto Rico - problems that grow more complex as do the intense times in which we live.

To continue to solve these problems effectively, Puerto Rico must be able to reshape its strategy to meet changing realities.

"Operation Bootstrap" was the prototype for industrial development and has served as an example for

others to follow. It attracted labor intensive industries in the late 50's and early 60's. It attracted the capital intensive industries in the late 60's which, when fully integrated, will serve as essential raw material bases for a new galaxy of consumer product industries.

The efforts to attract labor intensive industries and fully integrate heavy industry are continuing.

We realize that Puerto Rico's industrial development program is now only one among many, and that to continue to attract traditional industries as well as the array of new high technology industries that have sprouted in recent years, Puerto Rico must adjust and modernize its industrial infrastructure and redouble its promotional efforts.

For this reason, Puerto Rico has -- in the past year -- been developing a number of major industrial support projects, which will enable us to meet the challenges of new industries and fully integrate our existing industries.

These support projects include: a deep water superport and refining complex, the development of copper deposits found on the island, the purchase of the Puerto Rico Telephone Company from ITT improved shipping services, and the establishment of a regional industrial

and tourism complex at the former Ramey Air Force Base in Aguadila.

SUPERPORT

The energy crisis has driven home the need for a superport in Puerto Rico. Crude oil is the life blood of our industrial complex. As a result of expanded electric generating capacity, we have been able to guarantee that the wheels of our industries will continue to turn without stoppages. The Puerto Rico Water Resources Authority is programming additional capital investments exceeding \$500,000,000 over the next four years. This, plus the steps already taken, will provide Puerto Rico with ample reserve and operational generating capacity to meet the demands of the island's growth. But that generating capacity depends on the ready availability of fuel oil. The superport will assure that availability at the most competitive price possible. Also it will provide the raw material so essential to the further expansion of our petrochemical industry - an industry whose total investment has already grown to \$1.5 billion, and whose expansion by 1976 will add an investment of \$300 million.

I have instructed Fomento to proceed with dispatch in selecting a final site for the superport, and advanced

engineering studies indicate that the development of the port facility the tank farm and the additional refining facilities can go ahead with a minimum of delay.

COPPER

Until recently Puerto Rico was thought to have no natural resources to speak of, but we now know that the central region of the island contains substantial copper deposits, with a potential yield of about 1.5 million tons. For the past decade, the Commonwealth has been studying the positive and negative aspects of mining this vital resource and it is the goal of my Administration this year to come to a final determination on the most favorable method of developing these deposits.

The primary consideration here must be the benefit to the people of Puerto Rico and the potential contribution to one of their most pressing needs - employment.

In order to convert copper into substantial employment opportunities, my Administration will only permit its extraction if the total undertaking includes smelting, processing we can attract satellite industries including fabricating plants and other labor-intensive operations to the island. Obviously, we intend to reap maximum economic benefits from our copper deposits, which

are today conservatively estimated at a value of more than \$2 billion.

Regarding the environmental impact of the mining of copper, our Natural Resources Department has assured me that we will be able to proceed with this project, with all the necessary safeguards required to protect the public interest. The technology exists to mine this resources without destroying the land.

TELEPHONE COMPANY

Communication, the link between a salesmen and his customer a manufacturer and his supplier, is an essential part of the industrial community's daily operation and is an area in which Puerto Rico has been lacking. The basic problem has been that our privately owned and operated Telephone Company has not been able to keep up with rapid growth.

For many years, this has been a serious concern to the people of Puerto Rico and their Government, and while every effort has been made to improve the level of communications services, it became apparent that the cost of privately financing the necessary expansion was prohibitive.

It became obvoius that the government could finance

the necessary expansion of service at a lower cost than its present owners could, so a determination was made to purchase the Telephone Company.

The use of public financing to improve the system promises possible future savings to the people of Puerto Rico.

The Legislature is presently conducting hearings on the creation and structuring of a Telephone Authority which would be responsible for the island's communications.

SHIPPING SERVICES

Over the last two years, ocean cargo rates in Puerto Rico have risen approximately 50 percent. This represents a hardship to our industrial community and a significant burden to the Puerto Rico consumer. Our raw materials and machinery as well as most foodstuffs are imported; the bulk of our manufacturing production is exported. Given our lower per capita income and greater dependence on external trade, it is estimated that the impact of increased shipping rates is 21 times greater in Puerto Rico than in the United States.

One way to help offset these high costs is to further increase fleet productivity. The merchant fleet presently

serving Puerto Rico needs now equipment for optimum productivity. Therefore, we are now negotiating to lease appropriate vessels and lease or purchase the equipment of the three major shipping companies now serving Puerto Rico. The cost of this acquisition will be between fifty and seventy million dollars (\$50-\$70 million).

The rationale is clear. By operating the merchant fleet through a public corporation and private management, we should achieve important savings by modernizing equipment and utilizing it at maximum efficiency, thus providing greater cost protection to the Puerto Rican consumer. In addition, however, and perhaps more important, Puerto Rico will be able to establish more flexible rate structures which will help attract, maintain and expand manufacturing operations that rely on shipping.

REGIONAL DEVELOPMENT CENTER

Plans are now being developed for the conversion of Ramey field, formerly a SAC Air Force Base, into a major complex for industry. The complex would include an aeronautical center, tourism facilities, an industrial park with a foreign trade zone, and a research and technological development park.

The benefits to Puerto Rico's economy from this

complex can be substantial. The terms of employment alone, it is estimated that it will create from 5,000 to 10,000 jobs in the industrial park and the aeronautical center, and another 600 to 1,200 jobs in the tourism facilities. Most important, however, is the fact that the center will open the door to the kind of technological research, development and production that Puerto Rico needs to carry in into its third and perhaps most significant phase of industrial development -- establishment of highly sophisticated manufacturing industries that require a highly skilled labor force.

This brief description outlines five major industrial support projects which will give new thrust to the economic development of Puerto Rico. These major projects will create a whole new generation of industries, such as shipbuilding, automobile assembly, fabrication of metals, - in short, a wide spectrum of high-technology industries.

We are confident that Puerto Rico can achieve the new economic goals set for itself, just as it achieved earlier goals. It will not be easy and it will require the continued support of this financial community.

Puerto Rico seeks that support based on sound fiscal policies. The Commonwealth's public debt, not including its public corporations, now stands at \$940 million. The

annual payment of principal and interest on bonds now outstanding is approximately \$81 million.

The Commonwealth's constitution sets the debt limit at an annual debt service requirement of not more than 15 percent of the average revenue for the two preceding years. Debt service including the \$75 million issue sold in February now amounts to only 10.2% the average revenues for the two preceding years.

I have proposed the authorization by the Legislature of bonds in the amount of \$225 million, most of which will not be sold until next year. Based on the estimated income for the two fiscal years '72 and '73, our debt service if all the bonds are sold by the end of fiscal '75, will still be only 12.3% of average revenues. Our maintenance of sound day-to-day fiscal policy also takes into consideration the fact that costs involved in operating government today are rising generally. Puerto Rico has not been more fortunate in this area than have governments elsewhere. To meet the need for additional income, my administration has submitted to the legislature a package of tax proposals which should produce almost \$100 million annually. The largest single item would involve an increase in the real and personal property tax to yield an additional \$50 million during the first full

year.

Corporate tax rates have been scaled upward to yield an additional \$11 million. Here I want to emphasize that this will not touch tax exempt industry which is so fundamental to Puerto Rico's continued economic growth. Tax changes will also apply to certain electrical appliances, aviation gasoline, the income of savings and loan associations, as well as cigarettes and racing.

The full impact of these tax measures is expected to be felt during the next full fiscal year, although there will be some additional inflow of revenue during the present fiscal year.

To deal specifically with the question of financial planning, last year my Administration organizes a Finance Council to facilitate inter-agency coordination in this area. Moreover, we have formed a special committee of outside experts to undertake a comprehensive review of Puerto Rico's financial structure in relation to long-range planning. This committee is chaired by Professor James Tobin of Yale University and will thoroughly re-evaluate Puerto Rico's financial and credit policies in terms of our continually changing economic conditions. One of the members of this committee is Ralph S. Saul, Vice Chairman of the First Boston Corporation.

We fully realize that in order to maintain our dynamic growth we must be as innovative and responsible in our financial programming as we are in our industrial promotional efforts.

In addition to the major industrial support projects already mentioned, we are going to make our existing industrial incentives, including tax exemption, more relevant to present-day manufacturing realities. We are also broadening our promotional targets to include Japan, where Fomento already has an office, and Europe, where a Fomento office will shortly be established.

To sum up, we are optimistic that the improvements, coupled with the major new economic developments now under way will help achieve the necessary economic progress to provide a meaningful and rich life for Puerto Rico's present and future generations.

As you know, the economic growth of Puerto Rico has been built upon our unique Commonwealth status and relationship. The people of Puerto Rico, in free association with the people of the United States, enjoy common citizenship, a common defense, a common currency and a common market. This common bond, coupled with the largest possible degree of fiscal and political autonomy, has allowed Puerto Rico to address itself energetically

and effectively to the pressing social and economic problems it faces.

Specific details of this interdependent relationship are now under study to seek ways of further developing and improving Commonwealth status within permanent union with the United States to make it more relevant and responsive to the needs of the people of Puerto Rico today.

To this end, the President and I appointed a joint Ad Hoc Committee las September 27th to study and make recommendations for possible changes in specific areas of the Commonwealth's relations with the Federal Government. The Committee is co-chaired by former Governor Luis Muñoz Marín and Senator Marlow Cook of Kentucky. The Committee is now in the process of conducting public hearings and preparing its recommendations.

Whatever its conclusions, the development and improvement of Commonwealth status will serve to strenghten the permanent union between our people. For time has proved that as the people of Puerto Rico have acquired wider responsability in managing their own affairs, their common bond with the United States has gained greater strenght.

The Commonwealth of Puerto Rico looks forward to the continued participation of this financial community in our

progress. For it has been this collaboration of interests, within the context of our interdependent Commonwealth relationship with the United States, that has made the Puerto Rican story a resounding success.

Thank You.

And I will now entertain any questions.

