

NEWS FROM PUERTO RICO

COMMONWEALTH OF PUERTO RICO . ECONOMIC DEVELOPMENT ADMINISTRATION
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SPEECH OF THE GOVERNOR OF PUERTO RICO,
RAFAEL HERNANDEZ COLON, TO THE PAN
AMERICAN SOCIETY IN NEW YORK
FEBRUARY 13, 1975

Mr. Nicholas A. Liberatore, President of the Pan American Society, and distinguished guests. It is a pleasure for me to come to New York to address you today. It is an added honor to know that such men as Galo Plaza preceded me at this podium. It is also a pleasure to address a group that includes my good friend Arturo Toro, of the American International Underwriters.

It has been a long year for us in Puerto Rico. Our problems, like the rest of the world, have been economic in nature. We saw our growth slow for the first time in two decades, factories are closing because of the mainland recession, unemployment is rising and government income is falling. It is of little comfort to know the picture is the same in most states of the Union and most countries of the non-communist world.

Puerto Rico has been particularly vulnerable because of the open nature of our economy. Like Japan, we are a country that imports most of its food and most of the raw material needed for our factories. We also import all of our energy supply. The immediate effect has been soaring inflation.

At the Commonwealth level, here is what inflation has done to us. By the first half of 1974, the price per barrel of Puerto Rico's petroleum imports was four and a half times higher than in the corresponding period of 1973. Puerto Rico, which imports most of its oil from Venezuela, is totally dependent on petroleum to meet its energy needs. The oil hike represents a net drain of around \$350 million from the Island's economy. On top of this "leak," Puerto Rico last year paid an inflationary increase of \$115 million on imported food, \$64 million more in freight rate increases and \$75 million more in interest rates. Added up, inflation now is annually draining some \$600 million from the Island's economy, or an equivalent loss of 9 per cent of the Commonwealth's gross product. Inflation has since begot recession. First affected was the construction industry, a vital sector of Puerto Rico's economy. This came early when the Federal Reserve Board was following a tight money policy in an attempt to control inflation. Then, car sales began to slump followed by a downward trend in the purchases of durable goods, like electrical appliances.

Consequently, we have had to temporarily postpone plans and divert resources, but, the Puerto Rican people, my administration, and myself have faith that we can ride out the storm. In the meantime, we have been mustering every resource of our small Island to battle the world's latest "economic spill".

From the start, we adopted an expansive fiscal policy to stimulate the weakening economy. We put heavy emphasis on capital investment to bolster the construction industry, while greatly expanding our budget to provide direct jobs for the unemployed. We are also the only government entity under the United States flag to adopt a price control policy, to prevent price gouging on essential food items.

Last year, we also made two key acquisitions to both fight inflation and strengthen the Island's industrial base. The first of these purchases involved the Puerto Rico Telephone Company. For many years, the expansion of telephone service had not matched demand. In a move to improve service while at the same time assure the least possible rate increase, the government bought the company. We have since mapped out an \$600 million expansion program to bring service to mainland standards within five years. To help, we have contracted the American Telephone and Telegraph Company to provide the government telephone company with the needed technical assistance.

Shortly thereafter, the government also purchased the three major shipping lines serving Puerto Rico. The importance of the maritime service to Puerto Rico cannot be overstated. We are more than 98 per cent dependent on maritime commerce for our exports and imports. The value of such commerce adds up to more than our total net income. No country in the world is as dependent on outside trade.

Over the past two years, ocean cargo rates in Puerto Rico rose more than 55 per cent, representing severe hardship to our industrial community and a significant burden to the Puerto Rican consumer. Given our lower per capita income and greater dependence on external trade, the impact of increased shipping rates is 21 times greater in Puerto Rico than on the mainland. The best way to offset these costs is to increase productivity of the fleet. A public authority with private management, will allow Puerto Rico to achieve savings by eliminating needless duplication and by modernizing service and bringing it to peak efficiency. We expect this move will not only help the Island's consumer and industrial sector, but the government in attracting and expanding manufacturing operations that rely heavily on ocean shipping.

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I want to make it clear, as I have in the past, that the purchase of both the Telephone Company and the Shipping Lines, were conceived and carried out in the spirit of pragmatism. They were steps that were taken as a matter of necessity and not ideology. They were moves to build and expand our industrial base, not to destroy or reduce it.

The government also has under consideration additional projects to bolster the industrial sector. These include plans for the conversion of Ramey Field, a former SAC Air Force Base, into a major development complex for industry. The complex would include an aeronautical center utilizing the present airstrip; a moderate-priced tourism center and an industrial center with a research and technology park to attract more sophisticated industries and high-caliber scientist-technicians.

I also want to take this opportunity to single out the job being done by the Economic Development Administration, known in Spanish as Fomento. In face of last year's economic horrors, Fomento significantly lessened the impact of the United States recession. Their success was due partly to a renewed effort on the part of Fomento employees and partly because of new programs and policies. One of these new programs is Pre-Employment Training (PET), which is aimed at training potential employees for a given promotion at government expense before the plant actually opens. In this way, we save the investor both time and money otherwise lost if he would have to train the employees himself after the plant opens.

Our 100 per cent tax exemption program -- the prime mover of our industrialization effort - has also been expanded from 25 to 30 years in certain areas.

As a result of these efforts, promotions of new plants in fiscal year 1974 amounted to 376 industrial operations, including significant extensions of existing plants with a potential employment of nearly 23,000 persons. This surpasses results during fiscal year 1973, when total promotions were 347 operations and potential employment was estimated at 20,000.

In calendar 1974, Fomento promoted 170 new plants, not including expansions, as against 150 for calendar 1973. Since September, such blue-chip companies as Abbott Laboratories, Union Carbide, General Electric, and W.R. Grace, have expanded their facilities, while Du Pont, Owens-Illinois and Avon, have joined the growing number of major corporations operating in Puerto Rico. Overall, in face of the drastic plunge of the mainland economy, Puerto Rico lost only 7,000 manufacturing jobs in 1974.

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The economic slump or "inflump", as it is now called, (I wonder how you would translate "inflump" into Spanish), is all but murdering government income. Right now we are fighting dollar by dollar, item by item, to balance a \$200 million deficit in the current fiscal budget. Our Constitution requires we balance the budget at the close of each fiscal year.

To make up the deficit, the Commonwealth Legislature recently approved a 5 per cent excise tax on all goods, except food, medicines and those already subject to an excise tax. In addition, I have proposed a 15 cent a gallon additional tax on gasoline, which has not yet been submitted to the Legislature pending definite action by the Federal Government on the proposed license fee on imported petroleum.

Moreover, we have had to make substantial cuts in the existing budget. We have, for example, frozen all government positions, stopped purchases of new equipment and cut down on government contracts. We have also had to lay-off more than 2,500 government employees, but most can be rehired with special Federal Emergency funds.

Before closing, I want to touch briefly on a series of events that culminated recently in a ghastly and despicable incident here in New York City. Late last year, some 3,000 workers of the government owned Aqueduct and Sewer Authority, declared an illegal strike. This strike lasted 39 days and was accompanied by sabotage and bombings against government owned property. We believe the sabotage was instigated by leftist political elements, who were trying to ingratiate themselves with the strikes. As a result of these acts, I was forced to call out the National Guard to protect government property and essential services to the people.

Then, in December, while Vice-President Rockefeller and Secretary of State Kissinger were vacationing in Puerto Rico, two Chase Manhattan Bank branches were damaged by bomb blasts set off late at night. There were no injuries.

On January, apparently in retaliation for the previous bombings, a bomb exploded in a restaurant near the site of a public rally being held by the Puerto Rico Socialist Party, an avowed Marxist group that advocates independence for Puerto Rico. The blast -- the first in recent history which was aimed against people -- killed three persons. It was this blast that supposedly was the motive for the Fraunces Tavern killings here in New York City.

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A group called the Armed National Liberation Forces of Puerto Rico, claimed responsibility for the Fraunces Tavern bombing. We know very little about this group. We don't even know if they are made up of Puerto Ricans. However, they are obviously made up of very dangerous and maniacal persons, in all likelihood, brain-washed and trained in Cuba.

There is no doubt they represent a potential threat to the peace and well-being of the Puerto Rican people and the people of New York. But I want to assure you that they will not prosper. They will not prosper because they have no public support whatsoever in Puerto Rico. They are operating in an ideological vacuum without the support or sympathy of the Puerto Rican people. They claim they are fighting for the independence of Puerto Rico, but our people have time and time again rejected independence as the political road of Puerto Rico. In the 1972 general elections, the Puerto Rican people by free and secret ballot, gave less than 5 per cent of their votes to the party advocating independence for the Island. They will not prosper because over their long history the Puerto Rican people have rejected violence as the means to resolve their status problem. In fact, the Puerto Rico Independence Party, which was the party that won less than 5 per cent of the votes in 1972, has publicly repudiated violence. Puerto Rico is not an Algeria, or a Northern Ireland as these fanatics fantasize. These people will eventually be hunted down by the FBI, or by our local police. They will fail.

Therefore, we should not let these crimes mar the name or obstruct the progress of the Puerto Rican people. And I am sure they will not succeed. I have confidence in the capacity of Puerto Rico to overcome the current crisis and to forge ahead with determination and intelligence. I have confidence in the fruitful and sound relationship between Puerto Rico and the United States. And I have confidence in the capacity and good faith of the private sector to provide the resources and the cooperation that Puerto Rico needs.

Thank you.

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