



REMARKS BY THE GOVERNOR
OF THE COMMONWEALTH OF PUERTO RICO
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BEFORE THE SAN JUAN ROTARY CLUB

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SAN JUAN, PUERTO RICO

The historical march of Puerto Rico has been like a walk on a tightrope strung hundreds of feet above the ground. The struggle has always been to place the next step firmly on the wire, avoiding the extremes which would inevitably lead to a loss of balance and a fatal fall. During the era of Muñoz Rivera, the goal was political dignity by means of autonomy, a course that followed neither the independence trajectory of Cuba or the path advocated by the incondicionales who wanted complete integration with Spain. His son, Luis Muñoz Marín, broadened the concept of autonomy to add economic dignity to political dignity. For Muñoz Marín, the concept of independence, although alluring, proved abstract when juxtaposed to the harsh economic realities of the people. As one who picked up the banner of autonomy, I would like to reiterate here and again its goals as laid down by those two great leaders, the goals of political and economic dignity for the people of Puerto Rico.

The fight for these goals has been characterized by virtues one readily associates with tightrope walking; caution, and confidence, patience and prudence, desire and determination. We have fought with a resolve which while unflinching has never been inflexible, while determined, never doctrinaire and while secure never strident. This

center of calmness which characterizes autonomy is the force which has mediated Puerto Rico's political extremes and allowed us to keep our balance. The positive result is that the seemingly irreconcilable strains are held in check to allow Puerto Rico and Puerto Ricans to work together for the common good. Political stability has allowed for the full functioning of our democratic institutions which in turn has strengthened that same stability.

This same approach also applies to the economic area. In a way of speaking, economy of Puerto Rico is another balancing act. With our limited resources, high population density and remoteness from available markets, Puerto Rico - like the tightrope walker - has little room to maneuver. But this balance is being constantly threatened by irresponsible and extremist actions.

Recently Juan Mari Bras has reached a new low in such attacks. In United Nations last August, he actually stated that the Puerto Rican government, along with its "colonial masters", is engaged in calculated genocide of the Puerto Rican people by sterilizing women against their will, with the objective of wiping out much of our population at the behest of the "Yanki imperialists".

Have you ever heard a more outrageous statement?

Yes, to foreign governments who know little or nothing about Puerto Rico, the only result is tarnishing Puerto Rico's image. And then, prompted by the Cuban ambassador to the United Nations, Ricardo Alarcón, Mari Bras called the elections in Puerto Rico "fraudulent", painting a picture of terrified Puerto Ricans obliged to vote as dictated by their "imperialist masters".

Rubén Berrios goes off to Paris to seek support of the French Socialist Party, extolling the rights of Puerto Rico to self-determination, but carefully refraining from mentioning that the Puerto Rican people have heard the PIP arguments for many years and that 95% of them have noneless constantly rejected independence as their choice of self-determination.

The result is that Juan Mari Bras and Rubén Berrios, have managed to blacken Puerto Rico's reputation and present a wholly false picture of what our country is like.

Far more damaging than anything which Mari Bras or Berrios can do, however, is the cynical and dangerous campaign being conducted in the United States by the leaders of the pro-statehood party.

One of the most astounding examples was offered us in March by a former Governor of Puerto Rico, in a speech in

New York before the Puerto Rican Chamber of Commerce - - a group which includes large numbers of Americans bussinessmen and investors interested in Puerto Rico. First, he said that he was "saddened" by amount of sensational and negative reporting which has appeared in the U.S. press about Puerto Rico, and insisted that Puerto Rico deserves better. He went on to say that one of the most important needs of the island is to "reestablish confidence for the investor".

The former governor's idea of how to create U.S. investor confidence then follwed: he made a series of bitter partisan attacks against the elected Puerto Rican goverment, depicting Puerto Rico as virtually a Socialist tyranny, with, a he put it, "a goverment of tentacles reaching out into every area of personal and family life to oversee, regulate, process and control us". To further stimulate invester confidence, he recited the island's present economic problems, in an alarmist fashion, giving particular prominence to the sharp decline in construction. While the economy has been declining, he said, the goverment has been going on a "spending spree".

But the most irresponsable and damaging actions of all have been conducted by the Mayor of San Juan, where his actions and words add up to two things: (1) Puerto

Rico should be forced to pay Federal minimum wages, and (2) in the order to be "first class Americans", Puerto Ricans want and should be obliged to pay Federal income taxes - - presumably on top of their existing Puerto Rican taxes.

If there is any action which would more effectively scuttle Puerto Rico than these two proposals, I don't know what it is. And since these recommendations come from a prominent Puerto Rican political leader, many Congressmen can be forgiven if they take them seriously.

Consider the Mayor's idea that Puerto Ricans can and should pay Federal income taxes.

Ask yourself this question : where would Puerto Rican taxpayers find the extra money to pay Federal taxes on top of Puerto Rican taxes? Or does the mayor have in mind that, in order to pay Federal taxes, we should cut back Puerto Rican taxes accordingly? If so, how would we provide for basic local services like education, health, police, fireman, to cite only a few?

And, of course, federal taxation means an end to tax exemption, another advantage the mayor wants to end. Without tax exemption, how are we going to compete for factories and industries against states which approach Puerto Rico in benefits but yet aren't 1500 miles from

markets?

In the immediate future, an even more serious case of the Mayor's sabotage of Puerto Rico's interests is his insistence in Washington that Puerto Rico can and should pay Federal minimum wages at the same level as in the U.S. This is the product either of total ignorance of Puerto Rico's economic realities or it is demagoguery. I prefer not to think of the Mayor as a demagogue.

I believe a few hard questions are in order. Doesn't the mayor know that many of the elements in the cost of industrial production are now higher in Puerto Rico than in equivalent plants in the United States? Does he really believe that if Puerto Rican wages went up to U.S. levels, which would mean the overall cost of production in Puerto Rico would be definitely higher than U.S., we could attract new industrial investment or even hold what we have? If our minimum wages go up to \$3.00 an hour, the level being proposed in legislation now before Congress, about 50% of our existing industrial jobs would be lost and hundreds of existing factories would simply go out of business. How does the Mayor expect industry to remain in Puerto Rico if it costs more to operate here than in the U.S.?

Such positions are direct threats to the delicate

balance Puerto Rico must maintain in order to keep her economy going.

On the other hand, certain speeches abroad to the contrary, in taking action and formulating policy we have tried to keep Puerto Rico from the extremes, being guided always by our realities. We have reaffirm again today that our basic government policy has been and will continue to be to provide the incentives and conditions necessary to make private investment in Puerto Rico worthwhile and profitable. The main thrust for our economic development must come, indeed can only come, from private enterprise.

Industrialization continues being the key to our future. To keep our industrialization program moving ahead we must develop and maintain those economic activities that are competitive both here in the United States and in the world markets. At the level of public policy, we have reexamined and reaffirmed our fundamental commitment to Fomento, and its two main promotion tools - tax exemption and wage flexibility. Around these basic incentives we taken even further steps to strengthen our ability to attract industry to Puerto Rico. For example, early in my administration, tax exemption for certain high unemployment zones was lengthen and a government sponsored

pre-employment training program begun. We are now training workers for two companies - Avon of Aguadilla and Echlin Manufacturing Co. of Ponce - under this latter program and four more factories are under consideration. By the way, although this program, copied from North Carolina, is now in operation, and has been for sometime, the mayor included establishing such a plan as part of the incentives he will offer in place of tax exemption.

Also operating is our two-year salary subsidy program introduced as an emergency measure during the dark days of the recession. At present, we are providing a 25% wage subsidy to eight industries employing 2,449 persons, including the huge Chevron plant in Guayama which took over the idle facilities of the former Phillips operation. By the end June when the program terminates, we expect to have generated nearly 12,000 additional jobs. Other programs and actions include the creation of a government Guarantee Fund which will be used to back up industrial loans made by private banking sector. I signed the Fund bill last week so it should be in operations soon. In addition, the Government Development Bank has made an \$18 million line of credit available to Pridco for factory construction.

These are some of the steps we have taken to regain

our former economic momentum and to create decent jobs for all our people. But if ever there was a time when our people needed to be united in purpose it is now. If ever there was a time when we need to face the outside world with purpose and solidarity, it is now. If ever there was a time to keep our balance between extremes that threaten our progress, it is now. Now is the time for unity and resolve, hard work and cooperation. Now is the time when Government and business should reaffirm their common history and common future, and join in a spirit of cooperation for good of all.

That future will be bright if we put our minds to it. For example, pending the next legislative session is a revision of the tax incentives law which holds great promise. The amendments will first of all simplify the law, also, they establish an escalated three-year adjustment period once tax exemption terminates so that a company is not hit all at once with the full tax bite. And most important we want to amend the law to allow greater flexibility in creating additional relief to tax exempt factories already established here and that decide to expand.

However, of far greater importance in the tax area is what is now taking place in the Congress. I am referring

to the proposed changes in the Internal Revenue Code of the United States, which if passed will have an enormously positive reaction here.

Under the provisions of this section, qualified U.S. corporations operating in Puerto Rico are to be taxed on world wide income, but will pay no U.S. taxes on business and qualified investment income earned in Puerto Rico. Moreover, the income derived from liquidating these corporations will continue to be exempt from U.S. taxes under Section 332 of the present law, which is retained. In addition, the proposed Section 936 also provides for a deduction for dividends paid to a parent corporation, forces the Puerto Rican subsidiary to invest this income abroad until such time as it is liquidated, when it can be returned to the United States tax free.

The House has approved Section 936 as part of a broader tax reform bill and that measure is now pending Senate approval.

Recently I signed into law a bill to impose a local tax of either 7% or 10% on all dividends repatriated to the United States under the proposed 936 section. Under current federal law all dividends repatriated to the United States by 931 corporations are subject to a 48% tax. In addition, the Puerto Rican government has levied

a 15% tax against such dividends. Under 936, these corporations will be allowed to repatriate this money to their parent companies without paying any federal tax. Our new dividend tax, therefore, is more than fair since their net position under 936 and our new tax is far more favorable than what exists now. Moreover, the local tax is a protective mechanism to encourage these companies to reinvest in Puerto Rico.

Before closing I want to say that both our efforts to modernize our local tax exemption law and efforts now going on in the Congress to replace Section 931 with Section 936 are both possible because under Commonwealth, Puerto Rico has such fiscal flexibility is absolutely paramount, if we are to continue to move forward.

Equally important, but on a broader level is to assure harmony between the various forces of a society. If we are to progress there must be understanding and a basic trust between the government and its citizen, there must be faith in the institutions which make up the society, the democratic process has to function so the public will can be expressed and imposed, and there must be cooperation among all groups and classes of citizens. In Puerto Rico we must be extra careful to keep our extremes balanced so that the center remains on the right

track. We must also be careful and cautious when we deal with such a complicated, yet delicate a machine as is the economy of Puerto Rico. What is not called for are flashing promises empty proposals and ideological manifestos.

We have just passed through a difficult period, but the horizon is now brighter and promises soon to become even brighter. In a spirit of cooperation and comprehension, Government and business can and will march toward that horizon and by our mutual efforts bring a brighter day to all our people.

Thank you.

