

**Economic Report
to the Governor**

1953

bureau of economics and statistics
Puerto Rico Planning Board

1953 ECONOMIC REPORT TO THE GOVERNOR

Puerto Rico Planning Board
Bureau of Economics and Statistics
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SECTION I CURRENT ECONOMIC CONDITION AND PROSPECTS

Conditions and Prospects in the States

Puerto Rico's rapid advance during the first 3 1/2 years of the current decade took place within the favorable environment of an almost equally rapid expansion of the U. S. economy as a whole. Without adjustment for price changes, gross product rose about 37% on the mainland and 45% in Puerto Rico during the period.

Since mid-1953, there has been a considerable decline in economic activity in the States. Gross national product fell from an annual rate of about \$371.5 billion during the second quarter of 1953 to about \$358.5 during the first quarter of 1954. The Federal Reserve Board index of industrial production fell from 137 last July to 125 in January, and then to 123 in March. Unemployment has been rising since last fall and reached a level of 3.7 million by March 1954.

During the latter half of 1953, the main dynamic factor causing the decline in production and the increase in unemployment has been the increase in inventories. During the second quarter of 1953 inventories were being accumulated at an annual rate of over \$6 billion. This was an important factor in the total demand for goods. During the third and fourth quarters inventory accumulation eased and declined, and then gave way to actual liquidation. The annual rate of inventory liquidation during the March quarter was \$3.0 billion. The decline in gross output during the second and fourth quarters of 1953 was smaller than the decline in demand for inventories. Apart from inventories, total demand did not decline, but rather increased slightly.

The fragmentary data now available for the first quarter of 1954 indicate that, although inventory liquidation continued through the first quarter, there was also a decline in the remainder of total demand which also contributed to the decline in gross output during the period.

The movement of inventories has thus far been the main factor in the decline in output but other forces have also played a role. The movement of inventories itself reflects an imbalance between production and sales which began in early 1953. The rate of increase in other sectors of demand slowed down after the second quarter of 1953 and thereafter, could not offset the decline in demand for inventories and its depressing impact on gross output. Thus, personal consumption expenditures on goods, both durable and non-durable, declined by over \$3 billion between the second and fourth quarter of 1953. Government purchases of goods and services which had been rising up to the second quarter of 1953, tapered in the latter half of the year.

There are some signs that the decline in economic activity slowed down or perhaps stopped, during the first quarter of 1954. Industrial production declined relatively little between January and March. Unemployment increased rapidly through February 1954, but then declined only slightly from February to March. Retail sales, which fell from a seasonally adjusted monthly rate of about \$14.5 billion in July 1953 to about \$13.6 billion in January 1954 have been holding since then; the level in March was about the same as in January. Despite the lower level of economic activity in general, total expenditures for new construction were at a record high during the first quarter of 1954, about 1.5% above the corresponding period last year.

The U. S. economy is at present in an especially uncertain state and it is not easy to determine in which direction it is likely to move. This depends on the answers to several questions. To what extent has the inventory liquidation run its course? What are the present prospects for the other main sectors of demand apart from inventories? To what extent is the apparent stabilization of the decline in economic activity during the first quarter of this year due merely to seasonal factors? To what extent is it an indication of a more basic change in the economy?

The question whether inventory liquidation has run its course is particularly difficult to assess at this time. There seems to be increasing evidence that in some sectors liquidation has gone about as far as it will go unless it is fed by further secondary factors. Thus, for example, indications are that liquidation of steel stocks by both producers and consumers of steel has tapered, if not temporarily ceased. Steel production, though at a relatively low level in relation to capacity, seems to have stabilized. On the other hand, the situation in the strategic automobile industry seems to be different. Despite the fact that production thus far this year has been substantially lower than during the same period last year, stocks of new cars in the hands of dealers are at or near record levels. Since spring is the season of highest sales and production in the auto industry, this portends further difficulties in inventories and production later on. Taking into account the situation in that industry and, in addition, the fact that National Security expenditures are scheduled to decline during this year, it seems unlikely that inventory liquidation in the durable goods industry, taken as a whole, has run its full course.

Consumer demand may also decline somewhat further. Preliminary findings of the survey of consumer finances made in January and February indicate that current consumer plans and expectations for purchases of most durable goods are somewhat below last year. Consumers planning to buy new automobiles within the year were fewer in early 1954 than in early 1953 and the same was true for most furniture and major household appliance items. Personal consumption expenditures for non-durable goods have been showing greater strength than those for durable goods. Moreover, through the first quarter of 1954, declines in expenditures for goods have been largely counterbalanced by increased expenditures for services and, thus, total personal consumption expenditures declined only moderately.

As a result of increased expenditures by state and local governments, total government expenditures increased during the latter half of 1953 despite the reduction in National Security expenditures. Government spending in 1954, however, is expected to be about \$1 or \$2 billion below 1953, reflecting a decrease of about \$2 to \$3 billion in Federal expenditures and a further increase of \$1 to \$2 billion in state and local expenditures.

The most recent survey of business plans for capital expenditures indicates a scheduled level of 1954 business investment about 4 percent, or about \$1 billion, below that of 1953. The rate of investment scheduled during the first half of 1954 is above that scheduled for the year as a whole, and only about \$.5 billion below the average rate for last year. This implies, if the indicated schedule for the year as a whole

turns out to be accurate, that there will be a further decline in capital investment during this year, and that the level during the second half may be more than 4 percent below the average of last year. The implied level for the latter half of this year is almost \$1 billion below the first half and about \$1.5 billion below the average for 1953.

As was noted above, total construction expenditures were at a record high during the first quarter of this year. Part of construction expenditures are reflected in government expenditures and business capital expenditures, already considered above. Private expenditures for residential construction are not so reflected, however. It is therefore significant that, despite a general expectation that residential construction would decline a little during 1954, it has been slightly higher during the first quarter than it was in 1953. It is likely that government measures for credit relaxation during the later half of 1953 are having an important effect on private residential construction and it may be that it will increase further during the course of the year.

Different observers viewing the slowing down in the decline in economic activity during the first quarter of this year have drawn different conclusions as to its significance. Some have said that it heralds the end of the recession; others consider it due to seasonal factors. In one sector, namely construction, there can be little doubt that the high level of activity is more than seasonal. Apart from this, however, the judgment may be ventured, that it is a little premature to conclude from the relative stabilization this spring that the economy has stabilized and is due shortly for an upturn. There is a seasonal

peak in industrial production in February and March, in particular in durable goods, which is where most of the difficulty lies. There is also a seasonal increase in employment in agriculture and construction during these months. The fact that unemployment rose from February to March, even though the rise was small, is very significant and indicates that caution is warranted in conclusions as to stabilization or upturn.

Though there have been some heartening signs recently, that indicate some degree of at least temporary stabilization, it is too early to conclude that the factors making for decline in the economy have fully lost their momentum.

Effects on Puerto Rico of economic recession in the States

Although it is still too early to know whether the decline in business activity in the States will be comparatively short and mild or long and severe, it is not too early to begin thinking about some of its possible consequences for Puerto Rico. So far, there have been few observable effects on the Puerto Rican economy. The sharpest has been in migration where the rate of increase began to taper last July, turned into a decrease in January, and in February reversed itself with a small net return flow from the mainland. Certainly migration in 1954 will be much lower than it has been for the past three years. In tourism there was apparently also a tapering in the Fall and a small decline in January. These are the only significant effects shown by the data now available.

It is not surprising that the effects on Puerto Rico have, thus far, been so limited. The major declines in the States have been in farm income and in the demand for durable goods, such as housing, automobiles, and steel. These durable goods are not produced locally for sale in the States and the decline in income in the States has been too small up to now to affect the market for other local products.

If, however, the mainland recession should continue for some time and particularly if it should become more severe, it would have a marked effect on the Puerto Rican economy. The most serious effects would be on migration, on the industrialization program, and on the sales of some local manufactured and agricultural products. These unfavorable effects would

be partially offset by favorable changes in prices and interests rates and by counter-cyclical measures undertaken by the Federal Government.

As shown in the last year's Economic Report to the Governor, there is a close relation between migration from Puerto Rico and the level of unemployment in the States. Lower fares, generally good employment conditions, the movement to more places outside New York City, and the increasingly large numbers of friends and relatives to help at the start have been the major factors in enlarging the movement from a level of about 32,000 a year in the early postwar years to 75,000 in fiscal 1953. In the face of this powerful trend, however, a small rise in unemployment in the States, from 2 million in 1948 to 3.4 million in 1949, resulted in a small decline in migration. Similarly the sharpest rise in migration came between 1950 and 1951 when unemployment in the States dropped from 3.1 million to 1.9 million.

It seems clear from this record that even a comparatively small rise in unemployment, say from 1.5 to 2.5 million, would check the increase in migration and that a further rise to say 3 million would probably cause migration to decline. It is impossible to say at what point the flow would be reversed but, with the unemployment compensation and relief standards now prevailing, it seems likely that unemployment would have to be quite high for a considerable period of time before more Puerto Ricans would return than depart. However, the concentration of Puerto Ricans in service and agricultural jobs that become highly competitive when jobs are scarce suggests that if unemployment in the States should reach depression magnitudes there might be a large movement back

to Puerto Rico. Returning population would severely aggravate conditions here which, under such circumstances, would already be critical.

The decline in the States has not yet had any visible effect on our industrialization program. The vigor of that promotion effort and the new techniques being used are increasing the number of prospective companies and the number of factories actually being established. There is no doubt, however, that if a recession should be long-continued or should become severe that the program would be affected. Mere availability of labor would not be much of an inducement to come to Puerto Rico if there were several million unemployed workers in the States. Depression, moreover, characteristically turns business planning to retrenchment rather than expansion. Many plants are shut down, few are operating at capacity levels, and only the exceptional firms in a few lines undertake new or expanded operations. Tax incentives, however, might tend to become more effective as businessmen sought to keep a larger part of a shrinking total profit. Even so, it would take pinpoint direction of the industrial promotion program to induce any substantial number of such firms to do their expansion here.

The decline in the States does not yet seem to have affected the production and sales of local factories nor of our agricultural exports. Moreover, even if it should become severe or be prolonged, the effect on current production and sales would probably be less here than on the mainland. Recession has marked differences in its effect on different industries. Generally speaking durable goods, especially durable producers' goods are hardest hit. With a smaller volume of business,

manufacturers use their old machines and do not build many new factories. Consumers keep the old car, double up with another family, and postpone the purchase of a television set. But people have to eat every day. What they eat changes to cheaper foods but even in 1933 the total tonnage of food consumed in the States was only slightly less than it had been in 1929. Clothes soon wear out and replacement maintains the volume of production even though there tends to be a shift to lower-priced articles. Since most of Puerto Rico's output is of food, clothing, and other non-durable goods the total volume of its production and exports should be fairly well maintained even in the face of a rather large decline in consumer incomes in the States.

Sugar consumption would probably shrink comparatively little and with the established quota system it seems likely that any decline in the value of exports would be less than the shrinkage of consumer incomes. Home needlework, already hard hit by foreign competition, would feel the full impact of cuts in consumer purchases of this semi-luxury character. Factory needlework, however, producing comparative necessities, might suffer from price cuts but probably not severely in production. Only a few of our new plants are linked to the highly volatile durable goods industries and even some of them may be relatively depression-proof. But depression, surely, and continued recession, probably, would bring some business failures. One of the tests that some local plants would face is that of comparative profitability with a similar plant in the States owned by the same company. If either must be shut down, it would be the less profitable.

From the standpoint of prices and terms of trade, Puerto Rican buyers might benefit from a recession. Consumer prices fluctuate more widely here than on the mainland so the local consumer is relatively better off when prices are falling or low. The price of sugar, our main export, should hold up better than the prices of the food and manufactured products we buy. Some of our manufacturing plants, however, would be badly hit by declining prices and markets if there should be a severe depression. This would undoubtedly give rise to many requests for working capital loans.

Usually in the early phases of a recession there is some tightening of the money market by lenders. However, the Federal Reserve System usually acts promptly, as it has already done, to lower reserve requirements and make open-market purchases of Government bonds. This pumps credit out and supports the market for flotations of bonds needed to finance the deficits incurred by the Federal Government. In spite of this, equity capital tends to become more scarce but more funds are made available for high grade industrial, government, and municipal bonds. Under these conditions and with continued maintenance of Puerto Rico's good financial standing, People of Puerto Rico bonds can probably be issued at very low rates of interest as long as a recession continues.

There might also be considerable direct as well as indirect benefit to Puerto Rico from the financial and other measures undertaken by the Federal Government to combat recession. The Republicans would have a difficult choice to make in initiating counter-cyclical measures but an increased deficit might seem the lesser of two evils, at least in election years. Increased state aid for direct relief, roads, schools, and

hospitals would be the result and, in view of even the present concern about agricultural prices, vigorous farm price supports would also seem likely. President Eisenhower has already recommended a lowering of the down payments required on houses financed by F. H. A. -guaranteed mortgages. This would be of particular value to Puerto Rico because it would bring in a flow of one type of mainland capital at a time when other investments might be dwindling and because it would support the construction industry which is an important source of employment.

Although cuts in military expenditure are expected this year and next, they will probably be largely in procurement and stockpiling. The strength of the armed forces is planned to continue at about the present level and it is reasonable to suppose that expenditures at military installations here will remain about the same. There might even be an increase resulting from expanded Air Force training activities.

Altogether, Puerto Rico has comparatively little to fear from a mild recession. Net income in Puerto Rico, for example, rose sharply in 1949, a year of mild recession in the States. A long period of stagnation or a severe depression in the States, however, would create great hardship. Migration would slow down, perhaps stop, and possibly reverse itself bringing back to Puerto Rico people who would be unemployed and, to some extent, displaced. Industrialization would also slow down and business failures might even bring it to a halt at a time when agricultural exports and farm incomes were also falling. Under these conditions it would be extremely difficult to maintain the existing level of living in Puerto Rico, and practically impossible to continue the advance which is the objective of the economic development program.

Commonwealth Product and Income

Under the continued stimulus of favorable business conditions in the States, Commonwealth gross product and net income continued to rise in 1952-53. As in earlier years, increased prices accounted for a large part of their rise but, after a rough adjustment for price changes by means of the consumers' price index, the increases in real product and in real income seem to have been in the neighborhood of 4%, about the same rate of increase as in the preceding year but only about half the rate maintained during 1949-50 and 1950-51.

The slackening in the rate of expansion of total product and income, however, has coincided in time with greatly increased migration of workers from Puerto Rico and with larger inductions of young men into the armed forces. Both real net income per worker and real gross product per worker have risen rapidly and fairly steadily throughout the 4-year period at an average annual rate of about 8.5%.

During 1952-53 the average employed worker produced about 39% more real goods and services than in 1948-49. Some of the causes and the implications of this phenomenal rise in worker output are discussed in later sections of this report. The per capita increase in real gross product and in real net income has been less, about 28%, because migration and inductions in the armed forces have left behind a relatively larger dependent population. Even so, the improvement in the level of living implicit in such a figure is a marked economic advance and it is further analyzed in a later section dealing with family incomes.

Some of the major economic developments during fiscal 1952-53 are reflected in the following table which shows in a summary way the

disposition of all the goods and services imported or produced in Puerto Rico.

DISPOSITION OF GROSS PRODUCT AND IMPORTS (in millions of dollars)

	<u>1951-52</u>	<u>1952-53</u> preliminary
PURCHASED BY PUERTO RICANS		
Consumers	820.9	893.9
Commonwealth and municipal governments	132.8	139.4
Investors	145.3	141.3
Change in business inventories	28.9	- 6.6
	<u>1,127.9</u>	<u>1,168.0</u>
PURCHASED BY NON RESIDENTS		
Federal Government	146.2	177.8
Other non residents	318.8	384.7
	<u>465.0</u>	<u>562.5</u>
Total domestic production and imports	1,592.9	1,730.5
Less: Imports of goods and services	560.7	606.2
GROSS COMMONWEALTH PRODUCT	1,032.3	1,124.3

Consumers' purchases during the past fiscal year increased at about the same rate (8.9%) as gross Commonwealth product indicating that consumers as a group shared fully in the economic advance made during the year. As is characteristic of a period of rising incomes, consumption of luxuries rose more rapidly than did consumption of necessities. While this is to be expected in a free economy, the degree of difference is a matter of some concern. Although food still remains nearly half of total consumer expenditures, the increase in food consumption was only 6.8% while purchases of private passenger cars rose 32%. Similarly, clothing purchases rose 10.5% while jewelry sales jumped 50%. In both cases expenditures on the comparative luxuries rose about 5 times as fast as expenditures for the comparative necessities. This had implications for Commonwealth tax policy that are discussed in the final section of this report.

Commonwealth and municipal government expenditures for goods and services have been increasing relatively less during recent years than

has gross Commonwealth product. During the past 4 years they have declined slowly but steadily from 14.4% of the total to 12.4%. Had they remained at the 1948-49 proportion they would have been \$20 million more in 1952-53. This relative decline in expenditures may be partly a reflection of a smaller decline in the proportion of the gross product received by the Government in taxes. Since government services are still urgently needed, this report contains in its final section some general recommendations on tax policy aimed both at increasing revenues and at greater equity in the incidence of the tax structure.

Expenditures by investors include those made by publically-owned corporations as well as by private business firms and individuals. The small decline in the total is not so unfavorable a development as it might at first appear because of the substantial improvement during the year in the internal pattern of investment. There was a sharp rise in expenditures for machinery and equipment (\$9 million) and for private factory buildings (\$1.2 million). The decline was caused mainly by a drop in private housing (\$13 million) from the very high level of the two preceding years and by a smaller decline (\$1.8 million) in the investment expenditures of the public enterprises which, nevertheless, still remain at a relatively high level. The shift of investment from housing to machinery is a healthy development from the standpoint of future production and incomes.

The decline in business inventories is also a basically healthy development since it reflects a reduction in sugar stocks that were in surplus under existing quotas. As is explained in a later section, unusually early shipments of 1952-53 sugar also account for about

\$25 million of the increase in exports, (purchases by other non residents) shown in the table. A large part of the remaining increase in exports reflects increased production from the 81 new factories that started to operate during the year.

In 1952-53, increased Federal expenditures accounted for more than a third of the rise in gross Commonwealth product. This is somewhat less than in the two preceding years but the total increase since Korea, \$116 million, has been a major factor in increasing gross Commonwealth product and also, as is shown in the following table, in the rise of Commonwealth net income.

INDUSTRIAL ORIGIN OF NET INCOME

	<u>1951-52</u>	<u>1952-53</u> preliminary
All industries	890.6	955.8
Agriculture	176.4	160.3
Manufacturing and mining	107.5	122.5
Contract construction	39.9	39.8
Transportation	37.2	41.8
Communication, power, and gas	2.7	2.7
Trade	161.5	180.2
Finance	12.7	14.5
Government:		
Federal	123.1	153.6
Commonwealth	79.2	83.5
Business enterprises	34.3	32.3
Municipal	8.2	8.7
Services	75.8	81.0
Real Estate	40.4	43.5
Miscellaneous	11.0	11.7
Net capital returns	-19.0	-20.3

As was also the case during the two previous years, wages and salaries paid by the Federal Government, which include the pay and subsistence of service men inducted in Puerto Rico, was the largest single factor in the increase of Commonwealth net income. Since 1949-50, the Federal

payroll has nearly tripled. Following trade and agriculture, it is now the third largest sector of the economy and, since Korea, by far the most rapidly expanding.

Net income in both manufacturing and trade increased by about 13% in fiscal 1953. More than half the increase in trade is a reflection of higher consumer prices in Puerto Rico, while in manufacturing, where most of the output was sold in the U. S. market, the gain mainly reflects higher production. The rise in total manufacturing was held back, moreover, by a \$2.4 million decline at sugar mills.

A drop in net income from sugar cane accounted for nearly all of the decline in agricultural income. The amount of decline was about that expected from the imposition of quotas and, with the carry-over now reduced to manageable proportions, there should be little, if any, further decline from this source next year.

Construction activity maintained the very high level achieved in fiscal 1951-52 and there were moderate advances during 1952-53 in transportation, finance, and the service industries reflecting the increased primary income generated by manufacturing and the Federal Government.

Migration, labor force, and employment

Migration again set a record in 1952-53, reaching a total of nearly 75,000. Sample data on the age and sex composition of the people leaving the Island were compiled this year by the Bureau of Labor Statistics. They confirm earlier estimates of the predominance of men and, to a much lesser extent, of women of labor force age in the total. They also show that there has been practically no net migration of people over 39 years of age and that the number of children in relation to adults aged 20 to 39 is roughly half what^{it} is in the population as a whole.

NET OUTBOUND PASSENGER TRAFFIC, 1952-53

Age Groups	Both Sexes		Males		Females	
	No.	%	No.	%	No.	%
All groups	74,063	100.0	48,604	65.2	25,999	34.8
Under 15	26,888	36.0	13,663	18.3	13,225	17.7
15 - 19	11,212	15.0	6,386	8.6	4,826	6.4
20 - 29	31,478	42.2	22,069	29.6	9,409	12.6
30 - 39	4,977	6.7	5,854	7.8	- 877	-1.1
40 - 59	-2,614	-3.5	-1,239	-1.6	-1,375	-1.8
60 and over	2,662	3.6	1,871	2.5	791	1.0

The general implications of this mass migration were quite fully analyzed in the 1952 Economic Report to the Governor. The fact that the movement is still increasing only underlines what was stated there. During the last three fiscal years about 110,000 men aged 20-44 have migrated or have been added to the armed forces. About 20,000 women in the same age brackets left Puerto Rico during the same period. Total population has been almost unchanged during the period but it is made up of many

fewer workers, especially men workers, and many more dependents, especially children. It should be pointed out, however, that, even though there has been a large relative increase in the dependent population, the total number of children is less than it would have been without migration. The departure last year of 26,888 children under 15 years of age has lightened substantially the overload on our school system. Moreover, it seems likely that at a later date there will be a substantial movement of children and other dependents to join the men who establish themselves successfully in the States.

Although it is expected that increases in the number of Puerto Ricans in the armed forces will be smaller during 1953-54, migration may continue to take out about 36,000 men of prime working age compared with about 9,000 women. If business activity continues to decline in the States, however, this movement will probably slow down and, possibly, if conditions become acute, it may be reversed bringing back to Puerto Rico substantial numbers of young unattached men and others who have left during recent years.

Because migration and withdrawals to the armed forces have been largely male phenomena, there has been a great difference between men and women in labor force and employment patterns. Civilian male population 14 years of age and over has been declining since 1950 at the rate of about 10,000 a year and the male labor force has been declining even faster. Male employment, however, has declined much less and, as a result, there have been declines in male unemployment of 3,000, 6,000, and 7,000 during the last three years leaving a total of only 37,000 unemployed men in April 1953.

Female population 14 years of age and over, however, has increased 13,000 since 1950 while female employment has dropped 41,000. The women who lost their jobs, however, dropped out of the labor market and the 4,000 new entrants in the labor force expected from rising population did not in fact enter. As a result, the figure for female unemployment of 27,000 in April 1953 is practically the same as it was three years earlier. These 27,000 women were "actually seeking work" which is the standard definition for unemployment. Most of the 41,000 women who lost their jobs had been engaged in home needlework and they did not look for other work because they believed no suitable jobs were available. Most of them, and perhaps others, would probably reenter the labor market if work was available. Clearly, providing jobs for women, both those who are now unemployed and those who would reenter the labor market, should be a major objective of employment policy today. The other major objective is off-season jobs for cane workers. This situation would change considerably, however, if there were much of a decline in migration. It would change drastically if men should start returning from the States.

While improved management and advancing technology within individual industries has undoubtedly contributed to the phenomenal increases in productivity during recent years, it is clear that the bulk of it has come from shifts in employment from low to higher productivity industries and from decreases in part-time and increases in full-time jobs. Along with some reduction in male unemployment and withdrawal of women from the labor market, there has been a striking reduction of under-employment in all its various forms.

The following table shows that practically all the shifts in the structure of employment during the past three years have been out of the industries in which net income produced per worker is small into those in which it is higher. Government employment, which here includes the number of Puerto Ricans in the armed forces, nearly doubled its relative amount between 1950 and 1953 and, because of high Federal salaries and servicemen's pay, government employment yields a "net income" per worker about double that for all industries. Employment has also been shifting from low-income agriculture and home needlework into higher-income manufacturing and construction.

INDUSTRIAL SHIFTS IN EMPLOYMENT

Industrial group	1949-50	1950-51	1951-52	1952-53	Net income per worker (1951-52, in dollars)
All industries	100.0	100.0	100.0	100.0	1,482
Sugar cane	14.5	13.7	14.1	13.6	1,009
Other agriculture	21.8	19.2	18.1	16.3	830
Home needlework	8.5	8.9	5.6	6.1	119
Other manufacturing	9.1	9.0	9.5	10.5	1,815
Construction	4.5	4.4	5.5	6.4	1,208
Trade	14.8	15.0	15.6	14.2	1,718
Transport, utilities	5.2	4.5	4.3	5.1	1,533
Gov't. and armed forces	8.3	10.8	13.5	15.3	3,021
Domestic service	4.7	4.7	4.3	3.7	492
Other services, finance	8.6	9.8	9.5	8.8	2,227

These structural changes in the economy probably account for the bulk of the increase in total net income produced per worker since 1950. Over the period as a whole and particularly in fiscal 1953, however, a reduction in part-time employment has tended to reenforce these employment shifts, as the following table indicates.

Over the period as a whole, the reduction in part-time employment in agriculture has been about the same as the reduction in full-time employment and in home needlework it also reflects no more than the reduction of total employment in this traditionally part-time industry.

FULL-TIME AND PART-TIME EMPLOYMENT
(in thousands)

Industrial Group	Average for month of April			
	1950	1951	1952	1953
Agriculture				
Worked 35 hours or more	126	96	99	112
Worked less than 35 hours	104	114	110	92
Home needlework				
Worked 35 hours or more	5	6	3	3
Worked less than 35 hours	44	47	24	25
All other industries				
Worked 35 hours or more	248	255	227	253
Worked less than 35 hours	95	88	102	88

In other industries, however, part-time jobs have declined while full-time jobs have increased. If this tendency can be maintained, it will contribute substantially to worker incomes and tend to promote more efficient utilization of labor in future years.

Agriculture

Agricultural production declined during 1952-53, according to preliminary data compiled by the Department of Agriculture and Commerce. Physical volume of production dropped 11% from last year's level and gross income from agriculture decreased 9%, from \$234 million in 1951-52 to \$212 million in 1952-53, in spite of a small increase in the general level of agricultural prices. A severe drought during the first part of the year and quota restrictions in the sugar cane industry were mainly responsible for this drop.

As shown in the following table, the total loss of \$22 million in the value of overall agricultural production was almost all accounted for by the decline in gross income from sugar cane and molasses. Thus other reductions were offset by gains made in a few branches such as dairying, tobacco, pineapples, truck garden products, and some of the starchy vegetables.

Sugar cane. After several years of unrestricted production, the sugar cane industry was subject again in 1953 to production allotments. Crop restrictions came at a critical moment when there was a carryover of 250,000 short tons resulting from a record crop of 1,372,000 tons in 1952. Plantings under normal weather conditions and agricultural practices were expected to produce not less than 1,365,000 tons of sugar, raw value in 1953. However, weather conditions were unfavorable, there were scattered shortages of labor during the cutting season, and many farmers discontinued cultivation.

AGRICULTURAL PRODUCTION
(in thousands of dollars)

Crop	1951-52	1952-53	1953 as % of 1952	
			Production	Value
Total gross income	233,549	211,828	88.9	90.7
Principal crops	149,135	124,499	81.3	83.5
Sugar cane	122,737	103,437	81.1	84.3
Molasses	3,209	1,197	85.8	37.4
Tobacco	8,439	11,156	122.1	132.2
Coffee	14,750	8,709	58.0	59.0
Livestock products	55,472	59,818	99.8	107.8
Milk	23,982	31,403	119.2	130.9
Eggs	4,522	5,392	97.3	119.3
Meats	26,968	23,023	83.0	85.4
Fruits	4,618	3,753	90.3	81.2
Pineapples	1,486	1,614	108.6	108.6
Citrus fruits	1,114	639	67.3	57.4
Coconuts	1,065	589	92.5	55.3
Other	953	911	86.0	95.5
Food crops	20,817	20,085	91.6	96.5
Starchy vegetables	12,793	12,973	95.0	101.4
Truck garden products	3,464	4,127	106.5	119.1
Legumes	3,141	1,813	67.2	57.7
Cereals	1,419	1,172	79.5	82.6
Other farm products	3,417	3,673	109.8	107.5

As a result the 1953 crop of 1,181,000 tons was somewhat less than total quota and deficit allotments. The effect on the carry-over of this reduced crop and of sales in the world market was as follows:

		thousands of short tons
Carry-over from 1952		250
Production		1,181
Total available		1,431
Sales in world market	70	
Original mainland quota	1,080	
Beet sugar deficit	37	
Local quota	110	1,297
Estimated carry-over, December 1953		134

The 134,000 ton surplus is about normal and will not require further crop reduction in 1954.

Since the present quota is fixed by law and will be in effect until 1956, the only chances of sugar expansion before then rest on sales under the Mutual Assistance Program or on larger participation in the reallocation of deficits of other producing areas. Under these circumstances it is unlikely that the sugar cane industry will regain its former level of income, at least during the next two fiscal years. The Commonwealth Government tried to work out a plan to avert this loss but no agreement could be reached with U. S. Secretary of Agriculture.

Farm income from sugar cane was also affected adversely by a decline in the price of blackstrap molasses from 23 cents a gallon in 1951 to an average of 13 cents during 1952-53 and to less than 5 cents at present. This represents a further reduction in income to farmers since their share from blackstrap molasses is 65% of net proceeds in excess of 5 cents per gallon. Conditional benefit payments which in 1951-52 amounted to \$17.1 million are expected to decline to about \$16.4 million. Also the sale of 70,000 tons of sugar in the world market at prices substantially lower than the domestic level represented a loss of income to the industry.

Basic wages of cane workers were increased 6% in 1953 but the number employed was 131,000 in April, 9,000 below the April peak last year. There was, however, a marked decline in part-time work and a corresponding increase in full-time employment.

Some of the more progressive farms have adopted improved cultivation, irrigation, and fertilizing practices with substantial savings in

labor costs and increased productivity in these operations. Also, sucrose content of sugar increased from 10.8 per cent last year to about 11.5 this year which tended to increase productivity in terms of tons of sugar per man-day. These factors were not sufficient, however, to offset the diminishing effect of a restricted crop on productivity.

The Guaranteed Minimum Price Program, the establishment of new processing plants, and quota allotments of sugar have stimulated a few cane farmers to devote some of their lands to other crops. Central Aguirre, for example, started planting cotton and sweet potatoes in 1952 and the results of their first year's experience led them to increase greatly the acreage devoted to both crops. In the long run, agricultural diversification in the large sugar estates to provide year-round jobs will be the most effective check to out-migration from the farms. Increased mechanization will also tend to raise productivity and wages. The present unemployment compensation program for workers engaged in this industry is not an adequate substitute for steady jobs at good pay.

Coffee. Consistent with the production pattern of recent years, there was a lean coffee crop in 1952-53 of only 174,000 hundredweights following the very good one of 300,000 hundredweights in 1951-52. In the same pattern, the 1953-54 harvest is expected to be up again, reaching about 315,000 hundredweights, roughly 65,000 hundredweights above present consumption.

The world price of coffee has been increasing and, because of an expected reduction in Brazilian production, it may rise above the present quotation of 58 cents per pound. The present ceiling in Puerto Rico is

50 cents. In view of this market situation and the expected large crop in 1953-54, an appropriation of \$500,000 was made in November 1953 to the Economic Stabilization Administration for purchase of a coffee reserve. This will tend to hold up prices for farmers in a year of heavy production and protect the interests of consumers if there should be a small crop next year.

Tobacco. The 1952-53 tobacco crop amounted to 343,000 hundredweights, 62,000 hundredweights above the 1951-52 crop and, although tobacco prices declined from 100% of parity last year to 92% of parity this year, the 1952-53 crop was sold at a higher average price because of improved quality. Thus, volume of production increased 22% while farm value increased 32%, from \$8.4 million to \$11.2 million.

Livestock Products. The dairy industry continued its upward trend started a decade ago and milk production went up 19%, from 157 million quarts in 1951-52 to 187 million in 1952-53. Milk and eggs accounted for all the increase in the farm value of livestock products since there were declines in the value of meat products.

In spite of a larger than usual milk surplus during the flush season (April and May), milk prices maintained their official level and farm value of milk increased 31%, from \$24 million in 1951-52 to \$31.4 million in 1952-53. Increased local surpluses in the face of increased imports reveal the weaknesses of the present pricing and marketing system. The fact that imports of milk and milk products increased from \$9.3 million to \$10.1 million during the past year in spite of the increase in local

production suggests that consumer incomes have greatly increased and that there is ample room for subsequent expansion in this industry, even without the additional demand that might be generated through a decrease in the price of this basic commodity.

Fruits. Among the fruits, pineapple was the only one whose production and value increased over the previous year. Private interest in the pineapple industry has been waning but the Land Authority has been gradually increasing its plantings. These were sufficient to offset the effect of decreased private plantings and to net a small increase in production over last year. Pineapple prices maintained their relatively high level of the previous year. Sales of fresh pineapples increased, especially in the local market.

There were declines in the value of citrus fruits (43%), coconuts (45%), and other fruits (4%). Citrus fruits and, to an even greater extent, coconuts suffered more from price reductions than from decreased production. Lower prices for coconuts resulted from more severe competition in the Mainland market. Bad weather conditions not only reduced the quantity of citrus fruits but also the quality of the crop and thus resulted in lower prices. The net change in the fruits group as a whole was a decline of 12% in production and 19% in value.

Starchy Vegetables. The farm value of starchy vegetables increased slightly (1.4%) in spite of a 5% decrease in volume. Among this group, the production of sweet potatoes decreased 28%, plantain 6%, and bananas almost 13%. Bananas also were sold at a lower price than last year,

probably on account of lower quality, and their farm value declined from \$4.4 million to \$3.6. Potatoes and plantains commanded higher prices as a result of lower supplies and sustained demand from existing processing plants and new export outlets. On the other hand, both the physical production and value of taniers, yams and dasheens (included among "other starchy vegetables" in the preceding table) showed marked increases. On balance, the starchy vegetable group more or less maintained the previous year's level.

Other Food Crops. Cereals, declined both in amount and value. The gain made by rice was not sufficient to offset the loss suffered by corn, which quantitatively is a much more important item. Here again, the effect of the drought was reflected.

All truck garden products showed increases in production ranging from 1.4% (tomatoes) to 40.7% (cabbage) and there was an average increase of 19% in value for the whole group. It is worth mentioning that the first hydroponic acre of tomatoes in Puerto Rico produced over 25 tons in its first crop. Its high-quality product was sold at relatively high prices and four more acres have since been constructed and planted.

Manufacturing and construction

Manufacturing activity increased substantially during 1952-53 with net income rising from \$108 million in the previous year to a preliminary estimate of \$123 million. Average employment was about 8,500 above 1951-52. In the fall of 1952 there was a large but temporary gain in the depressed home needlework industry which raised its average employment from 33,600 for 1951-52 to 36,600 in 1952-53. By April 1953, however, this gain had been wiped out and employment in the industry totalled only 30,000. There was another large employment increase of a temporary nature that occurred at about the same time in tobacco stemming factories. But even excluding these transitory increases during the year, there was a gain in total factory employment of about 5,500. An even larger increase took place in the new factories established under EDA auspices but there were offsetting declines in the older industries, particularly sugar mills and canneries.

The following table shows the changes that took place between 1951-52 and 1952-53 in the net income of the major groups of manufacturing industries. All 1952-53 figures are estimated on the basis of preliminary and incomplete data. The sugar quota situation described above accounts for the decline of \$2.4 million in the net income of sugar mills and also accounts in large part for a 16% decline in the fertilizer industry, which is included in the chemicals and allied products group. Other industries in the chemicals group, especially pharmaceuticals, rose sharply during the year, more than offsetting the loss in fertilizer. The small decline in net income from cement was caused by a loss in exports to Venezuela and

Cuba. Local cement consumption in fiscal 1952-53 was about the same as in the previous fiscal year.

MANUFACTURING NET INCOME
(in thousands of dollars)

<u>Industry</u>	1951 - 52	1952-53 (preliminary)
Total manufacturing	107.5	122.5
Food and kindred products	44.8	46.1
Bakery products	3.8	4.0
Sugar mills and refineries	31.0	28.6
Beverages	6.3	9.1
Other foods	3.8	4.4
Tobacco products	5.5	6.6
Apparel and textiles	21.6	27.4
Wooden products and furniture	4.4	5.9
Printing, publishing, and allied trades	3.3	3.3
Chemicals and allied products	6.9	7.5
Stone, clay, and glass products	9.9	9.6
Cement, quarries, and gravel	6.6	6.4
Pottery, glass, and concrete products	3.3	3.2
Metal and machinery products	5.6	6.6
Paper, leather, and miscellaneous manufactures	5.4	9.5

Apart from the decline in income from sugar mills and a continuation of the decline in pineapple canning that has persisted since fiscal 1949, most of the other food processing industries increased substantially. The beer industry has multiplied its production about 5 times since 1948-49 providing for the entire increase in local consumption. Imported beers now account for less than 30% of the total instead of more than 60% as in fiscal 1948-49.

The higher net income from tobacco products is largely a reflection of last year's large crop on the activities of stemmeries. Cigar production will become important only after Consolidated gets into full-scale operation.

Large increases in apparel, metal and machinery, leather, and miscellaneous industries reflect primarily the establishment of new plants in these industries under EDA auspices and to a lesser degree the growth of plants previously established. The temporary recovery in home needlework added comparatively little to net income; nearly all the increase in the apparel group resulted from higher factory output.

Employment in the construction industry as a whole, which includes roads and other public works as well as building construction, was considerably higher in 1952-53 than in the year before. The total value of building permits issued, however, was about 8% lower which suggests the likelihood that there may be a decline in building construction during the current year. The value of permits issued for private building increased somewhat and there was a substantial increase in the permits for both private and public industrial structures. Permits for public housing, however, fell sharply from \$13.6 to \$5.1 million which accounts for the decline in the total.

External trade and the balance of payments

Both imports and exports reached record levels in 1952-53 and, as the following table shows, there was a small reduction during the year in the deficit in merchandise trade.

EXTERNAL TRADE OF PUERTO RICO
(in millions of dollars)

Commodity Group	Exports		Imports	
	1951-52	1952-53	1951-52	1952-53
Total	257.0	318.8	448.1	495.0
Animals and animal products	7.1	9.6	74.0	78.9
Vegetable products	159.3	182.0	92.9	107.8
Textile fibers and manufactures	56.4	73.8	74.2	79.2
Wood and paper	4.0	3.8	25.0	26.5
Nonmetallic minerals	7.0	8.4	33.8	35.6
Metals and manufactures	3.2	3.5	31.9	31.2
Machinery and vehicles	2.3	4.8	59.9	72.6
Chemicals and related products	4.2	5.9	34.0	34.6
Miscellaneous	7.3	19.9	22.3	28.6
Re-exports	6.1	7.1		

Exports rose \$61.8 million to a record total of \$318.8 million, while imports rose \$46.9 million to a record total of \$495.0 million. The resulting small decrease in the merchandise trade deficit reflects a temporary situation involving shipments of sugar explained below. Had it not been for this factor, the excess of imports over exports would have again increased as it has in all but two of the postwar years.

Sugar contributed \$25 million of the \$61 million increase in exports during 1952-53. This was due, however, to the fact that the 1953 crop was shipped earlier than the 1952 crop. It can be expected, therefore, that sugar shipments will be lower during the current fiscal year.

On the other hand, the increases shown in the other commodity groups reflect real expansion of production. The largest increases were in the "textile" and "miscellaneous" groups which include many of the products made in the factories established under the manufacturing promotion program.

Increases in imports were moderate in most commodity groups except "vegetable products", "machinery and vehicles", and "miscellaneous" which increased 16%, 21%, and 28% respectively. Imports of many food items were higher than in the previous year, led by a \$6 million increase in rice. Of this \$6 million, however, about half was due to higher prices. The quantity of all vegetable food products imported from the States increased by about 9% and, since population did not increase during the year, it appears that the per capita consumption of imported food has risen correspondingly. Consumer items, mainly passenger cars, accounted for \$5.5 million out of the total increase of \$12.7 million in the "machinery, vehicles" group. The remainder represented chiefly larger imports of machinery and other capital goods. The percentage rise in the consumer items in this group, however, was nearly twice as great (32%) as that for capital goods.

Data are not yet available for computing the 1952-53 balance of payments. On the basis, however, of the changes in merchandise trade shown above, it seems likely that the general pattern of the balance of payments was about the same as in the previous years for which data are shown in the table. Undoubtedly the deficit in merchandise trade during 1952-53 was offset in large part by expenditures of the Federal Government and most of the remainder was probably financed by additional borrowing.

BALANCE OF PAYMENTS
(in thousands of dollars)

	1949-50	1950-51	1951-52
Purchases from abroad			
Merchandise	346,237	439,397	449,978
Services <u>1/</u>	89,615	94,846	114,633
Total	<u>435,852</u>	<u>534,243</u>	<u>564,611</u>
Sales abroad			
Merchandise	255,928	291,785	279,530
Services <u>2/</u>	153,438	173,430	213,575
Total	<u>409,366</u>	<u>465,215</u>	<u>493,105</u>
Excess of purchases over sales	-29,486	-69,028	-71,506
Means of financing the excess purchases			
Increase (f) in outside claims on Puerto Rico			
Loans from Federal Agencies	f 3,167	f 4,405	f 8,218
Commonwealth, government corporation, and municipal debts	f 29,446	f 23,849	- 2,854
Debt of the housing authorities	f 3,680	f 2,848	f 31,429
Other mortgages	f 2,183	f 20,438	f 19,339
Direct investment	f 8,592	f 11,276	-11,255
Other	- 837	f 19,971	- 2,562
Total	<u>f 46,231</u>	<u>f 82,787</u>	<u>f 64,825</u>
Decrease (f) in Puerto Rican assets abroad			
U. S. Government securities	- 5,116	-13,694	- 9,903
U. S. Currency	- 2,946	-10,468	- 7,669
Bank balances	f 7,701	f 15,089	f 16,998
Other	-11,560	f 2,603	f 1,593
Total	<u>-11,921</u>	<u>- 6,470</u>	<u>f 1,019</u>
Error or omissions	- 7,824	- 7,289	f 5,662
All means of financing	<u>f 26,486</u>	<u>f 69,028</u>	<u>f 71,506</u>

1/ Includes remittances to individuals and institutions.

2/ Includes remittances from individuals and institutions, subsidies, veterans' benefits, and Federal grants-in-aid.

Recent changes in exports, imports, and the balance of payments can be better understood when viewed in the perspective of the net balance of Puerto Rico's current transactions and the means of financing this balance during the period 1942-1952 as shown, in millions of dollars, in the following table.

Period	Balance of goods and services	Net change in external liabilities	Net change in external assets
1942-1946	379	1	381
1947-1952	-347	240	-120
1942-1952	32	241	261

Statistical discrepancy: \$12 million

During the war years from 1942 through 1946, exports of goods and services, including other current payments such as grants-in-aid from the Federal Government, exceeded imports and other current payments by about \$379 million. Since there was only a negligible change in liabilities to the outside world, the export surplus resulted in a roughly equivalent increase in external assets.

During the postwar years, from 1947 through 1952, exports and other current receipts were \$347 million less than the corresponding imports and other payments. This excess was partly financed by the liquidation of external assets accumulated during the war (\$120 million) but mostly by an increase in borrowing and other transactions that result in claims by non-residents on Puerto Rico (\$240 million).

The fact that over the 11-year period as a whole external assets have risen slightly more than external liabilities must be interpreted with caution. The latter now amount to something over \$350 million, not counting direct investments in Puerto Rico, an amount consisting almost entirely of bonds, mortgages, and other debts of the Commonwealth Government and its agencies, the municipalities, and the public at large. At least \$127 million of the total, for instance, represents debt on housing, including both the amounts owed by private persons and by the public housing authorities. An additional \$109 million was owed by governments and governmental agencies other than the public housing authorities. This debt requires substantial annual interest and amortization payments which, in turn, require the transfer of real resources, that is, goods and services, from Puerto Rico to the Mainland.

The external assets, on the other hand, are mostly of the kind that produce no income, and are not readily available for use by Puerto Rico. Of the net increase of \$261 million shown in the table, \$106 million represented the net inflow of U. S. currency. This inflow resulted mainly from local needs for currency for circulation purposes, and this currency cannot be withdrawn from circulation so long as it is needed. An additional part of the \$261 million represents the increase in external assets of the banks. These assets, plus currency on hand, constitute the reserves of the Puerto Rican banking system, and also can not be drawn below a certain minimum point so long as bank deposits remain at their present level.

Thus, to a large extent, the increase in external assets cannot be said to offset the increase in external liabilities. However, to the extent that this debt to the outside world has been matched by increases in productive capital assets in the Island - either governmentally or privately owned - means have been provided to generate the real production necessary to service the debt. It is from this point of view, for example, that twice as rapid a rise in passenger car imports as in capital goods imports during the past fiscal year is a matter of concern.

Family income

The results of two surveys made by the Bureau of Labor Statistics, one on the incomes of all families and individuals in 1950 and the other partial data on the incomes of wage earner's families in 1952, have recently become available. What follows is based mainly on a statistical analysis of the earlier survey. In this analysis the incomes reported by sample families to BLS enumerators have been adjusted upward so that they conform to the total amount of money income and income in kind estimated to have been paid out in 1950.

Without going into the statistical details involved, it was estimated that, if the total income goal is achieved in 1960, the average value of government services to a family would then be about \$740. Thus the \$2,000 minimum family income goal would require a total of \$1,260 of money income and income in kind. Of the 423,000 families in Puerto Rico in 1950 it was estimated that 214,000 had money incomes and income in kind below \$1,260 and that the other 209,000 families were then at or above the 1960 minimum goal. The following table shows some of the major differences between low-income families and families that had already in 1950 reached the \$1,260 goal for money income and income in kind.

These data show that rural areas are the main site of poverty in Puerto Rico and that its main causes are unemployment and underemployment. Three-quarters of the low-income families in Puerto Rico live in rural areas and the heads of nearly all of them (70% of the total) are unemployed or working in agriculture or home needlework. In contrast, the higher-income families are about evenly divided between city and country, and

nearly two-thirds of the heads of these families have non-agricultural jobs.

	About 214,000 families with incomes under \$1,260	About 209,000 fam- ilies with incomes of \$1,260 or more
Size of family	5.0	5.2
Employed workers per family	1.2	1.5
With no labor income	21%	15%
Part of income from wages	65%	70%
Living in urban areas	25%	48%
Living in rural areas	75%	52%
With male head of family	78%	89%
With female head of family	22%	11%
Head of family	100%	100%
Unemployed or not in labor force	22%	11%
Employed in:		
Cane	18%	10%
Other agriculture	27%	11%
Home needlework	3%	2%
Subtotal	<u>70%</u>	<u>38%</u>
Services	8%	8%
Trade	8%	16%
Manufacturing	5%	10%
Construction	5%	8%
Transportation	2%	8%
Government and other	2%	12%
Subtotal	<u>30%</u>	<u>62%</u>

Contrary to general impression, the low-income family is slightly smaller and has an appreciably lower average number of employed workers. The small difference in size may reflect the fact that newly-formed families tend to have lower incomes. The smaller number of workers per family is, of course, a major causal factor. Families have low incomes when family members cannot find work. Low income families derive a smaller part of their income from wages than do higher-income families.

In analyzing the data in the lower part of the table showing the industrial attachment, if any, of the head of the family, care must be taken not to assume that it is merely the low wage level of an industry and, therefore, of the family head that alone causes the low family income. Actually it appears that a very large part of the higher-income families reach these brackets because they have secondary wage earners whose incomes supplement and often exceed that of the family head. For example, most of the families above \$1,260 whose heads are employed in home needlework obviously must have supplementary income of some kind. Only in transportation and in government is the median wage or salary high enough to provide an annual income of \$1,260. For most people in other industries, the attainment of a \$1,260 family income must be the result of supplementary earnings, other forms of income, or both.

The foregoing indicates the very great extent to which lack of jobs causes poverty. One of the most important factors in rural poverty is the lack of supplementary job opportunities at any time of year for secondary workers and during the dead season for cane workers. There are almost none, apart from home needlework. This accounts for the fact that over two-thirds of the families whose heads depend on agriculture have low incomes, while in service industries where the median wage is much lower (\$8.70 a week during April, May and June 1952 compared with \$11.70 for agriculture) only about half the families have low incomes. Most service jobs are not highly seasonal, and they are located in the city where there are many more opportunities for supplementary work.

Underemployment as well as unemployment tends to increase the burden of poverty in the rural areas. There, only about half the people who have jobs work as long as 35 hours a week. Moreover, many of those who report themselves as working full-time are self-employed farmers working on such poor or small farms that no possible amount of work would produce an adequate income. In urban areas, on the other hand, only about a third of the workers have part-time jobs and, except for cigar makers and people in a few of the service industries, the self-employed generally fare at least as well as employees.

During the past 2 1/2 years, there have been large enough changes in income and employment to alter the 1950 picture considerably. Between calendar 1950 and the fiscal year 1952-53, preliminary estimates show an increase in real Commonwealth net income of 16%. Family money income and income in kind probably increased slightly less than this because of declines in transfer payments (to veterans) not included in the net income data. Assuming that the increase was 15%, total family money income and income in kind in 1952-53 amounted to about \$847 million in 1950 prices, compared with \$762 million in calendar 1950. Between the two periods there was probably no substantial change in the number of families. Thus measured in 1950 prices, the 423,000 families in Puerto Rico had an average income in fiscal 1953 of approximately \$2,000.

At this average income level, it is estimated that about 37% of the families (157,000) had money income and income in kind below \$1,000 and 63% above. In 1950 about 177,600 families were below \$1,000. This apparent decline of about 20,000 in the number of low-income families and the corresponding increase in higher-income families during the period

coincides with changes in the economy and shifts in population of the same general nature as those indicated above -- marked declines in agricultural employment, unemployment, and underemployment and relative increases in the higher paid lines of non-agricultural employment, especially government. This implies a continuation and probably an acceleration of the movement of population to the cities shown by census data for the 1940 decade.

Preliminary data from the 1952 survey of the incomes and expenditures of wage earner's families have recently become available. Because of the nature of this study, the response of the sample families interviewed was probably much more complete than it was in the 1950 survey, perhaps covering 90% or more of the income actually received. The reported average income of wage earner's families (that is, those whose principal income was from wages rather than salaries, business, or other sources) was \$1,058. The study shows that half the wage earner's families in 1952 were below \$919. Allowing for about 10% under-reporting, this would mean about 50% of wage earner's families under \$1,000, a result that would seem to be reasonably consistent with the above figure of 37% for all families.

This 1952 study for wage earner's families includes the value of any food they produce for home consumption. Apart from this, it is directly comparable with a 1941 study and it shows an increase of 68% in average real income during the 11 years. The increase in real per capita Commonwealth net income during the same period was 47%. Even allowing for considerable error in either or both sets of data, it can now be said for the first time with assurance that wage earners and their families have benefited at least as much as other people from the economic progress of Puerto Rico.

Price Movements

Prices in Puerto Rico tend to follow the general trend of prices in the mainland. Since, however, food has a larger weight in the family budget here (51%) than in the continental United States (30%), changes in the price of foodstuffs produce a much larger effect on the general index in Puerto Rico.

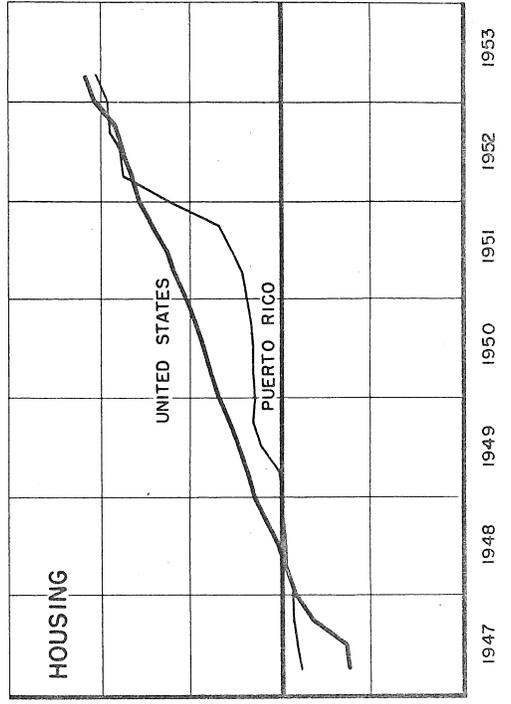
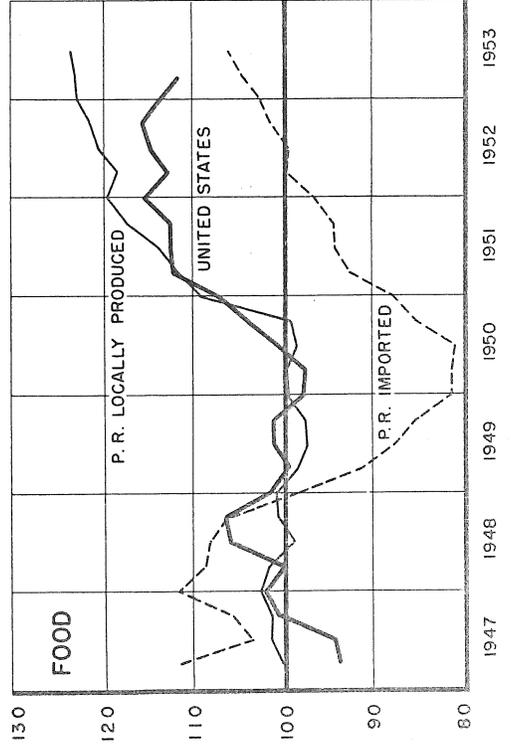
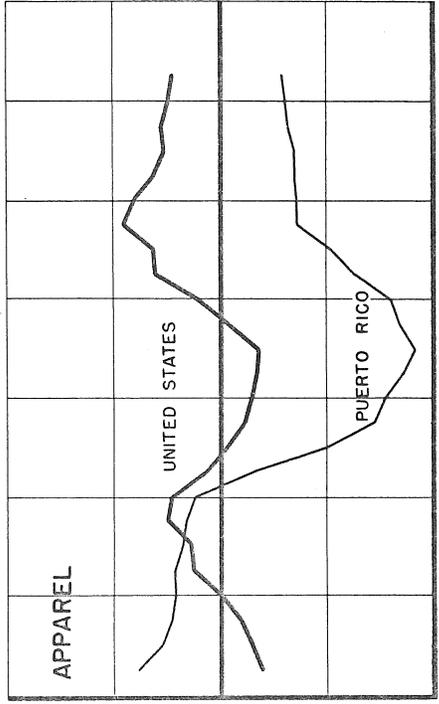
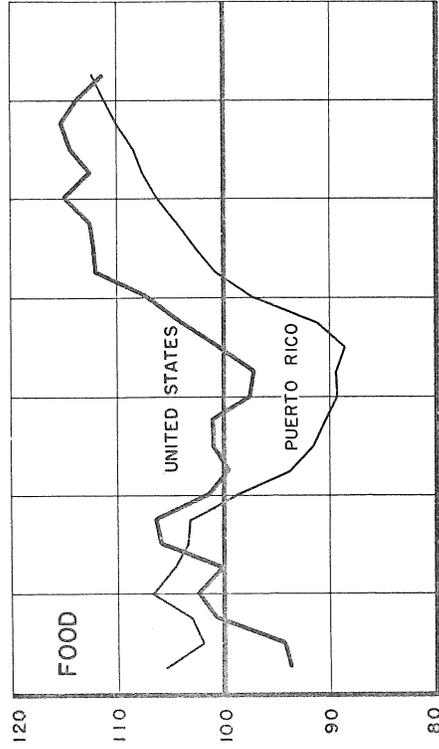
After price controls were lifted, consumers' prices rose rapidly reaching a peak by the end of 1947 in Puerto Rico and by the third quarter of 1948 in the States. Most of the increase in Puerto Rico was caused by a general rise in the prices of imported foods, especially rice, pork, and lard. Reduced demand and larger production caused a decline in the cost of living on the mainland from late 1948 until the middle of 1950. A large part of the decline was due to decreasing food prices, and because of the larger weight of food in our family budget, the index of consumers' prices showed a greater decline here than in the States, as indicated in the accompanying chart.

However, when the movement was reversed after the outbreak of hostilities in Korea, the upsurge was accentuated in Puerto Rico by the rapid climb of locally-produced food prices which had remained relatively stable until then, as shown in the charts. The rise was so rapid here that, starting from a lower level, the food index soon surpassed the mainland rate and amount of increase. Since the beginning of 1952, food prices in the States have remained stable or decreased slightly, but in Puerto Rico they have continued to rise.

Changes in clothing prices were similar to those of food up to the middle of 1950, but after Korea their rate of increase has been less rapid

CONSUMER PRICES

1947-1949 AVERAGE = 100



and they have remained relatively lower.

Rents remained well under control in Puerto Rico until the latter part of 1951 although they had been rising steadily in the Mainland. Due to statutory authorization of a 20% increase and also authorization to pass on to tenants increased taxes and operating costs, there was a sharp rise in rents between September 1951 and March 1952. Increases since then have been moderate.

The consumers' price index reflects, usually with some lags, movement in wholesale prices. It must be remembered that changes in different commodity prices have different effects on the index. For example, a 10% drop in the price of rice has much more weight than a 10% drop in the price of lard because of the larger amount of rice that is consumed.

WHOLESALE PRICES OF FOODSTUFFS

(1947 - 1949 average = 100)

Commodity	<u>1947</u>	<u>1948</u>	<u>1949</u>	<u>1950</u>	<u>1951</u>	<u>1952</u>	June <u>1953</u>
All foodstuffs	106.5	106.4	87.1	85.9	93.4	97.3	102.6
Rice	104.2	109.5	86.3	83.2	94.2	105.5	122.2
Beans	114.7	108.1	77.2	72.0	81.8	80.5	94.6
Sugar	104.9	97.8	97.2	100.8	105.2	107.0	107.0
Lard	123.8	108.5	67.6	68.3	91.5	64.8	62.4
Potatoes	98.5	99.8	101.6	91.5	72.0	112.0	83.1
Codfish	100.4	100.2	99.4	96.0	89.9	97.5	94.5

The average wholesale price of all foodstuffs reached a peak in 1947 and part of 1950 and then resumed an upward trend after Korea. This movement is similar to that shown in the chart for consumers prices of imported food, except that consumers' prices have risen somewhat faster than wholesale prices since Korea.

Recent Commonwealth budgets

Total funds appropriated by the Commonwealth Government or made available by the Federal Government for 1953-54 are about \$6 million less than in 1952-53. There were also substantial internal shifts in their allocation to functions in the various priority groups. Appropriations for priority IV functions increased \$2 million. Appropriations for "general administration" increased \$2.6 million mainly because of expansion in the size of the Legislature, and "services not classified" by function were \$3.2 million higher mainly because of the inclusion in this item of a lump sum for salary increases in the various agencies.

Funds available for priority I items, on the other hand, are nearly \$13 million less for the current fiscal year than for 1952-53, and \$2.5 million less than for 1951-52. This reflects, in part, large appropriations for irrigation aspects of the Lajas Valley project and for the Central Market which were made in 1952-53 but which will be spent in later years. Thus, an increase, rather than a reduction, is implied in agricultural development activities. Most of the remaining reduction is accounted for by the lower capital appropriation made for PRIDCO, \$4 million for the current year compared with \$8 million in the two preceding years. Even here, however, no reduction in activity is contemplated because it is planned that PRIDCO will obtain additional funds by borrowing from the Government Development Bank or by conversion of some of its existing assets.

The other major changes for 1953-54 were the acceleration of the educational program, continued increasing emphasis on preventive health measures and public housing, and reduced appropriations for roads.

RECENT COMMONWEALTH BUDGETS, BY PRIORITY

Function	1951-52		1952-53		1953-54	
	Thds. of dollars	% of total	Thds. of dollars	% of total	Thds. of dollars	% of total
<u>PRIORITY I</u>	<u>35,809</u>	<u>23.9</u>	<u>46,210</u>	<u>27.1</u>	<u>33,358</u>	<u>20.2</u>
Industrial development	11,450	7.6	12,884	7.5	7,974	4.8
Agricultural development	5,654	3.8	14,203	8.3	6,604	4.0
External transportation	2,710	1.8	3,673	2.2	1,388	.8
Education	15,995	10.7	15,450	9.1	17,392	10.6
<u>PRIORITY II</u>	<u>64,545</u>	<u>43.1</u>	<u>68,829</u>	<u>40.3</u>	<u>69,146</u>	<u>41.9</u>
Education	18,845	12.6	19,873	11.6	20,144	12.2
Roads	14,406	9.6	16,431	9.6	12,290	7.4
Telephones, etc.	250	.2	250	.2	350	.2
Industrial & labor relations	1,965	1.3	2,089	1.2	2,359	1.4
Preventive health measures	14,542	9.7	15,556	9.1	17,748	10.8
Protection	14,537	9.7	14,630	8.6	16,255	9.9
<u>PRIORITY III</u>	<u>11,203</u>	<u>7.5</u>	<u>12,809</u>	<u>7.5</u>	<u>12,652</u>	<u>7.7</u>
Curative health measures	9,592	6.4	10,715	6.3	9,687	5.9
Public housing	1,261	.8	1,977	1.2	2,705	1.6
Rural electrification	350	.2	117	.1	260	.2
<u>PRIORITY IV</u>	<u>15,280</u>	<u>10.2</u>	<u>19,281</u>	<u>11.3</u>	<u>21,226</u>	<u>12.9</u>
Parks and recreation	908	.6	905	.5	1,183	.7
Pensions, etc.	3,499	2.3	6,186	3.6	6,296	3.8
Public welfare, general	3,512	2.4	2,713	1.6	3,537	2.1
Direct relief payments	7,361	4.9	9,477	5.5	10,210	6.2
<u>NOT CLASSIFIED</u>	<u>22,913</u>	<u>15.3</u>	<u>23,653</u>	<u>13.8</u>	<u>28,497</u>	<u>17.3</u>
General administration	14,071	9.4	14,473	8.5	17,069	10.4
Services not classified	6,331	4.2	5,706	3.3	8,894	5.4
Debt retirement	2,511	1.7	3,474	2.0	2,534	1.5
<u>TOTAL BUDGET</u>	<u>149,750</u>	<u>100.0</u>	<u>170,782</u>	<u>100.0</u>	<u>164,879</u>	<u>100.0</u>

Note: Includes all Commonwealth and Federal funds. Figures for 1953-54 include appropriations made up to November 20, 1953. "Services not classified" include \$4.5 million in 1952-53 and \$7.2 million in 1953-54 of salary increases that were not distributed by function.

SECTION II. PROGRESS REPORTS

Progress toward the 1960 goals

Several studies have been undertaken and others are to be made looking toward a complete analysis of the feasibility of the 1960 goals and the establishment of a regularized system of reporting the progress made toward their achievement. For a variety of technical reasons, largely connected with the Statistical data now available, it will probably be a year or more before a full analysis is possible. A summary of some of the partial and preliminary results of the individual studies is made below because even at this stage they provide useful material for the formation of governmental policy.

The basic goals of the economic development program are reducing unemployment to 5% of the labor force and raising family income to a minimum of \$2,000. A set of corollary objectives for total employment, total product and income, productivity, and investment believed to be consistent with these basic goals was presented in the 1950 Economic Report to the Governor. Since then, unexpected economic developments and changes in the structure and internal quantitative relationships of the economy have occurred and new information has become available on hitherto under-explored sectors of the economy. As noted, it is still too early to reconstruct the entire program plan and to reevaluate its progress but it is possible to summarize in a preliminary way significant changes or continued stability in the outlook for 1) population and the 1960 total employment goal, 2) productivity and the relationship between employment and product goals, 3) the consistency of the family income and total income goals, 4) the relationship of investment per worker, total

investment, and government investment in manufacturing, and 5) the relationship between total product and export requirements.

The unexpectedly large migration since 1950 and its effects on population, the labor force, and the number of dependents per worker was analyzed quite fully in the 1952 Economic Report to the Governor and recent changes are reviewed in Section II of this Report. At the present time we need about 14,000 new full-time jobs for men and perhaps 60,000 for women plus the equivalent of about 60,000 part-time jobs to take care of unemployment of cane workers during the dead season. Thus about 100,000 new full-time jobs would solve the unemployment problem today. Since the 1950 estimate called for 204,000 new jobs it would appear that half the decade's employment progress had been achieved by 1953. Actually, however, employment has declined. There has been a decrease in unemployment because of the still larger decrease in the labor force caused by migration.

Although migration has reduced unemployment, it has been taking some of our most productive individuals, especially male workers, and it has increased the number of dependents per worker. Its future level, moreover, seems almost impossible to predict. Thus, population and labor force, ordinarily among the most stable of factors, have been and probably will continue to be highly volatile in movement. The absolute goals for employment, income, and product are for this reason most unstable and it will be necessary to work out new goals for investment, production, and income based on per-worker and per-capita measures. Nonetheless, it seems probable that the present wave of migration has tended to lower somewhat the total number of new jobs required.

Migration has also affected productivity. Even though highly productive individuals have been leaving, output per employed worker has been rising by about 8.5% a year since 1950 compared with the figure of 6% estimated in setting the 1960 objectives. The difference is mainly the result of unusually rapid shifts in the structure of the economy and, if it persists during the next 6 1/2 years it may more than offset population and labor force changes and necessitate higher product and investment goals in order to achieve the 1960 employment goal.

An incidental result of the recent family income study referred to in Section I was to establish in a preliminary way the consistency of the total income objective with that of providing a minimum family income, including the value of government services, of \$2,000 a year. In other words, the study shows that if the total income goal is achieved, normal changes in the distribution of income would bring all but 10% of the families up to the minimum and that the additional funds required to supplement their income would be well within the capabilities of the government to provide. Rising income during the first 2 1/2 years of the decade has increased by about 20,000 the number of families whose incomes have already reached the objective.

The most recent study of capital invested and jobs created in the new manufacturing plants, which covers all the new plants operating at the end of 1952, yields a figure of about \$3,600 per worker, an amount somewhat below the \$4,000 figure estimated in 1950. It also showed that \$1 of government investment yielded about \$3.20 of private investment, considerably more than the \$1.90 that had been estimated for the early years

of the decade. Thus, even though government investment in new manufacturing plants has been much less than the \$9 million a year planned for 1951-52 and for 1952-53, the 12,000 new manufacturing jobs created during these two years compares favorably with the 12,500 expected on the basis of the planned rate of investment.

Preliminary results of a study of the relationship of the income and product goals and Puerto Rico's balance of external payments indicates that the objective of approximately tripling real gross Commonwealth product between 1950 and 1960 requires that exports be nearly quadrupled during the same period in order to finance the imports that would be required for capital and consumption purposes at that level of total income. It may turn out on further analysis that a quadrupling of exports is consistent with a tripling of total production. On the surface, however, this does not seem to be likely. In any case it points strongly to the advisability of devoting special attention to programs that have not only the general effect of increasing production but also the particular results of decreasing net imports or increasing net exports. In this respect, for example, there is a marked difference in the effect of an increase in total income resulting from, say, expanded residential construction and that from a similar increase in total income from expanded production of food for the local market or from manufactured goods for export.

With the possible exception of this preliminary study of Puerto Rico's balance of payments requirements and of the unexpectedly rapid increase in productivity, none of these partial analyses has revealed major inconsistencies in the general framework of the economic development

program and, in general, progress toward the 1960 objective appears to have been fairly satisfactory during the first quarter of the decade. Both here and in the analysis of individual programs that follows, however, allowance must be made for the short-run benefits from migration, the very favorable economic situation that has been prevailing during the period in the States, and for the possibility that progress in the years ahead may be in the face of much more difficult conditions.

Agricultural Programs

A preliminary agricultural development program, based in part on a report on the local agricultural situation prepared by Nathan Koenig, Executive Assistant to the U. S. Secretary of Agriculture, was submitted last Fall by a special committee appointed by the Governor. This preliminary program contains more than 200 recommendations on the conservation and development of natural resources, the expansion of agricultural production, and the necessary machinery to implement the program. Several meetings have been held to discuss these proposals and, although only part of them have thus far been fully analyzed, legislation covering the following recommendations was enacted by the Legislature during its last regular session.

1. To strengthen the Land Utilization Division of the Department of Agriculture and Commerce - \$25,000.
2. To create in the Department of Agriculture and Commerce a bureau of conservation of natural resources - \$15,000.
3. To expand the production of calcium carbonate - \$17,000.
4. To establish in the Department of Agriculture and Commerce a modern laboratory to facilitate the setting of quality standards and regulations - \$33,462.
5. To undertake certain forestry studies - \$2,500.
6. To establish forest recreation areas - \$10,000.
7. To develop the pasture improvement program - \$250,000.
8. To establish additional stud centers - \$28,000.
9. To exempt dairy herds and silos from the property tax.

Other steps taken by the Legislature along lines recommended in the preliminary development program included increased appropriations

for rural dwellings, for stimulating small rural industries, and for the establishment of individually-owned farms. This prompt legislative action suggests that continued support of the agricultural development program can be expected in the future. Such support will be necessary because, even though existing programs are making important contributions, the program as a whole must have a much stronger impetus if it is to make impressive gains in higher production and incomes for the people of Puerto Rico.

Food Production and Distribution Program. Approximately 50,000 acres of food crops were planted during 1952-53 under the Food Production and Distribution Program of the Department of Agriculture and Commerce. While production of 17 different kinds of food crops was sponsored, main emphasis was given to sweet potatoes (UPR 3), pigeon peas, cereals, and tomatoes. Through the 33 production centers and 9 cooperatives operating under this program, \$374,000 worth of supplies such as seeds, fertilizer, insecticides, and farm tools were sold to farmers throughout the Island.

Minimum guaranteed prices were established for 12 different food products during the year. Under these commitments, 400 cwt. of yams, 170 cwt. of tomatoes, and 7,227 cwt. of cabbages had to be bought at a total cost of \$23,544. Part of this food was donated to State institutions in order to maintain the price level and avoid larger purchases, some spoiled in the warehouse, and the rest was sold for \$9,202. The total loss from the price support program thus amounted to \$14,342 during the year.

In spite of the stimulus provided by this program, total food production was lower because of the drought that hit most sections of the Island early in the year. Production of legumes decreased 33%, starchy

vegetables 5%, and cereals almost 20% from last year's level. There was a small (6.5%) increase in the production of yellow, green, and leafy vegetables as a group, but this mainly due to an unexpected large crop of cabbages in response to a relatively high guaranteed price. Enough tomatoes were available for the local market and some were sold in the Continental winter market.

FOOD CROPS, PRODUCTION AND FARM VALUE

	Farm value (in thousands of dollars)		1953 as % of 1952	
	<u>1951-52</u>	<u>1952-53</u>	<u>Production</u>	<u>Value</u>
Total	20,817	20,085	91.6	96.5
Starchy vegetables	12,793	12,973	95.0	101.4
Sweet potatoes	1,815	1,426	71.8	78.6
Plantains	3,303	3,123	93.6	94.6
Bananas	4,353	3,580	86.5	84.2
Taniers	1,336	2,731	123.6	204.4
Yams	629	792	118.7	125.9
Dasheens	234	324	88.3	138.4
Cassava	232	306	155.3	131.9
Breadfruits	891	691	126.1	77.6
Yellow, Green and Leafy Vegetables	3,464	4,127	106.5	119.1
Tomatoes	1,135	1,371	101.4	120.8
Cabbage	297	578	140.7	194.6
Peppers	487	455	92.1	93.4
Squash	417	380	133.8	91.1
Other	1,128	1,343	126.9	126.9
Legumes	3,141	1,813	67.2	57.7
Beans	2,131	960	70.5	45.0
Pigeon peas	862	693	56.0	80.4
Other	148	160	84.5	108.1
Cereals	1,419	1,172	79.5	82.6
Corn	1,047	776	70.8	74.1
Rice	372	396	103.8	106.4

Although yellow yam production increased, the total supply of sweet potatoes was not sufficient to take care of the fresh market demand together with that of the two canning plants recently established. Pigeon peas were also in short supply in the local market because about 80,000 crates were canned and sold almost entirely in the New York market.

Coffe Conservation and Insurance Program. The Coffee Conservation Program was started with an appropriation of \$800,000 provided by Act 198 of 1946. Since then, \$1,550,000 from general funds have been appropriated and an additional \$881,000 has been obtained from a tariff on coffee imports into Puerto Rico. The Federal Government currently adds \$1 million a year and total annual disbursements for the Coffee Conservation Program have been over \$1,550,000 during recent years.

Although coffee production varies from one year to another, good crops are gradually becoming larger and a record crop of over 300,000 hundredweights of coffee is expected in 1953-54. Much of this improvement is a reflection of the Coffee Conservation Program.

Last year, 11,400 acres and 85,400 hundredweights of coffee valued at \$2.1 million were insured under the Coffee Insurance Program. This year, with a larger expected crop, over 190,000 hundredweights of coffee have already been insured and the final amount probably will go over 225 000 hundredweights with a total value of about \$5 million. Approximately \$300,000 of premiums probably will be collected, of which \$185,000 will be paid to private insurance companies and the rest will go to the coffee insurance fund. On December 31, 1952 the Coffee Insurance Program had a \$3,000,000 reserve and \$612,000 of other assets.

The Dairy Industry. Government programs for expanding dairy production fall in three general categories: (1) control of cattle diseases, (2) cattle improvement, and (3) pasture improvement. The tick eradication program has been the most costly of those included in the first group. It had used \$2,000,000 of Federal funds and \$4,350,000 of Commonwealth funds for a total of \$6,350,000 by the end of 1952-53. For 1953-54 an additional appropriation of \$330,000 was made with which it is expected the program will be completed. After the completion of the program a relatively small appropriation will be necessary each year for some time to check against possible future outbreaks.

Other infectious diseases which have caused considerable losses in Puerto Rico are tuberculosis and brucellosis. Through government and private efforts the incidence of these diseases has been greatly reduced and they are expected to be completely wiped out in a few more years.

The most important cattle improvement programs are the stud center program and the artificial insemination program. A goal has been set to establish 60 stud centers to service scattered herds, especially in the interior of the Island. Funds appropriated for 1952-53 and 1953-54 are sufficient to raise the total to 36.

An artificial insemination service was inaugurated in July 1952 and is already serving over 100 dairy farms on the northern coast, around Bayamón, where its main establishments are located. The scope of this service will be broadened through cooperative action and several cooperatives are now being organized for this purpose. It is expected that this program will become self-supporting after these cooperatives start operating.

The Agricultural Company has been supplying, from its dairy farms in Vieques and Bayamón, improved stock to farmers and stud centers. During this year, 100 head of cattle from these farms were sold to private farmers.

The pasture improvement program, which operates under an agreement between the Production and Marketing Administration of the United States Department of Agriculture and the Commonwealth's Department of Agriculture and Commerce, was started during the current fiscal year with an initial appropriation of \$250,000. To begin this year on 6,000 acres in five demonstration areas, it is contemplated that eventually the program will be extended directly to some 250,000 acres of pasture, with its effects being exercised indirectly over all of the remaining actual or potential grassland in the Commonwealth.

The planning phases of the project are nearing completion, and operations are scheduled to start at the beginning of 1954. These operations will include the provision of advice and incentive payments and other assistance to stimulate the introduction of a number of specific improvements and practices, including establishing permanent pastures by seeding, sodding, or sprigging adapted legumes and grasses, particularly Tropical Kudzu, either in pure stands or in strips; elimination of competitive weeds, shrubs, and trees; application of ground limestone and organic and chemical fertilizers; fencing permanent pastures for rotation practices that will prevent overgrazing; drilling wells and constructing farm ponds or reservoirs to provide water for livestock; and construction

of silos to provide an even supply of feed throughout the year. Particular attention has been paid to the integration of this program with the activities of the Agricultural Experiment Station and the Extension Service, as well as with the other Commonwealth programs. Commonwealth funds made available for incentive payments are matched by the Federal Government's Production and Marketing Administration.

In view of the relatively high and potentially rising level of consumption of dairy products and meat, a considerable part of which is currently being supplied by imports, these dairy production programs are of strategic significance and should receive the maximum possible support. The resulting rise in fluid milk output will make increasingly urgent the establishment of a modern processing plant, particularly to take care of the flush season surplus.

Marketing Projects. The Transportation Authority, with the assistance of a firm of consulting engineers, has prepared basic plans for the Central Market and the expanded port facilities in San Juan. The question of the exact location of the market and related facilities within the area to be developed along the south side of the bay had been delaying this project but the agencies involved have now reached an agreement on this point. Acquisition of the private land, diversion of the Puerto Nuevo River, preparation of detailed plans and specifications for filling the area, and engineering and carrying out of the primary drainage of the area are now planned for the current fiscal year.

The municipal governments of San Juan and Bayamón are planning to construct new market places to replace their present outmoded facilities.

This action can not long be postponed because for some time the Santurce, Río Piedras, and Bayamón markets have been not only obsolete but too small for the volume and variety of business carried in them.

A distribution center for local produce started to operate in October 1952 under the Food Production and Distribution Program and, since then, its activities have been steadily increasing. It occupies an 8,750 square foot building in Hato Rey, with a cold storage capacity of 14,500 cubic feet. It buys local food products directly from farmers or farmers' cooperatives, grades, packs, and sells to groceries, peddlers, State institutions, exporters, and the Armed Forces. Equipment was bought and is being installed to mechanize the classification, grading, washing, drying, waxing, and polishing of farm products. During its eight months of operations ending June 30, 1953 it purchased and sold \$93,000 of local products with a very modest gross profit.

In addition to the food distribution center operating in Hato Rey under the Department of Agriculture and Commerce, a privately operated banana ripening chamber was recently established in Río Piedras and is marketing over 500 hundredweights of bananas of uniform quality to groceries and other business establishments in San Juan and Río Piedras. It provides a profitable and stable market to farmers and a steady supply of high quality product to consumers.

A study of the existing marketing facilities in rural areas, with a view to suggesting the specific location and character of need improvements, is planned for the coming fiscal year, subject to legislative approval of the necessary funds.

The Department of Agriculture and Commerce has already issued marketing regulations and quality standards for some fruits and vegetables. Four additional regulations have gone into effect covering mango exports, tobacco marketing, and egg imports. Moreover, marketing standards and regulations are being prepared for dressed poultry, meat and meat products, dairy products, and for other fresh and processed fruits and vegetables.

Lajas Valley Project. The Lajas Valley embraces a rectangular area of 160 square miles or about 105,000 cuerdas in the southwestern part of Puerto Rico. Through the reclamation project now under way, 26,000 acres will be irrigated or drained. There are 11,000 additional acres that may be improved later. Slightly over one-third of the land that will be irrigated is at present devoted to sugar cane and other crops and three-fifths to pasture. The rest is covered by timber, brush or marshes.

Among the present agricultural crops, sugar cane with 10,621 cuerdas is by far the most important and corn with 1,545 cuerdas makes a poor second. On small patches other food crops and tobacco are grown during part of the year, but vegetables and fruits are seldom seen in the whole region. In 1950 the agricultural production from Lajas Valley had a gross farm value of \$4.6 million, an average of \$80 per cuerda of farm land. Out of this total, sugar cane accounted for \$3.75 million (82%), livestock products for \$700,000 (15%) and all other crops for the remaining 3%.

This new irrigation district will service 479 farms with a total area of 58,000 cuerdas. As stated previously, only about 26,000 cuerdas

will be irrigated or drained, thus part of some of these farms will not receive irrigation water. Among the 479 farms are included a Land Authority farm of 11,500 cuerdas and a 500 cuerda farm owned by the Agricultural Experiment Station. The following table shows the distribution of the remaining farms by size.

Size group (Cuerdas)	Farms		Area of Farms	
	Number	Cumulative Percentage	Total (Cuerdas)	Cumulative Percentage
1,000 or more	11	2.3	23,754	52.0
500 - 999.9	11	4.6	7,231	67.7
200 - 499.9	11	6.9	3,355	75.1
100 - 199.9	28	12.8	4,756	85.5
50 - 99.9	32	19.5	2,936	91.9
3.1 - 49.9	176	56.4	3,554	99.6
3 or less	208	100.0	208	100.0
Total	479	-	45,794	-

The 22 farms of 500 cuerdas or more cover approximately 68% of the total acreage, or 31,000 out of 45,800 cuerdas of privately owned land in these 477 farms. Farms of 200 cuerdas or more (33) represent about 7 per cent of all farms but comprise 75% of the total acreage. At the other extreme, 44% of all farmers own less than one-half of one per cent of the farm area. Both extremes pose difficult problems: on the one hand, the adequate diffusion of the benefits to be derived from the project, and on the other hand, farm management and appropriate use of irrigated lands. The Committee appointed by the Governor earlier this year to study land tenure and land use problems in the Lajas Valley must consider them and offer an adequate solution in each case.

Irrigation and drainage will not only solve a serious conservation problem in this area but also increase yields and total production. It has been estimated that yields could be increased to 40 tons of sugar cane on 5,500 cuerdas whose present yield is 28 tons and on another 6,00 cuerdas whose present yield is 17 tons. Having a fixed sugar quota, a major part of these lands, when under irrigation, could be devoted to other profitable uses. In view of this fact, it is even more significant to point out that, according to official estimates, corn yields could be increased from 8 to 30 hundredweights per cuerda, cotton yields from 4 to 13 hundredweights, and sweet potatoes to over 80 hundredweights per cuerda. Fresh irrigation water will also make feasible the production of vegetables, tomatoes, cucumbers, beans, peppers and other truck garden products, provided profitable outlets are created locally or in the continental market.

The irrigation system will be constructed in three stages. The first, which involves the construction of 40,000 feet of main ditches for the irrigation of about 8,000 cuerdas, is scheduled to start operating at the beginning of 1954. The other two stages will be completed 1 1/2 years and 2 years later.

The Department of Agriculture and Commerce, in cooperation with the Agricultural Experiment Station, is working on a land use plan for these first 8,000 acres. It contains a detailed analysis of yield, production costs, capital and labor requirements, and other pertinent data on each crop that can be grown profitably on this area. Among its recommendations it includes the establishment of a service center for the distribution of farm supplies; the collection, sorting, grading, and packing of farm

products; and for the provision of other necessary services to farmers such as technical assistance and rent of machinery and equipment.

Manufacturing and Related Programs

The manufacturing, tourism, rum promotion, and external transportation programs are under the auspices of the Economic Development Administration. During the past fiscal year progress was good in all of them, especially so in manufacturing.

Manufacturing. During fiscal 1952-53, a total of 81 new plants started operations, as compared with 69 during fiscal 1951-52 and 32 in fiscal 1950-51. Total factory employment, excluding homeworkers, in government-aided plants increased from approximately 12,600 at the beginning of the fiscal year to an estimated 19,500 as of June 30, 1953. Preliminary estimates indicate that approximately 75% of this increase in employment was accounted for by plants that started operation during the year, with the balance resulting from the expansion of plants established before June 30, 1952. Annual payroll of the 19,500 workers is estimated at \$18 million. At the end of the fiscal year, 37 plants were in the process of being established as compared with 18 at the end of fiscal 1951-52. With an increase of 19 in the number of plants in process of being established and of 81 in the number in operation, the total number of new plants promoted during the year reached a total of 100.

On its face, the promotion of 100 factories in one year is a substantial achievement. The rate of nearly 2 new factories a week is about a third higher than it was last fiscal year and quadruple the average rate of the 4 previous years. This physical performance record is not in itself, however, sufficient basis for deciding how much emphasis should be

given to the program in the future, either as compared to other economic development programs or as compared to the many social programs that must also be carried out with Government funds.

The primary basis for evaluating one economic development program as compared with another is the difference between the two in their cost to the Government and in their benefit to the economy. If one program yields \$5 of income to the economy for each Government dollar spent and the other yields \$10, it is clear from an economic standpoint that it is the second that should be emphasized. Such direct cost-and-benefit comparisons are of course valid only if both programs have passed beyond their early planning and organizational stages and have been in operation long enough to have established performance records. Also this purely economic comparison does not take into account differences that may possibly exist in the social values and costs of the two programs.

In the comparison of an economic program with a social program there is the further problem that the benefits of the latter are usually non-monetary. Even here, however, the cost-benefit relationship existing in the economic program is relevant. If the economic program will, over a period of years, bring in \$2 to the Government for each dollar spent, then it is possible to weigh the social advantage to be gained by spending twice as much on the social program at the end of the period against the disadvantage of waiting until then to start or expand it. Thus, while it is clear that an analysis of the costs and benefits of the factory promotion program does not of itself provide any complete answer to various policy questions, it does provide a direct basis for comparing this

program with other economic programs and some guidance on matters related to the timing of new or expanded economic and social programs.

In the table below the 100 factories promoted during fiscal 1952-53 are isolated for purposes of estimating the costs and benefits of the factory promotion program. The table shows that, over a period of 10 years, each Government dollar spent is estimated to generate about \$60 of Commonwealth income and about \$5 of tax revenue. No other economic development program has yet been analyzed in this way but it is believed that none of them has so favorable a record of benefit over cost, although preliminary calculations of the prospective benefits of the Central Market and Port project show a roughly comparable potential. Moreover, the 5 to 1 ratio over the ten-year period between Government tax receipts and Government operating costs indicates that every 2 years a "new" tax dollar will be made available for expanding or initiating programs without the necessity of curtailment elsewhere.

The basis for the estimates in the table is shown in detail in the footnotes. In general the estimates presented are based in part on actual experience with promoting the 100 plants during fiscal 1952-53, and in part on the performance of the government-aided factories promoted in earlier years.

It will be noted that none of the performance records of the plants projected for the future and none of the tax yields from the income they produce has been estimated at higher rates than those that have actually occurred in the past. In other words, no allowance has been made for any increase in the average size of plant, for higher productivity in the new

plants, for greater integration and hence a higher induced payroll, nor for the likelihood that directly and indirectly the new plants should increase property tax payments.

On the other hand, an effort has been made to include every significant cost to the Commonwealth Government in the promotion, servicing, and financing of these new manufacturing establishments. Some of the "Operation Hurry-Up" commitments will probably not be spent, the actual present cost of borrowing to the Government is below the 3% figure used in the calculation, and, of the two methods used to estimate capital outlays, one method includes the unusually heavy Government participation in the plants that were formerly wholly-owned and the other includes some PRIDCO investment in tourist facilities and in items such as automobiles used for its own operating purposes that should not be charged to the 100 plants. The only datum used that is not based on actual operating experience is the assumption that the amount of induced employment and payrolls will be equal to primary employment and payrolls.

Thus, although there is doubtless considerable error in the following table, it is unlikely that it exaggerates the benefits to the people and the Government of Puerto Rico to be derived from the promotion of 100 manufacturing plants during the past fiscal year. There may be future programs that will have a higher benefit to cost ratio but there is no major existing program that has a demonstrated performance record even approaching that shown below.

ESTIMATED COSTS AND BENEFITS OF 100 NEW FACTORIES
(dollar figures in thousands)

		<u>Fiscal</u> <u>1952-53</u>	<u>Next 9</u> <u>years</u>	<u>10-year</u> <u>period</u>
COSTS				
Promotion	<u>1/</u>	1,030	---	1,030
"Hurry-Up"	<u>2/</u>	489	---	489
Services	<u>3/</u>	---	405	405
Financing	<u>4/</u>	270	<u>2,430</u>	<u>2,700</u>
Total operating costs		<u>1,789</u>	<u>2,835</u>	<u>4,624</u>
BENEFITS				
Employment (man years)	<u>5/</u>	2,250	83,700	85,950
Payroll	<u>6/</u>	2,071	83,700	85,771
Induced payroll	<u>7/</u>	---	83,700	83,700
Total payroll		2,071	167,400	169,471
Total net income	<u>8/</u>	3,452	279,000	282,452
Corporation taxes	<u>9/</u>	---	2,700	2,700
Personal income taxes	<u>10/</u>	73	5,859	5,932
Excise taxes	<u>11/</u>	201	<u>16,294</u>	<u>16,495</u>
Total tax receipts		<u>274</u>	<u>24,853</u>	<u>25,127</u>
CAPITAL ITEMS				
Capital outlays	<u>12/</u>	9,000	---	9,000
Value of assets	<u>13/</u>	9,000	---	9,000

1/ Total 1952-53 budget for the EDA Promotion Office plus estimated amounts from Industrial Services, Rum and Tourist Promotion, Public Relations, Research, and EDA overhead that are attributable to the function of industrial promotion.

2/ All "Operation Hurry-Up" commitments approved during fiscal 1953. Past experience suggests that less than half this amount will actually be spent.

3/ About 3/5 of the budget of the Office of Industrial Services (including worker training) was included in 1/ above as being attributable to the promotion function. The remaining 2/5 (\$90,000) covers services to existing firms of which there were an average of about 200 in fiscal 1953. Thus \$45,000 per year is regarded as the cost of servicing 100 existing firms.

4/ Based on estimated total government investment of \$9 million in the 100 firms (see note #12) and on an annual interest rate of 3%.

- 5/ Figure for 1952-53 is half the actual employment on June 30, 1953 of the new firms that started operations during the fiscal year. The average of 9,300 during the 9-year period is based on the expectation that these 100 firms will reach and maintain the average of 93 per plant actually achieved by the total of 235 firms operating at the end of fiscal 1953.
- 6/ Payroll during 1952-53 is based on the average yearly earnings of \$920.40 for all production workers in 213 plants reporting as of June 1953. It was assumed that annual earnings would rise to \$1,000 during the 9-year period.
- 7/ Induced payroll in trade, service, and other industries is assumed to be equal to direct manufacturing payroll.
- 8/ Based on the relationship of payroll (about 60%) to total net income in the whole economy.
- 9/ During the last 3 years of the 9-year period tax exemption will be 75%, 50%, and 25% of the tax due. This amounts to the payment of 1-1/2 years of full taxes by the 100 corporations. During the 1951 taxable year 68 profitable firms out of a total of 95 new firms filing returns had a total net profit of \$7.3 million. Assuming that the profitable firms among the 100 promoted in fiscal 1953 make the same amount of profit and that the effective tax rate is 25%, the total taxes paid during the 3-year period (equivalent to 1-1/2 years of full taxes) would be \$7.3 million x 25% x 1-1/2, or \$2.7 million.
- 10/ Personal income taxes computed at 2.1% of Commonwealth net income, the percentage actually collected in fiscal 1952.
- 11/ Excise taxes computed at 5.8% of Commonwealth net income, the percentage actually collected in fiscal 1952.
- 12/ A rough approximation based on either of the two following calculations: the gross increase in total PRIDCO investment during 1952-53 (\$8 million) plus an allowance of \$1 million for the Development Bank, making a total of \$9 million; or the rate of total government investment in all firms operating on December 31, 1952, \$87,000 per firm or \$8.7 million for 100 firms.
- 13/ Balancing initial capital outlay against assets amounts to an assumption of no profit on the investment itself. Both PRIDCO and the Development Bank actually operate at a profit, after allowance for financing costs included above. (See note #4.)

The table shows that, even in the first year, \$1 of Government funds spent on the manufacturing program yields nearly \$2 of Commonwealth net

income and that, over a ten-year period, a \$1 expenditure will probably have produced more than \$60 of income from which the Government will have collected over \$5 in taxes. After the ten-year period, when corporate and property tax exemption have expired, the tax yield to the Government will, of course, be increased.

Put in somewhat different terms, the manufacturing program during the past fiscal year spent or committed the Government to an out-of-pocket capital and operating expense outlay of about \$14 million over a ten-year period. At the end of the period the Government should have had about two-and-a-half times this much returned in cash or available in other assets. In addition, directly and indirectly, about 17,000 more people will have jobs during the period and about \$28 million a year will have been added to family incomes as a result of the 1952-53 manufacturing development program.

It should be recognized that economic conditions were exceptionally favorable in 1952-53 when this promotion record was achieved as well as during the other recent years from which the operating data underlying the above estimates were obtained. Basically, the results have been so striking because of the tremendous leverage given to Government expenditures by the much larger amounts of private capital invested. Also the program could not have been successful had there not been a large prior Government investment in roads, utilities, and other services that provide the necessary conditions for manufacturing development.

It is impossible to forecast accurately the effects of a business decline in the States on private investment in the manufacturing program and it is difficult to say how much more industrial expansion could be

sustained by the existing level of supporting services. It is clear, however, that a Government dollar invested in the factory program when conditions are favorable, as they were in 1952-53, generates much more employment and income than it does in any other major program. A dollar invested in roads, schools or hospitals, for example, generates a total of about 70 cents of labor income as the direct and indirect result of construction and, after that, all financing, operating, and maintenance costs must be paid out of Government funds. In contrast, a Government dollar invested in the manufacturing program generates nearly \$2 in payroll every year as long as the factory continues to operate with average success and, in addition, the tax payments generated yield \$5 to the Government for every \$1 it pays out in financing and other operating costs.

Thus, as long as conditions for factory promotion remain favorable and the Government has credit available, it would appear financially sound practice to invest borrowed funds first in the factory program. Revenue from the program should be sufficient to pay the \$1 operating costs plus \$4 that would be available for further expansion of the program itself and for expansion and initiation of other programs. This process would have to be slowed down and perhaps stopped as soon as the debt limit was approached or whenever conditions for factory promotion became unfavorable. The longer and more vigorously it could be continued, however, the greater would be the expansion of incomes and the larger the revenue base for the Government.

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Experiments made late in fiscal 1953 with a new promotion technique show promise of possibly even greater returns from the manufacturing program, if the business climate continues to be favorable. Following the military principle of concentration of forces when facing a large and diffuse objective, the new technique, called area promotion, brings to bear the largest possible promotion effort on one city in the States at a time. Advertising, publicity, and the cooperation of city officials are arranged for in advance, then group meetings are held followed by personal contacts with interested businessmen. Since promotion and publicity tend to feed on themselves, returns seem to be greater and since geographic concentration enables contact to be made more rapidly and with less travel expense, costs seem to be lower. It is still too early to fully evaluate this new promotion system but the fact that there was a 20% increase in the number of Mainland prospects between July 1 and October 1 with no increase in staff is most encouraging. To capitalize on this possibility EDA requested and received \$150,000 of "Operation Hurry-Up" funds from PRIDCO and it is concentrating its own 1954 funds on direct promotion work.

Expansion of the manufacturing program in the future will require increases in funds for EDA's Industrial Promotion Office and for the other activities that directly support factory promotion. One of these supporting activities, economic research, does not seem adequately staffed at present to both service the existing level of promotion activities and to make the studies that are needed now for guidance of the program in what may be troublesome times ahead.

Economic research activity is now limited mainly to studies of the experience and performance here and in the States of some of the industries that are already established in Puerto Rico such as needlework and electronics. In addition, a large amount of time is spent in answering specific questions and problems that arise in connection with current EDA operations, especially promotion. Practically no time remains for research on anticipated problems or potential opportunities.

Research should now be underway to determine what would be the best industrial structure for Puerto Rico considering its resources and income objectives. As yet no basic studies have been undertaken of interrelated industrial groups that can and should be promoted through a systematic and unified campaign. No studies are being made to find out which industries and what kinds of firms within them tend to expand during a recession. No basic studies are being made of the entire operations of very large U. S. corporations to see when and in what departments they might have activities that could be carried out advantageously in Puerto Rico. It is precisely because promotion results have been so favorable in recent years that research has been underemphasized. To strengthen it now would help to maximize the gains under favorable conditions and to provide some insurance against possible losses in the future.

One problem on which considerable research was done during the past year was that of factory location. Of the 81 plants that started operations during the year, 32 were located in PRIDCO buildings. In addition, PRIDCO was committed to provide buildings for 18 of the 37 plants that were being established at the end of the year.

Private builders and owners thus satisfied somewhat more than half the demand for industrial buildings during this year. Most of them were old vacant buildings but new private construction has been increasing. All of the new private buildings are of the standard type and are located in the San Juan metropolitan area. This reflects the reluctance of private investors to commit themselves to special purpose buildings or to seemingly less desirable locations.

The metropolitan area, however, contains less than one quarter of the Island's population but more than half the new plants. If this trend towards concentration continues, it will stimulate both population and wage rates in the metropolitan area without providing offsetting or similar effects elsewhere in the Island. From an industrial point of view, however, there are many technical advantages to industrial concentration. By mainland standards, San Juan is far from being an industrial city and, yet, it still has by far the best supply, maintenance, utility and other supporting facilities available in Puerto Rico. Manufacturers want these services and need them for successful operations.

If wage differentials between the metropolitan area and the rest of the Island increase substantially, it will be more advantageous for industrialists to establish factories in the smaller towns and they probably will do so to some extent. The more serious problem is that mere availability of jobs in the metropolitan area will accelerate the movement of unemployed workers from the smaller towns to the metropolitan area creating more acute problems in housing, education, and other social facilities. The long-run solution of the industrial location

problem will clearly require very basic policy decisions by the Commonwealth Government relating to costs and benefits which are not considered in the present report.

One temporary measure designed to alleviate the problem is a revision in PRIDCO's rental policies. Its ability to influence the location of industry in this way is limited by the fact that over half the new firms occupy private buildings which, as was noted earlier, have invariably been located in the metropolitan area as far as new construction is concerned. It is also difficult to overcome the preference of continental managers for residing in the San Juan metropolitan area. Under the new policy, rentals will be based on the location of the buildings and will range from 70 cents per square foot in the San Juan area to 40 cents per square foot in towns in the interior. The minimum length of leases will also be less in small towns. This new policy is designed not only to induce more manufacturers to establish outside the metropolitan area, but also to adapt the rentals on PRIDCO buildings to demand conditions rather than base them exclusively on costs as has hitherto been the case.

In addition to this change in rental policy, PRIDCO has revised its program of special incentives so that reliable firms that locate in the least accessible towns qualify for a year's free rent in a PRIDCO building or the reimbursement of the first year's rent of a private building and also for the financing by PRIDCO of personnel development services provided to the firm by EDA's Department of Industrial Services. Total incentive payments of this kind to a single firm are limited to a

maximum of \$15,000 for a firm investing \$100,000 or employing 100 workers and range downward to \$2,250 for a firm employing 15 workers, the smallest that is eligible for these locational incentives.

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At the present time, PRIDCO's liquid asset position does not appear to be sufficiently strong. Including the appropriation of \$4 million made in November 1953, its cash resources will fall short of its cash requirements for fiscal 1953-54 by approximately \$3.5 million. This cash deficiency is estimated on the assumption that it grants no new industrial loans and that expenditures on construction of new buildings are only one-third above 1952-53. Since EDA's goal calls for the establishment of about 120 new plants during 1953-54 as compared with 81 in 1952-53, the demand for PRIDCO buildings seems likely to be more than one-third higher unless there is sharp rise in private construction.

In order to speed up the turnover of PRIDCO capital and get maximum private participation it would seem desirable for PRIDCO to provide financial incentives to induce firms to purchase PRIDCO buildings within the shortest possible time. Increasing the refund of past rentals and shortening the period during which a firm may take up its purchase option on the basis of original cost would appear to be appropriate types of incentives and, although the first and perhaps the second would affect operating income adversely, they would tend to improve the Company's cash position at a time when liquidity may be especially important.

The industrial development program must take full advantage of the continuation of economic prosperity in the States but, in the event of a

recession, PRIDCO must be in a sufficiently liquid position to grant special incentives to new firms that will make a significant contribution to the economy. A serious recession in the States would not only make it more difficult for EDA to promote new firms but it would also jeopardize the survival of firms already established here. One of the most inevitable effects of economic recession is impairment of working capital, especially in the smaller firms whose financial resources and commercial borrowing capacity may be limited. PRIDCO must itself be in a sufficiently liquid position to make working capital loans or acquire equity in cases where the basic position of the company is sound and it is making a real contribution to the economy.

Tourism. The number of visitors increased from 99,000 in 1951-52 to 108,000 in 1952-53 and their total expenditures rose from \$18.9 million to \$21 million. Expenditures by cruise visitors and servicemen whose visits were of very short duration accounted for about 10% of the total. A sample survey showed that the average expenditures per visitor declined slightly this year as a result of a reduction in the average length of visit from 13 to 10 days, partially offset by a substantial increase in daily expenditures. About 55% of the expenditures were for food and lodging, 20% for entertainment, and the balance for miscellaneous purposes, including shopping.

There was a significant expansion in facilities as a result of the Hotel La Rada with 78 rooms and the Hotel Barranquitas with 42 rooms. In San Juan, however, there are still only six hotels of substantial size with a total of 900 rooms and a few smaller transient hotels and apartment

buildings with 255 rooms. There are 250 additional rooms available in 8 hotels scattered throughout the Island. The total of 1,400 rooms is inadequate to accommodate the steadily rising number of visitors, especially during the peak of the season.

The rate of occupancy at six leading hotels in San Juan has remained stable at 75% during the past two years. During the peak period from January to March it was 88% in both years. The goal established in anticipation of a highly developed tourist trade calls for the addition of 250 rooms a year to reach a total of 4,000 rooms by 1960. While the goal itself may be somewhat high, recent accomplishments have fallen far short of schedule and there have been complaints from visitors who have not been able to get rooms even when they had made prior reservations.

Rum Promotion. The rum promotion campaign was continued at an annual cost of \$1 million. As indicated in previous reports, the increased Federal excise tax on distilled liquors has had an adverse effect on liquor sales in the States. Despite the decline in liquor sales in general and a 12% decline in rum sales in particular, shipments of Puerto Rican rum to the States rose from 664,000 cases in 1951-52 to 689,000 cases in 1952-53, an increase of 3.8%. Tax collections on Puerto Rican rum shipped to the Continental United States amounted to \$15,693,000 in 1952-53 compared with \$14,831,000 in 1951-52.

Evaluation of the rum promotion program is dependent on a determination of the extent to which it has been responsible for increased tax revenue to the Commonwealth from shipments to the Mainland and this in

turn is dependent on estimating what revenue would have amounted to in the absence of the promotion program. This can not be done with any high degree of accuracy but on the basis of the data in the following table and other information some rough estimates can be made.

MAINLAND RUM CONSUMPTION AND EXCISE TAXES

Fiscal years	Rum released in Mainland market (thousands of tax gallons)			Taxes from rum shipments (thousands of dollars)	Federal excise taxes on all alcoholic beverages (millions of dollars)
	P. R.	Other	Total		
1948-49	884	800	1,684	6,941	
1949-50	1,106	967	2,073	9,574	2,219
1950-51	1,381	1,137	2,519	13,469	2,547
1951-52	1,356	804	2,160	14,831	2,549
1952-53	1,458	436	1,894	15,693	2,781

Since the bulk of the excess war-time inventories of rum in the States had been liquidated by 1949-50, the 64% increase in tax revenue achieved in the 3-year period since then probably does not overstate the combined effects of increased consumption of Puerto Rican rum and of increased tax rates. During the same period, Federal excise tax collection on all alcoholic beverages rose 25%.

The following table shows a comparison of the actual Commonwealth tax revenue from rum shipments with what it would have been if it had followed the same course during the past 3 years as total Federal revenue from all alcoholic beverages.

Had Puerto Rican tax revenue from rum shipments risen only by the same year-to-year percentage changes as Federal revenue from all alcoholic beverages, total Commonwealth revenue from this source would have been \$34 million instead of the actual figure of \$44 million.

Fiscal years	Federal excise taxes on all alcoholic beverages		Commonwealth taxes from rum shipments (thousands of dollars)	
	In millions of dollars	% change from previous year	Actual	Applying % change in column 3
1949-50	2,219		9,574	
1950-51	2,547	14.8	13,469	10,991
1951-52	2,549	0.0	14,831	10,991
1952-53	2,781	9.2	<u>15,693</u>	<u>12,002</u>
	Total (last 3 years)		43,993	33,984

This \$10 million difference in revenue is based on the assumption that, in the absence of the promotion program, Puerto Rican rum would have maintained its 1949-50 position in the U. S. market. It is probable, however, that Puerto Rican rum would not have maintained its position without the campaign since total Mainland rum consumption fell somewhat between 1949-50 and 1952-53. In the absence of the campaign, therefore, the difference in revenue would probably have been more than \$10 million.

It has been suggested that this difference in revenue may not be entirely attributable to the rum promotion program in view of the large number of Puerto Ricans who have moved to the States during the past 3 years. It is supposed that, having an established preference for rum, they would continue to consume it in the States, perhaps at the same rate

they had in Puerto Rico. There is considerable evidence that such is not the case. In New York State, to which most of the Puerto Ricans have gone, rum consumption has been falling somewhat during the past three years. Moreover, a special study covering the first six months of 1953 indicated that consumption of Puerto Rican rum was the same percentage of total rum consumption in New York State as it was in the States as a whole. Rum distributors report that special sales campaigns in the Puerto Rican districts of New York City have been generally unsuccessful.

It seems likely that the basis for this apparent shift in liquor consumption is financial. In Puerto Rico, beer by the case costs about 15 cents a bottle and a bottle of rum about \$1.75; in New York City, beer is about 10 cents and rum about \$4.30. The price of the latter is usually too high for the low-income recent arrival. Even if the Puerto Ricans moving to the States in the past 3 years had continued the Puerto Rican rate of rum consumption, it would account for only a part of the \$10 million difference in revenue mentioned above. Local rum consumption is about 1 gallon per person annually. If the 178,000 migrants had maintained this rate in the States, their cumulative consumption during the 3-year period would have been about 235,000 gallons. This amounts to 27% of the cumulative increase in shipments during the period. The weight of the evidence, however, is that Puerto Ricans shift their drinking habits when they move to the States and that all the \$10 million difference in revenue is attributable to the promotion campaign.

In addition to yielding this return of about \$3 million a year in Commonwealth revenue, the rum promotion program has substantial secondary

value to other activities such as tourism and manufacturing promotion. Altogether it seems likely that it is worth somewhat more than 3 times its annual cost of \$1 million.

External transportation. The Central Market and Port Development project and the International Airport are the two major undertakings now underway aimed at improved external transportation for Puerto Rico. Progress on the former, which is still in the planning and engineering phase, was reported in the previous section. Construction work on the International Airport was accelerated during 1953 and it is now scheduled for completion before the end of 1954.

By November 1953 work on the largest remaining construction project at the Airport, the passenger terminal, was about one-third done and completion was scheduled for August 1954. Utilities such as water, sewer, power, and communications are expected to be fully installed at an earlier date. Invitations to bid are now out for construction of the access road and the parking lot with a scheduled completion date of October 1954. Allowing time for moving of airline facilities and for interior installations, it is expected that operations can start on a minimum basis in December 1954.

In addition to the above facilities, for which funds are already available, there are several other essential to minimum operation of the Airport, including the apron and the cargo building, for which funds have not yet been provided. Construction time on all of them, however, is relatively short and if funds are appropriated early in 1954, it is believed that there will be no delay in the opening schedule.

SECTION III. RECOMMENDATIONS

The Commonwealth Government has already put its large war-time revenues to work in major programs for social and economic development. Continued growth and acceleration of these programs has for several years been bringing increased pressure on current Government resources. In addition to this basic pressure on the budget, there is now considerable uncertainty about future economic conditions in the States. Money, and especially government money, has even more than its usual importance during a recession. It is not just that the purchasing power of money goes up; more important is the fact that its possession makes possible economic and social action at a time when action is critically necessary. It is for these two reasons that the fiscal and financial aspects of economic policy are now of special importance.

General Fiscal Considerations

Commonwealth revenue in 1953-54 should be at a record high with a large income tax yield reflecting the prosperous conditions in 1952 and 1953, very high collections, at least early in the year, of excises, and a catching up on delayed property tax billings and collections. Even though revenue in 1954-55 may receive some support from income taxes paid on 1953 earnings, there will probably be a considerable drop in total revenue if economic activity should decline during 1954. Thus, the Government will be facing greater needs for funds at a time when revenues may be falling. This points strongly to the advisability of frugality in current expenditures and of measures designed to conserve present liquid assets.

Alongside conservation measures, plans need to be ready for rapid and efficient expenditures at the appropriate time. In particular, agencies such as Public Works, Health and others should have as large as practical a backlog of construction projects fully planned, fully engineered, and ready for work. Highway maintenance and reconditioning is considerably more labor intensive than new highway construction and can be gotten underway more quickly. Similarly temporary wooden school buildings are particularly suited to an emergency work program. In preparing their backlog of construction projects all agencies should emphasize those with high employment per dollar of total cost.

School, highway, and hospital construction programs as well as direct relief and other programs involve Federal funds. As indicated in Section 1, there is a likelihood that these funds would be increased if a downturn appeared serious. The fact that these funds are generally made available on a matching basis underlines the importance of Commonwealth liquidity and credit standing. With adequate local funds available, steps can be undertaken to see that Puerto Rico gets its share of the Federal money.

Another possible development that calls for financial preparedness is the need for financial assistance on the part of some of the newly established factories that would arise in the event of a serious business decline. Providing such assistance would seem warranted wherever it would maintain a large amount of employment per dollar of assistance. The forms in which it might be given deserve careful consideration. Here, as in the fields of agricultural and mortgage credit, there may be the possibility

of guaranteeing loans rather than of making them directly. PRIDCO would have to move again into the industrial loan field in cases where the risk element was large in order to protect the credit of the Development Bank. The Government should perhaps take an equity rather than a creditor position in such "bailing out" operations. The risk is about the same either way but the return on successful refinancing operations would be more commensurate with the risk taken if a Government agency shared in the profits. It might also be the case that, with a dearth of equity capital, new firms would prefer a partnership to a debtor relationship with the Government and that the ability of the Government to take this position would become a powerful incentive in getting new plants.

At least two measures would seem indicated in order to minimize future calls for emergency credit. One is particularly careful scrutiny of the financial position of firms now being recruited. The other is intensification of the industrial services work done by EDA which aims to get plants as rapidly as possible into sound operating condition.

Quantitatively, the opportunities both for conserving funds and for preparing work backlogs are considerably greater in the public corporations than in the regular government agencies. Some of the actions that can be taken by PRIDCO, the Transportation Authority, and the Land Authority are outlined later in this section.

Apart from efforts such as the foregoing to conserve funds and achieve financial preparedness, it seems likely that the Government will be forced to raise taxes merely to maintain the pace of its basic programs. If economic conditions should become depressed, it will be

necessary, in addition, to borrow much more heavily than is now contemplated. Rising social needs together with falling revenues would create a gap that could be filled only by both more taxes and additional borrowing.

It is important that a systematic survey be made by the Treasurer of the sources from which the Government can obtain additional funds. Following are some preliminary recommendations. Some of the methods proposed for obtaining funds may be considered drastic and harsh. They have to be considered, however, in terms of both the great need for funds and the alternative methods for obtaining them. The need for funds is also harsh and, viewed in terms of the magnitudes involved, the alternative methods of raising them must be either harsh or inadequate. The problem involves hard choices whichever decisions are made: not having adequate social services, not carrying through fully on economic development; or taking what may appear to be hard measures to obtain the necessary funds.

Taxes

Two main characteristics of Puerto Rico's tax structure underly the methods recommended for obtaining more revenues with greater equity.

1. Puerto Rico's structure is heavily weighted with excise taxes. During fiscal 1951-52, the Commonwealth Government obtained about 50% of its total tax receipts from excise taxes, as compared to the Federal Government which obtained only 16% from this source. There are heavy taxes on alcoholic beverages and tobacco. During 1951-52, alcoholic beverages produced over \$15 million in revenues and the tax on tobacco produced

over \$13 million. The two next largest items were petroleum products and automotive vehicles, parts, tires, and tubes which produced about \$9.5 and \$5.3 million respectively. In addition to the heavy tax on tobacco, there are fairly stiff excise tax rates on necessities, for example electric motors and pumps.

2. The proportion of tax receipts from income taxes is relatively low. During 1951-52, about 18% of the Commonwealth tax receipts were derived from personal income taxes as compared to 53% for the Federal Government. This difference is due in part to the difference in levels of income, but also to other factors that are important in connection with improvements in the tax system and structure. These other factors are worth some detailed examination.

Personal exemption and credits for dependents are relatively high in Puerto Rico. There is a credit of \$2,000 for husband and wife, \$400 for each dependent, and an additional credit of \$500 if the taxpayer is a veteran. In the Federal tax there is a credit of \$600 for the husband, \$600 for the wife, and \$600 for each dependent. From this it is clear that, despite the fact that incomes on the Continent are roughly five times what they are in Puerto Rico, the Federal Government reaches much farther down into the lower income groups in collecting taxes. How much farther is shown in the following table.

On the Continent, a married couple with no children begins paying Federal taxes at an income of \$1,200. In Puerto Rico they start paying taxes at an income of \$2,000, and not until \$2,500 if the taxpayer is a veteran. On the Continent a family of three starts paying taxes at an

income of \$1,800. This is \$200 less than a family of two in Puerto Rico, and \$700 less if the taxpayer in the Puerto Rican family is a veteran.

Not until the family reaches six members in the case of non-veterans and nine members in the case of veterans do the personal exemptions and credits on the Continent equal or exceed those in Puerto Rico; this affects of course only a very small proportion of the total taxpayers. The high exemptions in Puerto Rico, it should be emphasized, means lower taxes all the way up the income scale, including persons well able to pay more than they now do.

PERSONAL CREDITS AND EXEMPTIONS

	<u>Federal</u>	<u>Puerto Rico</u>	<u>Puerto Rico, Veteran</u>
Single persons	\$ 600	\$ 800	\$1,300
Husband-wife	\$1,200	\$2,000	\$2,500
Family of three	\$1,800	\$2,400	\$2,900
Family of four	\$2,400	\$2,800	\$3,300
Family of five	\$3,000	\$3,200	\$3,700
Family of six	\$3,600	\$3,600	\$4,100
Family of seven	\$4,200	\$4,000	\$4,500
Family of eight	\$4,800	\$4,400	\$4,900
Family of nine	\$5,400	\$4,800	\$5,300

Another factor is that the combined normal and surtax rates are lower in Puerto Rico than on the Continent. Although the normal tax on the Continent is 3% of net income as compared to 7% in Puerto Rico, the Federal surtax rates at all levels of income are higher and the combined total tax rate is also higher. Thus, on a net income of \$2,000 the combined Federal rate is about 19%, and the Puerto Rican rate about 12%, on net incomes of \$10-12,000 the combined Federal rate is about 39% and the Puerto Rican rate about 30%.

In the case of married couples, the fact that Puerto Rico has lower total rates is to some extent compensated for by the fact that the Federal Government permits income splitting between husband and wife and Puerto Rico does not. But despite this, Puerto Rican income taxes are substantially lower than Federal taxes even for married couples, except in a very few cases.

The following table, which is based on Treasury Department data, presents comparisons of Federal and Puerto Rican income taxes based on the effective rates, that is taking into account the net effect of differences in exemptions, normal and surtax rates, and the possibility of income splitting by married couples in the case of Federal taxes.

PERSONAL INCOME TAXES, FEDERAL AND PUERTO RICAN, 1953

Net Income (After deductions before exemptions)	Amount of tax					
	Single person (no dependents)		Married couples (no dependents)		Married couples (two dependents)	
	Federal	P. R.	Federal	P. R.	Federal	P. R.
\$ 2,000	311	151	178	0	0	0
4,000	788	441	622	252	355	151
6,000	1,342	806	1,085	567	799	441
20,000	7,762	5,389	5,456	4,872	5,000	4,544
26,000	11,600	8,236	7,976	7,644	7,424	7,249
32,000	15,614	11,416	10,996	10,773	10,360	10,345
38,000	19,688	14,847	14,344	14,154	13,648	13,692
60,000	36,154	29,400	28,581	28,581	27,744	28,035
100,000	69,688	59,165	56,932	58,212	56,032	57,590

For single persons where income splitting is not a factor, taxes in Puerto Rico are much lower at all levels of income than Federal taxes. This is a reflection of both lower rates and of the higher exemption.

For married couples, taxes are substantially lower in Puerto Rico up to incomes of about \$20 - \$30,000, and do not become significantly higher until much higher income levels are reached. For a family of two with no children, Puerto Rican taxes do not begin to exceed Federal taxes till incomes of \$60,000. For a married couple with two children, Puerto Rican taxes are substantially lower than Federal taxes till incomes of about \$26,000 and do not actually begin to exceed them till incomes of \$38,000.

Given such differences in taxes it is clear from the following table that almost all taxpayers in Puerto Rico pay much less than they would if they were mainland residents.

TAXABLE RETURNS FOR 1950 IN PUERTO RICO

<u>Net Income</u>	<u>No. of Returns</u>	<u>% of Returns</u>
Up to \$6,000	20,182	91.0
\$6,000 to \$20,000	1,722	7.5
\$20,000 to \$38,000	244	1.1
\$38,000 and above	92	0.4
Total	22,840	100

For the taxable year 1950, 91% of the taxable returns in Puerto Rico were in the brackets below \$6,000 and, as the earlier table showed, it is precisely in these lower brackets that the Puerto Rican tax is farthest below the Federal. Less than 100 returns, less than half of one percent of the total, were in the net income bracket of \$38,000 and above. Even taking into account possible shifts in income distribution

since 1950 and the fact that, for families larger than those given in the examples cited above, Puerto Rican taxes begin to exceed Federal taxes in lower income brackets, it is doubtful that Puerto Rican income taxes are above Federal income taxes for more more than 200 taxpayers, if that many.

In summary, Federal taxes reach substantially further into the lower income brackets than to Puerto Rican rates; for single persons, Puerto Rico's effective rates are substantially lower at all levels of income than Federal rates; and even as regards families, the effective rates in Puerto Rico are substantially lower for all except a handful. To this may be added, that this comparison is between Commonwealth and Federal income taxes only. It does not take account of additional state income taxes that have to be paid on the continent.

Tax systems involve a balance between conflicting needs, interests, and aims: the need of the government for funds, the interests of equity, and aims of attracting capital, promoting investment, and stimulating initiative. Considering only the first two factors, namely the need for funds and the interest of equity, it should be stated bluntly that the present Puerto Rican structure is weak with respect to both. It is not providing all the funds it could reasonably provide and it is, in many respects, inequitable.

The heavy emphasis on excise taxes makes the tax structure regressive. Within excise taxes, there is a heavy tax on cigarettes, which affects a large sector of the population, and heavy taxes on items such as refrigerators and stoves which are necessities. At the same time, items such as cars, particularly expensive cars, gasoline, and oil which are

relative luxuries are being taxed inadequately. The evasion of income taxes also adds to the regressiveness of the tax structure.

Within the income tax there are additional sources of revenue that would not involve inequities. Personal credits and exemptions could be lowered. The rates could be raised, in particular to get at the benefit enjoyed by single persons, but also to raise rates in general in the net income brackets up to \$20-30,000.

The need of the Puerto Rican Government for funds is so great that primary emphasis has to be placed on raising taxes. Improving equity must come largely from the process of selecting which taxes are to be raised. The additional funds possible from raising certain taxes, however, are enough to permit a lowering of some few taxes which are either clearly undesirable or unfair. There could be a lowering or elimination of excise taxes on refrigerators, stoves and productive equipment and, perhaps, a moderate lowering of the tax on cigarettes. This would improve the equity of the tax system and tend to make an overall tax increase politically more palatable. ③

On the basis of the foregoing considerations, the following specific recommendations are made. Excise taxes should be raised on gasoline and oil, private automobiles, at least the higher priced ones, automobile parts, tires and tubes, and jewelry. The case of gasoline may be taken as an example. The present tax on gasoline is 8 cents a gallon and the retail price 27 cents. In most of the countries of Western Europe gasoline retails for about 60 to 70 cents a gallon, mainly because of heavy taxes. During the past fiscal year about 120 million gallons of gasoline

were consumed in Puerto Rico. A 5 cent increase in tax would yield about \$6 million.

As soon as possible after the new income tax law is passed, personal exemptions and credits for dependents should be lowered. To lower them to Federal levels would not be going too far. It is true that the cost of living is lower on the Continent than in Puerto Rico. But while this is a significant point it is far from being the main one. It is a semi-fiction that cost-of-living is the basis of the credits and exemptions. More important is the fact that incomes on the Continent are 4 to 5 times those in Puerto Rico. A person having an income of say \$2,000 to \$3,000 is, in relation to the rest of the population, far lower on the income scale on the Continent than in Puerto Rico. Despite this, the Federal Government reaches much further down in the income scale for taxes than does Puerto Rico. It may be objected that a family of four making say \$2,700 is none too well off and finds it hard to get along. This is true. But tax proposals have to be looked at in terms of the totality of the tax system and the available alternatives. Not lowering the credits and exemptions means helping the family with an income of \$2,700; but it also makes it that much harder to cut down or eliminate the tax on refrigerators and stoves to be bought by still another family making say \$1,800.

In addition, the surtax rates should be raised substantially to bring the combination of normal and surtax rates to levels close to that of the Federal Government. This would eliminate the special tax advantage that single persons enjoy in relation to Federal rates. If it

brings the effective tax rates on families to an excessive level, consideration should also be given to permission for income splitting. But the combination should be worked out so that net, that is after all the changes are taken into account, the effective tax rate on families in the income groups from about \$4,000 to \$25,000 is raised.

It is estimated that the additional yield from lowering credits and exemptions and raising rates as outlined above would be about \$8-10 million in 1954-55. This estimate is based on consideration of the increase in the number of taxpayers that would be brought about by lowering of credits and exemptions and the increase in taxes paid by existing taxpayers that would be brought about both by lowering credits and exemptions and raising rates. This estimate includes only increases arising from these sources and not those that will be derived from switching to a pay-as-you-go system of payment, and those that might be derived from an attempt to cut down on tax evasion.

Quite apart from the foregoing recommendations for lowering exemptions and credits and for raising rates, a systematic attempt to cut down and root out tax evasion should be undertaken. The amounts involved are large. Tax evasion is immoral and unfair to those who pay their taxes. The nature of the problem is such as to warrant drastic action; it will not solve itself. More and better qualified personnel are required to do the checking. As a benchmark to indicate what can be done, the Federal Government recently instituted an experimental door-to-door check of tax evaders in New England. The check was successful (\$35 was collected for every dollar spent) and it will probably be extended on a nationwide basis.

Sale of Assets

A substantial amount of capital is at present immobilized in various assets held by the Government and Public Authorities of Puerto Rico. The sale of some of these assets would, by bringing in outside capital or mobilizing local capital, a large part of which flows outside, increase the total amount of capital available to an effectively working for Puerto Rico. There is also the fact that, since the boom on the Continent seems to be tapering, this may be a propitious time to sell.

PRIDCO and the Government Bank are already actively engaged in selling their assets to private investors. There are further possibilities for the sale or conversion of assets in the Land Authority and it has been suggested that the Transportation Authority sell its Bus Division. Wherever such sales and conversions appear appropriate from a social standpoint it is recommended that they be made in the interests of bringing more private capital into constructive activities and freeing Government funds for fields into which private investors will not now venture.

It should be emphasized, however, that there are limitations on the amount of funds that can be freed in this manner. Perhaps the most basic is finding private investors willing and able to pay a good price. Also it should be recognized that this is not a regular source of revenue and that the receipts would not usually be available to the General Fund.

Borrowing From Public Trust Funds

There is a fairly large sum of money in public trust funds, a substantial part of which is held in cash available for investment or is

invested in external securities. For example, on June 30, 1953 the State Insurance Fund had \$1.2 million in U. S. Bonds; the Teachers' Pension Plan had \$2.0 million in cash available for investment; and the Government Employees Retirement Fund had \$7.0 million in U. S. Bonds and \$2.0 million in cash available for investment.

There are many good reasons why fund trustees should be allowed to make their investments freely and flexibly in accordance with the principles of sound, conservative financial practice. But there are other considerations involved in addition to financial prudence. Money invested outside Puerto Rico is not working for Puerto Rico at its full capacity. The problem of getting Puerto Rican trust funds to invest locally is part of the larger problem of getting as much as possible of all Puerto Rican capital invested in Puerto Rico.

Some of the funds are already investing in local securities, particularly mortgages. Generally speaking they are permitted also to invest in bonds "backed by the good faith of the people of Puerto Rico". Even though these funds may not continue their present rate of growth of about \$6 million a year, there would still appear to be perhaps \$3-4 million annually from this source available to the Government.

General Borrowing

General borrowing is to a large extent a residual source of funds, but not completely so. Whether and how much to borrow in given short-term periods ought to depend not only on need but on the state of the bond market. With the large amount of borrowing that Puerto Rico will

have to do, differences in the rate of interest at which money can be borrowed involve big money. Borrowing policy should be kept flexible in order to take maximum possible advantage of fluctuations in the bond market; it is especially important to avoid tight situations in which there is no alternative except to borrow. This means, for example, that the borrowing schedule in the Six-Year Financial Program should be regarded as a rough guideline rather than a rigid annual program. Depending on the state of the bond market as well as financial need, it may be desirable to postpone or advance borrowing from one year to another.

Borrowing is a very important source of revenue. It is particularly appropriate when done in anticipation of larger future revenues or when the funds are to be invested in self-liquidating projects. There are limits, however, to the extent to which it can be expanded. What is borrowed has to be repaid and excess borrowing means an undue drain for repayment later.

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It was noted above that the problem of obtaining additional funds has to be considered in its totality, both in relation to the need and alternative methods, and that all the choices involved are hard. Comparing the different methods of obtaining additional funds in terms of the relative magnitudes involved, one is forced to the reluctant conclusion that the most important source is taxation. The sale of assets may provide sums which are fairly substantial in single years but on a non-recurring, one-shot basis. The increased investment of trust funds in Puerto Rican

bonds or other securities should provide some additional funds but not very much in comparison with total needs.

The problem is thus a prosaic one; it is not susceptible of trick solutions. What is involved is a basic decision as to whether the need for funds is sufficiently great to warrant additional taxation. This means deciding how much one wants the additional factories, hospitals, and agricultural projects--as against leaving taxes alone. Leaving taxes alone is not an easy way out; either choice is a hard one.

It may be objected that increased taxation will hinder the creation of an appropriate "climate" for private capital and initiative and that there are political objections. Although a full discussion of these problems is outside the scope of this report, a few points may nevertheless be ventured.

The relationship between a generally appropriate climate and the specific attraction of capital and stimulation of initiative is not so close as is often asserted. In the tax exemption program, there is a clear relationship. The exemption is not given to everybody but to a selected group, namely, new or designated industries. This selection means that the danger of giving away more than one gets is largely under control.

But when it comes to holding taxes low in general in order to create a generally favorable climate, there is a danger of giving a tax advantage to nine people who do not need it or will not use it in order to exercise a small influence on the tenth person who may be affected. For a firm considering coming here there are many factors to consider. When

it has been given income tax exemption and other advantages, the level of personal income and excise taxes is probably a matter of secondary or tertiary interest. If a firm wishes to attract managerial personnel, tax exemption permits it to pay an adequate salary. It is not as though personal income taxes would be so confiscatory as to make an "adequate" salary impossible. Tax increases within the ranges considered would still leave the total tax "climate" more favorable than it is in most states.

As regards the political difficulties, it cannot be denied that they exist. It is always politically difficult to raise taxes. Political difficulties along with the others have to be weighed against the need for funds and the needs of programs. The question may also be raised as to whether the political difficulties are not often exaggerated. Consider, for example, an increased excise tax on gasoline. There are about 50,000 passenger cars in Puerto Rico. What proportion of the total population would be affected as compared to that now hit by the existing cigarette tax? What proportion would be affected by an increase in income tax? The political difficulties could be mitigated by pointing out what the money will be used for. It will not be squandered, but used in such a way as to redound to the benefit of all. In the longer run the very people using expensive cars will benefit if some of their loose change is diverted into the building of hospitals and schools. It can also be explained that some taxes are being raised so that others such as those on stove and refrigerators, which are undesirable, can be eliminated. The fact that there are political difficulties cannot be denied. But the nature of the problem warrants serious exploration of the extent to which they actually exist and the extent to which it is desirable to override them.

Agricultural Development

As pointed out earlier in this report, the possibility of a serious recession in the United States seems sufficiently real to warrant taking steps to place the Government in a position to offset its potential effects on the Commonwealth's economy. For agriculture, this concern does not mean that the rate of development should be slowed down. It does mean that, wherever possible, development should be undertaken in such a way that the requirements for appropriations from the State budget are held to a minimum.

In spite of the great amount of research and planning work that has been done, there is still no detailed and complete plan for agricultural development in Puerto Rico. The Koenig report has brought together a voluminous body of information and has charted some of the needs and potentialities of agriculture. As pointed out in Section II above, several legislative steps have already been taken in accordance with its recommendations, while more than 200 recommendations, covering such things as goals, administrative arrangements and procedures, research, and specific development projects, are currently under review. A summary of these proposals by type, together with an indication of the agencies involved and the additional funds needed has been prepared as a basis for further analysis.

In their present form, however, these proposals do not and cannot constitute a plan for agricultural development. They are simply the pieces, the raw materials of a plan. In order to put them together in the form of a comprehensive action program, with the various projects

dovetailed together in terms of function, geographic location, and timing, much additional work is needed.

The targets for agricultural development by the year 1960 must be reviewed in the light of the information now available. Preliminary cost estimates for proposed development projects for which such data are not yet available must be worked out and the total program reviewed to spot possible gaps as well as duplication and overlapping. Criteria must be developed for evaluating all projects in terms of their relative contributions toward the revised 1960 targets in order to assess their comparative urgency and priority, both as among themselves, and in relation to the overall economic development program.

Admittedly, this comprehensive planning job will take time. But this is not cause for delaying certain immediate action programs. Here, as in all fields, planning and action must proceed hand in hand. In the action field, the most urgent need continues to be the establishment of an organization for agricultural development. The necessity for establishing this organization was discussed in the 1951 Economic Report and need not be further elaborated at this point. During the past year, further discussion in both the legislative and executive branches of the Government appears to have led to general agreement on two points: (1) that there be such a body; and (2) that it be located in the Land Authority. Specific questions as to its form and the amount of initial resources to be turned over to it remain to be resolved.

In this connection, favorable mention should be made of the bill proposing establishment of an insurance system for guaranteeing repayment.

of loans to the proportional benefit farms, in lieu of the present practice of setting aside reserves for the purpose out of the Authority's General Fund. This step would substantially increase the resources which the Authority could devote to new development projects.

In keeping with the point of view expressed above concerning the general setting of the agricultural development program, a decision to base the development body in the Land Authority is desirable in that it can be given adequate resources without requiring large appropriations for Government funds. Thus, the immediate requirements of a counter-cyclical fiscal policy will not conflict with the equally urgent need for agricultural development. Establishment of this body, furthermore, will make it possible to turn over to it financial responsibility for certain appropriate current projects for which State appropriations have been requested thus making it possible to include in the budget other projects which would otherwise be excluded or limited solely for lack of funds.

Establishment of the agricultural development body will also pave the way for and, in fact, bring on the necessity for a reappraisal of the distribution of various administrative functions in the agricultural field. While the Department of Agriculture has only recently been reorganized along lines recommended by the Public Administration Service of Chicago, establishment of a body specifically concerned with agricultural development will introduce a new element into the situation. This suggests the desirability of a review of the total picture for purposes both of maximum administrative efficiency and maximum fiscal preparedness. In

general, it would appear that functions concerned with overall policy making and functions of a regulatory character should remain with the Department of Agriculture and Commerce, and research and experimental work with the Agricultural Experiment Station. The operation of specific agricultural facilities and development projects could be the primary responsibility of the new development body, drawing on its own resources, while projects involving the industrial processing of agricultural products could be the joint responsibility of the agricultural development body and the Economic Development Administration.

Although numerous urgently needed projects have been postponed or sharply limited, appropriations recommended for 1954-55 that are functionally attributable to agricultural development are substantially higher than in most recent fiscal years. These appropriations, together with monies drawn from special Commonwealth and Federal funds, would bring the public resources available for agricultural development almost to the level of 1952-53.

Of the appropriations requested for permanent improvements, the largest is \$3,000,000 for the Central Market, half to be available in 1954-55 and half in the following year. This appropriation, together with the \$4,350,000 previously appropriated, would bring the funds available for the Central Market to \$7,350,000, about two-thirds of the total public investment necessary to complete the first stage of the project. The first stage of the project includes land acquisition, diversion of the Puerto Nuevo river, fill and consolidation of a 102 acre area, construction of the Central Market, the slaughterhouse, and grain mill, construction of two berths, and the roads and utilities for these installations.

Industrial Development and Related Programs

The budgetary recommendations made below regarding EDA, PRIDCO, and the Transportation Authority are based on two primary considerations: the need for frugality in order to conserve limited government resources and the need to press forward at all points in the economic development program where substantial immediate results can be achieved or where a critical gap in the program as a whole needs to be filled.

Economic Development Administration. All parts of EDA contribute in varying degrees to manufacturing promotion. The outstanding success of this program during fiscal 1953 and early fiscal 1954 has been pointed out in the preceding section of this report. The goal of 100 plants during fiscal 1953 was achieved and the benefit to the economy was both immediate and impressively large. The goal for 1955 is 175 plants. It is recommended that all parts of EDA that will contribute substantially to the achievement of this goal receive full budgetary support.

The tentative evaluation of the rum program made in Section II indicates that during the past 3 years the \$1 million annual expenditure has been worth approximately \$3 million a year to the Commonwealth Government. Continuing the program at the \$1 million level, the figure at which it has been maintained throughout most of its history, means a large reduction in its impact because there has been a sharp rise in advertising costs and because competing expenditures by whiskey and other liquor advertisers have been sharply increased. While it is true that

the amount of advertising of Puerto Rican rum is already higher in relation to sales than it is for other rums or for other liquors, relatively heavy advertising is recognized as good merchandising practice for new products or those which, like rum, have given cause in the past for strong consumer resistance.

The significant fact about the rum program is that it has been successful. Puerto Rican rum had about half the rum market three years ago; now it has about two-thirds. Rum still has a small part of the total liquor market but it has about doubled that part since the program was started. Even with the lower tax rate, every additional gallon sold means \$9 of added Government revenue. For the last three years the program has probably been returning to the Treasury about \$3 for each \$1 spent. In view of the present fiscal situation its expansion is now recommended.

Industrial Development Company. As was indicated in Section II, PRIDCO's cash resources appear to be inadequate and it will probably be necessary for the Company to borrow from the Government Development Bank during the current fiscal year.

As a result of a new operating policy recently agreed upon, the Development Bank is moving more aggressively into the field of mortgage and equipment loans while PRIDCO will make only those loans that are unsuitable for the Bank but which are still necessary and desirable from the standpoint of industrial development. PRIDCO will continue to construct factories in localities or of specialized types in which private

builders are unwilling to invest. Both organizations will be following a vigorous policy of selling as much as possible of their existing property and security holdings to private investors thus freeing a maximum amount of their funds for new investments.

This new policy orientation of PRIDCO and the Bank will undoubtedly tend to keep the total capital requirements of PRIDCO and its needs for appropriations at a minimum. It is too early, however, to even estimate what the ultimate quantities will be. In the meantime, two powerful considerations point to maintaining PRIDCO's financial liquidity. The first is that the planned acceleration of the manufacturing promotion program will bring a rapid demand for PRIDCO buildings, and a high proportion of PRIDCO's assets during this period will be buildings under construction which are not readily salable or bankable. PRIDCO's present capital must be adequate for this new load, otherwise it will act as a brake on the manufacturing program. The other consideration is that, to a large extent, the new loan policy of the Bank is dependent on PRIDCO and EDA activity. It is neither appropriate nor practical for the Bank to seek out borrowers. Prospective borrowers must be referred to the Bank by PRIDCO and EDA and this means that they must at least have already completed their arrangements for a factory building. In a sense PRIDCO is in the middle of the manufacturing promotion process. If its pace is slowed, it acts as a brake on projects flowing from industrial promotion through the Company to the Bank.

It is estimated that in addition to its present cash, including the \$4 million appropriation made in November 1953, and the net earnings

expected this fiscal year and next, PRIDCO will require about \$14.5 million of investment funds by the end of 1954-55. It is proposed that \$8 million of this amount be borrowed from the Development Bank. This figure is approximately the total amount of funds that the Bank itself now has available for lending. It is recommended that the additional \$6.5 million be provided by a Government appropriation to the Company in 1954-55.

It is recommended that appropriations for "Operation Hurry-Up" be \$500,000 for fiscal 1955, an amount \$250,000 below that requested by PRIDCO. On the basis of past experience many companies do not apply for and use the full amount of incentive funds that have been authorized for them. In addition, it is planned to restrict further the kind of firms eligible for these special incentives and to use a larger part of the amount available to provide incentives for companies to locate outside the Metropolitan area and for the establishment of plants to process agricultural raw materials.

Transportation Authority. Funds have not yet been provided for the following items needed to get the International Airport into minimum operation: paving and markers for part of the apron near the terminal building and for two taxiways, exterior fencing and the seeding of grass alongside the built-up entrance roads to prevent their being under-cut by erosion; the fire department building; and the cargo terminal building. The estimated cost of all items except the last is \$1,500,000 and the appropriation of this amount is recommended. The Government Development Bank may finance the cargo terminal but, if it does not do so, it is

recommended that an additional appropriation be made for this purpose.

According to the schedule of the Transportation Authority, it will be possible to start operations at the new airport by the end of this year if the funds are made available by April.