

CONFIDENTIAL

1953 ECONOMIC REPORT TO THE GOVERNOR

Puerto Rico Planning Board
Bureau of Economics and Statistics
Economics Division

November 1953

Conditions and Prospects in the States

By almost all available indications, the first half of 1953 was a period of record economic activity in the States. The seasonally adjusted annual rate of gross national product was about \$362 billion during the first quarter and \$372.5 during the second quarter. This compares with a rate of \$361 billion during the last quarter of 1952 and a total of \$348 billion during the whole of 1952.

The Federal Reserve index of industrial production, which averaged 219 during 1952, rose to a level of 243 in March of 1953 and was maintained at a level of about 240 through June. The production of durable goods, both producer and consumer, increased from an average of 280 in 1952 to a peak of 328 in March 1953. Department store sales during the first six months of this year considerably exceeded those during the comparable period last year. Value of new construction put in place was at very high levels. Total civilian employment reached a record level of about 63.2 million in June 1953; total unemployment was about 1.6 million, or about 2.4 per cent of the total civilian labor force.

Since June there has been an easing off in the level of economic activity. Total national output of goods and services during the third quarter was at an annual rate of \$369 billion, about \$3.5 billion less than the record annual rate of \$372.5 during the second quarter. This was the first quarter-to-quarter drop in total output in 3 1/2 years. The Federal Reserve Board index of industrial production declined from 240 in June to 235 in August and (preliminary figures) 232 in September and October.

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demand for goods; more than half the rise in total output from the first to second quarter of the year was due to business inventories. Even a slackening in the rate of accumulation rather than downright liquidation tends to retard business. During the third quarter inventory accumulation declined to an annual rate of \$4.5 billion, and this was a major factor making for the moderate decline in output that occurred in that quarter.

It was evident by early summer that although inventories were perhaps not high in relation to sales, a continuance of the previous high rate of accumulation or a significant decline in demand would fairly quickly move them out of line with sales. There have been increasing indications, even apart from the case of new and used cars where inventories are especially high, that inventory accumulation is easing and that perhaps in some sectors an attempt may be made to reduce them. The large rise since the steel strike in 1952 has increasingly filled pipelines from raw materials to finished products. Steel has become increasingly easy to obtain. By midsummer, there were reports that some customers with military orders were not using priorities to get steel and others were not taking all the steel to which their directives entitled them. Now there are recurring reports of steel purchasers buying more carefully in the so-called "normal" pre-war manner. Oil and gasoline stocks are high, as are those of many industrial raw materials. There are reports of large inventories in the hands of dealers and distributors of household appliances and television sets. When, for example, a major television company slashed prices on its 21 inch sets by 28-40%, some store executives said that "unmanageably

large inventories prompted the move".

A large decline in auto output combined with the general inventory situation that prevails could have fairly wide repercussions. There has already been a slipping of steel output since June. During the period March through June steel operations were running at between 97 and 102 per cent of capacity, and in July through October between 92 and 95 per cent. Some of this may be due to reduction in purchases by automobile manufacturers in anticipation of the reduction in their output in November, but it is doubtful that the full effect of this reduction has been felt in the steel industry. With the large reduction in automobile output and the general inventory situation there will probably be a further decline in steel output. Nor is steel the only industry that will be affected. Through the automobile industry the glass, rubber, upholstery, and radio industries will also be affected and, through steel, the coal industry, railroads, and others.

The effect of the decline in production and output from July through October on personal income and personal consumption expenditures has been moderate. With the expected substantial decline in production and output in November and December, however, there will probably be a larger decline in personal income and there will probably also be a decline, as opposed to a failure to increase, in personal consumption expenditures, when these are adjusted for seasonal variation.

The decline in activity from July through October and various scattered layoffs that occurred even prior to July, for example in the farm equipment industry, have not resulted in any increase in unemployment. In October, unemployment was at a post World War II low point

ago controls were placed on wheat; they will also probably be placed on several other commodities.

Farm capital outlays have also been declining. This is partly due to the progressive dissipation of the war-deferred demand and to the wearing off of the stimulus provided by the Korean War. Farm income and outlays have been declining even in a period of very high general economic activity. They seem likely to do so, at least for awhile longer, even if general activity and income were to continue high.

The Council of Economic Advisors estimated in January 1953 that expenditures for national security would probably rise moderately through most of 1953 and then level off, and that a gradual decline would begin late in 1954. The Department of Commerce estimated in late 1952 that expenditures for national security, including those for foreign aid, would rise to a rate of about \$55-\$60 billion in late calendar 1953, and then probably begin declining in late 1954 to a level of about \$50-\$55 billion in late 1955. Both estimates were made before the present Administration introduced substantial budget cuts. The immediate effect of these cuts should not be exaggerated. Both the Department of Defense and the Foreign Operations Administration have large unexpended balances from appropriations of past years; much of their expenditures during the current fiscal year will be from past appropriations. On the other hand, sometime in 1954 the cuts should begin to make themselves felt. These data and other considerations indicate that now in the fourth quarter of 1953, defense expenditures are at or close to their plateau level. The fact that they are high will tend to limit a general business decline, for awhile at least. But there is not too much slack they can take up by

increasing further and, moreover, as things stand now, they are scheduled to start declining in 1954.

In January and April of next year there will be large tax reductions. The amount of these reductions will probably be at least \$5 billion at an annual rate, and it may be as high as \$8 billion. Because of the way tax payments are distributed throughout the year, and because some of the taxes do not expire until April, the effective tax reduction for the first six months of 1954 will be considerably less than half these amounts. Nevertheless tax reductions of this magnitude could impart a substantial stimulus to the economy, particularly during the latter half of the year.

During the fiscal year 1952-53, the economy was sparked by a heavy budgetary deficit of over \$9 billion dollars, the second largest in peacetime history. The deficit during the current fiscal year will be substantially smaller; the most recent estimates indicate about \$4 billion. The full economic effects of this reduction in deficit have probably not as yet been felt. The deficit thus far this fiscal year is about the same as during the comparable period in the last fiscal year. The difference will come in the latter half of the fiscal year, that is the first six months of 1954 which, if the budget estimate is to be met, will actually be a period of budgetary surplus when taken by itself.

The longer-run situation with respect to defense expenditures and budget deficits is very important. There are signs that the cutting of military budgets in the U. S. has about ceased and that they may be raised again somewhat. The announcement by the U. S. S. R. several months ago that it has a hydrogen bomb is very important in this connection. It seems unlikely that action could be taken quickly enough to exert any

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large direct influence on the first half of the year, but afterwards the effects could be large. As regards budgets in general, the Administration seems to have stopped talking about a balanced budget in fiscal 1954-55. According to statements recently made by the President and Secretary of the Treasury, it will be very difficult in fiscal 1955 to avoid a substantially larger deficit than in fiscal 1954.

The Government is of course not unaware of the developments and potentialities in the economic situation. At his press conference of November 8, the President was asked "are you developing plans to counter-act the decline in business which seems to be indicated by the drop in steel and auto output and employment". According to the New York Times, the President said, "he thought there had been some people who had moved out of what had been called the employable class, older women and some children. He went on to say that every week he discussed the subject with Dr. Arthur Burns, whom he considered one of the ablest men in the whole field.

You get favorable and unfavorable indices about the future always at the same time, President Eisenhower said. It becomes a delicate matter of judgment, he told the conference, and when it becomes clear that the Government has to step in, as far as he is concerned, the full power of Government, of Government credit and of everything the Government has will move in to see there is no widespread unemployment, and we never again have a repetition of conditions that so many of those present remember, when we didn't-when we had unemployment."

The New York Times also reported recently that Dr. A. F. Burns, chairman of the Council of Economic Advisors, declared

"that the council had already gone some distance in planning measures, some of them for action by Congress at its next session, to strengthen the national economy to resist a depression or to cushion the hardships if it came anyway." Dr. Burns "declined, in advance of a report the council will make to the President, to say how strong was the danger of a depression." He said, however that the stand-bys under study include measures to ease home building and repairs, further changes in the tax program and revising the unemployment insurance system. "Large-scale public works are being planned as one of

several stand-bys against a possible depression", Dr. Burns said, but "gave as his opinion that the Government should avoid large Government spending except if that became necessary in a serious depression."

In assessing the situation outlined above, it is important to maintain a sense of balance. As was pointed out above, from July to September and October, there were reasonably clear signs that the boom of the first half of the year was tapering; there is now evidence that there will be a more substantial downward movement in November and December. The important questions are how far the decline will go and how long it will continue. The tendencies in several key sectors of the economy are sufficiently downward or weak as to suggest that the decline will continue into the first half of 1954.

On the other hand, it is too early to conclude that there will necessarily be a recession worthy of the name. The U. S. economy has been operating at such a high level, the amount of unemployment has been so low, that there is considerable margin to be wiped out before one could begin to talk of an actual recession. It is by no means impossible that the inventory situation and softness in the automobile industry will work themselves out after several months without producing a major decline. There are also the tax decreases in early 1954, the prospective increase in budget deficit in fiscal 1955, the possibility of active anti-recession measures by the Government, and the international situation to be considered. The international situation could alter the economic situation almost overnight.

In summary, present tendencies in the U. S. economy are downward. More than at any time in the last several years a conjunction of factors

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seem to be developing which could lead to a recession. It would be extremely imprudent to disregard the possibility that there will be one. On the other hand, the uncertainties in the situation are still such that the present tendencies may turn out to be a mild business downturn rather than a recession.

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 has been no observable effect on the Puerto Rican economy. 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. The seasonal return flow of migration was considerably larger this year than in previous years but this may reflect the larger total number of migratory workers who left earlier in the year rather than an unusually high proportion returning because of weaknesses that have appeared in the agricultural situation in the States.

If, however, the decline should continue for some time and particularly if it should become 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 interest 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 nearly 75,000 in fiscal 1952-53. 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. This 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 the 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

in the following table:

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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 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 did in September, by lowering reserve requirements and making 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 levels 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 the 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 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 has 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 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. It seems likely that this relative decline is a reflection of the parallel falling off 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

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\$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 factory production resulting from the industrial promotion program.

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, were 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.

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.

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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	74,603	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

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Age Groups	Both Sexes		Males		Females	
	No.	%	No.	%	No.	%
All groups	74,603	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.

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 30,000 men of prime working age compared with about 8,000 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

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 zafra, and some farmers discontinued cultivation.

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 decline from \$4.4 million to \$3.6 but 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. The least important group, 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 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>	<u>1951 - 52</u>	<u>1952-53</u> <u>(preliminary)</u>
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

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)

	<u>1949-50</u>	<u>1950-51</u>	<u>1951-52</u>
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 (<u>f</u>) in outside claims on Puerto Rico			
Loans from Federal Agencies	<u>f 3,167</u>	<u>f 4,405</u>	<u>f 8,218</u>
Commonwealth, government corporation, and municipal debt	<u>f 29,446</u>	<u>f 23,849</u>	<u>- 2,854</u>
Debt of the housing authorities	<u>f 3,680</u>	<u>f 2,848</u>	<u>f 31,429</u>
Other mortgages	<u>f 2,183</u>	<u>f 20,438</u>	<u>f 19,339</u>
Direct investment	<u>f 8,592</u>	<u>f 11,276</u>	<u>f 11,255</u>
Other	<u>- 837</u>	<u>f 19,271</u>	<u>- 2,562</u>
Total	<u>f 46,231</u>	<u>f 82,787</u>	<u>f 64,825</u>
Decrease (<u>f</u>) 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	<u>f 7,701</u>	<u>f 15,089</u>	<u>f 16,998</u>
Other	<u>-11,560</u>	<u>f 2,603</u>	<u>f 1,593</u>
Total	<u>-11,921</u>	<u>- 6,470</u>	<u>f 1,019</u>
Errors 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 sales to and 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 external debts and other 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 (as of June 30, 1952) was owed by governments and governmental agencies (other than public housing authorities). This debt requires substantial annual interest and amortization payments which, in turn require the transfer of real resources (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. Obviously this inflow resulted mainly from local needs for currency for circulation purposes, and the 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%	15%
Employed in:		
Cane	18%	10%
Other agriculture	27%	11%
Home needlework	3%	2%
Subtotal	70%	38%
Services	8%	8%
Trade	8%	16%
Manufacturing	5%	10%
Construction	5%	8%
Transportation	2%	8%
Government and other	2%	12%
Subtotal	30%	62%

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 somewhat less than this because of declines in transfer payments (to veterans) not included in the net income data. Assuming that the increase was 15%, 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.

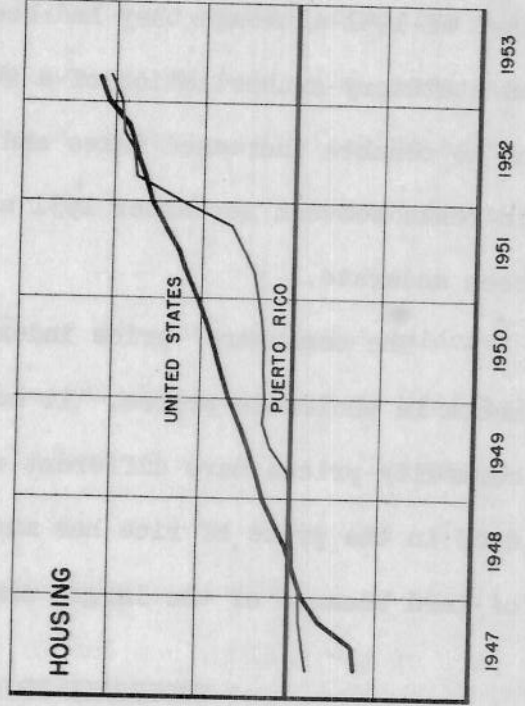
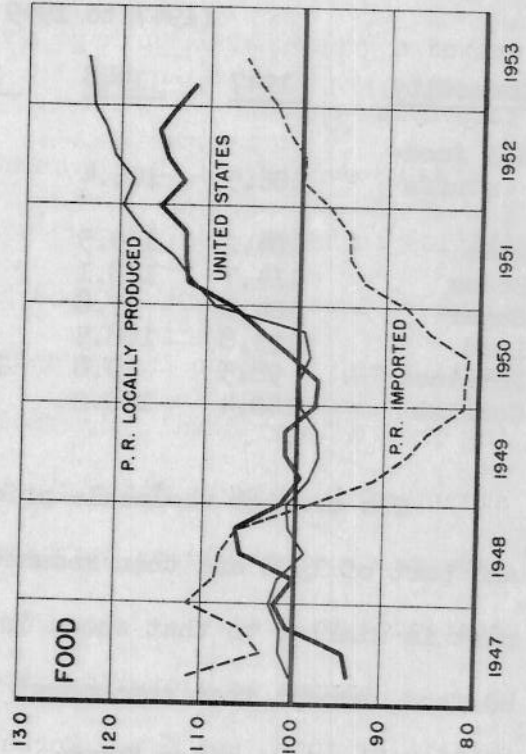
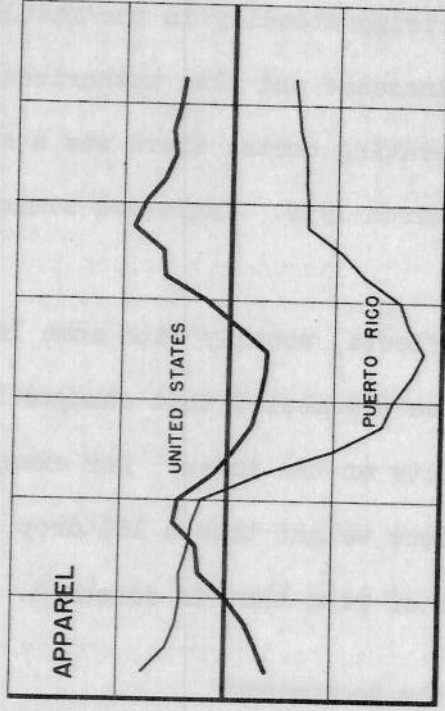
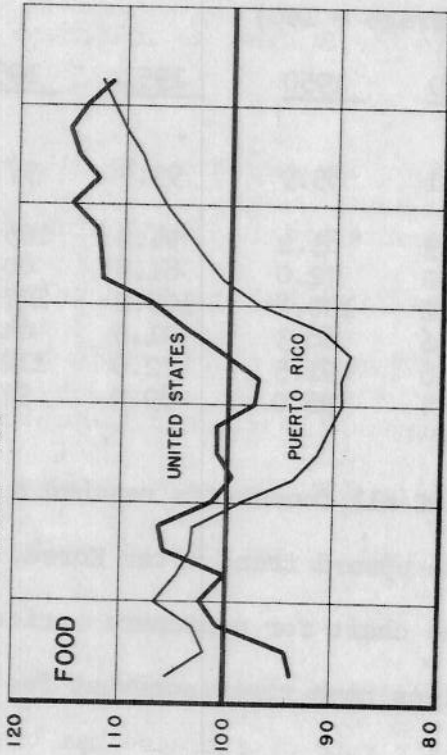
After price controls were lifted, consumers' prices rose rapidly reaching a peak by the end of 1947 in Puerto Rico and by the third quarter of 1948 in the States. Most of the increase in Puerto Rico was caused by a general rise in the prices of imported foods, especially rice, pork, and lard. Reduced 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, movements 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 to 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 food-stuffs	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 and, mainly because of salary increases, appropriations for general administration and services not classified by function were \$4.8 million higher.

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 agriculturadl 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.	%	Thds.	%	Thds.	%
	of 'dollars'	of total	of dollars	of total	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.

SECTION II. PROGRESS REPORTS

SECTION II. LITERATURE REVIEW

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 but there has been a still larger decrease in the labor force because of migration. This movement has, however, been taking some of our most productive people 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, has 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. Output per worker since 1950 has risen by about 9% per year compared with the figure of 6% estimated at the time and used in setting the 1960 objectives. If this difference 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 employment and income goals.

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 for 1960 and Puerto Rico's balance of external payments indicate that the objective of approximately tripling net income requires that exports be nearly quadrupled 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

Work on an overall agricultural development program, based in part on the Koenig Report, is being carried forward by a special committee appointed by the Governor. This committee has under consideration 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 covered, eight bills were submitted to the Legislature during its last regular session following recommendations contained in the program. The following four were passed and approved by the Governor:

- Act. 41 - Exempting cattle and silos from property tax;
- R. C. 33 - Appropriating funds for forest research;
- R. C. 72 - Appropriating funds for a pasture improvement program;
- R. C. 74 - Appropriating funds for the establishment of 12 additional stud centers.

This prompt action foretells continued support of agricultural development and, as will be indicated below (see Section III, Agricultural Development) greater emphasis is recommended in the budget for fiscal 1954-55. Each one of the current programs is making its contribution in its own field but, in the face of lags beyond our control, a stronger impetus is needed in order that they may net an impressive gain in terms of increased production or higher income for the people of Puerto Rico.

Present Commonwealth activities in agriculture involve a variety of general programs in relation to production, marketing, credit, research and education, and the welfare of farm families, together with a few particular programs designed to bring about improved conditions and larger production in specific regions, such as Lajas Valley and the Caonillas watershed.

Some of the more important of these programs are discussed below.

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 crop 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 (fertilizer, insecticides, plows, farm tools, etc.) 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 amount was sent gratis to State institutions in order to maintain the price level and avoid larger purchases; part was sold for \$9,202; and part spoiled in the warehouse. The total loss from the above transactions amounted to \$14,342.

The stimulus provided through this program could not offset, however, the effects of the prolonged drought that hit most sections of the Island during part of the year and of reported labor shortages in some places. As a result, total food production declined and prices went up. The production of legumes decreased 33%, starchy vegetables 5%, and cereals almost 20% from last year's level. The only food group which showed increased production, although modest (6.5%), was the "yellow, green, and leafy vegetables" group, and this mainly due to an unexpected large crop of cabbages in response to a relatively high guaranteed minimum price. Enough tomatoes were available for the local market and some were sold in the Continental winter market.

FOOD CROPS
(in thousands of dollars)

	<u>1953 as % of 1952</u>			
	<u>1951-52</u>	<u>1952-53</u>	<u>Production</u>	<u>Value</u>
Total Gross Income from Food Crops	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 ("batata mameya") production increased, the total supply of sweet potatoes decreased 28% and was not sufficient to take care of the fresh market demand and to maintain at high capacity operation the two canning plants recently established. Pigeon peas were also in short supply as a fresh product in the local market. The Puerto Rican population of New York City is already competing for this product and 80,000 crates were canned during the year for sale in that market.

Coffee Conservation and Insurance Program. The Coffee Conservation Program was started in 1946 with an appropriation of \$800,000 made through Act 198 of 1946. Since then, \$1,550,000 from general funds and over \$881,000 from special funds have been appropriated. (Tariffs on coffee imports collected in Puerto Rico go to a special fund for the Coffee Conservation Program.) The Federal Government currently contributes \$1 million for this same purpose. Disbursements of more than \$1,550,000 have been made during recent years from these funds.

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. Part 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. The Government development programs for the dairy industry fall in three general categories: (1) control of cattle diseases, (2) cattle improvement programs, and (3) pasture improvement. The tick eradication program has been the most costly program of those included in

the first group. In last year's report it was stated that it had used \$2,000,000 of Federal funds and \$4,350,000 of Commonwealth funds or 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.

After the cattle tick, which is the Texan fever carrier, has been eradicated, the whole Island will supposedly be free from the disease. 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 in recent years 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 throughout the whole Island to service most of the scattered herds. 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 being organized already for this purpose. It is expected that this program will become self-supporting after these cooperatives have been duly organized.

The Agricultural Company has been supplying, from its dairy farms at

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 fiscal 1954 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, Education, 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 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

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 so 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 refrigerators, and on some items of producers' equipment, 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 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.

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

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.

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 16%.

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. This tends to raise the effective rate in Puerto Rico by comparison. But for single persons, where income splitting is not a factor, the effective rates in Puerto Rico are substantially lower at all income levels than the Federal rates. This is a reflection of both the lower combined normal and surtax rates and of the higher personal

exemptions.

For married couples, effective rates vary with the number of dependents in the family. Generally they are lower in Puerto Rico up to incomes of \$20-30,000 and do not become significantly higher until much higher income levels are reached. For a family of two with no children, the effective rates in Puerto Rico are substantially lower than Federal rates till incomes of about \$20,000; remain lower by an insignificant amount till about \$32,000; and do not exceed Federal rates by a significant amount till \$100,000.

Since most married taxpayers in Puerto Rico have incomes below \$20-30,000, the great bulk of Puerto Rican taxpayers, single or married, and despite the absence of income splitting, pay taxes below the Federal rates. Rates in Puerto Rico are not above the Federal rates for more than about 200 people, 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 tax structure is weak with respect to both elements in the balance. 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 cigarets, 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 cigarets. This would improve the equity of the tax system and tend to make an overall tax increase politically more palatable.

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 tax 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 could yield about \$8-10 million in the fiscal year 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 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 and 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 on 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.

The need for a flexible borrowing policy is particularly important at present since the bond market on the Continent seems to be entering a period of uncertainty. Several months ago the Federal Reserve Board lowered reserve requirements practically in direct support of a Federal bond issue. Then the Federal Reserve Banks engaged in the direct purchase of Treasury bills. As a result interest rates stopped rising and then in September, for the first time in a long time they fell somewhat. Because of present uncertainties in the general economic outlook and in the economic, monetary, and fiscal policies of the Federal Government, the bond market is particularly uncertain. In such a situation caution and flexibility in borrowing policy are particularly important.

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.

* * * * *

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

The discussion of the agricultural development budget which follows takes into consideration previous planning of a long-range nature and also the desirability from a current fiscal standpoint of transferring appropriate activities to the proposed development branch of the Land Authority.

As pointed out earlier in this report, the possibility of a 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.

General Considerations

In spite of previous planning and experience, the agricultural development program as a whole needs to be brought into much sharper focus than it is at the present time. 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 by the special Agriculture

Committee. 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 these discussions.

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. In this task special attention should be given to the preparation of a long-range plan for the marketing of agricultural products.

Admittedly, this comprehensive planning job, which must have the highest priority, 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 a public body to serve as the

spearhead of agricultural development. The necessity for this body 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 developmental 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 either general or special appropriations of 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. This possibility has been assumed in the recommendations which follow.

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, 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.

Finally, there is need for a more adequate system for reporting the progress of agricultural development programs.

Specific Recommendations

With respect to the budget, recognition of the significance of agricultural development is found in the fact that the appropriations recommended for this purpose during the coming fiscal year have been increased in spite of the overall necessity of reducing Commonwealth appropriations wherever possible. Although numerous requested and urgently

needed projects have been postponed, or sharply limited, nevertheless, as the following table indicates, the recommended appropriations for fiscal 1955 which 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 to the second highest level of the past half decade, the amount being exceeded only in 1952-53. Furthermore, the table does not include for fiscal 1954-55 any estimate of funds to be transferred to the new agricultural development body. Were such an estimate to be included, the total would, of course, be correspondingly higher.

FUNDS FOR AGRICULTURAL DEVELOPMENT
(in thousands of dollars)

Sources	1950-51	1951-52	1952-53	1953-54 (to Nov. 30)	Recommended 1954-55
All sources	\$5,941	\$6,519	\$14,208	\$6,804	\$9,077
Commonwealth funds	5,151	5,540	13,210	5,605	7,636
Operating budget	4,945	4,162	4,602	5,129	5,469
General fund	4,065	3,081	4,065	4,617	4,918
Budget law	2,017	1,956	2,589	3,146	3,146
Special approp.	2,048	1,125	1,476	1,471	1,772
Special funds	880	1,081	537	512	551
Permanent improvements	206	378	8,608	476	2,167
Regular agencies	206	278	133	476	367
Public corporations	--	100	8,475 ^{1/}	--	1,800
Miscellaneous	--	1,000 ^{2/}	--	--	--
Federal Funds ^{3/}	791	979	998	1,198	1,441

^{1/} Includes \$6.4 million appropriated to the Water Resources Authority for irrigation in Lajas Valley and half of the \$4.15 million appropriated to the Transportation Authority for the Central Market Project.

^{2/} Transfer of funds from the Agricultural Company to the Bank for Cooperatives.

^{3/} Includes estimates for incentive payments under the Pasture Improvement Program Agreement of \$200,000 for 1953-54 and \$425,000 for 1954-55.

In general, the appropriations which are recommended are for purposes consistent with the overall program under consideration by the Agriculture Committee.

With respect to special appropriations and permanent improvements as is indicated in the following table, out of requests aggregating \$6,687,000 a total of \$3,939,000 is recommended for approval.

	<u>Requested</u>	<u>Recommended</u>
Total	\$6,687,000	\$3,939,000
Special appropriations	3,280,000	1,772,000
Department of Agriculture	3,150,000	1,642,000
Experiment Station	130,000	130,000
Permanent improvements	3,407,000	2,167,000
Transportation Authority	1,800,000	1,800,000
Department of Agriculture	986,000	266,000
Experiment Station	621,000	101,000

Special appropriations. Of the requests for special appropriations, those received from the Department of Agriculture and Commerce amounted to a total of \$3,150,000. These requests, and the disposition recommended, are as follows:

	<u>Requested</u>	<u>Recommended</u>
Total	\$3,150,000	\$1,642,000
Coffee Conservation	500,000	500,000
Pasture Improvement	1,000,000	500,000
Agricultural credit	1,200,000	300,000
Food Production	344,000	300,000
Caonillas watershed management	30,000	30,000
Fumigation plants	12,000	12,000
State granaries	14,000	---
Tobacco sheds	50,000	---

With respect to the coffee conservation program, although there are good reasons for increasing its funds, because of the fact that the

program has been extended to new farms without allowance for carrying out conservation practices with adequate frequency on the farms already covered, nevertheless, the appropriation recommended is the same as in previous years.

With respect to the pasture improvement program, on the other hand, the amount recommended would double its current appropriation. This is only half of the \$1,000,000 originally scheduled to be appropriated in fiscal 1955, but it would allow the program to gather at least some further momentum as well as to take additional advantage of the matching funds available under the agreement with the Federal Government.

As for agricultural credit, the need is acute, far beyond the limited resources which could be made available by the Commonwealth for this purpose. It is recommended, however, that at least some further assistance be rendered by this appropriation of \$300,000 which would enable the Bank for Cooperatives to guarantee loans made by private banks to small farmers. Together with the \$300,000 appropriated in November, 1953, it will be only half of the \$1,200,000 originally scheduled by the end of fiscal 1955, but it is a beginning.

An appropriation of \$300,000 is recommended for the food production program. This is not the full amount requested, but it is an increase in line with the recent reorganization of the program, to place needed emphasis on its distribution aspects. The Caonillas watershed management project would be continued at its present rate. Finally, an additional special appropriation of \$12,000 is recommended for expenses of operation arising out of expansion

of the San Juan fumigation plant (discussed below).

With respect to the state granaries, it is recommended that responsibility for this project be transferred to the new development body.

Likewise, while the need for construction and improvement of tobacco sheds is recognized, it is recommended that the financing of this program be assigned to the Bank for Cooperatives.

Only one special appropriation was requested by the Agricultural Experiment Station, of \$130,000 for operating expenses connected with the seed farm program, which is recommended here, although (as discussed below), part of this program should be transferred to the new agricultural development body.

Permanent Improvements. Of the appropriations requested for permanent improvements, the largest is for \$1,800,000 to the Transportation Authority in connection with the Central Market, all of which appropriation is functionally attributable to agricultural development, and is recommended for approval. As indicated in the following table, this appropriation, together with the \$4,350,000 previously appropriated, would bring the funds available for the Central Market to \$6,150,000, or slightly more than half of the amount currently estimated as minimum public investment necessary to make possible complete development of the project. It should be noted that revised estimates of the total cost and the public investment required have recently been received from the project consultant and are now under study by the Central Market Committee. Since they were received too late for inclusion in this report, the earlier figures are used here for illustrative purposes.

(in thousands of dollars)

	<u>All Functions</u>	<u>Agricultural Development</u>	<u>External Transportation</u>
Total Cost of Project	\$17,521	\$8,684	\$8,837
Potential revenue financing	6,000	3,300	2,700
Public investment needed	11,521	5,384	6,137
Previous appropriations	4,350	2,175	2,175
Recommended for 1954-55	1,800	1,800	--

The funds previously appropriated, plus the new appropriation recommended, all of which, it is believed, can be spent or committed by the end of fiscal 1955, should, according to current estimates, be sufficient to complete acquisition of the privately held land, diversion of the Puerto Nuevo River, preparation of plans and specifications for filling the area, and accomplishing the engineering and part of the primary drainage of the area, all by the end of fiscal 1954, and the actual construction and consolidation of the fill, together with the preparation of plans and specifications for secondary drainage, water and power and communications facilities, all by the end of fiscal 1955.

Requests for appropriations for permanent improvements for thirteen other projects, estimated to cost \$986,000, were submitted by the Department of Agriculture and Commerce. Of these, five are recommended for approval in whole or in part. The detail of these requests and recommendations is shown in the following table. With respect to the establishment of individual farms under Title VI of the Land Law, it is recommended, for social reasons, that this program proceed at the same rate as last year, although from an economic and fiscal point of view this project is less urgent than some others. Expansion of the San Juan fumigation plant is needed because the capacity of the present plant

All of the remaining projects have been deferred for fiscal reasons. In passing, it might be mentioned that consideration should be given to the question whether the ponds to be constructed in connection with the pasture improvement program could serve also, at least in part, the objectives of the proposed fish pond project, with mutual benefit.

The appropriations requested by the Agricultural Experiment Station for permanent improvements, and the recommended disposition, are as follows:

<u>Project</u>	<u>Requested</u>	<u>Recommended</u>
Total	\$621,000	\$101,000
Land acquisition-Lajas Valley substation	50,000	50,000
Reconstruction of laboratory	30,000	30,000
Warehouse	11,000	11,000
Silos	10,000	10,000
Other projects <u>1/</u>	520,000	---

1/ Includes the following: seed farms, \$390,000; Barranquitas sub-station, \$60,000; building for sugar mill, \$35,000; greenhouses, \$24,000; and access road, Rum Pilot Plant, \$10,700.

The Lajas Valley substation request involves the purchase of a farm which is in the center of the experimental farm already operating in this zone. Its acquisition would permit more efficient land utilization and lower costs of operation, and would facilitate the studies necessary for improved land utilization generally in the Lajas Valley. This project is recommended for approval, as are the requests for completing the reconstruction of and equipping the old laboratory building and the construction of a warehouse at Monacillo, and two silos at Cupey.

With respect to the requests which are not recommended for approval, the most important is the seed farm project. This, like the lime project, is a key activity, involving production and sale to farmers of seeds for growing improved varieties of food and fiber originating in

the research of the Experiment Station, as well as the importing and sale at low prices of selected locally adaptable varieties of seeds produced commercially in the States. Additional income is derived from the sale of produce incidental to seed production. It is believed that this program should be split into two parts, with the actual production phases being transferred to the new agricultural development body, but the research and experimental phases remaining with the Agricultural Experiment Station. Pending a review of the separate financial requirements, depending on the character of the division which would take place, no recommendation is made at this time for further appropriations for permanent improvements.

All of the remaining requests of the Experiment Station have been deferred for fiscal reasons.

In summary, creation of the new agricultural body and transfer to it of responsibility for the projects indicated (the calcium carbonate project, the Lajas Valley granaries, and the seed farm program) would serve two valuable purposes. In the first place, it would relieve the state budget of requests for some \$641,000 for permanent improvements, as well as additional special appropriations for operating expenses, thus materially aiding the Commonwealth in achieving the objective of fiscal preparedness for possible emergency measures should unemployment become a more serious problem than it now is. In the second place, by placing these projects under a body with ample resources at its disposal, they can be carried forward more adequately than would be the case if they were to receive only limited appropriations from the state budget. Hence, the objective of agricultural development would not be held back by the requirements of a counter-cyclical fiscal policy.

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. This means the full amount requested for all EDA offices and departments except the rum promotion program and the Department of Tourism, a total about \$718,000 above that appropriated for the current fiscal year.

While the requested increase for tourism is not large and while this promotional activity tends to support manufacturing promotion, no increase is recommended for this year on the grounds that there is still room for increasing internal efficiency in the use of the existing level of funds in this department.

Some increase in funds for rum promotion is recommended at this time because of the large and prompt return it can be expected to

provide to the Commonwealth in taxes from rum shipments. As was pointed out earlier in this section, the fiscal situation in prospect for 1954-55 warrants a special effort to increase revenues. 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. This relationship may become somewhat less favorable after the 14% reduction in the tax rate expected in April 1954 but the tax reduction itself should provide some stimulus to sales that would make the decline in revenue less than 14%. If the promotion program is expanded in 1954-55 there may be no decline in revenue.

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 three-quarters. Rum still has a small part of the total liquor market but it has about doubled that part since the program

was started. Moreover, an increased appropriation for 1954-55 should produce added Government revenue in that same year. 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.

The financial and operating policies of both PRIDCO and the Development Bank are now being studied intensively. As a result of these studies it is expected that the Bank will move 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 **saleable** 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. This is \$500,000 above the amount requested by PRIDCO itself, but it is believed that the full \$6.5 million is necessary to avoid the

risk of checking the manufacturing program in what may be a critical year.

On the other hand, 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.

Transportation Authority. No recommendations are being made here regarding the internal transportation activities of the Authority and the recommendations regarding the Central Market, which affect the Authority, are contained above as part of the Agricultural Development program.

The Authority requested a total of \$2,011,000 for the remaining construction necessary to get the International Airport into operation on a minimum basis. Its request included the following items that are recommended for appropriation in full: completion of apron and taxiways (\$1,344,000), fencing (\$107,000), fire department building (\$40,000), erosion control (\$9,680), and runway marking (\$6,320). There was also requested \$354,320 for construction of the cargo terminal. It is recommended that this amount be reduced to \$100,000 and that the balance be obtained by borrowing. The final request was for \$150,000 to provide an equity in a hangar for Caribair in order to enable its construction. This request is not recommended at this time. The total appropriation recommended for the International Airport thus amounts to \$1,607,000.