

EFFECTS OF RAPID INDUSTRIALIZATION ON COMMONWEALTH INCOME

by H. C. Barton, Jr.

Puerto Rico's economic development program is now widely known throughout the world. Its success is evident and government officials and students from abroad have been coming in increasing numbers to study what we have accomplished and what we are planning for the future.

When these official visitors come to our office in the Planning Board, as many of them do, we find it necessary to stress one basic fact about Puerto Rico's economic development program. The fundamental purpose of the entire program is to provide jobs and raise incomes. For us a new factory, a farmer's market, or a new airport is not an end in itself. It is important only because it helps to raise incomes and so to lift up the level of living of the people of Puerto Rico.

Mr. Harris has pointed out in his penetrating analysis some of the structural changes in the economy that have been taking place and that must continue in the future if our program is to achieve its income objectives. As he has indicated, part of the structural change was deliberately planned, for example, the addition to the economy of many more higher-paying factory jobs. Other changes, however, such as the shrinkage of low-paying jobs in agriculture and trade, were not deliberately planned. In fact, we have only very recently recognized how much underemployment we have, how large the shrinkage in low-grade employment might be, and hence how long it may take to eliminate unemployment. These unplanned shifts out of low-paid jobs, however, are also in the right direction. The basic income objective of the whole program is well served when a man can leave a low-grade job on a subsistence farm and get a better one. The availability of that better job in Puerto Rico is merely

another facet, another way of stating the income objectives of our program. We still have thousands of unemployed and underemployed workers competing for what is, by comparison, a mere handful of vacancies. What we want is the reverse, jobs competing for people. Our entire economic development program is aimed at these employment and income objectives.

The primary targets are rapid industrialization and expanded agricultural production. This expansion of primary production means larger factory payrolls and higher farm incomes which, as they are spent, stimulate all other sectors of the economy. There is more business for merchants and public drivers; greater demand for electric power and roads; and people can afford to build better homes. Increased business activity and higher personal incomes in all sectors of the economy produce more tax revenue. This, in turn, enables the Government to provide more adequate education, health measures, housing, and the other services that are necessary for human welfare. The Government, by providing these social services and by collecting the taxes to pay for them in an equitable manner, helps distribute the higher income produced by the developing industrial economy with fairness and justice.

Today, it can be said without question that Puerto Rico is in this process of rapid industrialization. For over a year we have been establishing about two new factories each week. Altogether the Economic Development Administration has now promoted a total of about 300 new manufacturing establishments, of which about 270 are in operation and the rest are in process of being established. The government-sponsored plants now operating have an employment average of about 93 workers each.

and it is expected that those being established will reach a similar average. Thus the 300 new factories will soon be providing about 28,000 new jobs.

Average pay is about \$920 a year in the factories that are already operating. With higher paying new industries and rising wage rates, it seems reasonable to estimate that workers in the new factories will soon be averaging about \$1,000 a year. Thus, with approximately 28,000 workers earning about \$1,000 a year, total annual payroll of these 300 new factories will probably soon be in the neighborhood of \$28,000,000.

Since payroll is about 65% of the net income from manufacturing, this \$28,000,000 of additional payroll means about \$44,000,000 of added manufacturing income. New primary income, it is believed, generates about an equivalent amount of additional income in construction, transportation, trade and the other industries in which the primary income is spent. Thus, altogether, the 300 new factories promoted thus far will add about \$88,000,000 a year to incomes in Puerto Rico.

This \$88,000,000 a year is a big figure and it represents an achievement of which we all are proud. But it is worth reminding ourselves that, with all the people in Puerto Rico, \$88,000,000 a year amounts to only 75 cents a week, per person. Even if we can continue to open up 2 new factories or more every week, it is quite clear that it would take many years before industrialization alone could eliminate poverty in Puerto Rico.

It is for this reason that the economic development program does not rely only on industrialization as a source of added income. Industrialization is the spearhead, but it is backed by agricultural

development, tourism, rum promotion, port and airport expansion, public utilities and many other economic and social programs of the Commonwealth Government. In addition, the Puerto Rican economy has received strong support from Federal grants, like those made to the states, for roads, schools, and hospitals and it has been stimulated by the increased operating expenditures that have been made here by the armed forces and other Federal Government agencies. It is the combined effect of all these efforts and all these expenditures that has brought about the rapid advance in real income that has been going on for more than a decade.

During the decade of the 1940's, real income per family in Puerto Rico increased about 40%. In other words, allowing both for higher prices and for population growth, a family with an average income could afford to buy 40% more goods and services in 1950 than it could have bought in 1940. Moreover, during the four years just passed, real income per family has been rising more than twice as fast as it did during the 1940's. If this rate could be maintained, real family incomes would come close to doubling during the current decade.

Unfortunately, two of the favorable factors in the current situation are probably temporary. Population has been held stable by the tremendous migration to the mainland and the recent increases in Federal expenditures have been very sharp. It seems too much to hope that new forces of similar magnitude will arise to take their place.

The other principal factor contributing to the current spurt in family incomes is the great acceleration that has taken place in the industrialization program. This we hope will continue and we have set higher goals for the years ahead. Even here, however, we will receive

a serious setback unless the business recession now going on in the States is soon reversed. If it should develop into a long period of stagnation or into a deep depression, it would almost certainly bring our industrial expansion to a halt. It would check migration and possibly reverse it and, in many other ways, as long as it lasted, mainland depression would also depress the level of incomes in Puerto Rico.

Looking ahead to 1960, we can take hope from the exceptionally rapid advance of the past few years. Barring a serious mainland depression, we can expect that the rise in real family incomes during the current decade will be greater than the 40% increase of the 1940's. It seems quite possible that real family incomes in 1960 will be 50% higher than they were in 1950. Such an advance would tremendously improve the social and economic wellbeing of the people of Puerto Rico.

In a recent study by the Economics Division of the Planning Board, which was in turn based on a survey made by the Bureau of Labor Statistics, it is estimated that family incomes had reached an average of \$1,800 by 1950. This includes money income and also income in kind, such as consumption of home-grown food and the occupancy of rent-free homes.

From a social standpoint this figure for average income is less significant than the number of families that have incomes below \$1,000 a year. These low-income families are eligible for public housing and free medical care and, far down in the group, are found the smaller number who receive public assistance payments. Also, these families with incomes below \$1,000 are a serious economic problem because they include most of the unemployed and the most seriously underemployed

workers and because, as consumers, their purchasing power is too low to create much demand for the goods and services the economy can produce.

In 1950, according to the Planning Board study, there were 178,000 of these families with incomes below \$1,000. This means that 40% of all families in Puerto Rico were eligible for some of our social services and were weighing on staff and facilities that were insufficient for so heavy a burden. Mostly for lack of jobs or for lack of a good job, these same 4 families out of every 10 were also unable to contribute fully to our economic growth.

If, by 1960, average family incomes have risen 50%, there will be a marked change in the situation just described. According to the Planning Board study, only about 22% of the families in Puerto Rico would then have incomes below \$1,000. The general load on our social services would thus be nearly cut in half and the proportion in the very lowest income brackets, those who are eligible for public assistance payments, would be cut even more sharply. At the same time, Government revenue, especially from income taxes, would be much higher.

These two factors combined would make it economically feasible to improve tremendously the standards and levels of our social services. For example, with more funds available and many fewer cases, public assistance payments could easily be 4 or 5 times their present size. Fewer people would need public housing, but we could afford to build more, and so on through the list of our social services.

It is an unpleasant truth that the social services can not possibly be adequate when there are a great many people living in poverty. Thus, in a very real sense, they become of greater importance when incomes are higher and when fewer people must be served. Then they can provide a quality and an amount of supplementary social income that comes much closer to meeting human needs and, through the distribution of this social income, the Commonwealth assures all its citizens that they will receive a fair share of the fruits of a more highly industrialized and more highly productive economy.