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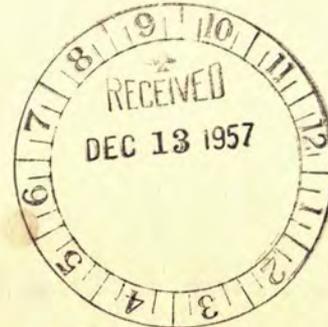


HEADQUARTERS  
AIR FORCE ROTC  
UNITED STATES AIR FORCE  
MAXWELL AIR FORCE BASE, ALABAMA

*pu*

11 December 1957

Dr. Arturo Morales Carrion  
Under Secretary of State  
Department of State  
Commonwealth of Puerto Rico  
San Juan, Puerto Rico



Dear Dr. Morales:

It was a pleasure to see you at the recent Conference on the Caribbean at the University of Florida in Gainesville. I feel that Puerto Rico was well represented at the Conference and that you and your associates had a valuable message to offer to the participants.

During conversations with you in Gainesville, I pointed out that several civic clubs in the Montgomery area have called upon me to give talks on Puerto Rico. The speech that you made at the Conference on the Government of Puerto Rico would be helpful in this matter. I would appreciate a copy of this presentation and any other material in your office on the subject of the Commonwealth Government.

My family and I miss Puerto Rico and look forward with great interest to returning there in the future.

Sincerely,

*Bynum E. Weathers, Jr.*

Bynum E. Weathers, Jr.  
Captain, USAF

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# **EIGHTH ANNUAL CONFERENCE ON THE CARIBBEAN**

**SCHOOL OF INTER-AMERICAN STUDIES  
UNIVERSITY OF FLORIDA  
GAINESVILLE, FLORIDA**

**THE ECONOMY OF PUERTO RICO 1948 TO 1957  
BY: CANDIDO OLIVERAS, CHAIRMAN  
PUERTO RICO PLANNING BOARD  
SANTURCE, PUERTO RICO**

**DECEMBER, 1957**

**EIGHTH ANNUAL CONFERENCE ON THE CARIBBEAN**

**Sponsor: School of Inter-American Studies  
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**Subject: Contemporary British, Dutch, French and  
United States Caribbean**

**Topic: THE ECONOMY OF PUERTO RICO  
1948 TO 1957**

**By: Cándido Oliveras, Chairman  
Puerto Rico Planning Board**

## THE ECONOMY OF PUERTO RICO, 1948 TO 1957

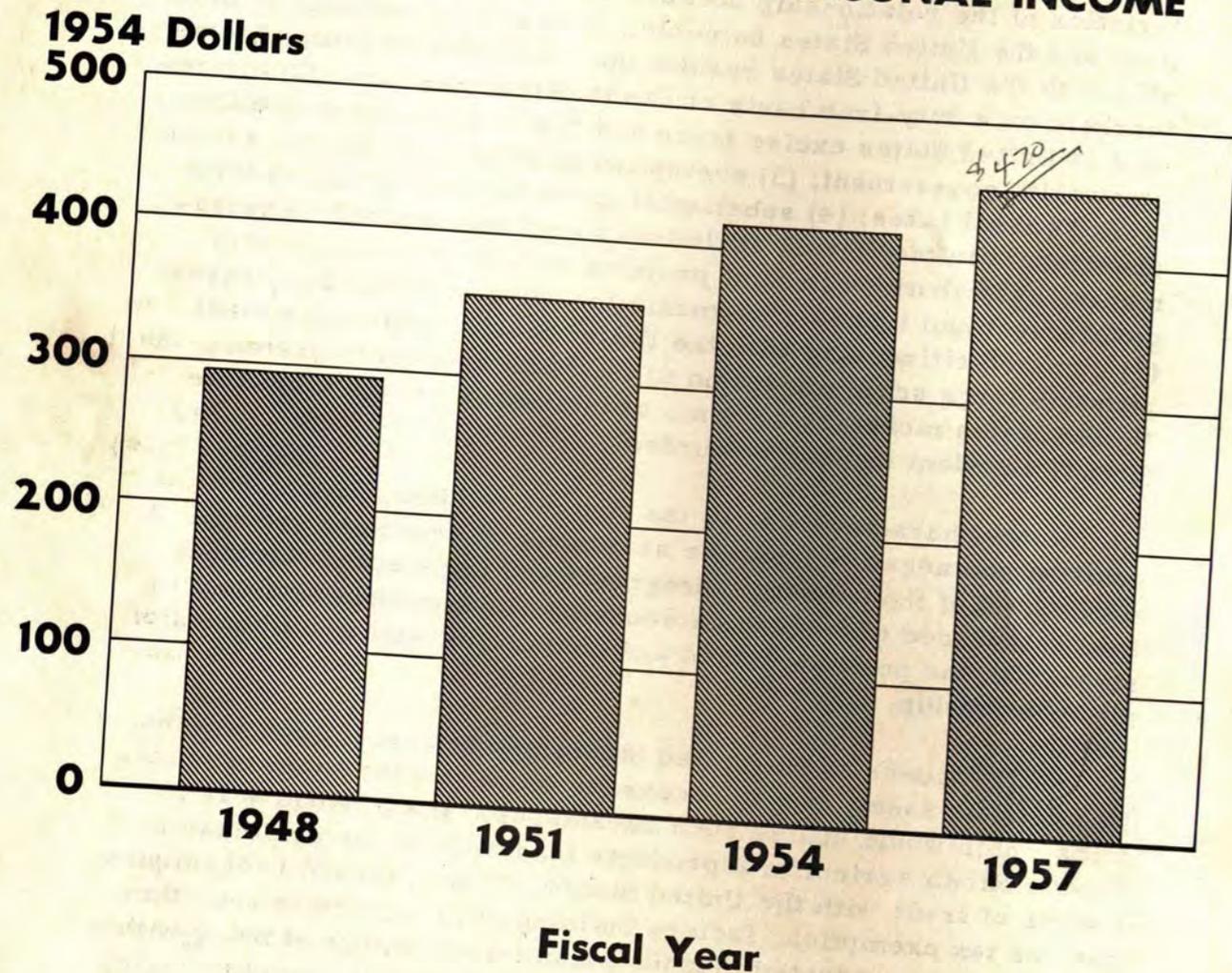
Before discussing the development of the Puerto Rican economy during the last few years it is important that the unique characteristics of the relationship between the Commonwealth of Puerto Rico and the United States be noted. The special political relationship with the United States results in: (1) access to United States markets on a duty-free basis of Puerto Rican products; (2) the refund of United States excise taxes and customs duties to the Commonwealth government; (3) exemption of all Puerto Rican residents from Federal taxes; (4) substantial expenditures by the Federal government in the Island, including direct operational disbursements, contributions to joint projects with the Commonwealth government and transfer payments to individuals and businesses; (5) common citizenship with the United States, which has made possible large scale migration to the Mainland; (6) inclusion in the United States monetary system, which makes possible the free flow of abundant capital resources.

These characteristics of the special relationship are both positive and negative from the standpoint of economic growth. A major part of the economic programs and legislation which has been introduced to accelerate economic development attempts to strengthen the positive forces and contain the negative impacts of the relationship.

While access to the United States markets on a duty-free basis is a definite asset, it was necessary to attract the types of industries which would utilize such advantages. Until World War II Puerto Rican agricultural products tended to be the principal source of trade with the United States. It was not until techniques such as tax exemption, factory buildings at low rentals and other incentives were adopted that the potential advantage of being within the United States tariff walls was fully realized and manufacturing for United States consumption expanded.

With a local market of only 2,270,000 persons it is difficult to establish efficient size manufacturing plants oriented toward local consumption which can compete with production from the Mainland.

## PUERTO RICO REAL PER CAPITA PERSONAL INCOME



There is no question that expenditures by the Federal government in Puerto Rico for goods and services as well as transfer payments primarily to veterans have been beneficial. However, since a major part of these expenditures were related to defense activity, the possibility of reduced troop strength has always been a "Sword of Damocles" over the Puerto Rican economy.

While the free movement of peoples between Puerto Rico and the United States has been a decisive factor in stabilizing the population and preventing increased unemployment, there is a danger that the Puerto Rican economy may lose portions of the better educated and more skilled segments of its labor force, just when the opportunity for a major step forward in economic development becomes possible.

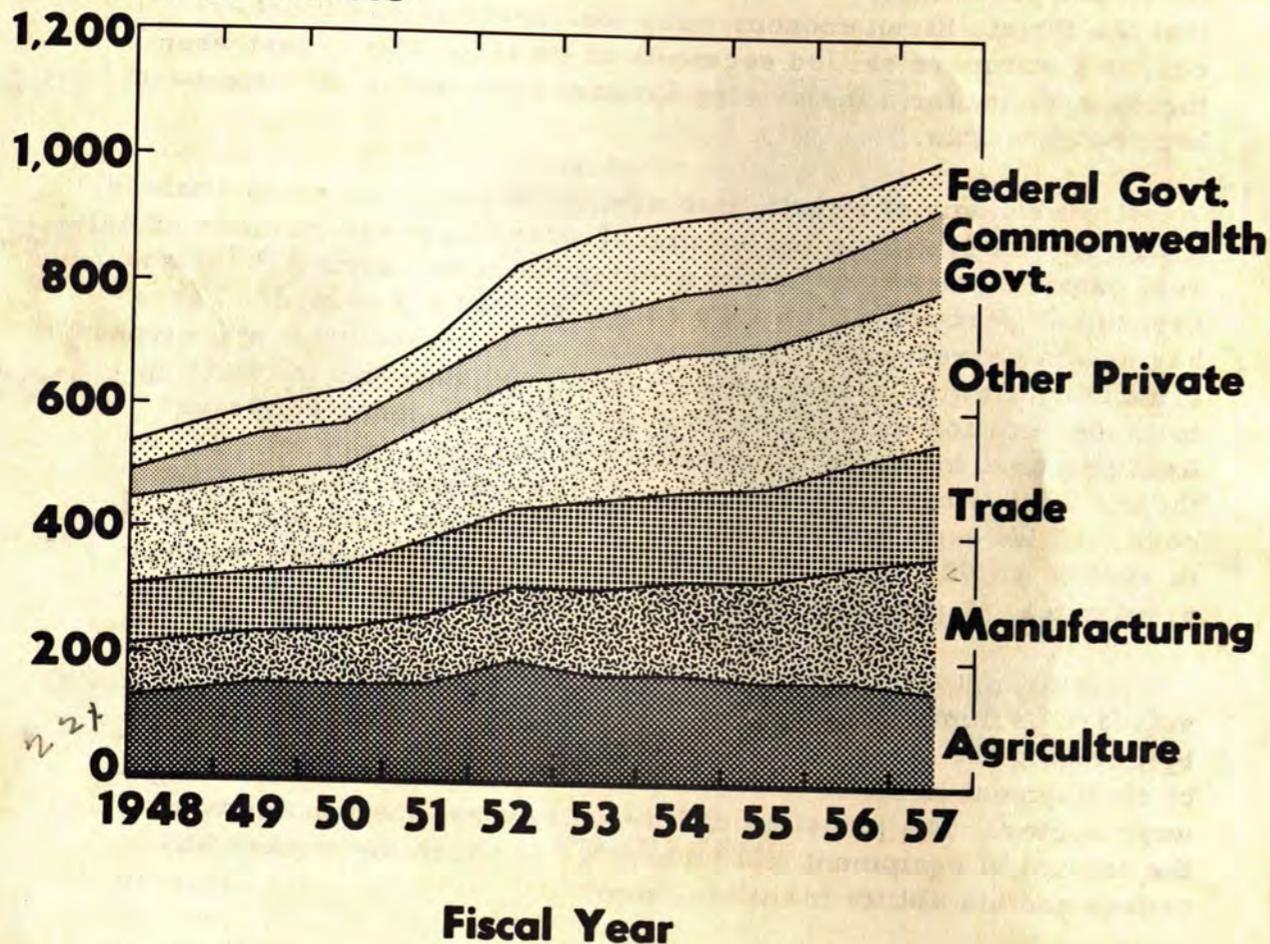
The economy of Puerto Rico during the last decade has attained a high rate of growth in the volume of total output and incomes. Total real output as measured by the gross product in constant dollars increased 69 percent, an average annual rate of 5.4 percent. There has been a corresponding increment in payrolls and most other types of incomes flowing to individuals. Total personal income went up to \$1,064 million in 1957, or \$468 per capita in today's prices. Real personal income per capita rose by 70 percent. Reflecting the rising flow of consumer income, total personal consumption continued its expansionary trend with an advance from \$651 million in 1947 to \$1,021 million in 1957. The gain in real terms was approximately 57 percent during this ten year period.

This rapid improvement in the levels of income and in the standard of living of the people of Puerto Rico was accomplished by changing the structure of the economy so that the preponderance of employment in the low-wage sector has been shifted to the high-wage sector. The principal difference between the two sectors is the amount of equipment and technology to which the worker has access and his ability to utilize them.

The change in structure of the Puerto Rican economy is revealed by the net Commonwealth income generated in individual industries and of the labor force by industries. Perhaps the most significant development in the industrial complex of Puerto Rico has been the increase in the relative importance of manufacturing in terms of net income. Manufacturing accounted for 15 percent

## PUERTO RICO NET INCOME BY INDUSTRIAL ORIGIN

Millions of Dollars



of the total ten years ago, and has since been increasing steadily until in 1957 the proportion was 21 percent. The year 1956 may be considered a turning point in the development of Puerto Rico's economy since the income generated in the manufacturing sector surpassed that of agriculture for the first time.

The volume of agricultural production has shown no substantial increase during last decade. Ten years ago agriculture contributed about one fourth of the total net income. Currently agriculture accounts for less than one sixth of the total income produced. The total value of farm production for fiscal year 1956, the latest year not seriously affected by adverse weather conditions, was placed at about \$221 million, an increase of only 19 percent over 1947. Some sectors, notably milk, coffee, beef and vegetables showed increases but these were partially offset by declines in legumes, fruits and other minor crops. Income from sugar cane has been subject to ups and downs during the last ten years, but is now at about the same level as ten years ago.

Net income generated in manufacturing advanced about 16 percent during each of the last two fiscal years. If the agriculturally based manufacturing industries, namely sugar milling and tobacco stemming are excluded, the annual rate of increase in net income was about 22 percent. The movement away from agriculturally based industries is not a new phenomenon, but has been taking place for some time.

In recent years the growth in manufacturing industries in Puerto Rico can be attributed to the factories promoted under the Economic Development Program. As of June 1957, there were 455 new plants in operation under this program and because of the great acceleration during the last fiscal year in the rate of promotions, the number of plants to be in operation by June 1958 is estimated at 570. New industries account at present for about 50 percent of the total employment in manufacturing. These new firms are oriented toward the export market. In the 1930's the sugar mills were the only significant establishments which produced for the U. S. market. Now Puerto Rico is attracting manufacturing establishments on the basis of advantageous geographical location and political association and, in addition, on the basis of a rapidly growing local market and a rapidly developing skilled labor force.

*Fed. Govt. Net Income out of over 200 million*

As a consequence, Puerto Rico is taking on the character of an international trading economy as revealed by the percentage of its gross product which it exports and imports in the form of goods and services. Ten years ago 48 percent of the gross product was exported. Today 58 percent of the gross product is exported. Purchases from the rest of the world amounted to 69 percent of gross product a decade ago. Today such purchases amount to 75 percent of the gross product.

In addition, there is some evidence that indicates that Puerto Rican manufacturing is entering a second stage of diversification. In underdeveloped areas, manufacturing activities usually tend to be closely associated with agriculture and relatively simple apparel manufacturing such as home needlework. During the first stage of diversification and development, apparel activity expands, shifting gradually from the homes to factories. Apparel output may exceed domestic needs and a large export market may develop. The main strength of this development rests upon the previous skills created by the home industries and the existence of relatively low wages. The home needlework industry may continue to flourish for a time and agriculturally based industries may expand somewhat as a few new products are added.

The second stage of growth involves the manufacture of new products which depend less on low labor costs and which tend to utilize higher capital investment. The attraction of these industries to the developing area may be in terms of earnings on investment rather than on a differential in costs of production. Thus, incentives such as tax exemption may prove to be more important than extremely low wages.

The construction industry has been one of the most dynamic sectors of the Puerto Rican economy during the last decade. Construction value put-in-place amounted to \$1,056 million during the decade ending in 1957. Housing construction during this ten year period has been valued at \$386 million, or about one third of the total. Most of the financing of this construction was obtained abroad, primarily loans guaranteed by the Federal Housing and the Public Housing Administrations. Up to 1957 the public housing authorities in Puerto Rico have provided roughly 20,500 dwelling units with an estimated value of about \$100 million.

Construction of productive types of facilities, such as industrial plants, generating stations and the like, registered the greatest rate of expansion. For the period 1948 to 1957 inclusive nonresidential construction was valued at \$670 million, of which \$190 million was performed by the private sector and \$480 million by the government sector in power plants, aqueducts, sewers, roads and schools.

The role of the Commonwealth government in the economic activity of Puerto Rico has been consistently expanded during the last decade. The net income originated by the Commonwealth and local governments more than doubled during this period reaching a level of \$133 million in 1957. On the other hand, the Federal government activities in Puerto Rico have fluctuated significantly as a result of expansions and curtailment of defense programs. This sector contributed seven percent of the total net income of Puerto Rico, or \$75 million and is not expected to grow.

The substantial progress registered in the primary sectors of the economy was also reflected in the supporting sectors of the economy such as trade, public utilities, finance and services. The net income originated in these other sectors expanded from \$253 million ten years ago to \$466 million in 1957, an increase of 84 percent.

Within the last decade the natural increase in the population of Puerto Rico was reduced from 64,300 to 59,200 in 1957 as the result of a drop in the crude birth rate from 42.2 to 32.9 per thousand while the death rate declined from 12.5 to 7.0 per thousand. The high level of migration to the United States mainland, of approximately 46,000 per year as an average for the last ten years, has maintained the population almost stable at a level of about two and a quarter million. While there was a slight increase in the population of labor force age, participation rates declined, with the net effect that the labor force was reduced by approximately three percent to a level of 636 thousand in 1957. During this same period employment also declined by four percent and unemployment still stands at the high level of 84 thousand or 13 percent of the labor force. Considering that during 1951 the average annual unemployment reached a peak of 110 thousand the present level represents substantial improvement.

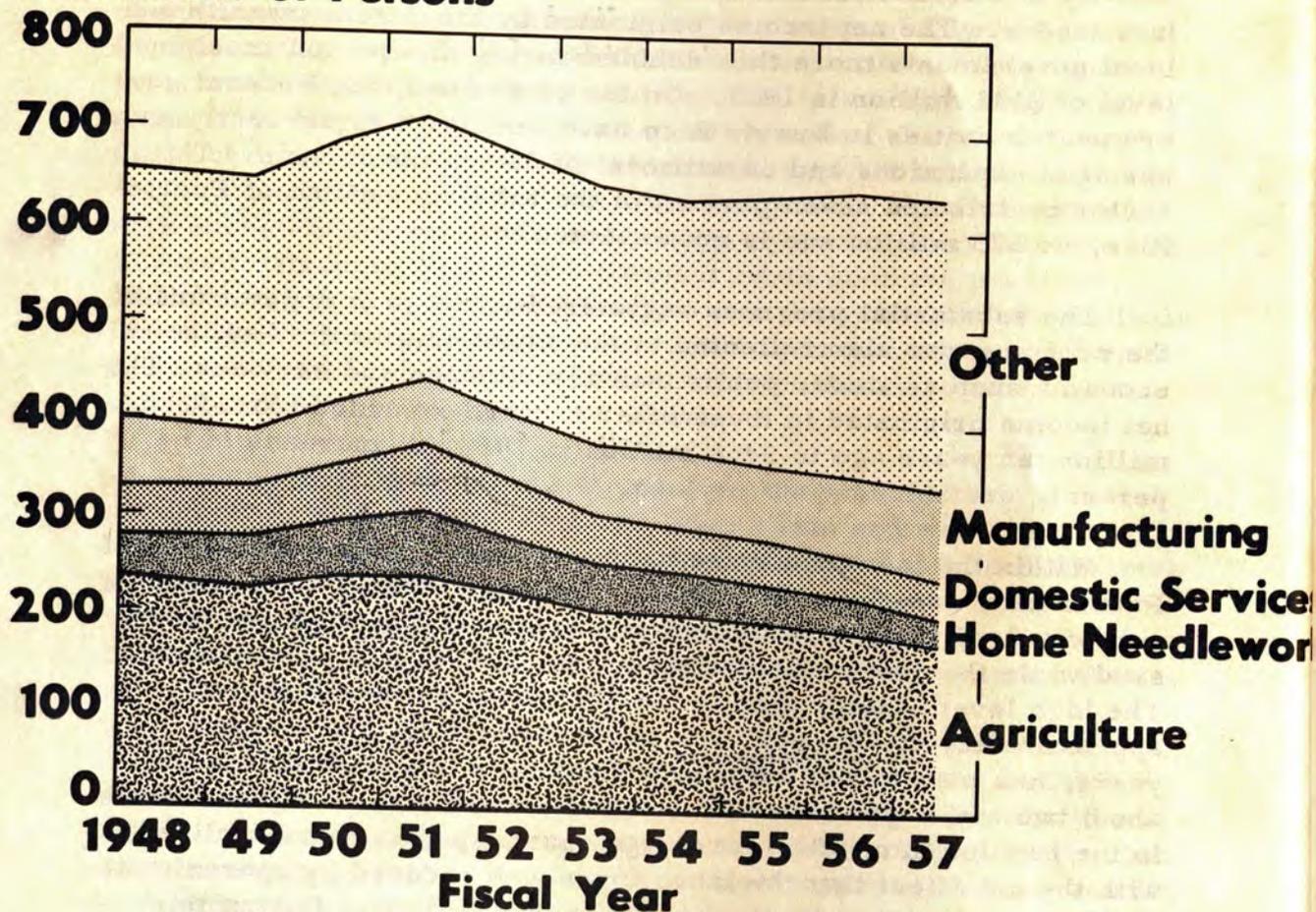
3-1970

4,000

30.6

## PUERTO RICO LABOR FORCE BY SELECTED INDUSTRIES

Thousands of Persons



Adjustments in the composition of the labor force which reflect the changing industrial structure are moving in the direction to be ultimately expected. While it is difficult to say whether the withdrawals from the labor force are a result of lack of employment opportunities or shifting to better spheres of employment, it is apparent that the rather drastic changes which have been occurring in particular sectors since 1951 have not resulted in increased unemployment as unemployment dropped by 26 thousand during the last six years.

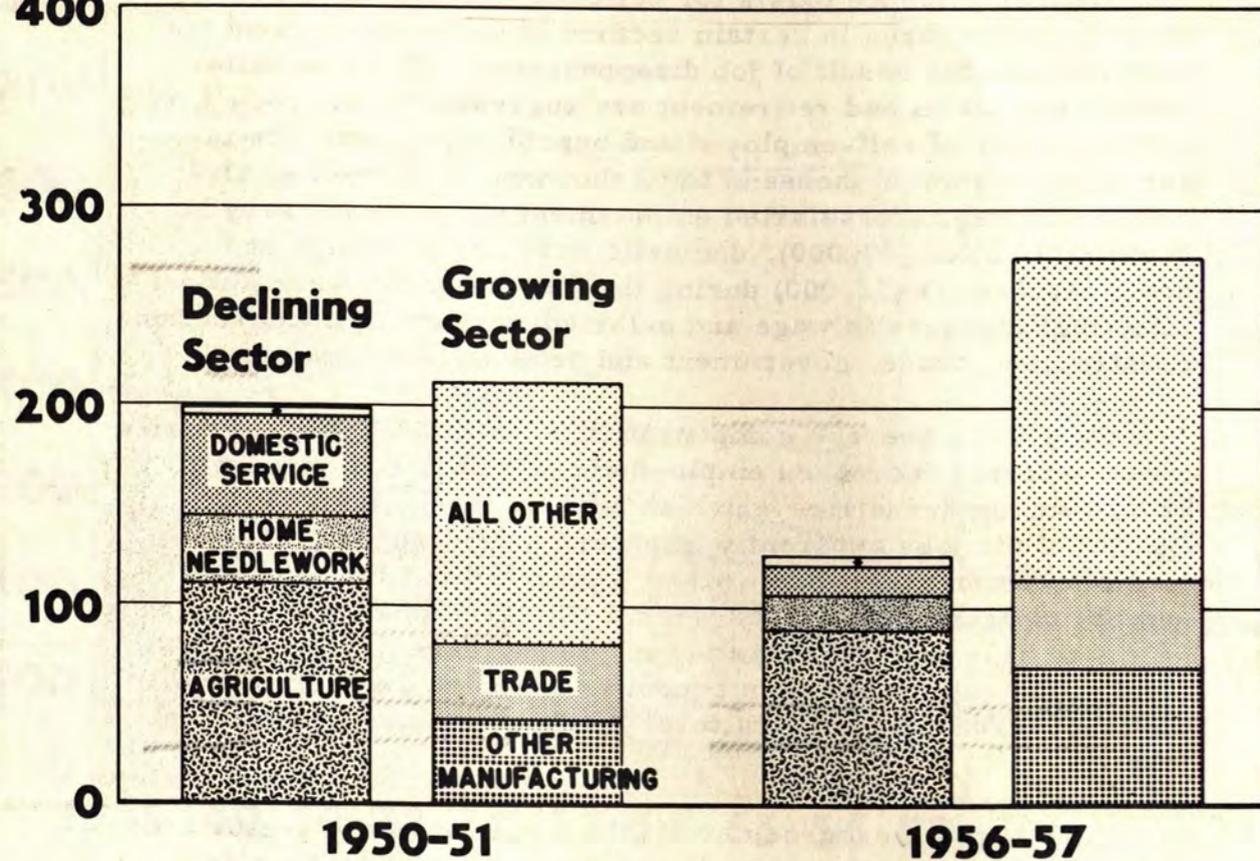
Further evidence exists for believing that the withdrawals from the labor force in certain sectors of the economy have not been entirely the result of job disappearance. Shifts to better jobs or migration and retirement are suggested by the reduction in the number of self-employed and unpaid family workers in agriculture from 90 thousand to 62 thousand in six years. Decreases in wage and salaried employment which were heavy in sugar cultivation (27,000), domestic servants (15,000), and home needlework (32,000) during the last six years were almost offset by increases in wage and salaried workers in manufacturing, construction, trade, government and professional services.

In 1957 the average compensation of workers in the industries which reported decreased employment was \$671 compared with \$2,116 for the industries which showed increased employment. Quality of the jobs apparently improved as measured both in terms of number of weeks worked a year and in terms of the number of hours worked per week. This is a tendency which seems to have been accelerating in recent years. The improvement in job quality has been accompanied by an overall shift of the labor force out of agricultural jobs and into non-agricultural jobs.

If the human resources available to the low-wage sector are reduced, the utilization of tools and other aids for improving productivity will become worthwhile. As a result wages paid to the remaining employees in the low-wage sector will continue to rise until they meet the prevailing rate in the high-wage sector. The speed with which this equilibrium will be accomplished depends upon the ability of the high-wage sector to grow. In any economy the ability to expand output in the high-wage sector by adding new units or by transforming selected parts of the low-

### PUERTO RICO NUMBER OF EMPLOYEES IN DECLINING AND GROWING SECTORS

Thousands  
400

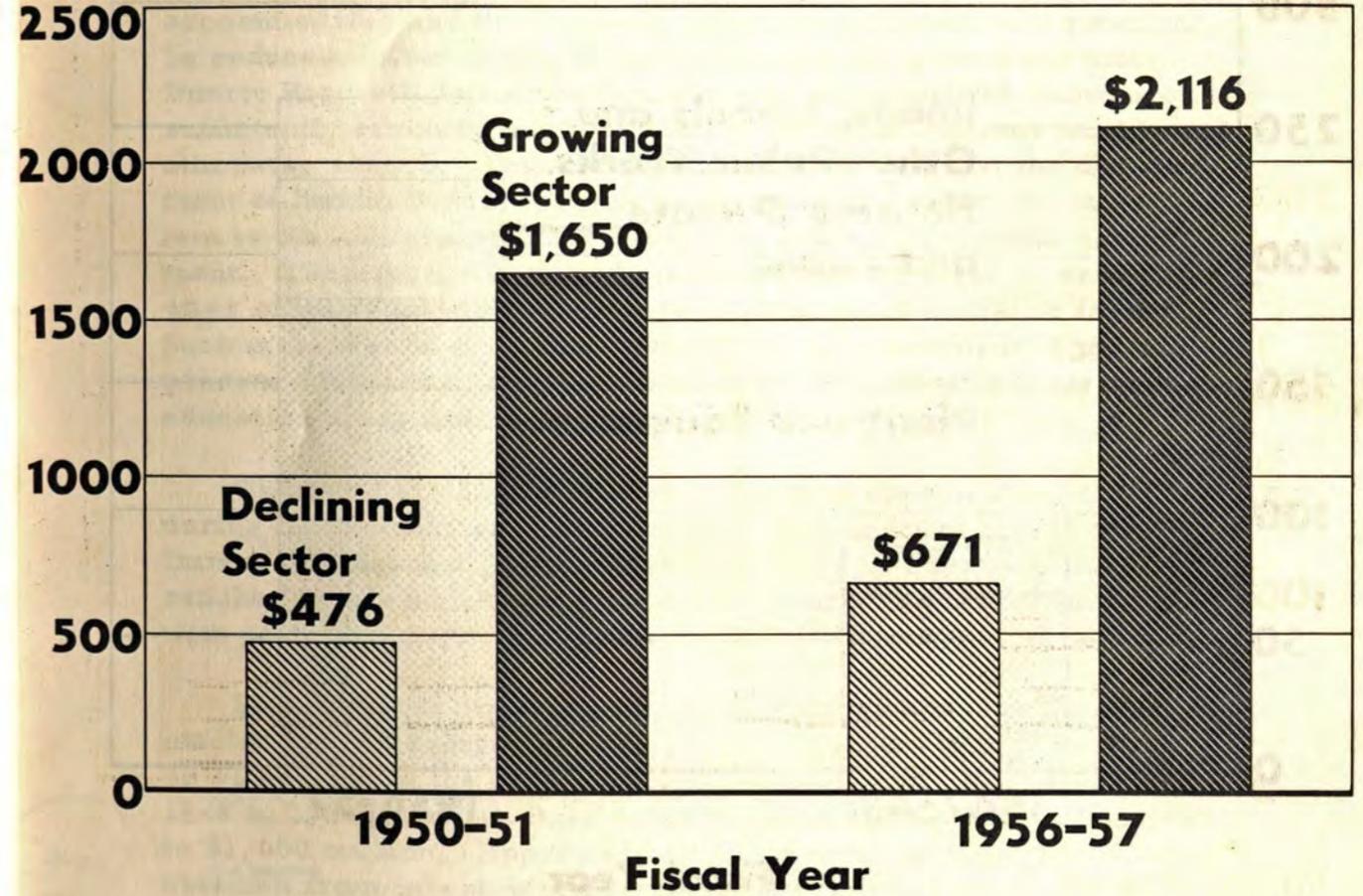


\*TOBACCO STEMMING

Fiscal Year

### PUERTO RICO COMPENSATION PER PAID EMPLOYEE IN DECLINING AND GROWING EMPLOYMENT SECTORS

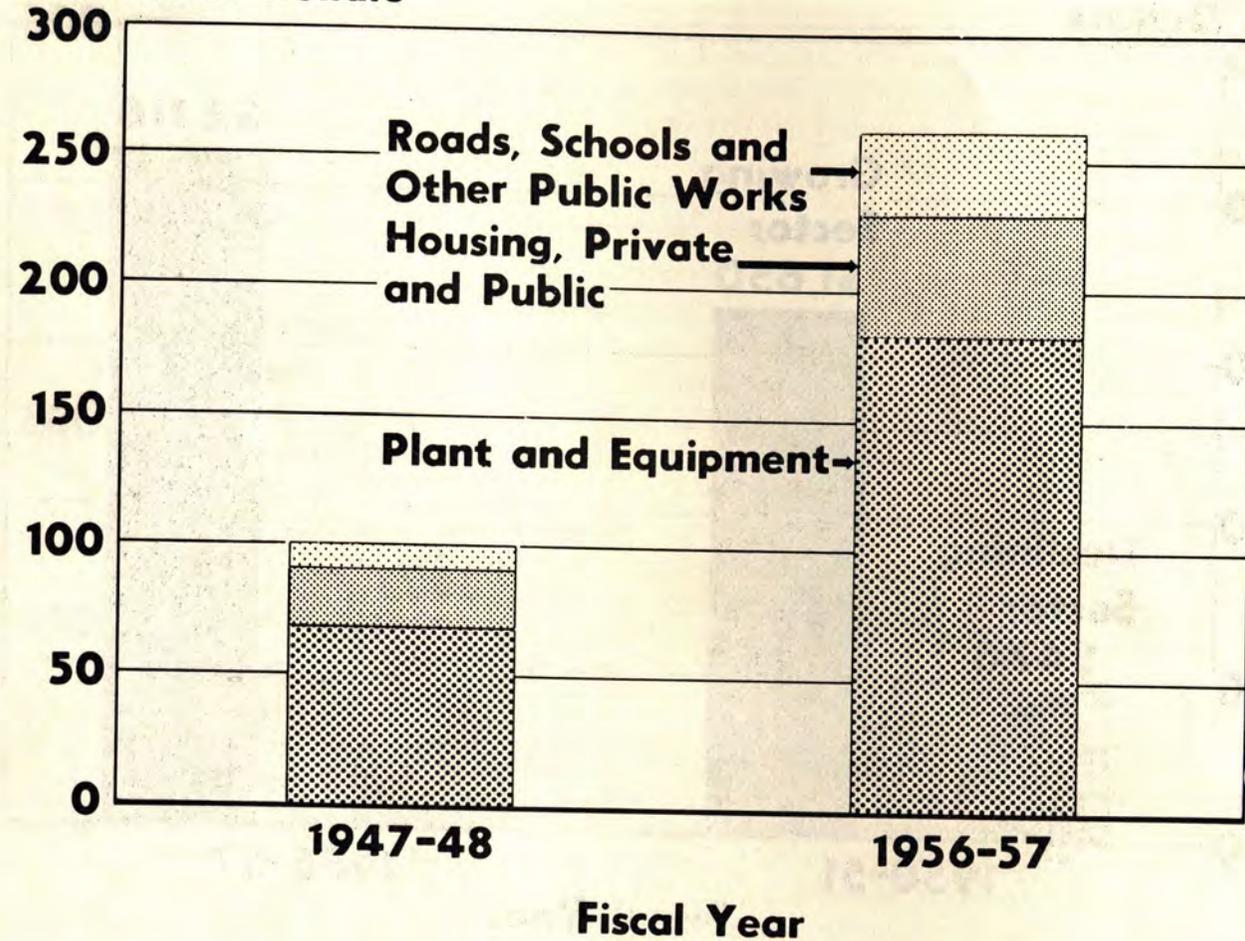
1954 Dollars  
2500



Fiscal Year

## PUERTO RICO FIXED INVESTMENT

Millions of Dollars



*\$3.50 per day / sugar  
70-100  
120,000*

wage sector, through the addition of capital equipment or other means of increasing productivity, depends upon the growth of effective demand for the output. Increased mechanization should only take place when justified by demand and when wages are rising as the result of a shift in structure of the economy, thus making increased mechanization desirable from the standpoint of operating costs.

One of the most urgent problems confronting the Commonwealth government in the next few years is the expansion of the public school system so that the entire school population can be accommodated and the drop-out rates for all levels of education be reduced. Even if this is accomplished, it is believed that Puerto Rico will fall somewhat short of providing the number of sufficiently educated workers that its growing economy might otherwise absorb. This circumstance indicates that the development of human resources may prove to be the most crucial problem in the achievement of the desired rates of economic development. Therefore, continued attention must be given to devising ways of upgrading the educational standards of the labor force. Such measures may include not only the improvement of the present educational system but a major expansion of adult education programs.

The most significant economic development in Puerto Rico during last decade was the extremely high level of investment. During the last few years investment rates in Puerto Rico reached levels which are typical of advanced industrial nations with potentials and resources for the investment of capital goods.

Investment in fixed capital goods such as new construction, machinery and equipment during 1957 amounted to \$262 million, or 21 percent of the total output of the economy. For the period 1948 to 1957 inclusive fixed investment in Puerto Rico amounted to \$1,600 million. Approximately 40 percent of these funds was obtained from investment sources in the United States.

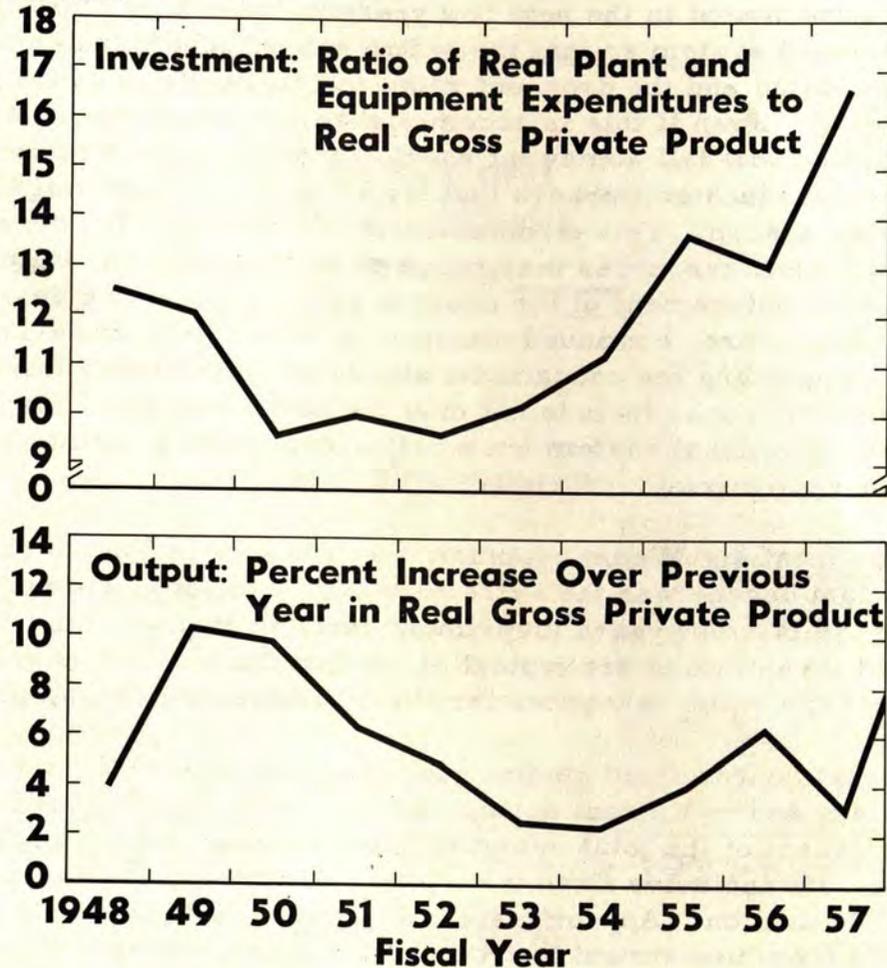
*Only in JAPAN, GERM. - reconstruction*

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The principal sources of local savings are the funds generated by the government, depreciation reserves and undistributed corporation profits. It is becoming apparent that the higher level of industrial activity is beginning to supply a large proportion of the funds required to meet the investment needs of the economy.

## PUERTO RICO INVESTMENT AND OUTPUT

Percent



Although the overall rate of investment is important, the ability of an economy to grow depends upon the composition of the investment. During this last decade Puerto Rico invested in plant, machinery and equipment approximately \$960 million. The government public authorities, namely, the Water Resources Authority, the Aqueduct and Sewer Authority and the Industrial Development Company contributed greatly to this high rate of capital formation.

The growth in output, particularly, the long-term average growth, will be determined chiefly by the rate at which existing technology, machinery and equipment and managerial skills can be combined with the economy's progressive and expanding labor force. Output gains from year to year appear to be directly related to the rates of investments.

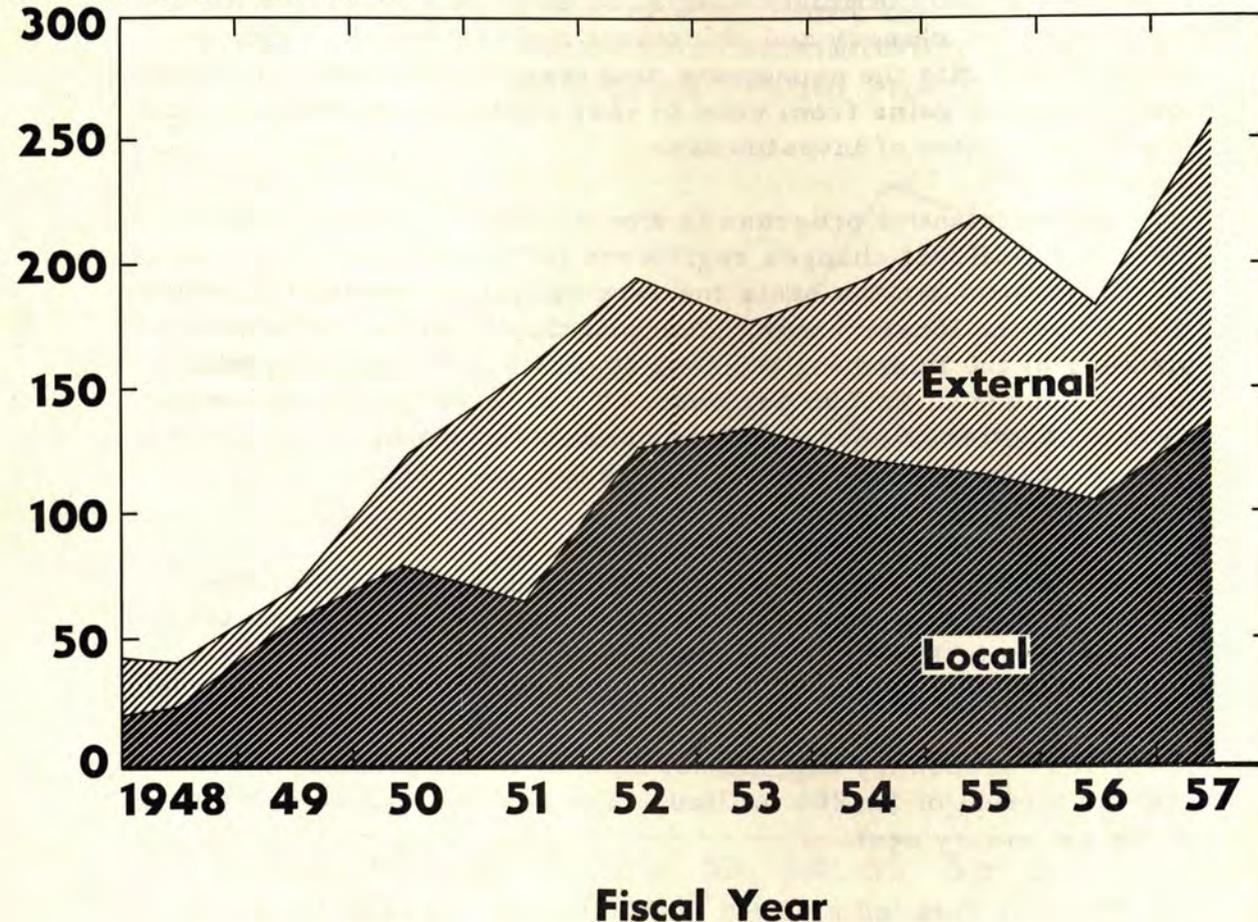
The substantial progress in Puerto Rico during the last decade and the significant changes registered in the structure of the economy have provided the basis for very optimistic economic projections over the longer range. The principal goal for the economic planning of the Island for the next 20 years is to reach a minimum family income of \$2,000 per year. To achieve this objective the total production of goods and services in Puerto Rico is expected to increase to \$3,800 million in 1955 prices, and the net income to rise to \$3,200 million by 1975.

Analyzing the structural interrelations among the different industrial sectors, that is, the effects that the primary sector of the economy of Puerto Rico--manufacturing, agriculture, construction and government--have upon the secondary sector, it was calculated that to reach a level of net income of \$3,200 million in 1975, it is necessary that the net income of the primary sector achieve a level of \$2,200 million. The balance will be originated in the secondary sectors.

Through detailed studies, the potentialities of development of each sector have been estimated. To attain the needed increase in net income of \$1,600 million in the primary sector, manufacturing income would have to rise by \$1,200 million between 1957 and 1975. This, of course, requires an enormous expansion in factory production, but recent rates of growth of this sector are in accordance with this goal.

## PUERTO RICO INVESTMENT BY SOURCE OF FUNDS

Millions of Dollars



Although this probable rate of growth entails an average annual rate of increase of about six percent, it is expected that the level of employment will not rise at that same rate. Productivity will register a substantial increase, not only as a result of productivity changes within each sector, but also as a consequence of the expected change in industrial composition with a stronger participation of those industries characterized by higher productivity.

With these increments in output and productivity of each of the specific sector, the economy will require a level of employment of about 800,000 in 1975. A continued decline in employment is expected in agriculture, home needlework and household services, but these contractions will be more than offset by substantial increases in manufacturing and other sectors. It is estimated that in 1975 the labor force will be just slightly higher than the available employment opportunities.

The attainment of these production, income and employment goals would mean an average annual family income of \$5,400. At the same time, practically all families in Puerto Rico will have an income of \$2,000, an achievement which was realized in the United States, only within the last few years.

## PUERTO RICO LOCAL SAVINGS BY SOURCE

Item	1948	1951	1954	1957
<b>Total</b>	<b>23</b>	<b>64</b>	<b>120</b>	<b>136</b>
<b>Business</b>	<b>31</b>	<b>64</b>	<b>81</b>	<b>103</b>
<b>Depreciation</b>	<b>26</b>	<b>42</b>	<b>57</b>	<b>82</b>
<i>Reserves</i>				
<b>Undistributed Profits</b>	<b>5</b>	<b>22</b>	<b>24</b>	<b>21</b>
<b>Government</b>	<b>18</b>	<b>35</b>	<b>45</b>	<b>50</b>
<b>Individuals</b>	<b>-26</b>	<b>-35</b>	<b>-6</b>	<b>-17</b>

