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PUERTO RICO PLANNING BOARD
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ECONOMIC DEVELOPMENT AND UNEMPLOYMENT

I have taken the liberty of changing to an extent the topic announced in the program. Since recently there has been a great deal of public discussion about population growth in general and unemployment in particular, I feel that it is appropriate to elaborate on the latter at this time.

All of us have felt the satisfaction of seeing our island surge ahead economically. Success was obtained through efforts to prime the economy. It came about in spite of the countercurrent of an economy which had not yet achieved the means of self development.

Proof of our successful economic growth is that the gross national product increased at the median rate of 5.4 per cent per annum during the past decade. This growth rate is in itself indeed encouraging. And it is even more encouraging when the serious obstacles appearing between 1953 and 1957 are taken into consideration. It was during this period that a vital sector of the economy -- the sugar industry -- suffered a sizable contraction, acting as a strong brake on economic growth.

It might seem that an economy with \$1,713.1 million G.N.P. in 1960 (in 1963 prices), should have a considerably more manpower than a decade earlier, when the gross national product scarcely exceeded \$1,000 million. One might think that an increase of approximately 70 per cent in the real product would be accompanied by some increase in employment.

Statistics, however, show quite a different trend. In 1960, 53,000 less workers were employed than at the beginning of the decade, nearly 10 per cent less. These cold statistics do not explain the nature of the

change. Those of us who are acquainted with economic growth know full well that a sizable number of relatively well paid jobs have been created in Puerto Rico.

The Industrialization Program participated directly in generating 38,000 new jobs in newly created factories during the ten year period.

In government, in the construction industry, in the entire service sector (with the exception of domestic service), and in all the dynamic sectors of the economy 68,000 additional jobs were created. In other words, 106,000 jobs which generally require more training and, which of course, are better paid, were created. By way of explanation, let me say that when I refer to dynamic sectors or industries I include, among others, government, manufacturing, construction and services in general.

The explanation of an apparent contradiction -- great economic growth, but decreased employment -- is that employment decreased in various significant sectors of the economy. They were, for the most part, sectors which provided poor remuneration or were low on the job preference scale. These sectors are: 1) agriculture in general, 2) the home needlework industry, 3) domestic service, 4) the traditional apparel industry, 5) the traditional labor intensive tobacco preparation industry, 6) small, independent merchants and street vendors.

A seventh sector where the labor force shrank must also be mentioned: the sugar mills. Here decreased employment was natural. It occurs in any industry with stable production undergoing rapid mechanization in order to increase its efficiency.

In 1950, these seven sectors provided 372,000 jobs, 62 per cent of all employment in Puerto Rico. During the course of the decade, employment in these seven sectors was gradually reduced so that by the end of the

decade, about 159,000 jobs had disappeared or about two fifths of jobs available at the beginning of the decade.

Thus it must be concluded that during the past decade, 106,000 new, well-paid jobs were created as a result of the economic development of Puerto Rico. Simultaneously, 159,000 jobs in agriculture and other poorly remunerated areas of the economy disappeared. The net result was a decrease of 53,000 jobs.

This decrease in the absolute number of jobs available, however, was accompanied by an even greater decrease in the labor force. When, at the beginning of the past decade, mass migration to the mainland began, many Puerto Rican young people, who would otherwise have begun to fill the ranks of the Puerto Rican labor force, started to swell the wave of those going to the mainland to work.

The result of this surge of Puerto Ricans toward the mainland was a decrease in the island's total labor force during the past decade or some 60,000 persons. This, obviously, reflected favorably on the island's unemployment rate. Unemployment in Puerto Rico decreased from 88,000 in 1950 to 80,000 in 1960. As the labor force also decreased, the unemployment rate remained virtually unchanged -- 12.9 per cent in 1950 and 12.8 per cent in 1960. The characteristics of the unemployed did not show any significant change. In both 1950 and 1960, young people were predominant. At the beginning of the past decade, 42 per cent of the unemployed were those under 24 years of age, and that group has continued to predominate.

At the beginning of the present decade-1960-70-- the situation in Puerto Rico, at least regarding employment, has been very different.

First of all, the dynamic sectors of the economy showing a strong growth rate in the past decade provided a relatively high number of jobs. Roles have been reversed. The dynamic industries provided 330,000 jobs-- 61 per cent of employment --, approximately the same per cent provided ten years earlier by the declining or stagnant industries.

It is significant that because of the low initial employment level of the dynamic industries in the past decade, a growth of 4.7 per cent per annum provided only about 10,600 new jobs per year.

If the rhythm of growth in the decade 1960-70 continues at the same rate during the past decade, the annual increase of employment will be significantly higher. In addition to the increased potential for the creation of employment this decade, two other significant factors related to employment arose.

In the first place, between 1959-60 and 1962-63, the economy showed an annual rate of increase considerably greater than that obtained during the past decade. Last fiscal year Puerto Rico's net income in constant dollars increased 9.7 per cent. The net income of the preceding year showed a similar high rate of increase. Just as expected, this increase in economic growth was reflected in the rate of job creation in the dynamic industries group.

While during the past decade, the average rate of annual increase in employment in the dynamic industries was 4.7 per cent, during the first three years of the present decade the annual rate of increase in employment in these industries was 5.5 per cent, adding 18,300 new jobs to the economy each year. These new jobs created annually in the dynamic industries, represent almost twice those created annually during the past decade. This was the principal reason permitting Puerto Rico to face the

recent substantial change in migration.

Since 1960, net out-migration has fallen to next to nothing when compared to the out-migration rate of the past decade. As a matter of fact, in the calendar year 1963, more people entered Puerto Rico than left the island. In the past three years, as a result of the brusque halt in net out-migration, the labor force, which had decreased sharply during the preceding decade, showed a rapid rate of increase. While during the last decade the labor force showed a decrease of 60,000 in the first three years of this decade the labor force has shown an increase of 70,000; -- an average of some 23,000 a year.

Formerly, when the dynamic industries could create only 8,000 to 10,000 new jobs a year, the curtailment of out-migration would have had serious repercussions on unemployment. Nevertheless, in the past few years the unemployment rate has not increased in spite of the unprecedented growth in the labor force. This fact stands out: the unemployment rate remained at the same level in 1963 as in 1960. It should be noted that in absolute terms, as the labor force increased, the absolute unemployment also increased from 80,000 in 1960 to 89,000 in 1963.

When facing the future, we can now count on one sector, the dynamic sector which has attained respectable size. This sector has the following characteristics: its employment has increased as have its efficiency and techniques; in general, its level of production is reasonably high. It is expected that the future economic growth will provoke substantial increases in production. This increased production will be the factor which will permit the simultaneous increase in productivity and employment. The basic challenge of economic development is to stimulate the economy to achieve a high rate of increase, so that the generation of employment in

these industries be substantial. This tends to be the more or less orthodox method suggested for alleviating unemployment.

In the "Report of the Joint Economic Committee, Congress of the United States, on the January 1963 Economic Report of the President," the following question is asked: "What is the magnitude and speed of the expansion necessary if the economy is to reach full employment in the foreseeable future?" The answer was that in order to achieve full employment by the second quarter of 1965, the gross national product would have to increase during those two and one half years at a rate of 7.4 per cent per annum.

The Puerto Rican economy is growing even faster than the ideal rate calculated for the U. S. As a matter of fact, Puerto Rico's G.N.P. has recently averaged about 9 per cent per annum. It might be argued that the orthodox solution of increasing the economic growth rate also applies to Puerto Rico, and in this case, it would be necessary to speed up the economic growth rate to well above 9 per cent.

Given the average economic growth rates in most areas of the world, it does not appear to be easy to increase the already high rate achieved in Puerto Rico.

Thus it seems that the problem of the utilization of human resources in Puerto Rico must be met in two ways: a) with the orthodox method of maintaining a rapid economic growth rate and b) with the complementary method of applying special direct measures.

Regarding the first method, achieving a rapid growth rate so that spontaneous generation of jobs in the economy will absorb a substantial part of the new labor force, the task is difficult; however, we are confident that we can do it. Our experience has been favorable and the results encouraging. The will to continue stimulating vigorously our

economic development is there. The economic development strategy applied by Puerto Rico is obviously successful. The principal factor in this economic growth is the strong will to progress of the government and of everyone else in Puerto Rico. This firm determination is what pushes us forward today and which will continue to stimulate strong industrial development in the future.

We propose to achieve the following industrial development goals:

a) to increase income generated by the industrial sector from \$433 million last year to \$880 million in 1970 and b) to provide 110,000 Fomento factory jobs by 1970. It means that some 50,000 additional jobs will have to be developed in Fomento factories in the coming seven years.

A great effort to continue industrializing will have to be made in order to achieve these goals. The creation of 50,000 new jobs in seven years is no easy task, especially when a reasonable and continuing increase in productivity and salaries is also a basic objective. Nevertheless, considering past achievements these goals seem reasonable, but they require that the industrialization program remain ongoing.

In addition, we should develop to the utmost our agricultural potential, create the basic infrastructure which provides a firm foundation for development, and maintain, in general, that basic, intangible factor, a favorable development climate.

These are weapons we shall continue to use. If Puerto Rico's net income was \$1,811 million last year, we plan to produce a net income of at least \$3,110 by 1970. Regarding employment, the group of dynamic industries which in 1960 provided 330,000 jobs will provide 540,000 in 1970. The challenge is great, but past experience makes us optimistic that we shall achieve it.

The orthodox growth method, however, will not be sufficient. Let us consider the employment and unemployment statistics applied to 15, 16 and 17 year olds. This is an age when education and the acquisition or extension of training is essential. Usually at this age, ties with the labor market are extremely tenuous. Young people in this age group enter and leave the labor market frequently. This casual relationship with the labor market stems from the fact that most of these young people have no economic responsibilities nor dependents to provide for. These are the so-called "marginal workers", thus named to distinguish them from older people who, because they are heads of families and have economic responsibilities, also maintain a more permanent, stronger relationship with the labor market.

The idleness of these young people who drop out of school early is a serious problem in Puerto Rico. Obviously the priority the government has given to education for many years and the resulting increase in the number of adolescents remaining in school has considerably mitigated the serious evil which formerly existed. In 1940, for example, only 13.6 per cent of the adolescents between 16 and 18 attended school. Today, 46 per cent of them are in school. Even though the degree of the problem has diminished considerably, the problem continues to exist. The number of young people between the ages of 16 and 21 who neither attend school nor work is estimated to be 40,000.

It is toward these youths from 16 to 21 that the plan of action proposed by the Governor in his message to the Legislature early this week is directed. The plan aims at broadening their formal education, inculcating desirable work habits and providing the necessary training.

But a greater effort is required. School attendance and retention

must be considerably encouraged, -- and more important, genuine interest in learning -- in every way possible. I add, should not school attendance up to age 14, for example, be universal?

The third group for whom spontaneous growth can provide jobs only with difficulty are older people. These people presently are employed mainly in agriculture and have a difficult time obtaining employment during the dead season. We foresee that for those in this group who have limited education, the economy acting by itself will not provide adequate employment, either in quantity, in location or at the proper times. Public policy on expenditures will take into consideration this situation and will tend to alleviate it as suggested in the Governor's message.

Peculiarities of our unemployment

One of the peculiarities of unemployment in Puerto Rico is precisely the short length of time it lasts, compared with the United States. I speak of the short duration in the sense that many who are unemployed in one week worked in the preceding week or the one before.

For example, in July, 1963 a special survey was made of unemployment, and it disclosed that long-term unemployment, unemployment of five weeks or more, affected only 5.2 per cent of the Puerto Rican labor force. Long-term unemployment in the United States for the same period was 4 per cent. The rates between U. S. and Puerto Rico were quite similar. The difference is much smaller than that observed in the general rate of unemployment.

One of the distinguished members of the Bankers Association, Mr. Roberto de Jesús, expressed last year concern on the unemployment statistics in a speech before the Chamber of Commerce. He proposed that some additional questions should be included in the labor force survey questionnaires to obtain better perspective. In later surveys, the Labor Department added

other questions, one of which was designed to analyze to what point unemployment in Puerto Rico is associated with extreme poverty. Some of the conclusions could be anticipated. The fact that a large part of those classified as unemployed were single, with little or no family responsibility, might lead to the conclusion that their families would not be affected much by this situation, because other members, the head of the family, for example, might be working.

The study to which I refer was made in the month of March. It consisted of questioning all families who had one unemployed person in March, as to what the family income had been for the year 1962. The conclusion was that almost half of the "unemployed" families had an income of \$2,000, which although not an adequate income is far from being considered in present day Puerto Rico an income reflecting indigence. The information from the March sample, however, is subject to the limitation that the employment was registered for but one month, not for the entire year. A similar study was made in 1953. In that study an "unemployed" family was defined as one in which at least one member had been unemployed in any of the four weeks of the survey which was taken in each quarter. The conclusion of that study was similar to the later one. It also showed that the majority of the unemployed did not belong to the families with the lowest incomes, but to families above the median income. The study reported the distribution of income of the families with no unemployment during the weeks of the survey. It was significant that the distribution of both groups of families was similar.

The 1960 census provides further corroboration of the fact that poverty in Puerto Rico is more closely associated with other factors than with unemployment as that term is ordinarily used. According to the 1960

census, there were about 159,000 husband and wife families with incomes under \$1,500. Only 6,000 of these families were headed by a man who was unemployed.

Thus it is evident that the basic criterion for the social policy of balanced income in Puerto Rico is not unemployment alone, but of effective family income. Nevertheless, unemployment, even though it be short-term and sporadic, must not be considered merely from the point of view of income. It must also be considered as part of the employment policy itself, which is guided by the principle that every person capable of working should find an available job. The obligation to work implies a right: the opportunity to work. Thus we must use three methods together to face the increase in our labor force: rapid economic development, education and training for young adolescents, and special measures for the adult workers who do not have the opportunity to benefit from jobs created spontaneously by development.