

ICA CONVENTION
January, 1958

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The principal natural resource of Puerto Rico, the land, has been quite thoroughly exploited for half a century. Those of you who know the Island, as a 35 x 100 mile thick mountain spine surrounded by a fertile but narrow plain, may be surprised to learn that our farm income per acre of arable land is nearly four times higher than it is in the United States.

Until fairly recently, the other main resource of Puerto Rico, the people, -2 1/4 million of them - were also rather thoroughly exploited. Perhaps more by consumers than by producers. Sugar worth many millions of dollars more than what was paid to the farmers and workers was shipped out profits, and invested in the cane lands and sugar mills. So, from 1910 to 1940, Puerto Rico suffered from a balance of trade of the kind that economists call "favorable".

The economists are not being intentionally sardonic. For many years after Adam Smith, only the rich, advanced countries could afford economists and for a rich country, a "favorable" trade balance is favorable. But for Puerto Rico, a "favorable" trade balance meant selling great quantities of sugar cheap, and buying dear a little rice, beans and codfish. Very little was left for productive investment by the people, and precious little new capital flowed in except for sugar mills, which served to perpetuate our dependence on cane.

Vote buying was politically effective, yet inexpensive, because the electorate was small and impoverished. To be sure, the Federal Government had provided some of the funds and technical know-how to help wipe out malaria and to install basic public health services. It had made a start toward universal public education and, in the depths of depression, it provided a creative kind of emergency work relief which many of us remember with deep and personal gratitude.

But in 1940, Puerto Rico was still an exploited, poverty stricken colony. I feel that I must emphasize the poverty, the lack of jobs, the electoral corruption (although there was never any administrative corruption to speak of) and the hopelessness because I believe that the change, when it did come and with at last a powerful helping hand from the United States, could not have been so great and so rapid had it not sprung from a past that was so intolerable.

Looking back over the years, I believe that with a sufficient show of initiative the Puerto Rican industrial development effort might have been started 30 years earlier. We were exploited politically and economically but I have a lingering suspicion that no small part of our exploitation was the result of our own inertia and of our inordinate preoccupation with the problem of political status to the detriment of social and economic betterment. Aggressive local leadership might possibly have gotten the United States to help an industrialization effort which might have been underway a generation earlier.

What brought hope to the people of Puerto Rico was the formation of a new political party and its victory at the polls in 1940, under the leadership of Luis Muñoz Marín. Governor Muñoz is, of

course, today a world figure. But I have heard him say, even quite recently, that he regards cleaning up the vote as the greatest contribution made by himself and his Administration to the people of Puerto Rico. Honest elections and honesty in government are an absolute prerequisite for economic development in a business world which is similarly based on good faith and mutual trust. Nevertheless, even an honest government does not automatically develop an economy, or create prosperity. We had an honest but somewhat ineffectual government in Puerto Rico prior to the advent of the Popular Democratic Party.

Moreover, in 1940 other things came first in Puerto Rico. People still had to be taught to hope. To many of them it came as a new idea that some part of their future, and more of the destiny of their children, lay in their own hands. An effective government structure then had to be built, and an orderly system had to be devised for planning public works and for dealing with the wartime emergencies of a people all but cut off by submarine blockade from normal supplies of food and fuel, not to mention new machinery and capital equipment.

Industrial development was a slow starter in Puerto Rico. Our political slogan "Pan, Tierra, Libertad," which translates as "Bread, Land, Liberty," has an agrarian ring to it and symbolizes a general faith in agriculture as the chief breadwinner for the country.

In its commencement our main industrial development effort which was not established until 1942, and did not operate with full effectiveness until 1948, was in planning, engineering, constructing, and, finally, operating five factories -- for cement, glass con*

tainers, paperboard, structural clay products, and shoes. These factories were intended to meet wartime shortages at home. Because of the postwar slump in rum sales, the glass and paperboard plants were overscale by the time we got them into production. The shoe plant priced itself out of the market trying to produce too many styles in uneconomical short runs. The cement plant, which had been purchased as a going concern from the Federal Government's relief agency, became profitable from the outset. But price setting and wage negotiations were understandably complicated -- a government-owned factory did not have the freedom of the market place; at the same time it had to deal with strongly organized employees. The balance of bargaining power understandably favored the workers, and inexperienced management did not help.

During this early period the Development Company did prove, however, that it was possible to produce something besides hand needlework and sugar in Puerto Rico. It also lent money and helped get a few privately-owned factories established. Nevertheless, by the end of 1947, five years after its establishment, a large part of its initial capital had been invested -- without appreciably denting Puerto Rico's problem. Unemployment was as high as before the War. It was to become even more serious during the next five years when renewed competition from Japan and the Philippines would kill off contract home-needlework. Even the hope of an industrial or a construction job was beginning to pull nominally employed subsistence farmers into the cities where they were officially counted as unemployed. The Development Company had created 2,000 jobs, but 200,000 were needed. Its investment was generating perhaps \$4 million a year of new income when something like another

billion dollars of income was needed.

The lesson of these first 5 years was that government capital and government know-how was too scarce and too limited to do a job that could even begin to meet the needs of the people. It was also becoming evident that existence of government-owned plants made the promotion of even non-competitive private ventures much more difficult. Initial investment by government in power, water and port utilities created public corporations which could soon become self-financing. But ten years ago, industrial development companies were not recognized as having the public utility status they are now beginning to earn. It was this dilemma that practically forced upon us what we now call "Operation Bootstrap".

Lacking the doctrinaire characteristics of socialist experiments in other lands and unable to face up to the job expected of it, the program called for a change and got it. We took two basic decisions: first, to use government funds, not as a principal ingredient, but as a catalyst; and second, to use tax incentives to attract private capital and the production and sales know-how that comes with it. This took some doing, just to make the change-over. We had to find buyers for the Development Company's plants, convince the Legislature that more capital appropriations were necessary, and organize ourselves for a different kind of development effort.

We also had to think through and enact tax-exemption legislation that would be an effective attraction for investors but would also be demonstrably equitable to existing industry in Puerto Rico and to community, business and labor interests in the United States.

I would not want to hold out our industrial incentives legislation, our minimum wage laws and procedures, nor the evolving structure of our development organization as universal models. But we are convinced by results that "Operation Bootstrap" is sound in its basic approach. In the 5 years before Operation Bootstrap we were able to establish 19 factories, an average of about 4 a year. The first five years thereafter resulted in 169 new factories, about 34 a year. The next five-year period ended this December. Following the same basic approach but with improved techniques and a larger organization, about 350 more plants have been established. This is an average increase of 70 new plants a year, after taking account of a mortality rate somewhat below the U. S. average.

Today, new factories are opening at the rate of 9 a month. On November 6, I attended a ceremony which I assure you never becomes boring, the start-up of a new plant. This one was "number 500" and it was established by the American Can Company. By the end of another year of Operation Bootstrap we expect to have 650 in operation. Our target for ¹⁹⁷⁵1957 is 2,500 new industrial plants-- and I have suspicion that with more than ordinary efforts we could do it by 1965 - barring a depression.

There is no magic in Operation Bootstrap, nor even in Puerto Rico. We have claimed on occasion that our climate is "as close to paradise as man will ever see"-- but I don't propose to press that claim before witnesses. Actually, industrial and tourism development is a serious, and exciting business. I recently visited our small Miami and Los Angeles offices. Earlier I spent several weeks working out of our larger offices in New York and Chicago. Not long ago we opened a small office in Frankfurt,

Germany which was immediately swamped by over 600 inquiries resulting from an advertising expenditure of less than \$6000. Our most recent survey shows that, in the United States, about half the executives of industrial firms have some familiarity with the tax and other incentives we offer. Many of them have already talked with our industrial representatives, learned something about Puerto Rico and seen the impressive earnings, the same before and after taxes, of the hundred or so different kinds of industries already operating successfully.

When a man goes to Puerto Rico to see for himself, we introduce him to plant managers, often in his own line of business. We show him modern factory buildings, highways and power plants -- the physical environment industry requires. We explain training programs, financial assistance, and our body of corporate and financial law. We get the facts on wages, materials, shipping, and other costs for his product, selling in his market. In many instances our technicians work out with him an estimated cost of goods sold in various markets from a plant located in Puerto Rico, as compared with other possible sites. Frequently we are the first to point out a decisive negative locational factor because our interest is in manufacturing success and to prevent a failure before a costly commitment has been made. About one project in four proves out, and our research staff continues to find new industrial opportunities within and alongside the industrial structure that is beginning to take shape.

Industrial development, like the development of agriculture or tourism, is a business. In many respects it resembles that

of a corporate holding company. It undertakes basic feasibility, product and locational research, seeks out more profitable inter-company relationships, diversifies product lines, consolidates financing requirements in large single issues and publicizes and promotes the corporate whole. Industrial development organizations like ours can and have learned much from the operating experience of industrial corporations, investment bankers, law firms and others who have been in the business longer than we have. And when they see fit to take over, we bow out as you will see later.

But first of all, an economic development organization is a public business, responsible within the government of which it is a part, to the people which it serves. Economic development is not its end purpose, but rather its weapon of attack against poverty. Its job is to generate more income for the entire population, particularly the families who have the least. They are its share-holders, and quite naturally they want the largest possible return on the smallest possible investment of public funds.

In minimizing its demands on public funds, Operation Bootstrap has been quite successful. Ten years ago the money invested in our Industrial Development Company had virtually no leverage, since its operating companies were owned outright. Today, 85% of the investment is private, and the total is far greater than government could possibly have afforded. Local businessmen are now entering the manufacturing field and they own and operate about 100 of the new factories, mostly the smaller ones, but a few of very substantial size. Continued pressure on available public funds recently pushed us into a special program to stimulate private construction of industrial buildings. This promises to

cut down still further the need for direct financial participation by the Government. Investment experience in our tourism program has been parallel. The Caribe Hilton, our first new hotel, was 100% government-financed. Now Intercontinental Hotels Corporation, a Pan American Airways subsidiary, is going to manage tourist hotels in which the Government has only a token investment, not only in San Juan, but in our second largest city, Ponce. The first one of these, El San Juan, opens this week.

In its "report to stockholders", Operation Bootstrap can also point to a quite favorable "earnings" record. Ten years ago the Fomento plants, as we call them, generated about \$4 million of Commonwealth Net Income. Last year they produced about \$200 million, a fifth of the Commonwealth's billion dollar total. The amount of income generated increased fifty-fold. The Government's investment however increased only about 4 times. Even though the corporate earnings and the property of the new plants themselves are exempt from tax, the Commonwealth Treasury has collected enough added revenue during the past two years from the additional yields of personal income taxes, excises and the like to amortize the entire investment made by the Government to date in Operation Bootstrap. Last year Bootstrap added about \$100 to average yearly family income.

This does not mean that we can relax. We still have only one-fifth of the 2,500 plants I mentioned earlier as needed, and \$200 million of new industrial income is equally far from our billion dollar industrial income objective. What it does mean is that we are now moving much faster towards these objectives.

We have learned that private capital, the larger part of it from the United States, is the main ingredient. We have come to

recognize that tax exemption by itself is not the decisive incentive we originally believed it to be. Profits "before taxes" still have to be much higher in Puerto Rico - sometimes two to three times higher - than in the United States to induce reinvestment and to attract an increasing inflow of risk capital. We have not found this too high a price to pay for our accelerated rate of development -- a rate which few underdeveloped countries can match. Our development agencies have become more efficient and other government departments have gained understanding and become more responsive to the legitimate need of industry.

Government has also learned the value of fostering healthy industrial competition and of preventing monopoly or unduly protected situations that might preclude future expansion. It has been pushing up minimum wages toward the U. S. statutory figure of a dollar an hour as fast as can be done in each individual industry, without undue risk of causing plant failures and the loss of badly needed jobs. At the same time it has been putting increased funds into training programs and technical schools so that industry not only has the incentive, but is given positive assistance in reaching higher levels of productivity. Our Government has welcomed responsible labor organizations and encourages the development of collective bargaining procedures, but it has not hesitated to intervene when a strike becomes a serious threat to the public interest.

In carrying on our public business of economic development we have learned that United States industry and the businessmen from the States with whom we deal today are as different from the plantation and sugar mill colonials as we ourselves are from malaria ridden serfs. Today, Puerto Ricans own most of the

sugar mills, once wholly owned in the Mainland. Many of the new firms welcome local financial participation and all of them besiege us for Puerto Rican managers and technicians. Mainland businessmen are tough in their negotiations with Government, but they respect it as ours to run. They are active participants in community and cultural affairs but they stay out of politics, except to vote. Five years of Commonwealth status have done much to dispel the fears and mistrust still hanging from colonialism.

As you are so well aware, during the past fiscal year, 1,007 Point 4 and United Nations trainees and observers came to Puerto Rico, most of them to study some aspect of development. Quite a number of them have the initial impression that Puerto Rico's situation is unique and that its experience is not transferrable or, if so, only in minor respects. They point particularly to Puerto Rico's position as a low-wage part of the U. S. customs area and to the free movement of capital and of population between Puerto Rico and the United States. Yet Puerto Rico had this same kind of economic relationship with the United States from 1917 to 1940-- and yet nothing very much happened.

The other face of the coin is what Puerto Rico lacks in comparison with all but the very smallest and poorest of countries. Its home market for most manufactured products is too small to support even a single efficient plant. Where the local market is large enough to support a plant, it is wide open to competition from the most powerful of all competitors -- the U. S. Furthermore, unless and until we strike oil, uranium or something else in quantity we have nothing by way of natural resources on which any sizeable industrial complex can be built.

But lacking natural resources, the social conscience and the will to develop must be so powerful as to overcome the obstacles that are only too plainly evident. We say to our Point 4 visitors, be frank about the liabilities, but work constantly to diminish their importance. Create an environment in which at least some industries can flourish, and distribute the resulting flow of social and money income in a way that will earn popular support for your program. To visitors from India, Indonesia, and the Philippines; from Latin America, the new Caribbean Federation, or Africa we can point to their large home markets which, where essential, can be protected and which can be easily reached in most cases. To the many countries rich in power and others unexploited resources we stress the importance of "ambiente" or investment climate in attracting capital. Tariffs -- even U. S. tariffs -- which for many products range around 10%, are clearly tolerable for firms earning (as our profitable firms average) 20% on sales.

Let me repeat then, that most of the factors which have been responsible for the success of the Puerto Rican economic development program are not peculiar to us and can be utilized by other underdeveloped countries with proper adaptation. Reliance on private capital to do the industrial development job has been central to our recently acquired prosperity. Governments of underdeveloped countries simply can not marshall enough capital at home nor are government-to-government grants and loans available in the quantities necessary to raise living standards as fast as the "Revolution of Rising Expectations" now urges the people of these countries to demand. Compared to actual needs, such funds as the international lending agencies can make available are miniscule.

Granting that most of the underdeveloped countries are unwilling to sacrifice all personal liberty to achieve economic betterment and that enforced capital formation achieved at the cost of millions of lives is repugnant to most of the citizens of these countries, it is then necessary to devise ways for creating the industrial climate conducive to massive private capital investments in industry. I sincerely believe that the special contribution made by the Puerto Rican program has been to demonstrate the value of creating a climate favorable to private enterprise, and then instead of just sitting back as have some countries, we have taken positive steps to make our favorable conditions known to potential entrepreneurs. Any underdeveloped country can undertake a similar promotion program. No one, of course, can guarantee the same results, but in so far as Fomento's success is due to organized promotional effort, other underdeveloped countries can profitably duplicate such an effort, and some such as Israel and Jamaica are already doing so successfully and in some sectors surpassing us. It is a growing conviction - "Sputnik" tour-de-force notwithstanding - that in the free world the United States, and only the United States, has sufficient human and material resources to meet in any substantial way the needs of the many countries trying to improve the economic condition of an impoverished people.

To mobilize these resources fully will of course require throwing off the shackles of acute and sometimes destructive nationalism which so frequently hampers development. Underdeveloped countries may well borrow a leaf from Puerto Rico's experience in this particular sphere.

Most of the governments of underdeveloped countries are setting up industrial development organizations, surveying their natural resources, analyzing projects and beginning to offer tax and other incentives to industry. Some already have a good start, others are still where Puerto Rico was 15 years ago. Risk capital is the crying need of every one of them.

We now seem to be facing some years of a tightening market for investment funds. Under these conditions it is especially important for the United States economy, as well as for the developing countries that the best and the most productive projects be undertaken, wherever they are to be found. Every impoverished people will take heart at the success of another.

The United States Government should also, I believe, do more-- perhaps in its foreign aid program, certainly in its support of the international lending agencies. But I personally think that a tool from the kit of Operation Bootstrap might prove to be the most effective of all, and the least costly -- namely tax exemption. The administration of a foreign aid program or of a lending agency is inherently costly. The Government has to bear the cost of case by case investigation and stand the loss when mistakes are made. Tax exemption, on the other hand, requires only a minimum of administration, and if exemption is granted to a firm that fails the Government has lost nothing. The prize goes only to the efficient.

Such a proposal is not original with me. Four years ago a British Royal Commission, and three years ago at the Rio Economic Conference the then-Secretary of the Treasury Humphrey, proposed that the United Kingdom in the one case and the United

States in the other, permit a domestic corporation operating abroad to take a tax credit in its home country for the amount of tax forgiven by the developing host country in order to attract the investment originally.

If such a proposal were to be enacted -- and the Pakistan tax treaty with the United States now before the Senate seems to be the test case -- every country seriously committed to an industrial development effort would start not only to review and overhaul its tax exemption laws but would be tremendously stimulated to undertake the public works and other measures necessary to create an attractive environment and a favorable climate for private industry. In a parallel way, every United States corporation in a position to undertake new operations abroad would start looking for the most promising areas and the most productive industrial projects.

In no case would the United States Treasury forego more revenue than had already been foregone by some country far less financially able to do so. In the many cases where the corporation, in the absence of so powerful a stimulus, would have undertaken no new project at home or abroad, the United States Treasury would have foregone nothing, only the treasury of the developing country. In the final analysis, taxes foregone would probably be considerably less than the sums now appropriated annually by Congress to pay for foreign economic aid. Recognition of taxes spared to corporations taking risks in underdeveloped countries may one day gain not only the wholehearted support of economy-minded legislators in capital-exporting countries, but the grateful support of the recipient countries as well.

In 1953, net imports of private capital into Puerto Rico amounted to \$25 million, mostly in the form of direct investment in factories. The yearly figure has risen to about \$75 million this year and should top \$100 million in 1958. Tax exemption is the key to Operation Bootstrap. Without it, we could not possibly have attracted such an inflow. But what is transforming Puerto Rico is not the money, but the dynamic productive forces of the United States industrial concerns which made the investment decisions and the Puerto Rican workers operating the new factories. Comparable amounts made as loans or grants would have had nowhere near so great an impact.

But if the Government of the United States gives practical application to a tax credit proposal like that suggested the results in many underdeveloped countries could easily surpass those which have been achieved up to now in Puerto Rico.

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This is Mr. Moscoso's speech on January 27, 1958 before the International Cooperation Administration Convention.