

SECRETARY OF DEFENSE
WEST TERRITORY OF THE PACIFIC ISLANDS
MARIANA ISLANDS DISTRICT LEGISLATURE
P. O. BOX 218 SAIPAN, MARIANA ISLANDS 96950

November 2, 1967

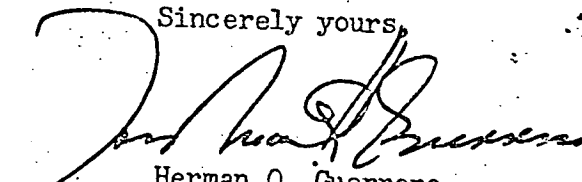
The Honorable Robert S. McNamara, Secretary
United States Department of Defense
Washington, D. C. 20515

Dear Mr. Secretary:

It is with pleasure that I transmit to you Resolution No. 43-1967,
"A resolution relative to fully endorsing the proposed plan to
re-establish military installations in Rota, Tinian, Saipan, and
the Northern Islands, and urging the reintegration of these
islands with the territory of Guam."

The enclosed resolution was duly adopted by the Legislature on
August 28, 1967.

Sincerely yours,



Herman Q. Guerrero
Secretary

Enclosure

GC 4205

20008

410168

SECRETARY OF DEFENSE ROUTING SLIP

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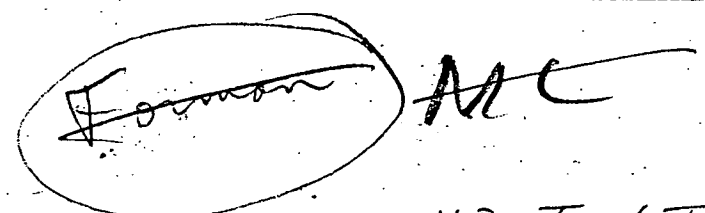
TO	ADV ACT COPY TO	INFO COPY TO	TO	ADV ACT COPY TO	INFO COPY TO
SECRETARY OF DEFENSE					
DEPUTY SECRETARY OF DEFENSE					
THE SPECIAL ASSISTANT					
SECRETARY OF THE ARMY			✓		✓
SECRETARY OF THE NAVY					
SECRETARY OF THE AIR FORCE					
CHAIRMAN, JOINT CHIEFS OF STAFF					
DIRECTOR, DEFENSE RESEARCH AND ENG					
ASSISTANT SECRETARY OF DEFENSE (A)					
ASSISTANT SECRETARY OF DEFENSE (Comp)					
ASSISTANT SECRETARY OF DEFENSE (I&L)					
✓ ASSISTANT SECRETARY OF DEFENSE (ISA)					

17/5

ACTION

PREPARATION OF REPLY FOR SECRETARY OF DEFENSE SIGNATURE	✓	INFORMATION AND RETENTION
PREPARATION OF REPLY FOR DEPUTY SECRETARY OF DEFENSE SIGNATURE		DATA ON WHICH TO BASE A REPLY
REPLY DIRECT (Forward copy of reply to Secretary of Defense files)		COMMENTS AND/OR RECOMMENDATION
✓ APPROPRIATE ACTION*		SEE REMARKS BELOW
COORDINATE REPLY WITH:		

REMARKS



→ ILP - Trust Territory 28

THIS IS AN ACTION COPY ADVANCE ACTION COPY INFORMATION COPY

ACTION DUE NOT LATER THAN ROUTING DATE: **NOV 18 1957** OSD CONTROL NUMBER: **21008** **GC 4205 11**

SD FORM 14
1 SEP 53

PREVIOUS EDITIONS OF THIS FORM ARE OBSOLETE.

10-410167

Puerto Rico - Eye of Commonwealth

With the enactment of Public Law 600, the people of Puerto Rico were authorized to "organize a government pursuant to a constitution of their own adoption," (Act, July 3, 1950, 64 Stat. 319, 48 U.S.C. 731b). In recommending the legislation, the Department of the Interior and the pertinent Congressional committees noted that "the bill... would not change Puerto Rico's fundamental political, social, and economic relationship to the United States," (H.R. Rep. 2275, 81st Cong., 2d Sess., pp. 3,5; Senate Rep. 1779, 81st Cong., 2d Sess., pp. 3,5). It was also noted that "the extent and nature of the political, economic, and social development of Puerto Rico warrants the advancement in self-government which /the bill which evolved into Public Law 600/ would make possible...the people of Puerto Rico have demonstrated by their intelligent administration of local governmental activities, by their extensive use of the franchise, and by their high degree of political consciousness, that they are eminently qualified to assume greater responsibilities of local self-government" (H.R. Rep. 2275, op. cit., p.4).

With the benefit of hindsight, it may be noted now that certain political, economic and social factors of special importance to Puerto Rico's subsequent development were already in evidence. Puerto Rico had been an organized, although unincorporated, territory since 1900, and Puerto Ricans had been U.S. citizens since 1917. A popularly elected bicameral legislature was authorized in 1917 and a popularly elected governor in 1947. By 1950, the population was becoming increasingly urban and literate, and supporting an increasingly large share of local government expenses. By 1950, some manufacturing industry had been established to offset the high degree of dependence on sugar and its derivatives, and Puerto Rico was beginning to attract off-island investment.

Population and Education. In 1950, the U.S. Census of Population counted the population of Puerto Rico as 2,210,703 persons, of whom 2/5 already resided in urban communities of 2,500 or more. The population of San Juan was nearly 225,000 in 1950. About 75% of the total population (82% in urban areas), were literate, although only 26% of the population as a whole and 36% of the urban population could speak English. In 1950, half the population had had less than 4 years of schooling, but almost one half the population of high school age (persons 14 to 17) and 40% of the population 5 to 24 years of age were enrolled in schools. Only 28,603 persons in Puerto Rico (3.4% of the adult population of 842,266) had attended college for one or more years, according to Census data, but in the fiscal year 1950 the enrollment at the University of Puerto Rico was 11,348 (Governor's Annual Report, fiscal 1950). With a median age of 18.4 years, Puerto Rico in 1950 had both a relatively young population and a population "upward bound."

Employment and Trade. In 1950, Puerto Rico was substantially an agricultural area, as measured by principal exports, net product, and employment. By mainland standards, Puerto Rico also had very serious economic problems---including unemployment of almost 15%, notwithstanding net migration of 30,000 or more Puerto Ricans per year. Personal income was only \$296 per capita (\$653.4 million personal income, fiscal 1950 per "Ingreso y Producto Puerto Rico," 1940, 1947-60, divided by 1950 population 2,210,703) as compared with the U.S. average of \$1,506 (calendar year, 1950, in 1954 dollars). In fiscal 1950 gross hourly earnings, including premium pay for overtime, averaged only 44¢ per hour in all manufacturing industry at a time when the minimum wage on the mainland was 75¢ per hour in industries covered by the Fair Labor Standards Act.

Almost 40% of the employed (215,978 of 560,271) were engaged in agriculture, and of these 127,957, or not quite one fourth of the total, were employed on sugar farms. Work on sugar farms typically is seasonal and poorly paid. In the fiscal year 1950, sugar and products derived from sugar (raw, molasses) were the mainstay of the Puerto Rican economy, accounting for 60% of the value of Puerto Rico's shipments of goods to the United States and foreign countries, or \$143.2 million of a \$235.2 million total (Annual Report of the Governor of Puerto Rico, 1949-50). Another agricultural product -- tobacco -- accounted for \$13.6 million in Puerto Rican shipments, while the principal export not associated with agriculture was \$42.9 million in "needlework" --- which may be somewhat more precisely identified in U.S. Bureau of the Census data for a period two years later as a wide variety of textile manufactures, such as underwear, gloves, scarves, handkerchiefs, and cotton wearing apparel.

What the Government of Puerto Rico termed "needlework" exports of 1950 evidenced a developing trend, away from a strictly agricultural to a more diversified economy. Between 1940 and 1950, non-agricultural employment in Puerto Rico had increased 66,000 in absolute numbers and increased relatively from 55% to 62% of the total employed. (Manufacturing employment, however, decreased somewhat between 1940 and 1950). The Governor's annual report for fiscal 1950 makes no mention of tourism; data subsequently compiled ("Ingreso y Producto Puerto Rico, 1940, 1947-1960") indicate that in the fiscal year 1950 visitors already numbered 64,507 and were spending in Puerto Rico \$6.8 million, about one fourth of which remained as net income to Puerto Rico. (By fiscal 1966, tourists totalled 724,000 per year and their gross expenditures about \$135 million, Commonwealth of Puerto Rico, Dept. of the Treasury, Economy and Finances, Puerto Rico, 1966).

Fiscal Development. By fiscal 1950 Puerto Rico had achieved a large measure of fiscal independence with respect to the federal

government; 83% of insular government recurrent revenues of \$107.6 million were derived from insular sources, including the locally imposed income tax. The remaining "federal" share of 17% included the funds made specially available to Puerto Rico (return of internal revenue taxes collected in the U.S. on Puerto Rican rum and return of U. S. customs duties on foreign products entering Puerto Rico, in total \$12 million) and federal grants-in-aid disbursed to Puerto Rico, as to a State (\$6 million). Only four years earlier, federal funds had supplied more than 40% of total recurring revenues. (By fiscal 1966, federal funds accounted for 30% of current receipts of more than \$500 million, in part because the federal grants available to Puerto Rico, as to the States, had increased to \$72.2 million "Economy and Finances, Puerto Rico 1966").

Puerto Rico had improved its fiscal position while effecting a very great absolute increase in total government revenues, from whatever source derived; total recurring revenues were only \$28 million in 1940 but reached \$107.6 million in 1950, (Governor's annual report, 1949-50, pp. 21-23). By fiscal 1950, the insular government also had accumulated general obligation debt to private persons of \$23.6 million, as public expenditure needs exceeded even greatly expanded revenues.

Balance of Payments and Investment. Puerto Rico is as much a part of the United States monetary system as any of the fifty States or the neighboring Virgin Islands; the Government of Puerto Rico, however, has analysed the economy in "balance of payments" terms, such as if Puerto Rico were a separate "country." (Ingreso y Producto Puerto Rico, 1940, 1947-1960, Balanza de Pagos Puerto Rico 1964). With its limited resources, Puerto Rico typically imports considerably more merchandise than it exports, and in 1950 its merchandise trade deficit was \$106.2 million. Even in 1950, however, Puerto Rican merchandise exports to the United States and foreign countries - amounting to \$110 per capita - financed 60% of the value of all goods imported, which were received at the rate of \$158 per capita. Puerto Rican trade then as now was predominantly (80-90%) with the United States.

In 1950, and even in later years, the increasingly large excess of merchandise imports over exports has reflected Puerto Rico's rising level of income and consumption, its development of industries engaged in processing materials obtained abroad and continuing investment in public and private facilities that require the importation of machinery, materials and equipment of many kinds. Invisible service items in 1950 were approximately in balance; that is, sales of tourist services, transportation supplied outsiders and disbursements of Federal agencies in Puerto Rico, including the naval station, exceeded only by \$1.3 million payments due off-islanders for transportation, travel of Puerto Ricans and interest and dividend payments to outsiders on their investments in Puerto Rico.

The principal accounts that offset the deficit trade balance of 1950, as well as later years, were (1) the \$74.6 million favorable balance on transfer payments, reflecting in large part transfer payments from the federal government (excise taxes on Puerto Rican rum, customs duties, sugar subsidies, grants-in-aid and veterans and other benefits to individuals) and (2) a net capital investment of off-islanders in Puerto Rico of more than \$50 million. (To complete the balance of accounts there also appeared some diminution of assets of Puerto Ricans held abroad, e.g. bank accounts in the U.S., errors and omissions).

In the light of future developments, the more than \$50 millions of new investment by off-islanders was most significant. The 1950 investment total was more than three times the figure for the year immediately preceding, and was the forerunner of a continuing increase in such investments in Puerto Rico -- with some up and down variations by individual years -- to a total of \$308.6 million in 1964. By 1965, direct investment of externally owned funds in Puerto Rican factories exceeded half a billion dollars, while outstanding obligations of Commonwealth and local governments and public authorities -- most of which would have been marketed outside Puerto Rico -- totalled nearly a billion (Polanco-Abreu, "The Economic Development of Puerto Rico", Puerto Rico Booklet No. 3, 1966).

The servicing of debt and equity investments in Puerto Rico required payments abroad of \$21.6 million in 1950, an amount included in the balance of service transactions noted above. As public and private investment increased year by year, returns to off-islanders on Puerto Rican investments increased manyfold to \$176.7 million in 1964. The simultaneous expansion of tourism and the dollar amount of federal transfer payments over this period (more than \$100 million on a net basis) made available a very substantial part of the additional funds needed to pay interest and dividends on new investments.