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10 a.m. 10/31

DECISION

THE WHITE HOUSE  
WASHINGTON  
October 23, 1975

MEMORANDUM FOR: JIM CANNON  
FROM: SAM HALPER *SH*  
SUBJECT: PUERTO RICAN MINIMUM WAGE

Secretary of State Juan Albors cannot, as he previously thought, come to Washington tomorrow with the Puerto Rican minimum wage formula. Instead he proposes Thursday or Friday of the coming week.

Which would be suitable for you?

Thursday, Oct. 30 \_\_\_\_\_

Friday, Oct. 31  \_\_\_\_\_

Note: David Lissy and I think it would be productive for Albors to meet, off the record and unofficially, with some Department of Labor officials to test fly the Puerto Rican formula. Albors, himself an economist, brings with him Amadeo Francis, the incoming Fomento chief, replacing Ted Moscoso who is quitting. Francis has had much experience in negotiating Puerto Rican minimum wages.

MEETING WITH SAM HALPER,  
JUAN ALBORS, AMADO FRANCIS  
Friday, October 31, 1975  
10:00 a.m.

Mr. Cannon's Office

AN ALTERNATIVE TO SECTION 17 - LABOR - OF THE COMPACT OF  
PERMANENT UNION BETWEEN PUERTO RICO AND THE UNITED STATES

Presented to the

Domestic Council by Juan A. Albors, Secretary of State of  
the Commonwealth of Puerto Rico on behalf of Governor  
Rafael Hernandez Colon

October 30, 1975

The Ad Hoc Advisory Group on Puerto Rico believes local control over minimum wages to be an effective instrument of economic growth in Puerto Rico while at the same time permitting the needed flexibility to work with the economic realities existing in Puerto Rico. In this respect, it is concluded that it would be highly desirable that the responsibility for continuing the historic and extremely rapid rise in wages were to reside in the Puerto Rican Government.<sup>1</sup> However, whereas Puerto Rico should undoubtedly have more say than at present in regard to the relationship of minimum wages with economic development and the reduction of unemployment in Puerto Rico to the "normal" United States level, in view of the existence of a common market relationship which gives Puerto Rico unrestricted access to the mainland, the federal government must retain an input in regard to wages in the manufacture of goods that go in substantial amount into commerce with the continental United States.

Thus, a formula is hereby proposed which would restore the highly desirable flexibility in the setting of minimum wages for workers in Puerto Rico which was withdrawn in the 1974 amendments to the Fair Labor Standards Act, and which would assure an involvement by Puerto Rico in the determination of this wage policy. In this respect it is specifically proposed that the Secretary of

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<sup>1</sup> See Appendix: Text of Section 17 of Compact of Permanent Union between Puerto Rico and the United States.

Labor of the Commonwealth of Puerto Rico should share the authority now solely entrusted to the Secretary of Labor of the United States. It is furthermore proposed that committee recommendations should be subjected to review by either Secretary prior to their implementation. The absolute and definitive authority currently entrusted to the committees in determining the wage policy and employment level for the people of Puerto Rico represents an excessive delegation of authority, and one that should be corrected at the earliest possible date. It is also proposed that in reinstating the flexible system of wage determination to be administered by tripartite committees to be appointed by both Secretaries of Labor, these committees shall be entrusted with recommending the highest minimum wage rates for the industry under review which they determine -- having due regard to economic and competitive conditions -- will not substantially curtail employment opportunities in the industry, and will not give any industry in Puerto Rico a competitive advantage over any industry in the United States.

Under the rapid economic development impetus in the past quarter century, wages in Puerto Rico have risen rapidly from about forty cents an hour at the end of World War II to \$2.57 in mid-1975. In 1958 only one-third of the workers in Puerto Rico who were covered by the minimum wage law received the full statutory federal minimum wage, while in 1973 two-thirds of the covered workers in Puerto Rico received the full statutory rate.

This increase in wages and workers receiving the minimum wage were the result of special arrangements provided for Puerto Rico by the United States Congress, permitting special industry (and hardship) committees to fix minimum wages below the United States minimum. These arrangements were necessary to prevent substantial curtailment of employment (without giving Puerto Rican industry a competitive advantage over mainland industry) and have made it possible to extend the protection and benefits of the Fair Labor Standards Act to Puerto Rican workers as fast as has been consistent with the economic development of the Commonwealth and, at the same time, to narrow greatly the gap between wages in Puerto Rico and wages in the several states.

The 1974 amendments to the Fair Labor Standards Act mandate a drastic speed-up of the process of raising Puerto Rican minimum wages to parity with the rising minimums specified for the United States. It requires annual step increases in all industries whose minimum wage levels are still below the United States level until all remaining differences are eliminated over the next few years. No longer will local industry committees formerly existing under the federal law be able to determine whether the mandated wage step increases may substantially curtail employment in those industries or make them disappear. The elimination of this flexibility will prove particularly repressive to competitive relationships and employment opportunities at a time when Puerto Rico is

in competition with developing countries throughout the world. This is particularly important at this time when unemployment levels in Puerto Rico have approached one-fifth of the working population.

The recommended changes have several advantages. First of all, they would provide for the participation of Puerto Rico, through its Secretary of Labor, in the implementation of the federal minimum wage program and, in effect, in the determination of the wage policy for the people of Puerto Rico, and would hopefully assure that due attention was paid to the economic realities, e.g., unemployment, afflicting that community.

Secondly, they would permit a review of the determination of the special committees, whose recommendations (following what invariably are fairly abbreviated deliberations) currently automatically become the effective minimum rate since there is no practical review mechanism currently provided in the new statute.

The addition of the word "opportunities" would enable the industry committees to scrutinize the current and future position of the industry in the context of the needs of Puerto Rico. Such a modification is consistent in intent with the language in Section 14 of the Fair Labor Standards Act which enables the Secretary of Labor to establish lower minimum wages for learners, etc., in order to prevent curtailment of "opportunities for employment." The experience of the last two decades has



demonstrated that a higher rate of growth in manufacturing in Puerto Rico is imperative to an amelioration of the island's critical unemployment situation. In order to achieve this rate of growth, it is imperative that the rate of increase of wage levels in Puerto Rico proceed at a pace consistent with the creation of sufficient job opportunities to reduce the Island's unacceptable level of unemployment. While administration of the Fair Labor Standards Act has thus far probably caused little actual loss of existing jobs, it has very seriously impeded the process of creating the new jobs that are the first priority of the Commonwealth's development programs.

Section 8(a) of the Fair Labor Standards Act would be amended to read as follows: "The policy of this Act with respect to industries or enterprises in Puerto Rico engaged in commerce or in the production of goods for commerce is to reach as rapidly as is economically feasible without substantially curtailing employment the objective of the minimum wage rate applicable to similar industries or enterprises in the United States. The Secretary of Labor of the United States, in conjunction with the Secretary of Labor of the Commonwealth of Puerto Rico, shall from time to time jointly convene an industry committee or committees which shall recommend the minimum rate or rates of wages to be paid by employers in Puerto Rico engaged in commerce or in the production of goods for commerce or in any enterprise engaged in commerce

or in the production of goods for commerce in any such industry or classifications therein. Minimum rates of wages established in accordance with this section which are not equal to the statutory rate shall be reviewed by such a committee once during each biennial period, except that the Secretaries, in their discretion, may jointly order an additional review during any such biennial period."

Section 8(b) of the Fair Labor Standards Act would be amended to read as follows: "Upon the convening of any such industry committee, the Secretaries shall refer to it the question of the minimum wage rate or rates to be fixed for such industry. The industry committee shall investigate conditions in the industry and the committee, or any authorized subcommittee thereof, shall after due notice hear such witnesses and receive such evidence as may be necessary or appropriate to enable the committee to perform its duties and functions under this Act. The Committee shall recommend to the Secretaries the highest minimum wage rates for the industry which it determines, having due regard to economic and competitive conditions, will not substantially curtail employment opportunities in the industry, and will not give any industry in Puerto Rico a competitive advantage over any industry in the United States outside of Puerto Rico."

Amend Section 8(c) of the Fair Labor Standards Act to read as follows:

"...but the industry committee shall consider among other relevant factors the following:

- (1) .....
- (2) .....
- (3) .....
- (4) Employment opportunities offered by this industry

for workers in the Commonwealth of Puerto Rico."

Amend section 8(d) of the Fair Labor Standards Act to read as follows:

"The industry committee shall file with the Secretaries a report containing its findings of fact and recommendations with respect to the matters referred to it. Upon the filing of such report, the Secretaries shall have thirty days to review the correctness of the committee's findings and recommendations, following which, if in agreement with same, the Secretaries shall cause to have published such recommendations in the Federal Register and local newspapers in the Commonwealth of Puerto Rico, and shall provide by order that the recommendations contained in such report shall take effect upon the expiration of 15 days after the date of such publication. In the event the Secretaries are not in concurrence with the findings and recommendations of the committee, they shall reconvene the committee and submit to same for reconsideration their comments on the findings and recommendations, or alternatively they may convene a new committee to reexamine the entire matter."

Amend section 8(f) of the Fair Labor Standards Act to read as follows: "Due notice of any hearing provided for in this section shall be given by publication in the Federal Register and one or more local newspapers in the Commonwealth of Puerto Rico and by such other means as the Secretaries deem reasonably calculated to give general notice to interested parties."

The adoption of the aforesaid formula would imply a change in the text of Section 17 of the Compact of Permanent Union between Puerto Rico and the United States, in order to incorporate in it the substantive parts thereof. Consequently, in accordance with Section 21 of the Compact, Section 17, as amended, could be modified only by mutual agreement between the Government of the United States and the Government of the Free Associated State of Puerto Rico.

## APPENDIX

### TEXT OF SECTION 17 - LABOR - OF THE COMPACT OF PERMANENT UNION BETWEEN PUERTO RICO AND THE UNITED STATES

#### 17. Labor

a) The public policy of the United States and of the Free Associated State is declared to be that the minimum wage in Puerto Rico be equivalent to the minimum wage in the United States as soon as economic conditions in Puerto Rico so permit.

The Free Associated State of Puerto Rico shall have exclusive jurisdiction over all matters pertaining to minimum wages and working hours, except for the shipping and aviation industries, which shall be covered by the appropriate Federal laws, as may be determined by the Congress of the United States.

b) The Free Associated State of Puerto Rico shall have exclusive jurisdiction over all matter pertaining to labor-management relations, except for the shipping and aviation industries, which shall be covered by the appropriate Federal laws, as may be determined by the Congress of the United States.

c) The Free Associated State of Puerto Rico shall have exclusive jurisdiction over all matter pertaining to laws and regulations on occupational health and safety, except for the shipping and aviation industries, which shall be covered by the appropriate Federal laws, as may be determined by the Congress of the United States.

Employment, Average Hourly Earnings and Federal Minimum Wages for Puerto Rico

August 1975

<u>Industry Group</u>	<u>Total Employment (Thousands)</u>	<u>Average Hourly Earnings</u>	<u>Federal Minimum Wages for Puerto Rico (range) <sup>a/</sup></u>
All Manufacturing Industries	131.0	\$ 2.58	\$ 1.32 - \$ 2.10
Non-durable goods .....	90.1	2.46	- -
Food and Kindred products .....	22.5	2.60	1.85 - 2.10
Tobacco manufactures .....	5.0	2.15	1.41 - 2.10
Textile mill products .....	5.3	2.17	1.57 - 1.90
Apparel and related products .....	33.0	2.14	1.32 - 2.05
Paper and allied products;printing, publishing and allied products.....	3.7	3.11	2.00 and 2.10
Chemicals and allied products .....	9.9	3.43	2.00 and 2.10
Petroleum refining and related industries .....	5.4	3.47	2.00 and 2.10
Rubber and miscellaneous plastic products.....			1.75 - 2.10
Leather and leather products	5.2	2.00	1.725 - 1.90
Durable goods	40.9	2.83	-
Lumber and wood products;furniture and fixtures...	3.2	2.28	1.95
Stone, clay and glaŝs products .....	6.3	2.98	1.52 - 2.10
Metal products	5.8	3.01	1.90
Machinery, except electrical;and transportation equipment.....	3.6	3.20	1.90
Electrical machinery, equipment and supplies.....	9.9	2.75	1.90
Professional and scientific instruments and allied products .....	9.4	2.80	1.90
Miscellaneous manufacturing industries	2.8	2.65	1.69 - 2.10

Source: Wage and Hour Division, Department of Labor  
<sup>a/</sup> Federal Minimum Wage since May 1, 1975

Table C-1. U.S. Minimum Wage and Average Hourly Earnings of Production Workers in Manufacturing Industries, Puerto Rico, the United States, and Mississippi, October 1950-75



Year	U.S. minimum wage (\$/hour)	Average hourly earnings, all manufacturing industries (\$)			Puerto Rico as percent of	
		Puerto Rico	U.S.	Mississippi	U.S.	Mississippi
1950.....	.75	.42	1.50	.97	28.0	43.3
1951.....	.75	.45	1.61	1.03	28.0	43.7
1952.....	.75	.45	1.70	1.09	26.5	41.3
1953.....	.75	.48	1.79	1.14	26.8	42.1
1954.....	.75	.50	1.81	1.18	27.6	42.4
1955.....	1.00	.56	1.91	1.20	29.3	46.7
1956.....	1.00	.66	2.02	1.29	32.7	51.2
1957.....	1.00	.77	2.09	1.40	36.8	55.0
1958.....	1.00	.83	2.14	1.51	38.8	55.0
1959.....	1.00	.87	2.21	1.49	39.4	58.4
1960.....	1.00	.94	2.30	1.52	40.9	61.8
1961.....	1.15	1.00	2.34	1.56	42.7	64.1
1962.....	1.15	1.07	2.39	1.64	44.8	65.2
1963.....	1.25	1.14	2.47	1.69	46.2	67.4
1964.....	1.25	1.20	2.53	1.76	47.4	68.2
1965.....	1.25	1.26	2.64	1.82	47.7	69.2
1966.....	1.25	1.31	2.75	1.90	47.6	68.9
1967.....	1.40	1.43	2.85	2.03	50.2	70.4
1968.....	1.60	1.59	3.06	2.23	52.0	71.3
1969.....	1.60	1.71	3.24	2.33	52.8	73.4
1970.....	1.60	1.78	3.37	2.43	52.8	73.3
1971.....	1.60	1.91	3.59	2.57	53.2	74.3
1972.....	1.60	2.04	3.86	2.80	52.9	72.9
1973.....	1.60	2.17	4.14	3.02	51.4	71.9
1974.....	1.90 & 2.00	2.40	4.56	3.28	52.6	73.2
1975 (July)	2.00 & 2.10	2.57	4.79 a/	3.56 a/	53.7	72.2

a/ Preliminary

Source: U.S. Department of Labor, Bureau of Labor Statistics, Employment and Earnings, Washington, D.C. Puerto Rico Department of Labor, Bureau of Labor Statistics

Table C-3. Estimated Distribution of Puerto Rican Covered Employees by Levels of Minimum Wage



Wage order rate (\$ per hour)	March 1970 distribution of covered workers as of various dates					January 1973 distribution of workers covered prior to 1961 amendments	
	Total covered as of March 1970	Covered by 1966 amendments <sup>a/</sup>	Covered by 1961 amendments <sup>b/</sup>	Covered prior to 1961 amendments <sup>c/</sup>			
	Number	Number	Number	Number	Pct.	Number	Percent
Under .75.....	28,500	27,100	--	1,400	.69	894	.43
.75- .99.....	c/		--	--	--	506	.25
1.00-1.14.....	2,100	2,000	--	100	.05	77	.04
1.15-1.29.....	14,500	--	500	14,000	6.9	2,918	1.4
1.30-1.44.....	20,900		500	20,400	10.0	18,827	9.2
1.45-1.59.....	67,900	27,500	1,300	39,100	19.1	48,352	23.7
1.60.....	194,000	43,500	21,300	129,200	63.3	132,626	64.9
Total.....	327,900	100,100	23,600	204,200	100.0	204,200	100.0

a/ The 1966 amendments extended coverage to small enterprises engaged in retail trade, nondomestic services, agriculture and construction.

b/ The 1961 amendments extended coverage to large retail trade and construction enterprises.

c/ Prior to 1961, coverage extended to manufacturing, wholesaling, public utilities, finance, insurance, transportation, communities, and real estate.

Source: U.S. Department of Labor, Employment Standards Administration, "Estimated Number of Employees in Puerto Rico Subject to Specified Wage Order Rates and Estimated Rates That Would be Required Under H.R. 7130 by a Percentage Increase Equal to That Provided for Mainland Employees," Washington, D.C. April 26, 1971. U.S. Department of Labor, Employment Standards Administration, Wage and Hour Division, Economic Report on Various Industries in Puerto Rico, Series 1971-72, Reports and supplements, Washington, D.C.



October 31, 1975

MEETING WITH SAM HALPER, JUAN ALBORS, AND AMADO FRANCIS

JUAN ALBORS

Secretary of State of Puerto Rico and Lieutenant Governor  
In charge of work on minimum wage

AMADO FRANCIS

Director of Fomento--industrialization and veteran of  
Operation Bootstrap, the development program