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# **THE PUERTO RICAN INDUSTRIAL POLICY DEBATE OF 1940-1947: THE LIMITS OF DEPENDENT COLONIAL GROWTH**

Reinerio Hernandez-Marquez

## **Introduction**

The rapid development of the Puerto Rican economy following the Second World War provides a unique model of central planning within a dependent colonial economy. This project will present a brief overview of the conflicting socio-economic and political forces which initiated and guided the establishment of central planning in Puerto Rico during the period 1940-47. The goal of this presentation is to trace the interactions between the key actors and institutions, in the political and socio-economic environment of 1940-47, which led to a policy re-orientation of central planning in 1947. This re-orientation defined Puerto Rican economic development not as an autonomous agricultural and industrial program based on both domestic and foreign capital, but instead, economic development was viewed as a massive industrialization program based solely on private foreign capital.

Puerto Rico's industrialization program, Operation Bootstrap, was based on labor intensive, multinational branch plant industries. During Operation Bootstrap, Puerto Rico experienced extraordinary growth rates until 1971. In 1947, the island's population was overwhelmingly poor and involved in agricultural production; by 1968, Puerto Rico had become one of the twenty most highly industrialized areas of the world.

During the 1950s and 1960s, Puerto Rico's industrialization program was praised as the "Puerto Rican miracle" by many economists and policy-makers. Furthermore, Puerto Rico's model of economic transformation—a model based on government assisted free enterprise and financed by external private investment—was held up to Latin America, by U.S. policy-makers, as the capitalist alternative to communist models posed by Castro's Cuba.

For the short run, the industrialization program seemed to be working. However, by the early 1970s, the miracle's magic had withered. In 1972, private investment started to contract. For the first time since 1942, real GNP began to decline. The unemployment rate, which for many years remained at 12 percent, skyrocketed in 1974 to 22 percent. In manufacturing, for example, 25,000 jobs were lost in the 14 months between May

1974 and July 1975. The Puerto Rican economy is still in decline, with no projections for bottoming out. This economic decline demonstrates that Puerto Rico's economic foundation was structurally weak.

The time period for this analysis, 1940-47, is crucial because critical decisions on industrialization policy occurred during this time period. Puerto Rico provides an interesting case for analysis during this period because it was one of the first Third World countries to experiment in land reform, publicly owned industries, centralized economic planning, manufacturing and agricultural cooperative enterprises, and self-help housing programs. Ironically, while much of the Third World began to embrace these concepts after 1947, Puerto Rico abruptly abandoned them.

The purpose of this study is to explain why this significant policy shift occurred. Several research questions will be analyzed. First, who were the key actors that established and guided central planning in Puerto Rico? What policy model of central planning did these key actors establish? What were the effects of the entrance of new actors in the policy-making arena? What was the planning philosophy of these new actors? Why was there a reorientation of central planning policy after 1947? What key actors and/or institutions affected this reorientation?

This study presents a critical interpretation of Operation Bootstrap due to Puerto Rico's increasing economic deterioration and increased dependence on the U.S. mainland. For the Third World countries who have modeled after Puerto Rico's industrialization program, Puerto Rico's economic deterioration might soon be theirs. Thus, a clear analysis of why a reorientation of central planning occurred in Puerto Rico would benefit Third World planners.

### **The Political Economy of Puerto Rico: 1898-1932**

It is crucial to discuss the colonial conquest of Puerto Rico by the U.S. in order to understand the political and economic environment of the 1940s. The entry of U.S. foreign capital in the late 1800s in Puerto Rico and the U.S. military invasion of Puerto Rico in 1898 produced socio-economic changes from a semi-feudal hacienda economy to an economy dominated by capitalist plantation agriculture.

During most of the 19th century, Puerto Rico's hacendados were primarily sugar producers whose ties were chiefly with the U.S. market. Angel Quintero Rivera has pointed out that "the golden dream of Puerto Rican land owners bent on commercial expansion was access to the extensive U.S. market." With the emergence of new colonial masters, the Puerto Rican hacendados faced an ever increasing challenge from the U.S. United States

economic penetration intensified after 1898 and had the effect of replacing an indigenous hacienda system with an externally owned agrarian capitalist system of production.

Between 1898 and 1930, the entry of U.S. capital into Puerto Rico destroyed the traditional pattern of individual and domestic land ownership and replaced it with an externally owned and controlled large corporate pattern. Of 107 foreign corporations operating in Puerto Rico in 1922, 103 were U.S. owned. Prior to 1898, coffee and sugar accounted for 41 percent and 15 percent respectively of the total cultivated land. By 1930, as a result of large-scale U.S. investments, sugar assumed a dominant position in the economy. It accounted for 44 percent of all the land under cultivation. Four U.S. corporations produced 50 percent of the total sugar crop in 1930, and together controlled almost 40 percent of the agricultural wealth of the island.<sup>1</sup>

The U.S. penetration and control of the Puerto Rican sugar industry provided impetus for the entry of U.S. capital into other vital areas of Puerto Rico's economy. U.S. corporations became the major investors in public utilities and owned over half of Puerto Rico's bank resources by 1929.<sup>2</sup>

The large scale penetration of U.S. capital required a political environment conducive to the flow of capital into the island. The result was that U.S. policy during this early period was primarily directed toward creating an effective political and administrative infrastructure to facilitate such capital expansion. The legal underpinnings for this expansion were the military government decrees (1898-1900) and the First Organic Act of 1900 known as the Foraker Act.<sup>3</sup> The Foraker Act essentially defined the political and economic relationship between Puerto Rico and the U.S. First of all, this measure facilitated the U.S. appropriation of production by fixing the exchange rate of \$.60 per Puerto Rican dollar and tightening restrictions on local credit operations. All local production was brought under U.S. tariff, thus reducing access to European markets for local production. Shipping was also brought under U.S. legislation.<sup>4</sup>

The Foraker Act also had severe repercussions for Puerto Rico's autonomous political process. Compared with the Autonomous Charter of 1897 which Spain granted to Puerto Rico, the Foraker Act was seen as a total disaster by Puerto Rico's politicians. Unlike the Autonomous Charter, Puerto Ricans had little voice in shaping the Foraker Act. With the Foraker Act, almost all political power was placed in hands of appointed, rather than elected, officials. Also, unlike the Autonomous Charter, the Foraker Act significantly reduced Puerto Rican control over local affairs. Although the insular legislature retained the power to draw up its own budget and approve certain appointments, it

could no longer set its own tariffs or participate in the negotiation of commercial treaties with foreign countries. The U.S. appointed governor could also override bills directly.<sup>5</sup> The result of the Foraker Act was that most Puerto Rican political leaders became disillusioned with the U.S. government.

Unwilling to lose the political power that the Puerto Rican leaders possessed with the Autonomous Charter, they organized new political parties based on alternative solutions to the problem of colonial political status. Two major parties emerged—the Republican Party and the Federalist Party. The Puerto Rican Republican Party was strongly pro-American, campaigned for statehood, had support from the urban business interests, and was backed by the powerful U.S. sugar corporations. The Federalist Party, unlike the Republicans, was highly skeptical of the U.S. government and proposed greater autonomy and eventual independence. Luis Muñoz-Rivera, the ex-president of the Autonomist Party, became the leader of the Federalist Party. In 1904, the Federalists merged with a small group of dissident Republicans and formed the Union Party. The Union Party won the 1904 elections and remained the majority party for the next 20 years.

The Union Party did manage to amend the Foraker Act with the passage of the Jones Act by the U.S. Congress in 1917. The Jones Act made several formal changes in the Foraker Act but did not significantly alter its arrangements. A 19 member elected senate replaced the Executive Council as the legislature's upper house. The Council still continued as a cabinet appointed by the U.S. and almost all power remained in the executive branch. The Jones Act also granted Puerto Ricans American citizenship.

### **The Political Development Of Luis Muñoz-Marin**

The nationalist political sentiments remained relatively calm in Puerto Rican politics for the next ten years. A nationalist renewal emerged again in 1932 with the establishment of the Liberal Party which called for independence and social reform. One of the party's leaders was Luis Muñoz-Marin, the son of Autonomist and Federalist Party leader Luis Muñoz-Rivera.

Luis Muñoz-Marin was born in Puerto Rico in 1897 but spent almost half of his youth on the U.S. mainland, graduating from Georgetown University. While in the U.S., he cultivated political friendships and lived the life of a bohemian poet and political essayist. In 1926 he moved back to Puerto Rico and became the editor of *La Democracia*, a Unionist newspaper founded by his father. Many of his early writings depicted the U.S. as a villain of exploitation and he subsequently called for eventual independence, stating:

One cannot observe Puerto Rican life closely without reaching the conclusion that every form of tutelage is morally degrading... This is the political illness of Puerto Rico and its only cure is a dose of unadulterated sovereignty.<sup>6</sup>

With the election of Franklin Roosevelt in 1932, Muñoz-Marín modified his criticism of the U.S. He explained his goals during this period to a friend:

We are for independence, but we don't bait the U.S. unless driven to it. We have a special tenderness for the Democratic party... because of its traditional liberal attitude toward Puerto Rico and the Philippines. We are opposed to begging money from the American taxpayers and instead claim the right to have our own tariff, to get rid of the coast-twice shipping laws, and to be empowered to regulate absentee ownership.<sup>7</sup>

Muñoz-Marín's presence in Puerto Rican politics began to be felt in 1936. The Liberal Party leader, an aging Antonio Barcelo, sought immediate independence while Muñoz-Marín was sternly against immediate but gradual independence. The result was an open political feud which split the Liberal ranks in the 1936 elections. In 1938, Muñoz-Marín led his followers from the Liberal Party and organized the Popular Democratic Party (PDP), with the pledge that "status is not an issue." For Muñoz-Marín, the 1940 election issue for the PDP was economic development on the impoverished island.

Between 1938 and 1940, Muñoz-Marín and his Populares took the election to the countryside with their slogan "Pan, Tierra, y Libertad" (Bread, Land and Liberty). Their platform stressed the following: enforcement of the 500 acre law, minimum wage legislation, agricultural cooperatives, and other social legislation. Muñoz-Marín had contemplated a program of economic reconstruction for Puerto Rico as early as 1933 but did not have the significant political backing to implement these reforms. In a letter to Mrs. Roosevelt on December 8th of that year, Muñoz-Marín wrote of a generation of Puerto Ricans who wanted to:

break the strangle-hold of land monopoly and restore the soil to the people who work it. It wants to diversify crops, plant food, emancipate the people from the constant fatal threat of Congressional action on sugar. It wants to foster industrial development to help support our relatively enormous population.<sup>8</sup>

Thus, as early as 1933, Muñoz-Marín believed that an economic plan for Puerto Rico should include agricultural diversification, industrialization, expansion of subsistence farming through land reform, and an increase in the purchasing power of the jibaros and agregados (mountain peasants and laborers).

The PDP won the 1940 elections and Muñoz-Marín became president of the Puerto Rican Senate. The 1940 election reflected major changes in Puerto Rican politics. The PDP for the first time stressed social and economic reforms instead of the political status of the island as their primary campaign issue. The result was mass support for the PDP from the populous rural areas. This basic strategy resulted in PDP victories for the next 30 years in Puerto Rican politics.

After the 1940 elections, Muñoz-Marín's first order of business was clearly the issue of land reform. The "500 Acre Law" was a provision of the Foraker Act and subsequently the Jones Act, the charters for civil government in Puerto Rico. The provision stated that no corporation might own or control more than 500 acres of land in Puerto Rico. There was no enforcement of the provision. Muñoz-Marín's election platform called for strict enforcement of this provision and the redistribution of land to the peasants.

One of Muñoz-Marín's first actions as Senate leader was to prepare draft legislation creating a Land Authority which would be authorized to issue bonds (secured by land) and with the proceeds buy up, through condemnation proceedings, all land held by corporations or individuals in excess of 500 acres.<sup>9</sup> Before legislation could take place, however, the 500 Acre Law faced legal challenges through U.S. courts.

Even though Muñoz-Marín controlled the minimum number of votes to begin his intensive campaign for promoting economic development—his party won ten of the nineteen Senate seats—he knew that he would face severe enforcement obstacles from both his domestic political adversaries and from the U.S. mainland.

### **The Emergence Of Governor Rexford Guy Tugwell**

The Senate President needed an ally and soon acquired one with the selection of Rexford Guy Tugwell as Governor of Puerto Rico in 1941. Tugwell proved to be a major ally and contributor to Muñoz-Marín's economic development programs and was clearly a departure from previous Washington-appointed governors. Unlike previous governors, he was sincerely concerned with making experimental radical changes and he utilized his keen intelligence and experience in government to implement these changes.

Rexford Tugwell had previously attained notoriety as an advisor to President Franklin Roosevelt during the New Deal and as a member of the "Brain Trust". Subsequently, he headed the chief planning body for New York City. As a professor of economics at Columbia University during the 1920s, Tugwell, together with Adolph Berle and Gardiner Means of Columbia, decided that the arrival of huge business corporations and advanced technology

## Berkeley Planning Journal

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meant that the days of laissez-faire capitalism in America were over. Tugwell argued that the economy must be centrally planned. Government and industry together should set prices and allocate capital investment. He insisted, at the same time, that government must not be totalitarian and rejected Marxian socialism.

Tugwell entered the political scene in 1928 as an agricultural policy advisor to presidential candidate Al Smith. In 1932, he became an original member of Roosevelt's "Brain Trust." He was arguably one of the most controversial of the New Dealers. His anti-laissez-faire regulatory suggestions made him a prime enemy of conservatives for the rest of his life. At the end of 1937, Tugwell left the Roosevelt administration and, shortly thereafter, became the first permanent chairman of the Planning Commission of New York City.

After much successful and important work with the planning commission, he sought to re-enter national politics. Ross states, "He felt that he, like Winston Churchill, had seen the trend of world events more clearly than most men, and that now was the time for him to be on the scene to assume his rightful place in the direction of national policy." In 1940, Tugwell's opportunity came when the Secretary of Interior, Harold Ickes, appointed Tugwell to investigate the methods of enforcing the 500 Acre Law in Puerto Rico. To Tugwell's delight, he found out that the present governor, Guy Swope, was resigning his office. In 1941, Tugwell sent a message to Ickes requesting that he be appointed as governor. Tugwell's request was accepted and he took the oath of office on September 19, 1941.

### **The Land Reform Compromise**

One of the first priorities for Tugwell after becoming governor was the issue of land reform. His views of land reform, however, were quite different from those of Muñoz-Marin. Muñoz-Marin had come to power on a platform which proposed that some large sugar estates be expropriated and operated as yardsticks by a public corporation; others would be subdivided into non-transferable plots for agricultural diversification. When Tugwell arrived in Puerto Rico a few months before becoming governor, he was impressed with the efficiencies of large-scale enterprise but was aware of the dangers of private ownership of large accumulations of productive wealth. Thus, he was sympathetic with the move to enforce a 500 acre limitation but was dubious about the desirability of a redistribution of land in small parcels.

The main issue that separated Muñoz-Marin and Tugwell on the land reform law was the proposal for "proportional benefit farms". Under this proposal, excess sugar farms bought at a "fair price"

by the government would be converted to large-scale agricultural enterprises owned by the government and leased to private entrepreneurs under a worker profit sharing plan. To Muñoz-Marín, who had developed the idea of proportional benefit farms, the intent was to redistribute land in individual plots to farmers. This he believed would appeal most strongly to the "jibaro". Tugwell preferred the formation of a public corporation that would develop new approaches to the exploitation of Puerto Rico's agricultural technology; his plan would lead to the development of new agricultural raw materials. He saw little future in developing new methods of distributing the proceeds of a bankrupt system of agriculture. Instead, Tugwell sought the development of collectivized farming utilizing the introduction of new crops, new agricultural technology, new agricultural processing industries, and manufacturing industries based on agricultural raw materials.

Tugwell and Muñoz-Marín had different opinions on agricultural policy, but a compromise was achieved. Under the new land reform law that was implemented, not all land would fall into the "benefit farm" category. Some land would be sold to farmers on "reasonable terms" and in relatively large tracts. Still other land was split into smaller parcels and distributed to the landless or to squatters. Although the small plots did not constitute efficient farming operations, they gave families an economic base from which to seek jobs in sugar during the grinding season, take needlework when available, and avoid idleness the rest of the year. The compromises between Muñoz-Marín and Tugwell in the new agricultural policies demonstrated the willingness of both men to achieve new economic development relations for Puerto Rico. This cooperation, compromising, and collegiality was evident throughout all of Tugwell's tenure as governor.

### **The Reorganization Of Public Administration**

After settling the initial problems of land reform, Tugwell began to tackle the problem of administrative reform. Tugwell, with his wealth of administrative experience, recognized that before fundamental socio-economic changes could take place in Puerto Rico, an overhaul in the administrative functions of government was required. Tugwell noticed that because of the disorganized nature of U.S. territorial arrangements, the Puerto Rican legislature could block and circumvent the governor's supervision of administration. As a result, the majority political party historically manipulated administration duties to its own advantage, creating bad administration. Agencies were staffed entirely by patronage and services were rendered according to influence. Interests and features such as a sound budget and

long-range planning were unthinkable.<sup>10</sup> Tugwell viewed the administrative machine as incompetent to enact a socio-economic transformation.

The urgency of this task was clearly noted as early as his inaugural address as governor when he stated that "constant improvement in administration" was essential to attaining future objectives.<sup>11</sup> A few days later, he stated to a friend, "As I get closer to the government here, I recognize that nothing short of some fundamental over-hauling will do."<sup>12</sup> Tugwell's first task was to seek out well-qualified administrators to direct the new programs. In *The Stricken Land*, he states:

The truth was, at this time, that the Populares were very weak in technical ability. The party had a mass of loyal men at the bottom, a middle layer of local agitators and workers, small politicians—the useful cement of affiliation— but it had almost none in the middle class who carry on the paper work and do the technical jobs of modern civilization. These had to be recruited; and Muñoz, in his eagerness to reward political loyalty, was falling into the old Puerto Rican fault of putting technical label on an incompetent individual and expecting him to do a satisfactory job... An outsider could not, perhaps, do much about this; but I determined to put in my bit. First of all, I set out to labor with the upper rank of the Populares—Muñoz most—to convert them... And instead of political workers, who were competent as orators but not as technicians, I began to find places in the Government for these younger engineers, economists, lawyers, and so on.<sup>13</sup>

The pool of competent, experienced, and non-partisan administrators was quite limited. This shortage of vital personnel meant that Tugwell had to take unusual steps. First, Tugwell imported a small group of U.S. administrators to implement at least the early stages of administrative reforms. The two most important individuals were Frederick P. Bartlett, who previously served as Administrator of the Department of City Planning of New York City, and Louis Sturcke, Jr., who had headed its Division of Capital and Assessable Improvements.<sup>14</sup>

The North Americans, however, would occupy only a small portion of the needed positions. Tugwell took a bold step and decided to appoint to important administrative positions young, highly educated and inexperienced Puerto Ricans. The individuals whom he appointed became the nucleus which has guided Puerto Rican planning up until the present. The following are the most prominent: Jaime Benitez, who was appointed chancellor of the University of Puerto Rico; Rafael de J. Cordero, who ran the State Insurance Fund, was the first Puerto Rican Auditor of Puerto Rico and eventually became Comptroller; Sol Luis Descartes, who held numerous high administrative positions,

including Treasurer of Puerto Rico; Roberto Sanchez Vilella, who held various administrative positions and eventually succeeded Muñoz-Marin as governor in 1964; Rafael Pico, who became the first Chairman of Puerto Rico's Planning Board; and finally, Teodoro Moscoso, Jr., the most prominent of Tugwell's appointments, who eventually became Director of "Operation Bootstrap."<sup>15</sup>

It is important to notice several characteristics of these administrative appointments. First, all of the appointees were quite young, none more than 40 years old. Second, almost all of them came from well-to-do families and were educated in the U.S., most of them receiving advanced degrees. Third, most of them were quite inexperienced. Another interesting point is that most of them were appointed to positions for which they had not been trained. For example, Cordero became Auditor although he was not trained as an accountant. Pico became Chairman of the Planning Board but had neither planning nor engineering training. The engineer, Sanchez Vilella, was assigned to civil service. For the task of promoting economic development, the three trained economists—Cordero, Descartes, and de Jesus—were passed up in favor of a pharmacist, Moscoso. An interesting quote from Tugwell might illuminate his reasons for these unusual selection criteria. When asked why he had chosen Pico, a geographer instead of an engineer, as chief planner, Tugwell responded:

Engineers are important to the work of planning but engineers are specialists much more than geographers and I think that the Chairman of the Planning Board is not appointed because he belongs to any profession but because he is a generally rounded individual. An engineer certainly should by no means be disqualified, but the fact that he is an engineer does not have anything to do with it—so far as I am concerned.<sup>16</sup>

### The Need For Centralized Planning

Concurrently with the selection of key administrators, Tugwell began laying the groundwork for the creation of a Puerto Rican planning organization. According to Tugwell, this new Planning Board would be the fundamental institution in his experimental planning process. But in order to appreciate why Tugwell placed such importance on a central planning agency, one has to review Tugwell's philosophy of planning.

As a professor of economics at Columbia University, and later as an advisor and member of Roosevelt's "Brain Trust," Tugwell argued that the conditions of modern technology and industrial organization required a renunciation of laissez-faire in favor of the planned economy. In his 1933 book, *The Industrial Discipline and the Governmental Arts*, Tugwell proposed that joint government-

industry "integration associations" be established to regulate investment, prices, wages, and working conditions under the guidance of a "United States Industrial Integration Board."<sup>17</sup>

In 1938, Tugwell left the Roosevelt Administration and was appointed Chairman of the New York City Planning Commission. During his three year tenure as chairman, Tugwell was pleased with the comprehensive authority of the commission but concluded that the agency was not sufficiently autonomous.<sup>18</sup> He believed that the planning function of society should be placed in an institution that was separate from the various branches of government, citing two reasons for independence: firstly, planning involves legislating, executing, and adjudicating; secondly, planning must be local and short-term, but outside influences make this impossible. In a broad interpretation of society, he defined planning as "the determination of the appropriate 'direction' in which society should grow, and then the devising of means to allow this to occur."<sup>19</sup> Tugwell, however, made it clear that the "fourth power" should ultimately be subordinate to the political branches of government.

Puerto Rico was Tugwell's realm to experiment with his ideas of central planning. The primary institution of central planning would be the Puerto Rico Planning Board. Tugwell, together with his newly imported advisor, Frederic Bartlett, began to draft a planning bill that would establish a centralized planning institution. Their finished product proposed one central planning agency with island-wide jurisdiction. The agency would have the power to plan for and regulate the use of all land, both in the rural areas and the cities. The agency was not placed under any one branch of government. Other features included to give the agency autonomous protection from either the legislative or executive branch were: board members were given six-year terms; the agency's budget was immune from executive changes before transmittal to the legislature; that a fixed percentage of Puerto Rico's budget would automatically be allocated to the planning agency; its regulations would be enforceable unless reversed by a majority of the legislature.<sup>20</sup>

When the planning bill was brought before the Puerto Rican legislature for passage, Muñoz-Marin accepted the bill with reservations. The conservatives, however, attacked the bill—stating that the agency would be costly, that it was a "fascist plan" and that it was illegal under the Jones Act.<sup>21</sup> The measure did pass but with fundamental changes. The agency's regulatory and planning powers would remain intact but the board's jurisdiction would be severely reduced—all rural areas would be exempted from the board's control and individual municipal planning commissions would be established to supplement the central board. Other fundamental changes were the omissions of both a

guaranteed budget-percentage appropriation and the majority legislative veto provision.<sup>22</sup> Tugwell was quite disappointed and almost did not sign the bill. He subsequently changed his mind, reasoning that the measure could have been far worse if it had not been for Muñoz- Marin:

The difference in this instance between what might normally be expected, and what actually happened, was made by the President of the Puerto Rican Senate... And he saw to it that the enabling act was passed, even if not exactly as we wanted it,<sup>23</sup>

### **The Industrial Policy Debate And The Development Of State Capitalism**

After the creation of the Puerto Rico Planning Board, both Tugwell and Muñoz-Marín began to tackle the serious problem of industrial development. As was stated previously, both Tugwell and Muñoz-Marín initially thought that agricultural development would solve most of Puerto Rico's problems. Both soon became convinced that industrialization was the long-term solution to Puerto Rico's economic problems. Agriculture had accounted for only 10,000 new jobs in the previous 40 years. Even though agriculture was the island's largest employer, it could not possibly satisfy the yearly demand for 20,000 new jobs.<sup>24</sup> Both concluded that agricultural development alone could not meet the ever increasing employment demands. They differed only on the question of when industrialization should begin. Muñoz-Marín wanted an immediate start while Tugwell wanted to initiate an industrialization effort only after World War II was over.<sup>25</sup> Tugwell states that "Muñoz insisted and we decided to make at least a beginning."<sup>26</sup>

Before industrialization initiatives could begin, the government needed to strengthen the infrastructure of the economy. Tugwell's administration immediately began a battle to take over the island's remaining private water, electric, and telephone companies and transform them into public corporations. The public corporation was legally incorporated, financially self-sufficient, and administratively apart from any bureaucracy. Between 1941-46, fourteen of them were established.<sup>27</sup> The utilities public corporations that provided the infrastructure for the development programs were:<sup>28</sup> The Aqueducts and Sewer Authority, the Water Resources Authority (the electric power company), and the Communications Authority.

The actual formation of economic development policy would be established by three development agencies: the Development Bank of Puerto Rico (created in 1942); the Puerto Rico Agricultural Company (formed in 1945); and the Puerto Rico Development Company, PRIDCO (established in 1942).

PRIDCO, also known as "Fomento," had characteristics similar to a Chilean agency named "Corporacion de Fomento de la Produccion" (corporation for stimulation of production), which had been established three years earlier.

The Development Company Act, which established PRIDCO, was formulated and interpreted to preserve the island's independence. Although assigning to the Company broad powers to proceed with diverse programs to fully exploit the island's human and economic resources, the act was clearly intended to promote an autonomous industrial development program.<sup>29</sup> It specified that PRIDCO should promote industries based on a list of local raw materials, such as silica sands, clays, all classes of fibers, agricultural products, etc. It further directed the company: 1) to promote the use of capital owned by residents of Puerto Rico in industrial enterprises, 2) to avoid absentee ownership of capital, and 3) to grant preference and priority to residents in the allocation of loans when other factors were equal. A further provision required the company to give preference and priority to enterprises governed by cooperative, governmental, or other non-profit organizations and to enterprises which offered the greatest benefits to human welfare.<sup>30</sup>

The Development Company Act was drafted with the knowledge that the need for capital and enterprise exceeded the locally available resources and that all possible avenues to industrialization should be left open. The directives did not prevent the company in later years from promoting the inflow of U.S. capital from firms that had no interest in local raw materials or in the local market. But the working of the act expressed a clear preference—a preference for greater local control and autonomous national development.

Tugwell and Muñoz-Marin supported the Development Company Act and the legislation was enacted in May of 1942. Teodoro Moscoso was appointed general manager of PRIDCO. It is interesting to note, however, Moscoso's interpretation of the Development Company Act. In a 1950 memorandum to then Governor Muñoz-Marin, Moscoso states:

By the Act of May 11, 1942, the Puerto Rico Development company was established and was authorized to: 1) undertake research; 2) make loans for industrial, mining and commercial enterprises or to any agricultural enterprise incidental thereto; 3) to establish and operate enterprises with the purpose of exploiting certain raw materials; 4) to promote the engagement of capital in industrial enterprises and for that purpose to acquire the majority of shares in stock in such enterprises; 5) to promote and develop the tourist trade and; 6) to establish mining and commercial enterprises.<sup>31</sup>



Reading Moscoso's interpretation of the Act, one might think that there were actually two different acts. He fails to mention the most important guiding principles—local control and autonomous national development. The importance of this omission will be reflected upon later in greater detail.

The Development Company Act also provided PRIDCO with the assets of the withering New Deal development program, the Puerto Rican Reconstruction Administration. These assets included personnel, plants, and projects including a profitable subsidiary, the Puerto Rican Cement Corporation with assets of nearly \$2 million. From the government, PRIDCO received an appropriation of \$500,000 annually and the right to borrow in capital markets.<sup>32</sup>

During the first year, the Products Design Division was created to develop opportunities in the handicrafts field. A subsidiary, the Puerto Rican Glass Corporation, was established with an initial investment of \$400,000, fourth-fifths of the legislative appropriation. In addition, initial plans were made by PRIDCO to support: a paperboard factory to provide material for the manufacture of shipping cartons for glass containers; a plant to manufacture wallboard from bagasse, a by-product of sugar manufacture; a cotton textile mill; a plant to produce food yeast from molasses for use as a dietary supplement; a vegetable oil and shortening mill; an operation to manufacture synthetic charcoal briquettes from agricultural wastes; and through the Products Design Division, manufacture of bamboo and wooden furniture, ceramic goods, and rugs. Some of the plans were carried through, others remained in the planning stage, and still others were forgotten. The major projects that characterized PRIDCO during its first five years, however, were the Puerto Rico Glass Corporation, the Puerto Rico Pulp and Paper Corporation, the Puerto Rico Shoe and Leather Corporation, and the Puerto Rico Clay Products Corporation.<sup>33</sup>

PRIDCO was able to finance these development projects through revenues provided by the heavy wartime sales of Puerto Rican rum on the mainland. Between 1941 and 1946, PRIDCO received revenues of approximately \$21 million. PRIDCO, however, had little prospect of raising any long-term capital except by legislative appropriation.<sup>34</sup> If these appropriations had remained at the initial level of \$500,000, the glass plant alone would have absorbed the entire capitalization provided for the first six years. Instead, by 1947 the windfall from wartime conditions enabled PRIDCO to establish four large manufacturing plants and to construct a \$4.5 million textile mill and a \$7 million hotel. There were no outstanding debts. Yet only one percent of the additional employment opportunities needed on the island were created.

After the war, when the demand for Puerto Rican rum decreased, public industries faced severe setbacks. First, demand for public industries' goods dropped due to the competition from the newly available U.S. goods. Secondly, with the boom in rum exports and its subsequent revenues ending, PRIDCO industries faced short-term capital shortages. Of the 5 manufacturing industries, only the cement one was not losing money. The experiment with state industrial capitalism began to face its only severe difficulty. Shortly afterwards, the Puerto Rican government would abandon its experiment and develop a series of programs to attract direct foreign investment for industrial development.

### **The Conflicts Over Industrial Policy And The Emergence Of Teodoro Moscoso**

What led to this new change in industrial development policy? There were two primary reasons—the industrial plants began to lose money, but more importantly, after 1946 the governor of Puerto Rico was no longer Rexford Tugwell. Even before 1947, conflicts with Tugwell were apparent and escalating. The one individual who initiated the re-orientation in policy after 1947, and who had numerous policy conflicts with Tugwell, was Teodoro Moscoso. As early as 1944, Moscoso succeeded in convincing Muñoz-Marin, and subsequently the island legislature, to pass a tax exemption measure. Muñoz Marin disliked the idea of tax exemption but viewed it as a necessary evil and reluctantly supported the legislation. Tugwell, however, refused “to peddle Puerto Rico to business” and refused to approve programs that relied primarily on offering inducements to private capital.<sup>35</sup> Tugwell did in fact block a 1944 tax exemption law by a pocket veto.

Even though Moscoso did not succeed in his tax exemption objective, he did manage to circumvent Tugwell and in 1945 he initiated the Aid to Industrial Development Program (AIDP). Moscoso states in a 1952 memo that:

A re-evaluation of the experience in the operation of these five plants and of the needs for industrial development as early as 1945 indicated to the Company that greater impetus to private participation in the industrialization program would be needed.<sup>36</sup>

The AIDP was essentially an incentive to foreign private capital in the form of subsidized factory building rental. The rental subsidy, however, proved not to be a sufficient incentive to induce the establishment of manufacturing firms not already located in Puerto Rico. There were few applications—only two buildings were completed and leased but no new foreign manufacturing firms were established.<sup>37</sup>

Also in 1945, Moscoso succeeded in establishing a PRIDCO office in New York, suggesting that this office would aid its subsidiaries in connection with their marketing and procurement problems. The office's main duties, however, involved the task of luring private foreign investment to Puerto Rico. This strategy failed to lure any significant foreign investment.

Tugwell knew that Moscoso was slowly countering his views of industrial development policy. Outside of publicly disassociating himself from these new strategies, Tugwell had few options. PRIDCO had a mandate from the legislature and had wide freedom to implement policy without any mandates from the governor. Even though Moscoso did not publicly defy Tugwell, he maintained the image of an unchanged program and quietly initiated a complete re-orientation of economic development policy.<sup>38</sup> Sensing that the Puerto Rican leadership had lost its experimentalist and reformist initiatives, Tugwell resigned in 1946. Jesus T. Pintero, a political supporter of Muñoz-Marin, became the last appointed Governor of Puerto Rico and served until the Muñoz-Marin gubernatorial victory in 1948.

### **The Shift In Industrial Policy**

With the resignation of Tugwell, Moscoso had the freedom to conduct openly the promotion of basic changes in industrialization policy. Between 1945-47, Moscoso made two important decisions that marked a shift in industrialization policy: the decision to sell the government-owned PRIDCO factories to private investors and the decision to offer tax exemption to external capital. After 1946, Moscoso was able to implement these policies.

The first policy shift decision in Puerto Rico's industrialization program was the creation of a 100 percent tax exemption to attract mainland industries to the island. Moscoso's position held that since Puerto Rico lacked significant amounts of internal capital, mainland capital was the only alternative. PRIDCO designed a tax exemption program, based upon the island's unique tie to the U.S., to attract mainland capital. This relationship has several advantages for mainland capital: 1) federal law applies to the island on most matters, thus mainland investors would be reassured by the protection of federal laws when contemplating opening a firm on the island; 2) Puerto Rico shares the currency and common market of the U.S.— thus, Puerto Rican-produced goods enter the U.S. market duty free; 3) Puerto Rico is exempt from federal income taxes. With this relationship, Puerto Rico could advertise the island as a haven not only from municipal and island taxes, but also from federal taxes, plus offering the political security and stability of the island's tie with the U.S.<sup>39</sup>

The new tax exemption law was passed in 1947 and was amended in 1948. This act exempted investors from income, property, municipal, and excise taxes on machinery and raw materials until June 31, 1959. The act also provided a partial exemption for three additional years to those that qualified. Moscoso states that:

The Company utilized this act as a basis for active promotion of the establishment of industrial plants by private investors from both Puerto Rico and the mainland United States. In order to break the ice it also provided extensive financial assistance to some of the first private firms which agreed to establish operations in Puerto Rico.<sup>40</sup>

The second policy shift decision in Puerto Rico's industrialization program was the decision to sell the PRIDCO factories. Both Muñoz-Marín and Tugwell viewed the creation of PRIDCO factories as an effort to establish autonomous national development. Even though both preferred local capital investment, mainland capital would be encouraged. Moscoso, however, stated that "PRIDCO was always meant as a pump-primer for private investment, never as a substitute for private investment."<sup>41</sup>

Muñoz-Marín and Moscoso were concerned that the PRIDCO ownership of the factories might be viewed by mainlanders as a radical socialist experiment and went to great lengths to dispel such an interpretation. For example, in 1942, PRIDCO's board of directors was selected with care in order "to lend an aura of conservatism and respectability to an organization which might otherwise have suffered the ill-effects of a socialist reputation."<sup>42</sup> Also, in 1944, Muñoz-Marín rejected an opportunity for the island government to buy the privately-owned telephone company because he believed that the Republican presidential candidate, Thomas Dewey, would beat Franklin Roosevelt in the 1944 presidential race.<sup>43</sup> Furthermore, by 1947, Dewey was expected to defeat Truman in the 1948 presidential election. This expected political development convinced Muñoz-Marín that in order to attract investments, it would be necessary to end government ownership of the factories.<sup>44</sup>

Besides the change in governorship, the primary reason for selling the PRIDCO factories was that except for the cement plant, all were losing money. Other reasons were that they were providing few jobs and that the rum bonanza from rum excise taxes flowing into the island's treasury tapered after the war. At the end of 1947, the government's commitment of twenty million dollars to industrialization had produced less than 2,000 factory jobs—less than 1 percent of the island's employment requirements. By 1951, the government completed the sale of all of its PRIDCO

factories.

Another significant shift in industrialization policy was the absorption of PRIDCO by a new super-agency that would guide the island's industrialization effort: The Economic Development Administration, also known as Fomento Economico. The restructuring of PRIDCO occurred mainly for two reasons. The Development Company Act which established PRIDCO intended PRIDCO to promote an autonomous industrial development program. It specified that PRIDCO promote local industries based on local raw materials. Furthermore, PRIDCO would give preference to enterprises governed by cooperative, governmental, or other non-profit organizations and to enterprises which offered the greatest benefits to human welfare. Puerto Rico's new shift in industrialization policy had new intentions and priorities; therefore, new charter policies had to be established. A second reason for the restructuring of PRIDCO was that PRIDCO was mandated by the legislature and reported to it. Muñoz-Marín preferred the reorganization of PRIDCO under the executive branch, where he could have more of an impact on its decisions.

The necessity of restructuring PRIDCO resulted in the establishment in 1950 of Fomento Economico, with Teodoro Moscoso named as administrator. The primary change between the 1942 charter of PRIDCO and the 1950 charter of Fomento Economico was that in 1950, the agency was charged with promoting private investment while discontinuing its public sector manufacturing efforts. The intention of promoting autonomous industrial development was omitted.

Nonetheless, it is important to note that there were discrepancies and debates regarding what specific strategy of industrial policy should be initiated. The debates took place mainly between the island's two main industrial policy makers—Teodoro Moscoso and Muñoz-Marín. Moscoso always placed more emphasis on making nationalistic sacrifices in order to attract private foreign capital than on promoting nationalist efforts at autonomous economic development. Muñoz-Marín came from a tradition of Latin American populism which viewed foreign capital with caution and as exploitative. Muñoz-Marín could be convinced to accept foreign capital only when Puerto Rico was gaining and not losing in the exchange.

One example of this internal debate over industrial policy concerned the promotion of locally-owned factories to advance the process of import substitution. Import substitution can be defined as:

a strategy designed to raise employment and income levels through expansion of domestic output to alleviate a chronic balance of payments equilibrium. The strategy is normally

viewed as consisting of identifiable stages, proceeding from the most easy-to-substitute industries requiring relatively small capital investment and unsophisticated technology to more difficult-to-substitute industries which require substantial investments and advanced technology.<sup>45</sup>

Import substitution, a strategy promoted by Raul Prebisch, the head of the United Nations Economic Commission on Latin America, was quite popular throughout the 1950s and 1960s. Muñoz-Marin supported the general notion of import substitution and felt that Moscoso and Fomento Economico were not doing enough to promote Puerto Rican industries. Moscoso, however, was not in favor of promoting local investors because it was too costly to attract a scarce resource—local capital.

There were other basic differences, such as disputes over wages substantially lower than those on the mainland (wages hopefully capable of attracting investment capital), and over incentives given to specific industries.<sup>46</sup> Nonetheless, through much persuasion, Moscoso convinced Muñoz to accept virtually all of Moscoso's plans for industrialization.

Thus, by 1951, the Tugwell/Muñoz-Marin experiments at promoting autonomous economic development came to an end. Moscoso had taken the reins as the chief industrial policy-maker from Tugwell and had succeeded in fundamentally reorientating Puerto Rico's economic development policy. This reorientation in development policy has had numerous effects on Puerto Rico. These effects will be analyzed in the following section.

### **Consequences Of The Moscoso/Muñoz-Marin Economic Development Reorientation Policy**

This section will provide a brief analysis of the socioeconomic and political consequences of the 1947 reorientation of economic policy initiated by Moscoso and Muñoz-Marin. An historical overview of the economic results of this reorientation policy, which is more popularly known as "Operation Bootstrap," will be presented. Following this brief overview, three specific consequences of "Operation Bootstrap" will be discussed: 1) effects on the Puerto Rican masses; 2) effects on the Puerto Rican economic structure; 3) the current economic crisis and subsequent industrial policy recommendations by Moscoso. After a brief summary of the three consequences of "Operation Bootstrap," the analysis will shift into a new focus—the objective will be to answer the following questions: could this current economic crisis have been avoided?; could Puerto Rico have pursued alternative development models?; and finally, why was the current economic model selected over other models? The following presentation will not attempt to completely answer these questions in detail, but instead, suggest a mode of analysis for future research on these

issues.

What were the economic effects of the Moscoso-Muñoz-Marin economic development reorientation policy, commonly known as "Operation Bootstrap?" Unquestionably, after 1947 Puerto Rico experienced an industrial boom. The following examples clearly bear this out: a) the gross domestic product increased from \$572 million in 1947 to \$9,711 in 1977; b) the gross national product grew from \$612 million in 1947 to \$7,914 million in 1977; c) the per capita GNP rose from \$154 in 1940 to \$2,391 in 1977; d) employment increased by 239,000 from 536,000 in 1947 to 775,000 in 1974.

This industrial boom had the effect of transforming the labor force from a primarily agricultural to an industrial/service labor force. Between 1950-75, employment in agriculture declined from 214,000 to 50,000 while employment in manufacturing increased from 55,000 in 1950, to over 155,000 in 1974. Along with the industrial expansion, average hourly wages of production workers rose from 28 percent of the U.S. average in 1950 to 53 percent in 1975.

Was Operation Bootstrap a success for Puerto Rico? One could reasonably argue that it clearly was not. The first step in this argument would be to demonstrate that Operation Bootstrap had the wrong priorities—mainly an increase in foreign capital investment that would provide an increase in the GNP. Instead of seeking an increase in the GNP and economic growth without pre-conditions, the government of Puerto Rico should have been concerned with the basic public needs of society. These basic public needs include: adequate food, shelter, health care, full employment, education, safe environment, and the promotion of income equality. The Tugwell/Muñoz-Marin policies of 1941-47 began to address these issues. I will argue that Operation Bootstrap clearly failed to promote these public needs.

One can argue that the rising GNP statistics have placed Puerto Rico's standard of living above all other countries of Latin America. Puerto Rico, however, is part of the U.S. economy and has to pay U.S. prices for all of its goods. Puerto Rican incomes also are much lower than those of the poorest U.S. state. These statistics, observed more closely, merely illuminate the booming profits of U.S. capital investments on the island.

What happens to these statistics when one takes into consideration that between 1950-65, over one million Puerto Ricans migrated to the U.S.? The unemployment rate would certainly have been much higher.<sup>47</sup> Even with this migration, the Puerto Rican Planning Board in 1971 issued a study which more accurately adjusted the unemployment rate to 30 percent of the labor force.<sup>48</sup> Another factor concerning unemployment is that

Puerto Rico has one of the lowest "participation in the workforce" rates in the world. The U.S., for example, has historically maintained a workforce participation rate of around 60 percent. Puerto Rico's rate in 1950 was 55 percent. According to U.S. Labor Department statistics, in 1980, Puerto Rico's participation rate fell to 40 percent.<sup>49</sup> This decrease means that an ever-growing number of unemployed are being eliminated from the defined workforce. Thus, the actual unemployment is greatly underestimated. Taking the Labor Department statistics for 1980 and assuming that Puerto Rico retained the labor participation force it had in 1950, its *official* unemployment rate would be over 40 percent. If we include the one million migrants that left the island between 1950-75, the *official* unemployment figure would be over 60 percent.

If one simply looks at these unemployment figures, the conclusion is obvious—that Operation Bootstrap failed in providing adequate employment for the Puerto Rican masses. When one adds to this scenario the unequal distribution of income, the dependence on high priced imported consumer goods, the environmental effects of industrialization, and the dependence of over 60 percent of the country's population on federal foodstamps to supplement their diet, one can only conclude that Operation Bootstrap has failed to meet the basic social needs of Puerto Rican society.

Now that we have presented a brief analysis of Operation Bootstrap's effects on the Puerto Rican masses, let us now focus on its structural effect on Puerto Rico's economy. One can make a solid argument that Operation Bootstrap's primary effect has been an increasing loss of Puerto Rican economic sovereignty. U.S. investors, for example, control over three-fourths of all assets in the industrial-manufacturing sector of Puerto Rico. U.S. capital also controls other important parts of Puerto Rico's economy: the retail industry, housing construction, insurance, communications, domestic and foreign transportation, and tourism and associated service sector operations. As Gordon K. Lewis has eloquently stated, "the old type of sugar absenteeism has merely been succeeded by a new type of industrial absenteeism. The absentee landlord of the old days has been replaced by the absentee shareholder of the new."

Another tendency of this industrialization process has been the increasing tendency of U.S. capital to acquire local enterprises. During 1960-65, for example, over \$55 million was poured into this activity. This denationalization of the Puerto Rican economy is still occurring and is accompanied by the displacement of small and medium size retailers by giant U.S. retail chains such as Grand Union, Sears, J.C. Penny, etc.



By the mid 1970s, however, Puerto Rico's economic development scenario underwent a dramatic transformation. Puerto Rico began to lose its comparative advantage in investment opportunities. By the 1970s, foreign capital could safely and profitably invest in a variety of international markets. The result is that since the mid 1970s, Puerto Rico has undergone an ever worsening economic decline. Since 1975, the economy has had an average yearly negative growth rate of 3 percent. One clear example is that between 1974 and 1975, Puerto Rico lost over 26,000 manufacturing jobs.

What has been Puerto Rico's solution to combat this crisis? Teodoro Moscoso has come to the rescue; in 1976 he made specific proposals to the U.S. Congressional Committee on Interior and Insular Affairs which held hearings on a piece of legislation entitled, "Compact of Permanent Union Between Puerto Rico and the U.S." At this hearing, Moscoso proposed the following: 1) strengthen the family planning program; 2) continue to promote high productivity and high-technology industries; 3) create new incentives and more budgetary resources for industrial promotion; 4) restore flexibility in setting the minimum wage. Furthermore, Moscoso called for greater autonomy over the island's economy as the solution to Puerto Rico's economic problems. Moscoso wanted the U.S. federal government to lower wages, tax levels, and reduce federal pollution standards on the island while still maintaining the basic political ties to the U.S. If enacted, the results would have potentially created greater profits by foreign capital, thus increasing investment. These proposals would also have meant additional negative economic consequences for Puerto Rican society.

What do Moscoso's latest proposals demonstrate? His proposals suggest a declining capacity of the government to manage the state and economy. In the past, even though the state was dependent upon continued foreign investments to finance economic growth, it possessed significant autonomy to direct the course of national development. The current economic crisis magnifies Puerto Rico's economic dependency and increases the obstacles to an autonomous development strategy. If the Puerto Rican government continues to base its development strategies on its ability to provide continued favorable investment opportunities to foreign capital, the state will be forced into a dilemma—in order to attract foreign investment, the working classes will clearly have to make sacrifices.

### **Conclusion**

There is, however, an alternative model for balanced autonomous national development—a model that more closely meets the collective needs of the Puerto Rican people. In order to

facilitate these changes, the government of Puerto Rico will have to transform the existing relations of production. Puerto Rico must seek investments that meet the public need. Some examples are: investments to revive agricultural productivity; investments that remedy the unemployment problems with locally headquartered industries having local outlets; and seeking industries that will reinvest their profits back in Puerto Rico. With the attraction of these new types of investments, the Puerto Rican government will not deny these firms profits, but instead, the government will retain the control over the apparatus of production from these firms. The result will be new consumption patterns that will reflect the adjusted pattern of production. These new relations of production will bring new production patterns, new consumption patterns, and economic, cultural and social autonomy. This new autonomy will hopefully bring a new development of human relations that will meet the collective public needs of Puerto Rican society.

This suggested alternative development strategy has close resemblances to many of Tugwell's recommendations for Puerto Rico. His views have to be re-articulated for the 1980s but Tugwell's basic proposals remain relevant because their intended purpose was to promote autonomous national development.

Tugwell also gave much importance to central planning, arguing that capitalist development could not be left in the hands of market forces. He believed that the conditions of modern technology and industrial organization required a renunciation of laissez-faire in favor of the planned economy. His proposals, among many, included one for joint government-industry "integration associations" that would regulate investment, prices, wages, and working conditions.

Tugwell's policies advocating a possible autonomous economic development strategy for Puerto Rico were subverted after 1947. This autonomous tradition need not have been subverted—Muñoz-Marin did have alternatives. He could have continued investing in the state-financed industrialization program or he could have used fiscal policy and state banking regulations to gain access to private capital and thus direct its investment. These two options, however, required full sovereignty. But even without full sovereignty, there were still other options and resources that he did not use. One example was the Government Development Bank, which was utilized to provide loans for industrial development, but which used only 12 percent of its loans for industrial development projects.

Yet another alternative that Muñoz-Marin could have pursued was import substitution. If successful, import substitution would theoretically enhance the nation's balance of payments, create

local jobs, enhance the ratio of local to foreign entrepreneurs, and protect local industries from outside competition. Muñoz-Marin, however, was convinced by Moscoso not to pursue this alternative.

The question remains, why did the Puerto Rican government choose not to pursue these alternatives? One solution is to analyze the administrators that guided the Puerto Rican economy during this period. Angel Quintero Rivera has suggested that the "Munoz team" consisted of reformers, most of whom were educated on the mainland, whose interests were in keeping a tie with the U.S. as the surest source of funds for their development efforts. These individuals were not radicals and not even visionaries; instead, they were pragmatists dedicated to short term goals—increasing foreign capital.<sup>50</sup> In his autobiographical work, *The Stricken Land*, Tugwell praises his administrators as men

...mostly those who had been educated or who had worked in the States, who to a degree, at least, recognized the difficulties and dangers involved in the situation. It was they who possessed the power to transform. They recognized the balance of power in the Puerto Rican community must pass from the politician and the landed and moneyed dons to the technically trained and realistic younger group whose ambition was not to exploit the jibaro and the obrero for the benefit of himself and his connections but to develop as a people in one co-operative effort, with leadership but not with dictatorship. This was the American idea.<sup>51</sup>

This notion of the "American idea" probably planted the seeds for the destruction of Tugwell's visionary, progressive development programs for Puerto Rico.

## NOTES

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2. *Ibid.*, p. 217.
3. History Task Force, Centro de Estudios Puertorriqueños, *Labor Migration Under Capitalism: The Puerto Rican Experience*, p. 95.
4. Diane Christopoulos, "Puerto Rico in the Twentieth Century: A Historical Survey," in *Puerto Rico and Puerto Ricans*, p. 162.
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6. Quoted in Manuel Maldonado-Dennis, *Puerto Rico: A Socio-Historical Interpretation*, p. 83.

## Berkeley Planning Journal

7. Quoted in Thomas Mathews, *Puerto Rican Politics and the New Deal*, p. 30.
8. Quoted in William G. Davey, "Luis Muñoz-Marin: A Rhetorical Analysis of Political and Economic Modernization in Puerto Rico," Ph.D. dissertation, Indiana University, 1974, p. 203.
9. David Ross, *The Long Uphill Path: A Historical Study of Puerto Rico's Program of Economic Development*, San Juan: Talleres Graficos Interamericanos, 1966), p. 50.
10. Charles T. Goodsell, *Administration of a Revolution*, p. 30.
11. Quoted in Goodsell, p. 31.
12. *Ibid.*
13. Rexford Guy Tugwell, *The Stricken Land: The Story of Puerto Rico*.
14. Charles T. Goodsell, *Administration of a Revolution*, p. 64.
15. *Ibid.*, p. 76.
16. Quoted in Goodsell, p. 87.
17. Quoted in Goodsell, p. 87.
18. Rexford Guy Tugwell, *The Industrial Discipline and the Governmental Arts*, p. 194.
19. *Ibid.*, p. 194.
20. *Ibid.*, p. 194.
21. Charles T. Goodsell, *Administration of a Revolution*, p. 145.
22. *Ibid.*, p. 147.
23. Quoted in Goodsell, p. 149.
24. *Ibid.*, p. 148
25. Quoted in Goodsell, p. 149.
26. "The basic need for a sound industrialization program in Puerto Rico springs from the fact that agriculture, in spite of its importance, has only provided an increase in employment of 10,000 in the last 40 years, whereas the labor force of the Island increases by approximately 20,000 every year." (Massorana, R.T., *Puerto Rico's Economic Development Program* (San Juan: La Fortaleza, October 17, 1950), p. 3.
27. Henry Wells, *The Modernization of Puerto Rico*, p. 145.
28. Charles T. Goodsell, *Administration of a Revolution*, p. 183.
29. *Ibid.*
30. David Ross, *The Long Uphill Road*, p. 63.
31. *Ibid.*
32. Memorandum of Teodoro Moscoso, Administrator, Economic Development Administration, *History of the Program of Industrial*

*Development in Puerto Rico*, to Governor Muñoz-Marin (San Juan: Administración de Fomento Economico, August 22, 1952), p. 1.

33. David Ross, *The Long Uphill Path*, p. 74.
34. *Ibid.*, pp. 64-73.
35. *Ibid.*, p. 74.
36. *Ibid.*, p. 79.
37. Memo to Teodoro Moscoso to the Governor, *History of the Program of Industrial Development in Puerto Rico*, p. 2-3.  
  
David Ross, *The Long Uphill Path*, pp. 86-87.
38. *Ibid.*, p. 80.
39. *Ibid.*, pp. 95-100.
40. Memo of Teodoro Moscoso to the Governor, *History of the Program of Industrial Development in Puerto Rico*, p. 3.
41. Quoted in William Bauer, "Puerto Rico: An Evaluation of a Successful Development Program," *Quarterly Journal of Economics* 68 (November 1959), p. 48.
42. David Ross, *The Long Uphill Path*, p. 85.
43. William Bauer, "Puerto Rico: An Evaluation of a Successful Development Program," p. 49.
44. *Ibid.*
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46. David Ross, *The Long Uphill Path*, p. 112.
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49. *Ibid.*
50. Angel Quintero Rivera, "The Development of Social Classes and Political Conflicts in Puerto Rico," in *Puerto Rico and Puerto Ricans*, p. 204.
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