

STRATEGIES OF DEVELOPMENT AND
IDEOLOGICAL CONTRADICTIONS
IN PUERTO RICO: 1940-1978

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Abstract

The object of this study is to understand the role that strategies of socio-economic development play in ideological class struggle. The central hypothesis of this work is that every strategy of development constitutes the ideological representation of the political project of one or various (allied) classes or fractions of classes in their attempt to achieve political hegemony. Each strategy of development within the capitalist system represents a model of accumulation in which one or various classes or fractions of classes emerge as the dominant sector in society. Hence, strategies of development constitute ideologies (sets of representations of the social relations of production) which respond to class interests and attempt to represent these as the interests of all of society.

Using the Marxist definition of ideology as a level of praxis, rather than as a set of ideas, the research was focused on the process of social relations involved in the elaboration and implementation of particular strategies of development in Puerto Rico between the years 1940 and 1978. Particular attention was devoted to the analysis of the productive structure, the constitution of class interests at that level and their articulation at the politico-ideological level in the form of strategies of development adopted by the state. Through this analysis we were able to substantiate our hypotheses by showing how strategies of development constituted the mediating terrain of conflicting interests, condensing them and providing the means for political and ideological accommodations that made viable the continued reproduction of imperialist capitalist relations of production in Puerto Rico.

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List of Abbreviations and Acronyms

AFE	Administracion de Fomento Economico
CFIPR	Compania de Fomento Industrial de Puerto Rico
CFPR	Compania de Fomento de Puerto Rico
CGT	Confederacion General de Trabajadores
CPI	Congreso Pro-Independencia
EDA	Economic Development Administration
FLT	Federacion Libre de Trabajadores
IA	Ideological Apparatus
ICA	Ideological Class Apparatus
IRC	Internal Revenue Code
ISA	Ideological State Apparatus
PAC	Partido Accion Cristiana
PCP	Partido Comunista Puertorriqueno
PER	Partido Estadista Republicano
PIP	Partido Independentista Puertorriqueno
PL	Partido Liberal
PN	Partido Nacionalista
PNP	Partido Nuevo Progresista
PP	Partido del Pueblo
PPD	Partido Popular Democratico
PR	Partido Republicano
P.R.	Puerto Rico
PRDC	Puerto Rico Development Company
PRERA	Puerto Rico Emergency Relief Administration
PRIDCO	Puerto Rico Industrial Development Company
PRRA	Puerto Rico Reconstruction Administration

List of Abbreviations and Acronyms-Continued

PS	Partido Socialista
PSP	Partido Socialista Puertorriqueno
PUP	Partido Union Puertorriquena
U.S.	United States

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Introduction

The object of this study, as the title suggests, is the role that strategies of socio-economic development play in ideological class struggle. We will focus our analysis on strategies of development as ideologies that respond to or express class interests. Our theoretical-methodological perspective departs from the Marxist theory in which modern day society is divided into social classes, which are constituted at the level of the relations of production and whose practices are fundamentally expressed at three levels: the economic, the legal-political and the ideological. This is expressed by Marx in his "*Preface* to a Critique of the Political Economy", when he synthesized his work in the following form:

In the social production of their life, men enter into definite relations that are indispensable and independent of their will, relations of production which correspond to a definite stage of development of their material productive forces. The sum total of these relations of production constitutes the economic structure of society, the real foundation, on which rises a legal and political superstructure and to which correspond definite forms of social consciousness. The mode of production of material life conditions the social, political and intellectual life process in general. It is not the consciousness of men that determines their being, but, on the contrary, their social being that determines their consciousness.¹

Departing from this theoretical perspective, which is explained in the first chapter, we analyze the policies of socio-economic

¹Karl Marx, "Preface to a Contribution to the Critique of Political Economy", in Karl Marx and Frederick Engels, Selected Works; In One Volume (New York: International Publishers, 1968), p. 182.

development adopted in Puerto Rico between 1940 and 1978. Having defined strategies of development as ideologies that express class interests, we proceed to analyze the effect that the adoption of particular development policies had in terms of altering, redefining or perpetuating the social structure in Puerto Rico.

There exists, that we know of, three studies that are closely related to our investigation. These are: Monica Peralta Ramos, Etapas de acumulacion y alianzas de clases en la Argentina (1930-1970);² Ricardo Kesselman, Las estrategias de desarrollo como ideologias;³ and Miriam Limoeiro-Cardoso, La ideologia dominante.⁴ We have incorporated elements from all of these studies, but at the same time we have marked differences with them. The work of Peralta Ramos, for example, concentrates on "the first moment in the analysis of the relation between the different social forces . . . from this perspective class alliances refer to the objective existence of a bloc of social forces in power and not to the process of formation of the said alliances in terms of organized conscious behavior".⁵ Peralta Ramos centers her study on the structural (economic) conditions that make possible certain types of power alliances and its ideological expression in the formulation of development models while excluding the consideration of the role that political organizations play in the formation of these models. Agreeing with this we concentrate our attention on analyzing development

²(Buenos Aires: Siglo Veintiuno, 1972).

³(Buenos Aires: Siglo Veintinuo, 1973).

⁴(Mexico: Siglo Veintiuno, 1975). ⁵Peralta Ramos, Etapas, p. 11.

models as ideological formulations that contribute to the formation of class alliances. That is, we try to see the strategies of developments not only as an expression of the level of development of the productive forces but as politico-ideological projects that foster particular forms of class alliances.

Therefore, we do not limit our analysis to structural conditions and their basic ideological expressions. Our object is to see the dynamics of these in the politico-ideological level of class struggle. Hence, we try to discover the role of developmental models in making possible the politico-ideological conditions of structural change thus centering our analysis at the level of the superstructure.

Our study is closer, in terms of its analytical perspective, to the work of Ricardo Kesselman for whom "strategies of development are ideological projects of economic direction, sustained by different classes or class fractions, and, as such, they are structured upon a sizable technical scaffolding in which the State frequently appears as an instrument of a determined economic policy to be put into practice".⁶

However, in so far as the object of our study varies from that of Kesselman the manner in which we approach it as well as the concrete hypotheses we develop will be different. For Kesselman, in the case of Argentina, the strategies of development came to occupy the ideological vacuum left by the adjustment of the political superstructure to the domination of foreign capital operated by the military "coup" in 1966.⁷ Hence he concentrates on the strategies elaborated by different classes

⁶Kesselman, Las Estrategias, p. 11. ⁷Ibid., p. 16.

and fractions since the "coup". In our study, however, the strategies of development emerged as a central element in the ideological struggle in response to the crisis during the decade of the Thirties. Therefore, our work focuses on the analysis of the strategies of development in a historical perspective. We concentrate on the strategies articulated by the State, in other words, the dominant strategies and the process of conflict by which these became dominant, which does not mean as analysis exclusively of the dominant ideology but of the ideological struggle which leads to a particular process of politico-ideological domination.

Limoero-Cardoso also views the ideology articulated by the State as an expression of a class project.⁸ She defines the class character of developmentalism as the dominant ideology in Brazilian politics during the presidential period of Juscelino Kubitschek. Even though we agree with the basic aspects of this thesis, the work is limited, a limitation which the author accepts, because she defines the object of her study as the "articulated systems of ideas" and leaves out "the concrete ideological level" in other words, "the effective policies adopted by the government."⁹

In this study we concentrate our analysis on the level of the ideological practice of the social classes in Puerto Rico between 1940 and 1978. We do not analyze formal discourse. It is not our interest to establish epistemological correlations or to discover the key concepts or the repetition of concepts (structural linguistic analysis) in discourse.

⁸Limoeiro-Cardoso, La ideologia, p. 18. ⁹Ibid., p. 19-20.

To some extent we have assumed the existence of epistemological correlations and key concepts. For the author the connecting thread, the coherence of ideology, is not given principally by these elements of discourse but by class interests, and the social relations (of production) that produce the discourse and articulate the concepts. Therefore, an analysis of discourse "per se" is not the center of our study.

The focus of our analysis shall be the ideological practice of the classes, that is, the articulation of discourse in the class struggle through means of ideological apparatuses and the legal-political apparatus in which the ideology is converted into concrete policies, acquiring material and coercive force in the ideological class struggle. It is evident that we must analyze and substantiate the central function that the modern State plays within the ideological struggle.

The central thesis of this study could be expressed in the following way: every strategy of development constitutes the ideological representation of the political project of one or various (allied) classes or fractions of classes in their attempt to achieve political hegemony. Each strategy of development within the capitalist system represents a model of accumulation in which one or various classes or fractions of classes will emerge as the dominant sector in society. Hence the strategies of development constitute ideologies (sets of representations of the social relations of production), which respond to class interests and attempt to present these as the interests of all of society.

Throughout this work, we will dispute the structuralist notion of the strategies of development as a set of neutral policies of the State

(a social force also conceived as politically neutral) proposed for the good of all society, or as a series of technical or scientific principles that guide the process of economic development of a nation. The strategies of development are examined here as class projects. For this reason it is necessary to trace the social and economic policies (in other words, the strategy of development) adopted by the State at a particular conjuncture, to particular class interests (class projects).

In the case of colonial or neo-colonial countries, or more specifically, the countries on the periphery of the capitalist system, the strategies of development generally represent a specific form of articulation of the interests of the dominant metropolitan class and the local dominant class(es). The strategies of development thus become the terrain in which class interests are articulated as development models and presented to the rest of the society as rational or scientific models. In this respect strategies of development have been constituted as the fundamental terrain of the class struggle at the ideological level. As such the analysis of strategies of development as ideologies is fundamental for the analysis of the ideological struggle in the societies on the periphery of capitalism.

The central focus of the ideology of development is economic policy, hence, the central role that is attached to the State as the generator of economic development. This ideology, which we refer to as developmentalism, articulates a series of propositions as if they were scientific truths or rational policies concerning the economic development of a country. Finally, these very propositions are presented as the expression of the general interest of the society and

not of the classes that control the political and economic power within the society.

Developmentalism has become the dominant ideology in the post-war period in Latin America.¹⁰ It has displaced other ideological forms such as religion, folklore and tradition, that were dominant elements for legitimizing particular forms of political, social and economic organization. This displacement expresses changes in the social relations of production (e.g. the change of the seignorial relations between servile labor and landlords into the market relations between the free laborer and the owners of the means of production). According to developmentalism, for example, the worker cannot rebel (go on strike or demand salary increases), not because it is a sin or rebellion against the will of God (religious justification), or because the landlord is a father figure (traditional justification), but because it affects the economy of the country, the progress and economic well being of all (developmentalist justification).

To develop this thesis we shall take the case of Puerto Rico since 1940, the year in which industrial development becomes a major objective of government policy, until 1978, the year in which a new law concerning industrial incentives is approved. The 1978 law marks

¹⁰This is also true of developed capitalist countries where a great deal of the political campaigns are centered around issues like inflation, unemployment, and other economic issues, and around the strategies to deal with these issues. A good illustration of the importance that economic ideology (i.e. representations about the organization and distribution of production in society) has acquired in everyday life is the television series "Freedom to Choose". This was written and narrated by the Nobel Prize winner, economist Walter Friedman. The popularity of this series was further demonstrated by the fact that the book which followed it (Walter Friedman, Freedom to Choose) became a "best seller". Economics, which was traditionally considered a very specialized science, has become

a change towards a new orientation in the strategy of development which will not be discussed here.

For the purpose of our analysis we have divided this period into three distinct yet related stages. These are:

1. 1940-1947: The reformist period characterized by the expansion of the State's administrative apparatus and direct State intervention in the productive sector. Part of the State investment was directed to the agricultural sector as part of a program of agrarian reform. It consisted in the purchase of the land in the hands of the sugar interests which were to be distributed in plots to the landless peasants and agricultural workers, and for the establishment of State farms known as "proportional profit farms". The rest of the State's investment was in the manufacturing sector, particularly import substitution oriented industry utilizing locally produced inputs and oriented toward the internal market.
2. 1947-1963: The period of importation of capital characterized by the initiation of government programs to attract foreign private capital (primarily North American). This capital was concentrated in light industry (labor intensive) with low salaries and high profits in the short run. The emphasis in agrarian reform slowly diminished. The emphasis now shifted to the distribution of small plots, which stimulated the incorporation of the landless peasants into the labor force as unskilled and semiskilled labor for industry. The State during this period withdrew its investments in the productive sector concentrating on investments in the infrastructure, incentives and subsidies for industry, and promotional programs to attract investors from the United States.
3. 1963-1978: The period of monopoly capital characterized by massive investment of capital in the production of intermediate goods (petroleum and its derivatives, pharmaceutical products, etc.) for export, mainly to the U.S. Also limited production of finished goods for the internal market and exportation to the U.S. and the Caribbean; and in smaller proportions capital goods for exportation (machinery, electric products, etc.). The State became the stabilizing force in an economy that marginalized large sectors of the population (because of the predominance of capital intensive industry). In other words, it became a welfare State and the major source of employment (non-productive) in the country.

an integral part of the discourse of everyday life.

In these three periods, we find three types of strategies of development that entail a particular formation of class alliances within the local dominant sectors and the hegemonic metropolitan sector. Our work deals precisely with the analysis of each strategy of development herein defined and how these constitute the expression and articulation of class projects. Also it deals with the contradictions and conflicts in the politico-ideological terrain that lead to the implementation of a particular strategy as well as the contradictions and conflicts that each strategy eventually generates, which may cause its redefinition, reorientation or simply its total rejection.

To reach our objective, we shall study the political changes that preceded to or resulted from the implementation of a particular strategy, the political struggles generated in turn by each strategy and the social forces involved in these conflicts, as well as the particular economic conjuncture that made possible the implementation of a particular strategy. In addition, we shall try to demonstrate how the interests of a particular class or class alliance are privileged in each strategy and in which form these interests were represented (particularly through discourse) as the interest of all of society.

To the extent in which the center of this analysis is economic policy the principal sources of this study are official documents of the government, particularly of those institutions in charge of designing and directing the development policies. These can be grouped as follows:

1. The annual messages of the governor to the legislative assembly regarding the state of the country, from 1940 to 1978.
2. The annual reports of the Economic Development Administration (Fomento) from 1943 until 1960 (the last year of their publication).

3. The Economic Reports to the Governor of the Puerto Rico Planning Board, from 1950 to 1978.
4. Annual Reports to the Governor from 1940 to 1950.
5. The programs of political parties, both in government and in opposition, during the period covered.
6. Other governmental and/or private reports relating to development policies in Puerto Rico.

We have thus concentrated on those government agencies that expressly organize their efforts around the promotion, coordination and projection of the development policy in Puerto Rico and as such best articulated, in our opinion, the ideology of development in its concrete expression, i.e., the development policy.

For the analysis and historic reconstruction of the period involved, we have depended on monographic and general studies which are quoted throughout the text. We are aware that these represent particular positions about the process under analysis in this work and are therefore part of the process of ideological class struggle. Hence, our use of these materials has been necessarily critical.

In methodological terms, our work has assumed a dialectical perspective. It departs from a theoretical model that explains the social process as one of a struggle between different classes for the privileged control of the economic surplus produced by a society. After defining this theoretical model (detailed in the first chapter) we proceed to the appropriation of the empirical material. That is, we proceed to organize the information and data gathered in accordance with the premises of the theoretical model. The third step is the division of the material in analytical terms and the corroboration of the adequacy of the categories utilized in the analysis. The fourth and final

step is to establish the internal connection between the facts, its explanation in terms of the theoretical model and hence the validity of the hypotheses and of the theory of which it constitutes a part, i.e., the Marxist theory of ~~the~~ ideology.

We do not, in the course of this work, claim new contributions to the theory. Our objective and purpose is more modest. We hope to have contributed to the establishment of the adequacy and relevance of the Marxist categories to the analysis of social relations within modern capitalist society. This point is, in our view, crucial in an area where there still exists no agreement about the basic categories adequate for the scientific analysis of the society. Sociology in particular and the social sciences in general are involved in an unresolved debate between Marxism and Structural-Functionalism which ultimately reflects the class alignment of intellectuals and their role in modern society.¹¹ Our effort should be analyzed with this in mind.

At a more concrete level, we attempt to contribute to a more precise analysis of the process of development in Puerto Rico. We aim to uncover the fact that it responded to particular class interests and not, as the dominant classes claimed, to all of society. Maybe then, when we establish this fact clearly, we may find a logical answer as to why Puerto Rico after four decades of economic development still suffers from the social inequalities and many of the problems (eventhough manifested in different forms) that existed in 1940.

¹¹Goran Therborn, Science, Class and Society (London: Verso, 1980), chap. 1.

CHAPTER I

IDEOLOGY, STATE, CLASS AND DEVELOPMENT

Introduction

The purpose of this chapter is to provide a theoretical framework for our research. I shall discuss four topics that are fundamental to the analysis of strategies of development as ideology. These four topics are: 1) the Marxist theory of ideology, which is divided into four parts: the basic aspects of Marx and Engels' original formulation; the structuralist Althusserian formulation; the historicist (Lukacs) formulation; and the Gramscian formulation; 2) the capitalist State, ideology and class struggle, which deals with the question of the relationship between State and ideology in the process of class struggle; 3) a brief discussion of the development of a developmentalist ideology in Latin America; and 4) the hypotheses that will guide our study on strategies of development as ideologies in Puerto Rico.

This discussion shall provide a clear understanding of the theoretical and methodological basis underlying our research. It defines the general problematic that gives rise to our research and defines the categories which we will use throughout it. In other words, it provides the epistemological principles upon which our analysis is based.

The Marxist Theory of Ideology,
The First Formulation

In the introduction of this work, we quoted a very popular passage

from Marx's "Preface to the Critique of the Political Economy", which Marx claimed was the "guiding thread of [his] studies."¹ According to Marx's view, human beings, in their most important activity (the social production of their material life conditions), produce not only commodities but also a series of relationships among themselves and between them and nature.² These relationships are divided by Marx into two levels or categories: the economic structure, which is the mode of production of material life; and, the legal and political superstructure "to which correspond definite forms of social consciousness."³ The superstructure thus is subdivided into two levels, the legal-political and the ideological. These levels in turn "correspond" to - which does not mean a direct identity with - the economic conditions of material production (the level of development of the productive forces and the existing relations of production). Marx and Engels thus established that the productive process conditions the ideological forms (i.e., the superstructure). Therefore, an understanding of the ideological forms is only possible through an understanding of the contradictions of material life (i.e., the productive process).⁴

To better understand the Marxist concept of ideology, let us briefly discuss Marx and Engels' general concepts about society and the

¹Marx, "Preface", p. 182.

²Karl Marx and Frederick Engels, The German Ideology (New York: International Publishers, 1970), pl. 42-48.

³Marx, "Preface", p. 182.

⁴"... this consciousness must be explained rather from the contradictions of material life, from the existing conflict between the

social process. For Marx, humans are the only beings that need to produce the material conditions for their existence. Humans, contrary to other animal species, "create" their world. To do this, humans establish relationships among themselves (social relations) to wrest from nature the elements they need for their subsistence. They create tools, organize and divide the labor process. They also produce a set of representations (ideas, images, symbols, concepts, values, etc.) in order to understand and explain nature as well as the relationships they establish with it and with their fellow human beings.

In the process of producing the material conditions for their existence, humans discover, develop and accumulate knowledge. That is, they discover and accumulate a set of techniques, instruments and relationships that allow them to increase production above and beyond what is required for a minimum level of subsistence. This development of the productive forces (labor, tools, knowledge, etc.) leads to production of an economic surplus which, in turn, leads to a deepening in the division of labor and the appearance of a division between manual and intellectual labor. In other words, the fact that people can produce more than what they immediately need, lays the basis for the emergence of a sector of society that "specializes" in non-manual forms of labor (priests, soldiers, etc.) and is not directly involved in the production of material goods. This, of course, implies a separation between theory and practice (i.e., human activity and its representation).⁵

social productive forces and the relations of production." Ibid., p. 183.

⁵Marx and Engels, The German Ideology, chap. I; on the question of the social consequences of the production of a "social surplus product" see Ernest Mandel, Marxist Economic Theory (London: Merlin Press, 1971), chap. I.

The emergence of an economic surplus and the deepening of the division of labor makes possible the unequal appropriation of the social surplus product by particular groups (dominant groups) in a society. That is, private property, the power of a group to dispose of the labor-power of others, emerges.⁶ Also, the division of labor constitutes the base of the contradiction between the individual and the communal or social interest.⁷ Thus, the division of labor, the unequal appropriation of the social surplus product and the contradiction between the individual and the social interests are the basis of the division of society into social classes.

The contradictions and antagonisms that the division of society into social classes implies makes it necessary to create an illusory common interest (i.e., an ideal representation of the common or social interest). For Marx and Engels, it is this need to reconcile the contradiction between individual and social interests that gives rise to the State. The State represents this ideal common interest, and by doing so it makes possible the mediation and resolution of conflicting interests in a society. Yet, the State regulates and mediates conflicts in such a way as to make possible the continuation of the unequal appropriation of the social surplus product by the dominant groups in society. In other words, the State, as the representation of the

⁶"with the division of labor, . . . is given simultaneously the distribution, and indeed the unequal distribution, both quantitative and qualitative, of labour and its products, hence property . . ." Marx and Engels, The German Ideology, p. 52, emphasis in the original.

⁷In other words, the contradiction between the interests of one individual or one family "and the communal interests of all individuals who have intercourse with one another". Ibid., p. 53.

"illusory" general interest, makes possible the orderly expropriation of the subjugated groups in society by the dominant ones by representing the interest of the dominant groups as the general interest of society.⁸

In its initial stages, the process of expropriation and concentration of the social surplus product can be accomplished through the use of force (conquest, pillage), persuasion (religious offerings), or a combination of both (the transformation of offerings into taxes, or the institutionalization of offerings to prevent pillaging). But in any case, the process of expropriation and concentration of the surplus presupposes a division of labor in which a particular group within society has a monopoly over force (the military), knowledge (religion, philosophy), or both. It is this monopoly over force and knowledge that gives the dominant groups control over the means of appropriation and distribution of the social surplus product, and that constitutes political power in the basic sense. Conversely, the monopoly over knowledge and force is the precondition for the emergence of a dominant group in society. Thus, the possibility of exploitation - the possibility of particular groups appropriating the labor or labor-power of others - presupposes the division of labor.

⁸ Ibid., pp. 53-54. The State in the general sense of the term refers to a centralizing power that makes possible the expropriation and accumulation of the social surplus product in the hands of the dominant groups of society, with a degree of regularity and order, through a combination of persuasive and repressive means. Hence the State, in its first historical manifestations, is difficult to separate from religious institutions. The divisions between King and Priest, sorcerers and chief, etc., are not very clear in the early stages of history. See for example, V. Gordon Childe, Man Makes Himself (New York: Watts, 1956), esp. chap. VII.

The particular forms that the process of exploitation may assume (slavery, serfdom wage labor, etc.) depend on the mode in which a society organizes the production of its material life (i.e., in the particular mode of production). In other words, it depends on the level of development of the productive forces, the labor process and the relationships established by the different groups in the process of production (i.e., the relations of production). In synthesis, we can say that the division of labor presupposes a certain degree of development in the productive capacity of society, but the particular form that the division of labor may take is a function of political power. The productive capacity of a society (the development of the productive forces) determines the possibility of a particular division of labor, but the places that certain groups occupy within that division of labor is determined by the capacity of a group to achieve political power.

In pre-capitalist modes of production, the exploitation of the direct producers (laborers, artisans, etc.) takes the form of direct expropriation of surplus product in the form of taxes, tributes and offerings. Yet the surplus appropriated by the dominant groups are products of labor, goods and commodities in their finished form or labor itself. In pre-capitalist societies, surplus expropriation is achieved through non-economic means, particularly military force and religious persuasion. This process of expropriation gradually reduces the direct producers to a mass of dispossessed individuals subject to the dominant groups, who have imposed their dominance through their control over the means of force and/or persuasion.

The capitalist mode of production presupposes the above described processes of expropriation and dispossession of direct producers and

the accumulation and concentration of the surplus in the hands of the dominant classes. It is a pre-requisite for the emergence of a capitalist mode of production that these processes develop to such a degree that society is divided, in general terms, into two distinct and antagonistic groups. On the one hand, there is a mass of people dispossessed of all means of production (land, tools, etc.), and thus of the means for their subsistence, who must sell their labor-power in order to obtain means for their subsistence. And, on the other hand, there is a group of propertied people who have accumulated wealth to such a degree that they not only possess money and precious metals but they also possess the means of production (land, machinery, raw materials). This basic polarization between the dispossessed and the propertied classes is a necessary condition for the emergence of capitalism because it is only when the direct producers, the workers, are separated from the means of production that labor-power becomes a commodity.

Once labor-power becomes a commodity it can be brought by the owners of the means of production (the owners of capital) and put to use in the production of other commodities. In this process the products of labor do not belong to the producer because he has sold his productive capacity (his labor-power) to the owner of the means of production. The products of labor thus belong to the owner of the means of production. In capitalism, the productive capacity of human beings becomes a commodity, an exchange value, sold in the market as an element separated from the worker himself.⁹

⁹Karl Marx, Capital, Vol. I (Middlesex: Penguin, 1976), pp. 270-273.

However, this commodity, labor-power, has the unique capacity of creating value. No other commodity possesses this quality. Moreover, the value created by this commodity when realized in the market (through the sale of the commodities produced by labor-power) is greater than the price paid by the owners of the means of production for its purchase. The difference between the total value created by the labor-power and the price paid by the capitalist to the workers for it (the wages) is the amount of surplus value (unpaid labor) appropriated by the owner of the means of production. When realized in the market, this unpaid labor or surplus value goes to increase the mass of capital.¹⁰

From this brief sketch of the basic relations involved in the capitalist process of production (the relation between wage labor and capital), we can discover the specific character of capitalist exploitation. What characterizes the process of expropriation of the social surplus product in capitalism is the direct exploitation of labor. That is the appropriation by the capitalist of surplus value, as opposed to the appropriation of the products of labor in pre-capitalist modes of production. In the capitalist mode of production, exploitation takes place within the process of production itself. By separating the producer from the means of production and transforming labor-power into a commodity, the capitalist is able to appropriate part of the value created by the worker without either of them clearly perceiving the expropriation of surplus value from the worker. This happens because in purchasing the commodity labor power the capitalist

¹⁰ Ibid., chap. 7.

pays a price (wages) which is, as a norm, less than the value that this commodity creates. But this "underpayment" is not necessarily achieved through treachery or violence. Most often it is achieved through the socio-economic constraints imposed upon the worker by the labor market, in particular, and the capitalist productive process in general.¹¹

As we can see, for Marx and Engels there are certain basic elements that constitute the organizing principles of every society. In Marxist theory, the central activity of every society is the production of its material conditions of existence. The organization of every society and the network of relations that are its substance revolve around the necessities of the productive process.¹² In turn, the productive process is conditioned by the level of development of the

¹¹One of Marx's arguments throughout Capital is that wage form conceals the process of expropriation of surplus value not only from the worker but from the capitalist; Marx, Capital, Vol. I., p. 682, and passim, also see Norman Geras, "Essence and Appearance: Aspects of Fetishism in Marx's Capital", New Left Review, No. 65 (January-February, 1971), esp. pp. 80-82.

¹²Marx's thesis, "that the mode of production of material life conditions the general process of social, political and intellectual life", was criticized as not being applicable "for the Middle Ages, dominated by Catholicism, nor for Athens and Rome, dominated by politics". To this Marx responded:

"One thing is clear: the Middle Ages could not live on Catholicism, nor could the ancient world on politics. On the contrary, it is the manner in which they gained their livelihood which explains why in one case politics, in the other case Catholicism, played the chief part".

Capital, Vol. I., pp. 175-76, note 35.

productive forces, the labor process and the division of labor (i.e., the social relations of production).¹³ The level of development of the productive forces conditions the productive capacity of society, while the relations of production determines the forms of exploitation (i.e., appropriation of the social surplus product, forms of property, etc.).

But when we say that the organization of a society is conditioned by the mode of production of its material life conditions, we are not referring exclusively to economic production. On the contrary, we are referring to a set of social relations or structures that encompass the ideological and political levels which are an integral part of the process of production.¹⁴ What we mean is that the process of production is not a mechanical economic process of commodity production; rather, it is a social process in which ideas, institutions and practices are produced as well. For Marx, the material reality cannot be reduced to tangible things (e.g. commodities). The material reality refers to the real products of society, tangible or not, such as institutions, traditions and knowledge which are necessary for the process of social reproduction.

¹³ Nicos Poulantzas, Classes in Contemporary Capitalism (London: New Left Books, 1976), pp. 17-18.

¹⁴ "By mode of production we shall designate not what is generally marked out as economic (i.e., relations of production in the strict sense), but a specific combination of various structures and practices which, in combination, appear as so many instances or levels, i.e. as so many regional structures of this mode. A mode of production, as Engels stated schematically, is composed of different levels or instances, the economic, political, ideological and theoretical" Nicos Poulantzas, Political Power and Social Classes (London: Verso, 1978), p. 13.

However, in Marxist theory the process of social reproduction is not a process of mechanical perpetuation as is the case with structural-functionalist theories. Society, for Marx, is not a self-reproductive, non-conflictive entity. On the contrary, for Marx the process of reproduction of society implies a growing conflict between the development of the productive forces and the existing relations of production. That is, between the particular interests of the dominant class and the general interest of society. This conflict is centered around the form in which the production and distribution of the social surplus product is organized. This conflict is defined as a political struggle between classes for political power, in so far as this is the precondition for organizing society in general, and the productive process in particular, according to the interest of the class(es) that emerges dominant (i.e., that seizes political power). In other words, in so far as the specific forms of the division of labor and the exploitation of one class by another are a function of power relations, they are a function of the political class struggle. Thus, it is power relations, class struggle, that determines the particular form of social organization and the capacity of society to reproduce itself within the structural limits provided by the level of development of the productive forces. Therefore, for Marx and Engels, social classes are the real subjects of history.

We can now ask: what is the role of ideology within this Marxist conception of society? That is, what is the basic role that ideology plays in society in general? Of course, the attempt to answer this question is not an attempt to develop a mechanical, universal or a

supra-historical theory of ideology. Rather, it is an attempt to outline the basic aspects of a theory of ideology without forgetting that ideology only exists as a concrete level of practice in historically determined social formations.

For Marx and Engels, ideology is a set of representations, ideas and values that humans produce in the process of producing their material life conditions. Ideology is the terrain in which human beings become aware (gain consciousness) of their existence, their actual life process and their position within the process of production as an integrated totality.¹⁵ It is the terrain where humans become aware of the contradictions and conflicts in the process of production and strive to solve them.¹⁶

In The German Ideology, Marx and Engels develop what could be considered the fundamental elements for a Marxist theory of ideology. The first fundamental element is that ideology is not a set of floating ideas, but rather a set of ideas and representations whose material base is the relations of production. The appearance of ideas as an independent force, a floating element, is rooted in the division between manual (material) and mental labor.¹⁷ The other element is that ideology

¹⁵"Men are the producers of their conceptions, ideas, etc. - real active men, as they are conditioned by a definite development of their productive forces and of the intercourse corresponding to these, up to its furthest forms. Consciousness can never be anything else than conscious existence, and the existence of men is their actual life-process." Marx and Engels, The German Ideology, p. 47.

¹⁶Marx, "Preface", p. 183.

¹⁷Marx and Engels, The German Ideology, pp. 47, 51-52.

represents (articulates) class interests, and the dominant ideas in society, as a rule, are the ideas of the dominant class. Any class that aspires to become dominant must represent its interests, at the ideological level, as the common interest of all of society.¹⁸ Thus, in The German Ideology, Marx and Engels laid the basis for a theory of ideology by clearly establishing the material character of ideology and its class character (i.e., its role in securing the dominance of the ruling class). In doing this, Marx and Engels defined ideology as the terrain of class struggle (i.e., the terrain "in which men become conscious of this conflict and fight it out").¹⁹ However, Marx and Engels did not elaborate a complete or systematic theory of ideology, yet they provided the fundamental elements for the development of one.

It has been argued that throughout Capital Marx elaborated on his analysis in The German Ideology, by introducing the concept of the fetishism of the commodity and analyzing the relations between essence and appearance in capitalist society. Throughout Capital, Marx clearly establishes that ideology is a level of practice, a level of the process of production. Ideology is not floating ideas but objective practices. The process of fetishization or reification of the consciousness as the dominant form of ideology in capitalism is not the result of the deliberate deception of people by the ideologies of the ruling classes. On the contrary, it is the result of a process of production that transforms human labor into abstract labor (labor-power), which is objectified

¹⁸Ibid., pp. 64-66.

¹⁹Marx, "Preface", p. 183.

in the production of "things" (commodities). This allows the commodity to become independent from its producer and thus appear, in the exchange process, as having a value of its own based on its "natural" content. The process by which humans perceive and represent their social relations in capitalist society as "natural" and eternal relations is not a process of the mind but a concrete process, an objective ideological practice enmeshed in the relations of production itself.²⁰

Departing from this basic elaboration, many Marxist theoreticians have attempted to develop a systematic theory of ideology. These attempts have mainly fallen into three main theoretical currents: first, the structuralist current, characterized by the theory of Louis Althusser; second, the historicist current, characterized by the theory of Georg Lukacs; and third, the current we shall call the philosophy of praxis, characterized by the thought of Antonio Gramsci. Each of these currents of thought constitute different interpretations of the Marxist concept of ideology. We shall now focus our attention on each of these currents.

²⁰The question, as usual, is much more complicated since it opens the question of whether Marx's concept of fetishism or reified consciousness constitutes a condition of ideology in general or the particular form that ideology takes in capitalism, which, after all, is the object of study of Capital. Furthermore, it raises the question of whether ideology is always a form of mystified consciousness (i.e., whether it is always a distorted representation of real relations). We shall expand on this later point when we discuss Lukacs and Gramsci's conceptions. On the question of Marx's theory of ideology in Capital see, John Mepham, "The Theory of Ideology in Capital", Radical Philosophy, No. 2, (1977); Jorge Larrain, The concept of Ideology (Athens, Georgia: University of Georgia Press, 1979), esp. pp. 55-63; and Geras, "Essence and Appearance".

Althusser and the Structuralists

For Althusser and the structuralists, "ideology represents the imaginary relationship of individuals to their real conditions of existence."²¹ That is, ideology is an imaginary, distorted representation of the real relations of production. In Althusser's own words:

. . . all ideology represents in its necessarily imaginary distortion not the existing relations of production (and the other relations that derive from them), but above all the imaginary relationship of individuals to the relations of production and the relations that derive from them.²²

The origin of this distortion is to be found in the appearances or phenomenal forms that the structure (the productive process) assumes or produces in reality.²³ That is, it is based on the form in which reality presents itself and is perceived by humans in the social processes (i.e., the external forms that social relations assume). Ideology then is an objective element, a level of the structure or, better yet, "structures", imposed upon the vast majority of humans. In the structuralists view, "ideology has very little to do with 'consciousness'."²⁴ The main function of ideology for structuralists, is the concealment of real relations and their distortion through the representation of real relations in an imaginary form. This process of concealment is achieved through the articulation and reproduction of ideology in Ideological State Apparatuses (ISA's). The ISA's are the structures

²¹Louis Althusser, "Ideology and Ideological State Apparatuses (notes towards an investigation)", in, Lenin and Philosophy (London: New Left Books, 1971), p. 153, (hereafter quoted as "Ideology and ISA's").

²²Ibid., p. 155. ²³Mepham, "The Theory of Ideology", p. 14.

²⁴Louis Althusser, For Marx (London: New Left Books, 1977), p. 233.

(institutions) through which individuals are "inscribed" in ideology in the form of concrete practices. It is through specific, concrete practices in an ISA (e.g. the church, the school, a political party, a trades union) that individuals participate in ideology. It is through their participation in ISA's that individuals, through their ideological practice, "accept" and reproduce the existing social relations of production. The "acceptance" of the dominant ideology is not an act of consciousness but a function of objective social relationships in which individuals are voluntarily or involuntarily involved. This "acceptance" is a function of the ideological practice that takes place in ISA's.²⁵

Now we can see that for structuralists, ideology is conceived as an objective level of society. They see this level or instance as one on which the social conditions necessary for the reproduction of the existing relations of production can be secured. This is done through the ISA's which guarantee the reproduction and distorted representation, at an ideal level, of the lived relations of individuals. It is through the "imaginary" representation of lived relations in ISA's that individuals "accept", in practice, the validity and universality of the dominant ideology. Thus ideology is produced "automatically" (structurally reproduced) by society in the process of production. In Althusser's words: "human societies secrete ideology as the very element and atmosphere indispensable to their historical respiration and

²⁵ Althusser, "Ideology and ISAs", pp. 156-60.

life."²⁶ Hence, ideology is a necessary product of society, and all classes are inscribed in the dominant ideology and are converted into its bearers. Social classes, then, are not the dynamic element of ideological practice, but are its "victims", the bearers of the ideological structure. In this sense, society becomes a self-productive totality to which individuals or classes are subjected. Ideology is one of the instances that guarantees subjugation of individuals, or classes for that matter, to the existing social relations and the reproduction (in a quasi-mechanical manner) of such relations. Thus society, and not classes, are the real subjects of history for Althusser and the structuralists.²⁷

Nothing could be more distant from Marx's conception of society and ideology than the structuralist view. As we have seen, for Marx society is the product of the collective action of human beings. Society is defined as a set of social relations between antagonistic groups - social classes, castes, or families - in the process of production of their material life conditions. In this sense, society is not conceived as a self-reproductive totality but as the product of class relations. It is social classes, as the real subjects of history, for Marx, who create and reproduce society. In time, of course, society may present itself to its creators as an objective limit to their actions.

²⁶ Althusser, For Marx, p. 232; Mephram, "The Theory of Ideology", p. 12.

²⁷ "The subjects of history are given human societies. They present themselves as totalities whose unity is constituted by a certain specific type of complexity" Althusser, For Marx, p. 231; emphasis in the original.

It can become a reified entity, but this does not mean that it indeed has an existence outside class relations.

Marx's criticism of the bourgeois philosophical view of the individual as the subject of history is not replaced by a view of society as the subject of history. On the contrary, for Marx it is social classes (not individuals or institutions) and their relations (within the structural limits set by the level of development of the productive forces) that determine the production and reproduction of society. For Marx, there is a dialectical relation between structures and human activity, between institutions and social classes, and between subject and object. The structures set limits to the possibilities of human activity, but is it human activity that creates, recreates and transforms the structure. Of course, human activity is defined in terms of the activity of social classes, not individuals.

In the terms of Althusser's structuralist theory of ideology, there are three points that deserve special attention: a) the imaginary and distorting character of ideology; b) the characterization of its main function as that of preserving the existing social order; and c) its material existence in the ISA's.

It is true that for Marx and Engels ideology distorts and hides the exploitative nature of social relations in class divided societies. Yet this is not said to be a universal condition of ideology intrinsic to all societies. It is rather a concrete historical condition. To be precise, Marx's and Engels' arguments in The German Ideology clearly imply that this distorting character of ideology corresponds to class divided societies where human activity has been separated from its

representation (where the division between mental and manual labor has been completed). It is this separation that gives rise to a "specialized" group of ideologues and gives rise to the appearance that ideas have a life of their own.²⁸ Even in the famous passage where Marx and Engels equate ideology to a "camera obscura", they make clear that ideological distortion is the product of concrete historical conditions:

If in all ideology men and their circumstances appear upside-down as in a camera obscura, this phenomenon arises just as much from their historical life process as the inversion of objects on the retina does from their physical life-process.²⁹

The problem then is not the distortion but the discovery of its material-historical basis which is the necessary condition to overcome this distortion. Althusser resolves this question by opposing science to ideology as one may oppose truth to falsehood, or the real to the imaginary. This of course, is a positivist attitude not a Marxist one. For a Marxist, the answer lies in the historical process of class struggle rather than the development of scientific thought. We shall return to this issue later.

The second important aspect of Althusser's theory of ideology is that ideology functions as a conservative force in society. As we discussed, ideology preserves the existing social relations and secures the normal reproduction of society in a quasi-automatic fashion. Yet, for Marx and Engels ideology reproduces society as a particular

²⁸ Marx and Engels, The German Ideology, pp. 51-52.

²⁹ Ibid., p. 47, our emphasis.

historically determined, class social order, not as an indeterminate structural totality. Furthermore, according to Marx's view class divided societies have within themselves the seeds of their own destruction.³⁰ Hence, in dialectical terms, the function of ideology may be to preserve and reproduce a class order, but it may also be to legitimize or prompt revolutionary change. In this sense, we could interpret another very popular passage from The German Ideology.

For each new class which puts itself in the place of the one ruling before it, is compelled, merely in order to carry through its aim, to represent its interests as the common interest of all the members of society The class making a revolution appears from the very start, if only because it is opposed to a class, not as a class but as the representative of the whole society; it appears as the whole mass of society confronting the one ruling class.³¹

Then, what we are dealing with is the preservation of a class order in a dialectical sense, whose counterpart is the possibility for change (actually revolutionary change). This possibility for social change implies, necessarily, class struggle at the level of ideology. By this, we mean that the revolutionary class needs to establish its ideology as dominant, replacing from its dominant position the ideology of the class that ruled before. If this is correct, as the above quotation suggests, then the function of ideology is not merely distortion and preservation as Althusser argues. It is also, dialectically, understanding and making possible revolutionary change. It is at the ideological level that humans can become aware of their

³⁰"What the bourgeoisie therefore produces, above all, is its own gravediggers". Marx and Engels, "Manifesto of the Communist Party" in Selected Works, p. 43.

³¹Marx and Engels, The German Ideology, pp. 65-66, emphasis in the original.

exploitation and fight to end it. The abolition of ideology, as a distortive, conservative force is not the precondition for revolution as Althusser believes. The revolutionary class is not above ideology, in fact it becomes revolutionary in the process of ideological struggle by opposing its ideology to the dominant ideology in an antagonistic manner. If the revolutionary ideology that replaces the ideology of the dominant class is not distortive and conservative, it is not because the revolutionary ideology is scientific and truthful. It can only be because the revolutionary class is in the process of abolishing class divisions and exploitation, thus abolishing the need for the division between human activity and its representation. If a revolutionary class that comes to power does not abolish exploitative relations and the class divisions these entail, but simply rearticulates exploitative relations, its ideology, though different in form from the one it replaces, will be distortive and will tend to hide the exploitative character of the new order. Thus, ideology is not necessarily distortive and conservative in a universal sense. Ideology then, is not a mere instrument of reproduction but a terrain of class struggle which makes possible the reproduction of an historically determined class social order, and, at the same time dialectically makes possible the development of revolutionary change, as we shall see later when we discuss Gramsci's conception of ideology.

The third important point in Althusser's theory of ideology is the material existence of ideology in ISA's. In enunciating his thesis that "an ideology always exists in an apparatus, and its practice

or practices",³² Althusser is trying to deal with the Marxist conception of ideology as a material force, as a level of the social and historical reality. But in reducing the material existence of ideology to apparatuses or more concretely, to ISA's, Althusser limits the realm of ideological practice and ideological struggle to institutions (the church, political parties, schools, etc.). This reduction is taken even further by saying that, as a rule, these apparatuses are a dimension of the State apparatus. Ideology is doubly constrained to the realm of institutional practices and to the sphere of the State.

It would be unfair to say that Althusser's argument is totally mistaken. Any student of capitalism would agree to the fact that the social division of labor in capitalist societies has reached the point where there are clearly identifiable, specialized units of ideological production or ideological apparatuses. Furthermore, it is undeniable that these apparatuses play an important part in the creation of the social conditions necessary for the reproduction of the existing relations of production. But these facts cannot be taken as a confirmation of Althusser's view that all ideological apparatuses are part of the State, and that the process of social reproduction takes place almost exclusively through the practices of individuals in these apparatuses (i.e., through institutional practices). To subscribe to this view is to lose sight of the complexity of the process of class struggle and of ideology as its crucial terrain.

³²Althusser, "Ideology and ISAs", p. 156.

Althusser's reduction of ideology to institutional practices stems from his view of societies as structured totalities which are the subjects of history. If society is a structured totality (an irreducible totality) and the State is its organizing center, then the whole social process must revolve around the latter. Every power relation must be expressed within the State and its omnipresent power. All social relations are thus reduced to the confines of the State. The complexity of class struggle is reduced to the dominance of the ruling class through its control over the State and its ideological and repressive apparatuses.³³ It is important to differentiate the State from social classes and State power from class power.

Althusser's view of ideology's existence in ISA's can be criticized on two points: first, his reduction of ideological apparatuses (IA's) to the realm of the State, to ISA's; and, second, his reduction of ideological practice to the practices of individuals in ISA's thus diminishing the importance of conflict (class conflict) at the ideological level. It seems to us that in presenting his theory about ideology as only existing in ISA's Althusser assumed a relation of identity between ideology and the State. As a matter of fact, Althusser's theory of ISA's is intended to be a contribution to the Marxist theory of the State.³⁴ This reduction of the ideological to the State is in turn the

³³This concert is dominated by a single score, occasionally disturbed by contradictions (those of the remnants of former ruling classes, those of the proletarians and their organizations): the score of the Ideology of the current ruling class" Ibid., p. 146.

³⁴Ibid., pp. 135-141.

product of Althusser's structuralist view of society. In our opinion, the relation between State and ideology in Marxist theory cannot be explained by a fixed formula, be it Althusser's ISA's or Gramsci's political society/civil society.³⁵ For us, what determines the concrete form in which the State and ideology relate is the level of class struggle in a given society at a particular point in history. That is, the concrete needs of the process of social reproduction within the context of the concrete antagonisms and conflicts generated by particular relations of production.

Yet, even if we were to agree with Althusser that ideology exists in IA's, it is doubtful that all of them articulate the dominant ideology articulated by the State. Whether an IA is defined as an ISA or an ideological class apparatus (ICA) is a function of the role of such an IA in class struggle. This is a distinction that Althusser never makes and cannot make since for him societies, not classes, are the subjects of history. But if classes are the subjects of history, political power cannot be reduced to State power, and, therefore, all ideological activity, including the ideological activity of the ruling class, cannot be reduced to the State. In this sense, even if we were to remain within the institutionalist view of ideology, a distinction

³⁵We are not suggesting that Gramsci's formula was incorrect or that it was inadequate to explain the relation between State and ideology at a particular conjuncture in the development of capitalism. What we are arguing is that the indiscriminate application of this formula to the present stage of capitalist development (i.e., monopoly capitalism) may obscure the fact that the modern capitalist State has assumed a distinct ideological function. See Perry Anderson, "The Antinomies of Antonio Gramsci", New Left Review, No. 100 (November-January, 1977).

would have to be made between ISA's and ICA's. What would characterize an ISA would be its role in the condensation and resolution of class contradictions within the categories of the dominant ideology (i.e., the ideology of the ruling class). The characteristic of an ISA would thus be that it inscribes oppressors and oppressed alike in the practices of the dominant ideology, thus legitimizing and contributing to the reproduction of the existing relations of production. The church, the schools, some political parties and other institutions considered "open" would constitute ISA's.

Conversely, ICA's would be clearly class oriented institutions whose function is the advancement, in ideological class struggle, of the interests of the class that creates and maintains them. The distinctive characteristic of an ICA, as opposed to the ISA's, would be the reinforcement of class unity and awareness of class interests. Institutions like trade unions, business associations, certain clubs and other institutions considered "closed", and institutions of a clear class nature would constitute the ICA's.

In any case, even if the structuralists were to make the distinction we are suggesting it is doubtful that in a Marxist context ideology could be reduced to institutional practices. The existence of IA's in capitalism is unquestionable, but the reduction of ideology to them is another matter. If, as Marx said, ideology is the terrain where humans become aware of the conflicts that emerge in the productive process and strive to solve them, it is impossible to reduce ideological practice to institutional categories. We shall explain why when we return to this issue further on.

In sum, Althusser's attempt to develop a Marxist theory of ideology from a structuralist perspective draws him closer to Durkheim than to Marx. Althusser's definition of societies as the subjects of history and his reduction of ideology to institutional practices run counter to Marx's view of the social process. For Marx, the point of departure for any analysis of society is the analysis of social relations of production, and the movement of the structure (the social structure) is a function of these relations. For Althusser, the social relations of production are a function of the structure (society) which reproduces itself automatically. Also, the existing relations of production are perpetuated automatically by the existing institutions of society. The dialectical relation between human activity (the action of social classes) and the social structure (the material and historical conditions that serve as the limit to human activity) is what distinguishes historical and dialectical materialism (Marxism) from structuralist and nominalist social thought. Social classes, not structures, institutions or isolated individuals, are the subjects of history. Class struggle, not structural necessity or individual will, is the motor of history for Marx. Althusser's attempt to develop a Marxist theory of ideology is most certainly inadequate.

Lukacs and Historicism

The second current of thought that attempts to develop a Marxist theory of ideology is known as historicism. Contrary to Althusserian structuralism, historicism is not a school of thought in any formal or structured sense. As a matter of fact, the characterization of Lukacs

thought as historicist is the product of criticism of him by the structuralists.³⁶ The structuralists also include Gramsci among historicists but we do not include him as part of the historicist current. The reasons for this will become clear when we discuss Gramsci and the current of thought that we call the philosophy of praxis.

If we exclude Gramsci, the main figure of historicism is Georg Lukacs, whose work History and Class Consciousness has become a classic within the Marxist theory of ideology.³⁷ For Lukacs, contrary to Althusser, classes are the subjects of history. The action of social classes is determined by the relations they establish in the process of production within the social totality. The relations of production determine the position of humans in society. This, in time, determines the consciousness that humans have of their existence.

In Lukacs' view, ideology is class consciousness or more precisely, false consciousness. According to Lukacs, "class consciousness consists in fact of the appropriate and rational reactions 'imputed' to a particular typical position in the process of production."³⁸ This consciousness is false in so far as it expresses the partial context of the position of a particular class within the social whole instead of "the essence of the evolution of society,"³⁹ (i.e., the total context of the social relations). In other words, for Lukacs class consciousness

³⁶Jorge Larrain, "Marx's Theory of Ideology", MS, Essex, 1976, note 1.

³⁷George Lukacs, History and Class Consciousness (Merlin: London, 1971).

³⁸Ibid., p. 51. ³⁹Ibid., p. 50.

implies the understanding by a class of its position within society and the interests identified with this position. Yet, because this consciousness is incapable of understanding the social totality, "the essence of the evolution of society", it will be a false consciousness. However, in as much as consciousness is determined by the position that a class occupies in the process of production, it is not a psychological but a historical product. In this sense, false consciousness is "the intellectual reflex of the objective economic structure",⁴⁰ a necessary product of the structural location of a class that hinders it from understanding its position and relation within the social whole. Hence, Lukacs conclusion that the proletariat is the only class historically capable (because of its position within the process of production) of achieving a true consciousness of the social totality which represents the precondition for abolishing all class consciousness (i.e., the abolishing of ideology). In Lukacs words:

The proletariat cannot liberate itself as a class without simultaneously abolishing class society as such. For that reason its consciousness, the last class consciousness in the history of mankind, must both lay bare the nature of society and achieve an increasingly inward fusion of theory and practice. 'Ideology' for the proletariat is no banner to follow into battle, nor is it a cover for its true objective: it is the objective and the weapon itself.⁴¹

⁴⁰Ibid., p. 52. ⁴¹Ibid., p. 70.

From this we could logically deduct that all ideology previous to the proletarian revolution is false consciousness.⁴² Therefore, the proletariat is the only class capable of the true consciousness, or consciousness of the social whole, because of its position in the productive process as a direct producer. It is the proletariat that will lay the basis for the abolition of all ideology and for the restoration of the unity between theory and practice, between human activity and its representation.

Thus, for Lukacs, while the false consciousness of all other social classes can be explained as a result of their place in the process of production, of their class situation, this is not the case with the proletariat. False consciousness in the case of the proletariat can only be explained as the result of some sort of interference. This interference comes from the lack of unity in the proletarian consciousness caused by the reified relations of capitalism. In a society where social relations appear as natural things, it is very difficult to achieve a consciousness of the totality of society. The cleavage in the proletarian consciousness is then created by the contradiction

⁴²On this Lukacs said:

Classes that successfully carried out revolutions in earlier societies had their task made easier subjectively by this very fact of the discrepancy between their own class consciousness and the objective economic set-up, i.e. by their very unawareness of their own function in the process of change. They had only to use the power at their disposal to enforce their immediate interests while the social import of their actions was hidden from them and left to the 'ruse of reason' of the course of events.

inside the proletarian consciousness between their immediate (economic) interests and their long term (political) goals. Unless this contradiction is resolved, through conscious action and conscious self-criticism, the proletariat cannot achieve its true consciousness and fulfill its historical task of revolutionary transformation.⁴³

It must be noted at this point that for Lukacs consciousness is "imputed" consciousness. It is not a psychological or Freudian concept, but a historically and socially determined concept. Class consciousness is the consciousness that is attributable to a class in the historical process (i.e., in class struggle). The limits of this consciousness are given by the class situation and the "particular typical position in the process of production" of a given class.⁴⁴ The consciousness itself can be "inferred" from this "objective situation" of the class.⁴⁵ Class consciousness is thus a typology inferred, presumably by the intellectuals or philosophers, from objective historical conditions, which are imputed or attributed to a class' historical behavior.⁴⁶

Finally, for Lukacs "the historically significant actions of a class as a whole are determined in the last resort by this [imputed class] consciousness."⁴⁷ Therefore, ideology becomes the terrain of class struggle and the fundamental arena where the battle for political dominance takes place. The capacity of a class to emerge as the

⁴³Ibid., pp. 70-75.

⁴⁴Ibid., p. 51.

⁴⁵Ibid.

⁴⁶Ibid., pp. 51-52.

⁴⁷Ibid., p. 51.

dominant force in society depends on its capacity to become conscious of its interests and its capacity to generalize by imposing that consciousness, ideology, on the rest of the society. Lukacs puts it in the following manner:

For a class to be ripe for hegemony means that its interests and consciousness enable it to organize the whole of society in accordance with those interests. The crucial question in every class struggle is this: which class possesses this capacity and this consciousness at the decisive moment? This does not preclude the use of force But it often turns out that questions of class consciousness prove to be decisive in just those situations where force is unavoidable and where classes are locked in a life-and-death-struggle.⁴⁸

As we can see, in his treatment of ideology as the crucial terrain of class struggle and as a precondition for class hegemony (for social and political as well as economic dominance), Lukacs comes closer to Marx's position discussed above. However, the concepts of "imputed consciousness" and false consciousness/true consciousness are impregnated by an idealist conception of the historical role of the working class and its ideological practice. Lukacs himself admits that the notion of imputed class consciousness and the identity between this and a revolutionary praxis of the proletariat are a "purely intellectual

⁴⁸ Ibid., pp. 52-53.

result" of an "abstract and idealist conception of praxis."⁴⁹ The proletariat is conceived by Lukacs as the only truly revolutionary class and the only class capable of a true consciousness. Furthermore, the proletariat is not only capable of true consciousness but historically destined to achieve it. The process of history becomes the historical movement toward the realization of the class consciousness and the historical mission of the proletariat. This view seems closer to the Hegelian view of history as the realization of the idea than to Marx's historical materialist view.

This conception leads to the idealization of the proletariat and their role in ideological class struggle. The proletarian consciousness becomes identical with truth: "the proletariat always aspires towards the truth even if its 'false' consciousness and in its substantive errors."⁵⁰ Conversely, the bourgeois consciousness becomes almost wilfully untrue: "the false consciousness [of the bourgeoisie] was converted into a mendacious consciousness."⁵¹

⁴⁹In Lukacs' own words:

My intention, then, was to chart the correct and authentic class consciousness of the proletariat distinguishing it from 'public opinion surveys' (a term not yet in currency) and to confer upon it an indisputably practical objectivity. I was unable, however, to progress beyond the notion of 'imputed' class consciousness. By this I meant the same thing as Lenin in What is to be done? . . . what I had intended subjectively, and what Lenin had arrived at as the result of an authentic Marxist analysis of a practical movement, was transformed in my account into a purely intellectual result and thus into something contemplative. In my representation it would indeed be a miracle if this 'imputed' consciousness could turn into revolutionary praxis.

Ibid., pp. XVIII-XIX.

⁵⁰Ibid., p. 72; emphasis in the original.

⁵¹Ibid., p. 65.

This interpretation may have some foundations in Marx and Engels' political and polemical writings such as The Poverty of Philosophy - which Lukacs quotes frequently-or The Communist Manifesto, where the role of the proletariat as the gravedigger of the bourgeoisie is emphasized in such a manner as to make it appear as its inevitable destiny. However, throughout Marx and Engels' work it is clear that the revolutionary role of the proletariat is the function of the objective development of the contradictions of capitalism rather than the function of some historical mission. The proletariat can confront the bourgeoisie with an alternative political project (socialism) because of its strategic location as the direct producer in the process of production. The revolutionary capacity of the proletariat stems from concrete social, economic and political contradictions. The central problem for Marxism is not how to achieve consciousness of those contradictions, but how to articulate them in a concrete and viable political revolutionary movement that would be capable of transforming the existing relations of production.

This is where Lukacs comes only half way in developing a Marxist view of ideology. In our opinion, from a Marxist perspective ideology is neither the practice of ideological apparatuses, as the structuralists argue, nor imputed consciousness, true or false, as Lukacs argues. Ideology is rather a level of praxis, that is, a level of class practices in which, consciously or not, a particular understanding of the world (of the existing relations of production) is expressed. It is in the development of the concept of praxis and the understanding of ideology as a level of it that the key to the development of a more adequate

perspective of the Marxist theory of ideology lies. We turn now our attention to the efforts made in this direction.

Gramsci and the Philosophy of Praxis

Antonio Gramsci is probably the most influential figure in the development of a conception of ideology as a level of praxis. In his Prison Notebooks, Gramsci defines ideology as "a conception of the world that is implicitly manifest in art, in law, in economic activity and in all manifestations of individual and collective life."⁵² This conception of the world permeates all aspects of human social activity unifying and "cementing" society and providing a unitary significance, a raison d'etre for human social activity (i.e., praxis).

However, this sense of unity provided by ideology does not mean the absence of class conflict. On the contrary, ideological unity is imposed through class struggle. It is in the process of class struggle that the ruling class imposes its ideological dominance, its intellectual and moral leadership. Gramsci makes a distinction between the capacity of a class to dominate and its capacity to lead. The capacity to dominate comes from the exercise of coercive force, but the capacity to lead comes from the exercise of ideological (moral and intellectual) leadership. For a ruling class to be truly "dominant", it must be able to control the means of violence as well as the means of persuasion in society. It must be able to dominate and lead at the same time. In Gramsci's words:

⁵² Antonio Gramsci, Prison Notebooks (London: Lawrence and Wishart, 1976), p. 328.

. . . the supremacy of a social group manifests itself in two ways, as 'domination' and as 'intellectual and moral leadership'. A social group dominates antagonistic groups, which it tends to 'liquidate', or to subjugate perhaps even by armed force; it leads kindred and allied groups. A social group can and indeed must, already exercise 'leadership' before winning governmental power (this indeed is one of the principal conditions for the winning of such power); it subsequently becomes dominant when it exercises power, but even if it holds it firmly in its grasp, it must continue to 'lead' as well.⁵³

This capacity to dominate and lead, to rule by force as well as by consensus is what Gramsci calls hegemony.⁵⁴

In this sense, a class social order is imposed and reproduced through the exercise not only of force but also of persuasion. The social order imposed by the ruling classes rests upon a relatively precarious balance between coercion and persuasion, between repression and ideology. The imposition of the interests of the ruling classes upon the rest of society are not exclusively the result of an unilateral act of violence. This imposition is also the result of an ideological process through which the dominated classes accept and internalize the interests of the ruling classes as part of their everyday life.

However, this acceptance of the ideology of the ruling classes does not mean total submission to it nor is it an act of the will of the subordinate classes. Rather, it is the product of a process of praxis where the subordinate classes are inscribed in the categories

⁵³Ibid., pp. 57-58.

⁵⁴For a comprehensive discussion of Gramsci's concept of Hegemony see Joseph Femia, "Hegemony and Consciousness in the Thought of Antonio Gramsci", Political Studies, Vol. XXIII, No. 1 (March, 1975), pp. 29-48.

and the conception of the world of the ruling classes. If ideology is a level of praxis this means that humans live in ideology. They are "immersed" in it. Also, if the dominant ideology is the ideology of the ruling classes, this means that humans live and understand their relation according to the categories of the ruling classes. However, if the dominant ideology is imposed through class struggle, through a process of coercion and persuasion, this means that the subordinate classes, while living within the categories of the ruling class, are developing at the same time their own ideology. An ideology that expresses the tensions and contradictions of the very process of class conflict through which the dominant ideology is imposed. In this sense, ideology, for Gramsci, "create[s] the terrain on which men move, acquire consciousness of their position, struggle, etc."⁵⁵

Gramsci elaborates this conception of ideology as a level of praxis because his central preoccupation is the understanding of the consciousness, the quotidian consciousness, of the common person, rather than the understanding of bourgeois philosophy or any other formal body of thought. For Gramsci, every person is a philosopher insofar as everyone has a conception of the world.⁵⁶ This conception of the world is expressed in the practical activity of humans, and it is what makes possible, in praxis, the reproduction of the social order.⁵⁷

⁵⁵ Gramsci, Prison Notebooks, p. 377. ⁵⁶ *Ibid.*, p. 323, and *passim*.

⁵⁷ For Gramsci, the intellectual process, consciousness, is not a contemplative process but a "socio-practical activity, in which thought and action are reciprocally determined". See Gramsci, Prison Notebooks, p. 333, note 15.

Gramsci's focus of attention revolves thus around the question of how can a class social order - which is based on the exploitation of the majority of a society for the benefit of a ruling majority - survive and be reproduced without the constant use of violence. In searching for an answer to this question, Gramsci formulated his concepts of dominance/hegemony, coercion/persuasion, and political society/civil society.

The idea that the ruling classes could rule by consent would seem, at first glance, to be opposed to the Marxist view of history as a process of class struggle. Yet, it is precisely in the development of the view that class interests are imposed not only through force but through persuasion and the forging of a social consensus, that Gramsci made what is probably his major contribution to the Marxist analysis of the process of reproduction of the bourgeois social order in its advanced stage.

According to Gramsci's view, the ruling class, in the process of establishing its hegemony, creates a vast and complex structure that guarantees its dominance even in times of crisis (particularly economic crisis).⁵⁸ This structure is what he calls the civil society. The civil society is composed of those "private" institutions that secure the leading capacity of the ruling class through the institutionalization and diffusion throughout society of its conception of

58, . . . 'civil society' has become a very complex structure and one which is resistant to the catastrophic 'incursions' of the immediate economic element (crisis, depression, etc.). The superstructures of civil society are like the french-systems of modern warfare". Ibid., p. 235; see also Femia, "Hegemony and Consciousness", p. 35.

the world (i.e., its ideology).⁵⁹ Civil society thus constitutes the principal domain of ideological praxis. Its function is fundamentally to organize the ideological praxis of the ruling classes thus contributing to the establishing of its hegemony (i.e., contributing to the establishment of a rule by consent). Yet, the fact that the civil society becomes a primary terrain of ideological praxis does not imply that ideology is constrained, as in the case of Althusser, to the practices of ideological institutions. For Gramsci, ideological institutions and civil society are a fact of modern bourgeois society, but ideological praxis is not limited to them.

To synthesize, we could say that, for Gramsci, ideology is a conception of the world which is explicitly or implicitly present in all aspects of human social activity. The particular content of ideology has a class character that through the process of ideological class struggle extends beyond the boundaries of a single class. Ideology is thus a concrete form of social knowledge. It is not a formal system of ideas and concepts unified by a particular logic. For Gramsci, ideology is the knowledge of everyday life, the "philosophy" on which concrete human activity is based (i.e., a level of praxis). And human activity is conscious activity. There is no such thing, in Gramsci's view, as pure activity or pure consciousness. All human activity implies a consciousness and expressed a conception of the world, whether or not the social actors involved are aware of that conception or not.

⁵⁹Gramsci, Prison Notebooks, pp. 12-13.

It is in the development of a conception of ideology as a level of praxis that Gramsci's major contribution to a Marxist theory of ideology is to be found. For here, he breaks away from the traditional views of ideology as institutional practices or a set of ideas (formal or imputed). In Gramsci's view, humans have two theoretical consciousnesses or one contradictory consciousness. Humans have a consciousness (a conception of the world, an ideology) which is implicit in their activity and unites them with their fellow workers in the transformation of the world. Humans also have a "superficially explicit or verbal" consciousness which they inherit from the past and absorb uncritically.⁶⁰ The first form of consciousness is implicit or contained in the actions of a class. It emerges from the social relations established in the productive process and is shared by those who occupy the same social and economic position in this process. The latter is the link of the subordinated classes with the dominant ideology, the element that provides social unity and the medium through which ideological dominance is articulated. This contradictory consciousness expresses the contradiction between the "acceptance" of the ideology of the ruling class in the verbal or explicit consciousness and its implicit rejection (if in a fragmented manner) in the practical or implicit consciousness (i.e., in the consciousness contained in class practices). The solution to this contradiction can only be provided in the process of political and ideological struggle. In Gramsci's words:

⁶⁰ Ibid., p. 333.

But this verbal conception is not without consequences. It holds together a specific social group, it influences moral conduct and the direction of will, with varying efficacy but often powerfully enough to produce a situation in which the contradictory state of consciousness does not permit of any action, any decision or any choice, and produces a condition of moral and political passivity. Critical understanding of self takes place therefore through a struggle of political 'hegemonies' and of opposing directions, first in the ethical field and then in that of politics proper, in order to arrive at the working out at a higher level of one's own conception of reality. Consciousness of being part of a particular hegemonic force (that is to say, political consciousness) is the first stage towards a further progressive self-consciousness in which theory and practice will finally be one.⁶¹

Thus the contradictory consciousness is, for Gramsci, a function of class struggle (i.e., of the imposition of the hegemony of a class). The resolution of this contradiction is also a function of class struggle at the political and ideological level. It is in the politico-ideological terrain that classes can identify and express with a certain coherency their position in society, their particular interests and their antagonisms with other classes.

It is worth noting here that the contradiction between verbal or explicit consciousness and practical or implicit consciousness is not posed, as in the case of Lukacs, as a contradiction between the false and the authentic. Rather, it is posed as the expression of the contradiction of a process of domination (i.e., of the establishment of the hegemony of a ruling class). The workers by "accepting" in their verbal consciousness the conception of the hegemonic class are not being merely deceived; actually, they are being "immersed" by a complex process of coercion and persuasion in the categories of the

⁶¹Ibid.

ruling class. And the solution to this contradiction is not found in the realization of true consciousness but rather in politico-ideological class struggle, in the "struggle of political hegemonies".

Two further questions arise from Gramsci's view of ideology as a level of praxis: a) does all praxis (human social activity) lead necessarily to the identification of the particular interests of a class ("political consciousness") and the organization of this class for the "struggle of political hegemonies"? and b) does the development of a political consciousness mean the abolition of ideology?

The answer to the first question is no. For Gramsci, there is a distinction between what can be termed quotidian or spontaneous praxis and a revolutionary or political praxis (revolutionary in the case of the subordinated classes). In the first form of praxis, the particular interests and views of the subordinated classes are expressed only in a latent and contradictory manner. They are fragmented and incoherent, immersed within the categories of the dominant ideology and incapable of emerging as an alternative to the power of the ruling classes. The second form of praxis implies the emergence of a conscious leadership and the organization of the fragmentary conception of the world, implicit in the quotidian praxis, into a coherent conception capable of confronting the power of the ruling classes. This conception of the world held by the subordinated classes is then articulated by a political organization and presented as a concrete political and ideological alternative to the political and ideological

power (the hegemony) of the ruling classes.⁶² The transition from one form of praxis to the other requires the development of certain historical conditions (e.g., economic crises, wars, etc.) that call into question the adequacy of the dominant ideology and, therefore, the hegemony of the ruling classes. It will require also the emergence of a leadership, a group of "organic intellectuals", who will help to organize and provide direction to the consciousness implicit in quotidian praxis. In other words, it requires transformation of the fragmentary consciousness of quotidian praxis into a political consciousness through political praxis, a "struggle of political hegemonies", which in turn also implies the formation of a political organization of the subordinated classes. The transformation of quotidian praxis into revolutionary praxis thus implies the entry of the subordinated classes into the political struggle as an autonomous force organizing and expressing their interests through their own political organization in the process of politico-ideological class struggle.⁶³

In regard to the second question, it needs to be understood that, for Gramsci, ideology is not merely a distortion or an illusion. It is a conception of the world. The development of a revolutionary

⁶² Ibid., pp. 196-200; in his essay "Marx's Theory of Ideology", Larrain develops this distinction between quotidian and revolutionary praxis as crucial to understanding Marx's conception. Later in his book, The Concept of Ideology, chap. 2, when discussing Marx's theory of ideology, he uses the concepts of reproductive practice and revolutionary practice referring to this same distinction.

⁶³ Gramsci, Prison Notebooks, pp. 152-53, 196-200, 334, and passim.

political praxis by the subordinated classes certainly means that these classes have overcome the dominance of the ideology of the ruling class but not that ideology, as such, is in the process of being abolished. To Gramsci, the dominant ideology is opposed by the ideology of the subordinated classes. The struggle of political hegemonies is the struggle between two opposing conceptions of the world, between two ideologies. These opposing ideologies are not confronted as truth and falsehood. Rather, they are two historically opposed views of how to organize society based upon conflicting class interests. For Gramsci, the crucial distinction is not between ideology and truth or false and true consciousness. He distinguishes "historically organic" ideologies from arbitrary or voluntaristic ideologies. The former have a "psychological" validity since "they 'organize' human masses, and create the terrain on which men move, acquire consciousness of their position, struggle, etc."⁶⁴ The latter "only create individual 'movements', polemics and so on."⁶⁵ The question of truth or falseness becomes a historical and political problem rather than an abstract epistemological question. The understanding of ideologies and their intellectual validity has to be analyzed in a socio-political context as a relation between theory and practice. Therefore, the validity of ideology can only be analyzed in references to a historically determined praxis, not in reference to abstract and formal systems of knowledge (i.e., scholastic philosophy). In this Gramsci fully coincides with the somewhat forgotten second thesis of Marx on Feuerbach. There Marx states:

⁶⁴ Ibid., p. 377, our emphasis. ⁶⁵ Ibid.

The question whether objective truth can be attributed to human thinking is not a question of theory but is a practical question. In practice man must prove the truth, i.e., the reality and power, the this-sidedness of his thinking. The dispute over the reality or non-reality of thinking which is isolated from practice is a purely scholastic question.⁶⁶

Science and ideology then are not opposite poles. Science is part of ideology, moreover, "science is a historical category, a movement in constant development."⁶⁷ The same is also true for the questions of objectivity and truth in ideology. Science then is part of the ideological practice and the criteria of objectivity and truth must be social and historical criteria not abstract formal criteria.

So far, we have seen three different views of the Marxist theory of ideology. It is curious that starting from a common intellectual source, the reading of Marx's texts, the authors examined could take such divergent views. In our opinion, this divergence comes from two sources. The first is to be found in Marx himself. Throughout his work, Marx refers to ideology as a reflex of material (economic) relations, as distorted consciousness and as a form of social consciousness in general.⁶⁸ Therefore, this divergence is not surprising. The second source of divergence comes from the differences that exist in

⁶⁶Marx, "Theses on Feuerbach", in Selected Works, p. 28.

⁶⁷Antonio Gramsci, Introducción a la filosofía de la praxis (Barcelona: Ediciones Península, 1970), p. 90; the translation from the Spanish is ours. This part of Gramsci's Prison Notebooks, entitled "La ciencia y las ideologías 'científicas'" (science and scientific ideologies) does not appear in the English text to which we have made references throughout this chapter.

⁶⁸Larrain, The Concept, pp. 50-52, points this out. Yet, for Larrain, Marx's most common usage of the term is intended to mean distorted forms of consciousness which conceal contradictions in society. Larrain argues that it is therefore better to distinguish between ideology (distorted forms of consciousness) and idealistic superstructure (which includes all forms of consciousness), a view with which I disagree.

the central object of each author's study. Each one of them focuses on a different aspect of social activity as the key to the explanation of the position and role that ideology plays in society. Althusser defines the social structure as the key to understanding the social process in general. Lukacs, for his part, focuses on the notions of class consciousness and class subjects, while Gramsci focuses on the analysis of human social activity, praxis. In all three cases, the understanding of the manner in which the study of ideology is approached are different. Althusser approaches it through the concept of ISA, Lukacs approaches it with the notion of imputed consciousness, and Gramsci approaches it as a level of praxis (i.e., a conception of the world implicit in every realm of social, economic and political relations). For all three authors, the social relations of production are the basis for any explanation of ideology. Yet, the manner in which ideology reflects or articulates these relations and the position it occupies within them is seen in different and opposed ways.

The three authors also coincide in their view that ideology is the level of mediation of the structure and the class conflicts generated at the level of the structure (the process of production). They agree that ideology is the terrain where the existing relations of production are reproduced. Yet, the manner in which the mediation that allows the process of reproduction to take place is effected is seen in very different, if not opposed ways.

We do not pretend to resolve a debate that has been going on for so many years and that others better qualified than us have been unable to resolve. However, there are certain points we would like to make in regard to these issues, and we would like to set our position with

with respect to the Marxist theory of ideology. In our view, the elusiveness of the concept of ideology and of the understanding of its position and role in society comes from the incapacity of idealism and empiricism to resolve the key contradictions that are faced in the task of providing a theoretical explanation of society. These contradictions are the subject/object contradiction and the individual/institution contradiction. The unresolved methodological questions seem to be: a) are ideas the principle of human activity or are things or structures the principle of it? and b) is the individual and his ideas the organizing principle of society or are institutions the ones that provide the organizing principle of human activity and social order? Marx attempts to resolve these questions by defining praxis as the point of unity (a dialectical or contradictory unity) between the subject and the object. For Marx, there is a dialectical relation between consciousness and being. It is, Marx says, the "social being that determines their [men's] consciousness",⁶⁹ and he adds, "consciousness can never be anything else than conscious existence of men in their actual life-process".⁷⁰ The question then is not to establish an identity between subject and object (between consciousness and activity) dissolving one into the other, but to understand their dialectical relation, their mediation through praxis.⁷¹

⁶⁹Marx, "Preface", p. 182.

⁷⁰Marx and Engels, The German Ideology, p. 47.

⁷¹Larrain, The Concept, pp. 37-44.

As we discussed, according to the Marxist conception of society humans enter into a series of relations among themselves and with nature in order to produce their material life conditions. In time, many of these relations become objectified (institutionalized) and independent of the will of humans. These objectified relations may even turn against their creators and oppress them. However, humans can change these relations through revolutionary praxis, collective political activity. For Marxist theory, human activity, the activity capable of creating, reproducing and transforming society, is not the activity of an isolated individual. Marx sees human activity as social activity, the activity of social classes. By introducing the concept of social classes as the subjects of history, Marx transcends the idealist and structuralist notions and the very terms on which the individual/institution contradiction is based. He goes beyond the individualistic voluntaristic conception as well as beyond the structuralist deterministic one. Humans create the world collectively and can transform it collectively. They are not victims of their creation (the social institutions), but neither can they as individuals transform society at will. Meaningful social action is collective action of social classes, which can transform society within certain historical and structural limits set by the level of development of the productive forces.

As we see, Marx creates a new epistemology. He redefines the very categories used to interpret society and human social activity. Ideology is not merely ideas, institutions or apparatuses. To understand ideology and its role and function in the process of production

and reproduction of material life conditions, it is not sufficient to know what humans say or think about themselves. What is crucial is to know what humans do as social beings, as social classes and as social-historical actors in their "actual life-process". In this sense, it seems to us that Gramsci's position is closer to that of Marx than the others.

To sum up, we can conclude that Gramsci's treatment of the concept of ideology is the most congruent with the Marxist understanding of society and the social process. According to Gramsci's view, ideology is a conception of the world, a set of representations, values, beliefs, which are implicit in every aspect of human social activity (i.e., praxis). Ideology, thus, provides the sense and meaning to human activity, whether consciously or unconsciously, and the framework and parameters for the understanding and significance of this activity. There is no human activity devoid of ideology nor is there any ideology devoid of human activity. Human activity takes place within ideology. In as much as ideology is an integral part of human activity, whose material basis is the process of production of material life conditions, it will express (in a dialectical sense) the conflicts and contradictions of this process, while at the same time is part of them. As human activity takes place in the context of a class divided society, the ideology of the different classes expresses the particularities of their relations to the means of production and of the relations between them. In other words, it expresses the particular interests and antagonisms of each class as opposed to the other classes, whether in an explicit or an implicit (latent) manner.

Hence, in order to uncover the real function and role of ideology - its material force - we must understand its material origin (i.e., the relations of production). Put in a different way, we must understand class relations and class practices.

However, there is always the danger of reifying the concept of praxis, and transforming it into a mechanical solution to all problems. There is also the temptation of dissolving theory into practice rather than understanding their dialectical unity. Hence, the necessity and importance of applying the category of praxis to concrete situations in order to prove its relevance.

State, Ideology and Class Struggle

The second major question that occupies our attention is the relation between the State and ideology. The reason for our concern with this question becomes clear just by taking a quick look at the process of expansion into the economic level and the sphere of ideology that the capitalist State has experienced since the Great Depression in the 1930's. The post-Keynesian State has become the "nervous center" of capitalist society. Its function has changed from a primarily repressive one to one of economic and ideological mediator (in a non-neutral sense) in the process of class struggle. Most certainly the politician has replaced the priest as the apologist of the ruling classes. Also, the high ranking bureaucracy of the capitalist State, because it is in charge of public enterprises and other areas of economic policy, has served as a stabilizing force to counterbalance the economic "cannibalism" that characterizes capitalism. The awareness of these developments in the role of the capitalist State and the

absence of a body of theory to deal with it adequately has led to an extensive discussion and debate on the capitalist State during the past decade. It is impossible here to attempt a complete discussion of all the issues in debate. Yet we shall discuss what we believe to be the key questions of this debate.

For Marx and Engels, the State appears in the history of a social formation at a stage in which class contradictions reach an irreconcilable character. The function of the State is to moderate the conflict and keep it "within the bounds of 'order'"⁷² through coercive means, thus serving the interests of the ruling class. The State is, as a general rule, "the State of the most powerful, economically dominant class, which through the medium of the State, becomes also the politically dominant class, and thus acquires new means of holding down and exploiting the oppressed class."⁷³ In other words, the function of the State is to impose the dominance of one of the classes in conflict (the economically dominant one) over the rest of society. In this sense, Marx and Engels would argue that "the executive of the modern [bourgeois] State is but a committee for managing the common affairs of the whole bourgeoisie."⁷⁴

This basic formulation, which is substantiated and enriched in Marx's analyses of the political struggles in France since 1848,

⁷² Engels, "The Origin of the Family, Private Property and the State", in Marx and Engels, Selected works, p. 586.

⁷³ Ibid., p. 587. ⁷⁴ Marx and Engels, "The Communist Manifesto", p. 37.

constitutes the core of what can be called the classic Marxist theory of the State. The fundamental proposition of this theory is that the State, through primarily coercive means, is the instrument of the ruling classes for the preservation of a class social order. The State is the social organ that guarantees the imposition of the interests of the ruling classes over the rest of society. The State is thus conceived primarily as a repressive-administrative apparatus, an instrument of legitimized violence. This conception of the State finds its most articulate and systematic presentation in Lenin's The State and Revolution.⁷⁵ But the reductionist view of the State as an instrument of coercion for the ruling classes can in part be attributed to the Stalinist interpretation of this text which dominated Marxist theory until recently.⁷⁶

⁷⁵Vladimir Illich Lenin, "State and Revolution", in Selected Works, 3 Vols. (Moscow: Foreign Languages, 1967).

⁷⁶Lucio Coletti has suggested that the Stalinist reading of Lenin's text limited the possibilities of its interpretation and reduced the conception of the socialist revolution to the violent destruction of the bourgeois State. Lucio Coletti, "Lenin's State and Revolution" in Robin Blackburn, ed., Revolution and Class Struggle (London: Fontana, 1977), p. 69. Coletti's view seems to be substantiated by Gramsci's interpretation of Lenin's view of the State: "Illich, however, did not have time to expand his formula In Russia the State was everything, civil society was primordial and gelatinous . . .", implying that the reality which Lenin confronted imposed the limits of Lenin's analysis of the State and of the complexities of bourgeois power. Gramsci, Prison Notebooks, p. 238.

However, since the publication of the works of Nicos Poulantzas and Ralph Miliband,⁷⁷ the discussion of the Marxist theory of the State has been reopened and an attempt to reinterpret Marx, Engels and Lenin's formulations in a wider context has begun. These attempts have led in the direction of a more concrete analysis of the capitalist State and its historical development, and they have also led to the re-discovery of other Marxist theorists, particularly Antonio Gramsci. Actually, it could be said that the present debate has taken Gramsci's concept of hegemony as a point of departure, thus producing a more sophisticated and complex formulation of the role played by the capitalist State in securing bourgeois power.

As we saw above, for Gramsci the real dominance of a class (hegemony) can only be established by a combination of coercion and persuasion (i.e., repression and consent). Coercion, in Gramsci's view, is the function of the political society, the State, while persuasion is the function of the civil society, ideological institutions. The relation between these two levels of society is seen as complementary and class hegemony is a function of class dominance of the two levels simultaneously. However, for Gramsci the two levels appear as clearly distinguishable both in analytical and practical terms.

The reopening of the discussion and reformulation of the classic Marxist theory of the State lead to the rediscovery of Gramsci's

⁷⁷ Poulantzas', Political Power and Social classes, was originally published in French in 1968 and the first English edition was in 1973; Ralph Miliband, The State in Capitalist Society (London: Quartet Books, 1973), first published in 1969.

formula of bourgeois power (hegemony) and the relation between the State and civil society. But at the same time it led to its re-definition and reformulation.⁷⁸ The need for this redefinition and reformulation of Gramsci's formula is given by Miliband when he argues:

It has to be noted however that the liberal and constitutional state has, since Gramsci wrote, come to play a much more important part than previously in this process of 'political socialisation', and that just as it now intervenes massively in economic life so does it also intervene very notably, and in a multitude of different ways, in ideological competition, and has in fact become one of the main architects of the conservative consensus.⁷⁹

The new perspective that emerged within the Marxist theory of the State sees the State not only as a repressive instrument for the forceful imposition of the interest of the ruling class, but also as a non-neutral mediator that condenses contradictions and forges a political equilibrium (in a dialectical, conflictive, sense) that secures the hegemony of the ruling class or classes.⁸⁰ The function of the capitalist State is then seen, in general terms, as the reproduction

⁷⁸Stuart Hall, points out that "Poulantzas clearly attempted to give Gramsci's concept of 'hegemony' a more theoreticized and systematic formulation"; "Nicos Poulantzas: State, Power, Socialism", New Left Review, No. 119 (January-February, 1980), p. 62.

⁷⁹Miliband, The State, p. 165, emphasis in the original.

⁸⁰We do not wish to imply that this new perspective is theoretically unified. As a matter of fact, there is a great deal of debate as to the precise terms in which this new perspective should be posed. However, there is a clear attempt to deal with the complexities of bourgeois power and the capitalist State and to overcome the instrumentalist reductionist view associated with the Marxist theory of the State. The debate between Poulantzas and Miliband appeared in issues number 51, 59, 82 and 95 of the New Left Review.

of the political conditions necessary for the dominance of the ruling classes at the least possible social, economic and political cost. In other words, the function of the capitalist State is to guarantee the organization and functioning of the social structure according to the social, political and economic needs of the dominant mode of production in a concrete social formation. The State not only represses but also organizes and maintains the functioning of the social structure within the limits of bourgeois social order. It fixes the rules and the limits of the conflict and thus institutionalizes and mediates it within the realm of bourgeois hegemony (in the Gramscian sense).

Within this conception, the State fulfills a twofold function. On the one hand, the State maintains class rule, and, on the other, it fosters the support and/or acceptance (in a conflictive manner) of other classes and class fractions to the dominance of the ruling class or classes, thus securing its hegemony. Hence, in an attempt to overcome the reductionist notion of a single monolithic ruling class, the use of the concept of "power bloc" to refer to the particular form that class dominance assumes in advanced capitalist societies.⁸¹ This double function of the capitalist State is fulfilled through three mechanisms: a) through the repressive apparatus, which is the ultimate guarantee of all political domination; b) through the direct intervention of the State in the ideological apparatuses, which Gramsci would

⁸¹"The concept of power bloc is not then introduced expressly by Marx or Engels: it indicates the particular contradictory unity of the politically dominant classes or fractions of classes as related to a particular form of the capitalist state." Poulantzas, Political Power, p. 234; emphasis in the original.

call the institutions of the civil society (the schools, the church, the means of communication), thus participating in the forging of a consensus; and c) through direct and indirect State intervention in the economy by fiscal policies (tax laws, government incentives, subsidies, etc.) and pressure exercised over the private sector by the productive sector in the hands of the State (e.g., public utilities corporations, nationalized industries, etc.), which gives the State a great degree of influence over the process of accumulation. The last two mechanisms are distinctive of the modern capitalist State and they have become a most important element in establishing and maintaining bourgeois hegemony during the period that followed the Great Depression of the Thirties and the Second World War. In fact, we could assert that the direct intervention of the capitalist State at the ideological level goes hand in hand with its direct intervention in the economy. But we shall return to this question later on.

The question then is: if the function of the capitalist State is more than a merely coercive one, how is the non-coercive function manifested? How does the capitalist State use non-coercive means to guarantee the reproduction of a class social order? The research on this area has taken divergent paths and there is no consensus on the answers to these questions. For example, the structuralist school explains the ideological function of the State with their theory on ISA's (discussed above). They argue that the State enters the ideological terrain and contributes, through the constitution of ISA's, to the formation of a consensus based on the ideology of the ruling class. But as we discussed earlier, this formula presents the problem of

reducing ideological practice to State controlled institutions which almost always and exclusively articulate the ideology of the ruling class. Furthermore, by reducing the boundaries of ideological activity to ISA's, the State becomes an ever present element that "swallows" the civil society. There is no activity outside the State, and there is no power other than State power.⁸²

There have been attempts by structuralist thinkers like Nicos Poulantzas to overcome this reductionism by introducing the notion of practice and trying to understand the structures, the "apparatuses", as "the materialization and condensation of class relations".⁸³ In other words, these thinkers attempt to understand structures as class practices. However, as Stuart Hall has pointed out, there is "a tension in Poulantzas' work between 'structure' and 'practice'". This is particularly manifested in his book Political Power and Social Classes, where, as Hall points out, Poulantzas analyzes every question twice: once as the "effect of the structure" and the other time as the "effect of a practice."⁸⁴ He does not resolve this question in regard to the relation between the State and ideology where he remains faithful to the structuralist conception of the ISA's.

⁸²This criticism has been raised by Ralph Miliband in his debate with Nicos Poulantzas. Ralph Miliband, "Reply to Nicos Poulantzas" in Robin Blackburn, ed., Ideology in Social Science (London: Fontana, 1976), pp. 261-62, (originally published in New Left Review, No. 59).

⁸³Poulantzas, Classes in Contemporary Capitalism, p. 25.

⁸⁴Hall, "Nicos Poulantzas", pp. 61-62.

The counterpart to the structuralist reductionism is presented by Ralph Miliband. For Miliband, the ideological activity of the State takes the form of State intervention in the institutions of civil society on behalf of the dominant classes. This intervention is fundamentally geared towards the creation of favorable conditions for the establishment of a conservative consensus. In this sense, the State intervenes on the ideological level but does not assume, as such, a major ideological function. The ideological activity remains a primary function of private institutions, and it does not become a part of the structural functions of the State. In Miliband words: "the 'engineering of consent' in capitalist society is still largely an unofficial private enterprise."⁸⁵

On this issue, it seems to us that Miliband goes only half way. He most certainly makes a perceptive analysis of how the State intervenes in the ideological institutions and de-mystifies the idea of a neutral State. Yet he fails to deal with the fact that an important part of the ideological functions of the capitalist society have been assumed directly by the State. No longer is ideology merely a question of outside intervention, but it has actually become part of the structural functions of the State. In other words, even though it is a mistake to reduce all ideological activities to ISA's, the existence of ISA's are a feature of the modern capitalist State.

Let us take, for example, the role of the State in education. This is a subject to which both Althusser and Miliband dedicate their

⁸⁵ Miliband, The State, p. 165.

attention, and, undeniably it is one of the most important areas where the ideological role of the State can be observed. For Miliband, the schools play a key role in providing a conservative political socialization. Yet State intervention in the process of education is seen as external or secondary to the structure of the State. The intervention of the State is limited to pressures on personnel recruitment, curriculum limitations, and other external measures. The key issue, for Miliband, is that schools instill a particular view of the world, a conservative middle class ideology, through a process that comes close to indoctrination.⁸⁶

Althusser assumes the opposite view by defining the school system as the dominant ISA in capitalist society. For him, education has become part of the structural functions of the State. It is not a question of the State simply intervening to ensure that the educational process goes in the "right" direction (i.e., the direction of the ruling classes). For Althusser, education becomes a vital element, an essential activity of the State's structure. It becomes part of the mechanisms of the State in the fulfillment of its main activity (i.e., in securing the politico-ideological conditions for the reproduction of the existing relations of production). The question then is not whether or not the schools instill in the students a particular mentality or conception of the world which is favorable to the "status quo". The question, in Althusser's view, is that the school "inscribes" the students in an ideological practice designed to reproduce the

⁸⁶ Ibid., pp. 213-219.

the existing relations of production. This ideological practice includes the set of ideas and values transmitted to the student by their teachers, but, more importantly, these ideas and values are contained in the institutional practice of the school where they become a concrete material force. The emphasis on certain subjects to the detriment of others, the organization and division of knowledge in a particular manner, the division between technical and liberal schools, and the hierarchical organization of power in school (e.g., the student/teacher relation), are a few examples of the institutional practices in which students are inscribed. These practices "prepare" the students to "accept" their place in society, in the social division of labor. It is not a question of instilling ideas into the minds of the students but rather of "immersing" them in an institutional practice that reproduces the existing relations of production at the level of ideological practices (i.e., imaginary or symbolic relations). In schools, the authority of the boss is not simply an idea or something that is taught. Instead it is practiced everyday in a lived relation.⁸⁷

Thus, according to Miliband, the State intervenes indirectly in a process which is mainly "private" and whose main function is the diffusion of a particular (middle class) conception of the world. Conversely, for Althusser, education becomes a fundamental function, a structural function, of the State, and its main task is inscribing the people in the ideological practices of the ruling class. In this particular case of the relation between State and education, it seems

⁸⁷ Cf. Althusser, "Ideology and ISA's."

to us that Althusser's formulation is more adequate. The school has, by and large, become an ISA in modern capitalist society. Yet, as we argued above, it would be foolish to extrapolate this analysis and reduce all IA's to ISA's. What is certainly true is that the State has assumed as part of its structural function an active role in the ideological terrain.

The question then is: what is the specific form of the ideological activity of the State? Is it, as Milliband suggests, active intervention through indirect means in the institutions of civil society, or is it, as Althusser suggests, the absorption by the State of the institutions of civil society and the transformation of them into ISA's? In our opinion both formulations do not answer satisfactorily the question of the specific nature of the State's ideological function. Indeed, as Milliband argues, the State intervenes, in fact it has always done so, in the sphere of civil society. It is also undeniable that the ISA's are a key component of the structural functions of the capitalist State, but it is doubtful that all ideological practice can be reduced to them.⁸⁸ So the question remains open: what is the specific character of the ideological function of the modern capitalist State and how is it articulated? In our opinion, the modern capitalist State has - aside from absorbing a part of ideological institutions normally associated with the civil society (e.g., schools) and transforming them into ISA's - created its own particular ideological

⁸⁸ Limoeiro-Cardoso, criticizes Althusser for extrapolating the concept of ISA's in his analysis of the feudal mode of production, which she correctly understands to be inadequate; La ideologia dominante, p. 74.

terrain. This terrain is the area of economic policy, and it has become the dominant ideology in capitalist societies since the adoption and popularization of Keynesian economic theories during the Great Depression. This ideological function, rather than being reduced to a single unit or a specific ISA, is carried out by a set of administrative and political units within the State apparatus in charge of the various aspects of economic policy. In fact, one of the problems with identifying economic policy as the principal terrain of the ideological function of the State is the impossibility of reducing this function to a single unit or institution within the State apparatus. It can be said, as a matter of fact, that the majority of the administrative and political units of the State are involved in this ideological activity. Economic policy has replaced nationalism and national security as the dominant terrain of the ideological practice of the State.

This change is linked to the expansion of the economic activity of the State since the Great Depression. After the Great Depression, the State's economic activity could not be limited to tax collection and the financing of public works in a limited sense. With the adoption of Keynesian policies in the Thirties, the State became a key factor in economic expansion. Originally Keynesian policies were adopted to stimulate the private sector by increasing aggregate demand, thus inducing the recovery of production in the private sector. The idea was that the State would increase its spending through public works and social welfare thus increasing demand for goods and services, which would in turn stimulate production. This led to the entrance

of the State directly into the world of production through the creation of public corporations. Originally, most public corporations were limited to the production of basic services such as utilities, transportation and communications, but eventually they extended into areas of production with high capitalization demands and a low rate of profits (i.e., areas where capitalists were unwilling to invest such as the ship building industry, the car industry, etc.).

Thus the modern capitalist State possesses direct means to intervene in the pattern of economic accumulation. The state has the power to transfer economic surplus (surplus value) from certain sectors of the economy to others through both fiscal mechanisms and its economic power as a producer and consumer of goods and services in the economy.⁸⁹ The State has the capacity to foster or undermine the process of accumulation as a whole and to transfer or channel a share of the social surplus product (surplus value) to the advantage of particular sectors of society. This is particularly true in the case of peripheral societies (societies at the periphery of the capitalist international economy, e.g. Latin America, Africa and Asia) and of capitalist European societies, where the State is heavily involved in direct production and, on occasion, directly competes with private capital.

The political class struggle for the control of the State apparatus becomes a crucial question. The State becomes the "nervous center" of the capitalist society. It is through the State and in the

⁸⁹ Examples of this are the subsidies on energy consumption granted to corporations in the form of discount rates from State-owned utilities, guaranteed profits in State contracts with private corporations, State financing of research, joint ventures in high capitalization projects, etc.

State that contradictions generated at the level of production are condensed and mediated. The State becomes the level at which alliances are forged and conflicting interests mediated between the different fractions of the dominant classes that integrate the power bloc, and between these fractions and the working classes. Economic policies are at the center of this process of condensation and mediation of these contradictions. Wage settlements worked out by the State, price policies, State investment policy, monetary policy, and all other economic policies represent crucial accommodations in the process of class struggle. The State becomes the instance where the rules for the distribution of a share of the social surplus product (surplus value) are set. The market alone does not set these rules in an advanced capitalist society. The State dictates the rules and the limits of the political conflict for the control of the economy, and it becomes the center of the process of class struggle.

If our arguments are correct, the political struggle that takes place in and around the capitalist State implies a struggle among different fractions of the propertied classes (and in some cases between these and the working classes) to secure a larger share of the social surplus product and, to secure the continuity and expansion of the process of capital accumulation. Hence, the economic policies of the capitalist State reflect particular accommodations regarding the distribution of a share of the social surplus product, needed to secure the continuity of the process of capitalist accumulation as a whole. In this sense, the capitalist State can assume a democratic or pluralistic form because the terms of political conflict are set around distributive

policies (wages, social services, etc). One may even find the paradox of a working class party running the administrative apparatus of the capitalist State (e.g., the British Labor Party, the German Social Democratic Party, etc.), as long as the basis of capitalist accumulation is not questioned, and the key conflicts involved are dealt with in terms of different views on how to distribute a share of the social surplus product. But when the basis of capitalist accumulation, wage labor and private property, is called into question by the working class, the struggle for the control of State power in capitalist society becomes violent. In such cases, the capitalist State uses its repressive apparatus to suppress the challenge of the working classes. The political conflict around the capitalist State assumes a pluralistic form, a diversity of political parties and pressure groups, because it expresses a particular accommodation and condensation of contradictions on the basis of capitalist accumulation. When this basis is challenged, the ruling classes recourse to violence as the main means to settle the conflict and preserve the basis of capitalist exploitation and accumulation.

The economic policies of the capitalist State are then an expression of the class struggle and represent a particular articulation and condensation of conflicting interests necessary for the continued reproduction of capitalist relations of production. These policies are presented, at a formal level, in the form of economic plans and programs, messages of the heads of States and other formal presentations of governments. Economic policies are carried out through the approval of legislation, budget policy, economic incentives and restrictions, subsidies, tax policies, the policies of public

corporations, monetary policy, etc. They involve a particular conception about how the economy ought to be organized and function and what economic interests should be favored. In other words, economic policies involve a set of priorities which are a function of class interests. However, it is very difficult to lay bare these underlying interests just by analyzing economic policies at the formal level (the level of government statements, speeches, etc.). Invariably, the heads of State and government agencies in charge of designing economic policies present these policies as good for "the people", in the interest of "the nation", or in other rhetorical "cliches" that assert the universal "goodness" of the economic policies of the capitalist State. This limitation in the analysis of the abstract level of ideology, in the analysis of discourse, makes it necessary, in order to uncover the class character of the strategies of development, to analyze these strategies in the process of praxis.⁹⁰ That is, it is necessary to analyze economic policies in the process of their implementation. It is then that they reveal their class character and their importance as a concrete ideological force in the process of class struggle.

⁹⁰The work of Limoeiro-Cardoso, La ideologia dominante, is a good example of the limitations of the analysis of ideology at the level of discourse. Limoeiro-Cardoso's analysis is limited to establishing the epistemological correlation between the populist discourse of Brazilian President Juscelino Kubitschek and the categories of bourgeois capitalism. There is no possibility of analyzing the concrete effect the social and political impact that this discourse has in the process of class struggle. This limitation is accepted by the author, who makes a brilliant analysis of the categories of populist developmentalism.

The issue then is to analyze the specific relation between the State and ideology at the level of praxis (i.e., the level of its social and historical development in the process of class struggle). It is not a question of denying that ideology is articulated by institutions (IA's), but rather of understanding institutions in terms of their movement and of the relations that form them (i.e., class relations). Otherwise we end up reifying institutions and understanding them as things, as fixed entities, as "social facts". This view in time leads to an understanding of society as a non-conflictive totality, functionally integrated. It obscures the dynamics of the movement of society and of the conflicts and accommodations that are at the basis of the process of political domination. The role of ideology in this process and its relation to the State must be sought in the process of ideological practice within the context of the process of class struggle.

Development and Ideology in Latin America

In the countries on the periphery of capitalism, the State has historically played a major role in economic development through direct economic intervention. This can be attributed to the relative weakness of the dominant (propertied) classes in the peripheral countries and their particular relation to the imperialist bourgeoisie of the advanced capitalist countries. These two elements explain, to a great degree, the need for a strong State apparatus around which contradictory and often highly conflictive interests are articulated and condensed. Fernando Henrique Cardoso suggests that in Latin America it is the State, not the political parties, that is the terrain around

which the dominant classes organize and express their interests. The interests of these classes, according to Cardoso, are articulated by bureaucratic cliques that form rings of politico-economic interests inside the State apparatus.⁹¹ In this same vein, Hamza Alavi argues that the rise to power of bureaucratic-military oligarchies in post-colonial societies reflects a particular accommodation between the relatively weak local propertied classes and the neo-colonialist metropolitan bourgeoisie. In Alvi's view, the relative weakness of the local dominant classes in peripheral capitalist societies promotes the development of a relatively autonomous State whose role is the mediation of the competing interest of the local dominant classes and the neo-colonialist bourgeoisie.⁹² The question then is: how is this mediation achieved and how are the interests of the dominant classes articulated and presented by the State as the interests of society in general?

It is here that State intervention in the formulation and implementation of an economic policy and in the presentation of such a policy as a strategy of development becomes crucial. The strategies of development are the concrete ideological expression of the State in peripheral capitalist societies. A strategy of development is constituted by a series of propositions regarding economic policy that articulate the political project of a class or a fraction of a class.

⁹¹Fernando Henrique Cardoso, "As contradicoes do desenvolvimento associado", Estudos CEBRAP, No. 8 (abril-junio, 1974), pp. 41-76.

⁹²Hamza Alavi, "The State in Post-Colonial Societies: Pakistan and Bangladesh", New Left Review, No. 74 (July-August, 1972), pp. 59-81.

Every political project of a class is the concrete expression of that class' interests. A political project can be defined as a set of social and economic policies that are favored and fostered by a class. It expresses that class' interests and aspirations, in terms of political and economic power and social prestige and welfare, in opposition to the interests of other classes. The political project of a class is then aimed at fostering, reproducing and/or preserving the material conditions that make viable the realization of that class' interests.

At this point, we should distinguish between two types of interests: immediate or basic interests and long term or strategic interests.⁹³ The first refer to every class' desire to get a larger share of the social surplus product, to gain access to positions of political power, and to maintain its social well being. In other words, basic interests deal with the question of how to distribute the economic and political benefits and privileges within the existing order. On the other hand, the strategic interests refer to the very basis of the existing social order; that is, they refer to the necessary conditions for the maintenance and reproduction of the existing order. For example, in order to maintain its dominance the bourgeoisie needs the existence of private property and wage labor. If these two elements were abolished, the bourgeois social order would collapse and the bourgeoisie would disappear as a class, just like the nobility disappeared, for all practical purposes, with the abolition of feudal forms of property and servile labor.

⁹³This distinction is made by Peralta Ramos, Etapas de acumulacion, p. 69.

This distinction between the two types of interests is important since in times of crisis the dominant class may promote a program of reforms where it accepts a certain degree of redistribution of the social surplus product and even of political power in order to preserve the strategic basis for its dominance. Thus, it yields on its immediate interests to preserve the substance of its dominance. This is an important qualification for understanding the terms of the political class struggle because it enables us to distinguish a process of reform from a revolutionary process. The first refers to immediate changes while the latter refers to strategic changes. If this is correct, then the nature of any political project (whether it is conservative, reformist or revolutionary) can only be measured in terms of its impact on the basis of the social structure (i.e., on its impact over the social relations of production).

The political project of a class is not necessarily explicitly or coherently presented as party programs or government plans by the organic groups that represent a class (e.g., political parties, trade unions). Rather, it is implicit, contained in power relations (class relations), and articulated by government and party programs together with the political projects of other classes. This articulation of political projects or elements of them is important since the implementation of any political project is a function of political power. That is, it is a function of the capacity of the class which supports a particular project to achieve political power (i.e., control over the State). In order to gain political power, a class needs the support or alliance of other classes with whom some interests are shared. To get this support, the class that aspires to dominate, to impose its

project upon the rest of society, must incorporate into its political project elements of the projects of the classes whose support and alliance it needs. It is this articulation of political projects and of the interests which they represent, that becomes economic models or strategies of development. Through this process of articulation of alternative projects, the dominant class or class alliance is able to present its own political project as the interests of all of society (i.e., as the most rational and the only viable project). Every strategy of development is then a function of class interests, and the possibility to implement a particular strategy is a function of political power. The strategies of development in peripheral capitalist countries represent, as a general rule, the articulation of the interests of the local dominant classes with those of the imperialist bourgeoisie or a fraction of it.

To synthesize, we can assert that the strategies of development constitute the specific ideological terrain of the state in peripheral capitalist countries. It is in this terrain where class contradictions are condensed and mediated, class alliances are forged within the power bloc, and certain accommodations are worked out between the power bloc (the dominant classes) and the subordinated classes. The strategies of development also provide the ideological unity (a conflictive or dialectical unity) of the State itself.

The ideology of development (developmentalism) became the dominant or leading ideology in Latin America immediately after World War II. This coincides with the process of redefinition of the international division of labor and the forms of exploitation of imperialist capitalism in the peripheral capitalist countries. In the period between

the late nineteenth century and World War I, often called the period of classical or monopoly capital imperialism, the main form of expropriation was the extraction of absolute surplus value, which implied the super-exploitation of labor in the pre-capitalist (agrarian or extractive) Latin American economies. The other main form of exploitation occurring with this super-exploitation of labor was characterized by a structure of unequal exchange of quantities of labor (or products of labor) between the metropolitan centers and the Latin American periphery. This structure of unequal exchange assumed the form of the exchange of raw materials from the periphery for manufactured goods from the center. This stage of imperialist domination in Latin America was characterized by the predominance of the haciendas, agricultural and mining enclaves, and the commercial sectors (large import-export houses controlled by metropolitan capital and some local capital), in the Latin American economies.⁹⁴

A series of changes in imperialist capitalism initiated after World War I and culminated during World War II resulted in a process of internationalization of capitalist production. This process is best exemplified by the emergence of multi-national corporations as the dominant form of organization of capitalist production. In this stage, the dominant form of exploitation is the direct exploitation of labor

⁹⁴For a detailed analysis of the forms of exploitation assumed by imperialist domination and their relation to social and political changes in Latin America see Fernando H. Cardoso and Enzo Faletto, Dependencia y desarrollo en America Latina (Mexico: Siglo Veintiuno, 1974). For a good analysis of the political economy of imperialist exploitation in the stages of classical (monopoly capital) imperialism and late capitalist imperialism (a further stage of monopoly capital) see Ernest Mandel, Late Capitalism (London: New Left Books, 1975), chap. 11.

in industrial production (expropriation of relative surplus value). This means an increase in direct industrial investment in the peripheral capitalist countries and the expansion and control by the imperialist bourgeoisie (the internationalization) of the internal markets of peripheral countries so that surplus value is not only extracted from the workers of the peripheral countries but part of it is realized in the markets of the peripheral countries as well. The direct exploitation of labor is accompanied by a deepening in the structure of unequal exchange. In so far as industrial advance in the peripheral countries has not led to the closing of the gap in the rates of productivity between the center and the periphery, the structures of unequal exchange have been reinforced. To put it another way: as the process of internationalization of capitalist production has developed unevenly, not tending to the homogenization of production and productivity, the basis for unequal exchange - differential levels of capital accumulation, labour productivity and rate of surplus value - remained. But the forms and mechanisms of unequal exchange have changed, shifting from the classical form of exchange of raw materials for manufactured goods to more sophisticated forms. Now we have the exchange of basic products (especially food), raw materials and a reduced share of manufactured goods from the peripheral countries for capital goods and technology produced in a monopolistic manner by the metropolitan centers. This

is coupled with a complex financial structure which contributes to the siphoning of surplus value from the periphery to the center.⁹⁵

In this sense, the changes in the structure of imperialism between the two world wars favored the emergence as a dominant force of those sectors that supported industrial development in Latin America. The political changes and the articulation of the class alliances needed to make viable the implementation of a political project that favored industrialization were fostered by the formation and emergence into political power of populist movements. These movements represented an alliance between the Latin American industrial bourgeoisie and the working classes in favor of industrial development. At that time, populist developmentalism was opposed to the agrarian export economic model supported by the Latin American oligarchies and the fractions of imperialist capital allied to them (merchant capital and financial-industrial capital linked to the production of primary goods). Hence, the initial anti-imperialist nationalistic positions of populist movements.

⁹⁵ Mandel, Late Capitalism, pp. 368-72. This is most certainly a rather sketchy characterization of the later stages of imperialism. It is very difficult to provide a clear model for the periodization of imperialism without a comparative study of the development of metropolitan centers, the forms of exploitation, and the definition of different fractions of capital dominant in the different stages. This is aggravated by the overlapping of different stages (e.g., merchant capital dominated imperialism, monopoly capital imperialism) in the same historical (chronological) time. This "overlapping" may account for the lack of a uniform pattern of imperialist exploitation in Latin America, where agrarian enclave economies coexisted with industrializing economies in the same historical period. Cf. Harry Magdoff, Imperialism: From the Colonial Age to the Present (New York and London, Monthly Review, 1978), esp. chap. 3; and Cardoso y Faletto, Dependencia y desarrollo.

With the coming to power of the populist forces, the contradictions between the strategic interests of the industrial bourgeoisie and the working classes surfaced. This led to the rupture of the populist alliance with the bourgeoisie emerging as the dominant political force over the working classes. This rupture of the populist alliance coincided with the redefinition of the international division of labour and the consequent redefinition of the interests of the imperialist bourgeoisie regarding Latin America. The imperialist bourgeoisie was now shifting its activity toward direct investment in industry, which in time led to the convergence between the populist developmentalism of the Latin American bourgeoisie and the interests of the imperialist bourgeoisie in Latin America. This convergence eventually brought about the rapprochement between the Latin American bourgeoisie and the imperialist bourgeoisie, as well as the crisis of populism.⁹⁶

However, it must be added that both the Latin American and the imperialist bourgeoisie saw their role in the process of industrial development differently. They both saw their role as the dominant one and the role of the other as secondary. Hence, the convergence did not mean an absence of conflict.⁹⁷ The Latin American bourgeoisie believed

⁹⁶Cardoso y Faletto, Dependencia y desarrollo, pp. 130-140.

⁹⁷The necessity of the Latin American bourgeoisie to establish an alliance with the working classes against the oligarchy first, and then with the imperialist bourgeoisie to contain the potential threat to bourgeois rule from the working classes can be explained by the relative weakness of the bourgeoisie and, therefore, its incapacity to impose its hegemony over the rest of society. On this question see Octavio Ianni, El surgimiento del estado populista en America Latina (Mexico: Ediciones ERA, 1975).

the process of industrialization should be based on import substitution and the role of foreign capital should be a supportive or secondary one. Conversely, the imperialist bourgeoisie did not see its role as a supportive one and, as a matter of fact, came to control strategic areas of industrial production (e.g., capital goods, durable consumer goods).

The ideology of development thus becomes the element that represents, explains and legitimizes the rearticulation of class alliances in favor of the interests of the bourgeoisie. Developmentalism legitimizes the new relations of production (the new forms of exploitation and domination of the working classes) implicit in the development strategy favored by the bourgeoisie, and presents this as the only viable alternative for industrial development. The concept of development is thus posed in the categories of capitalist development, presenting this as the model of development, and excluding alternative models or conceptions of the development process. The proponents of developmentalism presented society as divided between a "dynamic sector" and a "traditional sector," not between social classes. The fundamental problems of society in the view of developmentalist theoreticians were backwardness, economic stagnation and poverty, rather than exploitation.⁹⁸ Concepts like progress, modernization and social mobility became part of the developmentalist jargon. However, behind all this terminology

⁹⁸ See, for example, Raul Prebisch, "The System and the Social Structure of Latin America", in Irving L. Horowitz, et al., Latin American Radicalism (New York: Vintage, 1969), pp. 29-52.

there is the political project of a class that can be uncovered by analyzing the contradictions and conflicts that emerge from its implementation.⁹⁹

However, populist developmentalism is only one of the forms that the ideology of development took. It is the form that the political project of the emerging Latin American bourgeoisie assumed at a particular conjuncture. The first theoretical formulation of developmentalism was the theories of development formulated by the United Nations Economic Commission for Latin America in the 1950's. Later, during the 1960's and 70's, it was reformulated by the structuralist theories of dependency.¹⁰⁰ Since then, the categories of developmentalism have been articulated by diverse fractions of the Latin American bourgeoisie, often assuming conflicting connotations (e.g., liberal democratic, authoritarian bureaucratic, etc.) but maintaining the constitutive principles of capitalist bourgeois development.

In this sense, the imperialist bourgeoisie's version of developmentalism is articulated by the various versions of modernization theories produced by the social scientists of the metropolitan centers.

⁹⁹The book by Octavio Rodriguez, La teoria del subdesarrollo de la CEPAL (Mexico: Siglo Veintiuno, 1980) analyzes in detail the ideological content of the economic theories of the United Nations Economic Commission for Latin America (ECLA, in Spanish Comision Economica para la America Latina, CEPAL), linking them to the populist developmentalist political project (see especially pp. 276-98).

¹⁰⁰See, for example, the works of Osvaldo Sunkel and Pedro Paz, El subdesarrollo latinoamericano y la teoria del desarrollo (Mexico: Siglo Veintiuno, 1970); Celso Furtado, La economia latinoamericana desde la conquista iberica hasta la revolucion cubana (Mexico: Siglo Veintiuno, 1969); and Helio Jaguaribe, "Dependencia y Autonomia en America Latina", in Helio Jaguaribe, et al., La dependencia politico-economica de America Latina (Mexico: Siglo Veintiuno, 1970).

These theories supported the adoption of the politico-ideological tenets of capitalism (private property, wage labor, unrestricted international trade, etc.) and its neo-Keynesian postulates (e.g., State intervention to stimulate the private sector). The policies favored by these theories presented foreign investment as a necessary element for development. The imperialist bourgeoisie was presented not only as a necessary ally but also as a benefactor of Latin American development.¹⁰¹

Irregardless of these various nuances, it is clear that developmentalism becomes the dominant ideology in Latin America after World War II. The particular twists of emphasis on one or the other aspects of developmentalism were a function of particular accommodations and shifts in class alliances. They represent a particular form of condensation of competing or conflicting interests. Hence, the necessity to analyze the concrete expression of class interests in developmentalism at the level of praxis (i.e., in the process of implementation of the developmentalist class project). It is here that we concentrate our analysis of the Puerto Rican case.

¹⁰¹Hamza Alavi has very perceptively remarked that:

"theories of 'modernization' are, however, explicitly or implicitly theories of capitalist development, in as much as they are premised on the creation and maintenance of the basic structures and institutions of a capitalist society."

"State and Class under peripheral Capitalism", in Hamza Alavi and Theodor Shanin, eds., Introduction to the Sociology of "Developing Societies" (New York and London: Monthly Review, 1982), p. 289; see also, Andrew G. Frank, "Sociology of Development and underdevelopment of sociology", in Latin America Underdevelopment or Revolution (New York and London: Monthly Review, 1969.).

The Puerto Rican Case: Some Hypotheses

The most salient feature of the Puerto Rican case is that it still is a colony. Contrary to the rest of Latin America, Puerto Rico never became independent from Spain. In 1898, as a result of the Spanish-American War, Puerto Rico became a colony of the United States. It is still a colony today. This presents certain peculiarities to the analysis of the relationship between the State and the ideology of development in Puerto Rico. If, as Alavi argues, the post-colonial State implies a renegotiation of the colonial pact because the propertied classes in the colony had gained political and economic strength and had demanded greater participation in the economic and political decisions of the country, the opposite is correct for those peripheral countries that remain under colonial rule. That is, the persistence of colonialism implies a persistent political and economic weakness among the propertied classes of the colony (as well as among the working classes) to such an extent that they seek an accommodation with the imperialist bourgeoisie within the boundaries of their own subordination or, if they oppose colonialism, they are crushed and disappear as a political force.

In a colony, the State becomes the most important social structure, as the ruling class is an absent class. This class needs to control the State directly in order to create the conditions, both social and political, for its economic dominance. Thus the colonial State becomes the center for the condensation of a double contradiction: the metropolis/colony contradiction and the class contradictions internal to the colony, the labor/capital contradiction.

This double contradiction and the complexities it presents makes it impossible to argue that the colonial State is simply an instrument of repression for the absent class. In reality, the colonial State is a very complex apparatus that tends to centralize and assume many functions which are normally associated with the domain of the civil society. It tends to regulate most of the social activity in the colony in its attempt to legitimize the dominance of the absent class and to neutralize the potential forces of opposition within the colony. To put it another way: eventhough the colonial State articulates principally the interests of the absent ruling class, it does not exclusively articulate the ruling class' interests. In a secondary manner, it articulates the interests of the local propertied classes condensing the conflicts implied by the metropolis/colony contradiction as well as mediating the internal class conflicts in the colony. The specific form that this accomodation may take depends on the particular correlation of forces in the process of class struggle at a particular conjuncture. That is, it depends on the level at which class contradictions are exacerbated in the colony and between the classes in the colony and the metropolitan ruling class. This is how we can explain the incorporation of local elements into the colonial State apparatus or the granting of varied degrees of autonomy within colonial rule.

The elements that influence the specific forms of colonial or neo-colonial domination are: the degree and extent of the control over the means of production of the local propertied classes; the type of economy (whether it is a mining or agricultural enclave, etc.); the particular fraction of the imperialist bourgeoisie exerting control over the colony (e.g., merchant capital, industrial capital, etc.); and the

importance of the colony within the system of international division of labor (e.g., economic, strategic, etc.). Most of the colonies that remain today are principally politico-strategic colonies (e.g., Hong Kong, Gibraltar, Guam, Puerto Rico). However, some of these politico-strategic colonies have become important financial or industrial centers for the imperialist bourgeoisie, as is the case with Puerto Rico.¹⁰²

In light of the above remarks, we should elaborate on our first hypothesis. Although the colonial State represents in a principal manner the interests of the imperialist bourgeoisie, it also needs to articulate the interests of the local propertied and subordinated classes. The form in which this is achieved depends on the level of class struggle and the particular correlation of forces at a specific conjuncture within the framework of a double contradiction (i.e., the metropolis/colony contradiction and the internal class contradictions in the colony).

A second hypothesis is that in the process of condensation of contradictions - particularly the metropolis/colony contradiction - the colonial State incorporates into its structure functions normally associated with the civil society in the metropolitan societies. This stems from the need to assert the ideological, as well as the political and economic, dominance of an absent class that does not have direct

¹⁰² It would be interesting to make a comparative study of the role of colonies at a time when colonialism is not the main form of imperialist domination. Many colonies have come to provide financial shelter to multinational corporations as tax havens because of certain economic privileges granted by the metropolis to make viable the economic development of the colonies, a necessary condition to maintain colonial rule.

access to the institutions of the civil society of the colony. Thus, in order to establish its hegemony, this class must expand the functions of the State.

This second hypothesis applies more concretely to those colonies where imperialist penetration implies the control of the productive process itself, rather than simple tribute or tax collection. The reason for this is that the direct control over the productive process also requires control over the social institutions which guarantee the reproduction of the social and political conditions necessary for the reproduction of the existing relations of production.

The invasion of Puerto Rico by the U.S. in 1898 started the development of a process by which the U.S. imperialist bourgeoisie came to control the productive process of the colony through its control over the colonial State apparatus. By seizing State power. Through a military invasion and military rule between 1898 and 1900, the absent class transformed the legal-political order in such a manner as to facilitate the absorption of the Puerto Rican economy to the orbit of the new metropolis.¹⁰³ As a corollary to this process of economic absorption, and as a function of its interests of domination over the colony, the imperialist bourgeoisie attempted to establish its ideological dominance through its control of the colonial State apparatus. In this process, the school system and the protestant church became the most important ISA's. During the first three decades of U.S. colonial

¹⁰³ See Angel G. Quintero Rivera, Conflictos de clase y politica en Puerto Rico (Rio Piedras: Ediciones Huracan, 1977).

rule, these institutions implemented the government policy of "Americanization" that aimed at establishing the ideological superiority of the absent ruling class.¹⁰⁴ Since the beginning of colonial rule, the colonial State established a particular ideological terrain which articulated the ideology of the ruling class, the North American imperialist bourgeoisie.

However, the most substantial expansion of the colonial State apparatus took place during the 1930's when the crisis of the sugar enclave prompted the questioning of the U.S. domination of Puerto Rico. The attempts by the State to resolve this crisis meant massive State intervention in the economy. The expressed intention of this intervention was the Keynesian maxim of expansion of aggregate demand, but, in reality, the politico-ideological impact of this policy was greater than its immediate economic impact. A large share of the State's economic intervention was in welfare programs and job creation programs. This, in time, caused the creation of a huge patronage system which played a major role in re-establishing the legitimacy of the colonial domination. At the level of ideological practice, the establishment of the patronage system fostered the ruling class' conception that all that was needed to overcome the crisis was to redistribute income and create

¹⁰⁴The express purpose of these two institutions during the first three decades of U.S. rule was to "americanize" the Puerto Ricans and to assert the moral and cultural superiority of the U.S. They presented the policies of the imperialist bourgeoisie as the most rational, as God's wishes, etc. See Aida Negron de Montilla, Americanization in Puerto Rico and the Public School System (Rio Piedras: Editorial Edil, 1971); Emilio Pantojas Garcia, "Religion and Imperialist Ideology: The Introduction of Protestantism in Puerto Rico, 1898-1917" (B. Phil. dissertation, University of Liverpool, 1975). The State also intervened with the press censoring those newspapers that strongly opposed the policies of the colonial government; see Edward J. Berbusse, The United States in Puerto Rico, 1898-1900 (Chapel Hill: The University of North Carolina, 1966), chap. 3.

jobs - things that the colonial State could take care of. The solution to the crisis was not, according to the conception of the ruling class, the abolition of the wage labor/capital relation or the metropolis/colony relation. Therefore, the colonial State articulated the ruling class' view with concrete acts whose ideological importance was far greater than their immediate economic effect.

U.S. Federal Government economic aid was extended to Puerto Rico as a temporary relief measure in the 1930's under President Roosevelt's New Deal Policy. Later, it was extended through the war years and into the 1940's. After the war and as a result of the restructuring of imperialist capitalism to Puerto Rico, Federal aid and State intervention in the economy were incorporated as structural functions of the colonial State.

We can now propose a third hypothesis: the expansion of the colonial State in Puerto Rico is conditioned by the crisis of the sugar enclave economy and the forms of domination that accompanied it. It is the expansion of the functions and the structure of the colonial State, induced by the needs and interests of the imperialist bourgeoisie in dealing with the crisis of the 1930's, that accounts for the crucial role that the colonial State played in the solution of the political crisis of the colony in the 1930's and the rearticulation of U.S. imperialist domination within the colonial relation in the 1940's and 50's. It is this expansion of State intervention that makes feasible the articulation of a State based strategy of industrial development that articulates the politico-ideological project of restructuring of imperialist domination during the 1940's.

In this, the Puerto Rican model of industrial development varies greatly from the rest of Latin America, where the main push for industrialization came from the local bourgeoisie. Furthermore, the crisis of the Thirties induced in Latin America an expansion of local industrial production, which tended to strengthen, at least temporarily, the political position of the local bourgeoisie giving it a greater degree of autonomy from the metropolitan centers.¹⁰⁵ In the case of Puerto Rico, the crisis of the Thirties increased dependency on the metropolis and the industrialization strategy was to a large extent promoted by the imperialist bourgeoisie themselves.

The expansion of the colonial State, at a time in which the metropolis was itself in crisis, implies the incorporation of more local elements into the State's apparatus. This, in time, expands the basis of legitimation of colonial domination. However, this does not mean that the local elements are mere puppets instrumentalized by the metropolis at will. The process of integration of local elements to the colonial State is a dialectical process of accomodation, articulation

¹⁰⁵ We are not trying to overemphasize the role of the local bourgeoisie in the industrialization process of Latin America. As a matter of fact, Peralta Ramos points out the convergence of interests between a fraction of the Argentinian bourgeoisie, the oligarchy and the imperialist bourgeoisie around a strategy for industrial development during the 1930's; Etapas de Acumulacion, pp. 75-91. What we want to stress here is the different character of the social forces behind the industrialization process in Puerto Rico and Latin America. For example, the State based development attempted in Chile as a response to the crisis of the mining enclave during the 1930's and 40's is different than the State based development attempted in Puerto Rico. In the Chilean case, the classes in control of the State were local classes, while in Puerto Rico the imperialist bourgeoisie was directly in control of the State. Cf. Cardoso and Faletto, Dependencia y desarrollo, pp. 91-94; and Furtado, La economia latinoamericana, chap. 11.

and condensation of often competing, and sometimes conflictive, interests, between the local classes and the imperialist bourgeoisie.

The changes in the structure and functions of the colonial State in Puerto Rico that took place between the 1930's and the 1950's can be explained in terms of the need for a restructuring of imperialist capitalism both in Puerto Rico and the world. Hence, what has been termed the "hypertrophy of the colonial State"¹⁰⁶ in Puerto Rico (the wide range of functions that make it seem like a neo-colonial rather than a classical colonial State) is a function of the need for the reproduction of imperialist capitalism within a colonial relationship. In order to lay the basis for the implementation of a new economic model, it was necessary to expand the structure and functions of the colonial State into the economic and ideological levels of society.

At the economic level, a vast public sector was created which in the 1940's included productive enterprises as well as utilities, public works activities and social welfare institutions. At the ideological level, many of the existing institutions of the State as well as newly created ones (e.g., the Puerto Rico Planning Board, the Economic Development Company, etc.) became involved in designing and presenting the development strategy to make it appear to respond to the "general interests" of society. Developmentalism became the official ideology, and the State apparatus and its agencies became its principal bearer.

If what we have said throughout this chapter is correct, then we can now state the central hypothesis of this work: the strategies of

¹⁰⁶ Wilfredo Mattos Cintron, La politica y lo politico en Puerto Rico (Mexico: Ediciones ERA, 1980), p. 131.

socio-economic development constitute the ideological representation of the political project of a class or class alliance in their struggle to impose their dominance over the rest of the society. Every strategy of development within the capitalist system articulates a particular accumulation model that constitutes the basis for the dominance of a particular class or class alliance. The strategies of development thus constitute an ideology that responds to class interests and articulates them in such a manner that they appear as the general interests of all of society. The strategies of development have become the specific ideological terrain of the State and constitute a central element in the process of politico-ideological class struggle, in as much as the implementation of a particular strategy is a function of political power (i.e., of the control of State power).

Now we turn to the concrete analysis of these hypotheses by studying the development and implementation of strategies of development in Puerto Rico.

CHAPTER II

BASIS FOR THE EMERGENCE OF
DEVELOPMENTALISM IN PUERTO RICOIntroduction

In this chapter, I intend to analyze, within the theoretical perspective elaborated in the first chapter, the development of the Puerto Rican social formation from the U.S. invasion of 1898 until the Partido Popular Democratico (PPD) came to power in 1940.

The purpose of this historical background is to trace the social forces, and the political, ideological, and economic conflicts from which developmentalism arises as the dominant ideology. By doing this we can establish the class character of the developmental ideology. In other words, we intend to trace the emergence of developmentalism to the existing social relations of production in a specific social formation, at a given historical moment and show that developmentalism is a concrete expression of the class struggle. Not only do we intend to trace the chronological origin of developmentalism and the emergence of it as an idea or set of ideas, but, also, the insertion of this ideology (as a set of ideas and practices) in a particular conjuncture within the process of capitalist development in Puerto Rico and the world.

Our analysis in this chapter is divided into two parts. The first deals with the period from 1898 to 1930. In this part, we analyze the insertion of Puerto Rico into the international capitalist system as an agricultural enclave within the orbit of North American capital and

the effects of this insertion on the Puerto Rican social formation, particularly with reference to economic development and the politico-ideological struggle around it. In the second part, we analyze the crisis of the enclave development model and the redefinition of the Puerto Rican economic development strategy within the framework of the redefinition of the international division of labor, and within the context of the process of class struggle to which this redefinition gave way during the 1930's (the period of the Great Depression). Thus the socio-economic development of Puerto Rico is viewed as the result of a process of class struggle conditioned by the insertion of Puerto Rico into the international capitalist system. Therefore, the contradictions that condition the direction of the process of development in Puerto Rico are articulated at two levels: a) an external level, the metropolis/colony contradiction, and b) an internal level, the contradictions between the classes operating within the specific context of the Puerto Rican social formation.

It is from within this context of international capitalist development and of the specific place that Puerto Rico occupies as part of its periphery (a colony of the United States) that we can adequately explain the emergence and development of the developmentalist ideology in Puerto Rico. However, this does not mean that the socio-economic development of Puerto Rico responds exclusively to outside factors. On the contrary, it is understood that as part of the international capitalist system, the Puerto Rican economic development is doubly conditioned by external class forces and by class forces internal to the Puerto Rican social formation. Lying within this particular type of conflict generated by this double determination (in the particular

form of articulation of the internal and external conditionings) is the dynamic of the socio-economic development of Puerto Rico. The object of this chapter is to outline the basis of this particular form of capitalist development, the contradictions that it entails and their mediation through ideological praxis in the form of strategies of development.

The Development of the Enclave
Economy: 1898-1930

At the time of the North American invasion of 1898, Puerto Rico's economy was organized around the hacienda (estate), which was the basic productive unit. The hacienda's main means of production was the land. The relations of production within the hacienda were characterized by the control of the land by the hacendado (landowner) and the incorporation of servile or semi-servile forms of labor to work the land. The most common form of servile labor was the agregados. They constituted a group of landless peasants to whom the hacendado would allot some land, allowing them to cultivate it for their own subsistence, in exchange for labor on the hacienda. These relations of production have been labeled as seignorial. The reason for this being that while the hacienda has many similarities with the feudal mode of production its incorporation into the international capitalist market provides it with certain characteristics normally associated with the capitalist mode of production.¹

¹Angel G. Quintero Rivera, "Background to the Emergence of Imperialist Capitalism in Puerto Rico," in A. Lopez and J. Petras, Puerto Rico and Puerto Ricans, (New York: Schenkman, 1974), especially pp. 92-102. Among those characteristics associated with feudalism that Quintero points out are the absolute control over the land by the hacendado, servile forms of labor, and the seignorial style of relations between the landlord and the workers of the hacienda. The capitalistic traits of the hacienda are: market oriented production, monetarization of the product (which facilitates capital accumulation), and the bourgeois style of the

The principal product of the hacienda at the end of the 19th century was coffee. However, an important fraction of the hacendados concentrated on sugarcane production. In general terms, this division between the sugar growers and the coffee growers was expressed as a political division between the orthodox and liberals within the autonomist sector.² In time these tendencies reflected the commercial links of the coffee growers, primarily with Spain and other European countries, and the sugar growers, primarily with the United States.³

Despite the fact that hacendados controlled the productive process and exercised a great influence on the ideology and culture of this period, the position of economic and political dominance fell into the

hacendado in his political and ideological outlook.

²The dominant political tendency among the Puerto Rican hacendados during the nineteenth century was autonomism. This tendency was divided in two factions: a) those who favored the assimilation of Puerto Rico to Spain by the former becoming a province of the latter, thus achieving self-government, and b) those who favored autonomy without assimilation, a sort of protectorate type of colony. The first tendency was proposed by the Partido Liberal. The second was proposed by the Partido Ortodoxo. For a detailed analysis of political conflicts during the nineteenth century see Mattos Cintron, La política y lo político, chap. 1.

³The figures given by the "Carrol Report" for 1897 indicate that the United States was the most important customer for sugar exporters while Spain was the most important customer for coffee. According to the "Carrol Report", in 1897 Puerto Rican producers exported 34,966,838 kilograms of sugar to the United States, with a value of 2,418,938 pesos. Sugar exports to Spain were almost half of this with 18,020,119 kilograms worth 1,277,885 pesos. Conversely, coffee exports to Spain were 6,853,963 kilograms worth 3,563,921 pesos while coffee exports to United States were a meager 47,995 kilograms worth 24,957 pesos. Most of the coffee export market for Puerto Rico was European with France, Germany, Italy, and Austria leading the list after Spain. See Henry K. Carrol, Report on the Island of Puerto Rico (Washington: Government Printing Office, 1899), p. 154 as quoted by Mattos Cintron, La política y lo político, pp. 177-78.

hands of the Spanish civil-military bureaucracy and the merchants (mainly Spanish) who controlled the credit and the commerce. These elements expressed their political project through the Partido Incondicional (Unconditional Party).

The Spanish colonial policy in Puerto Rico and the favoritism that it expressed towards the merchants, reveals the eminently mercantile character of the Spanish imperialism. For Spain, the important aspect of its colonial enterprise was the commercial monopoly over Puerto Rico which permitted it to appropriate a substantial part of the economic surplus produced by the hacienda. This was accomplished through the heavy taxes and custom duties levied by the crown or through the handsome profits accumulated by the Spanish commercial houses that served as intermediaries between the European and Puerto Rican trade.

While the Spanish colonial state guaranteed the political conditions for the flourishing of production in the hacienda, at the same time it prevented the hacienda's full development. By imposing taxes and commercial restrictions, the Spanish colonial state made the hacendados dependent on the merchants, in so far as this dependency was a necessary condition for the appropriation of the economic surplus by the metropolitan state and the merchant class.⁴

⁴It must be pointed out that the division between merchants and the hacendados or Spanish versus Puerto Ricans (criollos) was not as rigid or as clear cut as one may think, but these were the basic lines along which political alignments took place. Mattos Cintron, La política y lo político, chap. 1.

The conflict between the hacendados and the merchants, which would be expressed in the Liberals and Orthodoxs' (autonomists) conflict with the Unconditionalists (colonialists), became the center of the political struggle during the 19th century.⁵ The political struggle among these groups culminated in 1897 with the Spanish government granting autonomy to Puerto Rico under the Autonomic Charter of 1897.⁶ This charter allowed the hacendados control of a part of the administrative apparatus of the state and could have opened the possibility for this class to eventually emerge as a hegemonic class in Puerto Rico.

Yet the North American invasion of 1898 meant the establishment of a fraction of the imperialist bourgeoisie as the dominant class in Puerto Rico and of the capitalist mode of production as the dominant one within the Puerto Rican social formation. The invasion changed the direction of the socio-economic development of the Puerto Rican society and abruptly redefined the terms of the process of class struggle. This abrupt change should be understood in terms of the redefinition of Puerto Rico's role within the international capitalist system and the imposition of the capitalist mode of production by the new metropolis.

Different from Spain, whose interests in Puerto Rico were defined in mercantile terms (monopoly of commerce, credit), the United States

⁵Quintero Rivera, Conflictos de clase, pp. 16-32.

⁶The Autonomic Charter was officially granted on November 25, 1897. It conceded to Puerto Rico among other things the right to elect its local government, the right to elect Puerto Rican representatives to the Spanish Parliament, and the right to sign its own commercial treaties with countries that were not enemies of Spain. Manuel Maldonado Denis, Puerto Rico: una interpretacion historica social (Mexico: Siglo Veintiuno, 1974), pp. 46-47; Bolivar Pagan, Historia de los partidos politicos puertorriqueños, 1898-1956, 2 Vols. (San Juan, Liberia Campos, 1959), Vol. 2, chap. 1.

was a capitalist imperialist metropolis.⁷ In other words, the United States was seeking not only the monopoly of trade but also the control over the productive process of the colony (aside from the political and military control). This explains why immediately after the North American invasion, Puerto Rico was submitted to a drastic process of economic expropriation and economic concentration in the hands of the North American capital.

Once Puerto Rico was conquered and the Spanish civil-military bureaucracy and merchants lost their control over the colonial state, the United States assumed total control over the state apparatus of the colony. First through a military regime that governed by decree from 1898 to 1900, and later through a colonial government lead by North American bureaucrats designated by the President of the United States.

The fact that Puerto Rico was a colony of Spain and that it passed into the hands of the United States as a consequence of a treaty between these nations, made it possible for the invasion forces to present their intervention as an act of liberation. Moreover, the apparent "legality" of the process by which the United States assumed the "administration" of the colony made it possible for this process of economic expropriation and concentration to take place within a legal framework. In this way, the conquest was presented as a civilizing act where "modern laws" and "superior techniques" of production were introduced to bring Puerto Rico up to the "high" standards of "American civilization".⁸

⁷Quintero Rivera, Conflictos de clase, p. 33.

⁸Negron de Montilla, The Public School, passim; Pantojas Garcia, "Religion and Imperialist Ideology", passim, and "La iglesia protestante y la americanizacion de Puerto Rico; 1898-1917", Revista de Ciencias Sociales, Vol. XVIII, Nos. 1-2 (marzo-junio, 1974), pp. 99-122.

Taking advantage of this aura of legitimacy, the military regime and the colonial civil government decreed and approved a series of laws that provided a legal framework for the process of expropriation. Five of the most important were enacted between 1899 thru 1901.⁹ First, in January of 1899, President McKinley decreed that the dollar would be the official currency of Puerto Rico. And although at this time the exchange rate in the market was 90 U.S. cents for one Puerto Rican peso, President McKinley fixed the rate at 60 U.S. cents for every peso.¹⁰ This measure had the effect of a monetary devaluation causing a reduction in the real wages of the workers and a reduction in the cash flow of the hacendados.¹¹

To reinforce this measure, the Military Governor, Guy V. Henry, decreed a freeze on credit and on the price of the land. The object of this decree was supposedly to control the economic instability of

⁹Angel G. Quintero Rivera, "La clase obrera y el proceso político en Puerto Rico," Revista de Ciencias Sociales, Vol. XVIII, Nos. 1-2 (marzo-junio, 1974), pp. 180-183; Quintero discusses in detail these five measures.

¹⁰Ibid.

¹¹Reductions in the real wages of the workers were due to the fact that nominal wages were lowered to adjust to the currency exchange while prices were kept at the same nominal level. According to B.W. and J.W. Diffie:

A laborer who had received 50 centavos (half peso) Porto Rican coins now received 30 American cents, but whereas rice had only cost him 4 centavos (2 1/5 American cents), it now cost him 4 American cents.

B.W. and J.W. Diffie, Porto Rico: A Broken Pledge (New York: Vanguard Press, 1931), pp. 34-35; also Jose A. Herrero, "La Mitología del Azúcar un ensayo en historia económica de Puerto Rico, 1900-1970", MS, (1975), p. 11.

this period; however, the real effect was to force the hacendados and other small landowners to sell their land in order to get money to pay off their debts.¹² Thus, the North American sugar corporations were assured of a land market at stable, low prices.

As a third measure, a series of tax laws were approved. These proved to be disastrous for the local hacendados and the small landowners. In essence, these laws based the calculations of the taxes to be paid on the value of the property instead of income. Because of this, many hacendados that lacked the capital to finance their crops were forced to pay the same amount of taxes as the North American sugar corporations, whose income was much greater. As a result of these laws, many lands were confiscated and sold in public auction.¹³

As a fourth measure, Puerto Rico was included within the North American tariff system and all U.S. shipping laws were applied to the island. This had the affect of "closing" all the European markets to Puerto Rican coffee (due to the existing tariff barriers between the United States and Europe), and it turned Puerto Rico into a captive

¹²Quintero Rivera, "La clase obrera", p. 182; Berbusse, The United States in Puerto Rico, p. 93.

¹³Quintero Rivera, "La clase obrera", p. 182.

client of the United States and of its merchant marine.¹⁴ While coffee was losing its markets, a "free" (free of duty) and protected market was being opened for sugar and tobacco in the U.S.¹⁵

To round off the legal framework for the process of expropriation, the United States Congress included in the Foraker Act of 1900 a provision known as the "500 acres law". This law placed limitations on the ownership of land on the island to a maximum of 500 acres per individual or corporation. However, the North American sugar corporations never respected this law. Its only effect was to prevent the expansion of the Spanish and French competitors who operated on the island prior to the invasion.¹⁶

This legal framework, of which we have only outlined the crucial aspects, legitimized a process of expropriation which moved in two directions. On the one hand, there was a rapid process of concentration

¹⁴A report by the Brookings Institution stated the following on the application to Puerto Rico of United States shipping laws:

American coastal shipping laws are a handicap to Porto Rico Trade. These laws require that all goods moving between Porto Rican ports, and between Island ports and the United States must be carried in American ships. The purpose of the shipping law is, of course, to stimulate the buiding of the American merchant marine.

Victor S. Clark, et al., Porto Rico and its Problems (Washington, D.C.: Brookings Institution, 1930), p. 411.

¹⁵This was not the case for coffee. Even though Puerto Rican coffee was allowed to enter free of duty to the United States it was still more expensive than Brazilian coffee. Puerto Rican coffee would not compete with cheaper Brazilian coffee for the United States market unless the United States imposed higher duties on the latter.

¹⁶Quintero Rivera, "La clase obrera", pp. 182-83.

of land and capital in the hands of the North American corporations, turning Puerto Rico into an agricultural enclave for sugar production. On the other hand, the hacendados were displaced from their dominant position over the productive process, which helped to foster the redefinition of the social relations of production around the capitalist mode of production.

The process of expropriation and the concentration of land and capital in the hands of the North American bourgeoisie in Puerto Rico was dramatic. Production was reoriented from coffee to sugar and from the European to the North American market. Coffee which constituted 66% of the total value of Puerto Rican exports in 1897 had been reduced to only 19.5% in 1901. This pattern would continue until the Thirties when in 1933 coffee would represent only 0.3% of exports.¹⁷ Conversely, sugar, which represented about 30% of the total value of the exports in 1895 would constitute 62% of the exports in 1901 and maintain this share until the Thirties.¹⁸

Along with this reorientation in production there was a reorientation of the market. Between 1893 and 1896 trade with the United States represented 20% of the commercial activity of Puerto Rico; however, by 1901-05 trade with the United States represented 78% of the total trade and after 1906 it represented between 85% and 92% of the total trade.

¹⁷ Arthur Gayer, et al., The Sugar Economy of Puerto Rico (New York: Columbia University Press, 1938), chap. 4.

¹⁸ Quintero Rivera, Conflictos de clase, pp. 52-53; also Harvey S. Perloff, Puerto Rico's Economic Future (Chicago: University of Chicago Press, 1950), p. 13.

Before the end of the first decade of U.S. domination, Puerto Rico had become the ninth largest buyer of United States products and the eighth largest exporter in the world to the U.S.¹⁹

As I said earlier, the main characteristic of North American imperialist capitalism was the direct control of the productive process and the concentration of capital in the hands of the imperialist bourgeoisie. The pattern of land tenure changed enormously under the drive of this new dominant class to achieve direct control of the means of production. In 1897, 33% of all the estates in Puerto Rico had an area of less than 20 acres, but by 1910 the small holdings were reduced to 12.4% and by 1920 they had been reduced to 10.6%. As a contrast to this, the estates of more than 500 acres were only a 2.7% of the total in 1897, but in 1920 these estates (which were illegal under the "500 acre law") constituted 31.4% of all the estates. According to the agricultural census of 1910, 21% of the estates that were over 500 acres possessed more than 1,000 acres. By 1920, estates of 1,000 or more acres constituted 35.3% of those estates over 500 acres.²⁰

In 1929, the total land dedicated to sugar cane production cultivation was 251,000 acres, which represented one third (33%) of all the land cultivated that year. Four North American sugar corporations controlled (owned or rented) 68% of the land dedicated to sugar. These

¹⁹Gayer, et al., The Sugar Economy, p. 34; and Quintero Rivera, Conflictos de clase, pp. 62-63.

²⁰Quintero Rivera, Conflictos de clase, p. 54.

same four corporations owned 11 of the 42 centrales (sugar mills) which operated in the country and were responsible for producing 50% of the country's sugar.²¹

In addition to controlling the most important sector of production, the interests of these corporations extended to investments in railways, utilities, and other public services. The dividends paid by these corporations were very high as were the rates of capitalization. It was estimated that by 1930 the assets of these four corporations represented 10% of the total wealth of the country and 40% of the agricultural wealth.²²

²¹The two works that analyze most thoroughly the situation of the sugar industry in 1930 are those of Diffie and Diffie, and Gayer, et al. There are significant differences in the estimates of both. The Diffies estimate total cultivated land at 568,000 acres, with 251,000 acres dedicated to sugar cane and 170,675 acres controlled by the U.S. corporations. This means that according to the Diffies 44% of total cultivated land is dedicated to sugar cane and that 68% of sugar cane land is controlled by the four U.S. corporations. According to Gayer, et al., total cultivated land is 756,000 acres of which 237,800 (33% of the total) is devoted to sugar cane. The total controlled by the corporations in (1928) comes to 213,964 acres which amounts to 90% of all land dedicated to sugar cane.

Our calculations are based on the figures given by Perloff for total cultivated land (752,000 acres) and for total land dedicated to sugar cane (251,000 acres). The justification for these is that Perloff uses government sources such as the 1940 Census of Agriculture and the Statistical Yearbook of the government of Puerto Rico. For the figure on the land controlled by the corporations, we used the figure given by the Diffies, which is the more conservative estimate. In reality, anything between 68 and 90% would be an acceptable estimate. See, Diffie and Diffie, Porto Rico, pp. 45-59; Gayer, et al., The Sugar Economy, pp. 21, 63, 97-146; and Perloff, Economic Future, p. 407. The four North American corporations were: The South Porto Rico Sugar Co., The Fajardo Sugar Company of Porto Rico, Central Aguirre Associates, and the United Porto Rican Sugar Company.

²²Diffie and Diffie, Porto Rico, pp. 52-65.

Even though sugar was the center of the enclave accumulation model, North American capital did not limit itself to this area. The North American capital also controlled the manufacturing of tobacco, which since 1911 had become the second most important product for export (17% of the total).²³ One third of the banking resources of the island were controlled by the National City Bank of New York and the American Colonial Bank. The rate of interest that these banks charged during the first three decades after the invasion fluctuated between 8 and 12% while in the United States it did not exceed 6%,²⁴ North American capital also extended itself to areas like fruit production, where it controlled 64% of the land dedicated to fruit cultivation.²⁵ Finally four North American shipping lines controlled all freight movement between Puerto Rico and the United States.²⁶

To sum up, we can assert that the North American imperialist bourgeoisie achieved a hegemonic control over the productive process and the commerce and finances in in Puerto Rico. The first three decades of North American domination shaped Puerto Rico's development as a

²³Perloff, Economic Future, p. 136; Quintero Rivera, "La clase obrera", p. 178, points out that there are no studies available on this question, but that American control over this sector was self-evident.

²⁴The other foreign banks were Canadian. The Royal Bank of Canada and the Bank of Nova Scotia controlled 17% of total assets. Besides this, around 25% of the assets of local banks were controlled by foreign interests. Diffie and Diffie, Porto Rico, pp. 116-17.

²⁵Ibid., p. 100.

²⁶Ibid., p. 119.

monoproductive agricultural enclave.²⁷ The fundamental decisions affecting the Puerto Rican economy were made outside of Puerto Rico. The bulk of the capital investment in Puerto Rico originated outside of Puerto Rico, and the capital generated in Puerto Rico was accumulated outside of Puerto Rico. The dominant sector of the Puerto Rican economy was articulated as function of the North American economy and of international capital in such a way as to form an integrated part of these, and it responded, in the main, to the interests of this external sector. Thus we have the paradox of Puerto Rico being an agricultural country yet importing the majority of the foodstuffs it consumed.²⁸

²⁷ In my opinion the development model followed by the Puerto Rican economy in this period fits the definition that Cardoso and Faletto give of an enclave economy:

- a) Production is a direct extension of the central economy in a dual sense: because the control of investment decisions depends directly on the outside, and because the benefits generated by capital (taxes and wages) merely pass through the dependent nation in their circulatory flow and end up increasing the mass of capital available for investment in the central economy.
- b) There are no real connections with the local economy, with the subsistence sector or with the agricultural sector tied to the internal market, but there are connections with the dependent society, through channels such as the power system, because the dependent society defines the conditions of the concession.
- c) From the point of view of the world market, economic relations are established in the sphere of the central markets.

Cardoso y Faletto, Dependencia y desarrollo, p. 53.

²⁸ Around 33% of Puerto Rican imports were food. Furthermore, while in 1899 42% of the land was dedicated to food crops for local consumption, by 1929 only 28% was dedicated to this. Gayer, et al., The Sugar Economy, p. 30.

As we can see, the accumulation model implicit in the enclave economy meant the displacement and expropriation of a large sector of the Puerto Rican population. This implied a series of profound changes in the social structure and a redefinition in the terms of the political class struggle.

The displacement of the coffee hacendados and the Spanish civil-military bureaucracy from the position of political dominance lead to a realignment of class alliances around the colonial state and the productive structure. The new classes that emerged as the principal local ally of the imperialist bourgeoisie was a local sugar-producer bourgeoisie. This class articulated its interests through the Partido Republicano (PR). This party was favored by the electoral laws decreed by the North American military government for the elections of 1900 and 1902.²⁹

The other sectors that supported the imperialist bourgeoisie were also agglutinated around the PR. These were what we could call the modernizing middle sectors. This group held intermediate positions within the new capitalist mode of production (e.g., chemists, agronomists, accountants, corporate lawyers). Also agglutinated around the PR were commercial and financial elements linked to the North American market and other petty bourgeois elements which benefitted from the enclave.³⁰

²⁹Pagan, Partidos politicos, Vol. 1, pp. 73-76, 85-87.

³⁰Quintero Rivera, Conflictos de clase, p. 62. When I speak of local sugar bourgeoisie, I include large colonos as well as mill owners.

The forces which were opposed to this process of expropriation were led by the hacendados (primarily coffee producers) and were gathered around the Partido Federal initially and the Partido Union Puertorriquena (PUP) after 1904. PUP's support came mainly from the small and medium farmers (including the colonos or independent sugar growers), the landless peasants (agregados, day laborers), and the traditional middle sectors. The latter were integrated by lawyers and intellectuals, linked and ideologically identified with the traditional world of the hacienda.³¹

The political opposition of these sectors to the American regime was ambiguous and fluctuated between the rejection of colonial domination through independence to accomodation through a colonial pact which would give greater participation to the hacendados and their allies through a form of autonomy or self rule. There were two major reasons for this ambiguous opposition. First, the principal interest of the coffee hacendados was to obtain the same privileged treatment as the sugar bourgeoisie had obtained in the United States or to obtain some other kind of privilege that would allow them to maintain their European market. The second reason was the relative political and economic weakness of these sectors. They did not have the strength to confront an imperialist bourgeoisie with a hegemonic political project (as the Cubans and the Philippines did). Contrary to their Cuban counterparts,

³¹ Angel G. Quintero Rivera, "La base social de la transformacion ideologica del Partido Popular Democratico", in Gerardo Navas Davila, ed, Cambio y desarrollo en Puerto Rico: la transformacion ideologica del Partido Popular Democratico (Rio Piedras: Editorial Universitaria, 1980), p. 40.

the Puerto Rican hacendados had maintained a policy of accomodation with Spain. This policy had permitted the hacendados to control the political conditions necessary for the reproduction of the existing relations of production. This part of the economico-political process was in the hands of the metropolis, and eventhough it was not absent from conflict or injustices, it had functioned, in balance, to the advantage of the dominant classes (e.g., the crown, the merchants and the hacendados). This is particularly evident when we observe how the Spanish colonial state dealt with one of the most important Puerto Rican problems during the 19th century, scarcity of labor. They dealt with this problem through dispositions such as compulsory registration of the day laborers and by enforcing land laws which expropriated the small farmers without property titles and prevented squatting on empty lands. In this way, small farmers became day laborers and day laborers were prevented from squatting and becoming subsistence farmers.³²

The small and medium farmers supported PUP and disliked the American regime because they felt that their very existence was threatened by the American corporations. Coffee producers and fruit producers felt particularly threatened by U.S. corporations. Coffee growers saw their markets disappear while fruit producers witnessed the

³² Mattos Cintron discusses, in a very perceptive way, the material basis of the political accomodation between the Puerto Rican hacendados and the Spanish colonial state, and how this hindered the development of a wider struggle for independence during the nineteenth century. La politica y lo politico, pp. 28-33.

expansion of U.S. companies into their business. Tobacco and small sugar growers found themselves at the mercy of the U.S. corporations who fixed the prices of their products and the terms for financing their crops. Yet this very financial dependence reinforced the political ambiguity of this sector.

The fraction of the middle sectors who opposed the imperialist bourgeoisie did it mainly for ideological reasons (i.e., their identification with the hispanic heritage and the culture of the traditional world of the hacienda in opposition to the North American culture), because of direct links with the coffee sectors (e.g., kinship, property), or a combination of both. We should remember that the relation of these middle sectors with the world of production is not a direct one and that their political position can not be mechanically reduced to an immediate connection to the process of production.

Another political force which emerged as a result of the expansion of imperialist capitalism in Puerto Rico was the proletariat. The crisis of traditional agriculture (i.e., the hacienda) together with the expansion of capitalist plantations triggered a widespread process of proletarianization. This process was a function of the need of the capitalist sector to create a labor market. The formation of the labor market was the result of the displacement of the rural population from the coffee areas to the coastal plains where they settled in great numbers around sugar plantations, and tobacco manufacturing areas.³³ This

³³Between 1899 and 1910 the municipalities which produced the most coffee lost 4.2% of their population. Conversely, the populations of the 17 municipalities which produced the most sugar grew by 45.5%, while the whole population grew by 17.3%. Quintero Rivera, Conflictos de clase, p. 53.

process, by which the workers were finally separated from the means of production (the land in this case), together with the concentration of great numbers of workers in specific areas set the conditions for the formation of a central trade union, the Federacion Libre de Trabajadores (FLT, Free Federation of Labor). The FLT articulated the embryonic political project of the rural proletariat and the proletarianized urban artisans. The presence of the proletariat as a significant political force took full shape with the founding of the Partido Socialista (PS) in 1915 and its participation in the 1917 elections.³⁴

The political position of the PS also was ambiguous. Although the class directly opposed to them was the imperialist and the local sugar bourgeoisie who dominated the productive process, the bulk of the political opposition of the PS was directed against the hacendados of the PUP. This apparent confusion can be explained in three ways. First, the links developed by the Puerto Rican labor movement with the North American labor movement led the former to favor the annexation of Puerto Rico by the United States, thus partially coinciding with the politics of PR. Second, in terms of the process of class struggle, the workers saw the PUP as representing the reactionary positions of the traditional and seignorial world of the haciendas.³⁵ This was in sharp contrast to the new North American regime who had managed to present itself as a progressive democratic force by extending to Puerto Rico

³⁴Pagan, Partidos politicos, pp. 170, 184-185.

³⁵Quintero Rivera, Conflictos de clase, p. 124-127.

the right of unionization, establishing a public school system and creating other democratic elements compatible with colonial domination. A third element which contributed to this political ambiguity was the opportunism of the leadership of the PS who were always willing to collaborate with the regime in exchange for government positions, favors and other privileges.

It is obvious that the North American bourgeoisie succeeded in establishing its dominance in Puerto Rico without any radical opposition. The most serious opposition came from the traditional agricultural sectors displaced by the new accumulation model. Yet this opposition was limited to timid demands about participation in local affairs, and these sectors were incapable of articulating a political project which would dispute the political hegemony of the North American imperialist bourgeoisie. Hence the clear opportunism of the politics of accommodation of the PUP and the weakness of the pro-independence sectors within it.³⁶

By the 1920's a power bloc had been clearly established and consolidated beyond partisan divisions. The imperialist bourgeoisie had incorporated and coopted elements from diverse political sectors and social classes within its power sphere. A dramatic example of this supra parties alignment was the leaders of the two major political parties which shared the power during this decade. Antonio R. Barcelo, President of the PUP since 1917 and President of the Senate during the decade of the 20's, was the brother-in-law of Jorge Bird Arias, Vice President and General Manager of the Fajardo Sugar Corporation. The

³⁶Here I am subscribing to a conclusion drawn by Luz Del Alba Acevedo; "American Colonialism and the Emergence of Puerto Rican Nationalism During the Decade of the Thirties" (M.A. Dissertation, University of Liverpool, 1978), chap. 2.

other leader was Jose Tous Soto, President of the PR and Speaker of the House of Representatives during the 20's. Tous Soto was an attorney for the South Port Rico Sugar Corporation.³⁷ Of course, we are not arguing that their personal links were the crucial element in the constitution of a power bloc, yet at an empirical level, they certainly reflect the consolidation of such a power bloc. The structural bases for the forging and consolidation of a power bloc are to be found in the social, economic and political processes by which the sugar sector became dominant and the coffee hacendados were displaced as a major socio-political and economic force. By 1921 coffee had become a product of very little importance to the economy of the country, constituting of only 4.7% of the total value of exports.³⁸ Hence as the hacendados lost their material base of support their political opposition to the imperialist bourgeoisie and their local allies became weaker. The PUP thus went from the politics of opposition/accommodation to the politics of collaboration.

The PUP's politics of collaboration crystalized in an alliance between the PUP and the PR. This alliance was known as the Alianza Puertorriquena (Puerto Rican Alliance). It won the elections of 1924 and 1928, governing the country from 1925 until 1932. In entering the Alianza, the PUP dropped all demands for independence.³⁹

³⁷ Diffie and Diffie, Porto Rico, p. 73.

³⁸ Perloff, Economic Future, p. 136.

³⁹ Acevedo, "American Colonialism", pp. 82-83.

On its side, the PS entered into an alliance with a splinter faction of the PR which opposed the alliance with the PUP. This alliance, known as the Coalicion (Coalition) did not question the dominance of the imperialist bourgeoisie. As a matter of fact, entering into the Coalicion consolidated the dominant position of the pro-North American leaders within the PS. The Coalicion, formed in 1924, lasted until 1940 and governed the country between 1933 and 1940.

A good "inventory" of the sectors integrated into the power bloc in the 20's is provided by the following quotation from the North American colonial Governor Rexford G. Tugwell:

. . . half a dozen of these enterprises controlled by New York and Boston banks among them owned or leased about half the Island's really productive land - and the mills which processed its crop . . . they pay large fees to many technicians and professional people, they leased much land besides what they owned, and so controlled its owners; they bought the large farmers' cane and so determined the policies of the farmers' associations (here again was my old friend the Farm Bureau, acting as a stooge for the absentee corporations); they supported research at the university and furnished the only extensive market for its graduates and so had the expected influence on university policy. . . . These would include those middle class people who were not employed by the corporations, merchants and other businessmen, professional people and so on, but more importantly the Puerto Ricans who themselves owned or operated sugar properties.⁴⁰

By the 1930's the enclave plunged into a crisis that prompted a redefinition of the accumulation and the political models upon which U.S. hegemony was based.

⁴⁰Rexford G. Tugwell, The Stricken Land (New York: Double Day, 1947), pp. 37-38.

The Decade of the 30's and the Political
Crisis of the Enclave System

The economic depression, triggered by the collapse of the stock exchange in 1929, affected the Puerto Rican economy and eventually limited the possibilities of the expansion of the sugar enclave system. The price of sugar went from .0524 cents per pound in 1923 to .02 cents per pound in 1929 and to .00930 in 1932.⁴¹ However, the sugar companies succeeded in maintaining a large rate of profits during the first half of the decade of the Thirties. This was due to an increase in sugar production, the adoption of extraordinary protection measures in the United States and a dramatic decline in the salaries in the industry.

The steady decline in sugar prices since mid-Twenties and the panic created by the collapse of the stock exchange in 1929 prompted the major sugar producing countries to adopt a plan to limit production for export. The plan known as the Chadbourne Plan consisted of the adoption of voluntary quotas aimed at reducing competition and lessening the possibility of a continued fall in prices. However, the United States decided not to abide by the plan and allowed its colonies, the Philippines, Hawaii and Puerto Rico, to increase their production. A measure which served as a complement to the boycott of the Chadbourne Plan was the imposition of the Smoot-Hawley tariff, which had increased the duty on foreign sugar entering the U.S. market in 1930. By these two actions, the United States virtually closed its market to foreign producers and,

⁴¹Herrero, "La mitologia", pp. 49-50.

thus, eliminated the competition.⁴² This was one of the reasons the U.S. corporations in Puerto Rico were able to maintain a high rate of profits in the midst of an international crisis.

Another element which greatly contributed to the sugar corporation's success during the first years of the great crisis (which at the same time pointed towards the very crisis the enclave system was entering) was the dramatic fall in the salaries of the workers. For the fiscal year 1928-29 the average salary of a laborer in the sugar fields was 95.75 cents per day; however, for 1933-34 the average was 62.25 cents per day, a reduction of 35% in the average salary of the field laborers. In 1928-29 the laborers in the mill earned an average of 1.37 dollars per day, but by 1933-34 their salary was reduced to 1.20 dollars per day, slightly more than 12% reduction.⁴³ But while workers' salaries were being drastically cut and other sectors of the economy were adversely affected by the crisis, the corporations continued to pay dividends of up to 30% per share to their stockholders.⁴⁴ Behind this

⁴² Among the countries subscribing to the plan were: Cuba, New Zealand, Czechoslovakia, Poland, Hungary, Yugoslavia, and Peru. The U.S. and its colonies initially agreed to back the plan but withdrew their support. Ultimately the plan did not resolve the problem, and in the short term the position of the U.S. had a negative impact even on Cuba which was an important supplier of sugar for the U.S. See, Herrero, "La mitología", pp. 41-51; and Julio Le Riverend, Historia Económica de Cuba (Barcelona: Ediciones Ariel, 1972), pp. 232-33.

⁴³ Acevedo, "American Colonialism", pp. 109-110; I must express here my special thanks to Luz Del Alba Acevedo for allowing me to use freely material from her dissertation.

⁴⁴ Esteban A. Bird, The Sugar Industry in Relation to the Social and Economic System of Puerto Rico, Senate of Puerto Rico, Senate Document No. 1, 15th Legislative Assembly, First Session, (1941), pp. 40, 129.

bonanza enjoyed by the imperialist bourgeoisie and their allies a whole series of contradictions were brewing.

Aside from the salary reductions of the workers, unemployment was estimated at 50% of the total heads of families in the country (i.e., 150,000 heads of families). Besides this, there was a general increase in the prices of the basic imported foodstuffs. These increases had been stimulated by the continued deterioration in the terms of trade since the second half of the 1920's.⁴⁵ Between 1932 and 1933 the price of kidney beans increased 75%, flour 75%, rice 70%, cod fish 47%, ham 25%, and lard 24%. All of these were staples of the Puerto Rican diet.⁴⁶

But though the deterioration in the living standards of a large majority of the population provided the social basis for political unrest, it was the approval of the Jones-Costigan Act of 1934 which dealt the "coup de grace" to the sugar sector. This act undermined the very basis upon which the dominance of the enclave sector rested by imposing a quota on sugar production and sugar exports to the United States. The quota forced a reduction in production by 150,000 tons of sugar, an amount valued at approximately 9 million dollars. This sudden reduction had negative effects not only for the 15,000 workers who lost their jobs (adding to the 150,00 already unemployed) but also for the small and medium producers for whom the mills refused to grind their sugar and the

⁴⁵Quintero Rivera, "La base social", pp. 43-45.

⁴⁶Thomas G. Mathews, La politica puertorriquena y el nuevo trato, (Rio Piedras: Editorial Universitaria, 1970), p. 139.

banks denied financing for their crops.⁴⁷ As a result of the quota, the small and medium colonos faced the possibility of losing their crops and their lands.

The negative effects of the quota were not limited to the subordinate classes. They extended throughout the power bloc reaching and affecting the imperialist bourgeoisie and their allies, the local sugar bourgeoisie. These sectors faced serious financial problems. The North American banking institutions denied them credit because of the uncertainties created by the quota. Corporate elements began to talk about the dangerous conditions for the "business sector" in the island.⁴⁸

In synthesis, we can assert that the law which imposed the quota on sugar production served as a catalyst agent unleashing a process of contradictions which would lead to the crisis and collapse of the enclave system.

The collapse of the economic base of the enclave system was accompanied by a questioning of the colonial regime and the breakdown of the political order. On one hand, a fraction of the creole petty bourgeoisie began to articulate a pro-independence and anti-imperialist political position. This sector blamed U.S. corporate interests for the extremely poor social and economic conditions of the island. They denounced the colonial exploitation which North American corporate

⁴⁷Report of the Puerto Rico Policy Commission, (1934), pp. 8-9, this report was and still is popularly known as the "Chardon Plan". Hereafter quoted as Chardon Plan.

⁴⁸Ibid., p. 9.

interests had imposed on Puerto Rico and called for a national revolution that would put to an end the North American domination in the island. The political arm of this sector was the Partido Nacionalista (PN, Nationalist Party). Even though they lacked mass electoral support, they began to appeal to those social sectors most affected by the crisis (i.e., the petty bourgeoisie, the proletariat, the marginal sectors and the unemployed).

On the other hand, the rural proletariat represented by the FLT and the PS began to demand salary increases and call into question the arrangements that the leadership of the PS had with the PR (representatives of the sugar interests) through the Coalicion, which at that time governed the country. This process of questioning reached a decisive point during the general sugar workers' strike of 1934 when the FLT signed a contract with the sugar corporations which was rejected and denounced as treason to their interests by the workers. This rejection was more than a mere disagreement between the leaders and the rank and file of FLT. It meant a rejection of the politics of class collaboration which the PS had practiced in the Coalicion. This split began to break the almost monolithic control the FLT had over the Puerto Rican proletariat, a process which culminated with the creation of a new central trade union, the Central General de Trabajadores (CGT).⁴⁹

The strike of 1934 gained particular importance because it represented the juncture at which two potentially revolutionary classes

⁴⁹George Fromm, "La historia ficcion de Benjamin Torres (V); la huelga de 1934, una interpretacion marxista (1)", Claridad, (San Juan), Suplemento En Rojo, 24-30 de junio de 1977, pp. 6-7; y "La historia ficcion de Benjamin Torres (VI); la huelga de 1934, una interpretacion marxista (2)", Claridad, Suplemento En Rojo, 1-7 julio de 1977, pp. 4-5.

collaborated politically on a crucial issue. This convergence between the interests of the workers and of the nationalist petty bourgeoisie had the potential of becoming a strong anti-imperialist alliance. The strike took place in the midst of a period of social unrest (between 1931 and 1936 there were a total of 207 strikes, of which 91 were between July, 1933 and June, 1934),⁵⁰ and it highlighted the political crisis of the colonial regime during this period - if the PS, who was in power, could not control the workers, who could? Yet probably the most threatening move in the eyes of the dominant classes was the fact that the workers had called a leader of the PN, Pedro Albizu Campos, to lead the strike. Nationalism was the only ideology at that time that aimed at the liquidation of colonialism, thus questioning the very basis of the North American imperialist domination in Puerto Rico. The workers under the opportunist leadership of a coopted party were a manageable force, but an alliance between the workers and the Nationalists was a grave threat. The possibility of an anti-imperialist popular front in the style of the one lead by Sandino in Nicaragua was certainly something the imperialist bourgeoisie wanted to avoid.⁵¹ This explains why the corporations granted all the demands sought by the workers shortly after they had called upon Albizu to lead the strike.

⁵⁰Gayer et al., The Sugar Economy, p. 223.

⁵¹I am not implying that achieving independence per se would have abolished all forms of imperialist domination and exploitation. It is most probable that a republic lead by the PN would have developed economic links with the European bourgeoisies. In this sense, our argument is that nationalism was a threat to the North American imperialist domination, but not necessarily to capitalism and neo-colonialist forms.

By doing this they hoped to put an end to the collaboration between the Nationalists and the workers and prevent the formation of an organic movement by these two sectors. Indeed, the collaboration between Nationalists and the dissidents of the FLT did not materialize into a long term political alliance that could capitalize on this crisis of the enclave system. Georg Fromm has perceptively noted that the FLT's dissident workers had ideological positions different to those of PN. The differences in the political projects of these two groups prevented the formation of any strong political movement after the strike of 1934.⁵² The PN wanted to establish a republic in which the dominant element would be the creole petty bourgeoisie and other small proprietors (such as landowners, small farmers, etc.), but the workers, accustomed to the socialist rhetoric of the PS leadership, looked at the project of the PN with distrust.⁵³

It is necessary to indicate that the problem of forming an anti-imperialist popular movement presents complexities that go beyond the ideological differences between the PN and the workers. The Partido Puertorriqueno (PCP) which had emerged from elements within the FLT in 1934 and whose class origin was clearly proletarian could not capitalize on the crisis either. What seems to be true is that the crisis instead of facilitating the development of a political alternative for the working classes had the immediate effect of dividing them.

⁵²Fromm, "La historia ficcion (VI)".

⁵³Fromm, "La historia ficcion (V)"; see also Juan A. Corretjer, El líder de la desesperación (Guayanabo: n.p., 1974).

Aside from the ideological contradictions which prevented the emergence of the popular movement we cannot underestimate the efforts made by the regime to suppress the potential threat posed by these forces. As a short term solution to the crisis, the regime implemented a policy which combined the "iron fist" with the "velvet glove."

At the political level, the appointment of General Blanton Winship as Governor in 1934, and the earlier appointment of Colonel Elisha Francis Riggs as Chief of the Police, set the stage for things to come. Immediately after the 1934 sugar worker's strike they implemented a process of political repression directed against the PN. It was initiated with the Río Piedras Massacre in 1935 (in which three Nationalists were killed by police) and culminated with the Ponce Massacre (in which 21 persons were killed by police) in 1937. During this same period the leadership of the PN was imprisoned and an intense persecution was unleashed against any individual or group who opposed the North American domination of the island.⁵⁴ This repressive wave was aimed at preventing the development of a popular anti-imperialist alternative which could jeopardize the politico-economic monopoly of the United States over Puerto Rico. The sugar sector may have been doomed to failure because of the economic crisis, but this did not mean they were about to relinquish their privileges without a fight. In any case, the sugar corporations represented but one fraction of

⁵⁴ Acevedo, "American Colonialism", pp. 167-76; Benjamin Torres, El proceso judicial contra Pedro Albizu Campos (San Juan: Editorial Jelope, 1974); Juan A. Corretjer, Albizu Campos y las huelgas de los años treinta (Guyanabo: n.p., 1969).

the imperialist bourgeoisie. The decline of this fraction by no means meant the exhaustion of the possibilities for the expansion of imperialist capitalism in Puerto Rico.

Aside from preventing the emergence of an organic popular movement led by radical anti-imperialist elements, there was a need to improve the living standards of the working classes. For this reason, the socio-economic conditions which were the breeding ground for a possible revolution needed to be eliminated. To achieve this the metropolitan state intervened directly by creating welfare programs which ran parallel to the administrative apparatus of the colonial government. The better known of these programs were the Puerto Rico Emergency Relief Administration (PRERA) and the Puerto Rico Reconstruction Administration (PRRA). But the importance of these programs goes beyond their immediate effect in terms of aid to the population. In the long run these programs constituted the basis for the mobilization of the political forces which would provide a solution to the crisis while preserving the interests of the imperialist bourgeoisie.

As I said earlier the politico-economic crisis during the 1930's meant a breakdown of the power bloc. That is, it broke down the consensus between the classes that exercised power by their control over the means of production and the colonial State, and whose common interest was the reproduction of the relations of domination-exploitation over the Puerto Rican working classes, the majority of the population. As a consequence of the crisis the political forces in Puerto Rico were realigned into four fractions. Within the sectors outside of the power bloc we find, two fractions. One is a petty bourgeoisie (primarily rural) who assumed nationalist positions when threatened with extinction. The

other is a discontented working class who staged many wildcat strikes and protests, disregarded their traditional leadership (who had been coopted into the power bloc through the Coalicion), and were searching for political direction. On the side of the power bloc we can also find two fractions. First, those sectors closely tied to sugar production who opposed any structural change as a solution to the crisis. Second, a fraction of the power bloc not directly linked to the sugar sectors who understood that the solution to the crisis must involve structural changes at the expense of the sugar sectors.

The first clear manifestations of this division within the power bloc were expressed in the debates between the various sectors in the power bloc around the project for social reconstruction which gave origin to the PRRA. This project was popularly known as the "Chardon Plan". It proposed a series of economic measures which, on a long term basis, would lead to the reduction of the sugar sector in Puerto Rico's economy and, inevitably, would weaken their political power.⁵⁵

The fundamental points of the reforms proposed by the Chardon Plan were aimed at the permanent reduction of sugar production, the diversification of agriculture, the creation of a public sugar producing sector, and the creation of an industrial program using local raw materials and producing for the local market.⁵⁶ These changes would be accomplished by means of a land distribution program and government intervention in the process of production. According to the plan, marginal sugar lands

⁵⁵ These suspicions were reinforced by the fact that Carlos Chardon, President of the Puerto Rico Policy Commission and Chancellor of the University of Puerto Rico, was identified with the Partido Liberal.

⁵⁶ Chardon Plan, pp. 1-7.

were to be bought with government funds and distributed to landless peasants and unemployed workers of the sugar industry. Another idea was to create cooperatives of small colonos who would grind their sugarcane in government owned mills and to pressure the private mills into paying better prices for the colonos' sugar. Other plans were drawn up for the rehabilitation of coffee, tobacco and citrus fruits production and for a limited program of industrialization. The implementation of this program would be in the hands of a public corporation whose funds would come from a special tax imposed on sugar refining which was allocated for the purposes of economic reconstruction.

As was to be expected this plan generated a great opposition from the sugar bourgeoisie and their allies within the metropolitan state, particularly in the Congress of the United States. This opposition was the main reason that the Chardon Plan gained a reputation among the working classes as being for the interests of the people, i.e., directed to their progress and well being. In reality, the measures proposed by the Chardon Plan represented the project of solution to the politico-economic crisis of the anti-sugar fraction within the power bloc. This fraction coincided with and was allied to elements within the metropolitan state agglutinated around the executive branch (the President, and the Secretary of the Interior) who were aware of the necessity of structural reforms. Hence, the Chardon Plan represented the project of solution to the crisis favored by fractions of the dominant classes. The following quotation from the text of the Plan illustrates our point:

The suggestions and recommendations contained in this report are predicated upon our conviction that the United States, under the present administration, will at all times place the welfare of the Puerto Rican people above the interests of particular groups and that the only interest that must be

recognized as deserving special preference in the premises is the prestige of the American nation as a whole in connection with the development of a rational and equitable economic policy in the Caribbean. As a result of the plans suggested, it is probable that the United States would temporarily lose perhaps as much as 15% of its trade with Puerto Rico. This would mean, by present figures, a loss of perhaps \$10,000,000 a year to American exporters. An increase in employment and prosperity in Puerto Rico would be likely to more than cover this temporary loss in a number of years, through an increase in our purchasing power which will immediately result in increased trade with the mainland. But even assuming that it would not be covered, it must be borne in mind that Puerto Rico is headed toward a major social catastrophe, which can hardly be postponed for more than twenty years unless something fundamental is accomplished. The issue, therefore, is between the possible loss of several millions to American exporters and the practical certainty of social chaos in Puerto Rico. Quite independent of the fact that such chaos would entail a much greater economic loss to the United States, but purely as a problem in responsibility and humanity, there can be little doubt as to how the American people would wish such an issue to be decided, or as to how a high order of American statesmanship, once convinced of its reality, will decide it.⁵⁷

However, the Chardon Plan could not be implemented for two reasons. First, it was opposed by the sugar fraction who controlled a part of the colonial state apparatus and managed to get the support of the majority of the U.S. Congress who prevented the approval of the funds and the necessary legislation to implement the plan.⁵⁸ Second, the direct confrontation between the Nationalists and the colonial regime culminated with the execution on February 23rd, 1936 of the Chief of the colonial Police, Colonel Elisha Francis Riggs. This incident created a wave of anti-Puerto Ricanism in Washington and anti-Americanism in San Juan which temporarily distanced the elements that intended to solve the crisis through the implementation of the plan.⁵⁹

⁵⁷ Ibid., p. 7. ⁵⁸ Mathews, La politica puertorriquena, chap. 6.

⁵⁹ Ibid., chap. 7.

So instead of implementing the Chardon Plan a compromise was reached. The PRRA was created by executive order of the President of the United States to implement the least controversial aspects of the plan. Control over the PRRA eventually settled in the hands of the anti-sugar fraction (who in turn constituted a faction within the Partido Liberal, PL). The control that the anti-sugar fraction had over the PRRA and its budget of millions of dollars, as well as over PRERA (the other major relief agency), provided it with the material basis to organize a political machinery based on patronage. Eventually this fraction had a system of patronage as large as that of the local government. For example, between 1935 and 1938 the PRRA employed close to 60,000 persons and paid close to a million dollars per month in salaries.⁶⁰ It was common practice for the PL to ask PRRA employees for part of their salary as a donation to the party in retribution for having found them a job. The control of these programs provided this group with a means to reach and attract sectors which were not organized politically such as the peasants and the unemployed.

Through these programs the North American government managed to alleviate partially the depressed social and economic conditions of the working people. It achieved the containment of the political protest of the popular sectors, while at the same time it quickened the mobilization of the political forces whose political project was neither anti-imperialist-nationalist, socialist nor communist. This political force was the faction of the PL lead by Luis Munoz Marin, which split in 1938 to create the Partido Popular Democratico (PPD). The political

⁶⁰Acevedo, "American Colonialism", p. 160.

project of the PPD was a reformist program patterned along the lines of the Chardon Plan which, although it did threaten the sugar fraction, did not threaten the imperialist bourgeoisie as a whole.

By the end of the Thirties, the economic base of the enclave system had plunged into such a critical state that it was impossible to make any attempt at economic recovery based on the sugar sector. Classes and social sectors who previously formed part of or were identified with the power bloc had been displaced from their positions of power and economic privilege. Many became part of the working classes, the unemployed or the marginal sector. Thus the enclave system and the political sectors who supported it saw their politico-economic power base eroded. This situation led to the realignment of the social and political forces creating the conditions for the development and diffusion of the political project of the anti-sugar fraction.

The most popular interpretations of the formation of the PPD characterize it as the authentic expression of the political and economic aspirations of the working people, particularly the peasants and characterize its political project as popular progressive. Contrary to these interpretations, which shall be scrutinized later, it is our contention that the PPD is a party that predominantly articulates the strategic interests of the dominant classes while, in secondary manner, articulating the interests of the subordinate classes.⁶¹ The PPD

⁶¹To a great extent the idea that PPD was the genuine expression of the working masses can be attributed to the heavy rhetoric and the political style of PPD leader Luis Munoz Marin who had identified himself as being pro-independence during the 1930's. Nonetheless, anyone who carefully reads Mathews' book or Governor Tugwell's accounts of his governorship can see that Munoz's pro-independence stance is more a bargaining tool than a political project. See Mathews, La politica puertorriquena, chaps. 5, 6 and 7; Tugwell, The Stricken Land, Passim.

capitalized on the political crisis and the spontaneous protest of the popular sector, thus building its wide base of popular support. The PPD emerged as a principal political force at a juncture in which the opportunist leadership of the PS has lost credibility and the PN had been badly repressed. It filled the political vacuum existing among the working classes and provided organic direction to their spontaneous political protest. Yet the PPD utilized the working classes rather than providing them with a vehicle for their own political expression. It directed the spontaneous political protest against the sugar bourgeoisie - both local and foreign - thus laying the political basis for the implementation of a capitalist reformist political project. The PPD's political project moved within the context of capitalism and aimed at capitalist restructuring, thus preserving the basis for the domination of the imperialist bourgeoisie in Puerto Rico.

How this was achieved through the articulation of diverse class interests in a particular strategy of development is the subject of the following chapter.

CHAPTER III

THE REFORMIST STRATEGY: THE FIRST STAGE OF
DEVELOPMENTALISM: 1940-1947Introduction

Having established the class basis of the political project of the PPD, we now intend to analyze its realization in terms of development policies. We shall analyze how the development strategy implemented between 1940 and 1947 constituted the ideological practice of the social group which we generically have designated the anti-sugar fraction of the power bloc, and how it also benefited other sectors of the imperialist bourgeoisie. We shall also examine how this developmentalist project incorporated the interests and demands of the popular classes that served as the basis for the PPD's political support. Finally, we shall examine the areas of conflict and convergence between the classes involved in the formation of the reformist political project.

Through our examination of these events we intend to reveal the ideological content of the reformist political project of the PPD and how developmentalism, articulated through a populist movement, served to forge a class alliance that would permit a new fraction of the imperialist bourgeoisie to secure its dominance over the productive process in Puerto Rico. To do this it is necessary to analyze in detail the process of politico-economic contradictions which lead to a realignment of class forces around the productive structure and around

the colonial state, and to see how the colonial state became the crucial element in shaping a new political consensus.

We focus our inquiry on the politico-economic conjuncture that served as the setting for the implementation of the reformist political project. Also, we analyze in some detail the social (class) forces in conflict, the political terms of the conflict, and the factors which permitted the conflict to be resolved to the advantage of particular forces and to the detriment of others.

We have divided our analysis into four parts. The first considers the conjuncture which made viable the implementation of the reformist political project. The second analyzes in detail the development policies actually implemented by the government of the PPD. These policies constituted the political basis of the ideological practice of reformism. The third part analyzes the impact of the implementation of these policies on the social structure. Finally, we analyze the class basis of the development policies by establishing the connections between the particular policies which were implemented and the particular interests of the various classes. We shall show that they articulated particular class views about development, and thus show how reformist developmentalism is in praxis a class based political project.

From the Crisis of the 30's to the Second World
War: The Politico-Economic Conjuncture

As we saw in the previous chapter, the attempts to provide a durable solution to the crisis of the enclave system by using federal aid programs as the basis for social reforms were hindered by the resistance of the sugar fraction, the opposition of the nationalists and the mistrust between the New Deal bureaucrats from Washington and

the local bureaucrats administrating Federal programs. The Chardon Plan had been diluted in the PRRA and the structural reforms it proposed were never implemented. This left the structural basis of the crisis virtually unchanged. The poverty, unemployment, poor health conditions, and excessive land concentrations were still major problems. The anti-Americanism had not diminished and still constituted a potential political force,¹ even though the imprisonment of the nationalist leadership in 1936 had certainly prevented this sentiment from becoming articulated into a major political movement. The potential explosiveness of the situation was such that ex-governor Rexford G. Tugwell observed that when he became governor (1941) "the materials for a class war were all present."² It is within the political vacuum created by the collapse of the enclave system, the failure of the traditional parties and the inability of the metropolitan government to provide a durable solution that the PPD installed itself as the political alternative. The political vacuum enabled the PPD to draw widespread electoral support for their reformist political project. The bulk of the support came from the discontented working classes (peasants, unemployed, laborers) who were in search of a political alternative that would articulate their interests.

The political vacuum was thus the key element that made possible the electoral triumph of the PPD in 1940. Yet, other elements also

¹For an account of the anti-Americanism during the 1930's and its persistence at the beginning of the 1940's, even within the ranks of PPD, see Wenzel Brown, Dynamite on Our Own Doorstep, (New York: Greenberg, 1945); this view may be somewhat exaggerated due to the author's prejudices, but it illustrates the existing tensions.

²Tugwell, The Stricken Land, p. 7.

facilitated and conditioned the development of the reformist project, despite the tenacious opposition of the sugar sectors within the metropolis and the colony. These elements were:

1. The incapacity of the metropolis to fill the political vacuum due to their involvement in the war coupled with the previous failure of the Federal programs (PRERA, PRRA) which had seriously harmed the credibility of the metropolis.
2. The growing political weakness of the local and metropolitan sugar sectors and the consequent inability of these sectors to generate support locally or to gain support from the executive branch of the metropolitan government or from the sectors of the U.S. Congress who favored the application to Puerto Rico of the sugar quota system (thus supporting the reduction of sugar production in Puerto Rico in favor of continental [Louisiana, Florida] and low cost production areas like Cuba).
3. The nonexistence of a local sector other than the sugar sector who had some control over the productive process and could articulate an alternative development model. Such a sector had not been able to form because of the monopolistic character of the sugar enclave.
4. The stimulus for local production in agriculture and the basic industries brought about by the relative economic isolation of the island during the war and the reduction in the land dedicated to sugar cultivation.
5. The acceptance by the imperialist bourgeoisie of the Keynesian ideas of the intervention of the state in the economy.
6. The extraordinary expansion of the public sector's income, particularly through increases of taxes received from the exportation of rum (which increased due to the reduction in the production of whiskey in the United States during the war). This expansion was also due to increased Federal expenditures and subsidies for social relief and the construction of infrastructure and military bases.

Within this politico-economic context, within this favorable conjuncture, the PPD will proceed to implement the reformist project which was the first phase of developmentalism in Puerto Rico.

Agrarian Reform and Industrialization:
The Reformist Program

In 1940, the PPD rose to power under the slogan of "Bread, Land and Liberty". This reminded the imperialist and local sugar bourgeoisies of the Russian and Mexican revolutions whose slogans were, "Peace and the Land" and "Land and Liberty".³ The political program of the PPD began by denouncing the "state of misery", "the social insecurity" and the "regime of exploitation" existing in Puerto Rico.⁴ However, far from following the call of Lenin or Madero to armed revolution, the PPD and its leader, Munoz Marin, called upon the "people" to lend them their votes to that once elected the PPD "could confront the public problems which derived from the state of exploitation [they] denounce".⁵

The rhetoric and style of the PPD made it appear as if the PPD truly expressed the interests of the working classes. In fact, the PPD's denunciation of the current state of affairs and its demands for social justice, along with the personal and informal contacts that Munoz established with the peasants and workers during the 1940 political campaign, were the basis for accusations by the sugar sector that the PPD was radical and communist. It is only when this denunciatory language and paternalistic political style, characterized by direct contact between the "leader" and the "people", is translated into a

³ Ibid. According to Juan A. Silen, "pan, tierra, y libertad" ("Bread, Land and Liberty"), had been the slogan of PCP's newspaper, Lucha Obrera, in 1935; see Juan A. Silen, Apuntes para la historia del movimiento obrero en Puerto Rico (Rio Piedras: Editorial Cultural, 1978), p. 92.

⁴ PPD, "Programa economico y social; status politico, 1940", in Compilacion de programas, 1940-1964 (San Juan: PPD, 1964), p. 1.

⁵ Ibid.

concrete political practice that the true class nature of the PPD and its reformist political project can be uncovered.

Once the 1940 elections were won, the PPD initiated a program of reforms. But since the PPD only had partial control of the colonial legislature, controlling the majority vote in the Senate and a plurality in the House of Representatives, it was necessary to make alliances with sectors of the opposition in order to pass the laws which were to serve as the juridical base for their reforms. Other possible obstacles to the reform program were the colonial Governor, and the Congress and the President of the United States, who could revoke any law approved by the colonial legislature. The fact that the reform program of the PPD was carried out within the context of the colonial government, without opposition from any of these elements (except for the sugar interests), is indicative of the character of these reforms.

The first step in the implementation of the new development model was the agrarian reform. The agrarian reform law was based on the "500 acres law" which had been approved by the Congress of the United States in 1900 as part of the Foraker Act and which was also included in the 1917 Jones Act. But during the first three decades of North American occupation this law was never enforced. It only served as a deterrent to the Spanish and French competitors of the U.S. corporations who, being foreigners, were more hesitant to disregard the law.

The sugar corporations lost their immunity from the "500 acre law" when the U.S. Supreme Court established the validity of this law in its decision on the case of "The People of Puerto Rico vs. Rupert Hermanos, Inc." This case began in 1935 shortly after the Puerto Rican Legislature had approved Law 47, the first effort to enforce the "500 acre law" against

corporations with large land holdings. Law 47 (more timid than the one approved by the PPD in 1941) had been proposed and enacted by the government of the Coalicion.⁶ This case lasted for many years before a final settlement in 1940. In March 1940 the newspaper La Democracia, of which Munoz Marin was editor, reacted euphorically to the decision of the U.S. Supreme Court to uphold Law 47. "The Land is Ours" read the headline of the paper.⁷ The Puerto Rican peasants and rural proletarians had a chance to regain their land thanks to a decision of the U.S. Supreme Court.

Law 26, the PPD's agrarian reform law, also known as the "Land Law of 1941", was clearly within the legal-political framework of the colony. In the language of its "Statement of Motives" this law incorporated the two extremes of a contradiction which was at the very basis of the crisis of the Puerto Rican social formation. The first paragraph declared "that the land in Puerto Rico is to be considered as a source of life, dignity and economic freedom for the men and women who till it", expressing thus the interests of the peasants and rural proletarians which constituted the mass of the PPD's electoral base. However, the following paragraphs of the "Statement of Motives" of the law are dedicated to the decision of the U.S. Supreme Court which served as the juridical framework and the political justification of the law. In doing this, the PPD leaders were reassuring the fractions of

⁶Mario Villar Roces, Puerto Rico y su reforma agraria (Rio Piedras: Editorial Edil, 1968), pp. 42-43.

⁷La Democracia, 27 de marzo de 1940, as quoted by Martin O. Edel, "Land Reform in Puerto Rico: 1940-1959", pt. 1, Caribbean Studies, Vol. II, No. 3 (October, 1962), p. 30.

the imperialist bourgeoisie not linked to sugar production and the metropolitan New Deal bureaucrats that they had no intention of affecting their general interests; the PPD only intended to affect the particular interests of the sugar fraction. This is an important point if we remember the declining importance of Puerto Rican sugar for the United States since the imposition of the sugar quota in 1934.

The Land Law of 1941 provided the mechanisms for the application of the "500 acres law" to every corporation (juridical person) and specified the procedures for the expropriation or purchase of land in excess of this amount. The fundamental instrument to enforce the law was a public corporation, created by the same law, called "the Land Authority". This corporation had the power to buy, sell, rent, own or in any other manner possess land to operate farms, to initiate procedures of law against the violators of the Land Law, and to implement a program of agrarian reform.⁸ However, all land expropriations had to be carried through appropriate court procedures and provide adequate economic compensation.

The monies for buying the land came from government appropriations. Initially, the colonial legislature provided two million dollars for the operation of the Authority. In addition to this, the Authority could issue bonds up to a maximum of five million dollars. Between 1940 and 1947 the Authority received funds for a total of 23.5 million dollars to carry through the agrarian reform program.¹⁰

⁸Puerto Rico, Leyes (1941), "Ley No. 26", pp. 389-457.

⁹Edel, "Land Reform", pt. 1, p. 38.

¹⁰Puerto Rico Planning Board, Economic Division, Economic Development of Puerto Rico, 1940-1950; 1951-1960 (San Juan: 1951), p. 176,

The most important programs implemented by the Authority were the proportional profit farms, the individual farms program and the parcelas (small plot) programs. The proportional profit farms were 100 to 500 acres farms that were leased to farmers, agronomists, and other persons with knowledge of farm administration. The administrators and the workers would receive a fixed salary, and at the end of the year the net profits of the operation would be divided among the administrators (who received a fixed percentage) and the workers (who received their share in proportion to the days worked and the total salary earned). This type of farm tried to combine the efficiency of the larger units, particularly in the production of sugar, with the principle of better income distribution. The farms were labeled as cooperatives, but in reality they were not. The decisions were made by the administrators, and the farms were the property of the government, not the workers; moreover, the salary of the administrator and his share of the profits were greater than that of the workers, making him more of an entrepreneur than a cooperative leader interested in the socialization of the means of production. Governor Tugwell perceptively remarked that the proportional profits farms "have the possibility of preserving large-scale agriculture against its enemies and of keeping far enough away from classical cooperation to escape the 'communist' label."¹¹ The main objective of these farms was to transfer part of the sugar production from the corporations to the government with the view of directing a part of the profits which had previously gone to the U.S. to the local economy.

table 30, (hereafter quoted as Planning Board, Economic Development).

¹¹Tugwell, The Stricken Land, p. 87.

The second important aspect of the law was the individual farms program. Under this program, the Authority divided some of the large estates it purchased or expropriated into small farms averaging from 5 to 25 acres of land. In time, these farms were to be sold under very favorable financial conditions to families considered eligible according to certain terms stipulated by the law (experience in agriculture, no possession of other lands). The primary objective of these units was to stimulate the cultivation of foodstuffs, thus fostering agricultural diversification and a cheaper supply of the basic products.

The third program, which ended up being the most important, was the parcelas (small plot) program created under Title Five of the Land Law. Under this section of the law, the Authority divided farm lands into small plots between 1/4 and 3 acres that were to be distributed among the landless peasants and rural proletarians. To prevent large owners from buying these lands, or other speculators from acquiring them, the "parceleros" were not given property titles. Any transactions involving these lands were subject to the approval of the Authority. The purpose of this program was to create workers communities which would stabilize the labor supply in the countryside. Eventually, as we shall discuss later on, it would also contribute to the formation of a cheap and relatively stable labor market.¹²

In theory, the agrarian reform proposed the diversification of agriculture, the break up of the mono-productive enclave and the return of the land to "those who till it". Thus giving the peasants what, in

¹²For a detailed description of the law and the various programs contemplated by it see Villar Rocés, Puerto Rico y su reforma agraria; and Sol. L. Descartes, "Historical Account of Recent Land Reform in Puerto Rico", in Eugenio Fernández Mendez, ed., Portrait of a Society (Río Piedras: Editorial universitaria, 1972).

all fairness, was theirs and providing a solution to the crisis of the agricultural sector. However, the interests and conflicts involved in the process of reform were more complex than is apparent from this explanation, and the underlying motives of the reform less altruistic. In practice, the agrarian reform law articulated a class project (as we shall discuss later) which is not apparent when reading the "Statement of Motives" of the land law or the policies which on paper represented the solution to the evils of absentee capital.

The second pillar of the reformist project was the industrialization program. This program was implemented by the Puerto Rico Development Company (popularly known as Fomento), created by Law 188, May 11, 1942.¹³ According to this law, the main objective of the Company was to investigate the possibilities for developing Puerto Rico's resources and to promote their development through the creation of industrial enterprises. For this purpose the Company received an initial funding of half a million dollars per year. Aside from these regular allocations, the Company could borrow money from private institutions or issue bonds to finance its projects and enterprises. However, due to an extraordinary assignment of funds at the end of the war, the Company received a total of 19 million dollars in government funds between 1940 and 1947.

Law 188 was very clear in regard to the orientation that government promoted industrial development should have. Article eight of the law stipulated that the manufacturing enterprises established by the Company should concentrate on "exploiting and distributing products manufactured from the following raw materials: silica sands, clays,

¹³Puerto Rico, Leyes (1942).

leather, bamboo, sugar cane fibers, coconuts, fish, fruits and vegetables for canning, hogs, cotton, salt, minerals, waste [sic], and all other materials that may from time to time be designated by the Legislature of Puerto Rico."¹⁴ In other words, it should promote basic industries oriented to the local market in their inputs as well as in their outputs. This local orientation in manufacturing was stressed by article nine of the law which said the Company's activities "shall tend to promote the engagement in industrial enterprises of capital owned by residents of Puerto Rico and to avoid the evils of absentee ownership of large scale capital"¹⁵

The emphasis placed on local production by articles eight and nine of the law contributed to the interpretation of the PPD's political project as being oriented towards national autonomous development.¹⁶ Nonetheless, it should be remembered that Law 188 was conceived within the limits of the colonial relation and was in keeping with Keynesian economic ideology widely accepted by the metropolitan government. This economic ideology was seen as nationalistic in some Latin American cases (e.g., the Chilean CORFO created in 1939), but it had also served as the basis for regional development companies in the U.S. (such as the

¹⁴Ibid. ¹⁵Ibid.

¹⁶See, for example, Gerardo Navas, La dialectica del desarrollo nacional: el caso de Puerto Rico. (Rio Piedras: Editorial Universitaria, 1978); and Jose J. Villamil, "El modelo puertorriqueno; los límites del crecimiento dependiente", Revista Puertorriquena de Investigaciones Sociales, Vol. I, No. I (julio-diciembre 1976), pp. 4-14.

Tennessee Valley Authority). State intervention in the economy and local orientation of industrial production are not by themselves the conditions of national autonomous development.

Following the spirit of the law and the need to substitute imports during the war period, the first industries established by the Company were oriented towards the local market and made use of local raw materials. These first subsidiaries of the Company were the Puerto Rico Glass Corporation and the Puerto Rico Pulp and Paper Corporation. The first produced bottles for the rum industry and the second produced paperboard for making the boxes to package and ship the rum bottles in. The glass plant used silica sand, which was found in large quantities on the island, and the paperboard plant used bagasse (sugar cane husks) and paper wastes, collected locally.¹⁷ Other subsidiaries such as the Puerto Rico Cement Corporation, acquired from the PRRA, the Puerto Rico Clay Products Corporation, and a textile plant, "Teleres de Puerto Rico" (which eventually was established as a joint venture between the Company and Textron Corporation) illustrate the program's orientation toward the local market.¹⁸

In theory, the main objectives of the industrialization program was to open up the road to the industrial development of Puerto Rico, provide jobs for the workers and to improve the living conditions of the population. However, as in the case of agrarian reform, the

¹⁷Compania de Fomento de Puerto Rico (CFPR), Informe anual; 1944 (San Juan: CFPR, 1945), pp. 8-9, 36.

¹⁸For a detailed account of the CFPR and its subsidiaries see David F. Ross, The Long Uphill Path (Rio Piedras: Editorial Edil, 1969).

interests and conflicts involved were more complex and less altruistic than the PPD politicians made them appear. Later we will look closely at the conflicts and interests involved.

These two large programs were complemented by a series of reforms also conceived in the context of the New Deal legislation passed by the Roosevelt government in the metropolis. An example of these reforms were the laws on minimum wages and labor conditions. These laws increased the minimum wage in the sugar cane and home needlework industries and were the result of the extension to Puerto Rico of the "Fair Labor Standards Act", approved by the U.S. Congress in 1938.¹⁹ Another measure based on Federal legislation was the expropriation of all private electric and energy companies operating in Puerto Rico and their centralization under a public corporation, the Water Resources Authority. The Federal Government expropriated these companies under power granted to it by the War Powers Act for national security reasons and later transferred them to the colonial government's Water Resources Authority.²⁰ In no way were these expropriations "nationalizations", but rather they were "statizations" of public services for strategic reasons.

In synthesis, the strategy of development implemented between 1940 and 1947 intended an agrarian reform which would resolve the crisis in the agricultural sector that had been precipitated by the restrictions

¹⁹ Puerto Rico Planning, Urbanizing and Zoning Board, A Development Plan for Puerto Rico (Santurce: Office of Information for Puerto Rico, 1944), p. 44 (hereafter quoted as Planning Board, A Development Plan).

²⁰ This was the case with the expropriation of the Porto Rico Railway Light and Power Co., and of the Mayaguez Light, Power, and Ice Co. See Forty-Third Annual Report of the Governor of Puerto Rico, 1943 (San

of the sugar quota. It also intended to lay the basis for the development of the industrial sector as the dynamic and principal sector of the economy. The implicit development model assumed an increase in economic production and in the productivity of the worker that would allow a greater remuneration for the workers and thus a higher living standard for them. However, it also implied doing all of this within relations of production that assumed the continued exploitation of wage labor. But all of this is at an abstract level. In concrete terms, and in practice, the dynamics of this development model, the interests involved, and the conflicts and structural limits inherent to it reveal the real objectives and the class content of developmentalism.

The Impact of the Reformist Political Project
on the Social Structure

What happens in less than one decade is not sufficient to assess the real impact upon a society of a set of economic measures and policies. Nonetheless, we can examine the orientation of the changes initiated and the processes and contradictions that they generated. During this period, the Puerto Rican economy changed relatively little in statistical terms, but its structural base changed greatly.

The agrarian reform law set in motion a relative restructuring in the patterns of land tenure. I say relative since the PPD's program of land redistribution had a limited scope. The changes in the pattern of land tenure after 1930 were caused more by the agricultural crisis than by the law of agrarian reform, as can be deduced from the data on Table 1.

Economist Jose A. Herrero indicates that during the Thirties there was greater improvement in land distribution than during the Forties.

He also points out the relatively poor efficiency of the PPD reforms.²¹

How can we explain the fact that there was little change in land distribution after the passage of the land law in 1941? Actually, there are several explanations for this. First, a great part of the distributions of land took place under the parcelas program. This is important because the small plots distributed under this program did not constitute productive units. Note that on Table 1 farms of three acres or less are excluded from the accounts of farm land area in 1950. It is also worth noticing that between 1940 and 1950 total cultivated land was reduced by 57,368 acres, the greatest amount of which came from the farms over 260 acres (a total reduction of 45,990 acres). We could speculate that many of these lands were marginal sugar lands which were discarded as agricultural lands and then partially distributed in parcelas. But in any case, this did not alter substantially the distribution of productive farm land which was still dominated by large land holders.

Now we come to a third reason why there was relatively little change in the land tenure structure during the Forties. As we noted above, the 500 acres law was applied to corporations ("juridical persons") according to the stipulations of the land law. This meant that many large colonos (which were individual owners, not corporations) were able to own lands without having to fear action from the Land Authority. Thus the large colonos became beneficiaries of a law that probably stimulated a relative concentration of lands into their hands. Perloff, for example, points out that in 1948 the four major North

²¹Herrero, "La mitología", pp. 20-30.

TABLE 1

CULTIVATED LAND DISTRIBUTED BY FARM SIZE
FOR THE CENSUS YEARS 1930, 40 AND 50

	<u>1930</u>	<u>%</u>	<u>1940</u>	<u>%</u>	<u>1950</u>	<u>%</u>
3 Acres or less	3,909	0.2	2,154	1.1	-	-
3-9 Acres	127,523	6.4	143,284	7.6	143,008	7.8
10-19 Acres	147,503	7.4	151,510	8.1	144,449	7.9
20-49 Acres	264,712	13.4	258,563	13.7	263,720	14.5
50-99 Acres	226,464	11.4	215,540	11.5	216,148	11.8
100-174 Acres	201,928	10.2	191,678	10.5	186,539	10.2
175-259 Acres	143,888	7.3	135,568	9.3	133,055	7.2
260- or more Acres	863,531	43.6	783,557	41.6	737,567	40.4
Total	1,979,458	100	1,881,854	100	1,824,486	100

SOURCE: Jose A. Herrero, "La mitologia del azucar", p. 29.

American sugar corporations in Puerto Rico operated 10 sugar mills (one less than during the 30's) and produced 39% of the sugar of the country (a reduction of almost 11%). The interesting point is that two of these corporations did not own any land, which meant that 100% of its sugar cane supply was grown by colonos.²² In other words, we can assert that the principal beneficiaries of the agrarian reform were the large colonos and the landless peasants in the process of proletarianization. By 1945, a total of 13,103 parcelas have been distributed for housing units and some 1,159 for communal facilities (churches, schools) for the "parceleros."²³

The other effect of the agrarian reform was to reduce the economic and political power of both the North American and local sugar corporate sector. This allowed PPD to consolidate its power vis a vis the PR, whose dominant social component (the sugar bourgeoisie) was in retreat. Aside from this, the agrarian reform, particularly the parcelas program, was a step towards stabilizing the rural labor supply and reducing migration into the cities, which aggravated problems such as unemployment, poverty, and housing in the urban centers.²⁴ This stabilization was also favorable to the landowners who could now count on a stable and subsidized source of labor.²⁵ Yet, the agrarian reform did not achieve

²²Perloff, Economic Future, pp. 74-76.

²³Forty-Fifth Annual Report of the Governor of Puerto Rico, 1945 (San Juan: Govt. of Puerto Rico, 1945), p. 98.

²⁴Quintero Rivera, "La base social", pp. 68-69.

²⁵Eric R. Wolf, "San Jose; Subcultures of a 'Traditional' Coffee Municipality", in Julian H. Steward, et al., The People of Puerto Rico (Chicago: University of Illinois Press, 1956), p. 250.

what should have been one of its main accomplishments: it was not able to halt the economic deterioration of the agricultural sector. If we examine the contribution of agriculture to the national income of Puerto Rico between 1929 and 1949, we observe a steady decline since the beginning of the Thirties, as shown in Table 2.

In terms of the objective of agricultural diversification the agrarian reform had a limited effect. By 1950, sugar continued to be the principal product of agriculture in terms of value of production as well as value of exports (despite having experienced a decline during the war period).²⁶ By 1949-50, the farm value of sugar production was just under 100 million dollars. This represented 52% of the total farm value of agricultural products, which was identical to the 1939-40 figures. The products that experienced major growth were the animal products (meats, milk and eggs), which increased from 22% of the farm value in 1939-40 to 25% in 1949-50, and starchy vegetables, which increased from 5% of the farm value in 1939-40 to 7% in 1949-50. Conversely, tobacco and coffee declined during this same period.²⁷ Also sugar constituted 59% of the total value of exports in 1949-50 while in 1939-40 it had constituted 62%.²⁸ Thus, even though there had been some changes in agriculture, sugar remained the most important crop and export in the Puerto Rican economy.

The history of the program of industrialization is also one of limited success in the short run. Even though industrialization had become a major goal of government policy the reality was a rather slow

²⁶Planning Board, Economic Development, pp. 28, 48.

²⁷Ibid., p. 101. ²⁸Ibid., p. 163.

TABLE 2

SHARE OF NATIONAL INCOME GENERATED BY
 AGRICULTURE FOR SELECTED YEARS
 (1929, 1934, 1939, AND 1949)

	1929		1934		1939		1949	
	<u>millions \$</u>	<u>%</u>	<u>millions \$</u>	<u>%</u>	<u>millions \$</u>	<u>%</u>	<u>millions \$</u>	<u>%</u>
National income	176	100	164	100	196	100	597	100
Agriculture	87	49.4	71	43.3	59	30.1	152	25.4

SOURCES: Dudley Smith, Puerto Rico's Income (Washington, D.C.: 1943), p. 19;
 Junta de Planificacion, Ingreso y producto (San Juan: Junta de Planificacion, 1978),
 p. 26.

development of this sector of the economy. Table 3 illustrates how little impact the industrial sector had in the expansion of the economy in terms of employment and wages and the slow growth it experienced in terms of national income generated.

The decrease in employment and wages could be attributed in part to the decline in the demand for sugar and rum immediately after the war. However, this shows the importance that sugar processing and its derivatives still had for the manufacturing sector after the war and the incapacity of the industrialization program to counterbalance the negative effects of the decline of this industry.

TABLE 3

PERCENTAGE OF NATIONAL INCOME, TOTAL
EMPLOYMENT AND TOTAL WAGES GENERATED BY
THE INDUSTRIAL SECTOR, 1940 AND 1949

	<u>1940</u>	<u>1949</u>
National income	11.8%	13.6%
Employment*	10.9%	9.1%
Wages	15.9%	14.1%

SOURCES: Junta de Planificacion, Ingreso y Producto, p. 26;
Puerto Rico Planning Board, Economic Development of Puerto Rico: 1940-1950, 1951-1960, San Juan, 1951, pp. 153, 160.

* Does not include the Home Needlework Industry.

Table 4 shows relatively little change occurring in the industrial structure between 1939 and 1949. As we can see, the sugar industry (its manufacturing component) continued to be the most important sector in spite of its declining trends. It should also be noted that the

sector that advanced the most was stone, clay and glass products. This sector included three of the largest production plants in the country which were owned by the state.

While it is true that the reformist industrialization program did not fundamentally alter the industrial structure in the short run, we have to point out that it did initiate important changes. The construction of infrastructure (buildings, roads, electrical installations, etc.), and the training of industrial workers and administrators, as well as the creation of new jobs (even though in very limited quantities) may well be the most important achievement of the PPD's industrialization program in the short term. Yet behind all of this there was a qualitative achievement of even greater importance: the creation of an economic and ideological base favorable to private industrial capital. As Fomento put it: "the intention [of the Fomento program] has been and continues to be and to show private capital the road to productive investments, to stimulate it in the selection of feasible projects, and to share the risks and labors in cordial cooperation with it."²⁹ The specific fraction of private industrial capital that Fomento was willing to show the road to productive investment will be discussed later, yet we can certainly begin now to see the class character of the reformist political project.

In the short run, the agrarian reform and the industrialization program of Fomento provided a temporary and incomplete remedy to the enclave crisis, while at the same time it laid the groundwork for the coming of private industrial investments. But we may ask, what was achievement of the PPD and their reformist project between 1940 and

²⁹ CFPR, Informe Annual, 1944, p. 7.

TABLE 4

RANKING OF THE TEN MOST IMPORTANT INDUSTRIES
AND/OR INDUSTRIAL GROUPS IN PUERTO RICO IN
TERMS OF PERCENTAGES OF VALUE ADDED, PRODUCTION
EMPLOYMENT, WAGES PAID TO PRODUCTION
WORKERS AND NATIONAL INCOME GENERATED BY
THE MANUFACTURING SECTOR, 1939 AND 1949

Industry	% of total value added		Ranking in terms of % value added		% of total production employment		Ranking in terms of % of production employment		% of total wages paid to production workers		Ranking in terms of % of wages paid		% of national income		Ranking in terms of national income	
	1939	1949	1939	1949	1939	1949	1939	1949	1939	1949	1939	1949	1940 ^a	1949	1940	1949
Sugar	53	41	1	1	43	31	1	1	n/a	40	-	1	35	36	1	1
Apparel	20	11	2	2	26	22	2	2	n/a	15	-	2	22	20	2	2
Beverages	7	10	3	3	4	5.5	4	3	n/a	5.5	-	5	8	4.2	3	5
Bakery products	3	4.5	4	6	6	5.5	3	3	n/a	6	-	4	4.4	4.2	4	5
Printing and publishing	2.9	4	5	7	3	2	6	8	n/a	4	-	6	3.3	3.5	6	7
Chemicals	2.1	5	6	5	1.7	2	8	8	n/a	3	-	8	4.1	3.9	5	6
Non-electrical machinery	1.9	1.5	7	10	2.1	1	7	10	n/a	2	-	10	n/a	n/a	-	-
Furniture	1.5	3	8	8	3.4	4	5	6	n/a	3.7	-	7	2	4.4	7	4
Manufactured ice	1	*	9	*	1	*	10	*	n/a	*	-	*	n/a	n/a	-	-

TABLE 4-Continued

Industry	% of total value added		Ranking in terms of % value added		% of total production employment		Ranking in terms of % of production employment		% of total wages paid to production workers		Ranking in terms of % of wages paid		% of national income		Ranking in terms of national income	
	1939	1949	1939	1949	1939	1949	1939	1949	1939	1949	1939	1949	1940 ^a	1949	1940	1949
Tobacco manufactures	0.8	*	10	*	1.7	*	8	*	n/a	*	-	*	n/a	*	-	*
Stone, clay, glass and cement	*	7	*	4	*	5	*	5	n/a	7	-	3	3.3	6	6	3
Costume jewelry	*	1.6	*	9	*	4	*	7	n/a	2.4	-	9	n/a	n/a	-	-

SOURCES: U.S. Bureau of Census, Census of Manufactures, Puerto Rico, 1949 (Washington, D.C.: Govt. Printing Office, 1949); and Junta de Planificacion, Ingreso y producto, Puerto Rico, 1978 (San Juan: Junta de Planificacion, 1978).

* Out of the top ten.

n/a not available

^a There are no detailed figures for national income before 1940.

1947? What did they do to get reelected by an overwhelming majority in 1944? What were their accomplishments in terms of the living conditions of the workers?

The key to answering these questions can be found in a study done by the Economic Division of the Puerto Rico Planning Board during 1950-51 which evaluated the patterns of economic development in the Forties. According to this study:

The really substantial increases took place in the services rendered by the distributive industries and the government.

.....

A close analysis of the gross product and [national] net income figures shows that the greatest part of the growth in the output of goods and services and in insular income took place during the war years. During the post-war years there has been a very definite leveling off in the rate of growth.³⁰

In other words, the economic growth achieved during the Forties was due to the expansion of the tertiary sector, particularly in the government, as a result of extraordinary expenditures that occurred during the war. Tables 5, 6, and 7 show the expansion of the tertiary and the construction sectors from 1940 until 1949. They clearly show that the major period of growth in these sectors was during the war.

It is clear that the reformist program is propitiated by the particular circumstances brought about by the war and that the economic expansion experienced in this period is fundamentally conjunctural, not structural. It is obvious that economic expansion was due to the extraordinary expenditures of the metropolitan government in military or para-military projects (military bases, roads, communications).

³⁰ Planning Board, Economic Development, pp. 7, 28.

TABLE 5

PERCENTAGE OF THE NATIONAL INCOME GENERATED
BY THE TERTIARY SECTOR AND CONSTRUCTION

	<u>1940</u>	<u>1946</u>	<u>1949</u>
Government*	17.5	29.5	18.8
Transportation, communication and utilities	8.9	5.1	7.9
Trade	11.7	10.1	15.9
Finances, insurance and real estate	10.9	6.8	7.1
Services	9.2	8.0	6.6
Construction	1.1	1.5	5.0
Total	59.3	61	61.3

SOURCES: Junta de Planificacion, Ingreso y producto, pp. 26, 30, 34; Puerto Rico Planning Board, Economic Development, pp. 18-19; H.S. Perloff, Puerto Rico's Economic Future, Appendix A-2, pp. 398-399.

*Includes the income generated by the Federal Government.

TABLE 6

PERCENTAGE OF TOTAL EMPLOYMENT GENERATED
BY THE TERTIARY SECTOR AND CONSTRUCTION

	<u>1940</u>	<u>1946</u>	<u>1949</u>
Government	2.5	8.1	7.2
Transportation, communication and utilities	3.9	4.8	4.6
Trade	10.3	12.2	14.2
Finances, insurance and real estate	0.3	0.2	0.6
Services	14.2	12.7	11.9
Construction	3.1	3.9	4.9

TABLE 6-Continued

	<u>1940</u>	<u>1946</u>	<u>1949</u>
Total	34.3	41.9	43.4

SOURCE: Puerto Rico Planning Board, Economic Development, Table 4, p. 153.

TABLE 7

PERCENTAGE OF TOTAL SALARIES PAID
BY THE TERTIARY SECTOR AND CONSTRUCTION

	<u>1940</u>	<u>1946</u>	<u>1949</u>
Government	31.3	46.3	36.2
Transportation, communication and utilities	6.8	4.5	5.0
Trade	6.0	4.6	8.3
Finances, insurance and real estate	1.2	0.7	1.1
Services	11.7	8.9	10.4
Construction	1.7	2.2	4.4
Total	58.7	67.2	65.4

SOURCE: Ibid., Table 12, p. 160.

Between 1942 and 1946, the expenses of the Federal Government in Puerto Rico which directly related to war activities represented a minimum of 9.3%, in 1942, and a maximum of 18.2%, in 1945, of the Gross National Product.³¹ The total expenditures of the Federal Government exceeded the 100 million dollars mark in 1943, 44, 45, and 46.³²

³¹Ibid., p. 126. ³²Ibid.

In addition to these extraordinary revenues from direct war expenditures, the Federal Government returned some 168 million dollars to the colonial government between 1942 and 1946. Much of this extraordinary revenue came from the return of excise taxes on rum. Under Section 9 of the Organic Act of Puerto Rico (March 19, 1919), the U.S. was obligated to return to Puerto Rico taxes collected on Puerto Rican goods entering the U.S.³³ So when the amount of rum exported to the U.S. drastically increased because of whiskey shortage, the money that Puerto Rico received from returned rum excise taxes also greatly increased.

These two sources of extraordinary revenues permitted the colonial government to expand its economic activity. While the expenditures of the Federal Government were directed to the construction of infrastructure, roads and sanitary facilities, the colonial government could channel the other revenues into its social welfare programs. Between 1939-40 and 1949-50 the expenditures of the colonial government for administration and social welfare programs increased from 18.3 million dollars in 1939-40 (65% of all the government expenditures) to 91.2 million dollars in 1949-50 (78.3% of all expenditures). In social welfare, the specific areas that received increases were: education, whose share increased from 7.3 million dollars (26% of all government expenditures) to 33.1 million dollars (28.4% of expenditures); public aid, which jumped from 0.5 million dollars in 1939-40 (1.8% of total expenditures) to 8 million dollars in 1949-50 (6.9% of the total expenditures); and public health, which increased from 1.1 million dollars in 1939-40

³³Belen H. Cestero, Balance of External Payments of Puerto Rico; Fiscal Years 1941-42 to 1947-48 (San Juan: Office of the Governor, 1950), p. 13.

(3.9% of the total expenditures) to 6.7 million dollars in 1949-50 (5.7% of the total expenditures).³⁴ Also, government expenditures in industrial and agricultural development increased between 1939-40 and 1945-46, but they decreased in 1949-50. Expenditures in industrial development increased from 99 thousand dollars in 1939-40 to 8.3 millions in 1945-46, but were reduced to 2.1 millions in 1949-50. Finally, expenditures in agricultural development for these same years were 1.5, 4.5, and 4.2 million dollars respectively.³⁵ All these areas show the influx of wartime dollars.

The evidence presented indicates the conjunctural character of the changes effected by the reform programs of the PPD. It also indicates that in the long run these changes were oriented towards laying the basis for the restructuring of imperialist capitalism, rather than towards its dissolution. However, the expansion of the national income and the implementation of some income distribution measures were relatively successful in improving the living conditions of many Puerto Ricans.

One improvement was in wages. Real wages increased by 47% in the agricultural phase of the sugar industry, and they increased in every other industry except the home needle work and sugar processing industries.³⁶ The share of the national income corresponding to wages increased from 55.5% in 1940 to 60.4% in 1947. Conversely, the share corresponding to profits and interests declined slightly from 37.1%

³⁴Planning Board, Economic Development, p. 71. ³⁵Ibid.

³⁶Ibid., p. 156, Table 7.

to 36.6% during this period. The national income as a whole increased by 142%, while the wages component of the national income increased by 163%, and the profit and interest component increased by 138%.³⁷ That is, wages grew at a higher rate than profits and interests during this period.

Aside from the increases in real wages, we should remember that PPD had literally given away thousands of parcelas. If it is true that these were only a small number in comparison to the many thousands of peasants still landless, it was still an important political gesture. The hope of receiving a parcela was not a mere dream as long as PPD was in power. This was certainly very important in the consolidation of an electoral base for the PPD.

It is obvious that the PPD's reformist political project was aimed at a restructuring of the productive forces while maintaining capitalist relations of production. Now we turn our attention to the discussion of the question of how the PPD laid the politico-ideological basis that made possible the restructuring of imperialist capitalism in Puerto Rico.

The Class Basis of the Reformist Project and its Contradictions

As we have seen, the reform programs of the PPD were established and implemented within the legal-political framework of the colony. Even though these reforms were directed against the interests of the sugar fraction of the imperialist bourgeoisie, the existing legal-political

³⁷ Calculated from Junta de Planificación, Ingreso y producto Puerto Rico, 1978 (San Juan: Junta de Planificación, 1978), p. 43.

order was not questioned by the PPD. In fact they made it clear that the resolution of the colonial question was not a campaign issue in the 1940 election. They stressed that their immediate commitment was to solve the "problems whose solution will be within the realm of their power as a majority party."³⁸

We should ask, why did PPD's reformism remain within the boundaries of the colonial juridical framework and within the framework of capitalist relations of production? Furthermore, why did they never try to transcend these constraints? We can only attempt to answer these questions through an understanding of the class basis of the PPD.

As we indicated previously, the political campaign of 1940 revolved around the issues of agrarian reform and the elimination of the sugar monopoly. These issues attracted the peasants, elements from the rural and urban proletariat, and elements from the marginalized sectors to the political sphere of the PPD. These elements identified their most immediate interests with the PPD's promise of "Bread, Land and Liberty". To them "Bread and Land" articulated their desires for economic well-being and stability, while the call for "Liberty" expressed their discontent with the oppression of the sugar corporations and the colonial regime associated with them.

Other elements integrated into the PPD were the displaced hacendados and the colonos. The former had lost or sold their lands and were now found in the professional or the service sectors of the economy. The latter saw in the PPD the opportunity for limited changes in the sugar sector, which would reduce the power of the corporations.

³⁸PPD, "Programa, 1940", p. 2.

These sectors were lead by a techno-bureaucracy integrated by intellectuals, professionals, and technicians. They had in the past been part of the colonial bureaucracy but were not directly linked to the dominant sugar sector.³⁹

These diverse social forces formed a populist alliance. That is, an alliance between a subordinated fraction of the power bloc and the working classes, which was opposed to the dominant fraction of the power bloc. This alliance was the result of a crisis of political domination brought about by the socio-economic crisis of the enclave development model. This political crisis had provoked a rupture in the power bloc, leaving a political vacuum which made it necessary to appeal to the popular sectors in order to resolve the crisis.

The PPD filled this vacuum with a program that articulated diverse and sometimes even opposed interests. The agrarian reform had benefited the small and medium farmers, stimulating their growth and improving their economic condition. It had also benefited the agronomists, foreman and farm administrators. They had been displaced by the decline of agriculture, but they now had a chance of getting a good job on the proportional profit farms. Another group that benefited by the PPD's program was the colonos, who also were major supporters of the PPD. The large colonos benefited because the PPD did not enforce the "500 acre law" against them. Furthermore, the PPD favored the distribution of sugar quotas in such a way as to benefit local sugar growers and

³⁹Cf. Quintero, "La base social".

producers and to better the terms for the financing of the colonos crops.⁴⁰ Other large land owners were also indirectly benefited by the reform since the parcelas communities stabilized labor supply in the rural area by reducing migration and subsidizing the rural workers wages (by having the possibility of growing some of their foodstuffs).⁴¹ Finally, the individual farms and the parcelas program opened the possibility for the landless peasants and the rural proletarians to secure their basic subsistence means, and the incentives and projects for agricultural diversification brought hope back to coffee, tobacco and fruit growers.

It is evident that the reformist program favored the interest of the elements that integrated the populist alliance. Yet it is also true that these reforms did not affect the metropolitan interests in any fundamental way. As we pointed out, the agrarian reform directly affected the sugar corporate interests, but we should keep in mind that these interests had been affected long before by the imposition of the sugar quota in 1934. Quoting an article published in 1941, Governor Tugwell pointed out that the sugar corporations saw Puerto Rico's

⁴⁰ Jesus T. Pinero was elected to the Puerto Rican Legislature for the PPD in 1940, and in 1944 was elected Resident Commissioner for Puerto Rico in Washington. In 1946, President Truman appointed him Governor of Puerto Rico, and he thus became the first Puerto Rican Governor appointed by a U.S. President. Pinero had been President of the Puerto Rican Farmers Association and is probably the best illustration of the influence of the large colonos within the PPD. On the benefits of the PPD's legislation to colonos see Gerardo Navas, "Surgimiento y transformacion del partido popular democratico", in Navas, ed., Cambio y desarrollo, pp. 24, 27, and Passim.

⁴¹ Wolf, "San Jose", p. 250.

future as a sugar producer as uncertain and were prepared to reduce their operations. Their only concern was that the government would confiscate their lands. According to Tugwell the companies were ready and willing to sell their lands.⁴² The only resistance and haggling would be over price settlements and other secondary issues. As a matter of fact, the U.S. corporations adapted to the situation by concentrating their operation in the grinding and processing phases, and thus they were able to maintain their profitable status.⁴³

The U.S. Government, for its part, stimulated the decline in sugar cultivation in favor of increases in the cultivation of foodstuffs. In fact, the Agricultural Adjustment Administration (a Federal agency created by the Roosevelt Administration) paid subsidies to sugar growers (including the large U.S. corporations) to stimulate reductions in sugar cultivation and increases in food crops.⁴⁴ Thus the agrarian reform policies of the PPD coincided with the policies for self-sufficiency stimulated by the U.S. Government during the war.⁴⁵ As we see, the program of the PPD coincided with the main interests of the imperialist bourgeoisie in general, which at that time were politico-strategic interests (i.e., to preserve the stability in the colony). This becomes

⁴²Tugwell, The Stricken Land, p. 91.

⁴³Between 1942 and 1948 the profits declared by the U.S. sugar corporations amounted to a total of 19.7 million dollars. In 1942 profits were 4.5 million, but they declined to 1 million in 1946 before raising to 4.1 million dollars in 1948; Cestero, Balance of Payments, p. 18.

⁴⁴Forty-Third Annual Report of the Governor of Puerto Rico, p. 3.

⁴⁵Planning Board, A Development Plan, p. 19, and Charles T. Goodsell, Administración de una revolución (Rio Piedras: Editorial Universitaria, 1967), p. 36.

clear from Governor Tugwell's recount of his period as governor when he says:

My duty as the representative of my country in Puerto Rico was to shape civil affairs, if I could, so that military bases, which might soon (before they were ready) have to stand the shock of attack, were not isolated in a generally hostile environment.⁴⁶

This stability was to be achieved through economic and social reform.⁴⁷

The industrialization program was presented as the permanent solution to the socio-economic crisis. It was presented as having unlimited possibilities to the recently displaced peasants, rural proletarians and the unemployed, who in turn saw it as their chance to get a stable and well paid job. This was part of the explanation behind the support given to the PPD's industrialization program by the Confederacion General de Trabajadores (CGT) and the Partido Comunista Puertorriqueno (PCP).⁴⁸

Yet another sector whose interests were articulated by the industrialization program was the sector of professionals and technicians. They had developed as a coherent group and a social force partly because of the increased demand for their services in institutions like PRERA and PRRA. With industrial development they saw increased possibilities for social and economic betterment. And they believed that industrial

⁴⁶Tugwell, The Stricken Land, p. 148, other remarks of this nature also on pp. 69 and 137.

⁴⁷Ibid., p. 112 and passim.

⁴⁸Mattos Cintron, La politica y lo politico, pp. 113, 200 and notes 143 and 145; also Awilda Palau de Lopez, "Analisis historico de la figura de Teodoro Moscoso", in Navas, ed., Cambio y desarrollo, p. 154-55.

development gave them the opportunity to occupy positions of leadership in society because they would control those institutions linked to the industrialization process.

In addition, there were elements within the local bourgeoisie who saw favorable signs, and as a matter of fact participated in, the process of state controlled industrialization. However, these elements were not directly integrated into the populist alliance. Their participation is exemplified by the presence of elements from private banks and industries on the board of directors of the Puerto Rico Development Company and on the boards of all of its subsidiaries. In all there were ten private entrepreneurs in Fomento and its subsidiaries.⁴⁹ Despite the fact that they did not constitute a majority on these boards, their influence was indeed of importance.

David F. Ross, a former employee of Fomento who wrote a history of the industrialization program, said the following about the role of those entrepreneurs:

Its personnel [that of the Board of Directors of Fomento] had been selected to lend an aura of conservatism and respectability to an organization which might otherwise have suffered the ill effects of a reputation for radicalism and socialist tendency. Actually, the bankers and businessmen who served as board members . . . did much to impose the substance of conservatism.⁵⁰

For its part, the representatives of the imperialist bourgeoisie clearly saw that the creation of basic industries would fulfill a double

⁴⁹ A detailed list of the private entrepreneurs that formed part of the board of directors of Fomento and its subsidiaries appears in Puerto Rico Development Company (PRDC). Third Annual Report, 1945 (San Juan: PRDC, 1945), p. 7; among them were elements from local banks, rum corporations, and other private businesses.

⁵⁰ Ross, The Long Uphill Path, p. 85.

purpose: a) import substitution during the war period when freight ships operating between Puerto Rico and U.S. had been necessarily reduced;⁵¹ and b) a means of providing a permanent solution to the socio-economic crisis of the colony. President Roosevelt was quoted in Fomento's first annual report as saying, "the situation in Puerto Rico calls for the encouragement of industrial enterprises which will create employment." In this same report President Roosevelt's remarks were joined by those of conservative Senator Robert H. Taft who was quoted as saying, "I believe that the only possibility of a decent standard of living lies in the industrialization of the island".⁵²

We should also point out that the PPD's industrialization program coincided with the long term interests of the imperialist bourgeoisie. Furthermore, we should stress that the technocrats leading Fomento were aware of this convergence and utilized it to legitimize their program in the eyes of the metropolitan government and to gain support for it from the metropolitan government. The following quotation from the 1945 Fomento Annual Report substantiates our assertion:

Management [that of Fomento] is confident that the Federal Government will give the island the same opportunities to develop industries as is apparently the established policy with respect to foreign countries. This may be judged by the following statement of Honorable Spruille Braden, Assistant Secretary of State, published December 8, 1945, in Foreign Commerce Weekly, an official publication of the U.S. Department of Commerce.

Lest there be misunderstanding on this score, I wish to emphasize that the United States Government rejects the view that the industrialization and diversification of the Latin American economies are threats to the maintenance of our export markets in that area.

⁵¹Planning Board, A Development Plan, p. 5.

⁵²PRDC, First Annual Report, 1943, (San Juan: PRDC, 1944).

The ancient mercantilist fallacy that an industrial exporting nation should strive to impede the industrialization of its overseas markets was ridiculed and exploded nearly 200 years ago by Adam Smith: but like many mistaken theories, this one dies hard.

.....

'Self-evidently, countries with low productivity have low living standards: life among the masses is a bitter struggle for rudimentary needs, and so the market for imports is narrow and limited. This axiom is witnessed in the significant fact that we normally export more goods to Canada, an industrialized nation, than to the whole of South America; although the latter has nearly 10 times the population of the former.'⁵³

A similar quotation from the U.S. National Association of Manufacturers had appeared in the 1944 Fomento Annual Report.⁵⁴ Obviously, the most advanced sectors of the industrial fraction of the imperialist bourgeoisie were foreseeing the advantages (for them) of industrialization in Latin America after the war. The increased capacity of U.S. industry, particularly in the production of machinery, consumer durables, and other capital goods, was beginning to prompt a redefinition of the role of the U.S. capital towards Latin America. Instead of the traditional role of producer of primary goods and consumer of finished manufactured goods, Latin America now was seen as a market for surplus capital and a consumer of capital goods. As a result of the extraordinary technological developments during the war and the increased productive capacity of industry, the imperialist bourgeoisie looked for new horizons. They saw in the industrial expansion of Latin America opportunities for new investments and for the expansion of capital goods

⁵³PRDC, Third Annual Report, p. 35, emphasis in the original.

⁵⁴CFPR, Informe Anual, 1944, p. 1.

exports. Industrial development in Latin America could be part of the answer to a possible post-war crisis created by excess idle capital and productive capacity. The most advanced elements of the imperialist bourgeoisie and its strategists in government were beginning to see with relative clarity the need for a redefinition of the international division of labor after the war. This was obviously perceived by the PPD leadership, particularly that around Fomento, which was trying to insert Puerto Rico into this new trend.

To the above arguments we should add that at no time did the PPD's program or the legislation passed by the PPD controlled legislature question the politico-economic basis of capitalism. The PPD's concept of social justice was based on distributive principles rather than any changes in the relations of production.⁵⁵ In this sense what the PPD calls policies of social justice were in fact income redistribution policies aimed at stabilizing the crisis, thus articulating the interest of the imperialist bourgeoisie, i.e., the preservation of imperialist domination.

In other words, if the basic interest of the imperialist bourgeoisie and their allies is to dominate the working classes to extract surplus value from them, it is necessary for them to provide the adequate political and social conditions which will make viable the exploitation of labor. These political and social conditions (good labor relations, acceptance of their social role and position by the workers, etc.) can

⁵⁵This has been pointed out by Emilio Gonzalez, "El populismo en Puerto Rico: El Partido Popular Democratico, 1938-1952" (Ph.D. dissertation, Universidad Nacional Autonoma de Mexico, 1977), chap. III.

only be achieved through open repression (police and military persecution) or through a combination of repression and social welfare measures (better working conditions, better education, better housing, etc.). In time, these measures should create a social and political stability that would allow the reproduction of the relations of production (the relation between wage labor and capital) and the expanded reproduction of capital.

The PPD did not intend to abolish the exploitation of wage labor nor did it intend to abolish private property, which are the bases of capitalist accumulation. Fomento reports from 1943 to 1945 emphasized that the aim of their industrialization program "has never been to replace private capital Its intention has been and still is rather to show private capital the way of productive investments, encourage it in the selection of the most feasible projects, share the risks, and work with it in cordial cooperation."⁵⁶ The PPD's political project was thus aimed at restructuring capitalism over a more sophisticated exploitative base. Capitalism in Puerto Rico would evolve from agrarian capitalism into industrial capitalism. Consequently, the forms of exploitation would change from absolute surplus value extraction into relative surplus value extraction. The first, prevalent during the first four decades of U.S. colonial domination, had meant long hours of work and very low pay for wage labor. The latter would increase labor productivity and hence the possibility of shorter hours

⁵⁶CFPR, Informe Anual, 1944, p. 7.

and better pay, while at the same time increasing the rate of surplus value appropriated by the capitalists.⁵⁷

In synthesis, the PPD's reformist developmentalism laid the basis for the restructuring of imperialist capitalism in Puerto Rico. This restructuring took place under the drive of a new development model fostered by the PPD's techno-bureaucracy and supported by the imperialist bourgeoisie (except for its sugar fraction).

The emphasis that the PPD places on social welfare policies thus responds principally to the interests of the imperialist bourgeoisie. That is, these policies ultimately respond to the need to lay the social and political conditions needed for the restructuring of imperialist capitalism. The interests of the working classes are therefore articulated within the reformist project in a subordinate manner, as a function

⁵⁷ This does not mean that the industrial workers on the periphery of capitalism are not paid less and have worse working conditions than the workers at the center of capitalism. However, it does mean that industrial workers in peripheral countries improve their standard of living, and that the absolute level of their exploitation in relation to the workers in the agricultural sector of the peripheral countries improves (diminishes), despite the fact that they are expropriated of more (relative) surplus value than the workers in agriculture. If this is so, Marini's thesis of super-exploitation in the periphery needs qualification. Yet this does not mean, as Bill Warren suggests in his "Imperialism and Capitalist Industrialization", that there is an "equalization" between the industrial sectors in the center and the periphery since a differential in the rates of exploitation continues. Warren's argument that super-exploitation is due to the backwardness of the non-capitalist sector of the periphery needs further qualification. Yet the specific aspects of this debate are beyond the scope of our study. For the terms of the debate see Ruy Mauro Marini, "Las razones del neo-desarrollismo (respuesta a F.H. Cardoso y J. Serra)", Revista Mexicana de Sociología, Vol. XL, No. E (1978), pp. 57-1-6; Fernando H. Cardoso and Jose Serra, "Las desventuras de la dialéctica de la dependencia", Revista Mexicana de Sociología, Vol. XL, No. E (1978), pp. 9-55; and Bill Warren, "Imperialism and Capitalist Industrialization", New Left Review, No. 81 (1973), pp. 3-41.

of the reproduction needs of imperialist capitalism. In other words, the land distribution programs, the wage increases, the public health and education programs, and all other PPD programs are primarily implemented to prevent the workers from rebelling against the domination of capital.

A question comes to mind as a result of the previous argument: how did the PPD manage popular support, as shown by its sweeping victory in the 1944 elections, if its political project was fundamentally geared to the restructuring of capitalism within the existing colonial relation? What is the key to its politico-ideological success?

Part of the answer to these questions lies in an understanding of the PPD as a populist party. It was a party formed by an alliance between the popular classes and the middle sectors, in the context of a politico-economic crisis of the primary export sectors, articulating an alternative political project centered around industrialization.⁵⁸ However, this is a descriptive definition that leaves us without an adequate explanation of what makes a populist movement the alternative to the crisis.

⁵⁸This, we could say, constitutes a basic definition of Latin American populism, but the emphasis placed on the elements mentioned (crisis, class alliances, etc.) varies according to the different views of the authors. See particularly the works of Octavio Ianni, La formacion del estado populista en America Latina (Mexico: Era, 1975); Francisco Welfort, "clases populares y desarrollo social", en Anibal Quijano and Francisco Welfort, Populismo, marginalizacion y dependencia (San Jose: Educa, 1976); Ernesto Laclau, Politics and Ideology in Marxist Theory, (London: New Left Books, 1977), ch. 4; Gino Germani, et al., Populismo y contradicciones de clase en Latin America (Mexico: Era, 1973); for the particular case of Puerto Rico see Gonzalez, "El Populismo en Puerto Rico"; and his article "Class Struggle and Politics in Puerto Rico During the Decade of the 40's; The Rise of P.D.P.", Two Thirds, Vol. II, No. I (1979), pp. 46-57.

There are various explanations about what is the key element in defining a populist movement. One current of thought characterizes populism as a political movement that emerges in traditional agricultural societies during the transition period towards an industrial society. For them, populism is the result of the "revolution of aspirations" within the working masses and marks the emergence of these classes as a political force, populism being their particular form of political participation.⁵⁹ Other currents of analysis, like that of Ianni and Weffort, try to link populism to a particular stage of capitalist development in Latin America. To them, populism is the political expression of the process of socio-economic restructuring of capitalism that leads to the emergence of industrial capital as the dominant element in some Latin American countries. Thus, they see populism as the result of the crisis of the primary export model.⁶⁰

In the case of Puerto Rico, the PPD managed to articulate a class alliance with a wide popular base by presenting its reformist project as the alternative to the crisis of the sugar enclave. After the colonial government suppressed the possibility of a radical nationalist alternative through the repression of the PN, and after

⁵⁹For this line of thinking see Gino Germani and Torcuato di Tella, "Democracia representativa y clases populares" and "Populismo y reformismo" respectively, in Germani, et al., Populismo y contradicciones.

⁶⁰Ianni emphasizes the role of populism as the political movement which lays the social bases for the expanded reproduction of capital in the early stages of industrial development. Weffort for his part, emphasizes the crisis of hegemony as the cause for the emergence of populism in the context of the crisis of the primary export economy. See Ianni El estado populista, p. 174; and Weffort, "Clases populares", pp. 19, 157-58.

the PS-PR Coalicion proved its incapacity to provide a solution, the reformist project became the most appealing alternative to the working classes. The fraction of the power bloc which lead the PPD could thus channel the social discontent of the popular sectors, which at that time lacked an organic leadership.

The crisis of the agricultural enclave made possible two important processes for the formation and success of the populist movement. On the one hand, a great number of rural proletarians and peasants had been displaced and now formed a mass of unemployed people migrating to the cities. This displaced mass of workers defined their immediate interests in terms of a job and a place to live. It was very unlikely that the class rhetoric of the PS or the recently formed PCP would appeal to this sector. However, the PPD's non-class interpellations (e.g., Bread, Land and Liberty) did appeal to the immediate interests of these sectors. In other words, the process of displacement of the working classes triggered by the crisis laid the groundwork for the dilution of what were basically class contradictions into non-class contradictions and interpellations. The displaced working class and other sectors of the working classes had been constituted by the PPD into "the people". On the other hand, the crisis lead to a rupture in the power bloc that allowed the emergence of a subordinate fraction of the power bloc as the leading force in the political opposition to the perpetuation of the enclave economy. However, this fraction of the power bloc, which we have designated the techno-bureaucracy, was incapable of achieving political hegemony without appealing to the working classes. Therefore, they found it necessary to articulate diverse and often opposed interests into their political project.

It was because of this necessity to articulate diverse class interests that the PPD would tend to resort to non-class discourse. The PPD would condense class contradictions by expressing them, at the abstract level of discourse, as the people/power bloc contradiction. That is, a contradiction whose origin is to be found at the level of the productive process (the relation between capital and labor) but which is overdetermined (in the Althusserian sense) by politico-ideological contradictions that blur the class nature of the contradictions.⁶¹

The politico-ideological contradictions that blur the basic structural contradiction between wage labor and capital in Puerto Rico which were articulated by PPD's political project were: a) the metropolis/colony contradiction, reflected in PPD's exaltation of the Puerto Rican peasant (the "Jibaro"), and its strong anti-American rhetoric; b) the rich/poor, exploiter/exploited contradiction, which is basically an ideological contradiction in so far as it is used as a static spatial concept of social position rather than an exploitative relation. Rich and poor are seen as two points on a scale measured by income, education, and other social factors rather than as the expression of a relation of exploitation; c) the people/enemy-of-the-people contradiction, which detaches class character from the terms of political struggle, and redefines the boundaries that divide political forces by transforming them into moral categories, the good versus the bad; the enemies may be the bourgeoisie but they also may be the

⁶¹Here we follow the arguments of Ernesto Laclau, Politics and Ideology, chap. 4., passim.

Communist Party which "opposes progress". There were also many other contradictions at the politico-ideological level that mediated the basic contradictions that emerged at the level of the productive process.

Non-class contradictions and interpellations are crucial because the political existence of social classes and class contradictions are mediated by the superstructure. It is by articulating the people/power bloc contradiction that an ideological terrain, which blurs class contradictions, is created, permitting the coincidence between the working classes and a fraction of the power bloc around a reformist project such as the PPD's. In time, it will be this coincidence that allows the dominant classes to *mangeuvrer* to prevent the working classes from developing an independent political project, and thus resolve the crisis by reasserting their dominance in a new manner.

It is here that we find the key to the PPD's "success". The key was its capacity to mobilize the working masses around a political project which in practice articulated their interests in a subordinated manner yet presented them, at the level of discourse, as the principal interests of the project. In other words, the particularity of the PPD's populism as a solution to the crisis was its capacity to articulate and defuse at the same time, in praxis, the class contradictions at the very basis of the crisis of the enclave system.⁶²

⁶²Here we coincide with Laclau, *Ibid.*, p. 175, yet it seems to us that his tendency to focus on the ideological aspect of populism tends to leave unexplained its concretion as a specific political movement. Laclau seems to reduce populism to the existence of popular democratic elements (interpellations) in multi-class movements at times of ideological crisis ("crisis of transformism"). We believe that Nicos Mouzelis' critique in this sense is adequate, New Left Review, No. 112 (November-December, 1978), pp. 45-61. Hence, our characterization of the PPD's populism not only as a movement to resolve a crisis of transformism (an ideological crisis) but as an organic movement offering a concrete structural alternative to a socio-economic crisis.

The reformist political project was thus the product of concrete politico-ideological contradictions that emerged from particular class interests, articulated into non-class contradictions and interpellations. Yet the non-class character of the reformist discourse was not mere demagoguery but the very terrain where class alliances were forged through categories (interpellations) that expressed the people/power bloc contradiction. However, the fact that the reformist project articulated primarily the politico-ideological interests of the dominant classes (the project of solution to the crisis of these classes), can only be discovered in its praxis. That is, it can only be discovered in the unfolding of the project once the PPD achieved power.

The agrarian reform, the "Bread and Land" of the PPD's slogan, did not mean (in the PPD's praxis) the expropriation of corporations and the distribution of their lands to the peasants and workers that "tilled it", but rather it meant the establishment of state owned farms, parcelas in marginal lands, and a few individual farms. Social justice, another slogan of PPD, did not mean workers owning the factories they worked in, or trade unions participating in policy decisions for profit distribution. What it meant was wage increases and increases in social services aimed at providing adequate conditions for the social reproduction of labor to be exploited by capital. There was no alteration in the private ownership of the means of production and, therefore, in who would ultimately decide what to produce, when to produce it, and how to distribute it. "Liberty" became self-government for the colony rather than the construction of a nation-state through independence. What defined the class content of the populist reformist discourse was its praxis, its unfolding from

the abstract level of discourse into concrete policies and laws, and the political direction that its implementation took.

It is in praxis that developmentalism is defined as the political project of the imperialist bourgeoisie and the colonial techno-bureaucracy of the PPD. Thus, it is in praxis, that we can see developmentalism as a political project aimed at the restructuring of imperialist capitalism in Puerto Rico. Hence, its reformist character and the limited nature of the changes it prompted which left untouched the material basis of capitalist production, wage labor and private property over the means of production.

The key achievement of developmentalism in this reformist stage was to lay the politico-ideological conditions for the displacement of the center of capital accumulation from the agricultural sector to the industrial competitive sector. Developmentalism allowed the necessary social and political changes for this displacement to take place, while at the same time insuring that they took place within the boundaries of capitalist social relations.

Another question that emerges from our arguments is: why does the state become the center of accumulation in the reformist development model? Why not a fraction of the imperialist bourgeoisie or of the local bourgeoisie? Some Puerto Rican social scientists have attempted to provide an answer to these questions. The one that seems to be the best has been provided by Angel G. Quintero Rivera.⁶³ He

⁶³Quintero Rivera, "La base social", and "El papel del Estado en el modelo puertorriqueno de crecimiento economico, base clastica del proyecto desarrollista del 40", paper presented at the Third Central American Congress of Sociology, Tegucigalpa, Honduras, (Rio Piedras: Centro de investigaciones sociales, UPR, 1978).

points out that the leadership of the PPD was integrated by the descendants of the old hacendados, who had come to the cities and urban centers after having been displaced by the development of the sugar enclave. These descendants of the old hacendados came to occupy key positions within the ranks of the middle sectors as lawyers, technicians, and administrators. Quintero argues that these elements were the political "heirs" of the old hacendados, whose hegemonic vocation had been abruptly curtailed by the imposition of U.S. dominance over Puerto Rico. For Quintero, the descendants of the old hacendados were the leading elements of the PPD and as "heirs" of the hacendados were bearers of a hegemonic vocation. Therefore, the leadership of the PPD was a social sector which acted as a class for itself in the process of becoming a class in itself.⁶⁴ In a later formulation, Quintero says that the PPD's leadership was "a professional-sector-becoming-a-class around a state-centered political project."⁶⁵ He also calls it a "state technical professional class in formation".⁶⁶

According to Quintero's thesis, this class in the making would use the state as its economic base. It would use its control of the state as means of achieving control over the means of production, therefore using the state as its base for social, political and economic hegemony. Hence, it is logical that the state would become the center of capital accumulation. This thesis is shared by Emilio Gonzalez in a recently published work on the rise of the PPD during the Forties.⁶⁷

⁶⁴Quintero Rivera, "La base social", p. 76.

⁶⁵Idem, "El papel del Estado", p. 35. ⁶⁶Ibid., p. 31.

⁶⁷Gonzalez, "Class Struggle", esp. p. 49, and passim.

Yet there are some questions that can be raised about this thesis as an adequate explanation for the state-centered character of the reformist project. If as Quintero and Gonzalez argue, this "class in the making" had a hegemonic political project based on state capitalism, why not channel its political strength towards the establishment of an independent nation-state to get rid of the imperialist bourgeoisie, which presumably was its main contender in the struggle for hegemony? Why did it not oppose, or better yet why did it promote, the entry of U.S. private industrial capital after 1947 (something it had always declared to be its intention), thus renouncing the state capitalist development model?

In our opinion the PPD's leadership does not constitute a class in the sense that Marxist theory defines it, nor does it constitute a class in the process of formation. It does not seem adequate to explain their "leading capacity" (what Quintero calls hegemonic vocation) in terms of a class for itself becoming a class in itself, or a state-class in the making. We think that the socio-political status of the PPD's leadership can be more adequately explained by using Poulantzas' concept of social category. According to Poulantzas:

By social categories, we mean social ensembles with 'pertinent effects', which as Lenin demonstrated, may become social forces whose distinguishing feature is based on their specific and over-determining relation to structures other than economic ones. Important examples are the bureaucracy, in its relations to the state, and the 'intellectuals' in their relations to the ideological.

.....

What distinguishes them, [fractions of classes] from categories is precisely the over-determining relation of the categories to the political and ideological structures of

which they are the specific effect. For example with regard to the political level, it is the relation of the bureaucracy with the state apparatus in the strict sense of the term.⁶⁸

This seems to be the case of the PPD's leadership. The evidence presented by Quintero himself, and that which we have examined, shows that the PPD's leadership was not a fraction of the hacendados, or of the petty bourgeoisie, or of any other class directly linked to the productive process.⁶⁹ It is its over-determined relation to the politico-ideological structure that permits the PPD leadership to represent the diversity of interests integrated in the populist alliance. It is this over-determined relation that allows the PPD's leadership to minimize contradictions and reconcile conflictive and opposed interests.

Yet what Quintero and Gonzalez seem to argue is that while articulating the diverse class interests of the populist alliance, the PPD's techno-bureaucracy developed its own particular interests thus becoming a social force with definite interests clearly differentiated from the interests of other social forces. Hence, their definition of the PPD's techno-bureaucracy as a class in the making.

But for us, the fact that the PPD's leadership developed specific interests or had a capacity for political leadership does not make it

⁶⁸That is, social categories can become a leading social force at the politico-ideological levels. They can play a determinant role in the class struggle by the influence they have in the political and ideological structures. Nicos Poulantzas, Political Power and Social Classes, (London: verso, 1976), pp. 84-85, emphasis in the original.

⁶⁹Quintero Rivera, "La base social", passim.

a class in the process of formation. The PPD leadership is rather a social category, a techno-bureaucracy formed through the participation of techno-bureaucratic "cadres" in the bureaucratic apparatuses of PRRA and PRERA and in the politico-ideological apparatus of the PL initially, and the PPD later. This techno-bureaucracy did indeed articulate a particular political project based on Keynesian views about how to resolve the politico-economic crisis of the sugar enclave through state economic intervention. And the PPD's leadership did become a major social force at a time in which no class could unilaterally assert its political hegemony. Furthermore, it did use its particular relation to the political-ideological structures (particularly its control over the state administrative apparatus) to implement a state-centered project of solution to the crisis. In doing this, the PPD's techno-bureaucracy opened the possibility of becoming a state bourgeoisie. That is, it opened the possibility of becoming "a social stratum that politically controlled the state productive apparatus, in spite of not having private ownership of these means of production."⁷⁰ But because this possibility was there does not mean that this was the objective of the political project of the techno-bureaucracy, nor that they were a class in the making.

We are not saying that the PPD's techno-bureaucracy does not have class links. Studies have shown that many of them were actually sons and daughters of displaced hacendados, of petty bourgeois elements or of traditional intellectuals.⁷¹ In fact, we could safely argue that the

⁷⁰Cardoso, "As contradicoes".

⁷¹Quintero Rivera, "La base social", esp. pp. 73-75.

matrix classes of the PPD's leadership are the displaced hacendados and the urban middle-sectors. But their empirical links to specific classes is not the question here. After all class determination and class position do not always coincide. The issue here is whether the politico-ideological unity and the leading capacity of this sector makes it a class in the process of formation.

The evidence throughout this chapter clearly shows that the politico-ideological unity of the PPD leadership did not come from their empirical links to specific classes but rather from their existence as a techno-bureaucracy, as a social category with a particular relation to social structures other than the economic structure. If this was not so, we could have expected the particular interests of the matrix classes of the PPD's leadership to occupy a dominant place in PPD's political project (e.g., the restoration of traditional agriculture and the hacienda system). But this is not the case. It is because the PPD's leadership is a techno-bureaucracy that it can represent the state as a mediator above particular class interests.

If the PPD's leadership is defined as a class in the making, in the sense of a class for itself becoming a class in itself (that is aware of its class interests and moving towards their realization), their actions become inexplicable. Why did they never attempt to get rid of the domination of the imperialist bourgeoisie through independence to carry forward their state based political project to its ultimate consequences, i.e., becoming a state bourgeoisie? Curiously after its overwhelming victory in the 1944 elections the PPD expelled the pro-independence elements from its ranks. Also, why was the PPD leadership so quick to reassure private capital that it was not

competing with it but was actually trying to show it the way to feasible enterprises? Why, after the war, would the techno-bureaucracy initiate a program to attract U.S. private investment rather than carry forward and deepen state economic intervention? One would have expected that, if the PPD leadership was a class in formation, they would have resisted any changes in their political project. Yet, paradoxically, it is this very techno-bureaucracy who redefines the direction of the reformist project after the war to attract U.S. investment. Why was the apparent change of direction not accompanied by a change in government? Why did the PPD remain in power as if nothing had happened? Could a class for itself so easily renounce its political project, the one that would give it politico-economic hegemony? Furthermore, could this conscious class direct the process of change that relegates it to a secondary role without resisting it? None of these questions can be answered unless we understand that the PPD's leadership was a social category which came to power at a particular conjuncture to mediate the crisis and afterwards reassume its role as an intermediary of the imperialist bourgeoisie. It was not an embryonic state bourgeoisie. It is therefore wrong to pretend that the PPD's political project intended a profound redefinition of the social order, particularly if we consider that at no time did this project challenge the ultimate dominance of the imperialist bourgeoisie in Puerto Rico.

The reformist project, and the development strategy it articulated, was the expression of the populist alliance lead by a techno-bureaucracy which was part of the colonial power bloc. This political project was aimed at the restructuring of imperialist capitalism in Puerto Rico. The

need and feasibility for this restructuring were a function of the crisis of accumulation in the agricultural sugar sector and the political crisis that accompanied it.

The particular conditions that permitted the implementation of the reformist developmentalist strategy were not sustained after the war. The U.S. economy began to reorientate investments from war related industry to other areas of production. Furthermore, increased productive capacity and capital accumulated needed to be put to use through market and investment expansion. This situation, along with other elements, led to a redefinition of the international division of labor. Now the investments of the imperialist bourgeoisie in peripheral countries extended beyond the primary sector into industry, stimulating as well as the expansion of the internal markets of these countries.⁷²

Aside from these changes in the international order there were particular changes in Puerto Rico. Rum exports diminished considerably after the war, drastically reducing the revenues received by the government from this activity.⁷³ At the same time, the paperboard and glass factories were faced with production problems and problems caused by

⁷²Cardoso and Faletto, Dependencia y desarrollo, emphasize the importance of the expansion of the internal market as a corollary of post-war industrialization.

⁷³Message of the Governor of Puerto Rico to the Sixteenth Legislature at its Second Regular session (San Juan: Govt. of Puerto Rico, 1946), pp. 7, 8.

the limitations of the local market. Also, the paperboard factory was faced with a boycott from container manufacturers who refused to buy from the government factory for political reasons. Except for the cement plant, all Fomento subsidiaries experienced economic losses.⁷⁴

In the field of agrarian reform the proportional profit farms had a limited success. Many of them experienced financial losses and failed to achieve a redirection of the sugar sector's economic surplus to the local economy. Furthermore, a sizable share of sugar production remained in the hands of large colonos or was controlled by local or U.S. corporations. The latter were now concentrating in the grinding and the processing of sugar cane or were using delaying tactics in court to keep their land.⁷⁵ In the end, the agrarian reform became a program for establishing peasants and workers communities through the parcelas' program.

Along with the above mentioned problems the reformist program faced other politico-ideological problems. The most noteworthy are:

1. Constant threats from the U.S. Congress, which acted as a watchdog to prevent any deepening or radicalization of the reform program by constantly threatening to either revoke measures passed by the colonial legislature or pass laws that would hinder the development of the reformist project.

⁷⁴ See for example PRDC, Third Annual Report, pp. 13, 17; Puerto Rico Industrial Development Company (PRIDCO), Annual Report, 1947 (San Juan: PRIDCO, 1947), pp. 26-35; and Compania de Fomento Industrial de Puerto Rico (CFIPR), Informe Anual, 1948-49 (San Juan: CFIPR, 1949), pp. 33-56; and Ross, The Long Uphill Path, chaps. IV and V. The word industrial was added to the name of the Development Company in 1946 as the result of the creation of the Puerto Rico Agricultural Company (PRACO) which limited the scope of PRIDCO's activities.

⁷⁵ Goodsell, Administracion de una revolucion, p. 35-37.

2. Intense opposition by the local classes immediately affected by the reforms (e.g., local sugar bourgeoisie). This opposition was vehemently expressed in press campaigns against the PPD.
3. The limited achievements of state industrialization, in terms of the expansion of employment and national income, which lent credence to private capital's arguments to the effect that state industrialization was undesirable as a permanent measure.

By 1947, the populist alliance was beginning to break up. The industrial fraction of the imperialist bourgeoisie was beginning to search for new investment markets and the PPD's techno-bureaucracy was beginning to articulate an alliance with this class fraction, hoping to encourage economic growth and to maintain its legitimacy as the benefactor of the people. In this, the techno-bureaucracy expressed its interest as an intermediary rather than as an embryonic class. Once the crisis had been resolved the real interests of the techno-bureaucracy became apparent: to share the control of the colonial administrative state apparatus with the imperialist bourgeoisie in order to preserve their privileged position within the local power structure. If they wanted to carry through a profound structural change, a successful program of permanent reforms, it would have been necessary to redefine the colonial relation and to break the constraining ties with the imperialist bourgeoisie. That would have meant breaking the trade monopoly that the U.S. had over Puerto Rico, confiscating the land and the mills of the U.S. corporations without compensation and turning them over to the peasants (in the form of cooperatives or other organizations), breaking the financial dependency of Puerto Rico on U.S. capital, and making other drastic changes in the colonial relation. Yet this was beyond the reformist project articulated by the

PPD's techno-bureaucracy. For this social category and the local propertied classes, any radical shift in the reformist political project was a threat to their privileged position and their accommodation with the imperialist bourgeoisie. Hence, after the war, they opted for maintaining a strategic alliance with the imperialist bourgeoisie and for consolidating it through a "new" strategy of development.

CHAPTER IV

THE CAPITAL IMPORTATION STRATEGY; THE REALIGNMENT
OF CLASS ALLIANCES AND THE REDEFINITION
OF THE REFORMIST MODEL: 1947-1963Introduction

So far, we have argued that the reformist political project was the expression of the interests of the ruling classes. We have also argued that this project articulated the interests of the subordinated classes in a secondary manner and only articulated these interests as a function of the need for restructuring the social and economic basis of imperialist-capitalist exploitation. We believe that we have demonstrated that this project laid the structural basis for such restructuring, in our analysis of the elaboration, implementation and socio-economic impact of the principal reform measures of the reformist political project.

In this chapter, we shall analyze the development of the political conditions that completed the process of capitalist restructuring, and we shall look at the course taken by the developmentalist model as a result of the "success" of the reformist project which made possible a process of realigning class alliances. We also analyze the elements of change and continuity in this second stage of developmentalism, the class basis of these changes and continuities, their impact on the social structure, the emergence of new contradictions and the alternatives developed to solve them. Finally, we made a critical assessment of some of the most popular interpretations of the capital importation stage of developmentalism.

The dates selected here to demarcate the limits of this stage of developmentalism are only formal points of reference. They are fundamentally arbitrary marks based on the dates in which the industrial incentive laws, which serve as a legal basis to a particular strategy, were approved. However, these laws are not understood as the driving force or the cause of the process of development. Rather, they are understood as a product of social and economic changes that were in the making and that are reflected in the laws, which in turn help to orient and develop these changes further.

The Political Conditions for the
Redefinition of the Reformist Strategy

After a sweeping victory in the 1944 election, the leadership of the PPD began to show in a clearer manner their convergence with the politico-economic interests of the metropolis. In the 1944 election, the PPD received 64.7% of the total vote and took 17 of the 19 Senate seats and 37 of the 39 seats in the House of Representatives. It also elected 73 of the 77 Mayors of the country.¹ After having defeated their principal enemy - the PR-PS coalition - the PPD's leadership moved against their secondary enemies, many of who were within the PPD itself. These enemies were: a) the most militant elements within the labor movement, particularly the CGT; and b) the pro-independence elements within PPD who formed a faction group known as the Congreso Pro-Independencia (CPI, the Pro-Independence Congress).

¹Fernando Bayron Toro, Elecciones y partidos políticos en Puerto Rico (1809-1976) (Mayaguez: Editorial Isla, 1979), pp. 202-205; Robert W. Anderson, Gobierno y partidos políticos en Puerto Rico (Madrid: Editorial Tecnos, 1973), pp. 61-63.

At the same time it was declaring war on its antagonistic allies, the PPD was also announcing the abandonment of its state based industrialization program, gave a low profile to the agrarian reform program and passed an industrial incentives law that opened the door to U.S. industrial investment. This process of political reshuffling also included a renegotiation of the colonial pact with the metropolitan ruling classes that gave the PPD's techno-bureaucracy greater participation in running the internal affairs of the colony.

The 1944 electoral victory represented such an endorsement of Luis Munoz Marin's leadership of the PPD that he and the techno-bureaucracy felt strong enough to do away with their troublesome allies. The pro-independence and radical labor elements within the PPD did not constitute a principal force among the PPD's upper echelon, but their presence was visible and had been instrumental in securing a wide popular base of support for the party. Hence, their ever increasing questioning and criticism of the leadership's ambiguity and evasiveness on the issue of independence and other issues related to the colonial question posed a potential threat to the PPD leadership. This threat had become tangible in 1943 when the CPI was organized withn the PPD to push for pro-independence positions within the party.² Pressures from the CPI had forced Munoz and the rest of the PPD leadership to reaffirm their commitment to a resolution of the colonial question through a referendum

²Anderson, Gobierno y partidos, pp. 74, 118-19.

once the war was over.³ Munoz had even expressed concern that these pressures would undermine his leadership or would even cost him to lose the leadership of the party.⁴ But the election results did away with all the worries of the leadership and paved the way for a campaign to either coopt or expel these radical elements from the PPD.

The first step in this direction came in March 1945 when the PPD labor leaders managed to divide the CGT into two groups. The first group, called the "governmental" CGT, was controlled by PPD labor leaders (one was the Vice-President of the House of Representatives and the other a Senator). The other, called the "authentic" CGT, was controlled principally by leaders of the recently dissolved PCP. The issue that provoked the split was the question of whether the labor movement should assume political positions or limit itself to economic bargaining issues. The governmental CGT favored a strict limitation of the labor movement to economic issues. Led by elements from the party in power, this faction reflected the PPD's desire to control and restrict the labor movement by making it only an agent for economic bargaining. On the other hand, the authentic CGT wanted a non-partisan yet politicized

³Juan Angel Silen, Historia de la nacion puertorriquena (Rio Piedras: Editorial Edil, 1973), p. 252. However, for the 1944 elections and throughout the PPD campaign, the party publicity made clear that it was not for independence. Anthropologist Eric Wolf in his study of a Puerto Rican Coffee Municipality reproduces a folk song popularized during the 1944 election that exemplifies the PPD's rejection of independence as the solution to the colonial question. Wolf, "San Jose", p. 247.

⁴Tugwell, The Stricken Land, pp. 664-66; Silen, Historia de la nacion, p. 253.

movement. They proposed that the CGT should support "the struggle against colonialism and for national liberation".⁵

The PPD's leadership was trying to capitalize on two key elements of the political conjuncture following the 1944 election. The first was the popularity and strength of the PPD as shown by its sweeping victory. The second was the weakness of the PCP within the CGT and the country at large. This weakness had been deepened by the decision of the PCP in 1944 to dissolve and support the PPD, thus following the line of the communist party of the U.S. In the analysis of the PCP, the PPD was a progressive popular movement that should be supported. The PCP also argued that given the historical conditions at that time (1944) there was no need for a party of the proletariat to exist.⁶ Thus the PPD found it relatively easy to attempt a take over of the labor movement.

With the division of the CGT, the PPD killed two birds with one stone. On the one hand, they weakened the labor movement in general, and they seriously weakened the radical elements of the labor movement by isolating them. On the other hand, their control over a faction of the labor movement allowed the PPD to present itself to the working classes as their true ally and representative. In the long run, the

⁵Juan Saez Corales, "CGT, informe del secretario general" en A. G. Quintero Rivera, Lucha Obrera en Puerto Rico (Rio Piedras: CEREP, n.d.), pp. 118-24. (This report is from the Third Congress of the CGT in 1945).

⁶Mattos Cintron, La politica y lo politico, pp. 113, 122, 199-203, esp. notes 143-45 and 155-58, where Mattos quotes extensively from PCP documents on the issues of support for the PPD and the dissolution of the PCP. See also Silen, Historia de la nacion, pp. 263-65, and Silen, Apuntes para una historia, pp. 105-18.

weakness of the labor movement and the control of a faction of it by the PPD became two of the elements the PPD would use to attract U.S. capital. These conditions appealed to U.S. capital because they were the basis for industrial peace and low wages.

But the division of the CGT in 1945 was not the only element that weakened the labor movement. Other key elements were the passage of the Taft-Hartley Law by the U.S. Congress in 1947 and the introduction to Puerto Rico of North American Unions. The application to Puerto Rico of the Taft-Hartley Law made solidarity strikes illegal and forced the unions to subject to Federal government arbitration. This law helped to break union solidarity. For its part, the coming to Puerto Rico of U.S. unions introduced an added element of conservatism to the labor movement as well as a further element of alienation between the workers and their representatives.⁷ The assault of the PPD on the labor movement to eradicate the radical elements from it was thus complemented by further measures on the part of the metropolitan ruling class and labor movement.

The second move of the PPD leadership against their antagonistic allies came shortly after the move against the CGT and culminated in 1946 with the expulsion from the PPD of the members of the CPI. Among the members of the CPI, there was a minor number of leaders of the PPD, occupying mainly legislative positions within the government. As we said earlier, the CPI had been pressuring the top leadership of the PPD

⁷Georg H. Fromm, Cesar Andreu Iglesias; aproximacion a su vida y obras (Rio Piedras: Ediciones Huracan, 1977) pp. 25-6; and "U.S. Unions in Puerto Rico", NACLA's Latin America and Empire Report, Vol. X, No. 5 (May-June, 1976), esp. pp. 7-14; and Gervasio L. Garcia and Angel G. Quintero Rivera, Desafio y solidaridad; breve historia del movimiento obrero puertorriqueno (Rio Piedras: Ediciones Huracan, 1982), chap. 6.

to assume a clear pro-independence position, so that under the PPD's pressure the U.S. would be forced to resolve the colonial question by conceding independence to the island. Until 1945, Munoz had managed to keep the CPI faction under control by convincing them that he was pro-independence himself, but that pushing for independence during the war was not a wise tactical move. Munoz's reasoning was that in order to raise the issue of independence with any possibility of success it was better to wait for the war to end because the U.S. would be more receptive to any proposal for independence then. Meanwhile, the question was to initiate a process of social and economic reforms that would pave the way to freedom.

However, as we argued in the previous chapter, if in praxis the reformist program was never intended to lay the basis for independence but rather was geared towards laying the basis for a restructuring of imperialist capitalism, the logical move of the PPD leadership was to oppose rather than favor independence. If the opposition to independence of the top leadership of the PPD was never expressed openly before the 1944 election, it was because the anti-Americanism of the 1930's was still an important ideological force. However, the war had done much to abate the anti-American sentiment. The U.S. now appeared as the defender of democracy against the abhorrent fascists. The Puerto Ricans were fighting for democracy as U.S. soldiers, and a "benevolent" American (Governor Tugwell) had contributed to the implementation of the PPD's program of "social justice".

Within the context of these favorable circumstances, the PPD launched a campaign to discredit the members of the CPI by accusing them of sabotaging the party. This campaign culminated in February

of 1946 when at a meeting of the high ranking leadership of the PPD it was declared incompatible to be a member of the CPI and a member of the PPD.⁸ Only two people were opposed to this decision, a fact that indicates there were few PPD leaders that actively supported independence.⁹

Eventually, most members of the CPI were expelled from the PPD. After being expelled, they founded the Partido Independendista Puertorriqueno (PIP) in October 1946. The PIP participated in the 1948 election with a political program which was mainly concerned with the achievement of independence. The PIP program declared that all other issues were to be considered as secondary.¹⁰

Another element that strengthened the position of the PPD's leadership vis a vis the pro-independence elements was the passage by the U.S. Congress of Public Law 362, on August 5, 1947.¹¹ This law amended the Jones Act of 1917 and gave the people of Puerto Rico the right to elect their governor. It also gave the elected governor the

⁸Silen, Historia de la nacion, pp. 271-72; Anderson, Gobierno y partidos, pp. 121-22; Pagan, Historia de los partidos, Vol. II, pp. 244-45.

⁹The question of just how many pro-independence supporters were within the PPD's leadership and how honest the claims of many of them that they supported independence were needs further research. The evidence we have examined suggests that there was a large opportunistic element within PPD that paid lip service to the independence cause when it was convenient, but who, in reality, were not for independence. There also seems to have been a great degree of confusion among those who were indeed for independence within the PPD. See Silen, Historia de la nacion, p. 272.

¹⁰PIP, "Programa del Partido Independentista Puertorriqueno", El Mundo (10 noviembre de 1946).

¹¹Editorial Edil, Comp., Puerto Rico, Leyes Fundamentales (Rio Piedras: Editorial Edil, 1973), pp. 195-199.

right to appoint all members of the colonial executive government with the approval of the colonial Senate. However, the U.S. President continued to appoint the Attorney General and the Judges of the Puerto Rican Supreme Court. Also, the law provided for a coordinator of Federal Agencies who would play the role of a political overseer of the colonial government to make sure that the interests of the U.S. Government were well taken care of.¹²

The approval of this law strengthened the PPD leadership's argument that it was unnecessary to demand independence when colonialism was gradually disappearing. Furthermore, this law was presented by the PPD as a partial fulfillment of their promise of "liberty". In his annual Message to the Legislature, Governor Jesus T. Pinero referred to Law 362 describing it as a "democratic conquest" and an enhancement of "our political and social path", and he added that "the opportunity to elect its governor is given to Puerto Rico at a difficult time."¹³ This last phrase could be interpreted as a reference to the creation of the PIP and the threat that it represented to the PPD's plans for colonial restructuring. Speaking of this law at his inauguration as the first elected colonial governor, Munoz echoed Governor Pinero's views:

¹² Antonio Fernos Isern, Estado Libre Asociado de Puerto Rico; antecedentes, creacion y desarrollo hasta la epoca presente (Rio Piedras: Editorial Universitaria, 1974), pp. 69-80.

¹³ Mensaje de Jesus T. Pinero, Gobernador de Puerto Rico a la Decimosexta Asamblea Legislativa en su cuarta legislatura ordinaria (San Juan: Administracion General de Suministros, 1948), pp 4-5. Since we are quoting throughout this work what is commonly known as the "Mensaje del Gobernador a la Legislatura" (Message of the Governor to the Legislative Assembly), we shall hereafter quote these by giving the name of the governor followed by Mensaje del Gobernador a la Legislatura with the corresponding year and pages of the government publication.

The colonial system is not only going to disappear in Puerto Rico, it is already disappearing with great rapidity What colony has ever elected by the free votes of their people their own legislative and executive government?¹⁴

Most certainly Law 362 became an important weapon for the 1948 election. This election was to be a crucial test of the political success of the PPD's project of colonial restructuring.¹⁵

In 1948, the PPD obtained another sweeping victory. This time it received 61.2% of the votes, 3.5% less than in 1944. However, it won 17 out of the 19 seats in the Senate, the same as in 1944, 38 out of the 39 seats in the House of Representatives, 1 more than in 1944, and 76 out of the 77 mayoral posts, 3 more than in 1944.¹⁶ All the participating parties reduced their share of the vote in comparison to the 1944 elections. This is attributable in part to the emergence of the

¹⁴Luis Munoz Marin, Discurso Inaugural (San Juan: Govt. of Puerto Rico, 1949), p. 7. The approval of this law had such an importance for the PPD's leadership that the PPD negotiator accepted all the amendments made by the U.S. Senate to the original text of the law. These amendments reduced considerably the prerogatives of the local colonial government in internal affairs and imposed a "Federal Coordinator" as a U.S. overseer over the colonial government. The attitude that is reflected in the narrations of the then Resident Commissioner, Dr. Antonio Fernos Isern, is one of resignation and servilism on the part of the PPD leadership. Illustrative of this is the revealing incident when the Resident Commissioner ran with the messenger from the U.S. Senate to the House of Representatives to deliver the document to be signed just before the House session ended, so that Law 600 would be passed during 1947 legislative session. See Fernos Isern El Estado Libre Asociado, p. 75-79.

¹⁵It is interesting to note that the 1948 PPD program does not directly mention the colonial status issue. However, it makes indirect references to it by praising as a democratic step the concession to Puerto Rico by the U.S. Congress of the right to elect its governor. See PPD, "Programa economico social y status politico, 1948", in Compilacion de programas, p. 26.

¹⁶Bayron Toro, Elecciones y partidos, p. 211; Anderson, Gobierno y partidos, pp. 61, 63.

PIP who got 10.2% of the vote.¹⁷ The Republicans, now running under the name of Partido Union Republicana Progresita, the PS and the PL all had lost to PPD for the third time. They were all declining forces vis a vis the PPD. The only emerging force at this time was the PIP, who captured most of the pro-independence vote.

The period between 1948 and 1952 saw a revival of nationalism in a wide sense. Pedro Albizu Campos had returned from his imprisonment in December 1947. The release of Albizu had triggered a revival of Nationalist militancy that was highlighted by the 1948 university students strike and the 1950 Nationalist revolt.¹⁸

To counter this revival of pro-independence sentiment, the PPD began a campaign of harassment and repression against the sympathizers and members of pro-independence groups. The first major step in this campaign was the approval by the PPD of Law 53 in 1948. This law was popularly known as the "law of the muzzle" or the "gag law." It had been patterned after the anti-subversive "Smith Law" of the United States. Law 53 declared it a felony to "promote, advocate, advise or preach" violent subversion.¹⁹ The penalty for violating this law was up to 10 years in prison.

The wave of repression achieved its height as a result of the 1950 Nationalist revolt. On October 30, 1950 the PN rose in arms and

¹⁷ Anderson, Gobierno y partidos, p. 61.

¹⁸ Silen, Historia la nacion, pp. 285-89; Maldonado Denis, Puerto Rico, pp. 180, 187.

¹⁹ Maldonado Denis, Puerto Rico, pp. 187-88.

attacked the Governor's house and seized the town of Jayuya in an effort to prevent the consumation of the new colonial pact, in the form of a new law to regulate the relations between Puerto Rico and the U.S. (Law 600 of 1950), between the PPD and the metropolis. To suppress the Nationalist uprising, the National Guard (a U.S. Army reserve corp) was mobilized and utilized against the Nationalists. In this confrontation over 25 people were killed and hundreds wounded. The Jayuya uprising was followed by a nationalists' attack on President Truman at the Blair house on November 1st, 1950.²⁰ In the aftermath of the failed insurrection, hundreds of Nationalists were imprisoned and anyone identified as a Nationalist sympathizer or related to a Nationalist was blacklisted and put under surveillance by the local police and the U.S. FBI, who operated in Puerto Rico.²¹

The counterpart to repression was to provide a political alternative that maintained the substance of the colonial relation, but that appeared to have ended colonialism. That is, an alternative where the U.S. would maintain its sovereign power over the island while giving more participation in local affairs to Puerto Ricans. As we said before, the

²⁰Ibid., pp. 185-87; also Silen, Historia de la nacion, pp. 308-13.

²¹The Committee on Civil Liberties formed by the Governor in 1958 revealed that immediately after the Nationalist uprising the Internal Security Division of the Puerto Rican Police had prepared a list of 4,257 followers and sympathizers of the PN. In 1958, there were up to date reports on each of these individuals except for 215 that were pending investigation. Anderson, Gobierno y partidos, p. 64. It has always been and continues to be a practice of the U.S. Federal Bureau of Investigation to maintain lists of people who sympathize with the pro-independence parties.

concession of Law 362 was a step in this direction. But it was short of what the PPD leadership aspired to, and it was certainly short of what was needed to claim the end of colonialism. In order to counter-balance the accusations of colonialism from the pro-independence elements as well as from the signatories of the Atlantic Charter or the United Nations Charter, something more had to be done.

As we can see here, once more the political changes taking place around the colonial state are doubly determined by internal and external elements acting simultaneously. On the one hand, the metropolis/colony contradiction and the contradictions between different metropolitan centers (i.e., the contradictions between the U.S. and Europe created by the U.S.'s post-war anti-colonialist policy that intended to open the colonial markets of Europe to U.S. businesses) forced the U.S. to make changes in the colonial relation. On the other hand, the class contradictions inside the colony (i.e., the contradictions that led the working classes to support the reformist project) made it necessary to bring about a political change that would complete the process of restructuring and would provide legitimacy to the rearticulation of imperialist capitalism in Puerto Rico.

The political alternative provided was a new law to regulate the relations between the U.S. and Puerto Rico. This was Public Law 600 of 1950, also known as The Federal Relations Act. This law was passed by the U.S. Congress to represent a compact between the people of Puerto Rico and the U.S. The Puerto Rican people would vote in a referendum to either accept or reject the law. No modifications to the law could be made by the people of Puerto Rico. The law provided that the people of Puerto Rico, once having accepted the law in a referendum, could

form a Constitutional Assembly to write their own constitution within certain limits imposed by the U.S. Congress. Law 600 was approved by the people of Puerto Rico in a referendum held in July of 1951. The Constitutional Assembly was convened and wrote the Constitution of the "Free Associated State" or Commonwealth of Puerto Rico (which was the official name in English). The Constitution of the Commonwealth was submitted to the U.S. Congress who made three amendments to it. The Constitutional Assembly had to be convened again to consider the Amendments under the threat that if they were not accepted there would be no constitution at all for the Commonwealth. The symbolic importance of the Constitution for the legitimacy of the PPD was such that the PPD dominated Assembly accepted the Amendments at once.²²

But the Commonwealth Constitution did not make any substantial changes in the colonial relation. Because of this the PPD leadership developed two interpretations of the Commonwealth formula, one for the consumption of the representatives of the imperialist bourgeoisie and the other for the consumption of its electoral base. For the consumption of the representatives of the imperialist bourgeoisie in the U.S. Congress, Munoz asserted "that if the people of Puerto Rico became crazy the Congress could always approve new legislation",²³ thus implying that if the people of Puerto Rico wanted to go beyond the colonial limits the U.S. Congress had the power to revoke the

²²The actual name of the Commonwealth in Spanish is Estado Libre Asociado which literally translated means "Free Associated State". This political formula is not even remotely like that of the British Commonwealth. For a detailed account of the origins and creation of the Commonwealth formula see Fernos Isern, El Estado Libre Asociado.

²³Ibid., p. 101.

concessions given. Aside from this a look at the transcripts of the Congressional Records and other accounts of some of the protagonists in the approval of Law 600 reveals that the PPD lobbyists and representatives accepted the Congress's interpretation without a question. According to this interpretation, Law 600 did not change the fundamental political, social and economic relations between the U.S. and Puerto Rico. Furthermore, the fundamental sections of the old Organic Act (the Jones Act of 1917) regarding the political, social, and economic relations between the U.S. and Puerto Rico would remain in force.²⁴ The following quotation from a Harvard professor of International Law is perhaps the best example of the American interpretation of the real achievements of the Commonwealth Constitution:

. . . the most distinctive element is that they now have for the first time in their history given themselves a constitution and given their free consent to their relationship with the United States It is arguable that the status which they now have does not differ greatly in substance from that which they had before; but to press that argument too far would be to ignore the great symbolic effect of entering into a compact with the United States and governing themselves under an instrument of their own fashioning.²⁵

In other words, the only achievement of the Commonwealth is that Puerto Ricans now could feel better about themselves; the significance of the Commonwealth was mainly symbolic.

Meanwhile, in Puerto Rico, Munoz gave a different interpretation of the meaning of Law 600. In his annual Message to the Legislature of 1951, he said that it was in the decade between 1940 and 1950 that

²⁴ Ibid., pp. 135-36, 168.

²⁵ Rupert Emerson, "Puerto Rico and American Policy Toward Dependent Areas", The Annals of the American Academy of Political and Social Sciences, Vol. 285 (January, 1953), p. 10.

the colonial period ended for Puerto Rico.²⁶ On another occasion, trying to counter the probable negative effects that the diffusion of the Congress' interpretation could have, Munoz said:

I believe that mine is the correct interpretation . . . [the] patriotic duty of everyone is to interpret the compact [Law 600] in the most liberal and most favorable manner for Puerto Rico and for the fraternal understanding between Puerto Rico and the United States.²⁷

In the process of laying the basis for the restructuring of imperialist capitalism in Puerto Rico, the PPD's techno-bureaucracy was caught in a contradiction that needed to be resolved in order to assure the orderly continuation of the restructuring process and the maintenance of the techno-bureaucracy's position in the colonial power structure. The terms of this contradiction were dictated by the techno-bureaucracy's contradictory alliances. On the one hand, their strategic alliance with the imperialist bourgeoisie committed them to the preservation of the colonial relation. On the other hand, their tactical alliance with the working classes (their electoral base of support) forced them to fulfill their promise to put an end to colonialism. Thus, the commonwealth formula and the double interpretation that the PPD's

²⁶Luis Munoz Marin, Mensaje del gobernador a la legislatura (1951), p. 8.

²⁷Luis Munoz Marin, "Luis Munoz Marin, gobernador de Puerto Rico, recuenta el desarrollo del pensamiento politico sobre el status, ano 1951", in Eugenio Fernandez Mendez, ed., Cronicas de Puerto Rico (Rio Piedras: Editorial Universitaria, 1969), pp. 625-49.

techno-bureaucracy gave it were a result of the attempt to resolve this contradiction.²⁸

Even though the creation of the Commonwealth formula did not resolve the contradiction, it certainly redefined its terms in a significant manner. The colonial relation took the form, if only at the level of appearances, of a compact in the literal sense. Thus, the creation of the Commonwealth changed the form of the colonial relation by giving greater participation to the colonized in the running of their internal affairs, but it maintained intact the strategic structural elements of the colonial relation. The politico-ideological impact of this change which reestablished the legitimacy of the dominance of the imperialist bourgeoisie in Puerto Rico was crucial. The process of restructuring after the crisis of the Thirties had led to colonial domination by consent. The hegemony of the imperialist bourgeoisie had been reestablished. The redefinition of the colonial pact through the creation of the Commonwealth formula brought the wheel of restructuring full cycle. The creation of the Commonwealth completed the formation of a new historic bloc in which the economic structure and the ideological and legal-political superstructure corresponded.²⁹ Developmentalism, as

²⁸We are not going to enter here in a detailed analysis of the juridical aspects of the Commonwealth Constitution. For those interested Cf Fernos Isern, El Estado Libre Asociado; Vicente Geigel Polanco, La frasa del Estado Libre Asociado; and the whole January issue of The Annals of the American Academy of Political and Social Science (1953).

²⁹The idea that the main achievement of the PPD was the forging of a new historic bloc that allowed the continuation and deepening of capitalist imperialism in Puerto Rico was first put forward by Mattos Cintron, La política y lo político, chap. VI.

the political project of the classes that formed the colonial power bloc, found a new political space and a new accommodation around a restructured colonial state. The Commonwealth formula thus becomes the political condition that made viable the continuation and deepening of the developmentalist strategy that articulated the interests of the imperialist bourgeoisie.

There are interpretations that argue that the redefinition of the reformist model around 1947 represents an "ideological transformation" of the PPD. These interpretations see the redefinition of the reformist model as an ideological rupture, marked by an abandonment of a strategy of autonomous or self-sustained development (reformism) for one of dependent development (capital importation).³⁰ But as we have seen so far, and as we shall see ahead, the redefinition of the reformist strategy represents a deepening and consolidation of the hegemony of the imperialist bourgeoisie in Puerto Rico. It is not a change in the course of the PPD's reformism.

In synthesis, we can conclude that the political conditions that made viable the redefinition of the reformist model were: a) the division, weakening and control of the labor movement by the PPD; b) the isolation and repression of the pro-independence nationalist movement; and c) the creation of a new colonial formula that consolidated the position of power of the techno-bureaucracy while guaranteeing the dominance of the imperialist bourgeoisie and providing legitimacy for the PPD in the eyes of its popular base of support.

³⁰Cf. Quintero Rivera, "El papel del Estado"; Gonzalez, "Class Struggle"; and Gerardo Navas Davila, "Surgimiento y transformacion del Partido Popular Democratico", in Navas Davila, Cambio y desarrollo, pp. 17-34.

These elements provide the political framework for the adoption of an industrial development policy that stimulates the importation of U.S. capital. That is, it stimulated the deepening and consolidation of the interests of the imperialist bourgeoisie in this second stage of the developmentalist strategy.

The Redefinition of the Reformist Model

The key elements in the redefinition of the reformist model are the abandonment of the agrarian reform and the state based industrialization programs, and the adoption of a policy that stimulated the importation of capital from the U.S. Despite these policy changes, the PPD maintained its populist rhetoric and kept speaking about social justice and progress for the people. Yet, at the same time it deleted from its rhetoric the denunciations of the evils of absentee capital.

By 1950, the agrarian reform program had become mainly a land distribution program for peasants and workers. As a matter of fact, the parcelas program had been transferred from the Land Authority to the Social Programs Administration, an agency created in 1950 within the Department of Agriculture and Commerce.³¹ For all practical purposes, the Land Authority had become a government owned sugar corporation, concentrating its activities around the sugar producing proportional profit farms.³² By 1951, the Puerto Rico Planning Board's report to the governor said:

³¹Edel, "Land Reform in Puerto Rico: 1940-1959", pt. 2, Caribbean Studies, Vol. II, No. 4 (January, 1963), p. 40; and Thomas G. Mathews, "The Agrarian Reform in Cuba and Puerto Rico", Revista de Ciencias Sociales, Vol. IV, No. 1 (March, 1960), p. 117.

³²Edel, "Land Reform", pt. 2, p. 40.

What seems to be needed to accomplish practical results [in agricultural development] is the establishment of an organization with clear responsibility for agricultural development The Land Authority of Puerto Rico has had a fruitful and successful experience in sugar cane production. It is an efficient cane producer.³³

It is curious that barely a decade after the creation of the Land Authority as an instrument to end the evils of absentee capital in agriculture and return the product of the land to "those who till it", a government report could say that there is a need for an instrument to direct agricultural development in Puerto Rico. Indeed, after 1952 the Land Authority did not expand its activities and dropped all efforts to enforce the "500 acre Law".³⁴

The alleged reasons for this change was that using public funds to purchase productive land was a misuse of resources, that there were many labor problems in the government farms and that sugar prices were constantly falling.³⁵ However, these do not seem to be the real reasons behind this action. We can point out as a better reason that by 1950 the power of PPD vis a vis the sugar sector and their representatives, the PR, was well established and consolidated.³⁶ Another important point

³³ Puerto Rico Planning Board, Economic Report to the Governor, 1951 (San Juan: Department of Finance, 1952), p. 24.

³⁴ The last attempt of the Authority to apply the law to violators was prevented by an injunction of the U.S. Federal Court against the Authority which prevented action against Luce and Company, a subsidiary of the U.S. owned Central Aguirre Associates. The Authority did not contest the injunction. Mathews "Agrarian Reform", p. 118.

³⁵ Henry H. Wells, La modernización de Puerto Rico; un análisis político de valores e instituciones en proceso de cambio (Rio Piedras: Editorial Universitaria, 1972), p. 152. More than reasons these were really excuses that the PPD Government was using to explain the change in their land reform policy.

³⁶ *Ibid.*

to be made here is that in political terms the most important aspect of the agrarian reform program in getting votes for the PPD was the parcelas program. Hence, the continuation of this program while the others were eliminated or remained stagnant.³⁷ Another reason playing a part in the PPD's abandonment by agrarian reform was the negotiations that were taking place in Congress around the approval of Law 600. These negotiations forced ^{the} PPD to act cautiously and refrain from pushing any policies that would upset the U.S. Congressmen. Agrarian reform had never been to the liking of American Congressmen, and it was not wise then to push the issue any further. Besides, the sugar corporations had already lost much of their political influence on the island.

Thus, ultimately the decision to drop agrarian reform was a political decision made by the PPD's techno-bureaucracy.³⁸ This decision was based on the convergence between the interest of the imperialist bourgeoisie and the techno-bureaucracy. In laying the political and economic basis for restructuring imperialist capitalism, it was not necessary to complete a true process of agrarian reform that would return the land to the peasants. All that was required was to reduce the sugar sectors' political and economical influence. Once this accommodation among the fractions of the ruling classes was achieved, it was unnecessary to pursue a process that was never intended to return the land to those who tilled it. In other words, our thesis in the previous chapter that the interests of the ruling class set the limits to the reformist development strategy is again confirmed.

³⁷ Edel, "Land Reform", pt. 2, p. 40.

³⁸ It is important to note that the 1948 PPD Program does not even mention the Land Authority or the Agrarian Reform Program on the section dedicated to "Agriculture", PPD, "Programa, 1948", pp. 29-30.

It can be asserted that the abandonment of the agrarian reform policy does not constitute a drastic change or a rupture in the continuity of the development of capitalism (imperialist capitalism) in Puerto Rico. Rather, it is a necessary adjustment. The reformist strategy had already fulfilled its function: laying the basis for the restructuring of imperialist capitalism. The reformist strategy had secured the preservation of the strategic interests of the imperialist bourgeoisie. Having fulfilled its function, the strategy must be redefined to make possible the realization of the immediate economic interests of the imperialist bourgeoisie: the making of substantial profits in the colony through direct industrial investment. The following quotation from Governor Pinero's "Report to the People", illustrates our point:

This agency [the Development Company] had concentrated its efforts in galvanizing, and in stimulating private initiative for the intensive industrialization of the island. The present guidelines mean that the Development Company will not undertake the establishment any industrial enterprise on its own. Restricting its program to cooperate to the limit with the private forces of production so that they will develop the new projects. The difficult times of the war when private capital was reluctant to invest in new enterprises are over. The Government has stimulated the development of new industries through a policy of tax exemption, maximum economic facilities and services [to private investment].³⁹

This quote clearly illustrates the link between the reformist and the capital importation strategies. It is obvious that the reformist strategy responded to the particular needs of the war period. Yet, after the war the imperialist bourgeoisie was searching for areas to invest in industrial production. The techno-bureaucracy, for its

³⁹ Jesus T. Pinero, Informe al Pueblo (San Juan: Administracion General de Suministros, 1948), pp. 11-12. There are statements similar to this in Administracion de Fomento Economico (AFE), Informe anual al gobernador, 1951-52 (San Juan: AFE, 1952), p. 5.

part, was looking for a way to sustain the economic improvements that took place during the war and to maintain its position of political leadership within the colony. Once again the coincidence of interests between the techno-bureaucracy and the imperialist bourgeoisie cements the strategic alliance between these two social forces. The difference now is that the techno-bureaucracy articulates its alliance with a particular fraction of the U.S. imperialist-bourgeoisie: the medium and small fractions of imperialist capital. In the period between 1940 and 1947, the techno-bureaucracy had articulated an alliance with the North American imperialist bourgeoisie in general (except for the sugar producing fraction), through a development strategy aimed at preserving the strategic interest of imperialist capital in Puerto Rico. After the war, the alliance took a more specific character.

Since 1944, the Development Company had been pressing to get legislation approved to attract investment by providing tax exemptions to new industries. But the first attempt to pass a tax exemption law for industrial activities was vetoed by Governor Tugwell. This forced Fomento to change its plans for attracting U.S. investment.⁴⁰ Having failed in their first attempt, the leaders of Fomento took other steps to attract U.S. investment. In 1945, Fomento created a program named AID (Aid to Industrial Development) designed to provide locational incentives to industries coming to Puerto Rico, principally in the form of subsidized factory building rentals. At the same time the AID program began, Fomento opened a promotional office in New York aimed at publicizing the advantages of Puerto Rico as a site for industrial

⁴⁰Ross, The Long Uphill Path, p. 95.

investment.⁴¹ Yet these programs were not very successful and did not show in a clear manner what direction the redefinition of the reformist strategy was going to take. The first concrete steps toward the redefinition of the reformist strategy had to wait until the approval of an industrial incentive law in 1947.

On May 12, 1947 Law 346 was approved.⁴² It defined 41 industrial activities that were eligible for tax exemption (most were basic industries, e.g., food, textiles, toys, etc.), and it provided for 100% tax exemption on industrial income, property, licenses and most other taxes normally paid by businesses. The period of exemption was to begin on July 1, 1947 and end on June 30, 1954. For the following three fiscal years, there was to be a gradual reduction of the tax exemption. The planned reduction was: 1954-55, 75% tax exemption; 1955-56, 50%; and 1956-57, 25%. After 1957, all industrial establishments were to be taxed according to the applicable tax laws.⁴³ In order to be eligible for tax exemption, the industries planning to establish operations in Puerto Rico had to file a petition with the Government Executive Council.

⁴¹Ibid., pp. 84-95. The AID program concentrated its activities on the construction of industrial buildings to be rented at low prices to newcomers industries. For an example of the publicity campaign see the pamphlet, "Industrial Opportunities in Puerto Rico U.S.A." published by Fomento between 1946 and 1947. The pamphlet was addressed to "any American businessman seeking a site for a plant or branch on U.S. soil."

⁴²Before 1947, tax exemptions laws had been passed in the years 1919, 1925, 1930 and 1936. This fact would indicate that it is not the law itself but the conjuncture (of which the law is a part) that determines the "success" of any development strategy. The text of the 1947 law appears in Puerto Rico, Leyes (1947); the dates for the other laws are given by Jaime A. Santiago Melendez, Reforma Fiscal en Puerto Rico (San Juan: Editorial Cordillera, 1974), p. 64.

⁴³Puerto Rico, Leyes (1947), Law 346 Section 3, p. 656.

However, Law 346 was amended just a year after its approval by Law 184 of May 13, 1948. This law was much clearer and expressed a better thought out conception of the direction toward which industrial development ought to move. Contrary to Law 346, Law 184 had a "Statement of Motives" where it established the needs and reasons for a tax exemption policy, and it reaffirmed the Government's commitment to industrial development. The new law had a list of 41 industrial activities eligible for exemption that was similar to the list of Law 346; however, unlike its 1947 counterpart, items 40 and 41 of Law 184's eligibility list defined in a very broad manner most areas related to the apparel and textile industries. This new emphasis was not accidental. It reflected the analysis that the Puerto Rican Government had made of the situation of the U.S. industry and its relation to Puerto Rico. In 1948, Donald J. O'Connor, an economist for the Office of the Government of Puerto Rico in Washington, D.C., had conducted a study on the advantages for the U.S. textile industries to establish operations in Puerto Rico. The study was published in the form of a publicity pamphlet (a brochure) to provide information for "potential investors".⁴⁴ It pointed out thirteen competitive advantages of a Puerto Rican location over locations in the U.S. Among the most important advantages were: tax exemption, low wages, good labor relations (industrial peace) and free trade with the U.S.

Law 184 granted 100% tax exemption on all taxes between July 1, 1947 until June 30, 1959 to eligible industries (a possibility of

⁴⁴Donald J. O'Connor, Puerto Rico's Potential as a Site for Textile, Apparel and Other Industries (Washington, D.C.: Office of Puerto Rico, 1948).

twelve years of exemptions for those companies that had been established under Law 346). For the three following fiscal years, there was to be a gradual reduction of the tax exemption. The planned reduction was: 1959-60, 75% tax exemption; 1960-61, 50%; 1961-62, 25%. By 1962, the law would expire and all exemptions would disappear.⁴⁵ Since the exemption period was fixed, the earlier a company established itself in Puerto Rico the greater the benefits. Also, Law 184, similar to Law 346, extended tax exemptions to tourist and commercial hotels.

Law 184 attracted principally basic industries with a low organic composition of capital (i.e., labor intensive industry). The principal industrial areas developed under this law were apparel, textiles, food, furniture, electrical machinery and metal products. Most of the production of these industries was exported to the U.S. since there were no tariff barriers (Puerto Rico being part of the U.S. tariff system). But we shall return to these issues later.

In 1950, the executive branch of the colonial government underwent a process of reorganization as a result of the approval of Law 40 of March 28, 1949. This law created the Economic Development Administration (EDA, also known as Fomento) whose main responsibility was to coordinate all activities concerning the economic development of the island. EDA, the new Fomento, was thus assuming the responsibilities of the Puerto Rico Industrial Development Company (PRIDCO), as well as assuming new expanded responsibilities. In time, the functions of PRIDCO were limited to those of a public corporation in charge of

⁴⁵ Puerto Rico, Leyes (1948), pp. 482-515.

the construction, renting and selling of industrial buildings. The function of coordinating development activities was moved to ministerial rank. The head of the EDA (the Administrator) was also a member of the cabinet. Thus, the powers of the body in charge of coordinating the implementation of the development strategy became greatly enhanced.⁴⁶

By this time, Fomento had sold its industrial subsidiaries and liquidated the last vestiges of state based industrialization. Part of the shoe plant equipment was sold to Joyce Inc., who also rented the building where the Puerto Rico Shoe and Leather Co. had been located. Of about 220,000 dollars worth of equipment, Joyce purchased only some pieces worth 35,000 dollars. The cement, paperboard, clay and glass plants were purchased by the Ferre family of Puerto Rico for 10.5 million dollars. Considering that three of these four plants were losing money and that their combined book value was about 10 million dollars, this proved to be a good deal for Fomento. This deal gave the Ferre family a monopoly over cement production on the island, since aside from the Fomento plant they operated the only other cement plant in Puerto Rico. This monopoly would eventually be the basis for the building of the largest Puerto Rican industrial-financial empire. Finally, the textile mill (Telares de Puerto Rico) came to be operated as a joint venture between Fomento and Textron Inc. with Fomento footing over 4.3 million dollars in overhead and fixed capital and Textron purchasing about 0.5 million dollars of stock and covering operational expenses. By the mid 1950's the venture had failed and eventually it

⁴⁶ See Ross, The Long Uphill Path, pp. 126-28; PRIDCO, Informe anual, 1950-51 (San Juan: PRIDCO, n.d.); and AFE, Informe anual al gobernador, 1951-52 (San Juan: AFE, 1953).

was taken over by another U.S. firm.⁴⁷ With the sale of the government industries to private capital, the fate of state based industrialization had been sealed. The course of the second stage of the developmentalist strategy was becoming very clear.

Law 184 was amended by Law 6 of December 15, 1953. This law was to be known as "The Puerto Rico Industrial Incentive Act of 1954". Law 6 changed the terms under which tax exemption was to be given in two ways. First, instead of the fixed period of exemption granted by Law 184 (from 1947 to 1959), Law 6 granted a ten year 100% tax exemption to eligible industries on an individual basis, provided that the industry opened operations no later than December 31, 1963, when the law expired. Put in other words, this meant that an industry that would have been established in 1954 under Law 184 would only receive a five year 100% tax exemption until 1959, but an industry that was established in 1954 under Law 6 would receive a ten year 100% tax exemption until 1964.

The second change in the terms of tax exemptions under Law 6 regarded exemption from property taxes. Under Law 184, property taxes exemption was the same as exemption from industrial income, 100% from 1947 to 1959. Under Law 6, this changed and property tax exemption was granted in proportion to the magnitude of the investment (i.e., the greater the investment the greater the exemption and vice versa). For example, if investment on real estate property and tangible capital assets (machinery and equipment) was one million dollars or less, the period of exemption from property taxes was only five years. Conversely, if the investment was 10 million dollars or more, the period of tax exemption was the maximum of ten years.

⁴⁷Ross, The Long Uphill Path, pp. 107-23.

In between these two lower and upper limits, there were various classifications that matched the amount of investment to the tax exemption period.⁴⁸

The list of eligible industries under Law 6 was very similar to that of the two previous laws. However, Law 6 expanded the qualifying branches of the textile and food and agricultural processing industries. A careful reading of the law and of the 1953-54 EDA Report reveals that Law 6 was aimed at stepping up the rates of investment and jobs creation and countering the recessionary effects of the end of the Korean war and their impact on the influx of U.S. investments to Puerto Rico.⁴⁹

Aside from these changes in the law, the legal-political framework laid to foster the capital importation strategy was complemented by a sizeable publicity campaign organized and coordinated by Fomento's Division of Public Relations. This campaign involved the contracting of New York based public relations companies, first, McCann Erikson and later Hamilton Wright. The object of this campaign was to sell Puerto Rico to the U.S. investors as an investment heaven, a profit paradise. Much of this publicity took the form of carefully prepared brochures, films, articles and advertisements in business publications such as Fortune, Baron's and The Wall Street Journal. Every propagandistic resource available was used to attract U.S. capital. The EDA also developed an aggressive campaign of selling Puerto Rico by

⁴⁸ Puerto Rico, Leyes (1954), pp. 13-57.

⁴⁹ See AFE, Informe anual al gobernador, 1953-54 (San Juan: AFE, 1954), pp. III-IV, and Junta de Planificacion, Informe economico al gobernador 1954 (San Juan: Junta de Planificacion, 1954), pp. 5-6. Hereafter the annual reports of the AFE will be quoted as AFE, Informe followed by the corresponding year. Likewise, the Informe economico al gobernador of the Junta de Planificacion will be quoted as Planificacion, Informe economico followed by the corresponding year.

opening offices in major U.S. cities to establish personal contacts with prospective investors. Offices were opened for promotional purposes in New York, Chicago and Los Angeles during this period.⁵⁰

But probably the most interesting aspect of the public relations campaign was the local campaign. That is, the campaign organized by Fomento that was aimed at presenting the capital importation industrialization model as the fulfillment of the people's will and aspirations. The first step in this campaign was taken in 1950. In that year, Fomento's Division of Public Relations organized a public ceremony for the inauguration of the 100th Fomento promoted plant. The propagandistic success of this event prompted a proliferation of these ceremonies. Every time a new plant was opened, Fomento organized a public ceremony where the mayor of the town, the priest, the protestant minister, the firm's executives (almost always Americans) and high ranking Fomento and Government officials took part.⁵¹ The 1952-53 Fomento report said the following about this practice:

The purpose of this program is to make the citizens familiar with the industrial enterprises established in their communities, so that they may have an objective idea of what industrialization means for the people of Puerto Rico.⁵²

In this, Fomento was most certainly assuming the role of an ISA in the Althusserian sense. It was not only coordinating and implementing the economic policy of the government in the administrative sense, but

⁵⁰ See the sections on "Relaciones Publicas" and "Promocion" in AFE, Informe 1950 to 1960; and Ross, The Long Uphill Path, pp. 88-95.

⁵¹ AFE, Informe, 1952-53, p. 97.

⁵² Ibid., and Ross, The Long Uphill Path, pp. 143-47.

it was also directly active in the representation of this policy as in the interest of society at large. That is, it was articulating at the ideological level the interests of the ruling classes (expressed in the capital importation strategy) and presenting them as beneficial to all society, thus "inscribing" the working classes in the ideological practice of the ruling classes (i.e., in the categories of developmentalism). But we shall return to this later.

Aside from the incentives granted to foreign capital by the industrial incentives laws, there were other economic advantages widely publicized in the Fomento propagandistic campaigns. The availability of abundant cheap labor with a low degree of unionization (or with unions controlled by the government or U.S. unions) was a very publicized fact. The existence of free trade between Puerto Rico and the U.S. that allowed the companies to overcome the limitations of the local market by orienting production to the U.S. market was another important attraction. A third attraction was termed "political stability." This meant that the presence of U.S. military bases in Puerto Rico and the very fact that the only army in Puerto Rico was the U.S. army was the ultimate guarantee against any political upheavals that may threaten U.S. investments. Other advantages stemming from the colonial relationship were the common currency (the U.S. dollar) and the absence of Federal taxes. In other words, Fomento's message was that the colony had all the advantages of the Latin American republics but none of the risks because the companies' interests were protected by the U.S. Government itself. The colony was the best of both worlds, high profits in a protected environment.

These are the fundamental elements that made possible the re-definition of the reformist strategy and the deepening and consolidation of the strategic alliance between the techno-bureaucracy and the imperialist bourgeoisie (its medium and small fraction). Also, these are the key components of the ideological praxis articulated by the second stage of developmentalism. The capital importation strategy was presented as the struggle of the people for progress, as "the battle of production", as the vehicle to achieve "integral freedom", and as a policy in which "industrialization [was] for the people."⁵³

In the following section, we will examine the actual impact that the implementation of this strategy had on the social structure. We shall also see how in the process of this strategy unfolding a class based politico-ideological project is revealed, and we shall see the contradictions this generates.

The Impact of the Capital Importation Strategy on the Social Structure

In economic terms, the capital importation model is characterized by the continued decline of agriculture, a relatively rapid growth of industry and the expansion of the tertiary sector. Corollaries of this model are the emergence of U.S. capital as the dominant element in the industrial sector, the orientation of industrial production for export to the U.S. market and the expanded dependency on the importation of capital and raw materials. These tendencies in the

⁵³ Allusions to these themes appear constantly in the official addresses and reports of the PPD Government. For the specific context of the phrases quoted here see Luis Munoz Marin, Mensaje del gobernador a la legislatura (1949 and 1950); and Discurso inaugural (1949).

industrial sector are reflected over the rest of the economy resulting in the external determination of the conditioning elements of economic development (i.e., in the continuation of the colonial relation).

The capital importation model is also accompanied by many social changes. In terms of our study, there are five very important social processes associated with the adoption of this economic model. As a result of the implementation of this model, there was an acceleration of the processes of urbanization and proletarianization that had been developing since the U.S. invasion. These processes are accompanied by a process of progressive marginalization of sectors of the working classes. The process of marginalization is reflected in the persistency of the high rate of unemployment and the massive emigration of the working classes to the metropolis. These three associated processes (urbanization, proletarianization and marginalization) are the result of the incapacity of the reformist as well as the capital importation models to provide a solution to the agricultural crisis or stimulate an industrial expansion capable of absorbing the labor force displaced from the agricultural sector. A fourth process is the emergence of the urban middle sectors. They are principally linked to the tertiary sector (services, government, etc.) and other bureaucratic non-manual forms of labor. They constitute the basis for the expansion of the internal consumer market, particularly in the area of durable consumer goods. These also become the basis of support for the continuation of the developmentalist model within the colonial relation. The fifth process is the beginning of the development of a sector of the local bourgeoisie linked to the imperialist bourgeoisie.

Figures I, II and III on the following pages illustrate the patterns of growth of the principal economic sectors in terms of the share contributed by each sector to the gross national product (GNP), the national income (NI) and the total employment.

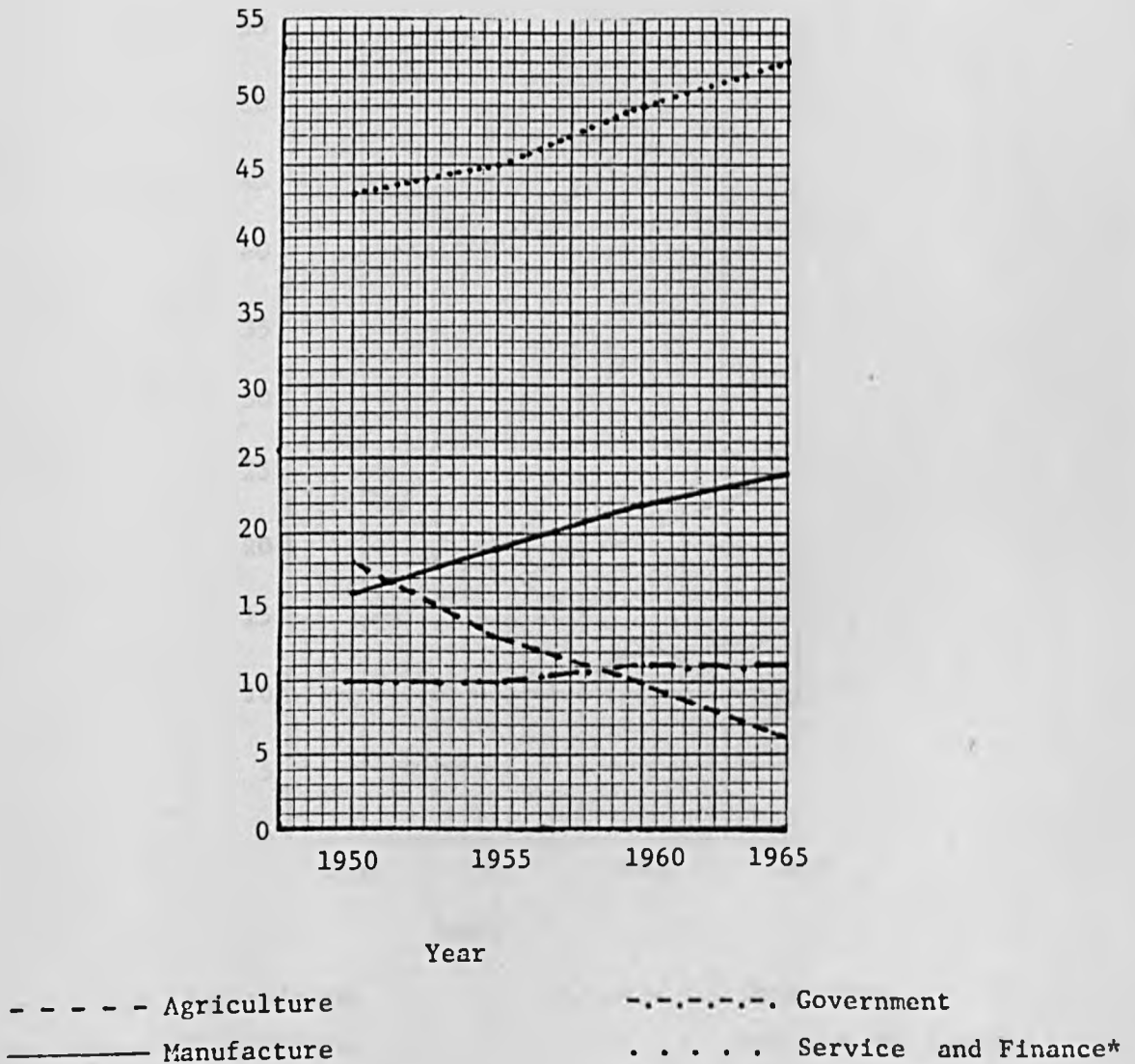
As it was mentioned before, we can see a sharp decline in the share contributed by agriculture to the GNP, the NI and the total employment. As can be observed, this decline was counterbalanced by the growth of other sectors, especially by the growth in the service industries. However, there is a need to qualify this statement in the case of the employment situation. In this case, the sharp decline in agricultural employment was counterbalanced by the massive migration of Puerto Ricans to the United States. Between 1950 and 1965, total employment increased by only 12,000 people (from 596,000 to 608,000),⁵⁴ but more than half a million persons migrated to the U.S. in this period. But we shall fully discuss this later.

From looking at the figures, we can also deduce that the economic growth during this period is not a structurally balanced one. We can even argue that the chances of this being a self-sustained development model are slim since it would be necessary to have a stable agricultural sector that could serve as the capitalization base for industrial development. The figures also indicate another process that confirms the structural imbalance of economic growth: the rapid and somewhat excessive expansion of the tertiary sector (services, government, etc.). Put together, government and services account for over 60% of the GNP and the NI and about 50% of total employment in 1965. According to

⁵⁴Planificación, Informe económico, 1976, p. A-4.

FIGURE I

PERCENTAGE OF THE GNP GENERATED BY THE PRINCIPAL
SECTORS OF THE ECONOMY FROM 1950 TO 1965

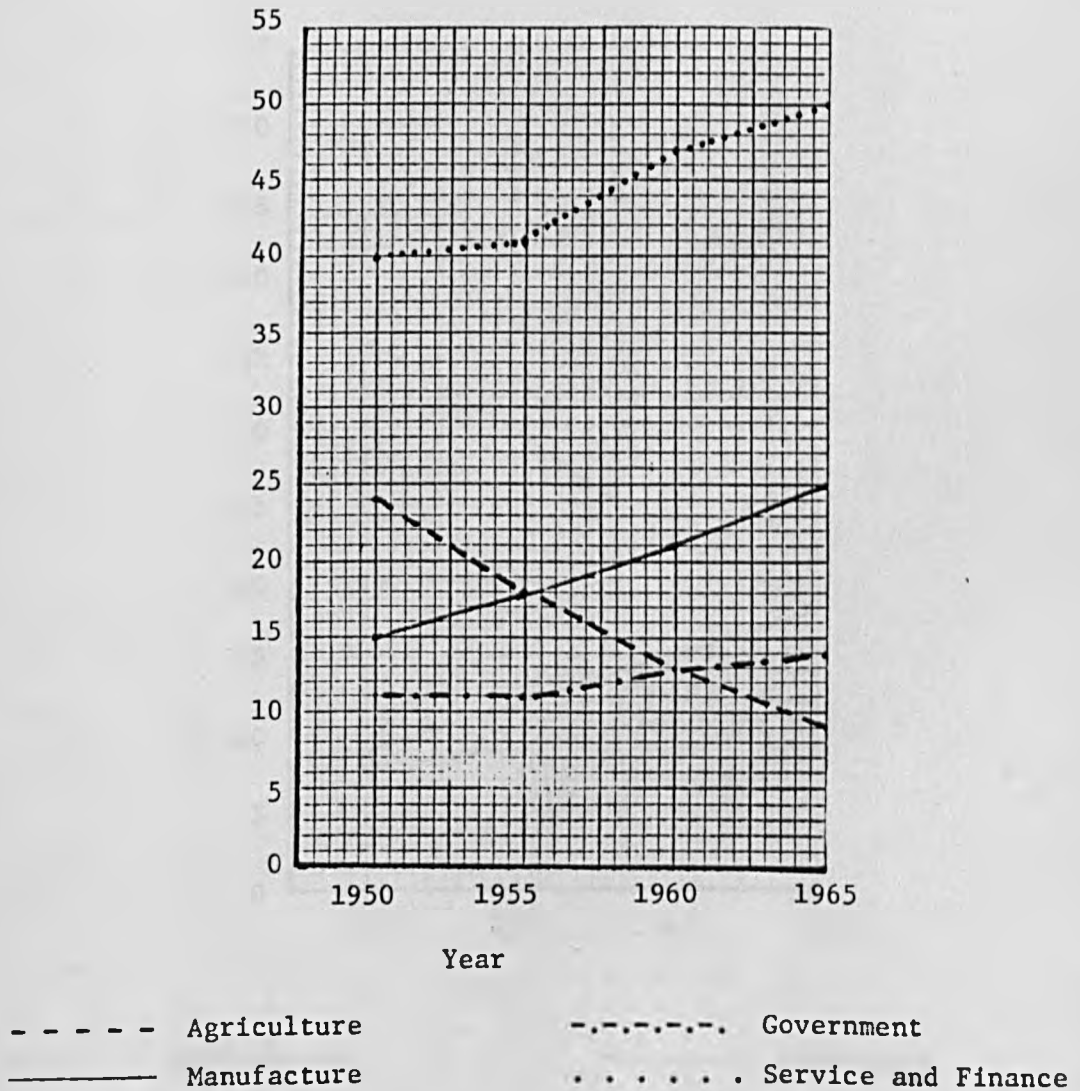


SOURCE: Junta de Planificacion, Informe economico al gobernador;
1976 (San Juan: Junta de Planificacion, 1976), p. A-4.

* Includes services, trade, finances, insurance, real estate, transportation, communications and public utilities.

FIGURE II

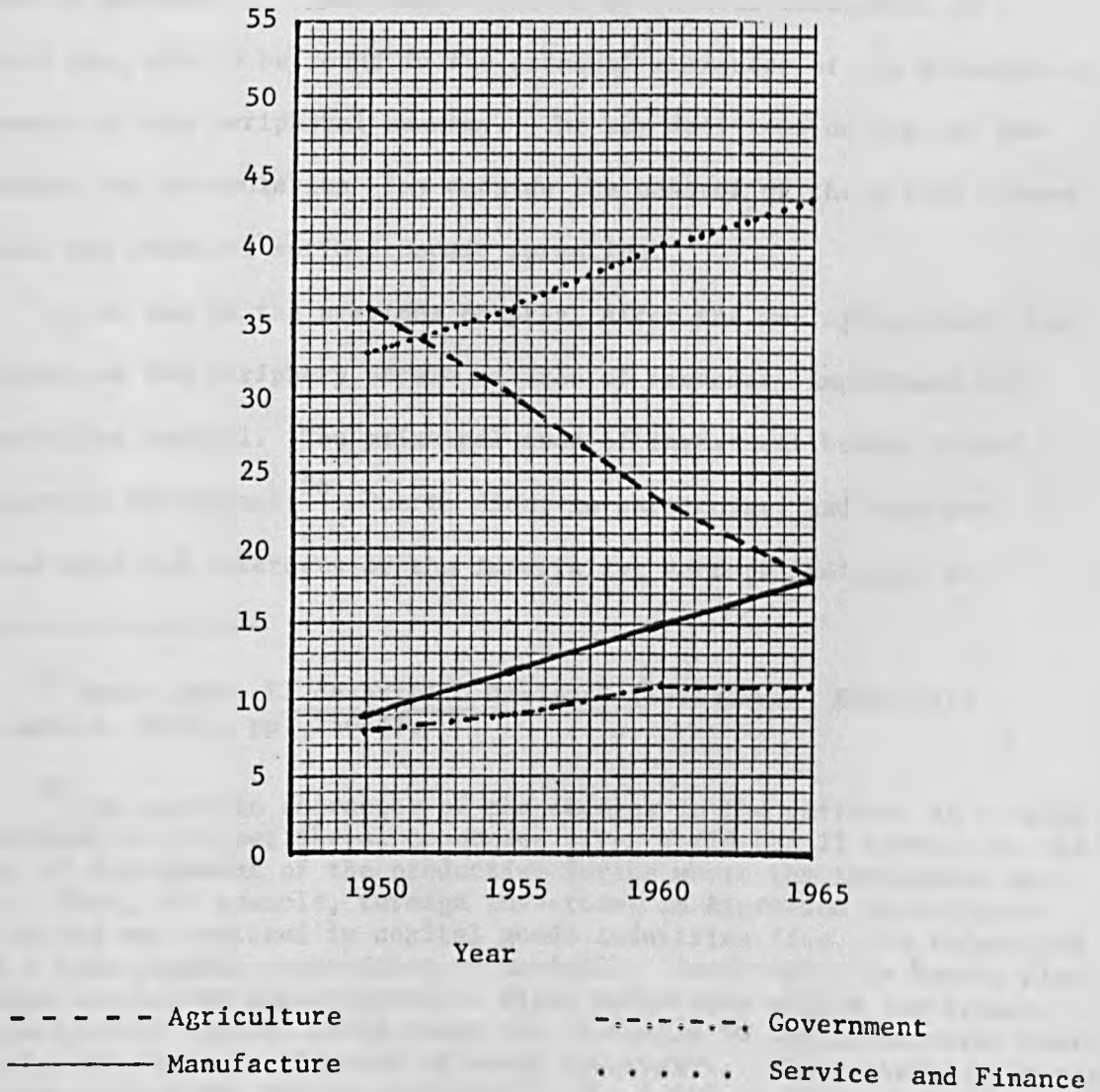
PERCENTAGE OF THE NI GENERATED BY THE PRINCIPAL
SECTORS OF THE ECONOMY FROM 1950 TO 1965



SOURCE: Ibid., p. A-8.

FIGURE III

PERCENTAGE OF THE TOTAL EMPLOYMENT
GENERATED BY THE PRINCIPAL SECTORS OF THE
ECONOMY FROM 1950 TO 1965



SOURCE: Ibid., p. A-25.

Samir Amin, these two elements, a sharp decline in agricultural production and an unprecedented expansion in the tertiary sector, are characteristic of peripheral capitalism. For Amin, the rapid expansion in the services is in part a reaction to the agricultural crisis prompted by a process of redefinition in the international division of labor. The crisis of agriculture displaces a large sector of the working population which ends up in the unproductive and marginal areas of services.⁵⁵ The causes of this structural imbalance, we should say, are to be found in the external character of the determinant elements of the peripheral economy. The key decisions on capital investment and accumulation lay outside the control of the social forces inside the colonial socio-economic formation.

As we saw in the previous chapter, after the war agricultural investment in the periphery became an area of secondary importance for imperialist capital. The principal area of investment became direct industrial investment.⁵⁶ Puerto Rico, in particular, had been excluded from the interests of the imperialist sectors dedicated to

⁵⁵Samir Amin, El desarrollo desigual (Barcelona: Editorial Fontanella, 1974), pp. 250-57.

⁵⁶The specific character of the changes in the patterns of foreign investment in the peripheral countries after World War II depends on the level of development of the productive forces where the investment was made. Thus, for example, foreign investment in Argentina in the post-war period was centered in capital goods industries (i.e., on industries with a high organic composition of capital). Conversely, in Puerto Rico foreign investment was centered in light industries with a low organic composition of capital since there was virtually no infrastructural basis for the efficient development of heavy industries. The pattern of investment was uneven and varied according to the level of structural development existent in peripheral countries and the role each country was assigned in the international division of labor. Here lies the basis for the explanation of why, for example, Central America remained an agricultural producer while other Latin American countries were industrializing rapidly. For the Argentinian case see the figures given by Peralta Ramos, Etapas, pp. 43-55.

agricultural investments in the 1930's. The North American investment on the island was now concentrated in light industry. The low level of development of the economic infrastructure in Puerto Rico made this the only feasible type of investment for imperialist capital.

Tables 8 and 9 on the next pages illustrate the process through which U.S. capital becomes the dominant element in the industrial sector in Puerto Rico, while the local sector's relative importance is reduced to a secondary position. In analyzing these tables, we should note that the label "foreign" corresponds to both U.S. and non-U.S. foreign capital. However, in 1954, there were 250 foreign industries in Puerto Rico of which 242 were U.S. owned. In 1958, there were 407 foreign establishments of which 396 were U.S. owned, and in 1963, there were 589 U.S. owned establishments and only 43 non-U.S. foreign establishments.⁵⁷ In other words, over 90% of the foreign capital in Puerto Rico is from the U.S.

If we look at the tables carefully, we notice a sharp decline in the participation of local capital in the industrial sector. This can be attributed in part to the incapacity of local capital to compete

⁵⁷ Economic Development Administration (EDA), Annual Statistical Report of EDA Manufacturing Plants (San Juan: EDA, 1965), pp. 60-61. The definition of the term "local" varies among some government agencies. According to Fomento, a local industry is that in which 50% or more of its shareholders have been residents of Puerto Rico for at least ten years. For the Planning Board (Junta de Planificación), the criteria is that 50% or more of its shareholders had lived for at least one year in Puerto Rico. The latter definition is the one used in the census of manufacturers. Therefore, for reasons of comparison we are using the figures given by using this definition, except when otherwise indicated. See, EDA, Locally and Non-locally, p. 11.

TABLE 8

SHARES OF VALUE ADDED, PRODUCTION EMPLOYMENT AND
INDUSTRIAL WAGES GENERATED BY LOCAL AND FOREIGN
INDUSTRIES; CENSUS YEARS, 1954, 1958 AND 1963

<u>1954</u>	<u>Value Added</u> <u>(\$000)</u>	<u>%</u>	<u>Production</u> <u>Employment</u>	<u>%</u>	<u>Wages</u> <u>(\$000)</u>	<u>%</u>
Total	188,331	100	60,336	100	59,289	100
Local	117,472	62.4	41,312	68.5	39,008	65.8
Foreign	70,859	37.6	19,024	31.5	20,281	34.2
<u>1958</u>						
Total	292,142	100	60,047	100	93,320	100
Local	145,904	49.9	30,000	49.9	43,529	46.6
Foreign	146,238	50.1	30,047	50.1	49,791	53.4
<u>1963</u>						
Total	620,815	100	83,940	100	178,897	100
Local	239,830	38.6	31,631	37.7	64,097	35.8
Foreign	380,987	61.4	52,309	62.3	114,798	64.2

SOURCES: Economic Development Administration (EDA), Locally and Nonlocally Owned Enterprises in Puerto Rican Manufacturing Industries (San Juan: EDA, 1953), pp. 16-17, 85, 95, Tables 1, 2, 3, A-3a, A-4a; and U.S. Bureau of Census, Census of Manufactures, Puerto Rico, 1963 (Washington: 1965), p. 155, Table 2.

TABLE 9

INDUSTRIES OR INDUSTRIAL GROUPS DOMINATED BY
FOREIGN CAPITAL IN PUERTO RICO IN TERMS OF
THE PERCENTAGE OF VALUE ADDED, PRODUCTION
EMPLOYMENT AND INDUSTRIAL WAGES GENERATED;
YEARS 1954, 1958 AND 1963*

<u>Industry</u>	<u>1954</u>			
	<u>% of all establishments</u>	<u>% of total value added</u>	<u>% of total production employment</u>	<u>% of total wages</u>
Canning, preserving and freezing	12.2	55.9	28.6	44.8
Textiles	45.5	71.8	64.8	71.8
Women clothing	15.1	57.8	43.2	51.2
Women and children underwear	37.3	70.5	58.2	64.2
Leather products	39.3	67.2	69.0	71.1
Electrical machinery	71.0	86.9	84.7	86.3
Scientific instruments and related products	58.3	93.6	91.5	92.1
Petroleum and coal prods. ^a				
Rubber products				
Transportation equipment	44.0	74.8	78.1	69.4
Miscellaneous products				

TABLE 9-Continued

1958

<u>Industry</u>	<u>% of all establishments</u>	<u>% of total value added</u>
Canning, preserving and freezing	12.1	55.2
Tobacco products	2.8	59.5
Textiles	75.5	86.1
Apparel and related products	30.0	68.7
Leather products	71.9	88.1
Electrical machinery	75.0	96.1
Scientific instruments and related products	73.3	97.0
Petroleum and coal prods. ^a		
Rubber products		
Transportation equipment	47.5	84.6
Miscellaneous products		

% of total
production
employment

% of
total wages

35.3

46.0

37.7

50.3

82.8

87.0

58.8

68.4

92.7

92.2

95.7

96.4

97.6

97.2

81.6

83.5

TABLE 9-Continued

1963

<u>Industry</u>	<u>% of all establishments</u>	<u>% of total valued added</u>
Tobacco products	16.5	89.8
Textiles	75.5	83.5
Apparel and related products	51.8	81.0
Paper and related products	51.7	66.2
Chemical and related products	32.5	81.6
Petroleum and coal products	33.3	n/a
Rubber and plastic products	54.2	62.2
Leather products	75.0	86.5
Electrical machinery	65.8	84.8
Scientific instruments and related products	100	100

% of total
production
employment

% of
total wages

71.1	86.2
80.0	82.2
78.0	82.5
52.8	73.1
58.7	65.0
92.4	n/a
65.6	67.9
88.2	87.7
85.3	85.4
100	100

TABLE 9-Continued

1963

<u>Industry</u>	<u>% of all establishments</u>	<u>% of total value added</u>	<u>% of total production employment</u>	<u>% of total wages</u>
Miscellaneous products	57.7	76.0	81.6	80.8

SOURCES: EDA, Locally and Nonlocally, pp. 16-17, 85, 95; and U.S. Bureau of Census, Census of Manufactures, 1963, p. 155.

* Dominance is defined by control of 50% or more for the three variables analyzed. However, we have included those industries in which only value added is 50% or more as this indicates a high degree of productivity and efficiency.

^aThe data available for these four groups for 1954 and 1958 appears aggregated.

with U.S. firms in those areas where expansion depends on production for export to the U.S. This was the case in the tobacco, apparel and chemical products industries. In these three areas, the local industries experienced reductions in the order of 10.4, 4.9 and 3.2 million dollars in the value of their shipments to the U.S. between 1954 and 1958.⁵⁸ In other cases like sugar processing (milling and refining), the reduction was due to a structural crisis of the industry itself. In any case, it is logical to think that those elements who survived the "invasion" of U.S. industrial capital not only adapted themselves to, but actually integrated themselves with imperialist capital. We must remember that U.S. producers were the main suppliers of raw materials for the island and that U.S. businesses controlled the transportation and distribution to and from the metropolitan markets.

The development of the capital importation model based on the development of light industry was not simply the result of a favorable conjuncture, it was also the result of a deliberate policy to attract imperialist capital. This policy was based on the premise that having exhausted the structural conditions for agricultural development and the political conditions for state based industrialization the only alternative left for the techno-bureaucracy was to attract foreign investment in massive quantities. This political conclusion that serves as the premise for the second stage of developmentalism was clearly reflected in Fomento's policies. Of a total of 3.4 million dollars granted by Fomento in industrial incentives to industries, 88.6%, almost 3 million dollars, was given to foreign firms between 1952 and 1959.⁵⁹ Another important area of subsidies was low rental rates for

⁵⁸ Ibid., p. 24.

⁵⁹ Ibid., p. 139.

industries occupying Fomento owned buildings. Between 1952 and 1959, the Fomento buildings occupied by foreign firms represented between 91 and 100% of the value of the buildings occupied by all Fomento promoted industries.⁶⁰ Finally, of the 24 million dollars in loans to industry approved by the Government Development Bank between 1952 and 1959, 14.6 million dollars (just over 60%) were lent to foreign industries.⁶¹ Clearly Fomento's incentives policy was centered in attracting U.S. capital.

Between 1947 and 1963, foreign capital represented a proportion of between 30 and 50% per year of the capital funds used in the Puerto Rican economy.⁶² In the period between 1947 and 1957, capital imports averaged 38.6% of the capital funds used on the island. But during the period between 1958 and 1963 it averaged 52.7%.⁶³ In the period between 1952 and 1961, total external direct investment was 491.6 million dollars. Of this total, 309.3 million dollars, 63%, were invested in manufacturing. Of the 309.3 million U.S. dollars invested in manufacturing by foreign capital, 284.7 million dollars, 92%, were invested in tax exempt industries. In all, 58% of the total external direct investment went to tax exempt industries between 1952 and 1961.⁶⁴ Around 1959, external investment began to extend

⁶⁰Ibid., p. 143. ⁶¹Ibid., p. 144.

⁶²Eliezer Curet Cuevas, El desarrollo economico de Puerto Rico (San Juan: Management Aid Center Inc., 1976), pp. 281-82.

⁶³Ibid.

⁶⁴We have not been able to find these figures for the years before 1952 or after 1961. Junta de Planificacion, Bananza de pagos, 1942-1961 (San Juan: Junta de Planificacion, 1963), pp. 51-52.

toward the service sector, particularly tourism, retail trade, transportation and utilities.⁶⁵ By 1963, the value of direct external investment in Puerto Rico was 1,106.7 million dollars. This represented 44% of the total long term external investment and 75% of the long term external investment in the private sector.⁶⁶

Contrary to the rest of Latin America and the classical developmentalist models, the production of the industries established in Puerto Rico after 1947 was oriented towards export rather than towards import substitution. Between 1954 and 1963, the value of industrial production (measured in terms of value of shipments) destined to the local market increased by only 2% from 45.6 to 47.6%.⁶⁷ Most of the foreign firms imported their raw materials, processed them and then reexported them to the U.S. This explains in part why in 13 of the 16 years of the period between 1948 and 1963 the import coefficient of Puerto Rico was 50% or better, and why it was just under 50% in the other three years.⁶⁸ This pattern is totally opposed to that of most industrialized countries in Latin America. By 1957, the highest import coefficient among these

⁶⁵ Ibid.

⁶⁶ Junta de Planificacion, Balanza de pagos, 1978 (San Juan: Junta de Planificacion, 1979), pp. 63-66.

⁶⁷ Calculated from EDA, Locally and Non-locally, p. 108ff.; and U.S. Bureau of Census, Census of Manufactures, Puerto Rico, 1963 (Washington, D.C.: Government Printing Office, 1965), p. 156.

⁶⁸ The import coefficient was calculated using the formula M/GDP , where M is imports and GDP is gross domestic product.

countries was that of Chile with a 10.1% import coefficient.⁶⁹ The trend was similar in terms of the tendency of the export coefficient. Puerto Rico's export coefficient went from 27.4% of the gross domestic product (GDP) in 1948 to between 36 to 38% for the years 1960-63.⁷⁰ We are not suggesting that virtually all production was dedicated to export or that all consumption was satisfied by imports. Our argument is that an unusually high proportion of export and import rates was maintained, and that these rates tended to increase rather than decrease as was the normal expectation for most Latin American industrialization programs of this period.

Table 10 is divided into two parts, A and B. Part A shows the shares of the GNP consumption expenditures in personal consumer goods and in machinery and equipment for the years 1948 and 1963, and it shows the changes in the patterns of expenditures in these areas. Part B shows the shares that personal consumer goods and capital goods represent of the total imports and the changes these shares experienced between 1948 and 1963.

The figures in part A and B of this table are not directly comparable. However, we can observe similar changes in the patterns of consumption expenditures and in the patterns of imports. Based on these observations we can speculate that a great share of the expanded

⁶⁹The import coefficients for some of the most industrialized countries of Latin America for 1957 were: Argentina, 5.9%, Brazil, 6.1%, Mexico, 8.2%, Colombia, 8.9%, and Chile, 10.1%. Furtado, La economía latinoamericana, p. 110.

⁷⁰The export coefficient was calculated using the formula X/GDP , where X is exports.

TABLE 10

CONSUMER GOODS AND CAPITAL GOODS AS PERCENTAGES
OF TOTAL CONSUMPTION EXPENDITURES AND IMPORTS
AND THEIR VARIATIONS: 1948 AND 1963

	<u>Part A</u>			<u>Part B</u>		
	<u>% of consumption expenditures</u>			<u>% of total imports</u>		
	<u>a</u>	<u>b</u>	<u>(a-b)</u>	<u>a</u>	<u>b</u>	<u>(a-b)</u>
	<u>1948</u>	<u>1963</u>	<u>±</u>	<u>1948</u>	<u>1963</u>	<u>±</u>
Total personal consumption	95.2	79.7	-15.5	52.4	40.1	-12.3
Durable consumers	7.2	11.1	+ 3.9	5.8	9.7	+ 3.9
Non-durable consumers	64.1	42.2	-22.1	46.8	30.4	-16.2
Machinery and equipment	2.0	7.4	+ 5.4	7.8	9.9	+ 2.1
				Capital* goods		

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SOURCE: Planning Board, Economic Report to the Governor, 1966 (San Juan: 1966), pp. A-2, A-28.

*Capital goods is a more comprehensive category than machinery and equipment.

consumption in durable consumer goods and machinery and equipment was satisfied by increased imports. Likewise, we can speculate that the reduction in non-durable consumer goods imports responded more to a reduction of consumption expenditures on these items than to a process of import substitution.

These speculations are confirmed by the 1961 "Report to the Governor" of the Puerto Rico Planning Board. This report pointed out that the only areas where there was significant import substitution were those of cattle and poultry production.⁷¹ At the same time, the report said that a great deal of the clothes worn and the food consumed in Puerto Rico was imported. Curiously, clothes and foods were two of the main areas of production of the U.S. industries in Puerto Rico. Throughout this report, import substitution is seen as a by product of the industrialization process, not as its objective.⁷²

The areas where imports expanded most rapidly were durable consumer goods (they increased by 430%, in absolute terms, between 1948 and 1963) and capital goods, raw materials and intermediate goods (they increased by 294%). The area that increased the least was non-durable consumer goods (they only increased 103% in absolute terms).⁷³

⁷¹Planificacion, Informe economico, 1961, pp. 10-12.

⁷²Ibid., pp. 34-38. In this part the "Report to the Governor" talks about import substitution as a "desirable" goal rather than as an objective of the development policy.

⁷³Planning Board, Economic Report to the Governor, 1966 (San Juan: Planning Board, 1966), p. A-28. For 1954, 69% of all consumer goods bought in Puerto Rico were imported (81% of all durable consumers and 65% of all non-durables). By 1960, 63% of all consumer goods bought on the island were imported (72% of durable consumers and 61% of non-durables). Despite this relative improvement, after almost two decades of industrialization most consumption was still satisfied by imports. See also EDA, Locally and Non-locally, p. 23.

It is clear that industrial development under the capital importation model had an external orientation. However, some further specifications must be made in order to better assess the impact that this model of development had over the Puerto Rican economic structure. Two points become crucial here: a) the role of U.S. capital vis a vis Puerto Rican capital in production for the internal market; and b) the specific character of the fraction of imperialist capital that assumes the dominant role in the productive process under the capital importation model.

Between 1948 and 1963, there was a significant expansion of the internal market in Puerto Rico. Personal consumption of goods and services alone increased by 190% from 620 million dollars to 1,796 million dollars. Durable goods and services experienced the greatest increases. As a whole, government and personal consumption expenditures grew by 201% from 700 million dollars to 2,109 million dollars.⁷⁴ The interesting thing here is that a share of this expanded demand was met by the production of foreign industries at the expense of the local industries.

As we saw on Table 8 above, the share contributed by the local industries to the total value added, production employment and wages paid by the manufacturing sector as a whole was reduced from about two thirds of the total in 1954 to about one third in 1963. Conversely, foreign industry doubled its share contributed to these items from about one third to about two thirds. Another area where foreign capital increased its stake was in the production for the local market.

⁷⁴Planning Board, Economic Report, 1966, p. A-2.

Though a sizeable amount of foreign industry's production was for export, an increasing share of the local supply of certain manufactured goods was satisfied by foreign industries operating in Puerto Rico. Table 11 shows that the share of the total value of the foreign firms' shipments destined for the local market increased in every industrial branch for which there was available data.

We can also observe on Table 11 four areas where the share of shipments destined for the U.S. supplied by foreign firms dropped. These areas are paper, non-electrical machinery, electrical machinery and miscellaneous products. This change implies necessarily an increase in the share of shipments to the U.S. supplied by the local industries. Yet, this does not contradict any of the above observations about foreign industry expanding at the expense of the local industry. After all, the total shipments of local industries to the U.S. increased by 36.5% between 1954 and 1963, while the total shipments of U.S. firms increased by 358.5%.⁷⁵ What the increase of the shipments of local industries in these areas means is that there were elements within the local industrial bourgeoisie that adapted successfully to the new model. That is, there was a sector that not only survived the drive of imperialist capitalism but also articulated itself within this expansive drive.

A study conducted around 1960 revealed a relation between the concentration of production and the increase of foreign capital participation in industries producing for the local market. According to this study, nine out of thirteen industry branches where the concentration

⁷⁵EDA, Locally and Non-locally, p. 108; and U.S. Bureau of Census, Census of Manufactures, 1963, p. 156.

TABLE 11

PERCENTAGE OF THE TOTAL VALUE OF SHIPMENTS
 SUPPLIED BY FOREIGN CONTROLLED INDUSTRY IN
 PUERTO RICO TO THE LOCAL AND U.S. MARKETS BY
 INDUSTRIAL BRANCH FOR THE YEARS 1954 AND 1963

<u>Industry and Year</u>	<u>% of total value of shipments to P.R. supplied by foreign controlled firms</u>	<u>% of total value of shipments to the U.S. supplied by foreign controlled firms</u>
<u>Food</u>		
1954	13.6	29.7
1963	43.6	36.6
<u>Tobacco</u>		
1954	8.1	20.4
1963	17.9	99.9*
<u>Textiles</u>		
1954	69.9	75.1
1963	85.3*	88.0
<u>Apparel</u>		
1954	4.1	60.2
1963	34.3	93.3
<u>Paper</u>		
1954	60.6	100
1963	62.5	87.3
<u>Chemicals</u>		
1954	20.9	22.3
1963	32.8	96.8
<u>Leather</u>		
1954	57.7	75.2
1963	65.4	92.2
<u>Non-electrical machinery</u>		
1954	2.4	97.4
1963	9.3*	47.9
<u>Electrical machinery</u>		
1954	43.6	93.2
1963	68.4	87.0
<u>Scientific instruments</u>		
1954	5.5	94.8
1963	100*	100

TABLE 11-Continued

<u>Industry and Year</u>	<u>% of total value of shipments to P.R. supplied by foreign controlled firms</u>	<u>% of total value of shipments to the U.S. supplied by foreign controlled firms</u>
<u>Miscellaneous industries</u>		
1954	48.4	81
1963	56.9*	76.4
<u>All foreign industries</u>		
1954	20.0	78.3
1963	34.2	63.8

SOURCES: EDA, Locally and Nonlocally, pp. 108-111, Table A-5a, U.S. Bureau of Census, Census of Manufactures, 1963, p. 156, Table 3.

* Estimated.

index increased experienced an increased control by foreign industry of the principal firms of these branches.⁷⁶ In other words, not only was there a displacement of local capital by foreign capital but also a tendency towards monopolization of production.

What we are witnessing then is a dialectical process of displacement and accomodation between local and U.S. capital. In this dialectical movement, the imperialist capital limits the possibilities of the total expansion of local capital. Yet at the same time, dialectically, the imperialist capital stimulates a relative growth in particular areas of local production associated with the expansion of imperialist capital. This dialectic of colonial development makes possible the emergence of an alliance between local capital and imperialist capital. We will discuss this later.

We have yet to discuss what particular fraction of imperialist capital assumed control of the productive process in the development process that we have analyzed. We have already spoken of the medium and small fractions of imperialist capital as the ones that assume the dominant role in industrial development in Puerto Rico. So we need now to substantiate this assertion.

The figures available on industrial investment in Puerto Rico appear mainly as global or aggregate figures. There is little detailed information, and whatever there is is too fragmented to yield any reliable estimates on the size of foreign firms by the magnitude of the investments involved. However, there are indirect ways we can

⁷⁶Jorge Freyre, "Análisis de los niveles de concentración económica en el sector manufacturero de Puerto Rico", El Trimestre Económico (octubre-diciembre, 1962), p. 585.

get an idea of the character and magnitude of foreign investment in Puerto Rico. The first way to approach this task is by comparing and relating the fragmentary data that is available to what Fomento says about foreign capital in its annual reports. The other way to do it is by comparing the trends of capital investment in Puerto Rico to those of Latin America, thus putting in perspective Puerto Rico's position in the international division of labor and its importance to imperialist capital in a global context.

It is in Fomento's annual reports that we find the first indications of the specific character of imperialist capital investment in Puerto Rico during this period. From the information revealed in Table 9, we know that foreign investment centered around activities with a low organic composition of capital, primarily the textiles, apparel and food industries. This makes us expect a low average investment per plant in operation. As a matter of fact, between 1951 and 1954 the average investment per manufacturing plant by the Fomento promoted firms was around 300,000 dollars.⁷⁷

We can further show how low the average investment was by looking at one of Fomento's incentive programs. In its 1950-51 annual report, Fomento announced the beginning of a special incentives program named "operacion aprisa" (operation promptness). The object of this was to speed up the establishment of U.S. industries in Puerto

⁷⁷The figures for average investment were calculated by dividing total investment by the Fomento promoted plants in operation. Therefore, these figures only reflect plants operating under Fomento programs, which were the majority of industrial establishments in Puerto Rico. EDA, Annual Statistical Report, 1964-65, Section II, table 23-b; and AFE, Apndice Economico al Informe Anual, 1965, (San Juan: AFE, 1966), table 6.

Rico. The incentives offered under this program were free rent in Fomento owned industrial buildings, *payment* of part of the cost for transportation of machinery and equipment to Puerto Rico and reimbursement of part of the salaries paid to "imported" technicians required to begin operations. Fomento offered these on top of the other incentives provided by the Industrial Incentives Act. But the interesting thing for us is the requirements for eligibility under this special incentives program. They were: a) employ 50 persons or more for the first 3 months; b) a minimum investment of 200,000 dollars - of which 50,000 dollars should be used in machinery and equipment -; and c) other requisites related to job creation and investment.⁷⁸ This program most certainly suggests that the average investment was fairly low.

After 1955, the average investment jumped to just over half a million dollars per manufacturing plant. This was partly attributable to the extraordinary investment brought by the establishment of two U.S. oil refineries and a chemical plant (controlled by Puerto Rican interests) in 1955. These three projects alone brought a 48 million dollars investment.⁷⁹ However, this was an exception rather than the norm. The following quote from a Fomento report confirms our assertion:

It is obvious that outside investments are required for these high capital investment projects. Here [in Puerto Rico] we still do not have the financial mechanisms to mobilize such large blocs of Puerto Rican capital. The fact that through

⁷⁸ AFE, Informe anual, 1952-52, p. 17.

⁷⁹ AFE, Informe anual, 1954-55, p. 4.

the establishment of four projects investment rose by \$50,000,000 to \$100,000,000 suggests the possibility of accelerating greatly total investment and income by searching for and promoting more projects of this nature.⁸⁰

The fourth project mentioned here was a petrochemical plant owned by Union Carbide and Carbon. They announced plans to establish in Puerto Rico in 1956. But, as we said, these are exceptions rather than typical cases.

Other investment figures confirm the above observations. By 1956, there were 311 manufacturing plants operating under the Fomento program, and the investment in these plants was 163 million dollars (an average of 524,000 dollars per plant). By 1959, there were 452 plants with an investment of 367 million dollars (an average of 812,000 dollars per plant).⁸¹ This growth of investment in the second half of the 1950's is attributable not only to the four big projects mentioned above, but also to the coming to Puerto Rico of subsidiaries of larger U.S. companies like General Electric, Phelps Dodge, W.R. Grace and others.⁸² However, despite the establishment of some larger operations the dominant elements continued to be the subsidiaries of small and medium U.S. companies. This trend continued until the mid 1960's.

If we approach the question of what fraction of U.S. capital was dominant in Puerto Rico by comparing U.S. investment on the island with that in other parts of the world, we will come to a similar conclusion. Between 1950 and 1959, U.S. investment in manufacturing

⁸⁰ AFE, Informe anual, 1955-56, p. 9.

⁸¹ AFE, Informe anual, 1958-59, p. 13.

⁸² AFE, Informe anual, 1956-57, pp. 11-12; this report mentions 11 industrial plants that were subsidiaries of large U.S. corporations.

throughout the world was concentrated in the areas of chemicals and related products, transportation equipment, electrical machinery, non-electrical machinery, food, paper products and rubber products. These items constituted 84% of all U.S. manufacturing investment throughout the world in 1950, and 88% in 1959.⁸³

In Latin America, these areas represented 80% in 1950 and 84% in 1959, which closely follows the pattern for the rest of the world. The five most important areas of investment in Latin America for 1950 were chemical products, food, transportation equipment, electrical machinery, and rubber products, in that order of importance. These five areas represented 75% of all U.S. manufacturing investment in Latin America for that year. For 1959, the most important areas were chemical products, transportation equipment, food, rubber products, and machinery, in that order. These represented 73% of total U.S. investment in Latin America.⁸⁴

Even though we do not have such detailed information on U.S. investment in Puerto Rico, we can indirectly measure the areas where it was concentrated by looking at the areas where U.S. firms concentrated their production. Table 9 gave us an indication as to where the production of foreign industry concentrated vis a vis local capital. If we use this as a point of comparison, we notice that the production of foreign industries in 1958 was concentrated in the areas of apparel, textiles, leather products, scientific instruments and electrical

⁸³ Calculated from figures provided by Samuel Pizer and Fredrick Cutler, "United States Foreign Investments: Measures of Growth and Economic Effects", Survey of Current Business, Vol. XL, No. 9 (September, 1960), p. 22.

⁸⁴ Ibid.

machinery. Other areas where it showed strength were food, tobacco and rubber products. Now, if we isolate the production of foreign industry in Puerto Rico and measure the share contributed by the foreign firms of each industrial branch to the total value added, production employment and value of shipments generated by foreign industry in Puerto Rico as a whole, the results are those in Table 12. As we can see, the most important areas of production for foreign industry in 1958 were apparel, food, electrical machinery and textiles. Apparel and textiles produced 30% of all value added by foreign industry, created 44% of the production jobs generated by foreign industry and accounted for 23% of the value of shipments. By 1963, the story is very similar except for the fact that textiles are declining and chemicals are increasing. In the area of food production, we must remember that by 1958 sugar is still an important part of this industry, even though it is fastly declining.

As we can see except for the area of electrical machinery and part of the food industry the fraction of imperialist capital that dominates the productive process participates in areas which are marginal to the main drive of imperialist expansion during the 1950's. This fact and the evidence presented above leads us to conclude that the fraction of capital that established an alliance with the technobureaucracy were the small and medium fractions of imperialist capital. It is the interests of this alliance that are articulated by the capital importation strategy.

In synthesis, we can assert that the adoption of the capital importation strategy had the following effects on the Puerto Rican productive structure: a) a displacement and reaccomodation of the

TABLE 12

MAJOR AREAS OF PRODUCTION OF FOREIGN CONTROLLED
INDUSTRIES IN PUERTO RICO AS MEASURED BY
PERCENTAGE OF VALUE ADDED, PRODUCTION EMPLOYMENT
AND VALUE OF SHIPMENTS; 1958 AND 1963

<u>Industry</u>	<u>% of value added</u>		<u>% of production employment</u>		<u>% of the value shipments</u>	
	<u>1958</u>	<u>1963</u>	<u>1958</u>	<u>1963</u>	<u>1958</u>	<u>1963</u>
Apparel	21	19	33	32	14	17
Food	18	22	10	13	17	26
Electrical machinery	14	11	9	10	10	9
Textiles	9	5	11	6	9	5
Leather products	5	5	8	7	5	4
Tobacco	4	6	5	7	4	5
Chemicals	2	10	0.1	3	2	7
Others	27	22	23.9	22	39	27
All foreign controlled industries	100	100	100	100	100	100

SOURCES: EDA, Locally and Nonlocally, pp. 108-111, Table A-5a; U.S. Bureau of Census, Census of Manufactures, 1963, p. 155, Table 2.

local bourgeoisie vis a vis the imperialist bourgeoisie; b) the control of the dynamic sector of the economy (industry) by the small and medium fractions of U.S. imperialist capital; c) a deepening of the agricultural crisis and an expansion of the tertiary sector to compensate it; and d) a greater integration of the Puerto Rican economy to the North American economy, reflected in the continued increase of the import and export coefficients.

In terms of the impact of the adoption of this strategy of development on the social structure, we mentioned the acceleration of the processes of urbanization, proletarianization and marginalization. The process of urbanization in Puerto Rico had begun with the development of agrarian capitalism after the U.S. invasion. Between 1940 and 1960, this process accelerated, but it assumed a new variant, the marginalization of large numbers of workers and their expulsion from the Puerto Rican socio-economic formation through emigration to the U.S. The urbanization process in Puerto Rico, as in most of Latin America, responds to the expulsion of peasants and rural workers from the countryside as a consequence of the crisis of the primary exporting economic model, provoked by the redefinition of the international division of labor after the Great Depression and the Second World War.⁸⁵ In this sense, the migration to the urban centers in Puerto Rico or the metropolis are two aspects of the same phenomenon. Table 13 shows the tendencies of rural and urban population growth as well as the migration trend between 1940 and 1960.

⁸⁵ Manuel Castells, La cuestion urbana (Mexico: Siglo Veintiuno, 1978), pp. 51-78.

TABLE 13
POPULATION CHANGES IN PUERTO RICO
1940-1960

	<u>Total</u> <u>popu-</u> <u>lation</u> <u>(000)</u>	<u>% of</u> <u>change</u> <u>for the</u> <u>decade</u>	<u>Urban</u> <u>popu-</u> <u>lation</u> <u>(000)</u>	<u>% of the</u> <u>total popu-</u> <u>lation</u>	<u>% of</u> <u>change</u> <u>for the</u> <u>decade</u>	<u>Rural</u> <u>popu-</u> <u>lation</u> <u>(000)</u>	<u>% of the</u> <u>total popu-</u> <u>lation</u>	<u>% of</u> <u>change</u> <u>for the</u> <u>decade</u>	<u>Migration</u> <u>(000)</u>	<u>% of</u> <u>change</u> <u>for the</u> <u>decade</u>
1940	1869.3	-	566.4	30.3	-	1302.9	69.7	-	-	-
1950	2210.7	18.3	894.8	40.5	58.0	1315.9	59.5	1.0	153.7	-
1960	2349.5	6.3	1039.3	44.2	16.1	1310.2	55.8	-0.4	430.5	180.1

SOURCES: U.S. Bureau of Census, Census of Population, Puerto Rico, 1960, Vol. I, pt. 53 (Washington, D.C.: U.S. Government Printing Office, 1963), pp. 53-59; and Stanley Friedlander, Labor Migration and Economic Growth (Massachusetts: M.I.T. Press, 1965), p. 170.

As we see, the apparent slow down in the urban growth in Puerto Rico between 1950 and 1960, as compared to the previous decade, can be explained by the sharp increase in emigration. The Puerto Rican peasants and workers expelled from the countryside ended up in the metropolitan urban centers as an abundant supply of cheap labor (as the labor reserve army of imperialist capital). The Puerto Rican workers thus became integrated into the process of internationalization of the labor market.⁸⁶

By 1950, 48.4% of the Puerto Rican migrants in the U.S. were classified as "operatives" (i.e., machine operators and related activities) and 18.6% were service workers. By 1960, 51.8% of the Puerto Rican migrants were classified as operatives and 15.2% were service workers.⁸⁷ In other words, more than two thirds of the migrant labor force became employed as semi-qualified or non-qualified labor. Only a minority were classified as craftsmen and foremen (7.5% in 1950 and 8% in 1960), and even less were professionals or technicians (4.3% in 1950 and 2.8% in 1960).⁸⁸ By the late 1950's 10% of the migrants were unemployed.⁸⁹

⁸⁶ See Manuel Maldonado Denis, Puerto Rico y Estados Unidos: emigración y colonialismo (Mexico: Siglo Veintiuno, 1976), chap. 1.

⁸⁷ Stanley L. Friedlander, Labor Migration and Economic Growth: A Case Study of Puerto Rico (Cambridge, Mass.: The M.I.T. Press, 1965), p. 98.

⁸⁸ Ibid.

⁸⁹ Centro de Estudios Puetorriquenos, History Task Force, Labor Migration Under Capitalism; The Puerto Rican Experience (New York: Monthly Review, 1979), p. 150.

The complement to this massive displacement of the working population is the persistency of a high rate of unemployment and the unprecedented expansion of the tertiary sector in the Puerto Rican economy. Table 14 shows the employment status of the civilian population and the rate of unemployment for the years 1950, 1960 and 1965. Table 15 shows the distribution of employment between the three sectors of the economy for the same years.

A careful observation of Tables 13, 14 and 15 certainly confirms our assertion that the capital importation model accelerated the processes of urbanization. As we see from Table 14, unemployment remained around 13% between 1950 and 1960, in spite of the fact that the rate of labor force participation (the number of people actively working or looking for a job) declined sharply. Actually the size of the labor force and the total employment dropped while the population grew, meaning that a larger sector of the adult population was excluded from participating in the productive process but were not counted as unemployed. If we add to this the almost half a million people that migrated to the U.S. between 1950 and 1960, the picture of displacement becomes one of dramatic proportions. Between 1960 and 1965, there was some improvement, but unemployment was still over 11% and the rate of participation of the labor force was still under 50%.

By 1960, it was estimated that without the massive emigration of Puerto Ricans to the U.S. the labor force in Puerto Rico would have increased by 325,000 workers (296,665 Puerto Ricans born on the island were then working in the U.S. and 28,335 Puerto Ricans born in the U.S. were working there).⁹⁰ If we add this figure to the

⁹⁰Friedlander, Labor Migration, pp. 90-95.

TABLE 14

EMPLOYMENT STATUS OF THE CIVILIAN POPULATION
OF 14 YEARS OF AGE OR MORE, 1950, 1960, 1965
(in thousands)

	<u>1950</u>	<u>1960</u>	<u>1965</u>
Adult civilian population	1289	1383	1646
Labor force	684	625	769
Rate of labor force participation %	53.0	45.2	46.7
Employed	596	543	680
Unemployed	88	82	89
Unemployment %	12.9	13.1	11.6

SOURCE: Junta de Planificacion, Informe economico al gobernador, 1966 (San Juan: 1968), p. A-21.

TABLE 15

DISTRIBUTION OF EMPLOYMENT
BY ECONOMIC SECTOR 1950-1965
(in thousands)

	<u>1950</u>	<u>%</u>	<u>1960</u>	<u>%</u>	<u>1965</u>	<u>%</u>
Total employment	596	100	543	100	680	100
Primary	216	36.2	124	22.8	121	17.8
Secondary	133	22.3	136	25.0	189	27.8
Tertiary	243	40.7	279	51.4	368	54.1

SOURCE: Ibid., p. A-22.

625,000 workers in the labor force in 1960, we find that the size of the labor force in that year would have been 950,000 people. If we assume that employment would have remained equal and that all these people would be actively seeking employment that means that 407,000 workers, 42.8% of the total labor force would have been unemployed. But in his study on Labor Migration and Economic Growth, Stanley L. Friedlander argues that not all of the 325,000 workers would have either entered the labor force or remained unemployed. Friedlander argues that if all these workers had remained on the island 50% would have either dropped out of the labor force or found employment in the low productivity areas of agriculture and the tertiary sector. Yet another 10%, Friedlander says, would have found productive jobs with an additional fixed investment of 10 million dollars. This leaves a net total of 130,000 unemployed workers from the original 325,000 added workers. When this figure is added to the 82,000 workers already unemployed, we get a total of 212,000 unemployed workers, 22.4% of the total labor force.⁹¹ The question, of course, is what would have been the social and political effects of such a scenario?

In any case, it is clear that the capital importation model was incapable of generating an integral development of industry and agriculture. The dynamics of this model were dictated by the place assigned to Puerto Rico in the international division of labor. The differential rates of productivity between the economic sector integrated to the international economy (industry) and other sectors of the peripheral economy (e.g., agriculture, simple commodity production, etc.) only contributed to the depression of these sectors

⁹¹Ibid.

and maintained their crisis rather than resolving it. This, in time accelerated the process of displacement of the workers in these sectors, and these workers were not necessarily absorbed by the dynamic sector. The solution to this inherent contradiction of the capital importation model was emigration, the shipping away of marginalized labor. As we will discuss later, migration was in fact a deliberate and conscious policy, and it was an integral part of the strategy of capital importation.

For its part, the unprecedented expansion of employment in the tertiary sector - as observed in Table 15 - tends to further substantiate our arguments about the tendency towards the marginalization of a significant sector of the working classes.⁹² The rapid expansion of the

⁹²When we utilize the concept of marginalization here, we are referring to the process of socio-economic displacement of diverse classes and fractions of classes (e.g., the rural proletariat, the peasantry, the artisans). That is, the process by which a large sector of the working population is displaced from the dynamic sector of the economy into the low productivity, marginal sector where production is oriented fundamentally towards subsistence activities and is marginal to the dynamic sector. We do not argue that the marginal sectors are a group outside the social classes. On the contrary, they are displaced elements from the working classes as a result of capitalist development in the peripheral countries. This displaced sector, in time, is split into different fractions. One fraction becomes an industrial reserve army for imperialist capital, entering the internationalization process of the labor market as migrant labor. Another sector of the displaced labor force becomes an industrial reserve army for the local industry. And yet another sector becomes permanently displaced from the labor market linked only in a "marginal" manner to the dynamic sector of the economy. This marginalized sector generates subsistence economic activity that does not affect the levels of production and productivity of the dynamic sector. This is basically a residual economy based on simple commodity production and residual market activities. Penny vendors, family production, etc. are typical activities of this marginalized sector. Anibal Quijano calls this sector the marginalized pole of the economy and this labor force, the marginalized labor force. The sociological and political implications of this phenomena are too complex to be disposed of by thinking of it merely in terms of an industrial reserve army. On this question see Anibal Quijano, "The Marginalized Pole of the Economy and the Marginalized Labour Force," Economy and Society, Vol. III (November, 1974), pp. 393-428; Jose Nun, "Superpoblacion relativa, ejercito industrial de reserva y masa marginal," Revista Latino americana de Sociologia, Vol. V, No. 2 (1969); and Fernando H. Cardoso, "Comentario sobre los conceptos de sobrepoblacion relativa y marginalidad", Revista Latino americana de Ciencias Sociales (Junio-

tertiary sector, particularly in the low productivity activities, is one of the classic signs of marginalization in peripheral capitalism because many displaced workers take refuge in the productivity areas of trade and services (e.g., street vendors, temporary domestic or personal services - cleaning, gardening, etc.). This seems also to have been the case in Puerto Rico to a degree. Between 1950 and 1960, employment in retail trade grew from 82,000 to 88,000 people, an increase of 7.3% while total employment was reduced by 8.8%. Likewise, non-domestic services employment jumped from 46,000 to 57,000 a 23.9% increase. The areas of domestic services, however, declined from 31,000 to 18,000 jobs, a 42% decrease which is a sharper decline than that of total employment.⁹³ Although these figures tend to substantiate our arguments on marginalization, they cannot be construed as the key indicator of the marginalization trend in Puerto Rico during this period. The reality is that most of the displaced labor force in Puerto Rico at this time was literally "expelled" from the country through migration. This pattern has no counterpart in any of the Latin American processes of industrialization. The colonial relation which allowed Puerto Ricans to enter freely into the U.S. thus provided an artificial source of stability to a structurally unbalanced economic model.

The rapid expansion of the tertiary sector responds then not only to the process of marginalization and the concomitant expansion of low productivity activities but also, and more importantly, to the expansion of private and public services essential for industrial

_____ (Deciembre, 1971).

⁹³Planning Board, Economic Report, 1966, p. A-22.

expansion. In the case of Puerto Rico, the expansion of services has a great deal to do with the high degree to which industrialization depends on external raw materials and the export of production to the U.S. market. This high degree of external orientation of production requires a great expansion of services like communication, transportation, finance, etc. As a matter of fact, between 1950 and 1960 employment in the areas of finance, insurance, real estate, transportation, communication and public utilities increased from 31,000 to 45,000 jobs, an increase of 45.1% compared to the 8.8% decline in total employment. For its part, government employment grew from 45,000 to 62,000 persons, an increase of 37.8%.⁹⁴

We can then argue that the tertiary sector is not only the "refuge" of the marginalized workers but also the structural base for the emergence of the so called middle classes or sectors. These sectors are not a class in the sense that we use this concept throughout this work. These "middle sectors" are, in fact, fractions of classes, social strata and social categories. They do not share a structural unity, and the unity they might share is to be found at the ideological and political levels.

If we take a careful look at the changes in the occupational structure of the Puerto Rican economy between 1950 and 1960, we can have a better idea of what these middle sectors are. Table 16 shows the occupational distribution of the working population according to the population censuses of 1950 and 1960. It can be noticed that the sectors that increased the most from 1950 to 1960 were the craftsmen

⁹⁴ Ibid.

TABLE 16
 EMPLOYMENT DISTRIBUTION BY OCCUPATION
 (percentages)

	<u>1950</u>	<u>1960</u>	<u>Change</u>
Professionals and technicians	4.8%	7.8%	3%
Managers, officials and proprietors except farm	5.9	7.3	1.4
Sales workers	5.2	6.3	1.1
Clerical and kindred workers	4.9	7.8	2.9
Service workers	5.3	7.7	2.4
Domestic service	5.8	3.4	- 2.4
Craftsmen and foremen	7.5	11.0	3.5
Operatives and kindred workers	16.4	18.0	1.6
Other laborers except farm	5.6	6.2	0.6
Farmers and farm managers	6.5	3.2	- 3.3
Farm laborers and foremen	30.9	19.8	-11.1

SOURCE: U.S. Bureau of Census, Census of Population Puerto Rico, 1960, Vol. I, pt. 53 (Washington: Government Printing Office, 1963), p. 53-126, Table 52.

and foremen, the professionals and technicians, clerical workers, and service workers in that order. If we were to translate these occupational categories into the concepts that we have been using so far, we could say that the craftsmen and foremen belong to the labor aristocracy. The professionals and technicians constitute a part of the social category that we have called the techno-bureaucracy, and they are a key element in the political and social organization of the system. The clerical workers and service employees, as well as some professionals and technicians, are intermediary elements mainly linked to non-productive activities. They constitute, in an embryonic form, what Poulantzas calls the new petty bourgeoisie.⁹⁵

So we can argue that these so called middle sectors are in fact elements of the traditional and the new petty bourgeoisie, that either emerged from or found new forms of articulation within the new development model. They are small merchants and small farmers linked to expanding areas like dairy products and poultry farms, and other small producers that survived or adapted to the new model.⁹⁶ The new petty bourgeois elements were mainly linked to the expansion of the tertiary sector (especially services to industry) and to the expansion of the managerial and supervisory tasks that accompanied the process of industrial expansion. A final element of these middle sectors, known as the labor aristocracy, is a fraction of the working class linked to

⁹⁵Poulantzas, Classes in Contemporary Capitalism, pt. 3.

⁹⁶As we pointed out earlier, there was some import substitution in sectors of agricultural production. This implies the "survival" and possible expansion of local elements linked to this sector of the economy. Planificacion, Informe, economico 1961, pp. 10-17.

the high productivity sector of industry. These social sectors diverge in their relation to the means of production, yet they share a privileged position (in terms of income and access to the market) within capitalist stratification. They share a similar life style characterized by relatively high income, relatively high consumption standards, stable employment, and an intermediary position between the dominant and the subordinated classes.

Since the well being of these middle sectors was a consequence of industrial expansion under the capital importation model, these sectors became a key element of the social and political support for this economic model. These sectors provided an appearance of social mobility and progress that "hid" the reality of the displacement and impoverishment of large sectors of the working classes. But we shall return to this later.

Another important element worth noting was the adaption of the local bourgeoisie to the imperialist bourgeoisie. In our analysis of Tables 8 and 9, we pointed out that there was a process of adaptation or accomodation of the local bourgeoisie to the process of industrial expansion during this period. This process of adaptation went in two ways. On the one hand, elements of the local sugar bourgeoisie stepped up rum production and entered other activities like real estate and finance. There are no studies of the process, but the evidence there is suggests this pattern of accomodation. Elements linked to rum production had been on the Boards of Directors of Fomento subsidiaries during the

1940's, and the promotion of Puerto Rican rums exports to the U.S. became a major activity of Fomento in the 1950's.⁹⁷

On the other hand, there were elements of the local bourgeoisie that went into or expanded their industrial production. As we saw earlier in this chapter, there was an increase in the value of shipments of local enterprises to the U.S. in the areas of paper, manufacturing of electrical and non-electrical machinery and other miscellaneous manufactures. Even though this was a very limited expansion, it certainly indicates that a sector of the local bourgeoisie was beginning to integrate itself successfully to the high productivity export oriented manufacturing sector.⁹⁸ For its part, the financial fraction of the local bourgeoisie seems to have benefitted also from the process of industrial expansion. According to Werner Baer, this fraction expanded its activities significantly during the 1950's by financing local economic activities.⁹⁹ Furthermore, during this period the integration of Puerto Rican financial institutions to the U.S. Federal government's financial regulatory mechanism began. In 1950, the Puerto Rican banks came under the jurisdiction of the Federal Deposit Insurance

⁹⁷In the period between 1943 to 1950, there were various executives of local rum corporation on the Boards of Directors of the Fomento subsidiaries. Between 1950 and 1960, there was a special Fomento promotion campaign of Puerto Rican rums in the U.S. Many of these rum producers were also or had been sugar producers. See Fomento Annual Reports between 1943 and 1960.

⁹⁸Between 1948 and 1963, the dividends received by local corporations increased from 4.1 million dollars to 16.3 million dollars. In other words, they quadrupled. Planificacion, Informe economico, 1967, p. A-25.

⁹⁹Werner Baer, The Puerto Rican Economy and United States Economic Fluctuations (Rio Piedras: Universidad de Puerto Rico, n.d.), pp. 62-73.

Corporation, a federal agency that guaranteed bank deposits. In 1952, at the request of the local colonial government, a depot of the U.S. Treasury was established in Puerto Rico to facilitate the availability and handling of cash on the island. Finally, during the 1950's the Federal Reserve Bank of New York opened an account for Puerto Rican banks to facilitate check clearances and other transactions between Puerto Rican banks and their American correspondents.¹⁰⁰

Even though this is an area where little research has been done, the available evidence indicates an adaptation by the local bourgeoisie to the capital importation economic model within the colonial relation. There are no indications of the emergence of an anti-imperialist fraction of the local bourgeoisie willing to dispute the dominance of the imperialist bourgeoisie over the local production and market. The available evidence clearly indicates that the local bourgeoisie was content with the share of the economic activity that corresponded to them.

Finally, the other major social force affected by the capital importation economic model was the industrial workers. They experienced improvements in their living standards in relation to their past living conditions. The average weekly salary in the manufacturing sector increased from 14.15 dollars in 1954 to 27.01 dollars in 1960.¹⁰¹ That is, while the increase of the average salary for all economic sectors between these years was 74%, that of the manufacturing workers was 90%. But as a general rule most salaried workers improved their living

¹⁰⁰Ibid., pp. 66-67.

¹⁰¹Curet Cuevas, Desarrollo economico, p. 346.

standards. In general terms, the share of national income that went into salaries increased from 59.4% in 1948 to 68.4% in 1963.¹⁰² The personal consumption expenditures increased from 620 million dollars in 1948 to 1,796 million dollars in 1963, a 190% increase.¹⁰³ Personal expenditures in recreation, education and travel increased from 59 million dollars in 1948 to 277 million dollars in 1963, an increase of 378%.¹⁰⁴ Most certainly the non-displaced workers improved their immediate living standards under this model.

This, however, does not mean that the exploitation of the working class was in the process of disappearing or that the rate of exploitation was diminishing in any significant manner. Rather, it means that exploitation assumed new forms. According to a study of Edward N. Wolff, the rate of surplus value for the manufacturing sector in Puerto Rico remained the same over the 1948-63 period.¹⁰⁵ Thus, the increased consumption of the workers did not mean a decrease in the rate of exploitation. In Wolff's words: "Increased consumption of labor absorbed the relative surplus value generated by increased labor productivity".¹⁰⁶ Hence, the improvement in the living conditions of the non-excluded workers was not achieved at the expense of capital but rather at the expense of labor.

¹⁰²Planificacion, Informe economico, 1967, p. A-5.

¹⁰³Ibid., p. A-8. ¹⁰⁴Ibid.

¹⁰⁵Edward N. Wolff, "Capitalist Development, Surplus Value and Reproduction; an Empirical Examination of Puerto Rico", in Jesse Schwartz, ed., The Subtle Anatomy of Capitalism (Santa Monica, Cal.: Goodyear, 1977), pp. 140-49.

¹⁰⁶Ibid., pp. 144, 147-48.

If we look at this from another angle, we can confirm that the immediate improvement in the living conditions of the non-excluded workers did not necessarily represent a loss for capital. It is true that workers consumption increased and that their salaries improved, but, in reality, the share of the product of their labor that corresponded to them diminished. Table 17 shows the decreasing percentage of the worker's share (represented by the wages) in the product of their labor (represented by the value added) between 1949 and 1963.

TABLE 17

PERCENTAGE THAT PRODUCTION WAGES
REPRESENT OF VALUE ADDED BY MANUFACTURING
INDUSTRY: 1949-1963

<u>Year</u>	<u>Wages</u> <u>(millions \$)</u>	<u>Value added</u> <u>(millions \$)</u>	<u>Wages as %</u> <u>of value added</u>
1949	36	93	38.7
1954	59	188	31.3
1958	93	292	31.8
1963	179	621	28.8

SOURCES: U.S. Bureau of Census, Census of Manufactures, Puerto Rico, 1949, 1954, 1958, 1963.

It is clear from this table that the share of the workers in the manufacturing industries in the product of their labor diminished during this period. Logically, this means a relative impoverishment of these workers and an increase in the share of surplus value

appropriated by capital.¹⁰⁷ The increased workers' consumption does not by any means imply a reduction in their exploitation. We thus confirm the assertion we made in Chapter 3 that the process of capitalist restructuring includes a redefinition of the forms of exploitation in Puerto Rico. From an economic model (the agricultural enclave) based on the extraction of absolute surplus value, imperialist capitalism turned to an economic model (industrialization) based on relative surplus extraction. It is this change that allows the improvement of the immediate living conditions of the non-displaced working class while maintaining a stable rate of surplus value in the industrial sector.

However, it must be remembered that the preconditions for the viability of this economic model were the exclusion (the absolute impoverishment) of a large sector of the working population from the productive process. This was manifested in the high rates of unemployment and migration. The latter, in particular, provided the capital importation model with an artificial mechanism of political and economic stability.

To sum up we can say that the capital importation model had the following effects on the socio-economic structure of Puerto Rico:

1. The restructuring of the accumulation process was completed. The industrial sector became the center of accumulation.
2. The small and medium fractions of the imperialist bourgeoisie became the dominant sectors in the productive process.

¹⁰⁷ Here we coincide with Mandel's thesis that in the long run the increases in the real wages of the workers is less than the growth in social wealth and the productivity of labor. This thesis implies a relative impoverishing over time of the working classes. Ernest Mandel, Marxist Economic Theory (London: Merlin, 1974), pp. 153-54.

3. The local bourgeoisie adapted to the new economic model, adjusting their interests to those of the imperialist bourgeoisie.
4. The reinforcement of the colonial ties between Puerto Rico and the U.S., and the consolidation of the techno-bureaucracy's importance as an intermediary.
5. The emergence of a "middle sector" that served as the basis of political support for the new model.
6. The exclusion from the productive process of a large sector of the working population and its physical expulsion from the country through migration. This displacement diminished the political and economic pressures which might have threatened the stability of the economic model.
7. The improvement of the immediate economic conditions of the non-displaced working classes which was made possible by the increase in the productivity of labor.

So far we have presented in a fundamentally descriptive manner the key features of the capital importation development model. In the next section, we shall analyze its politico-ideological dynamics and the conflicts and contradictions that this development strategy involved.

The Class Character and Contradictions of the Capital Importation Strategy

The economic model that resulted from the implementation of the capital importation strategy was proclaimed a success by the techno-bureaucracy and the imperialist bourgeoisie. According to them, this model had succeeded in moving Puerto Rico in the direction of overcoming poverty and underdevelopment. The island was presented as a successful example of a "pacific revolution" to the colonial and underdeveloped world.¹⁰⁸ The U.S. imperialist bourgeoisie made Puerto Rico

¹⁰⁸ See, for example, Earl P. Hanson, Puerto Rico Land of Wonders (New York: Alfred A. Knopf, 1960); and Kenneth Boulding, "The United States and Revolution" (Santa Barbara, Cal.: Center for the Study of Democratic Institutions, 1961).

its showcase. It presented the island to the underdeveloped countries as living proof of the "virtues" and "benefits" of capitalist development in close cooperation with the imperialist metropolises. Puerto Rico became a training and resource center for "technical aid programs" such as the "Point Four" program of President Truman and "The Alliance for Progress" of President Kennedy.¹⁰⁹ However, behind this appearance of progress reflected in the traditional economic growth indexes such as per capita income and gross product, there were a great number of contradictions that were never revealed to the public. The high rate of unemployment, the massive migration of displaced workers, the persistency of poverty, the problems of capital formation and excessive dependency on imports were never mentioned as part of the picture presented to the world and the local working classes.

The basic structural contradictions of this model come from two principal sources. The first source is to be found in the inherent

¹⁰⁹ Puerto Rico was utilized as a training center for technicians from "underdeveloped" countries under the "Point Four Program" created by President Harry S. Truman. It was argued that Puerto Rico was an ideal model to be copied by other developing countries. The Fomento Annual Report for 1954-55 said that "this activity is of great importance to strengthen the international prestige and relations of the Commonwealth, and to promote good will for the United States of America." Puerto Rico also participated in the Alliance for Progress created by President John F. Kennedy to counterbalance the political influence of the Cuban Revolution. Many high ranking members of the PPD occupied executive positions in the bureaucracy of this organization. See AFE, Informe anual, 1954-55, p. 78; Puerto Rico Planning Board, The Point Four Program (San Juan: P.R. Planning Board, 1950); P.R. Planning Board, Puerto Rico Training Ground for Technical Cooperation (San Juan: P.R. Planning Board, n.d.); Earl P. Hanson, Puerto Rico Ally for Progress (New Jersey, Von Nostrand, 1962); and Luis Munoz Marin, Mensaje del gobernador a la legislatura (1962), p. 7.

contradictions of the capitalist mode of production. The second source lies in the particular position that Puerto Rico occupies within the international capitalist division of labor.

The first of these basic structural contradictions is between labor and capital. This contradiction is manifested doubly in the exploitation of the active workers and the exclusion from the process of production of a substantial number of the working population, as a function of the needs for the expanded reproduction of capital. In other words, the rate of surplus value extracted from the active workers is increased by introducing technological changes that increase the productivity of labor. These changes deepen the rate of exploitation of the active workers while reducing the need for labor. This in turn leads to the displacement of a mass of workers that become a labor industrial reserve army for capitalism. In the case of the peripheral capitalist countries, this sector becomes permanently displaced. They become a vast marginalized mass of workers that is divided into an industrial reserve army for capital (in the periphery as well as in the metropolis, e.g., migrant labor), cheap labor supply for the low productivity sectors and a lumpen-proletarianized mass permanently displaced from the labor market.¹¹⁰

The second basic contradiction is the center/periphery contradiction. This is the cause of the structural imbalance of the economic growth in the peripheral country. The economic dynamic of the peripheral economy is determined by the needs of the international process of capitalist production and accumulation. The key decisions that affect production

¹¹⁰Cf. Quinjano, "The Marginalized Pole"; Nun, "Superpoblacion relativa"; and Cardoso, "Comentario".

and productivity are made outside the peripheral economy. Thus, the most dynamic sector of the peripheral economy is that which is linked to the international process of production and over which the imperialist bourgeoisie exerts its control. Investment, technological advances and other factors that tend to increase productivity are concentrated in this sector to the detriment of other sectors of the peripheral economy. This in time produces a gap between the internationalized sector and the rest of the peripheral economy, thus producing a chronic structural imbalance in the peripheral economy.¹¹¹

As a corollary of this second contradiction, a process of internationalization of the local market of the peripheral countries takes place. In the particular case of Puerto Rico, this process was one of assimilation of the local market to the North American market as a result of the continuation of the colonial relation. This process forced the less dynamic sectors of the peripheral economy to compete with similar products from the central economies. Agricultural products from the periphery, for example, had to compete with similar products produced at higher productivity rates in the metropolis. This represents a great competitive disadvantage for the products of the low productivity sectors of the peripheral economy and accentuates and deepens the crisis of the low productivity sectors and the structural imbalance of the peripheral economy. In the case of Puerto Rico, this can be clearly seen in the continued deepening of the agricultural crisis and the sustained levels of food imports.¹¹²

¹¹¹ Cf. Amin, El desarrollo desigual, esp. pt. IV.

¹¹² The rate of food imports to food expenditures was maintained at the same level, around 29%, between 1948 and 1963. Planning Board, Economic Report, 1966, pp. A-8, A-28.

These basic contradictions were expressed in the strategy of development in such a manner as to appear as necessary evils caused by past deeds or natural causes. The limitations and problems of the development process were to be found in nature or in the past rather than in the present contradictions of imperialist capitalism. Thus the capital importation model was presented as the solution to these "natural" limitations. In its 1948 program, the PPD presented the capital importation strategy in the following way:

In view of the limitations imposed by nature on the extension of our land, and in view of the needs of our growing population, it was logical to gear our greater efforts to the employment of the surplus labor from agriculture in industrial production. With the coming to power of the Partido Popular Democratico, effective action was taken on the need for industrialization and it became an effective reality.

. . . The success of the factories and industrial enterprises that have been established lately on the island by private and government initiative are living testimony of the fruitful prospect offered by industrialization to the creative effort of our people if we keep open the line of access to external markets. The free entrance of our products to the great U.S. market, the facilities that exist there to obtain machinery and raw materials and the willingness of Puerto Rican and U.S. capital to invest heavily here [in Puerto Rico] under the recently approved tax exemption law, are essential factors for the industrial development of Puerto Rico.¹¹³

As we see, the PPD program presents the direction that the development program takes (i.e., capital importation) as imposed by natural and demographic limitations. The direction that the development policy takes is presented as a necessity rather than as a political decision. Likewise, the colonial relation with the U.S. is presented as an "essential factor" of industrial development. Later, in this same program, the incentives and tax exemptions given to private capital

¹¹³PPD, "Programa, 1948", pp. 27-28.

are presented as necessary to encourage "Puerto Rican and U.S. capital willing to collaborate in this great effort to increase our [Puerto Rico's] production."¹¹⁴

It is clear that the PPD's program attempts to present in its discourse the interests of the power bloc (the imperialist bourgeoisie, the techno-bureaucracy and the local bourgeoisie) as the interest of all of society. Furthermore, they try to present these interests as the requisites or necessary conditions for economic progress. The "logic" of the economic policy of the dominant classes is transformed, in the PPD's discourse, into common sense: if the land is limited and the population is too large, agriculture is insufficient; therefore, industry must be developed and since this requires large sums of capital the help of local and U.S. capital is needed because without them industrial development would be impossible. Furthermore, the logic of the PPD says, capital is willing to collaborate and the colonial relation is the key to get capital for production and a large market for selling the products.

At the level of discourse, this syllogism appears impeccable, but for us, the important thing is to understand how it was articulated at the level of praxis. That is, how the logic of the dominant classes acquired the character of a social truth for all of society, and how the economic policy that articulated the capital importation strategy made viable the realization of the interest of the dominant classes by legitimizing them not only in the "verbal consciousness" but also in the practical or "implicit consciousness" of the working classes (i.e., at the level of praxis).

¹¹⁴ Ibid., pp. 28-29.

As we saw earlier, the main beneficiaries of the capital importation model were the small and medium fractions of the imperialist bourgeoisie. These fractions became the dominant element in the productive process. The local bourgeoisie that adapted to capitalist imperialism and the techno-bureaucracy, who became the main intermediary of the imperialist bourgeoisie, were also major beneficiaries of this economic model. The other social sectors that benefitted greatly by this development model were the middle sectors, whose levels of income and consumption were greatly expanded.

For all these sectors, the capital importation strategy meant progress in a practical and immediate sense. It is therefore relatively simple to understand why these classes adopted the categories of developmentalism as their ideology. For the techno-bureaucracy and the middle sectors, progress, development, mobility, modernization and other similar categories of developmentalist ideology were not merely abstract concepts but a concrete ingredient of their quotidian praxis. Better salaries, a new house, a washing machine, etc., were the living testimony of progress and modernization. These elements, who constituted the political and social leadership of the country were the principal bearers of developmentalism. The teachers, intellectuals, technicians etc., became the organic intellectuals of the PPD's developmentalism. For them, at the level of praxis, it was "true" that capital importation meant progress. The industrial development fostered by U.S. investment meant the realization of their interest and aspirations.

For the local and imperialist bourgeoisie, developmentalism provided a "transcendental" meaning or a sense of mission to profit making. The categories of developmentalism represented private capital as a

progressive force and as a friend of progress. The odious portrait of the sugar barons of the past (both local and foreign) was now substituted in the categories of developmentalism by the "friendly" picture of industrial investors. Developmentalism provided the substance for the basis of the hegemony of imperialist bourgeoisie. It was the very terrain for the forging of a social consensus that permitted the restructuring of imperialist capitalism in Puerto Rico by preserving the strategic basis for capitalist exploitation.

Yet the question that remains open is how developmentalism condensed, at the level of praxis, the contradiction between wage labor and capital? That is, how does capital manage to create a social and political equilibrium in capitalist society that involves the consent of those whom it exploits? How can capitalist relations of domination and exploitation be based on consent when a necessary condition for the expanded reproduction of capital is the impoverishment, in relative and absolute terms, of the working classes? In answering these questions, it is important to analyze two key components of the PPD's economic policy: the migration policy and the continued increase of government services and of salaries for workers.

One of the unprecedented elements of the emigration phenomena in Puerto Rico is its deliberate character. Beginning with the "Chardon Plan" in 1934, migration appears as a desirable policy to deal with the problem of poverty and over-population.¹¹⁵ By 1945, the PPD's ideologists formulated a theoretical justification that served as the premise for the PPD policy of encouraging migration.

¹¹⁵Chardon Plan, pp. 4, 6-7.

According to a report written by one of the PPD's brain trust:

Every country has something to export. If some have petroleum, others nitrate and others sugar, we [Puerto Rico] are the only country in America that besides sugar has an incalculable wealth that should be exported and should be used for the benefit of all. We have men, intelligence and working hands.¹¹⁶

By 1948, the PPD had established the Employment and Migration Bureau whose purpose was "guiding and orienting those who look for living opportunities outside the island, and taking advantage of the help provided in this area by the Federal Government".¹¹⁷ The creation of the Bureau was mentioned in the PPD's 1948 program as one of the measures of social justice implemented by the PPD and as part of the "admirable set of laws passed to protect the worker's rights as a man, a citizen, a worker and creator of wealth".¹¹⁸ In the 1950-51 Fomento Annual Report, there appears a photograph of three large airplanes being boarded by hundreds of men. At the bottom of the photographs there is the following remark:

The Department of Industrial Services [of Fomento] cooperated closely with the Department of Labor in sending Puerto Rican workers to the farms on the Continent [the U.S.].¹¹⁹

Despite the PPD's claims that its official policy on migration was one of neutrality, in practice the PPD not only stimulated but actually organized the migration of Puerto Rican workers to the U.S.¹²⁰

¹¹⁶ Salvador Tío, Informe al Señor Rector de la Universidad de Puerto Rico (1945), as quoted by Luis Nieves Falcon, El emigrante puertorriqueno (Rio Piedras: Editorial Edil, 1975), p. 13.

¹¹⁷ PPD, "Programa, 1948", p. 31. ¹¹⁸ Ibid., p. 30.

¹¹⁹ AFE, Informe anual, 1950-51.

¹²⁰ See Nieves Falcon, El emigrante; and Maldonado Denis, Emigración y colonialismo.

However, for us the important thing is how the PPD presented the migration policy in the general context of the ideological praxis of developmentalism as an element for the legitimation of the capital importation development strategy. In this respect, the most important element is that the migration process, in practice, had two of the basic contradictions of this strategy. First, it hid the process of absolute impoverishment that a vast sector of the working classes underwent. Second, it hid the incapacity of the new economic model to resolve the agricultural crisis. In other words, the migration policy blurred the politico-ideological expression of the wage labor/capital contradiction and of the center/periphery contradiction inherent in the process of integration of Puerto Rico to the international capitalist system as an industrial producer.

The migration policy killed two birds with one stone. On the one hand, it was presented as helpful to the workers that were allegedly being displaced by the rapid growth of the population, thus turning attention from the process of impoverishment of the displaced workers and from the fact that the displacement was not due to overpopulation but to other politico-economic causes. On the other hand, the migration policy made it appear as if the metropolis/colony relation was a beneficial one. Since the Puerto Ricans were American citizens, they could enter the U.S. without restriction. The PPD made the most of this by arguing that this gave the Puerto Ricans the chance to look for a better living within the "great American Union" of which the Puerto Ricans were part.¹²¹ This, of course, helped "blur" the inherent contradiction of the metropolis/colony relation.

¹²¹Luis Munoz Marin, Mensaje del gobernador a la legislatura (1951), p. 6.

In reality, the Puerto Rican migrants were employed in the lowest paid jobs and suffered from discrimination in the highly racist American society. However, in immediate terms, the economic income of the migrants was on the average higher than that of the workers in Puerto Rico. Also, they were able to find a job in the metropolis while their chances of employment in Puerto Rico were virtually nil. By 1959, the median family income for Puerto Ricans in the U.S. was 3,811 dollars per year which was more than triple the 1,268 dollars per year average income of Puerto Ricans on the island.¹²² The immediate economic condition of the migrant had most certainly improved in comparison to his previous condition and his immediate points of reference. However, the median family income of the Puerto Rican migrants represented only two thirds of the median family income of the white American families. We must also remember that the 1950's were a period of economic prosperity for the capitalist metropolises; therefore, the contradictions between the migrants and the other groups in the metropolis had not developed to the maximum possible level. Migration between 1947 and 1963 appeared as a hopeful move, as a possibility for "progress".

The second element of the PPD's economic policy that attempted to reconcile the contradiction between wage labor, and capital was the increase of government services for the workers together with the increase in their real wages. As we said before, the industrialization policy brought about an increase in the wages of the non-excluded workers. Together with this there was yet another added element to the worker's income in the form of expanded and better public services.

¹²² Kal Wagenheim, A Survey of Puerto Ricans in the U.S. Mainland in the 1970's (New York: Praeger, 1975), p. 96.

By 1962-63, the most important areas of government expenditures were education and health and public welfare. For that year, the government spent 73.1 million dollars for education, 25.5% of all expenditures, and 49.1 million dollars in health and public welfare, 17% of all expenditures. In other words, the government dedicated 42.5% of its total expenditure (287.2 million dollars) for 1962-63 to public services for individuals.¹²³

The extraordinary increase in government services represents another way in which the real income of the working classes was increased during this period. Yet this does not mean that the added income of the worker, be it in services or in wage increases, was at the expense of capital's share of surplus value. The possibility of increasing the workers' income without reducing capital's share of surplus value was based on the fact that the productivity of labor increased significantly. This was not only true for labor productivity in Puerto Rico but also in the U.S. where most of the raw materials and consumer goods came from. The logic behind this process is relatively simple. When labor productivity increases the value (the expenditure of human labor-power) of the commodities produced is reduced. That is, the labor time needed to produce a particular commodity is reduced. If this is the case with basic consumer commodities (i.e., wage goods), it would allow the worker to dedicate a smaller share of his salary to the consumption of wage goods, and he would thus have a larger share of his salary for the consumption, though a limited manner, of other goods (e.g., luxury goods).

¹²³Junta de Planificación, Anuario estadístico, Puerto Rico, 1964 (San Juan: Junta de planificación, 1965), p. 158.

In this sense, the wage form hides the process of exploitation in a double manner. First, it hides the process through which the capitalist expropriates from the worker a share of his product (surplus value). In the second place, it hides the fact that the increased consumption of the worker does not signify that the worker is getting a larger share of his product. In this case, it only signifies that his productivity has increased. That is, that he is producing a larger amount of surplus value with the same amount of labor-force expenditure; therefore, the increased salary is not at the expense of capital's share of surplus value. As a matter of fact, generally capital gets a larger share of surplus value. Thus, the wage form creates a double illusion. On the one hand, that the worker receives a fair share of his labor, and, on the other, that he is less exploited because he consumes more.

The populist rhetoric of the PPD was based on this "appearance" of the wage form. Its effectiveness was based on this immediate level where the workers "could see" the improvement in their salaries and their increased consumption but "could not see" that their labor was producing an even larger share of surplus value. The division of labor in capitalism is such that the workers have an immediate and fragmented relation with their world, and they cannot readily perceive that their collective labor continually produces more wealth and receives a constantly declining proportion of it. The immediate perception of the workers is limited in this fragmentary or quotidian praxis by the fact that they have a larger salary and consume more. The immediate social relations that the workers establish "confirm" this perception, making the developmentalists notions of progress (mobility, etc.) appear as true. That is, making those categories appear as adequate concepts to explain the immediate social relations of the workers.

So it is the form in which the structure "presents" itself in the process of fragmentary praxis that provides the strength of a material force to the populist discourse. It is the way in which reality appears in fragmentary praxis that makes it possible to present the migration policy as a measure of social justice or capitalist industrialization as the project of the "people".¹²⁴ It is in the process of fragmentary praxis that the categories of the ruling class are generalized and "accepted" (in a conflictive manner) by the working classes.

Henry Wells, in his book The Modernization of Puerto Rico, calls this process by which the categories of developmentalism became generalized in Puerto Rico a change in the mood of the Puerto Rican society.¹²⁵ What Wells does not understand is that this process of change in the values of the Puerto Rican society that he calls modernization is in reality the process of generalization of the ideology of the dominant classes. That is, the process by which the dominant classes imposed upon the rest of society a conception of the world that articulated their interest. The fact that this imposition takes place through a complex ideological and political process that is based upon the "opacity" of the real structure of exploitation, does not make it less

¹²⁴Typical of the populist rhetoric in this sense is the following quotation from one of Governor Munoz Marin's addresses:

The people are not for industrialization. Industrialization is for the people. And the great majority of the people are the workers. Within our just commitment to all the people, we shall continue to practice a particular dedication to the justice and the life of the workers.

Luis Munoz Marin, Mensaje del gobernador a la legislatura (1949), p. 7; our translation.

¹²⁵Wells, La modernización, p. 195.

of an imposition. Also, it does not make it an ideal process of change from the backward to the modern as Wells thinks. And the political stability of the model does not come from the "goodness" of the modernizing values. It comes from concrete ideological praxis. In Wells's view, the workers did not perceive the political contradictions of the model because the PPD was a unified party and because there were few divisive issues in Puerto Rican politics.¹²⁶ But the actual reason for this was that the PPD acted quickly to suppress political dissension through repression and cooption.

Furthermore, migration became an "escape valve" that alleviated potential political tensions because, in praxis, it hid the absolute impoverishment of a large section of the working classes caused by the industrialization process. It was not, as Wells argues, because the migrants were young and this was the typical age of political trouble makers.¹²⁷ Finally, the U.S. military presence in Puerto Rico indeed acted as a political stabilizing force. Yet, this was not, as Wells pretends, because the U.S. military prevented outside destabilizing influences or the typical political instability associated with Latin American military regimes at this time.¹²⁸ The U.S. military presence provided stability for continued U.S. investments and prevented any possibility for the political forces opposing the colonial relation to rise up in arms (this was proven in the 1950 nationalist uprising). The presence of U.S. military forces in the island was a symbol of repression rather than a symbol of protection and law and order.

The working classes supported the PPD because the limited progress and economic improvement that took place was perceived as potentially

¹²⁶ Ibid., pp. 274.

¹²⁷ Ibid.

¹²⁸ Ibid.

unlimited in the process of fragmentary or quotidian praxis. It was not, as Wells pretends, because the PPD brought about progress for all. In his work, Wells is actually reproducing and elevating to universal truths the fragmentary perception of capitalist development in Puerto Rico. He is reproducing rather than understanding the categories of developmentalism. As with most works on modernization, Wells assumes capitalist development is not only a desirable goal but indeed is the only possible form of development.¹²⁹

For us, the crucial point to understand is that the working classes were "inserted", in practice, in the categories of the dominant ideology (i.e., developmentalism). This explains why the imperialist bourgeoisie could establish its dominance through consent rather than by sheer force. The forging of this consent was reflected in the electoral triumphs of the PPD in all elections between 1940 and 1964.

The other major inherent contradiction of the capital importation strategy is the center/periphery contradiction. At the structural level, this contradiction deals with an added dimension of the exploitation of labor in the peripheral countries, whereby a substantial part of the surplus value created in the periphery goes to increase the mass of capital of the central economies. This siphoning of surplus value from the peripheral countries by the imperialist bourgeoisie represents an important structural problem in the long term. The continued transfer of surplus from the periphery to the center without a counterbalancing movement of resources in the opposite way leads to problems of capital accumulation and economic expansion in the long term, unless a constant inflow of capital from the metropolitan center is maintained. In other

¹²⁹Cf. Alavi, "State and Class".

words, what represents a gain for the peripheral economy in the early stages of the capital importation strategy ends up as a loss since imperialist capital "takes out" more than it "puts in". This in turn creates a tension between the accumulation needs of imperialist capital and the capital accumulation needs of the economic sectors not linked to the internationalized sector of the peripheral economy.

At the politico-ideological level this contradiction is expressed as the metropolis/colony contradiction. In the particular case of Puerto Rico, this contradiction is centered, as in most classical colonies, on the question of independence. This contradiction is manifested in the concentration of the decision making power on strategic politico-economic matters in the hands of the absent class (i.e., in the hands of the imperialist bourgeoisie). In the case of neo-colonies, this concentration of power in the hands of the imperialist bourgeoisie is more indirect and complicated than in the case of a colony such as Puerto Rico. However, for the PPD techno-bureaucracy this was not and could not be a fundamental contradiction. As a social category, the PPD techno-bureaucracy was not interested in disputing the control over the means of production by the imperialist bourgeoisie. On the contrary, it was interested in maintaining the necessary political conditions for the reproduction of the system where it occupied a position of power. For its part, the local bourgeoisie was too weak to dispute the hegemony of the imperialist bourgeoisie, and, as we saw earlier, it had been a major beneficiary of the colonial relation. In this sense, the metropolis/colony contradiction is presented by the PPD not as a contradiction but actually as a necessary ingredient of economic development. Even at times when this contradiction becomes more obvious, the solution of the

techno-bureaucracy and the local bourgeoisie to it would move in the direction of consolidating the colonial relation. As a matter of fact, when the PPD technocrats began to raise the issues involved in this contradiction, their main concern was about the balance of payments problems. They also had a secondary preoccupation with the problem of maintaining a high rate of external investment. The technocrats of the PPD did not show the concerns of their Latin American counterparts for self-sustained development, national control of the economy and other favorite themes of nationalist bourgeois Latin American developmentalism.¹³⁰ The question that comes up then is: how did developmentalism condense the metropolis/colony contradiction so that colonialism appeared as a necessary condition of development, while during the 1930's and early 1940's it had appeared as the cause of all the evils in Puerto Rican society?

In order to answer this question we must understand the significance of two fundamental processes that unfolded after the PPD came to power in 1940. The first was the implementation of the PPD reforms program within the legal-political framework of the colony. The second was the active participation of the U.S. in World War II.

In regard to the first process, we must remember that the PPD entered the political arena at the end of the Thirties with a strong anti-corporate rhetoric. Because of this, the PPD was able to channel much of the anti-American sentiment into political support for itself.

¹³⁰ See, for example, Jenaro Baguero, "La importacion de fondos externos y la capacidad absorbente de nuestra economia", Revista de Ciencias Sociales, Vol. VII, Nos. 1-2 (marzo-junio, 1963), pp. 79-92; and Jenaro Baguero "Magnitud y características de la inversion exterior en Puerto Rico", Revista de Ciencias Sociales, Vol. VIII, No. 1 (marzo, 1964), pp. 5-13.

Through the implementation of the program of reforms within the context of the colonial relationship and without actually significantly questioning it, the PPD set the politico-ideological basis for the disarticulation of the anti-American ideological position of a significant sector of the working classes. The image of the "bad" American companies was replaced, at the level of praxis for, by the image of the "just" Americans that upheld the validity of the "500 acre law" in their courts. Alongside the "bad" companies, there were "good" Americans, like Governor Tugwell, who were interested in the progress of Puerto Rico.¹³¹ The praxis of reformism had gradually "inscribed" the working classes in the categories of the imperialist bourgeoisie.

The second process inserted the Puerto Rican working classes in what was probably the most intense aspect of the ideological praxis of the imperialist bourgeoisie. The Puerto Rican workers, as American citizens, went to fight against fascism as American soldiers. They participated in the war on the side of "democracy" and "freedom" as American soldiers. Furthermore, they participated and "enjoyed" victory in so far as they were Americans. For those who remained on the island, the ideological unity fostered by the German threat in the Caribbean became an important link with the U.S. The American troops on the island were there to defend the "people" against fascism. The martial spirit of the war and the struggle against adversity provided an important ideological link between "the Puerto Rican people" and "the American people". The manager of the sugar mill or the bothersome English teachers

¹³¹ See, for example, the image of Tugwell as a progressive and benevolent reformer presented by Enrique Lugo Silva, The Tugwell Administration in Puerto Rico (Rio Piedras: N.P., 1955); and Goodsell, Administración de una revolución.

were no longer the symbols of the Americans. Instead, the symbol of the American became the "benevolent" Governor Tugwell or a trench partner in the battlefield. Even though this new image was not necessarily rid of conflicts, it certainly was not the previous image of the American oppressor. Moreover, we must remember that this new image was not derived from some advertising campaign. It came from the concrete experiences of quotidian life, which in turn were reinforced by what must have been the greatest propaganda effort of humanity until then.¹³²

The success of reformist developmentalism in condensing and transforming the terms of the metropolis/colony contradiction provided the basis for the legitimation of the colonial relationship. If, as the PPD argued, the U.S. capital and market were indispensable for the development of Puerto Rico, independence would only harm the chances of development. The insertion of the working classes in the categories of imperialist capitalist development through the ideological praxis of the reformist project and the war situation provided the politico-ideological basis that made viable the second stage of the developmentalist strategy.

There are, of course, other elements that contributed to defusing the metropolis/colony contradiction. One of these was the political concessions made by the imperialist bourgeoisie to the techno-bureaucracy in Law 600. There also was the inadequacy of the PIP in presenting

¹³²To our knowledge, there are no studies of the sociological impact of the Second World War in Puerto Rico. It would be very interesting to study the perception of the war expressed in the popular culture of the time, (e.g., songs, poems, and other popular expressions).

the pro-independence project as the project of the "people", something that the PPD had clearly achieved with developmentalism.

The defusion of this contradiction then facilitated the continuation of the process of restructuring of imperialist capitalism in Puerto Rico. This process was completed through the capital importation strategy. In other words, the capital importation strategy successfully completed the formation of a new historic bloc. The imperialist domination was restructured in such a manner as to reestablish the correspondence (not the identity) between the economic structure of imperialist capitalism and the ideological and legal-political superstructure.

Before concluding this chapter, it is necessary to clarify an issue that has recently created some controversy. This is the issue of the meaning of the redefinition of the reformist strategy around 1947 and the implementation of a capital importation strategy. Throughout this chapter, we have referred to the capital importation strategy as the second stage of developmentalism, thus emphasizing the continuity between the reformist and the capital importation strategies. However, for some authors these are two distinct strategies that represent a rupture in the PPD's economic policy and ideological stands. According to these authors, the reformist strategy of the Forties was aimed at a national autonomous capitalist development, and the changes that took place around 1947 represented a change of course whereby the PPD renounced the autonomous model and gave in to the imperialist pressures by adopting a model of dependent development.¹³³

¹³³The principal proponents of this thesis are Quintero Rivera, "El papel del estado", and "La base social"; Gonzalez, "Class Struggle"; and Navas Davila, La dialectica del desarrollo, and "Surgimiento y transformacion".

The authors that argue this depart from two different assumptions. Quintero and Gonzalez argued that the national autonomous development model was a function of the interests of the class in the process of formation that constituted the leadership of the PPD. For Quintero and Gonzalez, the redefinition of the national autonomous development strategy was the result of the structural obstacles encountered by the PPD in its attempt to implement this strategy. These structural obstacles and the lack of a clear understanding of how to deal with them prompted the ideological transformation of the PPD leadership that led them to pursue an alliance with the imperialist bourgeoisie in order to overcome these obstacles and remain in a position of power. In this, the PPD leadership acted against its interests and intentions, renouncing the political project that would have made them a dominant class.¹³⁴

The second position is that of Navas, for whom the national autonomous development strategy of the Forties indeed represented the interest of the people. For him, during the Forties the PPD was the true expression of the interests of the people. The national autonomous development strategy had been made possible by the particular conditions of the Thirties and the war in the Forties. However, after the war the aggressive investment policy of U.S. capital and the replacement of the "technocratic-intellectual elite", that ruled the PPD in its early stages, by "technocratic-entrepreneurial elite" led to the ideological transformation of the PPD. This in time led the PPD to change its course and follow the road of dependent development.¹³⁵

¹³⁴Quintero Rivera, "El papel del Estado", pp. 29-30; and Gonzalez, "Class Struggle", pp. 51-52.

¹³⁵Navas Davila, "El sustrimiento y transformacion", pp. 26-28, and La dialectica, pp. 90-94.

We believe that we have established clearly that the reformist project was not by any means a national autonomous development project. For us, it is inconceivable, in light of the evidence presented in Chapter III, to speak of a national autonomous development project that never was. Furthermore, it is inadequate for the same reason to speak of an ideological transformation, in the sense of a rupture, as the reason for the redefinition of the reformist strategy after the war.

It is true that the development strategy is redefined and that ideologically the discourse of the PPD changes its emphasis from the anti-corporate reformist denunciations to conciliatory optimism. However, as we have seen, this represents a point of transition in the process of imperialist capitalist restructuring in Puerto Rico rather than any change in course by the PPD. The ideological praxis of reformist developmentalism had succeeded at the level of class practices in deactivating the anti-American sentiment of the Thirties as a political expression of the popular classes. The reformist political project had succeeded in presenting the development strategy of the techno-bureaucracy and the imperialist bourgeoisie as the only viable strategy. It had also succeeded in inserting the working classes in the categories of the dominant ideology. The changes in the PPD discourse (i.e., in the abstract level of ideology) do not represent a rupture. Rather, they are an adjustment that allows for the correspondence between the ideological praxis of imperialist capitalism and the PPD's discourse. The process of restructuring had come full cycle.

To consider a concrete example, let us take the PPD's position regarding the question of independence during the Forties. During the 1940 and 1944 elections, the PPD used the slogan "the status is not an

issue" and remained formally neutral on the question of independence. For the 1948 elections, the PPD still maintained a formal position of neutrality, but it was common knowledge that the PPD did not favor independence and was already negotiating a new colonial arrangement with the U.S. Congress.¹³⁶ This formal position of neutrality was maintained until just before the approval of Law 600 in 1950. In its 1952 program, the PPD finally declares that Puerto Rico is not a colony any more and that becoming a Commonwealth has resolved the colonial question.¹³⁷ The question here is whether the PPD leadership was really in favor of independence at any time before this point, and whether the change from a position of neutrality is a rupture or an adjustment in the political stance of the PPD?

In light of our analysis throughout the past two chapters, in practice the PPD was never for independence despite the fact that there were pro-independence elements within it. At all times, the PPD leadership evaded the question of independence and made sure that its reform programs were well within the limits of the colonial constraints. The anti-corporate stance was always very well defined in its practice where it was limited to the sugar corporations. Conversely, it was very ambiguous in its rhetoric where it appeared very radical, thus appealing to the working classes. In this sense, what happens with the PPD after 1948 is not an ideological transformation from anti-Americanism to pro-Americanism. Rather, it is an adjustment between discourse and praxis.

¹³⁶ Anderson, Gobierno y partidos, pp. 67-86.

¹³⁷ PPD "Programa economico y social, status politico, 1952" in Compilacion de programas.

Navas never substantiates with empirical evidence his idea that a "technocratic-entreprenurial elite" replaced a "technocratic-intellectual elite." He never says who the members of one elite or the other were nor does he discuss the process of conflict through which one elite replaced the other. Moreover, the evidence that we have seen shows that the key elements involved in the design of the development policy of the PPD remained in their positions throughout the Forties and Fifties.¹³⁸ In our opinion, Navas' thesis is unwarranted. He never presents any evidence and poses the question as the triumph of the bad guys over the good guys.

It is clear then that the idea of an ideological transformation or a change in course by the PPD is inadequate to explain the redefinition of the reformist development strategy after the war. As we have seen, the changes that took place represent a point of transition between successive stages of imperialist capitalism in Puerto Rico within the ideological framework of developmentalism. These changes represent readjustments in the pattern of accumulation and particular forms of class realignments between specific fractions of the imperialist bourgeoisie and its local intermediaries.

By the early 1960's the capital importation model began to show signs of exhaustion. The wage increases won by the trade unions, the application to Puerto Rico of the Federal government's minimum wage laws, the increase in shipping rates by the U.S. merchant marine and other similar problems began to make Puerto Rico a less attractive site

¹³⁸ Munoz was head of the party throughout all of this time, and Teodoro Moscoso was the head of Fomento and a most influential figure during both stages of developmentalism. Many of the cadres of the PPD that dealt with development policy were also very influential in both stages of developmentalism.

for light industry.¹³⁹ Besides this there was the added element of competition created by the opening of the U.S. market to the European light industry as a consequence of the trade agreements brought about by the "Kennedy rounds." These problems coincided with the emergence of certain particular conditions that made Puerto Rico attractive to the monopoly fraction of the U.S. imperialist bourgeoisie that had already shown some interest in investing in Puerto Rico.

The next chapter analyzes the process of exhaustion of the capital importation development model and how the techno-bureaucracy tried to deal with it by deepening this model. Finally, it analyzes what impact this process of exhaustion had on the process of politico-ideological class struggle in Puerto Rico.

¹³⁹ AFE, Informe anual, 1958-59, pp. 9-10.

CHAPTER V

IMPERIALIST MONOPOLY CAPITAL; THE DEEPENING
OF THE CAPITAL IMPORTATION MODEL AND THE
SHARPENING OF THE POLITICO-IDEOLOGICAL
CONTRADICTIONS OF DEVELOPMENTALISM: 1963-1978Introduction

We have seen how the reformist and the capital importation strategies of development articulated the political and ideological conditions that made possible the restructuring of imperialist capitalism in Puerto Rico and the realignment of class alliances within the power bloc. Our argument has been that each of these stages of the developmentalist economic model represented a particular accumulation model in which the main beneficiaries were a particular fraction of the imperialist bourgeoisie and their local allies. We believe to have established with some clarity how the process of formulating and implementing each of the strategies followed was a function of class interest and of the struggle of these classes, at the political and ideological levels, to impose their views about how to organize the economic process on the rest of society. The previous chapters have illustrated how the economic policy implemented by the colonial state inserted the working classes in the categories of imperialist bourgeois developmentalism. It was through this process that the structural contradictions of capitalist development were mediated and a conflictive consensus was achieved. The possibility of condensing and mediating the structural

contradictions of capitalism provided, in turn, the basis for the continuation of imperialist domination in Puerto Rico. Developmentalism provided the terrain where this domination was achieved in such a way that large sectors of the working classes as well as sectors of the local propertied classes identified their interests, at the politico-ideological level, with those expressed in the developmentalist political project.

In this chapter, I intend to analyze the structural problems confronted by the capital importation model at the end of the 1950's and in the early 1960's and how these problems work against the alliance between the techno-bureaucracy and the small and medium fraction of the imperialist bourgeoisie. We shall see what the politico-ideological contradictions generated by these structural problems are and how the techno-bureaucracy attempts to provide a solution to these problems by deepening the capital importation strategy. Finally, we shall see what new problems and contradiction this creates. In other words, we will analyze the process by which the capital importation economic model comes to a crisis and the impact this has at the politico-ideological level of the process of class struggle.

The Politico-Economic Basis for the Deepening of the Capital Importation Model

The period between 1959 and 1963 was critical for the capital importation economic model. The unfolding of this economic model was accompanied by a series of political and economic developments that negatively affected the political and economic advantages which had attracted U.S. capital to Puerto Rico. According to Fomento's 1958-59 Annual Report, there were a series of conditions that were negatively affecting the "industrial climate" in Puerto Rico at that time. The report mentioned various problems that worried the Fomento hierarchy.

The most important of these were:

1. Rapid increases in minimum wages due the Federal Government imposition of higher minimum wage standards.
2. Drastic increases in the shipping rates of the U.S. merchant marine which affected all trade between Puerto Rico and the U.S.
3. Problems with the communication system.
4. The undermining of the tax exemption incentive because of the propaganda in favor of statehood (annexation to the U.S.) for Puerto Rico.
5. The introduction of gang-style violence in the labor movement.
6. The restrictions imposed on oil imports by the U.S. President.
7. The lack of stock exchange as a means of providing capital funds for investments.
8. The termination of the tax exemption period for many U.S. industries established in the early 50's and the threat that these industries would close down operations.
9. An investment lag due to the 1958 recesssion in the U.S.¹

As we can see from this enumeration, the basis of the capital importation model (cheap labor, low level of unionization, tax exemption, easy access to the U.S. market) was threatened by these developments. But what made these problems worse was that the PPD Government had no power to act upon many of them because of the limitations imposed by the colonial relationship. The cases of the Federal minimum wage levels and of the shipping rates are perhaps the best illustrations of the limitations of the colonial government.

As was pointed out in Chapter III, the fixing of minimum wage levels in Puerto Rico became a matter under the jurisdiction of the Federal Government agencies after the passage in 1938 at the Fair Labor Standards Act by the U.S. Congress. In the beginning, the application

¹AFE, Informe anual, 1958-59, p. 4.

to Puerto Rico of this part of Roosevelt's New Deal program was welcomed by the PPD as a measure of social justice. Its immediate effect was indeed one of improving the wages of the workers, while at the same time forcing the disappearance of such industries as the home needlework industry which paid wages below the subsistence levels.

However, if in the short run Federal legislation on minimum wages did much to help in the process of restructuring, in the long run it became a limitation for the capital importation strategy. The U.S. Government and the Congress in particular argued that the application to Puerto Rico of minimum wage legislation was aimed at improving the standard of living of the Puerto Rican workers. But behind these noble declarations were the pressures brought to bear on the Congress by the American trade union movement and sectors of the U.S. bourgeoisie. The trade unions argued that low wages in Puerto Rico were stimulating "runaway shops", particularly in the textile industries, creating unemployment and weakening the bargaining power of the unions.² The sectors of the North American bourgeoisie that had no investments in Puerto Rico complained that the Puerto Rican producers enjoyed privileges that they did not have and, therefore, presented them with unfair competition. There was much concern from different ranks that the unfair advantage of industries operating in Puerto Rico would promote a proliferation of "runaway shops" in Puerto Rico by the textile industries of the U.S. East Coast. Sensitive to the pressures of their constituents, the

²"U.S. Unions in Puerto Rico", pp. 10-11.

U.S. Congress used minimum wage legislation as a means to limit Puerto Rico's competitive advantages.³

This does not mean that Congress wanted to eliminate this advantage altogether. The situation was a contradictory one. On the one hand, the politico-strategic and economic interest of the imperialist bourgeoisie made it necessary to stimulate industrial development in the colony to maintain its stability. On the other hand, the development of Puerto Rico's economy at the expense of other regions within the U.S. had to be avoided. Hence, the application to Puerto Rico of the minimum wage regulations was selective and always maintained a wage differential between Puerto Rico and the U.S.⁴ As the result of action taken by the minimum wage committee between 1950 and 1960, average wages increased in Puerto Rico from 42 cents to 94 cents, a 124% increase, while the average wage in the U.S. increased from 1.50 dollars in 1950 to 2.30 dollars in 1960, a 53.3% increase. Because of this increase, the average wage in Puerto Rico represented 41% of the average U.S. salary in 1960, while in 1950 it had represented 28% of the U.S. average salary. However, the wage differential was not only maintained, it was actually increased. In 1950, there was a 1.08 dollars differential in the average

³ Aristalco Calero and Jose A. Herrero, "Statements of Profs. Aristalco Calero and Jose Herrero", United States-Puerto Rico Commission on the Status of Puerto Rico, Hearings, Vol. 3 (Washington, D.C.: Government Printing Office, 1966), pp. 1-16; and Lloyd Reynolds and Peter Gregory, Wages, Productivity and Industrialization in Puerto Rico (Homewood, Ill.: Richard D. Irwing, 1965), pp. 44-45, 304.

⁴ There were different minimum wage levels between Puerto Rico and the U.S. In addition, there were differential levels of minimum wages between the different industrial branches in Puerto Rico; Reynolds and Gregory, Productivity and Industrialization, chap. 2.

salaries, but by 1960 the differential was 1.30 dollars.⁵ In other words, an absolute differential margin in the average salaries was maintained within certain limits.

This intervention by the Federal Government was effective in restraining the proliferation of "runaway shops," but it also undermined the immediate economic interest of the small and medium fractions of the imperialist bourgeoisie investing in Puerto Rico. The restraining influence of the Federal minimum wage policy was such that two economists point to it as one of the major causes for the reorientation of the capital importation policy towards the attraction of capital intensive industries.⁶ In any case, it was obvious that the colonial government lacked the power to do anything about wage policy.

On the question of shipping rates, the position of the colonial government was also one of impotency. The notion that free trade existed between Puerto Rico and the U.S. is an euphemism that hides the commercial monopoly that the U.S. has over the island. This monopoly had existed since the U.S. invasion in 1898. Since that time, Puerto Rico had been incorporated in the U.S. tariff system. All U.S. shipping laws were applied to Puerto Rico, limiting the island's trade with other countries.

By 1960, 83% of Puerto Rico's imports came from the U.S. and 97% of its exports went to it.⁷ A substantial part of the 17% of the imports

⁵U.S. Department of Commerce, Economic Study of Puerto Rico, Vol. 2 (Washington, D.C.: Government Printing Office, 1979), p. 56; also AFE, Informe anual, 1958-59, pp. 12-13.

⁶Reynolds and Gregory, Productivity and Industrialization, p. 83.

⁷Planificacion, Informe economico, 1961, pp. A-15, A-16.

that did not come from the U.S. were accounted for by oil imports from Venezuela for the U.S. refineries operating on the island. By 1963, Puerto Rico was the second largest importer of U.S. products in the American hemisphere. It was only exceeded by Canada. Puerto Rico was also the fifth largest importer U.S. goods in the world, only Canada, England, West Germany and Japan exceeded it.⁸

The imposition on Puerto Rico of the U.S. shipping laws was a key factor for this amazing situation. These laws, among other things, allowed for the transportation of merchandise between the U.S. and Puerto Rico to be carried exclusively on U.S. ships. This has historically maintained the monopoly of U.S. shipping firms in Puerto Rico. In 1957, under the protection of these laws, the U.S. companies operating in Puerto Rico declared a rate increase of 28.8%.⁹ There was nothing that the colonial government could do to prevent or change this. The only government body that had the power to approve or deny this increase was the Federal Maritime Commission.¹⁰ As with the minimum wage restrictions, the colonial government was powerless to deal effectively with what it had diagnosed as a problem affecting economic development.

The other elements which worried Fomento are also illustrative of the fragileness of the basis of the capital importation model and the incapacity of the colonial government to do much about it. In 1959, President Eisenhower issued Presidential Proclamation 3279 which imposed

⁸Luis Munoz Marin, Mensaje del gobernador a la legislatura (1963), p. 5.

⁹AFE, Informe anual, 1958-59, pp. 10-11.

¹⁰U.S. Department of Commerce, Economic Study, Vol. 2, pp. 443-47.

limitations on oil imports from foreign countries.¹¹ This restriction had negative implications for the recently established oil industry in Puerto Rico and threatened to freeze any possibility for its expansion. Proclamation 3279 was at odds with Fomento plans for developing a petrochemical complex on the island. These plans had been in preparation since the mid 1950's.¹² As with the case of the shipping rates and the minimum wage law, there was nothing that the PPD could do about this. However, as we shall see later, due to the peculiarities of the colonial relationship what was a threat in 1959 became the pillar of petrochemical expansion in Puerto Rico between 1964 and 1973.

It is obvious that two of the bases of the capital importation model were experiencing problems. Cheap labor and unrestricted access to the U.S. market were beginning to clash with the general interest of the imperialist bourgeoisie. The inherent dialectics of the metropolis/colony relationship were surfacing and undermining the basis of the capital importation economic model.

The other two pillars of the capital importation model that were called into question at this time were industrial peace between labor

¹¹For a comprehensive account of the U.S. oil import regulation programs see Douglas R. Bohi and Milton Russel, Limiting Oil Imports (Baltimore: The John Hopkins University Press, 1978).

¹²In 1954 Fomento requested research proposals on the viability of a petrochemical complex on the island from various North American research institutions. There are two of these proposals in the Fomento Library. See Illinois Institute of Technology, "Survey of Potential Petrochemical Industry in Puerto Rico", for the Economic Development Administration, Proposal no. 54-701 I (July 9, 1954); and Battelle Memorial Institute, "Proposed Research Program on Investigation of the Economic Possibilities for a Petroleum Chemical complex in Puerto Rico to the Economic Development Administration", (Columbus, Ohio: July 9, 1954). We found out that a study was finally made in 1954 under the direction of Prof. Walter Isard. Yet, we were not able to locate this study.

and capital and the effectiveness of tax exemptions. By dividing the CGT in 1945, the PPD had stimulated the coming to Puerto Rico of local chapters of U.S. labor unions. These unions were generally coopted by the bosses and did not pose any major threats to what the PPD considered the appropriate industrial climate.¹³ But by the end of the 1950's, the competition among U.S. trade unions for membership brought about a proliferation of gang-style violence in union elections and bargaining process.¹⁴ Fomento attributed the responsibility for the failure in the promotion of various enterprises to these violent incidents.¹⁵

On the question of tax exemption, Fomento was worried that with the termination of the tax exemption period for many companies due around 1960 many of these would close shop and go back to the U.S. An element that added to this uncertainty was Section 931 of the U.S. Internal Revenue Code. This section of the Code stipulated that U.S. companies operating in Puerto Rico would have to pay Federal taxes on profits repatriated to parent companies while the subsidiaries were active, but if the subsidiaries liquidated their assets all accumulated profits could be repatriated without payment of any Federal taxes.¹⁶ Fomento thought that this would cause many corporations to close down at the end of their exemption period and take home their accumulated profits. Fomento

¹³Garcia and Quintero Rivera, Desafio y solidaridad, pp. 137-38; and "U.S. Unions in Puerto Rico", p. 13.

¹⁴AFE, Informe anual, 1958-59, pp. 9-10; "U.S. Unions in Puerto Rico", pp. 12-13; and Garcia and Quintero Rivera, Desafio y solidaridad, p. 137.

¹⁵AFE, Informe anual, 1958-59, pp. 9-10.

¹⁶U.S. Department of Commerce, Economic Study, Vol. 2, p. 5.

was so worried about this that it ordered a study of 60 companies whose exemptions were about to terminate to find out what the intentions of these companies were after their exemptions expired.¹⁷ The study revealed that the majority of the companies had every intention of staying, but the uncertainty remained until the first company was confronted with the loss of exemption.

The other question in regard to the tax exemption issue was what to do when Law 6 of 1954 expired in 1963. The techno-bureaucracy had to deal with these questions and resolve them if they wanted to remain in power.

There was a whole series of other problems that also seriously questioned the viability of the capital importation model. The problems that worried the most the PPD leadership were expressed in the 1960 PPD program. According to this document, the key problems at that time were: a) "technological unemployment" (i.e., unemployment created by industrial technology); b) rapid urban growth, and its colloraries (i.e., crime, poor housing, etc.); c) the slow development of agriculture; d) the high degree of economic concentration and the low degree of Puerto Rican capital participation in the process of industrialization; e) the materialist and consumerist attitude of society; and f) the mixing of religion and politics.¹⁸

This list was the result of a process of internal criticism in the PPD that had begun around 1958. The PPD leadership was beginning to

¹⁷Omega Management, Inc., "Intention of Sixty Companies in Puerto Rico with Expiring Tax Privileges; A Report to the Economic Development Administration", (May 15, 1962).

¹⁸PPD, "Programa; lo que nos enorgullece y lo que nos preocupa, 1960" (Mimeographed, 1960), pp. 30-34.

perceive the problems of the capital importation model and was worried about its possible political impact. They worried that they could be defeated in the 1960 election.¹⁹ They had seen the Partido Estadista Republicano (PER) gain strength after the reorganization of the PR as the PER in 1952. The PER had obtained 12.9% of the vote in the 1952 election, 26.7% in the 1956 election and 31.9% in the 1960 election. For its part, the PPD had obtained 64.9% of the vote in the 1952 election, 66.9% in 1956, and 57.9% in 1960.²⁰ The PPD's worries were not unfounded.

The PPD was also preoccupied by the emergence of a political party backed by the Catholic Church, the Partido Accion Cristiana (PAC). This party directed its campaign mainly against the PPD. It had the public support of the Archbishop of San Juan and the Bishop of the Diocese of Ponce (both of them North Americans).²¹ The PAC got 6.6% of the vote in the 1960 election, which accounted in part for the reduction in the vote of the PPD. However, the PAC did not develop into a major political force and disappeared after the 1964 election.²²

An additional element at this political conjuncture that worried the PPD leadership was the impact that the Cuban revolution and the worldwide decolonization process might have on the colonial question in Puerto Rico. Though the electoral base of the PIP was reduced sharply between 1952 and 1960, the colonial question was always a worry to the PPD.

¹⁹ Juan M. Garcia Passalacqua, La crisis politica en Puerto Rico 1961-1966 (Rio Piedras: Editorial Edil, 1970), p. 19.

²⁰ Bayron Toro, Elecciones y partidos, pp. 278-79; and Wilfredo Figueroa Diaz, El movimiento estadista en Puerto Rico; pasado presente y futuro (Rio Piedras: Editorial Cultural, 1979), pp. 54-55.

²¹ Anderson, Gobierno y partidos, pp. 62, 130-33.

²² Bayron Toro, Elecciones y partidos, pp. 278-79.

Moreover, in 1956 and 1959 two pro-independence groups were created, the Federacion de Universitarios Pro Independencia (FUPI) and the Movimiento Pro Independencia (MPI). These groups revived the militancy of the PN and attempted to bring the attention of the international community to the colonial situation of Puerto Rico. Although the Pro-Independence Movement did not represent an immediate threat for the PPD or the U.S. hegemony in Puerto Rico, the possibility of bringing the Puerto Rican colonial case to the attention of international political bodies was a source of worry for the U.S. as well as for the PPD.²³

The sharp intuition of the PPD politicians helped them to perceive the potential threats to their remaining in a position of political power that were present at this conjuncture. Aware of the politico-economic limitations of the capital importation economic model that served them as the material basis of their power, the PPD leadership attempted to reform the colonial relation as defined by Law 600. In seeking these reforms, the PPD sent Joint Resolution 2 passed by the Puerto Rican legislature in March, 1959 to the U.S. Congress. This Resolution proposed certain changes to Law 600 regarding: a) the applicability to Puerto Rico of Federal laws; b) the possibility of Puerto Rico entering into commercial treaties of its own subject to their approval by the U.S. President; and c) judicial and tax matters. It also proposed a change in the language of Law 600 that may have given the impression that Puerto Rico was a mere possession of the U.S.²⁴

²³Silen, Historia de la nacion, pp. 365-80; Maldonado Denis, Puerto Rico, pp. 191-92; and Juan Mari Bras, El caso de Puerto Rico en las Naciones Unidas (Habana: Asociacion Cubana de Naciones Unidas, 1975), pp. 10-13.

²⁴Fernos Isern, El Estadado Libre Asociado, pp. 417-18.

This proposal was eventually presented to the U.S. Congress as what would be known as the Fernos-Murray bill (the names of the Puerto Rican Resident Commissioner and the U.S. Senator that drafted the bill). Its intention was to enhance the powers of the Commonwealth in such a manner as to provide the PPD techno-bureaucracy with the means to solve some of the problems of the capital importation model. Of particular importance in this sense were the changes suggested in the areas of applicabilities of Federal laws and external trade. However, consideration of the bill was continually postponed and Congress never took any action on it.²⁵

Having failed in their attempt to resolve the problems of the development model by reforming the colonial relation, the disagreement within the PPD about how to resolve the problems it faced increased and two factions emerged with different ideas about the solution to the problems of the development model. On the one hand, the upper echelon of the PPD leadership favored continued negotiating with the U.S. Congress and applying some pressures to exact some concessions from them. The idea put forward by Munoz was to hold a plebiscite in which Puerto Ricans would decide whether they wanted independence, statehood or commonwealth status, and then to use the plebiscite to get Congress to agree to grant reforms for the commonwealth formula. On the other hand, there was an embryonic faction led by a group of young technocrats (lawyers, economists, planners, etc.) that favored a firmer approach. They wanted to advocate for reforms in the style of the 1940's. According

²⁵Fernos reproduces excerpts from the hearings held by Congress on this proposed bill. These show the colonialist attitude of the Congressmen and belie the idea that Law 600 granted Puerto Rico internal sovereignty. Fernos Isern, El Estado Libre Asociado, especially pp. 402-11, 433-69.

to this line of thought, the PPD should turn away from the unconditionalist attitude it had assumed in regard to U.S. capital and get back on the reformist track towards, presumably, some kind of state capitalism model. For them, the cause of most of the evils in the country were to be found in the take over by foreign capital of the Puerto Rican economy. This embryonic faction was encouraged by a member of the PPD's hierarchy, Roberto Sanchez Vilella. He was the right arm of Munoz and the Secretary of State of the Commonwealth.²⁶

Though this "neo-reformist" faction never became a formal group the lines between them and the high hierarchy were fairly clearly drawn. The most common interpretation of the factional division of the PPD explained it as a generational division, a conflict between the young and the old within the party.²⁷ However, a close look at this process tells us that the generational issue is more one of appearance than substance. The neo-reformist faction did not criticize the hierarchy's position just because they were young and full of new ideas. There was more substance to their argument. This substance stemmed from a serious preoccupation with the course that the PPD was taking. Looking retrospectively, it could be argued that the young technocrats who formed the bulk of the neo-reformist faction were foreseeing that the route the PPD had followed led to a dead end. The neo-reformist technocrats

²⁶For a good account of the formation and confrontation of these factions see Garcia Passalacqua, La crisis politica.

²⁷This thesis was initially proposed by Garcia Passalacqua, but it was later subscribed by others, thus becoming the most accepted explanation of the split within the PPD. See Ismaro Velazquez, Munoz y Sanchez Vilella (Rio Piedras: Editorial Universitaria, 1974); Gordon K. Lewis, Notes on the Puerto Rican Revolution (New York and London: Monthly Review, 1974), p. 22; and Silen, Historia de la nacion.

argued that in order to avoid walking into a dead end and falling from power, the PPD had to go back to its reformist origins.

The positions of this faction are reflected in the works of two men associated with this faction, economist Genaro Baquero and sociologist Luis Nieves Falcon. Their works were published in the Revista de Ciencias Sociales of the University of Puerto Rico. The work of Baquero criticizes the capital importation model for leading the country into an extreme dependency on foreign capital. He warned that unless something was done to reverse this pattern the country would be faced with a serious problem of capital accumulation. Nieves Falcon criticized the conservative ideological turn of the PPD from its reformist position to a conservative one.²⁸ In their criticism, Baquero and Nieves did not propose any radical rupture of the colonial relationship. They merely suggested that the PPD should moderate the heavy dependency on capital importation and assume a more conscientious and progressive position.

Confronted with the possibility of a division within the PPD, Munoz, who still had the undisputed leadership of the party, imposed certain measures that were intended as a compromise between the two positions. These were:

1. The passage of a new industrial incentive law that continued and deepened the capital importation development model.
2. The elaboration of a program of social reforms known as "El Proposito de Puerto Rico" (The Purpose of Puerto Rico).
3. The retirement of Munoz from the governorship and the designation of Roberto Sanchez Vilella as his successor and as the party candidate for governor in the 1964 election.

²⁸ Luis Nieves Falcon "El futuro ideologico del Partido Popular Democratico", Revista de Ciencias Sociales, Vol. IX, No. 3 (septiembre de 1965), pp. 237-261, Baquero "La importacion de fondos externos"; and Baquero "Magnitud y caracteristicas".

4. The holding of a plebiscite as a means to put pressure on the U.S. Congress to grant some reforms to the Commonwealth.

Though these measures did not resolve the conflict, the designation of Sanchez Vilella as Munoz's successor brought some hope to the neo-reformist elements. The 1964 elections unified, if only temporarily, the PPD ranks. But behind this unity there were deep divisions that expressed the ideological contradictions generated by the implementation of the capital importation development strategy. The following sections of this chapter analyze the process by which this strategy was continued and deepened and how this led to the sharpening of the politico-ideological contradictions within the PPD. Finally, we analyze the realignment of the political forces within the colonial power bloc.

The Deepening of the Capital Importation Model

By the end of the 1950's, the attempts of the techno-bureaucracy to deal with the political limitations of the capital importation model had failed. Thus, the techno-bureaucracy adopted certain politico-economic measures to secure the continuity of the capital importation strategy as a means of keeping these problems from becoming a crisis. In doing this, the techno-bureaucracy actually deepened the structural basis of the capital importation strategy by offering further incentives to U.S. capital, thus increasing the attractiveness of Puerto Rico for U.S. capital.

The first measure aimed at increasing the attractiveness of the island to imperialist capital was the passage of new industrial incentive law. This was Law 57 of June 13, 1963, also known as the "Puerto Rico Incentive Act of 1963." This law would be a substitute for Law 6 of

1953 which was to expire in December, 1963.²⁹ The most important provisions of this law were: a) tax exemption on industrial income and property and from all local and municipal taxes and licenses for periods of 10, 12, and 17 years; b) the demarcation of different geographical zones for tax exemption eligibility (i.e., zones would be classified into three categories for which different tax exemption periods would be applicable: high industrial development zones were to have 10 years exemptions; intermediate industrial development zones 12 years; and low industrial development zones 17 years); c) corporations eligible for tax exemptions could choose to begin their exempt period at any point within the first two years of operation; d) the exemption period could be doubled if the corporations choose to have only a 50% tax exemption instead of the 100% exemption; and d) if at the end of the tax exemption period the corporation showed a net loss from their operations throughout the exempt period these losses could be deducted from their taxable profits for a period of up to five years or until the losses had been offset by the profits, whichever came first.³⁰

Law 57 enhanced Puerto Rico's attractiveness as a "tax haven". The idea was to offset the negative impact that the increases in minimum wages and in shipping rates had over the profitability for foreign capital. But perhaps the most important element of this law was that it offered an added incentive for the capital intensive industries that were beginning to establish operations in Puerto Rico. To these high investment enterprises, the long exemption periods provided strong incentive. Most of the capital intensive industries were the kind of industry that begin to show profits in the long term,

²⁹Puerto Rico, Leyes (1963), pp. 92-134. ³⁰Ibid.

contrary to light industries that were a low investment, quick profit venture. Some of these heavy industries, such as oil refining and chemical production had begun operations in Puerto Rico since the mid 1950's. Fomento and the PPD government were aware that if the right kind of incentives were provided this could be an important area for maintaining the viability of the capital importation development strategy. However, the immediate intention of the PPD in passing Law 57 was not to attract these industries in particular but to continue attracting U.S. investment in general and to avoid any dislocations in the colonial economy.³¹

Curiously, in his 1963 Message to the Legislature, Governor Munoz Marin proposed two contradictory measures regarding the continuation of the capital importation strategy. On the one hand, he urged the legislators to pass Law 57, which was mainly intended to attract U.S. investment. But, on the other hand, he urged Fomento to step up its efforts to attract and promote local investment. In Munoz's words, Fomento's effort should be geared towards "obtaining a reasonable balance between external and Puerto Rican capital investment."³² Munoz was obviously responding to the criticisms raised by the neo-reformist faction. He was acknowledging this criticism and promising that the PPD would strive to create what he termed an "entrepreneurial balance" (balance empresarial) between foreign and local capital. But in reality the PPD's intent to create this balance did not go beyond Munoz's rhetoric. As PPD member Professor Jaime Santiago Melendez points out:

. . . it was becoming increasingly difficult to achieve a larger investment by local entrepreneurs, and thus achieve a balance in the proportion between local and external capital, through tax exemption. The effectiveness of the tax exemption programs laid

³¹Luis Munoz Marin, Mensaje del gobernador a la legislatura (1963), p. 3.

³²Ibid.

precisely in attracting industries from the U.S. with an already established market, something that was very difficult for the local enterprises.³³

In other words, while PPD was paying lip service to the idea of a balance between local and foreign capital, in practice, it was following a strategy that favored U.S. investment. Once more the PPD, at the level of praxis, was trying to resolve the metropolis/colony contradiction in favor of the imperialist bourgeoisie.

The passage of Law 57 in 1963 was inserted within the discourse and the practice of developmentalism. The deepening of the capital importation strategy was thus presented as articulating the interest of the people. The categories of developmentalism continued to blur the class character of the strategy fostered by Law 57. The concept of an "entrepreneurial balance" became an important addition to developmentalist discourse. It became an added element of legitimacy, reassuring the "people" that the PPD's economic policies were moving in the "right" direction.

In this same sense, the PPD government proclaimed the idea of "industrial decentralization" as a major objective of the new law. The government argued that by establishing different exemption periods by geographical zones, it would stimulate a balanced growth between the different regions of the country. According to Fomento, industrial development had been excessively concentrated in the San Juan metropolitan area which created a great imbalance between the development of this area and the rest of the country. Fomento claimed that this, in

³³ Santiago Melendez, Reforma fiscal, p. 124.

turn, had stimulated a high level of internal migration from other areas of the country to San Juan.³⁴

Contrary to the "entrepreneurial balance," the decentralization objective was in the main fulfilled. What the PPD leadership never really said was that this was the only alternative that the implementation of the capital importation development strategy had left open for the development of the rural areas and other regions of the island. The decentralization policy hid, at the level of praxis, the fact that the economic development achieved by Puerto Rico under the capital importation strategy was not an integrated development but rather a structurally unbalanced development. Moreover, it hid that this type of development was the result of the particular form in which Puerto Rico was inserted within the international capitalist system under the sway of the U.S. imperialist bourgeoisie. The industrial decentralization policy was thus presented as the coming of progress to the countryside which hid the fact that the capital importation strategy did not solve the agricultural crisis. Furthermore, the deepening of the capital importation model was thereby presented as the realization of the aspirations of the very sectors that had been forced to migrate or impoverished by the agricultural crisis.

The presentation of this deepening of the capital importation strategy as the realization of the interest of the "people" was completed by the proposal of a "social program" known as El Proposito de Puerto Rico. This proposed program had been the product of a series of cabinet meetings dealing with the problems confronted in Puerto Rican society at that time. The results of these meetings were Munoz's proposal of a six

³⁴Rafael Durand, "Progreso, problemas y perspectivas del desarrollo industrial en Puerto Rico", in Navas Davila, Cambio y desarrollo, pp. 176-78. Durand was head of Fomento between 1961 and 1968.

point government program of socio-economic action. Munoz presented this program in February 1964 in what was his last Annual Message to the Legislature. In this message, Munoz argued that the success of the PPD government in increasing the wealth of the country imposed the need for reflection on how to use it best for the good of all Puerto Ricans. Munoz went on to say that in order to end extreme poverty once and for all and to provide a sense of purpose to the socio-economic development of the island there were six areas in which the efforts of the "people" (i.e., the PPD government) should be concentrated. These areas were: a) public health; b) education; c) housing; d) a "balance between the rural and urban"; e) "entrepreneurial balance"; and f) the abolition of extreme poverty.³⁵

The elaboration and announcement of El Proposito de Puerto Rico had a double function. First, it continued to present the deepening of the capital importation strategy as the realization of the collective aspirations of the working classes, thus bringing back reminiscences of the PPD's reformist populism. Second, it became a key element in providing political unity and continuity to the PPD after Munoz's retirement from the governorship later in 1964. As a matter of fact, El Proposito de Puerto Rico was adopted by the PPD as part of its 1964 electoral program.³⁶ In the PPD program, seven new points were added to the original six contained in Munoz's message. The new additions referred

³⁵Luis Munoz Marín, Mensaje del gobernador a la legislatura (1964), pp. 4-8.

³⁶Munoz was directly involved in the preparation of the 1964 program. See Kenneth Farr, Personalismo y politica de partidos (Hato Rey: Inter-American University Press, 1975), pp. 57-58, 67; and PPD, "Programa del Partido Popular Democratico, 1964", in Compilacion de Programas, pp. 92-93.

to: a) economic development; b) abolition of unemployment; c) expansion of public services; d) improvement in transportation and communication; e) the expansion of recreational programs; f) the expansion of cultural programs; and g) the further political development of the Commonwealth.³⁷ It was obvious that the PPD was acting to enhance the politico-economic basis of the capital importation strategy.

Having set the course to follow, and probably believing to have settled the factional divisions within the PPD, Munoz announced his retirement from the governorship in August, 1964.³⁸ He designated the Secretary of State of Puerto Rico, Roberto Sanchez Vilella, as his successor. Sanchez was a trusted friend of Munoz and, though he had shown sympathy towards the neo-reformist faction, there was no reason to believe that he would change the political course of the PPD significantly.³⁹ As a matter of fact, throughout his campaign speeches Sanchez subscribed to the key points of El Proposito de Puerto Rico. In a speech during the 1964 campaign on "the economic policy of the next government", Sanchez defined the orientation of his economic policy in the following manner:

It has been a key element of this economic policy and it will continue to be to promote greater external and internal investment in Puerto Rico. It has been pointed in El Proposito de Puerto Rico

³⁷ PPD, "Programa, 1964", pp. 92-93.

³⁸ Munoz's decision to retire was not disclosed until a few hours before its official announcement to the PPD's general assembly on August 16, 1964. See Velazquez, Munoz y Sanchez Vilella, chap. 2. The most accepted interpretations of Munoz's retirement argue that it was his intention to complete the process of institutionalization of the party. According to Wells, this was a classic example of Weber's "routinization of charisma". Wells, La modernizacion, pp. 324-26; and Farr, Personalismo y politica, p.43.

³⁹ Velalquez, Munoz y Sanchez Vilella, p. 52.

that is healthy for countries like ours to import capital; and more than healthy, it is necessary.⁴⁰

It is obvious from this quotation that Sanchez subscribed to the political line set by Munoz before his retirement. Sanchez did argue that his administration would promote a greater participation by local capital in industry, and he emphasized this point as a distinctive element of his economic policy vis a vis that of previous administrations.⁴¹ And eventually this would become one of the underlying elements in the differences between Sanchez and the rest of the PPD leadership. But in 1964 this difference had not emerged.

By the 1964 election, the direction of the solution to the politico-economic problems of the capital importation model was clear. It was clearly oriented towards deepening the basis for the continuation of capital importation. Moreover, by this time, it was becoming clearer to the PPD techno-bureaucracy that in order to secure the continuity of this economic model it needed to attract sectors of the imperialist bourgeoisie that were economically stronger than those linked to the light industries that had flourished and declined in Puerto Rico during the 1950's. Sanchez again expressed this orientation in a speech on economic policy when he said:

. . . we will concentrate our promotion efforts on those industrial activities of higher capital investment, which are therefore more stable and render a greater benefit to the country, both in terms of wages as well as in the building of large manufacturing complexes.⁴²

⁴⁰Roberto Sanchez Vilella, "La politica economica del proximo gobierno", in Discursos de campana (San Juan: Comite de Amigos de Sanchez Vilella, 1964), p. 38.

⁴¹Ibid. ⁴²Ibid., p. 39.

This was a direct reference to the plans designed by Fomento to create a petrochemical complex on the island by getting U.S. firms to invest in this area.

It was very clear that the techno-bureaucracy agreed on the need for the continuity of the capital importation strategy. The source of the divisions within the PPD seem to have come from disagreements in terms of the degree and form in which local capital should be incorporated to the industrial development process. At no time did any faction question the belief that the imperialist bourgeoisie should play a key role within the PPD industrial development strategy.

The element that completed the legal-political framework for the deepening of the capital importation model was provided by Presidential Proclamation 3663 of December 10, 1965. This proclamation amended Presidential Proclamation 3279 of 1959 by changing the limitations on oil import for Puerto Rico.⁴³

Since 1955, two oil refineries had operated in Puerto Rico, and they satisfied the local demands of fuel consumption. Around this same time, Fomento had begun to conduct studies on the viability for the establishment of a petrochemical complex in Puerto Rico. The studies found Puerto Rico as a suitable site for certain petrochemical manufacturing activities, particularly the manufacturing of synthetic fibers (e.g., nylon), fertilizer plants and intermediate size oil refineries. According to these studies, the principal competitive advantages of Puerto Rico as a location for petrochemical manufacturing were the relatively low

⁴³Douglas R. Bohi and Milton Russell, Limiting Oil Imports; an Economic History and Analysis (Baltimore and London: John Hopkins University Press, 1978), pp. 66-71, 168-174; and Robert N. Bellah, "The Impact of the Oil Import Program on the Economy of Puerto Rico" (M.S.B.A. dissertation, George Washington University, 1970), pp. 68-72.

cost of labor and tax exemption.⁴⁴ As a matter of fact, most of the development in the petrochemical industry that took place on the island between 1955 and 1965 was along the lines pointed out in these studies.

Since 1961, when Rafael Durand replaced Teodoro Moscoso as the head of Fomento, this agency had been pushing to get some concessions from the U.S. Government that would help to develop the petrochemical complex. The reasoning behind the plans for developing a petrochemical complex were that in view of the increase in the cost of labor, shipping rates, and other negative elements for light industry, it was better to attract industries that were less sensitive to these kinds of fluctuations and were less likely to close down operations because of the high investment they represented. With this in mind, Durand had been lobbying in Washington to try to get the oil import quota assigned to Puerto Rico under Proclamation 3279 revised. This lobbying effort was supported by the Phillips Petroleum Corporation which, together with Fomento, had devised a plan to establish a petrochemical "core plant" in Puerto Rico using imported naphta (a petroleum by-product used as the base for petrochemical processing).

The purpose and the rationale behind trying to revise Puerto Rico's oil import quota was fairly simple. In 1965, the prices of imported petroleum and naphta were below the prices of U.S. petroleum and naphta.

⁴⁴Thomas Vietorisz, The Feasibility of Petroleum Refining Operations in Puerto Rico, for Serving European Oil Markets (San Juan: EDA, 1957); Joseph Airov, The Location of the Synthetic-Fiber Industry: A Case Study in Regional Analysis (New York: John Wiley and Sons, 1979); and Walter Isard, Eugene W. Schooler and Thomas Vietorisz, Industrial Complex Analysis and Regional Development: A Case Study of Refinery-Petrochemical Synthetic-Fiber Complexes and Puerto Rico (Massachusetts: The M.I.T. Press, 1959).

This meant that a plant operating in Puerto Rico using imported petroleum and/or naphtha and selling its product in the U.S. market would have at least three significant production cost advantages over its competitors operating in the U.S. These advantages were: a) cheap labor; b) tax exemption; and c) cheaper raw materials.⁴⁵ The added advantage of cheap Venezuelan or Arab oil would more than offset the added cost of shipping most of the production of a U.S. petrochemical plant operating on the island to the U.S. market (because the local market would not be large enough for the increased production). Since there were no import duties on oil or naphtha imported under the quota system and no duties to be paid on Puerto Rican products entering the U.S. market, the price differential was definitely a major incentive for the establishment of petrochemical plants in Puerto Rico.⁴⁶

Proclamation 3663 provided the key incentive for the development of the petrochemical industry in Puerto Rico. This proclamation allowed the U.S. Secretary of the Interior to assign special oil and naphtha import quotas to Puerto Rico when this was considered necessary to stimulate the economic development of the island.⁴⁷ The provision made by the Secretary of the Interior, under the powers given to him by Proclamation 3663, granted special quotas for the already existing refineries, the Commonwealth Refining Corporation (CORCO) and Caribbean Refining Co., a subsidiary of Gulf, as well as for the Union Carbide Petrochemical

⁴⁵"Chemicals PR's New Harvest", Chemical Week (July 23, 1966); pp. 29-32; "A New Wave of Puerto Rican Petrochemicals", Chemical Week (May 25, 1968), pp. 26-27.

⁴⁶"A New Wave of Puerto Rican Petrochemicals", p. 31.

⁴⁷Bellah, "The Impact", pp. 4, 72; and Bohi and Russell, Limiting Oil Imports, p. 170.

Plant. Special quotas were also granted for two other U.S. companies, Phillips Petroleum and Sun Oil Corporations.⁴⁸

After 1965, a number of multinational corporations with petrochemical operations were established in Puerto Rico. The petrochemical development marked the entrance of monopoly capital to Puerto Rico. The center of capital accumulation moved from the small and medium fractions of the imperialist bourgeoisie, generally linked to industries with a low-organic composition of capital, to the monopolistic fraction of imperialist capital, generally linked to the capital intensive industries.

The capital importation strategy took a new turn that in the short run prevented the sharpening and explosion of the politico-ideological contradictions of capitalist development under the capital importation model. However, in the long run the deepening of the capital importation strategy led to the sharpening of the structural contradictions of peripheral capitalist development and the exacerbation of the politico-ideological contradictions in Puerto Rico.

The Impact of the Deepening of the Capital
Importation Strategy on Puerto
Rico's Political Economy

In economic terms, the course taken by the capital importation strategy between 1963 and 1978 accentuated two major structural problems that were developing throughout the 1950's. These tendencies were: a) an unprecedented expansion of the tertiary sector; and b) an increasing degree of external orientation in the economy. This orientation exhibited

⁴⁸"Small Isle Gets Giant Plant", Chemical Week (February 20, 1965), pp. 21-22; "Sun Gets Puerto Rico Quota", Oil and Gas Journal (April 22, 1968), p. 116; "Union Carbide Sets Bigger Investment for Puerto Rico", Oil and Gas Journal (July 7, 1969); p. 98; and "Thinking Bigger About Oil Quotas", Chemical Week (April 29, 1967), pp. 29-31.

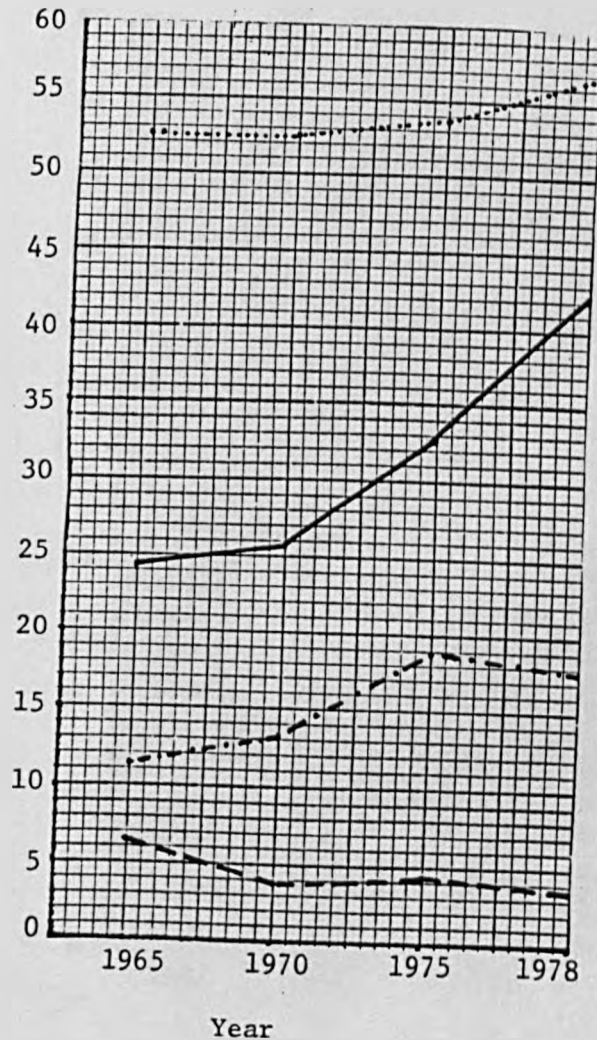
itself in the dependency on foreign investment, the dependency on imports for consumption, and the need for most companies to export their products.

The coming to Puerto Rico of multinational monopoly capital and its emergence as the dominant force in the process of production accentuated these tendencies. Some of the most negative aspects associated with the external orientation of the economy became major problems. The siphoning of surplus value in the form of excessive profits made by the subsidiaries of U.S. multinationals and the increase of the external debt of the government to cover the deficit this created was the most obvious example of the negative impact of this stage of the developmentalist strategy. During this period the dynamic sector of the Puerto Rican economy (industry) was absorbed in such a manner to the international capitalist productive process that the Puerto Rican economy became an industrial enclave. In other words, it became an intermediate point in a process of production that was initiated outside of the Puerto Rican economy, passed through it, was completed outside of it, and had little articulation with local economy.

Figures IV, V and VI illustrate the growth pattern of the principal sectors of the economy in terms of the participation of each sector in the gross national product (GNP), national income (NI), and employment. As we can observe, the agricultural sector continued its declining trend in its share of the GNP and the NI. It stopped its decline in 1970 and maintained a stable low share after that. In terms of its share of employment, it declined continuously until 1978. The manufacturing sector remained the most dynamic sector and increased its shares of the GNP and NI. However, its share of employment only increased until 1970. It

FIGURE IV

PERCENTAGE OF THE GNP GENERATED
BY THE PRINCIPAL SECTORS OF THE ECONOMY
FROM 1965 TO 1978



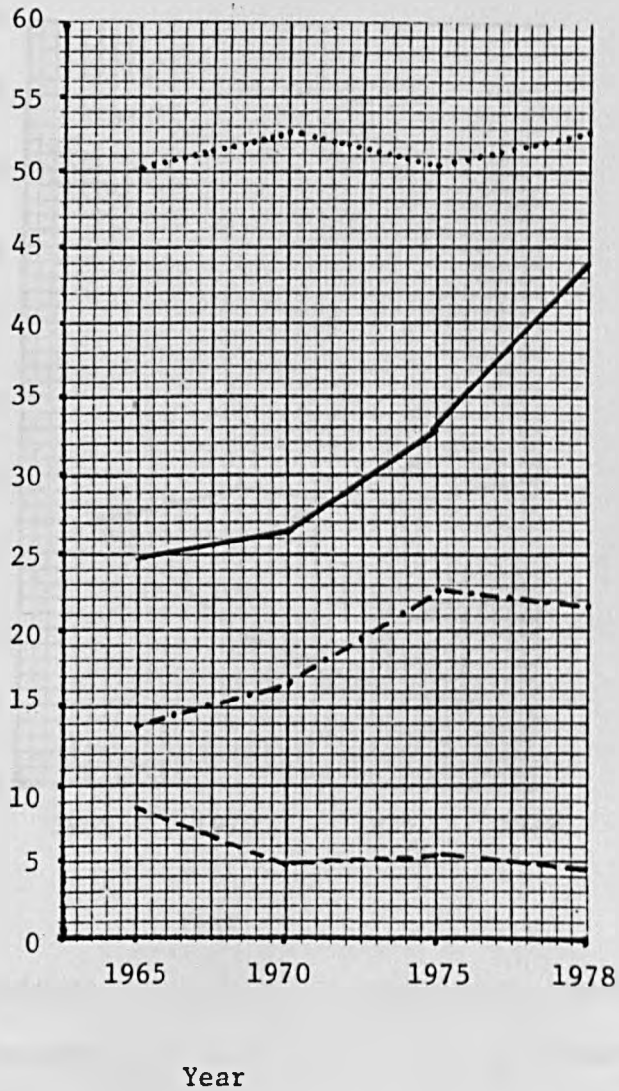
- - - - - Agriculture
————— Manufacture

-.-.-.-.- Government
..... Service and Finance

SOURCES: Junta de Planificacion, Informe Economico al gobernador, 1977 y 1979 (San Juan: Junta de Planificacion, 1977 and 1980), pp. A-4 and A-4.

FIGURE V

PERCENTAGE OF THE NI GENERATED BY
THE PRINCIPAL SECTOR OF THE ECONOMY
FROM 1965 TO 1978

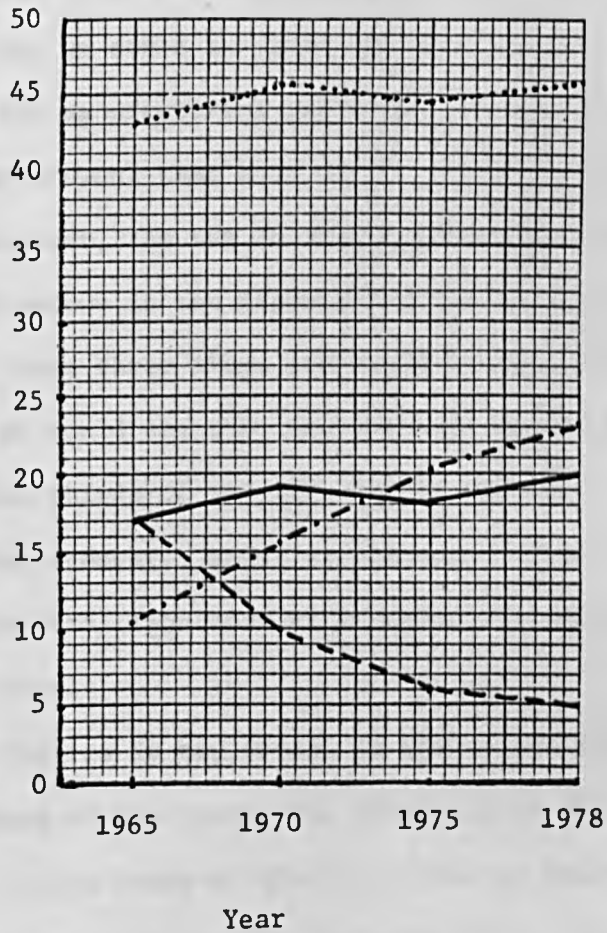


- - - - - Agriculture
 _____ Manufacture
 - - - - - Government
 Service and Finance

SOURCES: Ibid., pp. A-5 and A-5.

FIGURE VI

PERCENTAGE OF THE TOTAL EMPLOYMENT GENERATED
BY THE PRINCIPAL SECTORS OF THE ECONOMY
FROM 1965 TO 1978



- - - - - Agriculture

- Government

_____ Manufacture

. Service and Finance

SOURCES: Ibid., pp. A-25 and A-25.

declined slightly between 1970 and 1975 and increased slightly between 1975 and 1978. The tendency in the service sector was one of moderate increase in its share of the GNP. In terms of the NI, it fluctuated but remained above the 50% level. In terms of employment, the service sector remained the major source of employment in the economy, increasing slightly between 1965 and 1978. Finally, the government sector experienced a steady increase in the three areas, though it experienced a slight decline in its shares of the GNP and NI between 1975 and 1978.⁴⁹

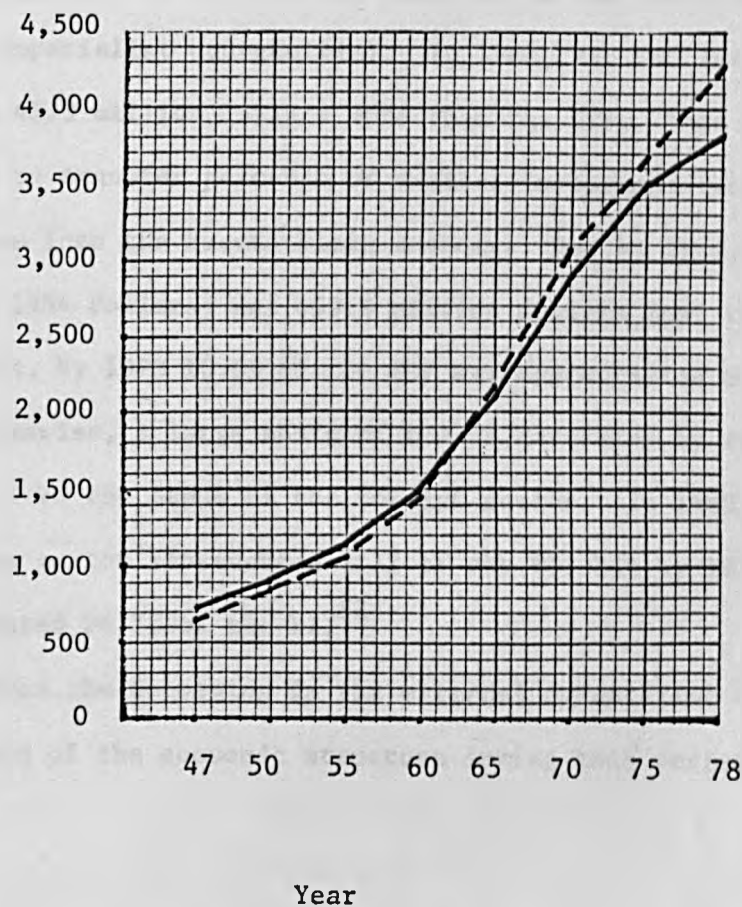
To synthesize, we could say that the most dynamic sector of the economy remained the manufacturing industry. However, in terms of employment it was the government that made up for the continued decline in agricultural employment, the lag in jobs creation by the manufacturing sector and the slow-down in the migration pattern. If we were to add up the shares of these three items generated by the government and the service sectors, we would see that the tertiary sector as a whole provided around two thirds of the GNP, the NI and the total employment of the Puerto Rican economy. This "hypertrophy" of the tertiary sector indicates the structural imbalance of economic development during this period in Puerto Rico.

What these figures do not reveal is that since the middle of the 1960's a large share of the production generated by the Puerto Rican economy ended up in the hands of the U.S. firms as profits (dividends, interests, royalties, etc.) paid to the parent (U.S. based) companies by their Puerto Rican subsidiaries. Figure VII shows the impact of this siphoning of capital on the relation between the gross domestic product

⁴⁹ For the tendencies before 1965 see supra, chap. IV, Figures I, II, III.

FIGURE VII

COMPARATIVE GROWTH OF THE GNP AND
THE GDP IN 1954 DOLLARS
1947-1978
(in millions of dollars)



- - - - - GDP
————— GNP

SOURCE: Junta de Planificacion, Ingreso y producto, Puerto Rico, 1978 (San Juan: Junta de Planificacion, 1978), pp. 6-11.

(GDP) and the gross national product (GNP) in the Puerto Rican economy. The GDP measures the value of all goods and services produced in the Puerto Rican economy during a given year. The GNP measures the value of the product that is available for consumption within the local economy. The GDP minus the GNP represents the share of the product of the Puerto Rican economy which is appropriated by the external sector in the form of profits, dividends, interests, etc. As we can see, since the mid-1960's an increasing share of the GDP has ended up in the hands of the external sector (the imperialist bourgeoisie). In 1960, the GNP (measured in 1954 dollars) was 41.3 million dollars more than the GDP. This is probably attributable to transfer payments or capital investment coming from external sources into the Puerto Rican economy. But by 1978, the GNP (measured in 1954 dollars) was 459.9 million dollars less than the GDP. In other words, by 1978 10.6% of the GDP was appropriated by the external sector.⁵⁰ Likewise, a large share of the NI generated by the Puerto Rican economy went into the hands of the foreign sector. In 1960, net payments to the foreign sector represented 1.1% of the NI, but by 1978 these payments represented 26.7% of the NI.⁵¹

Aside from the deepening in the external orientation of production, another feature of the economic structure during this period was the

⁵⁰ Calculated from Junta de Planificacion, Ingreso y producto, 1978, pp. 6-11. The negative impact of this tendency on the Puerto Rican economy has been pointed out in recent studies made for the local and Federal Governments. See U.S. Department of Commerce, Economic Study, Vol. 1, pp. 61-62; and Informe al Gobernador del Comité para el Estudio de las Finanzas de Puerto Rico (Informe Tobin) (Rio Piedras: Editorial Universitaria, 1976), pp. 24-46, 31 (hereafter this report will be quoted as Informe Tobin).

⁵¹ Junta de Planificacion, Ingreso y producto, 1978, pp. 26-37.

emergence of heavy industry as the most dynamic sector. Like the pattern during the period 1947-1963, the growth and expansion of industries between 1963-1978 responded to the interests of the imperialist bourgeoisie. With the exhaustion of the conditions that favored capital accumulation in the light (low organic composition of capital) industries, a redefinition of the pattern of accumulation took place. The industries with a high organic composition of capital emerged as the most dynamic sector and the center of capitalist accumulation. Most of the industries in this category were controlled by monopolistic multinational corporations and were concentrated in the areas of petroleum refineries, petrochemical production, scientific instruments and electrical equipment. Table 18 shows the changes experienced in the industrial sector between 1963 and 1977. This table displays the ten most important industrial groups according to the industrial censuses conducted in this period.

If we observe Table 18 carefully, we can notice the following patterns: a) an overall decline in the relative importance of the food, apparel, stone clay and glass, tobacco, textile mill products and leather products industries; b) an increase in the relative importance of the chemical, electrical equipment and scientific instruments industries; c) an increase of the relative importance of the fabricated metals and the petroleum and coal products industries between 1963 and 1972 and a lag in both these industries between 1972 and 1977; and d) the emergence of the non-electrical machinery and the miscellaneous rubber and plastic products industries as important areas in the manufacturing sector. Most certainly, the fastest growing industries in Puerto Rico during this period were those considered capital intensive industries.

TABLE 18

TEN MOST IMPORTANT INDUSTRIAL GROUPS IN PUERTO RICO IN TERMS OF OVERALL SHARES OF VALUE ADDED, VALUE OF SHIPMENTS, PRODUCTION WORKERS EMPLOYED, AND WAGES PAID TO PRODUCTION WORKERS, CENSUS YEARS 1963, 1967, 1972, AND 1977^a

<u>Industry group</u>	<u>1963</u>							
	<u>% of total value added</u>	<u>Over-all rank</u>	<u>% of value of shipments</u>	<u>Over-all rank</u>	<u>% of production workers</u>	<u>Over-all rank</u>	<u>% of wages to production workers</u>	<u>Over-all rank</u>
Food and rel. products	30.6	1	37.4	1	18.4	2	19.4	2
Apparel	14.6	2	12.1	2	29.6	1	24.8	1
Electrical machinery	8.1	3	6.1	3	5.9	5	7.6	3
Chemical products	7.4	4	5.5	4	2.0	10	2.7	10
Stone, clay and glass	6.1	5	4.6	5	4.8	7	5.8	4
Tobacco	3.8	6	4.0	6	6.9	3	5.3	5
Leather	3.3	7	2.9	9	6.5	4	4.9	7
Textile mill prods.	3.3	8	3.4	7	5.3	6	5.1	6
Fabricated metals	2.7	9	3.3	8	2.4	9	3.0	9
Furniture and fixtures	2.5	10	1.9	10	3.7	8	3.4	8

TABLE 18-Continued

1967

<u>Industry group</u>	<u>% of total value added</u>	<u>Over- all rank</u>	<u>% of value of shipments</u>	<u>Over- all rank</u>	<u>% of production workers</u>	<u>Over- all rank</u>	<u>% of wages to production workers</u>	<u>Over- all rank</u>
Food and rel. products	25.9	1	29.7	1	14.0	2	15.0	2
Apparel	14.4	2	12.1	2	31.0	1	26.1	1
Chemical products	9.9	3	7.5	3	*	*	3.0	10
Electrical equipment	8.6	4	6.3	4	7.3	4	7.7	3
Stone, clay and glass	5.8	5	4.8	5	4.8	7	6.5	5
Leather	4.6	6	4.0	6	9.4	3	7.7	4
Tobacco	4.1	7	3.9	7	6.4	5	5.7	6
Fabricated metals	3.9	8	3.4	9	2.8	9	3.8	8
Textile mill products	3.5	9	3.8	8	5.1	6	5.1	7
Scientific instruments	3.0	10	2.1	10	3.1	8	3.6	9

TABLE 18-Continued

1972

<u>Industry group</u>	<u>% of total value added</u>	<u>Over- all rank</u>	<u>% of value of shipments</u>	<u>Over- all rank</u>	<u>% of production workers</u>	<u>Over- all rank</u>	<u>% of wages to production workers</u>	<u>Over- all rank</u>
Chemical products	23.5	1	18.5	2	5.5	5	8.0	4
Food and rel. products	17.9	2	23.4	1	15.6	2	16.8	2
Apparel	13.2	3	11.2	4	28.1	1	23.3	1
Electrical equipment	8.9	4	6.9	5	10.4	3	8.6	3
Petroleum and coal prods.	4.8	5	11.3	3	*	*	*	*
Scientific instruments	4.4	6	3.1	9	4.2	7	5.0	6
Fabricated metals	4.1	7	3.8	7	3.5	9	4.4	8
Stone, clay and glass	3.8	8	3.2	8	3.8	8	4.5	7
Textile mill products	3.5	9	4.1	6	5.7	4	5.1	5
Tobacco	2.4	10	2.7	10	3.3	10	3.2	10

TABLE 18-Continued

1977

<u>Industry group</u>	<u>% of total value added</u>	<u>Over- all rank</u>	<u>% of value of shipments</u>	<u>Over- all rank</u>	<u>% of production workers</u>	<u>Over- all rank</u>	<u>% of wages to production workers</u>	<u>Over- all rank</u>
Chemical products	36.0	1	27.2	1	8.4	4	11.3	4
Food and rel. products	11.9	2	14.4	3	13.7	2	14.1	2
Electrical equipment	9.8	3	7.1	4	10.7	3	17.9	1
Apparel	6.8	4	5.9	5	26.3	1	11.3	3
Scientific instruments	6.3	5	4.0	6	4.8	6	5.3	5
Non-electrical machinery	3.9	6	3.0	7	*	*	*	*
Rubber and misc. plastics	3.6	7	2.3	8	4.4	9	4.9	6
Petroleum and coal prods.	3.5	8	21.2	2	*	*	3.7	8

TABLE 18-Continued

1977

<u>Industry group</u>	<u>% of total value added</u>	<u>Over- all rank</u>	<u>% of value of shipments</u>	<u>Over- all rank</u>	<u>% of production workers</u>	<u>Over- all rank</u>	<u>% of wages to production workers</u>	<u>Over- all rank</u>
Tobacco	3.0	9	2.1	10	*	*	*	*
Textile mill products	2.7	10	*	*	4.5	8	3.6	9

SOURCES: U.S. Bureau of Census, Puerto Rico: Census of Manufactures, 1963, 1967, 1972 and 1977.

^aIndustrial Groups are classified according to the Standard Industrial Classification Code followed in the census.

*Outside of the ten top ranked groups.

There are no statistics on capital stock available for the industries operating in Puerto Rico. This lack of data makes it impossible to calculate the ratio of constant to variable capital for the most important industries.⁵² Therefore, the task of establishing with any accuracy the organic composition of capital for each industry group is impossible. The only approximate measure for this would be the rate of value added per worker in each sector, but this is a measure of the productivity of labor that might or might not reflect accurately the proportions of variable and constant capital involved in the production process. However, if we look again at Table 18, we can notice that by 1977 the chemical, non-electrical machinery, petroleum and coal products and tobacco industries had a higher ratio of value added produced to production workers employed than the other industries. This suggests a high proportion of machinery vis a vis labor used in the process of production, which in time suggests a high organic composition of capital in these industries. This ratio is less accentuated for the scientific instruments and the electrical equipment industries which are, nonetheless, also considered capital intensive industries. However, this is not a very accurate measure.

The only study that classified industries in terms of ratios of capital and labor used in the process of production (not in terms of ratios of constant to variable capital) was made by the U.S. Department

⁵²The only attempt to calculate the capital stock of the Puerto Rican economy is done at a very general level. There are no detailed studies of capital stock on industry. See Elias Gutierrez, Victor Sanchez y Pier L. Caldari, Inversion externa y riqueza nacional un dilema? (Buenos Aires: Ediciones, SIAP, 1979), esp. chap. 4; and U.S. Department of Commerce, Economic Study, Vol. 2, pp. 41-42.

of Commerce. According to this study, the chemical, petroleum and electrical and non-electrical machinery industries in Puerto Rico were classified as capital intensive industries. Conversely, the food, apparel, rubber and plastics, tobacco and textile industries were classified as labor intensive industries. However, this classification is very inaccurate for the purpose of separating the industries with high organic composition of capital from those with a low organic composition. In the case of the food industry, for example, the alcoholic and non-alcoholic beverages branch (except beer) is classified as capital intensive.⁵³ In any case, the tendency towards the dominance of high organic composition of capital industries seems to be confirmed by the available evidence, though more accurate data is needed to arrive at a firm conclusion.

Associated with this growth of capital intensive industry, there was a deepening of the U.S. control over industrial production in Puerto Rico. If we compare the 1963 part of Table 18 with the 1963 part of Table 9 (Chap. IV), we notice that foreign (mainly U.S.) capital controls production in six of the ten most important industries that year. These sectors were: apparel, electrical machinery, chemical products, tobacco, leather products and textiles. Also foreign firms accounted for a sizeable share of the value added and the value of shipments generated in the food sector.⁵⁴

By 1967, the foreign sector clearly controlled at least eight of the ten most important industrial groups, as Table 19 illustrates. The

⁵³U.S. Department of Commerce, Economic Study, Vol. 2, p. 50, Table II.

⁵⁴U.S. Bureau of Census, Census of Manufactures, Puerto Rico, 1963, p. 155, Table I.

TABLE 19

% OF VALUE ADDED, VALUE OF SHIPMENTS, PRODUCTION WORKERS EMPLOYED, AND WAGES PAID, BY FOREIGN CONTROLLED INDUSTRIES WITHIN EACH INDUSTRIAL GROUP FOR THE TEN MOST IMPORTANT GROUPS IN PUERTO RICO FOR 1967

<u>Industrial group</u>	<u>% of value added</u>	<u>% of value of shipments</u>	<u>% of production workers employed</u>	<u>% of wages to production workers</u>
Food and related products	55.9	51.9	46.5	51.3
Apparel	82.7	83.4	82.7	84.5
Chemical products	94.5	91.2	78.9	83.7
Electrical equipment	91.9	91.0	92.2	92.1
Stone, clay and glass	16.1	13.5	22.9	18.4
Leather	88.2	88.4	87.2	87.8
Tobacco	94.6	91.2	92.2	94.9
Fabricated metals	54.4	50.0	44.0	51.1
Textile mill products	85.3	91.3	87.6	87.3
Scientific instruments	N/A	N/A	N/A	N/A

SOURCE: U.S. Bureau of Census, Census of Manufactures, Puerto Rico, 1967, p. 100.

only one of these groups that was not dominated by foreign capital was the stone, clay and glass industrial group. There is no detailed data on production by ownership origin for the scientific instruments industrial group in the 1967 Census of Manufactures. The only information of this kind given by the census reveals that of 29 industrial establishments operating in this category 27 were foreign owned.⁵⁵ This, of course, implies a foreign dominance over nine of the ten most important industries.

According to the figures of the 1967 Census of Manufactures, foreign controlled industries were producing 70.6% of the total value added by industry in Puerto Rico. Likewise, the foreign controlled sector was producing 68.7% of the total value of shipments of industry, generating 72.4% of all industrial production employment and paying 72% of all wages to production workers.⁵⁶

The 1972 Census of Manufactures did not publish any information separating foreign owned industries from the locally owned ones. The 1977 Census of Manufactures did publish some information of this kind, but it was not very useful because 585 of the 1,114 industrial establishments surveyed did not reveal the origin of their ownership.⁵⁷ Therefore,

⁵⁵U.S. Bureau of Census, Census of Manufactures, Puerto Rico, 1967, p. 100, Table I.

⁵⁶Ibid.

⁵⁷U.S. Bureau of Census, Census of Manufactures, Puerto Rico, 1972, and 1977.

in order to deal with the question of the degree of foreign control over the industrial sector in Puerto Rico during the 1970's, we must use other, rather fragmentary, information.⁵⁸

The available data shows an almost absolute control by U.S. capital over the most dynamic and capital intensive industries in the Puerto Rican economy in the early 70's. According to the U.S. Department of Commerce study, by 1973 foreign stockholders (mainly Americans) controlled 98% or more of the shares of the establishments in drugs, chemicals and petrochemicals, fabricated metals and electrical and non-electrical machinery industries. In the petroleum refining and primary metals industries, foreign stockholders controlled between 89 and 95% of the shares, and they controlled 60% of the shares in the petroleum products industry.⁵⁹ According to the data provided by the 1972 Census of Manufactures, these industries alone were producing 44% of the total value added by industry in Puerto Rico and 47.7% of the total value of shipments.⁶⁰ These figures leave out the scientific instruments industry where there was an overwhelming foreign control and other areas in which U.S. capital was dominant or controlled a sizeable share of production (i.e., textiles, apparel, and food industries). According to a study made by the "Governor's Committee for the Study of Puerto Rican Finances"

⁵⁸There are indications that this data exists. Fomento and the Puerto Rico Planning Board do keep records on ownership by origin of the plants operating in Puerto Rico. However, for some reason this data is not available to the public.

⁵⁹U.S. Department of Commerce, Economic Study, Vol. 2, p. 37.

⁶⁰U.S. Bureau of Census, Census of Manufactures, Puerto Rico, 1972.

(known as the "Tobin Committee"), the situation was such that:

the Puerto Rican residents own[ed] less than half of the tangible and reproducible capital stock that has been produced on the island during the past 25 years.⁶¹

In 1974, the Tobin Committee calculated that of an estimated total of 22 billion dollars in tangible and reproducible assets on the island only 9.7 billions, 44.1%, were in the hands of the residents of Puerto Rico. The rest were divided into 6.1 billion dollars, 27.7% of the total, represented by direct foreign investments, and 6.2 billion dollars, 28.1%, represented by the private and public external debt.⁶² In other words, 56% of the tangible and reproducible capital stock of the Puerto Rican economy was controlled by foreign, mainly U.S., capital.

The other information that we were able to find reveals the ownership by origin of industrial establishments operating in Puerto Rico in 1978. Although this does not provide any information regarding investment and production, it suggests a continued pattern of external control over the most dynamic sectors of the manufacturing industry. Table 20 summarizes the available data on the ownership of industrial establishments operating under the Fomento program in 1978 for some of the most dynamic industries.

If we compare Table 20 to Table 18, we can notice that seven of the ten most important industrial groups in 1977 were dominated by U.S. owned establishments. A large number of these establishments were owned by large U.S. corporations, many of which were multinational corporations. In the case of petrochemical production, for example, 27 of the 51 petrochemical plants operating on the island in 1977 were operated by CORCO

⁶¹Informe Tobin, p. 85. ⁶²Ibid., p. 86.

TABLE 20

OWNERSHIP OF SELECTED INDUSTRIAL PLANTS BY
ORIGIN OPERATING IN PUERTO RICO IN 1978;^a

<u>Industrial group</u>	<u>No. of esta- blishments operating</u>	<u>U.S. owned</u>	<u>%</u>	<u>P.R. owned</u>	<u>%</u>	<u>Other foreign owned</u>	<u>%</u>
Pharmaceutics	78	70	89.7	3	3.8	5	6.4
Scientific instruments	80	67	83.7	7	8.7	6	7.5
Electrical and electronics	152	127	83.6	20	13.2	5	3.3
Petroleum and petrochemicals ^b	56	46	82.1	6	10.1	5	8.9
Textile mill products	42	33	78.6	8	19.0	1	2.4
Non-electrical machinery	65	41	63.1	22	33.8	2	3.1
Apparel	386	237	61.4	143	37.0	6	1.6
Fabricated rubber and miscellaneous plastics	65	30	46.2	33	50.8	2	3.1
Food and related products	170	48	28.2	113	66.5	9	5.3

SOURCES: EDA, Industry Profile Series, various.

^aThe figures for all groups have been calculated from data published by EDA in various industry profiles published for each industrial group between 1977 and 1980.

^bFigures are as of May 1977.

and Union Carbide. Both these companies had been ranked among the 500 largest companies in the U.S. in 1977 by the Fortune magazine.⁶³

In the pharmaceutical industry, 22 of the 34 largest U.S. corporations in 1978 had operations in Puerto Rico. These 22 companies owned 62 of the 78 industrial establishments operating in the pharmaceutical industry on the island.⁶⁴ In the area of electrical and electronic equipment, three multinationals (Westinghouse, General Electric and GTE-Sylvania) owned 58 of the 152 (over one third) establishments in this industry. Over all, 16 of the 63 largest U.S. electronic corporations had subsidiaries in Puerto Rico.⁶⁵

In 1974, 110 of the 500 largest corporations in the United States, according to Fortune magazine, were operating in Puerto Rico. These 110 companies operated 336 subsidiaries on the island, and 333 of these subsidiaries had been established under the auspices of Fomento. In that same year, there were a total of 1720 industrial establishments operating under Fomento's industrial promotion programs and 994 of these were U.S. owned. Put another way: 57.8% of all Fomento promoted industrial establishments were U.S. owned and 19.4% of the Fomento promoted establishments were subsidiaries of U.S. multinational or large corporations. Furthermore,

⁶³EDA, The Petroleum Refining, Petrochemical and Allied Products Industry in Puerto Rico (San Juan: EDA, 1977).

⁶⁴EDA, The Drug and Pharmaceutical Industry in Puerto Rico (San Juan: EDA, 1980), pp. 2-4, 28-36.

⁶⁵EDA, The Electrical and Electronic Industry in Puerto Rico (San Juan: EDA, 1979), pp. 3-4, 21-48.

one third (33.5%) of all U.S. owned plants operating in Puerto Rico were subsidiaries of the 110 large, mostly multinational, corporations.⁶⁶

By 1979, 139 of the largest 1,000 U.S. corporations, according to the Fortune magazine, had operations in Puerto Rico. These corporations owned 383 Fomento promoted subsidiaries in Puerto Rico. In that year, there were 1,646 Fomento promoted industrial establishments operating in Puerto Rico and 938 were U.S. owned. This meant that in 1979 56.9% of all Fomento promoted industrial establishments were U.S. owned and that 23.3% of the Fomento establishments were subsidiaries of U.S. multinational or large corporations. Furthermore, by 1979 the proportion of U.S. owned plants owned by multinational or large corporations had increased to 40.8%.⁶⁷ As can be observed, despite a 1.1% decline in the overall proportion of U.S. owned establishments between 1974 and 1979, the number of subsidiaries of U.S. multinationals and large corporations increased.

As we said before, there are no investment figures available that would enable us to assess accurately the impact that these corporations had on the economy of Puerto Rico and the role assigned to the island by imperialist monopolistic capital. However, there are other indirect ways through which we can get an idea of the impact of monopoly capital investments in Puerto Rico and the role the island played in its designs. That is, we can get an idea of the impact of monopoly capital investments in Puerto Rico by looking at the place occupied by Puerto Rico within the

⁶⁶ Calculated from the data provided Mr. Miguel Martinez Williams, of the Economy Division of Fomento, in a letter on November 3, 1981; and EDA, List of Firms Among the 500 Largest U.S. Industrial Corporations with Operations in Puerto Rico (San Juan: EDA, 1974).

⁶⁷ Martinez Williams, "Letter"; and Fortune 1,000 Companies in Puerto Rico, U.S.A. (San Juan: EDA, 1979).

global pattern of U.S. investments and by comparing global figures on U.S. investments and profits in Puerto Rico to those of other areas of the world, especially Latin America.

Table 21 shows the position that Puerto Rico occupies within the global structure of U.S. direct investment in Latin America for the years 1960 and 1978. The table shows the amount and proportion that U.S. direct investments and income on this investment in Puerto Rico represents in comparison to the other countries in the region. It also shows the rate of return on investment for each individual country and for the region in general.

As we can observe, Puerto Rico's ranking in terms of U.S. direct investment in the region moved up from sixth in 1960 to first in 1978. Undoubtedly, the Cuban revolution and the nationalization of Venezuelan oil had much to do with the increase in importance of Puerto Rico for U.S. investment, but this should not blur the fact that Puerto Rico had one of the highest rates of return in the region since 1960, when it was ranked second in the region. Whatever the reasons, the important point here is that Puerto Rico experienced the highest growth in U.S. direct investment in the region. Between 1960 and 1978, U.S. direct investment on the island grew by 1506%, while for the whole region, including Puerto Rico, it grew by 257%. In other words, while U.S. direct investments in Puerto Rico grew at an annual rate of 83.7%, it grew at an annual rate of 14.3% for the entire region.

If we compare Puerto Rico with other countries of the world in 1960, we find that only Canada, the United Kingdom, West Germany, France and Australia have a higher U.S. direct investment. By 1978, only Canada, the United Kingdom and West Germany have a higher U.S. investment.

TABLE 21

VALUE OF DIRECT INVESTMENT, INCOME, AND RATE OF
RETURN FOR U.S. INVESTMENTS IN LATIN
AMERICA AND PUERTO RICO; 1960 AND 1978
(millions of dollars)

<u>Country</u>	<u>1960</u>					
	<u>Value of investment</u>	<u>%</u>	<u>Income on investment</u>	<u>%</u>	<u>Rate of return (%)</u>	
All countries	9038	100	726	100	8.0	
Venezuela	2569	28.4	371	51.1	14.4	
Cuba	956	10.6	N/A	N/A	N/A	
Brazil	953	10.5	45	6.2	4.7	
Mexico	795	8.8	65	9.0	8.2	
Chile	738	8.2	72	9.9	9.8	
Puerto Rico	672	7.4	85	11.7	12.7	
Argentina	472	5.2	10	1.4	2.1	
Peru	446	4.9	48	6.6	10.8	
Colombia	424	4.7	19	2.6	4.5	
Panama	405	4.5	16	2.2	3.9	
Guatemala	131	1.5	-5	-0.7	-3.8	
Honduras	100	1.1	N/A	N/A	N/A	
Dominican Republic	88	1.0	7	1.0	8.0	
Uruguay	47	0.2	3	0.4	6.3	
Other Central American	145	1.6	1	0.1	0.7	
Other	97	1.1	-11	-1.5	-11.3	

TABLE 21-Continued
1978
(millions of dollars)

<u>Country</u>	<u>Value of investment</u>	<u>%</u>	<u>Income on investment</u>	<u>%</u>	<u>Rate of return (%)</u>
All countries	32259	100	4624	100	14.3
Puerto Rico	10795	33.5	1928	41.7	17.6
Brazil	7175	22.2	921	19.9	12.8
Mexico	3690	11.4	601	13.0	16.3
Panama	2394	7.4	254	5.5	10.6
Venezuela	2115	6.6	285	6.1	13.5
Argentina	1670	5.2	155	3.4	9.3
Peru	1427	4.4	147	3.2	10.3
Colombia	784	2.4	106	2.3	13.5
Chile	229	0.7	26	0.6	11.4
Other Central American	793	2.5	20	0.4	2.5
Other	1187	3.7	183	4.0	15.4

SOURCES: Samuel Pizer and Frederick Cutler, "United States Investment Abroad", Survey of Current Business, Vol. 41, No. 8, August 1961, pp. 22-23, Obie G. Whichard, "U.S. Direct Investment Abroad in 1979", Survey of Current Business, Vol. 60, No. 8, August, 1980, pp. 26, 34; Junta de Planificacion. Balanza de Pagos, Puerto Rico, 1978, San Juan, 1979, Tables IX, XXII.

In 1960, U.S. direct investment in Puerto Rico represented 2% of the U.S. direct investment in the world, but by 1978 Puerto Rico's proportion of U.S. direct investment in the world had jumped to 6%. Likewise, in 1960 the income on U.S. direct investment in Puerto Rico represented 3.5% of the income on this investment in the world. By 1978, this figure had jumped to 7.1%. The only countries where the U.S. direct investment had a higher income on investment were Canada, West Germany and the United Kingdom.⁶⁸

From our discussion up to here, we can safely deduct that during the 1960's and 1970's Puerto Rico became an important center for the monopolistic fraction of the imperialist bourgeoisie. An important sector of monopoly capital integrated Puerto Rico within its orbit, and this sector transformed Puerto Rico into a major producer of chemical and petrochemical goods and made it an important producer of other goods of capital intensive industries. Later, this change resulted in the displacement of the center of capital accumulation from the medium and small fractions of the imperialist bourgeoisie, linked to light industry, to the monopoly capital fraction of the imperialist bourgeoisie, linked to capital intensive industry.

The conditions for this displacement of the center of accumulation had been created by the structural problems of the capital importation model in the late 1950's and the early 1960's and by a set of exceptional political conditions. We have already discussed the structural problems faced by the capital importation model in the late 1950's and the early 1960's. Now, we will concentrate on the discussion of the political

⁶⁸Calculated from the same sources for Table 21. The data for the Middle East is not detailed by country.

conditions that fostered the deepening of the capitalist importation model in the direction of the expansion of monopoly capital investment in Puerto Rico.

The key political conditions that led Puerto Rico in this new direction were: a) the provision under Law 57 of longer and more flexible tax exemption periods; b) the continued exemption from Federal taxes on profit repatriated to U.S. corporations under conditions specified by the U.S. Internal Revenue Code; c) the greater integration of the Puerto Rican financial structure to the North American one, facilitated by the continued colonial relation; and d) the allocation to Puerto Rico of special oil import quotas between 1965 and 1973.

The importance of these political conditions can be seen in several ways. In first place, we would argue that the granting of extended tax exemption periods was the corner stone of the deepening of the capital importation model. As a matter of fact, the tax exemption periods originally stipuated in Law 57 were increased three times between 1969 and 1974. An amendment in 1969 to Law 57 changed the tax exemption periods from 10, 12 and 17 years to 10, 12, 15, and 17 years, depending on the zone in which the industry was to be located. Another amendment in 1972 changed the periods to 10, 12, 15, 17 and 25 years. The 25 year exemption was applicable only to the municipalities of Vieques and Culebra. In 1974, yet another amendment changed the tax exemption periods to 10, 15, 25 and 30 years.⁶⁹

These extended periods of tax exemption made many industrial operations more profitable in Puerto Rico than in the U.S. In 1973, the

⁶⁹AFE, Elementos claves para el desarrollo de una estrategia de desarrollo (San Juan: AFE, 1974), p. 24.

industries of transportation equipment, electrical machinery, printing, chemicals, petroleum refining and petroleum products, textiles, primary metals and stone clay and glass operating in Puerto Rico had a rate of profit per share at least twice as great as that of those industries operating in these areas in the U.S. The lowest average rate of profit per share in these industries was that for textiles. In this industry, the average rate of profit per share for a U.S. plant in Puerto Rico was 19.3%, while in the U.S. it was 9%. The highest average rate of profit per share was in the primary metal industry. Here the average rate of profit per share for a U.S. plant operating in Puerto Rico was 46.1%, while in the U.S. it was 10.1%. For the most important sectors controlled by monopoly capital, the average rate of profit per share for Puerto Rico as compared to the U.S. were: a) chemicals 34.1% for Puerto Rico, 14.8% for U.S.; b) petroleum refining and petroleum products 25.3% for Puerto Rico, 11.6% for U.S.; c) electrical machinery 26.7% for Puerto Rico, 13.1% for U.S.; and d) scientific instruments 23.7% for Puerto Rico, 15.9% for U.S.⁷⁰

The importance of the tax exemption provided by the colonial government was complemented by the special treatment given by the U.S. Federal Government to the U.S. subsidiaries operating in Puerto Rico. According to Section 931 of the U.S. Internal Revenue Code (IRC), the U.S. corporations operating subsidiaries in Puerto Rico could request special status and be designated as possession corporations. The subsidiaries so designated had to prove that 80% of the gross income generated by its operation came from its activities in any of the U.S. possessions (e.g.,

⁷⁰U.S. Department of Commerce, Economic Study, Vol. 2, p. 67, Table 16.

Puerto Rico, Guam, etc.). The parent corporation of the possession corporation would have to pay income taxes to the Federal Government on profits repatriated to the U.S. on a current basis (i.e., yearly), but if the subsidiary accumulated its profits throughout its years of operation in the "possession" and decided to liquidate its operation all accumulated profits could be repatriated to the parent company in the U.S. without payment of any Federal income taxes.⁷¹

This section of the U.S. IRC stimulated the U.S. subsidiaries operating in Puerto Rico to develop two practices that were negative to the economic growth of the island while being very lucrative for the subsidiaries. The first practice was the tendency to accumulate a high level of liquid assets in the form of deposits in U.S. banks. Most of the profit made during the period of tax exemption in Puerto Rico was not re-invested directly, rather it was deposited in banks or invested in financial assets like government bonds that pay high interests. The second practice was that of liquidating the operations of the subsidiaries at the end of the Puerto Rican tax exemption period and then repatriating the accumulated profits without having to pay any Federal income taxes. The report of the "Tobin Committee" described the typical life cycle of an American subsidiary in Puerto Rico in the following manner:

The new firm, today probably a pharmaceutical or an electronic plant, not a textile or apparel one, starts with a cash investment provided by the North American parent company. Since the operation is established because of Federal and local tax exemptions, as much as for the cheap labor and other advantages of Puerto Rico, there are substantial profits. The parent company has very powerful reasons to establish in Puerto Rico its most profitable operations. Federal regulations on taxes prevent the profits from returning immediately to the parent company. Therefore, the subsidiary starts to accumulate financial assets. The income from these financial assets

⁷¹Ibid., pp. 73-77.

is tax exempt if they are invested in U.S. territory. This explains the popularity of the high interest deposit certificates in Guam. When the tax exemption period in Puerto Rico expires, the subsidiary has accumulated a substantial amount of financial assets as well as some depreciated tangible assets in Puerto Rico. The tangible assets are sold, the subsidiary is liquidated and the profits accumulated by the whole operation are sent back to the parent corporation free of any payment of Federal or local taxes. The physical plant remains in Puerto Rico. It will only be used if some firm - maybe another subsidiary of the old parent company - finds it profitable. This, in time, will depend on whether or not a new tax exemption can be arranged.⁷²

This same report points out that the typical U.S. subsidiary in Puerto Rico maintained 80% of its total assets in a financial form. Aside from the negative impact that this had over economic growth, it also distorts the real nature of what was classified as direct investment in Puerto Rico. The report of the "Tobin Committee" estimated that as much as 50% of what was classified as direct investment in Puerto Rico was in reality made up by financial assets. This excess of financial investments in high interest deposits also helped to increase significantly the rate of return of the U.S. subsidiaries. According to the "Tobin Committee," the real rate of return on investment of U.S. subsidiaries was somewhere between 35 and 60%.⁷³

A curious financial practice associated with this behavior of U.S. subsidiaries was that of putting bank deposits and saving certificates in U.S. banks with operations in Guam. Since Guam was also a U.S. colony, it enjoyed the same exemption from federal taxes as Puerto Rico. Puerto Rican subsidiaries of U.S. corporations were therefore able to channel their profits to Guam on a current basis without paying any Federal taxes. In time, the funds deposited in Guam by the subsidiaries were channeled through financial intermediaries to investments in the Euro-Dollar

⁷²Informe Tobin, pp. 59-60.

⁷³Ibid.

market.⁷⁴ In this way, the large financial-industrial consortiums that operated in Puerto Rico established a complex financial network that ultimately enabled the parent company to make immediate use of the profits made in Puerto Rico. In other words, the limitations provided by the U.S. IRC did not deter the U.S. multinationals from using the capital generated on the island in their multinational operations.

This financial advantage led many multinationals to establish operations in Puerto Rico that produced their most profitable product or line of products. It also stimulated a price transfer practice between the parent companies and the subsidiaries that inflated the income of the latter and reduced the income of the former, thus reducing its tax liability. By 1977, for example, a group of U.S. multinationals derived over one-fifth of their total income from their operations in Puerto Rico. These were: a) Pepsi Co., 21%; b) Union Carbide, 25%; c) Digital Equipment, 57%; d) Abbott Laboratories, 71%; Eli Lilly, 22%; e) G.D. Searle, 150%; f) Smith Kline, 64%; and g) Motorola, 63%.⁷⁵ This list only includes companies for which financial information is available to the public.

The other practice encouraged by the tax exemption was to liquidate operations at the end of the tax exemption period in order to repatriate

⁷⁴Ibid., and U.S. Department of Commerce, Economic Study, Vol. 2, p. 75.

⁷⁵John S. Buttles, II, "Trouble in Tax Paradise? The IRS Probes Corporate Operations in Puerto Rico", Barron's (October 9, 1978), pp. 9, 25-27; "Closing in on Puerto Rico's Tax Haven", Business Week (May 22, 1978), pp. 154, 156; and Paul Horowitz, "Puerto Rico's Pharmaceutical Fix", Nacla, Vol. XV, No. 2 (March-April, 1981), pp. 22-36.

profits without paying Federal income taxes. However, in many instances these liquidations were nothing but a juridical game in which one subsidiary sold its tangible assets to another subsidiary of the same parent corporation. The case of Baxter Laboratories illustrated by the following quotation is classical:

In 1968 and 1974, the company liquidated significant subsidiaries which had been operating under tax exemption granted by the Commonwealth of Puerto Rico. The retained earnings of these subsidiaries were returned to the company without payments of U.S. taxes under present law, which permits tax free liquidation of domestic subsidiaries.

Other subsidiaries of the company now manufacturing in Puerto Rico hold exemptions expiring on various dates between 1978 and 2003 The company plans to invest the earnings of these subsidiaries until such time as it is appropriate to liquidate them . . . tax free . . .⁷⁶

In this way, the U.S. corporations used every legal trick available to increase their profits.⁷⁷

These financial games of the multinationals were made possible by the financial integration of Puerto Rico to the U.S. This integration meant that a U.S. subsidiary could deposit its profits in the branches of U.S. banks operating in Puerto Rico without any major currency or legal restrictions and could thus move its funds in such a manner as to bypass the restrictions of the U.S. IRC. It was relatively easy for a

⁷⁶ Baxter Laboratories, Inc., Annual Report to the SEC 5 (December 31, 1975); as quoted by Luis P. Costas Elena, "I.R.C. Section 936 and Fomento Income Tax Exemption in Puerto Rico", part III, Revista del colegio de Abogados, Vol. 41, No. 2 (mayo de 1980), pp. 262-63.

⁷⁷ Costas Elena describes many cases in which companies liquidate and reorganize their subsidiaries just "in paper", as a means of getting added tax exemption periods, by resorting to legal technicalities and loopholes in the Puerto Rican tax exemption laws. See Costas Elena, "I.R.C. Section 936", pt. III, *passim*.

subsidiary who, for example, made its deposits in a branch of the City Bank to channel funds to the City Bank offices in Guam and from there to the Euro-dollar market without technically breaking the U.S. IRC restrictions. As long as the financial transaction was made in U.S. banks operating in the "possessions," the profits of the subsidiaries had not been, technically speaking, repatriated. As a matter of fact, a large share of the bank deposits of the "possession corporations" were in the Puerto Rican branches of the Chase Manhattan Bank and the City Bank.

In 1976, the U.S. Congress revised Section 931 of the U.S. IRC and replaced it with Section 936 of the U.S. IRC. Among the things eliminated from Section 931 were the restrictions on repatriated profits. Now U.S. subsidiaries could repatriate profits to parent companies on a current basis.⁷⁸ In order to prevent a possible sudden loss of financial funds in the Puerto Rican economy caused by the implementation of this law, the colonial government imposed what it called a "tollgate tax" on profits repatriated by the "possession corporations." In order to avoid paying this tax, the "possession corporations" were required to either reinvest profits or deposit the profits in special certificates eligible for tollgate tax exemption. This practice just reproduced the practice of the subsidiaries before 1976. By 1977, 1.6 billion dollars of the 5 billion dollars of profits accumulated by the "possession corporations" were in these special bank certificates. Most of this money was also deposited in the branches of U.S. banks operating in Puerto Rico.⁷⁹ The

⁷⁸Ibid., and U.S. Department of Commerce, Economic Study, Vol. 2, p. 563.

⁷⁹U.S. Department of Commerce, Economic Study, Vol. 2, p. 563.

change of Section 931 in 1976 was expected to discourage the previous dubious financial practices of "possession corporations" and to allow the colonial government to take steps, such as the tollgate tax, to increase reinvestments by U.S subsidiaries on the island. However, it seems that the greatest impact of this change would be in the financial sector instead of on the industrial development of the island.

Finally, the concession to Puerto Rico of special oil import quotas in 1965 and 1968 provided the opportunity for some large U.S. oil and petrochemical corporations to establish highly profitable operations on the island. These special quotas gave U.S. petrochemical plants and oil refineries operating in Puerto Rico access to cheap Venezuelan and Middle Eastern oil while their U.S. competitors were forced to buy more expensive U.S. oil. For example, in 1969 a U.S. corporation operating in Puerto Rico paid 2.25 dollars for a barrel of Venezuelan oil, but U.S. producers, because of the quota, were forced to pay 3.50 dollars for a barrel of U.S. oil.⁸⁰

This special treatment for Puerto Rican and other U.S. colonies was eliminated in 1973 when President Richard Nixon eliminated the oil quota. Presidential Proclamation 4210 of April 17, 1973 and Presidential Proclamation 4297 of June 19, 1973 replaced the oil import quota by a license fee system. Under the new system, any U.S. producer could import foreign oil as long as it paid the cost of the licence fee. Although the license fee system was applied gradually to Puerto Rico, all import advantages disappeared by 1980.⁸¹

⁸⁰Bellah, "The Impact", p. 81.

⁸¹Bohi and Russell, Limiting Oil Imports, pp. 230-35.

The problems created by the end of the import privileges granted to Puerto Rico were made worst by the 1973 Arab oil embargo and the sharp increases in oil prices that followed it. The price of a barrel of crude oil imported to Puerto Rico increased from 3.05 dollars in 1972 to 14.06 dollars in 1976. The price of imported naphta increased from 6 cents per gallon in early 1973 to 37 cents per gallon in 1976.⁸² In December of 1974, the price for a barrel of crude oil produced in the U.S. was 7.39 dollars, while a barrel of imported crude oil was 12.82 dollars.⁸³ Any hope to cushion the blow dealt to the oil and petrochemical producers in Puerto Rico through political manoeuvring or special concessions from the Federal Government were crushed by the embargo and the price hikes declared by OPEC countries.

The convergence of the abolition of the oil quota, the embargo and the price increases drove the most dynamic sector of the Puerto Rican economy into a crisis. The profit rate in the oil industry shrunk drastically. It went from 25.8% in 1973 to 6.9% in 1976. In the chemical industry, it shrunk from 34.1% in 1973 to 17.6% in 1976.⁸⁴ This occurred while the profit rate for these sectors in the U.S. increased from 11.6% in 1973 to 14.4% in 1976 for the oil industry, and from 14.8% in 1973 to 15.5% in 1976 for the chemical industry.⁸⁵

⁸²U.S. Department of Commerce, Economic Study, Vol. 2, pp. 234-37.

⁸³According to the figures of the Federal Energy Administration (FEA) reproduced by George L. Perry, "The United States", in Edward A. Fried and Charles H. Schultze, eds., Higher Oil Prices and the World Economy (Washington, D.C.: The Brookings Institution, 1975), p. 79.

⁸⁴U.S. Department of Commerce, Economic Study, Vol. 2, p. 67.

⁸⁵Ibid.

Perhaps the most illustrative case of the critical impact of the events just discussed on the oil refining industry was the case of CORCO. This oil refinery, contrary to the other oil and petrochemical companies operating on the island, was not a multinational. It had been incorporated in New York and had begun operating in Puerto Rico during the mid-Fifties. Under the exceptional conditions provided by the oil quota, CORCO grew to become Puerto Rico's largest corporation and to be ranked among the 500 largest U.S. industries by Fortune magazine. However, after the 1973 events, CORCO began having problems and it declared bankruptcy in 1978. CORCO, as well as the petrochemical complex in general, had exhausted its possibilities for expansion.⁸⁶

So far, we have seen how the deepening of the capital importation model meant the consolidation of the control of the imperialist bourgeoisie over the process of industrial development in Puerto Rico. We have seen how the dynamic sector of the Puerto Rican economy came under the sway of international monopoly capital and became part of a vertically integrated international productive structure. Puerto Rico became an intermediate link in a production process that began and ended outside of the island. The strategic decisions of the most dynamic sector of the Puerto Rican economy were made by an absent class. This absent class made the key decisions on investments and production and appropriated a significant share of the social surplus product (surplus value) produced in the Puerto Rican economy. In other words, as a result of the deepening of the capital importation development strategy, Puerto Rico became an industrial and financial enclave integrated to the North American economy.

⁸⁶ Ibid., pp. 226-44 and passim.

Most indicative of this process of "enclavization" of the Puerto Rican economy is the continued tendency of the import and export coefficients to increase. Between 1963 and 1974, the import coefficient in Puerto Rico remained about 50% of the GDP, but it jumped to 60% or more between 1975 and 1978. Likewise, between 1963 and 1978, the export coefficient fluctuated between 32% and 39% of the GDP, but it went over the 40% mark in the years 1974, 1977 and 1978.⁸⁷ Put another way: almost four decades after the establishment of an industrialization program there had been no real progress on import substitution. But, as we saw before, this never was a goal of the industrialization policy. The wheel of imperialist capitalism had gone full cycle, and Puerto Rico had gone from an agricultural to an industrial enclave.

According to a study made by the Puerto Rican House of Representatives, the industries operating by 1972 in Puerto Rico produced 40% of all the para-xylene, 30% of all the cyclohexane, 26% of all benzene, 24% of all propylene and 12% of all vinyl chloride consumed in the U.S. These industries also produced 44% of all electrodes consumed in the U.S.⁸⁸ Moreover, according to the figures of the 1972 Census of Manufactures, 53% of the total value of the shipments of industry in Puerto Rico were accounted for by shipments to the U.S., while only 40% were accounted for by shipments to the local market. The oil refining and organic chemical industries exported 42% of their production, despite the fact that

⁸⁷ Calculated from Junta de Planificacion, Balanza de pagos, 1978, p. 1; and Junta de Planificacion, Ingreso y producto, 1978, pp. 22-23.

⁸⁸ Puerto Rico, Camara de Representates, Comision de Recursos Naturales, Informe sobre el establecimiento de un puerto de hondo calado (San Juan: 1974).

the oil quota was supposed to limit such exports from Puerto Rico to the U.S. The pharmaceutical industry exported 76% of its product to the U.S. and the electronic industry exported 87% of its product to the metropolis.⁸⁹ By 1977, 59% of the total value of the shipments of industry in Puerto Rico were accounted for by shipments to the U.S., while the share of shipments to the local market was reduced to 34%. The oil refining and organic chemical industries exported 44% of their production, an increase of 2% from 1972. For their part, the pharmaceutical industry decreased their exports to 71% of the total value of shipments, and the electronic industry decreased its exports to 85% of its production, 2% less than in 1972.⁹⁰ Yet, by and large, the most dynamic sectors of the economy remained export oriented.

However, these high export figures themselves do not constitute a negative element. The export of manufactures is in fact a development strategy that has been pursued by countries like Brazil and Mexico. The problem is that this high level of manufactured exports does not necessarily imply the expansion of the local economy. As a matter of fact, in many cases it only deepens the problems of capital accumulation experienced by peripheral economies because the export sector is controlled by multinational firms.⁹¹ In the case of Puerto Rico, the most important

⁸⁹U.S. Bureau of Census, Census of Manufactures, Puerto Rico, 1972, pp. 43-45.

⁹⁰U.S. Bureau of Census, Census of Manufactures, Puerto Rico, 1977, pp. 66-69;

⁹¹For a critical analysis of this strategy for the case of Mexico see Rhys O. Jenkins, "Manufactured Exports-Development Strategy or Internationalization of capital?" SLAS Bulletin, No. 28 (April, 1978), pp. 64-82.

negative effects were: a) an increase in the balance of trade deficit; b) little linkage of production to the local market, thus industrial production had little forward or backward linkages within the economy and a low multiplier (or "leading") effect; and c) the need for an increase in the public external debt to compensate for the trade deficit and the loss of capital and to stimulate economic expansion through state economic activity. In other words, in so far as the export of manufactures was not the product of an industrial development that reflected the development of the productive forces within the Puerto Rican socio-economic formation, but rather was the product of the internationalization of the capitalist production, the impact of this economic activity was negative. This occurred because the increase in exports did not imply an increase in the income of the local economy that could eventually become accumulated capital, but rather it implied the concentration of capital in the hands of the absent class (imperialist bourgeoisie) that controlled the productive process. In time, this meant that the reinvestment of the capital produced in Puerto Rico and realized through exports was decided by a class whose interests were defined in terms of their global corporate interests, not in terms of the structural needs of capital accumulation for the "development" of the Puerto Rican economy.

This marginal connection of the industrial dynamic sector with the rest of the economy of Puerto Rico was illustrated by the following description in the U.S. Department of Commerce Economic Study of Puerto Rico:

In the production process, most raw material and intermediate goods are shipped to the subsidiary firms by their parent companies or by U.S. distributors through arrangements made by the parent companies. The outputs produced are shipped directly to the mainland companies for distribution, including redistribution

to Puerto Rico. In other words, the general practice of many U.S. corporations is to use Puerto Rico as a production point only.

.....

. . . This limits the potential for both backward and forward linkages and the industrial process in Puerto Rico is not vertically integrated, despite the tremendous increase in industrial output over the past 30 years.⁹²

The negative effect of this "disarticulation" of Puerto Rican economy was such that in 1976 it was estimated that the multiplier effect of foreign investment on the national income was only 1.3.⁹³

In order to make up for the negative impact of foreign investment in the rest of the economy, particularly the 3,879 millions in the balance of trade deficit in 1978, the colonial government had to increase its external debt. By 1978, Puerto Rico's colonial government owed foreign lenders 6,081.7 million dollars, 568% more than it owed in 1965.⁹⁴ It was the public sector, as we shall see, that attempted to provide stability to the structural imbalances that were accentuated by the deepening of the capital importation strategy of development.

In synthesis, we can say that the deepening of the capital importation strategy, between 1963 and 1978 led to the conversion of the Puerto Rican economy into an industrial production enclave for monopoly capital and to a deepening of the disarticulation of the Puerto Rican

⁹²U.S. Department of Commerce, Economic Study, Vol. 2, pp. 89-90.

⁹³U.S. Department of Treasury, First Annual Report on Possessions Corporations (Washington, D.C.: 1977), pp. 52-53; as quoted by Costas Elena, "I.R.C. Section 936", p. 257, notes 646 and 647.

⁹⁴Planificacion, Informe economico, 1975, p. A-30.

economy.⁹⁵ It also led to the use of Puerto Rico as a financial center to which profits were channeled (e.g., using price transfer mechanisms) to evade tax payments and then recirculated, through a financial labyrinth, back to the corporations' international operations. The deepening of the capital importation strategy also prompted a greater integration of the Puerto Rican productive structure to that of the U.S. This, in time, meant an unprecedented siphoning of capital from the Puerto Rican economy that had to be counterbalanced by increasing the public external debt. At the end of this period, perhaps more than ever in Puerto Rican history, the strategic decisions regarding the direction of the economic development of the island were in the hands of an absent class, the monopolistic fraction of the U.S. imperialist bourgeoisie.

The Impact of the Deepening of the Capital
Importation Strategy on the Social Structure

Thus far, we have seen the impact that the continuation and deepening of the capital importation strategy had on the political economy of Puerto Rico. Now we shall see the impact of this strategy on the social structure.

What occurred during this period was the continuation and deepening of social processes that had begun in the previous stage (1947-1963) of the capital importation strategy. The processes of urbanization and

⁹⁵ Here we coincide with Samir Amin's thesis on the distortion of the peripheral economies as a result of their integration to the international capitalist system. However, Amin argues that one of the major distortions is the concentration of industrial activities in the periphery in light industry. This was obviously not the case for the second stage of the capital importation strategy in Puerto Rico. Furthermore, to us, what determines the type of industry in which industrial development in the periphery will be concentrated, is the existing level of development of the productive forces in a specific country. See Samir Amin, La acumulación a escala mundial; crítica a la teoría del subdesarrollo (Mexico: Siglo Veintiuno, 1974), pp. 209-91.

proletarianization continued, but the migration pattern was reversed, with more people immigrating to Puerto Rico than those emigrating from the island. This latter process, coupled with the stagnation in the growth of industrial employment and the continued decline in agricultural employment, contributed to the increases in the rates of unemployment and underemployment. In other words, the escape valve represented by migration was closed. The process of displacement and marginalization of the working classes deepened and the "relief" provided by emigration greatly diminished. For their part, the non-displaced working classes maintained their access to the consumer market, an element of great sociological importance for the political stability of the colonial economy. This fact, however, did not mean that the exploitation of these classes diminished. On the contrary, the share that industrial workers received of their product (the wages they received as a proportion of the value added by industry) continued its diminishing trend throughout this period.

A third key social process was the emergence and consolidation of the petty bourgeoisie as a major political force. The increased importance of this social sector was attributable to the added importance of the non-productive economic activities that accompanied industrial expansion, particularly the expansion in the service and public sectors of the economy. The new petty bourgeoisie became another major socio-political source of support for the colonial economy and the capital importation strategy.

A fourth process that took place was the double accommodation of the local bourgeoisie. On the one hand, a fraction of the local bourgeoisie came to occupy a place within the industrial competitive

sector. This sector was basically composed of small and medium size industries producing mainly for the local market. On the other hand, there emerged a financial-industrial fraction of the local bourgeoisie that was linked to imperialist capital. This sector was mainly linked to large Puerto Rican banks and industrial consortiums. Though numerically very small, this sector became very influential in providing political direction for the continuity of imperialist capitalism when the contradictions of the capital importation model became more acute. Finally, the sharpening of the contradictions of the capital importation strategy led to the political division of the techno-bureaucracy and its displacement as a major political force. This, in time, resulted in a series of political realignments within the colonial power bloc.

As we said, the process of displacement of the working classes was accelerated during the 1960's and 1970's. However, during these decades the manifestation of this displacement as emigration to the U.S. was significantly reduced. During the 1960's, the average annual emigration rate was 20,400 persons, which is less than half the annual rate (43,000) of the Fifties.⁹⁶ Another element that further affected the emigration rate was the immigration to Puerto Rico of foreigners, particularly Cuban exiles. Between 1961 and 1970, 105,452 persons immigrated to Puerto Rico from the Virgin Islands and foreign countries.⁹⁷ This left a net emigration from the island of 98,985 persons during the 1960's, or 9,898 people per year.

⁹⁶ Calculated from the data on Table 13, supra Chap. IV, and from the data of the Puerto Rico Planning Board reproduced by Maldonado Denis, Emigracion y colonialismo, p. 181.

⁹⁷ Maldonado Denis, Emigracion y colonialismo, p. 181.

Between 1971 and 1976, 56,176 more people, an average of 9,362 per year, "returned" to Puerto Rico than emigrated to the U.S.⁹⁸ This process has been called "return migration" and has been attributed to the economic crisis that started in the U.S. in the late 1960's.⁹⁹ This, of course, does not mean that there were no Puerto Ricans migrating. Rather, it means that as a structural tendency the pattern of migration was reversed. This reverse of the migration pattern was further complicated by the continuation of foreign migration into Puerto Rico. Between 1971 and 1976, a total of 121,481 people, or 20,246 people per year, migrated to Puerto Rico from the Virgin Islands and foreign countries.¹⁰⁰

The process of displacement of the Puerto Rican working classes began to take a new twist in the 1960's and 1970's. While the economic development under the capital importation model continued the process of displacement of the rural population to the urban centers, the contradictions and cyclical crises of monopoly capital in the metropolis were also displacing the Puerto Rican migrants from the ranks of the labor force in the metropolis. Table 22 shows the tendency of the urban population to grow to the detriment of the rural population. It also shows the drastic reduction in migration occurring during the Sixties. If we compare this table to Table 13 in Chapter IV, we can see the continued

⁹⁸ Ibid., and Junta de Planificacion, Anuario estadístico, 1976 (San Juan: Junta de Planificacion, 1977), p. 142. The Planning Board divides the migration figures into three categories: the U.S., the Virgin Islands and Foreign Countries.

⁹⁹ Maldonado Denis, Emigracion y colonialismo, chap. 7.

¹⁰⁰ Ibid., p. 181; and Junta de Planificacion, Anuario estadístico, 1976, p. 142.

TABLE 22

POPULATION CHANGES IN PUERTO RICO
1960-1970

	<u>Total</u> <u>popu-</u> <u>lation</u> <u>(000)</u>	<u>% of</u> <u>change</u> <u>for the</u> <u>decade</u>	<u>Urban</u> <u>popula-</u> <u>tion</u> <u>(000)</u>	<u>% of</u> <u>the</u> <u>total</u> <u>popula-</u> <u>tion</u>	<u>% of</u> <u>change</u> <u>for the</u> <u>decade</u>	<u>Rural</u> <u>popu-</u> <u>lation</u> <u>(000)</u>	<u>% of</u> <u>the</u> <u>total</u> <u>popula-</u> <u>tion</u>	<u>% of</u> <u>change</u> <u>for the</u> <u>decade</u>	<u>Migration</u> <u>(000)</u>	<u>% that</u> <u>migrants</u> <u>represent</u> <u>of the</u> <u>total pop-</u> <u>ulation</u>	<u>% of</u> <u>change</u> <u>for the</u> <u>decade</u>
1960	2349.5	6.3	1039.3	44.2	16.1	1310.2	55.8	-0.4	430.5	18.3	180.1
1970	2712.0	15.4	1575.5	58.1	51.6	1136.5	41.9	-13.3	99.0	3.7	-77.0

SOURCES: U.S. Bureau of Census, Census of Population, Puerto Rico, 1970, Vol. I, pt. 53, (Washington, D.C.: U.S. Government Printing Office, 1973), p. 53-9; Manuel Maldonado Denis, Puerto Rico y Estados Unidos; emigracion y colonialismo (Mexico: Siglo Veintiuno, 1976), p. 181.

displacement of the rural population and the fluctuations in the migration patterns since the 1940's.

The change in the emigration pattern combined with the unprecedented immigration of foreigners (principally Cuban exiles and Dominican workers) and the reduced amount of jobs created by the capital intensive industries was reflected in the increases in the rates of unemployment and underemployment. These were also reflected in the continued expansion of the employment in those activities linked to the tertiary sector. Tables 23 and 24 show the rapid increase in the rate of unemployment and in the employment in the tertiary sector. It is interesting to note that the employment figures for 1978 are based on the population over 16 years of age, while those of 1975 were based on the population over 14 years. One might have expected some reduction in unemployment due to this change, but the results are quite the opposite.

In terms of the rate of underemployment, the increase is even larger. While in 1967 19.6% of the people employed were classified as underemployed (working 34 hours or less a week), by 1977 42.2% of all the people employed were classified as underemployed.¹⁰¹

The "explosion" of unemployment and underemployment prompted the expansion of a "marginalized pole of the economy". This pole was integrated by a set of economic activities which were marginal to the dynamic sector or were linked to it in a residual manner. These activities did not have any significant impact on the levels of production and productivity in the economy. In the main, the marginal economic

¹⁰¹ Departamento del Trabajo, Empleo y desempleo en Puerto Rico (San Juan: Departamento del Trabajo, Junio de 1967 and enero de 1977), p. 6 and p. 4, respectively.

TABLE 23

EMPLOYMENT STATUS OF THE
CIVILIAN POPULATION OF 14 YEARS
OF AGE OR MORE, 1970, 1975, 1978
(in thousands)

	<u>1970</u>	<u>1975</u>	<u>1978</u>
Adult civilian population	1718	2060	2146*
Labor force	765	872	961
Rate of labor participation %	44.5	42.3	44.8
Employed	686	738	780
Unemployed	79	134	180
Unemployment %	10.3	15.4	18.7

SOURCE: Junta de Planificacion, Informe Economico al Gobernador, 1979 (San Juan: Junta de Planificacion, 1980), p. A-24.

*Refers to the population of 16 years of age or more.

TABLE 24

DISTRIBUTION OF EMPLOYMENT BY
ECONOMIC SECTOR 1970-1978
(in thousands)

	<u>1970</u>	<u>%</u>	<u>1975</u>	<u>%</u>	<u>1978</u>	<u>%</u>
Total employment	686	100	738	100	780	100
Primary	68	9.9	49	6.6	40	5.1
Secondary	208	30.3	206	27.9	200	25.6
Tertiary	408	59.4	479	64.9	537	68.8

SOURCE: Ibid., p. A-25.

activities were concentrated in the spheres of circulation and simple commodity production.¹⁰² Thus, today, it is a common sight along the main streets of the San Juan metropolitan area, alongside the large corporate buildings, to see street vendors selling cakes or doughnuts made by small family businesses or fresh fruits and vegetables grown by local farmers or bought from some small intermediary that buys them from the import houses. The streets of what Fomento used to call the most developed country of Latin America have been transformed into an Arab bazaar where you can get anything from a fast food lunch to a pillow.

Another activity typical of this "marginalized pole" is the personal services. Day work in gardening, masonry and other similar activities are commonplace in Puerto Rico. One more result of the intensification of the process of displacement of the working classes has been the expansion of the lumpen-proletariat and the activities normally associated with it. The expansion of criminal activities like drug traffic, clandestine gambling, prostitution, theft, etc., tend to confirm this observation. However, it is very difficult to measure the precise character of the expansion of these activities as a form of living

¹⁰²Anibal Quijano, "Redefinición de la dependencia y proceso de marginalización en América Latina", in Quijano and Weffort, Populismo, Marginalización y dependencia, p. 280, and passim; see our comment on note 92, supra chap. IV.

for the displaced working classes. There are no studies that deal with this from such a perspective.¹⁰³

The continued displacement of the working classes has not only stimulated the expansion of the tertiary sector in an immediate sense (the expansion of low productive tertiary activities), but it has also stimulated it in a larger sense. The displacement of the workers has prompted the expansion of the public sector in two directions: a) to provide services and income to the displaced workers, keeping them at a minimum level of subsistence; and b) to provide jobs, counterbalancing the declining trend in the primary sector, through the expansion of the state's bureaucracy. In this, the metropolitan government has played a major role by providing millions of dollars for welfare programs that become the source of income for the unemployed and the source of employment for the new petty bourgeoisie. Between 1960 and 1978, the transfer payments of the U.S. Federal Government to the residents of Puerto Rico increased from 78.1 million dollars to 1,963 million dollars, an increase of 2,413%.¹⁰⁴ In 1960, the majority of these transfer payments were benefits to Puerto Rican veterans of the U.S. Armed Forces or Social

¹⁰³The most recent studies on criminal violence in Puerto Rico deal with it from the Durkheimian theory of anomie or from the Weberian theory of bureaucratization. To them the increases in criminal activities are the result of "anomic" behavior or a response to the tensions created by a bureaucratized society. See Jaime Toro Calder, "Violencia individual en Puerto Rico", Revista de Ciencias Sociales, Vol. XVIII, Nos. 3-4 (septiembre-diciembre de 1974), pp. 43-58; and Pedro A. Vales and David Hernandez, "La modernizacion de la violencia: su asociacion con la burocratization de la vida cotidiana contemporanea", Revista de Ciencias Sociales, Vol. XVIII, Nos. 3-4 (septiembre-diciembre de 1974), 111-32.

¹⁰⁴Junta de Planificacion, Balanza de pagos, 1978, pp. 45-46.

Security payments. That is, they were payments for services rendered or accumulated job benefits. However, by 1978 901.1 million dollars were given to individuals in foodstamps and rent subsidies.¹⁰⁵ In other words, 42.6% of all transfer payments of the U.S. Federal Government to the residents of Puerto Rico were welfare payments aimed at maintaining the displaced workers at a minimum subsistence level. The situation of "marginalization" of the working population was such that for the fiscal year 1976-77 50% of the population was receiving public aid in the form of foodstamps.¹⁰⁶

Thus, the public sector became the major source of employment for the working population. Between 1970 and 1978, the total employment in Puerto Rico increased by 13.7% while government employment grew by 69.8%. By 1977, the government (excluding public corporations) generated 23% of the total employment.¹⁰⁷

Yet, the expansion of the tertiary sector in general, and of the public sector in particular, was not exclusively a function of the continued displacement of the working population and the need to "cushion" the potential political repercussions of this. The expansion of these sectors was a necessary condition for the production and reproduction of the political and social conditions that allowed the expanded reproduction of imperialist capitalism in a wider sense. On the one hand, the expansion of the tertiary sector was a function of

¹⁰⁵Ibid.

¹⁰⁶Planificacion, Informe economico, 1977, pp. 283-84.

¹⁰⁷Planificacion, Informe economico, 1979, p. A-25.

the expansion of the services necessary for the realization of capital (e.g., trade, finance). On the other hand, this expansion responded to the political need for the reproduction of the existing domination/exploitation relations between labor and capital. In this sense, there was a tendency to expand the repressive state apparatus, the public school system, and the welfare system, to mention a few.

Together with this expansion of the functions of the tertiary sector, there was an expansion of the non-manual (mental) tasks in the process of production itself. This related to a deepening in the technical division of labor whereby the managerial, supervisory and technical tasks were further divided and specialized within the labor process. As a result of the expansion of these functions due to the increased technical and bureaucratic needs of monopoly capital, there emerged a new class that assumed a key role within the process of capitalist production and reproduction. This new class has been called the new petty bourgeoisie by Nicos Poulantzas.¹⁰⁸ This class was linked to non-productive forms of labor, and the emergence of this class as a significant social and political force was a function of the expansion of the deepening of the division between mental and manual labor and of the increased importance of the former within the capitalist labor process in the stage of monopoly capitalism. That is, it was a function of the deepening of the monopoly over knowledge exerted by the monopolistic industrial-financial bourgeoisie.¹⁰⁹

¹⁰⁸ Poulantzas, Classes in Contemporary Capitalism, part three.

¹⁰⁹ Ibid., esp. pp. 251-270.

Table 25 gives us an idea of the growth in the occupational categories linked to these non-productive forms of labor.¹¹⁰ As we see, the fastest growing categories were clerical workers, professionals and technicians, foremen and craftsmen, and service workers. The craftsmen, who were skilled workers, were the only one of these groups who performed directly productive labor. They were not part of the new petty bourgeoisie. Rather, they can be categorized as a privileged fraction of the working class, a labor aristocracy, that ideologically tended to identify themselves with the political positions of the dominant classes. Aside from this group, the other rapidly growing groups were clearly linked to non-productive forms of labor. They can be categorized as pertaining to the managerial, supervisory and technical tasks within the productive process or to other non-productive (bureaucratic or technical) functions.

It is important to note here that one of the categories we might have expected to grow actually shows a decrease. This is the category of managers and administrators. However, if we look at the detailed information provided by the Census of Population, we can unravel this apparent contradiction. The reduction registered in this category was mainly due to a reduction in the number of self-employed managers and administrators. That is, small owners that administered their own business. This, then, confirms the tendency in the expansion of the new petty bourgeoisie, while at the same time revealing a counter tendency in the decline of the traditional petty bourgeoisie. This decline was manifested in two directions: a) the advance of petty

¹¹⁰The differences in the occupational categories between Tables 25 and Table 16, in chapter IV, reflect the changes made in the census classifications.

TABLE 25

EMPLOYMENT DISTRIBUTION
BY OCCUPATION
(percentages)

<u>Occupation</u>	<u>1960</u>	<u>1970</u>	<u>Change</u>
Professionals and technicians	7.7%	11.1%	3.4
Managers and administrators (except farm)	7.6	6.7	-0.9
Sales workers	6.3	6.9	0.6
Clerical and kindred workers	7.6	11.4	3.8
Service workers	7.9	10.2	2.3
Private household workers	3.4	1.5	-1.9
Craftsmen and foremen	11.3	13.9	2.6
Operatives (except transport)	12.1	13.0	0.9
Laborers (except farm)	6.4	6.1	-0.3
Transport equipment operatives	5.1	5.0	-0.1
Farm laborers and farm foremen	19.9	5.6	-13.3
Farmers and farm managers	3.2	1.3	-1.9

SOURCE: U.S. Bureau of Census, Census of Population, Puerto Rico, 1970, Vol. 2, pt. 53 (Washington, D.C.: Govt. Printing Office, 1973), pp. 741-755.

bourgeois elements into the non-monopolistic capital bourgeois element; and b) the expropriation and proletarianization (or at least their displacement to salaried positions) of the traditional petty bourgeois element.¹¹¹ The decline of the traditional petty bourgeoisie as a result of the expansion of imperialist capital was a process that begun in the 1950's; moreover, it had great political importance, particularly for the pro-independence movement, as we shall discuss later.¹¹²

If we look once more at Table 25, we can notice that, except for the craftsmen, those categories of workers associated with the production of surplus value remained stationary. The categories of operatives and other workers remained around 19% of the employed labor force. Including the craftsmen, the occupations associated with direct production increased by 2.5%, from 28.5% of the employed labor force to 31%, between 1960 and 1970.¹¹³ Also, the sector of these direct producers linked to industry experienced an increase in their level of exploitation between 1963 and 1977. This was reflected in the continued decline experienced by industrial workers in the share received of their product, illustrated by the declining percentage that wages represent of the product (value added) of industry. Table 26 shows this trend.

¹¹¹Poulantzas, Classes in Contemporary Capitalism, pp. 328-331.

¹¹²Juan M. Carrion points out this tendency and its impact on the decline of the pro-independence movement during the Fifties and Sixties. See Juan M. Carrion, "The Petty Bourgeoisie and the Struggle for Independence in Puerto Rico", in Adalberto Lopez, ed., The Puerto Ricans: Their History, Culture, and Society (Cambridge, Mass.: Schenkman, 1980), pp. 233-56.

¹¹³U.S. Bureau of Census, Census of Population, 1970, pt. 53, pp. 741-55.

TABLE 26

PERCENTAGE THAT PRODUCTION WAGES REPRESENTS
OF VALUE ADDED BY MANUFACTURING INDUSTRY
1963-1977

<u>Year</u>	<u>Wages (millions)</u>	<u>Value added (millions)</u>	<u>Wages as % of value added</u>
1963	179	621	28.8
1967	280	1003	27.9
1972	476	1915	24.8
1977	734	4097	17.9

SOURCES: U.S. Bureau of Census, Census of Manufactures, Puerto Rico, 1963, 1967, 1972, and 1977.

If we look at Table 17 in Chapter IV, we can observe that there was a constant decline in the workers share (wages) of the industrial product. Although this is not an accurate measure of surplus value production, it most certainly indicates an increase in the expropriation of surplus value from the workers. This tends to confirm the Marxist thesis that in the long run there is a relative impoverishment of the industrial proletariat.

However, at the same time the expropriation of surplus value increased, there was an apparently contradictory tendency of an increase in the levels of personal consumption and in the real and nominal wages of the industrial workers. Between 1960 and 1970, the expenditure in personal consumption jumped from 1,398 million dollars to 3,746 million dollars, an increase of 168%. The expenditures in durable consumer goods for these same years increased from 177 million dollars to 602 million dollars, an increase of 240%. Also, between 1970 and 1978, the

personal consumption expenditures increased from 3,746 million dollars to 9,043 million dollars, an increase of 141%. For these same years, expenditures in durable consumers increased from 602 million dollars to 1,395 million dollars, an increase of 132%. Put another way, the share of personal expenditures dedicated to durable consumer goods increased from 12.7% of all personal consumption expenditures in 1960 to 16.1% in 1970 and declined slightly to 15.4% in 1978.¹¹⁴

On the other side, the real wages of the workers also maintained a rapid level of growth between 1960 and 1970, but it too grew at a slower pace between 1970 and 1976. The real wages (in 1954 dollars) of the industrial workers increased from 27.01 dollars per week in 1960 to 40.69 dollars per week in 1970, an increase of 50%. By 1976, the real weekly wage of an industrial worker went up to 46.46 dollars per week, an increase of only 14.2% from 1970. At current prices, the nominal wages of the industrial workers had gone up from 29.93 dollars per week in 1960 to 57.98 dollars per week in 1970, an increase of 93%. By 1976, the nominal weekly wage of an industrial worker had gone up to 99.75 dollars, an increase of 72% from 1970.¹¹⁵ It could be argued that the steady increases in nominal wages blurred the slow down in real wage increases during the Seventies.

To synthesize, we can say that the non-displaced workers experienced an increase in their rates of exploitation. Yet, at the same time, they increased their level of consumption and their real and nominal wages.

¹¹⁴All these figures were calculated from the data in *Planificación, Informe económico, 1979*, p. A-2.

¹¹⁵Curet Cuevas, *Desarrollo económico de Puerto Rico*, p. 346; Junta de Planificación, *Anuario estadístico, 1976*, p. 56.

This indicates that the increased rate of exploitation was accompanied by an increase in the productivity of labor, a continuation of the pattern started in the 1950's. By the 1970's, however, there was a slow down in the wages and consumption levels as result of the economic problems experienced during the 70's, particularly in the oil refining and petrochemical industries.

The other major processes unleashed by the deepening of the capital importation strategy had to do with the local bourgeoisie. On the one hand, there was a fraction of the local bourgeoisie that continued the pattern initiated in the Fifties and settled into the competitive (non-monopolistic) sector of industrial production. On the other hand, there emerged another fraction of the local bourgeoisie linked principally to financial capital (banking and large scale financial-industrial consortiums). This fraction was directly connected to the activities of imperialist monopoly capital to the extent that it could be said to be an "internationalized" fraction of the local bourgeoisie.

There are no detailed studies about the bourgeoisie in Puerto Rico. Most of the information available is scattered and fragmentary or highly conjectural. Yet, the information that we have been able to gather tends to substantiate our previous assertions. According to a study conducted by the consultant firm of Clapp and Mayne on the characteristics of Puerto Rican industry and their owners, the following were the key characteristics of Puerto Rican industries:

1. Production was principally oriented to the local market. Only 22% of the surveyed firms sold their product in the U.S. market, while 99% sold their product in Puerto Rico.
2. The principal source of capital was owners, associates or local shareholders. This was the case for 70% of the firms, while for 25% of the firms the principal capital source was local banks.

3. The average employment per firm for all the surveyed firms was 28.2 people. For 53% of the sampled firms, employment fluctuated between 1 and 20 employees.
4. Of the surveyed firms, 40% had an annual income of 200,000 dollars or less. Only 14% made 1 million dollars or more per year.
5. For 50% of the sample the principal competitor was another local industry. For 14% there was no competition and only 22% competed with U.S. producers.
6. The areas of operations for 63% of the sample were textiles and clothing apparels, machinery and metal, furniture and wood, and food. The rest operated in paper, leather, chemicals, rubber and plastic products and service industries.
7. Only 16% manufactured patented products.
8. 38% of the sample depended on U.S. suppliers for getting the raw materials for their principal product, 28% depended on both local and U.S. sources, and 32% depended solely on local sources. For their second most important product, 43% obtained their raw materials from the U.S., 27% obtained them from the U.S. and Puerto Rico, and 27% solely from Puerto Rico.¹¹⁶

This study was based on interviews with 100 Puerto Rican industrialists. If conceded that the sample represents the pattern of Puerto Rican industry in general, it is obvious that there was a distinguishable division of labor between the local and the foreign industry in Puerto Rico. The local bourgeoisie had come to operate in areas producing for the local market that, in the main, did not compete with U.S. producers. The sources financing the local enterprises were mainly local and, even more, mainly individuals. Curiously, however, there was a great degree of dependency on the U.S. for the supplies of raw materials. In sum, we can argue that an important fraction of the local bourgeoisie had adapted to the dominance of imperialist monopoly capital by operating

¹¹⁶Clapp and Mayne, Inc., Informe sobre el estudio de las características de la industria puertorriquena y sus dueños (San Juan: Clapp and Mayne, 1978), pp. VII-XVI.

within the non-monopolistic manufacturing sector and assuming a subordinated and complementary role.

During this period, yet another fraction of the local bourgeoisie emerged as an important social force. This was an internationalized fraction of the local bourgeoisie. This fraction emerged as a consequence of the progressive process integrating Puerto Rico to the market and the financial system of the U.S. This process permitted the expansion and, to a certain degree, the integration of local bourgeois elements to the U.S. monopolistic imperialist bourgeoisie. This relatively small sector, in numerical terms, achieved a major political role as a key ally of the U.S. imperialist bourgeoisie. However, this does not mean that the Puerto Rican internationalized fraction of the bourgeoisie is comparable to those of Brazil and Mexico. The Puerto Rican internationalized fraction of the bourgeoisie was not as strong as the Brazilian or Mexican internationalized bourgeoisie. Furthermore, the Puerto Rican internationalized sector was fundamentally assimilated to the U.S. imperialist bourgeoisie and its links with the international economy were mainly articulated through its connections to the U.S. controlled international financial network.

This fraction of the Puerto Rican bourgeoisie was clearly identifiable with the large banking firms and the few large local financial-industrial corporations. Some of these were still identified by the links to the families who founded these enterprises like the Ferre family (Ferre Enterprises), the Serralle's family (rum producers), the Carrion family (Banco Popular), and the Dejesus family (various banking institutions). Similar to these families, there were other local elements connected

to financial and industrial investments controlled by U.S. monopoly capital.¹¹⁷

In the late Seventies, the weakest components of this internationalized fraction of the local bourgeoisie had disappeared as the result of the international crisis of capitalism. Of the total of 13 Puerto Rican owned banks operating in 1977, 4 had been taken over by Spanish and Canadian banks by earlier 1979.¹¹⁸ However, this tendency towards capital centralization did not produce any major political conflicts between the internationalized fraction of the Puerto Rican bourgeoisie and imperialist capital.

Finally, a major social process that took place in the late Sixties and throughout the Seventies was the displacement of the PPD's techno-bureaucracy as the key intermediaries of the imperialist bourgeoisie. There were three major processes that contributed to the displacement of the techno-bureaucracy from its key political role: a) the emergence of the new petty bourgeoisie as a major social force who fulfilled the role of intermediary in a wider and more efficient manner than the PPD's state based techno-bureaucracy (i.e., efficient technocrats, and managers coming out of private industries and other corporate elements); b) the emergence of the internationalized fraction of the local bourgeoisie as a key ally of the imperialist bourgeoisie; and c) the divisions within

¹¹⁷ There are no studies of this process in Puerto Rico. These remarks are based on personal observations and information gathered through conversation with colleagues or from the press. Therefore, these remarks are still in a hypothetical stage and are subject to more systematic confirmation.

¹¹⁸ U.S. Department of Commerce, Economic Study, Vol. 2, pp. 543, ff.

the PPD's techno-bureaucracy as a result of its incapacity to deal effectively with the problems of the capital importation model.

With the emergence of the new petty bourgeoisie and the internationalized local bourgeoisie, the political base of support of imperialist capitalism widened. These forces born under its influence could fulfill the functions of intermediaries as well as, or even better than, the PPD's techno-bureaucracy had fulfilled these functions. As a matter of fact, these emerging classes were the ones that provided a political alternative and articulated the strategic interests of the imperialist bourgeoisie when the capital importation model came to a crisis in the 1970's. But we will discuss this later.

The problems that accompanied the capital importation model and the incapacity of the PPD's techno-bureaucracy to solve them prompted further factional divisions in the techno-bureaucracy. On the one hand, there were those who favored the continuation of the capital importation model at any cost and, on the other, there were those who proposed a "return" to populist reformist policies. These and other contradictions led to the displacement of the techno-bureaucracy as a major social force and a key intermediary for the imperialist bourgeoisie. This latter function was assimilated in structural as well as social and political terms to the ranks of the new petty bourgeoisie or the local bourgeoisie. The idea of a career government bureaucracy that was a "neutral" civil service, an honest public administrator, a mediator of all interests in society above and beyond any particular interests, gradually disappeared. With it, the techno-bureaucracy also disappeared, having fulfilled its historical role of "midwife" of the restructuring of imperialist capitalism in Puerto Rico. But we shall return to this in the next section of this chapter.

Thus far, we have seen the impact that the insertion of Puerto Rico into the orbit of monopoly capital had over its social and economic structures. We shall now analyze how the deepening of the capital importation strategy exacerbated the politico-ideological contradictions, and how the exhaustion of the exceptional conditions that permitted the development of the capital importation model led it into crisis. Finally, we shall analyze how, dialectically, it was the very categories of developmentalism that provided the conditions for condensing and mediating these contradictions and prevented the emergence of a revolutionary political project as the alternative to the failure of the capital importation strategy.

The Exacerbation of the Politico-Ideological
Contradictions and the Crisis of the
Capital Importation Strategy

As we have seen throughout this work, the PPD's developmentalist strategies were based on the premise that the colonial relationship between Puerto Rico and the U.S. benefitted Puerto Rico. The free market between the island and the U.S. and an unlimited access to U.S. capital were the pillars of the developmentalist strategies followed by the PPD Government. At the same time, the continuation in power of the PPD's techno-bureaucracy depended on the continued "success" of the developmentalist strategy. This was clearly in the minds of the PPD leadership when they decided to deepen the capital importation strategy in the early Sixties.

However, this decision to deepen the capital importation strategy did not resolve the problems of this development strategy. On the contrary, it sharpened the structural contradictions of this model. Put another way, the wage labor/capital and the center/periphery contradictions

were not resolved but deepened. The expropriation of relative surplus value as the principal form of exploitation increased as well as the continued displacement of a large mass of workers. The dimensions of this latter process were such that the displaced workers became a mass of permanently unemployed and underemployed people rather than an industrial reserve army for local or imperialist capital. The mass of displaced workers became a truly marginalized mass. They became more of a socio-economic burden and a possible source of political unrest than a necessary condition for the expanded reproduction of capital. The deepening of the capital importation strategy only contributed to the intensification of the process of expropriation and displacement of the working classes.

The deepening of the center/periphery contradiction meant the transformation of Puerto Rico into an industrial enclave. That is, Puerto Rico became a point of production in a vertically integrated international productive process. Therefore, the capital invested on the island as well as the products processed on it passed through the local economy as part of the process that began and ended in the great markets and financial centers of the world. This movement of capital through the Puerto Rican economy left only a relatively insignificant amount (compared to the developed centers) of accumulated capital and a marginal amount of benefits in the forms of wages and taxes.¹¹⁹ The dynamic sector of production came to be controlled in a monopolistic manner by the U.S. monopolistic imperialist bourgeoisie, and it responded to the interests of this group. The majority of the economic resources in

¹¹⁹The basic elements of Cardoso and Faletto's definition of an enclave economy can be applied to the economic model produced by the capital importation strategy. Cardoso y Faletto, Dependencia y desarrollo, p. 53.

the Puerto Rican social formation were siphoned off by this sector, which accentuated the productive lag of the rest of the economy. This resulted in the further impoverishment and displacement of large sectors of the population. During the period of 1963 to 1978, these conditions were aggravated by the fact that the displaced workers were not reabsorbed into the dynamic sector. They were not even reabsorbed into the marginal sector of the central economy (through migration) because of the ever increasing centralized and capital intensive character of international capitalist production.

The exacerbation of these structural contradictions were expressed initially as a political crisis in the colony. Eventually, after the international crisis that began in 1973, it became a global crisis of the colonial system.

The first manifestation of the political crisis in the colony was the division of the PPD in 1967 and its first electoral defeat, since its founding in 1938, in the 1968 election. As we said before, since the early 1960's a factional division had been brewing within the PPD. The attempts made by Munoz to prevent the deepening of the divisions failed. The factional conflict was intensified under the governorship of Roberto Sanchez Vilella between 1964 and 1968. During this period, the neo-reformist faction became openly associated with Governor Sanchez while the conservative faction became associated with the Senate vice-president Luis Negrón Lopez (who was supported by Munoz).¹²⁰

The neo-reformist faction was mainly comprised of young technocrats who argued that the solution to the problems faced was a return to the reformist policies of the 1940's. By returning to these policies, this faction intended to preserve the key intermediary role of the

¹²⁰García Passalacqua, La crisis política, p. 22 and passim.

techno-bureaucracy as a social category, (i.e., as an autonomous political force.) According to their views, the role of the party and the PPD Government was to mediate the conflicts and contradictions generated by capitalist development. In other words, they thought that the PPD should try to conciliate the contradiction between capitalist accumulation and the well being of the working classes by using the state to regulate or intervene in the economy, as it did in the Forties.

For its part, the conservative faction was mainly comprised of founding members of the party and other elements of the PPD techno-bureaucracy linked to the party since the early stages of the capital importation strategy. This faction argued against any major change in the course of the capital importation strategy, particularly against any attempt to regulate private capital since this could affect the business climate on the island and endanger the continuity of economic development. Many of the individuals in this faction had established personal links with private business by using their positions in government. This was the case, for example, of Teodoro Moscoso, who went from head of Fomento, to U.S. ambassador in Venezuela, to vice-president of the oil firm CORCO.¹²¹

Curiously, the documents and works that we have examined regarding this conflict lead us to conclude that the principal battles of this factional conflict dealt mainly with the basic aspect of the political orientation, the style of administration and the public philosophy that the PPD should adopt, rather than with any specific reform project.

¹²¹In February, 1972 the President of the PIP made public a list of PPD and PNP leaders linked to private businesses both U.S. and local. A large number of the PPD's leaders on the list had made their way to businesses by using their influential position in government. See "Mafia Corporativa", La Hora (8-14 de febrero, 1972), p. 2.

To a great extent, the conflict emerged in anticipation of possible changes in the political course and the leadership of the PPD. On the one hand, the neo-reformist faction wanted to lay the basis for the reorientation of the PPD's policies toward social reforms. On the other hand, the conservative faction, partly assimilated to private interests, was trying to prevent any "radical" changes in the political course of the PPD. This contention is confirmed by the fact that at no time during the government of Sanchez, even when he announced that he would emphasize encouraging local investment, was there an attempt to change the economic policy traditionally followed by the PPD. As a matter of fact, it was under the Sanchez government that the negotiations with the Federal government to provide for special oil import quotas for Puerto Rico were completed, opening the door for the development of the petrochemical complex. Sanchez regarded this as a triumph for his government.¹²²

The most important conflicts between the two factions were centered around issues which were marginal to the development policy. The most illustrative ones, and those highlighted by the analysts of this period, were the conflicts raised by three bills sent by Sanchez to the legislature. These bills were: a) an agricultural reform bill; b) a university reform bill; and c) a bill to increase the taxes on the profits of real estate speculators. None of these bills were meant to create any major changes in the development policy of the PPD. The bill on agricultural reform was mainly intended as a bureaucratic reorganization of the Department of Agriculture. Even the bill increasing taxes on land speculators, which brought an outcry from many businessmen, was intended

¹²²Garcia Passalacqua, La crisis politica, p. 150.

curtail real estate speculation and channel the capital used for this toward industrial investment.¹²³

It can be argued that the factional conflicts within the PPD were the result of the ideological contradictions generated by the impact of the capital importation strategy on the Puerto Rican social structure. The techno-bureaucracy was experiencing a process of absorption by capital and of displacement as an autonomous social force necessary for the domination of imperialist capital. Confronted with this, the techno-bureaucracy was divided as to how to resolve the contradiction between being absorbed by capital and disappearing as an autonomous social force or reaffirming itself as an autonomous social force through a revival of state reformism.

Finally, by 1967, the PPD was divided. Sanchez and the neo-reformist faction split from the PPD to form the Partido del Pueblo (PP). This party, like the PPD, favored the colonial relationship between Puerto Rico and the U.S. (i.e., the Commonwealth status). Therefore, it needed to look for its own political space and clearly differentiate itself from the PPD in other directions than that of the colonial status question. The attempt to establish a political identity for the PP vis a vis the PPD was directed towards the revival of the populist rhetoric and style that had been lost by the PPD. In other words, the PP intended to occupy the political vacuum that the PPD's assimilation to the "economic power" had left in Puerto Rican politics. This attempt was reflected throughout the 1968 electoral campaign of the PP and can be

¹²³Santiago Melendez, Reforma fiscal, pp. 125-42, 194-51; Garcia Passalacqua, La crisis politica, chap. XV; and Velazquez, Munoz y Sanchez Vilella, chap. VI.

illustrated by the following quotation from a campaign speech of Sanchez Vilella:

Those who now make the decisions in the Partido Popular [PPD] talk a lot about social justice but serve the economic power and their personal interests. They use the party for their own service rather than to serve the country.

. . . the Partido del Pueblo represents a movement of the Puerto Rican working classes to get justice, in the way in which in remote times the Partido Popular tried to do it.¹²⁴

Thus, the central issue of the PP's campaign was that the PPD leadership sold out to the "economic power", forgot the people and became an anti-democratic, self-serving government machine. However, somewhat surprisingly, very little was said about issues like foreign capital's excessive control over the economy, the need to stimulate more local investments and other questions about the structural problems of the island's economy that had been the object of debate in the past. For the PP, the issues of the 1968 election campaign dealt more with questions of form than of substance. The central issues revolved around how to alleviate the social problems of Puerto Rico through government social welfare programs. At no time did the PP attempt to articulate an alternative political project to transform the economic system which was at the root of these problems. The PP tried to rearticulate the people/power bloc contradiction in the tradition of the populist reformism of the Forties, but it did not put forward a comprehensive reform program.¹²⁵

¹²⁴Roberto Sanchez Vilella, "El Partido del Pueblo y la nueva democracia", in Roberto Sanchez Vilella, Que el pueblo decida (San Juan: N.P., 1968), pp. 22, 26.

¹²⁵See a compilation of the 1968 speeches in Sanchez Vilella, Que el pueblo decida.

The neo-reformist faction that formed the PP found itself in an ideological cul de sac. To legitimate itself and find its specific political space vis a vis the PPD, the PP had to recourse to the reformist populist rhetoric of the 1940's, and it had to appeal to the working classes by promising to resolve the problems generated by colonial capitalism. Yet, at the same time, to maintain economic growth within the existing colonial relationship - to which the PP pledged allegiance - it had to continue the capital importation strategy which was the very root of the problems that they intended to solve. The ideological praxis of the neo-reformist faction involved the PP in an unsolvable contradiction: the capital importation strategy was only viable within the colonial relationship but, at the same time, it was the cause of the socio-economic problems the PP intended to solve. If the PP was to provide any permanent solution to the socio-economic problems of the island, it had to redefine the capital importation strategy. This was impossible without an alteration of the colonial relationship, to which the imperialist bourgeoisie was opposed, and which, in time, was contrary to the interests of the techno-bureaucracy, whose privileged position derived from its role as colonial intermediaries. The PP got caught in this contradiction which was the same contradiction in which the PPD was caught. The PP tried to resolve it by reviving the populist style of the Forties, but it eventually failed because it could not offer a clear alternative to the PPD.

The PPD was not the only party affected by the political crisis of the mid-Sixties, and the PP was not the only attempt to occupy the political vacuum left by the PPD's incapacity to solve the problems of Puerto Rican society at that time. In 1967, the PER was also split, and

the Partido Nuevo Progresista (PNP) emerged from this division. The immediate cause for this division was the decision by the dominant faction of the PER leadership not to participate in a plebiscite to be held in 1967 on the colonial status question. The idea of holding a plebiscite, in which the people would choose between the political formulas of independence, commonwealth or statehood (annexation to the U.S.), had been pushed by the PPD. The PPD was pushing for the plebiscite because if the commonwealth formula won - and they were confident it would - they could use it to pressure the U.S. Congress to grant some of the reforms it had denied them in the past, when the Fernos-Murray bill failed.¹²⁶

However, the real cause of the division of the PER was not the plebiscite issue. The real cause was to be found in the opposing views that had emerged within the PER over the annexationist political project. The PER was divided in two factions. One of these was composed of the sector that had traditionally controlled the party (the old local bourgeoisie) and the other was composed of elements from the internationalized local bourgeoisie and the new petty bourgeoisie. The faction composed of the traditional elements, who, in the past, had been linked to sugar production and had survived by diversifying into land speculation, rum production and other activities represented the traditional annexationist positions of the wealthy who wanted statehood as a means of perpetuating their privileged positions. This faction was led by Miguel A. Garcia

¹²⁶For an analysis of the 1967 plebiscite and its political implications, see Anderson, Gobierno y partidos, pp. 263-83.

Mendez, who had been president of the PER since 1952 and was a member of one of the wealthiest sugar producing families on the island.¹²⁷

The faction of the internationalized fraction of the local bourgeoisie and the new petty bourgeoisie represented an emerging political force whose development had been fostered by the capital importation development model. This faction was led by Luis Ferre, who had been elected vice-president of the PER in 1952 and was a wealthy industrialist. Although the Ferre family was part of the local bourgeoisie long before the industrialization policies of the PPD began, the growth of Ferre Enterprises was accelerated under the PPD's industrialization program. As a matter of fact, it was the Ferre family who purchased four of the Fomento subsidiaries sold in 1950.¹²⁸

These two factions had been developing a series of contradictions on how to articulate an annexation political project that could compete effectively for political power with the PPD. The traditional sector held to their views that the main aim should be to get statehood for Puerto Rico with no substantial alterations of the social structure. For its part, the faction of the internationalized bourgeoisie and the new petty bourgeoisie held the view that for annexation to be supported by the majority of Puerto Ricans it had to offer a viable alternative for the solution of the social problems of the island.

¹²⁷ Cf. Mattos Cintron, La politica y lo politico, pp. 162-63; and Figueroa Diaz, El movimiento estadista, p. 54.

¹²⁸ Mattos Cintron, La politica y lo politico, p. 163; and Ross, The Long Uphill Path, pp. 116-17; and Figueroa Diaz, El movimiento estadista, p. 54.

In 1967, this division of the PER led to the founding of the Partido Nuevo Progresista (PNP, New Progressive Party). The PNP represented an attempt to renew the political project of the pro-annexationist bourgeoisie, now led by the socially emerging forces of the internationalized bourgeoisie and the new petty bourgeoisie. Contrary to the PER, identified as the party of the conservative rich, the PNP projected the image of a party committed to social reform for the poor. The PNP presented itself as a new reformist alternative in the populist tradition abandoned by the PPD. This attempt to present itself as a progressive reformist force vis a vis the PPD is illustrated by the following quotation from a speech made during the 1968 election campaign by Luis A. Ferre, PNP gubernatorial candidate:

. . . For the first time in 28 years, the people of Puerto Rico will be presented with a real choice to improve their government and bring to Puerto Rico a New Life of progress and justice where the poor will not be forgotten

The Partido Nuevo Progresista offers the Puerto Rican a hopeful new opportunity to correct the great problems that weigh upon our people, with new perspectives and new attitudes that will change the course of moral and economic deterioration that we endure today under the government of a worn out party.¹²⁹

The PNP launched a major media campaign with slogans promising a "new life" (la nueva vida), "the poor will come first" (los humildes seran los primeros) and "this must change" (esto tiene que cambiar). These slogans tried to capitalize on the state of political crisis that the PPD was going through by presenting the PNP as a progressive alternative. Furthermore, these slogans reflected the attempt of the PNP to

¹²⁹Luis A. Ferre, "La nueva vida", in Luis A. Ferre, El proposito humano (San Juan: Ediciones Nuevas de Puerto Rico, 1972), p. 308; emphasis in the original.

insert itself in the vacuum left by the PPD abandonment of its populist politics.¹³⁰

The PNP assumed other positions that distinguished it from the PER. For the 1968 elections, the PNP announced that the colonial status question was not an election issue.¹³¹ In this, the PNP assumed a position similar to what the PPD had done in the Forties. That is, it set aside the resolution of the colonial status question. Also, it broke with the PER policy of making annexation to the U.S. a central campaign issue. This changed the focus of attention in the 1968 election from the political issue of annexation to the bread and butter issues. In doing this, the PNP managed to break the rigid political loyalties associated with the colonial status issue. This, in time, enabled the PNP to seek the support of those who wanted a social and economic change without a political change. This was what the PPD had managed to do in the Forties as a transitional measure towards a renegotiation of the colonial pact, which culminated with the creation of the Commonwealth formula in 1952. The PNP was doing the same thing, but it was looking towards a different type of colonial accommodation (i.e., the annexation of Puerto Rico to the U.S. as a state of the union).

Aside from assuming a reformist position and setting aside the immediate discussion of the colonial status issue, the PNP posed the

¹³⁰It is amazing to observe that there are no serious studies on the political crisis of the Sixties and the emergence of the PNP and the PP. The existing studies on the 1968 election do not ponder the sociological significance of the new emerging parties at that time. Therefore, our remarks here are based mainly on our experience as participant observers of the political process in Puerto Rico and other primary sources such as party documents and newspaper informations.

¹³¹Ferre, El proposito humano, p. 296.

annexation question in a new perspective. The PNP's new annexation formula was called "creole statehood."¹³² According to the PNP, Puerto Rico would not have to lose its Hispanic cultural identity or assimilate to the Anglo-Saxon North American culture in order to become a state of the U.S. The Puerto Ricans, the PNP argued, would not have to give up Spanish as their main language to become Americans. Instead, they would add English to their culture as a vehicle to communicate with their fellow citizens of the North. Trivial as this may sound, this was a major issue in Puerto Rican politics. The PPD had used this issue against the PER by instigating fears that statehood would take away the Puerto Rican peoples' identity. The PPD had used this issue to present itself as the alternative that offered the best of the two worlds: the economic advantages of a direct link with the U.S., without the need for Puerto Ricans to lose their identify. But as the above argument suggests, the PNP campaign was intended to cover that front.

The PNP also intended to capitalize on the discontented sectors of the working classes. It directed a great deal of its campaign towards offering the poor better housing, better wages, better education, better public services and jobs.¹³³ The PNP made a lot of mileage out of blaming the PPD for not being able to deal with the large drug addiction problem on the island. The PNP blamed the PPD for having created a materialist society that was the cause of drug addiction and for not doing anything to solve the problem.¹³⁴ In this context, the PNP offered to the working classes the "new life." Annexation was but a secondary issue, the eventual

¹³² Ibid., pp. 304-05.

¹³³ PNP, Programa preliminar (San Juan: Novalice Printing Press, 1967).

¹³⁴ Ferre, El proposito humano, pp. 299-300, and passim.

realization of a better society. The question was to deal with the immediate problems that threatened the stability of the island.

For their part, within the context of this political crisis, the PIP also attempted a renewal. There was a change of leadership and the adoption of a new political program in which the PIP declared itself a Christian Democratic party.¹³⁵ This was the first in a series of changes within the PIP that culminated with its declaration as a socialist party for the 1972 election. For the PIP leadership, who in the past had articulated the pro-independence aspirations of the traditional petty bourgeoisie (petty bourgeois nationalism), this was a step in the direction of providing the pro-independence political project with a social reformist content.¹³⁶ In this, the PIP also attempted to provide an alternative to the political vacuum created by the crisis of the PPD.

In this context of political crisis and search for alternatives, the PNP won the 1968 election by a very narrow margin. The PNP received 42% of the votes, the PPD 40%, the PP 9.5%, the PIP 2.7% and the PER 0.4%.¹³⁷ The PPD suffered its first defeat since it assumed power 28 years before, in 1940.

The only detailed statistical analysis available for the 1968 elections showed that the PNP vote came from the urban sectors. Within these sectors, the vote for the PNP was concentrated in those geographical areas identified in the study as low, middle low and upper social strata,

¹³⁵ PIP, Programa politico, economico y social (San Juan: PIP, 1968), p. 4.

¹³⁶ The traditional petty bourgeois character of the pro-independence movement in Puerto Rico has been analyzed by Carrion, "Struggle for independence", esp. pp. 246 ff.

¹³⁷ Calculated from Bayron Toro, Elecciones y partidos, p. 279.

according to an index combining income, employment and education levels.¹³⁸

If we were to translate these findings into our terms, we could say that this study suggests that the electoral support of the PNP came mainly from the marginal sectors (low stratum), the workers not linked to the most dynamic sector (low medium stratum) and elements of the local bourgeoisie and the new petty bourgeoisie (high stratum). If these hypotheses are correct, it would confirm our assertion that the politically emerging forces around the PP were a direct product, the children, of the capital importation strategy. Thus, we could say that the PPD had most certainly created its own grave diggers.

On the other hand, this same study showed that the bulk of the support for the PPD came from the rural areas. In the San Juan metropolitan area, the electoral support of the PPD came mainly from the low, middle low and middle stratas. The high strata showed little support for the PPD.¹³⁹ If, again, we could extrapolate these classifications and put them in our terms, we could argue that the PPD still had the support of those who benefitted least from the PPD's development strategy (i.e., the rural sectors). This would also tend to confirm our assertion that the new petty bourgeoisie and other sectors of the local bourgeoisie were more inclined to favor the PNP. In any case, it is clear that by 1968 the decline of the PPD had begun.

From the above arguments it seems reasonable to assert that as a reaction to the first signs of crisis of the capital importation strategy the main beneficiaries of this model (the new petty bourgeoisie and the

¹³⁸ Marcía Quintero, Elecciones de 1968 en Puerto Rico (San Juan: CEREP, 1972), pp. 31-45.

¹³⁹ *Ibid.*, pp. 16, 45-50.

internationalized fraction of the local bourgeoisie) began to articulate an alternative political project that preserved their privileged positions within the colonial relationship.¹⁴⁰ In view of the progressive exacerbation of the structural and the politico-ideological contradictions, these sectors favored annexation to the U.S. as the political alternative that guaranteed their interests. The fact that under statehood Puerto Rico would have to pay Federal income taxes (an added economic burden to these sectors) seemed to bother the new petty bourgeoisie and the internationalized local bourgeoisie less than the possibilities of a rupture in the colonial relationship through independence. The leading elements of the PNP believed that securing the colonial relationship through annexation was the best way to prevent any future alterations of the colonial system from which they benefitted so much.

An article that appeared in the U.S. Chamber of Commerce's journal, Nation's Business, reflected the beginning of these debates between alternatives within the circles of the bourgeoisie in the U.S. and in Puerto Rico. According to this article, the opinions of the U.S. and the Puerto Rican businessmen were divided. However, many of the interviewed businessmen were beginning to think of statehood as a viable and desirable alternative that could be attained in the medium term. As a matter of fact, an executive of one of the world's largest oil companies that had operations in Puerto Rico declared that Puerto Rico should be ready for statehood within ten years. The article shows the annexationist view and the growing support of the business community for it in the following manner:

¹⁴⁰"How Puerto Rico's Future Affects U.S. Business", Nation's Business, Vol. 57, No. 12 (December, 1969), pp. 50-54.

Gov. Ferre believes the best future for Puerto Rico and for American businesses established here [in Puerto Rico] lies with the island becoming a state. But he does not want to rush things. He wants Puerto Rico to become more prosperous by continuing to absorb U.S. business.

.....

The business community remains, to a large degree, behind Commonwealth status although important sectors recently have drifted toward Gov. Ferre's way of thinking.¹⁴¹

The emergence of the PNP represented the concentration of the social forces produced by the capital importation model around a new political project (still in the making) that guaranteed the continuity of imperialist capitalism in Puerto Rico. It thus guaranteed their interest and privileged positions.

On the other side, the support of the PNP from the marginal sectors and other working class sectors expressed the contradiction in which the ideological praxis of the PPD had involved the working classes. The developmentalist political project of the PPD had established imperialist bourgeois hegemony among the working classes to such a degree that when the workers turned against the PPD it was not in the form of a revolutionary uprising. On the contrary, the colonialist logic of the PPD's developmentalism was taken to its ultimate expression: annexation to the metropolis. The "reasoning" of developmentalism turned against its creators. If progress, as the PPD had so successfully argued, was only possible because of the special relationship with the U.S., then the continuity of progress must depend on continuing a relationship with the U.S. And what greater guarantee of the continuity of the colonial relationship than annexation? In view of the crisis of the PPD, it was just "logical" that a sector of the workers immersed in the ideological praxis

¹⁴¹Ibid., p. 54.

of developmentalism turned to support the alternative political project that was posed in the categories of developmentalism.

There were other elements that contributed to the increased support of the annexationist political project. The influx of Cuban exiles to Puerto Rico in the 60's was a boost to the pro-American forces. Many of these exiles became very active elements in launching anti-Communist, anti-independence and pro-American campaigns, thus providing an added element of support for the PNP. Another element of support came from many Puerto Ricans who had migrated to the U.S. and returned to settle back in Puerto Rico. Many of these people believed that Puerto Rico would be better off if it became a U.S. state. They thought that annexation would automatically bring the standard of living of Puerto Rico to the higher standards of the U.S.

In any case, what occurred between 1967 and 1968 were just the first manifestations or signs of the critical nature of the contradictions generated by the deepening of the capital importation strategy. The capital importation economic model had not yet exhausted its capacity to grow. As a matter of fact, the PNP continued the capital importation strategy centered around the expansion of the petrochemical industry. Between 1968 and 1972, there were no major changes in the development policy implemented by the PNP. Governor Ferre, in his second Message to the Legislature, reaffirmed the importance of the petrochemical complex and his commitment to continue with it.¹⁴² He did this inspite of having often expressed his opposition to the tax exemption policy of the PPD.¹⁴³

¹⁴²Luis A. Ferre, "Segundo mensaje a la asamblea legislativa sobre el estado del pais", in El proposito humano, esp. pp. 181-82.

¹⁴³PNP Programa, 1967, p. 4.

The most important changes of the economic policy by the PNP were in government spending. The PNP followed a policy of increased government expenditures and tax reduction. Tax exemptions for individuals were increased. The wages of teachers, policemen and most public employees were increased. A law was passed entitling public employees to a Christmas cash bonus. Finally, there was an increase in all areas of public expenditures. This, in time, increased the government deficit and the public debt.¹⁴⁴

It could be said that, having come to power with an unfinished political project, the PNP had to continue the development policy of the PPD. However, to provide at least a partial remedy to the problems that they had so convincingly promised to solve and to avoid being blamed for them, the PNP resorted to increasing public expenditure as the means of creating an appearance of expanded progress.¹⁴⁵ In this way, the PNP attempted to consolidate and expand its electoral power base and laid the basis for developing a clear annexationist political project.

Despite all of its efforts, the PNP was incapable of providing stability to the political crisis of the colony. Since the PNP did not and could not do anything to alter the structural basis of the capital importation economic model, the basic contradictions that were at the root of the political crisis continued to develop. The period between

¹⁴⁴ Informe Tobin, pp. 49-50.

¹⁴⁵ Santiago Melendez argues that the PNP, having unexpectedly come to power, was compelled to fulfill its campaign promises in order to maintain its credibility. Yet, at the same time it found itself constrained in its actions (especially regarding economic policy) by the institutional framework inherited from the PPD. Reforma fiscal, pp. 175-76.

1968 and 1972 was characterized as a period of great "political polarization."¹⁴⁶ During this period, there was a total of 350 strikes, an average of 87.5 strikes per year. In comparison, under the governorship of Sanchez Vilella (PPD, 1964-1968), there had only been about 214 strikes, an average of 53.5 strikes per year.¹⁴⁷ Furthermore, it was under the PNP government that two of the largest university student riots in Puerto Rican history took place. The first was in March 1970 and the second was in March 1971.¹⁴⁸

The incapacity of the PNP to provide a solution to the political crisis led to its electoral defeat in 1972. The failure of the PNP to resolve the crisis did not come from intellectual limitations or lack of will to resolve it. It came from the structural limitations of a development model that, although full of contradictions and conflicts, had not exhausted the possibilities for its economic expansion. The petrochemical industrial enclave continued to grow until the international oil crisis of 1973. It was then that the structural conditions were completed for the emergence of a clearer alternative political project. It could be argued that the electoral triumph and the coming to power of the PNP in 1968 was a premature step in the life of the emergent classes (the internationalized bourgeoisie and the new petty bourgeoisie), who

¹⁴⁶ Figueroa Diaz, El movimiento estadista, p. 112; and Luis Nieves Falcon, Pablo Garcia Rodriguez and Felix Ojeda Reyes, Puerto Rico, grito y mordaza (San Juan: Libreria Internacional, 1971), pp. 11-36.

¹⁴⁷ Calculated from the data provided by the Negociado de conciliacion y arbitraje, Departamento del Trabajo.

¹⁴⁸ Nieves Falcon, et al., Grito y mordaza.

were politically unprepared when they entered the political arena in the middle of a crisis. The PNP, formed hardly a year before the 1968 election, found itself in the middle of a crisis that was just beginning to develop. The leading classes within the PNP were caught in the contradiction of trying to resolve the problems of the capital importation strategy while, at the same time, having to operate within the constraints of its structural base (i.e., the petrochemical industrial enclave controlled by the imperialist bourgeoisie).

The continued exacerbation of the politico-ideological contradictions in Puerto Rican society during the PNP's term in power prompted changes within the PPD as well as the other parties of the opposition. The PPD entered a process of changing its leadership and political positions in an attempt to reunite the divided factions of the techno-bureaucracy. The new leader of the PPD, Rafael Hernandez Colon, was a young lawyer who had "flirted" with the neo-reformist faction in its origins. Under its new leadership, the PPD published a political manifesto known as the Pronunciamiento de Aguas Buenas. In it, the PPD expressed its desire to obtain greater political autonomy for the island.¹⁴⁹ This, in time, was supposed to provide the means to resolve the economic and social problems of the island. By doing this, the PPD hoped to regain its political credibility as the best suited political force to deal with the problems of the island.

The attempts of the PPD to restore its image as the only political force capable of guaranteeing the continued economic progress of the island were reinforced by the structural realities of the capital

¹⁴⁹ Figueroa Diaz, El movimiento estadista, p. 112; and PPD, "Programa, 1972", in Banco Popular de Puerto Rico (BPRP), Guía para las elecciones, 1972 (San Juan: BPPR, 1972), p. 37.

importation model. As long as the development strategy of Puerto Rico was based on the granting of exceptional incentives to monopoly capital, the colonial relationship had to be maintained. For any annexationist political project to be viable, the structural crisis of the capital importation model had to be deepened to the point that maintaining the colonial relationship would be less profitable for monopoly capital than making Puerto Rico a U.S. state. The other element that could have made viable the annexationist project was a threat to the political hegemony of the imperialist bourgeoisie in Puerto Rico that could prompt a move towards annexation as a means of preventing the loss of the colony that had as much strategic (military) value as it had economic value.

For its part, the PIP and the MPI attempted to capitalize on the political crisis and advance their positions. In 1971, the MPI became the Partido Socialista Puertorriqueno (PSP), and the PIP declared itself a socialist party. Both parties attempted to take advantage of the increased activity in the trades union movement. The pro-independence parties began to develop a political project that would appeal to the working classes.¹⁵⁰

Finally, the PP adopted a political program that called for greater autonomy within the colonial relation. The new colonial pact proposed by the PP was in substance very similar to the PPD's claims for greater autonomy.¹⁵¹

¹⁵⁰PIP, "Programa, 1972", in BPPR, Guía para las elecciones, pp. 47-91; and PSP-MPI, Declaración general de la asamblea constituyente (San Juan: Ediciones Puerto Rico, 1972).

¹⁵¹PP, "Programa, 1972", in BPPR, Guía para las elecciones, pp. 41-43.

As we see, the political crisis that began to manifest itself in the second half of the 1960's was the result of the emergence of new social forces produced by the capital importation model and the contradictions that the emergence of these forces generated. The contradictions were expressed at the politico-ideological level in the search for an alternative political project that would secure the continuity of industrial capitalist development and remedy the existing social and economic problems that threatened the political stability of the existing economic development model.

The electoral triumph of the PPD in 1972 can be attributed to the incapacity of the PNP to implement a viable political project that could provide a long term solution to the political crisis of the late 60's. Yet, this triumph made many people think that the PPD had lost in 1968 because of the factional division. The 1972 results seemed to lend credibility to this theory since the gain experienced by the PPD was counterbalanced by the losses of the PP. The 1972 results were: PPD 46.4% of the vote, PNP 40%, PIP 4% and PP 0.2%.¹⁵² With the PPD unified again, many thought that the years to come would mark the restoration of the PPD hegemony.

However, what the PPD's analysts did not realize was that the restoration of its hegemony could not be based on electoral results. Rather, the restoration of the PPD's hegemony depended on its capacity to deal with the problems of the capital importation economic model and to successfully resolve the contradictions created by it.

¹⁵² Bayron Toro, Elecciones y partidos, p. 279.

The hopes for the restoration of the alliance between the techno-bureaucracy and the imperialist capital ran aground in 1973. The reasons for this were: a) the abolishing of the oil import quota system by President Nixon and b) the oil embargo and the subsequent increase in oil prices decreed by OPEC. These events eliminated two of the most important conditions that motivated the establishment of the petrochemical industry in Puerto Rico. With these events, the development of the petrochemical complex on the island was suddenly curtailed. The external sectors that conditioned the direction of the Puerto Rican economy had taken a series of decisions, as a function of their interests, that abruptly ended the viability of the continued development of the petrochemical industrial enclave on the island. Puerto Rico had been left out in the reshuffling of the international division of labor caused by the oil crisis of 1973. The conditions for the insertion of Puerto Rico as a point of production in the vertically integrated international petrochemical industry had disappeared.

Aware of this, the PPD's techno-bureaucracy attempted to reinsert Puerto Rico into the international oil industrial organization. The techno-bureaucracy began plans to construct a deep water port in Puerto Rico to go with an oil refining complex that would serve as a major center for petroleum refining and supply intermediate oil derivatives to the U.S. east coast. This project was to be financed by the Puerto Rican government and private industry.¹⁵³ In the end, the project was discarded.

¹⁵³See AFE, Hacia una politica de desarrollo industrial para la decada del 70: el papel clave del proyecto petrolifero basico (San Juan: AFE, 1973; Puerto Rico's Petrochemical Industry (N.P.: [1973?]); and "Puerto Rico Plugs for Superport Refineries", Oil and Gas Journal (December 11, 1973), p. 36.

Aside from this, the PPD attempted to attract U.S. capital to other activities. These were: a) a copper mining and processing complex; b) a car assembly plant; c) a ship yard; and d) a steel mill.¹⁵⁴ The first of these projects was intended to exploit the copper deposits that existed in the central region of the island. Mining contracts had been in negotiation with two American companies (the American Metal Climax and Kennecott Corporations) since the early 60's. These negotiations had been deadlocked due to the companies refusals to meet the economic conditions requested by the government and because of the political opposition of pro-independence, environmentalist and other groups concerned with the political, environmental and social consequences of the mining operations. After 1973, the PPD tried to revive these negotiations, but nothing was achieved. The other three projects did not proceed from the planning stage.¹⁵⁵ The 1973 oil crisis and the international crisis of capitalism that accompanied it plunged Puerto Rico into what has been described as one of the deepest recessions in its modern history.¹⁵⁶ This crisis caused the PPD strategists to question the validity of the very development strategy they had designed. In a report prepared by Fomento for the Governor's "Committee for the Development Strategy," this questioning was raised in the following manner:

These recent events have sharpened a concern of longer standing about the competitive position of Puerto Rican manufactured goods in the U.S. market and the potential for future expansion of

¹⁵⁴ AFE, Base preliminar para el plan de operaciones de 1974-75 (San Juan: AFE, 1974).

¹⁵⁵ David F. Ross, "Island on the Run" (M.S. 1977), p. 365.

¹⁵⁶ Planificación, Informe economico, 1979, p. 380.

manufacturing industries. This concern has even raised doubts about an overall economic development strategy that relies primarily on growth in manufacturing for export.¹⁵⁷

But, despite recognizing the structural character of the crisis in private, the public position of the PPD was to put the blame for the economic problems on the oil crisis and the world recession.¹⁵⁸ The seriousness of the crisis and the understanding that it was not merely a temporary crisis led the governor to create a series of special organizations to try to find a solution to the crisis. Perhaps one of the most important of these was the "Governor's Committee for the Study of Puerto Rican Finances", popularly known as the Tobin Committee because it was presided over by the American economist James Tobin. This committee was exclusively composed of North American economists, planners and financial specialists. The press said that this committee had been formed under pressures from the U.S. financial corporations that bought the bonds of the Puerto Rican Government. These corporations were worried about the financial conditions of the island and refused to lend money to the Puerto Rican Government unless it provided a detailed and reliable report of its financial condition. Furthermore, it was alleged that the driving force behind the formation of this committee was the First National Boston Corporation, one of the main lenders to the colonial government. As a matter of fact, the president of this corporation, Mr. Ralph Saul, was a member of this committee.¹⁵⁹

¹⁵⁷EDA, Competitive Position of Manufacturing Industries (San Juan: EDA, 1975), p. 8.

¹⁵⁸Cf. Rafael Hernandez Colon, Mensaje del gobernador a la legislatura (1973, 1974, 1975, 1976).

¹⁵⁹Informe Tobin, p. XIII, 171.

These arguments were given credibility because of the fact that the First National Boston Corporation was one of the large financial consortiums with substantial control over the public sector finances of Puerto Rico. According to Gordon K. Lewis, the First National Boston Corporation controlled the largest Puerto Rican public corporation. In Lewis' words:

. . . the economy's largest public corporation, the Water Resources Authority, is controlled by a complex network of North American interests which it would take the genius of a first class accountant to unravel. Its bonds are floated, at interest, in the American Market by the First National Boston Corporation; the construction firm of Jackson and Moreland designs and builds its electrical plants, while the firm of Burns and Roe act as its technical advisers and consultants; both of these are subsidiaries of United Engineers and Construction Company, a subsidiary of Raytheon, which in turn is the property of the First National Boston Corporation. The Authority, moreover, buys its combustible fuels from CORCO; one of the principal stock holders of CORCO is the First National Bank of Boston; and the latter is the property of the First National Boston Corporation thus bringing the wheel full cycle.¹⁶⁰

It is obvious that the formation of the Tobin Committee reflected the concern of the imperialist bourgeoisie over the structural crisis of the capital importation model, and it also reflected their attempt to influence the direction that the alternative to the crisis would take.

The main conclusions of the Tobin Committee Report reflected the class interest behind it. The committee suggested, among other things, a freeze on the wages of the workers in the public sector, an increase in personal income taxes, a reduction in public expenditures and an increase in incentives to U.S. investments. In other words, the working classes were to suffer the cost of stabilizing the crisis. The formula was simple: less wages, less public services, more taxes to alleviate

¹⁶⁰ Gordon K. Lewis, Notes on the Puerto Rican Revolution (New York and London: Monthly Review, 1974), pp. 235-36.

the public deficit, increased labor productivity and more surplus value for capital to stimulate investment.¹⁶¹ This inspite of having pointed out that the key problems of the Puerto Rican economy were a high degree of dependency on external investment, excessive loss of capital and the unstable character of the U.S. subsidiaries investment in Puerto Rico.¹⁶²

Even more revealing than the report of the Tobin Committee is the report of the "Committee for the Strategy of Puerto Rico."¹⁶³ This report represented the attempt of the PPD's techno-bureaucracy to find a way to restore the conditions for the continuation of the capital importation strategy. In the third chapter of this report, which ironically was entitled "New Routes for Industrial Growth", the report suggested that a successful strategy of development would require: a) delaying the decline of the still important labor intensive industry and b) a drastic change in the promotion of new industries less sensitive to wage increases.¹⁶⁴ Furthermore, it stated that foreign investment would continue to be the major force for industrial development and that new incentives must be sought to stimulate it.¹⁶⁵

As this brief synthesis illustrates, this report was nothing but a restatement of the old development policies. The only new elements

¹⁶¹Informe Tobin, pp. 1-8, and passim.

¹⁶²Ibid., pp. 9, 24-26, 59-61, 85-94, and passim.

¹⁶³Comite Interagencial de la Estrageia de Puerto Rico, El desarrollo economico de Puerto Rico, una estrategia para la proxima decada (Rio Piedras: Editorial Universitaria, 1976).

¹⁶⁴Ibid., p. 27. ¹⁶⁵Ibid., pp. 28-37, 131.

were marginal changes suggested to stimulate economic growth in the agricultural sector and to increase import substitution.¹⁶⁶

Finally, the PPD, aware that in order to restore its political hegemony it needed to create the conditions for the renewal of the capital importation strategy, went to the U.S. Congress to ask for greater local autonomy with a proposal that resembled the ill fated 1959 Fernos-Murray bill. In December 1975, the PPD's Resident Commissioner in Washington presented a proposal to modify Law 600 to the U.S. House of Representatives. This proposal became HR 11200. The most important changes proposed were:

1. To exclude Puerto Rico from the application of the Federal minimum wage laws.
2. To allow Puerto Rico control over the immigration of foreigners to the island.
3. To grant Puerto Rico jurisdiction over environmental regulations, subject to the approval of the U.S. Congress.
4. To allow Puerto Rico to fix tariffs on foreign goods under international agreements, subject to the consent of the Federal government.
5. To provide the Puerto Rican Governor or the Resident Commissioner with the right to object to "non-essential" Federal legislation, subject to Congressional approval of the objection.¹⁶⁷

As we can see, these were a more sophisticated version of the petitions contained in the Fernos-Murray bill of 1959. As it did in 1959, the PPD techno-bureaucracy was trying to renegotiate the colonial pact to preserve the exceptional politico-economic conditions upon which the capital importation model was based. It was obvious that even to continue the

¹⁶⁶ Ibid., chaps. V, VI, and VII.

¹⁶⁷ William Tansill, "Puerto Rico: Independence or Statehood?", Revista del colegio de Abogados de Puerto Rico, Vol. XLI, No. 1 (febrero de 1980), pp. 95-96.

capital importation model some form of alteration to the colonial relation would be required. The metropolis/colony contradiction had to be rearticulated in some manner.

In 1976, the attempts to restore the PPD hegemony received two fatal blows. First, the PPD lost the 1976 election to the PNP.¹⁶⁸ Second, U.S. President Gerald Ford announced publicly his support for the annexation of Puerto Rico. This announcement prompted the presentation of a bill in the U.S. House of Representatives calling for a study of the viability of statehood for the island.¹⁶⁹ The latter was a particularly serious blow to the restorationist aspirations of the PPD. The President's declaration reflected a position of growing support for statehood on the part of sectors of the imperialist bourgeoisie.

Meanwhile, the PNP had rearticulated the annexationist political project and presented it as the alternative of the people. The PNP proclaimed that "statehood was for the poor." Under such a title, the PNP mayor of San Juan, Carlos Romero Barcelo, wrote a book that argued that the poor would benefit the most from statehood. According to this book, if Puerto Rico became a state of the U.S. it would receive more money in Federal aid than under the present colonial status. This would result in an increased amount of benefits for the people living on welfare benefits. Therefore, the poor had more to gain from statehood than any other social sector.¹⁷⁰ Conversely, Romero argued, the ones that would

¹⁶⁸ Bayron Toro, Elecciones y partidos, p. 279.

¹⁶⁹ Tansill, "Independence or Statehood?", p. 96.

¹⁷⁰ Carlos Romero Barcelo, Statehood is for the Poor (San Juan: N.P., 1978), pp. V-XI, and passim.

have to pay the added taxes to the U.S. Federal Government were the rich industrialists. The industrialists were the ones who opposed statehood to avoid paying Federal taxes. They also did not pay any local taxes under the tax exemption policies of the PPD. Thus, statehood was for the poor and the Commonwealth and the PPD served the rich.¹⁷¹

Of course, this was a demagogic argument, but in the quotidian praxis of the working classes it was perceived as a "logical" argument. As a matter of fact, for the 50% of the population that received food-stamps or other forms of Federal aid, this argument was confirmed in their fragmentary praxis. Furthermore, the large sector of the Puerto Rican working class which at one time or another had lived in the U.S. knew from experience that Federal welfare benefits in any U.S. state were greater than in Puerto Rico. Statehood was therefore seen by this sector as a means of increasing their immediate economic benefits.

But while the PNP proclaimed itself the party of the poor, it also very clearly reaffirmed its commitment to the continuity of capitalist development in Puerto Rico. In its 1976 program, the PNP promised to "stimulate private capital investment in Puerto Rico" and to look for new incentives to attract industries without changing the tax incentive program until the effectiveness of the new incentives was proven.¹⁷² Although the 1976 PNP program still did not reflect a clear alternative development strategy to the PPD's capital importation strategy, it did point toward new directions in the development strategy. For example, in the section of the program referring to industry, the service industries

¹⁷¹Ibid., pp. 41-43.

¹⁷²PNP, Programa de gobierno, 1976 (San Juan: PNP, 1976), pp. 14-15.

were included as an area of priority where incentives and promotion efforts should be concentrated. Furthermore, the PNP proposed the fusion of Fomento with the Department of Commerce to create a Department of Economic Development and Commerce.¹⁷³ The indication of a shift in priorities in the development policies intended by the PNP was largely attributable to the class links of the leading elements of this party. That is, to the fact that the new petty bourgeoisie and the internationalized bourgeoisie were by and large linked to the financial sector and other forms of non-productive activities (e.g., real estate, insurance, financial investment, etc.).¹⁷⁴ The PNP began to shape an alternate political project that emerged with greater clarity after the PNP came to power in 1976. This project crystallized in the passage of a new industrial incentive law in 1978.

A third political project that took shape in response to the crisis was a political project of independence and socialism. The two variants of this project were articulated by the PIP and the PSP. The PIP proposed a project of democratic socialism (in the style of the European Social Democracy) that would be implemented after the achievement of independence for the island (once the PIP won the elections and negotiated the terms of independence with the U.S.).¹⁷⁵ For its part, the PSP proposed a more radical (Marxist-Leninist) socialist political project. For the PSP, the only way to achieve independence was through a revolution

¹⁷³Ibid., pp. 16 ff.

¹⁷⁴Cf. Mattos Cintron, La politica y lo politico, p. 158.

¹⁷⁵See Ruben Baerios Martinez, Hacia el socialismo puertorriqueno (San Juan: N.P., [1976?]).

led by the Puerto Rican working classes.¹⁷⁶ There were other differences between PIP and PSP in terms of the role of private capital in a socialist economy, the degree to which the means of production were to be socialized, and other various matters. However, they both agreed to the fact that independence and some form of socialization of the means of production were necessary conditions for any solution to the crisis of the capital importation model. The adoption of a socialist political project seemed to have actually provided renewed strength to the pro-independence forces. The PIP vote increased from 2.7% in 1976 to 5.7% in 1978. The PSP, going for the first time to elections in 1976, got only 0.7% of the vote. However, the 6.4% of the vote gotten by these two parties in the 1976 election was the strongest vote produced by the pro-independence forces in almost a decade.¹⁷⁷

Although still a very small political force, it was obvious that the crisis and the adoption of a socialist program was encouraging the growth of the pro-independence movement. Furthermore, and probably an alarming element for the imperialist bourgeoisie and their allies, was the fact that many pro-independence socialist leaders were beginning to emerge from the ranks of organized labor. Since the early 70's, an important number of the trade union leadership became identified with the pro-independence socialist tendencies.¹⁷⁸ Although this was far from being an immediate tangible threat, it was, nonetheless, a potential threat that - as the nationalist threat in the 30's - did not pass unnoticed by the imperialist bourgeoisie and their local allies.

¹⁷⁶ PSP, La alternativa socialista.

¹⁷⁷ Bayron Toro, Elecciones y partidos, pp. 278-79.

¹⁷⁸ Garcia and Quintero Rivera, Desafio y solidaridad, p. 152.

Thus far, we have seen, in a rather descriptive manner, how the deepening of the capital importation development strategy led to the exacerbation of the structural and politico-ideological contradictions in Puerto Rican society. In the final part of this chapter, we shall examine the impact that the crisis of the capital importation model had on the process of the politico-ideological class struggle.

The Impact of the Crisis on the
Politico-Ideological Class Struggle

As can be seen, the crisis of the capital importation model led to a division in the colonial power bloc over which alternatives to follow in dealing with the crisis. It was clear that the wage labor/capital and the metropolis/colony contradictions had to be dealt with in a different way than the PPD techno-bureaucracy traditionally had. Any political project attempting to resolve the crisis of the capital importation model had to deal with both these contradictions simultaneously. Thus, the political projects of solution to the crisis were posed in terms of alternative proposals to the colonial relationship (i.e., statehood, independence or a reformulated commonwealth).

It could be argued that the crisis of colonial capitalism in the 60's and 70's divided the colonial power bloc in four factions. On the one hand, the techno-bureaucracy was divided between a faction assimilated to capital and the neo-reformist faction. The first was integrated by those sectors of the PPD's techno-bureaucracy that had used their positions in government to become part of or establish connections with the private industrial-financial sector. This faction was the conservative faction within the PPD, and it wanted to continue the capital importation strategy without fundamental changes. For its part, the neo-reformist faction was

integrated by those elements within the PPD that defined themselves as public servants, and whose links were with the state's administrative apparatus. This sector wanted to reaffirm the key role of the state as mediator of all interests. They favored a program of social reforms, to be implemented by the state, as the means to provide a solution to the critical contradictions of the capital importation model. These two alternative political projects surfaced in 1967 with the division of the PPD and the formation of the PP.

On the other hand, the second division within the colonial power bloc was between the sectors linked to the traditional local bourgeoisie (the old sugar bourgeoisie), and the emergent internationalized fraction of the local bourgeoisie and new petty bourgeoisie. The first of these factions insisted on a political project of annexation without any social reformist content. The second faction attempted to provide a social reformist content to the annexationist political project, so that it would appeal to the discontented working classes and thus enhance the base of support of this project. The views of this faction were different than the laissez-faire capitalistic views of the traditional local bourgeoisie, whose views made it seem that the annexationist party (PER) was the party of the rich. The faction led by the internationalized local bourgeoisie and the new petty bourgeoisie presented a renewed version of the annexationist political project based on a welfare state type capitalist conception. This renewed version allowed them to occupy the vacuum left by the PPD's abandonment of reformism. This factional division within the annexationist camp surfaced in 1967 with the division of the PER and the formation of the PNP.

After 1972, these tendencies were synthesized and rearticulated into two alternative political projects. First, the PPD's techno-bureaucracy was "re-unified" around a political project for the restoration of this party's hegemony. This project of restoration incorporated some of the neo-reformist demands that had been articulated by the PP, particularly those regarding state intervention in the economy and a renegotiation of the colonial pact seeking greater autonomy. The purchase of the Puerto Rico Telephone Company and the assets of three U.S. shipping companies in order to create two public corporations and the attempts to get the U.S. Congress to change Law 600 were the best examples of the PPD's articulation of the neo-reformist demands. They point clearly to the PPD's attempt to re-unify its ranks and to rearticulate a political project that would restore the techno-bureaucracy's role as a key political force in the direction of Puerto Rico's socio-economic development. The articulation by the PPD of some of the neo-reformist policies sealed the fate of the PP, who disappeared from the political scene after the 1972 election.¹⁷⁹

Secondly, the internationalized fraction of the local bourgeoisie and the petty bourgeoisie became the dominant element within the annexationist political project. The triumph of the PNP in the 1968 election served to consolidate the dominance of the emergent classes over the annexationist political project. This was demonstrated by the fact that the PER disappeared after the 1968 election and the PNP became the only annexationist force in Puerto Rico.¹⁸⁰

¹⁷⁹Bayon Toro, Elecciones y partidos, pp. 278-79.

¹⁸⁰Ibid.

In the period between the 1972 and the 1976 elections, the annexationist political project was reshaped, and it emerged more clearly differentiated from the PPD's project for the continuation of the capital importation economic model. The annexationist project articulated in the 1976 PNP's program was aimed at diminishing the dependency on exceptional conditions to attract U.S. capital for industrial investment, and it sought to provide an alternative source of dynamism to the economy by developing the service sector (i.e., finance, trade, tourism, real estate, etc.). The logic behind the annexationist project seemed to be that the exceptional conditions required for the continuity of the capital importation strategy (i.e., low wages, total tax exemption, special privileges from the U.S. like the oil quota privileges) were not possible to maintain. Therefore, what was needed to maintain a viable economy that would preserve the links between the Puerto Rican dominant classes and the U.S. imperialist bourgeoisie was the adoption of a development policy that would stimulate the growth of other economic activities that did not require such exceptional incentives and were congenial with the convergent interests of the local dominant classes and the fractions of the U.S. imperialist bourgeoisie.¹⁸¹

The crystalization of the alternative annexationist project came after the PNP's return to power in 1976. A major indication in the direction that this project took was the approval of the "Puerto Rico Industrial Incentive Act of 1978" (Law 26).¹⁸² A key difference between Law 26 and other industrial incentive laws previously passed was the

¹⁸¹PNP, Programa, 1976, pp. 11, 15-20.

¹⁸²Puerto Rico, Leyes (1978).

inclusion of service industries as eligible industries for tax exemption benefits. Among those service industries included as eligible for tax exemption were: a) international commercial distribution facilities; b) investment banking; c) international public relation services; d) consulting services; e) insurance firms; f) computer service centers; and g) other services orientated for an international market.¹⁸³ Under the stimulus provided by this law, there was a proposal to create an international financial center in Puerto Rico that would include some major U.S. financial consortiums. Under this plan, Puerto Rico would become a sort of New York of Latin America and the Caribbean, serving as the base of operations for U.S. banks and multinational companies operating in this region.¹⁸⁴ In this way, the industrial sector would take a secondary role to the international financial and service activities.

Thus, the crisis of the capital importation model led to a division within the colonial power bloc that prompted the emergence of an alternative political project within the dominant classes in Puerto Rican society. This alternative political project (the annexationist project) articulated the interests of emergent social forces allied to the U.S. imperialist bourgeoisie.

Outside of the power bloc, there was a mass of salaried and marginalized workers as well as elements of the traditional petty bourgeoisie.

¹⁸³Ibid., "Law 26", Section 2, part o.

¹⁸⁴The idea of turning Puerto Rico into a financial center was proposed, among others, by Alvin V. Shoemaker, from the investment firm of Blyth, Eastman Dillon and Co. Mr. Shoemaker had also been a Vice-President for the First National Boston Corporation. From Shoemaker's declarations to the press it is clear that other financial consortiums such as Morgan Trust were interested in the idea. See Harry L. Fridman, "Island has Potential as Financial Center", The San Juan Star, Special supplement (February 6, 1978).

A sector of the salaried workers outside of the power bloc was composed by what Poulantzas calls a "fraction of the new petty bourgeoisie with an objectively proletarian polarization."¹⁸⁵ This sector was associated with those non-productive activities which are closer to forms of manual labor. This "closeness" or "proletarian polarization" depends on existing class relations and the level of class struggle. In this sense, for example, one of the most militant sectors within the labor movement in Puerto Rico during the 70's was the public employees.¹⁸⁶ The crisis of the 70's pushed fractions of the new petty bourgeoisie (non-productive salaried workers) to militant positions of social protest.

Another component of the salaried sector was the industrial proletariat. They were divided into two fractions. One was linked to the dynamic, capital intensive sector controlled by monopoly capital. The other was linked to the non-monopolistic industrial sector (mainly labor intensive). Paradoxically, two contradictory tendencies emerged from the fraction linked to the dynamic industrial sector: a) one was linked to the militant labor movement, and b) another, which could be called a labor aristocracy, that assumed conservative political positions that coincided with those of the dominant classes. This contradiction can be partially explained by the anti-trade union policy followed by the PPD since 1945, when it caused the division of the CGT. As a result of this policy, the level of syndicalization of the Puerto Rican working class became very low. During the period between 1963 to 1978, the

¹⁸⁵ Poulantzas, Classes in Contemporary Capitalism, p. 321.

¹⁸⁶ Between 1971-72 and 1975-76, 47.7% of all the workers involved in strikes came from the public sector. See Garcia and Quintero Rivera, Desafio y solidaridad, p. 147.

highest level of syndicalization for the Puerto Rican salaried workers was 20% in 1970.¹⁸⁷ In the manufacturing sector the highest level of syndicalization was 32% in 1965, but this declined to 20% in 1977. The sector with the highest ratio of syndicalization was the transportation, communication and utilities sectors (mostly controlled by the government) with 54% in 1977. By December 1977, only 13% of the total labor force was syndicalized.¹⁸⁸ In other words, the anti-labor policy of the PPD had paid off. The Puerto Rican working classes were facing the crisis from a position of organizational weakness. This explains to a large degree their political division.

Another element outside the power bloc was the marginalized sector of the working classes. This sector was mainly linked to the marginalized pole of the economy or to the patronage system financed mainly by the U.S. Federal Government. The fact that the relation of the marginalized sector to the means of production was principally in non-productive residual economic activities hindered a great many of the individuals in this sector from perceiving their position in society as directly opposed to capital. In other words, they did not immediately perceive their situation as a situation of exploitation. Many of these elements developed, as a result of their dependency on public welfare, a patron/client relationship to the parties in power. This, in time, was reflected in the political behavior of following the party that would offer the

¹⁸⁷In 1965, 19% of the total force in Puerto Rico was unionized. By 1975 it declined to 14% and 13% in 1977. EDA, For Hire: The Workers of Puerto Rico, Americans Committed to the Future (San Juan: EDA, 1977), Appendix VII.

¹⁸⁸Ibid.

most patronage. This was a most noticeable issue during the 1976 election when the PPD and the PNP outdid each other in promising to get more Federal funds in public aid (e.g., food stamps, rent subsidies, etc.) if they won the election.

Finally, the other social sector outside of the power bloc was the traditional petty bourgeoisie. This sector, as we mentioned earlier in this chapter, had been declining in its economic importance through the 50's and 60's. Traditionally, the pro-independence political project had been articulated by sectors of the traditional petty bourgeoisie. This partly explains the decline experienced by the pro-independence political project.¹⁸⁹ However, an important sector of this class continued to identify itself to the pro-independence political project.

The only political project at this time coming from elements excluded from the power bloc was the pro-independence socialist project. This project was the product of a radicalization process of elements of the traditional petty bourgeoisie, the fractions of the new petty bourgeoisie with "proletarian polarization" and the radical sectors of the working class, particularly organized labor. To the proponents of this political project, any solution to the crisis must be on the basis of a solution of the metropolis/colony contradiction through independence and the labor/capital contradiction through some form of socialism. This political project was articulated in two variants by the PIP and PSP. In spite of all the politico-ideological differences between each variant of this project, the fundamental fact was the emergence during the 70's of an alternative political project articulated by elements outside the power bloc.

¹⁸⁹Carrion, "The Struggle for Independence", pp. 246-54.

To synthesize, we could say that the crisis of the capital importation model brought about the emergence of three alternative political projects articulated by different political forces competing to establish their dominance. These projects were:

1. The political project of restoration of the capital importation strategy. This project was supported by the techno-bureaucracy and pretended to restore the exceptional conditions that made viable the development of the capital importation model by renegotiating the terms of the colonial pact, thus rekindling the hegemony of the alliance between the techno-bureaucracy and the fraction of U.S. monopoly capital with industrial investments in Puerto Rico.
2. The annexationist project. This political project was supported by the internationalized fraction of the local bourgeoisie and a fraction of the new petty bourgeoisie. These classes had the immediate support of the fractions of U.S. imperialist capital interested in making Puerto Rico an international financial center. It also had the support of a large sector of the U.S. imperialist bourgeoisie that favored the annexation of Puerto Rico to the U.S. for politico-strategic reasons.
3. The pro-independence socialist political project. This project was articulated by radicalized elements of the traditional and new petty bourgeoisie and by radicalized sectors of the working classes. It intended to abolish the domination of the U.S. imperialist bourgeoisie and its local allies over Puerto Rico.

If, as we argued, projects #1 and #2 represented in a dominant manner the interests of two factions within the power bloc and project #3 was the product of elements outside the power bloc, it is appropriate to ask: why did the working classes support (at least by voting for the parties that propounded these projects) either of the two projects articulated by factions of the power bloc? It is also appropriate to ask: why did the local bourgeoisie articulate or support either of these two projects, instead of developing a national capitalist political project of their own? Finally, we should ask: why did the U.S. imperialist bourgeoisie become identified with or support either of the projects of the power bloc?

To answer the first of these questions, we have to go back to the arguments elaborated in the first chapter of this thesis. There we argued that the hegemony of the bourgeoisie was secured through a vast and complex ideological structure, which Gramsci called the civil society. Going beyond Gramsci's formulation, we argued that in the post-Keynesian (late) capitalist society the state assumed as part of its structural functions some of the functions that Gramsci assigned to the civil society. That is, that the state assumed many of the ideological functions associated with the social reproduction of capitalist relations. Furthermore, we argued that the specific and most important ideological function of the state was the formulation and implementation of economic policies, and that these policies represented the condensation of diverse competing and conflicting class interests. The economic policies of the capitalist state then articulated in a dominant but non-exclusive manner the strategic interest of the dominant classes.¹⁹⁰ We also argued (in Chapter IV) that the main achievement of the PPD's economic policy was to create a new historic bloc in which the economic dominance of the imperialist bourgeoisie corresponded to its politico-ideological dominance. In this sense, we said, the development policies implemented by the PPD became the ideological terrain where the social consensus was formed that made viable the restoration of the hegemony of the U.S. imperialist bourgeoisie after the crisis of the 30's.¹⁹¹

The restoration of the hegemony of the U.S. imperialist bourgeoisie was then achieved by "inscribing" the Puerto Rican working classes in the categories of developmentalism. The concepts of progress, well-being,

¹⁹⁰Supra, chap. I. ¹⁹¹Supra, chap. IV.

social mobility, etc., became translated, at the level of praxis, to the categories of capitalist developmentalism. These concepts came to mean individual progress, a house, a color television set, a car, a better salary, etc., achieved in the context of capitalist relations of production. In praxis, the principles upon which imperialist capitalism was based became "understood" or "accepted" as necessary conditions of development. The continuation of the colonial relationship, the "need" for capital importation, the importance of private property, wage labor, etc., all became understood as "natural" necessities of progress.

However, this "acceptance" was not an act of the individual free will of the working classes or a conscientious decision of the workers. Rather, it was an act of consent based on the fragmentary praxis in which these classes were immersed. This fragmentary praxis only allowed the peasant to see the fact that he was being given a plot of land, while the wider reality of a declining agriculture was blurred. Moreover, this fragmentary praxis only allowed the worker to perceive the increase in his wages, while it blurred the reality that in proportion to his productivity he was receiving less than before. Put another way: it was a fragmentary praxis where migration hid the absolute impoverishment of a large number of workers and where consumption hid increased exploitation.

In this sense, we could say, following Gramsci's arguments, that the imperialist bourgeoisie in alliance with the PPD's techno-bureaucracy managed to create a complex politico-ideological structure "resistant to the catastrophic 'incursions' of the immediate economic element (crises, depressions, etc.)."¹⁹² Developmentalism, as a concrete ideological praxis, became the "trench-system", the bottom line of defense,

¹⁹² Gramsci, Prison Notebooks, p. 235.

to resist the "assaults" of the structural contradictions inherent to the capital importation economic model. It thus provided the time and the space for the imperialist bourgeoisie to maneuver and rearticulate its hegemony.¹⁹³

The "success" of developmentalism, as the ideological praxis of the imperialist bourgeoisie and the techno-bureaucracy, was the creation of an ideological terrain where class contradictions were effectively mediated and condensed, allowing for their resolution within the context of the preservation of capitalist social relations of production. Developmentalism consolidated the dominance of the imperialist bourgeoisie to such an extent that even at times of economic crises, like after 1973, the political projects of solution to the crisis supported by the working classes were the ones posed in the categories of developmentalism (e.g., annexationism). Furthermore, it was the "inscribing" of the working classes in the categories of developmentalism, through their quotidian fragmentary praxis, that prevented the "explosion" of class contradictions. That is, it hindered - along with repressive measures against the workers - the emergence of a political revolutionary praxis of the working classes. It was, indeed, the insertion of the working classes in the ideological praxis of the imperialist bourgeoisie that made possible the generalization of the understanding of poverty, for example, as a social condition or state rather than as a manifestation of the exploitative relation between wage labor and capital. Likewise, it was this dominance of developmentalism that transformed the idea that Puerto Rico needed the U.S. to achieve progress into an axiom of "common sense."

¹⁹³Ibid.

Developmentalism was thus the terrain where class contradictions were condensed and transformed into non-class contradictions. It was at this ideological level that the wage labor/capital contradiction became the poor/rich contradiction; and the solution to this contradiction was "progress", "modernization," "industrialization," etc., rather than a "proletarian revolution". Likewise, the center/periphery or metropolis/colony contradiction became the Hispanic culture/Anglo-Saxon culture contradiction - the contradiction between Puerto Ricaness and Americanization - and cultural affirmation (preserving the Spanish language, etc.) was presented as its solution, rather than the achievement political independence. Thus, developmentalism as a level of praxis (ideological praxis) provided the terrain for condensing and transforming class contradictions, defusing their conflictive potential and permitting a certain politico-ideological stability to imperialist capitalism in Puerto Rico. It was this capacity to condense and transform (i.e., to devoid social, political and economic contradictions of their class antagonistic basis) that maintained conflict at a manageable level in capitalist societies. This was one of the key elements that hindered the emergence of a widely supported alternative political project of the popular classes in Puerto Rico during the Seventies.

It must be pointed out there that it was the colonial state, rather than the institutions of the civil society, that was the key structure where the ideological mediation took place. That is, the state itself assumed an ideological function. The question that arises then is: why is it the state, rather than any institution of the civil society, that assumed the function of key ideological mediator? In our view, since the ultimately dominant class in peripheral capitalist countries is an absent class (the imperialist bourgeoisie), the state becomes the key structure around which the struggle to establish class hegemony revolves. This is

reinforced by the relative weakness of the local propertied classes of peripheral capitalist countries and the incapacity of these classes to establish their hegemony over the whole of society. The incapacity of the absent class to dominate the institutions of the civil society, and the lack of dominance from the local propertied classes, leads to the concentration of the key mediating functions in the state. Initially, the absent class tends to dominate principally through force, establishing its control over the dominated society through politico-military measures. This tends to further weaken the political, social and economic power of the local classes which seek an accomodation (maybe after having failed to oppose) with the absent class. This accomodation takes place around the structure over which the absent class has concentrated power: the colonial state.¹⁹⁴

This was clearly the case in Puerto Rico, where the imperialist bourgeoisie established its dominance through a military invasion and a consequent seizure of state power. The colonial state became the center around which the struggle for hegemony revolved. It became the most powerful structure in a society characterized by the weakness of its propertied classes. Thus, when colonial domination came to a crisis during the Thirties, the attempts to resolve the crisis, provide political stability and restore the hegemony of the absent class were originated by the colonial state. The colonial state assumed the functions that under different circumstances would have fallen into the sphere of the private institutions of the civil society (e.g., the church, charitable institutions, etc.). The welfare institutions of the colonial state as well as other

¹⁹⁴See the arguments of Alavi and Cardoso discussed above, supra, chap. I.

instruments shaping economic policy provided the terrain for condensing and mediating the antagonistic class interests confronted in the crisis.

This leads us to our second question: why did the local bourgeoisie support a political project that perpetuated the hegemony of an absent class rather than producing a political project of "national capitalism"? If our arguments about the weakness of the propertied classes in Puerto Rico are correct - and the evidence presented confirms these arguments - it would be relatively simple to answer this question. However, the acceptance by the local propertied classes of a subordinated position within the capitalist development model was not a mere act of resignation due to their weakness vis a vis the imperialist bourgeoisie. This acceptance was a function of the double determination of the process of class struggle in the colony. It was an active expression of the interests of this class. It expressed, on the one hand, a particular accommodation of the local bourgeoisie within the local and international capitalist productive system. On the other hand, it expressed a convergence between the interests of the imperialist bourgeoisie and those of the local bourgeoisie in regard to the exploitation of wage labor in Puerto Rico. The convergence between these two classes over their strategic interests (e.g., the exploitation of labor, the continued expansion of capitalist industrialization, etc.) led to a conflictive equilibrium, a particular political, ideological and economic accommodation, that was expressed in a strategy of development, a political project, that was aimed at the maintenance of the conditions by which those convergent interests were served. In the case of Puerto Rico, this convergence was expressed in the developmentalist strategies followed between 1940 and 1978.

It is important to note here that this was also the case with the annexationist strategy favored by the internationalized fraction of the local bourgeoisie. The annexationist political project was not a mere reflection or an effect of the interests of the imperialist bourgeoisie alone. It represented a specific form of articulation of the interests of the internationalized fraction of the local bourgeoisie and the interests of a fraction of the imperialist bourgeoisie (linked to international financial activities). Thus, the plans to transform Puerto Rico into an international financial center expressed a particular project of solution to the crisis that responded to the level of development of the metropolis/colony contradiction and to the class contradictions within the colony. That is, the annexationist political project was an organic response to the crisis of the capital importation model and the colonial relationship that this implied, by a faction within the colonial power bloc whose interests were best served by a continuation of the politico-economic links of Puerto Rico to the U.S. To these sectors, annexation as a U.S. state meant the consolidation, at a formal political level, of their alliance; furthermore, it would seal the course that the solution to the crisis could take. To their minds, annexation would prevent any possibility of the triumph of a socialist independence political project that would endanger their interests.

Finally, we could say that the support of the local bourgeoisie for a political project that perpetuated the hegemony of an absent class was the result of a process of politico-economic accommodation in which a conflictive equilibrium was achieved. This equilibrium was based on the convergence in the strategic interests of the absent class and the local propertied classes. Thus, we confirm the thesis advanced in

Chapter I that strategies of development in peripheral capitalist countries represent an articulation of internal and external class interests. The specific form in which these interests are articulated is doubly conditioned by the level of class struggle at the international and local levels.

Now we are in a position to answer our third question: why did the U.S. imperialist bourgeoisie become identified with or support either of the projects articulated by the two factions of the power bloc? This is a rather complex question whose answer would require a detailed study on the composition of the U.S. imperialist bourgeoisie, their fractional divisions and their factional alignments on the specific issues concerning Puerto Rico. However, we can advance some hypotheses based on our observations and the evidence examined throughout this chapter.

First of all, it could be argued that the support of a faction or a fraction of the imperialist bourgeoisie to either of the political projects articulated by the factions within the power bloc would depend on the types of links that a particular sector within the imperialist bourgeoisie had in Puerto Rico. For example, a basic distinction could be made between a sector of the U.S. imperialist bourgeoisie with investments in industrial activities in Puerto Rico and another with financial investments. This, however, does not necessarily warrant a distinction between industrial and financial fractions of the imperialist bourgeoisie, since many of the consortiums operating in Puerto Rico were multinational financial-industrial conglomerates to which this distinction was hardly applicable. In this case, it would be insufficient to reduce political alignments to immediate economic interests. A further qualification is then needed, and this qualification lies in the way in which the fractions

of the U.S. imperialist bourgeoisie directly linked to Puerto Rico defined their immediate (economic) interests and distinguished them from their long term strategic interests (regarding the basic conditions for the continued domination/exploitation of the workers). In terms of their immediate interests, the imperialist bourgeoisie showed an interest to preserve the colonial relationship and the capital importation model as long as these allowed the continued and profitable operation of U.S. companies and as long as the politico-ideological elements of the crisis were manageable. In this sense, we could interpret the geometrical increase in Federal aid to the Puerto Rican Government, particularly in welfare and employment creation programs, during the 1970's as having the clear objective of "stabilizing the crisis" in the short term by using temporary welfare programs until the economy could recuperate. On the other hand, in terms of their long term interests, the imperialist bourgeoisie was confronted with the problem of what to do if the crisis continued and the politico-ideological contradictions deepened to a critical point (i.e., a questioning of the legitimacy of the imperialist domination in Puerto Rico). It was at this point that statehood (annexation) became a concrete alternative for the solution of the crisis. If the present form of colonial relationship and the exceptional conditions upon which the capital importation model was based were not viable any more, then annexation and the transformation of Puerto Rico into an international financial center was seen as the way in which the dominance of the imperialist bourgeoisie could be rearticulated. In other words, the crisis in the pattern of accumulation of the capital importation model would be overcome through a redefinition of the accumulation model and the forms of political domination that accompanied it.

If the above arguments are correct, then we could have the paradox of sectors of the imperialist bourgeoisie supporting, in practice, both political projects simultaneously. That is, they support the maintenance of the capital importation model in the short term, and the eventual restructuring of imperialist capitalism in Puerto Rico (e.g., the establishment of an international financial center) through the annexationist project in the long term. Therefore, the support and involvement of the imperialist bourgeoisie in one or the other political project would be a function of how any of its fractions defined their immediate and their strategic interests.

Perhaps an example could better illustrate our point. The Vice-President of the U.S., George Bush, (elected in 1980) was an executive director of the Eli Lilly Corporation between 1977 and 1979. He also owned stock in that company valued at 145,000 dollars. In May 1979, Eli Lilly Corp. operated seven pharmaceutical plants in Puerto Rico. This company would have to pay millions of dollars in U.S. Federal taxes if Puerto Rico became a state of the U.S., thus it would lose one of the profitable advantages it enjoyed under the present colonial relationship. However, in 1979, Mr. Bush participated in the Presidential primary election of the U.S. Republican Party in Puerto Rico and declared that he favored statehood (annexation) for the island. Why would a representative of a company that is benefitting from the tax privileges of the present colonial relationship favor a change that would put an end to such privileges? There are two possible answers to this question: a) Mr. Bush acted purely on his individual feelings and beliefs; or b) he reflected the apparently contradictory position we described above. The second is, for us, a more plausible answer. As a matter of fact, after

being elected Vice-President Mr. Bush was accused of trying to use his influence to change a process of tax revision so that it would not harm the tax privileges of pharmaceutical companies in Puerto Rico, a practice contrary to his annexationist allegiance.¹⁹⁵ Thus, the factional alignment of the imperialist bourgeoisie seems to reflect a distinction between the short term and the long term interests within this class. If this is correct, then the support and involvement of the imperialist bourgeoisie in either political project would depend on the way in which any sector of this class defines their interests, rather than on a mechanical formula equating economic and political interests.

However, it is obvious that during the Seventies there was a growing consensus among the imperialist bourgeoisie favoring annexation as a solution to the crisis. This consensus reflects an understanding that the present crisis calls for an overall restructuring of the present accumulation model and its political basis. An added element of this emerging consensus is provided by the fact that Puerto Rico is an important part of the U.S. military complex in the Caribbean and the Atlantic.¹⁹⁶ And, as Tugwell argued in the 1940's, a military base should be politically stable. Also the recent discovery of oil off the north coast of the island and the existence of copper deposits on the island represent a

¹⁹⁵ See Jeff Gerth, "Bush Played a Role in U.S. Tax Moves, But Later Withdrew", New York Times (May 19, 1982), pp. 1, 44.

¹⁹⁶ On the military strategic importance of Puerto Rico to the U.S. see U.S. House of Representatives, Committee on Armed Services, Naval Training Activities on the Island of Vieques Puerto Rico (Washington, D.C.: Govt. Printing Office, 1980). The Headquarters of the U.S. Navy's Tenth Naval District are located in Puerto Rico.

reserve source of strategic minerals that adds an incentive to the interests in favor of statehood for the island.¹⁹⁷

In conclusion, the alignment of the imperialist bourgeoisie around one political project or another depends on the unfolding of the process of politico-ideological class struggle and on the threats that the deepening of the present crisis may pose to the global interests of the U.S. imperialist bourgeoisie and to their hegemony over Puerto Rico.

Finally, we may ask why the crisis of the capital importation model has not led to a strengthening of the socialist independence political project? The reasons for this are many, but from our discussion it is obvious that the insertion of the working classes in the categories of developmentalism has been a major obstacle for the emergence of an autonomous political project of these classes. Developmentalism has provided such an ideological solidity to imperialist capitalism in Puerto Rico, that it has prevented the exacerbation of the politico-ideological contradictions to the point where the hegemony of the imperialist bourgeoisie would be questioned. The qualitative transformation of the present crisis will depend, to a large extent, on the capacity of the radicalized elements outside the power bloc to articulate the interests of the working classes in an organic political project that the working classes can identify with at the level of praxis. That is, a political project that would articulate the antagonisms implicit in the quotidian praxis of the working classes into an autonomous political project. However, this is easier said than done. In any case, the qualitative

¹⁹⁷ See Neftali Garcia, "Los recursos naturales en la coyuntura economica actual", Punto Inicial, special issue [1977?]; and Robert Friedman, "Oil, Will Puerto Rico Get the Best Deal?", The San Juan Star, Portfolio (January 18, 1977), pp. 1-2.

transformation of the present crisis into a crisis of hegemony of the imperialist bourgeoisie will come when the contradictions of material life will not be able to be mediated at the politico-ideological level by the categories of developmentalism.

Conclusion

We believe to have substantiated the central hypothesis posed at the beginning of this work: that strategies of development constitute ideological representations that respond to class interests. Another way to put it is that strategies of development articulate the political project of particular classes or fractions of classes. However, this hypothesis assumed a particular definition of the concept of class interests that distinguishes between immediate (economic) interests and strategic interests (politico-ideological interests of domination/exploitation). In this sense, our conclusion is that strategies of development articulate politico-ideological projects of domination/exploitation that respond to the strategic interests of a class or class alliance. This view is opposed to the reductionist/economicist view of class interests as purely economic (immediate) interests, and to the view that class rule implies the unilateral imposition of these immediate interests upon the rest of society.

To substantiate our hypothesis, we identified the immediate and strategic interests of the various social classes involved in the process of political struggle within the Puerto Rican social formation in the different historical periods analyzed. We examined how these varied interests were opposed or articulated in the development strategy that emerged as dominant (i.e., that was adopted by the colonial state). Our analysis focused on identifying the class contradictions generated at the structural level by the economic model followed, and it showed how these contradictions were expressed and mediated at the politico-ideological level.

Throughout the analysis, we saw how the structural contradictions that emerged from the capitalist relations of production were condensed and

transformed (mediated) at the ideological level. We saw how, dialectically, the conflicts and contradictions generated at the politico-ideological level simultaneously affect the structure, thus determining the course this would take in the process of resolving and/or overcoming the contradictions and conflicts between the different classes. Thus, we observed, for example, that the critical sharpening of the structural contradictions of the capital importation model in the Seventies did not automatically lead to the emergence of a strong revolutionary alternative. That is, we saw how developmentalism, as the dominant ideology, succeeded in condensing the critical contradictions that emerged, defusing and/or transforming the revolutionary content of these contradictions. Thus, the possibilities for the development of a strong revolutionary alternative were curtailed (e.g., socialist independence), and the elements of protest and discontent were channeled towards an alternative political project of the ruling classes (e.g., annexation). Put in Gramscian terms: developmentalism served as the "trench system" of imperialist capitalism, making it "resistant to the catastrophic 'incursions' of the immediate economic element."¹

It is by analyzing the politico-ideological contradictions of the development process that we can discover how developmentalism condenses class contradictions and how it makes possible the formation of a conflictive equilibrium that, in turn, allows the reproduction of the social and political conditions necessary for the expanded reproduction of imperialist capitalism in Puerto Rico. It is in the process of ideological praxis that the social and political accommodations necessary for the

¹Gramsci, Prison Notebooks, p. 235.

reproduction of the existing relations of production are worked out. That is, is at the level of ideological praxis that the conflictive class interests are condensed, thus making possible the conflictive acceptance of the system that exploits them by the exploited. Also, at this level, the conflicts within the different fractions of the ruling classes are resolved in such a way as to maintain the unity of the power bloc vis a vis the subordinated classes.

We believe to have demonstrated also that the principal terrain where the class accommodations are worked out is in the area of economic policy. That is, they are worked out in the process of elaborating and implementing strategies of development. In the economic policies implemented by the modern capitalist state in the post-Keynesian or late capitalism stage, the modern capitalist state assumes, as part of its structures, ideological functions traditionally assigned by the Marxist theory to the sphere of the civil society. We believe to have established, in this respect, the specificity of the ideological function of the modern capitalist state (in peripheral as well as in central capitalist countries) as lying in the area of economic policy.

In analyzing developmentalism as a level of praxis rather than as a set of ideas or abstract principles, we were able to see that ideology is not simply a voluntaristic distortion of reality operated in human thought. Developmentalism is not a mere ideal construct - distorted or not - of the capitalist social relations in peripheral capitalist countries. The conception of the world contained in developmentalism and the social strength of this ideology, its material force, are based on the capacity of the ideology to provide an adequate explanation of the process of praxis to the subordinate classes, as well as to the

ruling classes, in such a manner that each accept their place in society and the relations among them as legitimate and necessary. This capacity to "explain the world" in a satisfactory manner within the categories of the ruling classes is based, in time, on the fact that the subordinated classes are immersed in a quotidian fragmentary praxis that "confirms" and reinforces the conception of the world contained by the dominant ideology.

In this respect, we analyzed several instances that illustrated how the dominance of developmentalism was sustained by the fragmentary praxis of the subordinated classes. The first instance was our analysis of the change in the forms of exploitation. Here we discussed how the change from the exploitation of labor based on the expropriation of absolute surplus value to the exploitation of labor based on the expropriation of relative surplus value allowed the level of exploitation of the workers to stay at the same level or increase, while, at the same time, reinforcing the notion that the salary increases of the workers represented a reduction in their level of exploitation.² In this case, the wage form hid the intensification in the process of exploitation experienced by the workers (the increase in the amount of surplus value expropriated from them). The increase in wages (and the increases in consumption that this created) appeared as a reduction in the level of exploitation to the workers in their fragmentary praxis. The fragmentary character of quotidian praxis caused by the capitalist division of labor hindered the workers from developing a clear perception of the social totality. This, in turn, prevents the workers from realizing that the increase in the level of their salaries is proportionally less than the increase in

²Supra, chap. III, chap. IV.

the productivity of their labor and of the social wealth (the mass of capital) created by them. Thus, the apparent validity of the notions of economic progress, social mobility, etc., articulated by developmentalism are materially rooted or supported in the fragmentary character of the quotidian praxis. In other words, developmentalism as an ideology is based on the forms that structural relations assume. In this case, it is based on the forms assumed by the relation between wage labor and capital in the process of circulation (the market). In the process of circulation, this relation assumes the wage form. It is then in the process of praxis, fragmentary quotidian praxis, where the process of "concealment" of the relations of exploitation takes place. This concealment of the relations of exploitation not only affects the workers, it also affects the exploiter.

Another instance in which we analyzed how the fragmentary praxis constitutes the basis for the "acceptance" of the dominant ideology for the exploited classes, was the analysis of migration of the displaced workers.³ Here we saw how the very process of migration concealed the displacement of the workers. The process of emigration appeared as a process of socio-economic mobility and advance in the quotidian praxis of the migrants. This occurred because the migrant could only perceive the immediate reality of his economic improvement in comparison to his situation before migrating. That is, the fragmentary quotidian praxis of the migrants centered their perception of reality on the immediate economic improvement they experienced as individuals. This hindered their perception of the position they occupied within the society from which they were migrating or within that to which they migrated.

³Supra, chap. IV.

In this sense, we believe to have clearly demonstrated that the force of all ideology, its materiality, is given by the fact that it is a level of praxis. Ideology is the representation of lived relations, though not in the Althusserian sense of institutionalized imaginary relations. What we mean is lived relations in the sense of implicit and explicit (fragmentary and integral) conceptions of the social process (i.e., a level of that very praxis).

Throughout our analysis of the process of development and its ideological dynamics, we touched upon certain questions and assumed certain views regarding the political economy of development in peripheral capitalist countries. This was particularly true in our view of the character of economic growth in the periphery. Perhaps the central problematic around which the debate on the issue of peripheral development revolves can be posed in the following questions: a) has there been an effective process of capitalist development in the periphery or, to the contrary, has the process of capitalist penetration in the periphery led to a chronic stagnation of economic growth due to the over-exploitation of the workers in peripheral countries, who are thus submitted to a constant process of expropriation of absolute surplus value, as Ruy Mauro Marini argues? b) has the process of the integration of peripheral capitalist countries to the international capitalist process of production led to a process of dissolution of the pre-capitalist sector and the gradual integration of the peripheral economy to the international productive system in such a manner that the imperialist relation between the center and the periphery begins to disappear and is replaced by a gradual equalization of capitalist exploitation throughout the world, as Bill Warren argues? c) or, finally, has there been a particular form of capitalist

development, with particular contradictions, in which industrial growth is unevently imbricated with pre-capitalists forms of production, thus combining diverse and contradictory forms of exploitation, as Fernando H. Cardoso, among others, argues?⁴

It is not the objective of this thesis to answer these questions. However, in so far as this is part of our implicit problematic, we have assumed certain positions in the analysis of the Puerto Rican political economy that refer to some of the premises dealing with the issue of the dynamics of peripheral capitalist development. Throughout this work, we have subscribed to Cardoso's argument on dependent development. It seems clear, from the evidence presented, that in the Puerto Rican case there was a significant process of industrial economic growth and a process of relative capital accumulation. That is, there was a process of relative development of the productive forces (i.e., within certain limitations), even if the dynamics of this development were not internally based or self-sustained. Furthermore, the evidence presented strongly suggests that there was a process of redefinition of the forms of exploitation by which expropriation of relative surplus value became the main form of imperialist exploitation. This, most certainly, denies Marini's thesis about the persistence of the expropriation of absolute surplus value, called super-exploitation by Marini, as the main form of imperialist exploitation of the workers in the periphery. However, as we saw, the differential rates between the center and the periphery (the U.S. and Puerto Rico) in terms of wages, labor productivity, profits, etc. persisted. This indicates a persistence in the structures of unequal

⁴See Marini, "Las razones del neo-desarrollismo;" Warren, "Imperialism and Capitalist Industrialization"; and Cardoso and Serra, "Las desventuras de la dialectica".

exchange and important differences in the rates of exploitation. These conditions belie Warren's thesis of equalization. This suggests that the real dynamic is more complex than Marini's reductionist pessimistic view or Warren's economicist optimistic view. Hence, we tend to coincide in general terms with Cardoso's view of a particular uneven type of capitalist development in the periphery. Cardoso calls this type of development "associated dependent development". This is a type of development that combines pre-capitalist and capitalist forms of exploitation, thus producing a set of contradictions that combines those contradictions inherent to capitalism in general and those which are particular to the concrete peripheral social formation in which the development takes place. In this sense, the contradictions and dynamics of peripheral development cannot be reduced to the basic structural contradiction between the center and the periphery. It must be understood from a perspective of their mediation in class struggle. A class struggle that, as we argued, is doubly determined by internal and international elements, (i.e., by the level of class struggle inside the peripheral social formation as well as within the international capitalist system).

Most certainly Puerto Rico provides a fertile terrain for the concrete analysis of the complexities of the contradictions of peripheral development. The persistency of the colonial relationship coupled with a high level of industrialization provides an unusual combination (in this age of imperialism without colonies) of elements of peripheral development that make the island an interesting laboratory for the testing of the hypotheses about the dynamics of peripheral development.

In summation, we can conclude that:

1. The strategies of development are ideologies that articulate class based political projects. They articulate

models of accumulation that favor the strategic interests of a particular class or class alliance. Also they constitute the terrain where the necessary politico-ideological conditions are laid for the continued reproduction of the social relations implied by the particular model of accumulation articulated by a development strategy.

2. The elaboration and implementation of development strategies, through economic policies, constitutes the principal and specific ideological terrain of the post-Keynesian capitalist state. The degree to which the state assumes this ideological function varies between the capitalist countries of the periphery and those of the center, and among the countries within each of these spheres, in relation to the particular level of the process of class struggle at any given juncture.
3. The manifestation of ideology as a social (material) force does not lie simply in the institutional character it assumes (i.e., in its being contained in IA's) or in its articulation as formal philosophical systems (i.e., theories, schools of thought, etc.). Rather, it lies in its existence as a level of praxis. That is, it lies in the fact that we humans live in, by and for ideology. We live inside and are involved in ideology and we understand the world through its categories. The overcoming of a particular dominant ideology is not simply a process of struggle between ideas or a process of destroying the institutions that articulate the ideology of the ruling classes. The overcoming of the dominant ideology must be achieved through the development of a revolutionary praxis in the process of class struggle.

It is only through active participation in the process of class struggle (the "struggle of hegemonies," as Gramsci called it) that the politico-ideological contradictions of capitalist development can be overcome. The direction that the resolution of these contradictions may take in the particular case of Puerto Rico will depend on the course of the process of class struggle. That is, it will depend on the capacity of the class(es) who aspires to rule to pose a political project that will articulate not only their own interests, but, at least partially, the interests of other classes. Thus, this class would succeed in presenting its own interests as those of all of society.

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