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Journal of Latin American Studies, Vol. 21, No. 3. (Oct., 1989), pp. 559-591.

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Industrial Transformation and Labour Relations in Puerto Rico: From 'Operation Bootstrap' to the 1970s*

PEDRO A. CABAN*

During the 1950s and 1960s Puerto Rico's industrial transformation was accompanied by social stability and relatively peaceful labour relations, which were essential for a development programme dependent upon foreign investments. The state took a central role in this process, as it guided economic activity and mobilised vital human and material resources. However, by the late 1960s profound changes in the island's political economy threatened this state-guided development programme. This essay traces the history of Puerto Rican economic change and the relationship between industrial transformation and the state's capacity to manage the operation of the economy, particularly industrial relations up to the late 1970s. Four features of this process will be examined: (1) labour relations during the early phase of industrialisation; (2) the changes in the economy resulting from the expansion of capital-intensive industrial sectors; (3) the impact of these changes on the state's capacity to manage the political economy, particularly its fiscal policy; and (4) how these changes altered the nature of state-labour relations.

Industrialisation and the role of organised labour

After the Second World War Puerto Rico became an important investment site for US-based apparel and textile firms. Profits and income earned on the island were (and are) excluded from Federal taxation, there was a large labour force and a local government committed to developing and sustaining a favourable investment climate. In the immediate post-war period the Partido Popular Democrático (PPD) believed in the possibilities for externally financed industrial development and aggressively recruited US investments. Partly as a consequence of the successful industrial promotion programme the PPD and its charismatic leader, Luis Muñoz

* I would like to thank Frank Bonilla, James Dietz, Jeffry Frieden and Mark Naison for their comments on earlier versions of this article.

Pedro A. Cabán is Assistant Professor of Political Science at Fordham University, New York.

Marín, built an enduring electoral base that allowed the party to control the government continuously from the early 1940s to 1968.

The industrial promotion strategy of the early 1950s (known as Operation Bootstrap) was in part responsible for a sizeable and sustained infusion of private capital into the manufacturing sector and public corporations. Growth, however, generated a series of dislocations and was pursued at the expense of the domestic capitalist class.¹ The social division of labour was quickly transformed as manufacturing replaced agricultural production resulting in the formation of a low-skilled, low-paid industrial working class engaged in export commodity production. In addition, a large public bureaucracy was built to manage the infrastructure, to develop human resources and administer a wide array of social welfare programmes. This period is characterised by the state's pervasive role in promoting and sustaining conditions which were highly favourable for external capital.

Puerto Rico's industrialisation programme entailed a comprehensive set of incentives and subsidies designed to create a highly attractive investment environment for US-based firms. Public corporations were established to provide crucial infrastructure services, often at subsidised rates. US firms were also attracted to peaceful industrial labour relations and organised labour's support for the state's initiatives.²

While it officially encouraged the formation of trade unions, the PPD-controlled state sought to affect directly their internal operations and relations with employers. To this end the state promulgated an elaborate industrial labour relations code and assiduously cultivated the support of organised labour's leadership. Popular support for the colonial state as a compassionate force for positive social change was enhanced by progressive social legislation and widespread union approval of the industrial development programme. The legitimacy of the prevailing colonial arrangement was fortified by an ideology of developmentalism that advanced the notion that social equity would be realised under a state-guided programme of foreign-financed industrialisation.

The essential features of the social compact consisted of: (1) official state support for unionisation and provision of services and assistance to labour organisations; (2) minimum wage boards and arbitration and

¹ See James Dietz, 'Puerto Rico in the 1970s and 1980s: Crisis of the Development Model', *Journal of Economic Issues*, vol. 16 (June 1982), pp. 497-506 for a succinct, but insightful, discussion on how the industrial promotion programme impeded domestic capitalist development.

² PPD relations with organised labour in the post-Second World War period are discussed in Pedro A. Cabán, 'Industrialization and Labor Organizations in Puerto Rico', *Latin American Perspectives*, vol. 11 (Summer 1984), pp. 49-72.

mediation councils to regulate industrial relations; (3) progressive social legislation pertaining to all workers; and (4), incorporation of union leadership into government and the political party.

The Constitution of the Commonwealth of Puerto Rico recognises the right of workers to form and join unions, to engage in collective bargaining and to strike. While this provision was extended to employees in the state-owned profit-making corporations, the remainder of the public sector workforce was excluded from similar protection. The constitution empowers the state with the legal authority to curtail union activities when essential services or public safety are jeopardised. The formative document regulating state-trade union relations is the *Ley de Relaciones del Trabajo*. The state reserved the legal authority to regulate industrial relations in order to 'preserve industrial peace and guarantee the maximum productive capacity for society'. Negotiated collective bargaining contracts were defined as 'instruments by which to advance the public policy of the government in its efforts to stimulate production to the maximum, and thus it is declared they are vested with a public interest'.³ Legislation was administered by a local labour relations board, the insular counterpart to the National Labor Relations Board, though the latter had jurisdiction over certain Puerto Rican labour unions.⁴

State-sanctioned boards set minimum wages on an individual industry basis. Membership on the boards was comprised of government-appointed industry, labour and the public interest representatives. In establishing wages the boards were instructed not to compromise the industry's competitive position by jeopardising its profitability. The Bureau of Negotiations and Arbitration was created in order to 'provide the necessary means to promote and maintain industrial peace', and training and education for union officials was offered through the Programa de Capacitación Sindical and the Institute of Labor Relations. In 1946 the Bureau of Labor Union Services was created to provide technical assistance, economic aid, training and education programmes to labour unions.⁵

Social legislation which benefited labour included minimal safety standards and working conditions, a workers' bank, workers' compensation boards, subsidised health clinics, low cost housing, laws against unjust dismissal, unemployment compensation, vocational training centres, universal free education and a wide range of social services. Finally, the PPD recruited a large number of union officials into the

³ Ley No. 130, 8 May 1945, artículo 1.

⁴ A useful compendium of labour related legislation appears in Evaristo M. Toledo, *Sindicalismo IV: Legislación del Trabajo en Puerto Rico* (Bayamón, Puerto Rico, 1974).

⁵ Ley No. 177, 22 March 1946.

government and party organisation. Many prominent labour officials were successful PPD candidates for elective office as well. The union leadership's participation in the political process was portrayed as an endorsement of the state-promoted industrialisation programme.

During the 1950s many of the North American-based AFL-CIO affiliated unions established local branches on the island. Because of their superior organisational and financial resources, the 'internationals' were more successful than local unions in organising workers in the emerging manufacturing sector.⁶ In addition, the AFL-CIO had established a record of relatively harmonious labour relations with manufacturers in mainland textile and apparel industry and transferred existing arrangements and contracts to the island.⁷ Although the AFL-CIO lobbied Congress for the application of federal minimum wages, its officials fully endorsed the industrialisation programme and maintained excellent relations with the PPD's leadership. The union's endorsement of the industrial promotion programme proved to the business world that the PPD had established a stable climate for profitable labour relations.

This developmental ideology legitimised the state's commanding role in directing the process of modernisation and tended to minimise the significance of unions as agents of working class interests. Economic growth was seen not as an end in itself but as a means to realise social justice and collective well-being.⁸ State managers systematically cultivated the notion that under the equity-based growth programme the state would protect the interests of the workers more effectively than unions.⁹ This vision of socially progressive industrial expansion became an enduring feature of the island's political culture and figured prominently in the electoral campaigns of the PPD through the late 1960s. The prevailing developmental ethos called upon workers to forsake union militancy and to exercise moderation at the negotiating table in order to preserve a

⁶ Cabán, 'Industrialization and Labor Organizations', p. 162. See Miles Galvin, *The Organized Labor Movement in Puerto Rico* (Rutherford, N.J., 1979) and 'The Puerto Rican Labor Movement: The US Connection', in Jorge Heine (ed.), *Time For Decision: The United States and Puerto Rico* (Lanham, Md., 1983). According to Galvin in 1963 26 AFL-CIO internationals had local affiliates on the island, in Heine, p. 73.

⁷ NACLA's (North American Congress on Latin America), 'U.S. Unions in Puerto Rico', *Latin America and Empire Report* (May-June 1976).

⁸ Henry Wells, *The Modernization of Puerto Rico*, (Cambridge, MA, 1969) discusses the 'value or normative implications' of Operation Bootstrap, pp. 170-2.

⁹ Muñoz Marín is quoted as stating that 'Within our just obligation to all people, we must continue exercising specific dedication to all workers. This dedication, naturally, is not demonstrated by some workers arriving at some government posts or boards. This dedication is demonstrated among other(ways), by the fact that today the workers of Puerto Rico have right here in the Fortaleza an unshakeable defender of their justice', quoted in Robert Anderson, *Party Politics in Puerto Rico* (Stanford, 1965), p. 219.

favourable investment climate. Future growth would be jeopardised by excessive wage demands. Central to this developmental ideology was the idea that by limiting their wage demands in the short term, workers would contribute to increasing the economic surplus necessary for sustained development. Although unions were officially recognised as assisting in the process of industrialisation, the PPD challenged those that attempted to build an independent political base.¹⁰

The state invested in equity-based programmes to develop human and social resources, although subsidised housing, medical and health care, free education and worker training programmes also lowered the reproduction costs of labour and tended to deflate wage demands.¹¹ Nonetheless such programmes also helped satisfy the requirements for a healthy and literate work force. The PPD portrayed these improvements in social and material conditions as gains negotiated on behalf of labour by the state.¹² Under the developmental ideology the state was depicted as rising above the interest of capital and labour and as engaged in a process of social reconstruction for the realisation of collective well-being. Thus, by seemingly suspending antagonisms between labour and capital, the social compact tended to further diminish workers' identification with independent unions.

The notion that collective social well-being was to be achieved under the paternalistic guidance of the PPD, and not through efforts of independent organisations that advanced their narrow and particularistic interests, was a carefully crafted ingredient of the developmental ideology. Although the PPD's distributive policies were not designed with the idea of transforming the structural bases of inequality in the economy, they did moderately alter its effects at the level of consumption. This vision of state-society relations evolved gradually and reflected the thinking of the most powerful and politically sophisticated sectors in Puerto Rico and Washington. The product of a paternalistic local elite, the development ideology enjoyed unparalleled electoral support.

¹⁰ James L. Dietz, *Economic History of Puerto Rico: Institutional Change and Capitalist Development* (Princeton, N.J., 1986), p. 223. See also Pedro A. Cabán, 'Interest Associations, the State and Economic Growth in Puerto Rico', Ph.D. diss., Columbia University, 1981, chs. 5 and 7; Gervasio García and Angel Quintero Rivera *Desafío y solidaridad* (San Juan, 1982); and Angel Quintero Rivera, 'El movimiento obrero y el modelo puertorriqueño de desarrollo: algunos apuntes', paper presented at the XV Congreso de Sociología, Managua, Nicaragua, October 1983 for various discussions of Muñoz's dealings with organised labour.

¹¹ A valuable theoretical discussion of the role of the state in socialising the costs for the reproduction of labour power is provided by Jonas Pontusson, 'Comparative Political Economy of Advanced Capitalist States: Sweden and France', *Kapitalistate*, vol. 10/11 (1983), pp. 43-74.

¹² García and Quintero Rivera, *Desafío y solidaridad*, p. 133.

The strength of the PPD's programme was its ability to exploit elements of the colonial relationship to promote a rapid transition from an agrarian economy to one dominated by industrial capital. While changes in the local political economy were aggressively promoted in response to the accumulated needs of newly evolving sectors in the metropolitan economy, locally the programme was presented as a strategy based on national needs and priorities. A political culture evolved in which the colonial state, embodied in the PPD, was perceived as legitimately empowered to mobilise, guide and allocate society's resources to achieve capitalist development. This carefully elaborated system of state, business and labour relations was, however, under siege by the early 1970s.

Transition to capital-intensive industrialisation

The industrialisation strategy of the early 1950s had been based on two assumptions: (1) the long-term integration of the local economy into the US circuits of production and trade, and (2) the preservation of comparative advantage in production costs relative to regional manufacturing centres on the mainland. During the 1950s and 1960s the economy experienced relatively sustained growth as firms were able to compete effectively against mainland manufacturers of low-cost manufactured wage goods (leather, textiles, apparel).¹³ Until the mid-1960s the island continued to attract small-scale, labour-intensive firms by offering low wages, tax exemptions and subsidies. But by the mid-1960s other less developed countries provided similar incentives for foreign capital to manufacture the same inexpensive products.¹⁴ Imports from the newly developing export platform economies of Hong Kong, Taiwan and South Korea steadily displaced Puerto Rico as the major source of cheap apparel goods. As a consequence, between 1961 and 1974 Puerto Rico's share of US apparel imports declined from 37 to 16%.¹⁵

A government study noted the dim prospects for continued growth in

¹³ United States Department of Commerce (or USDC), *Economic Study of Puerto Rico*, vol. 1 (Washington, D.C., 1979), p. 109.

¹⁴ For a recent comparison of the incentive programme and economic performance of Puerto Rico and the export platform economies of Far East Asia see John Stewart, *Puerto Rico and the Newly Industrializing Countries* (San Juan, July 1986). It is instructive to note that the Economic Development Administration considered the unilateral tariff reductions in the Kennedy Round (1964–1967) to be detrimental to the island's export based economy. See José R. Madera, *Las lecciones del desarrollo económico* (mimeo, n.d.), p. 26. Madera served as the Administrator of the Economic Development Administration from 1981–84. In contrast the USDC observes that the 'difficulties experienced' by Puerto Rico's export industries were attributable to other factors, including increased wage costs', p. 116.

¹⁵ Economic Development Administration (EDA), *Competitive Position of Manufacturing Industries* (San Juan, 1975), p. 23.

Table 1. *Economic growth and employment*

	GNP growth rate (%)	Total number of factories	Factory employment	Unemployment (%)
1949	—	1,998	55,137	10.40
1954	—	1,938	62,022	14.50
1958	10.50	2,042	71,188	12.80
1963	9.50	2,243	98,597	13.10
1967	11.40	2,367	125,287	12.70
1972	9.30	2,340	147,287	12.00
1977	10.00	2,297	144,300	20.00

Sources: Junta de Planificación, *Tasas de crecimiento anual de variables macroeconómicas, 1984* (San Juan, 1985); United States Bureau of the Census, *Economic Census of Outlying Areas: Puerto Rico Manufactures: 1954, 1972, 1982* (Washington, D.C., 1957, 1975, 1985); United States Dept. of Commerce, *Economic Study of Puerto Rico, II* (Washington, D.C., 1979), Table 6; Depto. de Trabajo y Recursos Humanos, *Informe Especial Número E-17* (San Juan, 1978), Table 17.

these industries and observed: 'In their lowest wage labour intensive industries both Puerto Rico and the United States have lost comparative advantage, but for Puerto Rico this loss has been much more costly because such industries provide a much larger part of its total employment'.¹⁶ Employment in the apparel industry grew very rapidly until 1972 and then started to decline.¹⁷ Despite its failure to sustain employment growth, however, approximately a quarter of the manufacturing labour force was still employed by the apparel industry in 1978. Table 1 shows that despite substantial job creation in manufacturing, as well as significant out-migration, the industrial promotion programme failed to reduce unemployment. While Puerto Rico's economic growth rate more than doubled between 1950 and 1960, an average annual growth rate of 8.3 %¹⁸ (among the world's highest), unemployment remained remarkably stable at about 12 % until the recession of the early 1970s seriously affected the Puerto Rican economy and propelled the official unemployment rate to approximately 20 % of the workforce. According to the Economic Development Administration (EDA) the industri-

¹⁶ *Ibid.*

¹⁷ The following table records employment in the apparel industry and its share of the manufacturing labour force for various years:

	1949	1954	1958	1963	1967	1972	1977	1978
Employment ^a	10,805	17,645	17,998	26,622	34,474	39,624	37,197	36,241
% of Manufacturing labour force ^b	19.59	25.56	25.58	27.00	27.51	26.90	25.77	23.24

Sources: ^a Employment 1949-63 Elizer Curet Cuevas, *El desarrollo económico de Puerto Rico: 1940-1972* (Hato Rey, Puerto Rico, 1976), p. 121.

^b 1967-78 AFE, *Distribución del Empleo en las industrias manufactureras* (San Juan, 1979).

¹⁸ Dietz, *Economic History*, p. 244.

alisation programme's failure to resolve chronic unemployment was due to population increases and a 'reduction in marginal employment in jobs of low productivity that were taking place in the traditional industries resulting in a decrease in total employment'.¹⁹ Neither did employment growth in manufacturing and emigration absorb enough of the potential labour force to compensate for losses in agriculture and the home needlework industry.

The elevated levels of unemployment are excessive by the standards of advanced industrialised economies, but given the relative tranquility of industrial relations in the private sector they were socially and politically tolerable.²⁰ Still, as increased competition from Third World producers undermined Puerto Rico's labour-intensive strategy, there was the threat of even higher rates of unemployment. Future growth was contingent on devising a strategy which would permit firms operating in Puerto Rico to realise higher rates of accumulation relative to other investment sites in the international economy. Policy-makers realised the need to promote a diversified economy in which capital-intensive and technologically advanced firms would play a leading role.²¹

Faced with rapidly rising materials costs, and a federal minimum wage that planners thought more appropriate to the United States than to Puerto Rico, the EDA (responsible for encouraging the creation of new firms) sought industries that were less vulnerable to these particular cost factors. Promotion efforts were, and continue to be, focused on higher wage, higher productivity industries (electronics, pharmaceuticals and scientific instruments), industries less adversely affected by minimum wage legislation and whose intermediate (material) costs were a comparatively small part of total costs. These are also industries which tend to have high profits, making them particularly susceptible to the advantages offered by Puerto Rico's tax exemption programme.²²

The new industrialisation effort was still based on the two most important components of the earlier growth strategy: wage rates substantially below those prevailing in metropolitan labour markets and complete exemption from corporate taxation. But the important

¹⁹ EDA, *Puerto Rico's Industrial Development: Past Performance and Glance at the Future* (San Juan, 1975b ?), p. 6.

²⁰ The issue of the relatively low levels of unionisation and militancy during the labour-intensive phase are discussed in Cabán, 'Industrialization', and Miles Galvin, 'The Puerto Rican Labor Movement: The U.S. Connection'.

²¹ Comité interagencial de la estrategia de Puerto Rico, *El Desarrollo económico de Puerto Rico, Una Estrategia para la próxima década* (San Juan, Nov. 1975), pp. 27-31, and Dietz, *Economic History*, p. 252.

²² EDA, *Some Issues of Industrial Development Strategy* (San Juan, 1974), p. 20.

qualitative change was the decision to increase the productivity of Puerto Rican labour, not only with respect to the United States but also the newly industrialising economies. The importance of enhanced worker productivity to the development strategy was noted in 1967:

Unlike other countries, which are primarily involved in producing for their own economies and which possess tools such as tariffs and foreign exchange controls to protect their industries, Puerto Rico must add to and retain its market through constant improvement of its productivity vis-à-vis the highly efficient US manufacturers without the aid of artificial barriers that independent countries may use. Since most of the industries coming to Puerto Rico tend to be relatively labor intensive as compared with the United States, constantly improving the productivity per labor dollar becomes vital to continued growth. Because non-market pressures are forcing up wages very rapidly as compared to the mainland it is necessary to improve labor productivity in Puerto Rico at a rate which will be faster than on the mainland.²³

The anticipated gains in productivity and corporate profitability would be achieved by increasing the capital to worker ratio. Moreover, state managers argued that these capital-intensive firms would stimulate the formation of a more integrated economy in that different production processes required for the final assembly could be linked. The assumption was that new, labour-intensive satellite industries would emerge to supply the necessary inputs for the growth industries. Internal demand would grow since it would be cheaper to produce these inputs domestically than to import them.²⁴ Thus, job losses incurred in the traditional industries from the new strategy would be offset by gains in newly formed industries linked to the diversifying export sector.

In order to stimulate the formation of these satellite industries, the EDA programme called for measures to encourage local investments.²⁵ Moreover, the government also identified the need to establish import substituting industries as a way of reducing the deleterious effects of the 'crisis-cross trade'. This represented the phenomenon of importing a category of basic consumer goods that were simultaneously being

²³ EDA, *Overall Economic Development Plan for the Commonwealth of Puerto Rico* (San Juan, June 1966), p. 99.

²⁴ Puerto Rico Development Group, *Examen de los efectos del aumento en la sustitución de bienes manufacturados localmente sobre los precios de consumo* (San Juan, 23 May 1974). Also Comité Interagencial de la Estrategia de Puerto Rico, *El Desarrollo económico de Puerto Rico*, p. 28 discusses linkage possibilities for the petroleum industry.

²⁵ The primary elements of the post-1966 development strategy are analysed in Comité Interagencial Estrategia de Puerto Rico *El Desarrollo económico de Puerto Rico*; Robert Denis and Robert W. Rafuse *Tax Exemption and its Alternatives: Investment Incentives in the Development Program of Puerto Rico* (San Juan, Jan. 1976). On the integration of different industries see EDA, *Some Key Issues of Industrial Development Strategy*.

produced for export, the tendency that has resulted in both the increased production of basic consumer goods for export and an increase in the import-intensity for the same category of goods.²⁶

To facilitate the transition to a new industrial structure, the state began to modernise the island's infrastructure and physical plant. The ITT-owned telephone subsidiary was purchased by the Commonwealth government and reorganised as a profit-making public enterprise. In 1974 the Puerto Rican Maritime Shipping Authority was established after the three major ocean shipping firms were acquired by the government. The necessity to modernise both industries, increase efficiency and reduce the costs of ocean freight were cited as the major rationale for the buy out.²⁷ In addition publicly-financed and -operated worker training programmes were established to develop plant supervisory personnel for the new industries.

Puerto Rico's post-1966 industrialisation programme was successful to the degree that it realised the objectives of attracting dynamic growth industries and shifted public resources from those sectors experiencing competitive pressures from the newly evolving export platform economies. As early as 1972 the capital-intensive firms' contribution to Gross Domestic Production (GDP) out-paced that of the traditional industries. By 1976 the share of GDP attributable to the capital-intensive firms exceeded that of all other industries combined (see Table 2). Manufacturing was increasingly oriented towards final assembly of intermediate and semi-finished products, packaging and testing. Productivity gains were achieved in all sectors, but especially in the capital-intensive firms. The EDA noted that stable employment levels in industry were proof that the industry had 'succeeded in raising productivity to readjust to the new environment' of competition.²⁸

Most of the new entrants were subsidiary branches of US multinational corporations. In 1977 US-based firms and multinational corporations accounted for 91 % of the pharmaceutical industries, including such major firms as Eli Lilly (with 5 plants), Squibb (with 5 plants), Johnson and Johnson (with 7 plants). In the electrical and electronics industry GE (with 35 plants in 1978), RCA, Motorola, and Westinghouse (with 16 plants) dominated the industry group. In addition, other Fortune 500 firms, among them Firestone, Ford, General Foods, RJ Reynolds, Ralston

²⁶ Dietz, *Economic History*, p. 272. Richard Weisskoff and Edward Wolff, 'Development and Trade Dependence: The Case of Puerto Rico, 1948-1963', *Review of Economics and Statistics* (Nov. 1975), pp. 470-7.

²⁷ EDA, *Some Key Issues of Industrial Development Strategy*.

²⁸ EDA, *The Apparel Industry in Puerto Rico* (San Juan, March 1982), p. 3.

Table 2. *Transformation of the industrial structure*

	Labour-intensive firms			Capital-intensive firms		
	1967	1972	1977	1967	1972	1977
Total employment in manufacturing	110,939	120,448	94,540	14,348	26,799	49,760
Percentage of manufacturing labour	85.06	81.77	65.51	14.94	18.23	34.49
Number of firms	2,153	2,048	1,850	214	292	447
Output as percentage of sector GDP	77.70	66.20	47.60	22.30	33.80	52.40
Percentage contribution to GDP	18.92	17.92	17.02	5.58	9.45	20.87

Notes: Labour-intensive firms include all manufacturing firms except those included in the capital-intensive category. Capital-intensive firms include pharmaceuticals and chemicals, non-electrical machinery, electronic machinery and scientific instruments, petroleum and petrochemicals.

Sources: United States Dept. of Commerce, *Economic Study of Puerto Rico*, vol. II (Washington, D.C.). Junta de Planificación de Puerto Rico, *Tasas de Crecimiento anual de Variables Macroeconómicas: 1984* (San Juan). United States Bureau of the Census, 1972; 1985 *Economic Census of Outlying Areas: Puerto Rico Manufactures* (Washington, D.C., 1975, 1985).

Purina, Bell and Howell, assumed dominance in the other high-growth industrial sectors.²⁹

Consequences of the new strategy

Although the Puerto Rican state was successful in adjusting to the requirements of a rapidly evolving sector of US industry, the resulting change in the productive structure produced a series of unanticipated and negative consequences for state management of the political economy. Industrial restructuring was closely associated with continued high unemployment levels, rapid growth of the public sector labour force and a marked deterioration in the state's fiscal situation. Public corporations, which provided many of the direct and indirect services to the new corporate sector, operated under sizeable deficits and were heavily obligated to external investors.

The traditional manufacturing sector was more vulnerable to economic down-turns than the newly established firms. Between 1974 and 1975 7,133 jobs were lost when 224 firms permanently ceased operations.³⁰ The agricultural sector, which still absorbed a large portion of the labour force and was an important contributor to domestic production until the mid

²⁹ USDC, *Economic Study*, II, 1979, p 141.

³⁰ Junta de Planificación, *Informe Económico al Gobernador, 1976* (San Juan, 1977), p. 38.

1960s, sustained irreversible declines. By 1976 the sector employed less than 6% of the labour force (down from 13.5% in 1967) and generated only 5.2% of national income.³¹ The subsequent shift from promoting labour-intensive manufacturing industries to firms with a higher capital to labour ratio failed to mitigate the employment problem. The largest employment gains were realised, predictably, in the new firms engaged in export assembly production where employment increased approximately five-fold between 1964 and 1974 in the ten highest wage industries. By contrast employment remained virtually stagnant for the ten lowest paying firms.³²

During this period the relationship between industry profits and labour income underwent a dramatic change as increased productivity resulted in greater shares of income accruing to industry. According to a US Department of Commerce study, 'changes in the profits and labour incomes as percentages of net income produced by the capital-intensive industries' were significant. In 1965 industry profits accounted for 39.9% of net domestic income, while labour income accounted for 60.1%. By 1977 the comparable figures were 59.3 and 40.7%. By contrast, in the United States over the same period, labour income as a percentage of net domestic income was relatively stable (about 82%).³³ For the most capital-intensive industries (pharmaceuticals and chemicals) labour income as a percentage of corporate net income also declined from 61.9% in 1967 to 40.7% in 1976.³⁴ As foreign capital tended to concentrate on high return industries, the relative income going to Puerto Ricans was declining.

Relative to the income they generated, the capital-intensive industries created limited employment. Between 1967 and 1977 employment in this sector registered a net gain of 27,468 jobs (see Table 2) and the total net income generated by these firms increased by 832.8%.³⁵ Significant, although more limited, gains in corporate income were also realised in the labour-intensive sector. Although employment declined, the net income for this sector increased by 48.9%.³⁶ The growing productivity of Puerto Rican workers in all sectors, but particularly in the multinational corporate sector, generated huge profits for external capital. According to

³¹ *Ibid.*, table A-25, p. 25; table A-8, p. 8.

³² EDA, *Competitive Position of Manufacturing Industries* (San Juan, Sept. 1975), p. 22. For the ten highest wage industries, employment increased between 1964 and 1974 from 4,525 to 25,340 and for the ten lowest from 25,357 to 26,710.

³³ USDC, *Economic Study*, II, 1979, table 13, p. 38.

³⁴ *Ibid.*, II, 1979, p. 42, author's calculations.

³⁵ *Ibid.*, table 6, p. 30-1, and Appendix B of USDC; author's calculations.

³⁶ *Ibid.*, table 6 and table 9.

a blue ribbon committee commissioned to study the island's finances, 'The rate of return to direct foreign investments in Puerto Rico is very high, evidently between 15 % and 20 % over the last 15 years'.³⁷ Between 1967 and 1976 four of the most capital-intensive industries realised major gains in their net earnings per worker (chemicals 301 %, electrical machinery 420 %, machinery 562 % and instruments 406 % – petroleum was the exception with a 'mere' 107 % increase).

As a result of enhanced corporate profitability, Puerto Rico gained a new-found attractiveness as a lucrative investment site. But the ascendancy of the multinational corporations (MNC) introduced a new dynamic into the local political economy. Disproportionate income gains for industry relative to labour resulted in a very skewed pattern of income distribution. As the industrialisation process gained momentum ever larger amounts of accumulated capital were repatriated to the United States. From 1966 through 1977 net outflow of payments on investments increased steadily from \$288.6 million to \$1,945 million.³⁹ These payments to external investors were related to an increasing balance of payments deficit. In 1966 remitted income on investments accounted for 40.1 % of the deficit on goods and services (which stood at -\$719.2 million); by 1977/78 the income outflow represented 62 % of the balance of trade deficit. During the same period profits as a percentage of external payments on investments increased from 66.55 to 78.9 %.⁴⁰

The outflow of capital is notable, especially since under internal Revenue tax laws prior to 1976 (Section 931)⁴¹ dividends paid by US corporations operating in Puerto Rico were taxable to a US shareholder. Dividends were free of Federal taxes only upon liquidation of a firm's operations. Thus, corporations had an incentive to reinvest their earnings during the tax exemption period and in fact approximately 80 % of new direct investments consisted of accumulated profits on earlier direct investments.⁴² Yet approximately 50 % of the \$5 billion in reported direct

³⁷ The Committee to Study Puerto Rico's Finances, *Report to the Governor* (San Juan, Dec. 1975), p. 41. The authors of the report argue that profit levels are much higher since these capital-rich corporations invest accumulated earnings in various financial instruments yielding a return of from 35 to 60 % on their assets.

³⁸ Calculated from USDC, *Economic Study*, II, 1979, tables 16, 39.

³⁹ Data from Junta de Planificación, *Balanza de Pagos, 1983* (San Juan, July 1984), table 1, pp. 1-2.

⁴⁰ *Ibid.*, pp. 17-18.

⁴¹ Under Section 931 income of US corporations derived from sources operating in certain US territorial possessions, including Puerto Rico, is exempt from federal taxation if the corporation derives at least 80 percent of its gross income from investments within the possession.

⁴² Committee to Study Puerto Rico's Finances, *Report*, p. 44.

investments were channelled into financial instruments and not into real assets (machinery and physical plant).⁴³

This movement of capital was not generally subject to the influence of local market forces, nor did state managers seriously attempt to direct the accumulated stock of capital into services and production. Capital flows reflected the decisions of multinational corporate strategists who determined factor costs, production levels, capital investments, prices, raw material needs, etc. on the basis of maximising the corporation's world wide earnings.⁴⁴ Clearly tax regimes, particularly Section 931 of the US internal revenue code and the lengthy corporate tax holidays granted by the Puerto Rican state, influenced the investment strategies of these corporations. But investments, especially by 931 corporations, did not translate into increased employment or general improvement in the welfare of Puerto Rico.

During the mid-1960s petroleum refining and petrochemical firms were aggressively promoted for the potential forward and backward industrial linkages they promoted.⁴⁵ Cheap prices, geographical proximity to Venezuela (a major oil supplier), limited environmental regulations, the benefits of tax exemptions and favourable Federal regulations all contributed to the petroleum industry's rapid growth during the late 1960s. But virtually overnight this phase of industrial reordering was abandoned as a consequence of the OPEC price increases. Between 1973 and 1975, 155 petroleum-related firms ceased operations.⁴⁶

The petroleum industry's demise occurred just prior to the rapid expansion of the pharmaceutical and electrical machinery industries. Demand for imported fossil fuels increased as a consequence of the high energy needs of these new entrants into Puerto Rico's industrial structure. Such a dependency on imported energy sources enhanced the domestic economy's exposure to cyclical variations in commodity prices and supply

⁴³ *Ibid.* The figure for first investment is misleading since according to the Committee direct investment 'includes all increases in the net worth of external firms, including paper assets such as Commonwealth bonds'. The Committee estimates that about 80% of recorded direct investments in Puerto Rico is accumulation of profits on past direct investments. *Ibid.*

⁴⁴ The passage of Section 936 of the US internal revenue code had a major effect on corporate planners, for they could establish subsidiary branches and shift earnings from overseas sites to Puerto Rico and repatriate them to the United States. For a detailed discussion of this subject see Department of the Treasury, *The Operation and Effect of the Possessions Corporations System of Taxation*, Third Annual Report (Washington, DC., June 1980).

⁴⁵ Office of Petroleum and Fuels Affairs, *Synopsis of a Framework for Energy Policy Formulation*, 1976 (San Juan, 1977).

⁴⁶ USDC, *Economic Study*, 1 (1979), p. 106, with a resulting loss of approximately 1,900 jobs. US Bureau of the Census, *Census of Manufactures 1973, 1975* (Washington, DC).

and directly affected industrial expansion projects. This failed episode in the development of heavy industries painfully exposed the island's vulnerability to changes in the operation of the global economy.

Puerto Rican state managers also failed to persuade the non-petroleum-related multinational corporations to promote a locally integrated island-based production process. Sophisticated manufacturing industries, with their backward and forward linkages, could theoretically have contributed to the formation of an integrated local and regional economy. However the state was unable to promote investments in satellite industries that could manufacture intermediate processed goods and inputs for further processing/assembly by the new industries. This outcome is not surprising since decisions on virtually all aspects of the multinational corporation's relationship to the political economy were left to the MNCs and are based on considerations that essentially disregard local development needs. Rather than developing the domestic capacity to satisfy increased demand, the pattern of trade was altered to reflect the multinational corporation's reliance on externally processed and imported capital inputs. Multinational corporate operations in Puerto Rico emphasise assembly production, testing and distribution, and the subsidiaries tend to import virtually all the component units, from capital equipment to the semi-processed and assembled components. Intrafirm commodity and capital movements worked directly against the forward and backward linkage strategy that Fomento envisioned as essential for an integrated national economy,⁴⁷ as these vertically integrated corporations operate as enclaves.⁴⁸

Wages, unemployment and the fiscal crisis

Successful industrial restructuring did not depend solely on maintaining cheap labour and tax exemptions, but also on high rates of corporate profitability and labour productivity. Under the new industrial order the private sector wage policy was revised since labour costs for the capital-intensive industries were a relatively small part of the final costs of the finished product. In 1974 the average hourly wage for the ten most capital-intensive industries was \$3.48, almost double (\$1.85) what workers received in the ten labour-intensive manufacturing sectors.⁴⁹ These changes in the wage structure made the state's intervention in private sector industrial labour relations less consequential. Nonetheless, a favourable investment climate was still essential for attracting external capital. The climate called for peaceful industrial labour relations, a cost-

⁴⁷ Dietz, *Economic History*, pp. 269–72.

⁴⁸ The terms are borrowed from Richard Weisskoff, *Factories and Food Stamps* (Baltimore, 1985), p. 58.

⁴⁹ EDA, *Competitive Position of Manufacturing Industries*, p. 22.

efficient and reliable infrastructure, a skilled labour force and political and social stability. Yet the very nature of the economic growth being promoted was having the effect of aggravating social and economic conditions, which seriously jeopardised the state's capacity to sustain a favourable investment climate.

The period between 1968 and 1976 (particularly the years 1970 to 1974) was '... characterised by great budgetary restrictions in the government, and strong inflationary pressures in the economy, which culminated with one of the worst recessions suffered in the last years'.⁵⁰ It was also marked by a rapid and sizeable increase in public debt and the continued deterioration in public saving. In 1965 the public debt stood at 32.9 % of gross national product and increased annually at a moderate rate until 1970. After 1973, the debt increased rapidly and in 1976 reached \$5.75 billion, or approximately \$1,800 *per caput*,⁵¹ which raised its share of GDP to 76.7 %. According to the Tobin Finance Committee a debt of this magnitude jeopardised future investment and growth.⁵²

Expenditures to deal with increased social welfare needs, for public sector employment to offset job losses in the private sector and to sustain the infrastructural needs of industry, all contributed to the massive growth of the state's debt. On the other hand, generous industrial tax exemptions, direct monetary subsidies, subsidised rates for industrial use of public utilities and services, and other incentives, contributed to the state's deteriorating fiscal condition. Increases in the price of imported petroleum led to balance of payments deficits while interest rate increases in the municipal bond market made the cost of borrowed money much more expensive and inflationary pressures in the United States raised domestic prices on virtually all commodities. Only by frequent borrowing in municipal bond markets, continuous reliance on direct United States transfers, returned excise duties and income taxes, was the state able to provide moderately progressive social programmes. The characteristics of Puerto Rico's debt crisis – reliance on export-oriented manufacturing and dependence on external financial markets – were remarkably similar to those of the various debt-ridden Latin American economies.

The Committee to Study Puerto Rico's Finances noted that current expenditures grew at over 20 % per year from 1969 to 1973, more than doubling in four years. Yet revenues from internal sources grew by only 13 % per year. The shortfall was covered by federal transfers. Government expenditures grew rapidly during the Ferré period (1969–72) and

⁵⁰ Consejo Asesor del Gobernador Sobre Política Laboral, *Las Huelgas en el Sector Público*, (San Juan, 1978), p. 6.

⁵¹ Calculated from Junta de Planificación, *Informe Económico al Gobernador*, 1976, tables 2, 23, 28.

⁵² *Ibid.*, p. 49.

decelerated sharply after 1973 during the Hernández Colón period (1972-6).⁵³ As we shall see, these reversals in the pattern of public expenditures corresponded to changes in political party control of the state.

The unprecedented unemployment levels appear to have been closely related to the sectoral allocation of labour consistent with the needs of the new industrial structure. From 1967 to 1973 unemployment remained relatively stable at around 12%. But after the 1973 recession, unemployment increased rapidly to 15.4% and by 1977 fully one fifth of the labour force was officially unemployed (Table 1). The actual rate of unemployment almost certainly exceeded these official levels. One government sponsored study estimated that if US labour force participation rates were applied to the island, the official rate of 13.3% in 1974 would have to be revised upward to 27%.⁵⁴ Noting conditions in 1975, the study observed that with 53% of Puerto Rican families earning incomes of below \$5,000 and given '...the truly severe current unemployment coupled with rapid (imported) inflation it would be difficult to see anything but widespread hunger and disruption in the absence of the fortuitous federal food stamps'.⁵⁵

Federal transfers to moderate the level of poverty and hunger were not simply 'fortuitous', but were critical for preserving stability on the island. Given the huge budgetary deficits and limited sources of internal revenues, it is doubtful whether social welfare expenditures could have been financed from domestic sources. Federal transfers were rapidly increased as the domestic economy failed to provide adequate employment for the population and disbursements climbed from \$136.7 million in 1965 to \$1,692 million in 1976, including \$806 million for food stamps.⁵⁶ By 1974 two thirds of Puerto Rican families relied on food stamps as their major source of income.⁵⁷ In addition, direct federal grants to local state agencies increased during this period almost nine-fold to \$683.5 million.⁵⁸ While the food stamp programme led to increased food imports, the almost \$1 billion injected into the economy generated major dislocations in the local credit markets and contributed to growth in consumer debt.⁵⁹

Federal transfers afforded Puerto Rico the dubious, but 'unique distinction in the economic annals of having personal consumption

⁵³ Committee to Study Puerto Rico's Finances, *Report to the Governor*, p. 31.

⁵⁴ Thomas Victorisz and Williams Goldsmith, *Summary Statement on Puerto Rico's Economic Development Strategy* (San Juan, 1975), p. 9.

⁵⁵ *Ibid.*

⁵⁶ Junta de Planificación, *Informe*, 1976, table A-14, p. 14.

⁵⁷ Dietz, *Economic History*, p. 298.

⁵⁸ Junta de Planificación, *Informe*... 1976, table A-15.

⁵⁹ See discussion by Weisskoff, *Factories*, esp. chs. 8, 14, 16.

expenditures (\$9 billion in FY 1978) exceed gross domestic product (\$8.9 billion)'.⁶⁰ According to Business International, an industry research and consulting firm,

...for corporate operations in Puerto Rico, they (federal transfers) are nothing less than decisive. In short, the availability of these funds enables Puerto Ricans to enjoy substantial discretionary income to purchase a wide gamut of goods and services they would not otherwise acquire given the unemployment rate and relatively low per capita income. This trend has tremendous significance for MNCs manufacturing in Puerto Rico, many of which produce goods that have scored the largest growth in this decade. The benefits that MNCs get from federal transfers to Puerto Rico are not confined, however, to the boost they give personal consumption expenditures. Transfers to the local public sector have played a decisive role in enabling Puerto Rican government to underwrite the physical infrastructure needed to sustain a burgeoning manufacturing sector, as well as provide essential social services.⁶¹

By 1975 federal transfers exceeded in value the total profits realised by US firms in Puerto Rico,⁶² transfers that allowed the state to subsidise industrial expansion and to underwrite continued bureaucratic growth and public employment. There could be little doubt that the state's continued ability to sustain a series of policies designed to favour labour was increasingly a function of the federal government's willingness to provide financial support.

Bureaucratic growth was promoted after 1966, a moment which corresponded to the increasing social and economic maladies accompanying the decline of the traditional export industries and agricultural sector. The erosion of the current account surplus was officially attributed to this expansion and to the tendency for public corporations to operate at a loss for social or political reasons.⁶³ By 1976, the state bureaucracy comprised 104 distinct units; 36 of these were agencies and public corporations established after 1964.⁶⁴ Public sector employment increased from 121,000 workers in 1964 (19 % of the labour force)⁶⁵ to 244,800 by 1978 (or 37.2 % of the labour force).⁶⁶ Between 1969 and 1973 total

⁶⁰ Business International Corporation: *Puerto Rico: Critical Choices for the 1980s* (New York, 1980), p. 37. ⁶¹ *Ibid.*

⁶² Frank Bonilla, and Ricardo Campos, 'A Wealth of Poor: Puerto Ricans in the New Economic Order', *Daedalus*, cx (Spring 1981), p. 147, and figs. 4, 149.

⁶³ Committee to Study Puerto Rico's Finances, *Report*, pp. 31, 34.

⁶⁴ Cabán, 'Interest Associations, the State and Economic Growth in Puerto Rico', p. 54, table 5.

⁶⁵ Comisión del Gobernador para estudiar Relaciones del Trabajo en el Servicio Público en Puerto Rico; *Relaciones del trabajo en el servicio público: problemas y recomendaciones*, vol. 1 (San Juan, 1975), p. 24.

⁶⁶ Bonilla and Campos, 'A Wealth of Poor', p. 150.

government employment increased by 50% and by 1976 labour costs absorbed over 69% of the government's budget.⁶⁷ The blue ribbon Committee to Study Puerto Rico's Finance called upon the government to reduce these outlays in order to generate internal operating surpluses,⁶⁸ but in reality, while *per caput* expenditures for worker compensation were large compared to the United States, the percentage share of operating expenditures received as compensation by public employees had declined steadily since 1965.⁶⁹

Eleven corporations were authorised to obtain operating and capital improvement funds by floating bonds in the New York municipal bond market. Borrowing in order to supplement domestic earnings and to finance capital improvements projects led to massive debt obligations. By 1976 the public corporations incurred outstanding debt amounting to \$4.73 billion or 77% of the total state debt.⁷⁰ Because of inflationary pressures, as well as a deteriorating credit standing in the bond market, the interest rates offered on these bonds were raised. The rapid increases in interest payments contributed further to the debt problem.⁷¹

Because of tax incentives, the corporate sector's net contribution to state revenues appears to have been limited relative to their profits. Their major social contribution was in direct wages paid to labour. But the aggregate wage bill was minor relative to profits and their labour needs did not reduce unemployment. Given these limitations on job creation in the corporate sector, the state became the major force in absorbing huge contingents of surplus labour. These features of the new industrial order led the state to finance much of its operations through increased borrowing, taxes on individual income and reliance on federal transfers.⁷²

Changes in party-government and state-labour relations

These structural changes in the economy altered the relationship between the state and organised labour in the export industries and diminished the importance of the developmental ideology for preserving a favourable investment climate. Yet the new industrial order required a decidedly more expansionist state role in infrastructure and in industrial services. The developmental ideology, particularly its emphasis on moderate wage demands, harmonious relations with management and a commitment to

⁶⁷ Junta de Planificación, *Informe*, 1976, p. 154.

⁶⁸ Committee to Study Puerto Rico's Finances, *Report*.

⁶⁹ USDC, *Economic Study*, 1, 1979, p. 83.

⁷⁰ Junta de Planificación, *Informe Económico 1976*, p. 165.

⁷¹ Committee to Study Puerto Rico's Finances, *Report*, p. 6.

⁷² From 1950 to 1977 only two sources of government receipts increased on a percentage basis – individual income taxes from 25.6 to 32.9% and Federal transfers and grants in aid from 17.3 to 52.2%, *Economic Study*, table 13, p. 84.

long-term economic growth as the basis for social equity, became critical for state-labour relations in the public sector. State-organised labour relations were affected not only by the industrial restructuring, but also by the changing political situation in Puerto Rico. That is, although the seeming imperatives of the new economy decidedly influenced state behaviour towards labour, changes in political party control of the government were also significant.

Since 1968 industrial promotion strategies and labour relations have been influenced by the competing parties' positions on the status issue. During the four years of Partido Nuevo Progresista (PNP) rule (1969-72) the party used local state power in an effort to expand its political base, particularly among sectors of the organised labour movement, and to promote domestic capital. The PNP saw annexation as the only long-term solution to Puerto Rico's economic and political difficulties and expected that assimilation would provide needed stability for sustained growth. By contrast the Partido Popular Democrático (PPD) called for enhanced autonomy and by the late 1960s had proposed to amend the Commonwealth arrangement.⁷³ The PPD called for increasing the state's decision-making powers over vital areas of the economy. Ultimately both parties administered the local economy under the constraints of colonialism. Yet each party's response to the deteriorating political and economic conditions was influenced by the requirements of an economy dominated by external capital and by their alternative visions of the status of Puerto Rico.

The PNP gained control of the governorship and lower house in the 1968 elections. This was an unexpected triumph for the statehood forces and represented a turning point in the political evolution of the island. While the split in the leadership of the PPD contributed to the opposition's electoral success,⁷⁴ the PNP shattered the myth of the *populares'* invincibility. In the process the PNP constructed a new, although somewhat fragile, constituency that reflected the changing social division of labour and class structure of Puerto Rican society. The PNP did not adhere to the prevailing orthodoxy that viewed development as synonymous with ever higher levels of corporate profitability. Yet it is important to emphasise that although the PNP attempted to stimulate growth of domestic manufacturing it did not significantly modify the state's role in promoting external investments.

The PNP drew political support from the competitive sector of

⁷³ In the Declaration of Aguas Buenas November 1970 the younger leadership of the PPD called for convening a Constituent Assembly to define the nature of a new compact which would supersede the prevailing one.

⁷⁴ The incumbent governor Sánchez Vilella broke from the PPD and ran for election as a candidate of the Partido del Pueblo.

domestic capital that produced for the local market.⁷⁵ While it did not favour government subsidies for external investments in small-scale labour-intensive manufacturing, the party favoured industrial incentives for the multinational corporate sector. The PNP also called for increased federal transfers to sustain consumption on the island and to redress the inequities generated by uncontrolled growth of export-oriented industrial firms. Its political-economic project also called for reduced external competition in the labour-intensive industries (where local manufacturing capital was overwhelmingly invested), stimulating domestic demand by subsidising consumption and eventual annexation in order to realise social stability and equity.

Although the PNP gained electoral support from the disenfranchised urban poor and lumpenproletariat, it also attracted the middle sectors and upper income groups in major urban areas. The PNP appealed directly to economically marginalised sectors by developing a populist image, not unlike that of the PPD of the 1940s. Like the *populares* of the forties, the 'statehooders' successfully capitalised on the growing inequities in society, but argued that its programme of capitalist development under statehood would lead to growth with equity. Annexation was seen as providing critical resources and social stability for a renewed period of economic growth.

The PNP's programme of government was based on employing state power to strengthen popular support for an eventual plebiscite on statehood. Ferré, who was also an influential leader of the Puerto Rican capitalist class, also emphasised harmonious industrial relations. The party had assumed power in 1968 with a narrow electoral base, limited administrative experience and a rapidly deteriorating economy. Moreover, it confronted an organised labour movement whose leadership was closely associated with the PPD. The new administration was genuinely concerned about the prospects of widespread labour unrest, organised and led by these unions to embarrass the government.⁷⁶

⁷⁵ Surprisingly very little has been written on the contemporary social class basis of the dominant political parties. The few exceptions include the work of Aaran G. Ramos, 'The Development of the Annexionist Politics in Twentieth century Puerto Rico', in Adalberto López, (ed.) *The Puerto Ricans* (Cambridge, MA, 1980), and Edgardo Meléndez, *Puerto Rico's Statehood Movement* (Westport, Ct, 1988). The political and economic thinking of the annexationist movement is provided in Aaron Gamaliel Ramos (ed.), *Las ideas anexionistas en Puerto Rico bajo la dominación norteamericana* (Río Piedras, Puerto Rico, 1987). Much of the material in the following two paragraphs is drawn from Meléndez's research. For an analysis of the social class base of the PPD in the 1940s, see the article by Pantojas-García in this issue of the *Journal of Latin American Studies*.

⁷⁶ Interviews with PNP administrative personnel in Department of Labor and Economic Development Administration, summer 1977.

The PNP, however, did not dismantle the PPD's industrial relations policy and retained the labour relations bureaucracy, including the minimum wage boards. However, Ferré's posture towards the working class in general, and organised labour in particular, was palpably more propitiatory than that of the previous PPD administration of Sánchez Vilella. The PNP endorsed unionisation and sought to develop good will in its relations with labour, particularly in the public sector. During its tenure the PNP certified 95 municipal and state employee associations, a substantially accelerated rate compared to the 41 associations which the PPD certified between 1960 and 1968.⁷⁷

Moreover the PNP administration was particularly conciliatory in its relations with public sector unions. An exhaustive government study, which examined public sector union activity, concluded that the PNP government failed to apply legal sanctions to compel unions to engage management in negotiations in order to resolve labour problems. Ferré sought to use state resources to expand the PNP's base among unions and workers. The efforts to offset employment losses by increasing public sector employment, expanding direct benefits to workers, facilitating union formation among state employees, supporting application of federal minimum wage legislation and adopting a more flexible attitude in local minimum wage negotiations, among other measures, were designed to realise these political objectives.

Despite the PNP's efforts to generate support among organised labour, its tenure was marked by an unprecedented escalation in strike activity and union militancy. The PNP victory came after twenty-eight years of continuous rule under the paternalistic PPD. With the breakdown of PPD hegemony the unions had the opportunity to pursue their struggles more aggressively in the pluralistic political order. Mindful of the PNP's fragile electoral base, these unions aggressively sought to negotiate material gains long denied during the period of PPD rule. Part of the PPD's developmental strategy was to form a public sector labour force imbued with a sense of civic purpose and commitment to the industrialisation programme manifested by its willingness to accept low wages in the interests of increasing the social surplus for investment. By paying public sector employees substandard wages, the state subsidised social services provision. In fact increases in public sector wages and salaries were officially decried as jeopardising the state's ability to provide vital public services. Near the end of the Ferré administration and through the late

⁷⁷ Departamento de Trabajo, *Asociaciones y Federaciones de los Empleados de las Agencias del ELA y los municipios del ELA* (mimeo, n.d.). Galvin, 'The Labor Movement ...', p. 83, writing about the situation in 1974, notes that 'in 45 municipalities, 81 associations of municipal employees were certified for dues checkoff. A total of 116 groups received similar certifications in 36 commonwealth departments and agencies'.

Table 3. *Union membership and unemployment as percentages of labour force*

Union membership (%)	April 1965	May 1968	June 1970	June 1973	June 1975	September 1977
All industries	19	19	20	19	14	13
Agriculture	33	27	29	21	16	11
Construction	14	14	17	17	9	8
Manufacturing	32	32	30	34	24	20
Commerce	4	7	6	5	4	4
Transportation, communication & public utilities	41	54	61	56	54	54
Services	10	12	20	16	11	11
Public Admin.	3	4	7	6	7	6
Unemployment (%)	11.2	11.6	10.3	11.8	15.4	20

Compiled by using the table 'Por ciento de empleados asalariados que estaban unionados por grupo principal en Puerto Rico', Directorio de Organizaciones del Trabajo 1978-9 (San Juan, Departamento de Trabajo y Recursos Humanos).

1970s, public employees rejected this ethos, with increasing stridency and militancy.

During the Ferré period organised labour underwent changes in its political-ideological composition and relationship to the state, it also expressed more militancy and organised more strikes than during any other period in the post-Second World War era. This process was accelerated during the subsequent PPD administration. The recessions of the late 1960s and 1973-4 hit the labour movement very hard. With rising unemployment union membership in the private sector declined rapidly (see Table 3). While overall union membership in the manufacturing sector dropped from a high of 34 % to roughly one fifth of the labour force, the capital-intensive industries were more unionised.⁷⁸ However, the higher wages in these industries can be attributed to market forces (higher skill requirements, relative scarcity) and not to union negotiated collective bargaining gains.⁷⁹

In the public sector, union membership increased as wages declined. Membership growth was related to the establishment of eight public corporations whose employees were legally entitled to unionise and in 1977 approximately 72 % of workers in public corporations were unionised. Eight-six per cent of the unionised workers in the public sector were members of independent unions.⁸⁰ Significantly, union membership rates rose, despite higher unemployment in the government sector.⁸¹

⁷⁸ EDA, *Competitive Position...*, 1975, p. 26.

⁷⁹ *Ibid.*

⁸⁰ Edwin Meléndez, 'Accumulation and Crisis in the Postwar Puerto Rican Economy', Ph.D. diss., University of Massachusetts, Amherst, p. 212.

⁸¹ Figures from 'Consejo Asesor del Gobernador', *Datos estadísticos relevantes a la problemática de la sindicalización de los empleados públicos en Puerto Rico*, table x, p. 13.

Thirteen unions were established in the public corporations during the Ferré administration, while an additional eight were certified by the PPD administration.⁸² Yet any potential strength which could have accrued to unionised public employees was diluted by their organisational fragmentation. For example, in 1974 approximately 19,972 workers in public corporations were represented by 37 unions.⁸³

Organisational divisions and intense jurisdictional competition affected organised labour in the private sector as well and led to the gradual erosion of the AFL-CIO's long-standing dominance over the labour movement.⁸⁴ Since employment declines in the traditional industries decimated the membership roles of these unions, they began to organise in new industries. Invariably the AFL-CIO affiliates disregarded jurisdictional boundaries and clashed with independents for representation of workers, particularly in the public sector.⁸⁵ But these attempts by the internationals and the Teamsters to organise workers in the state sector were largely unsuccessful. The successful resistance by the independents was an expression of growing worker opposition to the trade unionist approach represented by the AFL-CIO. The independent labour organisations, whose leaders were not politically affiliated to the PPD, were also a potential threat to the industrial peace the party had arranged with the internationals.⁸⁶ Moreover industrial stability, realised in part by symbiotic relationship between the PPD and AFL-CIO, was less certain as workers in the newly emerging sectors rejected the internationals. Jurisdictional battles, deterioration of the once dominant AFL-CIO and the growth of independent unaffiliated public sector unions and associations contributed to the erosion of state-mediated industrial relations and caused one observer to write:

Certain developments over the past few years have created considerable disquiet... These developments include, but are not limited to, the occurrence of several strikes in vital sectors, including public services; the lack of adequate communications between representatives of the government, business and organized labor; the failure of mediation and other forms of dispute settlement to prevent, or at least bring to a rapid end, certain highly disruptive strikes; the continued lack of success in coping with certain labor problems, such as high rates of absenteeism, which block the achievement of improved productivity

⁸² Compiled from 'Comisión del Gobernador para Estudiar', *Informe*, III, p. 21.

⁸³ Meléndez, 'Accumulation and Crisis...', p. 212.

⁸⁴ See NACLA, 'U.S. Unions in Puerto Rico...'

⁸⁵ See Meléndez, 'Accumulation and Crisis...', pp. 79-83, Cabán, 'Industrialization', pp. 162-3, García and Quintero Rivera, *Desafío y Solidaridad*.

⁸⁶ See Galvín, for discussion of relations between AFL-CIO internationals and the Muñoz Marín government.

levels, as well as various other problems internal to business, labor and certain government operations.⁸⁷

The report went on to cite the 'prevalence of raiding, the existence of inter-union hostilities, the politicisation of certain segments of the labour movement, and the mixed history of relations with employers', as factors which complicated the system of the industrial labour relations.

When the Ferré administration left office, the climate of industrial peace had fallen victim to the pressure of industrial restructuring and a severe recession. For organised labour the period was one of flux. A diversity of ideologies informed its views on capital-labour relations, on the nature of the trade union movement and colonialism and on the question of alliances with political parties. Nationalist/independence critiques, as well as class-based analysis, influenced the formation of a trade-union vision that rejected the developmental ideology. By the mid-1970s the labour movement was characterised by jurisdictional fragmentation, deterioration of the once dominant AFL-CIO, the growth of independent unaffiliated public sector unions and associations and a growing radicalism and militancy in the labour sector, particularly among public employees in crucial utilities.

Despite its efforts to use state power to increase and consolidate its electoral base, the PNP failed to defeat Hernández Colón and his reunited PPD in the 1972 elections. Yet PPD victory was not necessarily a popular rejection of statehood. In fact the statehood party actually obtained a larger percentage of the votes than it did in 1968. While the PPD received approximately 51 % of the vote, sufficient for victory, it continued a trend in declining electoral support. In large measure, the PNP's defeat was probably due to popular reaction against the serious economic downturn.

The PPD regained control of the government on the eve of a devastating economic crisis, which was linked to the anti-inflationary policies and deep recession in the metropolitan economy. In view of the deteriorating fiscal condition of the state, the PPD immediately began a reassessment of the model of state-guided growth and the structure of industrial labour relations. It also began to reassess the continued viability of Operation Bootstrap in the absence of significant modification and reforms in the Commonwealth arrangement.⁸⁸

The PPD of 1972 diverged in many respects from the organisation that Muñoz Marín originally created. Muñoz's party had a clearly formulated

⁸⁷ John P. Windmuller, *Report on the Creation of a Tripartite Governor's Council on Labor and Social Policies* (mimeo, 17 July 1974), p. 1.

⁸⁸ See Committee to Study Puerto Rico's Finances, cover letter to Governor.

populist ideology and had established a solid electoral base among farmers and agrarian workers. By linking growth with equity the party had acquired widespread legitimacy as a force for positive social and economic change. However, the demographic changes which accompanied industrialisation eroded the PPD's rural class base. Ironically, the PPD of the 1970s continued to rely on the populist imagery of the past, which proved anachronistic and at odds with the changed political and economic landscape of the 1970s. As we shall see, increasing segments of the labour force were sceptical that the PPD's programme of foreign-led economic growth would generate acceptable social and material gains. Hernández Colón led a party which differed in philosophical, organisational and political styles from the earlier PPD.⁸⁹ With its cadre of highly educated and technically oriented cosmopolitan managers, the PPD acquired a new identity as manager of the economy and society. Yet it remained committed to the traditional strategy of aggressively employing the colonial state's limited resources to enhance the rate of private accumulation for external capital. This was a strategy which eroded the state's very capacity to sustain equity.

In order to resolve the crisis the PPD elaborated a comprehensive policy which focused on: (1) reforming the Commonwealth relationship with the United States; (2) the fiscal management; (3) industrial labour relations and public sector sindicalisation. The leadership of the PPD was acutely aware of the need to revise sections of Public Law 600. Shortly after taking office Hernández Colón lobbied Washington for the creation of an *Ad Hoc* Advisory Group to review the Commonwealth arrangement with the aim of conferring autonomous powers in key areas of economic policy making. The committee was established on 30 September 1973, and drafted a Compact of Permanent Union two years later. The Advisory Group recommended granting Puerto Rico the right to enter into commercial treaties with foreign governments, to establish tariffs and import controls, and to have all federal disbursements allocated in the form of block grants.⁹⁰ It further called for exclusive jurisdiction over all matters pertaining to minimum wages, labour management regulations and occupational health and safety. The PPD argued that application of Federal Fair Labour Standards would deny the government the flexibility of establishing an appropriate minimum wage policy and would 'prove particularly repressive to competitive relationships and employment opportunities at a time when Puerto Rico is in competition with

⁸⁹ For an analysis of internal PPD debate see Juan Manuel García Passalacqua, *La crisis política en Puerto Rico* (Río Piedras, Puerto Rico, 1983).

⁹⁰ See Miguel Lausell, 'Give Puerto Rico the Tools to Work', in Richard J. Bloomfield (ed.), *Puerto Rico: The Search for a National Policy* (Boulder, Co., 1985), pp. 167-70.

developing countries throughout the world'.⁹¹ The report was presented to President Ford who chose not to act on it and instead proposed statehood for the island shortly before leaving office in 1977.

To resolve the fiscal crisis and the deteriorating investment situation, Hernández Colón established the Committee to Study Puerto Rico's Finances. Popularly known as the Tobin committee, it criticised the traditional deficit-financed growth strategy which characterised the latter phases of Operation Bootstrap. While recognising the significance of external factors in explaining the island's deteriorating conditions, the report noted 'The trends of government expenditure, government enterprise deficits, Puerto Rican debt and the costs of production were not sustainable even with favorable economic weather overseas'.⁹² The Committee was particularly concerned with the island's declining credit worthiness for metropolitan investors and an alleged deterioration in the productivity and cost of labour. But since Puerto Rico lacked fiscal and monetary autonomy and was extremely dependent on external financial markets, it had only a limited range of policy options to handle the crisis. Future growth was dependent on direct external investments and capital generated from the municipal bond markets. Thus, the government was called upon to reestablish Puerto Rico's traditional competitive position.

The Committee recommended revising the non-corporate tax code as a way to increase internal savings, wage and hiring freezes in the public sector, establishing limits on government consumption and expenditures. The earnings of public corporations could be increased by employing rational cost-benefit accounting procedures in determining user charges, rather than perceived social benefit considerations. To counter declining foreign investment rates the committee recommended a delay in the application of federal minimum wage legislation and a general policy of wage constraints in the private sector. In addition, the committee called for a reevaluation of all legislation which raised labour costs, proposed to exclude teenage workers from federal minimum wage laws and urged additional incentives and exemptions for investors. Since many firms retained their profits in liquid form, the committee called for increased productivity, state-financed worker education and training programmes and additional industrial tax credits as incentives for the corporations to reinvest their profits in direct production activities.

The recommendations contained elements of a classic IMF stabilisation programme, such as contraction of government spending (fiscal discipline) in order to generate surpluses to meet external debt obligations, and wage restraints to reduce consumption, lower unit labour costs and enhance

⁹¹ *Compact of Permanent Union*, section 17, p. 43.

⁹² *Ibid.*, p. 1.

profitability. Major labour unions heatedly opposed the committee's recommendations. In public hearings a broad cross-section of the organised labour movement assailed the report's conclusions on resolving the crisis.⁹³ Despite this opposition, however, many of the fiscal austerity measures and wage constraints were adopted by the government.

The Governor's Advisory Council on Labor Policy was formed in reaction to the deteriorating climate of industrial relations. The idea for the council appeared to come from Teodoro Moscoso, the Economic Development Administrator, who was particularly concerned with the negative international reaction to the island's decaying investment climate.⁹⁴ The Council's purpose was '...to create a channel of effective communication between labor and the business sector and to promote consensus or a common understanding between them and the government in reference to public policies that have an effect on labor and social matters'. Shortly after its establishment the Council's agenda was redefined and it was instructed to prepare a plan of action 'which would increase productivity of all sectors'.⁹⁵ This new mandate generated serious opposition from labour representatives who argued that organised labour's role was to advise on industrial and state-labour relations and not economic policy.⁹⁶ Some labour representatives, however, saw the Council as a device to find ways by which to increase the profitability of business, a role many categorically rejected.

The Hernández Colón administration also created a commission to study labour relations in the public sector. Its report proposed an extensive set of recommendations calling for union certification in the public sector,⁹⁷ but the PPD did not act upon the legislation and allowed unions to work out their own arrangements with the state agencies.⁹⁸ In devising economic policies to respond to the crisis, the PPD had to contend with the dissolution of its long-standing hegemony over major sectors of the organised labour movement and the emergence of an independent public sector union movement. The PPD-controlled state confronted an organised labour movement that was ideologically and

⁹³ The Universidad de Puerto Rico, Editorial Universitaria published the report in 1976 and included transcripts of the public hearings.

⁹⁴ John P. Windmuller, *Report on the Creation of a Tripartite Governor's Council on Labor and Social Policies*. This is the implication, although the author of the report mentions that the Chamber of Commerce of Puerto Rico recommended the establishment of such a council as well.

⁹⁵ Office of the Governor, *Boletín Administrativo* (San Juan, 1976).

⁹⁶ *Informe del Consejo Asesor del Gobernador a Torno al Informe del Comité Tobin* (San Juan, 17 Jan. 1976).

⁹⁷ Comisión del Gobernador para estudiar Relaciones del Trabajo en el Servicio Público en Puerto Rico, established 13 Sept. 1973.

⁹⁸ Galvin, 'The Labor Movement', p. 83.

organisationally divided, but now less amenable to political control. Fortified by their victories during the PNP administration and aware of their centrality to any development effort, these organised workers struggled to preserve their autonomy. Heightened political consciousness and solidarity among important sectors of the labour force had fundamentally altered the traditional pattern of industrial labour relations.

Despite the PPD's relatively sophisticated and integrated approach to capital-labour relations, the period 1973-6 was marked by remarkably acrimonious labour relations. The PPD under Hernández Colón simply could not reimpose its hegemony over the organised labour movement, particularly the newly organised and independent public sector unions. The intensity of labour conflicts in the public sector prompted one observer of Puerto Rico to note that elements of 'class polarization began to appear...as the radicalization of labor movements'.⁹⁹ Major strikes among electrical utility workers and water and sewage workers broke out between 1972 and 1975, virtually paralysing the economy and adversely affecting industrial production. Repeated attempts at negotiating a resolution to the strikes failed and, in a move to protect the facilities from alleged acts of sabotage, the government mobilised the National Guard to put the strikes down.

Workers struck more often during this period than in any other in the history of Puerto Rico. Strikes were frequently organised by public sector workers, especially in those agencies providing vital services to the corporate sector. The ratio of public union strikes to private sector strikes increased markedly (see Table 4). The motivations for strikes ranged from economic grievances and the alleged failure of employers to abide by collective bargaining contracts, to solidarity strikes.¹⁰⁰ These developments in the labour movement revealed a gradual deterioration in the state's capacity to regulate industrial labour relations. Despite the legal obstacles to public sector unionisation, workers organised into collective bargaining units and used 'illegal' strikes, pickets and work stoppages to improve their economic and working conditions,¹⁰¹ as the industrial

⁹⁹ Juan Manuel García Passalacqua, *Puerto Rico: Equality and Freedom at Issue* (New York, 1984), p. 80.

¹⁰⁰ See Comisión del Gobernador para Estudiar Relaciones del Trabajo, III, 1974, p. 27. Also Consejo Asesor del Gobernador Sobre Política Gubernamental, *Datos Estadísticos Relevantes a la Problemática de la Sindicalización de los Empleados Públicos en Puerto Rico*, table xx.

¹⁰¹ For Raymond Carr, increased incidence of strikes and bitter union struggles between the Hernández Colón government and the unions were indications of the degree to which the PPD had lost its control over organised labor. See his *Puerto Rico: A Colonial Experiment* (New York, 1984), p. 252.

Table 4. *Strike activity*

Year	Strikes				Workers' days lost			
	Total	Public	Private		Total	Private	Public	Percentage
			(%)	(%)				
1967	54	4	50	8	9,312	1,601	7,711	55,808
1968	60	14	46	23.3	10,320	4,409	5,911	55,956
1969	79	11	68	13.9	19,894	4,922	14,972	166,531
1970	95	11	84	11.6	17,657	3,672	13,985	275,112
1971	94	21	73	22.3	17,025	7,385	9,640	110,662
1972	97	26	71	26.8	30,468	18,872	11,596	354,233
1973	133	53	80	39.9	31,422	20,085	11,337	332,687
1974	102	38	64	37.2	39,841	31,448	8,393	774,894
1975	44	17	27	38.6	16,320	12,216	4,104	468,271
1976	44	18	26	40.9	9,124	5,993	3,131	255,595
								91,554
								164,041

Sources: Consejo Asesor del Gobernador Sobre Política Laboral, *Las Huelgas en el Sector Público de Puerto Rico* (San Juan, Oficina del Gobernador, 1978) and *Datos Estadísticos Relevantes a la Problemática de la Sindicalización de los Empleados Públicos en Puerto Rico* (San Juan, Oficina del Gobernador, 1978).

relations climate became significantly more radicalised and confrontational.

With the imposition of wage constraints in the public sector, recommended by the Tobin Committee, additional strikes were organised by teachers, sanitation workers, fire fighters, telephone workers and numerous other public employee unions. As the frequency and militancy of the strikes increased, new labour organisations established alliances and solidarity networks. The formation of the *Movimiento Obreros Unidos* (MOU) and the *Centro Unido de Trabajadores del Estado* (CUTE) were attempts by the union leadership to bridge organisational and jurisdictional differences to form a unified front against the austerity and wage restraint policies of the PPD. Most of the PPD-identified AFL-CIO leadership was noticeably absent from these alliances. Young labour leaders, some committed to the independence of Puerto Rico and ascribing to socialist principles of economic organisation, became leaders of the most important labour unions. Union leaders were articulating a class-based critique of the economy and challenged the traditional orthodoxy which called for sacrifice among the workers to realise future growth.

The entire structure of industrial relations, in the public as well as the private sector, became highly politicised and less subject to negotiations. Solidarity strikes among public employees became more frequent,¹⁰² and unions appeared to go on strike over an increasing number of grievances with management. The organised business community and state officials viewed these developments with alarm and attributed the apparent radicalism to the actions of socialists who had infiltrated the unions.¹⁰³

The business community frequently expressed its concern about the wave of strike activity and union militancy. Ramón Rodríguez, President of the influential Puerto Rican Manufacturer's Association, claimed that 'The industrial climate of the island, as well as the promotional activities overseas to bring capital investments to Puerto Rico have been seriously affected as a result of the increasing number of strikes.'¹⁰⁴ A few months later he observed that the 'investment sector feels very concerned about the future of Puerto Rico in terms of its relationship with the United States because apparently leftist groups are having success in planting the seeds of insecurity among the investors – the locals as well as the foreign ones'.¹⁰⁵ Hernández Colón endorsed this view when he referred to the 'intention of foreign elements to systematically intervene in certain labor-management conflicts'.¹⁰⁶

¹⁰² Comisión del Gobernador para Estudiar Relaciones, *Informe* III, p. 27 for table.

¹⁰³ *El Mundo*, 11 Dec. 1974.

¹⁰⁴ *El Mundo*, 1 Dec. 1974, p. 9A.

¹⁰⁵ *El Mundo*, 1 Feb. 1975.

¹⁰⁶ *El Mundo*, 3 March 1975.

Nonetheless, the heightened strike activity of the period suggests that public employees rejected the concept that the state could act as an agent for growth and distribution in their interests. The MNC-dominated industrialisation process was counterproductive to the expressed goal of promoting growth with equity. As a result the colonial state's capacity to function as an integrative institution which successfully mobilised working class support for capitalist development was seriously compromised. The actions of the Hernández Colón administration increasingly revealed that the state was to promote economic growth by restricting equity, while at the same time it expanded the subsidies and incentives available to external capital.

Conclusions

This article has attempted to show that changes in the productive structure altered the contemporary role of the state in the accumulation process. Economic growth, based upon capital-intensive firms, required significant state involvement in providing financial inducements, infrastructure services and incentives to new firms. However, growth was marked by a deteriorating fiscal situation and a gradual erosion in equity. Ultimately the state was unable to sustain the social contract, which had been an essential ingredient of Puerto Rico's favourable investment climate. As a result the state's capacity to function as an integrative institution, by promoting working support for capitalist development, was seriously undermined.

By the mid-1970s, industrialisation required permanent federal government financing of social welfare and services, while the Puerto Rican state subsidised external capital. The Puerto Rican state's response to the protracted economic crisis of the mid-1970s bears a striking resemblance to current efforts by states in developing market economies to resolve the structural crisis of their economies. The state adopted austerity measures which adversely affected the material and social conditions of the middle and working classes, while promoting a more profitable investment climate for multinational corporations. But in Puerto Rico social decomposition, widespread immiserisation and political turmoil have ironically been avoided through colonialism, which has permitted massive federal transfers to low income groups.

The declining capacity of the colonial state effectively to manage the island's political economy in the interests of the United States has emerged as an important policy issue. In adjusting to the requirements of a changing global economy, the Puerto Rican state has adopted investment

strategies which are inconsistent with domestic social and economic necessities. This essay has examined some of the factors which caused a gradual deterioration in the colonial state's legitimacy and effectiveness as an institution of public power.