



## The Puerto Rican Political Economy

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# I Introduction

## THE PUERTO RICAN POLITICAL ECONOMY

by  
*James Dietz*

Puerto Rico became a colony of the United States in 1898 as part of the settlement exacted from Spain in the Treaty of Paris ending the Spanish-American War. And, at a time when classical colonialism is on the decline as a means of control and exploitation, Puerto Rico *remains* a colonized nation, the Puerto Ricans a colonized people. The United States has attempted to disguise its role as colonizer by granting Puerto Rico token self-government and other cosmetic changes such as referring to Puerto Rico as a "free associated state" (*Estado Libre Asociado*) or, officially, as the Commonwealth of Puerto Rico. The facts, however, remain. Puerto Rico is not a sovereign nation: The United States retains ultimate control and veto power over all decisions that would be within the domain of a truly independent state.

This issue of *Latin American Perspectives* considers some of the important forces that have shaped Puerto Rico's past and present and examines the emerging prospects for the future. This introduction has a two-fold purpose. First, it is designed to provide a brief introduction to Puerto Rico's colonial experience and the economic and class transformations that have occurred as a result of United States hegemony. Second, the articles appearing in this issue are introduced, integrated, and analyzed. The introduction thus serves to make the entire issue self-contained: even the reader with little or no background will be able to more easily read the six articles with better understanding. These articles make important contributions to our understanding of the Puerto Rican situation and are representative of a growing body of analysis that is attempting to move beyond the bounds of past research on Puerto Rico.

### COLONIAL HISTORY

From the late fifteenth century until 1898, Puerto Rico (formerly Borinquén) was a colony of the Spanish Empire. Relatively poor in resources, especially coveted gold, Puerto Rico served primarily as a military garrison and port on the sea lane to Central and South America. The economy soon came to be based on sugar production using black slavery as the mode of production

(the small native Indian population had been decimated in an effort to extract what small amounts of gold Puerto Rico did have).

The eighteenth century marked the beginning of the end of Spanish world dominance. During this period the Puerto Rican economy and population expanded rapidly, and an early *independentista* movement arose in opposition to the use of slaves and the slave trade and the harsh Spanish colonial rule. Inspired by Ramón Emeterio Betances, an early Puerto Rican revolutionary, an uprising took place in Lares on September 23, 1868, which proclaimed the short-lived Republic of Puerto Rico. This insurrection was savagely and quickly put down by Spanish troops, but the Cry of Lares (*Grito de Lares*) has remained a continuing symbol of the independence movement to the present.

Weakened by attempts to maintain its past colonial empire, however, Spain was forced to grant autonomy to Puerto Rico in 1897 in exchange for political support for the new Spanish government. This limited autonomy, though, was not to last long. The United States invaded Puerto Rico on July 25, 1898, and Puerto Rico's future was sealed. To this day, under U.S. dominance, Puerto Rico has not attained even a slight measure of the degree of autonomy that it briefly enjoyed under the crumbling Spanish empire.

That the United States wished to annex Puerto Rico (and Cuba) for commercial and military reasons had long been publicly affirmed by U.S. policy makers (see quotes in Maldonado-Denis, 1972:54-56). The Treaty of Paris, in which Spain officially ceded Puerto Rico to the U.S. invaders, represented the consummation of this goal. Puerto Rico thus became a casualty of an ascending North American empire consciously expanding to insure its very economic and political survival. The U.S. capitalist system, more and more dominated by monopolized industries, required foreign markets and sources of cheap foreign resources, including labor. Puerto Rico met these needs and, additionally, provided a strategic military and economic staging ground for further U.S. expansion into the rest of Latin America.

Initial U.S. rule in Puerto Rico was by military occupation.<sup>1</sup> In mid-1900, however, the U.S. Congress ended direct military rule with the passage of the Foraker Law which provided for civilian colonial rule, putting almost all power into the hands of U.S.-appointed officials. This act, which was the legal basis for the functioning of Puerto Rican political and economic life, made all U.S. laws (except the internal revenue laws) applicable to Puerto Rico; required all laws passed by the Puerto Rican legislature be submitted to the U.S. Congress for approval; put stringent restrictions on who could vote; prohibited Puerto Rico from making commercial treaties with other nations or setting its own tariffs; and so on. In effect, the Foraker Law gave the U.S. Congress ultimate power in the making of laws and trade relations affecting the Puerto Rican people.

The question of the status of Puerto Rico as a captive colony of the United States was unsettling to most Puerto Ricans. Demands for greater self-rule and independence for Puerto Rico came from all sectors and classes and ultimately resulted in the passage of the Jones Act by the U.S. Congress in 1917. The provisions of this new act, which supplemented the earlier Foraker Law, actually

<sup>1</sup>An example of the colonizers' mentality and their blatant disregard for the sovereignty of the Puerto Rican people at this time can be seen in the arbitrary name change of Puerto Rico to "Porto" Rico to fit U.S. language norms.

did little to provide Puerto Rico with greater autonomy. It “gave” U.S. citizenship to all Puerto Ricans en masse (those who wished to retain their Puerto Rican citizenship were required to renounce their U.S. citizenship, thus losing most of their rights in the process). It also made Puerto Rican men eligible for the military draft — just in time to serve in the First World War. But, as the U.S. Supreme Court ruled, these provisions did not mean Puerto Rico was part of the United States, and thus the protections provided by the U.S. constitution did not fully apply to Puerto Ricans (Christopoulos, 1974:129). The Supreme Court in fact ruled that Puerto Rico “belongs to but is not part of” the United States. A clearer statement of the Puerto Rican status vis-à-vis the U.S. could hardly be found.

There was to be little alteration in Puerto Rico’s status from 1917 until after the Second World War. As a result, a variety of different forces and parties representing particular interests and classes within Puerto Rico developed to articulate demands for a change in the colonial relationship. One view is especially associated with Luis Muñoz Marín who was to become one of Puerto Rico’s most influential and popular leaders over the years. Though early in life committed to independence, he was later to become one of the most vocal and loyal supporters of the current Commonwealth status; Muñoz believed independence to be a premature demand until Puerto Rico solved its other problems. He was also the major figure in the Partido Popular Democrático (PPD, Popular Democratic Party), which “governed” Puerto Rico from 1940 to 1968. As will be clear in the next section, it was Muñoz Marín and the PPD which actively encouraged the massive penetration of U.S. capital into Puerto Rico by designing and offering an almost irresistible profit package to investors. Despite support from a large sector of the working class (who *did* realize some real gains from PPD tutelage), the PPD has chiefly served the interests of Puerto Rico’s weak national capitalist class.

The Nationalist Party carried forward the demands for Puerto Rican independence in the twenties and thirties. Political independence was a non-negotiable demand for the Nationalist Party and was, in fact, its expressed reason for existence. From the ranks of this party came Puerto Rico’s best known militant advocate of independence — Pedro Albizu Campos. Advocates of armed struggle against U.S. colonialism, Albizu Campos and other nationalists not willing to abide by the “rules of the game” were subject to escalating repression beginning in October of 1935 with the Massacre of Río Piedras where the nationalists were viciously attacked. Albizu Campos was, in fact, to spend many years imprisoned in the United States and Puerto Rico for various “crimes.”

In his contribution to this issue, Maldonado-Denis analyzes the character of Puerto Rican nationalism and its roots in the early nationalist movement led by Betances. He critiques Albizu Campos and the Nationalist Party for attempting to achieve their goals in isolation and “without the support of the large Puerto Rican masses,” and with little recognition of the world struggle against imperialism. In contrast to Latin American nationalism, which Maldonado-Denis characterizes as reformist-populist, “Puerto Rican nationalism became transformed essentially into an apocalyptic, moralistic vision.” It was thus relatively easy for imperialism to ‘remove’ the leaders of this movement and cripple its effectiveness. In contrast to the failures of the Nationalist Party, Maldonado-Denis also considers the reasons for the success of the PPD, “the

imperialist alternative to the radical nationalism of Albizu Campos." He also critically analyzes the base of support of the Puerto Rican Independence Party (PIP), which became the leading force in the nationalist movement after the collapse of the Nationalist Party.

A crucial difference between Latin American and Puerto Rican nationalism is that the nationalist movement in Puerto Rico has not been able to carry out "its historical task of national liberation" as has occurred in the rest of Latin America. Maldonado-Denis sees this as the result of Puerto Rico's weak bourgeoisie, the class whose ideology is nationalism. This article is an important effort to put Puerto Rican nationalism in its proper historical perspective and to provide a better understanding of the conjuncture of forces that shape the current political and economic situation.

In his contribution to this volume, Miles Galvin analyzes another important force that influenced the formative stages of Puerto Rico's development — the impact of the U.S. labor movement on Puerto Rico's working class. He analyzes the reasons behind the increasingly conservative nature of Puerto Rico's labor movement by tracing the roles played by two of the most influential actors in Puerto Rico's early labor movement, Samuel Gompers and Santiago Iglesias Pantín. His article is useful in understanding the present status of the labor movement and can be read in conjunction with the recent NACLA issue on Puerto Rican labor (1976b).

The sole "alteration" in Puerto Rico's status has been the creation of the Commonwealth of Puerto Rico. Public Law 600, passed by the U.S. Congress on July 3, 1950, opened the door for this change which was vigorously supported by Muñoz Marín (who, since 1948, was Puerto Rico's first elected governor). This law "permitted" Puerto Rico to set up its own constitutional government if such a move was supported by the people in a referendum. (Seventy percent of those voting endorsed Commonwealth status in 1951, and on March 3, 1952, the constitution was approved by a vote of 375,000 to 83,000. Perhaps one half of all eligible voters, however, did not participate.) Law 600 required, however, that any constitution written and adopted by the Puerto Rican people had to be approved by the Congress of the United States before it could go into effect. Thus the United States still retained ultimate control in Puerto Rico and continued to apply applicable U.S. laws there. Indeed, the change to Commonwealth status in no way altered the constraints and restrictions imposed on Puerto Rican sovereignty by the earlier Foraker and Jones Acts. Even the U.S. congressional committee that argued Public Law 600 baldly stated that "the measure would not change Puerto Rico's fundamental political, social, and economic relationship to the United States" (quoted in Christopoulos, 1974:156). Puerto Ricans are thus governed without even the minimal benefit of representation that is granted all other U.S. citizens.

The only conclusion possible after seven decades of U.S. domination is that Puerto Rico has not shed the shackles of formal, direct colonialism despite the introduction of Commonwealth status in 1952. The limited powers given to the Puerto Rican people have been granted within the U.S. colonial framework and are hence revocable if the United States chooses to alter the rules of "association." That Puerto Ricans reaffirmed support for Commonwealth status in the 1967 plebiscite does not carry much weight either. The elections were not supervised by the United Nations, and *at most* only about 30 percent of

Puerto Rico's eligible voters came out in favor of continuing Commonwealth status; though 60.5 percent of those voting chose Commonwealth over statehood (38.9 percent) or independence, more than 50 percent of the eligible voters did not participate and even 35 percent of registered voters did not vote. The status question is not one to be decided solely by voting, however. It is a question of what is best for the Puerto Rican people. Once Puerto Ricans pierce the veil of imperialist propaganda and realize the extent to which "association" with the United States is resulting in the massive immiserization of the Puerto Rican working class rather than its enrichment, support for independence will rapidly develop. And then the revolutionary independence movement, though still relatively small (as was the revolutionary movement in the United States prior to the Revolutionary War of 1776), will be able to lead the fight against the United States for the just and inalienable right not only for Puerto Rican independence from colonialism, but also from imperialism in all its forms.

### *ECONOMIC AND CLASS STRUCTURE*

Prior to acquiring Puerto Rico in 1898, North American firms had almost no investment there. That situation was to change rapidly; by the end of 1920, almost half of all sugar production was controlled by four U.S. firms. In the small tobacco industry, U.S. interests dominated over all aspects of production and distribution. Puerto Rico soon assumed the characteristics that have become hallmarks of economies dominated by imperialism: production geared primarily for export to the metropolitan economy and the importation of food and other goods needed for mass consumption. As a result, Puerto Rico, in Gordon K. Lewis' words, "Produces what she does not consume and consumes what she does not produce."

Sugar production for export to the United States developed rapidly at the expense of production for domestic uses, especially food output. The provisions of the Foraker Act meant Puerto Rico was subject to U.S. tariffs, that it was not possible to enter into independent commercial treaties with other nations, and that trade conducted with the United States had to be done using U.S. shipping lines. As a result, more and more of Puerto Rico's trade was done exclusively with the mainland. By 1930-1931, 95 percent of Puerto Rico's export trade and 90 percent of her import trade was with the mainland (Morley, 1974:218). The prices that Puerto Rico paid for foreign goods were at least as high as those in the United States because of the adverse impact of the tariff laws and trade restrictions. The situation is no different today, though manufactured products for export have replaced sugar as the base of the economy.

U.S. involvement in agriculture hastened Puerto Rico's transition from a subsistence-based feudal economy to one grounded in capitalist methods and relations of production (see the first part of the Campos and Bonilla article in this issue). Sugar production took place on large plantations operating for profit and producing to supply an external market. In 1930, land devoted to sugar production accounted for 44 percent of all land under cultivation. And, by 1936, two percent of the sugar farms controlled 65 percent of the land in sugar production (Morley, 1974:217). Many small farmers were forced from their lands to make way for the large-scale foreign sugar farms. Most became (seasonal) wage workers in the cane fields for the large sugar corporations or mig-

rated to the cities in search of other work. The sugar industry dominated the pre-1940 Puerto Rican economy. There was little investment by foreigners in other industry, and there was only limited development of an independent, national capitalist class. The local bourgeoisie that did develop existed, and functioned, primarily to serve foreign interests (Morley, 1974:220).

By the 1940s, it was obvious that sugar production was not to continue as the primary basis of the Puerto Rican economy. The sugar industry was stagnating; almost all arable land was already in use. Further increases in production were going to be more difficult to attain. If Puerto Rico was to continue to develop economically and to provide jobs for the expanding urban population, some fundamental changes were obviously needed. The colonial government in consultation and at the urging of the U.S.-appointed governor, Guy Rexford Tugwell, agreed that industrialization was the strategy required. The government of Puerto Rico thus initiated (1942-1947) a program of public ownership administered by the Industrial Development Administration, or Fomento. Public ownership, however, was a failure; too few jobs were created and relatively little investment was forthcoming.

In 1947, to attract outside investment, Puerto Rico was opened to mainland capitalists with the lure of high rates of profit. Offering a source of cheap labor and attractive tax savings, this development program, dubbed Operation Bootstrap, was successful in its goal of attracting huge amounts of U.S. capital investment. And why not? The Jones Act had already excluded Puerto Rico from federal income taxes, so that a corporation operating there could completely escape federal income taxation. In addition, the government of Puerto Rico made any qualifying corporation — virtually all — exempt from all Puerto Rican taxes for periods of at least ten years (Christopoulos, 1974: 144-147).

Puerto Rico offers potential investors extremely attractive incentives (which the Commonwealth widely advertises in the business press). First is a large and growing surplus of workers. Average unemployment is officially reported as 14.1 percent. This figure, however, does not count discouraged or underemployed workers; including estimates for these workers would put average unemployment at between 25 to 30 percent of the labor force (see Campos and Bonilla in this issue).

The colonial government also advertises the low wage structure available to firms operating there. Though subject to Federal minimum wage legislation, the law is enforced on an industry-by-industry basis (58 percent are employed in industries which have wage rates at or below the legislated minimum wage) (Karen Rothmyer, in *Wall Street Journal*, April 1976). More revealing than the minimum wage, though, is data on average wages in manufacturing. In 1974, the average hourly wage was \$2.43 in Puerto Rico. For comparison, it was \$4.42 in the United States as a whole; \$4.69 in New York; and \$3.45 in South Carolina. As the Economic Development Administration (EDA) points out, wage rates in Puerto Rico compare "favorably" with those in the southeastern United States, the lowest wage section of the country. The cost of living in Puerto Rico, however, is at least as great — and perhaps up to 25 percent more — as in expensive New York.

The most important piece of information to the capitalist firm is expected profitability. Low wages, high unemployment, and attractive tax advantages would be expected to result in favorable profits and profitability. The potential

investor is not likely to be disappointed. The average rate of return on equity was officially 24.3 percent for 1974. Other estimates, however, present an even more astounding picture. Professor Robert Holbrook, a consultant to The Committee to Study Puerto Rico's Finances, figures that "the typical firm has returned an annual profit on its initial investment 'on the order of 90 percent or more' " (PSP, in this issue, and Howard, 1976: 430). A firm can thus recoup its original investment expense in little more than a year.

Of course, the reasons for the high profitability in Puerto Rico are to be found in the low wage structure and the plethora of programs designed to save corporations money that have proliferated since the beginning of Operation Bootstrap. Besides being exempt from the federal corporate income tax on profits made in Puerto Rico,<sup>2</sup> other benefits include: (1) Exemption for 10, 15, 25, or 30 years (depending on industry location) from all real and personal property taxes, license fees, excise and other municipal taxes and all Puerto Rican income taxes (including taxes on distributed profits). Corporations thus operate in a virtually tax-free environment for the prescribed period. (2) A Wage Incentive Program which pays up to 25 percent of the direct production labor costs for the first two years of a firm's operation. (3) A whole array of infrastructure benefits — roads, communication networks, free rent, and so on. These are costs borne by the colonial government — really the U.S. and Puerto Rican working class who finance the government — to benefit and increase the profitability to foreign capitalists.

How successful has Operation Bootstrap been? On one level, attracting industry to Puerto Rico, the results have been impressive. Supporters of *la vía puertorriqueña* argue that what has taken place in Puerto Rico is representative of the kind of development possible in an underdeveloped nation that operates in cooperation with U.S. monopoly capitalism. Since the beginning of Bootstrap, over 2,000 plants have been set up, and at least 150 of *Fortune's* 500 largest firms in the United States have branch operations in Puerto Rico. Growth rates for the Puerto Rican economy have been high. Gross National Product increased from \$755 million in 1950 to \$6,806 million in 1974, a growth rate of about ten percent a year. The level of investment has been extraordinarily high, which helps explain the rapid growth of output; in 1970, gross domestic investment was 30 percent of GNP (Maldonado, 1974: 220). But growth and industrialization, both of which Puerto Rico has clearly exhibited, are not the same thing as development. The industrialization push has been geared to and for U.S. capital, not the interests of the Puerto Rican people. Relatively few Puerto Ricans have been sharing in the growth of the economy.

The article by the Puerto Rican Socialist Party (PSP) analyzes the crucial role that Puerto Rico plays for the United States. Almost all of the \$14,000 million invested in Puerto Rico is U.S. investment. Direct (industrial) investment in Puerto Rico represents 40.3 percent of all direct investment in Latin America. Ten percent of the profits received from direct U.S. capital investment worldwide comes from Puerto Rico. The PSP article details the level of U.S. control and the benefits derived from that control. For example, the concentration of industry is overwhelming. The majority of the firms operating in Puerto

<sup>2</sup>There is also now a bill in Congress — it has passed the House — that would permit tax-free repatriation of profits back to the U.S. This would obviously be an even greater stimulus for firms to remove further potential investment funds out of Puerto Rico for use on the mainland.



Rico are controlled by the First National City Bank, Morgan Guaranty Trust, and the Rockefeller-Chase Manhattan Bank (also see NACLA, 1976a: 11-13).

Another indication of the dominance of the United States over Puerto Rico is revealed by the fact that Puerto Rico is the fifth largest customer of U.S. goods in the world and the largest per capita purchaser, a prime reason why the United States fears losing Puerto Rico as a captive market. The PSP analysis also points out how the high degree of liquidity that characterizes firms operating in Puerto Rico facilitates their exit from the Island when their exemptions expire. All in all, the PSP article makes it clear that it is primarily U.S. capitalists who gain from the economic structure of Puerto Rico.

### *Impact on the Working Class*

For the Puerto Rican masses, industrialization has quite simply been a disaster. The monopolization of the economy has been accompanied and facilitated by the use of capital-intense technology. The greater amount of capital has increased output and productivity, but it has also contributed to Puerto Rico's severe unemployment problem. Instead of employing technology that uses labor, which is abundant in Puerto Rico, foreign capitalist firms use more and more capital because doing so helps to increase profits. From 1962 to 1967, for firms organized under Operation Bootstrap, the average number of workers per factory declined from 80 to 55. In San Juan, the area of greatest employment, Fomento-organized firms have been able to provide only one job for every 39 inhabitants (Cohen, 1970: 3). The entire petrochemical industry, one of the areas of heaviest investment by U.S. capital, has only been able to create 7,700 new jobs. In fact, the petrochemical and petroleum industries have provided only eight percent of the jobs that they promised at the beginning of their investment (Morley, 1974: 226; Committee for Puerto Rican Decolonization: 234-35).

Unemployment has been, and continues to be, a severe problem. Officially, the unemployment rate is now around 21 percent (in a country where 11-12 percent is considered "normal"), but the actual rate is probably closer to 40 percent or more. It is the large number of unemployed which helps to keep Puerto Rican wages relatively low. Many Puerto Ricans cannot even be considered as part of the reserve army of unemployed any more; they are the permanently unemployed, those who do not and will not find a productive place in capitalist society. They are capitalism's cast-offs.

The first part of the Campos and Bonilla piece in this issue considers the impact of industrialization and U.S. dominance on Puerto Rico's working class. Using an historical approach, they analyze the dynamics of change in the class structure that have accompanied the rapid monopolization and capitalization of the Puerto Rican economy by U.S. capital. They make clear the theoretical reasons for the severe employment problems that oppress the Puerto Rican working class and point to the contradictions that result from attempts to mitigate the adverse impact of unemployment via welfare payments and migration. In addition, in the early part of their article, Campos and Bonilla develop a useful and compelling theoretical framework for understanding the structure of the working class which they then apply to Puerto Rico.

Unemployment in Puerto Rico would certainly be much worse were it not for the massive migration to the United States that began at the end of the

Second World War. Aided by very inexpensive airfare between San Juan and New York, perhaps two million Puerto Ricans (counting those born here) are living on the mainland, more than half of them in New York City. As a consequence of this migration, forty percent of all Puerto Ricans now live in the United States (the current population of Puerto Rico is somewhat greater than three million).

Puerto Ricans coming to the United States do not typically find the situation to be much of an improvement. Comprising about one eighth of the population of New York City, the more than one million Puerto Ricans there account for between one third and one half of all welfare recipients; at least 30 percent live below the poverty line. The median family income for Puerto Ricans is little more than half that of all families in the United States; it is only about 78 percent of that of black families. The industries in which Puerto Ricans work on the mainland (metal products, electrical equipment, apparel) are declining and the number of jobs available is actually falling (*New York Times*, January 20, 1976; David Vidal, in *New York Times*, January 30, 1976). Thus Puerto Ricans coming to the United States often find little if any improvement over what they left. Many do return, but no one can deny the importance of the "safety valve" which migration provides to the devastation being created by la vía puertorriqueña (on Puerto Ricans in New York and the importance of migration, see Section III of López and Petras, 1974, and the Addendum to Maldonado-Denis, 1972).

The second half of the Campos and Bonilla article provides further insight on Puerto Rican migration. Forced migration to the United States provides a cheap and easily exploitable work force in the metropolis; in fact, the whole process and history of migration has been molded by the needs of the U.S. economy. Campos and Bonilla show the historical development of the massive displacement of the Puerto Rican working class throughout the period of U.S. hegemony and the impact on Puerto Rico resulting from interaction with reverse migrants. In addition, they discuss the political consequences to Puerto Ricans on the Island and the mainland of the struggle for the national liberation of Puerto Rico.

The two articles in the last section focus attention on an extremely important topic affecting the lives of Puerto Ricans — the question of culture. The article by Ramírez reviews the major approaches to analyzing Puerto Rican culture and discusses their weaknesses. He pinpoints the reason for the failure of each in their neglect of: (1) Puerto Rico's class structure; (2) its African heritage; and (3) the importance of Puerto Ricans on the mainland. Cortés, Falcón, and Flores develop a sophisticated analysis of Puerto Rican culture in New York by building upon precisely the points Ramírez shows to be most crucial to an understanding of Puerto Rican culture. They begin by formulating a set of seven "theses" on culture and class using a Marxist framework. Interested in understanding and showing the proletarian elements of culture, their piece analyzes those aspects of proletarian culture which exist and are developing in the music, poetry, and drama of New York Puerto Ricans. There are obvious contradictions in such culture (e.g., commercialism of cultural products) which are also examined. This article is a seminal contribution to our understanding of Puerto Rican culture and, even more, to an understanding of the important progressive elements that influence the lives of Puerto Ricans in New York.

### *Income Distribution*

To return to our analysis of the impact of U.S. monopoly capitalism on Puerto Rico, we find a vastly unequal distribution of income. The richest 20 percent of Puerto Rican families receive more of the total income than all the rest of the Puerto Rican families combined. The richest ten percent of families received more of the total income than the poorest 60 percent of the families in 1969 and the poorest 80 percent in 1959.

There has been some trend towards greater equality of income distribution as can be seen from Table 1, but there still exists substantial inequality — more so than in the United States.

Table 1

#### *The Distribution of Family Income (as a per cent of total income)*

	1959	(Average Family Income, 1959)	1969	(Average Family Income, 1969)
Poorest Fifth	1.62	(\$184)	1.70	(\$348)
Second Fifth	5.74	(\$651)	7.21	(\$1,475)
Middle Fifth	11.22	(\$1,273)	13.91	(\$2,845)
Fourth Fifth	20.19	(\$2,291)	22.51	(\$4,606)
Richest Fifth	61.23	(\$6,951)	54.67	(\$11,592)
Total	100.00		100.00	
Richest 10%	44.88	(\$10,188)	35.82	(\$16,869)

Average family income, 1959 — \$2,270

Average family income, 1969 — \$4,456

Source: Computed from Maldonado, 1974: Tables II and III.

As a consequence of the highly skewed distribution of income and the high rate of unemployment, more than 50 percent of the population receives food stamps under the U.S. food stamp program, which was extended to Puerto Rico in July 1974. The Department of Agriculture estimates that as many as 70 to 80 percent are potentially eligible (*Los Angeles Times*, October 8, 1975). The Committee to Study Puerto Rico's Finances (1975: 66) writes that the food stamp program "has already become, in its first year on the Island, a *major* source of income for *over two thirds* of the families" (my emphasis). Government officials are quick to emphasize too that "the only thing that has prevented civil disorder is the U.S. food stamp program" which cost the United States about \$600 million in 1975 (Jude Wanniski, in *Wall Street Journal*, March 9, 1976). More and more, the Puerto Rican working class must depend on *manten-go* (roughly, welfare, the hand-out) for survival in their own country. Foreign capital has left them dispossessed. It attempts to deprive them of their dignity with every dollar invested and with every dollar appropriated from the labor of those still working in foreign enterprises.

#### *"SHOCK TREATMENT" FOR PUERTO RICO?*

The Puerto Rican "miracle" is facing a crisis. The effects of U.S. inflation, and then recession, as well as higher prices for oil internationally (99 percent is

imported) have seriously damaged the Puerto Rican economy. Borrowing to finance public expenditures is becoming increasingly difficult, and industry is leaving for areas where labor is cheaper (perhaps 25,000 manufacturing jobs were lost in 1975 alone) (Committee to Study Puerto Rico's Finances, 1975: 50). On top of everything else, many Puerto Ricans who had migrated to the United States are beginning to return to the Island — which will likely result in even higher levels of unemployment.

This crisis was not unforeseen. It is, however, much more severe than most thought it would be. As early as March 1974, the governor of Puerto Rico appointed the Committee to Study Puerto Rico's Finances headed by James Tobin, a Professor of Economics at Yale University. Charged with the task of evaluating the future prospects for the Puerto Rican growth strategy, the committee submitted its final report to Governor Hernández Colón on December 11, 1975. The prospects for the future, as well as the basic thrust of the committee's recommendations, threaten even further the Puerto Rican working class.

In his letter of transmittal to Governor Hernández, Tobin writes:

Puerto Rico faces several years of fiscal, financial, and economic austerity. Drastic adjustments are required, especially painful because they involve the postponement of expectations deeply entrenched in the economic and political life of the Island during the era of rapid industrial growth and abundant external finance. The adjustments are necessary to lay the basis for renewed growth. They must be made (Committee to Study Puerto Rico's Finances, 1975: iv).

How does the Tobin Committee envision the hardship? Which groups are expected to shoulder the burden of 'readjustment'? The committee was very specific: public expenditures will need to be curbed on social-welfare projects and it will be necessary to place "severe limits" on wage increases for "several years" (the Commonwealth responded to this by freezing all government salaries). One of the ways suggested for implementing this goal is to obtain exemption from the Federal minimum wage laws for Puerto Rico. The committee also wrote that -

the government should undertake a thorough review of all legislation which raises labor costs, including: the large number of compulsory paid holidays; vacations and sick leave; year-end bonuses; overtime and free time (vii).

In effect, the Tobin Committee — regardless of its other recommendations — is saying that the working class must begin to give up even the minimal protection and benefits it has won. The recommendations of the committee openly and clearly demonstrate the centrality of class struggle that underlies all of capitalist society.

The colonial government argues that Puerto Rico "needs" further industrialization to increase its standard of living and maintain the growth rate (this is known in economics as the "trickle-down" theory; as total income in the economy rises, some will supposedly "trickle-down" to even the poorest families). The solution, then, is to attract more industry. Puerto Rico has already provided an unsurpassed investment package in the form of multiple exemptions — and still industry is leaving or, at least, is not arriving quickly enough any more. Why? Because it is claimed that rising wages in Puerto Rico have begun to reduce the earlier high, in fact extraordinarily high, profits. The committee argued that wages in Puerto Rico must fall even further behind those in the United States if Puerto Rico is to remain "competitive," i.e., is to remain an

investment haven for mainland capital. Nowhere does the Tobin report recommend that U.S. capital restrain its profit demands, that it be willing to accept less. Such a recommendation would be silly. Capitalists invest in Puerto Rico not to provide jobs for Puerto Ricans; not to help develop the Puerto Rican economy; and not to improve the living conditions of the people (as the PSP and Campos and Bonilla show). Capital flows to Puerto Rico for one sole purpose: profits. To ask capitalists to accept less profit is to ask them to stop being capitalists. Regulations which attempt to force foreign capital to accept lower rates of profit due to, say, laws that require the hiring of more workers may only result in a complete withdrawal of that capital to more friendly areas (thus the U.S. anti-communist foreign policy designed to maintain a "free" world safe for U.S. investment). It is much more difficult for workers to be as mobile as capital, and, besides, almost every place a Puerto Rican worker might conceivably relocate is also a capitalist (or capitalist-dominated) economy which still functions on the basis of the exploitation of labor. The Tobin Committee lays bare the class relations of capitalist society in a very clear and precise manner: the Puerto Rican economy functions to benefit U.S. and foreign capital interests; it is only by chance that the interests of Puerto Rico or the Puerto Rican working class are served. And when the interests of Puerto Rico and its people come in conflict with the interests of foreign capital — actually capital in general — it is clear which interests will typically prevail.

The committee's report makes other recommendations besides cutting public expenditures (and employment) and a general restraint on wages and living standards of the populace, but these are at the center of their proposals. In many respects, the Tobin Committee's proposals closely resemble those that Milton Friedman and Arnold Harberger, economists at the University of Chicago, have made for post-1973 Chile (see Frank, 1975; URPE, 1976: 8-9). In Chile, the "shock treatment" that Friedman and Harberger support (restraint on wages, drastic cut-backs in government spending, unrestricted free markets, and so on) has only been able to be carried out because of the massive repression of the Chilean junta. Of course, Puerto Rico does not practice such a level of repression now. How, then, can the Tobin Committee's recommendations be put into action without causing massive social unrest in response? This remains the unanswered question.

There is, however, a move to implement some of the Tobin Committee's proposals "legally." As the result of the work of an *ad hoc* advisory group, a "Compact of Permanent Union Between Puerto Rico and the United States" has been drafted. It is now before the House Subcommittee on Territorial and Insular Affairs as bill HR 11200 (Howard, 1976: 432; Mary Russell, in *Washington Post*, March 9, 1976). In a fundamental way, the Compact and the Tobin Committee report can be seen as two complementary documents. The Compact asks for greater authority for Puerto Rico in the application of minimum wage laws, in exemption from Federal environmental laws, and for greater Commonwealth control over immigration. If the U.S. Congress approves the Compact (and it is not clear that it will), its implementation will signal a new, higher stage in the attack on the Puerto Rican working class.

It is important to expose the Tobin Committee report for what it is: a document that recommends the suppression of the Puerto Rican people so that foreign capital can continue to make huge profits from their labor. Tobin and his

committee should be attacked in the same way Friedman and Harberger have been attacked. They are masking an ideological view of the world — a support for capitalism and the interests of capital — behind a facade of academic purity. At a minimum, two thirds of the Puerto Rican people live in dire poverty. Calling for lower wages and cuts in social spending can only heighten their misery. Nowhere in the Tobin report is there even the slightest recognition of this fact. I can think of no greater condemnation of their humanity than this blatant neglect of the welfare of an entire peoples. They have put — as do many others — profits before people. It is essential to work for a world where people come before profits. One good way to begin is by exposing the crimes of the Tobin report.

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*Lucha obrera en Puerto Rico, antología de grandes documentos en la historia obrera puertorriqueña* (Río Piedras: CEREP, 1971); Rafael L. Ramírez, Barry B. Levine, and Carlos Buitrago Ortiz (eds.), *Problemas de desigualdad social en Puerto Rico* (Río Piedras: Ediciones Liberia Internacional, 1972).

For current information on what is taking place in Puerto Rico, see the weekly *Claridad* (114 E. 13th St., N.Y., N.Y. 10003, \$10 per year). This is a bilingual paper published by the Puerto Rican Socialist Party. In Puerto Rico, *Claridad* is published daily, the only revolutionary newspaper to do so. Also useful is *Puerto Rico Libre!* which is published monthly by the Puerto Rican Solidarity Committee (P.O. Box 319, Cooper Station, N.Y., N.Y. 10003, \$5.00 per year).

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