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### Puerto Rico at a Political Crossroad

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***Plebiscite:***

**PUERTO RICO AT  
A POLITICAL CROSSROAD**

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# **Conference Proceedings**

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*Plebiscite:*  
**Puerto Rico at a  
Political Crossroad**

**JUNE 1991**

# The Politics of Decolonialization

*Pedro A. Cabán*

In December 1988, he (Governor Rafael Hernández Colón) skipped the year-end fiestas that fill Puerto Rican plazas to stroll alone on the Scottish moors and contemplate the narrowness of his recent re-election.

There he reached a momentous decision: to call for a plebiscite (now set for 1991) to decide whether Puerto Rico should declare independence, become the 51st. state, or retain albeit in a more precisely defined and updated form —its singular status as a Commonwealth.

Alan Weisman, "An Island in Limbo,"

New York Times Magazine Section, February 18, 1990

The Commonwealth of Puerto Rico has always been an incomplete and unsatisfactory political creation which even its creator, the *Partido Popular Democrático* (PPD) has sought to amend almost from the moment of its creation. Ever since 1950, when Congress authorized the insular administration in Puerto Rico to draft a constitution and establish a republican form of local government, the Commonwealth relation has been condemned by independence and statehood forces for obscuring and legitimizing Puerto Rico's actual colonial status. However, until now, Congress has ignored almost four decades of continuous efforts by Puerto Ricans from all political sectors to rework the colonial formula.

Governor Hernández Colón may have prevailed upon his supporters in Congress to initiate referendum related legislation. Yet, Congress' unanticipated willingness to accede to this request suggests that, finally, the political and economic conditions are conducive for a change in the colonial relationship.

In contrast to the popularly held view quoted above, this paper examines the proposed referendum as a historical process and as the outcome of an ongoing crisis of colonial management. The emergence of a more stable regional geo-political environment and new forms of production by multinational firms have resulted in the erosion of the prevailing Commonwealth (or the *Estado Libre Asociado* in Spanish) formula as a viable doctrine of imperial rule. The Commonwealth is an archaic form of colonial administration and legitimation that is no longer consistent with the functioning of Puerto Rico's contemporary political economy.

The first section provides a brief overview of the various plebiscite initiatives, and examines these in the context of increased political party competition since the late 1960s. It discusses the plebiscites in light of the electoral strategies of the statehood and Commonwealth parties.

Section two discusses Puerto Rico's transformation from a light manufacturing center producing for U.S. markets into an export platform for technologically advanced multinational corporations. And it examines how this transformation has affected the colonial state's management of the political economy. The next section continues the economic analysis but focuses on the internationalization of Puerto Rico's economy and its changing role in the Caribbean region. It discusses the Caribbean Basin Initiative (CBI) and its relationship to an emerging restructuring of the regional economy.

The final section briefly examines the interplay of these diverse forces and developments, and discusses how they have shaped the status deliberations. The essay concludes by suggesting that S-712 represents the initial

stage in a decolonialization process leading to the eventual definition of Puerto Rico's political status, probably by the mid-1990s.

## I. THE POLITICS OF THE PLEBISCITES

The history and development of the Partido Popular Democrático (PPD) have been inextricably tied to the political formula which now defines Puerto Rico-U.S. relations. The party and its founder, former Governor Muñoz Marín, were the intellectual architects and promoters of the Commonwealth, or Estado Libre Asociado (ELA). However, during the last thirty-seven years the PPD has relentlessly sought to acquire more autonomous powers for ELA. It has sought to demarcate the role of the federal government in the conduct of domestic affairs, and to define a role for Puerto Rico in international commerce, trade and investment. Congress and the executive branch, though, have been reluctant to tinker with the colonial arrangement.

On March 23, 1959, less than seven years after the proclamation of ELA, Puerto Rico's resident Commissioner introduced legislation in Congress to alter and clarify Public Law 600<sup>1</sup>. But the persistent Congressional opposition to the implicit claim of sovereignty contained in the bill forced the PPD to substitute a substantially revised bill in September 1959. The new measure was subjected to intense Congressional scrutiny, detailed studies by executive branch agencies and wide-ranging debate in public hearings. The public hearings revealed the absence of consensus among Puerto Rico's political leadership on what type of changes should be effected in Puerto Rico's relationship with the U.S., which its government also opposed any changes in legislation that restricted the Constitutionally defined prerogatives of the federal government to regulate Puerto Rican affairs. After two years of legislative activity Congress failed to act on the measure, and it died quietly in early 1961.

In the now famous 1962 radio message to the nation, Governor Muñoz Marín expressed his intention of promoting legislation that would provide for a "more perfect Commonwealth." On December 3, 1962 the PPD controlled legislature enacted a joint-resolution calling upon Congress to initiate a process for a prompt settlement of the status issue. Through its allies in Congress, three PPD formulated bills were introduced in the House and Senate. These measures called for creation of a joint U.S. - Puerto Rican Status Commission that would examine all areas of the Commonwealth relation, draft recommendations for perfecting a permanent union, and establish a procedure for implementing Puerto Rico's final political status. The proposed bill also required that Congress enact the Commission's recommendations concerning a plebiscite.

The PPD's opponents argued the bill was an unabashed partisan attempt by the PPD to legitimize ELA and to solidify its electoral base. Again, Congress rejected those items in the bill that constrained its legislative powers over Puerto Rico. It confined the Commission's task to an examination of all the factors concerning Puerto Rico-U.S. relations, and required it to draft a detailed report. According to the Chairman of the House Subcommittee on Territorial and Insular Affairs, "this bill promises nothing more than a high level study." (Ad Hoc Advisory Group, 108).

The U.S.-Puerto Rican Commission issued its report in 1966 and recommended that a plebiscite be held to "establish the will of the citizens of Puerto Rico" in which all three status options would be presented. It also called for the establishment of joint U.S. Puerto Rican ad-hoc Committees to recommend further improvements in the Commonwealth arrangement, or the transition measures to the other status options if approved in a plebiscite. Pursuant to this recommendation, the PPD controlled legislature enacted the Political Status Plebiscite Law of 1966.

The plebiscite was held on July 23, 1967, despite a boycott by the Puerto Rican Independence Party and the Partido Estadista Republicano. A dissident faction of the PER, led by industrialist, Luis Ferré broke from the old statehood party, and participated in the plebiscite as the United Statehooders. Voter turnout was uncharacteristically low, (65.8 percent of the registered voter, about a 30 percent lower turnout than for the general elections).

<sup>1</sup> "Public Law 600 primarily recognized the right of self-government by the people of Puerto Rico and established the process by which their representatives, freely and specifically elected for that purpose, drafted a constitution which the people of Puerto Rico adopted" Ad Hoc Advisory Group, 5.

Although, the Commonwealth option was approved by 60.5 percent of the voters, the PPD leadership had anticipated a larger percentage of the vote.

Yet, despite the flurry of plebiscite related activity, neither the PPD administration of Sánchez Vilella (1965-1968) nor the Partido Nuevo Progresista (PNP) administration of Luís Ferré (1969-1972) established the ad-hoc committees the Commission had recommended. In fact, court action was brought against Governor Ferré to force him to comply with the Commission's recommendations. However, rather than authorizing a committee to study how ELA could be perfected, Ferré established a committee to study the issue of the presidential vote for Puerto Rico.

In 1973, the PPD returned to power, and attempted to resurrect its cherished dreams for "perfecting the Commonwealth." On September 20, 1973 an Ad Hoc Advisory Group on Puerto Rico was jointly appointed by the President and the Governor of Puerto Rico. The Advisory Group was directed to develop the maximum of self-government and self-determination within the framework of Commonwealth, and "recommend on the extent to which the statutory laws and administrative regulation of the United States apply." (Ad-Hoc Advisory Group, v).

The Ad Hoc Advisory Group's report was released in October 1975 as the Compact of Permanent Union. It endorsed a thorough restructuring of the colonial relationship. It called for granting Puerto Rico the right to participate in international organizations, jurisdiction over certain territories held by the United States, control over tariff and immigration policy, authority to enter into commercial treaties, exemptions from Federal Fair Labor Standards Act, authority to regulate environmental quality standards, and other recommendations for increased autonomy. The Group also called on the President to endorse the Compact and to refer it to both Houses for Congressional action.

However, President Gerald Ford did not act on the recommendation, instead he proposed a statehood bill that eventually died in Committee. In reaction to this, PPD President Commissioner Jaime Benitez drafted legislation patterned on the Ad Hoc Committee's general recommendations and which called for a plebiscite on status. (Alegría Ortega, 179). Eight months later, in August 1976, the House Subcommittee on Insular Affairs approved a revised version of the bill. However, after the PNP victories in 1976 and 1980, no further action was taken on the plebiscite bill and it died in Committee.

After his defeat, ex-Governor Hernández Colón, recommitted himself to the time honored tradition of perfecting the Commonwealth. His Nueva Tesis, released in 1978 argued that to confront the demands of the 1980's Puerto Rico needs much greater political autonomy over its "propia vida." He called for a number of changes in Public Law 600, in particular increased insular control over the political economy. La Nueva Tesis was patterned on the recommendations of the Compact of Permanent Union. The PPD was out of government from 1976 through 1984 and was unable to promote its autonomous agenda. And while it controlled the governorship in 1984 through 1987, the PPD kept its campaign promise of not making status an issue during its administration.

However, in 1988 the status issue returned with a vigor and urgency that has not been seen in Puerto Rico since the early 1950s. The Senate Committee on Energy and Natural Resources announced its intention of drafting a status referendum legislation and called upon the political leadership of the statehood, independence and Commonwealth parties to submit proposals.

The PPD's proposal for perfecting the Commonwealth reiterated many of the provisions contained in La Nueva Tesis. Among the most significant provisions were limitations on the applicability of federal laws to Puerto Rico, expanding Puerto Rico's capacity to enter into international agreements, and to pursue an independent foreign policy, independent tariff authority, control over immigration and jurisdiction over intellectual property.

This latest request for increased autonomy met the same fate as all the earlier attempts, the Senate Committee rejected seventeen of the twenty autonomy enhancing recommendations the PPD made. The PPD provisions were categorically dismissed because they were either inconsistent with the U.S. Constitution or implied an appropriation of the powers and prerogatives reserved for the executive branch. State Department representative Mary V. Mochary argued the enhanced Commonwealth proposal would create an unprecedented political status and "...would grant to Puerto Rico significant attributes of sovereignty which would be incompat-

ible with remaining part of the United States." The Department, she declared, objected to delegating Puerto Rico authority vested in the Executive Branch by the Constitution and the PPD's proposal for Puerto Rico to enter into international agreements was "most objectionable." She testified as "long as Puerto Rico enjoys a status less than that of independence," it could not gain greater freedom to participate in international organizations than it is currently permitted. The Bush Administration reaffirmed the Senate Committee's opposition to "enhanced Commonwealth." (Hearings).

This brief overview reveals certain consistencies in the history of status related activities. The PPD never envisioned the Commonwealth as permanent arrangement. The Commonwealth concept bridged the gap between the historically embedded annexationist and independence movements. While the party had a solid political base, it also attracted those elements of the body politic that aspired to preserve Puerto Rico's cultural identity, but sought the security of close association with the U.S. On the other hand, independence forces, which during the 1940s were prominent among the PPD's leadership and intellectual cadres, were drawn to the PPD's political agenda because it held out the hope of eventual emancipation. However, by the mid-1960s the PPD experienced serious internal challenges from the genuine autonomist sectors and was challenged by a rejuvenated and reconstructed statehood movement.

The PPD's electoral success and ability to mobilize durable political support from both sectors was based on the social benefits and economic growth associated with the *Estado Libre Asociado*. PPD strategists were aware that ELA severely restricted the policy making powers of the government to regulate economic performance. They reasoned that the PPD's political longevity was based in part on obtaining the requisite autonomy from the federal government to regulate the changing domestic political economy. But its peculiar conception of "autonomy" was to be achieved within the framework of common citizenship, common defense, common market and common currency. Thus, for the PPD politics of status has envisioned continued dependence on the U.S., enhanced control over economic activity and the electoral prospects of the PPD as intimately related.

The overview also indicates that Congress has consistently refused to effect changes in the Commonwealth relation that compromised its authority to legislate over Puerto Rico and, in particular, it has rejected any language which implied bilaterality between Puerto Rico and Congress. Included in this is Congressional opposition to Puerto Rican claims of sovereignty. Congress also insisted on its prerogative to interpret the results of any plebiscite, and has viewed past plebiscites as indications of the electorate's preference that are not legally binding on Congress. Consistently administration officials have cautioned against amending the Federal Relations Act because such changes would invariably result in a derogation of the executive branch's constitutionally delegated powers. Finally, the U.S. has rejected a role for the United Nations in any process involving a modification of Puerto Rico's political status. Claiming not only that the resolution of Puerto Rico's status is a purely domestic matter, but that the "plebiscites" of 1952 and 1967 conformed to international standards on self-determination. Congressional and Administration reaction to the PPD proposals make it palpably clear that these concerns are still prevalent.

Because ELA and the PPD are so intimately related, plebiscites, however, assume a different role in the context of increased political party competition. Invariably the plebiscite becomes a political event used by the PPD in an effort to erode the statehood party's electoral prospects in forthcoming elections. Alternatively, the statehood and independence forces take the opportunity to hammer home the point that Puerto Rico is a colony whose people are victimized by second-class citizenship, and that the prevailing arrangement is unworkable. Invariably the plebiscite debates become highly partisan and heavily politicized episodes that focus on which status formula ( which political party) will obtain the greatest material benefits to the society.

In another paper, I argue that since the mid-1960s the PPD has sought to reassert its political hegemony by negotiating increased autonomous powers for the Commonwealth. (Cabán, 1990). It recognized, in the early 1960s that the status issue had acquired a new urgency, since the PPD felt its continued political hegemony was contingent, in part on wresting more autonomy and support from the federal government. However, the 1967 plebiscite backfired, it intensified divisions within the PPD, fortified a younger and more sophisticated leadership in the statehood movement, and actually contributed to the PPD's electoral defeat in 1968. Rather than demonstrating irrefutable and deep-seated support for the Commonwealth, the plebiscite raised the specter of a dissatisfied electorate that wanted a new political leadership.

The emergence and consolidation of the Partido Nuevo Progresista as a viable opposition force has resulted in events unanticipated by the U.S. The federal government has repeatedly declared that it will respect the wishes of the Puerto Rican for any option they favor. However, until recently the U.S. has not specified the conditions under which it would do so. Congress, has ignored calls by Puerto Ricans that it is the responsibility of the U.S. to initiate a legitimate decolonialization process. It has been able to deflect these demands because, until 1976, the statehood movement did not seem to pose a genuine threat to the hegemony of the PPD, notwithstanding the PNP's gubernatorial victory in 1968. Yet, subsequent PNP victories in 1976 and 1980, plus its extremely strong showing in the following two elections, has impressed Congress with the depth and strength of annexationist sentiment.

As long as the PPD was the dominant political party Congress did not have to seriously contemplate statehood for Puerto Rico. Its long-standing commitment to approve a status change consistent with Puerto Rico's wishes was a statement of principle that few expected Congress would have to act on. But the unanticipated vibrancy and durability of the PNP has shaken Congress from its quiescence, and forced it to deal with the consequences of granting statehood. These include the impact that increased federal transfers will have on the national deficit, the consequences of a sizeable Latino block in Congress, and uncertainty as to whether the nationalist and pro-independence forces would peacefully relinquish their century-old struggle for sovereignty.

It is important to emphasize that elections in Puerto Rico should not be seen as popular mandates for a particular status option. Since Congress has refused, until recently, to act seriously on the status options, Puerto Ricans have correctly assumed that ELA would be not be affected, irrespective of which party came to power. Decisions by the electorate reflect its concerns regarding which party can promote employment and sustain, or increase, the infusions of public capital from the United States. Nonetheless, given the perennial crisis of the insular economy, it is untenable for Congress to dismiss the significance of the statehood movement.

## II. THE END OF BOOTSTRAP

Efforts by Puerto Ricans to redefine the terms of colonialism gained momentum during the mid-1960s. But, the status issue would have laid dormant had not the PNP won the elections of 1968 and the economy accelerated its arduous and painful transformation. The presumed linkage between status change and social well being has been at the core of the conflictual party system. In fact, the more vigorous efforts by the PPD and the PNP since the mid-1960s to alter the relations of colonialism coincide with the exhaustion of the labor intensive industrialization strategy and the restructuring of Puerto Rico's economy.

The process of economic restructuring was gradual. But by the late 1960s it was apparent that immediate action by the Puerto Rican government was necessary to offset the social and economic impact of Operation Bootstrap's unanticipated demise. In 1968 the newly elected statehood government of Luis Ferré was confronted almost from the start with a profound crisis of economic management and deterioration in social conditions. The insular government ameliorated the intensity of this dislocation by quickly expanding public sector employment, by undertaking an accelerated program of public financed construction and by successfully lobbying the federal government for more funds, (Villamil).

But by the end of the Ferré administration it was clear that Puerto Rico's traditional model of growth had run its course. The PPD returned to power in 1977 after Puerto Rico had irretrievably lost its comparative advantage over labor costs. But even more unfortunate for PPD was that its return coincided with the OPEC induced recession of the early 1970s. Puerto Rico's economy was badly shaken and by the mid -1970s a series of dislocations threatened social stability; corporate profitability was under siege, investor confidence appeared to be evaporating, the Puerto Rican government's budget deficits were unsustainable, its public debt had expanded to unprecedented levels, its ability to generate capital from the bond markets was in jeopardy because of a rapidly deteriorating credit rating, unemployment levels were in the mid 20 percent, and labor unrest threatened vital public services and production (Cabán, 1989).

Governor Hernández Colón reacted to this unprecedented threat to ELA by calling for enhanced autonomy for the Commonwealth, and by forming a high-level Committee to Study's Puerto Rico's Finances (the Tobin



Committee). The government wanted to rapidly reestablish Puerto Rico's once-vaunted internationally favorable investment climate. The Tobin Committee's report, in conjunction with the conclusions in the Compact of Permanent Union, left little doubt that the colony was in trouble. Moreover, both studies painfully documented the limited powers that the Puerto Rican government had to effectively manage the political economy. As a model for effective political administration and economic growth ELA was in jeopardy of dissolving.

The Tobin Committee's sobering conclusion was that Puerto Rico's government could resurrect a favorable investment climate only by providing more generous corporate subsidies and tax incentives, by exercising budgetary restraint, and by increasing the revenue base and suppressing wage costs. In short, a modified austerity package patterned along the lines of an International Monetary Fund stabilization program was necessary, according to the Committee, to restore profitability and investment.

As noted above, the Ford Administration rejected the PPD's request for increased policy making powers. However, near the end of the PPD's administration in 1976, Congress did amend existing federal taxation in order to encourage U.S. corporations to reinvest in Puerto Rico. The new tax regulation, known as Section 936 of the Internal Revenue Code appear to have been motivated by two concerns. The U.S. Treasury Department wanted to prevent corporations in Puerto Rico from converting interest on Eurodollar deposits into possessions income, and thus avoiding federal taxes. Under previous legislation (Section 931), U.S. subsidiaries could repatriate earnings tax free only upon liquidation of their operations. To discourage this practice, and in fact to stimulate increased investments in the local economy, Section 936 allowed tax free repatriation and provided a credit for non-business income (United States Department of the Treasury).

Section 936 was also corresponded to the Puerto Rican government's strategy of attracting firms with a higher capital to labor ratio. High labor costs had essentially knocked Puerto Rico out of the labor intensive export oriented manufacturing market. While increasing labor costs in Puerto Rico were partially a function of market conditions, they were also a function of the gradual phasing in of the federal minimum wage. Section 936 attracted the more capital intensive firms that found Puerto Rico's costs for skilled labor internationally competitive.

Ironically, since the gap between remittances and investments increased after 1976 Section 936 appears to have had the effect of accelerating the repatriation of profits and dividends to the U.S. (Edwin Meléndez, 1990, Dietz 1987). The new tax provisions advanced the transition to an economy in which multinational corporations appropriated the dominant role. When combined with the generous industrial incentives and subsidies, tax exemptions and low wages, Section 936 converted Puerto Rico into an incredibly profitable investment site for multinational firms, particularly in the electronics, pharmaceuticals and precision instruments sectors. The new tax law also fortified and expanded the "maquiladora" productive process that was the linchpin of Puerto Rico's manufacturing strategy during the 1950s and 1960s (Pantojas, 1985). Multinational firms were increasingly using Puerto Rico as a manufacturing export enclave that processed, assembled, tested and packaged intermediate and semi-manufactured products. And by the mid-1980s Section 936 was directly responsible for Puerto Rico's emergence as an important center for finance and banking capital.

These firms were highly mobile, with production sites throughout the world and relied on Puerto Rico not as essential production site for their global operations, but as a convenient locus through which they could channel their excess capital. As James Dietz has pointed out, "economic growth can be attributed in large measure to a transfer of value within an international circuit of capital and within the structure of the international firm than to a process of true productive growth of the island's economy." (Dietz, 1987-474) In short, Section 936 set the institutional context for the restructuring of Puerto Rico's economy into a high-tech and financial center for the Caribbean. The implications of this change were to be acutely felt by the mid 1980s.

This brief overview of changes in Puerto Rico's productive structure from the late-1960s through the mid-1980s suggests an erosion of the insular government's capacity to direct economic performance. Clearly, Section 936 was an important fiscal device that accelerated the transition to a higher stage of capitalist production. But, equally as important was the reliance on more sophisticated production processes and technologies employed by the multinational corporations. Aspects of modern capitalist production that are increasingly beyond the reach of nation states, let alone colonies, to regulate.

But the essential point is that the federal government enacted special legislation to make Puerto Rico a more favorable site for capital accumulation without either altering the colonial status or granting enhanced policy-making powers to the insular government. When the new model of accumulation failed to generate the expected

gains in employment or public revenues, the U.S. was compelled to increase its funding to the poverty stricken Island.

The continued viability of ELA was the consequence of the special tax provisions and related restructuring under the auspices of the multinational corporation. By the late 1970s a policy debate regarding the utility of the prevailing colonial relationship for capital accumulation and for preserving U.S. security interests in the region was underway in the executive branch.

### III. COLONIALISM UNDER CHALLENGE

By the late 1970s the "isle of enchantment" was proving to be financially draining, difficult to administer and seemed to contribute little to advancing the interest of the empire. Moreover, the matter of Puerto Rico's status persisted in being an irksome international issue (Pastor).

The Carter Administration undertook a high level evaluation of the status situation, and was cautiously moving toward proposing a plebiscite, with independence as a viable option. (San Juan Star). But after his defeat, any notions about tinkering with the colonial formula were abandoned by the Reagan administration. The United States was not about to alter the colonial paradigm in what was at the time a volatile and politically unstable Caribbean. Defeating the insurgents in El Salvador, destabilizing an evolving socialist system in Nicaragua, throttling Cuban involvement in Central America, solidifying Seaga's regime in Jamaica, and suffocating the anti-imperialist New Jewel Movement in Grenada were critical aims of the Reagan Caribbean policy. Within Puerto Rico, pro-independence and nationalist forces came under renewed surveillance and attack. Political stability in Puerto Rico was crucial in this turbulent and changing region, and a plebiscite was out of the question.

Despite the seeming lack of federal government interest during the 80's the academic and public policy communities generated an uncharacteristically voluminous body of literature on Puerto Rico's relationship to the United States. The various analysis were virtually uniform in identifying the prevailing political and economic ties as problematic at best and unworkable at worse. They consistently raised doubts about the durability and efficacy of the Commonwealth status and the wisdom of preserving the Island's subordinate linkage to the United States. Implicitly these works reinforced the notion that the political and economic costs of sustaining the Island's population and economic system are difficult to justify. While they did not assess the continued utility of colonialism for U.S. business, they emphasized the current phase of capitalist development under colonialism was no longer as beneficial to either Puerto Rico or the United States as it was once.

These studies not only sustained the Puerto Rican debate during the dry years of the Reagan administration, but provide evidence that the issue was important enough for substantial research funds to be channeled into think tanks and policy oriented sectors of academe. Yet, it appears that their direct impact on the Reagan administration was minimal. More influential on the Administration's thinking about the Caribbean was the New Right. Its calls for a curious amalgam of orthodox monetarism, neo-Keynesian militarism and free market principles, combined with its sword-rattling appeals for resurrecting the Cold War ideology and reasserting U.S. geo-political hegemony in Western Hemisphere, formed the conceptual framework for an aggressive interventionist posture by the reawakened imperial state.

While the Reagan administration may have ignored Puerto Rico, the same cannot be said for the Caribbean. On August 5, 1983, then President Reagan signed the Caribbean Basin Economic Recovery Act, more popularly known as the Caribbean Basin Initiative, or the CBI. As originally proposed the CBI would have extended one-way free trade to designated Caribbean nations. The regional development plan was originally intended to promote labor intensive manufacturing with low capital requirements and may have drawn its inspiration from Puerto Rico's original Operation Bootstrap (Pantojas, 1985). While CBI did not realize its objectives of significantly increasing the value and volume of trade between the U.S. and the Caribbean, it did stimulate the growth of textile and electrical equipment exports from beneficiary countries to the United States (New York Times, 3 /3/ 90).

The CBI was, in a very real way, a modern cold war variant of the Alliance for Progress. It was an effort to address the underlying causes of political instability by promoting a model of economic growth based on

dependent capitalist development in which U.S. multinational corporations would acquire control of the dynamic sectors. And as was the case with the Alliance for Progress, the CBI had a decidedly militarist component. In the economic shadows of CBI the Reagan administration promoted the coordination, modernization and regional integration of the independent security and military apparatuses of the Caribbean nations. An economically dependent and militarily subservient Caribbean would be the best bulwark against the "exportation of revolution" from Cuba and Nicaragua. In this broader scheme Puerto Rico's could play an auxiliary, yet essential role. (García Muñiz, Rodríguez Beruff).

The statehood government of Romero Barcelo vociferously resisted the CBI initiative because it essentially eradicated the island's preferential access to U.S. markets and capital. It was nothing short of ironic that the aggressive advocate of statehood was pleading for retaining key elements of the Foraker Act, that formative document that codified Puerto Rico's seemingly eternal colonial status. Partially in reaction to Romero's threat to lobby against the CBI legislation, the Reagan administration made a major concession. It designated Puerto Rico a beneficiary of CBI by devising a special content requirement provision. This provision allowed Puerto Rican based industries to import components and semi-manufactures for further processing and assembly in Puerto Rico. For its part, Puerto Rico would make available locally deposited profits of the 936 corporations for industrial development projects in designated Caribbean nations. CBI had the potential for advancing the institutional and economic integration of the Caribbean, with Puerto Rico conceivably taking on a leadership (almost sub-imperialist role) in the region.

However, the most notable accomplishment of the CBI is that it accelerated a movement toward coordinated and integrated production processes which linked Puerto Rico to other Caribbean nations. Maquiladora production arrangement which were the hallmarks of Puerto Rico's Operation Bootstrap (see Pantojas, 1985) received a boost from the CBI. But the focus now was on Puerto Rico's role as an intermediary promotional agent for U.S. multinational corporations in the Caribbean (Dietz 1990). Complementary plant production schemes linked the Caribbean economies to the U.S. markets through the value-added haven of Puerto Rico. The most sophisticated assembly, testing and packaging production phases were situated in Puerto Rico while other production sites in the Caribbean supplied the intermediate inputs manufactured by cheap labor.

In the context of a more regionally based production network, in part stimulated by the CBI, the significance of ELA as an institutional component for regionally integrated multinational corporate production declines. Puerto Rico does have a relatively well developed physical infrastructure, banking and finance capabilities and skilled managerial and labor force. Because of these attributes Puerto Rico can serve, according to business and government representatives from the Caribbean, as an economic hub that could finance, manage and promote regionally based manufacturing (*San Juan Star Nov 5, 1989*). However, these resource attributes are not derivative nor contingent upon the preservation of the country's colonial status.

## IV. CONCLUSIONS

During the 1950s and 1960s Puerto Rico's colonial relationship was critical in establishing favorable conditions for foreign investment. Puerto Rico's unique characteristics of stable institutional order, proximity to U.S. markets, common currency and tariff, plus its cheap labor and combination of industrial incentives and exemptions provided fertile ground for the growth of labor intensive industrialization. Moreover, during the first decade of the post-war era it had functioned relatively well as a mechanism for imperial administration, social legitimation and capital accumulation. But by the mid-1960s other small economies in Asia were aggressively expanding into Puerto Rico's markets in the U.S. The gradual phasing in of federal minimum wage standards and tariff reductions, initiated during the Kennedy round, placed additional burdens on Puerto Rico's competitiveness. Puerto Rico's economy was becoming internationalized, open not only to the U.S. but increasingly to economic forces operating at the global level.

Thus, by the 1970s the very conditions that were so significant for Operation Bootstrap, were increasingly anachronistic and secondary to the accumulation strategies of the multinational corporate sector. This tendency has accelerated since the mid-1980s. A more mobile, integrated and expansive capital has defied the insular

government's traditional interventionist strategy. The post-mid 1970s growth model has been accompanied by high levels of unemployment, dangerously low labor participation rates, extensive environmental damage and increased reliance on federal funds. Outmigration has also increased during the last five years. Technological advances in the productive forces (communications, information and data processing, international banking, containerized shipping and organizational restructuring of the firm) continue to diminish the relevance of the Commonwealth formula as a key institutional prop for capitalist expansion.

Indeed, Puerto Rico's contribution to regionally linked production and trade currently does not derive from its unique attributes as a colonial possession. Rather its more prominent role in promoting complementary production facilities is a direct outgrowth of Section 936, Caribbean Basin Economic Recovery Act and the evolution of more sophisticated production processes by multinational capital.

However, this "new colonialism" is fraught with a novel set of contradictions. The old colonialism, represented by the ELA formula, corresponded to a particular historical period and stage of capitalist development. A stage in which U.S. government outflows were an essential component supporting an aggressive, expansionist phase of U.S. capital. The dollar was the top currency, and U.S. capital was rapidly penetrating the closed markets of the decimated European colonial empires. The logic of communist containment justified virtually any act of imperial intervention to protect the interests of U.S. capital and the state.

But by the mid-1970s the foundations of U.S. global economic and political hegemony were eroding. Gradually the long-established paradigm that fused the interests of transnational capital and the state into a unified vision of global dominance was transformed. Policy makers realized that the accumulation goals and strategies of transnational capital did not necessarily redound to expansion of imperial state power.

These considerations underlie the periodic but relatively persistent efforts by the Treasury Department to chip away at Section 936, the linchpin of the modern Puerto Rican colony. The federal government is acutely aware of how important the Section 936 tax credit is to employment and investment in the Island, and knows that "a phase out of Section 936 would cause economic dislocation in Puerto Rico." (Hearings, V 3, p. 205) Nonetheless, in its annual reports on the "possessions corporation system of taxation," the Treasury Department argues that Section 936 is a giveaway for the multinational corporations that results in billions of dollars in lost revenue for the federal government. Since 1976, Treasury has periodically tried to persuade Congress to rescind the credit as a way of reducing the federal deficit. Only because of a monumental lobbying effort by the PPD, its Congressional allies and the Puerto Rico, U.S.A. Foundation was the Treasury's 1985 campaign to abolish the credit defeated. But Treasury has, with its revenue enhancing allies in Congress, enacted measures that have offset the tax benefits of Section 936.

The implications of this squabbling are theoretically significant. It suggests that the federal government and capital are divided as to the benefits and costs of sustaining Puerto Rico as a colony.

It is anyone's guess whether the referendum will be held next year and according to the terms of Senate Bill 712. Numerous and elaborate scenarios as to the likely outcome of the legislative process proliferate in the media and the halls of power. The preceding pages identify the domestic political and international economic factors that may have motivated the U.S. to try and rework the colonial formula.

So far, the referendum process has made it clear that the U.S. government is searching for an efficacious and economical arrangement that will guarantee it unrestricted military access to Puerto Rico and preserve the vital economic interests of U. S. firms. In the process, the competing interests of different sectors of capital, the federal bureaucracy, the Congress and Puerto Rico's political party leadership (whose participation, after all is required to lend a semblance of legitimacy to the process), have all surfaced. This has hindered the legislative process and confounded negotiations.

The public hearings have revealed that, while the prevailing colonial formula is unworkable, the U.S. government has no intention of revising the existing legislation to enhance the autonomous powers of the Commonwealth. The smart money bets that the referendum will not be held in 1991 as spelled out in Senate Bill 712. Until now, the U.S. government has not been able to devise a formula that is satisfactory to all those who have a stake in Puerto Rico's political future. Unless the conflicting array of demands is resolved, the U. S. would apparently rather keep its hobbled colony for now. But if we see the referendum as an initial response to economic and political transformations that are eroding the viability of the Commonwealth, it is reasonable to expect that Puerto Rico's status will be redefined sometime in this century.