

THE FIRST PRIVATIZATION POLICY IN LATIN AMERICA: SELLING STATE-OWNED ENTERPRISES IN 1948-1950 PUERTO RICO*

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RESUMEN

En los 1940s, cuando el Gobernador de Puerto Rico era aún designado por el Presidente de EEUU, se construyó un gran sector público empresarial. Más tarde, en 1948-1950, el primer gobierno electo de la isla privatizó esas empresas. Este trabajo documenta la creación de empresas públicas y su privatización en Puerto Rico, y analiza el papel desempeñado en la privatización por la ideología, los intereses políticos y las motivaciones económicas. Mientras que factores ideológicos pudieron ser importantes en la creación del sector público empresarial, en la privatización jugaron un papel clave factores económicos como la superior eficiencia de la empresa privada competidora en el sector de cemento, y las continuas pérdidas experimentadas en el resto de empresas manufactureras públicas.

Palabras clave: Empresa pública, Privatización, Política industrial, Puerto Rico

ABSTRACT

In the 1940s, when the Governor of Puerto Rico was still appointed by the US President, a large state-owned enterprise (SOE) sector was established. Later, in 1948-1950, the island's first elected government privatized these SOEs. This paper documents both the creation of the SOE sector and its privatization, and analyzes the role played by ideology, political interests, and economic concerns in the decision to privatize. Whereas ideological factors might have played a significant role in the building of the SOE sector, the privatization process was driven by economic factors. In the cement sector, the competing private firm was more efficient, and the SOEs in other sectors with no private competitors in the island showed permanent losses.

Keywords: Public enterprise, Privatization, Industrial policy, Puerto Rico

JEL Classification: L32, L33, L52, N46

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1. INTRODUCTION

Most Economics and Public Policy scholars consider the privatizations in Chile (1970s-early 1980s) and the United Kingdom (1980s-early 1990s) to be the first privatization policies in modern history.¹ Others argue that the first privatization operation was the denationalization of steel in the UK in 1953,² and a few scholars see the partial sales of state-owned enterprises in Germany under Adenauer's government (late 1950s-early 1960s) as the first large-scale privatization program.³ However, recently published works have documented and analyzed a large-scale privatization policy between 1934 and 1937 in Germany, under Hitler's government (Bel, 2006; Bel, 2010).⁴ Another recent study has examined a large-scale privatization under Mussolini's first government in Fascist Italy, between 1922 and 1925.⁵

Contemporary economic analyses of privatization have so far neglected an important, early case of large-scale privatization: the one carried out by the first democratically elected Governor of Puerto Rico in the late 1940s, which appears to have been the first large-scale privatization policy implemented in a democratic regime.⁶ A number of studies of industrial and administrative policy in Puerto Rico in the 1950s⁷ and 1960s⁸ noted the sale of state-owned enterprises between 1948 and 1950.⁹ However, none of these works provided an analysis on the privatization policy implemented; neither on the process, nor on the objectives. Indeed providing an analysis of the process and the objectives is the main contribution of this work.

Within two years of the first democratic gubernatorial election in Puerto Rico in 1948, the government of the *Partido Popular Democrático* (Democratic Popular Party) had privatized all the state-owned manufacturing firms. These firms belonged to a wide range of sectors: cement, glass, shoes, paper and chalkboard, and clay products. The enterprises that were transferred to the private sector had been created during the 1940s in an attempt to promote industrialization, and had been managed by the island's government. The nationalization of existing public services companies (such as water, transport and energy) and the creation of state-owned enterprise sectors was an important policy in Puerto Rico in the early 1940s.

Nationalization and the expansion of the SOE sector were common in other countries in the World during the decade, but Puerto Rico was alone in reversing the trend and developing a policy of privatization of the state-owned firms in the late 1940s. In fact, in the post-war period no other country in the world engaged in such a policy until 1959, when Germany embarked on a privatization program.¹⁰ Hence, a central question remains to be answered: Why did the Puerto Rican government depart from the mainstream policies regarding State ownership in the post-World War II era, by privatizing state-owned firms?

¹ Yergin and Stanislaw (1998: p.115).

² Burk (1988).

³ Megginson (2005: p.15), Schipke (2001: p. 50).

⁴ Bel (2006), Bel (2010).

⁵ Bel (forthcoming).

⁶ I am aware of one previous privatization operation (with transfer of full control to the private sector) implemented by a democratic government: In 1928 the Australian government sold a fleet of cargo ships that had been purchased during World War I (Neville, 1950: pp. 18-19). This operation, which was in fact a reprivatization, was an isolated measure and it was not implemented within the framework of a wide privatization policy.

⁷ Baer (1959), Chase (1951), Lewis (1955), Ojuda (1954), Ross (1957).

⁸ Goodsell (1965), Ross (1966).

⁹ Ross's (1966) account is briefly followed in Dietz (1986, pp. 215-216), when describing the basic characteristics of the sale of state-owned firms. Dietz does not add any original research or further analysis.

¹⁰ Although on a smaller scale than that applied in Puerto Rico: Only three firms were partially privatized: Preussag in 1959, Volkswagen in 1961 and VEBA in 1965 (Schipke, 2001: p. 50).

Answering these questions requires an analysis of the objectives of the country's privatization scheme. This paper intends to fill a gap in the economic literature by tracing the course of privatization in 1948-1950 Puerto Rico through a study of: (1) Muñoz Marín's personal archive (accessible after the Fundación Luis Muñoz Marín was created in 1980);¹¹ and (2) the documentation of the Puerto Rico Industrial Development Company, which only became available after they were donated to the Fundación Luis Muñoz Marín in December 2008. The analysis of privatization in Puerto Rico suggests that the objectives pursued by the island government were mostly related to economic concerns. One key factor was the poor performance of the manufacturing SOEs; another was the desire to enhance Puerto Rico's ability to attract private capital (particularly from continental US) to invest in industries. In contrast, fiscal objectives do not seem to have been an important issue in the decision to privatize, nor did strong ideological or political motivations play a significant role.

The rest of the paper is organized as follows. First, I document the building of the Puerto Rican SOE sector. Next, I examine the privatization process and its results. After this, I analyze the objectives of the privatization policy. Finally, the main conclusions are drawn.

2. THE BUILDING OF THE STATE-OWNED ENTERPRISE SECTOR

In September 1941, Rexford G. Tugwell was appointed Governor of Puerto Rico. A former professor at Columbia University, Tugwell had served as Undersecretary in the Department of Agriculture in Roosevelt's first New Deal government. At that time, he had visited Puerto Rico, and on his return, in April 1934, he prepared a report for President Roosevelt. Tugwell's view of the transformation of Puerto Rico was that industrialization would not occur unless the government took the initiative. This continued to be his approach when he became Governor in 1941. Throughout his tenure, he made concerted efforts to promote a policy of government-induced industrialization.¹² Tugwell made his intentions very clear in his earliest speeches to the Puerto Rican Legislature.¹³

On November 18, 1941, Tugwell appointed Teodoro Moscoso as coordinator of the island's affairs. Moscoso was to play a crucial role in the industrialization program soon to begin. To improve Tugwell's relationship with the Puerto Rican Legislature, he forged an alliance with Luis Muñoz Marín,¹⁴ who had obtained the powerful position of President of the Senate (the highest post that a Puerto Rican politician could hold) after the November 1940 election. In the 1940 electoral campaign, Muñoz Marín's *Partido Popular Democrático* (PPD) had pledged to place primary emphasis on issues related to economic reform, instead of the traditional discussion of the island's political status. A majority in the Legislature was in favor of economic reform,¹⁵ and Tugwell was able to pass the legislation required to create the legal framework for the government-led industrialization policy. The key step was the approval by Act No. 188 (May 11, 1942) of the Law of the Development Company, according to which «wide authorization to go into business was provided.»¹⁶

¹¹ Within Muñoz Marín's personal archive held by the Fundación Luis Muñoz Marín, the following sources have been particularly useful: Section IV, Series 2 [(a) personal correspondence; (b) Data and statistics]; Section V, series 16 (Statistics and Economic reports).

¹² Tugwell (1953: p. 147).

¹³ Tugwell (1942: p. 58).

¹⁴ Carr (1984: pp. 65-66), Goldsmith, Clavel and Roth (1974: p. 144), Maldonado (1965: p. 3).

¹⁵ However, the margin of the PPD's victory in 1940 was narrow: it had a majority of just one vote in the Senate. Data on Senatorial and Representative Districts have been obtained from the Biblioteca Virtual de Puerto Rico (http://eleccionespuertorico.org/mapas/index_es.html, accessed on June 2, 2009).

¹⁶ Tugwell (1947: p. 263).

The Puerto Rico Development Company (PRDC henceforth; in 1946 it was renamed the Puerto Rico Industrial Development Company, PRIDCO thereafter) was organized along the lines of the Chilean Development Company, which had been created several years before.¹⁷ Moscoso was appointed general manager of PRDC on September 30, 1942, and the company began operating in October. Its first (and most important) factory was *Cementos de Puerto Rico* (the Puerto Rico Cement Company), with assets of around US\$2,000,000.¹⁸ The government's common stock participation of in this venture¹⁹ was transferred to PRDC in 1943,²⁰ and thereafter the federal participation was paid in full out of the profits.²¹

Besides PRDC, two other key agencies for the development program were created in 1942: the Puerto Rico Planning Board, and the Government Development Bank. Other sector-related agencies were created between 1941 and 1945.²² The Water Resources Authority, the Transportation Authority, the Communications Authority, the Insular Sewerage Service, and the Puerto Rico Aqueduct Service.²³ This put in place the institutional framework needed to develop the policy of government-led industrialization.

All public enterprises were organized as independent public corporations; they were legally incorporated (thus, placed outside the bureaucracy), intended to be financially self-sufficient.²⁴ In line with this modern approach to public management of commercial firms, Moscoso worked hard to make PRDC's operations profitable, and soon demanded that services that were provided free should be separated from the company's general services.²⁵

In the following years, the newly created agencies took over several privately owned utilities. In January 1944 the Puerto Rico Water Resource Authority took over the Puerto Rico Railway Light and Power Company and the Mayagüez Light Power and Ice Company, bringing all electric power utilities in Puerto Rico under its control.²⁶ Later the Transportation Authority took over the urban transport system in San Juan. This policy closely resembled the ones applied in many US states and municipalities in the late nineteenth and early twentieth centuries, a period characterized by a progressively greater involvement of governments in the delivery of local services.²⁷

What was exceptional in the Puerto Rican policy of the 1940s was the fact that the PRDC created new manufacturing plants, which were built and run by the following government corporations:

* The Puerto Rico Glass Corporation (PR Glass, henceforth) was incorporated on February 24, 1943.²⁸ The construction of the factory began in May 1943, and glass production began in January 1945, but production stopped due a strike between February and June 25, 1945.²⁹ Production was resumed after the strike.

* The Puerto Rico Pulp and Paper Corporation (PR Pulp and Paper, henceforth) was organized on April 23, 1944.³⁰ Construction began in May 1944 and the production of paperboard began on May 6, 1946.³¹

¹⁷ Moscoso, (1953: p. 60).

¹⁸ PRDC (1944: p. 30).

¹⁹ Puerto Rico Cement Co. had begun operations in 1939, becoming the island's largest industrial factory.

²⁰ Descartes (1950: p. 4).

²¹ Moscoso (1953: p. 60).

²² Baer (1959: p. 647).

²³ These last two concerns merged in 1945 forming the Aqueduct and Sewer Authority (Goodsell, 1965: p. 189).

²⁴ Goodsell (1965: p. 183).

²⁵ Moscoso, *Letter to Rexford Tugwell*, June 30, 1945. Muñoz Marín publicly endorsed Moscoso's view in a speech broadcast on August 20, 1945 (Muñoz Marín, 2005: p. 87).

²⁶ Richardson (1947: p. 113).

²⁷ Gómez-Ibáñez (2003).

²⁸ PRDC (1944: p. 13).

²⁹ PR Government (1945: p. 30).

³⁰ PRDC (1944: p. 13).

* The Puerto Rico Clay Products Corporation (PR Clay Products, henceforth) was created on November 6 1944;³² the preliminary work for building the clay products factory was completed by June 1945. The first kiln was completed in May 1947 and production of brick and hollow tile began in August 1947.

* The Puerto Rico Shoe and Leather Corporation (PR Shoe and Leather, henceforth) was incorporated in January 1946. The plant opened (although construction was still incomplete) on July 1, 1946, and commercial operations began in February 1947.

* Telares de Puerto Rico, inc. (PR Telares, henceforth) was incorporated in 1946, and work was scheduled to start before the end of 1946.³³ But the plant was never built to be managed by PR Telares; this subsidiary was dissolved in June 1951.³⁴

Table 1 provides details of PRIDCO's six subsidiary corporations. In most cases, actual investment was much higher than had initially been expected. According to Descartes (1950: 31), total direct investment of PRIDCO in the subsidiary plants until June 30, 1949 was US\$11.1 million (133.1 million in 2010 US\$), a large financial commitment. Table 2 displays information on the production and work force of the subsidiaries in the final years of the 1940s, when all plants (but PR Telares) had begun commercial operations.

(TABLE 1 AROUND HERE)

(TABLE 2 AROUND HERE)

PRIDCO plants required large investments, but they employed relatively few workers: in June 1948, when all plants were in operation, the total work force was only 992 employees.³⁵ In fact, the creation of the manufacturing state-owned sector seems to have had a minimal effect on industrial employment, far below what an effective industrialization policy for the island might have been expected to achieve. Because most PRIDCO plants were capital intensive, their work force represented only 1.6 per cent of the island's employment in manufacturing.³⁶

3. PRIVATIZATION OF THE STATE-OWNED MANUFACTURING FIRMS

On February 12, 1946, Tugwell delivered his last Governor's Message to the Legislature. Tugwell (1947: p. 49) concluded as follows:

“It is with some emotion that I tell you at the opening of this regular session of my approaching departure....I have already noted some of the credits, the largest being the program for economic rehabilitation which has been begun. And next, perhaps, the public ownership and operation of public utilities.»

The 46th Annual Report (1945-46) was the last one delivered by Tugwell, who was replaced shortly afterwards by Jesús T. Piñero, the first native Governor of Puerto Rico.

Piñero was the last governor to be appointed by the US President. Interestingly, Muñoz Marín – then still President of the Senate – had been offered the governorship, but he preferred to wait until the first gubernatorial election, scheduled for November 1948. Following Muñoz Marín's suggestion, Piñero, a PPD member, was appointed to the office. In

³¹ PR Government (1946: p. 39).

³² PRDC (1944: p. 13).

³³ PR Government (1946: p. 38).

³⁴ The total deficit accumulated until PR Telares was liquidated was US\$86,000 (PRIDCO, 1951: p. 27).

³⁵ Moscoso, *Letter to Luis Muñoz Marín*, June 24, 1948.

³⁶ In 1948, 64,085 workers were employed in manufacturing (excluding home needlework (PRIDCO, 1949: p. 4).

any case, thereafter Muñoz Marín held total command of the executive power in Puerto Rico, adding this to the full control the PPD had obtained over the Legislature. Whereas the PPD had won the 1940 election to the Legislature by a very narrow margin, the 1944 election had produced the largest victory in the history of Puerto Rico: the PPD took all seven Senatorial districts and 34 of the 35 Representative districts, thus gaining full control of the Legislature.

Together with these institutional changes, the economic environment had dramatically changed as well after the end of World War II. Maritime transportation and trade in the Caribbean Sea progressively returned to normal, thus increasing the competition facing the commercial products manufactured in the island. This change was of great importance. The decision to establish a state-owned manufacturing sector had been taken within the pre-war and wartime context, when the growing tension and subsequent hostilities profoundly affected maritime transportation and commerce in the Caribbean, particularly between 1942 and 1944. Hence, most government-owned manufacturing firms had been designed to supply the local market;³⁷ by the time all five subsidiaries were finally in full commercial operation in 1947, the market conditions on the island had changed dramatically. Besides, technical and commercial problems had seriously affected the performance of some of the subsidiaries, especially the PR Pulp and Paper Co., and the PR Shoe and Leather Co.³⁸

The Puerto Rican government followed these developments closely, and expressed its official views in the Annual Reports to the Legislature (see table 3). Tugwell's Reports (1941-1946) had supported the increasing role of the government in manufacturing. Projects were expanding each year, and emphasis was put on the development of the factories. The Reports also mentioned the difficulties caused by labor conflicts and extra costs of investments.

(TABLE 3 AROUND HERE)

The 47th Report (1946-47), delivered by Piñero, differed little from the last one presented by Tugwell. However, the following report (that of 1947-48) explicitly stated that PRIDCO had turned its attention to two important aspects of the long-range program: encouragement of private industrial enterprise, and the development of tourism as a source of income for the island. Publicly managed manufacturing firms received much less attention in the report, thus providing a clear signal that a reorientation of the development policy was underway.

Interestingly, the 49th Report (1948-1949), the first one delivered by Muñoz Marín, openly admitted that selling the PR Pulp and Paper Co. to private interests could be a solution for its problems. In his second Governor's Report (50th, 1949-1950), Muñoz Marín emphasized that the PR Shoe and Leather Co. had been privatized, that most PRIDCO plants were operating at a loss, and that profits were falling in the only profitable firm, the PR Cement Co. The question of privatization had irreversibly entered the fray.

Although contemporary studies claimed that 1948 was the year in which the decision to sell the subsidiaries was first made,³⁹ the possibility of privatization was already being discussed by PRIDCO in mid-1947. At a meeting of the PRIDCO Planning and Executive Committees held on May 30, 1947, Moscoso reported on negotiations held during a recent trip to the US regarding the transfer of the shoe factory to a private firm:

“2. Shoe factory – It was reported that Mr. Weinbrot of Mercury Footwear reiterated the firm's willingness to consider renting the company's shoe factory. The President [Moscoso] stated that a letter to that effect should be obtained from Mr. Weinbrot

³⁷ Moscoso (1953: p. 61).

³⁸ Moscoso (1953: p. 61) and Ross (1966: pp. 64-73) provide accounts of the problems faced by these subsidiaries.

³⁹ Ross (1966: p. 111).

but that it would be preferable to negotiate along these lines with either Penaljo or Joyce, two other reputable shoe manufacturers of apparently higher standards.»⁴⁰

In fact, the shoe and leather factory was sold to Joyce of California in October 1949. However, more negotiations were needed before the privatization policy could finally proceed.

As early as May 1948,⁴¹ PRIDCO received an offer to buy all its five operating subsidiaries, from a group headed by Royal Little, President of Textron. This proposal divided the subsidiaries into two groups – one formed by the cement plant, and the other formed by the remaining four. The proposal included: (1) payments in cash for prepaid items and inventories; (2) the payment of US\$3,000,000 in cash for the cement plant (or alternatively a lease for six years at a rental of US\$500,000 per year, and US\$100,000 per year thereafter for 93 years); and (3) the payment of the depreciated value of the four other plants over ten years with 3 per cent interest payable quarterly.⁴² This proposal would have resulted in a payment well below the net investment made by PRIDCO in the subsidiaries, which had been set as the minimum sum to be met for the approval of any sale, and accordingly it was turned down.

Even though the Puerto Rico government would not make any official statement on its willingness to privatize PRIDCO subsidiaries before the gubernatorial election of November 1948, the question of privatization was debated publicly. In early July 1948, Luis Ferré, one of the leaders of the Statehood Party (and a member of the Ferré Group, a family industrial holding that would be crucial later in the sale of the subsidiaries) made a public statement asking that the firms be sold by an auction, in which Puerto Rican firms should participate.⁴³

New proposals for the acquisition of the subsidiaries were soon forthcoming. Following a conversation held with Moscoso on February 1, 1949, David G. Baird (Vice-President of Marsh & McLennan Inc.) sent PRIDCO a formal bid to buy the cement, glass, paper, and clay product companies.⁴⁴ One week later, on February 7, 1949, Moscoso sent Baird's letters to PRIDCO's Board of Directors, together with a Memorandum stating his opinion that

“it is an operation to be studied in detail...I want to let you know in advance that our recommendation will probably be to ask for a higher amount regarding the ‘going-concern value’ of all plants. Perhaps one or two million dollars in addition to the millions offered. Furthermore, the accumulated deficits must be absorbed by the company that buys the plants.»⁴⁵

No agreement was reached between PRIDCO and Baird, but the subsidiaries would soon be privatized. In October 1949, PRIDCO sold the PR Shoe and Leather Co. to Joyce de Puerto Rico, Inc., a subsidiary of Joyce of California. Joyce purchased the machinery for US\$35,000.⁴⁶ More importantly, at the end of 1949 the New York businessman Karl F. Landegger showed an interest in acquiring the paper plant. In July 1950, he submitted a formal bid for the acquisition of all four subsidiaries still under PRIDCO ownership (cement, glass, paper, clay products). The nominal price he offered was US\$10,000,000, to be paid in ten years. However, Landegger offered only US\$2,000,000 as down payment and an interest-

⁴⁰ PRIDCO, *Minutes of the meeting*. Muñoz Marín was well aware of this, since a copy of these Minutes was sent to him, as usual.

⁴¹ That is, long before the proposal for the acquisition of the paperboard plant made by Karl F. Landegger by the end of 1949, which is considered by Ross (1966: 115) as the first formal proposal to buy a PRIDCO subsidiary.

⁴² PRIDCO, *Proposal for the sale of subsidiaries*. All the details of the proposal can be found in this PRIDCO Internal Memorandum.

⁴³ *El Mundo*, July 7, 1948, p. 1.

⁴⁴ Details of this proposal can be found in Baird, *Letter to PRIDCO*.

⁴⁵ PRIDCO, *Memorandum from Teodoro Moscoso* (Author's translation).

⁴⁶ Joyce agreed to add at least US\$65,000 worth of additional machinery, and took over the factory building on a lease basis (PRIDCO, 1950: p. 36). Full details of the operations can be found in PRIDCO (1950: p. 20).

free mortgage.⁴⁷ Although the total amount offered was close to the book value of the plants, the interest-free mortgage made the proposal far less attractive, and PRIDCO did not accept it.

The final step was in late September 1950, when the Puerto Rican Ferré Group unexpectedly⁴⁸ offered US\$10,500,000, to be paid as follows: a down payment of US\$2,000,000, 3.5 per cent preferred stock of another US\$2,000,000, and a 4 per cent first mortgage of US\$6,500,000.⁴⁹ This proposal was the first to meet PRIDCO's demands in full, and an agreement was reached less than one week after intense negotiations between the technical teams of PRIDCO and the Ferré Group to work out the details.⁵⁰ On October 3, the official agreement to sell the cement, glass, paper and clay products companies to the Ferré Group was publicly announced.⁵¹

The total amount agreed for the sale, US\$10,500,000, was slightly above the book value of PRIDCO's subsidiaries.⁵² The quantitative significance of the sale can hardly be underrated. Proceeds from privatization amounted to 9.3 per cent of fiscal receipts for island's government purposes, and to 1.4 per cent of Puerto Rico's total Gross Product in 1950.⁵³ PRIDCO saw the operation as a «commercial deal which, from the point of view of valuations and economic consequences involved, may be classified among the most important ever made in the history of Puerto Rico.»⁵⁴ Indeed, the relevance of proceeds from privatization with respect to fiscal receipts (9.3 per cent) was much higher than that obtained between 1934 and 1937 in Nazi Germany, which averaged 1.4 per cent per year,⁵⁵ and in Fascist Italy between 1922-1925.⁵⁶ In the same way, the relevance of proceeds from privatization with respect to fiscal receipts in Puerto Rico was higher than in most EU-15 countries during Europe's most intense period of privatization (1997-2000).⁵⁷

4. ANALYSIS OF THE OBJECTIVES OF PRIVATIZATION IN PUERTO RICO

Contemporary authors paid little attention to the reasons why the Puerto Rico government privatized the manufacturing firms under its ownership. In 1954, a few years after privatization had been implemented, Ojuda (1954: pp. 161-162) emphasized the economic and technical difficulties faced by most subsidiaries in undertaking successful operations (such as the market dimension, and changes in the economic environment with the resumption of trade) as drivers of the sale. However, in an article published in 1955, Lewis (1955: pp. 625-627) stressed managerial incapacity as one of the reasons for the sale, as well as the view that government-owned firms would produce a dangerous increase in the island's

⁴⁷ See further details of Landegger's proposal in Ross (1966: p. 115).

⁴⁸ While PRIDCO was still considering the possibility of selling the firms to Landegger if he improved his offer, the Ferré Group asked Martin Muñoz to withhold any final decision until that holding could make an offer for PRIDCO subsidiaries; Muñoz complied with this request (Muñoz Marín, 1992: p. 252).

⁴⁹ Taking everything into account, the Ferré proposal amounted to US\$3,000,000 over the bid offered by Landegger (Ross, 1966: 116).

⁵⁰ Maldonado (1997: 65-68) offers a vivid account of this negotiation process.

⁵¹ *El Mundo*, October 4, 1950, pp. 1 and 15; *El Imparcial*, October 4, 1950, pp. 2 and 34.

⁵² Note that the PR Shoe and Leather had already been sold to Joyce in November 1949, well before this agreement was reached.

⁵³ I have made these computations based on the data in Puerto Rico Planning Board (1951) on Fiscal receipts (p. 79, table 46), and Gross Product (p. 162, appendix table 14).

⁵⁴ PRIDCO (1951: 15, Author's translation). The recovery of the capital used to establish the firms was later confirmed by the Puerto Rico Planning Board (1952: p. 38).

⁵⁵ Bel (2010).

⁵⁶ Bel (forthcoming).

⁵⁷ The figures for EU-15 countries in 1997-2000 can be obtained by combining data on privatization receipts from Clifton, Comín and Fuentes (2003: p. 95) and data on fiscal receipts from OECD (2005).

wage structure because they paid higher wages than private firms. Two years later, in 1957, Ross (1957: pp. 88-89; 1966: pp. 108-117) refuted Lewis's views by emphasizing that managerial incapacity was not an issue in the sale; Ross's reasoning was more in line with Ojuda's view that the sale of the subsidiaries was due to problems related to the dimension of the local market and to the economic environment.

Some of the contemporary analyses written in the 1960s are valuable, but the authors of these studies lacked the theories, concepts, and tools supplied by recent literature. Theoretical developments have provided valuable hypotheses on the motivations of politicians choosing between public ownership and privatization,⁵⁸ and have identified different objectives linked to privatization policies.⁵⁹ On the one hand, both the theoretical and the empirical literature have provided interesting results regarding the use of privatization to obtain political support.⁶⁰ On the other, international evidence shows as well that financial motivations have been a key factor in recent privatizations.⁶¹

In all, the analyses of more recent privatization experiences in the fields of economics and public policy have shown that privatization policies may pursue a multiplicity of objectives, among which three types stand out: Ideological motivations, political interests, and economic objectives (either financial or efficiency-related). By using these concepts and tools, a deeper and systematic analysis of the objectives of privatization in Puerto Rico can be undertaken.

4.1. Ideological motivations

Ideology played an important role in the building of the state-owned enterprise sector in Puerto Rico. In line with the belief (commonly held in the late 1930s and early 1940s) that private initiative would not effectively engage in the industrialization of Puerto Rico, Rexford Tugwell was firmly convinced of the importance of public intervention in the economy. Tugwell held important posts in the US Department of Agriculture in the mid-1930s, and the proposals he tried to put forward won him the nickname 'Rex the Red'.⁶² Indeed, Tugwell's faith in public corporations and state-financed industry was one of the main drivers of the creation of the SOE sector in Puerto Rico.⁶³ To achieve his objective, Tugwell enlisted the support of Muñoz Marín, the leading local politician, and Moscoso, who became the leading local public servant in the industrial sector. However, Tugwell's views on industrialization were substantially to the left of those of Muñoz and Moscoso.⁶⁴ Indeed, the fact that Tugwell left the governorship in 1946 was seen as one of the factors that made possible the industrial policy reorientation initiated after 1947.⁶⁵

Particular attention should be paid to Muñoz Marín's views on the issue of public intervention and industrial development, because – besides being President of the Senate – he was also the undisputed leader of the PPD, and policy decisions were heavily dependent on him, particularly after Tugwell left Puerto Rico in 1946. The fact that Muñoz Marín did not share Tugwell's faith in nationalization is reflected in their disagreement over the uncompleted nationalization of the private telecommunications company. Nationalizing

⁵⁸ Bel and Calzada (2009), Boycko, Shleifer, and Vishny (1996), Shleifer and Vishny (1994).

⁵⁹ Vickers and Yarrow (1988), Vickers and Yarrow (1991).

⁶⁰ Bel and Fageda (2009), Biais and Perotti (2002), Bortolotti, Fantini, and Siniscalco (2003), Perotti (1995).

⁶¹ Bortolotti and Milella (2008), Yarrow (1999).

⁶² Goodsell (1965: p. 165), Carr (1984: p. 67).

⁶³ Carr (1984: p. 65).

⁶⁴ Goodsell (1965: p. 190).

⁶⁵ Ross (1966: p. 79).

telecommunications was one of Tugwell's most cherished projects, but it failed because of the lack of support from Muñoz Marín. In 1947, Tugwell's public criticism of Muñoz Marín's position on the expropriation of telecommunications sparked fierce controversy. In a speech broadcast on March 27, 1947, Muñoz Marín responded

“I believe that investment of public funds directed to create more sources of production, or to stimulate them, should have priority over public investments...merely directed to transfer property ... I have never believed in the wisdom of investing public funds to merely transfer ownership to the government.»⁶⁶

More on Muñoz Marín's views on the private versus public debate in economics can be learnt from a speech given on the eve of the first election for Governor, in November 1948, when he stated that

“Men in the entire world fight, some defending private initiative, others defending that the government should do everythingWe cannot be doctrinaire The Puerto Rican government works based on both doctrines, applying whichever one is more helpful in a particular moment. The government has created stated owned factories. But it has helped to make many more private factories ...we are neither theoretical nor doctrinaire.»⁶⁷

Indeed, the privatization policy itself provides clear proof that it did not emerge out of any ideological conviction concerning the systematic superiority of private ownership; not one agency owning and operating public utilities or other network services (such as electricity, water, or urban transportation) was privatized either between 1948 and 1950, or during the rest of Muñoz Marín's tenure, which ended in 1964.

4.2. Political interests

We should now turn our attention to the question of whether political interests might have been the drivers of the privatization policy. Recent theoretical literature has shown that governments can design and implement privatization to foster their partisan political interests.⁶⁸ Furthermore, the privatization policy that preceded the one implemented in Puerto Rico – the large-scale sale of government-owned enterprises in Germany between 1934 and 1937 – had clear political objectives, as well as financial ones. The Nazi government had come to power with limited parliamentary support;⁶⁹ since privatization favored private property, the Nazis used it as a tool to foster alliances with the great industrialists.⁷⁰ In Italy, Mussolini implemented a privatization policy in 1922-1925 for largely the same reasons.⁷¹

In Puerto Rico, however, there was no comparable scenario of political weakness and limited parliamentary support when the privatization program was implemented. In the first gubernatorial election ever held, in 1948, Muñoz Marín obtained 61.2 per cent of the votes, and became the first elected Governor of Puerto Rico. The second most voted candidate

⁶⁶ Muñoz Marín, «La compra de telefónica», (in Muñoz Marín, 2005: pp. 321-324) [author's translation]

⁶⁷ Muñoz Marín, «Mi propósito es que el pueblo resuelva los difíciles problemas de su vida», (in Muñoz Marín, 2005: pp. 644-667) [author's translation].

⁶⁸ See Biais and Perotti (2002) and Perotti (1995) for theoretical analyses; see Bel and Fageda (2009) and Bortolotti, Fantini, and Siniscalco (2003) for empirical information.

⁶⁹ When Hitler was appointed Chancellor in January 1933, the Nazi party had just 196 out of 584 seats (33.6 per cent) in the German Parliament. In the next election, in March 1933, the Nazis obtained 44.5 per cent of the seats (Bel, 2010)

⁷⁰ Bel (2010).

⁷¹ Bel (forthcoming). When Mussolini was appointed prime minister in October 1922, the Fascist Party had only 35 seats in the national parliament out of 535 seats (6.5 per cent). Only three out of thirteen ministers in Mussolini's first cabinet were members of the Fascist Party.

(belonging to a coalition of the Statehood Party, the Socialist Party, and the Reformist Party)⁷² obtained just 28.6 per cent of votes, and the third candidate (the Independence Party) received 10.2 per cent.⁷³ As regards the elections to the Legislature, Muñoz Marín's PPD won all the Senatorial and Representative districts. Muñoz Marín now held absolute control of both the executive and the legislative branches, and he had no need for a coalition in order to design and implement his industrial policies.

Besides the government's political strength in 1948, another striking factor sets the Puerto Rico experience apart from other large-scale privatization processes implemented to favor business and political elites and to benefit the government's allies, such as Fascist Italy,⁷⁴ Nazi Germany,⁷⁵ or post-communist Russia.⁷⁶ The fact is that most of the privatized firms (cement, glass, paper, and clay products) were sold to the Ferré Group, a family holding. One of the brothers who ran the group was Luí Ferré, a very important figure in the Statehood Party, and a long-standing opponent of the government's economic policy.⁷⁷ At no other time in the history of privatization has a government sold the bulk of the state-owned manufacturing sector to an opposition political leader. This clearly shows that the sale of the PRIDCO subsidiaries in Puerto Rico was far from being a story of crony capitalism or of transferring government ownership to close political allies in order to foster the government's political interests.⁷⁸

4.3. Economic objectives

Given that ideological biases and partisan political interests did not play a relevant role in privatization in Puerto Rico, the island's government appears to have privatized in order to advance its economic policy. Even so, it is not as if the Treasury was under great financial pressure (a key factor in most decisions to privatize): The government's public debt had fallen steadily throughout the 1940s, from US\$27.2 million in 1940 to US\$12.8 million in 1949 (this last figure being 47 per cent of the 1940 level).⁷⁹ Interestingly, the lowest level of public debt was reached in 1947 (37 per cent of the 1940 figure), the year in which the first negotiations for privatizing PR Shoe and Leather began.

As for industrial policy – the core of Puerto Rican economic policy – promoting industrialization was a primary objective. However, taking into account the large investment in the PRIDCO subsidiaries and the small number of manufacturing jobs created (see table 2, above), the amount of capital required to build government factories able to increase production and jobs to the level needed «vastly exceeded the amount available to the government», according to Ross (1957: p. 90). Besides, it should be noted that there existed

⁷² The Socialist party had advocated Puerto Rico's integration in the United States for a long time; this was one of the reasons for the emergence of this apparently paradoxical coalition. Quintero Rivera (1977) and García and Quintero Rivera (1986) contain analyses of the development of working class organizations in Puerto Rico.

⁷³ Data on the gubernatorial elections were obtained from the Comisión Estatal de Elecciones of Puerto Rico (<http://www.ceepur.org/>, accessed on June 2, 2009).

⁷⁴ Bel (forthcoming).

⁷⁵ Sweezy (1941), Merlin (1943), Bel (2010).

⁷⁶ Desai (2005), Guriev and Rachinski (2005).

⁷⁷ In 1968, Luí Ferré became the first non-PPD Governor of Puerto Rico, after twenty years of PPD dominance (Muñoz Marín between 1948 and 1964, and Sánchez Vilella between 1964 and 1968).

⁷⁸ As pointed out by a referee, selling firms to political opponents can be a way of gaining «non-opposition» in Parliament on specific issues and is not per se a signal of government not fostering political interests. In this case, however, it is sensible to believe that the government was not seeking to gain 'non-opposition' in Parliament, because Muñoz Marín's PPD had won all the Senatorial and Representative districts in the 1948 election, as stated above. Thus, absolutely all Puerto Rican legislators were members of the ruling party.

⁷⁹ Puerto Rico Planning Board, Economic development, p. 81, table 48.

competing demands for public debt, because very large new bond and long-term issues of the public corporations were made in 1949-1950, most of which consisted of obligations of the Water Resources Authority and the Aqueduct and Sewer Authority. Moreover, other government policies that provided subsidies to private firms for establishing industries were much more effective for industrial job creation: «While the Government-operated plants employ about 900 persons, they, with the 52 privately operated industries started under the Aid Program, are expected to employ a total of around 8,000 persons when their initial development and training programs are completed».⁸⁰

Another important economic policy objective was to attract foreign capital for the industrialization process, particularly from the continental US.⁸¹ In this respect, Lewis (1955: p. 625) and Goldsmith, Clavel and Roth (1974: p. 144) stress that an important reason for abandoning nationalization was to attract investors from the mainland.

Together with the growing impression that the government's main objectives could not be accomplished by means of a full policy of building and operating publicly owned manufacturing firms, the increasing dissatisfaction with the performance of PRIDCO's subsidiaries was probably another key driver of privatization. Taken as a whole, PRIDCO's subsidiaries were in the black, but only one corporation, PR Cement, was making a profit, and the four other subsidiaries were making heavy losses. Table 4 gathers together information on the profits and losses incurred by each corporation between 1945 and 1950. It is plain to see that only the cement plant recorded profits, and that all the other corporations recorded major losses in each of the years studied. Table 5 shows the statement of earned surplus of PRIDCO subsidiaries in 1949 and 1950, the last years of public operation. As can be seen, accumulated deficit in 1950 amounted to US\$ 1,978,361 (17.3 million in 2010 US\$).

(TABLE 4 AROUND HERE)

(TABLE 5 AROUND HERE)

There was also considerable dissatisfaction with the performance of PR Cement. A comparison of its performance with that of Ponce Cement, a private factory owned by the Ferré Group which had began production in 1942, is particularly revealing. In 1943, Ponce Cement's first year of full operation, its production had been 70.4 per cent of that of PR Cement, and Puerto Rico had become a cement exporter in that year. In 1948, the year in which the decision to privatize was firm, Ponce Cement's production figures were 38.1 per cent higher than those of PR Cement.⁸² In addition to the lead Ponce Cement had achieved in production, the differences in price were also an important factor: While Ponce Cement was selling cement at US\$0.75 per sack, PR Cement charged the Puerto Rican government a price of US\$0.95.⁸³

The comparison between these two cement factories is important within our context, because the other PRIDCO subsidiaries did not have any competitors in the island (although they faced increasing competition from firms on the US mainland). Puerto Rican policymakers were fully aware of the differences in efficiency and productivity between the cement factories, and of the overall inefficiency of PR Cement, as shown by a confidential Report produced by PRIDCO in September 1947 – *Report on Puerto Rico Cement performance and productivity* – a copy of which was addressed to Muñoz Marín:

1) Whereas the cost of living increased by 53.8 per cent between 1941 and 1947, the average hourly wage at the Puerto Rico Cement Plant increased by 192 per cent in the same

⁸⁰ PRIDCO (1949: p. 4).

⁸¹ Perloff (1953: p. 51).

⁸² Baralt (1996: p. 127).

⁸³ Baralt (1996: p. 177).

period. While the average weekly wage increased by 164 per cent [p. 3], (monetary) labor productivity increased by just 48.5 per cent in the period [page 4].

2) The annual salary paid at PR Cement was higher than that paid to the island's policemen (first class) (by 25.23 per cent), to the island's firefighters (first class) (by 87.8 per cent), and to school teachers (by 30.68 per cent) [p. 6].

3) The hourly wage at PR Cement was around 25 per cent higher than in other industrial sectors on the island [p. 9].

4) The hourly wage at PR Cement was around 35.85 per cent higher than at PR Glass, and 87.88 per cent higher than at PR Pulp and Paper [pp. 10-11].

5) The average weekly wage paid at PR Cement was 20.96 per cent higher than at the Ponce Cement plant. PR Cement employed 24 per cent more workers than Ponce Cement (even though Ponce produced more cement). Efficiency measured as labor productivity at Ponce Cement was 31 per cent higher [p. 12].

The points stressed in this report provide a depressing image of PR Cement's efficiency and productivity and must have made a lasting impression on Puerto Rican policymakers.⁸⁴ The situation raised two particular concerns. First, the wage policy in PRIDCO's subsidiaries needed to be reformed in order to make them profitable, but PRIDCO's managers could never satisfactorily deal with this issue because of its political repercussions.⁸⁵ Second, there was the fact that wages paid to PRIDCO's manufacturing workers, especially those in PR Cement Co., were pushing industrial salaries in Puerto Rico upwards, with negative effects on the island's competitiveness and its ability to attract foreign investment.⁸⁶

In stark contrast to the government's plants, the Ferré Group's companies had a fine record of productive efficiency.⁸⁷ Furthermore, Muñoz Marín saw José Ferré, the head of the family business, as an exemplary Puerto Rico entrepreneur, the very opposite of the widespread model of absentee owner that – to his mind – had been one of the main obstacles to the success of local industrialization.⁸⁸ These factors, together with the fact that the bid submitted by the Ferré Group was the best received for the PRIDCO subsidiaries, explains why and how the sale of the four remaining factories was decided in October 1950.

⁸⁴ As mentioned above, the absence of private competitors for the manufacturing subsidiaries other than cement makes it impossible to compare public versus private efficiency before privatization any further. In the same way, the lack of data for the post-privatization period makes it impossible to compare the pre- and post-privatization performance of the subsidiaries sold to the Ferré Group. Still, some comparison on productivity can be made for the case of PR Shoe and Leather, which was sold to Joyce of Puerto Rico in 1949. The productivity per worker by the end of fiscal year 1947-1948 (June 1948) was 2.8 pairs of shoes per day [computation based on production data from PRIDCO (1949: p. 26); data on the workforce in table 2 above]; in the last month of fiscal year 1950 (June 1950), already under private management, production was 3.5 pairs of shoes per worker per day (computation based on data in PRIDCO 1950: p. 20). In any case, it is worth noting that this information was not available at the time privatization was decided.

⁸⁵ Moscoso (1953: p. 61). He stressed as well the fact that, even though the government factories were organized as corporations, PRIDCO had many responsibilities to different government agencies. Because of the lack of co-ordination between the departments of the government, the burden of compliance was excessive (p. 68).

⁸⁶ Lewis (1955: p. 627). The effect of wages on industrial competitiveness was an important concern for PRIDCO's top management. Following the Democratic victory in the 1948 US Presidential and legislative election (supported by the PPD), Moscoso sent a Memorandum to Piñero, Muñoz Marín, and Fernós Isern (Resident Commissioner of Puerto Rico) stating that «the industrialization program may be absolutely destroyed if Puerto Rico is not allowed to maintain the privilege held until now of establishing minimum wages through industrial committees». Taking for granted that the Democratic victory would result in an increase of the minimum wage in the US, Moscoso added «there will be pressure to fully include Puerto Rico in the federal law. Should this happen, the industrialization program would be immediately terminated.» (Moscoso. *Memorandum to Jesús T. Piñero, Luis Muñoz Marín, and A. Fernós Isern*) [author's translation].

⁸⁷ Muñoz Marín (1992: p. 253).

⁸⁸ This can be seen in Muñoz Marín, *Memorias*. I owe this insight to Silvia Álvarez Curbielo.

In 1950, the industrial development program was reorganized. The Economic Development Administration (EDA) was created as a regular department of the Puerto Rico government, operating with funds assigned annually by the Legislature. The proceeds obtained from the sale of PRIDCO's subsidiaries were used to promote EDA's activities, and a new phase of industrial policy in Puerto Rico – the analysis of which is beyond the scope of this paper – became consolidated.⁸⁹

5. CONCLUSION

A large state-owned enterprise (SOE) sector was created in Puerto Rico in the 1940s, a period in which the Island Governor was still appointed by the US President. Several public services were nationalized and manufacturing SOEs were created to produce cement, glass, shoes, paper, and clay products. Between 1948 and 1950, the first elected government in Puerto Rico privatized the manufacturing SOEs, thus implementing the first large-scale privatization policy in a democracy.

This work contributes to the literature by documenting the privatization process in Puerto Rico, and by analyzing the roles played by ideology, political interests, and economic objectives in the decision to privatize. Ideological bias and partisan political objectives do not appear to have driven privatization in Puerto Rico. Unfortunately, the economic and financial information for the manufacturing SOEs is limited. However, available data suggests that pragmatic economic concerns, related to the performance of the government's manufacturing firms, together with the need to attract private investment to foster industrialization in the island, seem to have been the main forces behind it.

At the end of the 1940s, Puerto Rico policy makers applied a highly practical approach to their policies for promoting industrialization. Increasing dissatisfaction with the performance of the manufacturing SOEs, together with improved opportunities for stimulating privately induced industrialization, suggested that the experiment of government-owned manufacturing firms should be terminated. A strong political leadership was able to deliver this policy reform.

To conclude, it is worth stressing that privatization in Puerto Rico was far from being a story of crony capitalism or of coalition building to foster the government's political interests. It diverged radically from the previous instances of a policy of privatization implemented between 1922 and 1925 by the Fascist government in Italy, and between 1934 and 1937 by the Nazi government in Germany. Democracy, which implies checks and balances, transparency, and public scrutiny, may well provide an environment that is less prone to corruption and less politically tainted privatization than a dictatorship. Future research should undertake a more thorough study of the differences between privatization under democracy and under a dictatorship.

⁸⁹ Most of the papers published in the monograph «Puerto Rico. A study in Democratic Development» (*Annals of the American Academy of Political and Social Science*; vol. 285, January 1953) emphasized the highly successful results of this strategy in the short run. These results probably contributed to Muñoz Marín's performance in the 1952 gubernatorial election, when he polled 64.9 per cent of the votes, an all-time high. The Independent Party came second, with 19 per cent. The two parties that had come second in 1948 running as a coalition fared very badly in 1952: the Statehood Party obtained only 12.9 per cent, and the Socialist Party 3.3 per cent. Muñoz Marín retained strong electoral support through his entire career as Governor: in the 1960 election, the last time he ran, he obtained 58.2 per cent of votes. In 1964, his successor as PPD candidate, Sánchez Vilella, obtained 59.2 per cent. This said, it is worth noting that other analyses of the Bootstrap strategy are more critical. For instance, Weiskoff (1985) points out that with that strategy the field was left to whoever wanted to use relatively cheap labor and take advantage of the tax evasion and transfer pricing schemes, eventually creating problems of high unemployment and little net labor opportunity.

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Table 1. PRIDCO manufacturing corporations: organization, operations, and initial investment

Corporation	Date of organization	Beginning of commercial operations	Expected Investment (US\$)	Actual Initial Investment (US\$)	Actual Initial Investment (US\$ 2010)
Puerto Rico Cement	February 1938 ^a	January 1939	n.a.	1,500,000	23,423,531
Puerto Rico Glass	February 1943	January 1945	2,000,000	3,026,000	39,172,057
Puerto Rico Pulp and Paper	April 1944	May 1946	1,200,000	1,504,436	18,907,928
Puerto Rico Clay Products	November 1944	August 1947	247,505	1,140,595	14,012,837
Puerto Rico Shoe & Leather	January 1946	February 1947	n.a.	319,247	3,837,696
Telares de Puerto Rico, inc.	Early 1946	Never	-	86,000 ^b	1,033,813

Notes: n.a.: Not available.

^a The cement plant was acquired by PRDC in 1943, with assets near to US\$2,000,000.

^b The amount for Telares de Puerto Rico, inc. is the deficit accumulated by June 30, 1951.

Sources: Author's own data, based on: (a) PRDC 1944; (b) PRIDCO, 1947, and 1951; (c) PR Government, 1945 and 1946.

US\$ 2010: Author's computation based on CIP indexes of Bureau of Labor Statistics (US Department of Labor).

Table 2. PRIDCO manufacturing corporations: production (July-June), and workforce

Corporation	1946-1947	1947-1948	1948-1949	Work force (June 1948)
Puerto Rico Cement (barrels of cement)	805,393	949,278	1,028,463	156
Puerto Rico Glass (tons of glass packed)	12,900	7,557	18,387	176
Puerto Rico Pulp and Paper (tons)	5,365	3,293	5,980	173
Puerto Rico Clay Products (tons)	-	n.a. ^b	n.a. ^b	205
Puerto Rico Shoe & Leather (pairs of shoes)	74,700 ^a	245,456	316,083	282

Notes: ^a Production of shoes began in February 1947.

^b Production of clay products began in August 1947. Given the heterogeneity of the corporation's outputs, it is not possible to provide an overall figure for annual production.

Sources: Author's own data, based on PRIDCO, 1947, 1948, 1949. Work force: Moscoso, *Letter to Luis Muñoz Marín*, June 24, 1948.

Table 3. The state-owned enterprise sector in Puerto Rican Governors' Annual Reports -AR-

Report	Governor	SOEs in the Governor's Annual Report	Emphasis
43 rd AR 1943	Tugwell	PR Glass Co. is already underway. Expected investment is US\$2,000,000. Other projects under consideration: (1) plant for the manufacture of wall board; (2) textile mill; (3) hosiery kitting mill; (4) paper mill; (5) yeast plants; (6) plant for the production of edible oils and fats and laundry soaps.	Ambitious projects for building publicly operated plants.
44 th AR 1944	Tugwell	Virtual completion of the glass container plant, with a total investment of US\$2,276,890. Creation of the PR Pulp and Paper Co., and the beginning of construction of a paper mill in May 1944. Expected cost to be US\$1,200,000.	Cost of the glass container plant 14% above expectations.
45 th AR 1945	Tugwell	Glass production began in January 1945; a strike in February stopped production for 86 days. Building of the paperboard mill was repeatedly held up by delays in delivery of construction material and machinery; total capital stock issued amounted to US\$1,325,000. The PR Clay Products Co. was organized late in 1944; funds available for use amount to US\$247,504.75. Plans under consideration by the Research and Development Department include plants for making wallboard, cotton cloth, food yeast, shoes, vegetable oils, and meat packing.	Paper mill costs more than 10% above expected. Problems in glass production and paper plant construction. Still, ambitious plans to be implemented.
46 th AR 1946	Tugwell	By the end of the fiscal year, PRIDCO had six subsidiary corporations: PR Glass Co., PR Cement Co., PR Pulp and Paper Co., PT Clay Products Co., PR Shoes and Lather Co., and Telares de PR. Glass, Cement and Pulp and Paper were in operation, Clay, and Shoes and Leather were under construction; construction of Telares was expected to start by the end of 1946.	Three subsidiaries working, and two plants being built. Construction of Telares scheduled.
47 th AR 1947	Piñero	The PR Shoe and Leather Co. went into operation, and the subsidiary to manufacture heavy clay products had successful test-runs. All of the foregoing contributes to the fulfillment of the basic program approved by the Island Government when the PRDC was founded in 1942. To achieve this, the company has developed basic industries such as cement, glass, clay products, paper and shoes. The Company has scheduled construction of a new textile mill in Ponce which will employ more than 500 persons, and has contracted for the building of a yeast pilot plant capable of producing 1,000 pounds of dry yeast daily.	Four subsidiaries working, and one plant to begin soon commercial operations. Basic PRDC program completed. Construction of Telares scheduled.
48 th AR 1948	Piñero	PRIDCO has laid special emphasis on two important aspects of the long range program: encouragement of private industrial enterprise and the development of tourism as a source of income.	More emphasis on promoting private industrial firms
49 th AR 1949	Muñoz Marín	The PRIDC program began with the acquisition of a cement plant, and later the creation of four other industrial plants, three of which showed signs of becoming profitable ventures. PR Glass., PR Clay, PR Shoe and Leather, and PR Pulp and Paper all operated at a loss. The solution to the difficulties of this plant [Pulp and Paper] appeared either to be to adapt it to the manufacture of cardboard or to sell it to private interests who would make an integrated enterprise.	Privatization of PR Pulp and Paper Co. envisaged as a likely solution for its difficulties.
50 th AR 1950	Muñoz Marín	During the year Joyce of Puerto Rico, a subsidiary of Joyce Inc. of California, leased the PRIDCO's shoe factory at Ponce. The PR Clay Co. and the PR Glass Co. operated at a loss. Production by the Cement Corporation was interrupted by a 50-day strike, which caused a sharp drop in earnings. The plant had a net profit of US\$758,000 compared with the last year's US\$1,271,000.	PR Shoe and Leather Co. privatized. PR Cement Co. profits decreased; other plants show a loss

Note: Fiscal years July 1 to June 30.

Source: Author's own data, based on PR Government reports (1943: p. 47; 1944: p. 31; 1945: pp. 30-31; 1946: pp. 38-39; 1947: pp. 93-97; 1948: p. 60; 1949: pp. 60-65; 1950: pp. 88-90).

Table 4. US\$ Net profit /(loss) of PRIDCO corporations, 1945-1950 (Fiscal year July 1-June 30)

Corporation	1945-46	1946-47	1947-48	1948-49	1949-50
PR Cement Co. ^a	457,477	499,643	1,107,308	1,271,735	758,051
PR Glass Co.	(138,615)	(138,634)	(518,949)	(316,367)	(174,573)
PR Pulp and Paper Co.	-	(41,492)	(271,328) ^b	(228,670) ^c	In liquidation ^d
PR Shoe and Leather C	-	(47,580)		(123,596)	(24,505)
PR Clay Products Co.	-	-	(155,000)	(112,538)	(114,900)

Notes: ^a Until 1944-45 the only subsidiary fully in operation was PR Cement Co. Its profits had been US\$493,865.78 (1942-43), US\$492,674.47 (1943-44), and US\$247,908.78 (1944-45).

^b No specific figures for the losses of PR Pulp and Paper Co. and PR Shoe and Leather Co. in 1947-48 were provided. This figure is my own computation for the joint losses based on data in PRIDCO (1948). I found that net loss between July 1 1947 and April 30 1948 for each company was: 173,462 - PR Pulp and Paper – and 20,751 – PR Shoe and Leather – (data from Travieso, *Information on Subsidiaries' results*). Actually, the loss for the whole fiscal year must have been higher, as the joint computation made for the two subsidiaries shows.

^c This figure is my own computation based on information in PRIDCO (1949: pp. 20, 22, 26, 28 29, & 36).

^d In August 1949 the Board of directors of the PR Pulp and Paper Corporation decided to close down the plant and the corporation went in liquidation.

Sources: Author's own data, based on PRIDCO *Annual Reports*, 1947, 1948, 1949, 1950.

Table 5. US\$ Earned surplus/(deficit) of PRIDCO subsidiaries, 1949 and 1950

Corporation	1949	1950	Increase
PR Cement Co. ^a	1,527,031	1,472,245	54,786
PR Glass Co.	(1,221,859)	(1,371,497)	(149,638)
PR Pulp and Paper Co. ^b	(701,220)	(882,376)	(181,157)
PR Shoe and Leather Co. ^b	(211,920)	(497,756)	(285,836)
PR Clay Products Co. ^b	(435,972)	(780,971)	(344,999)
Telares PR	(78,569)	(79,999)	(1,430)
Other combined surplus, other credits and other debits	598,829	161,993	(436,903)
Total earned surplus/(deficit)	(523,680)	(1,978,361)	(1,454,681)

Notes: ^a The decrease in the surplus of PR Cement Co. is due to the fact that profits for the year 1950 were scarcely above 50 per cent of previous year. Nevertheless, PR Cement Co. paid the parent company dividends to the tune of US\$ 800,000.

^b The increase in the deficit of PR Pulp and Paper Co., PR Shoe and Leather Co., and PR Clay Products Co. is partly due to the fact that in those corporations the Research and Development costs were written off.

Sources: Author's own data, based on PRIDCO *Annual Report* 1950.