JOURNAL FÜR ENTWICKLUNGSPOLITIK
herausgegeben vom Mattersburger Kreis für Entwicklungspolitik
an den österreichischen Universitäten

vol. XXII 1–2006

IN MEMORIAM: ANDRE GUNDER FRANK
Was bleibt von der „Entwicklung der Unterentwicklung"?

Schwerpunktredaktion: Karin Fischer und Christof Parnreiter

Mandelbaum Edition Südwind

Journal für Entwicklungspolitik (JEP)
Austrian Journal of Development Studies

Herausgeber: Mattersburger Kreis für Entwicklungspolitik an den Österreichischen Universitäten

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Journal für Entwicklungspolitik XXII 1-2006, S. 55-83

Ricardo Duchesne

Globalization, the Industrialization of Puerto Rico and the Limits of Dependency Theory

1. Introduction

Puerto Rico occupies a peculiar status within the American political system. This Caribbean island was ceded to the United States in 1898 in settlement of the Spanish American War. After an initial two years of military rule, the United States, under the Foraker Act, established a civil government in 1900. This Act provided for local government of Puerto Rico's House of Representatives and a resident commissioner to the American Congress. All other political and administrative offices, including Governor, were appointed by the American president. Congress had the right to overrule any Puerto Rican legislative acts; there was no bill of rights and all federal legislation was binding on Puerto Rico. In 1917 the Jones Act was passed, making Puerto Ricans American citizens, and allowing the island to elect its own legislature. Finally, in 1948 the island was permitted to elect by popular vote its own Governor, and in 1952 the famous "commonwealth" status was created, changing the status of Puerto Rico from a "territory" to a "free associated state" (Pico 1986; Clark 1975). With commonwealth status came a common monetary system and a common defence as well as free mobility of goods, labour and capital between the island and the mainland. Puerto Rico, to be sure, is an anomaly in the American political system: as American citizens Puerto Ricans are subject to the US military draft, but because Puerto Rico is not a state of the Union, it cannot vote in presidential elections and does not have voting representation in the Congress. Puerto Ricans pay no federal taxes yet they are eligible for federal expenditure programs. While the island has its own domestic judicial and legislative system, this legal structure is subject to ultimate validation by the American Supreme Court. Finally, Puerto Rico has its own flag, although it is always raised together with the US flag.

It is obvious that contemporary Puerto Rico is not a sovereign nation: the American Congress has the prerogative to legislate for the Puerto Rican people without their consent. Puerto Ricans have no control over citizenship, immigration and emigration, foreign relations, bankruptcy laws, mail and currency. Yet, on the other hand, Puerto Rico's colonial experience is unique and does not fit the usual historical experiences of colonization. For one, Puerto Rico has long ceased to be an undeveloped colony. Already in 1967 a World Bank Report classified it as a "developed nation", the first Latin American state to be officially given that designation. And there is economic evidence to support this claim – in 1976 the island's per capita income was $ 2,328 in contrast to other Caribbean islands: Cuba, $ 860, Dominican Republic, $ 780; Haiti, $ 200; Jamaica, $ 1,070 (Johnson1980: 150). Indeed, many countries today, particularly in sub-Saharan Africa and Central Asia, are still "undeveloped" although they are politically independent.

As a "prosperous" colony, Puerto Rico is a historical anomaly, insofar as colonies have traditionally served as sources of slave labour and cheap raw materials, and have not been able to modernize. But if the status of the „undeveloped" countries is neo-colonial (formal political independence but economic dependence and control by foreign capital) what is the status of Puerto Rico? Is present day Puerto Rico a classic colony, a neo-colony?, or an industrial country? Clearly by virtue of its political status this island is a colony. Yet in terms of its per capita income and labour productivity, this colony, as will be shown in greater detail below, is an industrial country. On the other hand, in its one sided economic dependency on the United States, this industrial country is a neo-colony. Thus, 85% of Puerto Rico's export goes to the United States, 80% of all manufacturing assets and retail trade are controlled by the U.S., and 80% of new investments funds come from the mainland (Dietz 1978: 21). Yes, however paradoxical it may seem, Puerto Rico is a political colony, an industrial country, and a neo-colony *at the same time*. No wonder this island faces a profound identity crisis!

It is this articulation of colonial, neo-colonial, and industrial status that I would like to investigate in this paper. There are two historical contraries here: (i) the combination of political colonialism and industrialization, (ii) the combination of neo-colonial exploitation and development. I want to assess this double paradox in terms of the two major contending schools of Third Wold development: the classical Marxist theory and dependency theory. Taking Puerto Rico's industrialization in the period between 1948 and 1980, I shall argue that this experience serves as a paradigmatic case suggesting that the export of capitalism, in the age of globalization, does not block development in the periphery, but rather stimulates it. In this respect, I will be leaning towards the classical Marxist ("diffusionist") school, because it fits better with the existing empirical evidence, and because it provides a more rigorous set of concepts than dependency theory. Nevertheless, I will attempt to assimilate aspects of the world-historic perspective of dependency theory, and the way it illuminates the specific role Puerto Rico's economy has played in the international division of labour, and some peculiar aspects of colonial industrialization.

But the overall view proposed here is that both classical Marxist and dependency theory have tended to give a one-dimensional picture of the history of capitalism globalization, in that they do not differentiate clearly any stages of imperialist accumulation. I believe that the world market has been punctuated by three distinct forms of accumulation: independent merchant's capital, "free trade" expansion, and global finance capital. Underdevelopment is not a result of the globalization of capitalism as such - or so I will argue. Underdevelopment represents a particular moment in the history of capital accumulation, namely, independent merchant's capital. Once the centre-periphery exchange relation takes place or occurs within the context of the full globalization of capitalism – the export of multinational branches and scientific and managerial expertise – the "development of underdevelopment" in the periphery will be broken, for, in this globalized form, capitalism has the capacity to cultivate full capitalist-wage relations and institutions in the periphery. Contrary to what dependency (or "world systems") theories insist, what matters is not the *quantity* of surplus transferred from satellite to metropolis – or the difference between the inflow of capital and the outflow of profits; what matters is the *quality* of capitalist global expansion and accumulation.

2. Classical Marxist Theory

According to Simon Kuznets, a leading exponent of diffusion theory in the 1950s and 1960s, "the mass application of technological innovation [...] constitutes much of the distinctive substance of modern economic growth" (Kuznets 1968: 7). Economic development, Kuznets reasoned, is a function of the application of scientific and technical knowledge to the process of production. The more science is applied to production, the higher the rate of growth. Underdevelopment, from this perspective, is simply caused by the failure to introduce modern-scientific technology into the economy. To overcome underdevelopment one needs to diffuse modern science and apply it to the production of goods.

This idea of growth through diffusion of science resembles Marx's argument that the development of instrumental and/or technical knowledge was at the heart of the development of the productive forces. The growth of technical knowledge, as Marx put it, "means merely that less direct labour is required in order to make a larger product" (as cited in Cohen 1980: 55). But there is more to Marx than this. In Marx "technical innovation" and "economic growth" are not fully autonomous factors: there are certain institutional or social relations which either act as "fetters" or as stimulants to the development of the productive forces. For instance, Marx believed that the class structure of capitalism, i.e., the wage labour/capitalist relation was more conductive to technical innovation than non-capitalist relations. He reasoned that once labour and the means of production were exchanged freely in the market, the productive forces would expand through increasing "relative surplus value" by raising the productivity of labour. As the factors of production were turned into commodities, and the needs of human reproduction had to be bought and sold in the market, there would be a constant competitive pressure to create new markets and maximize profits. Those industries that failed to meet standard prices and social levels of productivity would be driven out of business. To step up accumulation capitalists would constantly increase productivity by reducing labour costs per unit of production (relative surplus value; in Dobb 1968; Brenner 1977). Capitalism, as Marx wrote, “cannot exist without constantly revolutionizing the instruments of production and thereby the relations of production” (in Tucker ed. 1972: 338). In contrast, in a non-capitalist society, this pressure was non-existent since the means of production were tied to a fixed structure of social and natural relations. A feudal lord, for example, when striving to maximize the surplus product, would do so by extending the existing scale of agricultural operations, conquering new lands, and increasing the quantity of rents and labour services from the peasantry, as opposed to introducing innovations or increasing labour productivity.

Now, Marx believed that capitalism, in its search for higher profits, would spread throughout the world. He also believed that wherever capitalism was present development would occur, and that “the country that is more developed industrially only shows, to the less developed, the image of its own future.” In his famous article, “On Imperialism in India”, Marx was quite explicit about the growth promoting nature of global capitalism. He observed that the imposition of British rule in India had set the stage for a revolutionary advance of the productive forces in that colony, when you have once introduced machinery into the locomotion of a country which possessed iron and coal, you are unable to withhold it from its fabrication. The railway system will therefore become, in India the forerunner of modern industry (in Tucker ed. 1972: 586).

Colonialism would lead to industrialization. Marx however envisioned the breakdown of pre-capitalist relations of production, institutions, and traditions within India as a result of the spread of British capital. If capitalism was to develop, Marx argued, England has to fulfill a double mission in India: one destructive, the other regenerating-the annihilation of old Asiatic society, and the laying of the material foundations of Western society in Asia (in Tucker ed 1972: 583).

3. Dependency Theory

In retrospect we know that Marx was too optimistic regarding the diffusion of capitalist development in India. Indeed it was the very failure of development in the colonial world which called into question Marx's "diffusionist" vision, leading in the 1950's and 1960's to the formation of a new paradigm on development widely known as Dependency Theory. For the purposes of this paper, I will make no distinctions between the many, conflicting approaches and conclusions that have emerged within the dependency school since its inception in the early 1960s. I will be evaluating the earlier, stronger version of dependency theory associated primarily with the work of Andre Gunder Frank. In the conclusion of this paper, however, I will acknowledge the contributions of the so-called "weaker version" of dependency theory associated with the works of scholars such as Enrique Cardoso (1979), Dos Santos (1970), and Paul Evans (1979)[1].

Dependency theory was quite different from the classical Marxist approach; indeed, it was a direct inversion of Marx's original thesis: the integration of the colonial world into the world capitalist economy was now seen as the cause of backwardness. Paul A. Baran's book, *The Political Economy of Growth* (originally published in 1957) was the first exposition of this thesis in the English speaking world. Baran's argument, based largely on the British-India experience, was that imperialism, by extracting a surplus, had stifled the development of an indigenous capitalism (Baran 1973). It was this argument was later taken and elaborated by A.G. Frank in his seminal works, *Capitalism and Underdevelopment in Latin America* (1967), and *Latin America: Underdevelopment or Revolution* (1969).

The essence of Frank's thesis was that capitalism generated development in some areas at the cost of underdevelopment in others. Frank rejected the diffusionist view that Latin America's backwardness was due to the existence of a feudal subsistence economy that was isolated from the more advanced capitalist economies of the world. He argued, to the contrary, that Latin America was capitalist from the moment it was incorporated into the world market in the sixteenth century. He defined capitalism as a *system of monopolistic exchange*, characterised by the transfer of resources and profits from satellite regions to metropolitan centres. The slave sugar plantations, the mineral mines of the 16th and 17th centuries, and the multinationals of the 20th century were all equally identified by him as capitalist enterprises. Thus, because the backward latifundia economy in Latin America arose in response to market opportunities, it was capitalist, not feudal. Likewise, because the peasants were part of a hierarchic chain of metropolis-satellite exchange relations, they belonged to capitalist relations. Plantation economies using slave labour, profit remittances by multinationals, and interest payments on debt were to Frank but different mechanisms of the same capitalist process by which the centre extracted a surplus from the periphery, and generated the process of the "development of underdevelopment" (Frank 1967; 1969).

4. Puerto Rico: Diffusionism or Underdevelopment?

Evidently, the fact that Puerto Rico managed to achieve a „developed" status by the 1970s seems to contradict Frank's argument that integration into the world capitalist system acts to retard economic development. In fact, much evidence had been mounting since the 1960s indicating that development was occurring in so-called satellite countries of the world, despite economic dependency. In 1973, for example, the Marxist Bill Warren published a highly controversial article, "Imperialism and Capitalist Industrialization", which persuasively demonstrated, through the use of a large amount of empirical data, that capitalist development was rapidly taking place in at least some Third World countries. Warren explained that even if remitted profits exceeded foreign capital, development was possible (and real) since economic change was generated „in between" the inward flow of investment and the outward flow of repatriated profits. After all, he asked: isn't increasing the rate of surplus value the condition for the advance of the productive forces under capitalism?

Is Puerto Rico, then, just another case of Third World industrialization? Although Warren believes that "direct colonialism implanted the elements of capitalism" in the Third World, he is quite clear that *political independence* is a crucial factor in attaining industrialization and diversification of exports towards manufactured goods. He writes, “Independence has permitted industrial advance by breaking the monopoly of colonialist power and creating the conditions in which Third World countries can utilize inter-imperialist and East-West rivalries. Independence has been a direct cause (not just a permissive condition) of industrial advance in that it has stimulated popular pressures for a higher living standard where these have been a major internal influence sustaining industrialization policies” (Warren 1973).

In this sense, Warren implicitly divides the history of imperialism into two periods: the colonial stage and the post-Second World War period, when nationalist states were established in the Third World. And indeed argues that during the first period the gap between advanced and colonial countries was widened because of the monopoly restrictions which *colonial rule* placed on industrial diversification. Only with national independence in the post WW II period were these restrictions removed, allowing capitalist development in the periphery to take full effect, with support from the state, which was now able to exert pressure on foreign businesses to limit the back-flow of repatriated profits and promote local industry. For Warren, then, in contrast to Frank, foreign capital per se does not impede development, in particular when this development is complemented by a national programme of import substitution.

Evidently, Warren’s theory, too, does not explain adequately the experience of Puerto Rico. Puerto Rico, under the popular Governor Louis Munoz Marin (1944-1968), abandoned political independence precisely in the name of the industrialization programme “Operation Bootstrap”. The Commonwealth constitution (1952), which in essence preserved the colonial status of Puerto Rico, was indeed designed to promote capitalism through foreign private investment. In approaching American capital, Munoz and his party emphasized Puerto Rico’s *colonial* relationship with the United States as providing highly profitable opportunities in the island. They argued that Puerto Rico had the same monetary, postal, and juridical system. That there were no tariff barriers, and that the U.S. constitution and most federal laws were applicable in Puerto Rico. As one American official said at the time. The political stability of the island is a significant advantage in attracting foreign capital, and this also appears to be linked to its *political status*. Because it is part of the U.S. and the people are American citizens, U.S. constitutional guarantees of civil and property rights are fully applicable. As a result, owners of foreign capital have no fear of being unable to repatriate their profits or having their property expropriated (cited in Duggal 1975: 99). Moreover, they pointed out that wage rates were lower in Puerto Rico than on the mainland because Puerto Rico was *not a state* and therefore was exempted from federal minimum wage regulations, including control over industrial labour relations, and environmental quality (Caban 1990: 10). But more important, they indicated that U.S. firms would pay no taxes in Puerto Rico since the island was also exempted from federal tax laws under the principle of no taxation without representation (in the Congress). The role assumed by the local government would be simply that of promoting and assisting American private investment. This meant minimizing risks and *widening* profit margins for American firms.

The development strategy thus consisted of an emphasis on Puerto Rico's colonial status as serving to *attract* foreign capital, and allowing for complete *repatriation* of profits. Indeed the political guarantee of *remitting* tax-exempted profits was a key incentive in *attracting* American capital into the island. By 1953, four years into Operation Bootstrap, 300 manufacturing plants had settled in the island, creating more than 25,000 new jobs (Lewis 1974: 170). By 1961 new factories were opening at an average rate of five per week, and by 1970 there were 2,000 foreign enterprises located in the island (Johnson 1980: 39). And it was this inflow of foreign capital, not any programme of economic nationalism, which brought about a steady expansion in Puerto Rico's economy from 1950 to 1970. The annual percentage rate of growth reached the impressive figure of 8.4% during the 1950's, and of 10.6% during the 1960's, at current prices (Wells 1977: 173). In real terms, these figures are as follows: a 7.6% growth rate in the 1950s, 6.8% in the 1960s, and 9.7% in the 1970s (Gautier-Mayoral, 1990, 21). But even more important, this growth, contrary to dependency theory, was achieved together with an upward trend in remitted profits. This is clearly illustrated in the following table[2].

Table 1: Industrial Net Income Generated by Foreign Capital and Total Net profits and Interests Appropriated by Foreign Capital. 1950-1979

	Net Income	Net Foreign Profits and Interests
1950	3.5%	9.1%
1960	53.8%	22.1%
1970	81.7%	42.2%
1976	89.2%	65.1%
1979	91.8%	68.0%

The extent to which profits were remitted abroad is high-lighted by the pharmaceutical industry. This industry – the largest centre in the world at the time – made over $ 2,000 million in profits in Puerto Rico between 1967 and 1977 (of which nearly half were due to tax-exemption), re-investing all the profits in Europe (Gautier-Mayoral 1977: 41)! This is not an isolated case. Since 1960's the difference between GNP and GDP, which is a rough measure of the volume of profits, interests, and dividends flowing out of the island to firms and creditors in the U.S., has been widening. While in 1963 there was no gap between the GNP and GDP, in 1970, the GDP exceeded the GNP by 7.4%; in 1975 the difference rose to 15%; and in 1980 to 25.3% (Dietz, 1982: 500). Weiskoff, for his part, has estimated that, from 1947 to 1983, $ 17.1 billion invested in Puerto Rico gave rise to $33.3 billion in net profits, of which $16.0 billion were remitted (Weiskoff 1985: 59).

Yes, this Caribbean colony has been a profit paradise for American businesses. Since the 1950s, it has been one of the major areas of U.S. investments in the world. Whereas in 1935 Puerto Rico was the 9th market for the U.S. in the world and the first in Latin America, in 1974 it was the 5th market of the U.S. in the world (Gautier-Mayoral 1990: 22). In 1978, 34% of total U.S. direct investment in Latin America was concentrated in Puerto

Rico, of that 42.4% of profits came from Puerto Rico (Campos 1981: 140; Campos 1982: 559). These are impressive figures, the more so considering that Puerto Rico is a small island of 100 by 35 miles, with a population not yet exceeding four million. Now, let us compare (Table 2) Puerto Rico's level of industrialization, by the year 1979, with the major neo-colonial and politically independent economies of Latin America.

Table 2: Selected Countries and Economic Indicators 1979

	Argentina	**Brazil**	**Mexico**	**Venezuela**	**Puerto Rico**
Population	26.7	229.6	64.4	13.6	3.1
GDP (millions)	53.5	156.7	84.3	32.8	11.7
Per capita GDP	2004	1310	1215	2429	3752
Real GDP growth rate, 1960-1979	3.6	7.1	6.0	5.4	6.6
Real per capita GDP, growth rate 1960-1979	2.3	4.5	2.5	2.3	5.0
Gross K formation as % of GDP	24.4	25.5	26.8	41.2	9.6

This table (Aponte 1981) shows that, by 1979, Puerto Rico vis-a vis these countries had (1) a higher domestic product per capita; (2) the second highest growth rate next to Brazil; (3) the highest per capital growth rate, higher than that of Brazil. Yet, at the same time, it shows that Puerto Rico's gross capital formation as a percentage of GDP was exceeded by all these countries - that the inward flow of capital has been lower than outward flow. In other words, although Puerto Rico had the lowest level of *indigenous* capitalism, it had the highest level of industrialization. (Certainly this is not to deny that import substitution programmes in the other Latin American countries played an invaluable role at least in bringing some degree of sovereignty over economic and cultural affairs). The issue is that what this *foreign* capital did „in between" this inflow and outflow (without political independence) was sufficient to industrialize the island. Why?

The industrialization of Puerto Rico was no doubt influenced by its unique political relationship with the United States. There are no tariffs on goods traded between the mainland and the island; the U.S. dollar is the currency, and U.S. capital is free to move into and out of Puerto Rico. Thus, the Puerto Rican economy has no exchange problems like those which trouble poorer countries competing in the dollar-dominated world of international trade. Furthermore, not being a nation state, Puerto Rico does not have to spend on its defence, its postal system, or its diplomatic relations, and therefore can spend more on education, welfare, health and housing. It would be wrong, however, to conclude, as Raymond Carr (1984) has, that Puerto Rico's economy is simply a poor regional economy of the U.S. First, Puerto Rico does tabulate a balance of payments account, unlike any other state. Second, Puerto Rico is not a state; its status is periodically under review, and Puerto Ricans have the option, in the future, to decide whether they want to become a state, reform the Commonwealth arrangement, or become independent – again unlike any other state. Puerto Rico, to use Dietz words, is "a *part* of but not *of* the United States" (Dietz 1987: 233).

Let us not forget that it is precisely this commonwealth status that permits American firms to repatriate huge profits. American companies located in the island have enjoyed, throughout this period of rapid American investment, an average ratio of profits of 15.5% in textiles, as compared to 1.9% in the mainland; 26% in electrical machinery, compared to 3.9% in the U.S.; and 28.4% in the tools industry, compared to 7.3% in continental firms (Lewis 1974: 228-229). On average American investors reaped higher profits in Puerto Rico than anywhere else in the world: in 1974, U.S. direct capital investment in Puerto Rico constituted 5.5% of U.S. investment in the rest of the world. Yet this 5.5% produced profits equal to 10% of U.S. profits in the rest of the world (Gautier-Mayoral 1977: 41). Or, to use another set of numbers, in 1980 direct investment in Puerto Rico represented 35% of total U.S investments in Latin America, and for 44% of profits (Melendez 1990: 48).

As I see it, what Puerto Rico's political status did was to facilitate and augment the investment of American capital, resolving the key economic problem facing any undeveloped economy: how to amass sufficient savings to invest in productive capacity for the future growth of national income. We should not lose sight of the active force at play here: American capitalism by the 1950s had achieved a global potential; it had a large surplus of finance capital, technology and managerial skills to resolve this key problem. Capitalism is bound to the law of accumulation; and nationality is circumstantial to this law. Wherever there is a good supply of cheap labour, political stability and tax incentives, capital will go – as it went to Puerto Rico, where annual flows of direct foreign (mostly American)increased from $ 276.8 million in 1950 to $ 14 billion in 1980 (Melendez 1990: 48). And the greater the amount of capital invested, the higher the level of industrialization.

Now, while Warren recognizes the role of foreign capital in the industrialization of the Third World, he provides no analysis of different stages of capitalist globalization in terms of banking, science, and technology. The theoretical basis upon which he distinguishes the "colonial" from the post-Second World War period is solely according to the type of political relationship between centre and periphery, with little or no attempt to analyse the different types of circuits of capital operating in these two periods: whether it was merchant's capital or finance (global) capital? In this sense, Warren is in company with Frank in seeing a homogeneous continuity in the world market since the „export of commodities" began sometime in the mercantile era. Of course Frank goes to the extreme of identifying any type of commercial exchange in the Third World with capitalism so long as there is unequal exchange on the world market. (Warren traces the beginnings of capitalism in the Third World only in the nineteenth century).

5. Three Stages in the Imperialist Accumulation of Capital

Since the expansionist upsurge of Europe in the 16th century until about the 1970's we can delineate three stages in the international division of labour, reflecting three types of accumulation: mercantile imperialism, free trade imperialism, and finance imperialism (Dos Santos 1970). Let me first portray some of the basic features of these three stages, then I will show how Puerto Rico's colonial experience until the late 1970's can be read in terms of these three stages.

The first stage of the world economic system refers to the mercantile period (1500-1800), exemplified by the triangular trade, when manufacturers were exported to Africa in return for slaves, and the slaves in turn were shipped to the Americas and the West Indies in exchange for sugar. This trade was not capitalism on a world scale. Neither in the periphery nor in the centre did capitalist (wage-labour) relations dominate the market. The transatlantic and east Asian trade network was a system of pre-capitalist societies linked and organized by merchant-capital. The centre exploited the periphery through unequal exchange by buying cheap raw materials in the periphery and selling dear manufactured commodities in the periphery. Following A. Emmanuel's line of reasoning in his book, *Unequal Exchange, A Study of the Imperialism of Trade* (1969), we could argue that a regular transfer of value from A to B was possible since this was an exchange of commodities containing unequal quantities of labour, for there was no equalization of prices or of social costs in the world market. Exploitation was possible as well through the more powerful trading position of the metropolis, in terms of access to natural resources, military power, and marketing techniques.

Yet the centre was not simply skimming-off a part of the existing mass of the periphery's surplus-product, it tended, in the very act of exchange, to enforce a higher rate of exploitation upon the direct producers by subjecting non-capitalist production to the rationality of the market. Mercantilism was more than a system of unequal exchange; it was also a simultaneous process of primitive accumulation. Merchant capitalists did not need to seize control of production directly and reorganize it on a commodity basis. The thing required was that part of the colonial social product be turned into commodities, which could be done by imposing "types of labour control" like slavery, peonage, and forced cash-crop labour (Wallerstein 1974). Witness the native Indians in the Peruvian mines, the black slaves in the Caribbean sugar plantations, and the small peasantry in the Mexican haciendas. Whether by restricting their mobility, expropriating their land, or reducing their time devoted to reproductive needs, the merchant (via the intermediate action of the landlords and slave-owners) could maximize profits, indirectly, without improving the technical methods of production (relative surplus value). Now, it was this combination of unequal exchange and primitive accumulation, not the mere transfer of a surplus, that resulted, at least temporarily, in a process of underdevelopment, of the reinforcement of pre-capitalist relations (Laclau 1971; Kay 1975).

The second stage, which consists of two phases, was marked by the development of capitalist/wage relations in the centre. The first phase (1750-1875) covered the so-called classic era of *laissez-faire* capitalism and its doctrine of the free circulation of goods, which in reality meant the 'mass' *export of commodities* to the periphery. The classic case being England's export of cheap cotton goods to India, destroying India's own handy-craft industry. Nevertheless, even at this stage, the relation and type of accumulation *between* the centre and the periphery was not capitalist. International trade was essentially an exchange of commodities between a capitalistic and a non-capitalistic mode of production. The exchange itself between the centre and the periphery continued to be dominated by merchant capital; the periphery continued to export primary goods produced within pre-capitalist relations, and the centre continued to export manufactured *commodities*, as opposed to capital goods.

It was only in the second phase of this second period (1875 and 1914), sometimes known as the age of the "New Imperialism", that the centre started an aggressive policy of exporting *capital*, at first in the form of loans to governments, but increasingly as direct investments in resource-based industries, i.e., mining, harbour installations, or in plantations. As free competition gave way to the formation of syndicates, trusts and monopolies combining large industry and large banks, a new type of capital accumulation emerged in the centre: finance capital. Still, during this period the export of capital was mostly limited to the mining and agricultural sectors, and the tertiary sectors linked with these such as banking, railways and ports. Consequently, the internal economic and social structure of the periphery were left relatively untouched. In fact, the landed classes were strengthened since they had ownership rights over land and raw materials. The traditional international division of labour remained more or less the same: the periphery continued to export primary goods in exchange for metropolitan manufactures (though now it not only consumed luxuries but also some capital.)

Actually it was during this period that the world system came to be crystallized into "developed" and "underdeveloped" areas. Because the link between the periphery and the centre continued to be dominated by commodity exchanges, the "development of underdevelopment" process persisted, with non-capitalist relations in the periphery still predominant. This was, I think, the historical conjuncture which provided the empirical basis for dependency theory. Since this second phase lasted until the end of the Second World War, and since extensive study on the poverty of the Third World was first conducted during the 1950's and 1960's, it seemed obvious at the time that integration into the world capitalist economy ensured the underdevelopment of the periphery. Having an inadequate comprehension of capitalism, and the various types of capital accumulation, dependency theory failed to see that the export of capital and the transformation of the productive relations in the late 19th and 20th centuries was much less extensive than it appeared.

Only in the third period, after the Second World War, did "the export of capital greatly affect(ed) and accelerat(ed) the development of capitalism in those countries to which it (was) exported" (Lenin 1973: 69). With the rise of multinationals and their vertically integrated operations in the periphery, the internationalization of capitalism reached new heights. Before the 1950's, foreign capital was attached to a small exporting enclave of the colonial economy which turned out raw materials and agricultural products, complemented with some means of transportation for their export. But after 1950 foreign investments were gradually diversified into the manufacturing sector, making the periphery an exporter of manufactured goods. With the consolidation of family firms into cartels, trusts, etc., and the formation of finance capital, the centre was able to mobilize its capital on a world-wide scale with relative ease, something which the small enterprise of the 19th century were hardly capable of doing. It was this massive export of capital after 1950 which finally had the effect of destroying the old modes of production in the colonial countries, and of introducing the capitalist mode of production at the international level.

6. Puerto Rico and the Three Stages of Imperial Accumulation

This theoretical sketch on the stages in the history of imperialism since 1500 conforms to the historic experience of Puerto Rico's link with the world economy. The mercantile period came late to Puerto Rico. Once its precious metals were extracted and its native population decimated, Puerto Rico had little connection with the world economy: from 1500 to 1750 the island was used mainly as a military outpost for the defence of the Spanish Empire, and as a port where ships could garner new supplies. The inhabitants depended on small-scale subsistence agriculture and some contraband trade.

Spain began to concern itself with Puerto Rico's economic role in the Empire only after the mid-18th century. But it was really in the second period of imperialist accumulation that an export-economy developed in the island, first in sugar, and later, after 1850, in the coffee sector. As slaves were brought in for the production of cash crops, the island experienced a transformation from a small holding peasant subsistence economy to a predominantly seigneurial economy producing for export. But the presence of export-oriented agriculture did not mean that Puerto Rico had a capitalist mode of production. First, this economy depended upon the colonial regime: the bureaucracy of the colonial administration and, most important, the merchants. The merchants, mainly Spaniards, controlled the credit that the slave owning/seigneurial classes needed for their commercial production, as well as the marketing. Moreover, the relations of production between owners and producers were based on either outright slavery or servile ties, in which a farm labourer was handed a plot of land for subsistence with the obligation to devote a given time to the cultivation of the commercialized seigneurial land (Scarano 1984; Quintero 1971; 1986). There was commodity exchange but no wage-labour, and no market in the factors of production, and thus very little scope for the capitalist to innovate and accumulate.

The use of a non-market mechanism to mobilize and allocate labour and land in this plantation economy explains why no technical development (except for the importation of a few steam engines and other machines for grinding, curing and boiling sugar) was experienced during the nineteenth century. For one, the slave/seigneurial owners had no incentive to innovate since labour was relatively cheap and obtainable by extra-economic coercion. Sugar production could be maximized by bringing fresh land under cultivation, enforcing stricter control over labourers, or simply by buying new slaves. For another, there was hardly a home market in which free agents would exchange and compete amongst themselves to satisfy their needs[3]. Essentially Spain was a feudal state whose links with Puerto Rico were purely commercial, imposing a set of mercantilist policies which prevented the island from producing goods for their own consumption. Apart from Spanish manufactures, only those European goods which had been shipped to the island through Spanish ports were allowed in the colony. Thus, in Puerto Rico the second stage of imperialism did not involve a "laissez faire" type of accumulation.

The history of the colony in the first 50 years of American rule (1898-1948) does correspond quite well to the pattern of economic domination of the "new imperialism". Already through the last half of the nineteenth century, before formal colonial rule, Puerto Rico was increasingly connected to, and dependent upon, the pressures of the U.S. economy in the form of "free trade imperialism". Form 1850 to 1898 the island saw a rising influx of U.S. manufactured commodities, resulting in a deadly competition for local shoemakers, tailors, carpenters, and other independent artisans, who were thereby turned into sugarcane wage workers or cigar makers. But it was after the invasion of 1898 that the Puerto Rican economy, in sugar plantations, in cigar production, in needle-work operations, became integrated into the U.S. economy. The manufacturing sector in the U.S. demanded a broader influx of raw products to be processed in the metropolis. Thus, the sugar, coffee, and tobacco industries in Puerto Rico were oriented toward exports to serve as sources of raw products to be elaborated in the American economy. For example, no refineries (the final stage in the processing of sugar) were allowed on the island. In fact, Puerto Rico was turned into a classic monocultural colony, with sugar accounting for 60% of all export value in 1935. This sugar was sold virtually in one market as raw sugar to be processed in the metropolis. By 1940 four U.S. corporations controlled more than 50% of the sugarcane land, so that many small subsistence producers were forced to abandon their plots and become hired labourers (Duggal 1975: 93; Quintero 1971; 1986).

Nevertheless despite the formation of this proletariat, capitalism did not develop in this period because there was no supply of *capital and scientific knowhow*. American capital flowed primarily into the agricultural export-sector, i.e., sugar, tobacco, and coffee. The investment directed into new technologies was for larger mills to produce higher quality sugar and for the tobacco processing units (Quintero 1986: 275). Indeed, as late as 1948 Puerto Rico was a classic primary exporting colony dominated by the production of sugar. It was a prototype underdeveloped economy in A.G. Frank's sense. Per capita net income was $ 278 (1954 prices); the gross produce was $732.3 millions (1954 prices); illiteracy was 32 percent; and life expectancy was 46 years (Duggal 1975: 109; for slightly different numbers, see Tata 1980).

Not until the so-called third period of imperialist accumulation, in the 1950's, did the island industrialize, as American corporations, controlling large stores of capital, finances, and expensive technology, began a dramatic and rapid export of capital into the island in response to the "industrialization by invitation" programme. Within the short time-span of 15 years Puerto Rico's economy, to use W.W. Rostow's terms, combined the "preconditions for take-off", "take-off", "maturity", and "mass consumption" stages (Rostow 1960). Per capita income increased from $ 278 in 1948 to $ 3,479 in 1980 (current prices.) Life expectancy increased to 73 in 1980; the illiteracy rate dropped to less than 10% by 1976; 3 out of 4 families owned their own homes and 93 percent of the population had running water by 1977 (Aponte 1981: 138; Tata/Lee 1977: 19; Dietz 1987: 33). Known in the

1930's as the "poorhouse of the Caribbean", Puerto Rico became known in the 1960's as one of the first postwar world's "economic miracle". No doubt, as the following table shows (Passalacqua-Garcia 1984; Wasow 1978: 109), the results, at least in narrow economic terms, were quite astounding.

Table 3: The National Product (in million of dollar)

	1950	**1960**	**1970**	**1974**	**1980**
current	754	1,676	4,622	6,706	11,105
constant 1954 pri-ces	879	1,473	2,901	3,594	--

This is not to say that the export of capital per se resulted in the automatic industrialization of Puerto Rico once it broke down procapitalist relations. This translation of external capitalism into internal development was mediated by very specific superstructural factors. If in Latin America the anti-imperialist national movement of the post-war period forced the centre to incorporate local capital as a junior partner in development; in Puerto Rico, the function of the superstructure was the exact opposite: The colonial status was preserved to serve as the juridical-political framework *facilitating* the entrance of American capital. In this sense, the superstructure or the "political" level accounts for the timing of industrialization, and the fact that a *massive* influx of American capital entered the island as soon as "Operation Bootstrap" was launched in 1948. It does not explain the *fact* of industrialisation, which should be connected to global capacity of American capitalism, but it does explain the *rate and intensity* of industrialization in Puerto Rico.

No doubt regarding Puerto Rico the case can be made that the role of the superstructure extended as far as the world political order itself. I am thinking of the ideological rivalry of the Soviet Union and the United States, or the Cold War. Puerto Rico was not only of strategic-military interest to the United States, it was a propaganda tool in the heat of the Cold War. The significance of this point is evident. One of the most pressing international issues emerging out of the Second World War was the problem of the distribution of wealth between advanced and underdeveloped countries, a problem which became connected with the Cold War as a struggle between the capitalist and the socialist model of industrialization. If Puerto Rico, as a "commonwealth state" of the United States, could be industrialized at a fast pace through private investment, then the island could be presented to the rest of the Third World as an example of a successful road to prosperity via private capital (Friedrich 1959). In fact, the Puerto Rican "Commonwealth" was advertised to the world in the 1960s as the capitalist response to communism, "the showcase of democratic government, international cooperation and fraternal countenance in the free world" (as cited in Lewis 1963: 19). There can be no denying, then, that the meeting of political colonialism with the ideological confrontation of the United States and the Soviet Union was a key *politico-ideological conjuncture* behind Puerto Rico's rapid industrialization.

7. Globalization and the Limits of Dependency Theory

The question remains whether Puerto Rico's external industrialization can be considered, from the standpoint of dependency theory, as a true break from "blocked development", and whether this type of development can lead to the "mature self-reliant" form of capitalism that exists in the advanced industrial economies. By self-reliant I am referring to Samir Amin's term of "autocentric development" – that is, an economy with the internal capacity for extended reproduction, possessing its own producers' sector (Amin 1974). The centre is said to be self-reliant, although not economically self-sufficient, with a diversified economy of exports, and not dependent on a single country, or a few exports, for its foreign earnings. The question, then, is whether Puerto Rico has managed to generate its own producers' sector, its own savings and technology? So far this is not the case in Puerto Rico, which has always imported its technology, and has always depended on external financing. This lack of an internal reproductive sector implies continued dependence on foreign investment and technology for extended reproduction. The local elite planners had expected that a rise in living standards would translate into a higher rate of internal savings leading to less dependence on external financial source. But this hope failed to materialize. Instead the average domestic net savings rate decreased from 6.6% in 1966 to 4.3% in 1969 to 1.7% in 1972 and to -1.3% in 1974 (Wasow 1978: 126). Capitalism brought "mass consumption" to Puerto Rico without bringing any internal productive forces to sustain that consumption.

Now, to the extent that the Puerto Rican economy failed to generate its own producer's sector and technological capabilities, would it not be more accurate to define Puerto Rico's industrialization, to use Enrique Cardoso's term, as "associated dependent development"? Certainly, without a producers' sector there are no conditions for self-sustaining growth and the industrialization process will always remain precarious. Hence should wage rates go up on the island or the tax exemption offered by the U.S. Treasury be abolished, foreign capital will most likely dry out. In fact in 1982 the U.S. Congress came close to reducing drastically these exemptions, and did raise taxes, although much less than the original proposal. In this sense, capitalist development in Puerto Rico, rather than being an "image" of capitalist development in the United States, is an *externally* oriented development. Marxists and dependency theory like to conclude, therefore, that Puerto Rico inherited a type of "extraverted capitalism" that is subject to different laws or tendencies than "self-reliant capitalism".

Yes, on the surface we can accept a dependency perspective on the industrialization of Puerto Rico: the essence of this island's development has consisted in the import of raw materials to be processed in the island and then shipped out as finished or semi-finished products. The island, as the saying goes, "produces what its people don't consume and consumes what it doesn't produce". Multinational branch plants are mainly export oriented with few economic ties to the island. What Puerto Rico acquired were industries whose linkages, both backward and forward, ran mainly to the U.S. economy. The overall export orientation of the economy has remained unchanged since the 1950s. From the start, American branch plants have been operationally integrated with the mainland parent companies. Thus the multiplier effects of American plants within the local economy have been less than they would have been if these companies had direct, national links to the rest of the Puerto Rican economy rather than the American economy. Although a wider range of manufacturing and service industries have replaced the traditional sugar refineries, the low linkages of the earlier staple industries persist, and the ultimate destination remains the export market. Industrialization has brought greater integration of the local economy not with itself but with the American economy. Indeed, both exports and imports as a percentage of GNP have tended to increase (Weisskoff 1975; 1977; 1985). In 1950, half of total income was spent on imports; by 1980, that figure had risen to about 74%. Over the same period, the value of GNP exported increased from 32% to 64% (Dietz 1982).

Still, in light of what we know about today's global economy, the relentless trend towards economic integration across national boundaries, the development of world-wide systems of communication, the intensification of the diffusion of goods, investment, finance, peoples, and ideas across frontiers, and the fact that national states have less and less power to regulate their local economy, has made the whole idea of "self-reliant capitalism" sound obsolete. I would prefer to conceptualize the industrialization of Puerto Rico as a case that anticipated the future economic reality of many "developed" nation-states in the world today. Trade agreements such as the 1993 North American Free Trade Agreement (NAFTA), designed to remove tariff barriers between Canada, Mexico, and the United States, including other "multilateral" agreements on investment, the creation of "Export Processing Zones" in developing countries, designed to exempt transnational corporations from national taxes, tariff duties, and other domestic regulations, not to forget the "dollarization" of currencies in Latin America – were all anticipated by Puerto Rico and its "commonwealth" policies of no tariffs on goods traded between the mainland and the island, the retention of the U.S. dollar as its currency, and the exemption of profit remittances by American subsidiaries on the island from federal taxes. This is not to deny the dependency perspective that the impact and opportunities afforded by globalization is deeply affected by a state's position in global political, military, and economic hierarchies. Statistical data do show, however, that the most globalized developing economies of the last two decades, East Asia and India, experienced the highest GNP per capita growth rates, whereas much of

Sub-Saharan Africa, which hardly participated in globalization, faced negative income growth rates. Between 1990 and 1999, India's GDP increased by about 2.4 percent a year, and China's by an unprecedented 6.4 percent.

There are, however, other features to the Puerto Rican model of colonial industrialization that cannot be easily seen as inherent attributes of the globalization of capitalism per se – or at least not yet. Two features in particular standout: the transfer of massive welfare benefits from the U.S. federal government to the island, and the mass migration of Puerto Ricans to the American mainland. Lack of space prevents a proper analysis of these features, which are well documented by many of the scholarly works cited here, and which become particularly acute through the 1970s and into the 1980s (Weisskoff 1985). Suffice it to say that, by 1980 more than a third of all Puerto Ricans were living on the United States! Yet, in spite of this huge emigration, average unemployment remained much higher in Puerto than in the States. This unemployment – which increased from 11 percent in 1970 to 20 percent in 1977 – was a result of the fact that in Puerto Rico, from 1970 to 1980, the contribution of labour intensive industries (textiles, apparel, leather products, furniture, paper products, glass) to total manufacturing output declined dramatically from 63 to 31 percent, while the contribution of the capital-intensive sector (chemicals, machinery, metal products, oil, rubber and plastics) increased from 35 to 67 percent (Weisskoff 1985; Dietz 1987: Grossfoguel 2003: 59-60). The US federal government, worried about the potential social unrest in this capitalist "showcase" and strategic military location, thus decided to expand its federal transfers. Federal transfers increased from $ 517 million in 1973 to $ 2.5 billion in 1980, and to $ 4 billion in 1989. In 1973, federal aid represented 8 percent of the island's GNP, and federal transfers to individuals in the form of food stamps represented 10 percent of personal income. By 1980, these numbers had increased to 23 percent of the GNP, and to 22 percent of personal income. In 1980, food stamps were used by about 60 percent of Puerto Rican families (Grosfoguel 2003: 59). Whether these features – consider in this context the mass migrations of Mexicans across the American border – are peculiar to Puerto Rico's unique colonial status is a subject worthy of a future paper.

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Abstracts

Der Beitrag greift Aspekte des Weltsystemansatzes innerhalb der Dependenztheorie, insbesondere die Thesen von Andre Gunder Frank, auf und diskutiert, inwiefern diese zum Verständnis der spezifischen Rolle Puerto Ricos in der internationalen Arbeitsteilung beitragen. Der Autor argumentiert, dass die Industrialisierung Puerto Rico's zwischen 1948 und 1980 als klassisches Beispiel dafür dienen kann, dass die Ausbreitung des Kapitalismus im Zeitalter der Globalisierung Entwicklung in der Peripherie nicht blockiert, sondern im Gegenteil sogar fördert. Die Ausführungen legen weiterhin nahe, dass die Industrialisierung Puerto Rico's innerhalb des Kolonialsystems, zusammen mit einer Politik der Zollfreiheit für die zwischen den USA und der Insel gehandelten Güter, der Beibehaltung des US-Dollar als nationale Währung und der steuerfreien Gewinnrepatriierung seitens der US-amerikanischen Tochtergesellschaften die künftige wirtschaftliche Realität „entwickelter" globaler Ökonomien in der heutigen Welt vorweggenommen hat.

This paper assimilates aspects of the world-historic perspective of dependency theory, especially the work of Andre Gunder Frank, and the way it illuminates the specific role Puerto Rico's economy has played in the in-

ternational division of labour. The paper argues that the industrialization of Puerto Rico in the period between 1948 and 1980 can be studied as a classic case suggesting that the export of capitalism, in the age of globalization, does not block development in the periphery, but rather stimulates it. It also suggests that Puerto Rico's industrialization within a colonial framework, including its policies of no tariffs on goods traded between the United States and the island, the retention of the U.S. dollar as its currency, and the exemption of profit remittances by American subsidiaries on the island from federal taxes, anticipated the future economic reality of "developed" global economies in the world today.

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1 Excellent surveys which show the intellectual richness of the Dependency perspective are: Magnus Blomstrom and Bjorn Hettne, *Development in Transition. The Dependency Debate and Beyond: Third World Responses* (Zed Books, London, 1984); Cristobal Kay, *Latin American Theories of Development and Underdevelopment* (Routledge, New York, 1989); Alvin So, *Social Change and Development: Modernization, Dependency, and World-Systems Theories* (Newbury Park: Sage, 1990).

2 This table is an abbreviated version of the same table in Campos and Bonilla (1981, 142). Campos and Bonilla do not use this table to make the argument I do.

3 Bergad (1983) contends that rural labourers were not free until about the 1870s, but that, during the coffee expansion years of 1875-98, a rural proletariat did emerge in the island. However, Brass (1986) insists that non-wage labour persisted right until the end of the 19th century, not in the forms of slavery, but as "debt bondage," which involved a payment in the form of tokens redeemable only at the store of the hacienda, and in which debts were cancelled only with compulsory labour services.