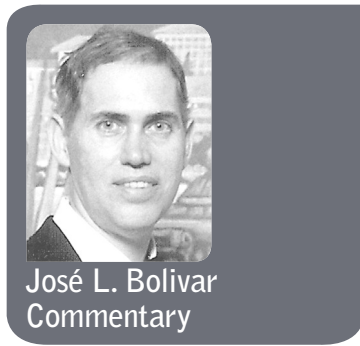


P.R.'s Magic Bullet: The Government Development Bank

No other state in the nation has a Development Bank, yet Puerto Rico has had one since 1942. Historically, most of the bonds sold by the Government, its agencies and the Public Corporations have gone through the capable hands of this institution. Currently, it is at the forefront of the Federal Bailout program, the most single most important program available to Puerto Rico. What were the motives for establishing this institution? Has it functioned as a Development Bank? What were the initial objectives of this institution? Are these objectives still relevant?

At the start of the Second World War, Puerto Rico began to implement an industrial program. Given the economic crisis of the previous decade and the looming war, it was critical that Puerto Rico get on its feet in order to assist in the war effort. Industrialization was seen as the only solution to this economic dilemma. Newly appointed Governor Rexford G. Tugwell worked with the Popular Democratic Party (PDP) and Senator Luis Muñoz Marín to implement such a program. The two pillars of this program would be the Development Company and the Development Bank. The Development Company was designed to promote the industrial effort, while the Development Bank would be responsible for its finances. Unfortunately, things didn't turn out as planned. Here we analyze the conflicts that prevented the original plan from being implemented, and its long-term impact on the Puerto Rican economy.

Development banks, such as Mexico's Nacional Financiera, Brazil's Banco Nacional de Desenvolvimento Econômico e Social, and Korea's Development Bank have demonstrated the importance of these institutions to industrial development. In 1942, during the initial stages of its industrial development, Puerto Rico organized a Development Bank to serve as the financial arm of its industrial program. Our research demonstrates that the conflicting views of those implementing the industrial policy of Puerto Rico and those doing the financing



José L. Bolívar
Commentary

private banking sector.

During the beginning stages of Puerto Rico's industrial development, Rexford G. Tugwell, Governor of Puerto Rico from 1941 to 1946, promoted the creation of a Development Bank. As local entrepreneurs did not want to invest in manufacturing, Governor Tugwell envisioned the Bank as an institution that would be willing to make loans into ventures that were considered too risky by private investors.

The amount of capital deposited in local banking institutions in 1942 was an astonishing \$119,324,000. Fifty-four percent of these deposits belonged to private interest groups. Therefore, capital was available to invest in manufacturing. However, the animosity between the private interest groups and the Tugwell administration, the perceived income that the sugar industry would generate as a result of the impending war, and the weak internal economic structure made investors uneasy about investing their capital, and banks leery of lending it.

Rafael Buscaglia, the Treasurer of Puerto Rico who ultimately became President of the Board of Directors of the Development Bank, could not have disagreed more with Governor Tugwell. He believed that the Bank should not take

severely affected the performance of this institution, to the point where it no longer functioned as the financial arm of the industrial program, but as a governmental bank whose major purpose was to finance infrastructure projects. Financing local and foreign industrial investments was left to the pri-

undue risks and that the industrialization program should be undertaken by private investors, realizing, of course, that the Island's weak infrastructure must be attended to first. Teodoro Moscoso, president of the Development Company—the promotional arm of the industrialization effort—believed that the Development Bank should assume the risks required to implement the industrial plan formulated by the Development Company. According to the laws that created both entities, the Development Company was to be given preferential treatment by the Development Bank.

Another powerful figure in the debate over the Island's political and economic future was the recently elected President of the Senate, Luis Muñoz Marín. During his electoral campaign of 1940, Muñoz, acting as president and founder of the newly minted Popular Democratic party, promised the creation of a People's Bank, which would safeguard public funds and would provide loans to those in need. This concept certainly did not fit the mold of any development bank, much less one envisioned by Governor Tugwell or Moscoso, or even, for that matter, Buscaglia. As such, the divisions within Puerto Rico's political leadership severely limited the efficacy of this institution.

Looking at the challenges faced by Puerto Rico, the role of the Government Development Bank (The original Development Bank was dissolved in 1948, to be replaced by the current institution) is more important than ever. If this institution is allowed to exert its influence on all public corporations and government agencies requesting federal aid and loans, then we can rest assured the monies will be well spent.

José L. Bolívar holds a doctorate in history and is completing a book on the economic impact of the Second World War on Puerto Rico, which is scheduled to be published this year by the University of Florida. He may be reached at jbolivarpr@prtc.net.

The penepéista agenda

To Will Sims:

Resident Commissioner Pierluisi isn't supporting a vote in the House for the disenfranchised Washingtonians because getting such representation for a non-state might give Congressfolks ideas, Puerto Rico may be next. But isn't taxation without representation tyranny? We don't pay federal withholding, but they do.

Penepéista M.O. in Congress has always been to undermine the Commonwealth, never mind that we get hurt when they do. The end justifies the means, as Lenin used to say.

And don't you think that whatever we call our resident commissioner is somewhat beside the point?

*Eleuterio Serpieri
Santurce*

Moving toward a new era

President Bush indeed sounded like he owned the world, as Hugo Chávez was quick to point out. I recall when he chastised Mr. Putin for being less than diligent about democratic reforms.

Despite what Hollywood and TV tell you, the United States is no Shangri-la of freedom. It's a nation of riches and rags, a society riddled by social injustice, crime, narcotics and alienation. Try strolling through Washington D.C. after 9:00 PM and see if you make it back in one piece. And if you want to experience the full meanness of a police state, move to Texas.

The nation-state is becoming an anachronism. But so is imperialism. The United States now spends more on its military than the rest

of the world put together. We're all going to pay a price for this shortsightedness.

World governance must be shared, not hogged by a fearful superpower. Such macro democracy promises to be a mess. But we might as well start working at it now, rather than in the aftermath of rivers of blood.

*Bob Harris
Condado*

Abolish the guilds!

I believe that the Bar Association should be abolished as a compulsory membership institution. In fact, I believe all those compulsory "colegios" that have been created through the last few years need to be eliminated. They are just a plot to provide front organizations for the radical elements to be later used as alleged "spokesmen" for whatever cause they want to foist on us. If there must be compulsory membership, then let the laws creating them require that quorum for any and all of their meetings be fifty percent plus one of the total dues paying membership of the organization. Then we'll see how long they can keep up their monkey business.

*Enrique V. Pujals
Via email*

Legislative priorities

We have serious challenges ... massive job layoffs, huge deficits, high crime, mayhem on the highways and more. So, what is NPP Rep. Angel Gary Rodríguez worried about? Movie ticket prices. Surely he can find better ways to

use his time and energy than to tell a private company how to run its business. It's like the Closing Law. Government should have nothing to say about when a store opens and closes. That should be entirely the decision of the business itself. If movie prices don't suit, don't go. Or wait for the DVD and rent it for a dollar from Red Box. When will government learn that price-fixing doesn't work and infringes on the rights of private citizens.

*Will Sims
San Juan*

Awareness vs. careing

To Juan Santoni:

You describe at length the plight of the homeless in the Metro. Then you go on to craft various remedies. But it's not that our leaders aren't aware or don't know what to do. They just don't care.

*Rocco Sastre
Ponce*

The sharks are back

Yes, the *penepéistas* are at the helm again, meaning the sharks are back in the water. And a Great White has just reared its snout at Fortaleza, none other than Donald Trump. Like when Michael Corleone and his gangsters went to Havana and got their gold telephones from Fulgencio Batista in Godfather III.

*Mimi Arjona
Isla Verde*

