

Tax evasion: the constant nemesis of Governors Tugwell, Muñoz Marín and Fortuño

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In his first State of the Union Address, Governor Luis Fortuño commented extensively on the need to balance the island's budget. During his speech he repeatedly mentioned the need to raise the level of income of Puerto Rico and to cut governmental costs, particularly its payroll, as the two most urgent priorities of his administration.

We propose another priority: reducing the size of the huge underground economy of Puerto Rico. According to some government estimates, the income of the island could increase by 20 to 30 percent if we were more diligent in collecting taxes. Imagine what could have been achieved during the past 20 years, in social and economic development, if this money had been collected and put to adequate use! It should be noted, however, that tax evasion has been a prevalent problem for the government since colonial times. It became highly noticeable during the years of the Second World War, when the underground economy was known as the Black Market.

As a result of the build up of the military infrastructure in Puerto Rico starting in 1940, items such as cigarettes and beer destined for the armed forces were sold in the black market to the civilian population. Since these transactions eluded local taxation, the newly created black market adversely affected the coffers of the government of

Puerto Rico. The black market products were cheap and easy to get, adversely affecting sales of locally produced cigarettes and beer.

In order to avoid inflationary problems that resulted during the First World War and the black market that it fostered President Franklin D. Roosevelt approved the creation of the Office of Price Administration and Civilian Supply (OPACS) in April, 1941, later known as the Office of Price Administration (OPA). In January 1942, Congress passed the Emergency Price Control Act to give the OPA secure legal standing, giving its administrator the authority to set prices he deemed "generally fair and equitable" the power to sue violators and to seek court injunctions and criminal penalties.

The OPA's price freezing policies were not strictly enforced in Puerto Rico until 1945. Initially, it seems they were even disregarded. As early as October 25, 1942, for example Luis Muñoz Marín, president of the senate (at the time, Rexford Tugwell was governor), was asking his friend Santiago Iglesias Jr. from the Division of Territories to purchase as many "Lucky Strike" cigarettes as he could comfortably carry with him on his return trip from Washington since they were difficult to obtain locally. Muñoz Marín wrote he would reimburse his friend for the cost of the cigarettes and if he would not accept cash, he would provide him with whiskey or some other form of payment.

By July, 1945, with the end of

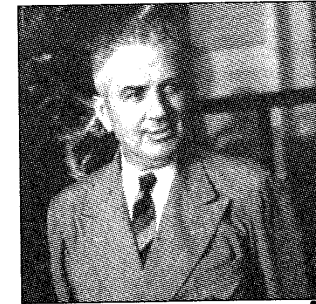


Governor Luis Muñoz Marín, 1946

the war in sight, the OPA became more adamant that its policies be adhered to. The two major island newspapers, as well as the six radio stations were used by the PPD to "educate" the public regarding the pricing policies of the OPA. Since it was assumed that only 360,000 people would be reached using this method, the 8,000 teachers of the public school system of Puerto Rico were recruited to identify black marketeers and notify the OPA. During the summer of 1945, these teachers dedicated most of their free time to combating black market practices and influencing the general public through conferences and similar activities. Given the lack of job opportunities in Puerto Rico at

the time, they had little choice but to support these policies. In addition, all 300,000 students of the public school system were also trained to report violators of the OPA policies. Consumer committees were established to fend off the black market.

As of July, 1945, 287 committees had been formed throughout the island. These committees were responsible for educating the public and remaining vigilant about black market practices. Muñoz Marín even wrote to President Harry S. Truman indicating that the black market practices in Puerto Rico resulted "in a lowering of nutrition which is a crime against humanity and constitutes a dan-



Governor Rexford Tugwell

gerous threat to public health." Muñoz Marín added that his objective in writing the president was to urge that no "executive pardon or retrieve" be granted to anyone sentenced for black market practices under the federal court in Puerto Rico. "Do not fine them, send them to jail," advised Muñoz Marín regarding the black marketeers.

Muñoz Marín also sent letters to civic organizations, including the Rotary Club of San Juan, asking for volunteers to picket these black marketeers and indicating that he, the President of the Senate, would be among them. Sam Gilstrap, Territorial Director of the OPA, believed the chances of winning the fight against the black market had increased now that Muñoz Marín "has entered the fight against the black market in Puerto Rico."

Will Governor Fortuño follow former Governor Muñoz Marín's advise and send violators to jail? It would certainly send a strong message that he is serious about reducing the huge amount of income lost through tax evasion. If this policy is successful and tax evasion no longer siphons such a large part of the national income, he might even have the luxury of lowering taxes much sooner than he anticipated.