

2016-05-23

# A Developmental Theory Analysis of the Puerto Rican Popular Democratic Party's (PPD) Economic Policy

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UNIVERSITY OF MIAMI

A DEVELOPMENTAL THEORY ANALYSIS OF THE PUERTO RICAN POPULAR  
DEMOCRATIC PARTY'S (PPD) ECONOMIC POLICY

By

Armando A. Torres Alfonso

A THESIS

Submitted to the Faculty  
of the University of Miami  
in partial fulfillment of the requirements for  
the degree of Master of Arts

Coral Gables, Florida

August 2016

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A Developmental Theory Analysis of the  
Puerto Rican Popular Democratic Party's (PPD)  
Economic Policy

Abstract of a thesis at the University of Miami.

Thesis supervised by Professor John W. Murphy.  
No. of pages in text. (92)

The Puerto Rican Popular Democratic Party's (PPD) 2012 governmental platform and interviews with party officials were evaluated from the perspective of developmental theories, including Amartya Sen's Capabilities Approach, Neoliberalism and Developmentalism. This study aimed to determine whether the international prevalence of a gap between developmental theory and practice is reflected in the case of economic policymaking in Puerto Rico. The key finding is that the PPD is ambivalent on developmental theory and, as a result, promotes both Developmentalist and Neoliberal policies, with a greater emphasis on the latter. Further, this mixing of theories could explain developmental inefficiency and/or failure. A Developmentalist set of policy recommendations is enclosed.

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## **Chapter 1**

### **Introduction**

Why does the quality of life vary among the countries of the world? Is the quality of life in a country solely dependent on individual incomes or a societies' economic strength, or are other cultural issues also important? Past and contemporary social and economic theorists would answer these questions differently according to their respective beliefs about what should be taken into account, and which methods should be the focus of attention when developing a particular country.

Theories of development distinguish themselves from theories of economic growth in that they pay attention to the conditions and social consequences of production, such as the effects of economic activity on the environment and income distributions (Peet, 1999). However, various dominant development theories today, such as neoliberalism and neoclassicism, equate social development with economic growth (Peet, 1999).

As a result, a country that may be depleting its resources in an unsustainable way, and may have unequal power relations in terms of gender and race, would still be seen as highly developed if it scored high on measures such as gross domestic product. Furthermore, the two theories mentioned above are based on the modernist notion that the Western world is more developed than other countries, and that the latter, therefore, must adopt the former's political and economic ideals in order to achieve optimal development.

Modernism has been criticized in various ways, ranging from the perspective that its implementation and beliefs need to be modified to the view that it is hypocritical and



useless as a guide for adequate development (Peet, 1999). These critiques originate from disparate theories of development that focus on different groups that have been victimized by modernist policies.

While proponents of both radical modernism and Marxist theory, for example, hold that modernism has facilitated indisputable progress for humankind, they also argue that the environment and the poor, in the case of the former, and the working class, in the case of the latter, are neglected. Other theories include feminism, which calls attention to unequal power relations between men and women, and post-structuralism that sees modernity as merely a strategy for acquiring power and enforcing social control (Peet, 1999).

### **Key Issue**

While theories differ in terms of the factors they emphasize as crucial for development, they are not informing either local economic practices or the implementation of broader policies (Rowe, 2009). As James Rowe explains, in *The Importance of Theory: Linking Theory to Practice*, there is a problematic disconnection between those who practice and those who theorize about economic development. While academics strive to develop theoretical models based on their beliefs of what kind of development generally works, they do not specify fully how theories can be applied to particular countries. Similarly, development practitioners do not necessarily value theory as being crucial for their decision-making.

The implications of this gap for economic development are two-fold: unrealistic theory and piecemeal planning (Knudsen, 210). As Knudsen argues, in *Response: What Works Best? Reflections on the Role of Theory in Planning*, the United States' welfare

policy is a contemporary example of how a lack of theoretical foundations when planning can lead to misinformed practice. U.S. welfare policy reflects individualist notions of poverty that are grounded on the country's political and social history (Knudsen, 209). As Knudsen proceeds to explain, this kind of practice both affects, and is affected by, a country's social background, and therefore requires a theory that explains how these factors influence each other.

Another important way in which theory and practice are separated is that social scientists are not required to implement their theories, and therefore planners are not being taught any formal theories (Knudsen, 210). Knudsen also mentions that this is a United States phenomenon that contrasts with European and Third World countries, where interaction between theorists and planners is commonplace. Therefore, the United States should fill this gap by teaching formal theory to practitioners, while requiring theorists to implement their theories and create multidisciplinary teams (Knudsen, 210).

Andrew Beer, in *The Theory and Practice of Developing Locally*, echoes the argument that there is a gap between the academics who study and write about development and the practitioners who implement policies. As he explains, there are certain processes that drive the development of theory and the practice of local development in diverging directions (Beer, 64).

On the side of academics, these processes include the fact that their professional success depends on being published in peer-reviewed journals (Beer, 65). This demand leads to a focus on building theories whose value is assessed by established academic criteria, instead of the ability to be applied successfully in the real world. On the side of practitioners, several of these processes include the fact that they do not share the same

kind of knowledge as academics, and are working for governments where they might not have the ability to act beyond the wishes of politicians (Beer, 68).

Economic development practice in the United States has been guided historically by unrealistic theories. Le Heron (2009) explains how the theoretical models for economic development that were implemented between the 1950's and 1970's were not based on analyses of actual economic processes and, as a result, were too detached and idealized. These models, which are based on the Keynesian and neoclassical economic theories, were under-conceptualized and, consequently, exposed unwitting practitioners and communities to unnecessary risks (Le Heron, 100). Specifically, both models focused on the national level and left a gap with regard to explaining sectorial differences and providing strategies aimed at specific regions within a country.

### **Issue in Context**

The Puerto Rican Partido Popular Democrático (Popular Democratic Party) was founded in May 1937 by Luis Muñoz Marín and his followers. Muñoz Marín, the son of one of the country's most influential politicians up till then, had previously been a member of the pro-independence Partido Liberal (Liberal Party). As the new leader of the PPD, however, Muñoz Marín decided to leave the status question for later and instead focus on proposing labor and land reforms (Ayala and Bernabé, 139). In 1941 Muñoz Marín was elected president of the Puerto Rico Senate and, along with his team, initiated various social measures.

These changes included an agrarian reform, legislation addressing labor and wages, the organization of public utilities, and the creation of a planning board, a government bank and an industrial development company (Ayala and Bernabé, 144).

During this early phase of the PPD, Muñoz Marín demonstrated a concern for avoiding corporate monopolization and economic polarization by supporting workers' strikes and limitations on the size of farms (Ayala and Bernabé, 145).

Although Muñoz Marín had been a firm believer in both New Deal-type reform policies, along with independence as a way for Puerto Rico to free itself from exploitation by U.S. capital and develop its own industries, he gradually altered his political stance (Ayala and Bernabé, 149). Specifically, Muñoz Marín subscribed to the modernist theory that progress can only be achieved by adopting Western models of development. This change is evident in his ideological shift, which was now characterized by a belief in the need for Puerto Rico to develop amicable relations with the U.S. foreign policy establishment and U.S. investors (Ayala and Bernabé, 151). Muñoz Marín's new economic agenda led to Operation Bootstrap, a series of projects which transformed Puerto Rico from an agrarian to an industrial economy. These projects led to short-term growth and long-term social inequality and lack of economic independence (Ayala and Bernabé, 153).

The economic strategies of Operation Bootstrap, including its short and long-term effects, give empirical validity to the claim made by dependency theorists that relationships between developed and dependent nations have led to structural imbalances between them (Tausch, 469). The policies that Operation Bootstrap set in motion, and which lead to the loss of Puerto Rico's economic independence, characterize those of dependent countries and included a high penetration by U.S. capital, unequal relationships of exchange, and the subordination of productive capacities to the interests of the more developed United States (Tausch, 2011). The long-term negative effects

included the rise of unemployment in the 1960's, which can be seen today by observing the still high rates of unemployment and dependence on U.S. federal subsidies (Enciclopedia de Puerto Rico, 2015; Ayala and Bernabé, 153).

In 1976 the governing PPD administration lobbied successfully the United States Congress to implement Section 936 of the Internal Revenue Code, which allowed U.S. companies to transfer liquidated assets accumulated on the island back to the U.S. without having to pay the federal tax (Ayala and Bernabé, 268). The “tax haven” status that Puerto Rico acquired attracted high-tech, capital intensive companies throughout the next decades to the point that the largest locally-owned exporter in 2002 contributed less than 1% of the revenues of its industrial sector (Ayala and Bernabé, 269).

Section 936 led to a socioeconomic polarization made up of a capitalist class that acted mostly as an intermediary to U.S. producers and a large unemployed sector that never fell below 15% throughout the 1980's (Ayala and Bernabé, 269). While the 1990's were dominated by privatization and monetarist and neoliberal policies implemented by the pro-statehood PNP (Partido Nuevo Progresista), the only main opposition party to the PPD, the latter did not seek to undo any of these practices when it governed from 2000 to 2004 (Ayala and Bernabé, 308).

Since the gradual phasing-out of Section 936 during the 2000s, initiated and supported by the PNP, the PPD has lacked any coherent economic model capable of lifting Puerto Rico from poverty, which doubles the rate of the poorest state in the United States (USCB, 2013). In fact, the PNP has prevented political backlash from the unemployed and the poor by creating a culture of dependence on welfare that is made possible through funds provided by the United States. Luis Muñoz Marín had governed

Puerto Rico from 1949 to 1965 (and the PPD party had governed until 1969) and contributed to the improvement of the living standards of the citizenry, but also to the formation of a dependent, subordinated, and fragmented local economy.

Throughout the last three (3) decades of the past century tax-exempt U.S. companies benefitted from Puerto Rico's commonwealth status (Ayala and Bernabé, 268-272). More recently, privatization and anti-union policies by both parties have decreased the country's degree of local control and increased social inequality. The economy in Puerto Rico today lacks the means to respond to new shifts in the world-economy, foster economic development, and improve its deteriorated socioeconomic state (Collado-Schwarz, 2012).

### **Contribution to Literature**

This study aims to contribute to the body of academic literature that warns government policymakers against neglecting to understand and consider theories of development when proposing and implementing policies. By gathering and analyzing the policies and implemented and/or proposed legislation of various PPD officials in the 2012-2016 term, the goal is to determine whether or not policymaking in Puerto Rico reflects a particular theoretical framework with regard to development. Specifically, PPD policy throughout this 4-year span is analyzed through the lens of various developmental themes, in order to assess whether it is in agreement with any of these perspectives.

The notion of PPD policy refers to its platform and to officials' policies and proposed legislation. Besides analyzing PPD policy to determine whether or not it reflects a coherent strategy that concords with a particular theory, interviews were carried out with PPD officials to assess whether or not any observed strategic coherence (or lack

thereof) with regard to development is purposeful. In other words, interviews will help determine if any strategic coherence, in terms of a specific approach to development, is present due to officials' knowledge and use of a particular theoretical framework, or to other reasons. In this way, the point is to gain insight into whether or not the Puerto Rico PPD's developmental policies represent another case of practitioners neglecting to consider academic theories, or at least those that address Puerto Rico's unique socioeconomic and political conditions.

The aim of this study, accordingly, is twofold. First, an assessment is made of whether there is concordance between the official PPD party platform and the policies and the legislations that have been proposed and/or endorsed. Is any coherence present between these elements via a developmental-theory lens and interviews? The presence of any theoretical framework underlying PPD policy would then prompt an assessment of whether this outlook is adequate with regard to addressing Puerto Rico's specific social problems. The second aim is to assess whether policymakers are consciously and purposefully taking developmental theories into account. In other words, do PPD officials have knowledge of developmental theory to any degree? This question sheds light on how PPD policy compares to the previously mentioned cases where gaps between academia and politics are evident. Therefore, the first and second research questions are:

1. Is the PPD party's platform, policies, and proposed and/or endorsed legislation theoretically coherent with one another?
2. Does PPD policymaking take into account developmental theory?

The first question is addressed through “close reading” and analysis of interviews (Althusser, 1965). Specifically, the PPD Party’s official platform is examined closely, in order to detect the presence of developmental theories. Additionally, policy papers written by the PPD, along with legislation, are examined in a similar manner. The idea is to determine whether there is theoretical coherence throughout these documents. In addition, interviews help determine whether officials are aware of the party platform’s strategies, whether their policies and proposed legislation are in accordance with the platform, and whether their policies and legislation are in accordance with each other. Also, policies that have been proposed and/or implemented by different PPD officials are analyzed via content analysis of political-economy journals.

The second question is answered via interviews. PPD officials were interviewed in order to determine their knowledge of these theories and their impact. Officials were asked directly whether they possess knowledge of developmental themes. If necessary, both economic theories such as neoliberalism and broader developmental theories such as Amartya Sen’s capability-approach were mentioned to clarify to officials what is meant by developmental theory. Also, officials were asked whether their policies reflect an overarching developmental theory.

### **Conclusion**

By studying PPD policies and their relation to academic developmental theories, a contribution will be made to the argument that the disconnection between theory and practice leads to inadequate developmental planning and implementation. By collecting and analyzing the theoretical basis of PPD policy in the 2012-2016 period, an assessment can be made of whether or not it constitutes a complete and adequate developmental



strategy for Puerto Rico. In addition, by observing the effects of PPD policymaking and (potential) use of developmental theories, the importance of the latter for the former's adequacy and effectiveness can be assessed.

### **Organizational Plan**

This thesis will adhere to the following outline:

I. Chapter One: Introduction

The aim of this chapter is to supply a general context for the rest of the study.

II. Chapter Two: Methodology

Data for this study originate from three sources: academic and policy articles, the PPD Party platform, and interviews with PPD personnel and legislators.

Information is derived from the political platform, legislation, and policy articles through content analysis. These documents were examined to detect the presence of developmental theories and any understanding of their social impact.

Data from PPD personnel and legislators were obtained through interviews.

Seven (7) of these persons were interviewed.

III. Chapter Three: Developmental Theories

The key dimensions of the most pertinent development theories are outlined and discussed. The important theoretical considerations of each one are identified, especially in terms of how poverty should be addressed.

IV. Chapter Four: PPD Party Platform

The PPD Party platform is examined in order to assess the presence of any development theories. Although this document may serve to provide an ideology for the Party, key programmatic issues are also available.

V. Chapter Five: Interviews

Seven (7) PPD personal and/or legislators were interviewed. The purpose of these interviews is to assess whether or not these persons understand the Party's platform, any developmental theories that are present, and the potential impact of these theories, if any, on the reduction of poverty. Is there any connection between policies and academic theories? If so, do those theories address the unique context of Puerto Rico? And furthermore, are the policies that are operative consistent with a theory of development that will lift Puerto Rico out of poverty?

VI. Results and Discussion

An examination of the data obtained is offered, along with a discussion of these findings. The discussion includes assessments of how the PPD's theoretical basis (or lack thereof) affects policy formation, and its effects on Puerto Rico's socioeconomic climate. Policy recommendations are also offered.

## **Chapter 2**

### **Methodology**

#### **Summary**

This study combines a description of the main arguments of some of the most important developmental theories, along with an assessment of the economic policy of the Puerto Rico Popular Democratic Party (PPD) that is rooted in interviews with party officials and a review of the policies listed in the 2012 PPD platform. In addition, the conclusion of this study comprises an analysis of PPD economic policy that is based on a review of developmental theory, which also then serves as a theoretical framework to assess the adequacy of PPD developmental strategies and suggest alternative plans.

The review of developmental theory captures some of the most important theoretical trends, along with their contradicting assumptions about how and why countries developed differently, with some achieving more success than others in terms of well-being. This assessment was made by reviewing journals and other texts that explain the logic of these theories, and/or how they are applied in policymaking. The 2012 PPD platform was thus summarized with an eye to the general strategies and vision of the PPD. Additionally, interviews were carried out in Puerto Rico with PPD officials and addressed the economic challenges they were facing, their vision of development, their view of the coherence and character of their party, and the role that academic theories play in policymaking. The aim of this overall strategy is to gain insight, from several angles, into the policy making strategy of the PPD.

## Theories of Development

Chapter Three contains a review of some of the most important developmental theories: neoclassical economics, developmentalism, dependency theory, neoliberalism, and the capabilities approach, along with their respective assumptions about human well-being and the means to achieve this aim. Neoclassical economics was chosen because this thesis has dominated mainstream economic thought since the mid-to-late Nineteenth century, and especially in contemporary times since 1980 (Peet, 2008). Neoliberalism is founded on neoclassical principles, such as the emphasis on uninterrupted market competition, economic growth, and abstract models and formulas, and is the current economic paradigm. Developmentalist theory came about in the post-Great Depression era as a critical reaction to fundamental assumptions of neoclassical economics. Developmentalist strains include Keynesian thought in the United States (Meier, 1984), Asian developmentalism, and structuralism in Latin America. Similarly, “new developmentalism” is a contemporary mode focused on industrial policy and critical of the neoliberal paradigm in development economics (Rafi Khan & Christiansen, 2011).

Dependency theory is also important because, unlike other theories, this approach accounts for how real economies are the product of centuries of imperialism, colonialism, monopoly and unequal international exchange (Kelly, 2008). This theory is important because it rejected the modernist assumption that less developed countries have institutions that are inferior to those of the West and that they must embrace the latter’s free-market policies in order to prosper. Amartya Sen’s capabilities approach, lastly, is significant as an economic theory because this perspective questioned the prevailing

assumption of well being as utility, and placed the guarantee of freedom at the core of development economics instead of market growth (Sen, 1999).

The purpose of outlining the central tenets and assumptions of these theories of development is to use them as a lens with which to analyze PPD policymaking. The party's economic policy, or theoretical perspective, is represented by the policies endorsed in the 2012 PPD platform, and in interviews carried out with five PPD representatives, one PPD senator, and the PPD governor-appointed Secretary of Economic Development. After describing the central ideas and policies stated by officials and in the platform with regard to the Puerto Rico economy in the 2012-2016 term, they can be understood from the point of view of the key theories of development.

The information in Chapter Three is also derived from a review of journals and texts related to development economics that convey general definitions and interpretations of the different theories. Besides being able to apply a theoretical perspective to PPD policymaking, this chapter also can assist in suggesting policy alternatives. Specifically, knowledge of developmental theory offers a unique reference point when considering economic policymaking because these "data" provide many dimensions from which to analyze human welfare. For example, while neoliberal thinking might lead to policies of unrestricted trade and limited government, as well as tax benefits for large corporations, developmentalist theory could imply an emphasis on industrial policy, specifically investing in local growth-sectors. Dependency theory, on the other hand, has been associated with import substitution industrialization (ISI). Additionally, Sen's capabilities approach implies investing, so that all citizens have the freedom to contribute to society and benefit from the market and political establishments.

## **PPD Platform**

The 2012 PPD platform was reviewed and summarized with the purpose of observing the central issues and policies that are delineated. Knowledge of developmental theory served as the lens to evaluate the underlying assumptions behind the policies advocated by the PPD in their program for the 2012-2016 political term. This kind of analysis is presented in the concluding chapter of this study. The 2012 PPD platform, then, was used as a tool to gain insight into the theoretical underpinnings of the many proposals for action and policies that are set forth in this program. The platform is analyzed in Chapter Four.

This platform contains a foreword by the current governor of Puerto Rico, Alejandro García Padilla. In this section, the governor specifies that the platform has been developed by engaging in dialogue with not only experts from diverse fields of discipline, but also with “the people” (“la gente”). The Foreword was signed in June 10, 2012, approximately five (5) months before the general election. The platform was obtained by carrying out an online search, which revealed only two websites that contained this document. These websites are Microjuris, an international jurisprudence, law, and doctrine database that was founded in Puerto Rico in 1989, and Issuu, a free electronic publishing platform. Microjuris was used to read and summarize the platform. This database specified that the platform was obtained from the official PPD website, although I could not locate such a file in the latter location. Microjuris published the platform in September 12, 2012, less than two (2) months before the November 6 general election. The database also published the platforms of the competing parties. This sort of analysis represents a style of “close reading” (Althusser, 1965). The point is to gain a

sympathetic understanding of the assumptions that are operating. In this case, is the PPD platform based on certain assumptions at the root of specific developmental theories? The point, simply put, is to reveal any connection between developmental theories and the economic vision of the PPD.

During the platform summary phase of this thesis, I contacted the PPD headquarters via telephone to obtain information about how this document was created. Not one employee could provide me with information about how, or by whom, the platform was made, nor connect me with someone who could. In addition, one employee told me to “look it up online”, even though their official website apparently either never directly published or removed this document. However, one of the PPD officials that was interviewed stated that the platform reflects many “conflicting interests” (“intereses cruzados”), as well as issues discussed in public hearings.

The platform summary was carried out by outlining each section and fleshing out the main ideas and commonalities between policies. The goal of the summary is to describe the general strategies and areas of focus listed in the platform, without going into too much detail with regard to the specifics. This method allows me to focus on the theoretical side of policymaking, which in turn streamlines the consequent analysis of the platform. References are provided with regard to key concepts, such as “sustainable development” and “human capital”, with the aim of providing the theoretical background of the issues, as expressed in academic literature. Also, direct quotations are translated into English, while also including the original Spanish versions to avoid any conceptual misunderstandings.

## **Analysis of Interviews**

Along with the 2012 PPD proposal, an analysis of PPD developmental theory was also made by interviewing PPD officials about the economic challenges of Puerto Rico, as well as their proposals to address them and their perspective of the distinguishing characteristics of the PPD with regard to economic policy vis-à-vis other parties. This assessment takes place in Chapter Five.

The interview questionnaire was targeted at PPD officials, especially policymakers, and consisted of questions regarding the economic challenges and obstacles to development they were facing, how they were addressing them, whether there had been any development or not in the current term, whether there were any economic policies that distinguished the PPD, whether the officials' policies reflected a consensus within the party, and whether academic theory played a role in their analysis of economic issues and development strategies. The aim of these questions is to identify the most prevalent narratives with regard to their portrayal of the state of the economy, the policies that are needed to address obstacles and foster development, and whether those policies distinguish the party and whether they demonstrate knowledge of developmental theory. For example, two of the questions with regard to development are "Has there been any development in this term?" and "What policies have you implemented and/or endorsed in this term?".

Seven (7) PPD officials were interviewed during July and August 2015. Of these seven, five were members of the Puerto Rico House of Representatives, one was a Senator and one was a member of the Puerto Rico Department of Economic



Development and Commerce (PRDDEC)<sup>1</sup>. These officials were chosen because, beyond their qualifications as members of the PPD, they are, in more or less direct ways, involved in the policymaking process. While some officials affect policies by merely voting for or against them, others are part of committees focused on economic issues and/or have proposed legislation that addressed the latter. The member of the PRDDEC, while not involved in the creation of policies, focuses on implementing them and therefore is cognizant of these practices. For example, his main role is to aid in promoting Puerto Rico as an adequate location for foreign-based investments, which is a major focus of the platform.

The interviews were mostly carried out in the officials' offices, with the exception of the senator, who was interviewed in a coffee shop. They ranged from thirty five (35) to sixty (60) minutes. The Senator was contacted through a family friend, as was the member of the PRDDEC. However, all Representatives were contacted directly by phoning the House of Representatives. Setting up the interviews consisted of explaining this research project to the officials' secretaries, who then contacted the officials and called me to set up appointments. While most of the offices were located in the Puerto Rico Capitol, some were in an adjacent building.

Interviews mostly followed a conversational style, where officials were asked the same questions in the same order, while care was taken to avoid any interruptions that would steer the conversation in a particular way. Although the same questions were asked to all participants, some addressed more than one question in their answers and/or provided a historical background of Puerto Rico's economic history before the questions

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<sup>1</sup> <http://ddec.pr.gov/en/>

were asked. The aim was to have the interviews reflect their views as much as possible, rather than having them respond to any claims or statements of my own. However, the questions assumed that there were challenges to the economy that they were facing, while development appeared to be an obvious theme. A consent form was given to all officials to ensure that they were aware of the purpose of the study and that their names would not be used, along with any potentially identifiable information.

### **Conclusion**

The objective of this study is to develop an understanding of developmental theory, in order to identify the theoretical framework or underpinnings of the main economic policies being implemented in Puerto Rico, as well as to make an assessment with regard to their adequacy and potentially suggest better alternatives. The PPD was chosen because it is the majority party in the 2012-2016 term, but also because its strategy of development has characterized economic policy in Puerto Rico for more than a half-century (Ayala & Bernabe, 2007).

Economic policies, as well as theories of development, are concerned with improving peoples' well being. Therefore, anyone who is concerned with Puerto Rico's high poverty rate of nearly 50% has to acknowledge the importance of implementing adequate policies. This implementation, or practice, has to be guided by a comprehensive and coherent theoretical framework rather than by piecemeal planning. Therefore, the main thrust of this study is to determine whether PPD economic policy is coherent in terms of developmental theory. An incoherent policy could explain faulty planning and ineffective results. Further, policies could be coherent but inadequate. For example, the reviewed literature described neoliberalism as ineffective at best and counterproductive at

worst (Peet, 2009; Rafi Khan & Christiansen, 2011; Carroll & Darryl, 2015). Thus, knowledge of developmental theory can help to determine whether Puerto Rico, regardless of its developmental practice, is planning for development in a way that will improve or undermine people's well-being

## **Chapter 3**

### **Developmental Theories**

#### **Summary**

This chapter provides a description of the central tenets, along with a historical background, of some of the most influential theories of development: neoclassical economics, developmentalism, dependency theory, neoliberalism and the capabilities approach. Each theory has distinct underlying assumptions and arguments with regard to why most people in different countries have different degrees of well-being. By reviewing and contrasting these theories, a “lens” can be created to describe 2012-2016 PPD policymaking.

Out of all the academic sources which I have been able to consult, Theories of Development by Richard Peet has been the most useful, even though he has a particular theoretical orientation. This source serves as a focal point for almost all theories (with the exception of Sen’s capabilities-approach) because this book is a trove of information. Almost all other sources present the theoretical tenets and assumptions of one theory in particular, or are either compilations of articles from political-economy journals or chapters from texts with either development and/or economics as their general theme. So, in this sense, Peet has been a beacon in this literature.

#### **Neoclassical Theory**

Neoclassical theory represents the cumulative body of knowledge created by mid-to-late 19<sup>th</sup> century economists whose aim was to redefine the discipline of economics from its prior status as a moral philosophy to a purely mathematical science focused on

cost-saving (Peet, 2009). Development, or the process of systematically providing for the well-being of a country's citizens, was conceptualized by neoclassical theorists as possible only when there is uninterrupted and unrestricted market competition (Peet, 2009). This theory assumes fundamentally that citizens achieve well-being when they use their resources in the most efficient way possible, whether those persons are decision-making consumers or entrepreneurs who plan production. Neoclassical economics derives its name from the so-called Classical economists, who were mainly British and wrote throughout the period ranging from the late Eighteenth century to the mid-Nineteenth century (Peet, 2009). The concepts they introduced include utility and market equilibrium, with the Neoclassical addition of "marginality".

One of the earliest concepts associated with the rise and predominance of neoclassical economic thinking is that of marginal utility. This concept, created and defined by William Stanley Jevons, was based on and an extension of Classical economist Jeremy Bentham's notion of utility. Bentham defined utility as, essentially, happiness, defined as the degree to which one experienced pleasure rather than pain (Peet, 2009). Jevons built on this notion to establish marginal utility as an economic tool to balance the amount of pleasure one gained from the consumption of different goods (Sandelin, 2014). Unlike utility, marginal utility referred to the additional happiness, or pleasure, gained from purchasing an additional amount of a good. Jevons argued that marginal utility decreased progressively so that, for example, the last bite of a piece of cake would not be as pleasurable as the first one. With respect to his notion of the ratio of exchange, or the difference in marginal utility between two goods, Jevons theorized that a rational consumer should buy more of those goods that bring about pleasure, so that their

marginal utility lessens to the point that it equals that of less pleasurable goods (Sandelin, 2014). Jevons argued that by allocating consumption in this way, people could use their money to maximize their pleasure.

While Jevon's theory of marginal utility referred to consumption, a second wave of neoclassical economists extended its applicability to production by creating the concept of marginal production (Peet, 2009). Marginal production applied Jevon's theory of utility-maximizing allocation to those resources used in production, so that, for example, the cost of hiring more workers would be in balance with the cost of renting more land. This notion of achieving a balance in production to maximize cost-saving formed the basis of and was extended in neoclassical economist Alfred Marshall's concept of partial market equilibrium (Sandelin, 2014).

Partial market-equilibrium's fundamental principle is that the costs of production and those of consumption are made equal by the laws of supply and demand. This equilibrium occurred because when the lowest price that sellers were willing to set for their products was lower than what consumers were willing to pay for them, they could use the additional money to increase their production (Sandelin, 2014). Thus, this increase in production would raise the lowest price that sellers would be willing to set because it matches the highest amount that buyers would be willing to pay. Similarly, when consumers' desired price is lower than sellers' desired price, production needs to be lessened so that the latter can afford to lower their price. In this way, supply and demand in the market naturally achieves a state of equilibrium that maximizes consumer utility and minimizes production costs (Sandelin, 2014).

The neoclassical preoccupation with maximizing producers' efficiency and consumers' utility, as well as the use of marginality as a fundamental explanatory concept, was continued with the Austrian school and their neighbors in Switzerland (Peet, 2009). Austrian economist Eugen von Bohm-Bawerk argued that, in growing economies, the marginal utility of goods over a period of time lessens because the supply of those goods increases (Sandelin 2014). He also argued that indirect methods of production, characteristic of modern economies, were ultimately more productive. For example, it would be more productive to first spend time building a net than to try to catch fish with one's hands (Sandelin, 2014). Vilfredo Pareto, a Swiss, elaborated on this idea with a concept called Pareto optimality. This concept, like that of Marshall's, represented the ideal state of an economy and was argued to occur through the self-regulating market (Sandelin, 2014)

Towards the mid Twentieth century neoclassical economists' theory of markets as self-regulating, and therefore as preventing over- and under-employment in production, began to be highly contested by John Keynes and other academics (Peet, 2009). However, post-World War II orthodox economics came to be dominated by a neoclassical synthesis that combined Keynesian and neoclassical thought, and in the process undermined many of the former's criticisms (Weeks, 1989). Although some strands of contemporary neoclassical economics criticize past assumptions, their use of marginality as an explanatory concept continues to define the discipline.

### **Developmentalism**

Inspired by arguments that critiqued basic neoclassical assumptions, the post-Great Depression era of the Twentieth century has been characterized by

developmentalism, or theories and practices that have been based on governmental control and manipulation of the economy as a driver of national development.

Keynesianism, for example, rejected the neoclassical assumption that free markets maximized everybody's well-being, and instead advocated for various forms of governmental intervention that later influenced the social-democratic policy orientation of post-World War II Western European countries (Peet, 2009). Academics and policy officials in regions like Western Europe, Latin America, and Asia also advocated these economic policies, which fundamentally assumed a need for government intervention. Western-European macroeconomic theorists, especially, are known as the original developmentalists and are largely the influence for a contemporary industrial policy-focused movement called New Developmentalism (Rafi Khan & Christiansen, 2011).

In the 1920's, John Maynard Keynes began to contradict systematically various neoclassical arguments, specifically that free markets achieve optimal levels of production and employment (Peet, 2009). Keynes argued that government intervention in various ways, such as Central Bank interest-rate drops to promote investment and deficit spending to boost demand, is necessary for economic growth (Peet, 2009). Academics influenced by Keynes, such as Roy Harrod and Evsey Domar, emphasized state investment for economic growth, due to their assumption of unstable free market growth that was later critiqued by Robert Solow. Solow, in turn, was later critiqued by the more recent new growth theory, which argued that the former neglected the importance of government spending for fostering and diffusing local knowledge-creation (Peet, 2009).

Drawing from Keynesianism, various Asian states were able to achieve substantial economic growth by subordinating market processes to rational governmental



direction (Peet, 2009). For example, Japan, South Korea, Singapore, and Taiwan have implemented economic policies since the early 1970's such as restricting competition, increasing import tariffs to protect domestic industry, and investing in infrastructure and public institutions (Peet, 2009). However, these countries also tended to repress social sectors at the same time that they expanded political institutions (Kelly, 2008).

Repression and the subordination of social democracy to government elites' developmental planning followed from these countries' adoption of 1960's academic Samuel Huntington's arguments (Kelly, 2008). Huntington's theory is that countries should strengthen their political institutions before engaging in social mobilization in order to avoid the latter overloading and thus destabilizing the former.

The Asian developmental states mentioned, in their adoption of authoritarian economic agendas, reject liberal notions of the democratic state. Instead of advocating for short-term consumer-welfare maximization, they instead emphasize state autonomy and internal coherence and argue that democracy is an opportunity-cost (Kelly, 2008). Their basic reasoning is that shifting the focus of a state to national growth will prevent officials from rent-seeking through deals with powerful foreign companies. In this view, democracy is seen as expensive, socially divisive, and a threat to economic growth (Kelly, 2008).

Similarly to the East Asian states, a school of thought called structuralism emerged in the 1970's in Latin America that was also based on governmental intervention in the growth process (Peet, 2009). Structuralism derived its name from attributing the problem of unsuccessful development to the use of conventional economic theories that ignored dynamics that were unique to Latin American economies. Hence the

need for an economic theory that recognized context-specific factors and advocated for structural changes that accounted for these elements. For example, Raúl Prebisch rejected the neoclassical assumption of comparative advantage that benefitted Latin American countries that traded primary goods for the industrial goods of other countries (Peet, 2009). His rejection was based on the notion that the terms of trade between these two kinds of countries progressively worsen for those that traded primary-goods due to technological advances. Prebisch's point is that a policy of shifting from industrial imports to domestic industrial production (import-substitution industrialization, or ISI) is a structural change that is needed for economic growth (Peet, 2009).

By recognizing the need for an economic theory that sprung from a real-life assessment of dynamics that were unique to the Latin-American context, structuralist thought led to various forms of successful government interventions that strengthened and diversified domestic economies. For example, the Brazilian government enacted various policies in the mid-1950's and 1960's that focused on strengthening what were seen as basic industries for growth and, as a result, significantly increased the GDP and made the manufacturing sector more capital-intensive (Peet, 2009). Structuralism was also very important due to its influence on Third-World countries outside of Latin America. Newly industrializing countries' workers, to the degree that their industries became increasingly complex, were able to unionize and thus improve their wages and benefits (Peet, 2009). Wherever applied, structuralism was characterized by a rejection of universalistic neoclassical economics in favor of models that represented and responded to different countries' unique contexts (Peet, 2009).

Developmentalism as an economic theory originated and flourished in post-World War II Western Europe, as a policy-oriented and developing country-focused resolution between neoclassical and Keynesian arguments (Peet, 2009). The originators of this theory, referred to as the developmentalist pioneers, emphasized industrialization-based economic growth similar to structuralists (Rafi Khan & Christiansen, 2011). However, developmentalism essentially argued that neoclassical economics could apply to developing countries if extended in various ways to account for important factors. Developmentalism is distinguished from traditional neoclassical economics by including technology, institutions, and entrepreneurship as important economic factors and by emphasizing the need for markets to be superseded by governmental planning (Peet, 2009).

Two developmentalist pioneers whose theories underlie the arguments of the contemporary new developmentalist movement are British economist Paul Rosenstein-Rodan and German economist Albert Hirschman (Rafi Khan & Christiansen, 2011). Paul Rosenstein-Rodan was concerned with international income inequality and argued that a state-led industrialization program was needed to reduce this problem. Focusing on Eastern and Southeastern European countries, Rosenstein-Rodan argued that international investment would be needed at least partially to assist in the industrialization process, in order to avoid the reductions in quality of life that a more self-sufficient attempt would encourage (Peet, 2009). Instead, Rosenstein-Rodan's theory of industrialization, referred to as the "big push", relied largely on foreign investment in various countries, so that both countries could provide a market for each other and achieve balanced growth (Peet, 2009). Hirschman, however, rejected Rosenstein-Rodan's argument that a balanced form

of growth was necessary. In his view, unbalanced sectoral growth is ideal because this outcome forces other sectors to invest in order to catch up. Hirschmann emphasized, however, that state investments should be focused on sectors that have strong ties to others that either provide the former with inputs for production or that use the former's finished products as inputs for their own production (Peet, 2009).

New developmentalism is a developmental theory that emerged as a challenge to the currently dominant developmental narrative espoused by international agencies such as the World Bank and the International Monetary Fund. The pragmatism, policy-orientation, and emphasis on industrial policy are key indicators of its developmentalist influences (Rafi Khan & Christiansen, 2011). An example of new developmentalism's challenge of the dominant narrative can be seen in the inductive approach used to explain the success of the East and South East Asian countries, rather than free-market policies, due to the simultaneous state provision of internal, and protection from external, competition (Rafi Khan & Christiansen, 2011).

### **Dependency Theory**

The essential idea behind dependency theory is that United States and European development resulted from their imperialist subordination of less developed countries and the resulting unequal economic relationships. Dependency theory's origins lie in the writings of North American Neo-Marxists and Latin American critics of the ideas set forth by the United Nations Commission for Latin America (ECLA) (Peet, 2009). In the United States, writers Paul Baran and Paul Sweezy argued, as later dependency theorists would as well, that less developed countries must break away from capitalism because of the unequal structural-economic relationships this system created (Peet, 2009). In fact,

dependency theorists in general believe that the differences between First and Third world countries did not stem from their respective differences in innovation or institutional quality, but the active and destructive process of imperialism (Peet, 2009).

Both Baran and Sweezy advocated socialism as a form of resistance to imperial subordination (Peet, 2009). Their Neo-Marxist orientation is reflected in the fact that they used the concept of class to analyze intergroup dynamics within economies. In general, dependency theorists used the term center, or core, to refer to imperialist developed countries and periphery, or satellite, to refer to colonized countries. In Latin America, a similar concern with class-dynamics was reflected in several writers' critiques of ECLA-inspired economic policies, such as domestic industry protection via tariff remedies (Peet, 2009). By focusing on class from a Marxist perspective, these critical writers argued that these policies had the potential of benefitting the entrepreneurial class to the detriment of workers, because the excessively high tariffs for imported goods would negatively affect the consumer.

Among these critical theorists was Teotonio Dos Santos, who conceptualized dependent countries as those whose socioeconomic conditions were out of their own control and relied, or depended, on economic trends in more developed countries (Peet, 2009). Dos Santos argued that the entrepreneurial class in Latin America had been co-opted by European countries after the latter colonized the former. This transformation resulted in the formation of an economic structural relationship that was geared towards satisfying the demands of the center instead of the needs of the periphery (Peet, 2009). As a result, the social structure in the periphery reflected a small and rich elite class and a large and poor working class.

German-American sociologist Andre Gunder Frank promoted dependency theory by conceptualizing the relationship between core and peripheral countries as a “chandelier” of progressive underdevelopment (Kelly, 2008). The imagery of the chandelier refers to the idea that developed countries engage in direct subordinating relationships with peripheral countries that, in turn, subordinate less developed countries in a chandelier-like chain. In this regard, Gunder Frank borrowed from Karl Marx to argue that the unequal character of these relationships lied in the fact that surplus-value, or capital surplus, was extracted from each level of the chandelier (Peet, 2009). As a result, peripheral countries could not use that surplus to maximize their production levels, nor invest in their economies, and thus were underdeveloped, or operating below their potential.

Besides the economic effects, the relationships between core and periphery have cultural effects on the latter that result from the internalization of imperialism (Guedes Cortezia, 2004). Guedes argues that the continuation of the dependent relationship between core-periphery would not be possible without the consent of the latter’s general population. This consent, along with a lack of awareness of the exploitative nature of this relationship, is created by the transmission of core values to the periphery: for example, the belief in egalitarian democracies and efficient self-regulating markets that offer an opportunity for social mobility. Thus the poor in peripheral countries end up blaming themselves and fail to analyze the structural cause behind their condition (Guedes Cortezia, 2004). This tragedy can also be seen in the adoption of economic policies that are based on assessments and proposals of core institutions. Because peripheral elites also

benefit from the effects of imperialism, they have no motivation to resist them and instead engage often in their justification (Kelly, 2008).

The policy implications of dependency theory revolve around the separation of the periphery from the international capitalist system. Because this international relationship is seen as fundamentally exploitative, a revolution is needed as the only way to achieve social welfare. In this way the co-opted state could fall, giving rise to a new political class that would advance the fundamental ideal of self-sufficiency instead of economic growth (Kelly, 2008). This revolutionary policy stands in clear defiance of international free-market trade, since implied is that such trade caused core-peripheral dependency in the first place. As Peet argues, dependency theory also implies that the debts of First and Third World countries should be forgiven, since the First World owes them their surplus-value (Peet, 2009).

The rise of several East Asian states, once members of the periphery, led dependency theorists to modify their structural model of the core-peripheral relationship to give room for a semi-periphery (Kelly, 2008). As explained by Kelly, the core's monopoly on heavy industry prevents any outsiders from gaining access to this technology. However, the East Asian States' successful development, which began in the early 1970's, suggested to dependency theorists that there was a possibility for dependent development: moving up in the peripheral production (and therefore, value) chain. Therefore, dependency theorists revoked their advocacy of revolution and began to accept the bureaucratic-authoritarian industrializing regime (BAIR) (Kelly, 2009). As Kelly argues BAIR was very similar, if not identical, to the authoritarian and state-centric policies implied by East Asian developmentalism.

## Neoliberal Theory

Neoliberal development theory is essentially a reaffirmation of the main arguments and beliefs of neoclassical economics, such as the notion that human beings are completely rational and self-interested, that unimpeded market-dynamics balance perfectly the interests of supply and demand, and that all countries can adequately adopt the same kinds of developmental policies (Peet, 2009). The neoclassical base of neoliberal economic policies assumes that governmental forms of regulation should not interrupt the market, because the latter is always a spontaneous, unknowable activity, and thus any attempt to control this process would be inadequate. Thus economists like Ludwig Von Mises, considered to be neoliberalism's founder, and Friedrich Von Hayek, his student, concluded that only the price-system of markets could successfully coordinate the economy (Peet, 2009). Therefore, neoliberal development theory adopts neoclassical economics' arguments and concludes that countries can and should maximize their citizens' welfare by preventing market regulation.

While neoliberal economists had elaborated their arguments in the early Twentieth century in the context of a debate against the German historical school of economics, which was empirical and inductive rather than deductive, their influence on policy did not come about until the 1980's. Consistent with the anti-empirical critique of the early neoclassical economists, neoclassical economists in the 1980's such as Paul Krugman criticized developmentalists for not being sufficiently rigorous and mathematical (Herrera, 2006). This critique led to an emphasis on creating certain abstract models that would supposedly represent actual market dynamics and, thus, acquire enough legitimacy to guide the economic policies of free-market politicians.



The origins of neoliberal policy lie in criticism by various elite government-officials' and economists of various forms of regulation of capitalism as ineffective or harmful to citizens' welfare. For example, P. T. Bauer, Harry Johnson and John Toye were all economists who criticized either Keynesian economic policy or developmental-theory economics as causing the United States recession of the 1970's (Peet, 2009). In the United States the economic recession of the 1970's, together with the increasingly predominant idea that this downturn was due to forms of governmental regulation, led to the election to office of Ronald Reagan and his endorsement of anti-regulatory rhetoric (Peet, 2009). Anti-regulation theories were also manifested in the policy shifts that International Financial Institutions (IFI), such as the United States-dominated World Bank and International Monetary Fund, carried out in the 1980's (Carroll & Jarvis, 2015).

Although the criticisms of mainstream and elite economists of governmental regulation rest on shaky foundations, they nevertheless acquired legitimacy in both US and IFI policy circles. Although Keynesian economic policies were not to blame for the economic recession of the 1970's, economic theorists such as Milton Friedman and Friedrich Von Hayek blamed these initiatives (Peet, 2009). Peet adds that this anti-regulation ideology was part of a more general conservative reaction against the various social movements that sprung up in the 1960's and early 1970's. Similarly, the developmental-theory known as import-substitution industrialization (ISI) was very successful for economies and, particularly, workers in Latin America, but was also criticized by neoclassical economists for, among other things, not being responsive to foreign capital (Peet, 2009; Herrera, 2006). These critiques would clear the way for new anti-regulatory policies throughout the world.

By the late 1980's the neoclassical frame of neoliberal policy was widely embraced by senior government officials and IFI's in Washington, D.C. and came to guide a set of recommendations that would allow countries in Latin America to pay back debts they owed to those same IFI's (Peet, 2009). Known as the Washington Consensus, these policy recommendations would "ensure" debt repayment through such measures as cutting social programs, privatizing public assets, broadening the tax base, and reducing state controls over private enterprise (Carroll & Jarvis, 2015; Peet, 2009). The Washington Consensus was based on the neoclassical idea of self-regulating markets through the welfare-maximizing price-mechanism. As such, these economists also advocated for eliminating international trade barriers, so that countries could share and "mutually gain" from the economic growth-inducing dynamics of the free market. Also in accord with the neoclassical tenet of anti-regulation, Washington Consensus neoliberalism included such policies as de-unionizing and lowering taxes on the rich, under the assumption that these practices would improve living standards for everybody (Peet, 2009).

In spite of the rhetoric, market-based conditional lending by the World Bank and the IMF had disastrous effects in Latin America and elsewhere and led to massive protests that forced a revision of the Washington Consensus (Peet, 2009). Known as the "augmented" or "post" Washington Consensus, IFI's reasoned that their policies had failed simply because debtor countries had not carried out various institutional reforms that were needed to "let loose" economic growth. This response implied a major ideological shift within neoclassical thought from conceptualizing the market as a source of equilibrium, with institutions always being treated as exogenous, to viewing social

considerations as crucial (Herrera, 2006). However, as Herrera adds, these models continued to assume that the rational maximizing behavior of individuals could explain how institutions behave. A more general criticism given by Peet is that this “augmented” Washington Consensus reflected an incoherent mixture of both conventional neoliberalism, such as de-unionizing, and more “liberal neoliberalism”, such as suggesting the need for social safety nets (Peet, 2009). A huge component of the “post” Washington Consensus was also to embrace sectors of civil society, such as non-governmental organizations, in order to clarify agendas and distract attention away from problematic factors such as imperialism and capitalist exploitation (Carroll & Jarvis, 2015)

### **Capabilities Approach**

Amartya Sen, philosopher and Nobel-prize winning economist, lays out a view of development that differs in a unique way from all of the previously discussed approaches. These strategies differ in their view of whether government intervention is a necessary component of development, but share a commonality in that they use strictly market-related concepts to make their assessments. Sen, rather, presents a new view of development by reducing market-variables to the role of one among others in development, instead of as sufficient ends in themselves (Sen, 1999). Accordingly, Sen redefines development in *Development as Freedom* as the expansion of people’s capacity to choose what they want to do and how they want to live. By conceptualizing development in terms of how many “freedoms”, or capabilities persons have, Sen includes factors such as whether they have a long and healthy life, adequate education, and participation in political decision-making, along with other social considerations.

Besides expanding its evaluative base, Sen also criticizes one of the main tools of neoclassical notions of development: utility. He accomplishes this by declaring that utility, as this idea is used in mainstream economics, is not useful as a measure of people's well-being, because this idea is defined differently by different economists and because well-being is equated with subjective happiness or with desire-satisfaction (Sen, 1987). While neoclassical economists argued that supply and demand would enable people to maximize their utility, the latter being understood as happiness, Sen argues that this version does not necessarily have any relevance with improving people's material/physical well-being. In other words, for example, people living in extreme poverty and having an inadequate nutritional intake could, nevertheless, have no desire to change their conditions if they believed their efforts would be futile (Sen, 1987).

As a response to what he saw as an inaccurate measure of well-being as "maximized utility", Sen lays out an alternative definition that includes market-related variables, such as personal income or possession of commodities, as only one of several other important factors related to capabilities and aggregate valuations (Sen, 1987). In *Commodities and Capabilities*, Sen conceptualizes well-being as an "index of functionings", or the overall capability to use certain commodities to succeed in doing something or being someone. Well-being is thus measured as a "function" of the overall patterns of commodity-use from which an individual can choose, with commodity-use an outgrowth of both commodity-characteristics and personal traits (Sen, 1987). For example, two individuals could purchase and consume the same amount and kind of food (commodity-characteristics) but obtain different levels of nutrition due to differences in the capacity to absorb nutrients (personal characteristics). Most importantly, Sen qualifies

his definition of well-being by stating that this outcome is not equal to the highest-valued “functioning” pattern that can be made with commodities, but to the overall amount of options available (Sen, 1987).

The “capabilities-approach” to evaluating well-being has been adopted by various scholars as the theoretical base for the assessment of variables, such as access to education’ and possession of basic goods, included in studies like the United Nations Development Program’s Human-Development Reports (Otano, 2014). Guillermo Otano uses Sen’s capabilities-approach and builds on this position to outline what he considers to be a comprehensive methodological framework for understanding how individual problems come to be both recognized and solved publicly. Although Sen provides an adequate informational base for identifying initial problems (e.g., low-quality public education), several additional and more social premises must be accepted in order to assess how the individual is actively involved in the social sphere to carry out change (Otano, 2014).

The capabilities-approach of Sen also serves as the theoretical base of his definition of development: the expansion of the “freedoms”, or “capabilities”, that citizens can enjoy and are deeply interrelated (Sen, 1999). This broad and holistic view of development weighs variables like economic growth against (or among) others like access to civil participation in decision-making processes and/or access to the labor market. The various freedoms that people can enjoy feed off each other, so that, for example, access to an adequate education can improve one’s access to the labor-market, while entrée to civil participation can lead to decisions that improve the quality or inclusiveness of social institutions. An important aspect of development, such as

“expansion of freedoms”, is that freedom is seen as both the ability of persons to participate in various social spheres and determine capabilities according to their own values and criteria (Sen, 1999). Thus, freedom for Sen depends not only on whether they have a “civil voice”, for example, in the political sphere, but on whether the choices that are made in that realm reflect the interests (values and criteria) of those who are affected by economic policies.

Although Sen acknowledges that the concept of freedom embodies both the capabilities, or opportunities, to achieve something and the social processes that make those opportunities possible, scholarly literature on development has focused disproportionately on the former and not the latter (Otano, 2014). Otano explains this phenomenon as being the result of two factors: the desire to change the “evaluative paradigm” of development from market-related variables like GDP growth to others that reflects the overall quality of life, and the fact that most research has been carried out by more normative disciplines like welfare economics instead of others more focused on explaining social change, like sociology and history.

However, Otano adds that another crucial reason for the theoretical interest in freedom as a capability, and not as a process, is that Sen’s use of the capabilities-approach as a base for defining development creates a static and fragmented view of the individual vis-à-vis the social sphere (Otano, 2014). Otano concludes, however, that freedom must be seen as a relationship to society that both molds and is molded by institutions, instead of merely as a measure of individual well-being. Thus Sen’s capabilities-approach provides the theoretical base for an evaluation of people’s opportunities and capacities and how social institutions affect these elements. However,

an evaluation of how those institutions are changed by specific processes of collective action entails recognizing, in addition, that perceptions of freedom are influenced by how societies define this capability over time and how those definitions are changed through collective action (Otano, 2014).

### **Conclusion**

The central premise of neoclassical economics is that the market-system is naturally self-stabilizing, because this mechanism allows for producers and consumers alike to negotiate their ideal prices and reach a mutually beneficial agreement. Although the general principles of Classical economists were assumed, a “new” focus was given to marginality as a tool to balance resource-use or consumption patterns. Utility, another main concept, meant pleasure or happiness and could be maximized by employing marginality as a key theme. Thus, by discovering the marginality of different resources or commodities, citizens could expand their well-being as efficiently as possible. Similarly, the self-stabilizing dynamic between the economy’s supply and demand would foster efficient growth and maximal welfare for all citizens. The clear implication of this theory is that governmental intervention would disrupt this state of “equilibrium” and thus hinder efficiency and welfare.

Developmentalism, as a theory of development, represents a complete rejection of neoclassical economics. This thesis is characterized by an emphasis on governmental control and manipulation of the economy for the purpose of national economic growth. Both Keynes and later theorists influenced by his thought criticized fundamental neoclassical assumptions like the idea of the market-system as autonomous and stable. Unlike the United States, various Asian countries in the 1970’s who were influenced by

developmentalism carried out various forms of governmental direction and achieved economic growth. Like the similar movement in Latin America called structuralism, this form of “state control” of the economy was focused primarily on national growth rather than on international integration into the economies of other countries. What distinguished structuralism is the focus on the context-specific dynamics of countries. Nevertheless United States developmentalism, which emerged after World War II, contrary to structuralism, assumed that all countries had similar dynamics and thus could benefit from similar policies. However, this American developmentalism is distinguished from neoclassical economics because elements like technology and entrepreneurship should be considered important economic factors in governmental planning. Developmentalism tends to favor domestic protection, for example, via import tariffs, over free-market policies as a pathway to development.

The main argument of dependency theory is that development results not from a self-stabilizing market or successful governmental planning but through the military invasions, colonialism, and resource-extractions typical of imperialism that led to a developed “core” and an underdeveloped and dependent “periphery”. Capitalism is thus seen as the result of the unequal political-economic relationships that are created between colonizing and colonized countries, with production reflecting the demands of the former and not the needs of the latter. Exposing their Marxist influences, dependency theorists argue that developed countries extracted surplus-value, or capital-surplus, from other countries and as a result undermine their development. Although the exploitative nature they attributed to capitalism led to them advocating disjointment, the eventual discovery that exploited countries had achieved a “semi-periphery” status led them to advocate for



authoritarian, state-centric policies that were very similar to those of East Asian developmentalism.

Neoliberalism is essentially a reaffirmation of neoclassical theory and the central belief in the superiority of unimpeded market-dynamics vis-à-vis governmental involvement in the economy. Like neoclassical theory, this philosophy has relied on abstract models that disregard factors that operate in actual economies. The rise in legitimacy of this outlook, as an economic theory and base for policymaking, is associated with a conservative reaction against various forms of resistance and confrontations with the capitalist *status quo* during the 1960's and early 1970's. International Financial Institutions adopted neoliberal policies and forced indebted countries to adhere to them as well, resulting in a kind of theoretical colonialism/imperialism.

Amartya Sen expands the notion of development to include not just market-related variables but also freedom, or the ability to choose among self-established options. Contrary to the view of well-being as utility, Sen conceptualizes the former as capability or freedom in a particular society, which depends on both personal and commodity-characteristics. The particular lifestyle and social arrangements a society can enjoy (our overall capability) depends not only on social institutions but on collective action (Otano, 2014).

Now that the central tenets and historical background of these theories of development have been detailed, they can serve as a frame with which to evaluate the PPD party platform of 2012. In this way, a theoretical framework can be evaluated that underlies PPD policymaking, as these initiatives have been carried out and described in

the interviews with PPD officials. This evaluation will serve as a tool to assess the presence of any coherence between this policymaking “framework” and the political practice throughout the 2012-2016 period.

## **Chapter 4**

### **PPD Platform Summary**

#### **Summary**

This chapter contains a summary of the Popular Democratic Party's (PPD) platform, or program, for the 2012 to 2016 term. Self-described as a "mandate for government", the platform consists of an analysis of Puerto Rico's current social, political and economic state, along with public-policy proposals and initiatives aimed at achieving a "recovery" ("recuperación", p.3). The PPD emphasizes that these proposals for action are the product of extensive dialogue with not only experts but also "the people" ("la gente, p. 3). As a representation of the Puerto Rican citizenry, the platform is designed to increase their "wellbeing and material and social progress" ("bienestar y progreso material y social, p. 5). The main issues that the PPD wants to address are: lack of opportunities, jobs and innovation, inequality, lack of solidarity, and lack of access to the political, health-care, and education systems.

These issues are addressed in six sections, which represent the various spheres for proposed governmental action: (1) Security, (2) Economic Development, (3) Education, (4) Health, (5) Participation and Solidarity and (6) Government. This chapter is focused on delineating the general aims and issues that are discussed within each section, as well as describing the general nature of specific policies or policy-sets.

#### **Security**

The platform begins with a section focused on strengthening the government's ability to provide security as a way of guaranteeing a higher quality of life and human-development. The first series of premises for action are devoted to crime-intervention

through the incorporation of both new technology and new or reformed agencies that can improve crime-detection. Also proposed are stricter sanctions for breaking laws related to buying or selling guns, as well as increasing the supervision of these transactions. This kind of gun control is suggested as a way to deter violent crime, and thus reduce the likelihood of becoming a victim. The PPD also proposes to address delinquency by expanding successful community initiatives, engaging the community in a dialogue with the police, promoting sports and arts programs, and sharing social statistics regarding criminal incidence with the affected communities.

The PPD policymakers also propose to improve “safety institutions” (“instituciones de seguridad, p. 20) by reforming the Police Department in various ways. They want to expand the resources that the Police receive, including wages and technology, while creating a new department focused on supervising new technologies, reevaluating positions of leadership, and evaluating officers based on their performance. In addition, to prevent crime, the PPD planners propose greater inclusion in the educational and economic spheres. In the educational sector, for example, the PPD proposes that the students must take a pre-college entrance exam in order to graduate from high school. Furthermore, adding vocational training programs is advocated, as well as involving the family in the students’ academic life (Hayes, 2012) and creating tutoring and “socio-educational” programs (“programas socioeducativos”, p. 23) (Alvarez et al., 2014). With regard to the economic sphere, a case is made for new sources of employment, incentives, tax-cuts, and easier transitions from welfare to work, in addition to creating daycare centers.

Another emphasis is on dealing with the current problem of high rates of domestic violence by introducing “gender perspective” (“perspectiva de género”, p. 28) courses into school curriculums, improving the care that is given to victims by both special services and the justice system, and “rehabilitating” (“rehabilitar”, p. 26) aggressors through required educational services. The provision of rehabilitation is also part of a larger focus on reducing recidivism (Goodman, 2012). This rehabilitation is proposed through strengthening staff and resources in prisons, making education a requisite for criminals, dealing with addiction, offering recess and exercise-facilities, and educating prisoners about infectious/contagious diseases.

The PPD also focuses on improving the “confidence [of people] in their tribunals” (“confianza...en los tribunals”, p. 34) as a pathway for greater security (p. 33). These ideas deal with making the justice system more efficient and accessible, as well as rejecting the draconian measures of the previous administration’s proposed Penal Code (Lexjuris, 2012). And last, the PPD wants to elevate the respect for civil rights by proposing greater police-community engagement and higher standards for police training.

### **Economic Development**

The second component of the PPD platform is “economic development” (“desarrollo económico, p. 251). The platform calls for a “sustainable growth-model” (“modelo de crecimiento sustentable, p. 40) that stresses wealth and employment, international competitiveness, entrepreneurship, and creativity (Bergh & Mulder, 2001). The platform also outlines a “New Economic Ecosystem” (“Nuevo Ecosistema Económico”) that requires improvements in the size and coherence of the industrial base, along with the production and consumption of clean and cost-effective energy, better

infrastructure, more exports, and improved job-training and food security, among others. After specifying these foci, the section separates all of the proposals in terms of 4 principal strategies: (1) expanding the supply of quality employment, (2) investing in the future, (3) strengthening and diversifying the economy, and (4) increasing Puerto Rico's global presence and strengthening commercial relations with the United States.

The first principal strategy consists of "Plan 18.50K", which aims to increase the supply of employment by enacting the "'Jobs Now' Law" ("Ley de Empleos Ahora") (Lexjuris, 2013), providing tax-credits for companies that create new jobs, promoting the idea that companies add employees and supporting them in their efforts, and linking the unemployed with prospective employers. The Ley de Empleos Ahora consists of easing the process of getting permits for new employees and providing various kinds of incentives for companies that hire these persons. Additionally, Centros de Gestión Unica (Management Centers) are specified as the governmental institutions that will be in charge of supporting companies and linking potential employees with employers through "training, recruiting and mentoring" ("adiestramiento, reclutamiento y mentoría", p.51).

The second main strategy is focused on achieving sustained well-being by "repowering" ("repotenciar", p. 52) what are conceptualized as 5 kinds of capital: human (Storper & Scott, 2009), financial, cultural (Fowler, 1997), natural (Helm, 2015), and physical. Investing in human capital entails forging a "world-class" educational system and improving the labor force via services like job-training and internships, as well as creating a council in charge of making sure that the priorities of Universities reflect the needs of the local industries. Financial capital-expansion pertains to attracting foreign companies through preferential tax-rates, improving access to credit through various

means, and strengthening cooperatives. Expanding cultural capital, or the value created through forms of art such as local music, theatre and entertainment industries, requires clarifying and investing in the economic potential of these sectors of the “cultural industry” (“industrial cultural, p. 58), as well as increasing the role that “creative development and cultural entrepreneurship” (“desarrollo de creatividad y gestión cultural, p. 59”) plays in the educational system (Wdowiak, 2012). Generating “natural capital” involves using the environment for its economic potential and importance for productive industries while prioritizing sustainability, conservation, and “energetic autonomy” (“autonomía energética”). And finally, physical capital-expansion is predicated on investing to improve infrastructure, such as transportation services, water and sewage systems, and broadband-internet.

The third relates to strengthening and diversifying the economy, and includes 4 proposals: (1) consolidating and expanding the industrial base, (2) strengthening sectors with a high potential for innovation, (3) promoting entrepreneurialism and (4) implementing strategic projects. The first proposal consists of various incentives and investments to expand local industries with a high potential for growth in Puerto Rico, like the pharmaceutical and medical industries (Mazzucato & Parris, 2015). In terms of manufacture, the aim is to attract companies with incentives, human capital, and formerly used facilities. In terms of services, the PPD proposes incentivizing medical tourism and working to provide back-office services for foreign companies.

The second proposal of the third strategy consists of strengthening the following sectors: Research and Development, Agriculture, Energy, Tourism, and Sports, due to their high potential for innovation. Proposals for the Research and Development sector

consist of investments in the fields of knowledge and high technology, as well as medical research. The proposals for the agriculture sector relate to investing and incentivizing high-technology agricultural activity with a focus on local growth, foods with nutritional value, and efficiency. Other proposals related to agriculture consist of creating educational programs, promoting urban agriculture, incentivizing employment in agriculture, investing more in the local food industry, and maintaining high standards for the quality of food.

Proposals for the Energy sector are focused on “energetic autonomy” (“autonomía energética, p. 60) and efficiency, and involve shifting to cleaner energy alternatives, making the Autoridad de Energía Eléctrica (Electric Energy Authority) more transparent, and financing and installing more cost-effective equipment. Tourism will be improved by investing in various “emerging niches” (“nichos emergentes, p. 80”), such as medical tourism and Ecotourism, and lobbying to expand international flights. The Sports sector can be expanded by developing the local sports culture, through benefits to potential promoters and other forms of involvement.

The third proposal of the third principal strategy, strengthening and diversifying the economy, consists of promoting entrepreneurialism, specifically professional mentorship, new “start-ups”, and contests between emerging companies. The fourth proposal, implementing strategic projects, involves “revitalizing” (“revitalizar”) urban infrastructure in San Juan, the capital, to attract employment and economic activity,



emphasizing sustainable development in the Eastern region, and further developing the Port of the Americas, a “world-class” (“clase mundial”) port in the South<sup>2</sup>.

The fourth principal strategy of this section is to increase Puerto Rico’s global presence (Hirshhorn, 2015) and reinforce commerce with the United States. This strategy is focused on Puerto Rico’s “global positioning” (“posicionamiento global”) and consists of three actions: (1) significantly increasing exports, (2) taking full advantage of the “fiscal autonomy” provided by its status as a commonwealth and (3) increasing employment via federal benefits and tax-credits. The strategy to increase exports involves attracting sustainable foreign direct investment via lower manufacturing costs, lobbying against Puerto Rico’s maritime-trade laws, investing in commercial-port infrastructures, and implementing various forms of incentives. The second and third actions, respectively, focus on marketing Puerto Rico’s unique advantage in terms of combining federal protections with low costs and stimulating employment by federal policies.

### **Education**

The third component of the PPD platform emphasizes the importance of education as a pathway for greater social mobility and economic development, “personal and civil development/formation” (“formación personal y de ciudadano”, p. 112) and the acquisition of “expanded sensibilities” (“expandir sensibilidades”, p. 112). The various proposals for governmental action revolve around improving the quality of teaching, including “special education”, equipping educational facilities with sufficient resources and materials for learning, and fostering the supply of technical/vocational training. This overall strategy aims for the “integral development” (“desarrollo integral”, p. 112) of

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<sup>2</sup> Official Government Page: <http://businessinpuertorico.com/en/invest/strategic-projects/port-of-the-americas>

Puerto Rican citizens, which encompasses elements like greater tolerance of diversity and respect for culture and the environment . This type of development is also described as enabling a greater quality of life.

This section delineates 12 proposals for action that call for a revamping of the educational system. A key proposal is to address public education's low retention rates, which are described as a critical problem, by advising curriculum planners to emphasize the importance of preparing for and attending college, to lean towards more practical assignments, and to foster sports activity and technology usage. This strategy is one component of an overall educational platform, called the Decennial Plan<sup>3</sup>, which will be planned by professionals from “diverse” (“diverso”, p. 128) social sectors as a way to guarantee continuity despite political change. This section also emphasizes the availability of educational services for parents, with the aim that they understand and become concerned with supporting their children's educational progress by the time they are in pre-school age (Kim & Riley, 2014).

The “transformation” (“transformación”, p. 130) in education described in this section aims to develop the attitudes, skills, and knowledge to prepare students for college and for the modern globalized labor-market (Wallace et al., 2011). Proposals to address this aim include creating various committees that evaluate and establish “best practices” and incentivizing college attendance through initiatives like making the entrance exam for college a requisite for high school students to graduate. In order to make education “stimulating and attractive” (“estimulante y atractiva”, p. 133), and thus

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<sup>3</sup> Official Document:

[https://noticiasmicrojuris.files.wordpress.com/2013/09/pc1032\\_plan\\_decenal\\_educacion.pdf](https://noticiasmicrojuris.files.wordpress.com/2013/09/pc1032_plan_decenal_educacion.pdf)

further reduce the likelihood of desertion, the PPD proposes measures like motivating the most skilled teachers to educate children in low-income areas with low retention rates, focusing on themes with which students can identify, and fostering the construction of multi-media libraries that are accessible to all students.

The PPD also aims to address the rise in “special needs” students by supporting research teams that investigate the possible causes for this increase, while also aiming to integrate special-needs students with the rest of the student body via a multidimensional strategy that includes training teachers and providing in-school therapy and support (Sarduy, 2013). Another proposal for action is to aid in the development of qualified teachers through various strategies like incentivizing students who major in Education, thus making sure that universities train their students adequately, and sponsoring “Educational Seminars” (“Seminario de Educadores”, p. 146) where teachers can share ideas. The party also aims to identify educational facilities as “centers of education” (“centros de educación, p. 150) through the establishment of various programs, as well as making sure that the University of Puerto Rico is adequately funded so this institution can contribute to the growth of the citizenry and be well-integrated into the public education system.

## **Health**

The fourth component of the PPD platform is focused on providing services that guarantee physical, mental, and emotional well-being as a key component of citizens’ “integral development” (“desarrollo integral”, p. 156). The PPD acknowledges the relationship between health, which they equate with well being, and social determinants like the level of education and the preservation of the environment. In general, the health-

platform aims to increase access to health-care and integrate governmental services, the private sector, and the citizenry in the creation of new agencies and initiatives.

This section is focused on two general strategies: (1) expanding access to high-quality health care and (2) strengthening preventive care (Yoshikawa et al., 2012) and promoting a “culture of well-being” (“cultura de bienestar”, p. 168). The first strategy includes proposals that establish regional integrated systems focused on primary care (Tejada, 2003), create a council that regulates and evaluates the health-care system, promote the use of information technology, and assure that each facet of this system provides essential treatments and benefits. The second strategy consists of initiatives such as creating new programs that educate citizens about illness-prevention and educating parents to prevent child-abuse. Additional proposals encourage the use of generic medication to reduce costs and integrate the largest hospital’s institutions to improve efficiency.

### **Participation and Solidarity**

The fifth component of the PPD platform pertains to human development, defined as the process of increasing one’s options in life and improving one’s capabilities and freedoms (p.182). The PPD addresses human development by proposing programs and governmental action aimed at promoting self-management, community involvement, social awareness, more efficient public transportation, environmental awareness, and cultural activity.

This component of the platform comprises six subsections. The first addresses impoverished communities via “sustainable community development” (“desarrollo comunitario sustentable”, p. 185). This kind of development involves empowering

community members with regard to development, so that they are not only participants but also decision-makers in the planning process (Dale & Sparkes, 2011). This strategy includes assessing the organizational level of the communities, training community members in planning-techniques, creating a “community fund”, promoting artistic and cultural projects, and educating communities about healthy consumption and adequate nutritional intakes. The second subsection focuses on social services that support children, the elderly, the handicapped and veterans, and increasing women’s participation in society. Proposals in this subsection involve creating or reinforcing various programs that provide assistance and increase social awareness with regard to topics such as gender inequality and the high prevalence of child-abuse.

The third subsection of the platform’s fifth component involves measures aimed at improving quality of life of communities by carrying out various government-led urban-planning initiatives. These initiatives involve creating both housing projects and rental-housing areas that are within walking distance of main routes of public transportation (Trudeau, 2013). Another proposal is to expand access to federal subsidy programs to use in housing-initiatives. Besides the stress on housing, initiatives are also aimed at supporting niche industries in urban spaces, creating more parking lots in places where they are lacking, developing parks and places of recreation, and creating a committee made up of Urban-Planning experts in charge of advising relevant governmental agencies. The fourth section, in turn, emphasizes environmental protections by stimulating economic activity that does not harm the environment, and creating and implementing a “Land-Use Plan” (“Plan de Usos de Terrenos”, p. 207) that defines which sectors will be conserved and those that will be used for sustainable development.

The fifth is aimed at strengthening the “cultural” industries, as well as provoking an interest in and appreciation for cultural forms of expression as a way of increasing social cohesion. Proposals for action include providing galleries and museums with sufficient resources, creating workshops in dance, music, theater, etc., using cable television as a local cultural platform, and creating innovative spaces for communal engagement and activity consistent with this emphasis on culture (Sacco et al., 2014). The final subsection focuses on stimulating sports activity both as a way to instill social values and create economic development. Proposed actions include creating a “web of leagues” (“red de ligas”, p. 216) that comprises different sports and includes participation by sports-organizations, residential areas, schools, and municipalities. The programs mentioned include providing schools with adequate sports-related infrastructure and personnel, and expanding or renovating government sports facilities.

### **Government**

The final component of the PPD platform is devoted to governmental reform, with the objective of greater efficiency, cohesion, transparency, inclusiveness, and fiscal stability. The general aim of this reform is to regain the government’s credibility with regard to both citizens and investors, by creating measures that deter fiscal irresponsibility and corruption (O’Hara, 2014), as well as simplifying service-provisions and being more responsive to the economic needs and opportunities of specific regions.

The PPD proposes various measures to rein in what it considers to have been excessive and unsustainable governmental spending that taken together comprise a strategy of “fiscal responsibility” (“responsabilidad fiscal”, p. 227) (Posner & Blondal, 2012). These measures include reinstating a previously eradicated fiscal-reform laws,

attaching “sunset clauses” (“cláusulas de caducidad”) to governmental programs, maximizing the use of federal funds, and providing communities with participatory budgets (Patsias et al., 2013). As another way to reduce the budgetary deficit, the PPD proposes broadening the tax base by fostering the transition of informal economic activity to the formal economy and simplifying the tax-code. Related proposals include fostering a nonpartisan dialogue to discuss ways to increase the capitalization of retirement funds, cutting spending on public-relations campaigns, and financially stabilizing public corporations. In addition to a commitment to and advocacy of fiscal responsibility, the PPD also proclaims adherence to the value of “just taxation” (“justicia contributiva”, p. 232) (Peirce, 2015). The PPD proposes, in order to establish a fairer taxation system, to simplify the distribution of tax-incentives and condition them to whether they are deemed effective or not, as well as to evaluate the efficacy of a recent law that increases taxes on foreign corporations (Law 154 of 2010) (Lexjuris, 2010).

The PPD also proposes various measures to make governmental services more “accessible, open and transparent” (“transparente, abierto y accesible, p. 234). Proposals to achieve this goal include expanding the role of the Chief Information Officer, so that he or she can consolidate computational centers, advance legislation that mandates that all pertinent public documents be published online, and establish virtual dialogues with citizens both via social media and governmental Internet sites. Besides making possible greater transparency and civil participation through technological means, the latter is also conceptualized by the PPD to be a tool to consolidate agencies and thereby both improve quality of service and reduce fiscal expenditures.

PPD measures with regard to governmental reform also include strengthening and creating agencies where social statistical analyses are made and published to inform public-policy, fighting corruption by publishing agencies' contracts and transactions on the official government Internet page, cutting officials' salaries, and facilitating regional integration with regard to service-provisions and economic-needs assessments. The PPD also aims, via the Resident Commissioner, to convince the United States to eliminate its restrictive maritime-trade laws, to gain greater inclusion into various federal programs, and to promote Puerto Rico as a manufacturing location for United States corporations, among other priorities.

### **Conclusion**

The PPD platform proposes measures that are aimed at increasing citizens' well-being, which are related to security, economic development, the education and health-care systems, social solidarity and participation in communities, and the governmental structure. The first section, security, proposes to purchase and implement new technology, carry out reform in various agencies and both educate citizens about social issues and encourage them to engage themselves in community initiatives and activities. Another crucial proposal is to deter crime by integrating people into the economic and educational spheres. In addition, the PPD emphasizes rehabilitation as a paradigm to reduce recidivism and investing in their human development. The second section, economic development, focuses on motivating employers to add employees, repowering the five kinds of capital, strengthening and diversifying the economy, and improving the global presence of Puerto Rico.



The education section combines proposals to create various new agencies with measures that involve refocusing educational strategies. The main proposal of this section is to create the Decennial Plan. However, main priorities also include addressing the problem of the rise in special-needs children, as well as avoiding their marginalization, and fostering high-quality education in low-income schools. The section on the health-care system describes a commitment to universal health care, and aims to provide this service by creating new integrated systems of primary care with fair and equitable costs “across the board” and creating new programs to prevent both mental and physical illness.

The participation and solidarity section focuses on proposals that are aimed at increasing citizens’ level of human development, or overall options, freedoms and capabilities in life, by stimulating communal participation and solidarity. Proposals involve promoting sustainable community development, guaranteeing marginalized groups access to social services, creating programs in charge of innovative forms of urban-planning, crafting a “land-use plan” to balance environmental production and conservation adequately, and invest in the cultural and sports-related industries. The government section, in turn, proposes governmental reform that hinges around fiscal responsibility, “fair” taxation, greater accessibility and transparency through technological means, and social statistical analyses as tools for policymaking.

## **Chapter 5**

### **Analysis of Interviews**

#### **Summary**

This chapter provides an analysis of the most prevalent ideas communicated by PPD officials during interviews carried out in their offices, with the exception of one official who was interviewed in a coffee shop. Five members of the Puerto Rican House of Representatives were interviewed (Rodríguez, Martínez, Santiago, Nevárez, Alfonso), along with one senator (Torres) and a member of the Puerto Rico Department of Economic Development and Commerce (DDEC, in spanish), Juan López (all names have been changed for confidentiality purposes). These PPD officials were chosen to obtain a microcosm of the party's theoretical standpoint toward economic policy, although clearly they have different roles with regard to the practice of policymaking. In the end, four (4) general themes were detected that fell into the following areas: state of the economy, developmental policy, PPD orientation, and conceptualization of developmental theory and practice.

The questions that addressed the first main theme pertained to the challenges and obstacles to development that they were facing as officials, as well as whether there has been any significant development in this 2012-2016 term. The questions related to the second theme involved the economic policies they proposed to confront the challenges, as well as their ideas for future development. The third theme, in turn, emerged from questions about their degree of agreement with the 2012 PPD platform and the PPD party in general, as well as whether they believed the latter has distinct economic policies vis-à-vis other parties. And last, the fourth theme addressed their knowledge and/or

understanding of developmental theories in particular. The interviews lasted roughly 45 minutes to an hour and were conducted in Spanish.

### **State of the Economy (Challenges and Obstacles)**

The primary economic challenge posited by PPD officials was to keep the government afloat amidst a large fiscal deficit. The most commonly referenced dynamic that contributed to the current state of the Puerto Rican economy was the acquisition of debts by previous administrations without having the means to pay off these obligations. Four out of seven officials specifically mentioned this practice under the context of the economic challenges that they are facing during their governmental term. The officials imply that this narrow-minded policy, at least partially, has contributed to the current fiscal deficit of \$73 billion. Both Rodríguez and Nevárez claim this debt accumulated, in part, as a result of building “monumental public works” (“obras monumentales”). Rodríguez mentions the José Miguel Agrelot Coliseum, the Superacueducto (Super-Aqueduct), and the Tren Urbano (Urban Train) as examples of public works projects that were financed with debt-acquired funds without having planned how to repay their lenders. Nevárez echoes this narrative by also mentioning the Coliseum and Urban Train, and suggests that the desire to win elections was the root cause of this economic policy.

Martínez, similarly, lists the unsustainable (“insostenible”) level of governmental indebtedness as one of the central economic challenges he is facing. López, on his part, characterizes the debt as unpayable (“impagable”) and the economic policy as having been too short-term and a product of wanting to take the easy route (“la solución fácil”). Santiago, too, claims that managing the accumulated fiscal debt is the main economic

challenge of this term and mentions that the government “kept indebting itself” (“siguió endeudándose”) instead of carrying out other economic measures.

The second major idea regarding Puerto Rico’s current economic state is how past administrations neglected to adapt by inventing a new strategy when the United States eliminated the policy of tax-exemptions towards the island. The PPD, since its formation, had based developmental policy on attracting foreign investors via tax exemptions allowed under section 936 of the United States Internal Revenue Code. Although the elimination of the incentives in 1996 was placed under a 10-year moratorium, Santiago argues that officials kept indebting themselves, neglected or were slow to carry out planning, and failed to deal with restrictive maritime trade laws and insufficient competitiveness in the tourism industry. Nevárez reiterates this idea by stating that, during the 10-year moratorium period, “[they] didn’t prepare for anything else” (“no nos preparamos para otra cosa”). He also remarks that this lack of preparation consisted of failing to educate and develop entrepreneurs rather than employees, that is, not creating “an investor’s mentality” (“mentalidad de inversionista”), and also failing to develop a local base for production.

Echoing this idea of governmental failure to adjust economic policy after the elimination of tax-incentives, Torres argued that officials started to look for other versions of Section 936 instead of doing “what they needed to do” (“lo que tenían que hacer”), which was to realize that the earlier model had been rejected and to stimulate a local economy comprised of small and medium-sized enterprises. Alfonso, accordingly, called this omission a “non-acknowledgement” (“no-reconocimiento”) of the fact that the

tax-exemption policy would eventually end, which paralleled Nevárez's argument that they should have developed a local productive base.

The third most prevalent theme among officials was the characterization of the current tax system as deficient and unjust. Rodríguez described the Sales and Use Tax ("Impuesto de Ventas y Uso", or IVU) as deficient because of the difficulty of following up on who is paying it. If you do not capture it in the moment of the transaction, Rodríguez says, "you lost it and there is no trace" ("lo perdiste y no hay rastro"). He adds that this shortcoming leads to high rates of tax evasion in the "subterranean market" ("mercado subterráneo"). As he further elaborates, this tax ends up burdening the working-class, because their fixed salaries prevent these persons from underreporting their earnings, unlike those who own their own businesses. In addition, Rodríguez argues that the personal income tax is unjust because it is too high and, therefore, "is a form of not incentivizing work" ("es una forma de no incentivar que tú trabajes". López shares Rodríguez's viewpoint and argues that the IVU does not "attack" ("ataque") tax evasion and the subterranean market, and that the tax system should not be taxing "productivity more than [it taxes] consumption" ("más el consumo que la productividad").

Nevárez echoes López and Rodríguez's view of the IVU tax as deficient, while the personal income tax as unjust. With regard to the former, he says that the "merchant is stealing it" ("el comerciante se lo está robando"), while he has always criticized the latter as "a system that penalizes production" ("sistema que penaliza la producción"). Alfonso, similarly, addressed tax evasion as a significant economic issue, but expected since the tax system is unjust and inefficient. Although Martínez addressed this issue less

directly, he mentions that past administrations have been imposing “tax burdens” (“cargas contributivas”) that have affected the working class disproportionately.

The fourth most salient issue among the PPD officials interviewed was the constraining nature, in terms of the economy, of Puerto Rico’s current political status as a Commonwealth. Martínez, for example, argues that Puerto Rico’s status prevents it from having control over its “economic and fiscal indicators” (“indicadores económicos y fiscales”), thus resulting in developmental planning that depends on “the will of the U.S. Congress” (“la voluntad del Congreso”) instead of the Puerto Rican citizenry. Torres reinforced this argument by claiming that there is insufficient “control over economic variables” (“control sobre variables económicas”). In a similar vein, three officials argued that Puerto Rico’s current maritime-trade laws are too restrictive and thus costly to the economy. Three officials also denounced the U.S. Supreme Court’s decision to exclude Puerto Rico’s public entities from federal bankruptcy law. In addition, one official criticized the limited status for not providing fiscal incentives.

In addition to these four facets of recent Puerto Rican economic history, officials recalled various other dynamics that are hindering development. These include heightened partisanship and the desire to be elected, excessive welfare, a monopolized public energy corporation, an educational focus on training employees rather than entrepreneurs, and the lack of a local productive base.

### **Developmental Policy**

With regard to strategies of development, the most widely shared policy among PPD officials was to incentivize certain spheres of the private industry. Rodríguez, for example, argues that “local capital” (“capital local”) should be incentivized. He mentions

as an example how a large local rum distillery is “working with the government” (“trabajando con el gobierno”) to focus on the production of honey, which is a raw material that is used in production. Martínez, similarly, relates how he favored the president of the House of Representatives’ initiative to “incentivize small and medium-sized merchants” (“incentivar a pequeños y medianos comerciantes”) and the “cooperativist sectors” (“sectores cooperativistas”). López, further, describes incentives, specifically tax-reductions, as “basic to [their] model of economic development” (“básico en nuestro modelo de desarrollo económico”). However, López mentions incentives in the context of attracting external services, rather than fostering local industry in the way that Rodríguez and Martínez posit.

Santiago offers a similar perspective when he denounces the U.S. government’s restrictions with respect to having the tools to “develop tax-incentive alternatives” (“desarrollar alternativas de incentivos contributivos”) as an obstacle to development. Nevárez, likewise, mentions incentives and benefits for small and medium-sized enterprises, such as tax-exemptions and expedited permit-processes for new companies. He also advocates “business incubators” (“incubadoras de negocio”) as a strategy to retain professionals and attract emigrants. Also, perhaps most important, Alfonso complains that there is a lack of much-needed documentation of how many incentives are given and how many jobs they create, since the absence of this information leads to inefficient and piece-meal incentive policies.

Tax reform was the second main strategy for development espoused by PPD officials. Alfonso advocated the shift towards a more “just and efficient” (“justo y eficiente”) tax system as a fundamental policy. As stated above, Nevárez recommends a

shift from the Sales and Use Tax to the Value-Added Tax VAT), since the latter increases capture by making evasion more difficult. He also supports taxing consumption more than income, for he is against “penalizing production” (“penalizar la producción”). This advocacy for fiscal reform stems from a project that was taking place during the interviews that, as Santiago qualifies, entailed shifting to the VAT and also providing tax-incentives to individuals. Santiago lamented that the House of Representatives, due to insufficient votes, did not sanction this change.

López also champions the VAT because he believes this method would increase the tax base and enable better “auditing” (“fiscalización”). He also promotes a higher tax on consumption (and a lower one on personal income), as well as more punitive sanctions against tax evasion. This switch would provide, Bacó claims, a “more just tax system” (“sistema contributivo más justo”). Rodríguez echoes López’s statements about the VAT being a more efficient and just system, as well as the need to substitute this strategy for the personal income tax. As he argues, “right now they take away your money for working” (“ahora por trabajar te quitan el dinero”). Martínez, on the other hand, warned that any future taxes should be balanced in terms of rates rather than advocating any new system.

Reductions in government spending, also referred to as fiscal responsibility, was the third most prevalent idea appraised with regard to developmental policy. With the aim of reducing the deficit, Rodríguez mentions various policies that the PPD has carried out: reducing the budget, expenditures on publicity and contracts, closing schools, and “freezing collective bargaining arrangements” (“congelar convenios colectivos”) of public employee unions. Rodríguez describes these measures as electorally tough but



necessary. López posits that they have had to “correct” (“corregir”) a certain mentality towards “fiscal responsibility”, which he defines as “balancing the budget” (“balancear presupuesto”), or spending no more than what is gathered. Santiago mentions that they have had to “reduce the size of government [in order to] address [Puerto Rico’s] fiscal problem” (“reducir el tamaño del gobierno [para] atender el problema fiscal”).

Nevárez mentions reductions in spending on pensions, which according to him were necessary in order to avoid the collapse of the system. He also encourages the consolidation of agencies. On the contrary, Martínez criticizes fiscal responsibility, which he instead refers to as a kind of “austerity measure” (“medida de austeridad”). As he argues, “cuts in governmental spending are used as a synonym for greater efficiency, and one thing does not signify the other” (“se utiliza el recorte de gasto gubernamental como sinónimo para que el gobierno sea más eficiente, y una cosa no significa la otra”). He furthers his argument by stating that too many cuts can have a detrimental effect on the economy, and that the government can be more efficient “with or without [spending] cuts” (“con o sin recortes”).

The fourth most prevalent idea among officials, closely related to that of incentivizing, was to increase either foreign demand for Puerto Rican goods and services, or to simply attract foreign capital. Rodríguez states that the government has “made the investment of attracting investors” (“hecho la inversión de atraer inversores”). He also commends the Department of Development and Commerce (Departamento de Desarrollo y Comercio) for “having that vision...of convincing investors, whether they be local or foreign” (tener esa vision...de convencer a inversores, ya sea locales o extranjeros”). López, on the other hand, argues that there needs to be a focus on attracting external

capital in order to create jobs, because local capital is scarce. He also hopes to foster “the competitive advantages of the Commonwealth” (“las ventajas competitivas del Estado Libre Asociado”). On his part, Santiago wants to attract the U.S. and Latin American markets and promote Puerto Rico as an “entrepreneurial center” (“centro empresarial”) between the two hemispheres.

Less dominant, although still having some prevalence, were ideas such as asking for greater autonomy in different ways, connecting higher education with the needs of local production, purchasing more modern forms of technology, and restructuring the fiscal debt.

### **PPD Orientation**

Although there was some concurrence that the PPD offers a unique economic policy, an overwhelming majority stated either that there is no distinction from the alternative main party, the PNP (“Progressive New Party”; “Partido Nuevo Progresista”), or that there is a range of differing views within the party. Alfonso, for example, describes the PPD as one with “a diversity of opinions with regard to economic, social and status-related issues” (diversidad de opiniones en la cuestión económica, social y de estatus”) that stems from its position “in the center” (“de centro”) of the right-left spectrum. Similarly, Torres talks about an internal “disjunctive” (“disyuntiva”) between those who support the Commonwealth status and those who prefer “sovereignty” (“soberanía”).

Nevárez offers a similar perspective of PPD economic theory, stating that this position is distinct from the PNP’s orientation only in “philosophical or theoretical terms” (en términos filosóficos, teóricos”) but not in practice. As he elaborates, what

distinguishes each party is not its “worldview” (“visión de mundo”) but whether “it has the power or not” (“si tiene el poder o no”). Thus, the party that secures power “ends up doing what it criticized about the other” (“termina haciendo lo que le criticó al otro”) because, “in practice” (“en práctica”) both parties are acting “out of obligation” (“actuando obligados”). Likewise, Alfonso stated that “90% of [PPD and PNP policy] is the same” (“90% es lo mismo”). Relatedly, Nevárez answers the question of whether he agrees with the PPD platform by stating that, although there is some divergence, “[parties] are like private clubs” (“son como clubs privados”) and, as such, “you enter with their rules and they help you get elected” (“entras con sus reglas y te ayudan a ser electos”).

López reiterated this idea of party loyalty amidst divergence, remarking that the legislative system is “too polarized” (“muy polarizado”) and that sometimes “[legislators] don’t vote for what should be but instead for what their party tells them” (“[legisladores] no votan por lo que debe ser sino lo que le dicen”). In a similar vein, Martínez argued that the party should “refine” (“afinar”) its vision of economic development instead of “varying [it] according to who the governmental candidate is” (“varíe dependiendo del candidato a gobernador”). Martínez also mentions that there are “neoliberal and progressive” (“neoliberales y progresistas”) legislators in both parties, and that his view of economic development is not shared by the current leadership of his party.

Despite the prevalent theme of theoretical divergence with regard to the PPD, there was some consistency in the view that this party has a unique commitment to the socioeconomic needs of the citizenry. Rodríguez, for example, contrasts the PPD and the PNP by arguing that the former is capitalistic but believes that “certain sectors should be

protected” (“con unos sectores que había que proteger”), while the latter is “more free-market...open market” (más mercado libre...abierto). He further elaborates that the PPD was created to deal with “the problems of the people” (“los problemas de la gente”) while the PNP was founded on the ideal of statehood. However, Rodríguez also mentioned “partisanship” (“partidismo”) as an example of the obstacles to economic development. Martínez, in a related manner, identifies his personal viewpoint as concordant with the PPD’s founding “1938 national project” (“proyecto de país de 1938”). This project was focused on addressing extreme poverty, setting goals for economic development, and achieving social justice.<sup>4</sup>

Santiago also criticizes intra-party theoretical incoherence when he states that the governor has not wanted to address the issue of Commonwealth status despite its importance in the PPD platform. However, Santiago distinguished the PPD party from the PNP in terms of divergent policies and allegiances. For example, the PNP “benefits large [commercial] chains” and “fired 30 thousand [public] employees” (beneficia a grandes cadenas; despidió a 30 mil empleados”) while the PPD has attracted new industries, avoided firing employees, created employment, and aided small and medium-sized firms (“pequeñas y medianas empresas, or PYMES”). López repeated one of these points when he identified “employment” as a distinguishing policy of the 2012-2016 term.

### **Conceptualization of Developmental Theory and Practice**

The most prevalent developmental theory was a difficult mix of neoliberalism and progressivism, with the former advocating less, and the latter more, governmental

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<sup>4</sup> <http://ppdpr.net/historia-2/>

involvement in the private-sector economy. Rodríguez, for example, distinguishes the PPD from the PNP by describing the former as “social-democratic” (“social-demócrata”) and the latter as “more neoliberal” (“más neoliberal”). He further explains this distinction by characterizing social democracy as a belief in a capitalist system with “sectors that you have to protect” (“sectores que hay que proteger”), and neoliberalism as being “more pro-open market [and] free market” (“más de mercado abierto, libre”). Martínez conveys a similar view of these theories when he contrasts “neoliberals” (“neoliberales”) with “progressivists” (“progresistas”). However, Martínez claims that there are both neoliberals and progressivists in each political party, thus contradicting Rodríguez’s party-specific distinction.

Although Nevárez did not reference any specific developmental theory, he reiterated Rodríguez’s association of the PPD and the PNP with, respectively, progressivism and neoliberalism. Nevárez compared the PPD-PNP distinction to that of United States democrats and republicans, arguing that the former believes in “supporting the needy classes” (“apoyar a las clases necesitadas”) and in government being a necessary source of employment, while the latter “doesn’t believe in giving aid” (“no cree en dar ayudas”) and advocates reducing the size of government. Torres, somewhat differently, describes neoliberalism as a government that does not have the financial resources, or desire, to be the “principal promoter of economic activity” (“promotor principal de actividad económica”). Alfonso, however, offers a more nuanced view. While he does not believe that government should create economic activity, he does support interventions that “foster” (“fomentar”) growth and also promotes the regulation of markets.

Besides mostly describing developmental theory in terms of contrasts in the perceived adequacy of government involvement, there was a predominant belief in policymaking as a pragmatic discipline or practice. Torres, for example, argues that he can't "adopt 'X' theory" ("adoptar teoría 'X'") because policymakers have to make ideological adjustments in moments of crisis. As stated above, Torres remarks that advocating for government as a principal economic promoter can be valid up to the point where you run out money, at which policy becomes neoliberal. Similarly, Santiago expressed this pragmatic view when he said that in some projects or markets "neoliberalism can have good results" ("nos puede resultar muy bien"), but that in other cases, like the privatization of former public monopolies, "the results have been worse" ("el resultado ha sido peor"). Santiago, subsequently, argues that one has to "play with needs, idiosyncrasies and spatial limitations" ("jugar con necesidades, idiosincrasias y limitaciones de espacio"), rather than "specifically utilizing neoliberalism" ("utilizar específicamente el neoliberalismo"), and that the decision to have either public, private or hybrid corporations depends on "the [particular] service and on what you want to do" ("el servicio y en lo que quieras hacer").

Rodríguez is also a pragmatist. He argues that "even at the level of the United States" ("al nivel de los Estados Unidos mismos") you have some occasions where economic policies should be more neoliberal and occasions where they should be more socialist ("socialista"), depending on the "economic sectors and the circumstances" ("sectores económicos y circunstancias"). In a very pragmatic way, Martínez specifies that he does not sketch out policies according to a "box that tells you that you are neoliberal or post-keynesian" ("cajón que te dice que eres neoliberal o post-keynesiano"),

and instead focuses on using his own reasoning with respect to what he believes is best and correct for his country. Although he acknowledges that people might “pigeonhole” (“encasillar”) him into one theory or another, he does not see economic planning in that way.

This chapter presented PPD officials’ economic concerns and strategies, as well as their ideologies and knowledge of developmental theory. The main issues expressed by officials included large governmental indebtedness, an unadjusted economic model, an unjust and deficient tax system and the constraining nature of Puerto Rico’s national status. They advocated for broad-based incentives, tax reform, “fiscal responsibility”, and the attraction of foreign capital and markets. Although the PPD party is composed of both more progressive and more pro-market officials, party loyalty leads to widespread agreement within the party with respect to policies. Also, there is no difference with regard to practice between PPD and Partido Nuevo Progresista (PNP) economic policies. Most officials viewed developmental theory as a spectrum of governmental involvement, with neoliberalism and progressivism at opposing ends. However, developmental planning was described as reliant on pragmatism, with different strategies being required for different circumstances, conditions and industries.

## **Chapter 6**

### **Results/Discussion**

#### **Summary**

In this chapter an assessment is presented of the economic policies endorsed in the 2012 PPD platform and interviews with party officials from the perspective of the theories of development that were reviewed in Chapter Three. The first section explains how Amartya Sen's capabilities approach is somewhat represented in the platform. Specifically, the Sen-like framing of the platform can be seen in its endorsement of human development and social well-being as not just facilitators of economic growth but, rather, as ends in themselves and crucial determinants of a more broadly envisioned developmental path. The following sections locate a weak form of developmentalism that is advocated in both the platform and in interviews. As will be argued, a neoliberal theoretical frame predominates over insufficient forms of governmental involvement. The PPD assumes that reductions in governmental spending and broad-based tax incentives with an emphasis on foreign investment will create development, rather than specific, targeted, and direct fiscal investment in local industries that have the most productive potential and intra-sector mutual benefits.

Next, a summary of the components and goals of this thesis are detailed. A discussion is provided related to how these findings relate to the gap between developmental theory and practice. And last, a brief review of policy recommendations is offered that further acknowledges this gap. Specifically, economists are more in line with new developmentalism, while PPD economic planning represents a problematic mix of weak forms of developmentalism with neoliberal assumptions.



## **Capabilities Approach**

The PPD platform conveys a view of development that addresses not just economic growth but also “human development” (“desarrollo humano”, p. 182). The platform defines human development as the expansion of options, freedoms, and capabilities that mirror the way Amartya Sen envisions development as an expression of freedoms and capabilities (Sen, 1999). Although the PPD describes this kind of development as investments for future economic progress, numerous social policies are also advocated that establish “social well-being” (“bienestar social”) and greater quality of life as ends in themselves.

However, Sen’s description of well-being as being ultimately “material” or “physical” (i.e. having enough to feed oneself) shows that economic factors are at least as important for Sen as they are for neoliberals and developmentalists. In the PPD platform, Sen-like policies include expanding access to health care and education, as well as to social services programs, and investing in “sustainable community development”, urban restructuring, and a balanced land-use plan that conserves the environment for future generations.

## **Neoliberal Developmentalism**

### **A. Platform**

The PPD places a high degree of importance on creating jobs. This emphasis can be viewed as anti-neoliberal in the sense that the private sector cannot achieve adequate levels of employment without governmental involvement. However, the policies that the PPD advocates are not acceptable from the perspective of new developmentalism, since they involve providing incentives to employers without a preferential focus on those

sectors that are the most productive (Wade, 2011). Besides the incentives for employers, the PPD proposes other similarly broad-based policies, such as expediting the process of acquiring permits for new businesses and establishing agencies that link employers and potential employees.

The PPD also focus on identifying the “attitudes, skills and knowledge” (“actitudes, destrezas y conocimientos”, p. 52) that students need for the modern globalized economy. In order to achieve this end, the needs of industries should be identified, specifically with regard to their most productive areas. Although this policy might seem to be compatible with new developmentalism, this is not the case because it specifies productive areas and not productive industries (Wade, 2011). Another policy is focused on attracting financial capital via incentives, which is inadequate according to new developmentalism because this strategy weakens the government’s fiscal budget and thus the ability to invest in productive sectors (Abugattas & Paus, 2011). Credit-incentives are also suggested for local businesses, again without any focus on productive sectors. On the other hand, the PPD advocates fiscal investments in infrastructure and public transportation that are crucial for growth (Abugattas and Paus, 2011).

The PPD’s strategy for strengthening and diversifying the productive base can be viewed as new developmentalist (and/or developmentalist) with regard to some sectors, neoliberal with regard to others, and a mixture between the two with regard to a third group. For example, economic policies in the agricultural sector can be viewed as new developmentalist because they seek to apply resources to high-technology development (Chang, 2011). Other agricultural policies reflect developmentalism, rather than new developmentalism, in that they do not emphasize the endogenous growth of productive

sectors but still promote governmental involvement. These endeavors include financing microenterprises and creating incentives for clients and for local domestic and export-oriented companies.

Sectors such as Sports, Tourism, Health, and Research and Technology are all described as important with high productive potential, thus reflecting new developmentalism, but are also addressed with policies that are more in line with neoliberalism. This contradiction can be explained by the fact that the developmental focus is on attracting foreign companies by promoting Puerto Rico's low comparative tax-rates rather than investing in endogenous growth. This strategy is neoliberal in the sense that the focus of development is on international market forces, rather than a proactive state that emphasizes investing in local productive industries and protecting them from foreign competitors to guarantee their success. An important distinction is that new developmentalism does not reject foreign capital, but gives a much larger role to the use of the fiscal budget for industrial transformation (Zarsky, 2011). Although this foreign investment-based policy reflects neoliberalism, other policies with regard to these sectors are developmental in that they consist of either investing in (or incentivizing) local companies. The difference between neoliberalism and new developmentalism is one of degree, and PPD policy seems to be more inclined towards the former.

## B. Interviews

Consistent with the policies supported in the platform, the PPD officials who were interviewed argued that developmental policy should focus on the broad-based provision of incentives, such as tax-exemptions. These incentives could be taken advantage of by both local and foreign, and small and large, companies because they are not restricted to

the most productive industries nor local growth. As mentioned above, the platform does not have a new developmentalist perspective because, although high-growth industries are emphasized, a larger role is given to attracting foreign industry rather than investing in local growth. This lack of emphasis on domestic production was also seen in the interviews, where officials supported incentivizing both local and foreign companies.

Nevárez similarly advocated business incubators with the aim of both retaining local and attracting foreign capital. From the new developmentalist perspective, Alfonso also advocates an inadequate policy when he promotes documentation of which incentives lead to the most productivity, since he fails to emphasize local mastery of advanced technology and import-substitution (Wade, 2011). Similarly, the emphasis on tax-breaks rather than investments is more in line with neoliberalism because it implies that simply freeing up the assets of the private industry will lead to economic growth.

Like broad-based tax-reductions, fiscal discipline, or “responsibility”, lowered public spending, and a broadened and improved the tax base are all key measures endorsed by neoliberal theorists (Peet, 2008). These measures contradict the developmentalist idea of the government having a key role in directing investments. Rather, fiscal responsibility involves focusing on the avoidance of government deficits and on balancing the budget. Likewise, freezing government salaries and reducing government expenditures are examples of neoliberal adjustment programs (Quiñones, 2016). The underlying assumption is that the government should not be concerned with investing. Rather, the private industry can, and should, be the provider of economic growth with the help of a noninvasive government that protects private property rights and guarantees competitiveness (Friedman, 1962). Whether the companies that dominate

in a climate of neutrality end up being the ones that provide the best-paying jobs and/or the most productive goods and services fails to be considered.

Martínez labels reductions in public spending as “austerity measures” (“medidas de austeridad”). The association between this kind of measure and neoliberalism is well documented (Peters, 2012; Sommers et al., 2014; Barbero, 2015). This policy is neoliberal because the aim is to reduce, as stated above, the role of government as an investor and, instead, focus on pro-market measures, such as marketization, privatization, and public-private partnerships (Peters, 2012). These austerity measures are focused on short-term financial stability rather than long-term development (Abugattas & Paus, 2011). Also, these measures are implemented to improve the government’s credit ratings and thus attract foreign companies (Abugattas & Paus, 2011). Thus, the combined policies of austerity, broad-based tax exemptions, and promotional efforts make clear that the PPD policy relies heavily on the foreign market for development, rather than on active government-led leadership.

### **Summary and Discussion**

This study stemmed from a concern with the relatively high poverty rate of Puerto Rico, which was calculated at 45% in 2010 (Government Development Bank). While poverty was the initial measure of well being and development was considered, the literature review that was undertaken showed that many other factors, such as the average level of education, the capability of citizens to achieve what they desire, and the democratic inclusiveness of the government are also important. But when reviewing the developmental literature, a disconnection between theory and practice became apparent. Theorists and practitioners of development are not informing one another, and this issue

is leading to both unrealistic theories and piecemeal planning (Rowe, 2009). The assessment of whether this dynamic is occurring with respect to the Puerto Rican government's policymakers became the main focus of this thesis. The question thus became: are they carrying out a developmental plan that reflects a coherent theoretical stance, or does it lack any integral vision?

In order to carry out this analysis, a multi-method approach was used that consisted of a review of some of the most important developmental theories, and an analysis of the 2012 PPD platform, and interviews with seven (7) PPD officials. The aim was to develop a theoretical lens with which to assess PPD developmental policy. Specifically, neoclassical economics, neoliberal theory, developmentalism, dependency theory and Amartya Sen's capabilities approach were reviewed and summarized.

While neoclassical economics and neoliberalism are rooted in the idea that the private industry, left to itself, can maximize a country's rate of well-being, this notion is anathema to developmentalism and dependency theory. Founded on the heels of the Great Depression, developmentalists rejected fundamental neoclassical assumptions and advanced various governmental policies that could be used to achieve, for example, full employment. Similarly, pro-market policies are eschewed by dependency theorists, like the liberalization of free trade. Any differences in levels of well-being between countries, instead, stem from a history of colonialism, wealth-extraction, and post-colonial dependent international relationships. The capabilities approach, on the other hand, focuses on microeconomic aspects, such as the adequate determination of well-being. The significance of these theories can be seen by observing the different kinds of policies

that government officials plan and implement, especially with regard to the degree and kind of governmental involvement that is proposed.

The 2012 PPD platform lays out the PPD's plans for governance in the 2012-2016 term, including an economic vision. The platform emphasizes strengthening security, developing the economy, improving the educational and health institutions, fomenting civic participation and solidarity and reforming the governmental structure. With regard to the economy, the platform focuses on creating jobs, promoting human capital, attracting foreign companies, and investing in sectors with a high potential for innovation, including infrastructure. The policies designed to achieve these aims combine investments in some local productive sectors with a heavier emphasis on attracting foreign capital with incentives such as tax reductions. They also include broad-based tax incentives for companies who hire new employees.

The interviews carried out with PPD officials focused broadly on development, and more specifically on the current state of the economy- particularly whether there has been development in the current term, which economic policies the officials advocate, and whether there is coherence between officials' vision and both the platform and the PPD party as a whole. The officials expressed that the largest economic challenge that they are facing is avoiding governmental collapse amidst a large fiscal deficit, which has been accumulated largely due to the failure to adjust their strategy after the end of Section 936 of the Internal Revenue code and their continued practice of acquiring debts without establishing how to repay this money. Officials also emphasized the unfairness and inefficiency of the current tax system, as well as the constraining nature of Puerto Rico's current national status.

The PPD platform promotes a developmental strategy that can be considered neoliberal because, ultimately, this program relies on private institutions, especially foreign ones, for economic growth and well being instead of government-provided investments in key sectors. This dependence on the private sector is evidenced by the emphasis by officials on promotion and broad-based tax incentives, which both imply that no direct and focused intervention is needed for economic growth. Rather than identifying industries with a high level of productivity and providing them with greater incentives than other sectors, neoliberalism assumes that simply lowering taxes across the board and promoting Puerto Rico as an attractive business zone will maximize growth (Liow, 2012). The neoliberal theoretical frame is not concerned with whether, on a neutral playing field, companies that provide few jobs and relatively low productivity grow at the same rate as more productive ones. The focus on attracting foreign companies, also, is completely antithetical to the new developmentalist focus on local investments that serve to expand the domestic productive base and technological knowledge (Wade, 2011).

The PPD officials who were interviewed endorsed a set of policies that are also in line with neoliberalism. They advocated tax incentives for both local and foreign companies, for example, without emphasizing productive sectors or distinguishing between tax-exemptions and direct investment. The important distinction is that tax-exemptions, when provided broadly, do not guarantee that the most productive industries will expand the most. There is no guarantee, accordingly, that growth will be concentrated in local industries. This uncertainty is problematic from a new developmentalist perspective, since foreign companies that obtain inputs globally instead



of seeking local suppliers, tend to create industrial enclaves rather than broader growth, and thus contribute less to domestic savings (Zarsky, 2011). Officials also endorsed policies associated with neoliberal adjustment, such as reductions in government spending and broadening the tax base to reduce the deficit. These austerity measures assume that the cause of underdevelopment is governmental overspending, rather than the failure to nurture and protect local productive industries.

There is a high degree of agreement between the policies favored in the platform and in the interviews. However, as noted above, both of them advocate incentives, which can be considered developmentalist in character. However, a closer inspection reveals that these policies are neoliberal because they focus on broad-based tax-exemptions rather than direct investment and/or focused exemptions. Thus, the general idea is that when companies have more assets (less tax payments) they will transfer them to growth and investment. Developmentalism, on the other hand, seeks to nurture local growth and create domestic linkages and, thus, more sustained production. This process of fostering local companies also involves protecting them from foreign competition by assuring that they have enough resources to compete with the latter (Wade, 2011).

The platform and interviews are also in agreement with regard to tax reform and fiscal responsibility. Both promote broadening the tax base as part of a general strategy to balance the budget. They also both call for a fairer tax system. However, while the platform's program of fair taxation focuses on lowering taxes for foreign companies and directing tax-incentives to the creation of jobs, the officials' rendition of a just tax system emphasizes the Value-Added Tax (VAT). Also, both stressed reductions in government spending, specifically as a response to past excessiveness and irresponsibility.

The accounts provided by PPD officials of the economic challenges and obstacles to development they are facing entailed four main themes: a fiscal deficit that has been accumulated in large part because of the practice of acquiring debts without planning beforehand how to repay them, the failure to adapt to the elimination of Section 936 of the Internal Revenue Code, a deficient and unjust tax system, and the constraining nature of Puerto Rico's national status.

Various economic policies are advocated in order to deal with these challenges and obstacles. The most prevalent policy mentioned was to incentivize local and/or foreign capital. This policy is closely tied to the attraction of foreign demand and/or capital. Noteworthy is that only one official addressed a lack of documentation of incentives as a problem, thereby suggesting that most officials are not aware of how this lack of knowledge might be leading to piecemeal and, thus, inefficient policies. Tax-reform was another main theme with regard to policy. Specifically, two shifts were advocated: one from a sales-and-use tax to a Value-added tax and another from an income to a consumption tax. Finally, most officials proposed reductions in government spending as necessary measures, with the exception of Martínez.

The prevalent view among PPD officials with regard to their party's policy orientation to development is that most agreement is the result of party loyalty rather than a shared theoretical stance. Instead of having a distinct viewpoint or orientation, this program reflects widespread divergence. However, two officials contrasted the PPD and PNP by characterizing the former as more attuned to the needs of the citizenry and the latter as more oriented towards the elite, private sector.

PPD officials viewed developmental theory as a spectrum with regard to the amount of governmental involvement in the economy, with neoliberalism on one end and progressivism on the other. Only Alfonso made a distinction between different kinds of involvement, such as creating versus fostering economic activity. Accordingly, developmental practice was mostly described as being guided by pragmatism rather than by adherence to any particular theory. This pragmatism stems from a belief that developmental theories are either pro-public or pro-private sector, and that each can be either successfully or inadequately implemented, depending on the particular industry and other circumstances.

The question of whether the interviewed PPD officials' views reflect those of the party as a whole, and whether the PPD has a distinct developmental vision, was addressed in the section titled "PPD Orientation". Officials explained that there is a large amount of divergence with regard to intra-party views. This condition stems from the fact that the PPD is a "center" party with regard to the left-right spectrum, and that there is a divide between autonomists and those who are pro-Commonwealth (Nieves, 2015). Further, agreements are based on *quid pro quo* relationships rather than a consensus. With regard to the PPD's strategy vis-à-vis other parties, any uniqueness is more ideological than practical. Although officials emphasized that they focus more on citizens' well being and endorse more governmental involvement than the PNP, the policies that they implement are the same ones they criticize when the latter proposed them in previous terms. Thus, neoliberalism seems to have taken a hold of both parties' developmental frameworks (Frank, 2016).

The PPD officials' knowledge and understanding of developmental theory was also assessed. Neoliberalism was conceptualized as part of a dichotomy that opposes social democracy and/or progressivism and instead advocates private industry-led growth. Progressivism was described as greater governmental involvement, as opposed to the pro free-market neoliberalism. Further, policymaking was described as a pragmatic process whereby the decision to promote public versus private-led growth depends on the context. This view of developmental theory fails to appreciate that developmentalism does not simply refer to governmental involvement. The failure to understand the new developmentalist focus on the protection of local interconnected industries with high degrees of productivity supports many academics' claims that there is a broadening gap between developmental theory and practice (Beer, 2009; Le Heron, 2009; Rowe, 2009).

Officials' advocacy for broad-based incentives and fiscal spending reductions reflects neoliberal thinking. Further, the strategy to expand production is based on attracting foreign capital, with some exceptions (e.g., Agriculture and Sports). There was a great deal of coherence between the PPD platform and the views of the interviewed officials. They both emphasized the promotion of Puerto Rico to attract foreign capital, without addressing the harmful effects of foreign-dominated industrial development (Dietz, 2003).

### **Policy Recommendations**

This final chapter aims to summarize and detail the main commonalities that are shared by various scholars with regard to suggestions for future economic policies. These main ideas can be condensed into two distinct, although interlinked, strategies: (1) shifting the economy from one that is dependent on foreign investment and federal

transfers to one that relies on a dynamic, diversified and productive local private sector, (2) investing in domestic entrepreneurial training, and (3) establishing Puerto Rico as an economic hub for other Caribbean countries (Dietz, 2003; Collins et al., 2006; Pantojas, 2014; Quiñones, 2016).

Dietz emphasizes in 2003 that the practice of relying on federal transfers must end, although this practice is still a key component of PPD policy as seen in the 2012 platform. Instead, he recommends import-substitution industrialization (ISI) and expanding local financial, capital, and equity markets (especially those with local linkage effects) (Adewale, 2012). Collins et al., similarly, warn that Puerto Rico must diversify and strengthen the local private sector instead of relying on tax incentives for foreign companies. More specifically, policies should be promoted such as ensuring local access to financial capital, developing industrial clusters with intra-sector synergies, and investing in research and development. Although Collins et al. (2006) disagree with Dietz's promotion of ISI, they mention that incentives should be stripped down and only given to businesses whose growth benefits society more than themselves. Dietz (2003) shares this incentive structure. Pantojas (2014), along the same lines, suggests investing in high-value local industries with a specific focus on integrating them into productive global chains. Additionally, Quiñones (2016) conveys this general idea by stressing that relying on foreign corporations is counterproductive, because the subsidies that are provided allows them to expropriate an excessive amount of revenues.

The second main recommendation by scholars is to invest in human capital and entrepreneurial formation, in order to raise average incomes and local ownership capacity (Storper & Scott, 2009). Dietz (2003) recommends investing to improve knowledge-

intensive human capital. Collins et al., likewise, stress job training and credit programs that motivate people to work instead of relying on welfare programs. They also promote interactions between educational institutions and the local economy, as well as research and development-related activities. Similarly, Pantojas (2014) addresses the educational sphere, specifically calling for Puerto Rico to become an international center for education.

And last, scholars envision Puerto Rico to be a regional and/or international economic hub. With regard to the international arena, Pantojas (2014) recommends investing in a seaport, high-value events in the arts and boxing, facilitating the growth of companies that provide international services, and creating infrastructure that attracts international sports teams. With regard to the regional sector, he suggests creating a commercial center for countries in the East Caribbean. Similarly, both Dietz (2003) and Collins et al. (2006) advocate for Puerto Rico to become a financial, consulting, and travel hub for nearby countries.

The reviewed texts shared an emphasis on relying on investment for local growth rather than on continuing to attract foreign companies through excessive tax-incentive structures. However, only Quiñones (2016) stresses the political barrier that need to be confronted: a clientelist, homogeneous and restrictive two-party system that represents the interests of an elite business class that mostly acts as a middleman for foreign multinationals. Similar to how Amartya Sen envisions development as freedom, Quiñones argues that major political struggles are needed to achieve true local control of economic decision-making. Indeed, the need for a new political class is made evident by Pantojas's characterization of both the PPD and PNP as a "kakistocracy", or a plutocratic,

demagogic and authoritarian government ruled “by the worst” (Pantojas, 2014). Thus, a commitment to improving the well-being of Puerto Ricans entails not only designing the right economic policies, but also strengthening the political intelligence and involvement of the citizenry and forming social movements with linkages between groups with different but complementary goals. Indeed, Peet emphasizes the latter as being crucial for development, referring to this strategy as radical democracy (Peet, 2009).

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