

U.S. BUSINESS INTERESTS IN CUBA AND THE RISE OF CASTRO

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U.S. private investment in Latin America, as well as in other less developed areas of the world, is widely regarded as a valuable if not an indispensable component of the overall U.S. foreign assistance program. By quickly identifying and exploring promising new business opportunities, and by providing financial resources and human skills required to translate them into going ventures, U.S. investment activities can make a vital contribution to economic development. Recognizing the role of private investment in furthering U.S. national interests, the U.S. government has for a number of years sought to promote the flow of new investment: a rapidly growing investment guarantee program, direct government loans to eligible private investors, and investment information services are just a few of the instruments at the disposal of the government in pursuing this objective. To provide additional incentives, a presidential recommendation currently before Congress stipulates that U.S. investors making certain kinds of new investments in eligible, less-developed countries would be permitted to deduct 30 per cent of the cost of the investment from their total federal income tax obligations.

At the same time, in terms of furthering U.S. national interests it is not enough to show that these business activities contribute to economic development. It is well known by this time that no necessary causal relationship exists between economic development and the emergence of responsible political regimes friendly to the United States and responsive to the collective will of the governed. Even if the economic benefits of foreign private investment in host countries are

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large, the way the total gains are distributed between foreign private investors and host countries can give rise to serious conflict that can embroil the U.S. government as well. And even if aggregate benefits are large, the kind of economic development that emerges may or may not satisfy the rising nationalistic pressures in host countries. It makes a difference whether foreign investment serves to diversify the economic base of the host country, or serves to increase concentration on one or a few export products upon which the economy is judged to be already over-dependent. It makes a difference whether the investment becomes identified in the eyes of the populace with unpopular, repressive economic, political and social institutions, or whether it becomes identified with progressive, if not revolutionary, elements.

A worrisome aspect is that, despite its economic contributions, U.S. private capital is a source of resentment, conflict, and distrust in many areas of Latin America, and this situation is being exploited by extreme left-wing political groups. Unfortunately, we do not have a clear idea of how serious and deep-rooted is the local reaction to U.S. investment or to what extent the situation does pose a threat to U.S. national interests. Nor do we have a clear notion about how private investment should be guided in the future to mitigate these negative side effects.

To gain insight into some of these problems, we shall explore in this paper the role that the large volume of U.S. investment in Cuba may have played in helping to shape political relations between the United States and Cuba during Fidel Castro's early years in power. Because of the extreme nature of this case, it cannot be used to generalize directly about the economic-political consequences of foreign investment in the rest of Latin America. Nevertheless, this inquiry will serve to identify and shed light on several issues of general relevance with respect to relationships between private business activity and U.S. national interests.

THE MAGNITUDE AND COMPOSITION OF U.S. PRIVATE INVESTMENT IN CUBA

When Castro came to power in 1959, the total book value of U.S. business enterprises in Cuba was greater than in any other Latin American country except Venezuela. Table 1 indicates that on a per capita basis, the book value of U.S. enterprises in Cuba was over three times the value for the rest of Latin America as a whole. With respect to direct investment flows and undistributed earnings<sup>1</sup> during the 10-year period 1950-1959, Cuba received over twice as much per capita as the average for the other countries, as shown in Table 2. Moreover, U.S. owned firms were especially prominent in certain industries. According to a Department of Commerce survey in 1956:

The only foreign investments of importance are those of the United States. American participation exceeds 90 per cent of telephone and electric services, about 50 per cent in public service railways, and roughly 40 per cent in raw sugar production. The Cuban branches of United States banks are intrusted with almost one-fourth of all bank deposits. This intimate economic relationship is so much the outgrowth of mutually helpful association that many of the problems that have plagued less close relationships in other areas have largely been avoided in Cuba.<sup>2</sup>

U.S. investment in Cuba was far greater, both in total dollar and per capita terms, than was typical in the rest of Latin America. Moreover, Cuba enjoyed one of the highest per capita incomes in Latin America. Yet, Cuba is today a member of the Soviet Bloc. Questions immediately arise about the relationships between U.S. investment and this revolutionary and tragic turn of events. What was Castro's

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<sup>1</sup>Direct investment flow is loosely defined to include the flow of equity and loan investments from U.S. residents to foreign firms controlled by U.S. interests. The book value of direct investment enterprises includes the U.S. ownership of equity capital, loan capital, branch accounts, and intercompany accounts in foreign firms controlled by U.S. interests. For more precise definitions and a treatment of methodology, see U.S. Department of Commerce, U.S. Business Investments in Foreign Countries (Washington, D. C., 1960), pp. 76-85.

<sup>2</sup>U.S. Department of Commerce, Bureau of Foreign Commerce, Investment in Cuba (Washington, D. C., 1956), p. 10.

Table 1

BOOK VALUE -- U.S. DIRECT INVESTMENT ENTERPRISES IN CUBA  
AND OTHER LATIN AMERICAN COUNTRIES, 1959

Industry	Cuba		Other Latin America <sup>a</sup>	
	Millions of Dollars	Dollars Per Capita <sup>b</sup>	Millions of Dollars	Dollars Per Capita <sup>b</sup>
Petroleum	147	22	2715	15
Manufacturing	111	17	1285	7
Trade	44	7	592	3
Public utilities	313	47	790	4
Mining and smelting	- <sup>c</sup>	- <sup>c</sup>	1254	7
Other (primarily agriculture)	<u>341</u>	<u>51</u>	<u>527</u>	<u>3</u>
Total	956	143	7163	39

Notes:

<sup>a</sup>Excludes Western Hemisphere dependencies.

<sup>b</sup>Population figures for 1959 used in per capita computations.

<sup>c</sup>Not available separately; included in "other" industries.

Sources:

U.S. Department of Commerce, U.S. Balance of Payments, Statistical Supplement (Washington, D.C., Revised Edition, 1963), p. 207; and United Nations, Boletín Económico de América Latina (New York, November 1960), p. 8.

Table 2

CUMULATIVE NET DIRECT INVESTMENT AND UNDISTRIBUTED CORPORATE EARNINGS,  
CUBA AND OTHER LATIN AMERICAN COUNTRIES, 1950-1959

Industry	Cuba		Other Latin America <sup>a</sup>	
	Millions of Dollars	Dollars Per Capita <sup>b</sup>	Millions of Dollars	Dollars Per Capita <sup>b</sup>
Petroleum	115	19	1720	10
Manufacturing	56	9	1250	7
Trade	26	4	494	3
Other	202	33	359	2
Mining and smelting	<u>-<sup>c</sup></u>	<u>-<sup>c</sup></u>	<u>759</u>	<u>4</u>
Total	399	65	4582	26

Notes:

<sup>a</sup> Excludes Western Hemisphere dependencies.

<sup>b</sup> Population figures for 1950 used in per capita computations.

<sup>c</sup> Not available separately; included in "other" industries.

Sources:

U.S. Department of Commerce, U.S. Balance of Payments, Statistical Supplement (Washington, D. C., Revised Edition, 1963), pp. 178-207; and United Nations, Boletín Económico de América Latina (New York, November 1960), p. 8.

professed attitude toward U.S. business enterprise in Cuba before he came to power? What was the role of U.S. business enterprise in shaping events after he came to power? How did the presence of U.S. business enterprise affect the bargaining positions of Cuba and the United States during the crucial days of 1959 and 1960 when Cuba was moving rapidly toward the Soviet Bloc?

CUBA AND THE UNITED STATES: 1959-1960

At the time that Castro came to power, after Batista fled Cuba on New Year's Day 1959, the U.S. business community had little basis for regarding the turn of events with grave misgivings. Castro had not expressed open hostility either to the United States government or to private business interests. On the contrary, during the preceding two years, while he was leading the rebel forces against the Batista regime, Castro had gone to great lengths to gain sympathy and support from the United States. The considerate treatment of Americans who came into contact with the rebels, the frequent disclaimers of Communist association, and the public pronouncements about democracy, social justice, and economic reform couched in terms of Western tradition, all served to demonstrate a friendly attitude toward the United States. According to one press account of January 8, 1959:

American Ambassador Earl Smith describes the rebels as "friendly and courteous," surprisingly capable in preserving order among the populace and exhibiting not the slightest anti-American sentiment. An American banker confesses: "The way their troops have behaved so far certainly throws dust on the fear that they are a bunch of Communists." Another Yankee businessman exclaims, "They're just nice kids."<sup>1</sup>

At the same time, the business community did have some reason to feel uneasy and annoyed. Among other things Castro had earlier proclaimed in 1953, that under "revolutionary law" (1) workers would have "the right to share in thirty per cent of the profits of all the large industrial, commercial, and mining companies, including sugar mills,"

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<sup>1</sup>Wall Street Journal, January 8, 1959.



and (2) the telephone and electric utilities would be nationalized with "return to the people of the unlawful excess that they have been charged in their rates."<sup>1</sup> The manifesto of the July 26th movement had condemned colonial mentality and the domination of Cuba by foreign economic interests.<sup>2</sup> Moreover, the rioting, sabotage, and labor strikes during the campaign against Batista had worked to the detriment, at least in the short run, of some business interests.

Ruby Hart Phillips reported in 1957:

American businessmen told me that I was contributing to the ruin of the economy by stories of the rebellion. Both American and Cuban businessmen were annoyed. With Cuba as prosperous and money so plentiful, they couldn't understand why anyone would support a revolution. They wanted Batista to crush the Fidel Castro rebellion so they could "get on with business."<sup>3</sup>

In any event, U.S. investors perceived no compelling reason to retrench or pull out of Cuba. Although Castro had left-wing leanings, to be sure, it was not clear that they posed any serious threat to the conduct of business as usual. During 1959, companies went ahead with their investment plans; ironically U.S. net direct investment of \$63 million during that year was even larger than it had been in most of the years since World War II.

Even before the end of 1959 it became apparent that Castro was more hostile towards private investment than was believed earlier. The Cuban government installed "intervenor" to oversee the operations of several large U.S. owned companies including the Cuban Telephone

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<sup>1</sup>These statements are from Castro's "History Will Absolve Me" speech (October 6, 1953), as quoted in Jules Dubois, Fidel Castro, Rebel -- Liberator or Dictator? (Indianapolis, Bobbs Merrill, 1959), pp. 70-71.

<sup>2</sup>The Manifesto is reproduced in Enrique Gonzalez Pedrero, La Revolucion Cubana (Mexico City, Escuela Nacional de Ciencias Politicas y Sociales, 1959). See p. 89 for the relevant passage.

<sup>3</sup>R. Hart Phillips, Cuba, Island of Paradox (New York, McDowell Oblensky, 1959), pp. 335-336.

Company and the Compañía Cubana de Electricidad.<sup>1</sup> Reductions in telephone and electricity rates and extensions of service were quickly ordered. After passing the Agrarian Reform Law, the Government seized lands producing tobacco, rice, and coffee -- including large plantations owned by Americans and Cubans. The 20-year 4-1/2 per cent bonds offered in payment came under protest by the U.S. government as not being "prompt, adequate, and effective compensation."<sup>2</sup> Under new mining and petroleum laws most of the existing claims were canceled, additional taxes were imposed and foreign companies began closing down.

Castro's public statements became increasingly bitter about "foreign vested interests" that, being injured by the turn of events, allegedly were trying to destroy the revolution. Castro declared in one 3-1/2 hour speech that all counter-revolutionaries were in league with foreign vested interests.

The Premier declared the Revolutionary Government was being accused of communism as a pretext, because foreign vested interests do not like the revolutionary law.

"All the things we do, like reducing rent, distributing land to the peasants and growing rice injure foreign vested interests."<sup>3</sup>

In February 1960, Ernesto Guevara, one of Castro's closest associates, challenged the worth of foreign investments:

We maintain the point of view that foreign investments in Cuba, as in all countries of Latin America, under the conditions on which they are made, constitute a great business for the investor, but a bad business for the country.

Only a month later Guevara charged:

Our hardest fight is against the North American monopolies....Private foreign capital comes here only for profit and does nothing for the people of Cuba.<sup>4</sup>

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<sup>1</sup>The government intervenors exercised management functions, while ownership remained unchanged.

<sup>2</sup>New York Times, January 13, 1960, p. 49.

<sup>3</sup>New York Times, October 27, 1959, p. 1.

<sup>4</sup>New York Times, February 6, 1960, p. 1, and March 21, p. 1, respectively.

In February, Anastas Mikoyan arrived in Cuba to negotiate a trade pact covering the sale of Cuban sugar to the Soviet Union for industrial credits and crude oil. This was followed by establishment of diplomatic relations with the Soviet Union and Communist China. At the same time that the Cuban propaganda line was taking on an increasingly Marxist flavor -- defending the Soviet Union and condemning the United States at every turn -- Soviet technicians began pouring in.

In the face of slander directed at the United States, the closer ties with the Soviet Bloc, and the expropriation of property without prompt and reasonable compensation, agitation increased in Washington to cut Cuba's sugar quota for the American market. The 1960 quota had been set, a year earlier, at 3,119,655 tons -- 59,180 tons more than for 1959. According to long-standing agreements with Cuba, the United States paid about two cents a pound above the world market price for sugar coming in under quota -- a premium of well over \$100 million per year. Castro, bitterly assailing the prospect of a quota reduction as "economic aggression," vowed stern retaliation:

We'll take and take until not even the nails of their shoes are left. We will take American investments penny by penny until nothing is left.<sup>1</sup>

But before either country acted a new crisis erupted in mid-1960: The three foreign owned oil refineries in Cuba (two owned by American interests, one by European interests) refused to refine incoming Soviet crude being traded for Cuban sugar. Their refusal immediately led to take-over by Cuban authorities. This was the last straw. The Eisenhower Administration promptly cut the sugar quota by 95 per cent for the remainder of the year, and this resulted in a loss to Cuba of about \$92 million in sales to the United States.

Castro lost no time in again assailing the United States for attempting to destroy the Cuban revolution. He complained that when "Cubans were being murdered in great numbers" and when the country was

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<sup>1</sup>New York Times, August 21, 1960, Section III, p. 1. See also June 24, 1960, p. 1.

being "sacked" during the Batista era, it never occurred to the "Yankee Oligarchy...to have its press write of the horrors in which Cuba lived" or to demand a cut in Batista's sugar quota. The Yankee Oligarchy failed to do these things, Castro asserted, because it "was owner of our lands, our mines, our factories, our commerce, most of our banks, our public services, and withdrew millions of dollars from our economy yearly."<sup>1</sup>

A month later, in early August, Castro made good his earlier counterthreat when he announced a new expropriation decree covering the telephone and electric utilities, oil refining and marketing facilities, and all U.S. owned sugar mills on the island. The properties, valued at about \$750 million, represented about two-thirds of the total value of U.S. private investment in Cuba. The announcement marked the beginning of the "Week of Jubilation." Immediately the Cuban press and radio hailed the nationalization as marking the "final independence of Cuba."

In Havana, repair trucks of the Cuban Telephone Company...one of the concerns nationalized raced through the streets filled with celebrating employees. The workers blew the horns of the vehicles, beat on the sides of the trucks with sticks, and kept up a shout of, "Cuba yes! Yankees no!"<sup>2</sup>

At the close of the "Week of Jubilation" the Confederation of Cuban Workers called for enlistment of worker's and peasant militia against any aggressor who, by means of direct intervention or counter-revolution, sought to destroy or subvert the Revolutionary Government. The meeting called for renewed vigilance against counter-revolutionaries, propagandists, saboteurs, and conspirators, and "to silence them with our reply or deliver them to revolutionary authorities."<sup>3</sup> Simultaneously, the Popular Socialist Party (the Cuban Communist Party) announced the first national assembly since the time it was forced underground by

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<sup>1</sup>New York Times, July 8, 1960, p. 1.

<sup>2</sup>New York Times, August 9, 1960, p. 3.

<sup>3</sup>New York Times, August 14, 1960, p. 1.

the Batista regime. Foreign observers from around the world were invited to attend.

A few weeks later, while foreign ministers of the Organization of American States were meeting in Costa Rica to consider the threat of Soviet presence in the Western Hemisphere, Castro affirmed his friendship with the Soviet Union and the Chinese People's Republic. In his lengthy speech broadcast by radio and television, Castro again assailed the OAS and the United States, declaring that the strength of the revolution would carry the nation to final victory over its enemies. Among other factors of strength, Castro pointed out that the revolution "took away the lands of the big property owners and the American companies."<sup>1</sup> Addressing the United States he declared that the people of Cuba:

...no longer believe in your philosophy of exploitation and privilege, or in the philosophy of gold, the gold that you rob from the work of other people; no longer are we disposed to follow the orders of your ambassador....[Nor] do we believe in your false Pan Americanism with which you cloak the system of oppression and abuse, the system of domination that you have introduced among our divided peoples of America....[No longer will Cuba be] an appendage of your economy nor will Cuba ever again vote in the United Nations as you indicate but will vote as our dignity and conscience indicate.<sup>2</sup>

Facing the increasing hostility of the Cuban regime with its closer ties to the Soviet Bloc, the U.S. government contemplated new measures to reduce the threat of a Communist-oriented Cuba in the Western Hemisphere. In late August the Senate voted to cut off foreign aid funds to any nation supplying arms or economic assistance to Cuba. In October, the United States imposed an embargo on exports to Cuba, covering everything except food and medicine.

The Cuban government then seized most of the remaining large private properties on the island. These included banks, and commercial,

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<sup>1</sup>New York Times, August 25, 1960, p. 12.

<sup>2</sup>Ibid.

industrial, and transportation enterprises -- about 20 of which were owned by U.S. interests. Only about 200 small U.S. enterprises were left in the hands of their owners.

In short, the year 1960 saw the rapid deterioration in relations between the United States and Cuba. Threat was met by counterthreat, punitive action by counteraction, and all the while Cuba drew closer to the Soviet Bloc. In the words of Tad Szulc:

From the time the Cuban sugar quota was cut, a physical clash between the United States and Cuba, directly or indirectly, was unavoidable. As it began to run out of its patience and tolerance toward Castro, the Eisenhower Administration, in the late spring, 1960, set up training camps in Guatemala for a rebel Cuban force to be used in a contingency of one sort or another. Soon, it was tacitly accepted on both sides that an invasion was inevitable sooner or later, and that it was only a question of time before it came.<sup>1</sup>

#### U.S. BUSINESS ENTERPRISE AND THE EVENTS OF 1960

A critical aspect of the revolution involved Castro's ability to transfer the hatred his followers had for Batista, to hatred of the U.S. government and its business interests. In the beginning, the revolution was directed against the brutal suppression and terrorism of the Batista regime. Although the rebels resented U.S. support of the Batista regime, they did not wage a strong anti-American campaign. On the contrary, they vied with Batista for sympathy and aid from the United States. Castro's early support among Cuban intellectuals and professional classes was not predicted on the notion that Cuba must follow the Soviet economic pattern or that the United States was an implacable enemy. It was their hope of freeing Cuba from Batista and achieving a measure of political democracy, social justice, and sound economic reform within the framework of Western ideology that served as a primary source of revolutionary strength.

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<sup>1</sup>Tad Szulc, The Winds of Revolution (New York, Praeger, 1963), p. 135.

When Castro mounted his anti-American campaign in late 1959 and 1960 he lost support among the intellectual and professional groups, as the flight of thousands to Miami would suggest. But he was able to maintain influence, especially among the poorer classes, during that critical period within which the character of the revolution was radically transformed. In depicting the United States as the "aggressor" as the "rapacious and exploiting imperialist" in league with Batista, he was able to maintain a hold over the masses through 1960, consolidate his power, and move firmly into the Soviet Bloc.

For our purposes, a fundamental question relates to the role that U.S. business enterprise may have played in the anti-American campaign. To what extent did the composition and level of U.S. business investment make it vulnerable to Castro's assaults? More specifically, what was it about the character of U.S. enterprise, if anything, that made its interests easily identifiable with those of the Batista regime? In 1960, to what extent did the apparent hostility of the U.S. government to the revolution seem (among Castro's supporters) to be motivated by the desire to defend U.S. private business interests? To what extent was U.S. enterprise vulnerable to the charge that it contributed to foreign economic domination of Cuba?

#### Investment in Public Utilities

An examination of the composition of U.S. investments in Cuba may provide some clues to the answers. In the first place, note in Table 1 page 4, that the book value of U.S. public utilities investments comprised about one-third the total value of U.S. owned Cuban investments in 1959; on a per capita basis, U.S. investments in public utilities were over ten times larger in Cuba than in other Latin American countries. The concentration of U.S. investment in public utilities may have been unfortunate from the standpoint of U.S. national interests, insofar as investment in public utilities industries may have become intimately associated in the minds of Castro's supporters with the Batista regime. These industries by their very nature are ones of large, noncompeting firms that must operate essentially as monopolies if they are to be economically efficient. Because

competition cannot be relied upon to ensure performance in the public interest, governments typically step in to regulate the industries directly. In some cases, especially in the United States, governments establish regulatory agencies to supervise privately owned utilities. In other cases, governments both own and operate the utilities. In Cuba, the role of the Batista government as regulator of the foreign privately owned utilities made the industry vulnerable to accusations that it was in league with the Batista regime (however unfounded the accusations may have been), and that it was an enemy of the revolution. Purely by matter of coincidence, a regulated public utility can appear to be embroiled in local politics and scandal, through no fault of its own, simply because of its special relationship with the host government.

A specific case in point involves the rate increase granted in 1957 by Batista to the Cuban Telephone Company. On economic grounds the rate increase may have been long overdue and entirely justified.<sup>1</sup> Yet, certain evidence suggests that the environment in which the increase was granted created an unfavorable psychological effect that was conveniently exploited by Castro in later years.

On March 13, 1957, a poorly planned and coordinated attack was made by Cuban rebels on the presidential palace in an unsuccessful assassination attempt against Batista. The president escaped, reinforcements of loyal troops were rushed to the scene, and by the time the firing had ceased 25 rebels were dead. A few hours later an

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<sup>1</sup> Many economists have observed that rates of return to public utilities are typically held to very low levels by Latin American governments. On one hand these enterprises face criticism for the poor service they render; on the other hand, they cannot render better service because rates they are allowed to charge consumers are too low to cover an expansion of investment. See D. F. Cavers and J. R. Nelson, Electric Power Regulation in Latin America (Baltimore, The Johns Hopkins Press, 1959). According to one source, the rate of return of the Cuban Telephone Company over a 38-year period was only about 4 per cent -- far below the rate generally allowed in the United States, New York Times, October 13, 1960, p. 34.



opposition leader, Pelayo Cuervo, was brutally murdered. According to some writers, the order for the murder had come from Batista himself on the heels of the palace attack.<sup>1</sup> Cuervo had been "an honest, respected, and courageous lawyer."<sup>2</sup> He had achieved widespread recognition in filing a brief against former President Grau, alleging that he had stolen over a hundred million pesos from the public treasury. And not long before he was murdered, Cuervo had declared that he was about to start similar proceedings against Batista. Moreover, about a year before his assassination, Cuervo had filed another suit "to block a proposed increase in the rates of the American-owned Cuban Telephone Company...."<sup>3</sup> According to one account:

The murder of Cuervo shocked the people of Havana. There was no statement from the palace or from any government official condemning it....

On the morning of March 14, hours after the attack on the palace and the reprisal murder of Pelayo Cuervo, American Ambassador Arthur Gardner entered the still bullet-marked palace with officers of the economic staff of the embassy, to be present at Batista's signing of a new contract with the Cuban Telephone Company. The effort of Gardner to help Batista convey an impression both at home and abroad that things were normal in Cuba at that moment neither ingratiated him and the State Department with the people of the country nor enhanced the popularity of the Cuban Telephone Company....<sup>4</sup>

In all likelihood the new telephone contract had been negotiated long before the palace attack. It was an unfortunate coincidence that the formal signing came just after the time of the attack and Cuervo's murder. But again this brings out the point -- simply by being closely associated with a host government, as is necessary with regulated public utilities, the company can become an innocent victim of circumstances.

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<sup>1</sup>Robert Taber, M-26, the Biography of a Revolution (New York, Lyle Stuart, 1961), p. 124; Jules Dubois, Fidel Castro, Rebel -- Liberator or Dictator? (Indianapolis, Bobbs Merrill, 1959), p. 154.

<sup>2</sup>Dubois, op. cit., p. 153.

<sup>3</sup>Taber, op.cit., p. 125.

<sup>4</sup>Dubois, op. cit., pp. 155-156.

When Castro accused the United States and its vested economic interests of supporting Batista, the association between the public utilities and the Batista government lent plausibility to the argument. And when he accused the United States and its business interests of trying to destroy the revolution, this was also a plausible argument; since the companies were presumably being hurt by Castro's early decrees, it was only natural (so Castro's supporters easily could be led to believe) for these business interests and the United States government to be hostile toward the revolution.

Besides their special association with the Cuban government, the public utilities were in a sensitive position simply because the services they supplied were so basic in both the industrial development of the economy and in the direct satisfaction of consumer needs. In being so vital in both urban and rural areas they were a conspicuous, though perhaps unjust, target for consumer complaint about services and rates. The political sensitivity of the utilities and the vital character of their services made them convenient focal points for attack during the revolution itself. It is notable that even as early as 1953 Castro had called for nationalization of the telephone and electric companies and a reduction of rates. After he came to power, his first actions against U.S. companies included intervention of the Cuban Telephone Company (in March 1959), cancellation of the telephone rate increase that had been granted by Batista, and reduction in electric utility rates.<sup>1</sup>

#### The Sugar Economy

Table 1 also discloses that a large proportion of U.S. investment in Cuba was also concentrated in agriculture -- primarily sugar production. As in public utilities, about one-third of the total book value was in agriculture and in per capita terms the concentration in agriculture was far higher in Cuba than in the rest of Latin America. Moreover, in 1955 the total sales of U.S. owned agricultural enterprises in

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<sup>1</sup>For a discussion of these events see Freeman Lincoln, "What Has Happened to Cuban Business?" Fortune, September 1959, pp. 110-274.

Cuba were responsible for nearly one-half the total sales of all U.S. owned agricultural enterprises in Latin America.<sup>1</sup>

From the standpoint of comparative advantage in international trade, Cuba's advantage may very well have been in sugar. By exporting sugar which could be produced cheaply, and importing goods that other countries could produce more cheaply, Cuba may have been able to enjoy a higher aggregate national income than would otherwise have been forthcoming. If so, it was only natural for U.S. capital to be attracted to sugar as the operations of the market mechanism, presumably reflecting national comparative advantages, would make sugar production relatively profitable in Cuba.<sup>2</sup>

Of course, the major difficulty with this point of view is that aggregate national income is only one measure, and frequently a poor one at that, of a nation's economic welfare, and it may have little to do with the nation's political welfare. Long-run growth rates of income, income distribution, unemployment levels, the level of perceived social justice, are just a few of the factors that cannot be disregarded in any meaningful appraisal of the Cuban revolution. Although concentration on sugar production may have been a wise choice from the standpoint of Cuba's aggregate national income, it also generated a serious employment problem because of the seasonal nature of the crop, and it made Cuba's prosperity greatly dependent on its export trade. The U.S. Department of Commerce reports that in 1953, for example, Cuban unemployment fell to a minimum of 8.4 per cent of the labor force during the height of the sugar harvesting season, but then

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<sup>1</sup>U.S. Department of Commerce, Office of Business Economics, U.S. Investments in the Latin American Economy (Washington, D. C., 1957), p. 47.

<sup>2</sup>One might argue that in terms of dynamic comparative advantage, as distinguished from the static case, perhaps Cuba's advantage was not so clearly in sugar. But we need not treat the possibility here. Rather the point made below is that even if concentration in sugar was in Cuba's economic interests (measured in terms of aggregate gross national income) it raised political problems and may have worked to the detriment of the United States during the revolution.

rose to 20 per cent of the labor force during the rainy or dead season -- as compared with the U.S. unemployment rate of 2.4 per cent in that year.<sup>1</sup> Cuba's exports, of which sugar products comprised almost 90 per cent in 1952, contributed between 30 and 39 per cent of its national income in 1952-1954.

...almost all the activities of the island are geared to the rise and fall in the volume and value of export crops. When demand and prices abroad are favorable, all sectors of the Cuban economy are prosperous, but when conditions abroad are unfavorable, the economy has very little to cushion the effects.<sup>2</sup>

Moreover, Cuba was highly dependent on the United States for both her export markets and for imports into Cuba of other products. In 1951-1953 about 59 per cent of the value of Cuban exports went to the United States, and about 76 per cent of the value of its imports came from the United States.

When Castro complained about the domination of the Cuban economy by the United States, and when he declared that Cuba would no longer be an "appendage" of the U.S. economy, the existing pattern of economic activity gave his argument an air of plausibility in the eyes of his followers. The economic dependence of Cuba on the United States, the one-crop seasonal nature of the Cuban economy, the discontent and misery of the unemployed, all contributed to a frustration and resentment exploited by Castro in his battle with the United States.

To take a case in point, the theme of land reform appears throughout the literature of the revolution. Constant reference is made to the alleged maldistribution of land in Batista's day and the plight of the landless peasant. One writer observes:

Seventy-five per cent of an agricultural country the size of England, with a population half again that of Ireland, was owned by eight per cent of the property holders, a few dozen rich Cuban families and the giant

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<sup>1</sup>U.S. Department of Commerce, Bureau of Foreign Commerce, Investment in Cuba (Washington, D. C. 1956), p. 5.

<sup>2</sup>Ibid., pp. 7 and 139.

U.S. and Cuban sugar and cattle companies. Tens of thousands of rural Cubans lived in misery on marginal lands, in swamps and in the trackless mountains where their fathers and grandfathers had been driven by the ruthless expansion of the sugar monoculture, which produced sugar to rigid quotas and let millions of areas of land lie fallow to become overrun by brush and weeds.<sup>1</sup>

During Castro's expropriation program, it may have been politically disadvantageous to the United States to have so much of Cuba's sugar production in the hands of U.S. owned firms. Although American participation in raw sugar production had declined from the 1930s it still amounted to about 40 per cent of the total in the mid-1950s. Furthermore seven of the ten largest latifundias were owned by U.S. interests.<sup>2</sup> Insofar as the land reform did injure U.S. agricultural interests in Cuba, and insofar as the U.S. government did seek to protect these interests (by protesting the inadequate measures of compensation), it was not difficult for Castro to make a plausible, and (superficially) convincing case that the "State Department" and "Wall Street" were in league to defeat the revolution. The problem here, as in the case of public utilities, is that a good deal of U.S. investment was concentrated in an area that would be especially affected by the basic reforms being preached even before Castro came to power in 1959. When the time came for the anti-American campaign, it fitted in nicely with Castro's purposes to argue that the agricultural interests owned by foreign "monopolists" stood in the way of reform -- if reforms were instituted, these interests would be hurt and, naturally, they would fight back. All the more reason, he argued, to seek help and friendship from the sympathetic Soviet Bloc in struggling against these "enemies of the revolution."

Even the favorable price and tariff treatment accorded Cuban sugar was attacked. Besides paying the price premium of two cents a pound, the United States accorded preferential tariff treatment on imports of

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<sup>1</sup>Robert Taber, op. cit., p. 303.

<sup>2</sup>Samuel Shapiro, "Cuba: A Dissenting Report," New Republic, September 12, 1960, p. 12.

Cuban sugar. Altogether the sugar premium and the preferential tariff were worth about \$150 million a year to Cuba. At the same time, Ernesto Guevara condemned the sugar price and quota system as "economic enslavement" because these benefits were allegedly offset by reciprocal demands by the United States for preferential Cuban tariff treatment towards U.S. manufactured products, "making it impossible for native products of the manufacturers of other countries to compete."<sup>1</sup>

#### Investment and U.S. Foreign Policy

In conclusion, the foregoing discussion suggests that the presence and character of U.S. investment in Cuba did play a role in Castro's ability to maintain a measure of popular support while simultaneously waging his propaganda campaign against the United States and moving toward the Soviet camp. But we should note that there were many sources of friction between Cuba and the United States that are not obviously related in a direct way to the presence and composition of U.S. investment. And these sources, too, Castro sought to exploit. For example, the following are notable as factors that generated resentment and distrust toward the United States:

1. The sale of arms by the United States to Batista until 1958 and maintenance by the United States of a military training mission in Cuba until Batista fled the island;
2. The U.S. denial of the sales of arms to Castro and attempts to prevail upon European governments to do likewise.
3. The apparent friendliness of U.S. Ambassadors to Batista that lent an "official" stamp of approval to the Batista regime;
4. The shock expressed by the American press toward the political executions carried out by Castro during his early months in power, while the press had paid little attention to the countless murders committed during the Batista period. Why were these executions any different, many Cubans reasoned, from the executions of German war criminals after the Nuremberg war trials?

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<sup>1</sup>New York Times, March 5, 1960, p. 1.

5. The haven given to numerous "Batistiano" refugees by the United States, and the alleged freedom they were given to plot counter-revolutionary activities;

6. The scattered bombings of Cuban properties by small private planes flying out of Florida, and various covert counter-revolutionary activities that were alleged to have the approval of the U.S. government;

One could maintain that these sources of friction existed quite apart from U.S. private investment activity and that they also contributed to Castro's propaganda campaign. While private investment may also have played a role, it was only one of many factors -- and it is impossible to weigh the importance of each factor in the whole chain of cause and effect relationships.

At the same time, we could ask, Why, in the minds of Castro's followers, did the United States seem to be motivated to undertake these measures that appeared so hostile to the revolution? For Castro, the answer was easy: the motivation stemmed from the desire to protect U.S. business interests that were being hurt by the revolution, and to protect the dependent colonial status of Cuba that allegedly had worked to the economic benefit of the United States at the expense of Cuba. In this sense, the factors listed above were related to the presence and nature of U.S. business activity in Cuba. Quite apart from the question as to whether this explanation was actually the basis for U.S. government policy at the time, the critical point to remember is that the objective nature of relations between the United States and Cuba made it easier for Castro's followers, at his prodding, to believe that the motivation of the United States stemmed from a desire to protect its economic interests.

#### ISSUES RAISED BY THE CUBAN EXPERIENCE

The Cuban experience raises several interrelated issues. Although we make no attempt to definitively treat them here, perhaps this summarization of the issues will stimulate further consideration by others of relationships between private investment and U.S. national interests.

First, to what extent do U.S. business enterprises identify themselves with the aspirations of the host countries? To what extent do they strongly support reforms of the type envisioned under the Alliance for Progress, or to what extent do they support a status quo economic, political, and social structure? Or, more specifically, to what extent would particular U.S. business enterprises be injured (at least in the short run) by thoroughgoing attempts of the host economy to engage in land reform, fiscal reform, and other measures so frequently mentioned in the press and elsewhere as being "necessary" for the rapid development of Latin America? Or what about the dilemma involved when such reforms harm certain kinds of existing U.S. business enterprise, but at the same time make more attractive the long-run, over-all investment climate for both U.S. and local business enterprises? In Cuba some U.S. enterprises were harmed by the early laws and regulations of the Castro regime. But U.S. government protests (which objectively may have been entirely justified) facilitated an identification of U.S. government policy with U.S. business interests in a manner that suggested, to some observers, that both were opposed to any major change from the economic, social, and political structure of Batista's regime.

Second, to what extent can the United States depend on the market mechanism to allocate its foreign investment in a way that serves both economic and political national objectives? We have seen that while investment in Cuba may well have contributed to Cuba's aggregate national income, it also contributed to unstable economic conditions arising from seasonal crop production. It is true that in the 1930s and 1940s U.S. investment gradually shifted away from agriculture into activities that contributed to some diversification of the Cuban economy. Table 3 shows that investment in agriculture dropped from about two-thirds to about one-third of total U.S. investment from 1929 to 1959. Yet, the remaining large holdings in sugar and the relative increase in public utility investment lead one to ask whether the composition that did prevail in 1959 was appropriate in terms of U.S. political objectives.



Table 3

BOOK VALUE -- U.S. DIRECT INVESTMENT ENTERPRISES  
IN CUBA, 1929 AND 1959

Industry	1929		1959	
	(million \$)	(per cent of total)	(million \$)	(per cent of total)
Petroleum	9	1	147	15
Manufacturing	45	5	111	12
Public utilities	215	23	313	33
Trade	15	2	44	5
Other	<u>635</u>	<u>69</u>	<u>341</u>	<u>36</u>
Total	919	100	956	100

Sources:

Table 1 and U.S. Department of Commerce, Investment in Cuba  
(Washington, D.C., 1956), p. 10.

It is interesting to speculate whether a different distribution of U.S. investment, even with the result of a smaller aggregate national income in Cuba, might not have contributed to the rise of a more moderate regime, more kindly disposed towards the United States and the West, as well as to an economy that in the eyes of its own people would have been more viable and stable. More specifically, one might speculate as to (1) whether a concentration of U.S. investment in import-substituting manufacturing and foodstuffs and a concentration in new industries that would have diversified Cuba's export base, at the expense of traditional sugar agriculture and public utilities, would have generated a more stable employment pattern, and would have reduced economic dependence on the United States, (2) whether this might have pulled the teeth out of some of Castro's arguments and made it much more difficult for him to maintain popular support against the United States in 1959-1960, or (3) indeed, whether such a structure of investment in Cuba during the 1930s and 1940s might have given rise to a quite different pattern of political change such that a Castro, or at least so hostile a Castro, would not have appeared in the 1950s.

Third, what role does U.S. private investment play in strengthening or weakening the position of the U.S. government in international bargaining? U.S. capital in Cuba may have served to reduce the credibility of the U.S. threat to cut the sugar quota in 1960. Because U.S. investors had such large holdings in sugar and related industry, some observers believed that the United States would not carry out such a threat because it would be harming its own business interests.<sup>1</sup> To the extent that Castro and his advisers felt this to be the case, the presence of U.S. investment in sugar may have blunted U.S. bargaining power at this most critical point in U.S.-Cuban relations. More generally, the question arises as to the credibility of threats against host countries in other circumstances where U.S. private interests would be injured. In addition, the presence of private U.S. enterprises may increase the host country's bargaining strength to the extent that it

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<sup>1</sup>Leo Huberman and Paul M. Sweezy, Cuba, Anatomy of a Revolution (New York, Monthly Review Press, 1961), p. 180.

can credibly threaten to expropriate them. On both counts, the bargaining power of the United States would be impaired vis-á-vis the host country. On the other hand, the presence of U.S. business activity provides the United States also with a bargaining tool -- for the United States can threaten to restrict operation of the activity in a manner that would harm the host economy. However, since this threat, if carried out, would endanger the U.S. private interests themselves, the credibility of such a threat would be in question.<sup>1</sup>

Fourth, what role do private investors play in affecting the course of U.S. foreign policy? It is notable that the refusal of the petroleum refineries to process Russian crude was the immediate -- though perhaps not the fundamental -- reason (or excuse) for Castro to expropriate them. The question arises about the motivation of the refineries as their refusal was, for better or worse, a factor that preceded retaliation and reprisals in the struggle and led to the final complete break between the United States and Cuba. Was their refusal a completely private act or did it have the support of the State Department after thoughtful government study of the potential consequences? One might suppose that it was a private act in that the international petroleum industry is composed largely of a relatively few highly integrated firms, each of which engages in crude production, transportation, refining, and marketing. Typically, the refineries owned by each firm process only the crude sold by its own subsidiaries or branches. When Cuba decided to bring in Soviet crude, it would have been quite consistent with accepted business practices for the refineries to refuse to cooperate.<sup>2</sup> This is not to say that refusal to process Soviet crude was necessarily an error; perhaps it was a wise move entirely consistent with U.S. government policy set down at that time. But the general question about the relationship between private acts and government policy remains.

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<sup>1</sup>This is true unless, of course, the threat is believed to be so effective that the hostile government would quickly fall and little injury would be inflicted on these U.S. business interests.

<sup>2</sup>A brief discussion of this issue appears in a letter to the editor by Professor Alfred Kahn, New York Times, July 10, 1960, Section IV, p. 10.

Finally, to what extent do U.S. private investors become identified with governments of which the United States does not or "should" not approve? By this time the point has been reiterated ad nauseum in the literature that one of the most serious errors of government conduct in the past has been to appear too friendly toward dictatorships and other governments despised by most of their peoples, and at the same time not giving sufficient support to the progressive, at least moderately democratic, governments whose survival is very much in our long-run national interest. But what about the activities of U.S. private firms? To what extent does mere conformity with laws and regulations of unpopular regimes seem to identify these firms and the U.S. government with these regimes?

Beyond exploring some of the economic-political aspects of U.S. investment in Cuba, we cannot offer more definitive treatment here of these issues. In proceeding further in this direction, it would be desirable to examine the economic-political environment of U.S. capital in other countries. One might, for example, explore the situation of petroleum in Venezuela, copper in Chile, and manufacturing in Argentina, where the experience undoubtedly varies a good deal from that of Cuba. For now, it is hoped that issues raised by the Cuban experience will be useful in stimulating and guiding further analysis of relationships between private investment and U.S. national interests.