A BOUNTIFUL LEGACY: U.S. INVESTMENT AND ECONOMIC DIVERSIFICATION IN CUBA DURING THE 1950s

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Facts do not cease to exist because they are ignored.

—Aldous Huxley

The 50th anniversary of the Cuban Revolution offers an opportune moment to revisit the two erroneous narratives about Cuba's late republican era that continue to inform the contemporary "conventional wisdom" of many scholars and journalists. One of these narratives argues that U.S. direct investment in Cuba played a negative role in the host country's economy because profit remittances in the 1950s exceeded new capital inflows. The second narrative characterizes Cuba's decade of the 1950s as one of economic immobilism and failure to diversify. Writing in *Cuban Studies/Estudios Cubanos*, William LeoGrande states that by "expropriating U.S. holdings, Cuba was able to halt a capital drain in the form of remitted profits."[1] Zeitlin and Scheer, in *Cuba: Tragedy in Our Hemisphere*, contend that U.S. firms, "from their secure economic and political position in Cuba, could have initiated new ventures but failed to do so."[2] In *Cuba: Between Reform and Revolution*, a leading history textbook now in its 3rd edition, Louis A. Perez, Jr. contends that through the 1950s, "there was little incentive to expand manufactures beyond light consumer goods, largely food and textiles."[3] Further, he writes that in 1958, the economy was approaching collapse.[4] In his earlier introduction to Jorge Ibarra's *Prologue to Revolution: Cuba 1898–1958*, Perez writes the same phrase: "there was little incentive to expand…"[5]

These resilient fallacies may have originated in *Cuba: The Economic and Social Revolution*.[6] Published in 1964 by the University of North Carolina Press—during the formative phase of the revolution—Dudley Seers' edited work offered an explanatory prototype of economic events in Cuba. The book's influence was magnified by the fact that three of the four contributors, including Seers himself, had at one time or another, served as high-ranking officials with the Economic Commission for Latin America (ECLA). In putting together a team of economists for his Cuba monograph, Seers believed that: "For obvious reasons, neither American nor Cubans were suitable, and in fact, though not by intention, it turned out that the group consisted of Chilean and English economists" (Preface, p. vii). Significantly, Seers described the existing state of affairs under the Batista government as one in which "factories were not built" (p. 19). He also argued that in the 1950s the balance-of-payments effect

1. William M. LeoGrande, "Cuban Dependency: A Comparison of Pre-Revolutionary and Post-Revolutionary International Economic Relations," *Cuban Studies /Estudios Cubanos* 9:2 (July 1979) p. 22.

2. Maurice Zeitlin and Robert Scheer, *Cuba: Tragedy in our Hemisphere* (New York: Grove Press, 1963), p. 29.

3. Louis A. Perez, Jr., *Cuba between Reform and Revolution*, 3rd ed. (New York and Oxford: Oxford University Press, 2008), p. 226.

4. Perez, *Cuba between Reform and Revolution*, p. 330.

5. Louis A., Perez, Jr., "Introduction," in Jorge Ibarra. *Prologue to Revolution* (Boulder: Lynne Rienner Publishers, 1998), p. 11.

6. Dudley Seers, editor, *Cuba: The Economic and Social Revolution* (Chapel Hill: University of North Carolina Press, 1964).

of U.S. subsidiaries was negative because the book value of their investments in Cuba during the 1950s was outweighed by remittances of profits and interest to the United States (p. 17).

Looking at the evidence, it is true that Cuba's GNP per capita in constant prices increased at an annual rate of only one percent in the period 1950–58. At first glance this anemic growth rate would appear to vindicate the critics' stagnation thesis in describing Cuba's economic performance during the late republican era. A correct, empirically-based interpretation, however, requires analysis of the two main components determining the GNP: the sugar and non-sugar "sectors." After reaching a pre-revolutionary output peak in 1952, the sugar sector, by design, remained stagnant and could not provide the required dynamism to make the economy grow. Sugar's share (both the agricultural and industrial branches) fell from 39.3% of national income in 1952 to 29.5% in 1958—a 10 percentage point decline. Given its large role in Cuba's GNP, the sugar component constrained the overall growth of the economy in the 1950s, thereby obscuring what was happening in the dynamic non-sugar economy. Cuba's successful diversification drive from 1953 to 1959 calls for a reevaluation of the stagnation, anemic growth thesis. Furthermore, the robust economic growth rate in 1959, the first year of the revolutionary regime, reflects the numerous investment projects still in their gestation phase when Batista fell from power. Examples include the petroleum refineries, the Moa Bay nickel processing plant that started operations that year, six paper factories and the Cuban Telephone Co., which in 1957 began a five-year expansion program.

Acting on the recommendation of the World Bank Mission, a team of highly competent bankers and economists, that included Joaquín Martínez Saenz, president of the Banco Nacional de Cuba (the country's central bank), initiated in 1952 a new strategy aimed at reducing Cuba's excessive dependence on its traditional export staple while fomenting economic diversification. According to Antonio Jorge, who served as chief economist of the Cuban Association of Manufacturers in 1956/57, "Cuba was following a low-risk, market-oriented, balanced growth approach, slowly and sequentially building its backward linkages from the final stages of production and distribution to the immediately preceding ones."[7] It is at this point that we encounter a paradox: the era of accelerated investment and diversified growth coincides with the authoritarian rule of Fulgencio Batista (1952–58). Commenting on the country's endemic political corruption, Alfred Padula observes that: "This moral blight was invigorated by the behavior of the Batista bourgeoisie, that clique of newly-rich ex-sergeants, whose dedication to high living and bad taste reached impressive proportions in the late 1950s."[8] Growing protest against the dictatorship led to rising political repression and random acts of brutality. Under Batista, according to Peter Morruzzi, Havana acquired a "reputation for naughty getaways"[9] that drew crowds from abroad and the U.S. Mafia. From newly-established casinos, Batista was skimming their profits. Resolution of this paradox will be addressed in the next section.

The objective of this paper is to focus more precisely on the goals and outcomes of Cuba's new economic strategy and to assess the role of U.S. direct investment as a vital facilitator of these goals. In the first section I describe the official measures underlying the 1953–59 diversification drive and document the production results associated with a steep rise in the investment coefficient. In the second section I analyze the changing magnitude and industrial profile of U.S. direct invest-

7. Antonio Jorge, "Cuba's Economic Model(s) and Economic Rationality," in *The Cuban Economy: Dependency and Development*, edited by Antonio Jorge and Jaime Suchlicki (Coral Gables: University of Miami North-South Center, for the Research Institute for Cuban Studies, 1989), p. 24.

8. Alfred Padula, "The Ruin of the Cuban Bourgeoisie, 1959–1961," *SECOLAS Annals* (April 1979).

9. Peter Moruzzi, *Havana Before Castro* (New York: Gibbs Smith Pub., 2008).

ment in the Cuban economy and survey the operational impact of the U.S. firms on the island's exports, domestic production, wages and rates of return. My conclusion reviews the legacy of an economy on the ascendant, unburdened by external debt, passed on to the revolutionary regime of Fidel Castro.

For information, I draw on the data base of U.S. direct investment abroad compiled by the U.S. Department of Commerce, reports of the Economic Commission for Latin America and the Banco Nacional de Cuba, the Cuban Economic Research Project of the University of Miami, work done some time ago by Jorge Pérez-López[10] and a well-crafted new paper by John Devereux and Marianne Ward which proved most helpful.[11] I also reprise two of my earlier publications, my 1998 ASCE article, "Cuba on the Eve of the Socialist Transition,"[12] and my monograph entitled *Expropriation of U.S. Investments in Cuba, Mexico, and Chile.*[13]

CHANGING COURSE: CUBA'S 1953–59 DIVERSIFICATION DRIVE

Significantly, Cuba's economic policy-makers heeded the recommendation of the World Bank Mission which visited the island in 1950:

> The choice before the people of Cuba is clear-cut. They may take advantage of their present opportunities to start to substitute a growing, dynamic and diversified economy for their present static one, with its single crop dependence.[14]

Given the nature of the international sugar market and Cuba's substantial share as a world exporter, the nation's policy makers perceived that the sugar sector no longer could provide the growing edge for the economy. After the record sugar crop in 1952, the Cuban government reinstituted restrictions on sugar production the following year and, with the financial backing of the Central Bank, established a Stabilization Reserve. Several measures were taken by the government to give substance to this diversification strategy. In 1952, Cuba negotiated a new trade agreement with the United States, superseding the one in force since 1934. This agreement was favorable to Cuba for it allowed the country moderate protection for its infant industries while simultaneously promoting diversification of exports to old and new markets.

Unlike, e.g., Chile, Argentina, and Uruguay which—following the so-called ECLA Doctrine—pursued strongly inward-looking trade strategies, Cuba chose the more prudent middle course. An Industrial Promotion Law was enacted in 1953 that granted, among other things, tax incentives to new industries. Finally, credit was mobilized through official development banks set up during the early fifties. These included the Banco de Fomento Agrícola e Industrial de Cuba (1951); the Financiera Nacional de Cuba, organized in 1953 mainly to provide credits for public works; the Banco Cubano de Comercio Exterior, founded in 1954 to encourage nontraditional exports; and the Banco de Desarrollo Económico y Social, established in 1955 to administer the government's development program.[15]

10. Jorge Pérez-López, *An Index of Cuban Industrial Output, 1930–1958*, Ph.D. Dissertation, State University of New York at Albany (1974).

11. John Devereux and Marianne Ward, "The Road not Taken: Pre-Revolutionary Cuban Living Standards in Comparative Perspective," *Cuba in Transition—Volume 19* (Washington: Association for the Study of the Cuban Economy, 2009).

12. Eric N. Baklanoff, "Cuba on the Eve of the Socialist Transition: A Reassessment of the Backwardness-Stagnation Thesis," *Cuba in Transition—Volume 8* (Washington: Association for the Study of the Cuban Economy, 1998).

13. Eric N. Baklanoff, *Expropriation of U.S. Investments in Cuba, Mexico and Chile* (New York: Praeger Publishers, 1975).

14. International Bank for Reconstruction and Development (World Bank), *Report on Cuba* (Baltimore: Johns Hopkins University Press, 1951), p. 72.

15. United Nations, Economic Commission for Latin America, *Economic Survey of Latin America, 1957* (New York: United Nations, 1959), p. 182.

Notwithstanding the Batista dictatorship's corrupt practices and repression, the economic team that served the government, both at the Banco Nacional and the new development banks, was given autonomy.[16] Maintaining their distance from politics, these professionals, among them Julián Alienes, who headed research at the central bank, and economist Amadeo López Castro, were able to carry on their mandates without interference from above. Numerous economists from this 1950s team later attained high positions in organizations such as the World Bank, the IMF, and the Inter-American Development Bank — a validation of their integrity and expertise.

From 1953 to 1957, the Cuban economy experienced a sharp upward trend in real capital formation, both private and public, signifying growing autonomy of this key variable from the exigencies of international trade. As Table 1 indicates, real gross investment increased from 220 million pesos in 1953 (about 11% of Cuba's GDP) to an average annual level exceeding 480 million pesos in 1956–57 (nearly 19% of GDP). Public investment increased from 26 million pesos in 1953 to an average level exceeding 160 million pesos in 1956–57 (over 6% of GDP). Government investment included the construction of a good water system for Havana, a toll road and the tunnel under Havana Bay, and a new highway, the Vía Blanca. Other public works included roads, bridges, public buildings and hospitals. Private, including foreign investment, rose from 194 million pesos in 1953 to an average of over 320 million pesos in 1956–57 (equivalent to about 12.5% of GDP).

The accelerated capitalization of the Cuban economy in sectors other than sugar production is also reflected in the changing composition of imports.[17] The purchase abroad of fixed capital goods climbed steeply from less than $100 million (20% of total imports) in

Table 1. Cuba: Gross Investment in Fixed Capital, 1953–57 (Millions of pesos at 1950 prices and percentages of the gross product)

	Public Investment		Private Investment		Total	
Year	Value	Percentage	Value	Percentage	Value	Percentage
1953	26	1.3	194	9.5	220	10.8
1954	39	1.8	209	9.7	248	11.6
1955	109	4.8	266	11.7	374	16.5
1956	171	6.8	309	12.5	480	19.4
1957	151	5.6	334	12.4	485	18.1

Source: U.N., Economic Commission for Latin America, *Economic Survey of Latin America, 1957* (New York, 1959), p. 182.

1953 to an average of $207 million annually (27% of imports) during the two years 1957–58. Of the fixed capital goods purchased in those years, 63% was invested in industry, 10% in diversified agriculture, 13% in motorized transport, and an equal share represented construction equipment. The share of consumer goods, mainly foodstuffs, in total imports fell from 46% in 1953–54 to 38% in 1957–58.

Cuba's 1950s investment boom is also confirmed by data from the Banco Nacional de Cuba. Fixed capital formation — net of depreciation and inventory changes — more than tripled from 104 million pesos on average in the two-year period 1949–1950 to 347 million pesos on average in 1956–1957. The ratio of net fixed capital formation to national income (the net capital coefficient) rose from 6.7% in 1949–50 to 16.1% in 1956–57.[18] Despite the political insecurity that characterized Cuba toward the end of the decade, real capital formation showed a sharp upward trend.

Cuba's balance of payment position was strengthened in the 1950s by the development of the island's tourist industry and the growth of export earnings for products other than sugar. The expanded operations of the U.S. government-owned Nicaro Nickel Co. (valued at $110 million)[19] and the Moa Bay Mining Co., a sub-

16. Author's telephone interview with Dr. Antonio Jorge, August 31, 2009. Dr. Jorge was chief economist of the Cuban Association of Manufacturers (1956–57) and went into exile in the United States (1958). A former vice-minister of finance 1959–61 for the new Cuban government, he was also president of the Collegium of Cuban Economists from 1960 to 1961.

17. Banco Nacional de Cuba, *Memoria 1956–57* (La Habana, 1959), p. 162, Table 6.16, and Cuban Economic Research Project, *A Study on Cuba* (Coral Gables: University of Miami Press, 1963), p. 618.

18. Banco Nacional de Cuba, *Memoria 1956–57*, p. 148, Table 6.

19. U.S. Bureau of Mines, *Minerals Yearbook 1960* (Washington, 1961), Vol. I, p. 843.

sidiary of Freeport Sulphur Company, assured Cuba a position as a major supplier of nickel in the world. Hotel construction from 1952 to 1958 almost doubled the existing hotel capacity in Havana and other major cities. In addition, numerous hotels and motels were under construction in 1958, involving a total investment in excess of $90 million and a projected capacity of 6,066 rooms. Four large hotels (the Habana Hilton, the Capri, the Habana Riviera, and the Nacional), owned mainly by U.S. citizens or corporations, figured importantly in the island's expanded capacity to accommodate tourists seeking first class service.[20]

Cuba achieved self-sufficiency in petroleum refining with a capacity at the end of 1959 of 83,000 barrels per day supplied exclusively by two U.S. affiliates, Texaco and Standard Oil, and the Royal Dutch-Shell group. According to the Banco Nacional, investments in Cuban industrial installations exceeded $600 million from 1952 to 1956.[21] Of this amount, $324 million was invested in 154 new plants and $228 million in the expansion of existing plants. The magnitude of these industrial undertakings can better be appreciated by comparing the $600 million investment increment with the accumulated industrial capital stock in the sugar sector of $1,159 million; the new investment in industrial diversification equaled over half the capital stock in the sugar industry. In its review of Cuba's economy, the U.N. Economic Commission for Latin America (ECLA) observed that a significant number of projects were underway in 1957:

> The purpose of these investment programs in the manufacturing sector is to make Cuba completely self-sufficient at an early date in cement, tires and tubes, glass containers, aluminum sheet and copper wire and cables, and relatively self-sufficient in light steel products.[22]

During the late 1950s Cuba's steel mill, Antillana de Acero, was mounted and operated by a Cuban entrepreneurial group with the technical assistance of the Republic Steel Corporation which took a ten percent share in the venture.

Backward linkages through these new intermediate capital goods industries, cited by ECLA, required both higher levels of technical expertise and management sophistication. Many of these projects were mounted and operated by U.S. companies. Depending on the nature of the industry, there is a lag of two to five years between initiation of an investment project and its corresponding output. For example, the lag or "gestation period" may be two years for a basic textile mill, three years for a light steel plant or up to five years for a large nickel mine. Consequently, several of the projects initiated in the late 1950s did not go on line until 1959 or thereafter. The enlarged hotel capacity available to the new Revolutionary regime was essentially wasted as tourists sought Caribbean venues other than Cuba after 1960.

Significantly, land area reserved for sugar cane steadily decreased from 1953 to 1958, while that devoted to rice almost doubled. The livestock industry, second only to sugar as a source of agricultural income, prospered during the fifties; Cuba's cattle herd was built up rapidly from about 4 million head in 1953 to 5.8 million head in 1959.[23] Dudley Seers argues that economic growth which did occur in the fifties was due in large measure to a rise in tourism and an expanding program of public works. Acknowledging that in the years 1955–57, public investment averaged 6% of national product, Seers is silent on complementary *private* investment which averaged about 12% of GDP,[24] as we have demonstrated.

Table 2 highlights output increases by sector and industry from 1950 to 1959. Using 1953 as the base year, the table shows that sugar production, both its agricultural and manufacturing components, remained flat,

20. Cole Blasier, "The Elimination of United States Influence," in Carmelo Mesa-Lego, editor, *Revolutionary Change in Cuba* (Pittsburgh: University of Pittsburgh Press, 1971), pp. 43–80.

21. Banco Nacional de Cuba, *Programa de Desarrollo Económico*, Informe No. 2 (La Habana, 1957), p. 19.

22. United Nations, Economic Commission for Latin America, *Economic Survey of Latin America 1957* (1958), p. 192.

23. U.S. Department of Agriculture, *A Survey of Agriculture in Cuba* (Washington: Economic Research Service, June 1969).

24. Seers, *Cuba: The Economic and Social Revolution*, p. 17.

with little change during the eight-year period. By contrast, other categories within the broad agricultural sector exhibited rapid expansion, notably rice, beef and milk production. Within the industrial sector, *non-sugar manufacturing* followed a dynamic growth path, from an index value of 86 in 1950 to 133 in 1958 and continued upward to 145 in 1959, the year after Batista's fall. Within the non-sugar manufacturing category, intermediate capital goods such as construction materials, paper and paper board and rubber products (mainly tires) showed rapid expansion between 1950 and 1959, as did Cuba's traditional consumer goods, textiles and shoes. Both mining and quarrying and construction more than doubled output between 1950 and 1958. Within the broad services sector, electricity and gas (largely U.S.-owned) virtually doubled production from 75 in 1950 to 145 in 1958, maintaining that level the following year. Using 1953 as the base, banking and insurance activities expanded nearly 60 percent by 1957, only to contract by seven points in 1958.

Table 2. Cuba: Indicators of Output, by Industry, 1950–1959 (1953=100)

	1950	1957	1958	1959
Agriculture and livestock				
Sugar[a]	106	108	111	
Rice	39	136	132	
Tobacco	62	104	106	
Coffee	127	169	115	
Beef	100	131	143	
Pork	100	112	112	
Poultry	99	104	104	
Milk	84	137	150	
Eggs	99	104	104	
Industry				
Sugar manufacturing[a]	106	108	111	
Non-sugar manufacturing	86	128	133	145
Construction materials	78	158	176	161
Paper and paper board	86	127	129	163
Rubber products	104	178	291	290
Shoes	89	139	146	152
Textiles	136	141	145	184
Mining and quarrying	40	92	93	
Construction	78	158	176	
Services				
Electricity and gas	75	134	145	145
Transportation	117	100	104	
Commerce	94	116	120	
Banking and insurance	103	158	151	
Other	91	108	112	

Source: Devereux and Ward (2009), pp. 46–47, tables 2a and 3a and Pérez-López (1974), pp. 70–75 and 140–41.

a. For sugar, the agricultural index peaked at 138 in 1952 and sugar manufacturing at 138, the same year.

Foreign tourist expenditures in the island increased from \$19 million in 1952 to a yearly average of \$60 million in 1957–58 making Cuba the largest Caribbean tourism market. An estimated 275,000 to 350,000 tourists primarily from the United States, visited the island annually in the late 1950s.

U.S. DIRECT INVESTMENTS: FACILITATING GROWTH AND DIVERSIFICATION, 1950–59

At the beginning of 1960, about one-eighth of all U.S. direct corporate investments in the Latin American Republics were in Cuba, the largest amount for any country in the area except for Venezuela. Following World War II, Cuba‘s investment climate was one of the most favorable in Latin America. The Constitution of 1940 guaranteed the protection of property and established the judicial procedure for special cases involving expropriation. Property could be expropriated only for just cause involving a public utility or social interest and, then, only through prior indemnification of the owner in cash as determined by the courts. In sharp contrast to the more general postwar experience in Latin America, Cuba enjoyed financial stability through the period analyzed. The cost of living remained relatively stable, the peso continued at par with the U.S. dollar, and foreign exchange operations were free of control. The magnitude of the nation's external public debt and the debt-service ratio were of minor importance throughout the 1947–1958 period. Profits, interest, and other factor payments could be freely remitted abroad and the risk of currency devaluation was negligible.

The U.S. direct corporate investments were valued at nearly one billion dollars at the beginning of 1960.[25] This figure does not include other U.S.-owned assets in Cuba such as the Nicaro Nickel properties of the U.S. Government (valued at \$110 million), or investments of over 5,000 U.S. citizens who had become residents of Cuba (estimated at \$221 million).[26] Before being taken over by the Castro regime, the corporate holdings were spread over several sectors and a variety of industries: about one-third in public utilities, one-fourth in agriculture, 15% in petroleum refining and marketing, 12% in manufacturing and about 10% in nickel mining and processing. Between 1950 and the end of 1959, these corporate investments in Cuba grew by nearly 50%. Manufacturing investments more than doubled in the period; petroleum refining and nickel investments, which were minor in 1950, grew even more rapidly and the investment in public utilities, mainly electric power and telecommunications, was beginning to expand substantially in the 1957–59 years. Although there was little change in the value of agricultural properties and related facilities, the decade saw contraction in sugar holdings and a rise in cattle ranching. Excluding the investments of U.S. citizens in Cuba, but including the U.S. Government Nicaro Nickel properties (which came on line in the late fifties), the total U.S. investment increment in Cuba can be estimated at nearly $600 million during the 1950s.

A comprehensive survey of the impact of U.S. business investments on foreign countries was issued by the U.S. Department of Commerce in 1960.[27] Among other things, the survey reveals partially the extent to which U.S. firms participated in the Cuba economy through production of their subsidiaries and branches for the island's market and exports. The survey, however, does not include the export operations of the U.S. Government-operated Nicaro Nickel plant, tourism services provided by U.S.-owned hotels in Cuba, or the sales of more than 5,000 businesses owned by U.S. citizens residing in Cuba. Total sales of Cuban subsidiaries and branches of U.S. firms were about $730 million in 1957, of which $456 million (63%) were directed to the local market and $273 million (37%) to foreign markets. Of the $310 million in agricultural sales, 80% were exported (principally sugar), and the balance reflected U.S. operations in cattle ranching, rice and tobacco growing. The preponderant share of the $150 million of manufactures sold by the U.S. affiliates (86%) was absorbed by the Cuban market, as were also the sales of petroleum products (98%). Exports of manufactured goods ($21 million) comprised mainly processed nickel. The services provided by U.S. affiliates-electric power, telecommunications, and public service railroads-were sold exclusively to Cuban customers ($118 million).

U.S. firms operating in Cuba also made critical contributions to the nation's balance of payments position in 1957 through export earnings ($273 million), net capital inflows ($88 million), and foreign exchange saved through import substitution ($130 million). Offsetting these contributions were income remittances plus fees and royalties (totaling $56 million) and imports (other than imports of trading companies or of petroleum to be processed in Cuba) amounting to roughly $100 million. By this calculation, U.S. companies accounted for a direct net foreign exchange gain or saving to Cuba on the order of $335 million. (Analytically, one should deduct from this value an allowance for net production which would be yielded by total resources operating without the capital and organization provided by the U.S. subsidiaries. Considering (a) the existence of substantial slack in the Cuban economy; and (b) the unlikelyhood of Cuban entrepreneurs to engage in large-scale mineral development, one can conclude that the above-noted adjustment would not significantly alter the value added to Cuba' s real national income.)

William LeoGrande's "capital drain" allegation is contradicted by his own data, which shows that (except for the year 1951) the stock of U.S. direct investment in Cuba increased every year from 1943 to 1960. As with Dudley Seers and other "dependency theorists," he fails to appreciate that profit remittances have their origin not in the capital account but in the income or

25. U.S. Department of Commerce, "U.S. Business Investments in the Cuban Economy Detailed in Comprehensive Survey," OBE 60–83 (November 14, 1960).

26. Foreign Claims Settlement Commission of the United States, *Annual Report to the Congress* (Washington: U.S. Government Printing Office, 1973), p. 413.

27. U.S. Department of Commerce, *U.S. Business Investments in Foreign Countries* (Washington: U.S. Government Printing Office, 1960), pp. 110–111, Tables 22–23.

production generated by multinational firms operating within the host country.

The U.S. business subsidiaries in Cuba employed an estimated 160,000 persons in 1957 and of 2,000 supervisory, professional, and technical personnel, fewer than 500 were sent from the United States.[28] Foreign subsidiaries were cited by the World Bank Mission as "among those employers who pay the highest wages and who, for the most part, scrupulously observe Cuba's labor legislation."[29] While employing only seven percent of Cuba's labor force, the U.S. companies in 1957 accounted for one-third of the island's merchandise export earnings and a little under one-fifth of total government revenues. In the opinion of Enrique V. Menocal, Premier Castro's first director of internal revenue (1 January to October 1959), the U. S. corporations in Cuba were scrupulous in meeting their tax obligations to the host country. Reflecting on his experience during those nine months, he writes,

> Not a single American contributor, whether individual or company, found it necessary to use this law (Law of Fiscal Amnesty) to mediate rectification of civilian tax statements. The Americans were almost the only ones who had contributed to the national treasury in strict conformity with national legislation...[30]

The economic cost to Cuba of U.S. business holdings, measured by the rate of return (profit) on equity investment, appeared to be quite low when compared with U.S. direct investments in the rest of Latin American, in other parts of the world, and at home. Annual earnings for the 1950–1959 decade averaged $47 million, or 6.3% of equity investment, 7% of exports, and 2% of the GNP, not a price too high to have paid for foreign venture capital.[31] Most profits did not leave the island, but were reinvested.

The participation of U.S. direct investments in the structure of the Cuban economy at yearend 1959 was considerable, as indicated by the following approximate shares: electric power and telephone service (90%), raw sugar production (37%), commercial banking (30%), public service railways (50%), petroleum refining (66%), insurance (20%), and nickel mining (100%.) [32]

Notwithstanding these large U.S. equity holdings in Cuba, it is very important to observe that private Cuban groups succeeded in winning ownership and control over economic activities formerly dominated by U.S. and other foreign investors. The outstanding cases are air transportation, sugar, and banking and insurance, and. A majority of the stock in the leading airline, Compañía Cubana de Aviación, originally a wholly-owned U.S. subsidiary of Pan American Airways, passed eventually into Cuban hands. From the 1930s on, Cubans purchased a large number of sugar mills from U.S., Canadian, Spanish, Dutch, and French interests. As Table 3 shows, the U.S. share of Cuban sugar production declined from 62% in 1935 to 37% in 1958. A number of the corporations classified as U.S.-owned had Cuban stockholders and Cubans represented on their boards of directors.[33] Other foreign investors, whose sugar mills produced 25% of Cuba's sugar in 1935, had sold virtually all of their holdings by 1958. The divestiture of sugar mills by foreign enterprises was accompanied by the transfer of cane land to Cuban ownership. Significantly, the small farmers grew only 9% of Cuba's cane in 1932, but by 1958 their share was well over 50%. In consequence, Cuban capital controlled three-fourths of the sugar mills; and these, in turn, accounted for 62% of the island's sugar production in 1958. Local business interests, whose share of Cuba's sugar production had been reduced to a mere 13% in 1935, thus regained their po-

28. U.S. Department of Commerce, United States Business Investments in Foreign Countries, p. 122, Table 34.

29. International Bank for Reconstruction and Development, *Report on Cuba*, p. 734.

30. Letter to the author (October 10, 1968), cited in Baklanoff, *Expropriation*, p 27.

31. Derived from *Survey of Current Business*, 1956–1961, August and September issues.

32. Baklanoff, *Expropriation*, Chapters 2 and 6.

33. Alexander Franco and Enrique J. Ventura, Jr., *The Cuban Business and Legal Environment in the 1950's* (Miami and New York: The Renaissance Pub. Co., 1996).

sition of dominance after the Second World War. Transfer of these foreign assets into Cuban ownership proceeded through normal commercial channels and transactions-a manifestation of the progressive maturation of the island's business community and postwar prosperity. Also, in the case of large landed properties, the Cuban 1940 Constitution supported measures which tended to reverse ownership from foreigners to Cubans.

Table 3. Cuba: Sugar Mills and Production According to Nationality of Ownership or Control

	1935		1958	
Nationality	Number of Mills	Output (Percent)	Number of Mills	Output (Percent)
Cuba	50	13	121	62
United States	70	62	36	37
Other Foreigners	59	25	4	1
Total	**179**	**100**	**161**	**100**

Note: A number of the corporations classified as U.S.-owned had Cuban stockholders and Cubans represented in their boards of directors.

Source: Anuario Azucarero de Cuba 1958 (La Habana, 1959).

Headed by the United Fruit Co., dozens of U.S. sugar companies were engaged in the agricultural and industrial phases of Cuba's sugar sector.[34] The King Ranch, the Pingree Family and Jack Everhart were prominent in cattle ranching. At least nine U.S. firms participated in the island's traditional tobacco industry, both the agricultural and processing operations. Three U.S. companies, Esso Standard Oil, Texaco and Sinclair Oil Co., accounted for two-thirds of Cuba's petroleum refining and distribution, and an additional six oil firms were engaged in exploratory operations. Two entities, the U.S. Government-owned Nicaro Nickel Co. and the Moa Bay Mining Co., dominated nickel mining and processing. Other United States firms engaged in production of intermediate capital goods included the Lone Star Cement Co. and the Owens-Illinois Glass Co. The manufacture of tires and inner tubes was concentrated in Firestone, Goodyear, and the U.S. Rubber company. Metal fabricating firms included Phelps Dodge (copper wire), Reynolds Aluminum Co. and Continental Can (aluminum products), and several small iron and steel manufacturers, among them Armco, Mohawk, J. Macfarlane, and as noted before, the Republic Steel Corporation, which held a minority interest in Cuba's integrated light steel mill. Cuba's meat packing industry was represented by Swift and Armour. Boise Cascade and other U.S. entities were engaged in papermaking, while the American Agricultural Chemicals Co. produced most of Cuba's fertilizers. U.S. firms were also engaged in the manufacture of machinery, accessories, and parts. Prominent among these were such well-recognized names as International Harvester, United Shoe Machinery, Otis Elevator, and Remington Rand.

Within the consumer goods sector, U.S. companies were especially well placed in pharmaceuticals (Abbott, Parke-Davis, and Schering); paint (Sherwin-Williams, National Paint Co. and Glidden). The Coca Cola Co. dominated the list of soft drink beverages, and two prominent firms, Procter & Gamble and Colgate Palmolive, supplied much of Cuba's laundry soap, detergents, tooth paste, and bath soap. Numerous U.S. textile and apparel makers were also involved in that country's traditional light industry. American companies were also prominently placed within Cuba's wide spectrum of services. Large U.S. merchandisers, such as Sears Roebuck & Co. and F.W. Woolworth, competed with their smaller Cuban counterparts. Three U.S. banks, Chase National, First National City, and First National Bank of Boston, held one fourth of Cuba's deposits. Also, within the financial sector, led by Pan American Life Insurance Co., a total of 29 insurance companies provided coverage of a variety of risks in the island's economy.

In his 1965 article, Leland L. Johnson observed 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."[35] Indeed, starting with the Cuban Revolution, there occurred major expropriatory actions involving U.S. direct investments in Brazil (1959 and 1962), Argentina

34. *Claims of U.S. Nationals Against the Government of Cuba* (Washington: U.S. Government Printing Office, 1962), pp. 40–45.
35. Leland L. Johnson, "U.S. Business Interests in Cuba and the Rise of Castro." *World Politics*, 18 (April 1965), p 441.

(1963), Peru (1968–74), Bolivia (1969), and Chile (1971–73).[36] In Cuba's case, the heavy presence of U.S. investment over a wide spectrum of industries exacerbated tensions in official U.S.-Cuba relations. At the beginning of 1959, however, U.S. companies perceived no compelling reason to retrench or pull out of Cuba. As we have noted, during that year companies went ahead with their investment plans, and according to Johnson, "ironically, net direct investment of $63 million during 1959 was even larger than it had been most of the years since World War II." [37] In the course of the year, the political sensitivity of the mainly U.S.-owned public utilities (electricity, gas, and telecommunications) and the vital character of their state-regulated services made them, as Johnson points out, "convenient focal points for attack during the revolution itself."[38] Still, it is important to bear in mind that the uncompensated expropriations of U.S. investment by the revolutionary regime was merely a first step in the ultimate taking of all private Cuban property.

CONCLUDING OBSERVATIONS

When the revolutionary regime of Fidel Castro took power on January 1, 1959, it inherited an economy on the ascendant, unburdened by external debt. Indeed, that year saw a continuation of robust economic growth associated with numerous investment projects still in their development phase when strongman Fulgencio Batista fell from power.

Acting on the recommendation of a World Bank Mission, the Cuban government initiated in 1952 a new strategy aimed at ending Cuba's excessive dependency on sugar while fomenting economic diversification. Paradoxically, the country's reversal of economic strategy coincided with Batista's second government (1952–58) which was characterized by intensification of the country's endemic system of corruption. Under his rule, American mobsters strengthened their hold on the island's more unsavory activities, including casino gambling, from which Batista and his cronies benefited. Significantly, the economic team that designed and implemented the new strategy was given broad policy autonomy, free from political interference. This period saw a dramatic rise in the country's investment coefficient, and the accelerated capitalization of the Cuban economy in activities other than sugar production was also reflected in the rapidly-expanding share of machinery and equipment in total imports. Industrial capacity advanced substantially in a number of branches, particularly electric power, glass containers, cement, oil refining, chemicals, nickel mining and processing, paper, and light copper and steel products. In addition to sugar mills and many traditional light industries, Cuba had in 1959 an impressive complex of intermediate capital goods industries. American enterprise and their state-of-the-art technology played an important role in the development of these intermediate capital goods industries.

While scrupulously observing Cuba's labor and tax legislation, U.S. firms made critical contributions to the country's balance of payments position through exports, net capital inflows, and foreign exchange saved through import substitution. Except for nickel mining, the additional investment of U.S. businesses entities in the Cuban economy, estimated at over $500 million for the decade, served to meet the needs of the domestic market. The economic cost to Cuba of United States business holdings, measured by the rate of return (profit) on equity investment, appeared to be quite low when compared in the 1950s with U.S. direct investments in the rest of Latin America, in other parts of the world, and at home. The degree of penetration by United States investor groups of so many segments of the Cuban economy (and the domination of some) at this point in historical time was unmatched in other Latin American countries. This dependency relationship, however beneficial economically, contained a latent conflict situation. On the other hand, through normal business channels, Cuban entrepreneurs gained ownership and control over economic activities formerly dominated by U.S. and other foreign investors. Most importantly, Cuban private

36. Baklanoff, *Expropriation*, Chapter 1.

37. Johnson, "U.S. Business Interests in Cuba," p. 444.

38. Johnson, "U.S. Business Interests in Cuba," p. 451.

capital owned three-fourths of the sugar mills and these in turn accounted for 62% of the island's sugar production in 1958.

In June 1960, Premier Castro declared: "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."[39] Within a few months, U.S. investments exceeding $1.3 billion were nationalized by the Cuban regime in disregard of the nation's 1940 Constitution and international law. After a period of political consolidation, the now Soviet-oriented regime proceeded to confiscate private Cuban investments and by the spring of 1968, the Cuban State had completed the seizure of all private means of production. That spring, under the so-called "Revolutionary Offensive," the regime confiscated the remaining 55,600 small businesses: retail and service shops, restaurants and bars, artisan shops, and so on.[40]

In the late fifties, Cuban and U.S. investors on the island were mobilizing their capital resources in preparation of the anticipated Caribbean tourism boom of the coming decade of which Cuba could have been the principal beneficiary. Instead, Cuba ceded the emerging vacation markets to Puerto Rico, the Dominican Republic, and Jamaica—and, from 1970 onward, to the rising tourism emporium of Cancún.

39. *New York Times*, August 21, 1960, Section 3–F.

40. Jorge Pérez-López, "The Diaspora as a Commercial Network for Cuban Reconstruction," *Cuba in Transition—Volume 17* (Washington: Association for the Study of the Cuban Economy, 2007).

â€œCubaâ€™s health service is divided in two: one for Cubans and the other for foreigners, who receive better quality care, while the national population has to be satisfied with dilapidated facilities and a lack of medicines and specialists, who are sent abroad to make money for Cuba,â€ says Dr. Julio CÃ©sar Alfonzo, a Cuban exile in Miami and director of the NGO.Â However, despite these impressive statistics, the quality of primary healthcare, which has been fundamental to Cubaâ€™s success, has been declining in recent years. Between 2009 and 2014 there was a 62% fall in the number of family doctors, from 34,261 to 12,842, according to Cubaâ€™s National Statistics Office (ONEI). An army of white coats. We examine Cuban GDP over time and across space. We find that Cuba was once a prosperous middle-income economy. On the eve of the revolution, incomes were 50 to 60 percent of European levels. They were among the highest in Latin America at about 30 percent of the United States. In relative terms, Cuba was richer earlier on. Income per capita during the 1920s was in striking distance of Western Europe and the Southern United States. After the revolution, Cuba slipped down the world income distribution.Â Baklanoff, Eric N.â€œA Bountiful Legacy: U.S. Investment and Economic Diversification in Cuba During the 1950s.â€ Cuba in Transition 19, Papers and Proceeds of ASCE, 2009. Barro, Robert. J., and Jose, F. Ursua.