

LET THERE BE CANDY FOR EVERYONE: REFORM, REGULATION, AND RENT-SEEKING IN THE REPUBLIC OF CUBA, 1902-1952

Mary Speck

When Dr. Ramón Grau San Martín returned to the Cuban presidency in 1944, he seemed to be fulfilling the dreams of a generation of Cuban nationalists who first broke into politics as the student revolutionaries of 1933. Grau, the archrival of military powerbroker and president General Fulgencio Batista, represented the aspirations of those who clamored for agrarian reform, the nationalization of public services, and the end of “economic individualism.”¹ Unlike his ill-starred presidency in 1933, brought down after only four-months by a combination of U.S. pressure, business opposition, and labor unrest, Grau’s new regime began as Cuba rode a wave of World War II-engendered prosperity. Sugar prices, the barometer of Cuba’s highly open economy, were the highest since 1924 and would continue to soar as the allies struggled to feed a devastated Europe. Grau, who had previously governed during the depths of the depression, could now oversee the sharing out of an economic boom. He promised to make good the Authentic Party slogan, “Cuba for Cubans.” “To govern

is to distribute,” he told his followers. “Let there be candy for everyone.”²

But Grau, the martyr of the generation of 1933, would be remembered for redistribution of a different sort. He would go down in the annals of contemporary Cuban history as one of the most corrupt presidents in the five decades between independence and Batista’s 1952 *golpe de estado*. Cuban historians have dismissed the fashionable physician turned populist politician as a “caricature” of the revolutionary, whose government “surpassed the corrupt politics reigning in Cuba since [the withdrawal of U.S. troops in] 1902.”³ A British historian condemns him as the leader who “did more than any other single man to kill the hope of democratic practice in Cuba.”⁴ The collapse of Cuban democracy in the 1950s had multiple causes but key among them was the political corruption that undermined the island’s republican institutions. General Fulgencio Batista would take up the standard of the fight against graft

1. See E. Vignier and G. Alonso, *La corrupción política y administrativa en Cuba: 1944-1952* (Havana: Editorial de Ciencias Sociales, 1973), 4.

2. Quoted in Jorge I. Domínguez, *Cuba: Order and Revolution* (Cambridge: Harvard University Press, Belknap Press, 1978), 108.

3. Vignier and Alonso, *Corrupción*, 29.

4. Hugh Thomas, *Cuba or The Pursuit of Freedom* (New York: Harper & Row, 1971), 737.

and gangsters when he overthrew Grau's successor, Carlos Prío, in 1952. Less than seven years later, Batista himself would fall, his own government mortally weakened by the violence and venality of his supporters.

Historians sometimes write as if there were two Ramón Grau San Martins and two *Auténtico* parties: the idealistic reformers of 1933 and the corrupt politicians of the 1940s. Reform is said to have died in 1933, along with the hope of founding a government that was willing and able to defend national interests. Thus, the *Auténticos* who returned to power in 1944 could only do so by betraying the "historical mandate" of 1933.⁵ The "frustration" of Cuban nationalist aspirations during the Republic, the shattering of reformers' dreams of social justice on the rock of U.S. pro-business policies, becomes the key to understanding the triumph of "radical nationalism" after the 1959 revolution. For some historians, Grau's ouster meant the end of reform for the next quarter century. A popular textbook of modern Latin American history simply dismisses as unimportant the twenty-five years of Cuban history leading up to the Cuban revolution. "Cuban politics saw little change between 1934 and 1959," write Thomas Skidmore and Peter Smith. "What had happened to the revolutionary fervor of 1933? Where was the coalition that had so frightened Washington? It had gone the way of all Cuban nationalist movements—rendered impotent by the unbeatable alliance of Cuban elites, their political and military handmaidens, and Uncle Sam."⁶

But the Revolution of 1933 survived the ouster of Grau and his radical student supporters. 1933 was not the end, but the beginning of a new era of reform, designed to protect Cuban labor and regulate Cuban business. Between 1933 and 1958, the Cuban government "extended its regulatory and distributive activity enormously," writes political scientist Jorge

Domínguez.⁷ By the time Grau returned to power in 1944 an extensive system of economic controls was already in place, which began in the sugar sector but were extended to much of the rest of the economy. Those industries not subject to government regulation were controlled by mandatory business and professional organizations, which lobbied for government favors and often restricted new entries. At the center of this regulatory regime was the president, who distributed favors and mediated disputes. The Cuban Congress, like many Latin American legislatures, was relatively weak, with some power to distribute patronage, but little control over the president, who legislated by decree.

The scandals of the Grau administration—such as the alleged pilfering of \$174 million in pension funds deposited in the public treasury—were merely the most spectacular manifestations of a system rife with possibilities for rent-seeking, influence peddling, and outright theft. The idealistic reformers of the 1930s had worked to create a state that would protect Cuban workers, Cuban business people, and Cuban bureaucrats from the ravages of worldwide depression. But they also created a complex system of quotas and subsidies, price controls and wage guarantees, licenses and permits—that pitted powerful interest groups against each other in competition for government-dispensed privileges.

REGULATION AND RENT SEEKING

Corruption, of course, did not appear first in the decades before the Cuban revolution. It had deep roots in Cuba's colonial history. Spanish bureaucrats were accustomed, and expected, to supplement meager official stipends with payoffs and kickbacks. Such "fee for service" corruption may even have had some positive effects by allowing entrepreneurs to "grease the wheels" of a sluggish Colonial bureaucracy.⁸ In the first two decades of the Republic, corruption was still "patrimonial" in nature: public office was sought

5. Louis A. Pérez, *Cuba: Between Reform and Revolution* (New York: Oxford University Press, 1995), 287.

6. Thomas E. Skidmore and Peter H. Smith, *Modern Latin America*, 4th ed. (New York: Oxford University Press, 1997), 272.

7. Domínguez, *Cuba*, 90.

8. See Nathaniel Leff, "Economic Development Through Bureaucratic Corruption," *American Behavioral Scientist* 8 (1964).

largely for private gain.⁹ Contemporary newspapers printed lurid accounts of graft in public works contracts. Public payrolls were swollen with *botellas*, literally bottles, meaning fictitious jobs that were never actually filled. The lottery became notorious as a source of income to be portioned out among political supporters. Such corruption had little impact on the private business community. Because there was little state regulation of the economy, interest groups had little reason to lobby for government benefits.

The stakes changed, however, with the economic and social reforms that began in the late 1920s. Ever increasing state regulation and control over key sectors, such as the sugar industry, exacerbated the corruption already endemic in Cuban public affairs, turning both politics and business into a fierce struggle for government favors. Corruption from the 1930s on took the form not only of outright kickbacks, bribes, and graft but also of what economists call a “rent-seeking” mentality that pervaded Cuban society. Instead of concentrating on innovations to improve products or develop new products, Cuban workers, farmers, and industrialists had to compete to secure political benefits and protection. Ironically, reforms originally designed to shield both business and labor from depression in the 1930s, ended up heightening what a 1951 World Bank report called the “high level of economic insecurity which affects all groups in Cuba.”¹⁰ In a largely stagnant economy, competition to protect one’s share of national production through public policy was fierce. Instead of “creative destruction,” Cuba’s cycle of export booms and busts had

intensified, in the World Bank’s words, “the natural ‘defensive’ impulses of economic groups against new methods of production which appear to offer competition or to threaten opportunities for jobs or profits.”¹¹

Rent-seeking, defined as “the political activity of individuals and groups who devote scarce resources to the pursuit of monopoly rights granted by governments,” can both exacerbate political factionalism and inhibit economic growth.¹² Rent-seeking ranges from outright bribery to costly lobbying for import quotas or licenses, tariff exemptions and other tax privileges, price supports or controls, and government credit or direct subsidies. Competition for government benefits diverts time and resources that might otherwise be devoted to productive activities, resulting in a welfare loss to the economy as a whole. Innovation is discouraged as both entrepreneurs and workers focus instead on winning government favors and blocking the efforts of their competitors to do the same. Economist Anne Krueger has described how protectionist policies in developing nations can create a “vicious circle” of ever-increasing regulation that stifles economic growth. Mancur Olson, in *The Rise and Decline of Nations*, argued that the rent-seeking behavior of interest groups—or “distributional coalitions”—could accelerate the economic decline of advanced industrial states, such as Great Britain after World War II.¹³ The fight to distribute, rather than create, wealth can become a zero-sum game as growth stalls. To survive, businesses, banks, and la-

9. Domínguez calls Cuban politics in the early Republic “neopatrimonial” after Max Weber’s definition of the patrimonial political system as one where “all government authority and the corresponding economic rights tend to be treated as privately appropriated economic advantages.” See Domínguez, *Cuba*, 35-36.

10. International Bank for Reconstruction and Development, *Report on Cuba* (Washington, D.C.: International Bank for Reconstruction and Development, 1951), 66. Hereafter referred to as World Bank, *Report*.

11. World Bank, *Report*.

12. William C. Mitchell and Michael C. Munger, “Economic Models of Interest Groups: An Introductory Survey,” *American Journal of Political Science* 35, no. 2 (May 1991), 525. See also Anne O. Krueger, “The Political Economy of the Rent Seeking Society,” *The American Economic Review* 64, no. 3 (June 1974), 291-303; and “Virtuous and Vicious Circles in Economic Development,” *The American Economic Review* 83, no. 2 (May 1993), 351-355; Kevin M. Murphy, Andrei Shleifer, Robert W. Vishny, “Why is Rent-Seeking so Costly to Growth?” *The American Economic Review* 83, no. 2 (May 1993), 409-414; and, Andrei Shleifer, Robert W. Vishny, “Corruption,” *The Quarterly Journal of Economics* 108, no. 3 (Aug. 1993), 599-617.

13. Mancur Olson, *The Rise and Decline of Nations* (New Haven, Conn.: Yale University Press, 1982).

bor unions must focus their energies on cultivating political contacts, whether licit or illicit.

BITTER SWEET

Cuba before the revolution was in many ways an economic success story. The exportation of sugar, a commodity that requires huge investments in industry and infrastructure, had created a highly capitalized economy with far more wealth per person than the rest of the Caribbean and probably more than any other tropical nation.¹⁴ By the end of the 1920s, Cuba's per-capita income was the third highest in Latin America, after Argentina's and Chile's, and was nearly three times that of Mexico and Brazil. In terms of both human and physical infrastructure, Cuba had far outstripped its neighbors. Social indicators such as literacy, infant mortality and life expectancy, were well above the norm in the Caribbean and Central America, comparable only to the levels achieved by the relatively wealthy countries of Latin America's Southern Cone.¹⁵ Despite the country's dependence on agricultural exports, over half of the population lived in urban areas.¹⁶ And Cuba had a well-developed transportation system. The island had regular steamboat service between major coastal cities by the 1820s and completed its first railroad in 1837, before the mother country of Spain and before any of its independent but politically tumultuous neighbors in Central or South America. By the mid-twentieth century, Cuba had more kilometers of railroad per person than the United States.¹⁷ It also ranked among the top nations of Latin America in terms of cars, television sets, and telephones per capita.¹⁸

While such statistics do not mean that all, or even most, Cubans enjoyed the benefits of economic growth, they do suggest that pre-revolutionary Cuba was far from a "banana republic," nor was it underdeveloped compared to most of Latin American or even southern Europe. Sugar had not created an enclave economy, where the exportation of commodities benefited only a tiny elite tied to foreign interests. It had provided the island with substantial physical and human capital. But the statistics mask flaws that made Cuban economic growth highly inequitable and difficult to sustain. By 1950, sugar had long ceased to be the dynamic industry that once attracted massive immigration and investment. Nor had dynamic new industries emerged to take advantage of the infrastructure that sugar had created. Unemployment, both chronic and seasonal due to the agricultural cycle, was a serious political and economic problem. While Havana had grown into an elegant metropolis, much of the countryside languished with high rates of disease and malnutrition. And even Havana's wealth had been created largely by the parents and grandparents of its 1950 residents. "[T]he present per capita income of about \$300 is only slightly above that of the early 1920s," wrote the World Bank in 1951. "It is largely the result of the [World War II] sugar boom which brought back into full use equipment installed in the first quarter of the century [...] Cuba's present standard of living, therefore, depends mainly on an industry which stopped growing many years ago."¹⁹

14. Henry Christopher Wallich, *Monetary Problems of an Export Economy: The Cuban Experience, 1914-1947*, Harvard Economic Studies, vol. 88 (Cambridge: Harvard University Press, 1950), 3.

15. See GDP estimates gathered by Angus Maddison in *Two Crises: Latin America and Asia, 1929-38 and 1973-83* (Paris: OECD, 1985), Table A.1. According to Maddison, in 1929 Argentina's per capita income was U.S. \$415, Chile's was \$250 and Cuba's was \$238. Mexico and Brazil both had per capita incomes of about \$85. Life expectancy at birth was more than 40 years, second only to Argentina, and the literacy rate was 70 percent. See Cuban Economic Research Project, *A Study on Cuba* (Miami: University of Miami Press, 1965), 208. Hereafter referred to in footnotes as CERP, *Study*.

16. According the census of 1931, 51.36 percent of the population lived in cities of more than one thousand inhabitants. CERP, *Study*, 305.

17. Cuba had nearly 3.4 kilometers of railroad per 1,000 persons; the United States had about 2.4 kilometers per 1,000 persons. World Bank, *Report*, 241.

18. See CERP, *Study*, 579, 582-583.

19. World Bank, *Report*, 7.

Cubans were well aware of the dangers of depending on one primary export crop. In boom times, as in busts, Cuban leaders realized that sugar alone could not guarantee prosperity. Since 1898, rulers of the island, including U.S. occupiers, had decried the dangers of a one-crop economy. Even before independence, Cuba's national hero, the poet José Martí, whose words were (and are) quoted like the Bible by politicians of every stripe, had called an over reliance on plantation agriculture "suicidal." Since the mid-1920s, diversification of Cuban agriculture and industry had been a fundamental tenet of public policy, supported in principle by the sugar industry itself. And yet entrepreneurs, who had aggressively undercut their international competitors during the early twentieth century, would prove by and large incapable of developing successful new products for the domestic and world markets. National leaders who had once hailed sugar as the source of the island's relative affluence now condemned it as an Achilles' heel that was jeopardizing the nation's stability and independence.

In the late nineteenth century, when the island of Cuba seemed poised to dominate the United States'—and the world's—sugar market, a leading autonomist had famously said, in effect, "Without sugar, there is no country."²⁰ By the late 1920s, the formula had been reversed and an eminent professor of economics would warn: "Either the Republic must demolish [sugar] cane or cane will demolish the Republic."²¹ In both eras, sugar was identified with nationhood—or the lack of it. Heavy U.S. investment in the sugar industry from the mid teens to the early twenties only exacerbated the feeling that Cuba had lost control of the source of its political and eco-

nomie sovereignty. Sugar had brought unprecedented prosperity in the first two decades of the century followed by the ruin of many sugar planters and mill owners in the financial crash of 1921. It was transforming the social and economic landscape of the country in ways that many found distasteful and even dangerous. Thus Fernando Ortiz, a multifaceted intellectual who was most famous for his works on Afro-Cuban culture, compared sugar unfavorably with tobacco in *Cuban Counterpoint*. Ortiz is lyrical in his portrayal of tobacco as the product of independent Cuban farmers who took an artisan's pride in the quality of their leaf. Sugar, on the other hand, was the undifferentiated output of huge factories owned by foreign capital and manned by a rural proletariat.²² Ramiro Guerra, an historian who had tremendous influence over Cuban scholarship and public policy, warned that vast foreign-owned latifundia were taking over the Cuban countryside, eliminating or impoverishing Cuba's small farmers, shrinking its domestic market and placing the island at the mercy of international markets.²³ The distinguished historian Herminio Portell Vilá, author of a multi-volume history of Cuban relations with Spain and the United States, would call the sugar industry a "Frankenstein," a deformed vestige of Cuba's "colonial economy."²⁴

U.S. PROTECTIONISM

So why did sugar remain central to the Cuban economy, long after it had ceased to be an engine of export-led economic growth? Much of the post-Revolutionary historiography of the Cuban Republic has focused on U.S. interests, which are assumed to have sought "control" of the island's resources. According to one sweeping assertion, U.S. trade and investment

20. Rafael Fernández de Castro, a reformer and advocate of autonomy from Spain. His actual words were: "Sin azúcar no se concibe la isla de Cuba y sin el consumo de ese producto por los Estados Unidos no se concibe nuestra existencia como pueblo culto." Quoted in Julio Le Riverend, *Historia Económica de Cuba* (Havana: Editorial de Ciencias Sociales, 1985), 538.

21. José Comallonga, cited in J. Alvarez Díaz, et. al., *Cuba: Geopolítica y Pensamiento Económico* (Miami: Duplex Paper Products of Miami for the Colegio de Economistas de Cuba en el Exilio, 1964), 289.

22. Fernando Ortiz, *Cuban Counterpoint: Tobacco and Sugar* (Durham, N.C.: Duke University Press, 1995).

23. Ramiro Guerra y Sánchez, *Azúcar y Población en las Antillas* (Havana: Editorial de Ciencias Sociales, 1970). This was first published in 1927.

24. Herminio Portell Vilá, *La industria azucarera y su futuro* (Havana: Molina y Cía, 1942), 20. Pamphlet reprinted from *Revista Bimestre Cubana* 50, no. 2 (July-Dec. 1942).

“excluded Cubans from agriculture and mining, utilities and transportation, trade and commerce, industry and manufacture, banking and finance.”²⁵ Cuban Marxists asserted that the U.S. capital condemned Cuba to an economy where foreigners owned the export industry and foreign companies flooded the rest of the economy with imports.²⁶ Explicitly, or implicitly, many U.S. historians still accept the premise of William Appleman Williams’s influential tome, *The Tragedy of American Diplomacy*, which argued that the United States was impelled to intervene in Latin America by the drive to increase U.S. trade and investment.²⁷ “Defense of capital interests served as the cornerstone of U.S. policy,” says a 1986 history of Cuba. These interests demanded, above all, “a docile working class, a passive peasantry, a compliant bourgeoisie, and a subservient political elite.”²⁸

U.S. economic policy did, of course, influence the course of Cuban development, but not because of any inexorable need by U.S. capitalists to penetrate—or in today’s terms “globalize”—the island’s economy. Economic interpretations of U.S. foreign policy often fail to take into account the complex and conflicting interests of U.S. exporters, farmers, industrialists, bankers, and foreign investors. Perhaps nowhere is this clearer than in U.S.-Cuban relations, where the interests of U.S. investors in the island’s sugar industry clashed repeatedly with those of sugar producers in the United States and its foreign territories. Moreover, the United States at the turn of the century was far from committed to “globalization.” “In the Gilded Age, America’s industrial, commercial, and agricultural economy diversified, establishing the United States as one of the giants on the world scene,” writes political scientist Judith Goldstein. Nonetheless, U.S. trade policies, instead

of projecting U.S. economic might by promoting commerce, turned progressively more defensive:

It was during this period of increasing American competitiveness and relatively more open European markets that the United States moved to institutionalize trade protections. Ironically, policy during this period ran counter to America’s apparent interests; as the United States became increasingly competitive on world markets and more interested in world trade, American policy became increasingly more autarkic.²⁹

It was Cuban exporters who sought most eagerly to penetrate the U.S. market, not vice versa. Cuba in the first quarter of the twentieth century was poised to become the “world’s sugar bowl.” Its land was ideal for sugar cane cultivation. Its sugar mills boasted the latest technology. Cuba’s very efficiency as a low-cost producer, however, became a threat to competitors abroad. Sugar was—and is—one of the most highly protected commodities on the international market. (Unfortunately for Cuba, another highly protected commodity was the island’s other major export, tobacco). Many European nations, and some Latin American nations, such as Mexico and Argentina, also set up protective barriers to stimulate the domestic production of sugar. There was nothing natural about the world’s “overproduction” of sugar from the 1920s on; it was the result of deliberate government policy.

Among the biggest losers in the tariff battles waged in the U.S. Congress during the early twentieth century were the sugar producers of Cuba, both foreign and domestic. Congress barely passed the Reciprocity Treaty of 1902 after a long and heated debate and despite intense lobbying by beet producers from key Western States. Instead of the free trade advocated by Cuban business and political leaders, it granted Cuba

25. Pérez, *Cuba*, 213.

26. See, for example, Jorge Ibarra, *Prologue to Revolution: Cuba, 1898-1958* (Boulder, Colo.: Lynne Rienner Publishers, Inc., 1998), and Oscar Pino Santos, *El asalto a Cuba por la oligarquía financiera Yanqui* (Havana: Casa de las Américas, 1973).

27. William Appleman Williams, *The Tragedy of American Diplomacy*, 2nd ed. (New York: Dell Publishing Co., 1972).

28. Louis A. Pérez, Jr., *Cuba under the Platt Amendment, 1902-1934* (Pittsburgh, Pa.: University of Pittsburgh Press, 1986), xv-xvi.

29. Judith Goldstein, *Ideas, Interests, and American Trade Policy* (Ithaca: Cornell University Press, 1993), 8. See also Cynthia A. Hody, *The Politics of Trade: American Political Development and Foreign Economic Policy* (Hanover, N.H.: University Press of New England, 1996) on the institutional impediments to international economic cooperation.

only a 20 percent reduction on the already high overall tariff.

Cuban and U.S. mill owners and cane planters on the island again joined forces with U.S. sugar refiners, soft drink and candy manufacturers to lobby against the Hawley-Smoot Tariff of 1929—and lost. The domestic sugar industry in the United States, also hard hit by low commodity prices, proved politically more powerful. Although sugar producers in Cuba were given a preferential tariff rate in the Reciprocity Treaty of 1934, it came with ropes attached. The Sugar Act of 1934, also known as the Jones-Costigan Act, allocated quotas to the different geographical areas that supplied the U.S. market. Moreover, the quotas were based on U.S. market share during 1931, 1932 and 1933, years when Cuba's exports had been drastically reduced by the Hawley-Smoot tariff. For the high cost sugar beet producers in the American West, such quotas were a godsend. But for sugar mill owners in Cuba, who had invested heavily to expand production in the 1920s, quotas, though preferable to the prohibitive tariff rates imposed in 1929, were still an unhappy compromise.

U.S. trade policies not only limited the growth of Cuban sugar exports, they discouraged the growth of other export industries, as well. High tariffs on finished tobacco products (and militant Cuban unions) encouraged U.S. cigar makers in Havana to shut down their factories and re-open them in New Jersey.³⁰ Would-be exporters of winter vegetables and citrus fruits also faced tariff barriers supported by strong domestic lobbies. It did not matter that many of these small farmers were U.S. citizens, lured to the island shortly after independence by land developers who promised that Cuba would soon become the United States' "winter garden."³¹ Well-organized fruit growers in Florida and California made sure that tariffs were high enough to discourage foreign imports, including those raised by their compatriots

in Cuba. By the 1920s, the few foreign-born agricultural colonists who remained on the island produced their fruits and vegetables mainly for the Cuban domestic market.³²

Despite the limits of the reciprocity treaty, the Cuban economy grew rapidly in the first decades after independence. Until about 1925, both large and small mills, whether foreign or domestically owned, increased their output. But much of the capacity created by the sugar industry in the 1920s was not used until the Second World War. And sugar, once viewed as a source of wealth, became, according to its critics, an economic albatross.

COORDINATED PRODUCTION

By the late 1930s, the future of Cuba's once dynamic sugar industry was in doubt. Efforts to form an international cartel had not only failed to raise sugar prices but encouraged non-cartel members to increase their production. The United States quota system assured Cuban producers of a stable, but not a growing, market. The complex internal system of controls and quotas imposed by the Cuban government from the 1930s on was a response to the industry's dismal international prospects. With a limited external market, many mills faced certain bankruptcy and tens of thousands of workers faced unemployment. Reorganization of the industry would have been economically painful, and, for a country still reeling from Machado's overthrow, politically disastrous. Just as U.S. beet sugar producers had demanded import quotas to protect themselves from foreign competition, Cuban producers demanded internal quotas to protect themselves from internal competition. Decree 522, promulgated in 1936, followed a year later by the Law of Sugar Coordination, set up an elaborate regulatory system designed to guarantee the survival of the island's smaller (and generally least efficient) mills, along with independent sugar planters or colonos. Small mills were guaranteed minimum basic

30. See CERP, *Study*, 265. On Cuban unions and U.S. tobacco manufacturers, see Jean Stubbs, *Tabaco en la periferia: El complejo agro-industrial cubano y su movimiento obrero, 1860-1959* (Havana: Editorial de Ciencias Sociales, 1989), 47.

31. See for example *The Cuba Review*, 4 (February 1906), 22. *The Cuba Review*, published by the Munson Steam Ship Line, originally promoted U.S. colonization of the island. By the mid-1910s, however, the magazine covered mainly the sugar industry.

32. Cuba, *Census of the Republic of Cuba, 1919* (Havana, n.d.), 60-61.

quotas, while larger mills were limited to their average production in 1934 and 1935 (when most were operating well below capacity). Sugar planters or *colonos* in turn won cane quotas to preserve their share of the cane sold to mills, and also secured restrictions on the amount of “administration cane” large mill owners could grow on their own property. *Colonos* also won the so-called “right of permanent occupancy,” which meant that as long they met their cane quota and paid their rent (whose amount was tied to the price of sugar), they could never be evicted. And just to be sure no mill owner or cane grower ever went into bankruptcy, the act extended a moratorium on agricultural loans. A final provision of the Act tied wages to sugar prices, although, in reality, sugar worker salaries were allowed to rise with prices, but not to fall as fast or as far.

As José Antonio Guerra (son of historian Ramiro Guerra) wrote in 1942, the system was designed to freeze the status quo in place:

Our system of sugar production control is organized to distribute and maintain the industry in all of the areas where it existed before the restrictions [on sugar production] began, and to prevent the displacement, not just of mills, but, more importantly, of planters. This policy rests on the fundamental principle of recognizing and respecting as inviolable in each region, the existing interests in each area, namely, the interests of the industrial unit, the mill, the colonia, the land-owner, the workers, the local merchants, the transport systems, and the municipality which derives its basic income from the activity of the local sugar mill.³³

The economic policies that emerged beginning in the 1930s were geared, not toward growth, but toward protecting Cuban jobs and Cuban businesses. In the words of the World Bank, Cuban economic policies focused on “preserving the status quo and on regulating the division of a fixed national production, rather

than on innovation to enlarge the total product.”³⁴ They succeeded. Cuba had about the same number of active mills in 1959 as it had had two decades earlier. But the result was an industry operating well below capacity until the outbreak of World War II.

Mills were discouraged from economizing by reducing the length of the harvest or improving the productivity of labor. Labor legislation made it difficult to dismiss workers for any reason, including “*tecnificación*.” Sugar unions also protested against rising “*intensivismo*” in sugar factories. In 1950, mills that managed to produce their quotas in less time were forced to pay their workers “*superproducción*” to compensate them for hours lost.³⁵ Efficiency was also discouraged in the agricultural sector. Growers had little incentive to improve the quality of their cane because their payments (a percentage of the sugar manufactured from their cane, paid in kind or in currency) were based, not on the yield of their individual crops, but on the average yield of the entire cane crop processed at their local mill. In order to equalize payments to *colonos* with poor land, the percentage payment declined as yield increased. (After 1949, this provision was dropped and *colonos* received uniform payments, independent of yield). There was little reward for raising yield by planting better varieties of cane, cutting cane only when mature, or delivering it promptly to the mill.³⁶

The Sugar Stabilization Institute, known by its Spanish acronym, ICEA, was in charge of enforcing sugar regulations. ICEA was essentially a legal cartel, governed by a board comprising 12 mill owners, 6 growers, the head of the sugar workers union and a government delegate. The Cuban president appointed the owners and growers from lists submitted by their respective associations. The institute negotiated international contracts and allocated production and crop quotas. But it was the Cuban president who

33. José Antonio Guerra, Appendix to Guerra, *Azúcar y Población*, 258.

34. World Bank, *Report*, 779.

35. Oscar Zanetti, *Dinámica del estancamiento: El cambio tecnológico en la industria azucarera cubana entre 1926 y 1958* (Havana: Instituto de Historia de Cuba, 1996), 32.

36. CERP, 339-345.

brokered disputes between mill owners and growers, workers and management, intervening to prevent mill owners from using their greater influence in ICEA to the detriment of powerful growers or unions.

The attempt to create risk-free capitalism—at least for domestic producers—was not limited to the sugar sector. Quotas were extended to two other important products, tobacco and coffee. Nor were imports allowed to bring unbridled competition to the island's domestic market. Most industries were organized in manufacturers' associations that secured tax advantages, subsidies, and protective tariff barriers against finished products while lobbying for low tariffs on imported inputs. The result was a complex system of taxes and tariffs, riddled with exemptions. Manufacturers did not hesitate to join forces with labor when threatened with technologies that might raise productivity and thus displace workers by putting inefficient enterprises out of business. Attempts to mechanize cigar production beginning as early as the 1920s were repeatedly thwarted by a powerful alliance of small manufacturers and skilled workers. Candy manufacturers who invested in modern machines during the 1940s had to run them at the lowest possible speed so as not to put their rivals out of business and displace workers. Textile factories faced potent opposition from their competitors and their workers as they tried to raise productivity in the 1940s and 50s. Measures designed to protect employment discouraged the creation of new jobs. A self-regulatory commission, created to defend Cuba's shoe industry from the competition of cheap imports and the even cheaper products of local "cottage" manufacturers, went so far as to outlaw the establishment of new factories.

The financial system also faced regulations designed principally to protect Cuban borrowers from the risk of bankruptcy. After the crash of 1921, the government instituted a moratorium on debt repayments that was extended and expanded in 1933 and 1934 and eventually enshrined in the Constitution of

1940. The fact that foreigners controlled the banking sector did not hinder the government's willingness or ability to impose onerous regulations. "Had there been domestic banks, their influence and public concern for their solvency might have caused the moratorium laws [...] to be less sweeping," wrote a North American economist in 1950. "Since the foreign banks can hardly fail, the government need not be too considerate with them."³⁷ But the moratoria did not just affect foreign bankers. Many Cubans had invested their savings in real estate mortgages, which offered safety and a relatively high return. Under the moratoria, such domestic capital was frozen and the returns either eliminated or substantially reduced. Cubans seeking safety and higher returns had to export their savings abroad, further reducing the supply of local capital.

Capital flight was just one of the many costs of economic controls. Elaborate regulations inevitably inspired expensive efforts to evade them. Having the best lawyers became as important as employing the best engineers. It might even be considered a prerequisite. Restrictions on the employment of foreign technicians and professionals (including Cubans trained abroad) could only be circumvented through a lengthy appeals process. If lawyers could not help, there were less formal ways to grease the wheels of Cuba's cumbersome bureaucracy. The World Bank's 1951 report decried the high cost of implementing (and bypassing) economic controls. "Whatever the merits of the controls themselves, they have been only partially effective," the World Bank wrote:

Enforcement of many of them requires a small army of inspectors, clerks and officials of various kinds. Few of these are paid enough to be attracted to their positions for reasons of salary alone. The island's factory operators and businessmen, knowing this, seldom hesitate to offer what seems to them a more advantageous deal than compliance with the law. Often the result is not control at all, but simply a higher cost of production through extra cash outlays to officials for their 'cooperation.'³⁸

37. Wallich, *Monetary Problems*, 166.

This low level corruption is considered by some analysts to be even more harmful than high-level kleptocracy. Bureaucrats may “overfish” and thus deplete a “commons” to seek private gains, they argue.³⁹ If new bureaucrats want a share in the rents, there is an incentive to create new rules and regulations so as to extract still more rents. Whether because of bureaucratic desires to maximize their income, or simply the ever more complicated task of satisfying competing interests, rules governing the sugar sector proliferated in the 1930s and 40s. Before 1915, the industry was basically unregulated. From 1915 to 1924, there were 43 new laws, decrees or administrative regulations enacted concerning the sugar sector, most of which were temporary measures dealing with World War I (when the government negotiated the sale of Cuba’s crop to the United States) and the 1921 crash, which left many mills and planters bankrupt. From 1925 to 1934, there were 159 new laws and rules, many of which were also temporary measures, dealing with Cuba’s attempt to form an international cartel, which required limiting domestic production through the country’s first quota system. Then from 1935-1944, there were 325 new rules, fixing wages, prices, rents, railroad tariffs, quotas for exports, quotas for domestic consumption, and quotas for Cuban sugar refiners; governing labor unions, cooperatives, and the obligatory associations of sugar manufacturers, growers and technicians; encouraging (with little success) the cultivation of non-sugar crops and providing debt relief. Additional legislation placed new taxes on the sugar industry to pay for it all. During the next seven years of *Auténtico* rule, the government added 190 more sugar regulations, an average of about 27 a year.⁴⁰

Labor legislation became even more complex. From 1902 to 1924, the government published some 177 rules, concerning such things as child and female labor, housing, accident insurance, Sunday rest, and port workers. After the mid-twenties, the pace of rulemaking increased. From 1925 to 1934, there were 185 new labor laws and regulations. Then after the mid-1930s, new labor laws began multiplying rapidly: from 1935-1944, there were 881 new rules. During the governments of Grau and Carlos Prio, from 1945-1952, policymakers added another 766 rules.⁴¹ Labor legislation had become a complex web of benefits, wage controls, job guarantees, un- and underemployment subsidies, arbitration procedures, health and safety regulations plus measures designed to regulate (and, if necessary, repress) labor unions and professional associations. All these new rules, of course, were multiplied by the daily bureaucratic rulings on the requests of individual producers to trade quotas, hire or fire workers, renovate facilities, import machinery and more.

ROVING BANDITRY

In addition to the myriad opportunities such complex rules offered for low-level graft, the Republic had a history of illicit enrichment at the highest reaches of government. The accuracy of the charges leveled by the Republic’s unbridled press at virtually every administration after 1902 is difficult to judge. Only Cuba’s first President, Tomás Estrada Palma (1902-1906), was widely praised for his fiscal (and personal) frugality, although his party’s efforts to purge the bureaucracy and manipulate votes to assure its total control of elected posts, both nationally and locally, led to the August Revolution of 1906. The outrage expressed by opposition politicians out of office does not seem to have deterred them once in of-

38. World Bank, *Report*, 178

39. See Mancur Olson, “Dictatorship, Democracy and Development,” *American Political Science Review* 87 (1993): 567-575; Shleifer and Vishny, “Corruption.”

40. Calculated from the list compiled by Milo A. Borges, *Compilación Ordenada y Completa de la Legislación Cubana, 1899-1950*, vol. 3 (Havana: Editorial Lex, 1952) and Mariano Sánchez Roca, *Compilación Ordenada y Completa de la Legislación Cubana, 1951-1958*, vol. 4 (Havana: Editorial Lex, 1960). Borges lists laws, decree-laws, accords, and ministerial resolutions both chronologically and by subject. I have used his subject categories, while taking care not to double count items that may appear in several categories.

41. *Ibid.* This includes some sugar legislation.

fice. General José Miguel Gómez, a provincial caudillo known as *El Tiburón* (The Shark), led the Liberal revolt against Palma. But during his own presidency (1909-1913), he allegedly multiplied government jobs for his friends, popularly called “cuneros” or foundlings. “*El Tiburón se baña, pero salpica,*” went a popular saying.⁴² A Cuban contemporary called him a “ruined planter who made himself a millionaire from night to morning and not by the sweat of his brow.”⁴³ His private secretary, who later wrote a tell-all book, said Gómez was worth \$8 million on leaving office, largely consisting of stock he was allowed to buy at considerably below market prices.⁴⁴

General Mario Menocal (1913-1921), another Liberation Army officer turned politician, was a wealthy man before winning the presidency, having served as the general manager who built the U.S.-owned *Chaparra* sugar mill, then the world’s largest. Nonetheless, Menocal’s success in business did not prevent him from distributing lucrative contracts and privileges to his extended family, including the coveted export and import permits required during trade restrictions imposed during World War I. Most notoriously, contemporaries accused Menocal of securing millions in loans from the National Bank to build his own sugar mill, which he completed while president.⁴⁵ He sold the *Palma* mill, very opportunely, to U.S. investors a few years later. In late 1920, sugar prices, which had spiraled in the aftermath of World War I, collapsed, bringing urban and rural real estate values with them. The crash ruined many mill-owners, both U.S. and Cuban, as well as the country’s banking system. Menocal, however, seems to have escaped unscathed. He was said to be worth \$1 million

on taking office and \$30 or \$40 million when he left.⁴⁶

And so it went. A special U.S. envoy, sent to straighten out the island’s finances, micromanaged the government of Alfredo Zayas (1921-1925) from behind the scenes, forcing him to accept the appointment of the so-called “honest cabinet.” As soon as Zayas managed to negotiate a desperately needed \$5 million loan with J.P. Morgan, however, he summarily dismissed the ministers approved by Washington. Zayas supposedly pocketed between \$2 million to \$14 million before his term ended.⁴⁷ His successor Gerardo Machado (1925-1933) allegedly bestowed millions on his followers in Congress by distributing lottery collectorships (an investment which helped him to secure the constitutional revision he needed to seek a second term) and accumulated millions more himself by awarding public works contracts to companies in which he had a substantial interest. Fulgencio Batista, who dominated a series of unstable governments after Machado’s presidency until assuming the presidency himself in 1940, allegedly amassed as much as \$20 million through graft from public works projects, much of which was converted into urban property.⁴⁸

Estimates of ill-gotten gains such as these, generally provided by political enemies, may be highly exaggerated. Nevertheless, the presidents of Cuba’s short-lived republic seem to have resembled the “roving bandits” described by Mancur Olson: weak kleptocratic leaders who sought to maximize their short-term profits, paying little attention to the long-term consequences. Moreover, the public perception that top-level officials were corrupt encouraged dishonesty throughout the government. “Corruption at the

42. The shark takes a bath, but he splashes, meaning that Gómez made sure his friends shared in his enjoyments.

43. Ramón Vasconcelos, whose 1916 book (*El general Gómez y la sedición de mayo*) is cited in Charles E. Chapman, *A History of the Cuban Republic: A Study in Hispanic American Politics* (New York: The MacMillan Co., 1927), 286.

44. Lt. Col. Avelino Sanjenís, quoted by Chapman, *History*, 289.

45. This was a private bank, although it held government deposits.

46. Chapman, *History*, 395.

47. Leland H. Jenks, *Our Cuban Colony: A Study in Sugar* (New York: Vanguard Press, 1928), 247.

48. This is an estimate by Carlos Rafael Rodríguez, a Communist Party leader who served in Batista’s cabinet, given to historian Hugh Thomas. Thomas, *Cuba*, 736.

top creates expectations among bureaucrats that they should share in the wealth and reduces the moral and psychological constraints on lower level officials,” as Susan Rose-Ackerman has written. “Low-level malfeasance that can be kept under control by an honest ruler may become endemic with a dishonest ruler.”⁴⁹

One of the tragedies of Ramón Grau San Martín’s presidency is that on assuming office he seemed to promise a new style of government, which would be both populist and transparently honest. Well aware that battling corruption had become a key political issue, Grau made public his own income and assets, ordering his cabinet to do the same. Despite this auspicious beginning, scandals and escalating violence by warring political gangsters marred his rule and tainted that of his handpicked successor, Carlos Prío.

The high-level thievery of Grau and his associates seems to have been unprecedented in scope and audacity. In 1948, his education minister and close friend José Manuel Alemán fled to Miami, where U.S. officials discovered \$20 million in cash, stuffed in his suitcase.⁵⁰ Then a shortfall of some \$40 million was discovered at the start of Prío’s government in the social security and private pension funds deposited with the Cuban treasury, primarily by the powerful sugar workers’ union. As the World Bank noted wryly in its 1951 report, “the government of that time levied a forced loan on non-governmental pension funds lodged with them, without any formal ac-

knowledgment of debt and, therefore, without paying the retirement funds any interest for use of their money.”⁵¹ In 1950, ex-president Grau himself was charged with misusing \$174 million. But his trial was indefinitely—and in the end definitively—delayed after gunmen invaded the courthouse and stole all documents relevant to the case.

The tragic climax to the *Auténtico* Party’s seven-year rule came in March 1952 when Grau’s old nemesis, General Batista, seized power in a coup. Seven years later, Batista himself would be overthrown by Fidel Castro and his followers. Castro would later publicly embrace socialism and make opposition to U.S. imperialism the ideological keystone of his regime.

But the politics of post-revolutionary Cuba, forged in the heat of the Cold War, should not obscure the history of the Republic’s last years. As political scientist Jorge Domínguez has pointed out, “by the 1940s and early 1950s, nationalism had declined in appeal as an ideology,” largely as a result of the reforms that had given Cubans—whether businessmen or bureaucrats—control of the economy.⁵² Shortsighted and selfish as U.S. policies toward Cuba may have been since independence, the final unraveling of the Republic obeyed a largely internal dynamic. Well-intentioned reform, ever more-complex regulation, endemic rent-seeking and high-level corruption not only undermined a once dynamic economy but helped discredit democratic rule.

49. Susan Rose Ackerman, *Corruption and Government: Causes, Consequences, and Reform* (Cambridge: Cambridge University Press, 1999), 120.

50. Thomas, *Cuba*, 758, citing Arthur Gardner, who in 1948 worked for the U.S. Treasury. He later became ambassador to Cuba.

51. World Bank, *Report*, 487.

52. Domínguez, *Cuba*, 115.