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# Fulgencio Batista's Economic Policies, 1952 - 1958

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UNIVERSITY OF MIAMI

FULGENCIO BATISTA'S ECONOMIC POLICIES, 1952 – 1958

by

Michael Patrick McGuigan

A DISSERTATION

Submitted to the Faculty  
of the University of Miami  
in partial fulfillment of the requirements for  
for the degree of Doctor of Philosophy

Coral Gables, Florida

August 2012

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Fulgencio Batista's Economic Policies, 1952 – 1958

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Fulgencio Batista ruled Cuba from March 10, 1952 to December 31, 1958 and initiated the most ambitious and expensive government economic stimulus programs in the island's history. He took power by military coup and overthrew the constitutionally elected Auténtico President Carlos Prío Soccorás. Batista immediately took credit for restoring security, order, progress, and honest government to the island. However, he lacked an official public mandate to rule acquired through an election, therefore, he sought acceptance by appealing to Cubans' economic needs.

In the months following the coup, Batista decided on a stimulus plan that in many ways followed the recommendations from international and domestic economists. It called for the restructure of existing government development finance agencies such as the Agricultural and Industrial Development Bank, and the creation of new ones. Batista's approach to promote economic diversification and growth called for central management to provide low-cost credit and other assistance to non-sugar industries.

Batista publicized his economic programs as national triumphs. Therefore, their performance in part determined his popular appeal. The study focuses examination on the dynamics, ideology, logic, efficiency, stakeholders and realized returns of Batista's domestic economic development programs. This data is then employed to understand the links between his economic policies and Fidel Castro's ability to acquire support, wage war, and eventually take over the island.

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## Preface

This study examines Fulgencio Batista's domestic economic policies and programs during the Second Batistiano – his rule of Cuba from March 10, 1952 to December 31, 1958. During this period Batista launched the largest and most expensive economic stimulus programs in the island's history. His administration borrowed hundreds of millions of dollars and, through central banking and government managed stimulus, attempted to diversify the Cuban economy to reduce dependency on sugar exports. The principal aim of economic diversification was to remedy the major inefficiencies and risks of Cuba's sugar export economy such as: scarcities in innovation, new technology and working capital; seasonal unemployment; inefficient land use; monopolization of capital and labor; political systems based on patronage and wasteful from corruption; risky exposure to international price fluctuations; underutilization of the island's resources; production directed by inefficient quota systems rather than the market mechanism; little incentive to improve human capital and education; and generally failing to benefit from free market efficiencies thereby creating enormous opportunity costs for the society.

In response to these problems, Batista created diversification programs in large part based on the recommendations of respected Cuban and international scholars from the U.N., U.S. government, Harvard University, and Latin American universities. The programs included features of Keynesianism, Import Substitution Industrialization (ISI), central banking, and Structuralist economics – approaches to economic development internationally popular and cutting edge at the time. Batista certainly gave the

appearance that his domestic programs followed the recommendations of international scholars and economists, and in return, he generally received their support. Including their ideas provided Batista a body of respected scholarship upon which he could defend his economic initiatives to the Cuban people and the world.

Batista explicitly sought support from Cubans for his economic programs. The undemocratic manner in which he took over meant he lacked an official public mandate to rule. To make up for the mandate, Batista sought approval from the Cuban masses by appealing to their economic needs, asking them to trust and follow him, for he knew the path to prosperity and his economic programs were necessary actions to improve their individual well-being and therefore his political position. Batista purposefully linked his economic programs to his public image, taking personal credit for them as national achievements even before they began operations. He touted them to the Cuban people and raised their expectations. This was an enormous political gamble since his mass popularity and acceptance thenceforth depended in part on his programs' performance.

The study opens with a description of the Cuban economy preceding the Second Batistiano, including a review of the principal economic programs and institutions created in the first half of the twentieth century, with focus on the Auténtico presidencies of Ramón Grau (1944 – 1948) and Carlos Prío Soccorás (1948 – 1952). Explanation of Batista's policy decisions after he took over in March 1952 requires understanding of the economic programs, projects, institutions, and financial obligations already in place. In addition, the Auténtico presidents had recently initiated a widely endorsed, government managed economic diversification program financed by enormous loans and bond purchases from the United States and Europe. New government financial institutions

emerged as a result. When Batista took over, for example, Cuba had a national bank and an agricultural and industrial development bank. Therefore, he immediately confronted the question whether his economic plans called for the termination, maintenance, or expansion of programs began in the past.

The second chapter includes examination of the body of scholarship on the Cuban economy developed in the first half of the twentieth century, with focus on the works produced in the decade Prior to 1952. This serves two principal purposes. First, this scholarship reveals detail of the Cuban economy and the government institutions in place when Batista took over and began to develop his economic plan. Second, it demonstrates that by 1952 a consensus had developed among domestic and international economists that the Cuban government should stimulate economic diversification with low-interest credit allocated through central banking and assisted with fiscal policy, particularly in non-convertible areas of non-sugar production. It moreover reveals that Batista's economic programs partly resulted from the international community's enthusiasm for Keynesian, ISI, and Structuralist economics that influenced national economic policies throughout the world in the 1940s and 1950s.<sup>1</sup>

The third chapter examines Batista's coup and early actions and decisions shortly after taking power. In this period, he defended his undemocratic actions to the public, restructured the government personnel, appointed a new Cabinet and advisory councils, made fundamental choices on the general framework of his domestic and foreign economic policies, and presented them to the Cuban people in populist fashion to gain their support. There is particular emphasis on Batista's early speeches and public

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<sup>1</sup> A.M. Endres, *Great Architects of International Finance: the Bretton Woods Era* (New York: Routledge, 2005) 35.

announcements touting his economic programs, and raising expectations for his ability to govern Cuba to a prosperous future.

This section focuses on Batista's major decisions in regard to the domestic economy. He immediately had to choose, for example, whether or not he would attempt to dismantle the domestic quota system that directed land, labor, capital and resources principally to sugar production. Ending the quota system, however, entailed confronting its powerful stakeholders such as the speculators, bankers, mill owners, labor unions, and *colonos* (cane farmers) whom believed their economic prosperity depended on maintaining the status quo. Therefore, to avoid friction with them, Batista could choose a less optimal policy by leaving the quota system in place, then attempt to work around it to diversify the economy. These early decisions he made on the quota system and other major economic issues had enormous consequences for the Cuban people.

The next two sections appraise Batista's well-publicized Two Year Plan announced in 1953 that called for a restructuring of existing government finance agencies and the creation of new ones to promote economic diversification. His administration advertised that the Plan's main objective was to provide low-cost and accessible credit to non-sugar and non-convertible sectors of the Cuban domestic economy. The Plan represented a command approach to promoting domestic markets. The government centrally managed the stimulus programs and targeted areas of the economy to provide low-cost credit, tax incentives, grants, and other means of financial assistance. Analysis of the Plan starts with review of its theoretical basis in the context of contemporary international academic paradigms on economic development. The later chapters appraise its performance in operation, particularly its costs and benefits to the Cuban economy.

Batista's stimulus plan resulted in the restructuring of existing institutions and the creation of new ones. Analysis of Batista's redefinition and restructure of the Cuban National Bank (Banco Nacional de Cuba – BNC) established by Law 13 of December 23, 1948, and launched during Prío in 1950 begins with explanation of its historical function. Prío had created the BNC to support the sugar industry, regulate the nation's monetary and fiscal policy, and assist stabilization of sugar prices. This section provides data of Batista's BNC reforms, in particular its new directives designed to support his economic programs. Close examination of Batista's directives to widen the BNC services reveals detail of its efficiency in stimulating and supporting growth in the domestic economy.

Analysis of Batista's reorganization of the BNC is followed with a study of his reforms to the Agricultural and Industrial Development Bank (Banco de Fomento Agrícola e Industrial de Cuba – BANFAIC) established by Law No. 5, December 20, 1950. The agency's primary objective was to facilitate credit to non-sugar agriculture and industries thereby stimulating economic diversity and expansion. Next comes analysis of National Finance Agency (Financiera Nacional de Cuba – FNC) and the Mortgage Insurance Institute (Fomento de Hipotecas Aseguradas – FHA), two agencies established in 1953 as part of Batista's Economic and Social Development Plan to provide credit stimulus to Cuban non-sugar industries with emphasis on tourism, real estate and land development. The Agencies' primary objectives were to finance self-liquidating semi-public works, and to provide credit for Cuban owned small businesses and private residential construction. Most Cubans referred to the two agencies collectively as the "*Banca Oficial*" or "*la BANCA.*"

The final program examined is the Economic and Social Development Plan announced during Batista's presidential campaign in 1954. It called for an enormous government expenditure of \$350 million over a four-year period from 1954–58. The Plan included ideas from ISI, Keynes, and Structuralist economics particularly in regard to government stimulus in the form of low-cost credit to economic sectors neglected by the private financial institutions. Batista created the Economic and Social Development Bank (Banco de Desarrollo Economico y Social – BANDES) in 1955 to execute the Plan. BANDES carried out a widely criticized, centrally managed, debt-spending industrial expansion plan. A thorough qualitative and quantitative analysis, however, has never been completed to substantiate the criticisms.

The conclusion appraises Batista's diversification programs toward the end of his rule on January 1, 1959. The development programs had been in operation for over five years, and their reach, efficiency, logic, and outcomes provide measure of their positive, negative, or nonexistent impacts on the economy and the lives of Cubans. This review also includes a breakdown of the stakeholders in Batista's programs thus revealing who would lose the most, and the least, if he lost power. I continue with analysis of the connection between Batista's economic policies and Castro's ability to attract supporters, particularly in the eastern provinces of the island.

The primary sources used for this study comprise mostly documents pertaining to, or from, Batista's economic development programs. 1950s Cuban media documents from the online Cuban Information Archives disclose data on Batista's economic programs, particularly the buildup of the tourism industry. In addition, the online Confidential U.S. State Department Central Files contains U.S. Embassy documents

explain features of Batista's economic policies, particularly from the American point of view. The University of Miami Cuban Heritage Collection's (UMCHC) compilation of Batista's speeches and public announcements reveals the degree to which his political platform relied on his economic programs. The majority of primary sources for this study may be found in the UMCHC and the University of Miami Otto G. Richter Library and Special Collections. The sources include principally media collections from the period; U.S. and U.N. official publications; 1950s Cuban political and economic scholarship; and Cuban government publications published by the development banks that offer insight in their motives, political agenda, objectives and activities. In addition, my travels throughout the Caribbean searching through vintage bookstores, libraries, archives, and private collections have yielded primary sources from the Second Batistano.

Analysis of Batista's economic programs is interesting from a purely historical viewpoint. It details components of Batista's rule with profound social and economic effects for all Cubans, thus shaping his popular acceptance, as well as Castro's ability to wage war and take power. The main purpose of the study, however, is to improve general understanding of export economies that currently account for a sizeable share of the world's population and resources. The positive and negative results of Batista's centrally managed approach offer constructive data for current export economies in search of optimal strategies to stimulate economic diversification and growth.

## Chapter I

### Introduction: The Cuban Economy in 1952

On the morning of 10 March 1952 in only seventy-seven minutes Fulgencio Batista took over Cuba by a bloodless *cuartelazo* (barracks coup) and overthrew the constitutionally elected Auténtico president Carlos Prío Socorrás. Thenceforth began the Second Batistano – Batista’s six year rule of Cuba that lasted until his downfall to Fidel Castro on January 1, 1959. At six o’clock in the evening, the fifty-one year old general addressed the people. “Well,” he said in an excited tone, “here I am back again.”<sup>2</sup> He went on to characterize himself as a rescuer, and his undemocratic action as an absolutely necessary triumph for Cuba’s future and prosperity.

Batista had begun his career in 1921 as an Army sergeant and stenographer. In 1933 he led a sergeant’s revolt to seize power during the unrest that followed the overthrow of the dictator Gerardo Machado. For seven years Batista directed the presidency from behind the scenes, then in 1940 he was elected himself. Surprisingly, he lost the 1944 presidential election to the Auténtico candidate Ramón Grau San Martín. Shortly after Grau’s inauguration, Batista left Cuba for the United States. “I just felt safer there,” he later said.<sup>3</sup> He divorced his wife, Elisa, then remarried to Marta Fernández in 1945, with whom he had two children born in the States. Batista kept

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<sup>2</sup> “Cuba: Batista at Work,” *Newsweek*, March 24, 1952.

<sup>3</sup> *Ibid.*



involved in Cuban politics from his luxurious hotel room at the Waldorf in New York City, or from his home at Daytona Beach, Florida. In 1948, the same year that Cubans elected Auténtico Prío as President, Batista was elected in absentia as the Senator of the Las Villas Province.<sup>4</sup> He soon returned to Cuba, and in his capacity as Senator organized the Unitarian Action Party, and gained support from industrialists, bankers, landlords and an influential group of army officers and noncommissioned officers. Earlier in 1951, Batista had turned down a proposal by a group of army officers to conduct a *golpe de estado* (coup). Instead, he decided to run for the presidency in the June 1, 1952 election. However, when it became apparent a few months before the vote that he had little chance of winning, he decided to accept the army officers' still standing offer.

Shortly after midnight on March 10, 1952, Batista and ten army officers in three large Buick sedans pulled up to Campamento Colombia, the Cuban Army base just outside of Havana. The guard at the front gate, an accomplice, let them pass through. Batista quickly entered the army barracks and took command of the Sixth Regiment, and soon thereafter four more infantry battalions, the navy, and police force. He then ordered tanks to surround the Presidential Palace in Havana and arrest or fire on resisters, and if possible, take Prío into custody. Meanwhile, Prío learned of the conspiracy as he was relaxing at the Sans Souci nightclub located just outside of Havana. He quickly drove to the Presidential Palace but learned that Batista had it surrounded, so he drove off with no clear destination, later ending up in the Mexican embassy. Without giving Batista a fight,

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<sup>4</sup> Carlos Prío Socorrás – President of Cuba (1948-1952) succeeded President Dr. Ramon Grau (1944-1948). Both presidents were members of the Cuban Revolution Party Auténtico (PRC-A), hereafter referred to as the Auténtico Party.

he resigned to escape to Mexico, from where he planned to go to his luxurious house in Miami.

Once Batista took control, he began to rule Cuba in a world that had changed dramatically since left office eight years before. WWII had ended as the Cold War began. Since Batista last ruled Cuba, Stalin had taken power in the Eastern Bloc, China had fallen to communism, and war had erupted in Korea. Tensions between the Soviet Union and the U.S. shaped a divided world. Prío had decisively sided with the U.S. against the communists and President Truman, in appreciation, had declared his Four Point Program that included “a comprehensive program for the development of Cuba.”<sup>5</sup>

In addition to the dramatic changes in world politics, the end of WWII marked the beginning of a new economic order based on liberalized international trade. Cuba participated in the July 1944 Bretton Woods Conference, where delegates’ from the Allied Nations explored policies to liberalize international trade and dismantle pre-WWII protectionism. Following Bretton Woods, Cuba participated in the development of the U.N. and its Economic and Social Council (ECOSOC) and Economic Commission for Latin America and the Caribbean (ECLAC or CEPAL) in 1945; International Monetary Fund (IMF) in 1945; World Bank including its International Bank for Reconstruction and Development (IBRD) in 1946; General Agreement on Tariffs and Trade (GATT) in 1947; Inter-American Treaty of Reciprocal Assistance in 1947; and Organization of American States (OAS) in 1948.

Grau and Prío had enthusiastically cooperated as a member state of the new international economic order. Demonstrating Cuba’s support for the post-war initiatives,

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<sup>5</sup> Assistant Secretary Paul Nitze to Ambassador Robert Butler (February 23, 1949) *FRUS*, 1949, 631; Charles Ameringer, *The Cuban Democratic Experience: the Auténtico Years, 1944 – 1952* (Gainesville: University Press of Florida, 2000) 107.

Havana hosted the U.N. Conference on Trade and Employment in 1947 when over fifty countries negotiated a package of trade rules, 45,000 tariff concessions affecting \$10,000,000,000 in trade, and created the International Trade Organization (ITO). Then Cuba participated in the 1949 GATT assembly at Annecy, France when thirteen countries agreed to another 5,000 tariff concessions.<sup>6</sup> The international organizations and treaties differed in a variety of areas, but had the common objective of reducing trade barriers to benefit from the law of comparative advantage.<sup>7</sup> This particularly offered Cuba with new opportunities to supply a variety of tropical agricultural products to expanding export markets.

Thus in 1952, in a setting of international trade liberalization, the continuation of the status quo in Cuba – extreme specialization in sugar production – made little sense. Batista in 1952 assumed the responsibility to solve the major paradox in the country's economy. In the midst of a changing international climate that called for economic flexibility and diversified production, the political, financial, and legal structure of Cuba's domestic economy was continuing to perpetuate a rigid system that operated to devote resources principally to sugar production and export.

Shortly before Batista took over, the respected Cuban economist Gustavo Gutiérrez y Sanchez criticized the "sugar mentality," where "everything in life in Cuba is

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<sup>6</sup> Douglas M. Irwin, Petros Mavroidis, and Alan Sykes, *The Genesis of GATT* (Cambridge: University Press, 2008).

<sup>7</sup> The United States and England ultimately failed to ratify the Havana Charter, thus in practice it was largely ineffective. But GATT, to which Cuba was a signatory, prevailed in restructuring the international economy and creating a new order based on liberalized trade. See Victor Bulmer-Thomas, *The Economic History of Latin America since Independence* (Cambridge: University Press, 2003) 260-267; the law of comparative advantage refers to the ability of a country to produce a particular good or service at a lower marginal and opportunity cost. Both countries will gain by trading with each other, as long as they have different relative efficiencies. The net benefits to each country are called the gains from trade.

infatuated with the output and price of sugar.”<sup>8</sup> Production occurred through a system of quotas that, year after year, directed Cuban resources to specialize in sugar at the expense of investment in a diverse agricultural economy. A select number of powerful stakeholders in the sugar quota system believed their prosperity depended on the perpetuation of the status quo. However, by 1952 Cuba’s status quo economy received enormous criticism in light of the opportunities presented by the post-WWII international economic order. Some Cubans even argued that prosperity in the future would depend on the ability to reform the economic, financial, political, education, and bureaucratic systems to diversify the economy.

### Single Export Economy

According to the popular Cuban adage, ‘*si no hay azucar, no hay Cuba*’. When Batista took over Cuba in 1952, it appeared that “the whole economic structure was hinged on sugar.”<sup>9</sup> The economy largely depended on sugar exports – a risky position for the society as a whole. The dominance of sugar was such that the “relations and organization of production stifled the further development of the forces of production.”<sup>10</sup> Just prior to the coup, Prío had approved the most sugar tonnage to be produced in the island’s history – 5,900,000 tons. In that year the actual output of raw sugar, however, exceeded the approved amount by just fewer than twenty percent and reached a record-

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<sup>8</sup> Gustavo Gutiérrez Sánchez, *Junto Nacional de Economía*. “Presente Y Futuro De La Economía Cubana.” (Havana: Publicaciones de la Junta Nacional de Economía, 1950).

<sup>9</sup> Cuban Economic Research Project (CERP), *Stages and Problems of Industrial Development in Cuba* (Coral Gables: University of Miami Press, 1965) 27.

<sup>10</sup> O’Connor, 11.

breaking 7,300,000 tons.<sup>11</sup> Sugar products accounted for over ninety percent of the national exports. Cuba exported all but five percent of the sugar it produced. More than half of the cultivated land was devoted to cane.

Table 1. Principal Crops Grown in Cuba, 1945

Crop Cultivated	Land Area (1,000 acres)	Land (percentage)
Sugarcane	2,726	56.0
Corn	444	9.1
Coffee	220	4.5
Bananas and plantains	199	4.1
Tobacco	163	3.4
Beans	146	3.0
Yucca	142	2.9
Rice	142	2.9
Sweet potatoes	131	2.7
Malaga	82	1.7
Squash	57	1.2
Citrus fruits	39	.8
Mullet	37	.7
Pineapple	35	.7
Peanuts	33	.7
Vegetables	31	.6
Henequen	28	.6
Potatoes	21	.4
Cacao	17	.3
Other crops	176	3.6

Source: Ministerio de Agricultura, *Memoria del Censo Agrícola Nacional*, 1946, Havana, 1951.

Sugar production accounted for thirty-one percent of the national income for 1949 (507,000,000 out of 1,657,000,000 pesos) – a position for the national economic portfolio that unmistakably violated the basic economic principle of diversification.<sup>12</sup>

<sup>11</sup> U.S. Department of Commerce, *Investment in Cuba: basic information for United States businessmen* (Washington D.C.: Government Printing Office, 1956) 36.

<sup>12</sup> International Bank for Reconstruction and Development (IBRD), *Report on Cuba* (Baltimore: Johns Hopkins University Press, 1951) 194, 35; principle of diversification – a portfolio containing many different assets and carries lower risk than a portfolio with only a few, and non-systemic risk may be alleviated through diversification.

Cuba's economic dependency on sugar exports began in earnest two centuries earlier after the Seven Years War (1756–63); by 1952, it had been a longstanding tradition. In the early and mid-1920s, sugar had expanded so rapidly across the entire island that it approached its production possibility frontier. Growth in the industry then slowed considerably and expansion of new *centrales* (mills) ended. In 1952, the 161 *centrales* in operation had been constructed many decades before.<sup>13</sup>

Several features of the sugar industry in the mid-twentieth century reinforced its continual dominance in Cuban production. The volume of Cuban sugar sales to the U.S. hardly changed between the 1920s and the 1950s (with the exception of a lull during the lows of the Great Depression). U.S. consumer and industrial demand for Cuban sugar rose only slightly during the period, thereby reinforcing the island's repeating pattern of production and land use.<sup>14</sup> Moreover, as growth in the sugar industry and international sugar prices peaked in the early 1920s, so did the per capita income. When Batista took over in 1952, the per capita income (in constant prices) of just under \$300 was twenty-five percent above that of the early 1900s.<sup>15</sup> In 1903–06 and in 1948 it was identical at \$216 annually.<sup>16</sup>

Static growth in the sugar industry in comparison to Cuba's rapid population growth led many economists by 1952 to conclude that per capita income would fall dramatically in the near future. The Cuban population increased significantly from 1,572,845 in 1899 to just over 5,338,000 in 1952, yet for the second half of that period sugar output remained fairly constant. Stagnation in the size of the sugar industry created

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<sup>13</sup> P.G. Minneman, *The Agriculture of Cuba*; Statistical Report of the Asociación de Hacendados de Cuba, Havana (February 17, 1955); Cubans owned 108 of the 161 *centrales* in Cuba in 1952.

<sup>14</sup> CERP, 29-30.

<sup>15</sup> IBRD, 7.

<sup>16</sup> Julien Alienes y Urosa, *Características fundamentales de la economía cubana* (Havana, 1950).

a zero sum economic situation certainly to result, in the context of a rapidly growing population, in less prosperity available for each citizen. For the most part, by 1952 most economists agreed that the returns from the sugar industry could not sustain the population growth, and that economic diversification and expansion was not only desirable but necessary. If not, more and more Cubans would have to compete for the returns from “an industry,” wrote the World Bank in 1951, “which stopped growing many years ago.”<sup>17</sup>

Soon after growth in the sugar industry halted in the mid-1920s, a centrally managed quota system evolved that allocated the realized returns from exports, as well as determined the employment of the island’s human, financial, and natural resources. The quota system solidified Cuba into a command economy based on distributive arrangements between stakeholders. These barons promoted the status quo of a single export economy from where they derived economic and political power. The quota system served as the mechanism to maintain the status quo and ensure the barons’ shares of the sugar industry. Beginning in the 1920s the Cuban elite:

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.<sup>18</sup>

From 1925–34, the government in coordination with the sugar industry created 159 new laws and rules for sugar producers, refiners, labor, and technicians that fixed wages, prices, rents, export quotas, domestic consumption. The quota system strengthened with the Verdeja Act of 1927, wherein the government set a maximum 4,500,000 tons for the

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<sup>17</sup> IBRD, 7.

<sup>18</sup> Mary Speck, “Let There Be Candy For Everyone: Reform, Regulation, and Rent-seeking in the Republic of Cuba, 1902-1952” *Cuba in Transition: Papers and Proceedings of the Twelfth Annual Meeting of the Association for the Study of the Cuban Economy (ASCE)* (UT Lanic, 2003).

crop, intending to prevent price declines. The aggregate 4,500,000 million tons was broken down into individual quotas for each producer based on past performance. The quota system continued to manage the economy throughout the 1930s and 1940s. 325 new rules were established from 1935–44; in 1944–52, during the Auténtico years 190 more were added.<sup>19</sup>

During the Great Depression, Law-Decree 522 of 1936, followed a year later by the Law of Sugar Coordination entrenched and institutionalized the quota system in the political culture and the laws. The two decrees further established a complex regulatory system designed in part to guarantee that the smaller mills, along with independent sugar planters and *colonos*, received quotas.<sup>20</sup> In 1942, José Antonio Guerra (son of historian Ramiro Guerra) pointed out how the quota system created a static, repeating, status-quo economic system. “Our system of sugar production control,” he commented, “is organized to distribute and maintain the industry in all of the areas where it existed before the restrictions began.”<sup>21</sup> Only a few months before Batista took over in 1952 the World Bank reported how the system resulted in “preserving the status quo and on regulating the division of a fixed national production, rather than on innovation.”<sup>22</sup> The quota system’s stakeholders were so dependent on its perpetuity, or so they believed, that they ensured the continuation of sugar dependency despite its obvious and well-documented irrationalities. However by 1952, Cubans and foreigners alike knew the inefficiencies of the quota system. The Cuban Ambassador to the U.S. during Prío argued that “Cuba

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<sup>19</sup> List compiled by Speck from, Milo A. Borges, *Compilación Ordenada y Completa de la Legislación Cubana, 1899-1950* (Havana: Editorial Lex, 1952); Mariano Sánchez Roca, *Compilación Ordenada y Completa de la Legislación Cubana, 1951-1958*, vol. 4 (Havana: Editorial Lex, 1960).

<sup>20</sup> Título IX, Artículo 280-285, *Leyes Civiles de Cuba y Su Jurisprudencia: Legislación Hipotecaria, Notarial y Sobre Derechos Reales* (Havana, 1954) 348.

<sup>21</sup> José Antonio Guerra, Appendix to Ramiro Guerra y Sánchez, *Azúcar y Población en las Antillas* (Havana: Editorial de Ciencias Sociales, 1970; 1927).

<sup>22</sup> IBRD, 779.



should sell its sugar freely” on the market thus replace the quota system with a competitive market system.<sup>23</sup>

The president set the quota by decree, and the Cuban Sugar Stabilization Institute (ICEA) served as his advisor. By the 1940s, the president and ICEA “in effect ran the sugar industry,” and it “ceased to be a free enterprise system.”<sup>24</sup> Law 21 of 1941 codified the president’s authority over the quota system. It enabled him to set:

legal dates for commencement of grinding; marketing quotas for the U.S., world, and domestic outlets; sugar production quotas for individual mills; cane production quotas for individual *colonos*; and minimum quotas for small mills and *colonos*.<sup>25</sup>

The presidential decree set the domestic sugar quota, usually two or three months before the annual cane harvest beginning in December. Mary Speck points out:

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 they were subordinate to the president who legislated the sugar quota system by decree.<sup>26</sup>

Thus, the power to determine the quotas gave the Cuban president supremacy over the political and economic patronage and cliental networks that determined the distribution of the realized returns from the year’s exports. The quota system served as a source of enormous political and economic power for the president, thus he had a strong incentive to maintain it.

Along with the president, the quota system’s stakeholders also had powerful incentives to maintain it. Those outside of the system usually fell into the chronic

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<sup>23</sup> Stephen J. Wright, *Cuba, Sugar and the United States: Diplomatic and Economic Relations During the Administration of Ramón Grau San Martín, 1944 – 1948* (Ann Arbor: University Microfilms International, 1983) 281.

<sup>24</sup> Ameringer, 124.

<sup>25</sup> IBRD, 806.

<sup>26</sup> Speck, 117.

unemployment population and competed for the largely static number of non-sugar jobs. Cuba's next largest industries such as cattle ranching, rice cultivation and so on, had their own quota systems, and their respective unions monopolized the jobs. Therefore, a large economic disparity existed between the quota systems' direct beneficiaries and the rest of society. The non-stakeholders often struggled to survive in the informal economy with little hope for new job opportunities in the largely zero-sum economy.<sup>27</sup>

A centrally managed system, the president determined investment, production, and employment. From the president down to the small individual cane farmer, stakeholders engaged in rent-seeking, defined as “the political activity of individuals and groups who devote scarce resources to the pursuit of monopoly rights granted by governments.” Rent-seeking functioned through *personalismo* – the system of personal political connections and politicking.<sup>28</sup> Many components of the Cuban economy such as quota allocations, government appointments, bureaucratic services, labor agreements, stimulus allocations, and private sector contracts operated on a system that included *amiguismo* (cronyism) and *personalismo*.<sup>29</sup> Innovation was impeded “as both entrepreneurs and workers focus instead on winning government favors and blocking the efforts of their competitors to do the same.”<sup>30</sup>

The time and resources spent on rent-seeking caused enormous waste for the Cuban economy. “Competition for government benefits,” according to Mary Speck,

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<sup>27</sup> O'Connor, 55.

<sup>28</sup> William C. Mitchell and Michael C. Munger, “Economic Models of Interest Groups: An Introductory Survey,” *American Journal of Political Science* 35.2 (May 1991); quote taken from Speck, 117; Anne O. Krueger, “The Political Economy of the Rent-Seeking Society,” *The American Economic Review* 64.3 (June 1974), 291-303; and “Virtuous and Vicious Circles in Economic Development,” *The American Economic Review* 83.2 (May 1993), 351-355; Andrei Shleifer, Robert W. Vishny, “Why is Rent-Seeking so Costly to Growth?” *The American Economic Review* 83.2 (May 1993), 409-414; Andrei Shleifer, Robert W. Vishny, “Corruption,” *The Quarterly Journal of Economics* 108.3 (Aug. 1993), 599-617.

<sup>29</sup> Ameringer, 33.

<sup>30</sup> Speck, 118.

“diverted time and resources that might otherwise be devoted to the economy as a whole.”<sup>31</sup> To survive, businesses had to focus their time and working capital to cultivating political contacts, particularly with the president who dominated the system. To secure a quota became the primary objective for Cuban labor, farmers, landowners, bankers, politicians, and mill owners. Failure to do so in the context of the sugar dominated system usually meant economic hardship.<sup>32</sup>

The unions engaged in politicking, rent-seeking, and patronage to secure employment quotas for their members. Often the unions sacrificed efficiency to secure the largest employment quota possible. To employ as many workers as possible, they inhibited the closure of inefficient mills, the dismissal of unproductive workers, the mechanization of the sugar industry, and the productivity of arable land. In addition to securing employment for their members, the unions themselves received a portion of the realized returns from exports. Cuba’s largest union, the Cuban Confederation of Workers (CTC) for example, secured a \$300,000 yearly subsidy from the Prío government.<sup>33</sup>

Twentieth century Cuba inherited from Spanish colonial times the tradition of a small sugar elite characterized by social, political, and economic endogamy.<sup>34</sup> By 1952, the quota systems reinforced the dominance of a small group of oligopolies (that often worked in collusion as monopolies) that controlled much of the island’s arable land, resources, production, and labor. Indeed, the single export system shaped not only the political, legal, and economic systems, but also the social system. In the twentieth century the agents of the sugar industry included small numbers of landowners, mill

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<sup>31</sup> Ibid.

<sup>32</sup> Henry Christopher Wallich, *Monetary Problems of an Export Economy, the Cuban Experience, 1914–1947* (Cambridge: Harvard University Press, 1950) 78.

<sup>33</sup> Robert J. Alexander, *A History of Organized Labor in Cuba* (Westport, CT: Praeger Publishers, 2002) 141.

<sup>34</sup> Roland Ely, *Cuando Reinaba su Majestad El Azúcar* (Buenos Aires, 1963).

owners, labor leaders, private banks, financiers, merchants, foreign direct investors, exporters, and government officials. This group dined at each other's houses, politicked at the Havana Yacht Club or Society of Friends Club, and constituted Cuba's elite society.

The small number of agents in the sugar industry formed an oligopoly, and they developed associations that enabled them to act together as a monopoly. In fact, the most conspicuous feature of Cuba's principal industries in the twentieth was the monopolization of labor, natural resources, land, and capital. The monopolies formed in the first half of the twentieth century when the labor, land, capital, and mill owner oligopolies organized into groups that economic historians have called "producers associations."<sup>35</sup> They were "economic baronies, well-organized, special interest-minded, corporate-oriented," often acting in collusion.<sup>36</sup> The three most powerful were from the sugar industry and included the Mill Owners Association, the *Colonos* (cane farmers) Association, and the Sugar Workers Union. These three groups controlled most of Cuba's capital investment, arable land, production, and employment. The next powerful were the Cattlemen's Association, then various associations of tobacco, coffee, rice, and other growers. The associations negotiated with the government over quotas and other matters at the Sugar Stabilization Institute (ICEA), the Rice, Tobacco, and Corn Stabilization Institutes, and the Coffee Purchase and Sale Administration – over all of which the president held the deciding vote.<sup>37</sup>

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<sup>35</sup> Wyatt Macgaffey and Clifford Barnett, *Twentieth Century Cuba: the Background of the Castro Revolution* (New York: Anchor Books, 1965) 180.

<sup>36</sup> O'Connor, 55.

<sup>37</sup> Julián Alienes Urosa, *Características fundamentales de la economía cubana*. (Havana, 1950).

Since the mid-1920s the baronies repeatedly arrived at an equilibrium of investment, land use, and labor that benefitted special interests and not the Cuban society at large. This “small upper class of un-enterprising entrepreneurs [was] caught in a sterile routine,” that year after year, monopolized working capital and failed to diversify investment. As a result, a diversified securities market failed to evolve in Cuba due to the baronies’ unwillingness to diversify investment and production.<sup>38</sup> Cuba’s twentieth century securities market consisted mostly of the sale of bonds and futures on sugar related products. The lack of a diverse securities market inhibited the rapid capitalization of new promising industries.<sup>39</sup>

Compounding the problem, the barony’s special interests exerted enormous influence over government policy, services, taxation, and spending. Thus the Cuban bureaucracy serviced most efficiently the special interests, as it protected and legalized their property titles, licenses, and contracts that facilitated their control over the economy. Many observers remarked how the government adequately served the special interests but largely failed to provide rural inhabitants with satisfactory schools, civil engineering, hospitals, and legal services to support formal small businesses. The tangible and intangible bonds between the rural inhabitants with their government suffered as a result, and partly explained their general apathy with changes in power such as the 1952 coup. Since they received inadequate public services and owned little formal property that changes in government would have threatened, the “social contract” among many rural Cubans and their government was almost nonexistent. Observers ironically prophesized

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<sup>38</sup> Wallich, 11.

<sup>39</sup> Ibid. 27.

long before Fidel Castro that the rural areas provided a fertile ground for a communist or some other extremist to gather supporters.

The island was wrought with inefficiencies perpetuated by the Cuban baronies in both conscious and unconscious coordination with government officials and other economic agents invested in primarily in sugar. Those invested in sugar often had competing interests; for example, the *colonos* often disagreed with the tenant farmers over rents, as well as with the mill owners over various issues. Most in the industry agreed, however, that it was beneficial to each of them to achieve the highest possible return from the year's sugar exports. To this end, the sugar baronies had a singular objective, and often worked in unison through their political groups – Mill Owners' Association, the Colonos (Cane Growers) Association, and the Sugar Workers Union. The most influential economic agents of Cuba's ICEA sugar cartel included the two most powerful sugar barons, Francisco Blanco and Julio Lobo.<sup>40</sup> The well-known post-WWII Cuban economist Raúl Cepero Bonilla characterized the other barons largely as “yes men” to Blanco, Lobo, and the president.<sup>41</sup> Blanco and Lobo certainly enjoyed special access to the president and had considerable powers over the island's resources.<sup>42</sup>

Cuba's economic and political history, as with many former Spanish colonies in the first half of the twentieth century, featured a great deal of crony capitalism. It was an economic system whereby:

private ownership of capital goods, by investments that are determined by private decision, and by prices, production, and the distribution of goods that are determined by arrangement among cronies.<sup>43</sup>

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<sup>40</sup> Freeman Lincoln, “Julio Lobo: a colossus of sugar,” *Fortune*, September, 1958.

<sup>41</sup> Cepero Bonilla, *Política Azucarera*, 12.

<sup>42</sup> Freeman Lincoln.

<sup>43</sup> Stephen Haber, “Introduction,” *The Political Economy of Crony Capitalism*, ed. Stephen Haber (Hoover Institution Press, 2002).

“There is,” according to historian Stephen Haber, “perhaps no region of the world in which crony arrangements have been as fundamental a feature of the economy as in Latin America.”<sup>44</sup> The cronies worked closely with government employees, from whom they sought privileges, rents and patronages. In a crony capitalistic system, “some of those close to the political authorities receive favors that have large economic value.”<sup>45</sup> Only recently have analysts begun to study crony capitalism and its economic effects in Latin American economies in the twentieth century, thus “the state of our knowledge,” Haber explains, “is not yet well enough developed.”<sup>46</sup>

The general features of crony capitalism existed in Cuba when Batista took over in 1952. These included monopoly and quasi-monopoly economics characterized by privileged access to state-owned enterprises; favoritism in the awarding of government contracts; a distributive system at the expense of privatization expansion and free market competition; and exclusive access to credit and capital.<sup>47</sup>

In 1952, to improve the island’s economic diversification, Batista had to contend with the sugar baronies’ coordinated objective to maintain the status quo. They had on their side the existing Cuban political structures, financial system, property system, body of law, and centuries of tradition that reinforced and perpetuated sugar specialization.

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<sup>44</sup> Haber, xii.

<sup>45</sup> Anne Krueger, “Why Crony Capitalism is Bad for the Economic Growth,” *The Political Economy of Crony Capitalism*, ed. Stephen Haber (Hoover Institution Press, 2002) 2.

<sup>46</sup> Haber, xi.

<sup>47</sup> Krueger, 1-28.

### Specialization versus Diversification

When international sugar prices were high, such as during the “dance of the millions” in the early 1920s, it seemed to many Cubans that diversifying production would have been absurd. After all, Cuba exceeded in per-capita income all of its Caribbean and Latin American neighbors because of its cane economy. Furthermore, the island’s size, climate, soil, and central geographic location in the Atlantic region provided ideal conditions for sugar production and export. Cuba clearly for the time being enjoyed a comparative advantage in sugar production with nations in the Atlantic region.

In spite of arguments in favor of sugar specialization, beginning in the late 1920s economists pointed out many of its irrationalities. By the time Batista came to power in 1952, they were obvious and well-documented. For all the gains of sugar specialization, wrote Harvard University’s Henry Christopher Wallich in the mid-1940s, “Cuba has had to pay a high price.”<sup>48</sup> Non-sugar industries “must in any case be developed,” he added, “if Cuba’s abundant national resources and growing population are to be fully employed.”<sup>49</sup>

The most obvious and certainly well-known argument for economic diversification was the island’s exposure to the ups and downs of international sugar prices. When Batista took over in 1952, “a one cent variation up or down in the average price received for its sugar (based on three million tons) can make the difference of sixty million dollars in Cuba’s receipts.”<sup>50</sup> In 1920 the price of sugar reached an astonishing twenty-two cents per pound, and per capita income reached \$250. Beginning in late 1929, however, sugar prices dropped sharply and exports fell to extremely low levels. By

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<sup>48</sup> Wallich, 3.

<sup>49</sup> Ibid. 19.

<sup>50</sup> Ibid. 52.



1932 per-capita income dropped in tandem to \$98. In 1934, the dollar value of sugar exports was less than one quarter than it had been a decade earlier. International demand for Cuban sugar increased during WWII and led to a rise in prices that created a “boom” period. The “bust” period returned at end of the War when prices fell once again. Prices rose once again resulting from the Korean War beginning in 1950. The higher prices called for an increase in output, thus in 1952 Prío authorized the largest sugar crop in history – 5.9 million tons. In reality, it ended up well over seven million tons. Batista took over the largest *zafra* in the island’s history, and Cubans hoped for a reasonable sugar price in the international market.

Cuba’s single export economy contradicted basic economic principles. It violated, for example, the principle of diversification.<sup>51</sup> This became evident when Cuba suffered from a sudden drop in international sugar prices, and had little investment in alternate forms of agriculture to cushion the losses. Cubans experienced good and bad times resulting from events in “the outside world over which it [had] little or no control.”<sup>52</sup> This was evident in the 1930s when the international price and demand of sugar plummeted. According to the economist Victor Bulmer-Thomas:

No Latin American country escaped the Great Depression, but its impact was much worse in some countries than in others. The most disastrous combination was a high degree of openness, a large fall in the price of exports, and a steep decline in the volume of exports. It is no surprise, therefore, that the most seriously affected republics were Chile and Cuba, where the external shock was strongest.<sup>53</sup>

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<sup>51</sup> Total portfolio risk = non-diversifiable risk + diversifiable risk; Sugar investment was diversifiable risk (or unsystematic risk), thus followed the principle of diversification whereby diversifying a single asset portfolio (sugar in this case) would have reduced the total portfolio risk. Lowered portfolio risk resulting thus would have optimized the risk-return tradeoff for investments adding value to the island’s investment portfolio.

<sup>52</sup> IBRD, 59.

<sup>53</sup> Victor Bulmer-Thomas, *The Economic History of Latin America Since Independence* (Cambridge: University Press, 2003) 196.

Compounding the effect of international price fluctuations, Cuba's lack of a domestic investment economy augmented the economic volatility. The economy relied on exports and imports instead of wealth generated by domestic savings and investments.<sup>54</sup>

In addition to these risks, the growth of sugar beet production in Europe and the U.S. in the late 1940s constituted a logical reason for agricultural and industrial diversification. Beet production clearly jeopardized Cuba's position as the principal sugar supplier to the U.S.<sup>55</sup> In 1950, the respected Cuban economist Gustavo Gutiérrez Sánchez predicted that this would happen the very near future as beet sugar production expanded, and more and more nations signed post-WWII liberal trade agreements with the U.S.<sup>56</sup>

Moreover, sugar dependency was irrational considering the expanding post-WWII international trade community that provided new markets to supply a diversity of non-sugar tropical products.<sup>57</sup> Following WWII, Freon refrigerators went into mass production for European and American households. This followed with new advancements in ice cream and frozen juice concentrate that added to the world demand for pineapples and other tropical fruits. The international demand for a variety of tropical goods – cacao, coffee, bananas, mangos, tobacco, henequen, sweet potatoes, and others – increased dramatically after the war, as treaties such as the GATT were signed to facilitate their commerce. For Cuba to take advantage of the new opportunities, however,

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<sup>54</sup> Wallich, 16.

<sup>55</sup> Ibid. 65.

<sup>56</sup> Gustavo Gutiérrez Sánchez, *Junto Nacional de Economía*, "Presente Y Futuro De La Economía Cubana." (Havana: Publicaciones de la Junta Nacional de Economía, 1950) 29.

<sup>57</sup> Stefan Tangermann, et al., ed. *Agriculture in the GATT* (New York: St. Martin's Press, 1996) 20-25.

it was necessary to restructure the domestic economy.<sup>58</sup> To achieve optimal gains, Cuban agricultural production required flexibility to adjust cultivation and land use with respect to fluctuating international demand for a variety of products.<sup>59</sup>

Another argument for diversification over sugar dependency was the devaluation of the peso during the dead season that negatively impacted Cubans' purchasing power.

During the crop season, Harvard's Henry Wallich pointed out in the 1940s:

[there was] considerable demand for pesos, but in the latter part of the year the situation deteriorated owing to the shrinkage in business activity on the one hand and the government's steady injections of new currency on the other.<sup>60</sup>

Moreover, at the same time that living costs significantly increased in the dead season, unemployment reached a yearly high. To compound the problems, the economy produced almost entirely for export and relied heavily on imports for consumer goods. During the dead season, Cubans required more pesos to buy the imported goods, including necessities such as rice and beef, due to the weak currency.

Thus, when Batista took over in 1952, economists agreed that diversifying Cuban agriculture would considerably reduce the inefficiencies and extreme fluctuations that consistently burdened the island's economy and prosperity.<sup>61</sup> Year after year, however, Cuban investors arrived to an investment equilibrium that contradicted basic economic and financial principles of efficiency. Only a select few possessed access to hedge instruments such as forward contracts and futures to defend against a possible sudden drop in the sugar price. The majority of the Cubans, however, suffered the high risks.

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<sup>58</sup> During the 1947 negotiations, it was widely recognized that for the GATT to be effective, signatories would have to reform their domestic economies to facilitate liberal international trade, foreign direct investment, and diversification; Josling, et al., 5.

<sup>59</sup> Wallich, 28-30.

<sup>60</sup> Ibid. 118.

<sup>61</sup> IBRD, 106.

Batista was certainly aware of the irrationalities of sugar specialization. Well-known Cuban economists and businessmen such as José López Fernández, the president of the American Continental Bank, and Frank Fernández, the vice president of General Electric in Cuba among others pointed out the irrationalities.<sup>62</sup> In 1945, prominent businessmen interviewed by the Cuban magazine *Bohemia* agreed on the necessity to diversify the economy.<sup>63</sup> When Batista took power in 1952, Cuban and foreign analysis overwhelmingly favored diversification over sugar specialization.<sup>64</sup>

### Land Use and Ownership

In 1952, concentrated landholding was a noticeable characteristic of the Cuban economy. Cuban economists and historians had warned since the 1920s that the economy resembled *latifundismo* – whereby a large group of landless workers worked the vast plantations owned by a small group of landholders. In Cuba, the sugar companies and *colonos* held title to most of the island’s arable land. American landholding largely included fifty-three mills and land immediately surrounding them. For the most part, they were interested in the mills, but not growing the cane. The U.S. Department of Commerce, remarked:

Large landholdings, such as those of the sugar companies, have given rise to considerable agitation [among rural inhabitants] in the past few decades [1920s – 1940s]. The problem has never reached critical proportions, however, even though demands for land reform gathered such momentum in the thirties as to lead the inclusion of provisions in the Constitution of 1940 proscribing large landholdings and providing for the fixing by law of the maximum amount of land to be held by a person or entity [Article 2 of Public Law 7]. The Constitution also

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<sup>62</sup> Ameringer, 27.

<sup>63</sup> *Bohemia*, September 2, 1945.

<sup>64</sup> By the time Batista took over in 1952, there existed logical, detailed, and well-known arguments against sugar dependency, and the rationale of diversification by Julián Alienes Urosa, Henry Christopher Wallich, Dudley Seers, and the World Bank among others.

provides that the acquisition and possession of land by foreigners may be restricted by law. The only legislation implementing any of the foregoing provisions was that passed in 1948 affecting the rental of rural property by foreigners.<sup>65</sup>

The Commerce Department pointed out that the land reform provisions of the 1940 Constitution appeased current popular frustrations over landholding for the time being. Without better enforcement of the provisions, however, Cuba could very well experience social and political unrest of “critical proportions.” The warning hinted that in such conditions, a charismatic revolutionary promising land reform may gain mass support.

The rural agricultural economy featured a small number of absentee landholders who owned large acreages of arable land that were worked by renters, administrators, sub-renters, sharecroppers and squatters. Less than eight percent of the rural landholders owned over three-fourths of the farmland; one-half of one percent of the farms controlled more than one-third of the land; and eighty-five percent of farms had only twenty percent of the land.<sup>66</sup> The proprietors only directly operated 30.5 percent of the farms.

Table 2. Method of Operation of Farms, 1946

Operator	Farms		Acreage		Average farm size (acres)
	Number	% of total	Amount (1000s)	%of total	
Proprietors	48,792	30.5	7,311	32.4	150
Administrators	9,342	5.8	5,734	25.6	614
Renters	46,048	28.8	6,708	30.0	146
Subrenters	6,957	4.4	532	2.4	76
Sharecroppers	33,064	20.7	1,364	6.1	41
Squatters	13,718	8.6	605	2.7	44
Others	2,007	1.2	178	.8	89

Source: Ministerio de Agricultura, *Memoria del Censo Agrícola Nacional, 1946*, Havana, 1951.

According to the Agricultural Census of 1946, out of a total of 159,946 farms, 2,336 (1.4 percent of the total number) had an extension of over five-hundred hectares

<sup>65</sup> U.S. Department of Commerce, *Investment in Cuba*, 32.

<sup>66</sup> Oficina Nacional de los Censos Demográficos y Electoral, *Censos de Población, Viviendas y Electoral* (Havana, 1953).

and represented forty-seven percent of the area of all farms entered in the Census.<sup>67</sup> One-fifth of all Cuban farmland was divided in slightly more than one-hundred farms. Of the total number of farms, seventy percent were sixty-three hectares or less in area, but accounted for only eleven percent of farmland. Non-proprietors (tenants, sub-tenants, and squatters) made up 63.7 percent of all farm operators, and occupied just less than one-half of the land under cultivation (forty-two percent). 45.7 percent of Cuban farmers lived in dwellings '*sin para alquiler*,' meaning 'rent free' *bohios* constructed of palm, little more than shelters. Without ownership of the land on which they resided, most Cubans for the most part lacked any incentive to spend their own money to develop it.

The small number of landholders resulted in a system regulated by rent controls and permanency rights, which contributed greatly to real estate underdevelopment. Progressive laws often prohibited landholders from freeing up their land from renters, and raising rents. This negatively affected the demand and liquidity for land already occupied by renters with permanency rights. Improving or developing it presented negligible, if any, return on investment as the renters had secured rents at an established rate. Permanency rights extended to households and most small businesses; therefore, they regulated large sectors of the residential and commercial real estate markets. In contrast, throughout the late 1940s and 1950s real estate development expanded at a staggering rate throughout the U.S. and Europe where permanency rights did not exist and the governments respected and enforced the rights of proprietors. What had historically been rural areas were developed into comfortable suburban neighborhoods.

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<sup>67</sup> José M. Illán, *Cuba: Facts and Figures of an Economy in Ruins*, trans. George A. Wehby (Miami, 1964) 149; 1 hectare = 2.47 acres.

In Cuba, however, only 2.3 percent of rural homes in 1952 had inside running water, and landholders had little incentive to improve them.<sup>68</sup>

In addition, since most Cubans lacked land ownership, they were unable to employ it as collateral or equity to finance a small business or some other venture. In comparison, during the same period in the U.S., land constituted the predominant form of collateral for new businesses and infant industries that fueled astonishing job growth throughout the 1950s. Land provided the fungible property to finance the explosion of small businesses that in turn created the overwhelming majority of new jobs (in the eighty percent range). By contrast, Cuba's concentrated landholding meant that most citizens found it impossible to acquire the collateral necessary to borrow from the banks and finance small businesses in a similar manner. The banks generally considered business loans to Cubans lacking collateral to be extremely risky. Stagnation in small business growth, the engine for new jobs, contributed to high unemployment rates on the island.

The vast majority of landholders invested in the sugar industry. In the first half of the twentieth century, the most predominant feature of Cuban land use was sugarcane production. In terms of acreage, cane dwarfed the next major industry – cattle ranching. For the most part, the sugar interests represented in the ICEA centrally managed the cultivation of arable land. The ICEA members often worked together as a monopoly, or competitively as a small oligopoly, and negotiated the sugar quota thus the majority of land use throughout the year. By the middle of the twentieth century, land ownership and development had two principal characteristics.

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<sup>68</sup> Ibid.

First, cane dominated the island's arable land use. Moreover, land not under cane cultivation was reserved for future use. The second predominant feature of Cuban land was that it was owned by a small segment of the island's population – mainly the *colonos* (farmers) and the mill owners. There were large and small *colonos*, but their collective number was extremely small in comparison to the island population. That such a small number of Cubans owned so much land had resulted, in large part, from Spanish colonial inheritance, whereby for over three centuries a small number of Spanish and Creoles owned large *ganaderas* (cattle ranches) and *fincas* (sugar plantations).<sup>69</sup>

On various issues, occasionally the sugar *colonos* and mill owners worked together and functioned as a monopoly.<sup>70</sup> This perpetuated a closed group of proprietors who created barriers to entry in the land market for those currently without titles or deeds. Even land that the *colonos* and mills had not yet claimed was held in reserve (thus remained fallow and unproductive) for their future use. Land held in reserve amounted to one-fifth of the island's most fertile land.<sup>71</sup> A conspicuous argument for land reform was the paradoxical situation where during the dead season, arable land remained uncultivated meanwhile over twenty percent of Cuba's workers were unemployed, and many of them suffered from malnutrition.

In the event that the sugar mills or *colonos* wanted to invest in additional land rather than in irrigation and fertilizers to improve cane yield on their current farms, they often worked in coordination with government officials to acquire it (although small farmers or squatters had lived on the land for many years). This process was called "land

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<sup>69</sup> For a description of the Cuban system of landholding around the mid-twentieth century see: Francisco Pérez de la Riva, *Origen y régimen de la propiedad territorial en Cuba* (Havana, 1946).

<sup>70</sup> R.G.F. Spitze and Gregorio Alfaro, "Property Rights, Tenancy Laws of Cuba, and Economic Powers of Renters," *Land Economics* 35 (1959) 280.

<sup>71</sup> O'Connor, 66.



grabbing”, whereby the *colonos* and mill owners took advantage of the confusion over land tenure and worked with government officials, such as those working in the domestic property bureaucracy that issued and legitimized land titles, to take outright possession of land.<sup>72</sup> Taking possession of the land through politics and, in some cases bribery, allowed them to avoid the costs of fertilizers and irrigation necessary to improve the productivity of the land they already possessed. This of course degraded the productivity of the cultivated land thereby creating opportunity costs for the Cuban society.

Cuba’s concentrated landholding system caused other land use inefficiencies that led to underdevelopment and high opportunity costs. The oligopoly of landowners, for example, worked in collusion with the sugar mill owners to produce an inefficient surplus of cane each year, causing waste. In the early 1950s around 1,500,000 hectares of land produced cane, whereas only about 1,100,000 million was harvested.<sup>73</sup> The *colonos* rented their land to small tenant farmers who were encouraged to plant an abundance of cane beyond the rents, and in spite of the quota system. An abundance of cane cultivation drove down its domestic price, as it required immediate processing after harvest, to be fed into rollers and crushed before the sucrose dried. The farmers never had the option to store harvested cane and sell it at a later date at higher prices. Thus an abundance of cane reduced the mills’ input costs thereby increasing the owners’ profit margin from refined sugar.<sup>74</sup>

A byproduct of the pattern of concentrated landholding was a negligible mortgage market. Compared to the U.S. during the same period, the number of mortgages and land

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<sup>72</sup> Ibid. 75.

<sup>73</sup> *Anuario Azucarero de Cuba, 1950: censo de la industria azucara de Cuba y manual estadístico nacional e internacional XIV* (Havana: Editorial Mercantil Cubana, 1950) 55-58.

<sup>74</sup> R.G.F. Spitze and Gregorio Alfaro, 280.

transactions in Cuba was extremely low. The World Bank observed during its 1950 Mission to Cuba that “the use of mortgages [in Cuba] as guarantee has become rare.”<sup>75</sup> The Cuban system of land ownership and use stood in stark contrast to the U.S. with its abundance of proprietors and mortgage activity. In Cuba, the small numbers of land transactions precluded the emergence of a competitive market and the setting of land prices based on the efficient supply and demand equilibrium.

Thus in 1952 Batista inherited a land market with features of *latifundia* dominated by a small oligopoly of landholders and sugar barons with enormous market power.<sup>76</sup> Their power eliminated the efficient market mechanism directive for land development and pricing in many regions of Cuba. In short, year after year Cuban land use suffered from inefficiency, waste, mismanagement, and underdevelopment.

### Financial System

In the first half of the twentieth century, the banking system in Cuba experienced significant changes. Following World War I there quickly emerged an abundance of domestic and foreign banks to the point that Cuba was “overbanked” in comparison to the size of the economy and population.<sup>77</sup> In 1920, nineteen domestic banks with 334 branches failed, and afterwards foreign firms made up almost the entire banking system. They were the only significant source of credit for domestic infant industries in these years. Unfortunately, the majority of Cubans found it extremely difficult or impossible to access credit from these foreign banks. Before approving loans, the Americans required

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<sup>75</sup> IBRD, 593.

<sup>76</sup> Spitze, R.G.F. and Gregorio Alfaro, 280.

<sup>77</sup> IBRD., 563.

that borrowers meet a basic set of requirements such as collateral, an established formal credit history, and reliable personal data upon which to evaluate risk. Many Cubans were unable to access credit simply because the foreign banks' did not have the information necessary to make rational economic decisions. In particular, rural Cubans who lacked property and education rarely met the basic credit requirements.

The limited amount of credit to non-sugar industries had remained essentially unchanged by 1952 even though in recent years Cubans had come to own a considerable number of banks. Partly as a result of the U.S. Good Neighbor Policy combined with Batista and Auténtico populism, Americans reduced their position in Cuban sugar to under forty percent of the industry in the 1930s and 1940s. As a result, the rise of Cuban to foreign owned banks grew to a ratio of 9.3 to one by the time Batista took over in 1952. A resurgence of Cuban owned banks resulted from the great liquidity of the war and postwar booms, and the emergence of the peso currency.<sup>78</sup> The World Bank reported in the beginning of 1951 that there were fifty-six significant commercial banks in Cuba with 155 branches. Six out of the fifty-six were foreign-owned banks – the National City Bank of New York, Chase National Bank, First National Bank of Boston, Royal Bank of Canada, Bank of China, and Bank of Nova Scotia – with thirty-four branches on the island.<sup>79</sup> The fifty Cuban owned Banks operated 121 branches. The high ratio of Cuban to foreign owned banks, of course, did not indicate the size of their positions in the Cuban economy. The foreign banks accounted for fifty-four percent of total deposits in August

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<sup>78</sup> In the early years of the Cuban peso, the foreign owned banks were reluctant to maintain a sizeable position in the new currency given the risks of monetary and foreign exchange instability and Cuba's exposure to fluctuations in international sugar prices that dramatically affected the value of domestic currency.

<sup>79</sup> IBRD, 563.

1950, and Cuban banks forty-five percent.<sup>80</sup> In 1952, there were two basic categories of Cuban-owned banks. The World Bank reported that at the end of August 1950, nine large banks belonged to the Havana Clearinghouse, and accounted for 42.1 percent of the total assets of all of the banks in Cuba. The forty-one minor banks accounted for only 5.6 percent.<sup>81</sup> The total sum of deposits for the domestic and foreign private banks amounted to 647,600,000 pesos/dollars at the beginning of September, 1950.<sup>82</sup>

Financing the sugar industry dominated the activities of private banks in 1952 Cuba. Bank assets not invested in the sugar industry were usually kept in cash or bond reserves. This meant that the banks held considerable stakes in cane production and export. The realized returns from sugar determined in part the ability of many credit recipients to their honor their financial obligations. As a result, they rarely ventured in non-sugar markets.

Therefore, when Batista took over in 1952, foreign and domestic private bank credit continued to favor the sugar industry over other economic sectors. Banks lent to the sugar industry for a variety of reasons. A principal reason was that it provided the collateral and legal protections necessary to access formal credit. Other agricultural enterprises and small farmers were less fortunate and usually had to rely on local merchants and retailers for credit at high, unregulated interest rates. “The masses of Cuba’s small farmers were compelled to pay interests rates ranging from twelve to thirty percent annually [from informal credit lenders].”<sup>83</sup> Furthermore, informal lenders would only make short term loans, forcing farmers to sell their crops at harvest time when

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<sup>80</sup> Ibid. 562.

<sup>81</sup> Ibid. 563.

<sup>82</sup> *Banco Nacional*, Monthly Bulletin; IBRD, 562.

<sup>83</sup> Digby Solomon Espinoza, “Agricultural Credit in Cuba,” *Proceedings of the International Conference on Agriculture and Cooperative Credit*, August 4-October 2, 1952 (Berkeley: University Press) 649-652.

market prices were lowest.<sup>84</sup> The high risk for loans resulted from a number of causes, particularly related to the lack of the recipients' formal collateral and reliable credit information.

For the most part lending to non-sugar production meant navigating through uncharted waters without historical information to determine the risks. As a result, sugar loans in the late 1940s made up fifty percent of all loans, whereas non-sugar agriculture never received more than six percent of the total, distributed predominately to cattle ranching, tobacco, and rice. The majority of non-sugar loans went to various industrial projects and public works projects. The unwillingness to venture far from the sugar industry meant the banks rarely engaged in loan expansion and strongly restricted credit operations, "both as to the term of operations and destination of loans."<sup>85</sup> This conservatism in lending resulted in strong bank reserve positions – 232,200,000 pesos/dollars out of 612,200,000 in total deposits, or 37.4 percent of cash reserves against deposits. Both Cuban and foreign owned banks maintained this high cash reserve position. The private banking industry's stake in the sugar industry led to the devotion of resources to its successful production and export. Paradoxically, the "Cuban public," the World Bank observed in 1951, "has wanted the [private] banking system to do something for which it was ill-equipped, namely, to act as a development agent."<sup>86</sup>

For most Cubans, informal "street" lenders or storeowners offered the only available credit, and they normally charged around a twenty-five percent interest rate. In 1952, for example, to finance a \$500 vehicle, the average Cuban owed \$625 to the lender by the end of one year. The high cost of credit thus forced most non-sugar farmers to

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<sup>84</sup> O'Connor, 78.

<sup>85</sup> IBRD, 566.

<sup>86</sup> Ibid. 573.

operate without the benefit of vehicles and mechanical machinery. Their productivity, output and yields suffered as a result, which augmented the nation's opportunity costs. Digby Solomon Espinoza presented a study entitled "Agricultural Credit in Cuba" at the International Conference on Agriculture and Cooperative Credit held at Berkeley University from August 4 – October 2, 1952. It detailed how private banks rarely loaned to rural inhabitants, whom had no other choice but to borrow from the local merchants and other informal creditors.<sup>87</sup> The high interest rates that the informal lenders charged partly resulted from their monopoly power over credit.<sup>88</sup>

The private banks' unwillingness to extend loans to non-sugar businesses led many foreign and Cuban analysts of the period such as Wallich, Alienes, Pazos, and Gutiérrez to propose that the government should increase its involvement in the credit area. They agreed that the government could stimulate development by issuing grants and low-cost credit combined with tax incentives to the borrower. This international scholarly consensus provided the intellectual foundation for Prío's creation of the BNC and the BANFAIC.

Therefore, central banking as a strategy for development, particularly to stimulate non-sugar economic sectors with infusions of low-cost credit, had both expert recognition and popular appeal when Batista took over in 1952. Beginning in the 1920s, central banking as a strategy to stabilize exchanges and interest rates, issue currency, and maintain national reserves gained wide acceptance throughout the world. The U.S. passed the Federal Reserve Act in 1913, and shortly thereafter central banks appeared

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<sup>87</sup> Solomon Espinoza, 649-652.

<sup>88</sup> Claudio Gonzalez-Vega, *From Policies, to Technologies, to Organization: the Evolution of the Ohio State University Vision of Rural Financial Markets* (Washington D.C.: Office of Economic and Institutional Development, 2000) 7.

throughout the world. Colombia, Mexico, and Chile established central banks in the mid-1920s, and other Latin American and Caribbean nations soon followed. In Cuba, the Constitution of 1940 mandated:

Money and banking shall be subject to regulation and control by the Nation. The Nation shall, through the medium of autonomous entities, organize a banking system for the best development of its economy, and shall found a National Bank of Cuba, which shall be a bank of issue and rediscount.<sup>89</sup>

Cuba, with an economy heavily dependent on imports and exports, historically experienced large active balance of payments that intensified calls for a central bank. Cuban economists and international observers overwhelmingly agreed that Prío's establishment of the National Bank of Cuba (Banco Nacional de Cuba – BNC) by Law-Decree 13 of December 23, 1948 and launched in 1950, was a positive and crucial step forward for the nation. Established as an autonomous institution, the BNC's principal tasks included:

to centralize money reserves, act as a fiduciary agent and economic advisor to the government, fulfill the functions prescribed by law, and act as a clearing house.<sup>90</sup>

In 1951, the World Bank recollected it as a “healthy development” for economic growth in Cuba.<sup>91</sup> The BNC was considered by many as the most important initiative of the Prío presidency. The newspaper *Bohemia* hailed it as an “historic event”<sup>92</sup> The editor Francisco Ichaso explained the BNC as an essential step toward “the liberation of the Cuban economy.”<sup>93</sup>

A key question for the BNC regarded the limits of its powers. Would it limit its activities to conservative functions of a central bank? Or would it engage in activities

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<sup>89</sup> *Gaceta Oficial*, July 8, 1940.

<sup>90</sup> José R. Alvarez Díaz, et. al., *A Study on Cuba*, 463.

<sup>91</sup> IBRD, 564.

<sup>92</sup> Editorial, “Un paso decisivo hasta nuestra liberación económica,” *Bohemia*, April 30, 1950: 51.

<sup>93</sup> Francisco Ichaso, “La creación del Tribunal de Cuentas es un compromiso de honor del Congreso,” *Bohemia*, February 20, 1949.

beyond the conservative functions such as active involvement in economic development programs? During the Great Depression, Keynesian and other scholars explored how a central bank could be employed as a development instrument. Immediately following WWII, many international scholars advocated that underdeveloped nations employ the central bank as a credit provider to stimulate undercapitalized economic sectors. The most influential body of scholarship in this regard that impacted Cuban policy came from the U.N. Economic Commission on Latin America (ECLA) and the ideas of its Senior Director Raúl Prebisch, the Argentine central banker and co-developer of the Prebisch-Singer thesis. Following WWII, development strategies created by Prebisch, Robert Triffin of Belgium, Herman Max of Chile and others shaped development policies throughout Latin America, including Cuba. These economists advocated Import Substitution Industrialization (ISI), which called for the central bank to serve as a credit provider to domestic industries, particularly those that would reduce reliance on imports.<sup>94</sup> Although Henry Wallich from Harvard University recommended in his late 1940s study of the Cuban economy that the BNC should remain conservative in its functions for the time being, even he acknowledged that it might serve in a supervisory role for other public sector development financial agencies. Wallich' conclusions provided the intellectual basis for the BNC and BANFAIC to conservatively engage in development programs.

The BNC began operations in April 1950 under the direction of Cuban economist Felipe Pazos y Roque. A conservative, he limited the BNC's activities to issuing and

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<sup>94</sup> See Raúl Prebisch, *El Patrón Oro y la Vulnerabilidad Económica de Nuestros Países* (El Colegio de México, 1944), and "Observaciones sobre los Planes Monetarios Internacionales," *El Trimestre Económico* (July – September, 1944) 185 – 208; Robert Triffin, "Central Banking and Monetary Management in Latin America," *Economic Problems of Latin America*, ed. Harris, and "Monetary Developments in Latin America," *Federal Reserve Bulletin* XXXI (June, 1945) 519 – 530.



managing a national currency, as well as regulating credit and banking. It was further designed to serve as Cuba's fiscal agent in dealings with the IMF.<sup>95</sup> Pazos took care to maintain transparency and solvency, and he generally avoided financing, crediting, or investing in risky stimulus projects. Prío and Pazos took measures to discourage the BNC's image as just one of the many government agencies that "carry out the policies formulated by the political authorities."<sup>96</sup> Furthermore, the BNC's creators instituted measures to ensure that it would not turn into another fountain for embezzlement and corruption. Prío tasked the newly created Tribunal of Accounts to oversee and "act as the comptroller of the nation to audit the application of public funds." In addition, Cuban law required that BNC release its finances for the public record.<sup>97</sup>

As a result, when Batista took over in 1952, he found a conservative BNC under Pazos' stewardship. In November 1950, its assets and liabilities amounted to 578,900,000 pesos/dollars. The assets principally included government bonds as well as gold, silver, peso, and dollar reserves. Its liabilities mostly included silver certificates, bank notes, and IMF obligations.<sup>98</sup> There was little investment in development stimulus or activity as a credit provider (except in emergencies, when the BNC served as a 'lender of last resort' to the government and private banks). Prío and Pazos seemed to recognize Wallich' point that a top priority for central bank was to:

keep up at least the pretense of solvency. And is thereby barred from a number of operations that are of interest to it but cannot be undertaken because of their risk or expense. One need only think of the public lending operations and similar government promotional activities with their possibilities of large losses... As the central bank ordinarily cannot bear heavy costs or assume substantial risks, these

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<sup>95</sup> Ameringer, 76.

<sup>96</sup> Wallich, 279.

<sup>97</sup> Alvarez Díaz, 454.

<sup>98</sup> IBRD, 547.

functions are apt to be employed hesitantly or not at all, or left to be handled by another agency.<sup>99</sup>

Pazos clearly possessed detailed knowledge of the Cuban economy from early colonial times to his present day. Born in Havana, he earned a doctorate from the University of Havana in 1938. In 1941, he published *La economía Cubana en el siglo XIX* – an extensive study of the Cuban economy in the nineteenth century. In 1944, he released *La Banca* that explored the proper role of central banking in the Cuban context. He was a member of the Cuban delegation to the 1944 Bretton Woods Conference. In 1946, he joined the staff of the fledgling IMF that had been established at the 1944 Bretton Woods Conference. He worked there for three years before returning to Cuba in 1950 to manage the newly established BNC. Historians have remarked that “there is no evidence” that Pazos permitted corruption in the BNC.<sup>100</sup>

Although Pazos displayed conservatism in regard to the BNC, he was open to provide a measured amount of credit to undercapitalized sectors. He observed that credit in non-sugar agriculture was extremely expensive and usually came from local merchants and lenders. In many cases non-sugar agriculture resulted in a sharecropping situation, whereby local merchants imposed a crop lien on small farmers that amounted to, for example, forty percent of the tobacco crop, and was even higher for beans.<sup>101</sup> In spite of his conservative management of the BNC, Pazos recognized the arguments of his contemporary scholars regarding the use of central banks as credit providers to stimulate the domestic economy.

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<sup>99</sup> Wallich, 281.

<sup>100</sup> Ameringer, 76.

<sup>101</sup> Felipe Pazos y Roque, *La Banca* (Havana, 1944) 19-20.

Both Grau and Prío initiated a limited amount of government credit stimulus to promote economic diversification. In addition, both presidents began debt financed public works and diversification projects. In 1948, for example, Prío visited the U.S. and negotiated loans for numerous public works projects. A U.S. delegate to Cuba remarked:

The terms of Cuban sugar sales to the United States were the main concern for the visit, but he also explored the possibility of obtaining a substantial loan for a program ‘for the improvement of highways, particularly small rural roads, aqueducts, and sewage systems.’<sup>102</sup>

The U.S. Congress approved the loans in November 1948:

[The U.S.] Congress approved negotiations for a \$200 million loan with the First National Bank of Boston and other private foreign banks... One of the projects was the construction of a tunnel beneath the entrance of Havana Harbor.<sup>103</sup>

Prío initiated debt financed government stimulus policies. In 1950, at Prío’s request, Price, Waterhouse and Company of New York conducted a:

special investigation of the financial position of the Cuban treasury. The accounting firm reported that in the past five years alone (since 1945) Cuba had accumulated a deficit of \$104 million.<sup>104</sup>

Public sector promotional activities, financed largely through government bonds, contributed greatly to the national debt.

In spite of Grau and Prío’s policies to employ government resources and stimulus for economic diversification, the solvency requirement of the BNC precluded it from engaging in a significant degree of “promotional activities.” Therefore, the BNC had limited use for Grau and Prío as a tool for stimulus programs. As a result, the Cuban Congress created a separate central banking agency to engage in development activities. On December 20, 1950 Law-Decree 5 established the Agricultural and Industrial

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<sup>102</sup> United States Department of State, *Foreign Relations of the United States* (Washington D.C., 1948, 1949) 576-77.

<sup>103</sup> Ameringer, 86.

<sup>104</sup> IBRD, 693.

Development Bank (BANFAIC). The World Bank's Mission to Cuba in 1950 celebrated its creation as a "constructive step" for prosperity.<sup>105</sup> The BANFAIC's publications stated that its foremost task was:

to create, foment, and maintain the financial facilities required for the development and diversification of Cuban production with the view of improving the living standard of its population."<sup>106</sup>

To facilitate this goal, the law authorized rural credit associations to operate in various parts of the island as BANFAIC affiliates to distribute credit. Justo Carillo Hernández served as the Bank's president, and he began investigations into providing low-cost credit to Cuba's non-sugar economy. When Batista took over in 1952, the BANFAIC held a modest portfolio – less than \$720,000 in outstanding loans.<sup>107</sup> Partly due to underfunding, conservative regulations that restricted loan activities, and a limited number of qualified credit recipients in the non-sugar sectors, in 1952 Batista took over a BANFAIC that had a relatively minor role in the economy. As a political symbol, however, it had taken a major role. A great many Cubans desired a central banking system to provide low-cost credit for development.<sup>108</sup> Prío had used it to bolster his image, personally claiming credit for the BANFAIC as a national triumph. Therefore, given the widespread demand for such a promotional action by the government and, seeking acceptance for his undemocratic coup, Batista found that expanding the BANFAIC could serve to improve his popular support.

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<sup>105</sup> Ibid. 550.

<sup>106</sup> Banco de Fomento Agrícola e Industrial de Cuba, *Possibilities of the Food Industry in Cuba* (Havana, 1956) 22.

<sup>107</sup> Banco Nacional de Cuba, *Progress Report No. 3* (Havana: October, 1957) 24.

<sup>108</sup> Wallich, 279; during his study on the Cuban economy in the 1940s, he observed this demand in the rural areas for government to provide credit and working capital for entrepreneurship.

## Labor

In 1952, around 1,700,000 persons were economically active in Cuba, approximately thirty-two percent of the total population. The proportion of Cubans within the productive ranges ages fourteen to sixty-four inclusive, was 62.4 percent according to the 1943 census. More than half of the labor force was concentrated in the two provinces of La Habana (thirty-one percent) and Oriente (twenty-six percent).<sup>109</sup> Some forty-two percent of the labor force worked in agriculture, forestry, and fishing. Of the entire labor population over half, roughly fifty-four percent, worked in the sugar industry.<sup>110</sup>

The single export economy largely resulted in a low level of human capital diversity. Cane cultivation required specific agricultural skills, thus there was little need for diversity of abilities or expansion of education. In the colonial period, the Spanish rarely educated or trained the Cuban populace in skills unrelated to the sugar production. As the island continued to depend heavily on sugar exports in the twentieth century, the Cuban population continued to lack diversity of education and job training. New training required for diversification of agriculture was generally nonexistent. In 1952 even the six provincial agricultural schools, open to sons of the island's most predominant farmers, could not operate properly because of lack of funds. The World Bank in 1950 commented on the entrepreneurial spirit and potential energy among rural Cubans, but also noticed their frustrations over lack of adequate education, professional training, working capital, and access to formal credit.<sup>111</sup>

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<sup>109</sup> Oficina Nacional de los Censos Demográfico y Electoral, *Censos de población, viviendas y electoral* (Havana, 1955).

<sup>110</sup> Sugar and its byproducts made up over ninety percent of exports.

<sup>111</sup> IBRD, 590.

Beginning the late 1920s, repeating sugar output levels generally led to the end of employment growth in the private sector.<sup>112</sup> This perhaps explained the subsequent rapid growth in public sector employment. By 1952 the government represented the nation's second largest employer.

All indications pointed to diversifying domestic production and exports to alleviate the current and rising chronic unemployment. As the population rapidly grew in the 1930s and 1940s and the number of jobs remained stagnant, by 1952 unemployment fluctuated roughly from eight percent during the *zafra* to twenty percent in the dead season. Following WWII, analysts consistently forecasted rising unemployment due to the island's positive population growth in the context of static job creation.<sup>113</sup>

In 1952, job growth continued to be static in the non-agricultural economic sectors. Of the approximately seventeen percent of the work force engaged in various types of manufacturing about one-third were employed in the sugar mills. The overwhelming majority of all commerce workers, who made up around twelve percent, worked in retail trade. Prío's debt financed public works programs had resulted in a modest increase of the number of service workers, bus and truck drivers, and construction workers – almost all of whom worked in the La Habana province. The number of service workers included 96,073 government employees (mostly civil service employees). There were approximately 52,000 truck and bus drivers, and 75,000 construction workers. The greatest shortages of skilled workers were in the areas of educated senior level managers such as mechanical, industrial, agricultural and mining engineers. Women constituted a

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<sup>112</sup> The effects of sugar dependency on Cuban labor, particularly seasonal unemployment, lack of new job creation, and the lack of specialization and diversification of human capital is detailed in: Carmelo Meso-Lago, *The Labor Force, Employment, Unemployment and Underemployment in Cuba: 1899-1970* (Beverly Hills: Sage, 1972).

<sup>113</sup> Alienes, 1–40.

small part of the labor force – some seventeen percent of unskilled labor. The majority of them worked in the tobacco industry, where it was widely believed that rolling cigars required a “woman’s touch.” A minority of women in the unskilled labor force worked as domestic servants in the wealthy Havana neighborhoods. Women were almost entirely excluded from skilled labor jobs with the exception of primary grade schoolteachers.<sup>114</sup>

From the 1920s–50s labor became increasingly organized and unionized. In virtually every economic sector, unions such as the Transport Workers Federation, Petroleum Workers Federation, and the Cattle Workers Federation monopolized labor in their respective industries. Among the most powerful labor associations in 1952 was the National Association of Colonos representing the cane farmers, and the Sugar Workers Federation representing labor in the mills. The two associations represented sugar industry labor in the ICEA and worked to secure employment quotas for their members. For many in the rural areas, financial well-being depended on membership in those labor associations since they received the employment quotas.

As Batista took power in 1952, these associations were receiving criticism for perpetuating inefficiencies such as regulations on the owners’ ability to dismiss unproductive workers, artificial wage controls such as in the sugar industry that had been “frozen since 1947,” and “the *colono* who delivers inferior cane to the mill [who] receives the same price as his neighbor.”<sup>115</sup> In addition, the sugar unions continually blocked efforts to mechanize and modernize agriculture in apprehension that improved efficiency would lead to layoffs. Analysts generally agreed, however, that modernization was critical for Cuba’s economic future.

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<sup>114</sup> Ibid.

<sup>115</sup> IBRD, 195-96.

Historically, the Confederation of Cuban Workers (CTC) served as the general union on the island that included around 1,000,000 members from across Cuba's economic sectors. Ironically, Batista in the late 1930s had originally collaborated with the communists to create the CTC. It was founded in 1939, and shortly thereafter increased significantly in membership under the leadership of the leftist Lázaro Peña. Although the communists made up the senior officials of the CTC, Batista throughout the 1930s made sure that it was not a 'communist union' and "imposed a speed limit on his 'populist' [pro-labor] track."<sup>116</sup> Beginning in 1944, Grau followed a pro-labor agenda similar to the Aprista model from Peru – left of center but right of communism and a cooperative relationship between government and labor. Grau set out to rid the CTC of communists while maintaining a pro-labor agenda. He replaced Peña with the moderate Eusebio Mujal, who leaned toward the U.S. American Federation of Labor model and rejected the nationalization of property called for by the communists. The CTC under Mujal essentially acted as a:

corporatist go-between, representing workers' interests in the Presidential Palace and handing out government concessions in the Workers Palace (constructed in 1946 with a \$772,000 grant from the Grau administration). It provided the government in power with political support and industrial peace in return for mandated wage hikes, favored working conditions, and job security for organized workers.<sup>117</sup>

Mujal and a nine member board directed the CTC. It was primarily a political organization and advocated labor practices that often conflicted with economic efficiency, such as technological improvements and advocating the hiring of more workers than needed to perform a given job. The U.S. State Department remarked how tight labor laws such as "the virtual ban on discharging employees regardless of the

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<sup>116</sup> Ameringer, 13.

<sup>117</sup> Ibid. 46.



justification,” and “restrictions governing the employment of aliens” constrained foreign direct investment and the availability of credit and capital on the island.<sup>118</sup> For its part, the World Bank criticized union demands and labor laws that “frightened away investors.”<sup>119</sup>

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<sup>118</sup> United States Department of State, *Foreign Relations of the United States* (Washington D.C., 1948) 576–77.

<sup>119</sup> IBRD, 369.

## Chapter II

### Studies of the Cuban Economy and Policy Recommendations Available to Batista in 1952

In the first two decades following the War of 1898, hardly anybody questioned the rapid expansion of the sugar industry. From 1916 to 1920, the price of sugar went from 4.6 cents a pound to an astonishing 22.5 cents, as Cubans celebrated the so-called ‘dance of the millions’ and the domestic economy rapidly expanded. In the previous two decades the availability of uncultivated land provided for expansion of the sugar industry as cane quickly spread across the island. As the industry experienced growth and profits, it seemed unnecessary to examine the economy and develop courses of action to improve it.

The Great Depression, however, revealed the enormous risks of a single export economy. The international sugar price dropped sharply in the late 1920s and 1930s, and Cubans found themselves lacking domestic supply markets to make up for the sharp declines in export revenues. This included rice, potatoes, and beef that the society required for sustenance. These necessary products could have been locally produced, but instead they were purchased from abroad with the realized returns from exports. When sugar exports declined, however, Cubans suffered a shortage in these products, leading to malnutrition across the island.

The downturn of sugar called forth academic studies of the Cuban economy and the need for sound policy recommendations to diversify the island’s production. Subsequently, Cuba’s participation in the post-WWII order of liberalized international

trade prompted further studies of the island's economic potentialities. From the 1930s to the 1950s, economists from the University of Havana, Cuban government, Harvard University, Washington D.C., Wall Street, and the U.N. conducted analysis of the Cuban economy and debated on optimal policies. Thus by the time Batista took over in 1952, a body of developed scholarship existed on the Cuban economy that provided him with a variety of policy recommendations to improve the nation's prosperity.

### American Studies of the Cuban Economy

The conclusion of the War of 1898 resulted in a new and close economic relationship between the U.S. and Cuba. Curiously, however, in the two decades following the war, despite the Americans' active participation in the Cuban economy, they conducted little analysis of it. From the American perspective, uncultivated land throughout the island provided a rich source of expansion in the sugar industry – by far the most profitable investment alternative in Cuba during these years. Since the industry had potential for expansion, and at the same time the American and European demand for Cuban sugar increased in tandem, there existed little need to study alternative investment possibilities. It was not until the late 1920s until the Americans began studies of the Cuban economy to discover its possibilities beyond the sugar industry.

The first comprehensive analysis of the Cuban economy that came from the U.S. was Leland Jenks' *Our Cuban Colony*, published in New York in 1928. His study, which investigated the consequences of American economic imperialism, eventually had an

impact on Cuban public policies.<sup>120</sup> For instance, it seemed to have influenced Batista's policies during the Great Depression, as he instituted some protectionist measures, particularly in regard to labor. Furthermore, Jenks' work partly inspired articles in the Constitution of 1940 that included, for example, the Cubanization of labor.

In 1935, the Commission on Cuban Affairs of the Foreign Policy Association (sponsored by the U.S. Government) produced a comprehensive work on the Cuban economy entitled *Problems of the New Cuba*, in response to a request by Cuban provisional president Carlos Mendieta.<sup>121</sup> Mendieta invited Raymond Leslie Buell, President of the Commission, to conduct an in-depth study on the island's economic system. At the time, Cuba's per-capita income had fallen to \$98. Cubans were suffering from the overspecialization in sugar at the expense of other necessary agricultural products such as rice and beef. Food and income shortages provoked President Mendieta to seek independent academic analysis and recommendations to improve the economy. In response, the Commission on Cuban Affairs arranged the American Technical Mission to conduct the analysis. It included mostly university professors – well respected in their fields in Latin American politics, economics, and culture. They spent the 1934 summer in Cuba attempting to conduct analysis “at a time,” a Mission member explained, “when careful investigation was rendered unusually difficult. The recent revolution had destroyed many records and thrown government offices into confusion.”<sup>122</sup> The Mission had to essentially start from scratch in many areas and piece together data on the Cuban economy.

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<sup>120</sup> Leslie Bethell, *Cambridge History of Latin America, Volume XI, Biographical Essays* (Cambridge: University Press, 1995) 415.

<sup>121</sup> Raymond Buell, Foreign Policy Association, *Problems of a New Cuba* (New York, 1935).

<sup>122</sup> Bethell, 415.

The eventual 537 page *Problems of a New Cuba* meticulously detailed virtually every component of the private and public sectors, and provided a solid cornerstone for further study. The work offered quantitative data that supported economic diversification. In many respects it framed the debate for diversification, and began exploration into public and private sector reforms and strategies for that purpose. The Mission demonstrated how the status-quo was unacceptable, and likened sugar to:

an ancient tragedy, with the over expanded sugar industry as hero struggling against forces beyond its control. Cuba has experimented with restricted production, delayed production, market quotas; it has had pools and cartels.<sup>123</sup>

The study gave clear and sound arguments for diversifying agriculture and curbing the controls on Cuban production and resources routinely imposed by the cartelized sugar industry. The Mission explained that these controls imposed in the 1920s and 1930s resulted from a small group desperately attempting to perpetuate sugar's antiquated and risky scheme of production. "The most important task before Cuba," the Mission concluded, "is to develop non-sugar crops to take the place once held by sugar, and develop sustenance farming."<sup>124</sup> Furthermore, the scholars of the American Technical Mission were among the first to propose the creation of public credit institutions to "lend to the public," particularly during economic emergencies.<sup>125</sup>

Cuba's strategic location to the U.S. during WWII prompted further study of its culture and economy. In the 1940s, various departments at Harvard University focused their analyses on Cuba. In 1940, the Atkins Institution of the Arnold Arboretum of Harvard University completed a study on Cuban agriculture to identify its fruit production potentialities. David Sturrock, the Atkins Institution Superintendent,

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<sup>123</sup> Buell, 240.

<sup>124</sup> Ibid. 492.

<sup>125</sup> Wallich, 292.

examined in detail the *Tropical fruits for southern Florida and Cuba and their uses*, and argued that in fruits alone Cuba possessed much potential for expansion for domestic consumption and export.<sup>126</sup> This study provided policymakers in the 1940s and 1950s with further evidence that agricultural diversification was possible at current costs and prices.

Shortly thereafter, the U.S. Department of Agriculture tasked economist Paul George Minneman to produce data of Cuba's agricultural possibilities beyond sugar production. In 1942, after spending months in Cuba, Minneman produced *The agriculture of Cuba* – 144 pages of in-depth data of Cuba's production and cultivation possibilities for a variety of products. Minneman argued that Cuba was “the most important of all the Latin American countries from the standpoint of the volume of trade with the United States, particularly in agricultural products.”<sup>127</sup> Cuba in fact represented one-fifth of all the U.S. trade with its twenty Latin American partners.

Minneman noticed how Cuba ironically imported products such as rice and pork that it could have been domestically produced. This indicated that Cuba's resources were dedicated to sugar production to such an injurious extent that it discouraged the domestic production of its subsistence needs. In 1940, Cuba imported \$22,000,000 worth of agricultural products that could have been produced locally such as chicken, rice, wheat, flour, lard, pork, cotton, and vegetables.<sup>128</sup> Minneman called for increased production of food products to reduce Cuba's dependency on imports. “Consumption of many

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<sup>126</sup> David Sturrock, *Tropical fruits for southern Florida and Cuba and their uses* (Jamaica Plain: The Arnold Arboretum of Harvard University, 1940).

<sup>127</sup> Paul George Minneman, *The agriculture of Cuba* (Washington D.C.: United States Department of Agriculture, 1943) 3.

<sup>128</sup> *Ibid.*

agricultural products,” he argued, “could be materially increased.”<sup>129</sup> Furthermore, the increased diversity of domestic agricultural production would increase food consumption thereby stimulating economic activity, with the added benefit of improving nutrition and health. In conclusion, Minneman recommended diversifying and expanding production in rice, corn, beans, lard, meat, dairy products, eggs, garlic, fruits, vegetables, leafy vegetables, vegetable oil, cacao, cassava for starch, kapok and other fibers, peanuts, and peanut oil for domestic consumption.

In tandem with expansion, Minneman recommended modernization for the entire agricultural industry – cattle breeding, arable land output, irrigation, fertilization, pesticides, and mechanized harvesting.<sup>130</sup> Modernizing agriculture also called for improvement in training and education. In addition, the agricultural industries required improvement in roads, storage facilities, price information, marketing, and “extension of credit to facilitate harvesting.”<sup>131</sup> Minneman agreed with the earlier recommendation by the American Technical Mission that the government could usefully serve as a credit provider.<sup>132</sup> He concluded his study with an optimistic view of the future of Cuban agriculture:

As a whole, the possibilities of future development of Cuban agriculture appear bright. The natural factors are favorable. The country has large areas of good soil and a good climate, with a continuous growing period... [Cuba’s] agricultural production could maintain a relatively high standard of domestic consumption in addition to a thriving export trade. It is centrally located, near markets in the United States and near the trade routes of inter-American commerce. Furthermore, most of its products are of a semitropical nature either not produced in the United States or produced in insufficient quantities.<sup>133</sup>

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<sup>129</sup> Ibid. 140.

<sup>130</sup> Ibid. 140.

<sup>131</sup> Ibid. 143.

<sup>132</sup> Ibid. 144.

<sup>133</sup> Ibid.

Following Minneman's study, perhaps the most influential American study of the Cuban economy in the decade before the Second Batistano was Henry Christopher Wallich' monograph *Monetary Problems of an Export Economy* published in 1948. The study expanded on Wallich's earlier Ph.D. dissertation "The Cuban Monetary Experience, 1914 – 1942," completed in 1944 for the Harvard Graduate School of Public Administration.

Created in 1936, the Harvard Graduate School of Public Administration focused on central banking, fiscal policy, and Keynesian approaches to public administration – representing the cutting edge scholarship of the time – and a departure from Harvard's more classical economists such as Joseph A. Schumpeter, who dominated the Department of Economics for many years. Edward S. Mason, the school's second dean from 1948 – 1958, recalled:

The Great Depression and the New Deal had focused the attention of economists in most American universities, and certainly at Harvard, on questions of public policy, on monetary and fiscal policy in particular. This emphasis on policy and politics was accentuated in Cambridge by the announcement by President Conant in 1935... for the founding of a graduate school of public administration.<sup>134</sup>

Of Wallich' Harvard advisors, Alvin H. Hansen undoubtedly had the most influence. One of the Harvard Graduate School of Public Administration's first appointments was Hansen from the University of Minnesota, the "popularizer and interpreter of Keynesian economics in the United States."<sup>135</sup> Hansen had helped create the Full Employment Act, Council of Economic Advisors and Social Security system during the Roosevelt administration. Soon after arriving to Harvard, Hansen taught a graduate seminar on fiscal policy that inspired students such as Paul Samuelson and

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<sup>134</sup> Edward S. Mason, "The Harvard Department of Economics from the Beginning to World War II," *The Quarterly Journal of Economics* XCVII, August, 1982.

<sup>135</sup> Ibid.



James Tobin – both Keynesian economists and Nobel Prize winners. Hansen trained hundreds of students including Wallich, who later went on to hold powerful government posts and influenced government policy. Hansen’s work at the time he advised Wallich in 1942 “was very much in line with Keynes” that advised nations “to provide themselves with full employment by their domestic policy.”<sup>136</sup> Only a few months earlier in 1941, Hansen had published *Fiscal Policy and Business Cycles* – the first major work in the U.S. to entirely support Keynes’ analysis of the Great Depression. In addition to Williams and Hansen, Harvard economist and central banker Robert Triffin advised Wallich. Triffin received his doctorate degree from Harvard in 1938 and taught there until 1942. He then worked for the U.S. Federal Reserve System until 1946. Williams, Hansen and Triffin advised Wallich on the orientation of his general approach to the Cuban economy – in particular focus on fiscal policy, central banking, and government credit stimulus to remedy the island’s economic stagnation.<sup>137</sup>

Aside from his Harvard advisors, Wallich collaborated with many of the leading Cuban economists such as Felipe Pazos, Walterio Leza, Julián Alienes, José Antonio Guerra, Raúl Maestri, Rufo López Fresquet, and Louis Naetzker. They provided intimate knowledge of the island’s political, economic, and legal cultures. Wallich also sought assistance from international economists and scholars at the U.N. In the final chapter on central banking, for example, for guidance Wallich turned to Raúl Prebisch, the Argentine central banker, head of the U.N. Economic Commission for Latin America and the Caribbean (ECLAC), and coauthor of the Singer-Prebisch Thesis, who was a strong proponent of ISI. The inclusion of ideas from respected Cuban and international

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<sup>136</sup> A.M. Endres, *Great Architects of International Finance: the Bretton Woods Era* (New York: Routledge, 2005) 38.

<sup>137</sup> Wallich, viii.

scholars gave credit to Wallich' analysis and recommendations, as well as provided the scholarly basis for Grau, Prío, and Batista's central banking policies.

Wallich opened *Monetary Problems of an Export Economy* with a general review of Cuba's economic inefficiencies, and observed that the public was generally aware of them.<sup>138</sup> He weighed the costs and benefits of the sugar economy. The benefits included the fact that it provided Cuba with a sizeable formal financial sector, degree of industrialization, attracted heavy doses of foreign capital, helped avoid domestic market fluctuations, and sugar achieved a level of productivity unrivaled by other crops.

Despite the benefits, however, Wallich explained that there were many costs. Sugar dependency failed to provide for economic needs of the society; violated the principle of diversification; prompted the misuse of resources; destroyed incentives to invest; hampered diversification and improvement of human capital; caused chronic and seasonal unemployment; created a "sugar mentality" that discouraged innovation; accumulated income based on exports rather than domestic non-sugar savings and investment; and left Cuba extremely exposed to a variety of external risks.<sup>139</sup> Wallich established early on that economic diversification was the optimal course.

Wallich concurred with earlier studies that the island clearly had the ability to diversify the economy. "It appears Cuba," he confidently stated, "has the resources to develop along a variety of agricultural lines, as well as numerous light industries."<sup>140</sup> He

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<sup>138</sup> Ibid. 18.

<sup>139</sup> Cuban production, extremely specialized in sugar, violated the principle of diversification whereby a portfolio containing many different assets and kinds of assets carries lower risk than a portfolio with only a few. Furthermore, non-systemic risk may be alleviated through diversification, and the risk associated with a single investment or type of investment may be offset by the risk of another investment or type of investment. The principle of diversification also explained why Cuba often paid high costs for foreign credit, and foreign investors often hesitated to invest in Cuba due to the risks, which contributed to a shortage of capital and credit on the island.

<sup>140</sup> Ibid. 21.

concluded that Cuban economic expansion should not include heavy industry, but focus on “industries able to operate on a small scale” with a chance to achieve “a high level of productivity combined with a real measure of competition.”<sup>141</sup> This line of thought aligned with Keynes’ recommendation that nations should generate full employment through domestic industry rather than external economic trade.<sup>142</sup>

Wallich thus looked for economic sectors that could achieve economy of scale and a significant level of competition. This approach led Wallich’ to conclude that Cuba should not invest in heavy industries since domestic demand could not sustain them. While a number of underdeveloped countries in the 1940s, particularly in Latin America, were devoting government services and private resources to large scale industries, believing they represented economic progress and prosperity – Wallich recommended against that course of action.

Instead, he recommended that Cuba undertake certain measures to improve economic diversity apart from heavy industries. Of the economic sectors, agriculture provided the most opportunities to immediately improve growth and diversification. In addition, most likely realizing the difficulties involved in disrupting the status quo, he maintained that diversification could in fact take place without having to cut down on sugar production. The only real friction between agricultural diversification and the sugar industry would be over the issues of mechanization and improving cane output that might put sugar laborers out of work. However, that issue was manageable considering that diversification would create new jobs in other agricultural sectors to absorb any layoffs from the sugar industry. The majority of measures were designed to not present

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<sup>141</sup> Ibid. 22.

<sup>142</sup> John Maynard Keynes, *The General Theory of Employment, Interest and Money* (London: Palgrave Macmillan, 1936) 383.

disruptions to the current sugar industry. Some of the basic measures included utilizing resources that were seasonally idle, reducing the labor costs, and creating incentives for domestic investment.

Wallich observed in 1947 that the sugar industry was in full expansion, and it showed no signs of abetting in the near future. He explained:

with the exception of 1943 when shipping and storage space limitations made crop curtailment necessary, the [sugar] industry was called upon for maximum output every year.<sup>143</sup>

When Batista took over five years later Cuban sugar production reached a record level well over 7,000,000 tons.

Wallich's focused much of his analysis on Cuba's monetary and fiscal policy. He noted that from 1940–47 the value of the sugar crop rose from 98,600,000 to 657,700,000 pesos. The money supply concurrently experienced rapid expansion from 163,200,000 pesos in 1940 to 932,200,000 pesos in 1947.<sup>144</sup> Curiously, Wallich observed that despite the rapid expansion of the money supply, there remained very little bank credit available on the island. Furthermore, bank credit had not been a significant part of the rapid growth. In fact, throughout the war years, the net contribution to the expansion of the money supply from bank credit "was negative."<sup>145</sup> Wallich explained:

what is the most striking feature of the distribution of bank credit: the very small amount going into agriculture (other than sugar cane) or into local industrial financing (other than sugar mills).<sup>146</sup>

In Wallich's assessment, non-sugar agriculture was underdeveloped partly due to its lack of access to affordable credit:

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<sup>143</sup> Ibid. 150.

<sup>144</sup> The peso was closely on par with the U.S. dollar.

<sup>145</sup> Ibid. 152.

<sup>146</sup> Ibid. 174.

Even though agricultural cash crops, aside from cane, have not reached a very high state of development, the need for agricultural credit obviously is considerable. The same is true of Cuba's nascent industries; they are still at a very early age of development, and financially not very important, but their credit needs are many times in excess of the 200,000 or 300,000 pesos they seem to have been getting in the late 1930s.<sup>147</sup>

Wallich pointed out that most non-sugar farmers of coffee, tobacco, fruits, vegetables, beans, rice and other products desperately required credit for expansion. In most cases, the only available credit for these farmers came from the local shop keepers, produce merchants, and other similar sources. Often this type of credit was inflexible, short term, exploitative and costly.

In Keynesian fashion, Wallich argued that Cuba's economic situation "suggests that government action may have to play a larger role in stimulating investment."<sup>148</sup>

To back up this view, he pointed out how the private banks staked their solvency in the sugar industry. In addition, the risks of venturing in non-sugar industries were high in comparison with the projected returns, causing private banks to avoid those markets:

This leads to a reflection regarding a basic dilemma of Cuban credit conditions. The risk of many types of credit is so high that only an exorbitant risk premium could cover it... banks cannot charge such rates... the conclusion may have to be faced that the credit that can safely be given within the range of practicable risk premia is insufficient, at certain times, for the maintenance of full employment, and *particularly for the development of neglected sectors of the economy.*<sup>149</sup>

Private sector banks avoided lending to non-sugar ventures, so Wallich concluded that "government action will probably be required" to provide credit to "neglected sectors of the economy."<sup>150</sup> Such government action would rely heavily on central banking. For ideas on development through central banking, Wallich turned to Raúl Prebisch. This

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<sup>147</sup> Ibid. 174.

<sup>148</sup> Wallich, 21.

<sup>149</sup> Ibid, 167.

<sup>150</sup> Ibid.

section offered the theoretical foundations for creation of the BNC and the BANFAIC.

Wallich warned that stimulus policies through central banking should be conservative:

In an underdeveloped country the accent [for the duties of a central bank] will naturally fall upon development activities, partly because of the urgent need for them... This does not mean, of course, that the central bank should engage in large-scale financing of numerous new enterprises.<sup>151</sup>

He pointed out that large-scale aggressive government credit stimulus would most likely lead to deficits, irresponsible spending, and domestic inflation in the long term.<sup>152</sup>

However, a measure of government credit stimulus, he concluded, would be constructive to “inject life” in economic areas historically neglected by the private banks.<sup>153</sup> The stimulus must be conservative and carefully managed with risk evaluation based on a strict criterion, and receive oversight from autonomous institutions such as the BNC. The point was to provide stimulus in the form of low-cost credit but avoid risks that ultimately would have rendered it counterproductive. He proposed that the government engage in two forms of lending: directly to the public, and through “full policy control over the operations of some other government bank or lending agency.”<sup>154</sup> His prescription entailed limited and conservative government promotional activities through the application of government sponsored finance agencies autonomous from the BNC. The BNC’s solvency requirements precluded it from directly participating in domestic credit lending and stimulus programs. Thus Wallich argued that the BNC should remain autonomous and serve in an oversight role and provide auditing services to the finance agencies.

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<sup>151</sup> Ibid. 294.

<sup>152</sup> Ibid. 295.

<sup>153</sup> Ibid.

<sup>154</sup> Ibid. 292.

As Wallich conducted his work in the mid-1940s, another substantial American study offered insight of the rural economy. In 1945–46, University of Minnesota sociology professor Lowry Nelson spent a year studying the life of the Cuban *campesino* (rural inhabitant). In collaboration with the Cuban Ministry of Agriculture, Nelson administered a seven page questionnaire to 732 farm families in eleven rural areas. The questions covered “family composition, education, housing, recreation, farming, land tenure, diet, and the like.”<sup>155</sup> With data from the questionnaires combined with analysis of the Cuban census, climate, and geography, Nelson uncovered the intricacies of rural Cuban life, receiving praised reviews from the academic community. In 1951, Allan Holmberg of Cornell University commented:

the book stands as a fine example of the value of applying social research to the practical problems of a nation – an example which, it is hoped, the Cuban government has taken cognizance of.<sup>156</sup>

In 1970, historian Hugh Thomas considered the work as “a pioneer study on the agrarian situation in Cuba in the first half of the twentieth century.”<sup>157</sup>

Nelson noticed that most rural Cubans were illiterate, uneducated, and seemed predestined to unskilled and semi-skilled labor in the sugar industry. Thus they were caught in a static and highly regulated system with little hope for upward economic or social mobility. In addition, he observed “modernization problems” resulting in large part from the perpetuation of an ancient *latifundia* system, with its rigid social and political endogamy that maintained a small elite’s command over the island’s resources. The landholding system had resulted in a small upper and large lower income society,

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<sup>155</sup> Lowry Nelson, *Rural Cuba* (Minneapolis, 1950).

<sup>156</sup> Allan R. Holmberg, “Review of *Rural Cuba*, by Lowry Nelson,” *American Anthropologist* 53.3 (28 October, 1951) 400.

<sup>157</sup> Bethell, 415.

with few numbers of Cubans in the middle. He pointed out the paradox that Cuba possessed rich human and natural resources yet many citizens suffered in poverty. The problem stemmed, therefore, not from a lack of resources but in their management (or over-management depending on the particular case). Nelson proposed fundamental reforms that included decentralization of government, land use reforms to improve its output and efficiency, and “social planning” in the rural areas – starting with the government providing basic services to improve skills, education, and human capital.<sup>158</sup>

Nelson concluded that rural Cubans suffered from “over-centralization of administration,” as government services in the rural areas overly depended on the bureaucracy in Havana. Government neglect of the rural areas resulted in a lack of schools, teachers, sanitary areas, water supply, roads, bridges, civil infrastructure, housing, hospitals, and judicial systems necessary to protect property and enable small businesses and farms to develop.<sup>159</sup> Centralized government represented the primary barrier for rural development as it led to neglect and corruption – opportunistic public officials in Havana embezzled public funds intended for the rural areas. To improve the situation, Nelson suggested the decentralization of public services including education, security, and public works.

Nelson also described the opportunity costs resulting from inefficient agricultural methods employed in rural Cuba. He recommended the government invest in technical research and development, followed by agrarian reform. Similar to Wallich, Nelson felt optimistic about Cuba’s possibilities, but certainly recognized the political obstacles.

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<sup>158</sup> Holmberg, 400.

<sup>159</sup> Nelson.



With certain government actions, the rural areas could, in Lowry's final assessment, employ its resources efficiently and create prosperity.

### International Bank for Reconstruction and Development (IBRD)

In 1950, President Prío invited the World Bank to send a mission to Cuba and conduct an independent study of the Cuban economy:

and, on the basis of such study, to prepare a report of its conclusions as to the more important economic problems and feasible development possibilities in Cuba<sup>160</sup>

Created in 1946, the World Bank International Bank for Reconstruction and Development (IBRD) established a team led by Francis Adams Truslow, a respected New York attorney and president of the New York Curb Exchange, to perform the study.<sup>161</sup>

The World Bank Mission to Cuba in 1950 included seventeen experts from a variety of fields including economics, banking, and agriculture. For the most part, Truslow's team came from a classical Wall Street economics point of view that respected and believed in the free market and entrepreneurship.<sup>162</sup> In spite of that, the Mission also seemed to respect Keynesian views, and recommended some measure of government involvement in the Cuban private sector to stimulate non-sugar industries. The Mission also recognized Structuralist economics, and to a lesser degree ISI paradigms, particularly in regard to monetary and fiscal policy, making recommendations such as government debt financed stimulus programs. It concluded, for example, that the central bank was a valuable mechanism to capitalize non-sugar private industries. The Mission

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<sup>160</sup> IBRD, 1039.

<sup>161</sup> Ameringer, 121.

<sup>162</sup> Michael Goldman, *Imperial Nature: The World Bank and Struggles for Social Justice in the Age of Globalization* (New Haven: Yale University Press, 2005) 56-60.

represented the academic thinking of its time, when classical economists debated the Keynesians on the costs and benefits of government participation in the free market. Ideas from both sides of the debate guided the Mission's recommendations.

Starting in August 1950, the Mission spent three months in Cuba to gather data before returning to Washington to prepare the report. In July 1951, the team presented fifty chapters with 1,052 pages on every aspect of the Cuban economy including "human problems." The Mission agreed with the majority of recent scholarship that the sugar industry dominated the economy and accounted for large inefficiencies for the Cuban society. It backed up that argument with well-researched data on nearly every economic sector. For many years the Cuban sugar industry, due to location, land, and other features enjoyed a comparative advantage over its international competitors. The Mission, however, warned how that position was likely to change unless labor associations allowed for technological improvement in sugar production. To compete with beet sugar and other tropical cane producers, the industry required improved fertilization, irrigation, and processing methods. In general, labor interests resisted mechanization and technological improvements that improved cane yield and productivity.

The benefits of sugar specialization, according to the Mission's assessment, came at enormous costs. It furthermore agreed that Cuba required sweeping initiatives to transition the economy from a command to a competitive market system based on the law of supply and demand that included legal entrepreneurs, small businesses, and individual landholders. Regulations that perpetuated the single export economy, the Mission concluded, had to be broken:

[or] all efforts at economic betterment in Cuba will be severely handicapped. Then Cubans of all classes will suffer by lower incomes, by few and inferior job

opportunities... 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.<sup>163</sup>

Similar to the conclusions of several leading domestic and foreign analysts of the period, the Mission argued that economic diversification was possible without affecting sugar output:

Her problem is to reduce her dependence on sugar, not by producing less sugar but by developing additional enterprises. Her opportunity is that her present prosperity offers her the means to do so by further diversifying her economy. Ample, unused human and material resources are available in Cuba with which her people might increase the nation's output, broaden its economic base and create a better standard of living for the population as a whole. Also, at the present time, Cuba has a financial potential of her own, which – if it can be effectively tapped – is adequate for her development. In addition, as long as present sugar prosperity continues, further large financial resources should be at her disposal for this purpose.<sup>164</sup>

The Mission outlined a detailed prescription to improve the Cuban economy. The first step included investment in research and development of non-sugar agriculture. In the past, considering the sugar industry's dominance, investment in research into alternatives may have seemed like a waste of time and money. The Mission, however, "urged substantially" both public and private sectors "to increase their expenditures in research" in industry, agriculture, and mining. There should be "without delay" the establishment of a research institute called the Fundación Cubana para la Investigación Tecnológica to "find the products, production methods, and processes most suitable to Cuban conditions."<sup>165</sup> It would be most effective if Cuba remained open to foreign experts. The Mission's data and conclusions ought to provide guidance for government stimulus agencies such as the BANFAIC. The point was that government development plans up to

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<sup>163</sup> IBRD, 72.

<sup>164</sup> Ibid. 3.

<sup>165</sup> Ibid. 17.

that point lacked necessary data to make rational economic decisions – resulting in waste of public funds and limiting their usefulness.

Open to some Keynesian ideas on development, the Mission expressed a very positive opinion of the BNC and the BANFAIC. They characterized Prío's creation of the BNC as a necessary positive step. "A most important function of a central bank in a country like Cuba," the Mission pointed out, "is to develop specialized credit institutions."<sup>166</sup> The Mission therefore applauded the BANFAIC's creation, and advocated that government financed and managed development banks provide undercapitalized economic sectors with low-cost credit and working capital.

In the effort to raise the level of human capital across the island, particularly in the rural areas, the Mission called for fundamental education reform. It pointed out that lack of laws requiring education funding was not the problem – for the Constitution of 1940 mandated it. The dysfunction came in the actual allocation process where officials (such as José Manuel Alemán, Prío's Education Minister) pilfered the funds before they reached their intended targets. Alemán consistently received accusations that he pocketed education funds intended for rural schools to finance his personal real estate investments in Miami.<sup>167</sup> The Mission's recommendations differed with Lowry Nelson's who urged that regional governments should take over education in their respective areas. Rejecting the current Education Department, the Mission recommended for the creation of an autonomous "nonpolitical" agency called the National Board of Education. The model maintained a centrally managed system, but called for education management to be separated from the state, and then receive regular audits and oversight.

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<sup>166</sup> Ibid. 534.

<sup>167</sup> Ameringer, 35, 41; "The Testimony of José Alemán," [adams.posc.mu.edu/russ/jfkinfo2/jfk5/hscalaalmn.htm](http://adams.posc.mu.edu/russ/jfkinfo2/jfk5/hscalaalmn.htm).

The “unsatisfactory state of labor-management relations,” according to the Mission, represented the “most serious obstacles to Cuba’s development.” Both management and labor should immediately “adopt a more cooperative and realistic attitude.”<sup>168</sup> Cuba lacked labor tribunals to resolve disputes that would have considerably eased relations. Since the early 1930s, labor unions steadily increased their power in the regulatory regime and politics. For two decades, Batista and the Auténticos, in populist fashion, instituted progressive pro-labor laws. By the early 1950s, labor demands, pensions, benefits, dismissal laws, and wage controls had grown to such an extent that they hampered economic growth, discouraged investment, and did “much to aggravate the unsatisfactory labor-management relations.”<sup>169</sup> The Mission particularly criticized the unions for advocating harmful economic policies such as suppressing mechanization and productivity. Moreover, the Cubanization of labor, for example, required employers to hire Cubans instead of foreigners regardless of their ability to perform the task at hand. The Mission pointed out that the economy required openness to foreign experts until Cubans received sufficient training. They argued that current labor laws and union demands drove up supply costs to the point that they lowered efficiency, caused unemployment, discouraged enterprise, generated unsustainable pensions, and created “unjustified demands” in the production process.<sup>170</sup> The Mission recommended that the unions cease promoting policies that harmed the economy.

In the area of monetary policy recommendations, the Mission took a somewhat Keynesian approach. It advocated that the government should assume a role in promoting diversification, for example, by employing tax revenue to “carry out high

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<sup>168</sup> Ibid. 18.

<sup>169</sup> Ibid. 19.

<sup>170</sup> Ibid. 359.

priority projects” in non-sugar economic sectors. The Mission clearly validated and advocated the use of government stimulus banks to finance “those sectors of the economy which at present are not receiving adequate credit.” Furthermore, it asserted that monetary policy should include “tax abatements and customs exemptions” for infant industries. So long as the BNC and the BANFAIC remained transparent and free from corruption, the Mission viewed them as useful public agencies to offer credit and working capital to the private sector. The BANFAIC and other public stimulus banks:

can win public confidence by selecting competent technical personnel, by avoiding operations reflecting political pressures, and above all by showing that it is investing in business ventures which are successful because of good management<sup>171</sup>

Although the Mission argued in favor of centrally managed stimulus, it recognized that every sector of the economy, by “historical accident” or “political influence of specific pressure groups,” was overly controlled. Price ceilings, quotas, and controls stifled expansion of a great number of non-sugar agricultural industries such as rice, tobacco, henequen, coffee, corn, fruits, cattle ranching, and others. “Since it is important to diversify Cuban agriculture,” the Mission recommended “a reappraisal of these price controls with the object of removing them as rapidly as possible.”<sup>172</sup>

In regard to foreign economic policy, the Mission advocated maintaining, and even increasing if possible, the U.S. sugar quota. In addition, Cuba should expand markets for sugar and non-sugar products by participating in trade agreements, particularly with European nations, which would reduce preferential import duties. In essence, while maintaining the sugar industry, international free trade should expand to provide markets for all Cuban products.

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<sup>171</sup> Ibid. 22.

<sup>172</sup> Ibid.

Determined to remain frank and forthright, the Mission addressed sensitive subjects that negatively affected the economy such as waste from corruption, and public administration that served private interests. It observed that almost every government department needed to institute oversight mechanisms to expose and prosecute corruption, and recommended the introduction of a merit based system to direct government employment. The Mission observed that party affiliation, the spoils system, *personalismo*, *amiguismo*, nepotism, and other inefficient directives for government employment degraded the quality of public administration.<sup>173</sup>

In addition to cleansing the state from corruption and public administration driven by special interests, the Mission called for fiscal and monetary reforms. The stability of the Cuban peso had to be maintained to encourage confidence in investors to initiate new economic activities. Secondly, tax enforcement required reform. To this end, the Mission referred to the proposals prepared by Price, Waterhouse & Company in 1950.

In addition, the “constructive use of revenues” presented a foremost priority for the Cuban government.<sup>174</sup> This included reducing waste from inefficient planning, execution, and administration of public works programs. In this regard, the Mission claimed that Prío made progress with the creation of the Development Commission (Comisión de Fomento) – an agency tasked to oversee the legitimate operations of public works. While improvements had been made, the Mission acknowledged, the public sector still required more involvement from officials such as the Ministry of Public Works to enforce legitimate administration.

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<sup>173</sup> Ibid. 24.

<sup>174</sup> Ibid.

### The Cuban School

During the Great Depression and the WWII years, in Cuba there emerged a diverse school of local economists, some from the University of Havana and others from various professions related to law, history, or economics. This group included Gustavo Gutiérrez y Sánchez, Felipe Pazos y Roque, Ramiro Guerra y Sánchez, Francisco Pérez de la Riva, Julián Alienes y Urosa, Raúl Cepero Bonilla, José Antonio Guerra, and Raúl Maestri. By 1952, they produced a well-researched body of scholarship on the intricacies of the Cuban economy. Their works received scholastic oversight from international experts, thereby providing academic credence to their analytical methods, conclusions, and economic policy recommendations. They were the founders of the professional economics field in Cuba. By 1952, they had established enough credibility among international scholars to professionally train students in Cuban schools. From primary school to graduate level study at the University of Havana, they helped shape the official guidelines and trained students for a professional economics career.<sup>175</sup>

The Cuban economists provided data on the island's cultural, political, legal, and economic peculiarities that many outside scholars overlooked. They introduced, for example, paradigms of analysis developed in Latin American scholarship such as *latifundismo*, *personalismo*, and *amiguismo*. Cuban analysts possessed intimate knowledge of the island's traditions and business culture, which they took into account when formulating recommendations to improve the economy.

Ramiro Guerra y Sánchez and Raúl Maestri led the Cuban economics field in the 1920s and early 1930s, and framed the debate on the *latifundismo* landholding system

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<sup>175</sup> Juárez Morales, Enrique W., *Economía política, o, Nociones de economía política y elementos de economía cubana: obra adaptada a la mente juvenil y al programa oficial de la segunda enseñanza* (Havana: Cultural, 1952).



and its effects on the island economy.<sup>176</sup> In 1927, Cuban economist Ramiro Guerra y Sánchez published *Azúcar y Población en las Antillas*. He examined sugar production throughout the Caribbean, and pointed out the common feature of concentrated landholding. Guerra y Sánchez observed:

the sugar industry tends to drive out small landowners and producers of competing products and to establish a plantation routine that blocks all development including its own.<sup>177</sup>

He argued that concentrated landholding enabled a small number of powerful economic agents to perpetuate sugar cultivation for self-enrichment, but it took place at the expense of utilizing land for other forms of agriculture, particularly subsistence crops required by the entire population. In other words, Cuba's richest natural resource, arable land, was inefficiently cultivated to benefit a small number of Cubans.

In 1929, Raúl Maestri released *El latifundismo en la economía cubana*.

Considering the rapid expansion of cane cultivation and small number of landholders in the first three decades of the twentieth century, Maestri warned that Cuba could turn into a vast plantation. His warnings regarding *latifundia* – of its economic inefficiencies and social problems – were widely publicized, understood, and later influenced public policy. Creators of the Constitution of 1940 heeded the warnings of Guerra y Sánchez and Maestri with Article 88–96 that “set forth additional property concepts such as the prohibition of *latifundios*.”<sup>178</sup> Prominent Cuban economists built on the work of Guerra y Sánchez and Maestri such as H.E. Friedlander in *Historia económica de Cuba* (1944), Francisco Pérez de la Riva in *Origen y régimen de la propiedad territorial en Cuba*

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<sup>176</sup> Raúl Maestri, *El latifundismo en la economía cubana* (Havana: Editorial Hermes, 1929).

<sup>177</sup> Wallich, 11.

<sup>178</sup> Ignacio E. Sánchez, “Constitutional Protection of Cuban Property Rights,” *Cuba in Transition: Volume 6, Papers and Proceedings of the Sixth Annual Meeting of the Association for the Study of the Cuban Economy (ASCE), University of Miami, Florida, August 8-10, 1996* (Austin: UT Lanic, 1997) 399.

(1944), and Julián Alienes y Urosa in *Características fundamentales de la economía cubana* (1950). These analysts generally agreed that Cuba required some sort of land reform.

Maestri pointed out that, like several Latin American economies, twentieth century Cuba inherited *latifundismo* from the Spanish Colonial Period, and ultimately it dated back to ancient Roman times. Throughout its long and difficult history, *latifundismo* included large plantations, exploited workers, and a small number of elite and powerful landholders. They argued that the system was antiquated for the twentieth century, particularly following WWII when many in the international community promoted domestic competitive markets, particularly in land, as the optimal course to development. Moreover, the social history of *latifundismo* in the past millennia included strict class systems, social unrest, civil war, and revolution.

Keenly aware of Spanish colonial customs, Maestri, Guerra y Sánchez, and Alienes pointed out that the Cuban economy perpetuated a *latifundismo* system at the expense of a modern domestic economy characterized by a large number of landholders engaged in competition at market determined prices. They observed that government bureaucracy in a *latifundismo* system usually functioned to protect concentrated landholding thereby perpetuating an oligopoly market. They recognized in the 1920s the need to reform the property bureaucracy that served special interests and provided the legal framework to support *latifundismo*.

Cuban scholars noticed how their nation's particular form of *latifundismo* was somewhat unique as the Americans played a large role in the island's agricultural and financial systems. Over the two decades following Cuban independence in 1898, the

Americans with a select group of Cubans replaced Spanish landowners at the top of a new, twentieth century form of dual nationality *latifundismo*. This fed a general and growing fear among the intellectuals, poor, labor, and farmers that Cuba was turning into a huge plantation owned by a small group of Cubans and foreigners. These fears seemed confirmed during the ‘dance of the millions’ period when additional land grabbing by a small group of investors spread across the island. As a result, a small group of Americans moved in, established extensive cane fields, and eventually came to own over forty percent of the sugar industry.

Thus in the late 1920s Maestri proposed *latifundismo* as the paradigm from which to analyze economic inefficiency as well as social unrest on the island. He also highlighted the fact that *latifundismo* in other regions of Latin America had created social divisions (usually due to struggles over land ownership) that could certainly arise in Cuba. Referring to the disputes over *latifundismo* that had given rise to charismatic figures like Pancho Villa and Emiliano Zapata in Mexico with promises to redistribute the land to the people. Maestri and other Cuban historians warned that the island’s system of landholding could give rise to revolutionaries promising similar reforms.

In the 1940s–50s, perhaps the most respected and influential Cuban economists were Gustavo Gutiérrez y Sánchez and Felipe Pazos y Roque. On March 7, 1950, while serving as President of the National Economy Board (Junta Nacional de Economía), Gutiérrez hosted a conference at the Society of Friends in Havana to discuss the present and future Cuban economy. In his opening address he argued that “1950 is a year of exceptional importance in the history of Cuba,” and “could be the turning point”<sup>179</sup> Gutiérrez recognized Cuba’s new opportunities presented by the post-WWII international

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<sup>179</sup> Gutiérrez, 1.

economic climate of reduced international tariffs. He furthermore understood that Cuba had an abundance of rich land, and possessed a geographic comparative advantage over many tropical nation competitors to efficiently and rapidly supply a variety of fresh tropical products to the U.S. and Europe.

He argued that Cuba could establish itself in the near future as an exporter of not only sugar, but also cereals, bananas, pineapples, rice, tobacco, coffee and other products. By 1952, however, non-sugar agriculture was devoted almost entirely to domestic consumption, supplying the urban areas and mills mostly with truck garden crops and dairy products. Nevertheless, many analysts felt optimistic about the possibility of agricultural diversification that could not only sustain domestic consumption but export as well.<sup>180</sup> For this reason “exports are well below our capacity,” Gutiérrez argued.<sup>181</sup> The international trade structure, particularly in the Atlantic community of nations, had changed dramatically from protectionism to liberalization since WWII. Cuba’s domestic economic structure, he proposed, must reform accordingly to take advantage of the new opportunities presented in the international market. However, for Cuba the window of opportunity was closing rapidly, Gutiérrez warned. Cuba must adjust its domestic economic system and establish itself as the principal supplier of non-sugar products to international markets in advance of its tropical nation competitors.

Cuba’s economic future thus relied on the expansion of “production, employment, exports, imports, salaries, and monetary circulation.”<sup>182</sup> He made it clear that, considering the new opportunities in non-sugar markets, maintaining the status quo would result in enormous opportunity costs for the society. Gutiérrez emphasized that

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<sup>180</sup> Nelson.

<sup>181</sup> Gutiérrez, 46.

<sup>182</sup> Ibid.

Cuba's future prosperity relied on flexibility – in domestic financing, investment, and production to adjust for fluctuations in international demand. Furthermore, for Cuba to maintain an optimal production portfolio in a fluctuating market environment required the ability to rapidly convert arable land use.

Gutiérrez was among the most internationally respected Cuban economists in the first half of the twentieth century. He began his career in 1919 as a University of Havana law professor and served as legal counsel to the Secretary of State (1925–29), then established his reputation as a prominent economist early in the Batista regime of 1933. He served as Secretary of Justice (1933), co-writer of the Constitution of 1940, member of the House of Representatives (1938–42), Speaker of the House (1940), Cuban delegate to the U.N. (1944–48), and led the Cuban delegations to the GATT meetings in the mid to late 1940s. The international community respected him as a sound scholar, appointing him Chairman of the Legal Drafting Committee for the 1947 GATT Geneva Round.<sup>183</sup> Batista, Grau, and Prío valued his analysis, judgment, advice and opinions, and placed him in high positions in their administrations. By employing Gutiérrez, the Cuban presidents benefitted from his academic reputation to provide credibility to their administrations and economic programs. Unlike many economists of the pre-Auténtico period, the political spoils system characteristic of Cuban politics in the 1940s left Gutiérrez largely unaffected. Grau and Prío typically replaced many government employees with personal friends and Auténtico supporters. Gutiérrez, however, due to his reputation as a logical and forthright economist, continued to serve in some capacity as a government advisor or agent despite political party changes. For example he served as Technical Director, Secretary, and President of the National Economy Council under

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<sup>183</sup> Douglas A. Irwin, et al., 291.

Prío beginning in 1948, and resigned in 1953 to take over as Batista's Finance Minister until 1955. He oversaw Batista's economic programs until Castro's rise to power in late 1958.

Gutiérrez' set of basic social and political values included protection of human and civil rights, democracy, and representative government. In economics, he defended a classical set of values that included property rights, free trade, entrepreneurship, and the competitive market. Gutiérrez 'laid out a set of fundamental policies that he, speaking for the National Economy Board, recommended for Cuba's future prosperity. He said that Cuba should build a domestic financial and political system to attract foreign direct investment; engage in free trade agreements to promote diversity in exports; export sugar beyond the quotas and employ the additional revenue to fund agricultural diversification efforts; expand credit, education, and land ownership in the eastern half of the island to promote entrepreneurship; enforce transparency in government spending, taxation, and the general financial system; and reduce political turmoil and violence that presented risks to investment. He ardently supported expanding international trade throughout the world, and even went as far to argue that Cuba's economic future depended on it.<sup>184</sup>

Although he held firm to conservative free market economics, he was also open-minded to several ideas and recommendations from the progressive ISI, Keynesian, and Structuralist schools, particularly those that advocated public mechanisms to stimulate private infant industries. His views on government sponsored stimulus to promote non-sugar economic diversification, open international trade particularly with the US, foreign direct investment, and labor reform aligned particularly well with Batista's domestic policies, and the two worked closely together throughout the Second Batistano.

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<sup>184</sup> Gutiérrez, 1.

Gutiérrez recommended that Cuba should maintain a close, amicable, and open relationship with the U.S. The two countries shared, he argued, cultural values such as freedom, democracy, and entrepreneurship. Gutiérrez attributed Cuba's past "enormous economic advancements" to its close relationship with the U.S. and advocated removing trade barriers to the point that it would be just as easy for American businesses to invest in Cuba as in Florida.<sup>185</sup> In fact, he displayed particular admiration for U.S. entrepreneurship. In comparing it to the Cuban situation, he found that the basic economic, political, financial, and bureaucratic prerequisites necessary for private sector capital investment and growth, such as access to low-cost credit, were absent in many parts of Cuba.

Asserting that Cuba possessed enormous potential entrepreneurial energy, particularly in the rural areas, he explained that unfortunately many barriers continued to inhibit growth of small businesses. To remedy this, Gutiérrez recommended that the government immediately conduct in depth studies of entrepreneurs' needs. He pointed out, for example, that the lack of information on the rural areas impeded economic growth, thus making it impossible for the government or private sector financiers to make rational economic decisions. In fact, he argued that nobody knew within tens of thousands just how many non-sugar workers existed on the island, as many of them were undocumented. The Cuban National Association of Industrialists had recently argued that the non-sugar workers increased in 1950 from 250,000 to 300,000, Gutiérrez explained, however, that there was no information to corroborate that increase, and questioned whether 250,000 was an accurate number. To provide the necessities for entrepreneurship in the rural areas, such as credit and working capital, required an

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<sup>185</sup> Ibid. 2.

extensive population study by the government. “It is important to know,” argued Gutiérrez, “the urgent needs and particulars of the rural economy. Our rural areas have been studied little in spite of population growth and demographic changes.”<sup>186</sup> It was the lack of vital information and documentation of the rural areas contributed to the “paralysis of credit.”<sup>187</sup>

Gutiérrez recommended at the 1950 conference that Cuba should make itself more attractive to foreign direct investment. In order for this to occur, the unions, for instance, needed to ease up on their demands and propensity to strike. Labor laws in general, he argued, had reached a point that they discouraged capital from entering the island. Laws prohibiting employers from dismissing unproductive workers and hiring non-Cubans worked to discourage foreign direct investment that hindered prosperity. Gutiérrez included himself among a very few Cuban scholars who agreed with the U.S. government and businesses like Goldman Sachs on this point – that labor laws presented a significant obstacle to the inflow of working capital to the island. They furthermore required foreign investors to spend time and money negotiating, paying off, or politicking with government and union leaders only to arrive at inefficient and artificial labor costs. Even after an investment was made, the investors often took on the additional risk of unions with the propensity to strike for trivial reasons. From the investors’ perspective, particularly those from the U.S., these were irritating costs and risks of doing business in Cuba.

In making his recommendations for economic prosperity in Cuba, Gutiérrez’ openly criticized the Prío government. For example, he suggested that Prío end political

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<sup>186</sup> Ibid. 7.

<sup>187</sup> Ibid.



violence and corruption, both of which caused uncertainties among would-be investors thus discouraged the introduction of much needed capital and credit. Until Cuba achieved a nonviolent and stable democratic system, the economy would fail to grow, according to Gutiérrez. Therefore he called for all political parties to lay down arms and come to the negotiating table for the economic benefit of all Cubans.

In addition, corruption had to end. Without naming names, Gutiérrez described how the questionable activities of many government officials undermined the island's prosperity. The rural areas in particular suffered greatly due to corruption. Gutiérrez took issue with the political custom whereby politicians took credit for rural programs before they commenced operations, and later embezzled the programs' funds – as the rural areas continued to languish in economic despair. This form of corruption put Cuba's economic future at considerable risk, impeding the growth and diversification necessary to compete in the post-WWII era.

Gutiérrez agreed with most of his international and Cuban academic peers that the sugar industry dominated economic resources in the countryside. He disagreed, however, that agricultural diversity could only take place at the expense of sugar production. On this point he concurred with Wallich, the IBRD, and several Cuban scholars such as Alienes and Pazos. They felt that Cuba could produce large quantities of diverse crops without affecting sugar output. Gutiérrez identified the major obstacles to rural economic activity to be the sugar quota system, a lack of education, credit, working capital, and efficient bureaucratic services. Moreover, he argued that the mechanization of the sugar industry (that labor unions continuously resisted) in combination with efficient cultivation methods would provide better cane yields and thus free up arable

land for rural workers to grow crops such as cereals, pineapple, rice, bananas, tobacco, coffee, legumes, and develop livestock.<sup>188</sup>

In his closing remarks, Gutiérrez explained that Cuba's economic future depended on establishing a diverse domestic economy fueled by entrepreneurs and investment. The "plutocracy," bent on maintaining the status quo, faced a crucial choice. They could hold on to the status quo but in doing so would collectively serve as the major obstacle to diversification and economic growth. Or they could work together to reject the cartel and quota driven economy as an antiquated system of the colonial aristocracy of earlier times, and progress toward a modern investment driven domestic economy similar to that of the U.S. Ominously, he even went as far as to warn the Cuban elite that if they chose to maintain the cartel system, one day the public may demand the nationalization of industries.

### Consensus

When Batista took over in March 1952, he had at his disposal a broad body of foreign and domestic scholarship and recommendations. Many of these works had developed consensus on several fundamental issues, such as the need to diversify and modernize agricultural production. They developed a variety of policy recommendations and approaches to achieve economic diversification. There was a sizeable consensus that underdevelopment of non-sugar industries was largely a financing problem, rather than the result of arable land or labor shortages. Plenty of unemployed Cubans were eager to work, particularly in between the *zafras*. It seemed obvious to several analysts that,

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<sup>188</sup> Ibid. 52.

considering the availability of workers and arable land, the main problem for non-sugar industries lay in their lack of working capital and access to reasonably priced credit. In addition, they generally agreed that if the private sector failed to remedy the problem of undercapitalization in non-sugar industries, the government could provide the credit. Grau, Prío, and Batista, when defending their stimulus programs, pointed out the scholarly consensus that argued in favor of government credit to promote economic diversification.

## Chapter III

### Raising Expectations

#### “This is the man”

Batista expressed optimism and joy to the Cuban people in the evening of March 10, 1952. At 6 p.m. he addressed the nation. Surrounded by an excited and enthusiastic crowd, he announced his intention to establish a regime based on order, progress, law and justice. This regime will remain in power only for the time necessary to achieve those objectives and immediately thereafter, elections will be called. The speech was brief, but expressed much excitement about a new prosperous future.

For the most part, the public received Batista’s words with mixed reviews and various misgivings. Certainly many agreed with his argument that corruption and special interest government infested the past government. That alone, however, was not enough to stir up mass popular enthusiasm for Batista’s undemocratic actions. He had a long way to go to achieve widespread confidence among the masses. *Newsweek* reported:

In general, Cubans don’t expect much change. Looking backward at Batista’s past record, they expect order will be maintained with an iron hand; graft will continue, although perhaps on lesser scale; business and industry can look forward to less of labor’s aggressiveness. There will doubtless be a long period of provisional government before elections are held. However, as long as the price of sugar is high, the Cubans won’t care too much.<sup>189</sup>

Cubans reacted to the undemocratic coup with “passive consent.”<sup>190</sup> Only a few stood up in defense of their popularly and constitutionally elected president Prío. The University of Havana students opposed Batista’s disregard for the Constitution of 1940, and were

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<sup>189</sup> *Newsweek*, March 24, 1952.

<sup>190</sup> *Ibid.*

prepared to defend Prío with their lives. But upon learning that the ousted president planned to escape the island, the students decided not to put up a violent fight. Like the other dissenters such as the Auténticos and Ortodoxos, the students' protests remained nonviolent for the time being.

Lack of faith in the existing government more than enthusiasm for Batista most likely explained the public's general apathetic reaction.<sup>191</sup> "The ease with which Batista and the army seized power," historian Louis Pérez Jr. later recalled, resulted from "the effects of nearly a decade of graft, corruption, and scandal at all levels of civilian government" that "paved the way for the return of military rule in 1952."<sup>192</sup> *Newsweek* reported on the reasons behind the public's indifferent reaction:

The general public was thoroughly disgusted with the disorganization of the government, the prevalence of graft, and the unchecked gang warfare with cost some thirty lives during the Prío regime. The public was also angry over the arrogance of labor, which has been inconveniencing everyone by calling strikes that stop transportation and close stores and restaurants. Business and industry were fed up with Prío's seizures of private companies to enforce labor demands.<sup>193</sup>

In light of the past regime's wrongdoings, however, the fact remained that Batista lacked a popular mandate to govern. As a result, although the majority of Cubans never threatened his coup, he still felt that he needed to appeal to them for acceptance and support. To the masses, he justified his undemocratic coup by condemning the previous regime and describing himself as a patriot and savior who delivered them from ruin.

Posters appeared in Havana with Batista's photo and the slogan "this is the man," conjuring a rescuer image. In his first statements, Batista explained he "had seized power

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<sup>191</sup> Jorge I. Domínguez, "The Batista Regime in Cuba" *Sultanate Regimes*, ed. H.E. Chehabi and Juan J. Linz (Baltimore: Johns Hopkins University Press, 1998) 119.

<sup>192</sup> Louis Pérez Jr., *Cuba: Between Reform and Revolution* (New York: Oxford University Press, 1988) 289.

<sup>193</sup> *Newsweek*, March 24, 1952.

because the people could not tolerate further gangsterism and graft,” and “to rescue Cuba from a regime of bloodshed and corruption.”<sup>194</sup> He also accused Prío of plotting to overthrow the upcoming elections in June and devising a plan to “plunge Cuba into civil war.”<sup>195</sup> Therefore, Batista argued, his *golpe* was necessary to prevent Prío from “plunging [Cuba] into complete chaos,”<sup>196</sup>

In essence, Batista’s argument promoted the idea that although Prío was a constitutionally elected president, the corruption and pilfering in his government cancelled his mandate to rule.<sup>197</sup> By condemning the past regime, Batista thus immediately raised expectations that he would honestly and responsibly steward Cuba’s public finances and resources.

Batista wanted Cubans to understand that, although they did not elect him, he stood for them. The dictator characterization bothered Batista, for he wanted to be seen as an enlightened ruler concerned not with his own political and economic power, but with democracy and the needs of the Cuban populace. “The people and I are the dictators,” Batista reassured.<sup>198</sup> He implied that he would rule with *cordialidad* – a desire to “do well” by the people – clean up the government, take it out of the special interests’ grip, and restore it to public service. He explained that circumstances required that he exercise temporary extra-constitutional powers, but that he wholeheartedly believed in democracy. According to his narrative, he intended the same transition from military dictator to popularly elected president that he had accomplished in the years 1934–40.

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<sup>194</sup> Ibid.; U.S. Embassy Havana, Telegram 1501, March 14, 1952, 737.000 (W)/3-1452, IA/1950-54.

<sup>195</sup> Ibid. 34; Batista, *Growth and Decline of the Cuban Republic*, 31.

<sup>196</sup> Ibid.

<sup>197</sup> *Bohemia*, March 16, 1952.

<sup>198</sup> Thomas, 790.

Many Cubans and foreigners in fact agreed with Batista's reasons for assuming dictatorial powers, if he intended to restore democracy without the political violence, *gangsterismo*, and corruption that occurred during the Auténtico years. American businessman William Parsons, who had lived in Cuba for twenty-five years, applauded Batista as:

the logical man to place at the head of government to clean up the corruption and graft which has accumulated and run into hundreds of millions of dollars during the eight years of the [Auténtico] regimes.<sup>199</sup>

Many Cubans agreed with Parsons and demonstrated in support of Batista. In a public speech from the Presidential Palace terrace on March 13 in front of a large excited crowd, Batista raised expectations. He began by displaying humility and gratitude:

I am making an extraordinary effort to find my voice to say these words, words of gratitude to my country, and deep appreciation for this demonstration of support that the people have given me this evening.<sup>200</sup>

Batista then linked his actions to the people's will and the country's progress. To defend his coup, the speech quickly turned invective as he condemned the past eight years as "a period of political crimes, and crime in all aspects... with lack of respect and consideration of public opinion."<sup>201</sup> Batista exclaimed that the public welcomed his coup in spite of its unconstitutionality. That it was bloodless, quick, and relatively smooth proved the people's desire for new and honest government. He promised that the new regime would:

revive the light of peace... and restore the government to work for all. The ambitions and selfishness [of the past regime] have upset this beautiful aspiration, but now there is hope that it may become a reality... Here I am again, with risk to my life, to stop this chaos and anarchy.<sup>202</sup>

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<sup>199</sup> U.S. Embassy Havana, Telegram 1548, March 21, 1952, 737.000 (W)/3-1452, IA/1950-54.

<sup>200</sup> UMCHC 5155, Box 110, Folder 4.

<sup>201</sup> Ibid.

<sup>202</sup> Ibid.

Batista then assured the Cuban people of his regime's patriotic and honest intentions:

We are neither here as simple, ambitious, and egotistical politicians, nor as militants who want to impose our rules and interests ahead of the people. We are for Cuba, for its progress, for justice, for liberty and our country.<sup>203</sup>

In conclusion, so that honest government may be peacefully restored, Batista asked Cubans for their cooperation, support, and patience:

Nobody, absolutely nobody will be persecuted by our government. We only ask for everybody's cooperation to consolidate our movement so that we have the essential power, only what is absolutely necessary, to govern by the will of the people, and for the sake of the people... for the progress of the people, unity of the workers, security of industry, harmony between capital and labor, thank you. Salud! Salud!<sup>204</sup>

In combination with his characterization as the benevolent man of the people who had saved the country from peril, Batista described himself as a strong, hard working and organized leader. At fifty-one years old, he had a solid, muscular build, and in his words "fit as a fiddle."<sup>205</sup> Shortly after the coup, he reminded Cubans: "I have spent days and nights without sleep," working "for hours without end."<sup>206</sup> He cultivated a popular image that he 'worked sixteen hours a day,' although later, according to historian Hugh Thomas, that claim was "quite false."<sup>207</sup> On the contrary, Batista would in the coming years spend much time at banquets, parties, and other private gatherings conducting an extravagant social life. He enjoyed being entertained by socialites, foreign dignitaries, businessmen, and wealthy Cubans. Nonetheless, he advertised his image as a tireless worker whose purpose was to restore order, improve the government, and create a prosperous Cuba.

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<sup>203</sup> Ibid.

<sup>204</sup> Ibid.

<sup>205</sup> *Newsweek*, March 24, 1952.

<sup>206</sup> UMCHC 5155, Box 110, Folder 4.

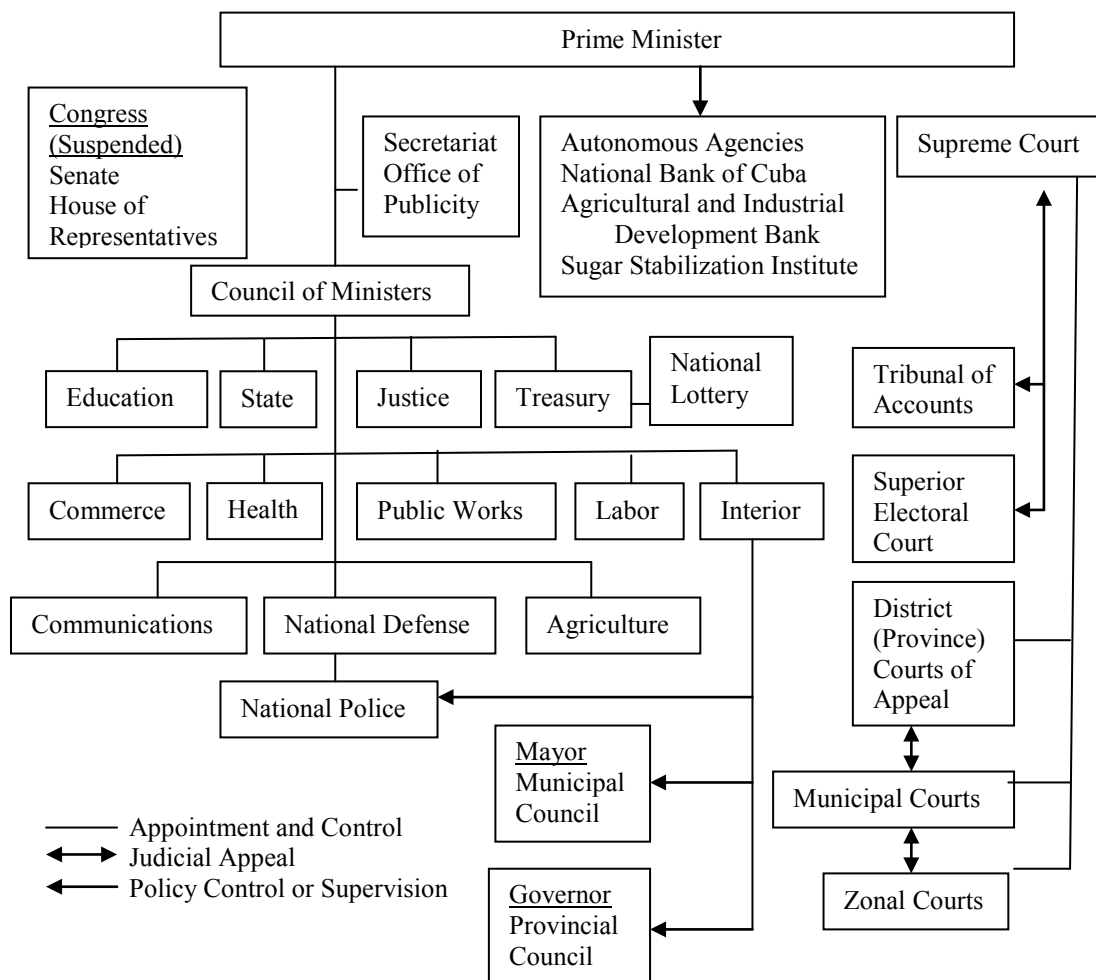
<sup>207</sup> Thomas, 791.



## The New Government

The *Gaceta Oficial* of March 10, 1952 reported that Batista and a Council of Ministers (i.e. Cabinet), with the approval of the Revolutionary Junta (the group of young officers who carried out the coup), had assumed both executive and legislative powers. The Congress was suspended indefinitely with pay, and the Council of Ministers assumed its functions. The courts continued as usual.

Figure 1. Structure of the Cuban Government, March 12, 1952



The March 10 *Gaceta* also announced that Batista invoked the Law of Public Order and suspended constitutional guarantees for forty-five days, including limitations

on free speech, assembly, and the right to strike. It was very clear that Batista “had no immediate plans for any political activity looking toward a re-establishment of constitutionality.”<sup>208</sup> Unmistakably he positioned himself as a political and legislative dictator. Raúl Acosta Rubio, Batista’s secretary, bluntly stated that the new government:

is more interested in consolidating its present position through the enforcement of law and order and meeting the nation’s needs than it is with an academic argument as to its constitutionality.

Batista thus made clear that he refused to engage in a debate over constitutionality, for he had more pressing responsibilities such as fulfilling the “nation’s needs.” This narrative served both to quiet discussion of constitutionality, and to emphasize himself as a hardworking, compassionate, responsible, and honest public servant – a dictator with *cordialidad* and enlightened to serve the best interest of every Cuban.

As Batista consolidated his authority – loyalty, patronage, and politics in combination with merit determined appointments to the new regime. Condemning the previous regime precluded Batista from retaining their senior public officials. He removed most of the Auténticos from the public sector and replaced them with his supporters, such as his loyal brother ‘Panchin’ whom he appointed as Governor of Havana. Longtime friend Justo Luis Del Pozo took over as Mayor of Havana – viewed by many as the “second most powerful office” in Cuba.<sup>209</sup> Del Pozo dutifully employed the police to secure the Havana streets, enabling Batista to quickly control the city. Amadeo Lopez Castro took over the National Development Commission without prior experience in that field. Retired sugar baron and close friend Marcial Facio took over the newly created Tourist Commission – the duties for which had little to do with sugar

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<sup>208</sup> U.S. Embassy Havana, Telegram 1548, March 21, 1952, 737.000 (W)/3-1452, IA/1950-54.

<sup>209</sup> Ameringer, 108.

production.<sup>210</sup> Cuba's traditional political spoils system and cronyism explained the selection of many key appointments.

The day following the coup on March 11 Batista appointed a new Cabinet and retained none of the previous ministers. The new ministers thus comprised a group of longstanding Batista friends and supporters.

Table 3. Council of Ministers, March 13, 1952

<u>Minister</u>	<u>11 March 1952 Appointments</u>
Prime Minister	Fulgencio Batista
Minister of Public Works	José A. Mendigueta
Minister of Agriculture	Dr. Alfredo Jacomino
Minister of Commerce	Sr. Oscar de la Torre Reyné
Minister of Education	Dr. Andrés Rivero Agüero
Minister of Communications	Dr. Pablo Carrera Jústiz
Minister of Health	Dr. Enrique Saladrigas Zayas
Minister of National Defense	Dr. Nicolás Pérez Hernández
Minister of State	Dr. Miguel Ángel de la Campa
Minister of Justice	Dr. Miguel Ángel Céspedes
Minister of Interior	Dr. Ramón O. Hermida
Minister of Finance	Dr. Marino López Blanco
Minister of Labor	Dr. Jesús A. Portacarrero
Minister of Propaganda	Dr. Ernesto de la Fe
Minister without portfolio	Dr. María Gómez Carbonell
Minister without portfolio	Julia Elisa Consuegra
Minister without portfolio	Justo Salas Arzuaga
Minister without portfolio	Santiago Álvarez
Minister without portfolio	Leonardo Anaya Murillo
Secretary of the Presidency and Council of Ministers – Dr. Andrés Domingo	

That merit only partly influenced the appointments led observers, including a U.S. Embassy official, to “doubt... the ability and training” of some appointments.<sup>211</sup>

The ministers such as University of Havana Law School graduate Miguel Ángel de la Campa had a proven record of loyalty to Batista. Campa had served in Cuba's

<sup>210</sup> *New York Times*, March 12, 1952.

<sup>211</sup> U.S. Embassy Havana, Telegram 1548, March 21, 1952, 737.000 (W)/3-2152, IA/1950-54.

diplomatic corps beginning in 1906, as Ambassador to Spain, Italy, and Mexico, and as Batista's dutiful Foreign Minister from 1937–40. He received decorations from over thirty-five countries, such as the Legion of Honor from France and the Order of Isabella the Catholic from Spain. Minister of Education Andres Rivero Agüero also graduated from the University of Havana Law School, and had previously served Batista as Secretary of Agriculture. Alfredo Jacomino in 1936 led the budget committee of the House of Representatives and worked closely with Batista. Jacomino also was a member of the prestigious group that drafted the Constitution of 1940, and later described by his colleague Carlos Marquez Sterling as “always very dedicated to his tasks... very responsible.”<sup>212</sup>

The new Council of Ministers held their first meeting on March 12. They immediately discussed social, economic, and health issues and worked to bolster public confidence. The issues included the meat shortage, water supply to the cities, need for housing, and improvement of the National Highway.<sup>213</sup> To alleviate the meat shortage the Council hastily approved the allocation of 500,000 pesos to subsidize the cattle producers, and encourage them to sell beef animals at ten to fifteen pesos per head for public consumption. Perhaps as a gesture of acceptance for the new regime, the Cattle Producers Association agreed to the initiative. In the days that followed the plan generated over eight hundred animals per day to the slaughterhouses for domestic consumption. This fell far short of the fourteen hundred head per day demanded just in the Havana area, but the supply was considerably greater than before. Whatever the motives – such as building patronages with the cattle industry, bolstering popular support,

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<sup>212</sup> *Daytona Beach Sunday News Journal*, July 10, 1984.

<sup>213</sup> U.S. Embassy Havana, Telegram 1501, March 14, 1952, 737.000 (W)/3-1452, IA/1950-54.

or improving general nutrition, the new regime prioritized getting meat on the Cubans' tables. Sometimes regardless of their economic soundness, it was measures such as this that made an immediate positive impact on the masses that preoccupied the Council's early meetings.

On March 24 Batista appointed longtime supporter Joaquín Martínez Sáenz as the BNC President. The talented economist Felipe Pazos had conservatively directed the central bank since its inception two years before. Martínez Sáenz, on the other hand, had little experience in economics or finance. Clearly for such a critical appointment Batista sought a loyal supporter to carry out his policies.

A lawyer who had spent most of his life in politics, Martínez Sáenz had proven his loyalty to Batista on many occasions. He had cofounded the anti-Machado political party ABC that in 1930 supported Batista's control of the army as Chief of Staff – an event critical to his initial rise to power.<sup>214</sup> Like most members of the ABC, Martínez Sáenz came from the idealistic professional middle class. In 1933, his leadership of the ABC was instrumental in the fall of Machado, thus he benefited from the political spoils that followed. Shortly after Batista took over the government in 1934, he probably never forgot how Martínez Sáenz, as a demonstration of allegiance, departed from the leftist wing of the ABC. Years later, Martínez Sáenz helped facilitate the downfall of Prío and declared his allegiance to Batista's takeover in 1952. Batista rewarded Martínez Sáenz with the presidency of the BNC despite his lack of economic training.<sup>215</sup> Clearly under-

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<sup>214</sup> Justo Carillo, *Cuba 1933: Students, Yankees, and Soldiers* (Coral Gables: University of Miami North-South Center, 1994) 232.

<sup>215</sup> Thomas, 784.

qualified, a U.S. Embassy official described him as an “inexperienced and irresponsible politician” in the 1930s and 1940s.<sup>216</sup>

Later on March 25 Batista spoke to a representative body comprised of industrial, financial, trade groups, and government officials and defended Martínez Sáenz’ appointment. He explained that the BNC would remain as a non-political instrument of government. He “seems to have convinced his audience of his serious purpose,” remarked a U.S. Embassy official.<sup>217</sup> Batista certainly realized the importance of maintaining confidence in the BNC’s solvency.

### The Domestic Coalition

Two days after the coup, on the morning of Wednesday, March 12 the sugar mills started their rollers and the *colonos* delivered their cane, storefronts opened their doors and the economy continued in its normal routine during the *zafra*. Batista proved early on that, although he assumed dictatorial political powers, he would refrain from causing any new uncertainties to the economy. He took measures to avert a general strike and hastily placated apprehensions about a disruption of the current economic system.<sup>218</sup>

Batista moved quickly to build a solid domestic coalition. Clearly the military provided his most loyal support. By the evening of March 10, Batista had replaced many of the senior army command with loyal junior and retired officers. He then immediately raised the enlisted ranks’ salaries from \$100 to \$150 per month. In the past Batista had

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<sup>216</sup> U.S. Embassy Havana, Telegram 1593, March 28, 1952, 737.000 (W)/3-2852, IA/1950-54.

<sup>217</sup> Ibid.

<sup>218</sup> Batista had a vested stake in the health of the economy and was a businessman himself, which may explain his reluctance to cause economic uncertainties by aggressive government intervention. In addition to sugar, he held investments in banks, factories, utility companies, and construction materials companies that conducted business in Cuba. He also owned magazines, radio stations, Television Channel 12, and the newspaper *Alerta*.

improved army posts, uniforms, food, hospitals, and pensions – effectively making the military a privileged sector of the population.

Without delay Batista moved to gain the support of domestic industry, finance, and labor. As he consolidated dictatorial power, he immediately began the process of building political allegiances, patronage networks, and cliental arrangements. He chose to perpetuate the existing quota systems that controlled production throughout the island's economic sectors. As the ruler, Batista now had the power to set the quotas and dominate their patronage networks and cliental systems. In addition, Batista's control over the quota systems gave him power over their stakeholders, thus he decided to maintain them.

In the first week of Batista's rule, an American official in Havana observed a "procession of delegations to the Presidential Palace and to the various ministries to register support for the new administration."<sup>219</sup> The business community and labor leaders hastily met with Batista and his senior officials to declare their support. The change in government prompted private sector leaders to quickly establish new patronage ties, as well as secure existing quotas, contracts, licenses, and other business arrangements. American and Cuban bankers, for example, met with Batista as soon as he took control – no doubt they worried about property protection. He quickly assuaged their nervousness by explaining that the new government intended to cooperate with them. This "procession" included the Bankers Association; National Association of Cane Planters; National Association of Mill Owners; Association of Colonos; National Federation of Sugar Workers; Habana Stock Exchange; National Association of Manufacturers; Habana Clearing House; Produce Exchange; Retailers Association; Shoe

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<sup>219</sup> U.S. Embassy Havana, Telegram 1548, March 21, 1952, 737.000 (W)/3-2152, IA/1950-54.

Manufacturers Association; Cattle Ranchers Association; media representatives; labor leaders in every agricultural sector; and former political leaders seeking to secure their positions in the new government such as Nicolas Castellanos, the ex-mayor of Havana.<sup>220</sup> A delegation of public works contractors called on the new regime, and Batista assured them that he would continue all projects started or planned during Prío.

Batista made it clear that he would not interfere with the domestic labor unions or the operations of the Inter-American Regional Office of the International Confederation of Free Trade Unions in Havana. The new Labor Minister, Jesus Portocarrero, immediately made himself available to meet with the labor leaders. The *New York Times* commented:

The problem which the new [Cuban] Cabinet is studying is probably the same sickening aftermath of virtually every Latin American upset – namely, how to bind the labor movement and its chiefs to the Dictator’s chariot, as Gen. Juan D. Perón has done in Argentina.<sup>221</sup>

On the day of the coup the Confederación de Trabajadores de Cuba (CTC) immediately called a general strike. By the next morning, however, with Batista’s soldiers occupying its headquarters the CTC reversed its position, called off the strike, and workers soon returned to their jobs. Perhaps the CTC Secretary General Eusebio Mujal and its nine member board agreed to accept Batista’s rule in part to preserve existing patronage benefits, such as a yearly \$300,000 government subsidy that the union had received during Prío.<sup>222</sup>

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<sup>220</sup> HAR, May 1952, 23; U.S. Embassy Havana, Telegram 1501, March 14, 1952, 737.000 (W)/3-1452, IA/1950-54.

<sup>221</sup> *New York Times*, March 15, 1952.

<sup>222</sup> Robert Jackson Alexander, *A History of Organized Labor in Cuba* (Westport, CT: Praeger Publishers, 2002) 141.



Following the coup the status of the moderate CTC leader Mujal remained uncertain, and many speculated that his days were numbered. On March 14 Batista's Minister of Labor Portocarrero met with Mujal and permitted him continue his leadership of the CTC in return for cooperation with the regime. The two men hugged, and Mujal assured that Batista had the workers' support. The CTC represented over a million workers in the Cuban economy, and the Batista regime obviously felt it necessary to co-opt Mujal for the time being to avert a disruption in the economy. Communist leader Lazaro Peña published an attack against Mujal and claimed that personal job security motivated his acquiescence to Batista. Mujal responded to the attack and declared to several newspapers his solidarity with Batista and his condemnation of communism. He remarked that Peña wanted to control the CTC and "repeat in Havana a 'Bogatazo' ...

that an inhuman struggle might take place between the workers and the armed forces, and that seemed the best field for anti-Cuban and anti-American agitation. But he [Peña] was mistaken. Cuba found the Government headed by General Batista and the CTC in an attitude of nationalistic and revolutionary understanding and rapidly, without giving any time to our common enemy, Communism, our hands were clasped.<sup>223</sup>

The U.S. Embassy agreed with Mujal that the communists would attempt to take over the CTC if he were removed.<sup>224</sup> Thus, Batista kept him in office, averted a general strike, and calmed anxieties, particularly in the business community, regarding labor unrest. In addition to CTC, Batista quickly established cooperation with the Sugar Workers Federation (FNTA). Its leader José Luis Martínez "paid warm and enthusiastic tributes to Batista."<sup>225</sup> FNTA membership included around 500,000 sugar workers, so for Batista this was a crucial endorsement. Through tough yet cooperative negotiations, Batista

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<sup>223</sup> Mujal's response article was published in several Cuban newspapers on 19 March 1952; U.S. Embassy Havana, Telegram 1552, March 21, 1952, 837.06/3-2152, IA/1950-54.

<sup>224</sup> U.S. Embassy Havana, Telegram 1501, March 14, 1952, 737.000 (W)/3-1452, IA/1950-54.

<sup>225</sup> U.S. Embassy Havana, Telegram 183, August 1, 1952, 737.000 (W)/8-152, IA/1950-54.

successfully established a working relationship with unions across Cuba's economic sectors. To establish ties with the financial industry workers, for instance, he promised the bank employees a ten percent raise. Wage increases, the release of certain workers imprisoned for union activities, authorization of free local union meetings, and other compromises in a short period of time helped Batista to achieve a level of labor stability that had not existed in Cuba for years. International businesses certainly took notice and applauded him, not for the concessions that artificially raised labor costs, but for the new-found stability in the labor market that reduced economic uncertainties.

In addition to labor stability, Batista even temporarily ended the *gangsterismo* that pervaded the Auténtico years. In many cases, rather than fighting the various violent political groups, *pistoleros*, and gangs, Batista gained their cooperation – and even co-opted some of them into his regime through patronages and other means.<sup>226</sup> The most notorious example was Rolando Masferrer's cooperation with Batista in early April, 1952. Masferrer had a private armed gang in Santiago that Batista would later employ to fight Castro's insurgents in the eastern mountains.

Many Cubans and foreigners welcomed the reduction in political violence that followed the coup. For some Cubans, the calm during Batista's first weeks of rule seemed to support his argument that circumstances warranted a coup. The political writer Jose Agustin Martínez published an article in the newspaper *Prensa Libre* on March 21 stating that Batista's actions were necessary, for the country had evolved into a situation where "there remained no choice" – only a military coup could save it. He defended Batista's suspension of the Constitution of 1940, arguing that Cubans were free from the *pistoleros*. The coup would eventually result in a:

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<sup>226</sup> Thomas, 790.

reordering of the of the parties and the holding of new general elections wherein each Cuban may vote freely as he did previously in all elections presided by Batista or held under his indisputable control.<sup>227</sup>

Along with improving security, Batista knew that fighting corruption would bolster his reputation with the Cuban people and the international community. He defended the coup by denouncing the previous government as corrupt. Some may have accepted this defense; after all, the British Ambassador in Havana estimated that Prío himself stole \$90,000,000 in public funds.<sup>228</sup> Therefore, Batista vowed to eliminate corruption and strengthen agencies tasked to investigate public sector internal affairs. The *Gaceta Oficial* announced on April 2, for example, that Batista would not alter, interfere, or prejudice the responsibilities of the recently created Tribunal of Accounts. The agency continued its tasks such as auditing accounts and clearing them of fraud with its notorious stamp called the “eye” (*ojo*).<sup>229</sup>

Following the April 2 announcement, the Tribunal of Accounts released General Instruction Number One that created a commission to study Cuba’s floating public debt, and gain a quantitative understanding of the extra-budgetary waste caused by corruption. The study’s data and conclusions were to be transparent and published on the public record. This was followed by General Instruction Number Two that ordered government employees to submit within three months a complete statement of all personal wealth, property, and income as mandated by Article 43 of the 1940 Constitution.

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<sup>227</sup> José Agustín Martínez, “Legalismo vs. legalidad,” *Prensa*, March 21, 1952.

<sup>228</sup> Thomas Paterson, *Contesting Castro: the United States and the Triumph of the Cuban Revolution* (Oxford: University Press, 1994) 34.

<sup>229</sup> *Gaceta Oficial*, April 2, 1952.

## Foreign Policy

Immediately following the coup, Batista sought recognition and acceptance from the U.S. and the non-communist world. To that end he quickly promised to honor current international financial obligations, contracts, and property protections. “We want to be very close to the United States,” Batista repeated.<sup>230</sup> He promised that U.S. direct investment in Cuba, amounting to \$647,000,000 in 1949, would remain protected.<sup>231</sup> Batista immediately assured that the military assistance agreement between the U.S. and Cuba signed on March 7, 1952, only three days prior to the coup, would be honored. He then submitted a formal request for U.S. recognition accompanied by public and private statements “in regard to the Cuban intention to fulfill its international obligations; its attitude toward private capital; and its steps to curtail international communist activity in Cuba.”<sup>232</sup>

The U.S. State Department certainly disagreed with the undemocratic manner in which Batista took power, but it held to the agreement signed at the 1948 Organization of American States (OAS) meeting in Bogota to maintain a noninterventionist policy. In the weeks following the coup, the U.S. Embassy in Havana increased its confidence in Batista, and reported to Washington D.C. that “no known Communist have been permitted to take any part in the organization or direction of the new regime.”<sup>233</sup> Batista assured he would not interfere with the American owned Nikaro nickel plant, sugar interests, capital investment, and international trade. A U.S. official in Havana remarked

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<sup>230</sup> *Newsweek*, March 24, 1952.

<sup>231</sup> IBRD, 732; U.F. Rippey, “Investments of Citizens of the United States in Latin America,” *Journal of Business of the University of Chicago* (January, 1949).

<sup>232</sup> “Memorandum for the President from Secretary Acheson concerning continuation of diplomatic relations with Cuba,” U.S. Embassy Havana, Telegram 1501, March 14, 1952, 737.000 (W)/3-1452, IA/1950-54.

<sup>233</sup> U.S. Embassy Havana, Telegram 1548, March 21, 1952, 737.000 (W)/3-1452, IA/1950-54.

how U.S. businesses “would enjoy certain advantages in the new situation, including guarantees for capital and a more responsible attitude on the part of labor.”<sup>234</sup> American businesses thus hastily established a working relationship with Batista. New York bankers, for example, immediately threw their support behind Batista and visited the Presidential Palace to flatter and congratulate him. They later referred to Batista as “our man in Havana.”

Unlike the private sector, however, the U.S. government hesitated to render judgment on Batista. After all, he had a long history of tolerating communists. In 1939, he recognized the Communist Party, and in 1943 appointed its president Juan Marinello to the Cabinet. At one point in the early 1940s Batista even permitted the notable communist Lazaro Peña to direct the CTC. The Communist Party endorsed Batista in the 1940 election; in turn, he helped three of its members win election to the senate.

Perhaps aware that his history with the communists caused hesitation in the U.S. government to offer recognition, Batista quickly made clear that this time he would not tolerate them. In an exclusive interview with the Cuban magazine *Visión* Batista stated that, if necessary, he would take “drastic measures” against communists. Demonstrating on which side he stood in the Cold War, he refused to permit Soviet Union diplomatic couriers entry into Cuba, causing a break in relations between the two countries. The Soviet Legation subsequently closed down its Havana office, and its twenty-two workers including nine diplomatic officers departed to Mexico.

On March 24 U.S. Ambassador Willard Beaulac stated that he felt comfortable with Batista, and requested that Washington D.C. officially recognize his government. The U.S. State Department approved Beaulac’s request and officially recognized Batista

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<sup>234</sup> Ibid.

on March 28. Beaulac visited Foreign Minister Campa to announce the news. Batista responded that he felt “profound satisfaction,” and that Cuba would “march together at all times” with the U.S. He added that Cuba would “strengthen the bonds of friendship and understanding... and without reservation extends open arms,” to the U.S.<sup>235</sup>

The American business community reacted positively to the official recognition. Officials of the U.S. Steel Corporation, for example, met with Information Minister Ernesto de la Fe and informed him that American capital responded favorably to Batista’s recognition. U.S. Steel, they assured the minister, “could supply Cuba with whatever was needed.” Businessman Elliot Roosevelt, son of Franklin Delano, met with Batista and invested in a number of new enterprises such as a television receiver assembly plant and a pharmaceutical packaging plant. Roosevelt stated in the Cuban press:

American businessmen are desirous of investing in Cuba because they want to use this country as a proving ground for further investments in Latin America.<sup>236</sup>

U.S. foreign direct investment increased rapidly in response to Batista’s accommodating policies. A surge of investors, for example, interested in the real estate and tourism markets quickly entered Cuba following the coup. A group of U.S. investors arrived to Cuba shortly after March 10 and leased the Sevilla-Biltmore, one of Havana’s oldest hotels. The newly formed Sevilla Management Company included Americans William Hogan, Nathan Schwartz, and Morris De Woskin. By early April, Batista had achieved a strong alliance with the U.S. On April 9, *Time* featured him on the front cover with a flattering image and gave him a positive review. On that same day Batista appointed Aurelio Fernandez Concheso as the new Cuban Ambassador to the U.S.

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<sup>235</sup> U.S. Embassy Havana, Telegram 1592, March 28, 1952, 737.000 (W)/3-2852, IA/1950-54.

<sup>236</sup> U.S. Embassy Havana, Telegram 1837, May 2, 1952, 737.000 (W)/2-252, IA/1950-54.

Figure 2.



In addition to the U.S., Batista sought recognition from countries throughout Latin America and Western Europe. The first governments to recognize him were the military junta that ruled Venezuela, as well as the strong-arm regimes of the Dominican Republic and Nicaragua. In recent years these countries had quarreled with Prío, causing disturbance in Caribbean politics.<sup>237</sup> By March 28, twenty-one countries had officially recognized Batista including Mexico, Brazil, El Salvador, Honduras, Colombia, Costa Rica, Ecuador, Spain, France, Italy, China, Switzerland, Guatemala, Canada, Honduras, Nicaragua, Panama, Haiti, Argentina, Chile, Brazil, Norway, and El Salvador. The British received confirmation that Cuba intended to honor all financial obligations with them. For example Batista made clear that he would honor Cuba's \$7,800,000 debt to a British firm for the purchase of 620 buses contracted in 1950, when Prío had nationalized

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<sup>237</sup> *Newsweek*, March 24, 1952.

public transport service. By late March the British government felt satisfied that Batista would honor such contracts, thus it published its formal recognition.<sup>238</sup>

In addition, Batista also sought U.N., World Bank, and OAS recognition. Minister of State Campa announced in mid-April that, to promote cooperation with the U.N., the regime created the post of Ambassador for Cultural Affairs and Permanent Delegate to UNESCO, for which Juan Remos was appointed. The Council of Ministers furthermore created the post of Ambassador for Commercial Affairs in Europe, and appointed Orestes Ferrara Marino with the sinecure abroad.<sup>239</sup>

### The Constitutional Act of 1952

On April 4 Batista released the Constitutional Act of 1952.<sup>240</sup> It dissolved the office of the Prime Minister, therefore, on that same day he took the oath as President. The Act included 275 Articles and supplanted the Constitution of 1940, although integrated most of its statutes. The Act clearly mandated dictatorial powers to Batista. The Council of Ministers, appointed by Batista, could amend the Act by merely obtaining a two-thirds quorum vote. This clearly violated Articles 285 and 286 of the Constitution of 1940.<sup>241</sup>

There were other differences with the Constitution of 1940. The Act reinstated the death penalty for military offenses, wartime treason, *gangsterismo*, and terrorism.

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<sup>238</sup> The *Gaceta Oficial*, September 9, 1952 – reported a payment of \$366,110 to the British firm, and repeated the Cuban government’s original statement shortly following the coup that it intended to honor all such financial obligations.

<sup>239</sup> U.S. Embassy Havana, Telegram 1790, April 25, 1952, 737.000 (W)/4-2552, IA/1950-54.

<sup>240</sup> Constitutional Act of 1952, *Gaceta Oficial*, Special Edition, April 4, 1952.

<sup>241</sup> Ignacio E Sánchez, “Constitutional Protection of Cuban Property Rights,” *Cuba in Transition: Volume 6, Papers and Proceedings of the Sixth Annual Meeting of the Association for the Study of the Cuban Economy (ASCE), University of Miami, Florida, August 8-10, 1996* (Austin: UT Lanic, 1997) 401.



The government could suspend certain rights “necessary to the security of the State,” including the right to strike. The Executive Branch continued to exercise legislative powers, and the Congress remained suspended with pay. The judicial branch remained unchanged. Governors, mayors and aldermen held office at the behest of the Council of Ministers. General elections and the restoration of the Constitution of 1940 were scheduled for the third Sunday in November, 1953. The Act also created the Direction of Rural Education, to be represented in the Council of Ministers. The Act reinforced the centralization of government power in Havana.

With the Congress suspended, the Act established a Consultative Council to advise the government. Article 138 mandated that the government receive guidance from the Consultative Council for international commercial treaties, establishment of taxes on a national level, budgets of government expenses and income, national loans, regulation of systems of weights and measures, war declarations, peace treaties, and laws affecting production or labor. Shortly thereafter Batista selected and approved eighty members to the Consultative Council predominately from the sugar, labor, press, legal, aviation, and tobacco industries. In the following months, the Consultative Council quickly grew to over seven-hundred members. It lacked political powers, but could present legislation to the Council of Ministers for consideration “primarily in matters affecting labor and production”.<sup>242</sup> In the following days Carlos Saladrigas, Batista’s presidential candidate for the 1944 elections, took over as the President of the Consultative Council. Batista’s close friend Jorge Garcia Montes, a reputable Havana lawyer, took over as Vice President. Politics clearly influenced the selection of various appointments. On April 22, Batista addressed the Consultative Council:

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<sup>242</sup> U.S. Embassy Havana, Telegram 1790, April 25, 1952, 737.000 (W)/4-2552, IA/1950-54.

I give a respectful and courteous salute to the worthy members of the Consultative Council now engaged in a task of superior responsibility at the service of the permanent and fundamental interests of the nation.<sup>243</sup>

The newspapers, particularly those not selected for Consultative Council representation, criticized the appointments. The editorial reaction of the newspaper *El Mundo* stated that “this Council will do no more to inspire faith in the people.” The newspaper *Mañana* echoed that opinion and characterized the Consultative Council’s staff as an “inferior category... with little-known names and some too well-known names.” This point had merit, as the Consultative Council included many people of secondary level prominence in their respective fields. As a result cynicism about the Consultative Council pervaded the Cuban people. “Batista’s newly formed seven-hundred member Consultative Council,” commented the editor of *Gente*, “would appear to be a new and ingenious method of ‘taking care of the boys’ at the public’s expense.” Many Cubans felt that the Consultative Council was just another mechanism to perpetuate cronyism and special interest government.

For the most part, Cubans apathetically tolerated the Act. There were no major protests against it other than a symbolic funeral for the Constitution conducted by the students on April 6. Before the demonstration took place Batista had warned the students to stay calm, and it remained non-violent. The University of Havana had been closed until the forty-five day suspension of constitutional guarantees expired on April 25. The April 4 Act, however, supplanted the Constitution, therefore leaving the suspension’s end date in question. The Auténtico and Ortodoxo parties condemned the Act; however, their protests were censored. The editors of the Ortodoxo newspaper *La Palabra* were arrested and their presses confiscated. The Auténticos denounced the Act on April 10 and refused

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<sup>243</sup> U.S. Embassy Havana, Telegram 1837, May 2, 1952, 737.000 (W)/5-252, IA/1950-54.

to take part in any elections it decreed. However, they did not initiate any serious public protests.

Batista then worked to consolidate control over the local governments and compel them to support the Constitutional Act. Regional politicians and municipal government employees faced automatic removal from office if they failed to uphold it by April 22. Several municipal aldermen mostly from the Ortodoxo and Auténtico parties, knowing they would lose their jobs, immediately proclaimed they would not take the oath.

### Initial Economic Policies

Batista's displayed no intention in 1952 to interfere with the record-setting pace of sugar production. Five days after Batista took over on March 15 the output amounted to 3,396,000 tons of raw sugar and 166,163,000 gallons of molasses. The raw sugar amount exceeded by nine percent the previous record of March 15, 1948.<sup>244</sup> Moreover, rumors coming from Wall Street indicated that the U.S. may raise the 1952 sugar quota to supply the raised demand provoked by the Korean War, which incentivized the mill owners to maximize output. A raise in the U.S. quota also signaled a slightly higher international price, resulting in bullish forecasts.<sup>245</sup>

It was turning out to be the largest *zafra* in the island's history. Prío had authorized a sugar production quota of 5,800,000 tons for 1952, but the mills were clearly going to exceed that number by twenty-five percent. Perhaps to keep friendly relations with the mill owners, Batista made no moves to curtail output. "All mills," observed an

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<sup>244</sup> U.S. Embassy Havana, Telegram 1593, March 28, 1952, 737.000 (W)/3-2852, IA/1950-54.

<sup>245</sup> Ibid.

American official in Havana ten days after the coup, “are well occupied and labor relations are more peaceful than they have been for some time.”<sup>246</sup>

Unrestricted sugar output involved many risks, and not everybody was optimistic.

The American Sugar Refining Company stated:

for the first time since pre-war years Cuba may find herself burdened with a sizable unsold carryover at the end of the year due to shrinking markets and a record crop of sugar<sup>247</sup>

Some of the industry’s stakeholders began to hedge their investments by taking a short position to defend against future price declines.<sup>248</sup> The risks included inadequate storage facilities on the island causing waste, loss of market share due to increased international competition, and a glut in the world sugar market resulting from seven or more tons brought to market, which could cause a sudden price drop that would spell disaster for the island. Unrestricted production inspired farmers to plant cane instead of rice, corn, and other basic staples. Additionally, there was a meat shortage as arable land was devoted to cane instead of ranching. The extreme specialization of land use had increased Cubans’ reliance on imports for basic sustenance and nutrition. As a result, Batista had to look outside of Cuba for meat that could have been produced locally. His representatives negotiated a deal with ranchers from Texas and Uruguay.

Conceivably, Batista’s own large position in the sugar industry partly motivated his decision not to curtail output. He owned three mills with thousands of acres, and maintained a luxurious estate at his favorite *finca* Kuquine – where he enjoyed spending time away from Havana. With the power to determine the quota, Batista was now the

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<sup>246</sup> U.S. Embassy Havana, Telegram 1548, March 21, 1952, 737.000 (W)/3-1452, IA/1950-54.

<sup>247</sup> Quoted in, U.S. Embassy Havana, Telegram 1548, March 21, 1952, 737.000 (W)/3-1452, IA/1950-54.

<sup>248</sup> U.S. Embassy Havana, Telegram 1646, April 4, 1952, 737.000 (W)/4-452, IA/1950-54.

most powerful member of the sugar barony. Immediately following the coup, he welcomed the sugar barons to the Presidential Palace, and they individually declared their support. Then as a group, on April 8 representatives of the Sugar Stabilization Institute met with Batista and publically declared their cooperation. The sugar industry demonstrated its cooperation with Batista when a debate arose on whether or not to collaborate into a 'single seller' system. Under the system, Batista would negotiate the sale of the 1952 surplus on behalf of the sugar industry. An American official suspected that some in the industry agreed to the plan for political reasons – to gain Batista's favor – rather than its economic logic.<sup>249</sup> In early May the government announced Decree 1251 that created an Executive Committee to act with the ICEA to direct the single seller system for the 1952 special retained quota, which eventually grew to 1,800,000 Spanish long tons. The single seller system essentially made Batista personally responsible for problem of the surplus – if he successfully negotiated its sale at acceptable prices, he could take personal credit for having once again saved the country from peril.

The single seller plan centralized power in Batista, for he had authority over the Executive Committee's decisions. Few mill owners and sugar brokers opposed it for that reason. Perhaps to assuage their apprehensions, Batista created the Sugar Advisory Commission comprised of mill owners, cane growers, sugar workers, and the ICEA to serve in a consultative role. The Commission immediately advised Batista not to interfere with the 1952 milling season to avoid inequities between mills already finished with their cane quotas, and those still in process. Batista complied and never limited the output.

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<sup>249</sup> U.S. Embassy Havana, Telegram 1838, May 2, 1952, 737.000 (W)/5-252, IA/1950-54.

Evidently Batista intended to warehouse a large quantity of the 1952 sugar surplus and withhold it from the market, then wait for a favorable international price before selling. The sugar speculator Julio Lobo offered to buy the surplus, all 1,800,000 tons, and after negotiations Batista turned him down.<sup>250</sup> In early August, he authorized a sugar sales mission “to visit practically every European country west of the Iron Curtain” and negotiate the sale of the surplus.”<sup>251</sup>

In regard to sugar policies, Batista for the most part collaborated with the industry’s major stakeholders, particularly with the head of the ICEA Jorge Barroso. In some cases the other barons paid Barroso enormous sums for his access to Batista.<sup>252</sup> Barroso had enormous power and influence in the Batista regime, and for that reason he was often accused in the media of manipulating the sugar price for his personal benefit.<sup>253</sup> The media furthermore reported that Batista was channeling public funds to Barroso, indicating that the two had an exclusive and corrupt business relationship.<sup>254</sup> Some Cubans went as far to say that Barroso was the second most powerful man in Cuba. The ICEA functioned as an organized body with Barroso as the unambiguous leader. With his unique access to Batista, he thus influenced the quotas and patronages involved in the sugar industry.<sup>255</sup> Along with Barroso, other sugar barons such as Francisco Blanco (whose nephew operated Batista’s mill Washington) and Julio Lobo regularly met and collaborated with Batista and his ministers.

Therefore, Batista chose to cooperate with the traditional sugar barony. He assured them that, other than placing a limit on maximum production for the 1953 season,

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<sup>250</sup> Rathbone, 187.

<sup>251</sup> U.S. Embassy Havana, Telegram 250, August 15, 1952, 737.000 (W)/8-1552, IA/1950-54.

<sup>252</sup> Francisco Blanco in 1952 paid Barroso \$24 million, Rathbone, 187.

<sup>253</sup> Barroso was accused of manipulating the price of sugar in *Bohemia*, November 10, 1952.

<sup>254</sup> *Bohemia*, November 16, 1952.

<sup>255</sup> Cepero Bonilla, 12.

there would be no disruption to the status quo: neither to the quota system, nor to any phase of production. This critical decision meant that agricultural diversification would have to work around sugar system that dominated land use, labor, private capital, and government services.

In regard to international trade, Batista immediately stated his policies on the day of the coup. He would carry on Cuba's participation in the GATT and other recent agreements. Batista appointed Joaquin Meyer to lead the Cuban Ministry of State Economic Office and attract capital to the island. His principal task was to present Cuba's friendly disposition to foreign direct investment and liberal trade. The U.S. Embassy applauded the appointment, and predicted that Meyer's "wide and diversified experience at a variety of foreign posts" would reduce the "confusion to the country's [Cuba's] international economic policies."<sup>256</sup> Meyer immediately worked to increase trade with nations particularly in Europe and Latin America.

For example, Batista's regime quickly engaged in trade negotiations with England, Spain, France, West Germany, and Austria. With France a deal was in process to increase Cuban tobacco exports. Spain also agreed to reduce its consumption tax on tobacco from seventy-one to fifty-five percent, as well as its markup from forty to thirty percent. This agreement, later finalized in early September, 1952 replaced the outdated treaty of 1927 that represented the protectionism of that era.<sup>257</sup> Similar deals with Latin American countries such as Mexico, Costa Rica, Venezuela, and El Salvador displayed Batista's desire for new liberal trade agreements. To alleviate the nationwide meat shortage, he immediately abolished duties on cattle and beef imports. In early April, the

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<sup>256</sup> U.S. Embassy Havana, Telegram 1593, March 28, 1952, 737.000 (W)/3-2852, IA/1950-54.

<sup>257</sup> U.S. Embassy Havana, Telegram 397, September 15, 1952, 737.00 (W)/9-1252, IA/1950-54.

Council of Ministers also made a deal with ranchers in Uruguay, as well as the King Ranch interests in Texas, which organized a group of American and Cuban investors and acquired 46,000 acres in the Camaguey Province to establish a cattle-rice operation. There existed urgency for this project and others to increase the number of cattle on the island to take advantage of the lush pastures during the wet season, which had already begun. Along with beef, Batista immediately authorized government action to alleviate the rice shortage. With the objective to import 4,500,000 bags, the Council of Ministers assigned a low-duty privilege to rice imports. These early actions demonstrated Batista's liberal approach to trade policy.

Batista also initiated policies to make Cuba more attractive to foreign direct investment. In early April, for instance, Minister of the Treasury Lopez Blanco announced the elimination of the two percent tax on remittances to foreign nations. The measure came at the cost of 16,000,000 pesos per year to the Cuban treasury. Batista conveyed the message that he welcomed and protected foreign capital and would not tax the repatriation of profits. In addition to restructuring taxes, Batista initiated labor reforms that made Cuba more attractive to foreign investors. In the past, foreign businesses repeatedly complained about the labor unions' demands that raised supply costs, and their propensity to strike that augmented risk. These combined risks caused high interest rates on credit and hindered the inflow of working capital to Cuba.

In response to the complaints regarding labor related issues, Batista tasked Minister of Labor Portocarrero to find a procedure for compulsory arbitration between the owners and unions. The objective was to stabilize labor-management relations to reduce investment risks and attract foreign capital. The unions naturally resisted such a



measure. The CTC certainly disagreed with the proposals for tribunals and a new Labor Code; however, Mujal desired to keep friendly relations with Batista and agreed to negotiate. Foreign direct investors applauded Batista's handling of labor, and it seemed that the irritating and arbitrary strikes that characterized the Prío and Grau regimes were over for the time being.

In regard to new domestic economic initiatives, in the weeks following the coup Batista was vague. Clearly they were in the developmental stage. Before deciding on a specific plan Batista assessed the situation, consulted with the private sector, evaluated the nation's financial condition, and aligned his economic policies to his political goals. The expensive public works that Prío had begun during his presidential campaign constrained Batista from affording new programs. He had vowed to the Cuban people to carry on any current or planned public works, but charged the Prío regime of pilfering the public funds intended to pay for them. Batista's charges most likely had some validity.

Despite the budgetary constraints and the sugar situation, the regime's actions made it clear in the first weeks that it planned to initiate more aggressive economic development policies than experienced during the Auténticos. At their early meetings the Council of Ministers searched through economic sectors where the government could, within the limits of a modest national budget, subsidize or provide credit for the private sector. For instance, the regime initiated assistance for the banana and coconut plantations around Baracoa in the Oriente Province that had suffered in the past two seasons from disease. \$1,000,000 was appropriated to the region for public works, agricultural development, along with a plan to rebuild the city's economy. Similar

appropriations to other regions displayed Batista's intention to increase government assistance and stimulus to non-sugar economic sectors.

There were indications that Batista also intended to expand the number of public works programs during the May 2 Council of Ministers meeting when he stressed the importance of composing a 1952–53 budget estimate. Although government revenues up to May surpassed forecasted totals, the increase in wages for military and public employees combined with an “ambitious extended public works program will require even higher collections,” according to an official at the U.S. Embassy in Havana.<sup>258</sup> The government revenue amounted to around 300,000,000 pesos in 1951–52:

But if extraordinary disbursements, which may include supplementary work programs, special appropriations, etc., come anywhere near expectations the total of the budget [for 1952-53] may easily run to as high as 375,000,000 pesos.<sup>259</sup>

In his public speeches Batista promised to increase public works and government stimulus programs. It seemed clear that to fulfill his promises, he would have to engage in deficit spending, requiring his government to maintain an excellent credit rating to sell bonds and borrow from abroad.

In addition to the budget expansion, Batista increased the number of Minister without Portfolio appointments – by late April there were thirteen, along with thirteen executive department ministers. According to Batista, the increase resulted from the need to “spread out the responsibility for the government's projects.”<sup>260</sup> The appointments included Gustavo Gutiérrez, President of the National Economy Board; José Pardo Jimenez, President of the National Urban and Rural Housing Board; and Miguel Suarez Fernandez, President of the Commission for Study of Social and Retirement Security.

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<sup>258</sup> U.S. Embassy Havana, Telegram 1790, April 25, 1952, 737.00 (W)/4-2552, IA/1950-54.

<sup>259</sup> Ibid.

<sup>260</sup> Ibid.

This expansion of the Cabinet with a respected economist, housing specialist, and social issues expert signaled a general strategy to expand the current level of government domestic programs. In addition, in early August Batista replaced Minister of Public Works José Mendigutia with the renowned architect Nicolás Arroyo Márquez who thereafter would design many of Cuba's public projects such as the Sports Complex, bridges, roads, public buildings, the seaside Malecón sidewalk, and his most celebrated work, the Havana Hilton. Also, working for the Ministry of Public Works was another renowned architect, Enrique Luis Varela. Shortly thereafter Batista's Consultative Council approved a law that established new taxes for 1953 to pay for the construction of a Plaza of the Republic featuring an enormous monument to José Martí. Luis Varela was to serve as the chief architect, and the taxes to pay for it included one day's pay levied on government, business firm, and factory employees, ten cents per bag of leaf tobacco, ten cents per head of cattle slaughtered, and a fifty cent stamp fee for real estate transactions.<sup>261</sup> Not surprisingly, as 1953 approached, there was a noticeable increase in construction projects throughout Cuba.

By the end of 1952 the government spent \$76,000,000 on public construction, and the number of works continued to grow into following year.<sup>262</sup> Batista approved the construction of a tunnel under the mouth of Havana's harbor, waterworks in several cities, roads and buildings throughout the country, and assistance to various types of factories for products such as paper, cement, iron, and steel.<sup>263</sup>

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<sup>261</sup> U.S. Embassy Havana, Telegram 397, September 12, 1952, 737.00 (W)/9-1252, IA/1950-54.

<sup>262</sup> Private construction for 1952 totaled to \$53,000,000; Wyatt MacGaffey and Clifford Barnet, *Twentieth Century Cuba: Background of the Castro Revolution* (New York: Anchor Books, 1965) 100.

<sup>263</sup> MacGaffey and Clifford Barnet, 101.

Batista's domestic economic policies throughout 1952 were planned with two basic assumptions: that Cuba must diversify production without interfering with the sugar industry, and the public sector should supply credit and working capital to non-sugar industries since the private sector was unwilling to do so at affordable rates. In May certainly Batista felt political pressure to create non-sugar jobs. With the *zafra* soon coming to a close, the dead season high unemployment rate was rapidly approaching. This would test the patience of over twenty percent of the unemployed labor force who could easily lose faith in Batista and join his opposition.

In addition to the pressure to create employment in the dead season, there were more arguments to hasten agricultural diversification. To take advantage of the full wet season that created lush pastures for cattle, for example, assistance to the industry would have to begin immediately. The wet season was a crucial time of the year for financing, tilling, and planting many types of non-sugar agriculture before the upcoming vegetative and harvest season. Also, some of the land devoted to cane for the 1952 harvest was going to remain unproductive in the upcoming years. The enormous 1952 surplus could take several years to sell, meaning the 1953 sugar season would certainly have to be restricted, most likely in the range of five million tons. A portion of the 3,600,000 acres of farmland dedicated to cane production in the 1952 season either had to be converted to cattle ranches, poultry farms, or other types of non-sugar agriculture, or remain arable but unproductive in a setting with a malnourished and unemployed rural population. This was a scenario for 1953 that Batista surely wanted to avoid for both economic and political reasons. Public works projects provided one alternative to absorb some of the

unemployed, or at least symbolize that the regime was taking positive steps to diversify the economy.

In addition, the extreme specialization of land use to cultivate cane in the past year resulted in a nationwide shortage of many substance crops. The Council of Ministers thus submitted to the Consultative Council a law for review that would compel sugar mills to diversify cultivation and produce rice, corn, peanuts, beans, potatoes and other basic products. Cuba imported these subsistence products even though they could have been locally produced. With the support of government, this law clearly intended to substitute imports with local production – an economic development strategy promoted by Raul Prebisch and the UNECLAC. Certainly, some of the mill owners would resist it, for the law mandated that they devote a portion of their sugar profits to finance alternative crops. Furthermore, they benefitted from an abundance of cane cultivation which drove down its domestic price.

On May 6 Batista's regime displayed clearly its desire to diversify the economy and reduce dependence on sugar exports. The Minister of Agriculture invited foreign agricultural experts to train Cuban agriculturalists in the cultivation and processing of non-sugar products. Under the auspices of the regime, for instance, seven American technicians of the Point IV project trained Cubans on kenaf-fiber cultivation, and the development of strains that provided better yields and resisted moisture. The Minister of Agriculture was delighted to witness a demonstration later in the year conducted by Cubans on the potentialities of the kenaf industry.<sup>264</sup> Batista invited agriculturalists and industrialists to Cuba with a variety of expertise to provide recommendations. He also invited outside scholars to study the economy such as Digby Solomon Espinoza, who

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<sup>264</sup> U.S. Embassy Havana, Telegram 428, September 19, 1952, 737.00 (W)/9-1952, IA/1950-54.

examined Cuba's rural credit situation and presented his data at the *Proceedings of the International Conference on Agriculture and Cooperative Credit* in October, 1952 at the University of California at Berkeley.

*Programa económico mínimo*

By mid-May, it seemed that Batista felt pressure to announce a specific domestic economic plan. The new Consultative Council initiated nine separate commissions tasked to create recommendations on agricultural, industrial, and commercial production and services; social affairs; public finance; public administration and services; agrarian reform; justice and laws; and cultural matters. Moreover, Batista attempted to gain the endorsement of Gustavo Gutiérrez, President of the National Economy Board. Due to his impeccable reputation as an economist, scholar, and honest public administrator, Gutiérrez' endorsement carried enormous weight for Batista to legitimize his government.

Gutiérrez' distinguished career since the late 1920s included successful lawyer, Secretary of Justice, Member of the House of Representatives, Speaker of the House, Technical Advisor for the Commission for the Study of the New Constitution, Ambassador to the U.N., President of the U.N. Economic Committee, and President of the National Economy Board. He had many influential friends throughout the world and had built a solid reputation in the U.N., thus Batista felt it extremely advantageous to secure his alliance.

However, Gutiérrez' daughter remembered her father as "livid" when he learned of Batista's coup. He had participated in the drafting of the Constitution of 1940 and

immediately condemned Batista for violating it. “This is terrible what Batista has done,” he told his daughter, “we have been forced back fifty years of democratic rule!”<sup>265</sup> Certainly he disagreed with the coup and rejected Batista’s defense of it. Therefore, when Batista offered Gutiérrez the position of Minister of State, he promptly turned it down, perhaps not wanting to act complicit with the undemocratic regime. Batista remained persistent – he then offered Gutiérrez the position of Minister of Finance, which he turned down as well. In fact, Batista would offer him that position three times before he finally accepted it over a year later in August 1953. In the weeks following the coup, there were also rumors that Batista offered the presidency of the BANFAIC to Gutiérrez; which if true, he turned down as well. He did accept a Minister without Portfolio appointment in April; however, he remained in the National Economy Board.

In the negotiations with Batista, clearly Gutiérrez had the upper hand. Batista’s public reputation around the world would suffer considerably if he fired or expelled Gutiérrez for lack of support. This scenario would most likely conjure up the image of a dictator who oppressed well-respected intellectuals – similar to Mao Zedong in China, and Kim il-sung in North Korea. As a result, Batista wanted Gutiérrez’ support more than he was willing to give it. Therefore, seeking Gutiérrez’ support, Batista gave him concessions. Since Gutiérrez decided to stay as president of the National Economy Board, Batista elevated its importance. “Apparently,” remarked a U.S. observer in Havana, the National Economy Board under Batista,

is to function as a political body, directing and coordinating the country’s economic activity with emphasis on the improvement of existing standards of employment, production and revenue.<sup>266</sup>

<sup>265</sup> <http://drgustavoGutiérrez.blogspot.com/2008/09/Gutiérrez-steps-down-as-finance.html>.

<sup>266</sup> U.S. Embassy Havana, Telegram 1790, April 25, 1952, 737.00 (W)/4-2552, IA/1950-54.

Gutiérrez assumed a chief position in Cuba's public economic programs. As Batista crafted his domestic economic plan from March – May 1952, his ministers met regularly with Gutiérrez to receive his guidance.

The National Economy Board under Gutiérrez made recommendations to Batista on a large number of economic issues. For instance, it proposed a plan to save the insolvent railway project in the western part of the island. Without financial assistance, investors were on the brink of abandoning the project and taking their losses. To save it Gutiérrez' recommended that the government start a new private company made up of the chief stakeholders and provide financial assistance and tax breaks. The Cuban government, however, was to retain neither ownership in the railways, nor assume any management responsibilities.<sup>267</sup> Batista later adopted the Gutiérrez' plan and presented it to the World Bank to appeal for funds. The plan took place in 1953 largely according to Gutiérrez' design, and Batista presented himself in his public speeches as the savior of the railways.

With its new elevated standing in the Batista government, the National Economy Board held a policy meeting in the beginning of May to outline a bold development plan called the *Programa económico mínimo*. It included the use of government loans, credit stimulus, tax incentives, fiscal policy, and cost-free capital to targeted economic sectors. The plan relied on central management to determine the selection of industries to receive the stimulus. It also proposed the government invest more aggressively in research and development to improve Cuba's modernization and efficiency; expand public development finance agencies; and create centrally managed funds to insure or provide capital for non-sugar industries. At the same time, in light of this government

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<sup>267</sup> *El Mundo*, June 2, 1952.



involvement in the economy, property protections and the private sector were to be maintained. Gutiérrez had long talked for about widening Cuba's public credit program to target non-sugar economic sectors. Since Batista would receive credit for such an ambitious plan, he agreed and essentially gave Gutiérrez the authority to design it.

The Board warned that the economic prospects for 1953 were going to “reflect diminishing activities,” and to prepare for an upcoming recession. Therefore it developed a number of initiatives – public works, new rural housing, promotion of the tourist industry, and a wide range of public investments to create employment.<sup>268</sup> The objective was “greater independence for Cuba from foreign supplies of imported materials and equipment.”<sup>269</sup> Gutiérrez had a particular interest in employing government credit and tax stimulus to stimulate commercial and residential real estate development, which he correctly ascertained was in a state of stagnation.<sup>270</sup> For years he had advocated government action to improve housing, and now in the Second Batistiano he had the power to develop new programs to that end.

On June 2, 1953, for example, Gutiérrez and senior Board staff members met with Minister of Public Works Jimenez to craft the particulars of the *Programa económico mínimo* in regard to housing and real estate development. In 1952 there existed vigorous public debate on whether the government should force landholders to sell acreage then redistribute it non-landholders cost-free. The objectives of this type of reform included dismantling the *latifundia* system, increasing the number of landholders in hopes of creating a competitive real estate market based on equilibrium pricing, and incentivizing real estate development. Gutiérrez wholeheartedly disagreed with this approach,

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<sup>268</sup> Junta Nacional de Economía, *Programa económico mínimo* (Havana, May, 1952) 52.

<sup>269</sup> U.S. Embassy Havana, Telegram 2077, June 6, 1952, 737.00 (W)/6-652, IA/1950-54.

<sup>270</sup> *El Mundo*, June 2, 1952.

probably since he realized the negative effects it would have on the rest of the economy, such as a dramatic loss of investor confidence, once the government began to interfere with private property. Furthermore, he pointed out that in parts of the world where government stimulus programs to real estate achieved a degree of success, they worked in conjunction with the individuals who owned the lands.<sup>271</sup> Instead of government enforced landholding redistribution, Gutiérrez proposed a plan whereby the National Housing Commission (CNV) and the Council of Ministers establish interest free loan programs, tax incentives, and payment extensions to existing landholders and real estate developers with the intention of lowering construction costs. For instance, in June Gutiérrez designed a plan to stimulate real estate development in Camagüey based on tax incentives for landholders and a low-cost 415,000 peso government loan to the developers. The plan was submitted to the CNV for approval. The CNV responded that it was “the best project submitted to the CNV dealing with low income housing to date.”<sup>272</sup> Providing low-cost credit and various incentives directly to landholders and developers served as the basic model for real estate development stimulus throughout the Second Batistano.

The *Programa económico mínimo* also called for expansion of the BNC and the BANFAIC agrarian and industrial programs. Batista tasked BNC President Martínez Sáenz to travel to Mexico City, New York, and Washington D.C. to look into the possibility of obtaining loans, particularly from the World Bank, to fund economic development programs. Martínez Sáenz, however, disagreed with Batista on the continuation of his proposed economic reforms until they could receive the study of

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<sup>271</sup> Ibid.

<sup>272</sup> [http://drgustavoGutiérrez.blogspot.com/2009\\_01\\_01\\_archive.html](http://drgustavoGutiérrez.blogspot.com/2009_01_01_archive.html).

impartial foreign experts, particularly from the U.N. Martínez Sáenz was more hesitant than Batista to hastily expand the government's development activities and compel the central banks to engage in risky lending and spending projects unless they were thoroughly studied.

The central banking approach to remedy underdevelopment was cutting edge and popular at the time among scholars and policymakers throughout the world. Certainly Batista's strategy aligned with many recommendations from U.N., World Bank, U.S. scholarship, government, and business. Historian Erik Baklanoff remarks:

Acting on the recommendation of the World Bank Mission, a team of highly competent bankers and economists, that included Joaquín Martínez Sáenz, 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.<sup>273</sup>

The conservative and classical economists in the 1940s and 1950s naturally considered public spending on development projects, Keynesian or otherwise, as inefficient and often reckless due to the centrally planned and managed structure. Critics of Batista's plan pointed out that government expansion would inevitably increase waste, and that the public sector banks were going to turn into unfair competitors to the private banks, causing further inefficiency. The dangers of Batista's type of plan, critics pointed out, customarily included high national debt without justifiable long-term economic returns. Nonetheless, by the autumn of 1952 Batista had publically committed to a central banking strategy to stimulate development and diversification. He had touted the strategy, raised expectations, and placed it at the forefront of his political platform. He

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<sup>273</sup> Eric N. Baklanoff, "A Bountiful Legacy: U.S. Investment and Economic Diversification in Cuba During the 1950s," *Cuba in Transition: Volume 19* (Miami: Association for the Study of the Cuban Economy – ASCE, 2009) 326.

repeatedly pointed to it as evidence of his constructive leadership. Thus he showed no signs of retreating from the strategy despite the sound criticisms.

Critics argued that Batista's development strategy was merely a continuation and expansion of policies that had already failed in Cuba. The Auténticos' public works programs had certainly led to enormous waste, financial discrepancies, and corruption. An audit of Cuba's budget accounts for 1946–50 conducted by Price Waterhouse found that the Cuban government's formal receipts exceeded expenditures by \$59,000,000 but a deficit of \$104,600,000 had accumulated.<sup>274</sup> Later, the Tribunal of Accounts reported that in March 1952 only sixty-one percent of the government's revenue and only sixty-eight percent of its expenditures were formally part of the national budget. Under the current budgetary process, enormous sums were received and spent in the so-called extra-budgetary accounts without accounting or transparency. The funding for most of Cuba's public works came from these accounts that corrupt officials historically used to line their pockets. As a result, many Cubans naturally felt apprehensive to expand public works and the extra-budgetary accounts, and criticized Batista's plans that called for new programs, stimulus, financial agencies, and spending. Simply, based on history many felt that any type of government expansion would invariably result in more waste.

In addition, the critics pointed out how Batista personally benefitted from new development projects. His press secretary José Suárez Nuñez years later remarked:

From the very beginning every public work contract, of which there were many, brought its thirty per cent commission to various secretaries and assistants of the President and thence to Batista's bank account.<sup>275</sup>

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<sup>274</sup> Jorge I. Domínguez, "The Batista Regime in Cuba," *Sultanlic Regimes*, ed. H.E. Chehabi and Juan J. Linz (Baltimore: Johns Hopkins University Press, 1998) 125.

<sup>275</sup> Suárez Nuñez, 21.

At the same time that Batista clearly benefitted from the contracts, he understood that the proper administration and transparency of public works was critical to his public reputation, since he had defended his coup by vowing to end corruption. Also he intended to build confidence among foreign direct investors that his regime would honor public works and other contracts according to the terms, and that corruption would not threaten their solvency. Therefore, while Batista certainly found ways to benefit from public works projects, whether it came from contractual compensation, taking realized returns from self-liquidating projects after their completion, or even funneling cash out the backdoor of Havana's casinos, he prioritized maintaining their financial transparency and solvency to enhance his creditworthiness and reputation. Therefore, Batista exposed and prosecuted corruption in lower levels of government that preyed on the public works finances and presented a threat to his reputation. .

#### Expansion of the BANFAIC

In line with his diversification platform, Batista began to aggressively expand the BANFAIC. The Auténticos had created and operated the BANFAIC conservatively without taking on many risky development projects. When Batista took over, it had had a modest budget of just over 720,000 pesos. His economic strategy called for an aggressive budget increase and expansion of services to non-sugar markets. On March 24, 1952 the BANFAIC announced the addition of 311,000 pesos in new loans – an increase of almost forty-five percent. Credits in the industrial field were extended to a new pharmaceutical manufacturer, new milk pasteurizing plant, sausage manufacturer, and food canning factory. The credits extended to agriculture were distributed to

nineteen rural small farmers. The impact of the initiative on rural farming was minimal, but it was greatly symbolic for Batista. From March 1952 to March 1953, the BANFAIC's portfolio expanded from \$720,000 to \$5,000,000 and would continue to grow to over \$14,000,000 through 1956.<sup>276</sup> Interest rates on capital averaged eight percent, far lower than the cost of loans for most Cubans, particularly from the merchants and storekeepers where twenty-five percent was typical.<sup>277</sup>

Prío had appointed Justo Carrillo, a conservative economics professor of the 1933 generation, to run the BANFAIC. Historian Hugh Thomas later described the agency under Carrillo as “competently administered” and judged him to be a man of “integrity.”<sup>278</sup> Carrillo resigned immediately following Batista's coup. In the weeks thereafter Rufo Lopez Fresquet served as the acting president until Batista decided on a permanent appointment. The rumor was that he offered the position to Gutiérrez, but he remained at the National Economy Board.<sup>279</sup>

A Board of Directors, president, vice-president of the industrial division, vice-president of the agricultural division, two BNC representatives, and Batista administered the BANFAIC. Batista appointed supporters to the BANFAIC's senior staff. His longtime friend Emeterio Santovenia took over as the president. A University of Havana intellectual and historian, Santovenia joined the Mendieta government in 1934 and began a friendly relationship with Batista. Santovenia proved his loyalty when he served as Batista's Minister of Foreign Relations in 1943. The BANFAIC was a key agency in Batista's development programs, and the selection of its president was crucial. For years

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<sup>276</sup> Banco Nacional de Cuba, *Progress Report No. 3* (Havana, 1957) 24.

<sup>277</sup> Solomon Espinoza, 649-652.

<sup>278</sup> Thomas, 776.

<sup>279</sup> U.S. Embassy Havana, Telegram 1593, March 28, 1952, 737.000 (W)/3-2852, IA/1950-54.

Santovenia had proven his loyalty and he received the appointment. Carlos DuQuesne, Vice President of the industrial division, and Gonzalo Del Cristo, Vice President of the agricultural division – also had a proven history with Batista. The BNC representatives who served on the BANFAIC Board of Directors, Eugenio Castillo and Antonio Gonzalez Lopez, were also longtime Batista’s cronies.

The BANFAIC’s mid-level staff comprised individuals with genuine qualifications for their positions. Unless there was a political issue, for the most part Batista kept these employees. The sub-departments of the industrial division included credit, investigations, technical, mining, and legal departments. The senior positions of the Credit Department, for example, were staffed with five certified accountants and two lawyers. The Investigations Department had two accountants and two lawyers. The majority of the Technical and Mining Department staffs had graduate degrees in their respective specialties. Three certified lawyers ran the Legal Department.<sup>280</sup>

To encourage public support for the BANFAIC, its publications often touted the abilities and patriotism of its managers. DuQuesne’s qualifications, for instance, were commonly mentioned. “DuQuesne is dedicated to the rule of law,” the BANFAIC published,

being specialized as a lawyer in Social, Commercial, and Civil rights, and in organization problems of commercial and industrial businesses... On the 1<sup>st</sup> of April of 1952, he took position of title of Vice President in charge of the industrial division of BANFIAC, and has exercised his duties with success.<sup>281</sup>

The BANFAIC officials were characterized as honest and knowledgeable public servants:

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<sup>280</sup> Banco de Fomento Agrícola e Industrial de Cuba, *Possibilities of the Food Industry in Cuba* (Havana, 1956) 27.

<sup>281</sup> Banco De Fomento Agrícola E Industrial De Cuba. *El Desarrollo Económico Y El BANFAIC... Conferencia Pronunciada En El Ateneo De La Habana, El Día 2* (Havana, 1955) 3.

Carlos Du-Quesne knows what is necessary for economic development. He knows of the basic needs for an underdeveloped nation to be developed. And he knows how to accelerate it. He directs one of the instruments now dedicated for that goal, which is necessary for the country. We expect much of him, for his work is arduous.”<sup>282</sup>

The BANFAIC’s first major expansion after the coup came in late May 1952 when the government announced a plan to assist the Cuban coffee crop scheduled for harvest on August 1.<sup>283</sup> The National Assembly of Coffee Growers and the Coffee Purchase and Sale Administration expressed its delight over the plan. The BANFAIC was to issue loans at a rate of thirty-five pesos per quintal for washed coffee. The loans thus followed the agency’s common policy to finance seventy percent of the value of the collateral – in this case fifty pesos per quintal of washed coffee. In coordination with loans to coffee cultivation, Batista tasked his Minister of State Campo to widen Cuba’s international coffee export markets. An agreement with Spain soon followed, for example, which lowered barriers to trade on coffee and other Cuban products such as henequen and canned fruits. In return, Cuba received Spanish wine and spirits, olives, ironware, carpets, tiles and telephone wire. Over the next years, it was customary for Batista to combine government stimulus to agriculture and industry with an expansion in export markets achieved through liberal international trade agreements.

Stimulating non-sugar food staples took high priority in the BANFAIC’s agricultural loans. Many Cubans suffered from malnutrition, and increasing food production presented an opportunity to bolster popular support. In addition, import substitution development theories provided academic credence to offer stimulus to the food sectors and increase domestic production. Thus in early August, 1952 the

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<sup>282</sup> Ibid. 4.

<sup>283</sup> U.S. Embassy Havana, Telegram 2077, June 6, 1952, 737.00 (W)/6-652, IA/1950-54.



BANFAIC voted to loan 300,000 pesos at an eight percent interest rate to stimulate tomato production. In coordination with the allocation, the Ministry of Agriculture approved low import duties for tomato seed and fertilizer. Rice production took particular importance in BANFAIC's agricultural loans. Loans to rice increased about eight percent a year from 1953 to 1956, and represented over one-third of the BANFAIC's agricultural portfolio in 1953–54.<sup>284</sup> The total area of land planted with rice nearly doubled from 1950–54, and production rose over 150 percent.<sup>285</sup> Potatoes, dairy products, beans, and other food commodities also received assistance.

*Batista es la paz! Batista lo hará!*

The first six months of the Second Batistiano had passed rather calmly, although some observers rated Batista's public approval extremely low, and the general atmosphere across the island as cynical and skeptical. After plenty of time to review the regime, on September 26 the U.S. government released a statement of continued support. It stated that the Cuban government was "very cooperative toward the United States."<sup>286</sup> In return for Batista's cooperation, the U.S. government agreed to arrest any anti-Batista activities on its shores that involved the shipment or stockpile of arms and weapons. In addition to the U.S., after six months the non-communist international community, U.N., OAS, and World Bank maintained cooperative relationships with Batista. He continued a break in relations with the Soviet Union.

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<sup>284</sup> Banco Nacional de Cuba, *Memoria, 1957-1958* (Havana, 1959)

<sup>285</sup> United Nations, Department of Economic and Social Affairs, *Economic Survey of Latin America* (New York, 1954) 163.

<sup>286</sup> U.S. Embassy Havana, Office Memorandum, "Summary Statement of Relations between the United States and Cuba," September 19, 1952, IA/1950-54.

Despite his efforts to the contrary, Batista's popular support among Cubans remained fragile. He had the cooperation of key union leaders, thus succeeded in maintaining labor stability. Mujal of the CTC, perhaps due to political survival or a genuine intention to cooperate, continued friendly relations with the regime despite several disagreements on labor issues that arose in the first six months, such as the proposal for tribunals. Mujal generally maintained a moderate position regarding unionism, similar to that of the American Federation of Labor that rejected communism and nationalization of the private sector. Mujal's moderate position aligned with Batista's policies to discourage the power of the communists and maintain friendly relations with the U.S. As a result, the two maintained a friendly, yet shaky relationship. The environment among labor was historically stable as a result, which pleased many Cubans as well as foreign direct investors, lending institutions, and the general business community.

Batista attempted to rally public support in an address to the nation on September 4, Soldiers Day – the anniversary of the overthrow of Machado in 1933. “Each anniversary,” he began,

there is new hope, to promote our constructive achievements and renew our commitment to future progress... We renew our faith in the glorious destiny for our people who seek the goals of the September revolution... a sovereign and free homeland; educated, healthy, and loving citizens who value progress; and inspired by the happy smiles of our vigorous and strong children.<sup>287</sup>

Batista exclaimed that he had the spirit of a “fighter” and “leader.” He pointed out as well how he was a “vigilant citizen and patriot fulfilling his duties” to Cuba.<sup>288</sup>

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<sup>287</sup> UMCHC 5155, Box 114, Folder 4.

<sup>288</sup> Ibid.

Batista went on to expand the narrative that Cuba had gone wayward during the Auténtico years, declaring that his coup and subsequent regime had restored it to the right course. “Flagrant violation of the laws” by the Auténticos threatened Cuba’s “peace, reconstruction, order, justice,” as well as economic safety, Batista asserted. “After an hour of horror, during which many lost faith, we resumed the work started on September 4, 1933.”<sup>289</sup>

Even after six months had passed, Batista still found it was necessary to defend his coup. He argued that “society felt relieved” when he overthrew Prío. He then listed his regime’s achievements in the past months and took credit for the improved domestic security, reminding how he “kept the nation from bloodshed and anarchy.” In addition to reducing violence, he claimed to have cleansed the government from corruption and restored morality to public service; improved relations between labor and employers; elevated the military’s well-being; and set the island on the correct path to freedom.<sup>290</sup>

In regard to his economic policies, Batista first mentioned that he restored security to Cuban businesses, improved prosecution of embezzlement, and made the island more attractive to investors. He also announced his plan to devote 500,000,000 pesos to future public works and economic stimulus programs. These included water and sewage systems, roads and schools, housing for people of modest incomes, rent assistance, and other popularly supported projects.<sup>291</sup>

Batista concluded the speech with an appeal for popular support. He told the citizens that cooperating with him would strengthen their freedom and prosperity. Side

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<sup>289</sup> Ibid.

<sup>290</sup> Ibid.

<sup>291</sup> Ibid.

by side with the people, his regime would lead Cuba to a “progressive, democratic and revolutionary government,” that,

will be consolidated, developed and carried on with the aid of God and the warm support of the people... Compatriots, we must clear away the rubbish from the road as before, to continue the march forward, and to give our country the best of ourselves.<sup>292</sup>

On September 12, only eight days after his Soldiers Day speech, Batista enjoyed a massive demonstration of support outside of the Presidential Palace that involved over 300,000 people. For the most part, they demonstrated their approval of Batista’s veto of an unpopular Consultative Council rent control proposal that would have overturned permanency rights. Cuba’s concentrated landholding system meant that permanency rights affected a great number of citizens – farmers, workers, tenants, squatters, small business owners, and merchants. Batista recognized the landlords’ complaint that permanency rights increased their costs and discouraged real estate development. However, the Minister of Labor stated publicly that the president “would veto any legislation that caused hardship and injustice to any Cuban.”<sup>293</sup>

Originally, a group of farmers had planned the rally to ask Batista to consider their problems, and thank him for a decree that prohibited rural evictions. As the rent control proposal issue grew heated and widespread, the event turned into an enormous show of gratitude to Batista for his veto. “Batista is the peace! Batista will do it!” chanted the crowd. His veto sent the message that he stood with the people against the power of the landholding elite. This boosted his populist image. “Government,” he declared,

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<sup>292</sup> *Havana Herald*, September 5, 1952.

<sup>293</sup> *El Mundo*, September 10, 1952.

has worked for your benefit... For us, it is worthwhile, because we know we are ruling the right way, doing work by the way of the people, and in the service of the nation”<sup>294</sup>

The crown responded with grand applause. Batista continued by declaring he stood for “social justice.” He reminded that in 1937 he provided land to over 60,000 *colonos*, initiated rent controls, and insured both rural and urban permanency rights for Cuban citizens. Some Ortodoxos and Auténticos accused him of orchestrating the entire incident as a political farce to gain mass support. Regardless, the event turned into an enormous public spectacle of pro-Batista support.

Batista took advantage of the moment to list his initiatives in the past six months that he claimed benefitted farmers, workers, and the unemployed.<sup>295</sup> While he had some populist momentum, he mentioned the prickly issue of mechanization and modernization of land use and attempted to build public support, or at least tolerance, for it. The issue was sensitive as many people thought machinery and improved agricultural yields would lead to unemployment. He also called for tenants and workers to maintain peaceful relations and cooperation with the landholders and business owners, to “offer encouragement to the investor.”<sup>296</sup>

Batista then announced a new government agrarian policy to help the farmers and workers “till and cultivate the land, to keep their families healthy.” He planned to increase quotas and assistance in a variety of crops including tobacco, coffee, rice, and more. The Minister of Agriculture, for instance, had recently increased the tobacco quota by 125,000 tons. In coordination with the quota increases, Batista announced government assistance for the agricultural sectors including low-cost credit, expansion of

<sup>294</sup> UMCHC 5155, Box 114, Folder 4.

<sup>295</sup> U.S. Embassy Havana, Telegram 428, September 19, 1952, 737.00 (W)/9-1952, IA/1950-54.

<sup>296</sup> UMCHC 5155, Box 114, Folder 4.

markets through international treaties, and subsidies for research. Moreover, Batista assured that he would widen financial assistance to housing. “By the end of 1953,” he proclaimed, “the government will assist the construction of thousands of homes for the people.”<sup>297</sup> The crowd responded with a grand ovation. He concluded the speech by reaffirming his dedication to the needs of the people.

For the time being, Batista enjoyed a boost in public support, but it was tenuous. The immediate future presented many uncertainties that threatened his popularity. Soon after that September 12 event, for example, the textile workers went on strike involving 25,000 workers. Batista deployed the army and forced a settlement between the textile union and the Minister of Labor. The strike was the first significant labor disruption since the coup, and some started to question Batista’s control over the unions. Moreover, there were more and more charges in the media of the regime’s arrests, harassment, torture, and murder of students, *Ortodoxos*, *Auténticos*, and other citizens. Public demonstrations and resistance grew in the winter, and police and army crackdowns increased accordingly. Batista condemned his opposition but rarely spoke of the crackdowns – he worried about his public image. Instead, he maintained an optimistic tone in his public addresses, and preferred to talk about his economic programs rather than crackdowns by his security forces. The level of resistance, however, had noticeably heightened since the dead season began back in July.

In addition, many analysts forecasted a bearish economy for the upcoming year. Batista faced the choice either to restrict sugar production in 1953 (thereby increasing unemployment) or face two years in a row with massive surpluses that would likely result in an economic disaster. Batista had little choice but to restrict the 1953 crop, which was

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<sup>297</sup> Ibid.

sure to put some cane farmers out of business. The resultant increase in unemployment would surely have a negative effect on Batista's popular appeal. On top of these challenges, there were rumors that Prío as well as others were plotting from the U.S. and Mexico to launch an armed insurrection.

On October 24, 1952 disaster arrived to Cuba. Category four Hurricane Fox, the last one of the season, swept through the center of the island from south to north with winds exceeding 150 miles per hour. It injured seventy people, killed forty, and caused \$10,000,000 (\$87,700,000 in 2012) in heavy damage. The most damage occurred west of Cienfuegos in the rural area dominated by the sugar plantations and mills. Thirty-six mills reported heavy damage after the storm passed the following day. It left behind destroyed homes, floods, and a humanitarian crisis. Fox was among the strongest hurricanes to strike the country in remembered history. Certainly Batista's reaction and sensitivity to the catastrophe would affect his acceptance by the people. Therefore he immediately employed the army to the damaged area and rushed supplies to the needy. He also gave assurances to the mill owners who suffered financial losses to expect government assistance.

In the final months of 1952 Batista continued to expand his government economic programs. On September 22, he approved his largest public works project to date – the construction of an international airport at San Antonio de los Baños, with the politically convenient name Batista Field. The new airport was designed to service the large modern jet planes that required longer runways, which was helpful for tourism and international commerce. He took personal credit for the massive project and the jobs it would create. It moreover served as a political symbol of progress.

In early December, the Council of Ministers sent two proposals to the Consultative Council that expanded government development programs. The first one proposed a new \$60,000,000 public works program, to total a maximum of \$35,000,000 during 1953, financed by the issue of thirty-year bonds. The revenues from two semi-postal stamps would service the bonds. The proposal immediately generated widespread criticism. There was suspicion that Batista intended to recklessly spend public resources to advance his political agenda, boost his populist appeal, and increase patronage networks. “The Cuban Government,” wrote an American civilian in Havana in March 1953, “has been inclined to favor any new industry without regard to its economic soundness or its relative contribution to the Cuban economy.”<sup>298</sup>

Clearly Batista intended to dramatically expand government stimulus projects in 1953; however, the limited national budget constrained the scope of his plans. In response, a second proposal introduced new taxes on cigarettes, automobiles, and on Cubans travelling abroad for more than ten days on holiday. The revenues from the new taxes were intended to pay for a school lunch and clothing program, labor courts, low-cost housing, public works, and retirement fund subsidies.<sup>299</sup> Additionally, the tax increases on domestic consumption in combination with tax breaks for foreign direct investment and remittances generated resistance from the people.

To increase public revenues to finance development projects, Batista tasked BNC President Martínez Sáenz to meet with foreign lenders. Martínez Sáenz subsequently met with the U.S. Export Import Bank, which evidently found Cuba too risky at the moment and did not make him an offer. In mid-September he attended a meeting with the World

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<sup>298</sup> The Foreign Service of the United States of America correspondence to John L. Topping, Esquire, in regard to his assessment of Batista; U.S. Embassy Havana, April 20, 1953, IA/1950-54.

<sup>299</sup> U.S. Embassy Havana, Telegram 979, December 19, 1952, 737.00 (W)/12-1952, IA/1950-54.



Bank and the IMF in Mexico City and proposed along with other Latin American countries the creation of an International Financing Corporation. It would operate in a manner more conducive to Latin American projects than the World Bank, which required that loans carry government guarantees.<sup>300</sup> It seemed that Batista had to improve the risk-return tradeoff for lenders before he could hope to receive any serious amounts of foreign credit.

Investors worried about the uncertainties of the sugar industry. In the winter of 1952–53 the mills started operations and the *zafra* began in earnest. Batista had limited the output to 5,000,000 tons. Similar to the previous year, in December 1952 Julio Lobo, knowing that much more cane was available to harvest, made Batista an offer to buy the surplus if he would lift the restriction. When asked what price he had in mind, Lobo responded with a three cents a pound offer, slightly less than the current world price, with the provision that all the profits gained if the price rose above three cents would be tax free. The amount of sugar to be expected in the unrestricted *zafra* could amount to 7,000,000 tons. It would be a huge position – \$225,000,000. Lobo, risking a fortune, was betting that Great Britain would soon lift its thirteen year restriction on sugar. If the restriction was not lifted, and Cuba produced too much sugar the price would plummet. Mujal, who was present at the meeting, disagreed with the speculation and forecasted that unrestricted sugar production two years in a row would lead to disaster. In the end, Batista refused Lobo’s offer. He would learn later that he made a mistake, for Lobo’s prediction proved correct. On February 5, 1953 British Prime Minister Winston Churchill lifted the restriction and the price rose above the three cents per pound.<sup>301</sup>

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<sup>300</sup> U.S. Embassy Havana, Telegram 428, September 19, 1952, 737.00 (W)/9-1952, IA/1950-54.

<sup>301</sup> Rathbone, 187.

Throughout the *zafra* Batista continued his policies to expand public works projects, stimulate the non-sugar economy with tax incentives and government crediting services, make Cuba more attractive to foreign direct investment, widen export markets, and liberalize international trade. For instance, the Minister of State announced in early October that the Cuban government was initiating studies to increase trade with neighboring countries in the Caribbean. The government continued to explore ways to reduce trade barriers, and kept friendly relations with the U.S. and Western Europe.

In addition, Batista continued to look for new ways to attract foreign direct investment. To this end, he appointed Carlos Saladrigas as Minister of Labor to help ease the tensions between capital and labor, particularly to set up tribunals and execute reforms recommended by the World Bank. U.S. Ambassador Beaulac described Saladrigas' appointment as "encouraging."<sup>302</sup> The textile workers strike in early October had caused uncertainty among foreign investors, and most likely inspired the Saladrigas' appointment. The government also reformed the immigration laws to attract capital from abroad. Europeans who qualified "financially and morally" had only to pay \$3,500 per adult for a Cuban permanent residency passport with all the rights of Cuban citizens, except the right to vote and hold public office.<sup>303</sup>

The government took steps to lift regulations in the domestic economy to stimulate non-sugar production. Batista approved a law in early October that authorized grocery stores and meat vendors to sell fish as well as poultry and beef. Through deregulation, he intended to expand domestic markets for the fishing industry. Batista also passed tax incentives to stimulate non-sugar markets. In early October, for example,

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<sup>302</sup> U.S. Embassy Havana, Telegram 878, December 1, 1952, 737.00 (W)/12-152, IA/1950-54.

<sup>303</sup> Letter of Eliseo Riera Gomez to the Honorable Dwight D. Eisenhower, U.S. Embassy Havana, January 20, 1953; IA/1950-54.

he approved a law-decree to stimulate low-cost housing construction that included exemption from municipal taxes and a twenty-five percent reduction in water rates.

## Chapter IV

### “The Building Boom was Sensational”

In 1963, while investigating the causes behind the Castro’s rise to power, the U.S. Congress summoned Arthur Gardner to testify on the events he had witnessed as Ambassador to Cuba from 1953–58. A WWI veteran, former assistant to the U.S. Treasury, and close confidant of President Eisenhower, Gardner throughout his tenure in Havana had staunchly defended Batista. Senator Dodd opened the hearing:

Mr. Gardner, you say you were appointed Ambassador in 1953. Would you tell us briefly and adequately, what were the economic conditions in Cuba when you went there, in 1953?<sup>304</sup>

“Well,” Gardner replied,

they had started to boom. And during the course of the time that I was there the economy rose tremendously. The building boom was sensational. If you had been in Havana ten years earlier, as I had... you wouldn’t recognize the city.

Gardner then testified on the causes of this “boom.” In particular, he believed the financial security that followed Batista’s coup created an environment conducive for new investments and business:

It was due to circumstances. But I think that the real reason for it was the feeling of definite security that the Cubans themselves had, politically perhaps not, but financially, yes. And they felt that the time had finally come when they could begin investing money in Cuba, rather than putting their money, as they had in previous years, in banks in Switzerland and New York. When I left there, it was astonishing to see the improvement.<sup>305</sup>

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<sup>304</sup> U.S. Senate, Eighty-Sixth Congress, Second Session, Part 9, August 27, 30, 1960, “Hearings Before the Subcommittee to Investigate the Administration of the Internal Security Laws of the Committee on the Judiciary” (Washington D.C.: U.S. Government Printing Office, 1960).

<sup>305</sup> Ibid.

The construction activity that Ambassador Gardner noticed when he drove through Havana was a central component of Batista's economic programs. In the first year of his rule, Batista's principal objectives regarding the economy included: to increase domestic savings and investment; ensure property protection to the private sector; attract capital to the island; increase confidence in government bonds by improving Cuba's creditworthiness through transparent public sector financial accounting; reduce public sector waste and corruption; reform and stabilize labor conditions that historically increased supply costs and investment risks; and lower tariffs on remittances, imports, and foreign direct investments.

By 1953, Batista had proven to most of the international business community that he led much more to the right, and less progressive than during his previous presidency. For instance, foreign investors had for years complained that labor demands and the unions' propensity to strike caused irritating risks to investment in Cuba. This time Batista took harder positions on labor, such as enforcing tribunals to solve disputes. As a result of these and other measures, capital flowed into the island in 1953 in the forms of bond purchases and foreign direct investment.

Therefore, it seemed fitting that Batista opened 1953 at the site of a grand public works project he had recently approved – the Plaza of the Republic that included the recently completed Tribunal of Accounts building, and a planned 350 foot high tower memorial to national hero José Martí to be constructed of Cuban marble and designed by the renowned architect and Minister of Public Works Enrique Luis Varela. Eager for popular support, Batista pushed ahead with the Martí memorial that had been planned since 1939 but never approved for construction.

Batista began his speech by applauding the new Tribunal of Accounts building and how it symbolized his regime's dedication to honest public service. Batista had defended his coup by condemning the past regime for corruption. Therefore, he increased resources for the Tribunal of Accounts so that it may provide improved oversight of public spending. Batista then touted such measures to the public as evidence of his dedication to honest government. "Mr. President of the Tribunal of Accounts, Doctor Emilio Fernandez Camus," Batista began,

we are exceptionally pleased to present to you this valiant headquarters building, whose façade we have seen with the flag of our country... We believe as simple fact, that in these set of buildings of the Plaza of the Republic, such as the House of the Tribunal of Accounts, are legally mandated agencies to ensure the straight administration of the people's money.<sup>306</sup>

Batista then reminded Cubans of the "patriotic" steps he had taken to reduce corruption, thereby reinforcing his character as honest. "Our government" he explained, "has uncovered serious problems related to the state's finances." He took credit for:

more surveillance of the domestic government, fiscal audits, and external monitoring. Our government has assigned auditors to all our plans, investments, public works, to testify that the national budget has been correctly implemented... We believe the citizens have a right to know the way in which their money is spent.<sup>307</sup>

After celebrating the Tribunal of Accounts building, Batista shifted his attention to the Martí memorial. "This is the year of the centenary of Martí's birth" – the national hero who fought the Spanish and died for Cuban independence at the Battle of Dos Rios in 1895.<sup>308</sup> Martí led a life of "noble activity, personal sacrifices, and tireless enlightened efforts, and I am dedicated to his ideals," Batista stated. He advertised the massive Martí memorial as a national triumph resulting from his policies. The crowd applauded,

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<sup>306</sup> UMCHC 5155, Box 114, Folder 4.

<sup>307</sup> Ibid.

<sup>308</sup> Leopoldo Fornes-Bonavía Dolz, *Cuba Cronología* (Madrid: Editorial Habana, 2003) 193.

chanted, and celebrated their patriotism. The spectacle certainly reinforced how public works projects could boost popular support for the regime. “In the Plaza of the Republic,” Batista exclaimed,

where the Cuban court building stands finished, one can observe others in construction, and initiated the grand works and monuments dedicated to the glory of our country.<sup>309</sup>

The crowd responded with a grand applause.

Despite the ovation, Batista’s public appeal in the beginning of 1953 remained tenuous. The economy began a downturn, and income for society as a whole was expected to constrict drastically. With the 1953 sugar crop restricted to five million Spanish long tons, the estimates predicted that Cuba would suffer an \$180,000,000 reduction in income from the previous year. The negative impacts were expected to linger in the domestic economy well after the harvest, since there was usually a lag between a crop restriction and its effects on commerce.

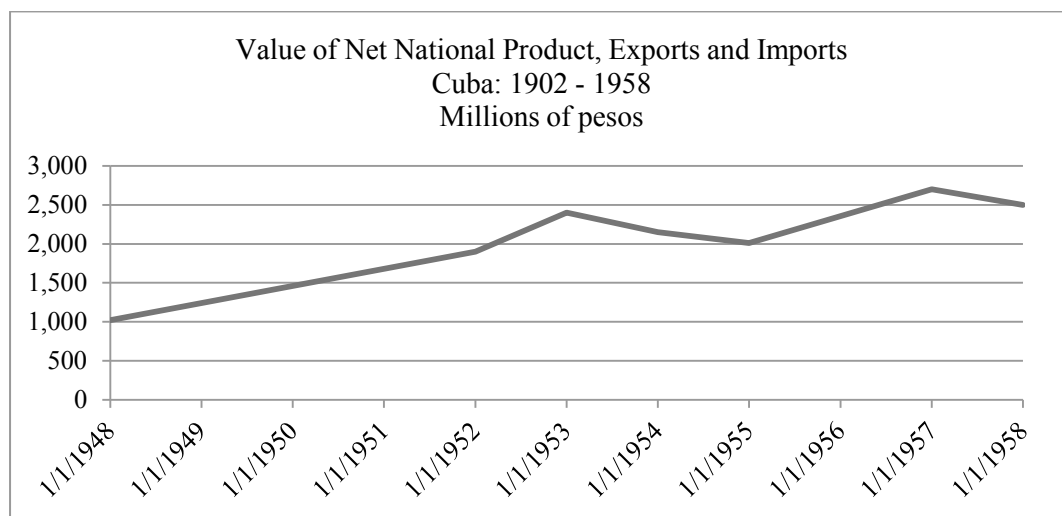
Furthermore, in the beginning of 1953 exports to the U.S., Cuba’s principal trade partner, were decreasing. In the first four months of 1953, exports to the U.S. amounted to \$145,000,000, compared to \$199,220,000 in 1951 for the same period – a thirty percent decrease. To compound the difficulties, the international sugar price continued to decline, and there were no indications that it would rebound any time soon. On the contrary, most experts forecasted that the price decline was going continue through the entire year. In mid-1951, the price per pound reached over seven cents a pound, and in January 1953 it had dropped to 3.4 cents. The rate of the decline indicated that it might

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<sup>309</sup> UMCHC 5155, Box 114, Folder 4.

quickly fall to under three cents.<sup>310</sup> This provoked Batista to initiate rational but politically harmful wage reductions for government and sugar industry workers. Labor and management reluctantly accepted them. Batista certainly faced many challenges at the beginning of 1953 as Cuba started its economic downturn. The Net National Product (NNP) began a sharp decline that lasted through 1953.

Table 4. Net National Product (NNP), 1948–58



Source: National Bank of Cuba, *Memoria 1956 – 1957*; University of Miami Cuban Economic Research Project, *Stages and Problems of Industrial Development in Cuba* (Coral Gables, 1965) 99.

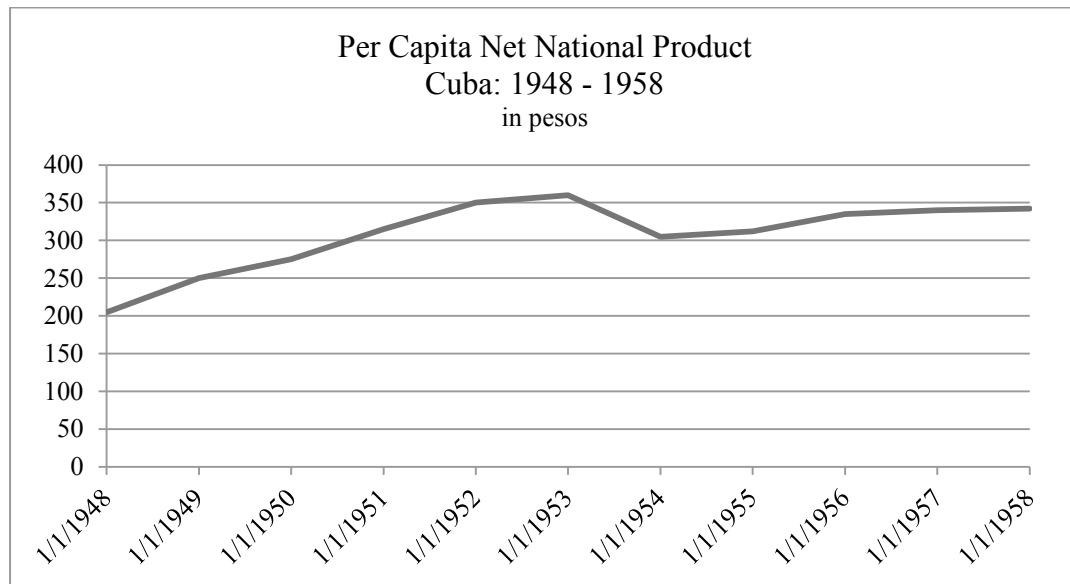
In 1953 only a third of the homes had running water and many Cubans suffered in poverty.<sup>311</sup> The average family had an income of \$6.00 a week. In the beginning of 1953 per-capita NNP also started a decline that lasted through the year.

<sup>310</sup> United States Government Printing Office, “Hearing Before a Subcommittee of the Committee on Foreign Relations, United States Senate, Eighty-Third Congress, Second Session, The International Sugar Agreement” (Washington D.C.: March 18, 1954) 77.

<sup>311</sup> “Remarks of Senator John F. Kennedy at Democratic Dinner,” Cincinnati, Ohio, October 6, 1960 (John F. Kennedy Presidential Library and Museum: <http://www.jfklibrary.org/Research/Ready-Reference/JFK-Speeches/Remarks-of-Senator-John-F-Kennedy-at-Democratic-Dinner-Cincinnati-Ohio-October-6-1960.aspx>).



Table 5. Per Capita Net National Product, 1948 – 58



Source: National Bank of Cuba, *Memoria 1956 – 1957*; University of Miami Cuban Economic Research Project, *Stages and Problems of Industrial Development in Cuba* (Coral Gables, 1965) 100.

Since Batista took over, many Cubans had experienced wage cuts, layoffs, and found their purchasing power decrease.

The high unemployment rate added to the frustrations. In 1953, the unemployment rate varied from 8.4 percent of the total labor force during the *zafra* to twenty-five percent in the dead season. According to the 1953 census, out of the total labor force of 2,060,000, 174,000 were chronically unemployed. The highest seasonal unemployment reached around 500,000.

Table 6. Population, Employment and Unemployment: 1953 Census

	Persons (in thousands)	%
Total Population	5,289	100.0
Minus: children under 14	<u>2,000</u>	<u>34.3</u>
Population of 14 years of age and over:	3,829	65.7
Minus: Unemployed not seeking work:	<u>1,769</u>	<u>30.4</u>
Labor Force	2,060	35.3
<u>Analysis of unemployment</u>		
Labor Force	2,069	100.00
Employed	1,779	86.4
Minus:		
Employed but not working the week before the census was taken	24	1.2
Working without a salary for a relative	<u>83</u>	<u>4.0</u>
	1,886	91.6
Total of permanent unemployed	174	8.4

Source: Oficina Nacional de los Censos Demográfico y Electoral, *Censos de población, viviendas y electoral, enero 28 de 1953* (Havana, 1955).

Large numbers of young, unemployed, hungry, disgruntled citizens struggled in the rural areas and idled in the Havana streets. Batista most likely realized how the current economic downturn would test their patience. Without new jobs, his opposition could find willing recruits within this impoverished and despondent group. As a result, throughout 1953 Batista repeatedly asked the people to have confidence in his economic policies. Growing cynicism pervaded, however, particularly among the unemployed.

Batista repeatedly raised expectations thus certainly felt pressure to reduce unemployment. Therefore, many of his economic programs' directives in the upcoming years would go to non-self liquidating public works intended to create jobs, not necessarily to stimulate sustainable industries. From 1953–58 industry received only a third of government loans with most funds devoted to the construction of monuments,

parks, and public buildings. “It was evident,” historian Wyatt MacGaffey later commented in 1965 on Batista’s economic programs, “that the government’s chief concern was to provide jobs rather than increase production.”<sup>312</sup>

Along with high unemployment, bearish forecasts for 1953 public revenues represented a significant challenge for Batista.

Table 7. Public Revenues and Expenditures, 1951–57 (Thousands of C\$)

Year	Budgetary Expense	Actual Revenue	Budgetary surplus-deficit	Actual Expense	Actual extra expense	Actual surplus or deficit
1951–52	299,813	327,534	27,721	325,211	25,398	2,323
1952–53	336,286	309,459	–26,827	340,585	4,299	–31,126
1954–55	311,415	303,381	–8,034	329,255	17,840	–25,874
1955–56	312,675	326,734	16,059	325,317	12,642	3,417
1956–57	330,149	379,843	40,694	354,694	24,545	16,149

Source: Gaceta Oficial; and Grupo Cubano de Investigaciones Economicas. Estudio sobre Cuba (Miami: University of Miami Press, 1963) 871.

During Prío’s presidential campaign in 1951–52, he had started many expensive and politically motivated public works projects. When Batista took over on March 10, he had made a promise to the citizens to continue them. The national budget, however, would end the fiscal year in June, 1953 with a \$31,126,000 deficit. The expenditures for public works, agriculture, labor, education, sanitation, health, and welfare accounted for a large majority of the budget.

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<sup>312</sup> MacGaffey, 101.

Table 8. Budgetary Expense in Cuba, 1950–57 (In C\$)

Category	1950–51	1951–52	1952–53	1954–55	1955–56	1956–57
Public Debt	6,702	10,783	5,588	26,918	35,850	36,270
Legislature	8,214	8,214	5,119	3,144	8,214	8,443
Judiciary	8,432	9,891	10,870	12,046	10,976	10,976
Accounts Tribunal	-	-	-	3,000	3,600	3,600
Presidency	643	661	1,379	1,890	1,711	2,251
Prime Minister	673	714	-	-	516	529
Ministries of						
State	3,367	2,567	3,731	3,209	4,177	4,373
Justice	793	861	953	911	820	1,102
Interior	14,395	15,674	21,265	19,178	18,329	18,720
Treasury	16,402	24,520	17,388	14,466	14,473	19,569
Public Works	23,345	40,060	36,327	23,854	15,533	18,453
Agriculture	5,988	6,361	5,747	4,969	4,321	4,527
Commerce	2,130	2,218	2,267	2,012	1,853	1,864
Labor	2,068	2,220	2,590	1,459	1,331	1,446
Education	52,994	58,169	83,493	74,465	71,351	74,177
Health, Sanitation, and Welfare	21,180	20,180	21,428	22,273	21,752	23,602
Communications	10,678	12,115	12,755	11,596	10,945	11,747
Defense	39,176	42,026	56,520	54,950	54,345	53,324
Information	-	-	792	-	-	-
Pensions	23,291	38,504	42,323	28,332	28,848	29,237
Univ. of Havana	2,167	2,779	2,779	2,740	3,940	3,940
Total	242,637	299,813	336,286	311,415	312,675	330,149

Source: *Gaceta Oficial*, Edición Extraordinaria Especial, 1952–53, 1954–55, 1955–56, 1956–57.

Batista found it difficult to pay for the current programs, much less create new ones. As a result, to raise revenues the Minister of Finance responded with tax levies on income and other domestic sources, and reduced at the same time taxes on foreign capital and remittances.<sup>313</sup> This would succeed in attracting a steady flow of foreign direct

<sup>313</sup> New taxes established by Batista by January 1953 included an increase in postal rates; increase in the cost of a Courthouse stamp; payroll tax increase on public and private sector workers; municipal tax; 32 percent tax on beer brewed in Cuba; one day earnings tax on government and military personnel; 10 cents per head of cattle slaughtered; 10 cents per tobacco bale; 20 cents per 1000 cigars; one cent per 14 cartons

investment throughout 1953, and contribute to Cuba's economic recovery that gained momentum at the end of the year. To many Cubans, however, it seemed that Batista's policies gave special advantages to foreigners who could invest in Cuba, benefit from its resources and labor, then repatriate their profits largely tax free.

Resistance to the regime grew daily and became significant by the beginning of 1953. Exiles in Miami and other areas of the U.S. such as the Auténticos and Ortodoxos met regularly and conspired to overthrow Batista. The student protests and scathing media attacks against Batista increased, despite his attempts to censor them. Government arrests and suspensions of the press grew accordingly. To his opposition, Batista firmly invoked his dictatorial powers and employed the army to enforce them. On January 15 the students conducted a protest outside the University of Havana that quickly turned into a small riot. They threw stones at the police, and shots were fired. The police arrested dozens of the dissenters, including Fidel Castro Ruz – a member of the University Student Federation (FEU).<sup>314</sup>

Following the January 15 riot, the opposition leader Raul Menocal offered Batista a proposal to conciliate. Batista sternly answered that the 1952 Constitutional Act was “untouchable.”<sup>315</sup> Also, during the January 15 riot, the police wounded the popular student leader Rubén Batista (no relation to the president), who died a few days later. This ruptured any possible conciliation with the students. Sporadic, sometimes violent confrontations between police and students would continue through the spring and summer. To compound the tensions, Batista announced on February 27 that elections

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of cigarettes; 50 cents on every rural property; one cent for every fraction of the tickets for the national lottery; and a 10 percent increase on securities dividends.

<sup>314</sup> *Havana Post*, January 16, 1953.

<sup>315</sup> U.S. Embassy Havana, Telegram 1221, February 6, 1953, 737.00 (W)/2-653, IA/1950-54.

would not be held until June 1, 1954. “I want to make sure,” he said in his defense, “that others seeking the presidency are sincere and will protect the rights of the people and the government economy.”<sup>316</sup> Earl Crain from the U.S. Embassy in Havana described the general public’s reaction to the election’s postponement as “cynical acceptance of a development that was no more than to be expected.”<sup>317</sup>

Many Cubans indeed felt extraordinarily cynical. In the magazine *Focus*, an anonymous Cuban commented that “sin and graft is official policy in Cuba – no matter who is in power.”<sup>318</sup> Repeatedly Batista touted how he saved Cuba from corruption, and raised expectations that he would clean up the public sector. However, many citizens found his promises empty and expected nothing to change. A *Focus* magazine commentator remarked that when Prío left the country, “Cuba’s honest citizens hoped that he carried with him all the graft and corruption,” however, “this rich land... has jumped straight from Prío’s frying pan into Batista’s fire.”<sup>319</sup> Opposition to Batista publicly accused him and his regime of “political profiteering, bribery, outright theft of funds,” siphoning funds from the national lottery, using Havana’s casinos to line their pockets, corruption in customs regulation, and special interest governing through the seven-hundred member Consultative Council.<sup>320</sup> The narrative also presciently and gloomily predicted how current moderates could ally with the extreme leftists for the united purpose of deposing Batista, resulting in radical, communist rule:

The darkest prospect of all in Batista’s regime: the new dictator has started reaction which may throw Cuba (a vital bastion in the Caribbean) into Communist hands... If, as is rumored, Batista drives Socialista completely underground, Cuba

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<sup>316</sup> *Visión*, June 26, 1953.

<sup>317</sup> U.S. Embassy Havana, Telegram 1380, March 6, 1953, 737.00 (W)/3-653, IA/1950-54.

<sup>318</sup> *Focus*, August 1952.

<sup>319</sup> *Ibid.* 6.

<sup>320</sup> *Ibid.*

is in for trouble that will make the past seven years' corruption look like a Sunday School picnic... [Communists] may lure vast numbers of non-Communists to their side by pointing at Batista's dictatorial suppression of traditional Cuban freedoms. If the Communist party can play upon this sort of popular resentment long enough, it may come to a boil, and bring a revolution that will sweep the Reds in power. *Focus* warns Dictator Batista to reform before it's too late – to give his good people more democracy, less corruption and vice. Otherwise all his sins will come back to haunt him, and their color will be red – the red of communism and the red of blood.<sup>321</sup>

In an interview with *Visión* magazine, Batista assured his foreign and domestic critics that “there will be peace and we will have elections,” and added that the military was “prepared against those who have threatened to use violence in attempting the impossible return to power.”<sup>322</sup> Managing Editor George Beebe of the *Miami Herald* spent the day with Batista on June 27 aboard the presidential yacht and concluded that his grip over Cuba was not in serious jeopardy. Batista confidently told Boone, “I think the masses of the population are satisfied with my administration.” Boone concurred:

If there is dissatisfaction among the populace with the Batista regime, it was not evident on the surface... I had the assurance of Batista that revolution was mainly in the minds of his exiled enemies, and not in Cuba.<sup>323</sup>

Certainly Batista had plenty of opposition; on the other hand, he had clearly established a powerful foreign and domestic coalition. The Americans and Western Europeans accepted him as an anti-communist. By 1953 the U.S. government was selling munitions, aircraft, and weapons to Cuba. In addition, for the most part the American business community felt comfortable with him. Cuba's international trade relations had considerably widened since the coup, and Batista's ministers continued to cultivate new foreign relationships based on lowering tariffs and other barriers to commerce. Aside from participating in the GATT, Cuba hosted delegates from Latin America, Caribbean,

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<sup>321</sup> *Ibid.* 7.

<sup>322</sup> *Visión*, June 26, 1953.

<sup>323</sup> *Miami Herald*, June 27, 1953.

Asia, and Europe including Japan and West Germany. On May 11, 1953 Cuba and West Germany signed the Treaty of Commerce and Navigation and a Commercial Agreement – an accord for the future purchases of sugar, tobacco, copper, chrome, henequen, rum, sponges, fruit, and other Cuban products. In return, Cuba agreed to tariff concessions, including the granting of preferential rates on certain products.<sup>324</sup> Batista sought similar liberal trade agreements with nations throughout the world. On June 12, Batista spoke before the U.N., affirming his dedication to the post-WWII economic order, and how “Cuba will occupy her place of honor” on the side of free nations.<sup>325</sup>

Within the island, Batista continued to develop working relationships with powerful individuals in the economy. The army dutifully followed him, perhaps out of gratitude for the pay raise since the coup. In addition, Batista succeeded for the most part in stabilizing employer – labor relations, a remarkable achievement applauded by international observers and business. For the most part labor presented no serious resistance, despite Batista’s insistence on unpopular reforms such as the tribunals. Even when on May 13 the government announced heavy personnel and wage reductions in the bus industry, organized labor surprisingly cooperated. As a friendly gesture, Batista consistently assured the CTC that it possessed “freedom of action,” and he awarded it a \$100,000 grant at the beginning of the 1953 to construct a Labor Palace. In appreciation, Mujal continued his support.<sup>326</sup>

The sugar industry also supported Batista. The mills damaged in the October hurricane received special assistance from the government – an emergency grinding subsidy. By January all but nine of Cuba’s 161 sugar mills were in operation, and Batista

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<sup>324</sup> U.S. Embassy Havana, Telegram 1795, May 15, 1953, 737.00 (W)/3-653, IA/1950-54.

<sup>325</sup> Office Memorandum, United States Government, June 16, 1953 (W)/3-653, IA/1950-54.

<sup>326</sup> U.S. Embassy Havana, Telegram 1221, February 6, 1953, 737.00 (W)/2-653, IA/1950-54.



continued a working relationship with the industry. The single seller system that the ICEA had earlier approved effectively made Batista solely responsible for negotiating the sale of the 1952 sugar surplus. He had withheld two million tons from the international market and the BNC financed the storage costs. Many in the sugar industry felt appreciative to Batista for these measures, as well as finding a way to sell a portion of the surplus to Japan, West Germany, and Great Britain at acceptable prices. It seemed that Batista averted a disaster that many in the sugar industry had feared for months – a severe drop in the international sugar price resulting from a supply glut caused by the massive 1952 crop. In addition, a few months later in July the sugar industry congratulated Batista's negotiations at the international sugar convention held in London. The conference resulted in the International Sugar Agreement (ISA), signed by seventy-two nations – that limited sugar output in the interest of price stabilization for the major producers. Batista's representative Roberto de Mendoza signed the final edition on October 26, which established a 5,000,000 ton restriction for the next three *zafras*, as well as regulated sales of Cuba's surplus based on future quotas in the international market. The agreement served to stabilize the sugar industry, and the economy at large. Batista hailed the ISA as a personal and national achievement.

With the support of the regime, an organizing committee representing the Rotary Club, Lions Club, Good Neighbor Foundation, National Association of Sugar Mill Owners, Association of Sugar Cane Growers, Association of Industrialists, and Cuban Chamber of Commerce sponsored a ceremony of Cuban-American friendship to be held on February 20 at the Vedado Tennis Club in Havana. The CTC, National Veterans Association, Havana Clearing House, Catholic Women's League, and Havana Auto and

Air Club accepted invitations to participate. The ceremony presented to Batista a political opportunity to remind key members of the Cuban economy that his foreign and domestic policies aligned with their objectives, in particular to maintain open and friendly relations with the U.S. and discourage discussion of imperialism (an idea promoted in many Latin American countries during the period). Batista affirmed his solidarity with Cuban businesses.

Along with Cuba's sugar industry, in spite of the national budget deficit, in early 1953 foreign and domestic investors generally felt increasing confidence in Batista's regime. The U.S. Embassy official Earl Crain remarked on Batista's "important accomplishments" in the first year of his rule:

More has been accomplished by the present regime, at least as far as labor is concerned, than any in recent history. Whereas previous administrations apparently felt themselves powerless to prevent illegal strikes, or considered it politically expedient to permit illegal strikes, the present Government has been largely successful in obtaining compliance with labor covering this point... The present regime has taken another step to improve the labor situation... [it] discontinued the former policy of intervening in private industry... [Minister of Labor] Saladrigas has, without fanfare, permitted business and industry to drop around two thousand undesirable or unnecessary employees... It is doubted that this could have happened in the Grau or Prío administrations.<sup>327</sup>

Clearly Batista's measures intended to make Cuba attractive to foreign investors. In this regard he was remarkably successful, for capital flowed into the island throughout 1953 that financed new and existing economic development programs.

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<sup>327</sup> The Foreign Service of the United States of America correspondence to John L. Topping, Esquire, in regard to his assessment of Batista, U.S. Embassy Havana, April 20, 1953, IA/1950-54

### Symbols of Progress

On March 10, 1953 Batista commemorated the one year anniversary of the coup with a nationally broadcasted speech. He opened with a soft tone, explaining how he felt “modest” in the company of his “valiant compatriots” and honored “to save the desperate people from a criminal regime.” The coup, he assured, represented an act of his patriotism since the past regime betrayed the citizens. “We responded to the will of the people,” Batista explained.<sup>328</sup>

For the past year, he had denounced the previous administration for corruption and robbing public funds – the public *hacienda*. With these condemnations, Batista set high expectations for his regime to govern honestly. “The people must have faith in us,” he assured, “because we do not deceive.”<sup>329</sup> Financing and carrying out public works with integrity and transparency was thus critical to his public creditworthiness and reputation. As a result, Batista strengthened oversight agencies such as the Tribunal of Accounts to expose corruption that reflected negatively on his personal image. He reminded Cubans how in the past year, their government had functioned for public service and not to line the pockets of a few – a year’s worth of proof that the coup was justified and necessary.

Batista then spoke about existing and planned public works, and touted them as national achievements resulting from his leadership:

The country is at work like *bibijagueros* [large, laborious Cuban ants]... The moment allows us to take stock of numerous works realized by our Government in its first year of life: more rural schools on the island; the number of teachers has increased, not reduced, as argued by many of our opposition... Agriculture is spreading with healthy measures, and its mechanization... has experienced a positive boom. The urban and rural boards for the construction of roads and

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<sup>328</sup> UMCHC 5155, Box 110, Folder 4.

<sup>329</sup> Ibid.

streets have begun to develop its vast plan. There is improvement in the creation of children's hospitals, rehabilitation of the sick, as well as the fight against the polio. We are beginning a plan to promote the housing economy in the country, and public works in the rural areas and cities. These are truths that the people can see with their own eyes.<sup>330</sup>

Then Batista announced a Two Year Plan, which was to include expansion in public works projects. He vaguely explained the Plan:

The comprehensive Two Year Plan of public works that we are already finishing will be rapidly put into execution, and will serve not only to provide employment to thousands of men, but also to mobilize the economy of the rural peoples.<sup>331</sup>

To stimulate the real estate and housing industries, Batista announced that he planned to expand the availability of low-cost credit and government backed mortgages. “We will stimulate the technical mortgage business,” he proclaimed “and we have proven it by creating the fund of government insured mortgages.”<sup>332</sup>

Batista had made a promise to the Cuban people that he would continue all planned or current public works projects. These included the expensive projects that Prío had started during his 1951–52 presidential campaign, and politics rather than sound economics motivated many of them. Therefore, as quietly as possible Batista terminated a few of them, such as a proposed hydrogenation plant. Publically, however, Batista took credit for saving Cuba’s public works from insolvency. Prío, he accused, may have started most of the projects, but his regime pilfered the money allocated to finance them, including the workers’ salaries. Due to corruption, the projects and the jobs they entailed were doomed until Batista stepped in and saved them. This narrative had a dual purpose: it once again described Batista as a savior, this time of many public and private

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<sup>330</sup> Ibid.

<sup>331</sup> Ibid.

<sup>332</sup> Ibid.

sector jobs; and he could take credit and ownership of the public works projects although he did not create them.

For instance, Batista took credit for the completion of Cuba's first underwater vehicular tunnel – a project conceived and started during the Prío regime and carried out by a United States contractor at a cost-plus-fixed-fee basis. The \$5,500,000 project ran beneath the Almendares River and connected Havana with the residential area of Marianao. Similar to the tunnel project, Batista gave the impression he had rescued Cuba's public works and restored their solvency. "We have delivered a pacified country," he boasted, "in full construction with its economy in total development."<sup>333</sup>

He concluded the speech by linking himself to the Cuban hero José Martí, the glory of Cuba, as well as the "cause" of the Cuban people:

Friends, compatriots, in the centenary of the birth of a great man [Martí], who was visionary and apostle of our independence, the revolution of the 10 March honors his memory, and like him we work for our *patria*, glorious in its traditions... We know that the road has many difficulties and obstacles – as it always has been for us. We believe in the patriotism of Cubans and the support of the Republic that will march down the pathway of peace and progress. The triumph of our cause, is the cause of everybody!<sup>334</sup>

Batista's narrative on developing non-sugar industries through centrally managed stimulus received much domestic and international support. In 1953 he consistently stressed that Cuba's economic future depended on agricultural and industrial diversification, and that government should play an aggressive role in stimulating it. In June, Batista told a *Miami Herald* interviewer how he "is increasing public works all over the island... to help alleviate misery among the poor people."<sup>335</sup> He continued:

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<sup>333</sup> Ibid.

<sup>334</sup> Ibid.

<sup>335</sup> *The Havana Post*, July 1, 1953.

We need new industries to provide employment for our fast-growing population. There are just not enough jobs being created. We are a progressive and prosperous nation... we have got to create more industries that will keep our money at home.<sup>336</sup>

Most of labor agreed. On April 26, 1953 for instance, the CTC invited Batista and his Cabinet to a meeting in Havana, and requested that the government stimulate new industries to provide more jobs.<sup>337</sup> The CTC stated its willingness to cooperate with the government in a stimulus effort – presumably in the form of low-cost credit funded by the public treasury and allocated throughout the nation by state sponsored financial agencies.

With labor in agreement, in 1953 Batista clearly defined his approach to encourage economic development. It relied heavily on central banking to assist undercapitalized non-sugar industries. Throughout 1953 the BANFAIC's activities continued to expand assistance to many sectors of the Cuban economy. For instance, in May the bus line Autobuses Modernos received a \$1,200,000 BANFAIC loan that probably saved it from insolvency. Assistance was extended to mining, fishing, oil prospecting, various agricultural products, and many domestic industries. Batista's plans, however, called for and the creation of new finance agencies beyond the BANFAIC, which could specialize in economic sectors and broaden the impact of government assistance.

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<sup>336</sup> Ibid.

<sup>337</sup> U.S. Embassy Havana, Telegram 1697, April 30, 1953, 737.00 (W)/3-653, IA/1950-54.

Mortgage Insurance Institute (Fomento de Hipotecas Aseguradas)

In 1953 Batista created two new government financial agencies, the Mortgage Insurance Institute (Fomento de Hipotecas Aseguradas – FHA) and the National Finance Agency (Financiera Nacional de Cuba – FNC). Most Cubans referred to the two agencies collectively as the “*Banca Oficial*” or just “*la Banca*.” Law-Decree 7501 of March 20, 1953 established the FHA as a BANFAIC department. Later in 1955, Law-Decree 2066 modified the FHA into an autonomous agency. With a \$1,500,000 starting budget its principal task was to stimulate residential and commercial real estate development by guaranteeing the mortgagor full payment of interest and principal as provided in the mortgage contract. Only mortgages against existing homes or under construction were eligible, as well as commercial, industrial and agricultural buildings.<sup>338</sup> The limit of insured principal for family dwellings was \$16,000. Loan applications had to be made through approved credit institutions that were overseen by the BNC and the Tribunal of Accounts. The government touted the FHA as a national triumph dedicated to:

complete the objectives of the [Cuban] social character... in relation with the goals of the country’s economy, a factor extremely important and concurrent with the expansion of industry and construction... the private sector will have the opportunities, guarantees and stimulus that proceed under actions developed by the State.<sup>339</sup>

The FHA legitimizing ideology claimed to represent the Cuban “social character.” It emphasized that economic expansion directly resulted from the state’s (or Batista’s) initiatives. This attributed a paternal quality to Batista’s message. Through the FHA, he would direct Cuba to a better future if the populace would place their trust in him.

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<sup>338</sup> *Leyes Civiles y Su Jurisprudencia* (Havana, 1954) 707.

<sup>339</sup> *Ibid.*

The principal objective for the FHA was to stimulate real estate development and improve housing. In 1952, public construction totaled \$77,000,000 and considerably outspent private construction at \$53,000,000.<sup>340</sup> Batista as well as Gutiérrez from the National Economic Board concluded that the lack of available credit and mortgage lenders hindered private real estate construction.

At the same time in the U.S., for example, the use of mortgage credit financed the rapid expansion of suburbs and commercial real estate development across the nation. Following WWII, throughout the U.S. land value significantly increased due to real estate development. Rural areas with little real estate value turned into modern and comfortable suburban neighborhoods with roads, sidewalks, trash pickup, clean running water, electricity, and other utilities. The American real estate market comprised large numbers of economic agents with access to affordable credit.<sup>341</sup> A study completed by the U.S. government in 1952 observed:

mortgage credit played a progressively more important role in home financing in the period 1890-1950. The percentage of owner-occupied homes that are mortgaged has increased in all parts of the country up to and including 1940, and, in five out of nine geographic divisions, through 1950.<sup>342</sup>

In Cuba, however, this type of economic activity was essentially non-existent.

#### “How Americans Lose Their Shirts”

Batista always seemed to have a deep passion for Cuba’s tourism industry. Throughout the 1930s and early 1940s, he helped build up the hotels and casinos, hosted celebrities, welcomed tourists, and Cuba gained increasing market share in Latin

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<sup>340</sup> Wyatt MacGaffey and Clifford R. Barnett, 100.

<sup>341</sup> Richard Updegraff Ratcliff, *Residential Finance, 1950* (New York: J. Wiley, 1957) 22.

<sup>342</sup> United States Department of the Interior, *Residential Finance, 1950* (1952).



American and Caribbean tourism. Now that he was back in power, he resumed his passion and directed his economic policies to that end. The tourist industry received a considerable share of government domestic initiatives throughout the Second Batistano.<sup>343</sup> One of his first actions following the March 10 coup was the reorganization of the old National Tourism Corporation “to assist and stimulate private enterprise,” Batista later wrote. In addition, shortly after the coup he had approved the construction of a new international airport at San Antonio de los Baños. The runways at the existing airport at Rancho Boyeros were not long enough for the modern planes such as the British ‘Comet,’ with four jet engines. Despite the protests of Pan American Airlines, which owned the airport at Ranch Boyeros, Batista approved the new construction and set the stage for a new era of tourism.

With the recommendations of the World Bank and other respected analysts, tourism presented an opportunity to diversify the economy without interfering with the sugar industry. Certainly, the increase of post-WWII discretionary income in the U.S. offered Cuba the opportunity to capture many American tourist dollars. In 1947, tourists added \$37,000,000 to Cuba’s foreign exchange earnings. Only four years later, in 1951, Cuba captured \$50,000,000. The bullish trend showed no immediate signs of slowing, which signaled to Batista that investment in the industry – in airports, hotels, ports, casinos, and restaurants – seemed rational and profitable for Cuba.<sup>344</sup> After all, the Tropicana and Sans Souci gambling operations raked in \$5,000 a day during the high season.<sup>345</sup>

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<sup>343</sup> Ibid. 142.

<sup>344</sup> Schwartz, 111-112.

<sup>345</sup> Dade County OCB file # 1-139.

However, Cuba had formidable competitors in the tourism industry. In 1951 Cuban tourism severely lagged behind Mexico that captured \$300,000,000 from U.S. travelers. The Mexican government had initiated a vigorous advertising campaign to attract American tourism, and developed popular destinations such as Acapulco and Mexico City.<sup>346</sup> Puerto Rico, Miami, and the Bahamas conducted similar campaigns. From 1949–53, Cuba’s market share of American tourism to the Caribbean dropped from forty-three to thirty-one percent. Although there was a thirty percent increase in Cuban tourism during those years, “Puerto Rico doubled and Haiti quintupled... Tourism income expanded, but too many of the dollars sailed past Cuba’s shores.”<sup>347</sup>

Despite the numerous risks Batista seemed certain that investment in tourism was worthwhile. In his domestic economic programs, tourism thus received special priority to the exclusion of other non-sugar industries. One of Batista’s first actions to build up tourism was to appoint a loyal supporter to direct the Tourism Commission. It would have to be somebody who would implement without question Batista’s expansionist plan, which included riskily devoting enormous sums of public funds to the industry, and inviting known U.S. gangsters to manage the casinos. The appointment had to be somebody completely on board with that. Therefore, Batista selected his longtime supporter, friend, and retired sugar baron Marcial Facio. The Tourism Commission’s staff also comprised an assortment of Batista cronies – who rarely, if ever, challenged his directives.

When Batista took over in 1952, the gaming industry in Havana was out of control – with professional scammers throughout the island preying on unsuspecting

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<sup>346</sup> Ibid. 111

<sup>347</sup> Schwartz, 148; Clive Y. Thomas, *The Poor and the Powerless: Economic Policy and Change in the Caribbean* (New York: Monthly Review, 1988) 144-145.

tourists. Reports appeared in the media of tourists getting cheated in scam games like the *razzle dazzle* and *cubolo*. Batista was very sensitive about the tourism industry and aggressively set out to end these types of scams. On February 10, 1953 the *Havana Herald* reported that he gave “definitive instructions to the various police forces to intensify measures of protection for foreign tourists.”<sup>348</sup> It was “unprecedented” for the president to personally address the issue, the newspaper commented. Batista tasked the Minister of the Interior to initiate a special investigation of Havana’s casinos to look for fraudulent gaming. As a result a number of scammers were identified and arrested. Authorities forced the American ones to leave the island. In addition to the gaming scams, Batista organized a special police force to investigate complaints from travelers about local vendors and taxi drivers. The measures barely had a chance to work, however, when a scathing article appeared in the March 28 edition of the *Saturday Evening Post* entitled “Suckers in Paradise: How Americans Lose Their Shirts in Caribbean Gambling Joints.” It had a strong effect on Batista.<sup>349</sup> He immediately intensified the effort to clean up tourism scams and improve the island’s reputation.

Batista’s plans for the tourism industry called for aggressive assistance with public resources. Following Batista’s directives, BANFAIC President Facio directed resources and credit to the construction of hotels, street repairs, airports, and other tourism related facilities such as the Museum of Fine Arts near the Presidential Palace. Batista demonstrated particular interest in building large hotels with the capacity for casinos. This occurred in spite of the fact that the island’s most notorious hotel casinos such as the Tropicana, Sans Soucí, and Montmartre barely made their payrolls. In 1953,

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<sup>348</sup> *Havana Herald*, February 10, 1953.

<sup>349</sup> Lester Velie, “Suckers in Paradise: How Americans Lose Their Shirts in Caribbean Gambling Joints” *Saturday Evening Post*, March 28, 1953.

to manage a fair game at the casinos Batista invited infamous mafia cronies with whom he had conducted business since the 1930s. He had a longstanding personal relationship with Santo Trafficante Jr., for example, who arrived to Cuba in 1953 and took over a part of the Sans Souci and Casino Internacional casinos. In the upcoming years there would emerge reports of a “bagman” who collected ten percent of the gambling proceeds from Trafficante’s casinos, then left through the backdoor and delivered the money to Batista’s staff.<sup>350</sup> When mafia boss and longtime Batista crony Meyer Lansky was released from prison in July 1953 he made his way to Cuba and took over the games at the Montemartre Club. Lansky had made a fortune with his ‘carpet joints,’ illegal gambling establishments, throughout the U.S. “Batista,” explains Schwartz, “launched a frenetic period of hotel and casino building with Lansky at his side.”<sup>351</sup>

Despite Lansky’s history with gangsters such as Benny “Bugsy” Siegel, Charlie “Lucky” Luciano, Moe Daliz, Frank Costello, and Albert Anastasia, he received a government appointment in Batista’s regime as a gambling reform advisor. The job paid an annual retainer of \$25,000. “Meyer might be an outlaw in America,” Lansky biographer Robert Lacey points out, “but in Cuba he was welcomed as the man who knew how to put things straight.”<sup>352</sup> Lansky and Batista knew that a casino’s profits depended on its reputation for running a clean game. When an American visitor asked U.S. Ambassador Earl Smith why gangsters were tolerated, he replied “It’s strange, but it seems to be the only way to get honest casinos.”<sup>353</sup>

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<sup>350</sup> Dade County Organized Crime Bureau (OCB) File # 1-139, 1961.

<sup>351</sup> Ibid. 146.

<sup>352</sup> Robert Lacey, *Little Man: Meyer Lansky and the Gangster Life* (Boston: Little, Brown and Company, 1991) 227.

<sup>353</sup> Ibid. 236.

In 1953, Lansky proposed to renovate the Hotel Nacional to attract gambling's highest rollers. The hotel had deteriorated since Batista and Lansky renovated it the first time back in the 1930s. In 1946, the Hotel Nacional served as the meeting place of the famous international organized crime meeting where Lucky Luciano, Albert Anastasia, Frank Costello, Carlo Gambino, Vito Genovese, Tommy Luchese and Santo Trafficante discussed the assassination of Bugsy Siegel. Americans had owned the hotel since its construction. Chicago hotelman Arnold Kirkeby owned it since the 1940s until he sold it to New York investor William Zeckendorf. Batista leased the hotel's casino to Wilbur Clark, notorious owner of the Desert Inn of Las Vegas. Other Las Vegas organized crime figures such as the notorious Moe Daliz, along with Lansky and Clark were stakeholders. Batista assisted them with BANFAIC credit, and there seemed to have been an unwritten future arrangement to take a portion of the casino's nightly cash flows after the renovations were finished. For the next two years the renovations on the Hotel Nacional concentrated on the smallest luxurious details. In 1955, the Batista regime approved its sale to the International Hotel Corporation (IHC), which received BANFAIC credit.<sup>354</sup> By 1956 it was completed and marketed in the U.S. and Europe as an exotic, lavish, and exciting vacation spot with a straightly managed casino.

In addition to the hotels, Batista set out to build up resort communities and upscale neighborhoods such as Veradero, Mariano, and Vedado. The FHA and the BANFAIC allocated resources to develop those areas. Batista determined to renovate Veradero, a posh community of nice houses, mansions, and hotels just outside of Havana. The area had depreciated since its former splendor in the 1920s when rich and famous

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<sup>354</sup> William Zeckendorf, *The Autobiography of William Zeckendorf* (New York: Holt, Rinehart & Winston) 255; Schwartz, 152.

Americans such as Alfred I. DuPont traveled there for rumba, drinks, and the beach. It had been a favorite luxury getaway for American businessmen and even gangsters, for example Al Capone bought a mansion there. During the 1930s and 1940s, however, the area no longer attracted tourists, and its buildings were in much need of repair. Batista himself invested in the community's renovation and built a lavish vacation retreat, no doubt certain that the area's real estate value would take off. To make the area hospitable for tourists again, the surrounding parks, commercial businesses, and beaches were improved through FHA credit. The BANFAIC allocated finances for construction of the Via Blanca Highway that connected Havana to Varadero.<sup>355</sup> For vacationers in Havana or Varadero, the new highway also facilitated quick access to Marbella Beach, a small beach resort community undergoing renovation as well.

Batista was also determined to transform Vedado into a tourism attraction, and directed FHA credit to renovate and develop the area. Batista realized that Vedado's attractive location was ideal for tourism, near the boardwalk overlooking Havana harbor with a terrific view of El Moro, the Spanish fort that had guarded the port since the sixteenth century. In the 1930s and 1940s, Vedado had been the home of the 'reformist elite' – the upper class university students who engaged in political activities. "Vedado of the 1940s," explains historian Charles Ameringer, "was distinct from the tourist center (of the big hotels and night spots) that it became in the 1950s [under Batista], as described by Guillermo Cabrera Infante in *Tres tigres*."<sup>356</sup>

For the most part, BANFAIC and FHA credit allocations to the tourism industry targeted wealthy investors and the labor unions. Loans to hotels went to those large

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<sup>355</sup> *Gente*, January 5, 1958.

<sup>356</sup> Ameringer, 23.

enough to warrant a casino license.<sup>357</sup> Thus the small hotels, taxi drivers, restaurant owners, and other small businesses in the industry for the large part failed to receive any benefits from Batista's government programs. Instead, the government often persecuted informal, thus considered illegal street vendors, taxi drivers, and other small businesses.<sup>358</sup> The police often harassed them and sometimes forced them to pay a *forrajeo* ("tax") or face arrest for operating illegally, or for some other trumped up crime.

### July 26

In the early morning of July 26, 1953 the failed attack against the Moncada Barracks by a small group of revolutionaries led by brothers Fidel and Raúl Castro Ruz caused noticeable tension in Batista. In almost every one of Batista's speeches since the coup, he had taken credit for improving security and reducing political violence. For months the Castros had been training recruits under the nose of the military, posing as hunters practicing in the various shooting ranges in Havana and elsewhere.

At 6:00 in the morning the 135 insurgents launched the attack. However, due to a number of errors, they failed to enter the barracks. Outnumbering the attackers ten to one, the soldiers inside quickly realized the assault, sounded the alarm, and defeated it. Fifteen soldiers and three policemen were killed and twenty-three soldiers and five policemen wounded. Sixty-one insurgents died in attack – a number of them by execution. The Castro brothers were apprehended and the hastily formed Santiago de Cuba Urgency Tribunal indicted them for insurrection along with 120 others in Case 37 of 1953. A number of political leaders not involved in the attack such as Prío, Aureliano

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<sup>357</sup> Schwartz, 152.

<sup>358</sup> Ibid. 142.

Sanchez Arango, and others were nonetheless included in the indictment. In a long radio address to the nation delivered in front of the military base Campo Colombia, Batista accused Prío, communists, and mercenaries as among those responsible for what he called the “foolish and useless action.”<sup>359</sup> Constitutional guarantees were suspended for ninety days, and the government repressed offenses against the “national dignity, peace, tranquility or public confidence.”<sup>360</sup> The mood following the July 26 attack, according to U.S. official Earl Crain was “gloomy regarding the possibility of a peaceful solution” between Batista and many of his opposition.

Batista must have noticed that most of Castro’s supporters included unskilled laborers, parking lot attendants, delivery boys, busboys, and other poorly paid workers. Many of them were unemployed. Only four of the 160 insurgents were university graduates and most only had a primary education. The overwhelming majority of them owned little or no formal property. He clearly realized that his opposition found support among the growing number of discouraged young Cubans lingering around the University of Havana or roaming the rural areas in search of work. Out of the 137 July 26 insurgents whose ages were recorded, the average age was twenty-six, the same as Fidel Castro. Batista certainly realized that unemployment, particularly among the young population, not only damaged to his reputation, but also presented a security threat.

In consideration of the background of Castro’s supporters, Batista intensified his narrative on new jobs and economic prosperity. He stressed in his public addresses that his regime presented a better choice than the insurgents who represented a danger to the national economy. Government programs were in the works to generate employment

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<sup>359</sup> From: William Beaulac to the Secretary of State, Control: 8658, July 26, 1953, IA/1950-54.

<sup>360</sup> U.S. Embassy Havana, Telegram 227, August 7, 1953, 737.00 (W)/8-753, IA/1950-54.



and prosperity, he consistently reminded, which his opposition intended to undermine and set Cuba on a backward course. Particularly after July 26, Batista's economic programs assumed a central role in his political platform and appeals for public support.

National Finance Agency (Financiera Nacional de Cuba)

Only a week after Castro's attack, Law-Decree 1015 of August 1, 1953 established the National Finance Agency (Financiera Nacional de Cuba – FNC), mandated by Article 264 of the Constitution of 1940 that allowed the federal government “to regulate the development of the national wealth by carrying out public improvement projects to be paid, wholly or in part, by those who benefit from them.” According to Batista, it “was organized as an autonomous entity, representing government and private interests.”<sup>361</sup> The initial capitalization was financed through issuance of 40,000 *acciones* (shares), at an initial price of \$100 each – guaranteed by the BNC. The BNC held half of the FNC shares plus one, thus controlled lending policies. This in effect gave Batista direct control over the agency's directives and credit allocations, as the BNC President Martínez Sáenz loyally carried out his policies. Bond issuance, loans from insurance companies, pension funds, and commercial banks also financed the FNC.

The publically stated objectives of the FNC were carefully and intimately connected with Batista's approach to domestic economic development, and its intended outcomes and objectives. Clearly Batista fell in between the early 1950s debate between Raul Prebisch at the U.N., who rejected the theory of comparative advantage and advocated protectionism, and the post-WWII classical economists who worked to

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<sup>361</sup> Batista, *Growth and Decline of the Cuban Republic*, 145.

liberalize international trade. Batista's trade policy aligned with the latter, but his development finance agencies such as the FNC reflected some of Prebisch's ideas, as well as those of the Keynesian scholars from Harvard's Department of Public Administration. While there were several important differences between Prebisch and Keynes, they both prioritized stimulating domestic production over international trade, and employing fiscal policy and government finance agencies for that purpose. While Prebisch advocated that public resources serve to stimulate domestic production, he also recommended raising tariffs, and Batista intended on lowering them. Batista's approach borrowed the ideas from Keynes and Prebisch, but at the same time recognized the law of comparative advantage advocated by the classical economists.

In addition to its economic purposes, the FNC served as a political symbol for Batista, and he raised high expectations for its success. To the young and unemployed population, Batista advertised the agency as evidence that he worked for their interest, to diversify the economy put them to work. Cubans were explicitly reminded that the government (implying that the president) was responsible (thus should be credited) for the creation and management of the FNC and the jobs it was going to generate. The government likened the new agency to the "character of the nation" and affirmed its importance for the "prosperity of the Cuban people."<sup>362</sup> It was "an agent of the national interest."<sup>363</sup> Among its objectives as advertised to the public were "to facilitate the financing, in part or in total, works of public interest," and "stimulate the national savings."<sup>364</sup> The goals also included:

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<sup>362</sup> Financiera Nacional de Cuba, *Ley y Estatutos* (Havana, 1954) 9.

<sup>363</sup> Ibid.

<sup>364</sup> Ibid.

[to] finance income-producing public projects to the extent that they were self-liquidating, to stimulate public savings, and to issue securities backed by the income-in-escrow of specific projects being financed.<sup>365</sup>

The Assembly of Shareholders (Asamblea de Accionistas), a six member Board of Directors, and a president directed the FNC. The most powerful was the president, whom had Batista's trust and confidence. Of course, Batista had the ultimate say over the FNC's projects and credit allocations, as they were integral to his political agenda and they reflected on his populist image. As with most of the senior government positions under Batista's administration, political loyalty took priority over qualifications in the choice of candidates for the new FNC appointments. Thus Batista decided to award the position of president to his "old crony" Dr. Oscar García Montes.<sup>366</sup> He had been a loyal patron of Batista since the 1930s, and beginning in 1940 served in his Cabinet. He had an unfounded reputation as an expert on sugar cultivation, and during WWII traveled to Washington D.C. on Batista's behalf and assisted in establishing a close alliance with the U.S. This led to favorable loans to Cuba that, in turn, helped enrich Batista's treasury.

Montes had loyally served Batista during his first presidency from 1940-1944 as the Secretary of Finance. During this tenure Montes without question implemented Batista's many inefficient and costly populist public works projects. Indeed, Batista and Montes had acquired a reputation in Washington D.C. for their wasteful and irrational spending.<sup>367</sup> Nonetheless, Batista had always been pleased with Montes' loyalty rather than his competency or economic ideas.<sup>368</sup> After the 1952 *golpe*, Montes had temporarily and dutifully served Batista as the vice-president. Thus with the loyal Montes at the

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<sup>365</sup> Batista, *Growth and Decline of the Cuban Republic*, 145.

<sup>366</sup> Thomas, 728.

<sup>367</sup> *Foreign Relations V* (August 9, 1941) 118.

<sup>368</sup> Thomas, 718.

helm, Batista controlled the FNC's management, projects, and allocations. Batista also appointed another crony José Antonio Menéndez y Pérez to the position of FNC secretary, who worked directly for Montes.

The secretary had an exceptionally powerful position because he had Montes' ear, and could make recommendations on the behalf of labor and employers who competed for jobs proposed in the budget, but were not influential enough to personally know Batista or Montes. Thus Menéndez y Pérez became a target for lobbyists, rent-seekers, developers, landholders, private banks and others wishing to secure a patronage, contract, or benefit from the agency. Not surprisingly, in the world of Cuban politics where networking often took precedence over economic efficiency, gaining personal favor with Batista, Montes, or Menéndez y Pérez, was often crucial to secure a FNC contract.

The Board of Directors, according to the FNC *Laws and Statutes*, was to serve as a check and balance on the power of Montes and the Assembly of Shareholders. In practice, however, the Board of Directors acted subordinate to the Montes who in turn, due to the reciprocal obligations of patronage, worked to advance Batista's directives. The Board of Directors constituted seven members. Batista appointed the first and most powerful member to work closely with his Cabinet and Montes. The mandate that provided Batista the power to appointment the most powerful member effectively gave him control over the Board of Directors. Three others were designated by the BNC to represent the foreign shareholders, Cuban shareholders, and the Assembly of Shareholders. Another three represented the shareholders of the lower common stock – the securities Series B, C, and D – who were last to receive compensation in the case of

bankruptcy or default.<sup>369</sup> The common stockholders elected the latter three, although in practice they possessed little influence over FNC activities.

Batista had dictatorial authority over the FNC since he controlled the hiring and firing of its key personnel. Thus in many ways the agency served as a tool for Batista's political and domestic populist agenda. It served to fulfill past and current promises for more public works, stimulus, and employment. It served as well to accomplish Batista's domestic economic experiments and passions, such as assisting the tourism industry with public resources. The FNC's operations certainly reinforced the idea that economic development was going to take place through central planning and management. The agency represented a combination of his political goals with, above all, those of Gutiérrez and the National Economy Board. With Batista ultimately directing its resources, in his public speeches he took personal credit for its projects.

Batista knew that many cynical Cubans considered a new government institution, particularly one of a financial nature, as just another source for corrupt public officials to line their pockets. To increase public confidence in the FNC, Batista made sure to install oversight mechanisms in its statutes that most Cubans would understand. Thus it was implemented and advertised that the Supreme Court would closely regulate Board of Directors, particularly in cases of inappropriate conduct. The Court was to prosecute any "irresponsible acts or illegal operations," and "act against improper, immoral or scandalous behavior that would create a lack of confidence by the public."<sup>370</sup> Of particular importance was that all capital allocations went to their designated recipients in their entirety, rather than to corrupt officials. In combination with the oversight

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<sup>369</sup> *Financiera Nacional de Cuba, Ley y Estatutos* (Havana, 1954) 15.

<sup>370</sup> *Ibid.* 17.

mechanisms on the Board of Directors, the FNC statutes clearly defined the limits of their responsibilities.

The Supreme Court's oversight had two major functions. First, it served to inspire public trust in the agency. Second, it reduced embezzlement so that allocations would go to where Batista intended. Embezzlement would undermine his public works projects and the agency's reputation that were central to his political platform and public appeals for support. As a result, there seemed to have been very little embezzlement.

The Assembly of Shareholders served to advise the president and Board of Directors on various economic issues and investments. Their principal influence was heard at the Assembly of Shareholders annual meeting on the second week of December, during which they either approved the annual budget for the next year's projects submitted by the Board of Directors, or returned it with objections. Implementation of the Assembly of Shareholders' recommendations would require the approval of "six or seven members of the Board of Directors."<sup>371</sup> Furthermore, the Assembly of Shareholders was to hire three outside auditors to take part in internal investigations of wrongdoing. This was a safeguard implemented in the FNC *Laws and Statutes* because without it, the notorious ill-repute of the bureaucracy would no doubt dissuade anyone from buying the securities necessary to finance it.<sup>372</sup>

The FNC was initially financed with equal proportions from insurance companies, private lending institutions, and the government with an initial capital of \$4,000,000. In its first year of operation, its principal projects included the Tunnel of Havana; five aqueducts, including South Bend (Cuenca Sur) that attempted to solve the

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<sup>371</sup> Ibid. 18.

<sup>372</sup> Ibid.

water problem of Havana; two maritime terminals; three supermarkets; the Windward Tourist Center (Centro Turístico de Barlovento) near the capital; and the completion of the Municipal Palace of Mariano. Without doubt, new construction was the central budget directive. Furthermore, the agency invested in the hydroelectric power plant of Cuba (PRICHEC), mining, oil exploration, and to a small degree research and development of agriculture.

The FNC employed and awarded low-cost credit to foreign companies to complete the Tunnel of Havana underneath the entrance of the bay. A French company won the contract to construct the principal tunnel structures that were to lay on the seafloor at a depth of forty-five feet at the mouth of the bay. Tax free Tunnel of Havana bonds were issued, backed by mortgages on future tunnel revenues. The French firm won the construction contract by agreeing to accept partial payment in Cuban sugar that the government had been unable to sell on the international market. Thus the need to sell the sugar surplus influenced the decision as to which firm received the contract.

The tunnel involved immense construction. It entailed a tunnel section more than a hundred meters long; ventilation towers; five pre-stressed concrete tubes each 107.5 meters long, twenty-two meters wide, 7.10 meters high, built in dry dock and floated to the site of the final submission; and a trench five hundred meters long connecting to the toll plaza. The contract for ventilation was awarded to the Joy Engineering Company that installed twelve large fans that renewed the air within one minute.<sup>373</sup> The Mine Safety Appliance Company installed carbon monoxide control devices. Once the tunnel neared completion, the government employed U.S. Pumps Incorporated to evacuate the seawater and rain that accumulated at the approaches.

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<sup>373</sup> Ibid.

In addition to the tunnel, the FNC was to financially assist the construction of Cuba's first hydro-electric plant (PRICHEC). The FNC targeted a variety of Cuba's non-sugar economic sectors, but there was emphasis on heavy industry and tourism. Like the BANFAIC, the FNC devoted a considerable amount of its budget to the tourism industry – financing new hotels, airport facilities, a new tourist complex, motels, facilities near the Havana Biltmore and the Yacht Club of Havana, as well as other travel and tourism related industries.<sup>374</sup> The agency also participated in Meyer Lansky's contract to build the Biltmore. It seemed apparent that very little financial analysis of risk and return went into these ventures.

“We defend and will defend the national economy”

In August 1953, Gustavo Gutiérrez, head of the National Economy Board, replaced Marino Lopez Blanco as Batista's Minister of Finance. Following the March 10 coup, Batista had solicited Gutiérrez for several posts and had elevated his influence in public policy. As the Minister of Finance, Gutiérrez perhaps thought he could orchestrate a historic economic program that he had advocated for years. In spite of his differences with Batista, he accepted the position. With Gutiérrez in charge of Batista's economic programs, they would benefit from his esteemed reputation and substantially enhance their credibility. Also, Gutiérrez' established reputation at the U.N., World Bank, and the U.S. would make finding outside sources of funds much easier. By the autumn of 1953, Batista's economic policies had taken shape, and now he had Gutiérrez at his side. Construction proliferated, new projects were approved, and Batista's experiment in

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<sup>374</sup> Schwartz, 154.



stimulating development and diversification through centrally managed credit allocations had begun in earnest.

The economy, however, had not recovered from the decline that had started at the beginning of the year. At this point Batista's programs were mostly symbolic rather than making a significant impact on chronic unemployment and poverty. With economic tensions in the environment, a U.S. Embassy official reported that there was much buzz leading up to Batista's Soldiers Day speech on September 4. He reported:

In addition to the announcement of the lifting of censorship and the 'relaxation' of the suspension of constitutional guarantees, it is widely expected that today, the twentieth anniversary of his first assumption of power, President Batista will propose a solution of Cuba's current political problems.

Batista spoke to the nation and reminded how he dedicated himself to "defend the social order, revolutionary principles, security of the family, and full sovereignty." He then drew a stark contrast between his government and his opponents, particularly those involved in the July 26 attack. "The traitorous attack," he explained, "was a voice of alert for all." The attackers intended to "sack the gold of the Cuban people," whereas, "we defend and will defend the national economy."<sup>375</sup> He celebrated his own stewardship of the economy and condemned the Moncada rebels for threatening progress and prosperity. He characterized himself as the guardian of progress and peace. As evidence of his regime's devotion to end corruption, Batista claimed, just recently his government uncovered the theft of 22,000,000 pesos in silver certificates that were supposed to have been burned in 1949. He indicted Prío and some of his senior staff for the crime. Batista used cases like this to prove that he ran an honest, transparent government for the public's welfare.

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<sup>375</sup> UMCHC 5155, Box 110, Folder 4.

A small group of unreasonable, radical, and treasonous Cubans, Batista asserted, had attempted to disrupt the national economy through violence and chaos. He condemned Castro and his followers for inciting extremism, which jeopardized every Cuban family. Batista drew a sharp distinction between himself and the opposition – and offered a clear choice to the Cuban people as to which path they should follow. Continue supporting the leadership of the regime that saved Cuba from peril then put her in the right direction with its governance and economic programs; or, take a step back and hand the country over to communists, anarchists, or corrupt gangsters that would most certainly lead to economic, political, and social ruin.

Batista defended his restrictions on freedoms such as censorship of the press. “The restrictions that today exist have been established for your protection,” he assured, “and to guarantee that the society lives in peace.”<sup>376</sup> He understood, however, that wielding harsh dictatorial power against his opposition could negatively affect his public relations, and enforcing the Public Order Law with maximum penalties could have the opposite results that he intended. Although constitutional guarantees had been suspended since the July 26 attack, the courts did not show a disposition to sternly enforce the Public Order Law, more or less imposing guilty defendants with minimum fines. Rather than relying solely on suppression and force, it seemed that Batista intended to triumph over his opposition by winning the people’s confidence – in this endeavor, his development programs played a key role.

Batista touted his economic programs and asked the people to trust in them. Still lacking an electoral mandate, he defended his rule with his programs and emphasized how they gave evidence that he was leading Cuba in the right direction. He first stated

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<sup>376</sup> Ibid.

the need to diversify the economy. “The world economic situation determines our wealth depending on the price of sugar,” he explained,

Crop diversification and industrial production is the course... We have brought forth an agricultural and industrial development plan. The Two Year Plan, with the National Finance Agency as its instrument, includes many public works. This plan is marching forward. In construction are a multitude of airport buildings, sewage systems and aqueducts, sidewalks, streets, bridges and roads... hospitals, maternity wards, rural schools... in the provinces, towns, and cities. The capital is rejuvenated and will be transformed in the coming months, with the Plaza of the Republic, the Palace and the avenues around them...

We are increasing production and diversifying the crops. Our assistance to meat and medicine industries is great indication of the positive work we are doing... We have given permanence to the peasants on the land they work. We are modernizing the postal and telegraphic services. We are reordering the transport industry, led astray by irresponsibility and greed. We are engaged in a campaign of hygiene to raise the level of health in the country. We are modernizing the Treasury to avoid extortion. We have established a labor policy that is not compatible with the demagogy, but which responds to the principles of social justice... and recognizes the guarantees to business and investment capital.<sup>377</sup>

Moreover, Batista stated his dedication to improve housing:

All parents should have the legitimate aspiration to live in a home. This is one of my most cherished projects. We have organized the Affordable Housing Fund to insure mortgages. We look forward to the day when the vast majority of Cubans live under their own roofs.

The speech then took a sentimental tone. Batista spoke to the parents: “This past year we have visited more than 5000 rural children, representing an equal number of rural schools.” He thanked his “noble wife” Martha for the creation of government agencies to assist the elderly, helpless, sick and the children. These included the Institute of Rural Health, Child Guidance Centers, National Organization for the Rehabilitation of Disabled Persons, and Board of Trustees for Child Assistance – “these organizations,” Batista explained, “are symbols of love, that the people’s needs are those of my own.”<sup>378</sup>

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<sup>377</sup> Ibid.

<sup>378</sup> Ibid.

Certainly Batista understood the harmful effects of unemployment on his political image. Moreover, as evidenced by the demographics of the July 26 insurgents, his opponents sought recruits from the unemployed and underemployed populations. Thus Batista discussed unemployment and his plans to reduce it. He announced his dedication to develop:

a program that utilizes the natural riches of the country, improves efficiency and industrialization in plant breeding, planting, cultivation, and harvest. We are always working to carry forward a plan to reduce unemployment. Unemployment will inevitably grow as the population grows, but we will increase the sources of work.

He made sure to remind the sugar industry that his plans to improve efficiency and diversify agriculture will not take place at its expense:

We have laid the foundations of an economic policy that will make us prosperous and maintain the sugar market, we will never cease to be the first producer of the sweet cane.

In discussing the sugar industry, he took personal credit for averting an economic disaster – once again describing himself as a savior:

This dramatic, risky situation forced me to adopt certain policies, almost heroic, to spare the country of a crisis in the sugar industry and an immeasurable catastrophe... We coordinated a plan that included the financing of the surplus, adjustment of production, and regulation of the sugar industry... we averted avoided a collapse... with a flooded [sugar] market and a falling price. On this occasion, the action was successful, thanks to God.

After reaffirming his commitment to fight communism, accusing his opponents'

“propaganda” as insidious, drawing further distinctions between himself and them,

Batista concluded the speech with a statement of his patriotism. “We do our duty,” he exclaimed,

with the patriotism of yesterday, today, and tomorrow... we will always, without doubt, act in favor of the family, institutions, communities, and of the individual... Salud! Salud!<sup>379</sup>

Throughout the autumn and winter of 1953, Batista continued to rely on cooperation with international community and attract capital to the island. Batista sent delegates to the Eighth Session of the U.N. General Assembly from October – December, 1953. The delegates included Batista supporters such as Emilio Nuñez Portuondo, permanent Ambassador to the U.N., Maria Teresa Campa Roff, daughter of the Minister of State, Carlos Sanchez and others. Their task included full participation in the hundreds of resolutions adopted during the historic session. This involvement reinforced Batista's reputation in the non-communist international community that he was a legitimate and cooperative leader in alignment with their views.

In addition to the U.N., Batista maintained positive relations with the World Bank. He had followed some of its recommendations published in its 1951 *Report on Cuba*, such as investment in research and development to modernize agriculture, and stabilizing labor that historically discouraged investment. The World Bank applauded the reforms, and Batista successfully gained its confidence by the autumn of 1953. In late October 1953, for example, a Batista representative met with Robert L. Garner, Vice President of the World Bank's International Bank for Reconstruction and Development (IBRD) and appealed for assistance to save Cuba's unfinished western railroads project. The unsustainable project started under Prío, for a variety of reasons including mismanagement and corruption, turned into an expensive and inefficient disaster that faced insolvency.

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<sup>379</sup> Ibid.

By October 1953 Batista had gained enough confidence from the IBRD that he appealed for funds to save the railroads. Garner ascertained that “the Cuban government was sincere in its statements.”<sup>380</sup> The plan to save the railroad project included the cooperation and financing of the IBRD, Cuban government, sugar producers, bondholders, equity investors, and private banks. Batista’s representative assured Garner that his government had neither interest in operating the railroads, nor retaining ownership of them – obviously recognizing Garner’s concerns that a government operated railroad industry spelled out inefficiency. Instead, they were to be turned over debt free to a newly formed private firm, Consolidated Railroads of Cuba, to operate it under some sort of management contract arrangement.<sup>381</sup> Maintaining friendly relations with the World Bank and implementing its recommendations allowed Batista to appeal to the IBRD for capital. This particular deal enabled him to advertise to the Cuban people how government action saved the western railroads.

Along with the U.N. and World Bank, Batista maintained excellent relations with the U.S. He welcomed the new U.S. Ambassador to Cuba Arthur Gardner in October. The friendly reception began a supportive relationship between the two that lasted throughout their lives. Gardner later remembered how when he arrived in Havana, he observed a remarkable amount of new construction and renovation of public and private buildings, roads, and hotels – financed in part by BANFAIC and the FNC.

Through the winter of 1953–54, Batista continuously expanded public works projects. On November 26, 1953 Law-Decree 1212 authorized the construction of Cuba’s first hydroelectric plant (PRICHEC) in the southern part of the Las Villas

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<sup>380</sup> Ibid.

<sup>381</sup> Memorandum of Conversation, Western Railroads of Cuba; Interest of William Pawley, Department of State, October 30, 1953, IA/1950-54.

province. The FNC was tasked to finance most of the over \$15,000,000 required to build it. BNC President Martínez Sáenz assumed ultimate oversight of the project, to “ensure that plan is being carried out in the way it was conceived.”<sup>382</sup>

The project was to divert the flow of several rivers including the Habanilla, Negro and Guanayara and store their joint waters in a reservoir created by a dam. The contracts went to American engineering companies to conduct the survey, planning, and construction. Cubans were to play a predominant role in the labor. The feasibility analysis conducted by Knappen-Tippetts-Abbett-McCarthy engineering firm affirmed that the project was worthwhile, and would self-liquidate in an acceptable number of years. Batista’s regime advertised PRICHEC as a great benefit to the island economy, for it would produce 82,000,000 kilowatt hours a year amounting to a ten percent increase in the national production of electricity; improve industrial production by powering chemical, paper, rayon, and plastic goods factories; increase agricultural production through flood control of the Jibacoa Valley (thus allowing the 400 inhabitants to farm year round); and provide a site for a tourist center once the dam created a large lake.<sup>383</sup> Once completed, “a flood of tourists will pour in from abroad and at home, and a series of motels could be built near the lake, offering all kinds of amenities.”<sup>384</sup>

Approved in 1953, the project was intended to create “cheap energy,” and predicted to take thirty-three months to complete.<sup>385</sup> It soon became evident that after the initial investment such a heavy industry project was not sustainable because of chronic excess demand for spare parts and new machinery – a common result of centrally

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<sup>382</sup> Ibid.

<sup>383</sup> *Gente*, January 5, 1958.

<sup>384</sup> Ibid.

<sup>385</sup> Ibid.

managed heavy industry projects in developing nations. The hydroelectric power plant was a clear example of this, when it soon became evident by 1954 that sustained industrialization would entail enormous and unbudgeted costs. Batista was unwilling to recognize that the causes of the construction slowdown in 1954 resulted from the failure to accurately forecast the supply costs. Instead he blamed the slowdown on a variety of reasons, including subversion by Castro's revolutionaries. The project was supposed to be completed by 1955, but still remained unfinished in December 1958.



## Chapter V

### Election Year

Even though it was not until July, 1954 that Batista and Ramón Grau San Martín became official candidates for the general election on November 1, throughout the year the public and media centered much attention on the contest. In an attempt to demonstrate his belief in liberalism and holding a clean election, Batista lifted most government restrictions on speech and assembly. Grau represented a splinter group of the Auténtico Party (Prío criticized Grau from using the Auténtico name). Another potential candidate, Roberto Agramonte, the influential Ortodoxo living in Miami, denounced the 1952 Electoral Code as invalid, and stated he would never comply with it. Prío, the Auténtico leader, felt the same. On the other hand, Grau complied with the Electoral Code and ran a campaign focused on a restoration of constitutionalism and a return to the prosperity that Cubans experienced during his presidency. The Electoral Code prohibited a split ballot, which gave Batista a considerable advantage since he secured the support from four parties that were unable to field their own candidates.

Batista and his wife began the election year by attending the Three Kings holiday on January 6, and handed out toys to thousands of poor children. The well-publicized spectacle perhaps gave the impression that the president kept the public, especially the poor, close to his heart. Similar appearances throughout the campaign – with destitute farmers, or a personal tour through the urban slums – publicized Batista's compassion for the suffering taking place on the island.

Batista's campaign relied on a four point program – order, peace, work, and progress, and focused heavily on his economic policies. For instance, he reminded again that in the past two years he personally saved the western railways, adeptly handled the 1952 sugar surplus, increased investor confidence in Cuba, prosecuted corruption, stamped out *gangsterismo*, expanded the BANFAIC, and created new development finance agencies such as the FHA and the FNC.

Batista's political platform emphasized new construction. Since the coup, his policy to increase construction throughout the nation resulted in a rise in cement, steel, and iron imports. They came primarily from Germany and Belgium, and it was estimated that sixty percent of the structural steel imported to Cuba in 1953 was of European origin.<sup>386</sup> Batista had successfully negotiated lowered tariffs on these imports, and employed the BANFAIC to back their purchase and shipping costs. Construction activity could be seen throughout 1953 in many parts of Cuba, particularly in Havana and its surrounding neighborhoods. In the first ten months of 1953, twenty-five percent more building permits had been issued than during the same period in 1952.

In addition to construction, Batista hailed the growing rice industry as a personal and national triumph. If Cubans questioned whether his economic programs benefitted them, Batista explained, they only need to examine the rice industry in the past two years. Immediately following the coup Batista prioritized rice production and tasked the Council of Ministers and the BANFAIC to assist the producers with planting, cultivation, harvest, storage, and sale. Domestic rice consumption in 1953 amounted to 7,500,000 bags of one hundred pounds, the majority of which was imported. Domestic rice production had increased from 1,250,000 bags in 1952 to 2,125,000 bags in 1953. *New*

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<sup>386</sup> *New York Times*, January 6, 1954.

*York Times* correspondent Ruby Hart Phillips, who spent much time in Havana, estimated on January 6, 1954 that there would be a further increase of 750,000 bags that year.<sup>387</sup>

Besides rice, Batista urged voters to notice the increase in tobacco production during the past couple years. In the first six months of 1953 tobacco exports totaled \$21,285,340 as compared with \$19,343,487 during the same period in 1952. The increase partly resulted from BANFAIC assistance in coordination with expanding markets achieved through foreign trade negotiations. Batista, for instance, secured from Britain the purchase of \$750,000 worth of tobacco in 1954 and \$1,000,000 worth in both 1955 and 1956.

Despite the improvement in rice production and tobacco, Batista could not claim any improvements in henequen, textiles, grapefruits, pineapples, avocados, or other agricultural industries. There was a slight increase in coffee production in 1953, partly as a result of the BANFAIC's expansion of credit. However, the domestic price remained unchanged at \$1.00 per pound. Cubans never felt any change in the coffee price as a result of government credit to the industry. Throughout 1953 Cuba failed to take full advantage of rising world pineapple prices. Pineapple exports from October 1952 to September 1953 amounted to \$3,000,000 as compared to \$2,400,000 the previous year. Cuba's pineapple output for 1953, however, totaled 180,000,000 pounds – seven percent less than the previous year. Cuba thereby suffered opportunity costs by not increasing pineapple production during a bullish international market driven by increasing demand. As more and more people throughout came to own refrigerators, the demand for tropical fruits and frozen fruit concentrates had increased considerably. Since the 1952 coup, however, Cuban pineapple production had steadily decreased.

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<sup>387</sup> Ibid.

The panorama was even less promising for Cuba's textile industry which by early 1954 was experiencing a drastic decline. Batista's attitude on expanding Cuba's trade partners with lowered tariffs had inflicted considerable stress on the domestic textile industries. New agreements with nations such as Japan, which had a comparative advantage in textile production due to lower supply and labor costs, often made it less expensive to import textiles rather than to produce them locally. As a result, by 1954 the textile union was lobbying for government funds to sustain their workers' employment. Feeling pressure from labor during the campaign, Batista thus approved the allocation of public funds to subsidize the textile industry. The industry was the third most important market for manufactures that employed thousands of workers. Batista would have confronted a political disaster if it failed.

In addition to textiles, by 1954 the henequen industry was experiencing a crisis. Production for the first six months of 1953 amounted to only 8,100,000 pesos due to a continuing decline in the world price, labor unrest, and the high cost of production. Even if labor agreed to austerity measures such as wage cuts and longer work hours, Cuba would not be able to compete in the world henequen market. Competitors in Asia and other regions with the same efficiency in henequen production had comparative advantages in labor costs. So Batista directed public funds to the industry to avoid layoffs during an election year.

Certainly Batista faced many challenges in the beginning of 1954. The population had just endured a year of economic decline, in spite of Batista's economic programs and the rise in public works projects. In addition, Cubans experienced a rising

cost of living due to inflation of imported goods.<sup>388</sup> The ongoing recession tested many Cubans' patience with Batista. For two years now he had raised expectations for his Two Year Plan, the FNC, FHA, and other economic initiatives; however, the economy remained in decline.

More than anything else, sugar's dominance over the economy explained the current recession. According to the ISA that went into effect on January 1, 1954, a 5,000,000 tons limit was established for Cuba's next three *zafras*. The limited 1954 *zafra* resulted in a significant number of sugar workers without employment. The sugar restriction stressed the immediate need for economic diversification to generate new employment. The ISA also limited the amount of sugar Cuba could sell nations other than the U.S. to 2,250,000 tons. In addition to the restricted output, the Cuban economy suffered from a low world sugar price.

The declining economy presented Batista with formidable political challenges during the election year. The current situation, for instance, had led to an unpopular reduction in wages. The *New York Times* reported on January 6 that Cuba "faces a period of readjustment in 1954."<sup>389</sup> The 1953 wages were paid on the assumption that Cuba would receive 4.7 cents per pound of sugar. The actual price that Cuba received, however, averaged 4.1 cents per pound, resulting in \$480,537,398 in revenue – far below the earlier forecasts. The wage levels in the sugar industry at the beginning of the 1954 *zafra* were artificially high, and Batista had to approve unpopular but necessary reductions. Since the coup, Batista had ruled increasingly on the side of business, and demonstrated impatience for irrational labor demands that discouraged foreign direct

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<sup>388</sup> *New York Times*, January 9, 1954.

<sup>389</sup> *Ibid.*

investment. He prioritized the nation's credit rating, and in 1954 had to enforce unpopular domestic austerity measures to show the world that he rationally managed the economy. As a result, in addition to the sugar workers, government employees endured a ten percent pay reduction.

Unofficial figures showed that income as a whole dropped \$42,000,000 in nine months of 1953 as compared with the same period in 1952. In the beginning of 1954, prospects for a recovery seemed nonexistent. In 1953 business had slumped considerably, and industrial production was down ten to fifteen percent in comparison with 1952. Remarkably, in spite of the declining economy and wage reductions, labor was generally cooperative. This reflected Batista's political control over the union leaders, particularly CTC leader Mujal.

In the context of the recession, Batista's central campaign message in 1954 focused heavily on economic development and diversification. In early January during a speech at Guanabacoa Batista reiterated the need to diversify the economy:

Cuba depends almost exclusively on the sugar industry: therefore with frequency she goes from abundance to sadness, from joy to misery as the sweet product has or has not an adequate demand.

Batista defended central banking as a means to remedy underdevelopment, and rationalized the establishment of the FHA, FNC, and expansion of the BANFAIC.

As part of his economic development strategy and campaign platform, Batista emphasized how his government maintained a perfect credit rating and fully met all its international financial obligations. The January 6 issue of the *New York Times* reported:

The [Cuban] government's financial situation is regarded as favorable. All interest and amortization payments of foreign and internal indebtedness have been met promptly.<sup>390</sup>

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<sup>390</sup> *New York Times*, January 6, 1954.

His objective had been to strengthen Cuba's borrowing power to bring in funds for centrally managed stimulus programs. Therefore, Batista cooperated fully with the western nations – against communism, liberalizing trade, and fighting against internal corruption. Throughout the winter of 1953-54 Batista repeated his allegiance with western nations to fight communism, first in an Associated Press interview in November, then in an article for International News Services in December, and again on January 5 in the local Cuban press when he affirmed that “the West can count on Cuba,” and that “Cuba is now prepared to be a strong link in the western defense.”<sup>391</sup>

In addition to cooperating with the international community, Batista increased the government's creditworthiness and borrowing power through other measures. For example, he improved public sector financial transparency and accountability by expanding resources for the Tribunal of Accounts to audit public spending. He also invited respected foreign analysts to examine firsthand Cuba's public and private sectors. On January 23, 1954, for example, Batista welcomed the U.S. House Agricultural Committee to Havana, a twenty-two member team who inspected the island's agriculture for the purpose of creating sound recommendations for improvement. Batista gave them a personal reception, and later organized a pleasurable tour of the sugar, tobacco, fruit, and vegetable areas in Pinar del Río province.

With an established credit history by 1954, Batista increased borrowing. On December 29, 1953 he signed a decree authorizing the issuance of \$145,000,000 in government bonds. The issue was to replace and consolidate several issues already in

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<sup>391</sup> U.S. Embassy Havana, Telegram 840, January 8, 1954, 737.00 (W)/1-854, IA/1950-54.

circulation and provide \$50,000,000 additional for new government programs.<sup>392</sup> His political enemies urged the international community not to buy them. Opposition leader Aureliano Sánchez Arango wrote a letter in the *Miami Herald* warning that an elected government would never approve of such irresponsible indebtedness, putting the Cuban economy at risk. Arango also argued that Batista would eventually default on the bonds. Certainly Batista's opposition had reasons to discourage investment in the Cuban government. Most of all, the bond purchasers would have an increased financial stake in Batista's regime.

In the end, Batista's enemies had little effect on the sale or liquidity of the bond issue. It was evident that he had established enough confidence around the world to offer such an enormous issue for purchase. The *New York Times* reported:

confidence of the public in the Government is reflected in the promptness with which the recent bond issues have been purchased.<sup>393</sup>

The stated purpose of the 145,000,000 pesos was:

[to] consolidate certain existing or authorized public debt issues and to provide a substantial sum for new public works and institutional endowment.<sup>394</sup>

The issue was in four percent, thirty-year, fully guaranteed public bonds to be serviced and amortized from revenues previously allocated to the consolidated and incorporated issues.

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<sup>392</sup> Ibid.

<sup>393</sup> Ibid.

<sup>394</sup> U.S. Embassy Havana, Telegram 840, January 8, 1954, 737.00 (W)/1-854, IA/1950-54.



“The works we have started... have inspired confidence in our regime”

Batista’s cooperative policy with the international community enabled him to cultivate working relationships with the U.N., World Bank, U.S., and nations throughout the world. He even demonstrated that although it meant criticism at home, he made sure to comply with international agreements. For example, Batista received criticism on January 15 when, in compliance with the International Sugar Agreement (ISA) signed back in October, 1953, he set the 1954 sugar crop at 4,750,000 tons – 250,000 tons less than the previous year. Shipments to the U.S. were designated at 1,500,000 tons with reserve of 585,965 tons. For countries other than the U.S., Batista fixed the free quota at 2,000,000 tons, retained quota at 735,566 tons, and a special retained quota in accordance to Article 8 of the ISA at 218,362 tons. 386,571 tons were set aside for Great Britain.<sup>395</sup> After negotiations with the principal agents of the sugar industry, Batista then set the domestic employment and grinding quotas.<sup>396</sup> He fixed the local sugar quota at 200,000 tons, with a 386,571 long ton obligatory reserve.<sup>397</sup> He also met with the Federation of Sugar Workers and the CTC to discuss the inevitable effects that the dropping sugar price and less output were going to have on wages. Batista conceded to release workers from jail, order employers to pay for their employees’ union dues, and freeze dismissals. Thus labor agreed to the lowered wages. The next day, the labor union chiefs advised the workers to begin the work of the harvest. Batista succeeded in maintaining stability despite the falling sugar export revenues.

As the *zafra* began on January 15, 1954 it soon became clear that more cane had been planted than the mills needed to produce the 4,750,000 pound grinding quota.

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<sup>395</sup> *New York Times*, February 11, 1954.

<sup>396</sup> *New York Times*, January 17, 1954.

<sup>397</sup> *New York Times*, February 11, 1954.

Scores of farmers desperately and unsuccessfully attempted to sell their excess cane, and the situation resulted in enormous waste. Batista attempted to remedy the problem by organizing a group of government agencies, sugar companies, and labor unions to quickly finance a plant to produce cattle feed derived from sugar cane and molasses. There were indications that Texas alone offered a ready market for cattle feed equivalent to 400,000 tons of sugar cane. In April, Batista approved an extra 50,000 tons for the potential industry.

Throughout 1954 Batista repeated that diversification was the main goal of his economic policies. He directed the Council of Ministers, Consultative Council, and practically every government agency related to the economy to that purpose. The *New York Times* commented:

Every [Cuban] government agency and industry is endeavoring to meet this situation, resulting from Cuba's one-crop economy.<sup>398</sup>

In the effort for diversification, in 1954 the regime established the National Executive Committee of Farms and Mining Cooperatives. The purpose of the new cooperatives was to stabilize non-sugar markets in bear market conditions. They “cushioned” market forces by financially assisting the bean, potato, onion, and tobacco industries. In addition, they initiated plans for the processing and distribution of farm products.

In addition to agricultural diversification, Batista initiated measures to expand the oil industry. In 1954 oil was discovered near the Camagüey town of Jatibonico. Batista responded by the approval of Cuba's first 130 foot tall oil well that arrived to Jatibonico in late April and quickly began to deliver 240 barrels a day.<sup>399</sup> The Jatibonico oil strike caused excitement in Cuba. The media commented that oil “will obtain great fame” in

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<sup>398</sup> *New York Times*, January 6, 1954.

<sup>399</sup> *Cuba Airguide, 1954*, June 1, 1954.

the Cuban economy.<sup>400</sup> Batista tasked his regime to explore possibilities for more oil wells.

The BANFAIC, FHC and FHA continued to execute Batista's directive to build up the tourism industry. Throughout 1954 the BANFAIC increased its stake in Cubana airlines that amounted to \$5,208,500 by September. Shortly thereafter the BANFAIC took management control of the struggling airlines and forced out some of its executive personnel. In addition, the government banks assisted development of airports, hotels, ports, sports complexes, museums, beaches, suburbs, public parks, and other tourism related facilities. The airport at Rancho Boyeros received new amenities, terminals, and an expansion of its runways. The development banks targeted Vedado, Varadero, and other suburban areas for renovation. The improved neighborhoods soon appeared in the U.S. and European advertisements as fun vacation destinations, and attractive for real estate investment.

With Batista's assistance, Meyer Lansky continued to renovate the luxurious Hotel Nacional that he hoped to debut in 1955. The Tampa-based mobster Santo Trafficante was upgrading the Sans Souci and Casino Internacional casinos in coordination with the Cuban government. Batista tasked the BANFAIC and FNC to support the planned Habana Hilton with its principal stakeholder, the Gastronomico [hospitality workers union] retirement fund. From the beginning of the project in the late summer, the Gastronomico asserted that corruption threatened the project's solvency, as well as their retirement fund. The union questioned why at various times the project's cost had been announced as \$8,000,000, \$10,000,000, or \$12,000,000. It would be extremely unusual, the Gastronomico pointed out, for the Hilton interests to consent to

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<sup>400</sup> Ibid.

such a vague agreement.<sup>401</sup> The corruption accusations undoubtedly looked negative on Batista's development banks considering their interests in the project, thus he strengthened oversight from the Tribunal of Accounts.

In 1954 Batista continued to welcome foreign direct investment, resulting in a significant increase. Foreign investors responded favorably to advertisements circulating throughout the U.S. and Europe to invest in Cuba. Batista had facilitated the easier flow of money in and out of Cuba as a result of his tax relief on remittances and other measures. The establishment of the Bank of Foreign Commerce (El Banco de Comercio Exterior – BANCEX) displayed Batista's intention to promote international trade and diversification of exports. Law-Decree Number 1425 on March 12, 1954 established the BANCEX to coordinate and promote exports by its own efforts, or by aiding private exporters. Its earliest activities specialized in coffee exports, the Tunnel of Havana project, arms transactions with the U.S., and sugar sales.

On the second anniversary of the coup, March 10, 1954 Batista spoke to the nation and heralded his economic strategy and programs. He opened the speech by reminding how two years before, aside from a few individuals who benefitted from corruption, the country welcomed the bloodless coup because the new government offered honest, modest, and efficient public service. He then paid homage to the soldiers who had given their lives since the coup, and defended the government and the people against extremists who wanted to bring back corruption and disorder. The speech generally followed Batista's presidential campaign platform of order, peace, work, and progress.

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<sup>401</sup> U.S. Embassy Havana, Telegram 434, October 25, 1954, 837.000/10-2554, IA/1950-54.

He pointed to his economic policies as evidence of his excellent leadership. He drew a stark contrast between his policies, which he claimed had saved the economy, and those of his irresponsible predecessor who “plundered” the treasury, and failed to limit the 1952 *zafra*. Batista claimed that Prío “forgot that our standard of living depends on the fluctuation of the world sugar markets and consumption.”<sup>402</sup> When Batista took over, he reminded, he had enormous economic challenges due to Prío’s mistakes, such as the sugar surplus that threatened the whole economy:

Many opportunities were wasted during that time with amazing abundance. The politics of an improvident Government harmed the normal order of life, economy, jobs and production. A preventive program would have been able to tap the stream of money that swamped the country to stimulate industries, diversification, and balanced investment, rather than to saturate the sugar business.<sup>403</sup>

Batista touted his management of the economy. “The applause of the people is our reward,” he exclaimed,

It acknowledges our hard work... [that] is reflected in stone, bricks, cement, iron, roads and buildings... evidence of our constructive and proactive management for the collective welfare and the social good.<sup>404</sup>

Public works and stimulus programs served as evidence of his constructive leadership:

The works that we have started and which are starting today, combined with the conduct of our loyal servants of the Republic, and our history, have all inspired faith; without doubt, and have inspired confidence in our regime. Hundreds of works have been started throughout the island resulting from our mission that we imposed on 10 March. As I am unable to personally attend so many places... I have chosen to commemorate... in this city courtyard... the hundreds of works that we have started for public use, for the whole Republic.<sup>405</sup>

Batista asked citizens to take notice of:

the reconstructed streets, the raised edifices, new roads that are connecting the population, the aqueduct that covers your needs, more refrigerators that maintain

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<sup>402</sup> UMCHC 5155, Box 110, Folder 4.

<sup>403</sup> Ibid.

<sup>404</sup> Ibid.

<sup>405</sup> Ibid.

fruits and food, improved hospitals or dispensaries, new housing, schools that have been created, the opening of soup kitchens. Take note of the construction in the slum neighborhoods with adequate sewage systems; the tough bridges that enable transit and transport; economic institutions of credit that facilitate the development of business in the country and are financing new agricultural plans. Know how we gave land permanency to the peasant, took measures governing production and consumption, and what we did with the sugar excess... Discover all that your Government has done; even though, while you enjoy them, you cannot see the work altogether.<sup>406</sup>

He then paid homage to his regime, and promoted the idea that it worked for the public good. For example, he acknowledged:

the Ministers of Public Works, Health, Education, Agriculture, Justice, Communications, Work and Defense... the Mortgage Insurance Fund, the National Finance Agency, the National Bank with its creative works; the Agricultural and Industrial Development Bank, with its financial stimulus to the buildup of industry, with its dynamic approach to development and construction.<sup>407</sup>

With the help of these individuals and agencies, Batista explained how his leadership resulted in:

the rescue and nationalization of the railroads, the normalization of transport, the stabilization of the sugar, tobacco, and coffee industry; the stimulus of meat, the increase of precious minerals... the reorganization of the public administration; the sanitation of finances, even in treated; the rebuilding of public credit; the disappearance of the pollution in the main streets and avenues of the capital and other cities; water supply in cities such as Havana, Holguin and Nuevitas; work to solve shortage of this precious liquid in Santiago de Cuba and other important towns of the island; the purification of water for human use; the beginnings of the work to dredge the Sagua River, the Bay of Havana, the Almendares River and the port of Batabano, the Coloma and Isle of Pines, are showing that the regime of 10 of March has worked.<sup>408</sup>

Batista heralded as a spectacular personal achievement the relative cooperative relations between labor and employers in the past two years. The stabilization of labor relations fueled investment the economy, and he asked for further cooperation in the future:

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<sup>406</sup> Ibid.

<sup>407</sup> Ibid.

<sup>408</sup> Ibid.

Guarantee to investors by our regime must be maintained; in the same way that we aspire to maintain a high standard of living for the worker, with humane working conditions. Our regime does not favor the Ministry of Labor to the detriment of others. Our economic and social policy is based, therefore, in the harmony of the factors that form the scaffolding of the Cuban economy. For the growth and development of industrialization in our country, we hope to have a wide cooperation of employers and workers.<sup>409</sup>

### Labor Relations

The improved stability between labor and employers in the past two years served as a central theme in Batista's campaign platform. Through the summer and fall up to the elections, Batista showed a more conciliatory position toward labor. Labor unrest in the months leading up to the elections would certainly have been a political disaster.

Therefore in these months Batista for the most part appeased the unions.

In early May, for example, the unions were deeply concerned about recently proposed labor legislation that would supplant the current indemnified dismissals laws. Batista was a businessman, and he understood the business owners' reasonable complaints that their inability to release unneeded personnel from the payrolls had destructive effects on efficiency, investment incentives, and financial solvency. In early May the CTC met on the sensitive dismissal issue, and Batista deployed the military and police to keep order. He ordered his soldiers to surround the Workers Palace and the Workers Theater, and they enforced the peace.

The dismissals issue particularly caused unrest in the inefficient textile industry. The owners and unions were bitterly divided. Since the boom times of WWII, Cuba's textile industry had experienced a steep decline, yet appropriate downsizing adjustments to the workforce had never taken place due to the dismissal laws. Batista's participation

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<sup>409</sup> Ibid.

in the post-war liberalized trade movement opened Cuba's textile industry to competition with a number of nations that possessed a comparative advantage in production. A trade agreement with Japan, for instance, revealed it was less expensive to import textiles from that nation than produce them in Cuba. To compound the difficulties, the unions exploited the owners' inability to dismiss workers and urged them to work slowly. As a result, the owners called on Batista to reform the laws that prohibited them from reducing their workforces. Batista understood and sympathized with the owners' position; on the other hand, he wanted to avoid layoffs and unrest during his presidential campaign. Therefore, he came up with a solution to dedicate BANFAIC funds to preserve the textile jobs, and in exchange the union agreed to a wage cut.

Batista conciliated with the textile union by spending public funds to maintain the current workforce – an inefficient measure that he applied to other industries as well during the campaign. Instead of yielding to the business owners to legalize indemnified dismissals, Batista responded by compensating them with public funds. Although the solution was obviously wasteful, it appeased both sides for the time being. By utilizing the development banks that allocated the funds, Batista averted a political catastrophe from layoffs, improved his image as the workingman's friend, and maintained support from the business owners. During his campaign, he had to balance his proclaimed policy of encouraging investment with alienating the labor vote by threatening any of their privileges.<sup>410</sup> The development banks provided the support for Batista's labor friendly policies in 1954.

Along with the indemnified dismissal issue, in the beginning of June 1954 workers began to get very nervous about a proposal introduced by a small minority in the

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<sup>410</sup> U.S. Embassy Havana, Telegram 113, July 28, 1954, 737.00 (W)/7-2854, IA/1950-54.



U.S. Congress to amend the Sugar Act and reduce Cuba's quota in favor of domestic suppliers. The Cuban newspaper *Diario de la Marina* commented that the proposal represented economic aggression, and would surely endanger the security of the Americas and benefit the communists.<sup>411</sup> A heated and general campaign in Cuba against the proposed amendment quickly gained momentum, and presented a test for Batista's campaign. Undoubtedly the vast majority of Cubans rejected the proposal. Naturally Batista, benefitting from the political momentum, sided with the workers and stood firm against the proposal. With Batista's support, the National Federation of Sugar Workers (FNNTA) organized public demonstrations. At times he showed up to demonstrate that he stood with Cuba's workers, and as their leader would fight the proposal. Therefore Batista utilized his friendly relationship with U.S. Ambassador Gardner, and persuaded him to pressure Washington D.C. to reject the proposal. Gardner agreed with Batista and warned the U.S. State Department:

the proposed amendment of the Sugar Act poses a grave threat to the entire economy of Cuba. In addition it would have an adverse effect on the prosperity of the United States since it would diminish the purchasing power of one of the best customers of the United States. Any change in the Act at this critical period of Cuba's history with an election planned for November 1 of this year, might have unfortunate results. Cuba's friendship and support of the United States would be poorly rewarded.<sup>412</sup>

Batista continued his labor friendly concessions up to election day. On October 6, for example, the Federation of Medical Workers held a banquet in Batista's honor in appreciation of his having had their occupation included in the Retirement Fund of Commercial Workers. With 4,000 in attendance, CTC president Mujal sat next to Batista, who for the night enjoyed the image as the workingman's friend. A U.S.

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<sup>411</sup> *Diario de la Marina*, August, 1954.

<sup>412</sup> U.S. Embassy Havana, Telegram 1452, June 2, 1954, 737.00 (W)/1-854, IA/1950-54.

observer remarked “there was no mistaking its [the banquet] intended political connotations.”<sup>413</sup>

### Economic and Social Development Plan

Early July brought to a close the 1954 *zafra*, and Batista felt the challenge of running a campaign during the height of dead season unemployment. As a result, his public addresses increasingly focused on new jobs and economic diversification. Sugar production for 1954 had amounted to 4,746,156 Spanish long tons, or 32,711,930 bags of 325 pounds each. Most in the industry had expected a rebound in the international sugar price due to the ISA restrictions in effect for the past year. The price was declining, however, and coupled with the restricted output, it looked like another year of weak export revenues. The ICEA and Batista met frequently and somewhat desperately in late July to discuss the best strategy to sell the sugar in the bearish market.

The weak economy in the past eighteen months had taken a toll on public morale, and in 1954 many Cubans were pessimistic and cynical about the future. Perhaps Batista recognized the political need to inspire optimism in the electorate, so he announced a new, bold, and unprecedented plan for the economy.

In mid-July Batista unveiled the largest government economic development program in Cuban history. Law-Decree 1589, dated August 4, 1954 established the Economic and Social Development Plan with an authorized public credit amounting to \$350,000,000 secured by thirty year, four percent government bonds. To begin after Batista’s upcoming November 1 election victory, the Plan was to be carried out over the

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<sup>413</sup> U.S. Embassy Havana, Telegram 434, October 25, 1954, 837.06 /10-2554, IA/1950-54.

next four years. In Latin American and Caribbean history, in terms of public spending per capita the Plan exceeded in scope all previous experiments in centrally managed stimulus to combat underdevelopment. It represented some ideas from ISI scholars, Keynesianism, and Structuralist economics in regard to centrally managed debt spending to stimulate domestic industry and employment. The Plan's chief designers included Batista, Gutiérrez, as well as the current Minister of Public Works and renowned architect Nicholas Arroyo Márquez. Following its announcement, the Plan became the central focus in Batista's campaign platform, and he used it as evidence that Cuba had a prosperous future under his leadership.

The Plan's risks were obvious and it generated immediate controversy. In his campaign speeches he raised expectations for it as the remedy that would turn the economy around. The U.S. Embassy in Havana described it, however, with some skepticism as a "large and radical public investment program, productive aspects of which remain uncertain."<sup>414</sup> Many Cubans felt distrustful and cynical about such a large government expansion, which to them equated to more inefficiency, corruption, cronyism, and waste.

The Plan's enormity generated immediate debate over debt spending. Informed Cubans knew that their taxes would have to pay for the rapid spending increase, and many questioned the risk – return tradeoff. The 1953 calendar year had ended with a \$35,000,000 national deficit and \$292,000,000 in national debt. Some analysts forecasted that the Plan's enormous costs would quickly drive up Cuba's national debt to \$900,000,000 in only three or four years.<sup>415</sup> This would significantly increase the cost

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<sup>414</sup> U.S. Embassy Havana, Telegram 1060, April 29, 1955, 837.00 (W)/4-2955, IA/1955-58.

<sup>415</sup> Ibid.

and amortizing of the public debt that at the end of 1954 amounted to nine percent of budgetary receipts and 1.6 percent of the national income. In addition, critics pointed out that the Plan's costs would certainly weaken the BNC's internal reserve position, as its bonds issues would surely be promoted for purchase by domestic currency, in addition to overseas. Thus a significant percentage of the BNC's current public and private sector cash reserves would certainly be replaced with bonds. Analysts also pointed out that public debt expansion would probably lead to inflation and endanger Cuba's monetary stability. The Batista regime rejected such warnings, and insisted that public debt growth was essential to develop the economy.

Others argued that the Plan was nothing more than a political ploy full of empty, impossible to fulfill promises intended only to raise public expectations and secure votes for the election. Many felt suspicious since the Plan was not scheduled to begin until after the election. Charles Hall of the U.S. Embassy in Havana remarked: "it may be that the Plan was drafted in part at least as election propaganda and may be overly ambitious or impractical of complete fulfillment."<sup>416</sup>

Despite the cynics, however, Batista secured numerous supporters for the Plan. To some, particularly in academic circles, the reputation of Minister of Finance Gutiérrez added credibility to the Plan. In addition, in many ways the Plan incorporated cutting edge Keynesian, ISI, and Structuralist remedies to underdevelopment. As a result, it had a measure of theoretical support from U.S., U.N. and Latin American scholarship.

The government credit stimulus approach also had support in Cuba. In early September, the newspaper *El Mundo* commented editorially that Latin American nations

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<sup>416</sup> U.S. Embassy Havana, Telegram 113, July 28, 1954, 737.00 (W)/7-2854, IA/1950-54.

should create programs of nationalized production to improve development.<sup>417</sup> For the past decade, many Cubans had been conditioned to view central banking as a tool to promote non-sugar industries, and in theory they supported the BANFAIC and similar development agencies. Thus Batista expected a positive reaction from the public when he announced the Economic and Social Development Plan, which called for the creation of a new public finance agency similar to the BANFAIC. The unions also supported the public sector debt and spending approach, giving Batista a slight advantage in the campaign. The unions certainly intended to benefit from the Plan, and consequently a number of workers supported Batista.

### The Campaign

On the afternoon of August 14 Batista took electoral leave and officially began his presidential campaign as the candidate representing four coalition parties. Rafael Gaus Inclan, president of the Liberal Party, and Batista were formally inscribed as vice-presidential and presidential candidates before the Supreme Electoral Tribunal. This was followed with an excited rally in front of the Presidential Palace. Andrés Morales, Batista's longtime confidante, took over as the interim president. Batista selected the reliable Morales to carry out his policies exactly according to his instructions. The Electoral Code mandated the official campaigns to begin on August 14 and end one week before the election on October 25.

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<sup>417</sup> *El Mundo*, September, 1954.

The media naturally publicized the excitement at Batista's campaign rallies.

Many Cubans, however, remained cynical or undecided about his governance. In late July the U.S. Embassy reported:

there is widespread belief that public sentiment is heavily behind Grau, more because a vote for him would be a vote against Batista than because of his own appeal.<sup>418</sup>

In the previous two years many Cubans never experienced any improvement in their lives resulting from Batista's economic programs. On the contrary, they had just endured over a year of difficult economic times. To many Cubans, the FNC, FHA, BANFAIC, new public works and construction were merely symbolic, and never felt any real impact from them. Certainly the programs created new jobs, but so far they had a small impact on chronic unemployment. Real private sector economic expansion without government assistance was generally non-existent during the past two years under Batista's programs. In addition, some Cubans viewed the government development banks as only mechanisms to support crony capitalism, whereby a small circle of stakeholders got rich from public funds as the majority of the population suffered in poverty. Later in October, 1954 their apprehensions seemed valid when the media exposed graft in the tobacco workers union, which had been receiving BANFAIC funds. In the eyes of many citizens, a select number of labor leaders, politicians, investors, bankers, foreigners, and even gangsters benefitted from Batista's development programs at the public's expense.

Furthermore, Grau was running a strong campaign and building a strong support base. In a public statement Ortodoxo party leader José Pardo Llada declared his support for Grau and urged the people to vote against Batista. U.S. observers in Havana commented in late July:

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<sup>418</sup> U.S. Embassy Havana, Telegram 113, July 28, 1954, 737.00 (W)/7-2854, IA/1950-54.

With present appearances favoring the Grau candidacy, it is becoming more and more of a question in many minds whether Grau would be ‘permitted’ to win. Many also are convinced that the elections will be rigged and that the military will see to it that Batista remains in power.<sup>419</sup>

On Soldiers Day, September 4, Batista spoke to the nation from Campo Colombia military base with an optimistic and hopeful message. Posters, slogans, and political coloring embellished the camp, “with all speakers making laudatory references to Batista and cheers for him stimulated at every opportunity,” an American observer described.<sup>420</sup> Similar to his past Soldiers Day speeches, he opened with a statement of humility and emotion. After paying homage to the military and the Cuban people, he reminded how on September 4, 1933 “we rescued the people from the beast of chaos.”<sup>421</sup> The image of Batista as a rescuer played a central role in the speech.

Over ninety percent of the speech focused on the economy – unquestionably the central focus of Batista’s political platform. Unlike past speeches, there was little mention of his opposition, only accusing them of conducting a war against the economy. Instead, he decided to keep his message positive, and emphasized that his leadership had put Cuba on a successful course. He appealed to Cubans’ economic needs, claiming how with their help and support, his economic programs will lead to prosperity. The majority of the speech included a discussion of his past, present, and future economic programs. For example, Batista boasted about how much his government had spent in the past year on public works, which amounted to approximately twice as much as Grau had spent in 1947:

Under our Government, in this year the works undertaken arrived to 62,697,000 pesos, while in 1947, the year of abundance - arrived only to 26,527,000 pesos...

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<sup>419</sup> Ibid.

<sup>420</sup> U.S. Embassy Havana, Telegram 243, September 8, 1954, 737.00 (W)/9-854, IA/1950-54.

<sup>421</sup> UMCHC 5155, Box 110, Folder 4

I repeat: sixty against twenty-six, and at this pace in this year 1954 alone we have constructed in two years of government more buildings than in the four years of one Auténtico government.<sup>422</sup>

“Let’s go over many of the achievements,” he began,

more intensified Public Works, with some 2000 kilometers of roads and more than 4000 local roads, passing through the best agricultural areas. Sanitation of the public funds... impetus to investments through industrial stimulation... the elimination of export taxes on money when used productively in the country... the fund for insured mortgages to promote affordable housing... with intensified construction of buildings and houses of moderate income, the just leveling of rents... creation of the FNC, a Bank of Foreign Trade..., Cuban Institute of Technological Research..., Guarantee Fund for Agricultural prices... purchase and nationalization of the Havana United railways without scandals or fuss, and with savings of one and a half million pesos, compared with what had been offered by the previous Government... exploitation of maritime areas, mining, fishing... protection to the peasant squatter, recognizing the right of permanent residence and solving the complex problem of the landowners... Organization of child clinics, which currently serves thousands of children to save their lives... Opening of aqueducts, construction of hydropower in Las Villas and East provinces... The implementation of the Two Year Plan, which has provided streets to the cities and rural roads... building of a palace for fine arts and the national museums... construction of sports fields in the provinces... universities in Camagüey and Pinar del Rio... Buildings, service centers, public schools ... Sports City in Havana, physical education centers... Economic rehabilitation of Baracoa... Construction of sightseeing avenues and seawalls in Havana... restoration of popular beaches for their enjoyment by the people... planning and execution of the Plaza of the Republic, the center of which is a large monument that generations have been calling for erected to the memory of José Martí, construction of the palaces that circle it... Construction of the National Hospital, hospitals and municipal provincials or throughout the island... Finally, it would be endless to write a story total of how much has been done in the past two years.<sup>423</sup>

After celebrating his past initiatives, Batista then spoke about the future and emphasized that his plans included:

gradually transforming the character of the country and liberating it from servitude from single crop cultivation by increasing domestic production and diversification.<sup>424</sup>

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<sup>422</sup> Ibid.

<sup>423</sup> Ibid.

<sup>424</sup> Ibid.



Again, Batista's narrative invoked the image of a rescuer, claiming his economic plan would save the country from risky overdependence on sugar production.

Batista expressed pride that he had improved Cuba's creditworthiness throughout the world, and how he could raise enormous amounts of money for public projects. He boasted:

financial investors, contractors or bankers have confidence in us. In the times of Grau, bank loans never arrived to 250,000,000 [pesos]... Now, under our regime of the March 10, these loans exceed the sum of 350,000,000 pesos.<sup>425</sup>

He scoffed at his opponents who argued that investors would not have confidence in bonds issued by his regime. Batista pointed out that his opponents:

have commented that the investors don't want the bonds from the State. If that were so, we would not have been able to fund the Two Year Plan with 20,000,000 pesos... The issue of several more loans has allowed us to get 52,000,000 pesos for a comprehensive plan of works without having to create a new tax. And we might say that these bonds are so much in demand that before hitting the market they are valued above their nominal value... I might add that the Economic and Social Development Plan that we have designed can be funded in its entirety at 350,000,000 pesos, with more if needed.<sup>426</sup>

Batista went on to vaguely state some of the goals for his upcoming Social and Economic Development Plan:

Our plan will make more extensive use of agricultural resources... install mineral plants for the treatment of manganese and chromium; [and] no fewer than 180 irrigation stations distributed throughout the island. Irrigation is one of the resources that we have not yet exploited and we must use it as a further means of mobilizing our agricultural wealth. That is why we will extend it to all the regions of our country to benefit not only the small farmers but national economy as well.<sup>427</sup>

Batista then took credit for the expansion of the BANFAIC and its new programs, particularly in regard to agricultural assistance:

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<sup>425</sup> Ibid.

<sup>426</sup> Ibid.

<sup>427</sup> Ibid.

The BANFAIC is giving extensive assistance to more than 6000 farmers... It has organized agricultural associations throughout the nation. These associations provide agricultural machinery, animal feed, comprehensive insurance, warehouses for crops, a sales agency, distribution of fertilizer and seeds, and other forms of aid and protection.<sup>428</sup>

He pointed to the recent increase in rice production as evidence of the BANFAIC's effectiveness:

As evidence of our intense campaign of agricultural diversification... it is sufficient to note the increase in rice cultivation. Cuba consumes about 7,000,000 quintals annually. In 1952 we imported about 6,000,000 quintals at a cost of 73,000,000 pesos. Now after two years of our work, rice production has doubled.<sup>429</sup>

Batista concluded his speech by reiterating how his economic programs gave proof that, under his leadership, Cuba had a bright future – economic diversity and low unemployment were on the horizon. “I have faith in the future,” he concluded, “for Cuba, in its progress, and in its people. Salud! Salud!”<sup>430</sup>

A few days after the Soldiers Day speech, Batista conducted a campaign rally in Matanzas with a reported 80,000 in attendance. In between the loud ovations, he reiterated his economic programs of the past and future, and promised government spending for new industry and jobs. With reference to the corruption and *gangsterismo* that had pervaded during Grau's presidency, Batista offered an alternative choice – order, security, and honest public service with an exciting economic plan to create prosperity. He also reiterated that he was an enemy of communism. After Matanzas, Batista continued a tour throughout the nation and promoted his economic policies.

The two candidates ended their campaigns on October 25 as mandated by the Electoral Code. In the week leading up to that date Batista and Grau had conducted an

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<sup>428</sup> Ibid.

<sup>429</sup> Ibid.

<sup>430</sup> Ibid.

aggressive campaign. Batista made use of his media companies and broadcasted that a vote for him was a vote for prosperity. Grau had a clear disadvantage in media coverage. His message had focused on restoring constitutional rights and Batista's abuses of them.

In the week leading up to the election, many citizens throughout the island feared unrest and terrorism, but surprisingly the atmosphere remained calm. Batista closed the public schools and universities to keep order, and to prepare the voting stations. Inflammatory radio commentators were taken off the air, such as Ernesto de la Fe who had vociferously denounced the Electoral Code. The military stood on guard to quickly suppress any anti-election activity.

A couple days before the vote, a crisis emerged that resulted in Grau's withdrawal from the election. He accused the military of voter intimidation and seizing voter registration cards. He also accused Batista of violating the citizens' rights by prohibiting congregations outside of the polling stations. The most serious charge, however, resulted from the decision of the Batista controlled Superior Electoral Tribunal (TSE) that it was the only source from which the newspapers and radio stations would receive the election results. To Grau this constituted censorship that would permit fraud, since the government would have a long look at the results before anybody else. As a result, thirty-six hours before the election, Grau announced his withdrawal and urged Auténticos not to participate in the congressional elections. Batista announced there would be elections "with or without Grau."<sup>431</sup>

However, Batista did attempt to comply with Grau's complaints to persuade him to reenter the contest. The TSE called an emergency Sunday meeting and permitted

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<sup>431</sup> U.S. Embassy Havana, Telegram 461, November 3, 1954, 737.00 (W)/10-354, IA/1950-54.

congregations to take place fifty meters outside of polling stations, promised that the military would not influence the vote, and the media could access the election results at the same time as the government. Despite the concessions, however, Grau still refused to reenter the election, releasing a statement that:

an effort is being made to submit the country to a tyranny that the people reject ... therefore we will not participate in this farce and we recommend that the people completely abstain.<sup>432</sup>

Shortly after the election, *Time* reported:

Grau's walkout had spoiled the strongman's [Batista] plan. Batista's main purpose in scheduling elections in the first place was to win the badge of legitimacy, and to do that properly, he needed something that at least looked like opposition.<sup>433</sup>

The election results turned out to be seven to one in favor of Batista. On November 3, with ninety percent of the 8,321 precincts having reported, Batista's votes amounted to 1,220,389, and Grau received 177,423.<sup>434</sup> Acting on Grau's advice, the Auténticos largely stayed home. Grau later reminded Cubans that not more than ten percent of the electorate had voted.

#### A Voice from Cuba, in Geneva and Petropolis

In the week following the election, Batista began to execute the Economic and Social Development Plan, and proved wrong the skeptics who during the campaign had charged that it was just a political ploy. On November 5, 1954 the regime completed the legal formalities for the first 100,000,000 pesos bond issue to finance the Plan. Batista indicated that this first issue would service the debt accumulated in last year's railway

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<sup>432</sup> Ibid.

<sup>433</sup> *Time*, November 8, 1954.

<sup>434</sup> U.S. Embassy Havana, Telegram 461, November 3, 1954, 737.00 (W)/10-354, IA/1950-54.

bailout, continue the ports development program, improve Cuba's telecommunications systems, and fund other unspecified projects to generate employment and increase national production. With Gutiérrez as his representative, Batista launched an international campaign to promote investor confidence in the Plan and its bonds. Gutiérrez had a longstanding and established reputation in the international community; therefore, he was the logical spokesman to defend the Plan to the world.

In November 1954, in Geneva, Switzerland and then in Petropolis, Brazil the contracting parties to the GATT met to discuss developments since its creation in 1947. Gutiérrez had served as the technical director of the Cuban delegation in the first GATT meeting in 1947, thus he had built a solid reputation with the other delegates. The meetings offered Gutiérrez the opportunity to defend to the international community the Cuban government's recent economic policies, as well as present the Economic and Social Development Plan.

At his speech in Geneva, Gutiérrez stated the importance for Cuba to diversify its economy and preserve the sugar industry at the same time. "We need to defend our sugar production," he explained to the delegates,

but at the same time take it out of its role of principal supplier of the national economy by diversifying our agricultural production and seeking a reasonable industrialization of our country for the purpose of providing work for Cuba's labor force and increasing its citizens' purchasing power.<sup>435</sup>

Then Gutiérrez stated his position on tariffs, which differed with many Structuralist and ISI economists such as Raul Prebisch at the U.N. Gutiérrez, like Batista, viewed underdevelopment in Cuba as mostly a credit problem. He felt that it was unnecessary to build barriers to international trade to stimulate domestic industries, as Prebisch

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<sup>435</sup> Gustavo Gutiérrez, *Voz de Cuba en Ginebra y Petropolis* (Havana: Publicaciones del Consejo Nacional de Economía, 1954).

recommended. Contrary to Prebisch and other respected economists of the time, Gutiérrez felt that domestic credit stimulus should be coupled with an expansion of export markets achieved through lowered tariffs.

In certain industries, however, Gutiérrez argued that tariff reduction should take place gradually. While he generally believed in the benefits of international trade and the law of comparative advantage, at the same time he understood that lowering tariffs too quickly would have destructive effects on certain domestic industries, causing unemployment to rise. In the case of Cuba's textile industry, for example, Gutiérrez advocated for a gradual tariff reduction to give time for alternative industries to grow and absorb the inevitable layoffs. He explained:

Any attempt at an indefinite freezing or general and indiscriminate reduction of custom duties, without taking into account the peculiarities of each underdeveloped nation, would constitute true economic aggression.<sup>436</sup>

Gutiérrez then celebrated the GATT meeting and the economic benefits it was expected to generate for the member nations. The meeting not only lowered tariffs, but it also created a spirit of openness, trust, and cooperation among non-communist nations that benefitted investment, production, commerce, and efficiency.

Shortly after the Geneva meeting, in Petropolis Gutiérrez again addressed the GATT delegates to discuss Cuba's past, present, and future economic plans. "We, the Latin American countries," he opened the speech,

cannot look abroad exclusively for the solutions to our problems... We believe that the economic development of a country depends fundamentally as much as on its own efforts as upon its natural resources.<sup>437</sup>

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<sup>436</sup> Ibid.

<sup>437</sup> Ibid.

Gutiérrez explained that the foremost directive for the Cuban government's initiatives had been to make full use of domestic natural and human resources. Before introducing the Economic and Social Development Plan, Gutiérrez touted his government's economic policies (most of which he designed) in the past couple years. He explained to the delegates:

Our country practices the principle of self-development. By using exclusively our economic and financial resources we have financed at 120,000,000 pesos (and it is known that the Cuban peso is on par with the American dollar) the retention of the surplus of our 1952 sugar crop; we have constructed during this year, 1953, more than 4,000 kilometers of streets and side roads, hundreds of highways and several aqueducts and hospitals; we have acquired the United Railways of Havana and from its English owners for 13,000,000 pesos and have spent more than 7,000,000 pesos in its rehabilitation which is now underway; we are dredging our ports; we are putting up at a cost of 14,000,000 pesos, the first central hydroelectric plant of the Hanabanilla River and are contemplating the investment of 15,000,000 pesos in the establishment of glycerin and paper plants using sugar cane bagasse as raw material; we have organized the National Finance Agency, the Cuban Foreign Trade Bank, and are organizing the Cuban Institute of Technical Research; we are undertaking revision of our tariffs for the purpose of putting our obsolete customs tariffs in line with modern nomenclatures and techniques on the subject of protecting the economic development of a nation.<sup>438</sup>

After touting Cuba's economic policies in the past two years, Gutiérrez presented the controversial four year Economic and Social Development Plan. "We have started a plan," he told the delegates,

that represents an investment of 350,000,000 pesos in four years. In observing this gigantic effort, which involves the mobilization of more than 500,000,000 pesos... can be understood by my government's preoccupation to combat unemployment in our country."<sup>439</sup>

Gutiérrez explained some of the Plan's general features. For the most part it was well-received by the delegates, and later by international community at large. Perhaps there

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<sup>438</sup> Ibid.

<sup>439</sup> Ibid.

was a bit of curiosity among international scholars about the Plan's outcome, and for that reason never condemned or harshly criticized it.

During the 1954 campaign, Batista had travelled throughout Cuba and raised expectations for his Economic and Social Development Plan, claiming it would generate employment and bring prosperity to Cuba. The scale of his Plan had created conflicting feelings in Cuba. Perhaps it was the answer to finally break the economy's dependency on sugar, stimulate new employment in diverse industries and agriculture, and remedy chronic unemployment. Certainly the Plan had much support, particularly from the labor unions, construction workers, agricultural workers, and other potential beneficiaries. On the other hand, while there was excitement and raised expectations, there was also a strong amount of cynicism and uncertainty – in regard to increasing debt, spending, corruption, waste, and cronyism. Conceivably, after having made so many promises during the campaign to the citizens, unions, and the business community that in a political sense it was too late for Batista turn back, or even scale down the Plan. Therefore, regardless of the sound criticisms, Batista went to work with his team of central planners led by economist Gustavo Gutiérrez, architect Nicolas Arroyo, and BNC President Joaquín Martínez Sáenz to schedule the enormous bond issues and shape the Plan's its principal objectives and initiatives.



## Chapter VI

### Batista's Road to Prosperity

#### Return of the Constitution

The newly elected fifty-four member Cuban Senate took office on January 28, 1955. It included members from Batista's coalition: the Partido Acción Progresista, Partido Unión Radical, Partido Liberal, Partido Democrática, as well as sixteen Auténticos who ignored Grau's order to refuse to take office.<sup>440</sup> Batista took the presidential oath of office on February 24 in the Presidential Palace Salon of Mirrors. The inauguration was followed with an elegant ceremony inside the Palace with Cuba's elite circles in attendance.<sup>441</sup>

On March 2 Cuban Prime Minister Jorge Garcia Montes made a formal presentation of the Council of Ministers to the new Congress. In Montes' speech he assured that the executive department would fully respect constitutional government, and reminded that Batista will remain in office for the full term of his election, but a no confidence vote by the Congress could force the resignation of his ministers. Montes said to the Congress:

For the restoration of harmony and peace, there are presupposed, as an unquestionable and prior requirement, the recognition of the legitimacy of the [Batista] regime.<sup>442</sup>

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<sup>440</sup> Two elected Auténtico senator-elects obeyed Grau's prohibition on taking office.

<sup>441</sup> *New York Times*, February 25, 1955.

<sup>442</sup> U.S. Embassy Havana, Telegram 864, March 8, 1955, 737.00 (W)/3-855, IA/1950-54.

Ironically, despite the excitement displayed at Batista's inauguration, many Cubans still felt cynical about their government. The Cuban attaché to the U.S. Embassy Juan de Zengotita described in January, 1955 the public's suspicious attitude:

Reports are spread of Batista's and his collaborators' planning to enrich themselves on a greater scale (some even accuse Batista of aspiring to a share in every possible profitable enterprise, á la Trujillo or Somoza); and the new congress, about to convene, is nowhere regarded as capable of making any important contribution to the solution of national problems. Rather, the congress is thought of, with its large government majority, as a rubber stamp assemblage of mediocrities who have arrived at a coveted staging point for personal aggrandizement.<sup>443</sup>

Zengotita's harsh words accurately described the cynicism that many Cubans felt. In addition, many had little confidence in the Economic and Social Development Plan. Batista had been vague about specific initiatives to achieve the Plan's stated principal objective, to stimulate long-term economic diversification. This left many questions and suspicions as to how Batista planned to spend the enormous amount of money he was currently raising with the bond issues. Even though Batista had touted the Plan for six months, Zengotita remarked: "There is no certainty that he [Batista] has worked out a real program to strengthen the economy."<sup>444</sup>

#### National Economy Council

In the beginning of 1955, to protect his reputation, Gutiérrez resigned as Minister of Finance. He had attempted to resign twice before in the past two years due to financial irregularities that he had uncovered in certain departments. Later, Gutiérrez mentioned to his daughter Yolanda how he would refuse to approve documents and appropriations

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<sup>443</sup> Juan de Zengotita, "For the Ambassador," January 27, 1955, 837.062 /1-2755, IA/1950-54.

<sup>444</sup> Ibid.

where he suspected irregularities. Batista's indifference to a report that Gutiérrez had prepared with a private investigator that exposed a certain corrupt general at the customs office at Rancho Boyeros airport, finally led him to resign in February.<sup>445</sup>

Gutiérrez' resignation certainly reflected negatively on Batista's reputation, both inside and outside Cuba. For the past two years, Batista had defended his coup by condemning Prío's corruption. Now, Batista's chief economic advisor had resigned in protest against the mishandling of funds. As a result, Batista immediately took damage control steps and attempted to conciliate with Gutiérrez, granting him permission and funds to create the National Economy Council (Consejo Nacional de Economía – CNE). Gutiérrez' preferred to continue to influence public policy and the Economic and Social Development Plan, but he also desired autonomy. Batista gave Gutiérrez what he wanted, and established the CNE as an autonomous advisory agency.

On January 27, 1955 Law-Decree 2069 established the CNE. Its stated purpose was to “orient and coordinate the economic policy of the government ... [to] create high levels of employment and productivity.”<sup>446</sup> Furthermore, it intended to “report on economic questions and problems presented to it by the President of the Republic.”<sup>447</sup>

The Council was:

to orient and coordinate the measures, plans, programs and policies designed to protect and strengthen the island's economy... [and] the development of the country's economy, especially when faced with international or national contractions.<sup>448</sup>

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<sup>445</sup> <http://drgustavoGutiérrez.blogspot.com/2008/09/Gutiérrez-steps-down-as-finance.html>.

<sup>446</sup> CERP, 94.

<sup>447</sup> Ibid.

<sup>448</sup> Ibid.

Batista claimed that the CNE “was absolutely essential to discover, stimulate and develop new sources of production.”<sup>449</sup> Batista had averted further political embarrassment by conciliating with Gutiérrez, who remained the chief designer of Cuba’s economic programs. Batista’s establishment of the CNE and other concessions to Gutiérrez displayed his influence over the president, as well as public policy.

### The Slow Recovery

In early 1955 Cuba had yet to experience an economic recovery since the decline that started at the end of 1952. The environment in Cuba was pervaded with cynicism, even through the height of the *zafra* when employment had reached its seasonal peak. Despite noticeable growth in economic sectors such as construction, rice production and others, the economy as a whole throughout 1954 had remained stagnant. Cubans endured a decline in the value of the sugar crop in 1954 resulting in a drop of 25,800,000 pesos in sugar income from the previous year. The total returns from exports in 1954 thus fell to 539,000,000 pesos in comparison to 640,300,000 pesos the previous year – a fifteen percent decrease. Throughout 1954 prices and the volume of imports remained unchanged from the previous year, thus Cuba’s export surplus naturally dropped from 159,600,000 pesos at the end of 1953 to 51,100,000 pesos a year later. The net national product (NNP) per capita remained steady at 301 pesos in 1953 and 304 pesos in 1954; however, in 1955 it would fall dramatically to 212 pesos. Compounding the difficulties, several of Cuba’s industries were declining rapidly. Textiles, yarn production, wheat flour, and vegetable oil output decreased – partly due to recent liberal trade agreements

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<sup>449</sup> Batista, *Growth and Decline of the Cuban Republic*, 127.

that opened Cuba to nations that possessed a comparative advantage in the production of those products.

Table 9.

Year	NNP (1 million Pesos)	NNP per capita (in pesos)	Total estimated value of sugar crop (million pesos)	Total Exports (millions of pesos)	Total imports (millions of pesos)
1951	2,193	352	716.5	766.1	640.2
1952	2,285	362	592.3	675.3	618.3
1953	1,983	301	487.5	640.3	489.7
1954	2,018	304	461.7	539.0	487.9
1955	2,104	212	434.0	594.1	575.1
1956	2,291	335	451.9	666.2	649.0
1957	2,611	276	685.5	807.7	772.9
1958	2,419	340	597.1	733.5	777.1

Source: Cuban Economic Research Project, *Stages and Problems of Industrial Development in Cuba* (Coral Gables: University of Miami Press, 1965) 97.

In early 1955 Batista contended that central banking policies in the past year had supported domestic economic activity and were necessary to compensate for the declining sugar revenues. He pointed to the rise in construction as a direct result of his policies, particularly since the establishment of the FHA. The spike in tobacco production, which reached a record breaking output of 91,089,000 pounds in 1954, directly resulted from a combination of BANFAIC stimulus and new liberal trade agreements. Private building permits were significantly up in 1954, and would continue to increase through 1955. By the end of 1955 they would reach 3,400, compared with 2,376 in 1952.<sup>450</sup>

Despite the reduction in exports, government spending made possible a slight increase in Cuba's gross national product (GNP) in 1954. Batista advertised this statistic as a success resulting from his initiatives. The sustained GNP came at a high price.

<sup>450</sup> U.S. Department of Commerce, *Investment in Cuba*, 58.

Government expenditure as a percentage of GNP experienced a significant increase from 1951 to the end of 1954.

Table 10. Expenditure as a Percentage of GNP, 1950–57

Year	Expenditure as a percentage of GNP
1950–51	12.08
1951–52	12.92
1952–53	14.02
1954–55	14.42
1955–56	14.05
1956–57	13.70

Source: Enrique Baloyra, “Democratic Versus Dictatorial Budgeting: The Case of Cuba with Reference to Venezuela and Mexico.” James Wilkie, ed. *Money and Politics in Latin America* (Los Angeles: UCLA Latin American Center, 1977).

However, per capita income levels for the same period dropped below 1945 levels. The drop occurred despite an increase in the government’s per capita expenditure.

Table 11. Per Capita Expenditure, 1950–57

Year	Per Capita Expenditure (In C\$)
1950–51	44.81
1951–52	54.25
1952–53	59.94
1954–55	52.22
1955–56	51.26
1956–57	52.90

Source: Enrique Baloyra, “Democratic Versus Dictatorial Budgeting: The Case of Cuba with Reference to Venezuela and Mexico.” James Wilkie, ed. *Money and Politics in Latin America* (Los Angeles: UCLA Latin American Center, 1977).

In the two years prior to 1955, Batista’s economic programs had not succeeded in providing employment for those left jobless by the decline in sugar production.

Economic conditions looked dismal in many regions of Cuba in the beginning of 1955. As travelers toured the rural areas they encountered a remarkable amount of destitution. Minister Paul Acker from the First Methodist Church from Cuyahoga Falls,

Ohio went on a preaching mission through the Cuban countryside in March, 1955 and the poverty he encountered appalled him. He wrote to President Eisenhower:

The Cuban nationals live like animals and we are doing practically nothing to help them raise their standard of living. Communism... is there because of extreme poverty and a one crop economy... Communism has an excellent chance for growth there.<sup>451</sup>

With the coming 1955 *zafra* expected to be smaller than any since 1947, many worried about increased unemployment and poverty. The Sugar Workers Federation (FNTA) scrambled to find employment for their idle members. It had attempted as early as October, 1954 to compel the mill owners to begin repairs and employ FTNA workers. In addition, CTC President Mujal had to agree with the mill owners to cut wages during the *zafra* by twenty percent, as well as end the “superproduction” pay.<sup>452</sup> A U.S.

Embassy official commented:

Obviously, with a further reduction of the *zafra* for 1955 of more than ten percent... the owners are going to fight all efforts at maintaining the standards of the last two years for yet another. And even if the standards are maintained, with the shorter, smaller *zafra* the sugar cane workers are going to earn less. It is generally acknowledged that there has been misery among the sugar cane workers during the dead season just ending. It is hard to see how their situation can be kept from deteriorating next year.<sup>453</sup>

In early 1955, compounding the tense mood among the sugar workers, Batista, Mujal, and the other principal labor leaders had failed to adequately condition them to expect wage and employment reductions. Thus beginning in January workers suddenly confronted the reductions without having had prior notice.<sup>454</sup> Batista prided himself on maintaining labor stability, but the declining conditions in the sugar industry seemed to be approaching the boiling point.

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<sup>451</sup> IA/1955-58, March 5, 1955.

<sup>452</sup> U.S. Embassy Havana, Telegram 434, October 25, 1954, 837.00 /10-2554, IA/1950-54.

<sup>453</sup> Ibid.

<sup>454</sup> Juan de Zengotita, “For the Ambassador,” January 27, 1955, 837.062 /1-2755, IA/1950-54.

In addition, immediately following the presidential election Batista displayed a political shift to the right concerning labor issues, which naturally upset the union leaders and many workers. No longer campaigning for votes, he showed less tolerance for labor demands. In one instance, Batista called for a meeting with labor leaders concerning the sugar industry and other issues, and he failed to show up. Mujal and other union leaders waited at the Havana meeting place until two o'clock in the morning, only to find out that Batista had left for the Isle of Pines earlier that evening.

Although Batista kept his campaign promise to disallow indemnified dismissals, his Minister of Labor and Ambassador to the U.N. Emilio Portuondo had recently displayed impatience with the unions. Shortly after the election in November, 1954 for example, he had threatened to arrest strikers during the *Havana Post* strike. Portuondo claimed the strikers were working for the communists and disrupting a responsible business.<sup>455</sup> In early 1955 Batista showed little tolerance for union demands that discouraged foreign direct investment. For instance, he had recently increased pressure on the unions to accept bulk loading of sugar. Britain and other countries had for years complained that the inability to bulk load discouraged efficiency in Cuba. In 1955 Batista, with the military behind him, forced the unions to accept the efficient system.

Later in the year in November 1955, acting on a report from the Tribunal of Accounts, the semi-nationalized Consolidated Railroads attempted to dismiss 1,200 workers. Batista authorized an eight percent wage reduction, and wages were thereafter only to be paid for time worked. The company was also to pay into the Transport Retirement Fund 600,000 pesos a year in exchange for a tax break. In coordination with these austerity measures, throughout 1955 a total of 300,000 pesos from the BANDES

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<sup>455</sup> U.S. Embassy Havana, Telegram 522, November 24, 1954, 737.00 /11-2454, IA/1950-54.



went to the railroads. The Consolidated Railroads workers went on strike when they found out about the measures. Loyal to Batista, CTC President Mujal declared the strike to be unauthorized. The military issued strong warnings to the strikers, and it quickly subsided. Batista's heavy handed policy toward labor in 1955 had changed remarkably since his campaign the previous year.

In spite of bearish economic indications for 1955, there were some positive signs. The world sugar price showed improvement in the year's first months. Also, the recently increased share of the U.S. sugar market, together with large purchases from Japan, Russia, and Britain facilitated the easy disposal of the 1954 crop. In the first nine months of 1955 sugar shipments to nations other than the U.S. rose twenty-five percent over 1954.

In regard to agricultural diversification, Batista claimed his policies had stimulated improvements. In early 1956, the U.S. Department of Commerce assessed that the BANFAIC's recent activities had:

increased permanent plantings, buildings, irrigation projects; the purchase of breeding stock, equipments, and real property; and the refinancing of debts incurred for such purposes. In addition, it [the BANFAIC] provides short term loans for ordinary plantings, cultivation, and harvesting: the purchase of cattle for breeding, fattening, or work; the acquisition of forage, seeds, and chemicals; and the purchase, processing, storage, and transportation of agricultural products.<sup>456</sup>

The BANFAIC had established rural credit associations to dispense allocations to non-sugar agricultural sectors. By 1956, eleven such associations allocated credit to their 5,000 members.

Of all the improvements in non-sugar agricultural production, Batista took particular credit for the recent increase in rice production. Since 1952, BANFAIC credit

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<sup>456</sup> U.S. Department of Commerce, *Investment in Cuba*, 30.

had enabled much needed modernization in the island's largest rice plantations. Cuban rice output in 1954 had risen seventeen percent over 1953, and 152 percent above 1950. Despite the increase, in 1955 the rice industry still had much room for expansion. Cuba produced about half of the domestic demand for rice. On June 13, 1955 the Cuban Ministry of State signed a rice agreement with the U.S. to import 3,250,000 quintals per year to begin on July 1, as well as an additional deficit quota to be determined by demand. This imported rice in the future could be produced locally at reasonable costs.

In addition to rice, in 1954 coffee production had increased by thirty-two percent over the previous year, however, the industry remained considerably undeveloped. The U.S. Department of Commerce commented:

Most of the [coffee] crop consists of unwashed coffees, only eight percent of the 1954–55 crop having been washed coffee. Production practices generally leave much to be desired, while the lack of transportation from growing areas to main highways and railways is one of the principal obstacles faced by the industry.<sup>457</sup>

As coffee grew best in the mountains, it offered a lucrative industry for Cuba's impoverished Oriente Province. The main problem, however, was the lack of roads in and out of the area. For the most part, the BANFAIC and the other development agencies devoted little resources to improve this situation. Thus many Cubans in the eastern mountains languished in poverty despite coffee's potential.

Bean production experienced a fifty percent rise in 1954 largely as a result of BANFAIC credit. Corn production had also experienced a significant increase from 1952–54, although considerably less than the domestic market demand. Although the potato industry looked promising, particularly during the 1954 freeze in Alabama that temporarily opened the New York market, output had decreased since 1952. In 1955

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<sup>457</sup> Ibid. 40.

Cuba continued to incur opportunity costs by not increasing the potato crop. The same was true for pineapples. In 1952 frozen pineapple juice concentrate hit the grocery shelves for the first time in tandem with a dramatic expansion of home refrigerators and freezers particularly throughout the U.S. and Europe. As a result of rising demand, in 1955 Hawaiian pineapple production reached a peak with 76,700 acres planted. From 1952–55 Cuban pineapple production, however, experienced a decrease from 97,000 to 62,000 tons. Despite BANFAIC assistance to the cattle industry, and the new American owned 25,000 acre King's Ranch, Cuba continued to undersupply its domestic demand for beef. In addition, the lack of rain in the autumn and winter of 1954 caused unusually dry pastures that decreased beef output. There was room for growth in the cattle industry.

In addition to agriculture, in 1954 the industrial side of the BANFAIC allocated credit to the fertilizers, synthetic fibers, footwear, and automobile tire industries. With BANFAIC assistance the cement factory at Mariel received significant improvements. In April 1955 it produced a monthly near-capacity total of 214,700 barrels of cement. That same month, however, another 115,125 barrels were imported from Germany, Puerto Rico, and the Dominican Republic. Therefore in 1955 the domestic production of cement fell considerably short of its domestic demand. Considering the large number of public and private construction projects expected to take place in the next two years, an increase in domestic cement production seemed rational, and would enhance import substitution.

Oil drilling and nickel mining presented the most exciting domestic industrial opportunities in 1955. In the past twelve months since oil was discovered at Jatibomico in the Camaguey Province in April, 1954, twenty-one rigs had been installed. Of the

eighteen wells drilled there in those twelve months, fifteen were producing about 2,500 barrels a day. In addition to these developments at Jatibomico, drilling took place in Las Villas and Habana Provinces. Cuban oil quickly attracted the attention of U.S. producers. The Batista regime made a deal with the Texas Oil Company in April, 1955 to construct a 20,000 barrel per day refinery in Cuba. Esso and Texaco had already invested in the Jatibomico wells. The future value estimates for Cuba's oil industry were extremely bullish, with forecasts of 65,000 barrels per day by 1958.<sup>458</sup> Batista directed public funds through the BANFAIC, FNC, and BANDES to the exciting new industry.

In 1955, copper, chrome, and iron mining offered only slight prospects for the future. Nickel mining, on the other hand, looked promising. In the two years following the 1952 coup, Batista had failed to devote a significant amount of investment to nickel mining. Meanwhile, the U.S. Government had expanded its nickel mining in Cuba. The American owned nickel mines of the Freeport Sulphur Company at Moa Bay were also experiencing growth. As a result of these expansions, nickel output was expected to "more than double" in several years.<sup>459</sup> In 1955, Batista finally began to seriously invest public funds in the industry.

Throughout 1955 Batista's relationship with the U.S. remained strong and foreign direct investment flooded to the island. Also, the U.S. sold munitions, arms, and in March 1955 four T-33 fighter jet aircraft to Cuba. Batista's relationship with U.S. Ambassador Arthur Gardner was cooperative and friendly. In addition, Batista hosted prominent Americans at the Presidential Palace, and he invited them to invest in Cuba. By 1955 it was clear that the proposal in Washington D.C. to end the Cuban sugar quota

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<sup>458</sup> U.S. Embassy Havana, Telegram 1123, May 12, 1955, 837.00 /5-1255, IA/1955-58.

<sup>459</sup> Ibid.

had little chance of passing, and tensions over the issue had subsided. In May 1955 Ramón Salas, president of the social club Comité Nacional Acera del Louvre, even created a petition for Cuba to enter the U.S. as its forty-ninth State. The U.S. Embassy hastily published a response to the petition that dispelled the notion, out of fear that it would fuel nationalism on the island. The Cuban media also regarded the petition as irresponsible. Nonetheless, it gave evidence that friendly attitudes existed between the two nations' citizens.

Based on economic data from the first quarter of 1955, Cuba's projected national income for the year was expected to amount to \$1,800,000,000 (on a seasonally adjusted basis) – moderately above the previous year.<sup>460</sup> Recently, outbound cargo shipments had increased substantially. As exports picked up, the volume of inbound cargo remained consistent with the previous year, revealing a sustained effective demand for imports. In addition to these positive developments, prices for domestic consumption items moved downward from December 1954 to March 1955. Batista took credit for the lower prices; particularly in regard to rice, coffee, potatoes, beef and other industries that had been receiving BANFAIC, FNC, and now BANDES assistance. Also, in 1955 private and public construction expanded – continuing the trend that had begun two years before. In 1954 private construction increased by twenty percent and reached an investment level of around 100,000,000 pesos.<sup>461</sup>

Batista linked these recent bullish developments directly to his economic policies. The Cuban economy, however, faced several formidable difficulties, such as an ailing railroad industry, rising national debt, and the uncertain long-term outlook of sugar.

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<sup>460</sup> The national income for 1954 amounted to 1,725,000,000 pesos.

<sup>461</sup> U.S. Embassy Havana, Telegram 1060, April 29, 1955, 837.00 /4-2955, IA/1955-58.

Nonetheless, Batista celebrated the moment. After enduring two years of recession, for the first time since his coup he finally had the opportunity to take credit for economic growth.

Perhaps the rebounding economy partly influenced Batista's decision in late spring 1955 to grant amnesty to his political opponents. He felt enough confidence to release convicted insurgents from prison and invite political exiles to return to Cuba and take part in a civic dialogue. On May 15 Fidel and Raúl Castro, as well as others sentenced in 1953 by the Urgency Court in Santiago de Cuba for the July 26 uprising, were released from the prison on the Isle of Pines after nineteen months of incarceration.

Once released, Fidel Castro lost no opportunity to laud himself as a patriot and condemn Batista as a ruthless tyrant. In the spirit of his hero, martyr, and Ortodoxo Party founder Eddy Chibás, Castro broadcasted inflammatory statements against Batista over the radio and published condemnations in anti-Batista periodicals such as *La Calle* and *Bohemia*.<sup>462</sup> Shortly after the Amnesty Law, the U.S. Embassy reported "it would seem only a matter of time before [Fidel] Castro again finds himself in trouble with the authorities."<sup>463</sup> The secret police attempted to follow Castro everywhere he went, and sometimes he evaded them. On July 7 Fidel Castro left Cuba and joined up with his brother Raúl who was already waiting for him in Mexico.<sup>464</sup> Fidel told the press that he was leaving Cuba "because they have closed all doors for civic dialogue," and that "the dictatorship has the intention of remaining in power for twenty years."<sup>465</sup>

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<sup>462</sup> Eddy Chibás – outspoken Ortodoxo populist leader who had committed suicide during his radio program in 1951 in protest against corruption.

<sup>463</sup> U.S. Embassy Havana, Telegram 1181, May 31, 1955, 737.00 /5-3155, IA/1955-58.

<sup>464</sup> Raúl Castro had left Cuba for Mexico earlier on June 24, 1955.

<sup>465</sup> U.S. Embassy Havana, Telegram 27, July 12, 1955, 937.00 /7-4255, IA/1955-58.

### Debt and Spending for Economic Development

In terms of the economy, the Economic and Social Development Plan was the centerpiece of Batista's strategy. Key to the implementation of the Plan was the creation of a development bank. Consequently, on January 22, 1955 Law-Decree 1947 established the Economic and Social Development Bank (Banco de Desarrollo Económico y Social – BANDES) to execute the Economic and Social Development Plan. The initial budget outlay for the BANDES amounted to 15,000,000 pesos. A 100,000,000 peso bond issue was scheduled for the early summer. BNC President Joaquín Martínez Sáenz took over management of the BANDES and dutifully carried out Batista's directives. It was by far the largest experiment in centrally managed stimulus in Cuban history. The BANDES' published objectives included:

To carry out a policy of economic and social development, of production diversification, assuming for that purpose, among others, the functions of discounting and rediscounting public and private securities, issued with the purpose of increasing the money in circulation, as well as realizing many credit and banking operations as may be indispensable in the realization of such objectives, being authorized to subscribe, float, and endorse bonds of economic and social development – whether state run, or privately run – to make loans to companies and to raise their own securities.<sup>466</sup>

Considering the enormous scope of the Plan, Cuba's national debt position was expected to grow rapidly to an unprecedented amount.

To finance Batista's economic programs from 1952–54, the government had issued \$129,642,000 in outstanding bonds. By the end of 1955 Cuba's public debt grew to \$581,797,900.

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<sup>466</sup> Quoted in English, 131.

Table 12. Cuba's Public Debt (in millions of pesos)

	Total	Foreign	Domestic
July 31, 1949	100.2	93.2	7.0
December 31, 1950	173.0	71.1	101.9
December 31, 1951	217.7	68.2	194.5
December 31, 1952	241.8	65.8	176.0
December 31, 1953	292.0	62.4	229.6
December 31, 1954	395.8	58.2	337.6
December 31, 1955	581.8	55.7	526.1

Source: U.S. Department of Commerce, *Investment in Cuba: basic information for U.S. businessmen* (Washington D.C., 1956) 122.

Table 13. Distribution of Public Sector Credit 1952–58 (1000s pesos)

	1952	1953	1954	1955	1956	1957	1958	Total	%
1. Industry Loans	1,244	7,060	7,760	18,651	54,802	106,257	157,384	353,158	28.1
Bagasse				2500	15,000	20,192	24,964	63,156	17.9
Tourism		44	36	6,331	9,229	24,057	46,663	86,360	24.5
Textiles	147	4,724	4,056	4,074	4,158	16,024	17,066	50,249	14.2
Oil Refinement					4,074	10,019	10,000	24,093	6.8
Urban Edifices					3,265	160	153	3,578	1.0
Materials and Construction		411	1,425	2,433	2,072	12,623	17,893	36,837	10.4
Minerals and Metallurgy	25	163	820	766	1,785	816	2,450	6,825	1.9
Health	552	921	678	505	1,637	1,566	2,246	8,105	2.3
Chemicals						7,807	21,205	29,012	8.2
Vegetable Fibers						142	180	322	.09
Cinema						569	787	1,356	0.4
Other	520	797	745	2,042	13,082	12,282	13,777	43,245	12.2
2. Loans to Agriculture	2,831	10,411	17,271	22,299	16,716	16,280	19,184	105,001	8.4
3. Public Service Loans		21,211	29,106	86,397	122,721	196,531	292,908	748,874	59.6
Transportation		21,211	13,471	50,334	54,031	70,455	93,609	303,111	40.5
Electricity			8,485	19,032	27,302	42,640	62,476	159,935	21.4
Aqueducts			7,150	14,508	19,056	20,486	23,717	84,917	11.3
Maritime Ports				169	1,158	9,956	39,916	45,239	6.0
Malls/Markets				20	755	1,346	1,517	3,638	0.5
Other Services				2,064	20,379	51,648	77,673	151,764	20.3
Other Private Credits				1,331	6,618	5,504	11,601	25,054	2.0
4. Loans to Organizations				4,189	3,992	7,932	8,470	24,583	2.0
Total Net Credit	4,075	38,682	54,137	132,867	204,849	332,513	489,547	1,256,670	100

Source: *Informe del Ministerio de Hacienda del Gobierno Revolucionario al Consejo de Ministros* (Havana, 1959); Collazo Pérez.



The sum of all Cuban public credit for public works from 1952–58 grew from 4,075,000 to 1,256,670,000 pesos. Expansionary debt and spending through the BANFAIC, FNC, and BANDES accounted for a large portion of the rising national debt from 1952–56.

Table 14. Bond Issues of the Autonomous Institutions, as of June 1955 (millions of pesos)

Issues	Authorized	Issued	Amortized or canceled	In circulation
National Finance Agency				
Havana Waterworks (1954)	14.0	14.0	---	14.0
<i>Cía Cubana de Electricidad</i> (1954) (1955)	18.0	18.0	---	18.0
Havana Bay Tunnel (1955)	35.0	2.3	---	2.3
Bahía Honda Maritime Terminal (1955)	.3	.3	---	.3
Total	67.3	34.6	---	34.6
Agricultural and Industrial Development Bank (Series A–H)	12.9	12.9	1.4	11.5
Economic and Social Development Bank				
Hotel Havana Hilton (1955)	6.3	6.3	---	6.3
<i>Ferrocarriles Occidentales</i>	30.0	0.0	---	0.0
Total	36.3	6.3	---	6.3
Grand total	116.5	53.8	1.4	52.4

Source: U.S. Department of Commerce, *Investment in Cuba: basic information for United States businessmen* (Washington D.C., 1956) 126; Banco Nacional de Cuba, *División de Economía Interna*, Havana, 1956.

The FNC in particular had grown at a remarkable rate since its initial budget outlay in 1953. In 1954 and 1955 the agency sold bonds with intensity, so by 1956 it had contributed 108,000,000 pesos to Cuba's mounting national debt.<sup>467</sup> As of June 30, 1955 the FNC had issued 32,000,000 pesos in bonds, of which 14,000,000 represented the Havana Waterworks, and another 18,000,000 pesos went to the Cuban Electric Company. In late 1955, the FNC made final arrangements for the bond issue of 35,000,000 pesos to fund construction of the Tunnel of Havana and its access roads. In early June, the

<sup>467</sup> *Revista del BNC*, March 1957.

construction contract for the tunnel was awarded to a French firm Société des Gran Travaux de Marseille. On June 6 the National Development Commission working directly for Batista signed the construction contracts. An American firm received the contract for excavation work. Another American firm was to provide the technical supervision.

Other principal FNC loan activities from 1953–55 included a 22,000,000 peso sewer project in Marianao, and a 1,000,000 pesos for harbor construction at Mariel. In fact, the FNC accounted for fifteen percent of the national debt in 1956 that amounted to 702,000,000 pesos. The trend continued in 1957. In just the first trimester of that year the FNC issued 16,000,000 pesos of guaranteed bonds, so that the total amount of national debt attributable to that agency accumulated to 120,000,000 pesos. By the end of 1957, the amount increased to 164,199,989 pesos.

The FHA also added considerably to the national debt. On January 27, 1955 Law-Decree 2066 established the FHA as an autonomous agency separate from the BANFAIC. Thereafter, an eight member board managed the agency, four of which (including the managing director) were presidential appointees, two appointed by the BNC, and two by the Cuban Bankers Association. The FHA's activities since its creation on March 20, 1953 had focused on providing mortgage insurance for residential and commercial real estate. Its services, for the most part, targeted the suburbs and vacation retreats in and around the urban areas. As of November 1, 1955 its insurance commitments amounted to 29,300,000 pesos.<sup>468</sup>

With the establishment of the BANDES in January 1955 a large number of bonds were scheduled for issue. The first external debt bond issue to finance the Plan took

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<sup>468</sup> U.S. Department of Commerce, *Investment in Cuba*, 126.

place in April, 1955 when a block of \$2,500,000 of four percent bonds payable in United States dollars were distributed in New York through the banking house of Allen and Company. An initial issue of \$100,000,000 of bonds had been approved to finance the Plan, and as of May 1 \$85,683,000 had been issued. “Cuba’s new external debt,” reported the *New York Times* on May 1, “is only a trickle compared with new internal debt stemming from the development program authorized by the 1954 economic development law.”<sup>469</sup>

In fact, Batista implicitly forced the domestic purchase of BANDES issued bonds. For instance, Law-Decree 1947 of January 22, 1955 required that private banks, to be eligible to receive an official non-private checking account, purchase public bonds in amount of ten percent of deposits.<sup>470</sup> The same law authorized the BNC to permit private banks to hold up to forty percent of their cash reserves in bonds. In addition, Law-Decree 1589 of August 4, 1954 that established that contractors employed for completion of the Economic and Social Development Plan accept compensation, normally seventy-five percent of the total, in bonds.<sup>471</sup> As the critics of the Plan predicted, Cuba’s cash reserves decreased as bond reserves increased, thus weakening the nation’s financial and monetary position.

At the end of the *zafra* in early June, Batista intensified execution of the Plan to create employment during the dead season. Allocations during May and early June added 13,000,000 pesos to the 27,000,000 pesos already spent on the Plan. By the end of 1955, the BANDES allocations amounted to 141,000,000 pesos.<sup>472</sup>

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<sup>469</sup> *New York Times*, May 1, 1955.

<sup>470</sup> U.S. Department of Commerce, *Investment in Cuba*, 122.

<sup>471</sup> *Ibid.*

<sup>472</sup> *Ibid.*

To assist in the Plan's central management, in early 1955 Batista approved the creation of the National Planning Board (Junta Nacional de Planificación de Cuba) and placed it under the direction of Minister of Public Works and distinguished architect Nicolás Arroyo Márquez. Arroyo's principal tasks included the implementation of a feasibility analysis, financing, scheduling, and designing works for the Plan. The Board quickly initiated studies and put together a pilot plan in collaboration with Batista, Gutiérrez, and the Office of New York Town Planning Associates, led by the urbanist Josep Lluís Sert.

Arroyo developed plans for works mostly in Havana, Varadero, Trinidad and Isle of Pines. He would personally direct and design many public buildings including the National Theater (1954–60), Tunnel of Havana (1956), Varadero highway and dock (1957), Bacunayaga bridge, road building throughout the nation, Havana Sports Coliseum, apartment buildings, and other projects. Arroyo's most famous design was the Habana Hilton, completed in 1958. His construction firm Arroyo y Menéndez in coordination with the U.S. firm Welton Becket and Associates designed the twenty-seven story tower. The hotel reflected 1950s Cuban modernism, embellished with modern lines and murals of Caribbean cultural motifs in the grand lobby. Arroyo's modernism with its Cuban tone later became known in architectural circles as *rumba modernism*.

Throughout 1955 the BANDES prioritized road construction. Batista often appeared at the inauguration of a new road and took personal credit for it. On June 4, for example, Batista delivered a speech inaugurating a new boulevard in Havana. As part of the Plan, Law-Decree 1836 of July 1 allocated 1,500,000 pesos for repair and

construction of the National Highway leading eastward from Havana.<sup>473</sup> The company Ingeniería del Golfo received 300,000 pesos to build and repair the Havana to Varadero road, and facilitate easier travel to the posh beach neighborhood currently under renovation with BANFAIC, FHA, and FNC assistance.<sup>474</sup>

Law-Decree 1859 of June 30, 1955 authorized a 9,000,000 peso credit from the BANDES for the semi-public Cubana de Aviación.<sup>475</sup> The preamble stated:

the study made of the situation and minimum needs of Cubana de Aviación has demonstrated that it is essential to expand its credit... to provide that enterprise a foundation so that it may improve its services and extend its operations.<sup>476</sup>

Batista repeatedly stated that Cubana “must not be permitted to fail.”<sup>477</sup> By December, the BANDES’ stake in the airlines exceeded \$11,000,000, which funded the purchase of three new Viscount aircraft from the Vickers Armstrong Company to service a New York to Havana route. Cubana thereafter took over space at the Rancho Boyeros airport, international mail service, and routes previously serviced by Pan American World Airways. BANDES funds also paid for operating expenses, spare parts, and new equipment such as two new Super-G Constellation aircraft scheduled for delivery in April 1956. One of them was intended to service the Mexico – Havana – Madrid route, and the other the New York – Miami – Havana route.

BANDES allocations in 1955 that amounted to 141,000,000 pesos generated widespread criticism. “During the first calendar year of operation,” commented the U.S. Department of Commerce on the BANDES,

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<sup>473</sup> *Gaceta Oficial*, July 1, 1955.

<sup>474</sup> *Memoria de BANDES (1957 – 1957)* (Havana, 1957).

<sup>475</sup> *Gaceta Oficial*, July 1, 1955.

<sup>476</sup> U.S. Embassy Havana, 837.10 /7-655, IA/1955-58.

<sup>477</sup> U.S. Embassy Havana, Telegram 27, July 12, 1955, 837.00 /7-4255, IA/1955-58.

Primary emphasis was placed on public works projects providing temporary employment but contributing little to increased national production. Less than ten percent of the allocations could be classified in a production and development category although a part of the allocations for transportation and communications may prove to be directly productive. However much temporary relief may be afforded by the program and however much some of the projects may be justified on social grounds, materially increased production cannot be expected to result from projects announced through 1955.<sup>478</sup>

Along with selecting uneconomic projects, the BANDES received criticism for wasting public funds in other ways. To complete its 1955 projects, for example, the bank habitually paid inflated prices for industrial inputs, labor, and other supply costs. For example, at one point in 1955 the BANDES paid 500,000 pesos for one kilometer of road – an extraordinarily high price that seemed to give credence to the accusation that cronyism, or a select number of contractors, labor leaders, and government workers were overcharging the taxpayers. Moreover, it was no secret that the Havana Mob – Meyer Lansky (racetrack, Hotel Nacional), Amleto Battisti y Lora (Sevilla Biltmore), Santo Trafficante Jr. (Sans Souci nightclub), Amadeo Barletta Barletta (Banco Atlántico, *El Mundo*), and others received BANDES resources for their hotels, nightclubs, and casinos. Batista had effectively merged the business of the Havana Mob with the nation's economic development.<sup>479</sup>

#### Hotel Law 2074

Batista continued to invest heavily in hotels, gaming, and tourism with public funds. On December 9, 1955 Batista heralded the renovation of the Oriental Park Racetrack – then among the finest racetracks in the world. It immediately served as a

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<sup>478</sup> U.S. Department of Commerce, *Investment in Cuba*, 123.

<sup>479</sup> English, 132.

social venue for movie stars, tourists, mobsters, businesspeople, politicians, and influential people from all over the world. In 1955 Batista celebrated the improvements to José Martí International Airport at Ranch Boyeros, made possible with credit and subsidies from the development banks. From December 1952 to September 1956 the sum of expenditures for the airport's renovations – extensions of landing strips, buildings erected, fuel supply, and equipment purchased – amounted to \$1,542,629.56. By 1956, it was a first class international airport with a Caribbean décor that gave a warm welcome to the increasing number of tourists arriving each day.

In 1955, the island's grand hotels improved in capacity and luxuriousness. From 1952–58 the number of hotel rooms in Cuba would increase from 3,000 to 5,500 with assistance from the BANFAIC, FNC, and particularly BANDES.<sup>480</sup> Despite growing competition in Miami, Puerto Rico, Mexico and other tropical paradises, to Batista investment in tourism seemed worthwhile. The number of tourists spending money in Cuba had increased by thirty-five percent from 1952–55. Indeed, Cuba was successfully taking market share from competitor nations in tourism. Since the March 10 coup, interest in Cuba as an exotic vacation spot with new, classy hotels and clean game casinos had quickly increased worldwide. For Batista, the prospect of future returns from the industry looked promising. In early 1955 the scores of tourists arriving to Cuba each day indicated that it was likely to be most lucrative tourism season in the island's history.<sup>481</sup>

In 1955 Batista approved Hotel Law 2074 that granted tax exemptions and other benefits to stimulate the buildup of large hotels, motels, and similar establishments

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<sup>480</sup> Batista, *Cuba Betrayed*, 194.

<sup>481</sup> Smith, 153.

providing tourist accommodations.<sup>482</sup> To investors who offered \$1,000,000 of new investment to a casino hotel or \$200,000 to a new nightclub casino, Batista's administration would provide BANDES funds and tax incentives.<sup>483</sup> Investors had to be willing to pay a \$25,000 to \$50,000 casino license, and a direct payment to Batista (that many considered a kickback) amounting to around \$250,000.<sup>484</sup> There was also a monthly operating fee of \$2,000, plus a levy on profits that went directly to Batista or a member of his family. Later, Batista's take from the casinos and hotels was estimated at around \$10,000,000 per year.<sup>485</sup>

Hotel Law 2074 applied to large hotels and casinos. In fact, a gambling casino was not permitted to operate in a hotel establishment unless it was worth \$1,000,000.<sup>486</sup> Thus the smaller hotels and inns received no assistance from Batista's development banks. By 1958, the combined government credit allocated to the tourist industry by Batista's administration amounted to over \$60,000,000 that resulted in the construction of twenty-eight large hotels.<sup>487</sup>

In practice, Hotel Law 2074 enabled Batista to dispense patronages to large investors and associates, such as:

Meyer Lansky who then made sure that it was friends and relatives of the president who profited privately from the construction and operation of the new hotels that they built.<sup>488</sup>

Thus, the development banks gave priority to the heavy investors in the tourism industry.

In 1955, immediately following the law's announcement, five new hotel-casino projects

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<sup>482</sup> Batista, *Cuba Betrayed*, 194.

<sup>483</sup> Ruby Hart Phillips, *Cuba: Island of Paradox* (New York: McDowell, 1989) 283.

<sup>484</sup> Dade County OCB file number 1-139.

<sup>485</sup> T.J. English, *Havana Nocturne: How the Mob Owned Cuba... and Then Lost It to the Revolution* (New York: William Morrow, 2009) 132.

<sup>486</sup> Dade County OCB file number 1-139.

<sup>487</sup> CERP, 569.

<sup>488</sup> Lacey, 231.



were announced, including the Habana Hilton that would develop into Cuba's largest hotel; the mafia-owned Deauville on the seaside Malecón in Havana; the Capri, to be located in Vedado only a block from the Hotel Nacional; and Lansky's masterpiece – the Habana Riviera.<sup>489</sup>

In December 1955, the Hotel Nacional casino opened with great fanfare. Eartha Kitt and other top performers entertained tourists and Cuban dignitaries at the Hotel Nacional's lavish cabaret Club Parisien. Lansky had originally proposed to Batista to build the new casino and renovate the Hotel Nacional back in 1953. With help from the BANFAIC, two years later its ostentation and luxury rivaled its Las Vegas counterparts.<sup>490</sup> Nat King Cole, at the height of his popularity, performed at the famous Tropicana nightclub. Trafficante's International Amusements Corporation located in Havana booked stars like Dorothy Dandridge, Sarah Vaughn, Ella Fitzgerald and others to the various hotels and nightclubs.<sup>491</sup> The sudden tourism boom encouraged Batista to continue public investments in the industry.

Batista celebrated the Habana Hilton project and employed the BANDES to assist it according to Hotel Law 2074. He called a press conference to announce the commencement of the project, and boasted that it was going to employ 1,300 workers directly, 440 subcontractors, and generate 7,000,000 pesos in salaries.<sup>492</sup> The principal stakeholder in the project included the Sindicato Gastronomico [hospitality workers union], which had invested a portion of its retirement fund.

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<sup>489</sup> English, 133.

<sup>490</sup> Schwartz, 153.

<sup>491</sup> English, 155.

<sup>492</sup> Lacey, 156.

Since the beginning of the project's proposal back in 1954, it turned into a drama entailing cronyism, big money, corruption, and even murder. In 1954 the Gastronomic interests had asserted that graft and corruption was threatening the project before it had a chance to begin, and it hired a representative whose job was to protect its retirement fund. By 1956, the project's scope and costs had grown significantly, and twelve large stakeholders, including the BANDES, invested in the venture.

One of the most notorious murders in mob history added to the drama surrounding the Hilton project. Albert Anastasia, the homicidal New York Gambino crime family boss infamously known as the leader of Murder Incorporated, wanted in on the Cuban casino profits. When the loudmouthed boss traveled to Cuba in September 1956, Lansky promised him a share of the Hilton. Lansky, however, felt that Anastasia brought unneeded negative press on the booming business. Although the two had a long history going back to the 1920s, it was widely rumored that Lansky, with New York gangsters Carlo Gambino and Vito Genovese, coordinated the famous hit on Anastasia during his haircut at the Park Sheraton Hotel barbershop on October 25, 1957. Investigators found no hard evidence that linked Lansky or the Hilton project to the murder, but the public and media discourse asserted that it resulted from Anastasia's attempt to muscle his way into the Cuban gambling business. Whether or not that was true, the event certainly generated negative press on the Hilton project, BANDES, and entire Cuban hotel and casino business; it certainly appeared that public funds were being employed to enrich a few murderous mobsters and Batista cronies. The American media reported that cronyism and organized crime was the status quo in Cuba. Cuban citizens,

proud of their culture and history, did not appreciate how Batista's kinship with mobsters had tarnished Cuba's reputation.

Through the late summer and autumn work began on the Hilton's foundations. It was hoped the building would progress a floor a month. In September 1955, bids were opened for the elevators, kitchen equipment, furnishings, and interior design. In late 1955 the hotel's cost was estimated to reach \$14,000,000. Construction carried on throughout 1956–57, and hotel opened on March 22, 1958. So there would be Cuban representation in the hotel's management, Francisco Aguirre, the Gastronomical Federation's representative to the Ministry of Labor, pushed for the Hilton interests to agree to properly train twenty-five Cubans in various aspects of hotel work for six months in various U.S. cities. Aguirre also arranged that the Cuban trainees to go to Switzerland for additional instruction. Batista took credit for the Hilton project and used it as a political symbol to bolster his public image.

## Chapter VII

### “Cuba Enjoys a Boom in Prosperity”

On September 5, 1956 the Cuban newspaper *Diario Nacional* published an interview with Gustavo Gutiérrez, Batista’s chief economic advisor and head of the National Economy Council. The headline optimistically read “Cuba Enjoys a Boom in Prosperity.” Indeed Cuba was experiencing a historic boom, and Gutiérrez linked it directly to the government’s recent economic programs:

Our country is experiencing at this moment such growth in all sectors that if this is not halted we will end up in what is called an excess of revenues... We are presently injecting 100,000,000 into the economy via president Batista’s Economic and Social Development Plan which, by means of what is called ‘multiplied spectrum,’ will signify the mobilization of 400,000,000. When General Batista relinquishes power in 1959 we fear the cessation of this injection could bring about a crisis.<sup>493</sup>

For Gutiérrez, Cuba’s economic recovery resulted from the centrally managed development banks.

For Batista, the first half of 1956 was probably the most enjoyable period of the Second Batistiano. The island felt remarkably free of violence. The U.S. Embassy reported in January that “while Fidel Castro may have the will and enthusiasm, he lacks the means for a successful revolution.”<sup>494</sup> Furthermore, there seemed to be a new air of excitement in Havana. Historic performances by the top stars of the era entertained tourists at the overbooked Tropicana nightclub. The fully booked hotels greeted foreign visitors who were arriving at a rate twenty percent greater than the previous year.

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<sup>493</sup> *Diario Nacional*, September 5, 1956.

<sup>494</sup> U.S. Embassy Havana, Telegram 536, January 31, 1956, 737.00 /1-3156, IA/1955-58.

Construction boomed in the urban and residential areas. Retail sales were up, as prices for new televisions and other cutting-edge manufactured products sold at Sears in downtown Havana remained steady and sometimes even went down during promotional sales. More and more “at Miami prices” signs appeared in retail store windows. Batista could rightly claim some credit for the reasonable prices, since they resulted in part from his liberal approach to international trade had lowered net tariffs on imports and exports. Relations with the international community remained cooperative, and investment poured into the country.

In the early spring of 1956 the Cuban economy experienced remarkable expansion. The U.S. Embassy reported in the early summer:

it seems very likely that this year will be the best in Cuban economic history... The short-term outlook for the Cuban economy is very good... business confidence is very high.<sup>495</sup>

Although a small drought had reduced the cane yield in the western part of the island, the eastern mills took up the slack and the sugar industry looked promising with the combined benefits of increased output and moderately high prices.

In early 1956 the economy was noticeably active in non-sugar production as well, particularly in rice, construction, tourism, and oil. Construction could be seen throughout Havana and other tourism areas, including the Isle of Pines. Since the 1940s Batista, together with Lucky Luciano, Meyer Lansky, and other notorious mobsters had envisioned turning the Isle of Pines into a hotel and casino paradise. Now finally their vision was becoming a reality.

In addition to these bullish developments, Batista extended an offer to his political opponents to sit at the table and negotiate their impasses. In the past, particularly the

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<sup>495</sup> Ibid.

Ortodoxos, Auténticos, and the students had flatly refused to entertain such an offer. This time, however, opposition leaders considered it. Society of Friends of the Republic (SAR) spokesmen Cosme de la Torriente, for example, expressed confidence in Batista's intentions, and said "I allow myself to insist that you [Batista] and I should talk once more to see if it is possible to reach an agreement."<sup>496</sup> Although the talks never took place, these attempts to reduce political conflicts seemed to have a positive effect on the economy.

By mid-1956, Batista's economic policies had almost four years of implementation and realized returns. From 1952–56, the Cuban government had invested \$612,000,000 in economic development and \$149,000,000 in public works.<sup>497</sup> The hypothesis was that government spending created a civil infrastructure to support economic growth, augmented aggregate demand, and provided resources for undercapitalized sectors that showed promise for long-term growth. There were, however, troubling elements in the midst of this apparent progress. The productivity of the private sector in 1956, in the midst of Batista's spending, remained extremely low – barely one-third of the level of capital productivity in most advanced capitalist countries.<sup>498</sup> Spending public funds on economic sectors without having first improved their efficiency was generating an immeasurable amount of waste for the Cuban society. Nonetheless, the immediate political pressure on Batista create new jobs had often hastened the spending, and took priority over improving productivity.

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<sup>496</sup> U.S. Embassy Havana, Telegram 518, January 24, 1956, 737.00 /1-2456, IA/1955-58.

<sup>497</sup> Banco Nacional de Cuba, *El Programa de Desarrollo Económico, Informe de Progreso No. 1* (Havana: September, 1956) 27.

<sup>498</sup> O'Connor, 19, calculated capital productivity as follows:

$$\frac{\text{Increases per year, Gross Domestic National Product / GGNP}}{\text{Domestic Capital Formation / GGNP}}$$

Therefore, public works continued to expand throughout 1956, particularly after the *zafra* ended in early June, in accordance with Batista's policy of compensatory public spending during the dead season. The principal FNC projects included the Tunnel of Havana, electricity plants, aqueducts, and road-building. Aside from sugar, the BANCEX focused its resources to the coffee and tobacco industries. The major new BANDES' projects scheduled for 1956 included 100,000 pesos for a yarn and sock factory, and 10,000,000 pesos to the Works and Construction Institute (Fomento de Obras y Construcciones – FOSCA).<sup>499</sup>

From 1952–56 the BANFAIC's agricultural division had awarded 8127 loans amounting to 59,758,923 pesos, and another 10,768 loans amounting to 24,393,408 pesos to affiliated agriculture credit associations. The main emphasis was rice production, which received just under half of the BANFAIC's loans to agriculture. In addition to agriculture, during the same period the BANFAIC's industrial division had formalized 150 requests for loans amounting to 34,495,044 pesos. As of June 30, 1956 the BANFAIC had approved sixty-seven future industrial ventures amounting to 15,748,828 pesos.<sup>500</sup> New BANFAIC industrial projects scheduled for 1956 included 7,500,000 pesos for glass production, a large portion of which went to the Owens Illinois Glass Company; and 450,000 pesos to the American Steel Corporation of Cuba for a cable, copper wire, and steel structures factory.<sup>501</sup>

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<sup>499</sup> The principal ongoing BANDES projects in 1956 included the Havana – Veradero road (35,000,000 pesos); Veradero residential construction (100,000 pesos); gasoline service (4,200,000 pesos); canal projects (400,000 pesos); and a phosphorus and match factory (1,200,000 pesos).

<sup>500</sup> Frielingsdorf, 291.

<sup>501</sup> The BANFAIC's ongoing projects included the cement factory (Cementos Nacionales) – 6,000,000 pesos in 1953; Havana paper factory (Internacional de Envases) – 94,000 pesos; Cárdenas bagasse paper factory – 10,000,000 pesos; Cubana de Aviación airlines – 10,000,000 pesos; Esso Standard Oil refinery (Refinería Cabaiguán) – 284,000 pesos since 1952; Oil Consortium (made up of Cuban oil companies) – 275,000 pesos; aluminum windows (Industria Fenestra) – 115,721 pesos; tile factory (Cerámicas Kilper) –

Table 15. New Enterprises in 1956

Company	Industry or Business	Private and Public Capital
Cía Cubana de Electricidad	Electric Power	\$221,000,000
Owens Illinois Glass Co.	Glassware	4,000,000
Freeport Sulphur Co.	Minerals	50,000,000
Nickel Processing Co.	Nickel	43,000,000
Bohon Trading Co.	Paper	750,000
Cuban Telephone Co.	Telephone system	8,200,000
International Carbon and Ink	Inks, carbon paper	500,000
W.R. Grace Co.	Bagasse paper	500,000
Cía Cubana Primadera	Bagasse board	3,300,000
Esso Standard Oil, S.A.	Petroleum refinery	30,000,000
The Texas Co.	Petroleum refinery	14,000,000
Shell Oil Co.	Petroleum	10,000,000
Cía Nacional Petrolera de Cuba	Petroleum and byproducts	10,000,000
Firestone Interamericana Co.	Automobile tires	4,000,000
Productos Cubanos de Begazo	Begasse board	1,600,000
Reynolds Internacional	Aluminum products	4,000,000
Cía Internacional de Peliculas	Dudley Films	6,000,000
Cervecería Central, S.A.	Beer	6,000,000
Supermercadora de Concreto	Concrete	1,000,000
Caneretera Nacional	Two plants, concrete	800,000
Corrigan and Rodriguez	Livestock feed	1,000,000
Estampados Permatex, S.A.	Textiles	1,750,000
Cía Quimico-Forestal	Charcoal, alcohol, etc.	1,250,000
Cía Rayonera Cubana, S.A.	Rayon	4,650,000
Minera Occidental Bosh, S.A.	Copper mines	600,000
Cementos Nacionales, S.A.	Cement	4,500,000
Cerámica Kli-Per, S.A.	Ceramics	400,000
Técnica Cubana, S.A.	Bagasse paper	7,200,000
Transf. de Abonos Orgánicos,	Fertilizer	1,400,000
Cemento Sta. Teresa, S.A.	Cement	2,600,000
Primera Central Hidroeléctrica	Electric power	15,000,000
Pulpa y Paper Cubanos, S.A.	Bagasse products	9,000,000
Cía Minera Nuevo Horizonte	Copper mines	1,200,000
Cía Antillana de Acero	Foundry	12,000,000
Marinera Nacional, S.A.	Flour mill	2,500,000
Cía Refrescos Canada Dry	Soft drinks	250,000
Industria Concesae, S.A.	Construction materials	200,000
Cartón-Fibra de Cuba, S.A.	Boards	150,000
Central de Mezclas de la Habana	Construction materials	200,000
Asociación de Crédito Pesquero	Fisheries	287,500
Micro Ondas Nacionales	Radio and television	731,000
Corp. Aleaciones y Metales	Steel products	1,000,000
Harinera de Carne Pombo	Animal feed	160,000
Papel de Asfalto	Roofing paper	10,000

Source: Banco Nacional de Cuba, "Progress Report Number 1," Economic Development Program, September, 1956. Not included in the above list was \$115,000,000 in investments by 176 medium and small industries.

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500,000 pesos; farming and agriculture (Empresa Transformadora de Productos Agropecuarios) – 5,000,000 pesos; and the semi-nationalized railroads (Ferrocarriles Occidentales de Cuba) – 20,000,000 pesos.



Abundant and inexpensive credit offered by the Cuban development banks, labor stability, in coordination with tax incentives and tax-free remittances had clearly worked in attracting foreign capital to Cuba

Batista's public debt and spending approach, however, was a risky experiment. Throughout 1956 foreign and domestic analysts vigorously debated the costs versus the benefits of the program in the past four years. His opponents accused him of reckless spending resulting in a systemic risk that did not exist before. Namely, driving up the national debt could threaten the nation's solvency if the public sector suddenly experienced a severe decline in revenues. Furthermore, just as the critics had predicted, Cuba's cash reserve position had weakened in tandem with Batista's increases in spending. In only a couple years, the BNC was already holding an enormous amount of securities in place of cash reserves.

In contrast, the defenders of Batista's debt and spending approach such as Gustavo Gutiérrez argued that Cuba's recent economic growth had resulted not only from the government's friendly attitude to foreign direct investment (which for the most part the critics agreed), but also from the development banks' programs. Defenders of Batista's policies argued that the low-cost credit provided to Cuba's non-sugar industries and to foreign direct investors in the past two years fueled the 1955–57 economic expansion. As evidence of this, Batista and Gutiérrez pointed to the growth of industries such as oil, rice, beef, tourism, construction, and others that the development banks had targeted for financial assistance.

Batista defended and celebrated his economic programs during his March 10, 1956 speech to the nation. After commemorating the fourth anniversary of the coup, he

took credit for the recent economic boom, claiming it directly resulted from his initiatives. The tone of the speech was optimistic, confident, and quite immodest. He opened by reinforcing that democracy was an “inherent part of our [the regime] being... [us] men from the village.”<sup>502</sup> He then celebrated and took credit for Cuba’s new industries and the recent economic expansion:

As can be seen, the pace of the construction is growing; oil well drilling has expanded... We have stimulated and established new industry, have increased the interest of domestic and foreign investors, who rely on the climate of security and confidence of our regime... in this time have been the largest investments in the history of Cuba; We have injected a vigorous monetary circulation stream and have avoided employment level declines, and have maintained a system of high wages. All this indicates, and with certainty, for the welfare of the people we begin to employ the potential resources of the nation.<sup>503</sup>

In addition, Batista defended and touted his sugar policies:

In 1955 we have sold and exported more sugar than in the previous year, and the harvest of this year total production reaches one level higher than the estimated *zafra*. And how many times has it been stated, until fatigue, that our Government's plan was a mistake?<sup>504</sup>

Batista claimed that his economic programs had been necessary to combat unemployment in a nation with high population growth:

The National Bank of Cuba emphasized in its last report the fact that national income had increased in a proportion of a seven to an eight percent, while the population is growing... We are dedicated to implement a national program of development and progress. The plan has included large scale public works, increased production throughout the nation, with stimulus to industrial, mining and agricultural production that has energized the private sector.<sup>505</sup>

To his opponents Batista said “it is easier to criticize than to be constructive.” He reminded his audience that his opponents consistently predicted failure for his policies; and the expanding economy proved them wrong. Their lack of judgment on his

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<sup>502</sup> UMCHC 5155, Box 110, Folder 4.

<sup>503</sup> Ibid.

<sup>504</sup> Ibid.

<sup>505</sup> Ibid.

programs, Batista argued, thus invalidated their “politically motivated” opinions altogether:

There was not a single month without nonstop claims that the workers would strike, the Government would not meet its [financial] commitments, that trade would fail, and that the banks would close their doors to credit and the nation’s development.<sup>506</sup>

Batista said his opposition should contribute helpful ideas rather than spout useless “dictates.” “My opponents,” he said, “raise their tone of voice and arrogantly bellow dictates rather than talk cordially to find rational formulas.”<sup>507</sup> As long as his opponents remained useless, Batista argued, his government would continue the difficult yet constructive work of:

developing its economic program, stimulating investment, giving the people in countryside and cities works of scale, careers, roads, aqueducts, schools, hospitals, clinics, and dining rooms for their school children... the needy in all regions of the Republic cannot wait for the parties to settle their differences only to be soured by threats or insults.<sup>508</sup>

Batista closed the speech with another offer to his opponents to forget the past, reject violence, take part in a civic dialogue, and come up with constructive solutions. Perhaps the offer intended to disarm any claims that he ruled as an uncompromising dictator:

We are supportive now as we were before to solve the problems between the opposition and the government, through political rather than violent means. You cannot call us tyrannical, when we give consideration to all alike in compliance to the Constitution and the laws.<sup>509</sup>

If necessary, Batista concluded, his regime was prepared to lead Cuba to a better future with or without his opponents’ input:

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<sup>506</sup> Ibid.

<sup>507</sup> Ibid.

<sup>508</sup> Ibid.

<sup>509</sup> Ibid.

Anyway, want it or not our detractors, if they do not reach the agreement that the nation needs and demands, we will meet the important needs of the people, their destiny is what matters more. For the harmony of the Cuban family! For peace, work and progress! For the armed forces, for Cuba and for the people! Bless you! Bless you!<sup>510</sup>

*Investment in Cuba: basic information for United States businessmen*

In the spring of 1956 the U.S. Department of Commerce conducted a review of the Cuban economy to provide a guide for American investors. The project was entrusted to Merwin Bohan – former U.S. Ambassador, U.S. Section Chairman of the Joint Brazil-United States Economic Development Commission, and Chief of the U.S. Economic Mission to Bolivia.<sup>511</sup> With Batista’s cooperation, Bohan collaborated with Cuba’s leading economists including CNE President Gutiérrez, Director of the BNC Department of Economic Investigations, BANFAIC Vice President Carlos DuQuesne y de Zaldo, BNC Representative Eugenio Castillo Borges, former BNC President Felipe Pazos, Justo Carillo Hernández; and others. Published in July 1956, the investment guide’s stated objective was:

to serve the needs of potential investors... [with] basic economic and commercial information on Cuba, exporters and importers will also find it a helpful document.<sup>512</sup>

Batista and Gutiérrez were undoubtedly pleased to read Bohan’s encouraging recommendations to invest in Cuba. The guide recommended that readers include Cuba in their portfolios and pointed out several economic sectors promising for investment. The Cuban people were characterized as “reasonably industrious, abstemious, and intelligent, self-respecting, healthy, friendly, and alert.” In addition, the guide argued that

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<sup>510</sup> Ibid.

<sup>511</sup> U.S. Department of Commerce, *Investment in Cuba*, iii.

<sup>512</sup> Ibid. 3.

the Cuban people offered a high level of business sense and could successfully manage emerging industries:

An impressive class of entrepreneurs exists and, while its thinking is restricted to almost entirely to a sugar economy, it forms a reservoir of domestic managerial talent and business know-how that will be a source of more diversified strength if the spell of sugar is ever successfully broken... Almost twenty-three percent of the labor force is classified as skilled, thus forming a nucleus for an expanded labor pool as Cuban manufacturing operations grow.<sup>513</sup>

In addition to the people, the guide described Cuba's natural resources as rich and open to future economic expansion:

Few countries have so much good land per unit of population, good land not only in terms of soil fertility but also in terms of level land adapted to the widespread use of farm machinery. Nowhere else in Latin America, except perhaps on the Argentine pampas and the great plains of western Brazil, do greater potential opportunities appear for raising the productivity of agricultural labor. Even though such opportunities may not be immediately realizable, their existence is of potential importance.<sup>514</sup>

The guide highlighted investment potential in mining, oil, and fishing:

Cuba is potentially one of the world's most important sources of nickel and iron. Deposits of copper, manganese, and chrome are substantial. Petroleum has been found in small amounts, causing intense interest... further development of fisheries is quite likely to occur in the next few years.<sup>515</sup>

The guide regarded the recent remarkable increase in foreign direct investment in Cuba as a positive development:

Foreign investment, which amounted to approximately three-fourths of a billion dollars by 1955, is currently contributing to the expansion of the power, mining, and manufacturing industries of Cuba. Prospects indicate a continued heavy inward flow of such capital in 1956-60.<sup>516</sup>

The rise in foreign direct investment had resulted from:

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<sup>513</sup> Ibid. 4.

<sup>514</sup> Ibid.

<sup>515</sup> Ibid.

<sup>516</sup> Ibid.

the general [friendly] attitude of the Cuban Government and people both toward private initiative and toward foreign participation in the country's economic development. These attitudes are reflected in the nature of Government intervention in economic activities, the rights and privileges of foreigners, the establishment of business organizations, and the general incidence of taxation.<sup>517</sup>

Cuba possessed much growth potential in various non-sugar industries, the guide explained:

The main opportunities for developing new export industries would appear to lie primarily in the field of metallic minerals... In petroleum, exploratory interest was intense in 1955 and early 1956. Petroleum has been produced in small amounts in Cuba since 1914, but no major fields have yet been discovered. In the agricultural field, foreign technicians feel that opportunities exist for the expansion of cacao production and the eventual development of a kenaf fiber industry, while the main manufacturing opportunities await the development of new or improved applications of sugarcane byproducts and in the industrial chemical, paper, medical, plastics, and building fields.<sup>518</sup>

The guide remarked that six years earlier the 1951 IBRD study had recommended several industries for improvement; and since then, little progress had been made in most of them:

The International Bank Mission... felt the following products merited consideration as possible new or expanded export industries: fiber bags, candy, canned fruits, canned vegetables, essential oils, frozen foods, furniture, jams and jellies, cigars, chemicals from molasses, and wax from sugarcane.<sup>519</sup>

It pointed out that many products that Cuba currently imported could have been domestically produced. These included butter, cheese, canned milk, eggs, beans, canned goods (vegetables, fruits, and fish), various foodstuffs and raw materials.<sup>520</sup>

While optimistically outlining investment opportunities, the guide gave Batista's Economic and Social Development Plan a rather negative review in economic terms:

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<sup>517</sup> Ibid.

<sup>518</sup> Ibid. 8.

<sup>519</sup> Ibid.

<sup>520</sup> Ibid. 7.

Main source of concern was the Economic and Social Development Plan... During the first calendar year of operation, allocations totaling 141,000,000 pesos were announced. Primary emphasis was placed on public works projects providing temporary employment but contributing little to increased national production. Less than ten percent of the allocations could be classified in a production and development category although a part of the allocations for transportation and communications may prove to be directly productive.<sup>521</sup>

The growth that Cuba was experiencing in 1956, according to the guide, resulted more from Batista's friendliness to foreign direct investment and less from his debt and spending. Whatever the social benefits, the BANDES' activities were characterized as largely uneconomic, and the author recommended that Batista ease off on the debt and spending for public works due to the future risks that policy could pose to the economy.

#### Cultivating International Relationships

As the guide was being prepared and published, Batista continued to maintain friendly relations with the U.S. and the U.N. In late 1955, twenty-six nations including Cuba began the GATT Geneva Round, which adjourned in May, 1956 resulting in \$2,500,000,000 in tariff eliminations and reductions. Cuban representative Gustavo Gutiérrez negotiated agreements with the U.S. that went into effect on February 15, 1956 reducing customs duties for sixty-five products imported to the island. Tariffs were not adjusted on copper wire, tires, and paper industries due to concern that a sudden reduction would put them out of business in Cuba. Import duties were reduced on large number of other products including industrial machinery, cement, steel, pumps, motors, and truck frames.<sup>522</sup> The total changes resulted in significant net reduction in tariffs.

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<sup>521</sup> Ibid. 123.

<sup>522</sup> U.S. Embassy Havana, Telegram 653, March 9, 1956, 837.00 /3-956, IA/1955-58.

In addition to the U.S., Gutiérrez negotiated new agreements with Britain, West Germany, and other U.N. member nations. West Germany agreed to purchase at reduced tariff rates numerous non-sugar Cuban products such as fruits, fibers, coffee, hides, minerals, tobacco, and more. In return Gutiérrez agreed to a reduction in West Germany's previous sugar quota. Batista celebrated and took credit for the agreements explaining that they were integral components of his economic plan and Cuba's prosperity.

In addition to the GATT, Batista personally attended along with Gutiérrez the OAS sponsored Commemorative Meeting of American Presidents in Panama City that began on July 21, 1956. The heads of state from nineteen of the twenty-one OAS member nations attended to recognize the 130<sup>th</sup> anniversary of the Congress of Panama – called by Simón Bolívar in 1826 to encourage hemispheric unity. Important goals of the meeting included coordinating American nations' policies to promote economic development and discourage the spread of communism. The representatives signed the Declaration of Panama that established future goals for the OAS and reinforced its commitment to improve social and economic conditions in the Americas.<sup>523</sup>

Batista took the opportunity to have his photograph taken next to President Eisenhower. The widely circulated images of the two smiling presidents gave the impression that the U.S. – Cuba relationship was never more cooperative.

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<sup>523</sup> Pope Atkins, *Encyclopedia of the Inter-American System* (Greenwood, March 1997) 88.



Figure 3.



It appears that was the case. The U.S. Embassy in Havana gave a positive response to Batista's speech the Panama City meeting on July 22, reporting that his "ideas and suggestions parallel those apparently motivating Eisenhower."<sup>524</sup> Gutiérrez later wrote: "the triumph of President Batista at the meeting of the heads of state is undeniable."<sup>525</sup>

In addition to his success with the OAS, Batista cultivated a working relationship with the U.N. As a friendly gesture, his permanent delegate to the U.N. Emilio Nuñez Portundo extended invitations to the U.N. Secretary General and to each member of the Security Council to visit Cuba. The U.S. Embassy in Havana reported that the visit, scheduled to take place from September 27 – October 1, "is understood to be the personal idea of Nuñez Portundo, in the nature of a friendly gesture."<sup>526</sup>

### Selective Economic Growth

Although the 1956 *zafra* turned out to be weaker than expected, the economy proved unusually resilient. The *zafra* ended in early June with a shortage of cane from the western provinces that had suffered another drought, and the mills fell short of their

<sup>524</sup> U.S. Embassy Havana, Telegram 118, August 22, 1956, 737.00 /8-2256, IA/1955-58.

<sup>525</sup> *Diario Nacional*, September 5, 1956.

<sup>526</sup> U.S. Embassy Havana, Telegram 118, August 22, 1956, 737.00 /8-2256, IA/1955-58.

quotas by 300,000 bags. To make up the quota, Batista allocated the shortage to mills in the eastern provinces that had surplus cane. The incident showed the need to improve irrigation in Cuba's sugar industry. Moreover, it seemed probable that the low rainfall in the western half of the island would continue for at least the next season. Despite the weak cane cultivation in the western provinces, however, the eastern half of the island produced enough to make up for it. The general opinion was that overall cane supply would be sufficient to produce the 5,000,000 ton quota for 1957.

In a typical year in Cuba, when the *zafra* ended in early June a significant reduction in business activity soon followed. The economy during the 1956 dead season, however, was unusually active. Retail demand for August, usually the slowest month of the year, proved remarkably strong – partly a result of rising wages and consumer purchasing power combined with steady prices. The demand for imports remained strong throughout the year as well, even during the dead season. In the month of August 1956 the amount of imported cargo actually increased by fifty percent compared to the same month of the previous year.<sup>527</sup>

For their part, the development banks' activities noticeably increased following the 1956 *zafra*, in line with dead season public spending measures. In the late summer Batista directed large amounts of public funds through the development banks to improve shipping and transportation. They subsequently provided credit for new cargo ships, aircraft, airport construction, and port improvements. The BANCEX assisted with the purchase of two 3,200 ton cargo ships from Japan and Norway. In addition to shipping, the development banks continued to assist Cubana de Aviación, and enabled the purchase

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<sup>527</sup> CERP; U.S. Embassy Havana, Telegram 152, September 11, 1956, 837.00 /9-1156, IA/1955-58; Alexander Franco, *The Cuban business and legal environment in the 1950s* (Miami, 1996); U.S. Department of Commerce, *Investment in Cuba*.

of a Super G Constellation and four Vickers Viscounts aircraft. As part of Batista's aim to expand tourism, Cubana intended to add routes with the new aircraft.<sup>528</sup> When Batista took over in 1952, Cubana was in danger of insolvency, and he was determined to save it. Thus the airlines became a principal target of the development banks.

In 1956 a select number of non-sugar agricultural industries experienced a conspicuous amount of growth. This was the case of rice where the development banks prioritized its production above all other non-sugar agricultural products.

Table 16. Cuban Rice Production and Imports, 1950–55.

Quota year (July 1 – June 30)	Area planted (1000s per acre)	Total Production (million pounds)		Imports milled (million pounds)
		Rough	Milled	
1950–51	134.0	179.0	116.0	780.6
1951–52	144.9	257.0	167.0	496.4
1952–53	156.2	277.0	180.0	515.6
1953–54	208.7	377.5	250.0	525.1
1954–55	218.8	377.5	250.0	333.5

Source: U.S. Department of Commerce, *Investment in Cuba, basic information for United States businessmen* (Washington D.C.: Government Printing Office, 1956) 42.

Rice received forty-five percent of the BANFAIC's agricultural loans. Livestock was a distant second at fifteen percent, followed by then estate purchases and property improvement (ten percent), coffee (eight percent), tobacco (seven percent), and other (fifteen percent).<sup>529</sup> Batista frequently celebrated the steady increase in rice production since the 1952 coup as a personal achievement.

In 1956 rice production reached a historic 369,300 pounds, and consumption per capita increased to 109.5 pounds.<sup>530</sup> The major improvements had come from the application of fertilizers, improved rice varieties, transportation, and augmented storage

<sup>528</sup> Ibid.

<sup>529</sup> Frielingsdorf.

<sup>530</sup> Ibid.

facilities. For the most part, the industry still lacked sufficient tractors, drills, binders, thrashers, and modern mills. With increased modernization, it seemed possible to fully supply the domestic rice demand, and eliminate rice imports altogether.

From 1945–55 Cuba was practically absent from the international coffee market.<sup>531</sup> But in 1956 coffee exports dramatically rose to 45,260,000 pounds, and the industry's prospects looked promising. Moreover, the industry could utilize natural and human resources that were currently idle and unproductive. Since coffee grew best in the high terrain of the Oriente, it provided a growing industry for an impoverished and mostly unemployed area. Coffee growth looked so promising that some speculated it might be capable of changing the region's economic landscape. The 1956 increase occurred primarily as a result of the Coffee Stabilization Institute that had secured resources from the development banks, and investing mostly in seed, transportation, and labor. The industry certainly had many opportunities to increase productivity, yield, and quality. The rise in the 1956 output occurred in spite of the fact that farming, irrigation, fertilization, and harvest methods remained largely primitive. In addition, most of the 1956 coffee had been cultivated below its optimal elevation at 1,500 feet. To cultivate the crop at the most desirable elevation for the improvement of its yield and quality, the industry required roads into the mountains followed with terracing to prevent erosion.<sup>532</sup>

In 1956, the oil industry continued to look promising. Batista directed public resources to oil and gas production through all three of the major development banks – the BANFAIC, the FNC and the BANDES. For instance, the Cuban government directed the development banks to partner with Esso Standard Oil and construct refineries at

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<sup>531</sup> CERP, 297.

<sup>532</sup> CERP; U.S. Embassy Havana, Telegram 152, September 11, 1956, 837.00 /9-1156, IA/1955-58; Franco; U.S. Department of Commerce, *Investment in Cuba*.

Jatibonico. As a result, drilling activity in the new industry substantially increased in 1956, and record depths were reached to extract the seepage oil. In only a year and a half, private and public investments in oil exploration on the island had collectively grown to \$25,000,000. Private and public investment in refinery construction projects with three major oil companies grew to \$75,000,000 and was expected to increase domestic output by eight times the current rate. To add to the enthusiasm, a well found in 1956 near Havana yielded 520 barrels a day of high quality crude oil, three times higher than Cuba's next highest producer. Batista made a serious effort to develop this exciting new source of national wealth, and invited international oil companies to invest in the industry at attractively low tariff and remittance rates.

Through the last quarter of 1956, Batista continued debt and spending at an unprecedented rate. Many projects were lined up for 1957, and it seemed clear by then that the Economic and Social Development Plan was going to substantially exceed its original 350,000,000 peso budget. In August 1956, the third and last bond issue, according to the Plan's original budget, was offered for 150,000,000 pesos. In the end, from 1955–58 Batista would spend 450,000,000 on the Plan.

## Chapter VIII

### Two Worlds Apart

In the early morning hours of December 2, 1956 Fidel and Raúl Castro Ruz, Argentine revolutionary Ernesto Che Guevara, and seventy-nine men in an old fifty-six foot yacht, the *Granma*, landed in a mangrove swamp at Playa de los Colorados in eastern Cuba. Their goal was to overthrow Batista and take over the country. They had set out from Mexico on November 25, and for the next seven days at sea the seasick and hungry guerrillas had to bail water to keep from foundering. Upon landing, Batista's coast guard spotted them and immediately radioed in their position. The insurgents barely made it ashore. A military quick reaction force soon arrived and fired the guerillas. Castro ordered his men to flee toward the eastern mountains. Three days later, Batista's soldiers had killed or captured twenty-six out of the eighty-two revolutionaries. With the army and air force on their trail, Castro and his followers split up, hid out, and moved deeper into the Sierra Maestra mountain range. Castro became separated from his brother Raúl and Guevara. When the revolutionaries regrouped on December 19, of the original eighty-two only fifteen had survived, with only twelve weapons between them. Batista's troops had either captured or killed the others. In the following months Castro raided isolated army garrisons, gradually increasing his arsenal and his followers.

Three months prior to Castro's invasion Batista had spent four days in the Oriente in September, 1956, making speeches to promote his economic programs. He promised a road-building program and other works that the people of the region had been requesting

for many years.<sup>533</sup> The lack of roads had been a major obstacle to economic development in Oriente, hindering agricultural industries such as cacao and coffee that grew best at high elevations. The Oriente people had heard these promises before, however, not just from Batista but from many presidents before him. For Cubans in the eastern mountains, perhaps Batista's creditworthiness had worn thin. As they listened to him tout his economic programs in almost every one of his speeches since he took power in 1952, they continued to languish in poverty and failed to see any changes in their lives.

Castro's invasion had barely affected the western half of Cuba. Seemingly oblivious that an insurrection was occurring on the other side of the island, the historic shows at the Tropicana nightclub in Havana continued to entertain tourists. Journalist Herbert Matthews wrote in February 1957:

The Province of Oriente, with its 2,000,000 inhabitants, its flourishing cities such as Santiago, Holguin, and Manzanillo, is shut off from Havana as surely as if it were another country.<sup>534</sup>

Castro's invasion generated conversation in Havana, but it seemed like little more than an interesting headline. Hardly anybody questioned the idea that Batista's troops were going to crush the rebellion. Castro's invasion had failed to slow down foreign direct investment, indicating that the business community generally felt that it had no chance to succeed. Since the invasion, the media speculated whether Castro was even alive, as the government had leaked reports that he had been killed.

As the rebellion proceeded, in January 1957 several key members of the opposition made Batista an offer to open a civic dialogue. Ramón Grau, José Pardo Llada, Tony Varona, Pelayo Cuervo, Emilio Ochoa, José Andreu, Luis Conté Agüero,

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<sup>533</sup> U.S. Embassy Havana, Telegram 156, September 12, 1956, 737.00 /9-1256, IA/1955-58.

<sup>534</sup> *New York Times*, February 24, 1957.

and other Auténticos and Ortodoxos called for a cessation of violence and declared their willingness to negotiate with Batista to “bring about a settlement of political differences.”<sup>535</sup> That many opposition leaders were willing to negotiate with Batista indicated that they had little or no confidence in the 26 of July Movement’s chances.

Batista continually proclaimed the invasion a complete failure and reassured the business community that all was normal and secure. In his 1957 New Years Eve message he assured that the nation had ridden out the crisis, and then focused as usual on the economy. “Today,” he proclaimed,

we can say with satisfaction that due to hard work and efficient administration, we have overcome the long, hard journey and have emerged victorious.<sup>536</sup>

After taking credit for the improved economy, he spoke optimistically about the future.

A central theme in the speech was that he knew the way to prosperity, and that the acts of his opponents were intended to ruin the economy.

Most observers agreed that Batista had crushed Castro’s rebellion. On January 7, 1957, *Time* magazine minimized its importance, calling it a “quixotic little uprising,” which was “never a major military threat to the strongman Fulgencio Batista, even the revolutionaries would concede.”<sup>537</sup> As Castro evaded the military in the Sierra Maestra throughout most of 1957 and struggled to assemble a guerrilla army, for the most part Cubans went on with their normal routines. The sound of a bomb or a blackout due to the sabotaging of a power plant occasionally interrupted their lives; however, the vast majority of Cubans stayed out of the conflict. Even though many Cubans remained

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<sup>535</sup> Ibid.

<sup>536</sup> U.S. Embassy Havana, Telegram 389, January 8, 1957, 737.00 /1-357, IA/1955-58.

<sup>537</sup> *Time*, January 7, 1957.



cynical about Batista, aside from Castro's isolated circle, there was no evidence of widespread revolutionary feelings.

Merchants continued to solicit tourists to come to Havana. Cubana airlines negotiated additional routes to bring them in, such as the proposed Fort Lauderdale to Havana route. Hotel construction, road building, and other Economic and Social Development Plan projects continued on without serious disruptions. Even after Herbert Matthews' articles made it known in late February 1957 that Castro had survived the invasion, most people still felt he had no chance to succeed, and it was only a matter of time until he was killed or captured. The Tropicana's show went on.

In regard to the economy, Batista had reason to feel optimistic. Ambassador Earl Smith later testified before the U.S. Congress in 1960 that "the year 1957 was the best economic year that Cuba ever had."<sup>538</sup> The 1956 economy had experienced unprecedented expansion with the gross national income reaching a record of \$2,500,000,000. Tourism had increased by twenty percent from the previous year, and with the planned opening of new hotels in 1957 such as the Habana Riviera, as well as improvements to resort areas such as Veradero, the bullish trend was expected to continue.

Adding to the optimism, Cuba's sugar industry had bullish expectations for the 1957 *zafra*. In November 1956 one of Batista's chief sugar policy advisors Amadeo Lopez Castro returned from the International Sugar Council in Geneva, Switzerland and reported that the Cuban sugar outlook looked positive for the next two years. He had secured an agreement that supplanted the International Sugar Agreement signed two

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<sup>538</sup> U.S. Department of State, "Hearings before the Subcommittee to Investigate the Administration of the Internal Security Act and other Laws of the Committee on the Judiciary," United States Senate Eighty-sixth Congress, Second Session (Washington D.C.: United States Printing Office, August 27, 1960).

years earlier, which more accurately reflected Cuba's current needs, such as the ability to produce sugar for uses other than human consumption.<sup>539</sup> Therefore, in addition to the sugar quota increase, additional cane was scheduled to be processed for hi-test molasses and experimental feed for livestock. The island's total sugar exports in 1956 had exceeded the 1955 sales by \$51,000,000. The general consensus on the island was that the upward trend of sugar sales would continue into 1958.

The 1956 *zafra* had lasted seventy-two days and amounted to 4,600,000 Spanish long tons. On November 24, 1956 Batista had set the 1957 sugar crop at 5,150,000 Spanish long tons, which was expected lengthen the *zafra* by an additional fifteen days of work. Then Batista announced more good news: that a six percent wage rate increase for sugar workers to 4.70 pesos would replace the 7.31 percent cut implemented in 1956; the restoration of an eight percent differential at the beginning of the grinding season; a five percent restoration in pay for public employees (effective July 1, 1957); and a pay raise for bus workers. In late February the CTC announced that workers in the sugar industry were expected to earn about \$340,000,000, a forty-one percent increase over 1956 when they received approximately \$240,000,000 in wages and salaries.<sup>540</sup>

In addition to the positive developments in the sugar industry, the economy continued to benefit from Batista's generally stable and cooperative relationship with labor. In fact, on April 7, 1957 the union leaders held a huge rally in his honor. CTC Secretary General Eusebio Mujal said he participated in the event so that:

nationals and foreigners might see that Cubans are a single group when we try to hold on high the institutions of our country and especially when, as is the present case, President Batista is working for the Nation.<sup>541</sup>

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<sup>539</sup> U.S. Embassy Havana, Telegram 316, November 28, 1956, 737.00 /11-2856, IA/1955-58.

<sup>540</sup> U.S. Embassy Havana, Telegram 509, February 19, 1957, 837.00 /2-1957, IA/1955-58.

<sup>541</sup> U.S. Embassy Havana, Telegram 678, April 12, 1957, 837.00 /4-1257, IA/1955-58.

Mujal further congratulated Batista on his policy of:

consolidating the national economy, increasing the purchasing power of workers without losing sight of the sources of production and the logical encouragement of capital which, together with the workers, is an essential part of the country's progress.<sup>542</sup>

Mujal stated that Batista and the unions were on the same page in regard to having a moderate stance in workers' benefits as a means to attract foreign direct investment.

Batista followed Mujal's speech with his own, and thanked the CTC Secretary General for his kind words. After touting how 130,000,000 pesos had been recently spent on public works, including a large BANDES program to improve the telephone system, Batista proclaimed it was his duty "to drive the car of progress, and maintain peace and order." He stated his appreciation to Cuba's workers for:

the sound and responsible manner in which they have acted; permitting the government to realize full speed and efficiency in its plans for development, the result being that Cuba marches incessantly on the road of economic progress.<sup>543</sup>

Batista concluded with a call for further cooperation from the workers:

I again express my thanks and wish to say that the workers should remain calm: neither will my judgment be lost nor will my thoughts be led by other than those policies that may be the best for Cuba and its people.<sup>544</sup>

After the speeches, as a sign of unity the union leaders and workers formed a procession and shook hands with Batista, the Minister of Labor, and of Health. Batista's remarkable support from labor was affirmed once again. The public works projects and development programs obviously reinforced his relationship with the unions, as both sides benefitted from them. Labor unions received new jobs for their members, and Batista profited from

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<sup>542</sup> Ibid.

<sup>543</sup> Ibid.

<sup>544</sup> Ibid.

them politically, as they served as symbols of progress. Incidentally, Batista also benefitted financially, as he received a cut from the contracts.

By April, the military believed that they had contained Castro's band in the Sierra Maestra, and therefore did not consider them to be a serious threat to national security. Accordingly, the military reduced its force in the Sierra Maestra to one hundred soldiers. Some observers speculated that this was what Castro had planned, which explained his reduction of attacks in previous weeks, so that Batista would build up a false sense of security. If that was indeed Castro's plan all along, it certainly worked.

To prove that Castro's rebellion was over, on April 11 and 12 Batista ordered the military to escort twenty-seven news reporters into the eastern mountains to interview the inhabitants. Not surprisingly, in front of the media the population proclaimed their loyalty to Batista and denounced Castro. Colonel Pedro Barrera, commander of the Cuban Army in the Oriente, told the news crew that he had plenty of combat power, including 150 undercover agents in the Sierra Maestra, to make sure Castro would never threaten national security. The newsmen later complained that the military purposefully took them to an area of the Sierra Maestra where Castro had little influence.<sup>545</sup>

Meanwhile, Castro had regrouped and gained a small number of supporters who believed in his social justice narrative. Guevara, trained in medicine, opened makeshift clinics to show the people that the 26 of July Movement stood for the poor and disenfranchised. Thus when Castro's guerillas took an area, they redistributed land to the poor, attracting additional volunteers. Castro also promised roads, schools, and infrastructure, which appealed to many impoverished Cubans in the Oriente.

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<sup>545</sup> U.S. Embassy Havana, Telegram 709, April 17, 1957, 837.00 /4-1757, IA/1955-58.

In late December 1956, to disrupt the upcoming *zafra*, the guerrillas began to burn cane fields and sabotage mills in areas surrounding the Sierra Maestra. Batista, concerned about any threat to the economy, responded with ferocity. He deployed troops armed with machine guns to guard the railroads, sugar crop, mills, and important buildings. Hundreds of suspect saboteurs were imprisoned. Reports of military brutality increasingly surfaced, including the execution of twenty-one suspected insurgents in the Sierra Maestra. Batista officially blamed the killings on Castro's followers. He had made an example out of a group of saboteurs who planted bombs at the Chaparra and Delicias mills on December 25. Without trial, Batista's military killed on the spot anybody they suspected of participating in the attack. For the time being, it seemed that Batista's heavy-handed tactics had worked, for the insurgents backed off on their attacks against the *zafra*, which were also widely unpopular. For the most part, Batista had proven to the business community that he would protect the economy by any means necessary.

Batista's annual March 10 speech to the nation made little reference to the troubles in the east, and focused instead on his economic policies. With an optimistic tone he took personal credit for the expanding economy, arguing it had resulted directly from his policies and the development banks:

The sugar industry, the financial order, and the other indices of the economy... are encouraging. We have stimulated investments, as well as the internal and external trade, the creation of new industries and the development of agricultural, mining and livestock products [though] the National Bank of Cuba, the BANFAIC, National Finance Agency, the Bank of Foreign Trade, the National Economy Council, the Mortgage Insurance Fund, and the efforts of the Ministry of Finance... We are about to overcome having a one production economy, and at the same time have given definitive stability to the sugar industry.<sup>546</sup>

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<sup>546</sup> UMCHC 5155, Box 110, Folder 4.

He then touted the Economic and Social Development Plan:

The facts are eloquent. Five years after we came to power again with the March 10 revolution, we can say that our plans have been taking place in a measured, chronological order; the program that we announced to the people in the 1954 election, is working to the fullest, and represents much of our time but our first priority is Cuba.<sup>547</sup>

Throughout the speech, he linked himself to prosperity and his opponents to economic ruin. For instance, he argued that the 26 of July Movement purposefully targeted his economic programs for harassment because they represented progress:

the leaders of terrorism unsuccessfully attempt to block our economic programs that we had promised to the people and their achievements that Cuba had required without delay.<sup>548</sup>

Batista accused Castro's followers of terrorizing investors to ruin the economy:

[Castro's followers] insult with public propaganda the investors and threaten their families. People are afraid to spend and have fun, so commerce stops. They are afraid to go to public places... [however] none of these schemes have given them any results.<sup>549</sup>

By deploying the military to protect the sugar crop, Batista took credit for having saved the nation's wealth. "The military protected the harvest, preventing the cane and the mills from arson."<sup>550</sup>

Batista expressed his particular appreciation for the cooperation of the labor unions in the past years and claimed it had been a necessary component in the expanding economy:

One of the aspects that I have considered most significant is the way in which the workers... have cooperated with the flowering and the momentum of the economy.<sup>551</sup>

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<sup>547</sup> Ibid.

<sup>548</sup> Ibid.

<sup>549</sup> Ibid.

<sup>550</sup> Ibid.

<sup>551</sup> Ibid.

Batista closed the speech by declaring that the insurgents would not succeed since the economy was doing so well. They could not hope to achieve support in the midst of an expanding economy. For that reason, he claimed that the vast majority of Cuban people supported the present government and rejected the rebels. “We have given sufficient evidence that we are loved by the public,” Batista argued.<sup>552</sup>

Batista emphasized that the economy was in no danger from Castro or any other insurgents. Perhaps this inspired confidence the business community. Foreign investment continued to pour into Cuba, even in the face of a failed attack on the Presidential Palace on March 13, three days after Batista’s national speech. When a group of radical Ortodoxos and students attacked the Palace, Batista’s troops quickly defeated them. As the smoke cleared, forty-five insurgents and five soldiers were dead. After that event, a wave of military and police repression was unleashed throughout the country. Batista again proved he would employ any means necessary to crush his enemies. Throughout this turmoil the business community displayed continued confidence in Batista’s ability to defend his presidency and the economy.

“There are no rebels in the Sierra Maestra”

It was striking that the March 13 attack against the Presidential Palace failed to deter the launch of the \$25,000,000 Shell Oil refinery in Camagüey which took place only a week later. At the refinery’s March 20 inauguration ceremony Batista assured the business community: “There are no rebels in the Sierra Maestra.”<sup>553</sup> The speech minimized the entire insurgency as largely irrelevant, for it stood on the wrong side of

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<sup>552</sup> Ibid.

<sup>553</sup> English, 203.

Cuba's economic progress. It was a minor, controllable irritant to the island's prosperity and current development programs.

Therefore, in spite of the *barbudos* (bearded men) in the Oriente, the business community generally felt that Batista had the country under control and their investments were safe. Indeed, in 1957 the inflow of foreign capital in combination with the outlays of the government development banks generated a historic level of investment and production. The BANFAIC published an article in September 1957 that stated:

It is not possible to stimulate economic diversity in the small semi-developed countries without providing an environment that makes the investment in them more attractive than in the well-developed regions of the world.<sup>554</sup>

According to the article, the government's selection of public works and credit stimulus policy had been the key ingredient in Cuba's recent economic expansion. The development banks:

[have] given you [the Cuban people] a wealth of experience and have clearly proved that stable economic development can only be based on healthy projects and a solid credit policy.<sup>555</sup>

The article stated that Batista's programs had improved research and development, import and export balance, expansion of credit, and economic diversity. Moreover, it assured to Cubans that the BANFAIC's resources were well-spent, arguing that it operated according to the principles of sound economics rather than waste and corruption. "Before the granting of financial resources" according to the BANFAIC article, "a thorough analysis is conducted of the project in question, often leading to the conclusion that an application has to be disapproved."<sup>556</sup> In other words, the BANFAIC

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<sup>554</sup> Frielingsdorf.

<sup>555</sup> Ibid.

<sup>556</sup> Ibid.



assured that all proposed projects were being thoroughly vetted for their economic and social value.

Throughout 1957 the BANFAIC and the other development banks were extremely active, and Batista continued his policy of an unprecedented debt and spending to stimulate economic development. In addition to the BANFAIC's ongoing industrial projects in plastics, textiles, cement, carbon, mining, and the hydroelectric plant, its new major projects for 1957 included allocations to Pheldrak S.A. (1,711,083 pesos) for a copper wire factory, and Cuban Bagasse Products S.A. (1,200,000 pesos) for bagasse paper and board production.

After a series of delays dating back to 1953, in 1957 the BANFAIC progressed rapidly on the \$15,000,000 hydro-electric plant. The project had been assigned to the BANFAIC under Law-Decree 1212 of November 26, 1953. Its objective was to exploit the waters of the Hanabanilla, Guanayara, Negro, Jibacoa, Pretiles and Boquerones rivers in the Las Villas province. The decree also established the First Cuban Hydro-Electric Plant (PRICHEC), an enterprise with a recognized legal identity that was responsible for carrying out and managing the project. The FNC and the BANFAIC funded the project, with the BNC President Joaquín Martínez Sáenz providing oversight.<sup>557</sup>

According to the government, the PRICHEC had three principal objectives: the promotion of industry in the Las Villas province; flood control in some of the southern areas of Las Villas province, which would allow these lands to be cultivated for agricultural production; and the development of a tourist center around the lake which would be formed by damming the waters of the Hanabanilla, Negro and Guanayara.<sup>558</sup>

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<sup>557</sup> *Gente*, January 5, 1958.

<sup>558</sup> *Ibid.*

Throughout 1957 into early 1958 the massive project progressed rapidly. Workers constructed the discharging tunnel, the feeding well (finished in February 1957), service tunnel (finished in December 1957), the valve chamber, the water chamber, the plant chamber, the operator's houses, two auxiliary dams, the Jibacoa Dam, the Hanbanilla Dam, and a canal for diverting the river water. The Macagua to Hanabanilla Highway linking Havana to the area was also completed in 1957.<sup>559</sup>

The principal projects of the FNC included the Tunnel of Havana and the expansion of the Cuban Electric Company. By 1957 the FNC had helped bring power to nearly 650,000 users in roughly three-hundred communities across the island.<sup>560</sup> In January 1958 the press announced the completion of the much awaited Tunnel of Havana, which had taken six years of planning and two years of construction to complete. The 35,000,000 peso tunnel represented the most up-to-date engineering techniques of the period, studied afterwards in university engineering departments throughout the world. The tunnel ran under the entrance of Havana Bay and connected the eastern side of the harbor to the city. The FNC assisted in the development of the new city of Eastern Havana, envisioned in the Cuban press as:

beautiful, modern, and planned according to the latest conception of town planning and landscaping: full of green open spaces, wide streets and magnificent avenues.<sup>561</sup>

The French engineering company Grands Travaux de Marseille had received the construction contract. Employing the immerse tube method, from 1956–58 the firm succeeded in building the one-hundred meter tunnel section, five pre-stressed concrete tubes 107.5 meters long and twenty-two meters wide, and a five-hundred meter trench

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<sup>559</sup> Ibid.

<sup>560</sup> Pérez, *On Becoming Cuban*, 329.

<sup>561</sup> *Gente*, January 5, 1957.

that made up the toll section.<sup>562</sup> Batista hailed the remarkable tunnel as a national and personal achievement.

The controversial Economic and Social Development Plan reached its peak in 1957. Despite its achievements, many observers wondered if the debt and spending was putting the entire economy at risk, just as the U.S. Department of Commerce had warned in early 1956. One thing was certain: there had been rapid and noticeable changes in the country's cash reserve position, which several economists considered as evolving into a dangerous systemic risk. Furthermore, some argued that the extent of the risk was not only out of control, but also unknown – due to vast amounts of unrecorded business deals and money exchanges in combination with the inept accounting practices of the Batista regime. In February 1957 journalist Herbert Matthews remarked on some of these concerns:

To finance the program, amounting to \$350,000,000, the Government led by Joaquin Martínez Sáenz, Governor of the National Bank, resorted to inflationary tactics, pledging the gold reserves and increasing the public debt. Even those best informed on the Banco Nacional and what it is doing do not know the real figures of the reserves, public debt and the like. Economists believe that statistics and information are being twisted, and many believe that if present policies are continued the Cuban peso, now on a par with the United States dollar, will have to be devalued next year or protected by exchange regulations... These calculations are making many Cuban and United States bankers and businessmen critical of the Batista Government's fiscal policies.<sup>563</sup>

For the execution of the Economic and Social Development Plan, there were numerous projects lined up for BANDES in 1957 and 1958.

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<sup>562</sup> Ibid.

<sup>563</sup> *New York Times*, February 24, 1957

Table 17. BANDES Projects, 1957–58

Company	(1000s of pesos)	Objectives	Location	Date
Técnica Cubana	13,500	Bagasse paper	Cárdenas	1957
Transformadora de Abonos Orgánicos	1,500	Fertilizers	Havana	1957
Productos Alimenticios Canimar S.A.	400	Animal feed	Matanzas	1958
Maderas Técnicas y Materiales Plastificados	1,500	Plastics	Havana	1957
Molinera Oriental	2,000	Wheat flour	Santiago	1957
Cemento Sta. Teresa	2,600	Cement	Trinidad	1957
Papelera Pulpa Cuba	10,000	Bagasse paper	Havana	1957
Empacadora de Productos	800	Vegetables and grasses	Havana	1957
Compañía Antillana de Acerco	16,200	Steel ingots and rebars	Havana	1957
Compañía Operadora Rometales	8,400	Sulfuric acid and other	Havana	1957
Metalúrgica Básica	650	Sewage pipes	Havana	1957
Cía de Servicios Metropolitanos del Gas	4,200	Gas production	Havana	1958
Cía Cubana de Nitrógeno	15,000	Nitrogen	Matanzas	1958
Cía. Papelera Damuji	4,000	Bagasse pulp	Las Villas	1958
Cía Cubana de Industrias Ceralosa	500	Porcelain, sand, silicon	Havana	1958
Financiera Mercantil Industrial de Fosforo	12,000	Phosphorus	Havana	1957
Antillas Hotel Corp.	28,000	Buildings	Havana	1957
Terminal Marítima de la Habana	30,000	Dry dock and dredging	Havana	1957
Fábrica de Tejas Infitas	1,200	Construction	Camagüey	1958
Cía. Hoteles Montecarlo	20,000	Hotel casinos	Havana	1958

Source: BNC, Revista del Banco Nacional de Cuba (1955 – 1958), Havana, 1958; *Memoria de BANDES (1956 – 1957)*; Collazo Pérez.

The major ongoing BANDES projects started prior to 1957 included canal construction, FOSCA construction projects, the Havana – Veradero road, Veradero infrastructure and airport, the Habana Riviera, the Habana Hilton, and the Tunnel of Havana.

In 1957 the BANDES financed the construction of Cuba’s first dry dock, later described in the Cuban media as “one of the most outstanding maritime installations of its

kind in the world.”<sup>564</sup> “The dock project is part of the vast commercial and economic development program initiated by President Batista,” reported a Cuban newspaper in early 1958.<sup>565</sup> Located at the Havana harbor, the eighteen month project was initiated in mid-1957 by the American consulting engineer firm Frederic R. Harris Incorporated:

Completion of the dry dock will mean that the huge sum now sent abroad to pay for repairs on Cuban vessels will be paid out instead to Cuban workers and spent within the country, thus cutting down sharply on the expenditure of Cuba’s dollar reserves... With completion of the new maritime installation, due in large part to Cuba’s President Batista, the nation’s economic potential will be noticeably increased.<sup>566</sup>

Throughout 1957, the industrial projects of the BANDES also included the construction of expensive tourism related facilities in Havana, Veradero, and other selected areas. In early 1957 it seemed like the upcoming tourism season might prove to be the most popular and exciting in history.<sup>567</sup> With the use of the development banks, Batista had come a long way since 1952 in building up the industry. Work continued throughout 1957 on the enormous and luxurious Habana Hilton, made possible with BANDES resources. In the spring of 1957, Santo Trafficante’s new hotel the Deauville opened with a grand celebration. At a cost of \$2,300,000 the 140 room, fourteen-story hotel was not as luxurious as Lansky’s highly anticipated Riviera, but its prime location on the Malecón seaside walk, in combination with its comfortable rooms, certainly offered tourists a pleasurable vacation experience. Under Hotel Law 2074, the BANDES assisted Trafficante and the other stakeholders in its construction. For his part, Trafficante owned the gambling rights outright, having paid the \$25,000 fee for the license, as well as an unknown amount directly to Batista, most likely in the hundreds of

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<sup>564</sup> *Gente*, January 5, 1958.

<sup>565</sup> *Ibid.*

<sup>566</sup> *Ibid.*

<sup>567</sup> English, 239.

thousands. Along with the Deauville, by the end of 1957 Trafficante owned the Sans Souci nightclub and casino, Comodoro hotel and casino, International Amusements Incorporated, and the Capri hotel – currently under construction and expected to open in six months.

Work on the Habana Riviera had begun in December 1956. The hotel belonged to Meyer Lansky, even though his name failed to appear on the incorporation papers of the Compañía de Hoteles de Riviera de Cuba. As with all of Lansky's deals, his ownership was hidden behind layers of managers and front men. Lansky registered himself as the Kitchen Director, for which he officially received \$9,000 annual salary. The Compañía received a \$6,000,000 BANDES loan, and Lansky put in \$8,000,000. His partners in the investment included Moe Dalitz, Morris Kleinman, Sam Tucker, and Wilbur Clark of the Las Vegas Desert Inn (and of Lansky's Hotel Nacional casino). In the end, the 440 room, nineteen-story Habana Riviera finally cost well over \$14,000,000 to construct.<sup>568</sup>

In his long career, Lansky had owned pieces of hotels – for example Benny Siegel's Flamingo, the Plantation Harbor in Florida, and the Hotel Nacional in Havana among many others. But he had never fully owned and designed a hotel until Batista approved the Riviera. It was "Meyer's own baby," that he designed from bottom to top.<sup>569</sup> After receiving the necessary credit from the BANDES, Lansky had selected Irving Feldman, the well known builder from Miami, to construct the Riviera. He had also hired the architect Igor Polevitzky, the leader of the tropical modernism movement taking place in Miami. Drawing inspiration from the Shelborne Hotel in Miami Beach,

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<sup>568</sup> Riviera Hotel, Havana, Corporate Archives. The papers show that the hotel's owners declared an investment of \$5,400,000; Lacey, 493.

<sup>569</sup> Lacey, 233.

Polevitzky designed the twenty-one story Riviera in a Y configuration, so that most rooms had an ocean view.

The Riviera's financing turned into a web of patronages and shady deals. Gutman Skrande, for example, a BANDES official responsible for oversight of credit issued to the Riviera Corporation that was constructing the hotel, complained about the absence of receipts and the failure to annotate operations in accordance with acceptable accounting practices. He questioned the difference in payment authorizations and check amounts, as well as payments for gambling equipment with no invoices (purchased from Batista's brother in law). He also challenged Irving Feldman, the Miami contractor who accepted an undocumented payment of \$375,000.00, as well as payments to Lansky and the notorious mafia boss Harry Smith – who had invested in the project.<sup>570</sup> It seemed evident that a portion of the BANDES funds went straight into the pockets of a few of the stakeholders, particularly those with questionable reputations.

The hotel opened with great fanfare on the evening of December 10, 1957, hailed in the Cuban press as a “modern resort of splendor.”<sup>571</sup> It turned out to be one of the most tourist-friendly and luxurious resort casinos ever built. The U.S. Treasury Department admitted that the Riviera casino “was one of the more honest gambling casinos in Havana.”<sup>572</sup> Indeed, the hotel proved a remarkable success. Its rooms were fully booked throughout 1958. It cost plenty to secure a front row seat in the Copa room where Ginger Rogers, Abbott and Costello, and Vic Damone performed. In its first year of operation, the Riviera showed a clear annual profit of \$3,000,000. After it opened, Batista's take from the gambling revenue was said to be thirty percent. The chief

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<sup>570</sup> Schwartz, 157.

<sup>571</sup> *Gente*, January 5, 1958.

<sup>572</sup> Dade County OCB file number 1-139.

positions at the hotel went to Americans, particularly Lansky's inner circle. Lansky was the chief executive and "Colonel" Charles Barron, an old-time Chicago gambler, was the hotel manager. To some, the completion of the Riviera signaled economic progress. To others, however, it represented project where a few cronies were enriching themselves with the people's money. When Castro took over in early January 1959, the new government immediately held the hotels and casinos up as symbols of corruption.

Whatever the levels of corruption, by the autumn of 1957 it seemed as if the Cuban economy was going to have another record-setting year. In October the statistics for sugar production were released showing an increase of twenty-percent over 1956. Total world exports at the end of the first quarter of 1957 indicated an annual sales rate of \$769,000,000, or \$63,000,000 more than the 1956 amount. The combination of increased sugar prices at the end of July and increased output in other commodities had driven up the island's per capita up income to \$370, the highest for any tropical agricultural nation in the world. Cuba's gross national product in 1957 reached a record \$2,800,000,000 – \$300,000,000 over the previous year.

### Robin Hood

The Sierra Maestra was a poor mountainous area of the Oriente Province. The land belonged to a small group of families, but the property boundaries were obscure. Most of those who actually lived there were *precaristas* (squatters). Representing over ten percent of Cuba's farmers, most *precaristas* lived in the eastern province.<sup>573</sup> Over half of the population of the region had no education whatsoever. Nearly all the houses

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<sup>573</sup> Agricultural Census of 1946.



were *bohios* (huts) with earth floors, no electricity, and no running water.<sup>574</sup> The *precaristas* were often persecuted by the *mayorales* – employees hired by the landowners to administer their estates. Gunfights, therefore, were common in the Oriente between the *precarista* gangs and the *mayorales*' hired hands. Naturally, Batista's bureaucracy was on the side of the *mayorales*, who were intent on defending their land titles, and who generally exploited the *precaristas*. Castro would never have made it out of the Sierra Maestra without the help of the *precaristas*. And their leader, Cresencio Pérez, rescued Castro from starvation in the early days following the invasion. Pérez provided Castro and his men with money, food, and arms when they most needed it. Later, Castro appointed Pérez as the head of the troops, because they were mostly *precaristas* and Pérez already had their support.

Castro certainly enhanced the Robin Hood image by pandering to the impoverished inhabitants of the Sierra Maestra, upon whom his revolution depended, with promises of future prosperity. He denounced Batista's economic policies for ignoring them. Castro effectively drew a contrast between his defense of social justice versus Batista's loyalty to special interests, exploitative landowners, and the corrupt of Cuba. The 26 of July Movement's narrative continually stressed that Batista and his cronies were stealing public resources at the poor's expense.

In 1957–58, Castro and his rebellion received a considerable amount of coverage in the American media. *Time/Life* reporter Andrew Saint George, CBS reporter Robert Taber, and *New York Times* reporter Herbert Matthews interviewed and to a large extent

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<sup>574</sup> Major Russell J. Hampsey, *Voices from the Sierra Maestra: Fidel Castro's Revolutionary Propaganda*, Military Review, Command and General Staff College, Fort Leavenworth, Kansas, November-December, 2002.

romanticized Castro.<sup>575</sup> Matthews arrived to the Sierra Maestra on February 17, 1957 and shortly thereafter published three articles that eulogized Castro as a Robin Hood figure whose intention was to return the land and wealth to the poor. U.S. Ambassador Earl Smith later testified before the U.S. Congress about Matthews biases:

[Matthews] had a very poor view of Batista, considered him a rightist ruthless dictator whom he believed to be corrupt... He believed that it would be in the best interest of Cuba and the best interest of the world in general if Batista was removed from office.<sup>576</sup>

The reporter Dickey Chapelle, who interviewed Castro in 1958, observed how he “had been a magnet for venturesome American newsmen, an off-beat folk hero in the tales of foreign correspondents.”<sup>577</sup> In the end twenty American reporters had been assigned to venture into the Sierra Maestra and write about Castro. Certainly, Matthews’ interview with Castro and subsequent articles had a profound impact on international attitudes toward Batista. “Here was an educated, dedicated fanatic, a man of ideals, of courage and of remarkable qualities of leadership,” Matthews wrote of Castro.<sup>578</sup>

While in many ways a Castro defender, Matthews nonetheless had a low opinion of the revolutionary leader’s knowledge of economics. Castro offered an alternative economic plan designed to appeal to the poor. “He has strong ideas on the economy, too, but an economist would consider them weak,” remarked Matthews after his interview with Castro in early 1957.<sup>579</sup> Perhaps aware of his lack of economic experience, on June 12 in a hidden location in the Sierra Maestra, Fidel Castro signed a pact with former BNC

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<sup>575</sup> Dickey Chapelle, *What’s a Woman Doing Here? A Reporter’s Report on Herself* (New York: William Morrow and Company, 1962) 254.

<sup>576</sup> U.S. Department of State, “Hearings before the Subcommittee to Investigate the Administration of the Internal Security Act and other Laws of the Committee on the Judiciary,” United States Senate Eighty-sixth Congress, Second Session (Washington D.C.: United States Printing Office, August 27, 1960).

<sup>577</sup> Ibid.

<sup>578</sup> *New York Times*, February 24, 1957.

<sup>579</sup> Ibid.

President Felipe Pazos and Orototo Raúl Chibas that established the Civic Revolutionary Front. The U.S. Embassy speculated that certain financial backers of the 26 of July Movement had sent Pazos “to steer Castro’s political policies and to safeguard the considerable investment they have in Castro and his operations,” as they felt concerned that he intended to nationalize industries in Cuba. Conceivably, Pazos’ support for Castro ironically came from his unhappiness with Batista’s debt and spending programs. They were far more aggressive and risky than Pazos’ conservative fiscal policies for the BNC and the BANFAIC during the Auténtico years.

In 1960, the Batista-friendly U.S. Ambassador Arthur Gardner testified before the U.S. Congress that in 1957 a “cult of Castro worship” had developed in the U.S. State Department.<sup>580</sup> Gardner complained that the Department ignored his suspicions of Castro. According to Gardner, powerful State Department officials had already made up their minds about him – that he represented social justice and should receive consideration. In 1957, Castro spoke in English to the American people in a widely circulated video and professed to be fighting for democracy. Certain high level U.S. State Department officials apparently believed in Castro’s rhetoric.

Throughout 1957 Castro’s popularity grew in the U.S. On May 20 Castro appealed to President Eisenhower to discontinue providing arms to Batista. On May 26 Eisenhower accepted the resignation of the pro-Batista Ambassador Arthur Gardner, which immediately altered Cuban – American relations and had profound effects on the events that followed. Earl Smith, an investment broker with no experience in international relations, replaced Gardner who wanted to remain in the position. Gardner later testified in front of the U.S. Senate that he felt his removal had resulted from certain

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<sup>580</sup> Ibid.

U.S. State Department officials who “built him [Castro] up to being the Robin Hood or the savior of the country.”<sup>581</sup>

Gardner’s departure presented a considerable setback for Batista. He welcomed the new Ambassador Smith to Cuba on July 15, 1957 with a warm reception. Shortly thereafter on July 24 Smith publically commended Batista in the press for his anti-communism. However, the relationship between the two quickly soured. The inexperienced Smith, lacking understanding of Cuban culture, set up a public tour to the eastern half of the island that quickly turned into a debacle. When Smith made his appearance in Santiago, the inhabitants hastily mounted a protest. A procession of women, many of them widows from the fighting, carried signs that called on the U.S. to cease assistance to Batista. The police responded by firing high-pressure water hoses at the women, arrested a number of them. The event sparked mass arrests on July 26–27 of over two hundred people in the Oriente. Smith was appalled by the scene, and made a speech shortly thereafter condemning the police’s actions. Batista consequently felt betrayed by Smith, and subsequent relations between the two were largely formal and only uncomfortably cordial. Smith assured Batista that he would do nothing more to embarrass his regime, but stressed that the U.S. remained neutral in Cuba’s internal conflicts. The Ambassador shortly thereafter signed off on the U.S. arms embargo, a decision that had profound negative effects on the combat power of Batista’s military.

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<sup>581</sup> “Hearings Before the Subcommittee to Investigate the Administration of the Internal Security Act and Other Internal Security Laws of the Committee on the Judiciary,” United States Senate Eighty-Sixth Congress, Second Session (Washington D.C., 1960).

### The Lost Dream of the Monte Carlo

Batista's decision to skip the public inauguration celebration of the Habana Hilton on March 22, 1958 seemed to symbolize the current state of affairs in Cuba, and the controversy surrounding his economic programs. While some Cubans viewed the new hotel as a symbol of accomplishment and progress, others felt it had only enriched Batista and a small circle of his cronies at the people's expense. The 26 of July Movement certainly held up the hotels, casinos, oil refineries, nickel mines, hydroelectric plant, and other projects from Batista's economic programs as symbols of corruption, imperialism, and cronyism. The insurgents, therefore, targeted industrial projects to make known their objections to Batista's business practices. On November 28, 1957, for example, Castro followers bombed the electrical installations at the American owned nickel mine at Nicaro. The Esso owned oil refinery, financed in part by the BANDES, also became a target for the insurrectionists' attacks.

Since the Hilton was first conceived in 1955, Batista had touted the project as a national triumph. To be staffed by Hilton-trained Cuban managers, Batista had repeatedly advertised the hotel as a symbol of national accomplishment, economic progress, and evidence of his policies' benefits. Based on Batista's history, it seemed inconceivable that he would fail to show up and take credit for the opening of such a large project made possible by his economic policies, particularly Hotel Law 2074 and the BANDES. Moreover, with Conrad Hilton in attendance, Batista's absence was, to say the least, curious. Batista apparently realized that not all Cubans viewed the grand opening as a symbol of progress, but rather as an extremely visible example of imperialism and corruption.

Presumably, security and political concerns prompted him to skip the event. His absence exemplified his struggle to keep the economic programs going in the midst of the insurgents' aims to destroy them. Many of Batista's supporters depended on the contracts, employment, and patronages involved with his programs. So in a political sense, he had little choice but to keep them operating or risk losing a large portion of his support base.

In fact, 1958 ironically began with a spirit of optimism for many businesspeople in Havana, including Meyer Lansky and Santo Trafficante. In terms of gross national product, 1957 had proven to be a record year amounting to \$2,800,000,000. Throughout 1958, tourism in Havana continued to boom with hotels booked to capacity. Starting in late 1957, however, the 26 of July Movement's military actions began to take a toll on the economy. As 1958 progressed, the economy of the entire Oriente had basically ground to a halt due to the conflict. By the autumn 1958 per capita income in the region had dropped to the \$200, the same amount as in 1903.<sup>582</sup> The economy was certainly not helped by Castro's periodic calls for strikes that temporarily shut down business in the Oriente and other regions.

As the fighting raged in the east, Batista nonetheless continued to pour public funds into his economic programs. The BANDES continued its projects in the western side of the island. Although Batista desperately required resources to fight Castro, shutting down the BANDES' projects to pay for the war risked losing the support of their stakeholders, workers, unions, banks, and contractors. Furthermore, such an action might have been taken as a victory for Castro, and an admission by Batista that he was unable to protect the economy and investments in Cuba. Thus, Batista had good reasons to keep

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<sup>582</sup> O'Connor, 17.

his economic programs funded and operational. As a result, the Economic and Social Development Plan grew to 450,000,000 pesos, far exceeding the original budget by 22.2 percent. Construction on the dry dock and Isle of Pines continued.

Then in August 1958, construction began on what was expected to be the most extravagant resort ever built in Cuba, the Monte Carlo de La Habana. The plans for the enormous \$20,000,000 resort complex called for 656 rooms, a marina, a helicopter pad, hydroplanes, a golf course, a luxurious casino, and other lavish amenities. The BANDES assumed the resort's financing and allocated low-cost credit to the recently formed Monte Carlo Hotel Company. The Company's Board of Directors made up an assemblage of world famous investors, politicians, and entertainers including Frank Sinatra.<sup>583</sup> Despite Castro's advances in the east, this group still gambled millions that Batista could defend his rule, and their investments. Perhaps blinded by excitement or the promise of riches, the investors displayed a collective denial about the possibility of their millions coming under the control of leftist guerillas that held up such projects like the Monte Carlo as symbols of corruption. "Havana will be a magical city," Meyer Lansky told his driver while overlooking the Monte Carlo construction site in September 1959, "Hotels like jewels... Fabulous casinos, nightclubs, and bordellos as far as the eye can see. More people than you can imagine."<sup>584</sup> Only three months later Batista would board a one-way flight out of Cuba, and the Monte Carlo investors would lose millions.

In March 1958 Batista had launched the so-called *ofensiva*, devoting over 10,000 soldiers in an attempt to wipe out Castro's three-hundred or so insurgents. Despite overwhelming odds, by the summer of 1958 the 26 of July insurgents had killed over a

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<sup>583</sup> Ibid.

<sup>584</sup> Quoted in English, 290.

thousand of Batista's troops. On May 28, two days later after Gardner presented his resignation, the first major battle of the war between Castro's insurgents and Batista's military took place at the El Uvero garrison in a small town south of the Sierra Maestra range. After a brief firefight, the insurgents overran the garrison and captured the soldiers and arms inside. In reaction to the El Uvero assault, beginning on May 30 Batista intensified attacks in the Oriente. However, as the end of 1958 approached, Castro was confident enough to move out of the highlands and invade the Las Villas Province to the west, ordering his troops to march on its main towns and cities. By December, the conflict had effectively shut down the economy in the central and eastern half of the island. On December 28 Guevara's troops seized Santa Clara. Three days later the 26 of July commander Camilio Cienfuegos led the insurgents to victory in Yaguajay, marking the end of the Second Batistiano. On January 1, 1959, after conducting what historian Hugh Thomas later called "a charade of handing over power" to his representatives, Batista boarded a plane at 3 a.m. and flew to the Dominican Republic. On January 8, Fidel Castro entered Havana.



## Chapter IX

### Conclusions

Batista's economic development programs from 1952–58 were the product of a number of factors including his personal and political ambitions, his need to consolidate and maintain power, and the scholarship of his time. In the 1950s, cutting-edge scholars from around the world advocated the usefulness of public sector fiscal and monetary policies to stimulate economic development. Batista's Two Year Plan (1953–55) and Economic and Social Development Plan (1955–58), influenced by Keynesianism, Structuralist economics, and Import Substitution Industrialization, experimented with centrally managed, public sector debt-financed solutions to fight underdevelopment. The general features of Batista's economic programs from 1952–58 had included: a liberal international trade policy; a friendly disposition to foreign direct investment; non-interference with the sugar production process other than to determine the yearly quota; a strengthened centralized government; and the central management of debt-financed credit stimulus to assist the capitalization of targeted industries. The basic assumption had been that the public sector could usefully serve as a low-cost credit provider to undercapitalized economic sectors to which the private banks were either unwilling to extend credit, or charged high interest rates.

Throughout the Second Batistano, a great number of Cubans, international scholars, investors, and politicians held positive opinions of Batista's economic policies. The rapid liquidity of FNC, BANFAIC, and BANDES bonds showed the confidence of foreign purchasers in the solvency of the Cuban government, and perhaps in the basic

tenets of Batista's economic programs. Certainly it was no secret that corruption, waste, and embezzlement had degraded their effectiveness. At the same time, however, they had produced noticeable achievements: a historic period of labor stability; substantial foreign direct investment; a new oil industry; a thriving tourism sector; increased domestic food production; and a number of self-liquidating public works including hotels, hospitals, museums, roads, commercial and public buildings, railroads, the Havana Waterworks, the Tunnel of Havana, and electrical facilities. Particularly in western Cuba, there had been a noticeable increase in hospitals, monuments, parks, schools, and public facilities. The development banks had financed the transformation of Havana, Vedado, Veradero, and downtown Camagüey. By 1958, the demand had significantly increased for beachfront property in the comfortable and modernized Veradero, attracting investors from all over the world. Furthermore, Batista had authorized tax-free remittances, enhancing the free flow of capital in and out of Cuba. The development banks offered low-cost credit to select foreign investors who aligned their businesses with the goals of Batista's economic policies, making the island all the more attractive for investment. These policies resulted in attracting enormous amounts of capital to the island. From 1952–56, new private investment from the U.S. alone had amounted to \$357,000,000.<sup>585</sup>

Indeed, numerous Cubans gave Batista a positive review based on his economic policies. *Gente* editor José Suarez Núñez defended Batista in early 1958 by pointing out:

The President of Cuba, instead of preparing demagogic and political slogans, has faced up squarely to the concrete problem of reforming the economy and promoting his social and human programs... Batista is a much-discussed man, as

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<sup>585</sup> *Havana Post*, January 2, 1957.

well as a beloved man, a fact well recognized by those of us who are abreast of events.<sup>586</sup>

In general, Batista's economic policies were generally well-received and supported in the international community. His chief economic advisor Gustavo Gutiérrez had successfully employed his internationally recognized reputation as a sound economist to promote Cuba's economic programs at the U.N., GATT, OAS, and other international institutions.

Despite the accomplishments and positive reviews, Batista's economic programs had obvious negative features. Critics pointed out that the national debt had skyrocketed and would soon amount to over fifty percent of the gross national product. The national cash and gold reserves had weakened, which some economists, including those in the U.S. Department of Commerce, felt had created an unnecessary systemic risk for the Cuban economy.

In addition, the public sector programs had been largely driven by Batista's political agenda, which at times took priority over sound economics and principles of efficiency. It was in this political framework that the central managers determined which economic sectors should be ignored or pursued with public sector resources. Naturally, their selections and judgment in terms of economic efficiency were susceptible to cronyism and patronages to build political support.

Adding to these criticisms, some argued that Batista's programs might in fact hasten a sharp economic decline in the near future. Forecasts for the sugar industry looked bearish for 1958–59. The critics warned about the destructive combination of wasteful spending, high national debt, and a decline in export revenues. Therefore, some

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<sup>586</sup> *Gente*, January 5, 1958.

Cubans asked whether Batista's programs were leading the economy down a negative path. Journalist Herbert Matthews pointed out in 1957:

the Cuban elements ask whether President Batista should not be gotten out of the way in 1957 while the currency is still sound and the economy prosperous. They want to face hard times with an honest, orthodox, democratic, patriotic Government.<sup>587</sup>

In addition to criticisms of Batista's debt and spending policies, by 1959 hardly anybody doubted that an immeasurable amount of cronyism, waste, and corruption had taken place.

#### Agricultural Developments, 1952–58

The developments that took place in Cuba's non-sugar agricultural sectors during the Second Batistano were largely a result of central planning and management. Central managers such as Batista, Gutiérrez, and senior BANFAIC officials decided which agricultural industries would receive roads, infrastructure, working capital, and low-cost credit. With the exception of tobacco and coffee (beginning in 1955) Batista and the central planners focused mostly on non-sugar agricultural products that supplied the domestic food demand. As a result, Batista's agricultural programs had minimal effects on export diversification. From 1952–56 total farm exports had in fact fallen from \$629,000,000 to \$600,000,000. The composition of total exports remained fundamentally unaltered throughout the Second Batistano – in 1958 sugar exports still made up eighty percent of total sales.<sup>588</sup>

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<sup>587</sup> *New York Times*, February 25, 1957.

<sup>588</sup> O'Connor, 80.

Beginning with the expansion of the BANFAIC in 1952, targeted non-sugar agricultural sectors experienced a rapid expansion that lasted until late 1956. Shortly after Castro's rise to power, historian Dudley Seers wrote on the initial expansion and then the leveling off of certain non-sugar agricultural industries:

With the major exception of livestock, the output of the sector catering to domestic demand rose satisfactorily during the early fifties. After 1956, however, the trend seemed to level off. Coffee production stagnated, potato output fell sharply, and the remarkable expansion of rice cultivation seemed to be over.”<sup>589</sup>

The selection of which agricultural sectors would receive roads, infrastructure, and BANFAIC funds had not only helped to shape Batista's regional support, but also his opposition. For example, the decision to stimulate the rice, tobacco, and potato industries inspired the political support of their workers and owners. As the beneficiaries of Batista's development programs, they had financial interests in the continuation of his rule.

On the other hand, Batista and the central managers' decisions to exclude certain agricultural sectors from his programs clearly influenced his lack of support in various regions. The exclusion of the high altitude cacao and coffee industries of the Sierra Maestra, for example, caused many of its inhabitants to feel disenfranchised from the government's services or Batista's economic programs. The lives of these impoverished Cubans had changed little from 1952 to 1958. They had no interdependent economic ties with the BANFAIC or Batista's agricultural programs. In fact, most of them had nothing of value to lose if he were overthrown.

Batista had decided shortly after the 1952 coup that his agricultural programs would prioritize rice production over all other non-sugar agricultural sectors. Therefore

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<sup>589</sup> Seers, Dudley, ed. *Cuba: the Economic and Social Revolution* (Chapel Hill: University of North Carolina Press, 1964) 72.

rice received approximately forty-five percent of the BANFAIC's loans dedicated to non-sugar agricultural development. Batista took great pride in the expansion of Cuba's rice production, touting it as evidence of his sound economic policies.

Table 18. Agricultural Production (thousands of tons)

Products	Average 1949–51	Average 1956–57	Average 1957 – 58
Corn	236.9	180.0	190.0
Rice, milled	82.3	172.5	181.2
Beans (all types)	39.6	55.2	56.0
Peanuts	14.0	15.0	15.0
Bananas	5,068.3	6,500	6,600.0
Raw sugar	5,114.9	4,740	5,670.0
Pineapple	118.1	128.0	130.0
Tomatoes	103.9	105.0	110.0
Coffee	33.4	53.3	36.1
Leaf tobacco	33.8	46.7	52.8
Henequen	13.1	10.0	8.0
Potatoes	97.3	120.0	125.0

Source: U.N., *Economic Study of Latin America*, 1957; Consejo Nacional de Economía; University of Miami, Cuban Economic Research Project, *Stages and Problems of Industrial Development in Cuba* (Coral Gables, 1965).

For the most part the BANFAIC loans targeted the largest rice plantations and mills for technological improvements that indeed contributed to improved yields that reached an average of 1,831 pounds per acre in 1957. Although it fell short of the optimum rice yield per acre in that year at 2,747 pounds, there had been a remarkable improvement since 1949 when it had amounted to 1,108 pounds.<sup>590</sup> Most likely the Cuban rice industry as a whole never reached the optimal yield because the small rice operations that lacked access to BANFAIC resources continued to produce at 1952 levels.

By 1954, Batista's economic programs had introduced rice as a new-type of large scale farming in Cuba that did not impinge on the sugar industry. By 1958, roughly five

<sup>590</sup> CERP, 141.

percent of all rice producers had control of about seventy-five percent of the area under rice cultivation, and produced an even larger share of total output.<sup>591</sup> As with the sugar estates and cattle ranches, the large rice farms were highly specialized, one-crop units. A select number of rice plantations and mills enjoyed a high degree of mechanization under Batista's economic programs, and much had been accomplished in regard to roads, warehousing, and necessary infrastructure to support the industry. The cultivation process, however, still had a host of inefficiencies in 1958.

Following rice, the BANFAIC prioritized tobacco, a sector that received approximately seven-percent of its agricultural loans from 1952–56.<sup>592</sup> The tobacco industry received additional assistance from the BANCEX, which financed costs related to storage, commerce, and shipping. Production of leaf tobacco had increased from an average of 3,380,000 tons during the period 1949–51 to 5,280,000 in 1954.<sup>593</sup> The Tobacco Stabilization Institute (widely suspected as the most corrupt association in the agricultural community) had received the majority of BANFAIC credit allocated to tobacco. Improvements were made mostly in the cigarette rolling process, waste reduction, and adequate storage facilities. Similar to rice, little had been accomplished in improving the cultivation process. In coordination with the domestic stimulus, Batista negotiated a reduction of trade barriers that widened foreign markets for tobacco export. This contributed to a rise in tobacco exports to a total value of \$51,800,000 in 1958, in comparison to an average \$32,000,000 during 1941–45.<sup>594</sup>

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<sup>591</sup> Seers, 76.

<sup>592</sup> Frielingsdorf.

<sup>593</sup> CERP, 296.

<sup>594</sup> Ibid.

From 1945–55 Cuba produced coffee for almost entirely domestic consumption; thus Cuban coffee was practically absent from the world market. In 1955, Batista tasked the BANFAIC to stimulate the industry. Shortly thereafter coffee received eight percent of BANFAIC loans to agriculture ushering in a significant increase in production. Coffee exports rose from almost nothing in 1952 to 45,260,000 pounds valued at \$21,500,000 in 1956. The industry suffered from Castro's activities in 1957–58. In addition, notwithstanding that the industry showed much promise, the lack of roads and infrastructure in the eastern mountains hindered expansion. The majority of Cuban coffee during the Second Batistiano was cultivated in the foothills of the mountains, well-below the optimal elevation of 1,500 feet. Thus, real limitations remained on yield and quality. Advancement of coffee cultivation required improved infrastructure in the eastern mountains in combination with irrigation, fertilizers, quality strains, and cultivating techniques such as terracing to prevent erosion.

For unknown reasons, Batista and his principal central planners chose not to pursue the development of a number of non-sugar industries that showed real promise. Understandably rice, a basic domestic staple, took priority over other food products, and received the BANFAIC loans, roads, and infrastructure necessary for expansion. However, the central planners never seriously attempted to dedicate a significant amount of resources to expand other promising agricultural industries such as pineapples, bananas, henequen, peanuts, corn, cacao, and the cultivation of coffee at the optimal elevation.

For example, despite the growing world demand for chocolate and cocoa, Batista and the development banks virtually ignored the sector. Similar to coffee, expansion of



the cacao industry suffered from lack of roads and infrastructure in the eastern mountains. In early 1956, the U.S. Department of Commerce reported that “technicians feel that opportunities exist for the expansion of [Cuban] cacao production.”<sup>595</sup> In 1947 cacao exports amounted to 1,649,000 pounds valued at \$549,000; by 1957 exports had declined to 409,932 pounds worth \$111,104. Batista displayed little interest in developing cacao, although it indeed presented a promising industry to deliver employment to the poverty stricken Oriente mountain region. This benefitted Castro as he acquired support in the region that was critical for the success of his insurgency. Castro’s rise to power, according to the U.S. Ambassador to Cuba Philip Bonsal in August 1959, resulted from poverty, particularly in the eastern mountains, and that Castro benefitted from Batista’s failure to meet expectations that he had consistently raised for his economic policies:

The Castro regime seems to have sprung from a deep and widespread dissatisfaction with the social and economic conditions as they have been heretofore in Cuba and to respond to an overwhelming demand for change and reform.<sup>596</sup>

In particular, Batista’s decision to favor road-building in the urban areas over the Oriente highlands hindered economic growth in that region and fueled its inhabitants’ resentment, and their receptiveness to Castro. In addition, the lack of roads gave Castro a military advantage in the Sierra Maestra. Batista’s military found it difficult to maneuver in the region, and he had to rely on his small air force rather than infantry for a quick reaction force. Castro choked off the few roads leading into the mountains, providing him with security. “The soldiers are fighting badly,” Castro told journalist Herbert Matthews in early 1957, “They have bazookas, mortars, machine guns, planes and bombs... But we

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<sup>595</sup> U.S. Department of Commerce, *Investment in Cuba*, 41.

<sup>596</sup> Quoted in Pérez, *On Becoming Cuban*, 445.

are safe here in the Sierra Maestra.”<sup>597</sup> The military’s lack of mobility in 1957–58 turned out to be a crucial component of Castro’s ultimate victory.

In addition to cacao, for unknown reasons Batista and the central planners elected not to direct stimulus resources to the promising pineapple industry. In regard to labor and shipping costs, Cuba had a comparative advantage in pineapple production over Hawaii, which dominated the market in the mid-1950s. Since WWII, the world demand for pineapples had rapidly increased, particularly resulting from the expansion of home refrigerators, the invention of frozen pineapple juice concentrate, liberal trade agreements, refrigerated ships, and bulk loading that reduced costs and prices. The industry in Hawaii had grown rapidly to a peak in 1955 of over 76,700 acres of arable land dedicated to pineapple cultivation. Furthermore, Hawaii, with its limited amount of arable land, was approaching its production limit in the midst of rapidly growing world pineapple demand. The new demand for pineapples emerging in the U.S., Europe, and other nearby markets put Cuba in an advantageous position to serve as their largest producer. However, Batista, the BANFAIC, and the other central managers exhibited no interest in pineapples.

In addition, Batista and the central managers elected to neglect the Cuban corn industry. Corn output in 1953 had amounted to 6,600,000 bushels; in 1958 it had dropped to 6,100,000 bushels.<sup>598</sup> In addition, the yield of Cuban corn was disappointingly low, around fifteen to sixteen bushels per acre. For the most part, Batista and the central managers from 1952–58 ignored the World Bank’s 1951 recommendation to develop the corn industry. Thus they never took advantage of modern industrial

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<sup>597</sup> *New York Times*, February 24, 1957.

<sup>598</sup> CERP, 299.

developments such as the open-pollinated varieties of corn, and the canning of sweet corn for export.

From 1952 – 58, Batista’s economic programs also virtually ignored the poultry industry, which experienced no significant improvement. Ironically, when Meyer Lansky tried to list chicken on the menu at the restaurant of his Hotel Riviera, he remarked that Cuban chickens were scrawny and malnourished.<sup>599</sup> As a result, he shipped his chickens in from New York. The opportunity for expansion of the poultry industry lay in the supply of domestic demand. In 1958, Cuba continued to import a significant amount of the chicken consumed on the island.

And then there was the enormous sugar industry. Despite the many recommendations to modernize the sugar industry, particularly in terms of improving yield and productivity, its production process had changed little from 1952–58. In 1958 the sugar mills still controlled nearly 2,400,000 hectares of Cuba’s arable land that had experienced negligible improvement from 1952–58 in terms of yield and productivity. In May, 1959, the twenty-eight largest sugar-cane producers owned over 1,400,000 hectares and rented 617,300 hectares, thus controlling over twenty percent of the land in farms and almost one-fifth of the Cuban territory. Aside from determining the yearly quotas, Batista never significantly interfered with its production process. His non-sugar agricultural development programs essentially worked around the industry, which aligned with the recommendations of the World Bank, Harvard’s Henry Wallich, and other informed economists who felt that Cuba could diversify the economy and maintain its sugar industry at the same time. However, they did recommend improving the productivity of cane land to free up acreage for alternative crops without interfering with

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<sup>599</sup> English. 120.

the amount of sugar output. Batista and the central planners never pursued those recommendations.

### Industrial Developments, 1952–58

Similar to Batista's agricultural programs, many of Cuba's industrial developments from 1952–58 resulted from central planning and management by government officials who allocated low-cost credit and financing to targeted sectors. Characteristic of the public sector credit programs, in general, there was a friendly disposition to foreign direct investment that attracted capital, industrial inputs, and contractors to the island. Batista's urban-centric industrial development policies provided credit to the tourism, transportation, electrical, oil, maritime, paper, textile, cement, construction, paint, rayon, yarn, plastics, fertilizers, tiles, copper wire, glass bottles, bagasse board, paper, packaging, and civil infrastructure sectors.<sup>600</sup> Overall, the industrial division of the BANFAIC had loaned 34,495,043 pesos to industrial projects from 1952–55.<sup>601</sup> Millions of pesos from the FNC had been allocated to the expansion of the construction and electricity industries, the Havana Waterworks, and civil infrastructure. The majority of the 450,000,000 peso Economic and Social Development Plan starting in 1955 went to industrial and construction projects.

From 1955–58, the total number of BANDES loans and investments would grow to over 450,000,000 pesos, contributing to a national debt that rapidly grew from \$581,800,000 to over \$1,000,000,000. Fifty-nine percent of the BANDES' budget (274,200,000 pesos) went to public works projects, in particular the construction of

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<sup>600</sup> Frielingsdorf, 9.

<sup>601</sup> Ibid.

government buildings, toll highways, parks, tourism centers, and electrical facilities. The budget's emphasis on public works was widely criticized. Of the remaining BANDES funds, approximately fifteen percent (71,200,000 pesos) went to industrial projects. About twenty-five percent (113,000,000 pesos) of the outlays were allocated to the development of transportation, mainly to the railways, and a smaller degree to aviation.

Overall, construction and its related industries had received the majority of development bank resources dedicated to industrial projects. Havana, Veradero, Vedado, and many other areas had been transformed during the Second Batistano. The rate of construction during the period was unprecedented in the island's history. In this context, the majority of overseas fixed capital goods purchases went to industrial inputs such as steel, lumber, iron, and cement:

The purchase abroad of fixed capital goods climbed steeply from less than \$100 million (20% of total imports) in 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 in construction equipment.<sup>602</sup>

Batista's centrally managed industrial program included a combination of low-cost credit stimulus with a friendly attitude toward foreign direct investment, which attracted working capital, technology, and qualified contractors to the island. In 1956 the United States Department of Commerce remarked:

of the nearly 200 taxes and levies in effect [in Cuba] many are of limited importance and there is little evidence that the burden of Cuban taxation has been a factor in discouraging the investment of foreign capital.<sup>603</sup>

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<sup>602</sup> Eric N. Baklanoff, "A Bountiful Legacy: U.S. Investment and Economic Diversification in Cuba During the 1950s," *Cuba in Transition: Volume 19*, Miami: Association for the Study of the Cuban Economy (ASCE) (2009) 328.

<sup>603</sup> U.S. Department of Commerce, Bureau of Foreign Commerce, *Investment in Cuba: Basic Information for United States Businessmen* (Washington D.C.: U.S. Government Printing Office, 1956) 19.

In addition to the increase in foreign direct investment, the development banks provided industrial companies mostly from the U.S., Europe, and Cuba with low-cost credit at an average of eight percent, to build up industries targeted by central managers including Batista, CNE President Gustavo Gutiérrez, BNC President Joaquín Martínez Sáenz, Minister of Public Works and renowned architect Nicolas Arroyo, and BANFAIC industrial division officials such as Carlos DuQuesne, Eugenio Castillo and Antonio Gonzalez Lopez, as well as senior officials of the FNC, FHA, and the BANDES.

Table 19. Cuba: Physical Volume of Selected Industrial Productions, 1952–57

	Unit	1952	1953	1954	1955	1956	1957	1957 % Increase over 1952
Cement	Thousands of tons	418.7	405.4	420.1	462.6	613.2	650.8	55.5
Mixed fertilizers	Thousands of tons	181.4	102.4	116.3	138.4	192.3	265.6	46.8
Superphosphate	Tons	29,573	26,890	34,515	31,437	35,070	37,123	25.8
Sulfuric acid	Tons	24,281	25,967	31,909	27,471	32,204	32,184	32.3
Viscose rayon	Tons	8,288	8,877	9,739	9,377	10,166	9,786	18.1
Tires	Thousands	94.2	84.8	101.8	101.1	130.1	156.2	65.5
Inner tubes	Thousands	46.2	36.6	46.0	47.0	58.0	59.1	27.8
Cotton textiles	Tons	6,718	5,055	7,569	6,916	7,797	8,976	33.6
Wheat flour	Tons	30,327	67,257	48,203	49,145	66,309	64,887	114.0
Beer	Millions of liters	143.7	116.4	120.2	117.9	120.5	129.2	-
Cigars	Millions of units	390.8	375.1	316.0	339.7	377.2	408.8	4.6
Cigarettes	Millions of packs	560.9	546.3	584.8	583.9	596.2	622.7	11.0
Gasoline	Thousands of tons	97	110	105	118	139	326	236.02
Kerosene	"	81	85	90	107	117	146	80.2
Distilled fuel oil	"	90	105	121	129	135	462	413.3
Residual fuel oil	"	70	62	75	81	86	875	1,100.0

Sources: University of Miami Cuban Economic Research Project, *Stages and Problems of Industrial Development in Cuba* (Coral Gables, 1965); U.N., *Estudio Económico de la América Latina*, 1957.

One area that experienced dramatic growth during the Second Batistiano was transportation. Motor vehicle registration rose from 13,488 in 1944 to 46,569 in 1958.<sup>604</sup>

<sup>604</sup> CERP, 117.

With wage adjustments, dismissals, and BANFAIC funds Batista had essentially saved the bus industry from insolvency shortly after the 1952 coup. In 1958 the over two-hundred bus lines operating 4,459 buses consistently required public funds. Batista elected to maintain the industry in a semi-public status and exert managerial power when he felt necessary. In addition to the bus industry, Batista decided to devote millions in public funds to the semi-public Ferrocarriles Occidentales de Cuba, which Batista created in 1953. The railroads were not making their payrolls, and only with a considerable expenditure of funds was the system improved. Cubana de Aviación had a similar story. Batista had proclaimed immediately after the coup that the unprofitable airlines would be saved with public funds. From 1953–58, largely with allocations from the FNC and BANDES, Cubana purchased \$1,500,000 in equipment, and signed contracts for \$14,500,000 in future purchases.<sup>605</sup> In 1956 the BANDES completely took over the government's management and financial interests of Cubana de Aviación. During the period bookings increased, and by 1955 the airlines ran at near full capacity on the New York to Havana, and Miami to Havana routes.

From 1948–53, the nationalized Cuban Electric Company, which provided over ninety percent of power consumed on the island, had spent 30,000,000 pesos in plant expansion. In 1953, Batista placed the company under FNC control which led to the allocation of 36,000,000 pesos in loans from 1953–58. By 1956 over three-hundred communities throughout Cuba received electricity. For the most part, a significant portion of Cuba's electrical facilities in 1958 had yet to reach the self-liquidation stage. Considering that the Cuban electricity industry was natural monopoly that required heavy initial investment in infrastructure, much of the FNC's spending on expansion during the

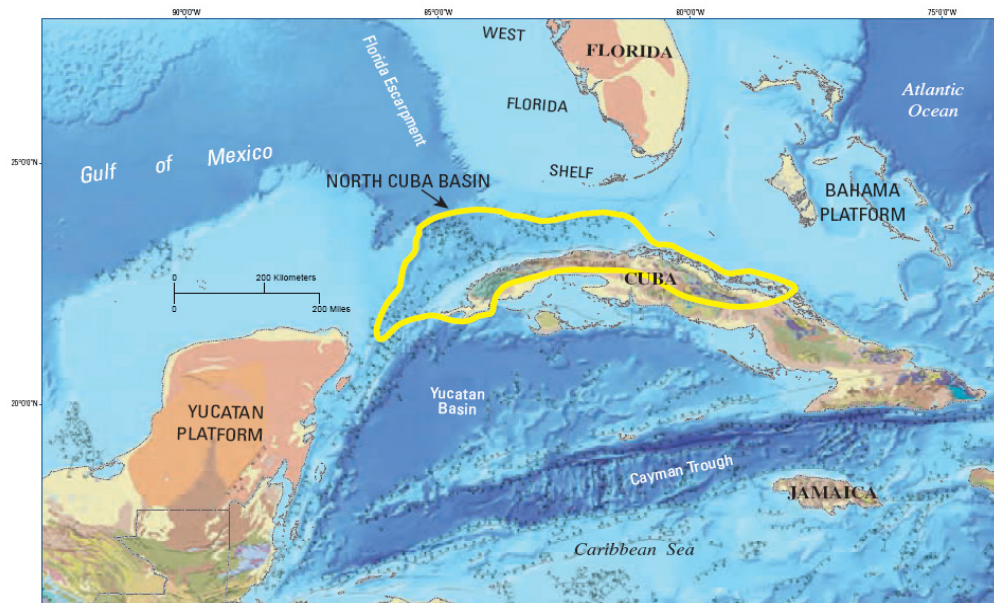
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<sup>605</sup> CERP, 118.

Second Batistano had yet to generate a significant amount of returns. Similarly, the hydroelectric plant PRICHEC experienced construction slowdowns in 1958 due to a shortage of spare parts, lack of funding, and security threats from the 26 of July Movement.

The discovery of oil in 1954 created much excitement in Cuba about a new major industry that could diversify the economy. In 1956, Esso and Texaco had invested \$40,000,000 in Cuba.<sup>606</sup> The two corporations along with the BANDES had financed over twenty-five drilling rigs in the Camagüey Province, extracting seepage oil from the newly discovered North Cuba Basin – an oil field (the size of which unbeknownst to Batista) that extended about forty miles inland and a hundred miles offshore from the Camagüey Province to well-beyond Cuba’s northwestern tip.

Figure 4.



Source: Chip Groat, *Cuba's Energy Situation, Supply Perspective*, Power Point Presentation, University of Texas at Austin.

<sup>606</sup> Thomas, 911.



The U.S. Geological Survey later estimated in 2004 that the North Cuba Basin contained 5,500,000,000 barrels of undiscovered petroleum liquids.<sup>607</sup> In the 1950s, Batista had only begun to understand the future value of Cuba's oil industry. However he immediately recognized its importance and tasked the development banks to offer low-cost credit to build up the industry. He also made a critical decision that the oil industry was to remain privatized, and that he had no plans to nationalize á la Mexican President Lázaro Cárdenas. This decision attracted foreign investors to Cuba that hastened the industry's capitalization and development. By 1957 the BANDES expanded into offshore drilling. In late August Cubans celebrated the grand inauguration of their first offshore oil well in the Camagüey Province.<sup>608</sup>

Batista also directed millions of public funds to Cuba's textile industry, which had experienced rapid growth during WWII followed by a quick decline in the early 1950s. When Batista took over in 1952 nations such as Japan and Mexico were producing textiles at significantly lower labor and supply costs. The Cuban textile industry, however, had grown considerably during the 1940s, so by 1952 it employed thousands of Cuban workers and managers. Classical economics dictated that if Cuba did not have a comparative advantage in textile production, then its labor and resources should have been devoted to an alternate industry that it produced more efficiently. Instead, particularly during his 1954 presidential election campaign, Batista decided that he would sustain the industry with public funds. Millions from the BANFAIC and BANDES went into the textiles to meet the payrolls and avoid layoffs. Batista approved the establishment of domestic yarn and rayon factories as part of the Economic and Social

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<sup>607</sup> U.S. Geological Survey, *Assessment of Undiscovered Oil and Gas Resources of the North Cuba Basin, Cuba, 2004*, Fact Sheet (2004).

<sup>608</sup> U.S. Embassy Havana, August 23, 1957, IA/1955-58.

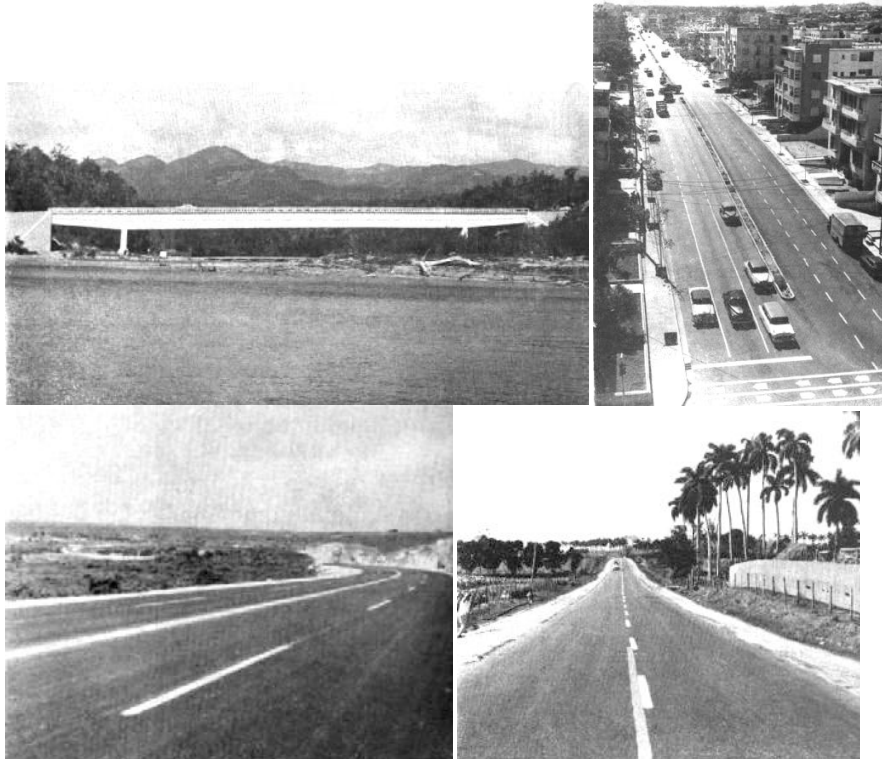
Development Plan to assist the textile industry. In economic terms, the politically motivated subsidies to textiles resulted in waste, although by the end of 1957 the industry seemed to be improving efficiency and increased output.

### Construction and Real Estate Development

Commercial, residential, and civil construction had served as a central feature of Batista's economic programs, which accounted for enormous amounts of BANFAIC, FNC, FHA, and BANDES resources. Along with his development programs, Batista encouraged private real estate investment with tax incentives and improved infrastructure. As a result, Cuba experienced a rise in private construction from \$53,000,000 in 1952 to \$77,000,000 in 1957, which took place mostly in urban suburbs and tourist areas. Hotel Law 2074 further encouraged investment in construction that resulted in the building of the Habana Riviera, Habana Hilton, and other luxurious resorts. Batista had developed roads, beach parks, and a marina in Veradero. Foreign investors responded with home and condominium purchases.

Among the most prominent state funded construction projects that resulted from Batista's economic programs were: the expansion of the National Highway; new and improved urban avenues and streets; the Havana to Veradero highway; modern bridges and structures; the Plaza de la Republica; the José Martí Monument; the National Theater; Tribunal of Accounts Palace, Sports Complex; modernization of the airport at Rancho Boyeros; the Oriental Racetrack renovations; new and renovated housing; and many public buildings. Particularly in the western half of Cuba, new bridges and highways had been constructed with cutting edge civil engineering.

Figure 5.



Source: *Gente*, January 5, 1958. Top left – Caption: “Modern Bridges along Cuba’s highways demonstrate the skill and good taste of Cuban engineers. Shown here is the Las Canas Bridge on the highway linking Cienfuegos and Trinidad.” Top right – Caption: “Travelers to Havana from the south-western part of Havana Province must cross the city to get to the residential zones on the eastern side of the metropolis. The long and tedious trip through narrow, torturous city streets has been expedited notably by the widening and improvement of the 26<sup>th</sup> Street by the Public Works Ministry. Now visitors can get to the large Vedado, Miramar, La Siestra and Almendares suburban areas without having to pass through downtown Havana.” Bottom left – Caption: “The trip from Havana to Veradero can be made in less than an hour and forty minutes by using the new Via Blanca Highway, now nearing completion. The new roadway is now open from Marebella beach, slightly to the east of Havana, to Rincon de Guanabo.” Bottom right – Caption: “Fulfilling international commitments, Cuba has constructed its link in the Panamerican Highway. Shown here is the stretch of the international road between San Juan y Martínez, fertile tobacco-growing zone in western Cuba, and La Fe, rich fishing port on the Gulf of Mexico.”

The Mortgage Insurance Institute (FHA) served as principal development agency tasked to stimulate residential and commercial real estate development. Since Batista had upheld permanency rights, particularly during the 1954 presidential campaign, Cuba’s concentrated landholding system remained largely unaltered. Permanency rights and rent controls discouraged proprietors from developing their land, since they could neither charge higher rents after the investment, nor remove current renters. This depressed the

return on investment for real estate already inhabited by renters, since the revenues from the land were fixed and regulated regardless of any improvements made to it. Thus, FHA credit generally targeted real estate for development that was not subject to the controls, limited therefore to mostly urban locations in the western and central regions. Real estate development for many parts of the island, particularly in the east, had remained stagnant throughout the Second Batistiano.<sup>609</sup> Since its creation in 1953, Batista had raised expectations that the FHA would improve housing throughout the nation, particularly in the poor areas where it was most needed. However, for the majority of Cubans the agency had no discernible effect on their living conditions.

What the FHA had indeed stimulated was a residential building boom in selected Havana neighborhoods. Private building permits granted in 1955 were up to 3,400 compared with 2,376 in 1952.<sup>610</sup> In total, from 1953 to 1958, 9,577 FHA financed homes were constructed, representing a total investment of \$78,928,000. This residential development activity, however, remained largely exclusive to the upscale neighborhoods and resort areas.<sup>611</sup>

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<sup>609</sup> MacGaffey, 101.

<sup>610</sup> U.S. Department of Commerce, *Investment in Cuba*, 58.

<sup>611</sup> Pérez, *Cuba, Banca y crédito*, 82.

Figure 6.



Source: Gente, January 5, 1958. Caption: “Urbanization has progressed notably in recent years. Several new residential zones have sprung into being with financial aid supplied by the government credit banks. Fifth Avenue has been widened to carry the increased volume of traffic to such new residential developments as the Biltmore and the small town of Sante Fe further to the west.”

87.9 percent of FHA credit went to Havana and its immediate surroundings (Havana, Marianao, Guanabacoa and Regla), whereas only 2.6 percent went to the Oriente, and there to selected urban neighborhoods in Santiago and its adjacent suburbs. Eighty-five percent of the FHA credit to Matanzas, second to Havana at 5.9 percent of the total, went to build up the posh beach neighborhood of Varadero.

Table 20. Operations of the Mortgage Insurance Institute (Fomento de Hipotecas Aseguradas – FHA), 1952–58

Size of the loan	% of the total of loans
5,000 pesos or less	1.6
5,000 – 9000 pesos	16.6
9000 – 13,000 pesos	26.0
13,000 or more	55.8
Territories	
Pinar del Rio	0.4
Havana	0.4
Matanzas	5.9
Las Villas	0.9
Camagüey	1.9
Oriente	2.6
Metropolitan Havana	87.9

Source: *Cuba Económica y Financiera* (Havana: February, 1959) 16.

Thus the majority of FHA credit allocated to private landholders and construction contractors went to upper middle class urban properties. Loans over 13,000 pesos represented over fifty-five percent of the FHA's operations, twenty-six percent were over \$9000, 16.6 percent over \$5000, and less than two percent for loans under \$5000 (the majority of Cubans lived in houses well below \$5000).<sup>612</sup>

Large and expensive homes or apartment buildings were the norm. Indeed, Cubans had more apartments to rent due to FHA loan policies. Included among the over nine thousand "homes" that were constructed as a result of FHA credit were apartment houses and *multifamiliares* (apartment buildings). In many cases, dilapidated houses and buildings that dated to the eighteenth century were renovated and turned into apartment buildings. This was particularly common in Habana Vieja, the oldest part of the city that housed urban port and factory workers. The landholders received assistance from the FHA to convert the buildings into apartments, and renters followed who quickly claimed permanency rights, which at that point discouraged further investment into the property. As a result, once many of the new FHA financed urban apartment buildings were completed and rented, they then became subject to permanency rights and rent ceilings. Therefore, they quickly lost their value and eventually evolved into poorly maintained, decaying slums.

The majority of Cubans were unable to access the FHA's urban-centric stimulus and low-cost credit programs to acquire real estate, and it generally favored middle to upper scale properties not currently subject to permanency rights. Batista had raised expectations that the FHA would improve housing throughout Cuba, but its failure assist the majority the population while offering financial resources to a select group of

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<sup>612</sup> *Cuba Económica y Financiera*, (Havana: February 1959) 16.

investors, contractors, and landholders perhaps fueled resentment and cynicism of his economic programs.

### Batista's Development Programs and Unemployment

Throughout the Second Batistano, Cuba's high chronic and seasonal unemployment had presented a most formidable economic and political challenge for Batista, and in many ways shaped his debt-spending public works and development programs. In the end, he had only modest success, mostly resulting from the employment generated by the public works projects. Reliable data on unemployment was not available at the time, particularly since Batista censored its publication. However, the University of Miami's 1965 *Cuban Economic Research Project* estimated that in 1956 the unemployment rate was between eight and ten percent, more or less the same as it had been in 1952.<sup>613</sup> Of approximately the 892,000 people fully employed, sixty-two percent earned under \$75 per month. This meant that from 1952–56 new job creation had successfully kept up with the population growth at 2.1 percent, which prevented the unemployment rate from rising. However, Batista's programs failed to remedy Cuba's chronic unemployment.

In addition, many new jobs created by Batista's programs came from projects that economists considered uneconomic and temporary. Batista had consistently received criticism for debt and spending simply to create jobs rather than investing in projects with long-term economic returns. Beginning in 1955, this criticism was particularly directed

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<sup>613</sup> CERP, 108.

to the BANDES.<sup>614</sup> In 1958 the critics' predictions seemed to be coming true, as many public works projects slowed from lack of spare parts and the need for further funding beyond their original budgets to sustain the payrolls. To keep up the pace of the public works and maintain the currently unfinished projects, in 1958 Batista exceeded the original BANDES' 350,000,000 peso budget by an additional 100,000,000 pesos. Some forecasted that once Batista ran low on resources for public works, Cuba was in for a dramatic rise in unemployment.

Despite Batista's economic programs and enormous spending on public works, in 1958 Cubans continued to suffer from chronic unemployment, a situation which had remained unchanged since 1952. In a 1958 survey of living conditions among rural workers, more than seventy-three percent of them said that greater employment opportunities constituted their greatest need.<sup>615</sup> The region the least affected by Batista's economic programs, the Oriente, accounted for almost thirty percent of the national unemployment. Castro certainly used this to his advantage win over supporters, as he promised the Oriente inhabitants new jobs, infrastructure to support economic growth, and an end to government neglect.

In 1958, Cuba's unemployment rate rose from 8.9 percent in January to eighteen percent by the end of November, prompting many citizens to support Castro. The spike in the rate resulted not only from the insurgency, but also from the failure of Batista's development programs to generate long term employment. Out of a total labor force of 2,700,000 in 1958, 365,000 people were totally without employment. Another 150,000 people were underemployed. This exceeded the unemployment rate in 1956, indicating

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<sup>614</sup> U.S. Department of Commerce, *Investment in Cuba*, 123.

<sup>615</sup> Pérez, *Cuba: Between Reform and Revolution*, 300.



that Batista's Economic and Social Development Plan had minimal success in generating long term employment.<sup>616</sup>

### Waste, Cronyism, Stakeholders, and the Disenfranchised

Many of the achievements made possible by Batista's development programs came at the cost of immeasurable waste. The immediate political need to create new jobs often took priority over investing in projects with long-term economic benefits. The central management structure of Batista's programs made them susceptible to political agendas. As a result, central managers allocated resources to economic sectors that offered fewer long-term financial returns than others, resulting in opportunity costs for the society. Certainly, unprofitable investments of public funds, inefficient business practices, political agendas that governed expenditures, and corruption severely limited the impact and usefulness of Batista's programs. Cuba's GNP in the period 1952–58 resulted in a modest annual average increase of 1.8, despite Batista's unprecedented debt and spending policies. However, during the same period the population had increased by 2.1 percent a year, thus the average per capita income had actually declined by 0.3 percent.<sup>617</sup>

There were many obvious and subtle signs of waste in Batista's programs. As much as thirty percent of the cost of various public works contracts supposedly went directly to Batista's bank account. Allegedly, a nightly "bagman" transported the "skim" money out of the back door of Havana's new casinos straight to Batista or a member of

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<sup>616</sup> U.S. Embassy Havana, Telegram 1060, April 29, 1955, 837.00 (W)/4-2955, IA/1955-58.

<sup>617</sup> O'Connor, 17. O'Connor points out that "the 'natural' rate of growth was probably closer to 1 percent annually than the actual rate of 1.8 percent."

his family. Batista's take from the hotels and casinos reportedly amounted to \$10,000,000 a year. He received enormous payoffs amounting to hundreds of thousands of dollars during the negotiations for new hotels, such as the Habana Riviera. The \$25,000 fee for the gambling license reportedly went straight into Batista's pocket as well. Many speculated that the revenues generated from completed self-liquidating works, such as the tolls from a new road or parking lot, which were supposed to service the bonds issued to finance their construction, instead ended up in the personal accounts of Batista and senior officials of his regime. Mob boss Meyer Lansky allegedly travelled to Switzerland with a bag of Batista's cash to deposit into a numbered bank account. In the end, there was speculation that Batista had stashed \$300,000,000 in bank accounts throughout the U.S., Europe and Latin America before he was overthrown in December 1958. The amount of government approved cash payoffs, bribes, kickbacks, and patronage allocations that took place in Batista's programs was unparalleled in Cuban history. As a result, various Cubans viewed the development banks simply as fountains of wealth for a select group. Not surprisingly, immediately following Batista's overthrow, the 26 of July insurgents publicly destroyed the parking meters, lottery machines, and slot machines that they branded as symbols of cronyism and corruption.

Adding to the waste caused by corruption, Batista's economic programs often had extraordinary high supply costs resulting from favoritism and bribery. At one point in 1955, for example, the BANDES paid 500,000 pesos for one kilometer of road on the Via Blanca highway – well over the current market price for construction. Construction companies had received public works contracts as a result of bribes and political ties, rather than efficiency or merit. These and similar actions limited the effectiveness of the

funds dedicated to economic development. The amount of Cuban resources inefficiently spent to serve the interests of a group of cronies was incalculable.

Adding to the waste, politics rather than sound economics largely shaped Batista's economic programs. Batista's political need to rapidly create new jobs prompted him to fund projects that lacked long-term economic benefits. Batista and the other central managers hastened to spend public resources without first having conducted adequate research into the economic benefits. Political pressure provoked spending without recognizing the need to take steps in advance to maximize the return on investment, to reduce supply costs, or to improve the chosen industry's productivity. For example, BANFAIC resources dedicated to agriculture were spent on labor, seed, warehouses, and mills without having first taken steps to improve the cultivation process and productivity per acre.

A particularly visible example of this process was Batista's wasteful spending of public funds to ensure political support from the labor unions. To quell labor unrest, Batista frequently in effect purchased the unions' cooperation with public funds. Indeed, the majority of unions had supported Batista's development programs during 1952–59, as they received employment for their members on the public works projects as well as other benefits. For example, by 1954 the textile industry was experiencing a sharp decline, and the owners wanted to reduce the workforce. But of course that policy conflicted with the unions. Considering it was election year, Batista responded by upholding the widely popular law prohibiting indemnified dismissals, and employed the development banks to supplement the payrolls with public funds. To secure union

support, Batista had used with public monies to support artificially high wages, workers' benefits, and a superfluous number of workers in several industries.

The need to create political ties and strengthen patronage networks often hindered fair and competitive business practices, generating additional waste. Immediately upon taking power in March 1952 Batista employed patronage mechanisms to consolidate support for his rule. Corporate executives consistently remarked that to conduct significant business in Cuba, it was often best to secure personal access to Batista.<sup>618</sup> Quota allocations, public works contracts, tax breaks, and other types of rents created interdependent economic bonds between Batista and the beneficiaries, thus strengthening his political support.

A common political tactic for Batista to attract supporters was to assimilate them into government service by offering the benefits of patronage. To eradicate *gangsterismo*, rather than sending the police or military Batista co-opted well-known Cuban gangsters such as Rolando Mansferrer, Amadeo Barletta, and Amletto Battisti y Lora into the regime's services, political agenda, military needs, and economic programs. For example, Batista offered BANDES resources to Barletta and Battisti to assist the construction of their casinos and nightclubs in Havana. Mansferrer received government resources and funds to fight Castro's forces in the Sierra Maestra. The same tactic was applied to organized labor. When Batista created a public project he offered union leaders an employment contract, at times sweetened with artificially high wages. The power to allocate employment gave Batista the ability to establish patronage networks with the unions and served to maintain labor stability – an integral component of his general economic plan.

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<sup>618</sup> See Franco; Smith; U.S. Department of Commerce, *Investment in Cuba*.

Batista's dictatorial power over the development banks' allocations enabled him to dispense patronages, rents, and other benefits. Those interests that benefitted became dependant on the continuation of his rule. In 1957, as Herbert Matthews reported:

United States investors and businessmen... despite their misgivings, naturally want to protect their investments and businesses. 'We pray every day that nothing happens to Batista,' one of the most prominent directors said to me. They fear that the alternative would be much worse, at least in the beginning, perhaps a military junta, perhaps a radical swing to the left, perhaps chaos.<sup>619</sup>

For the most part, the stakeholders in Batista's economic programs offered no support to Castro.

That Batista employed cronyism in his business practices created a political paradox throughout his rule. In 1957 Matthews described the BANDES as "an enormous slush fund providing colossal graft, but also much employment and accomplishment."<sup>620</sup> Batista argued that the Tunnel of Havana, the new dry dock, the hydro-electric plant, resort hotels, oil refineries, rice production, and other projects were major achievements in which Cubans could take pride; however, they were tarnished by cronyism, patronage, and corruption. It was common knowledge that Batista's brother in law, Roberto Fernández Miranda was given exclusive control of the lucrative slot machine business in Havana that generated 1,000,000 pesos a month. To make matters worse, in March 1958 *Life* magazine published an article entitled "Mobsters Move in on Troubled Havana," which gave descriptions and photos of the chief individuals of the Havana Mob, including Lansky. The article made clear that Batista had a working relationship with

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<sup>619</sup> *New York Times*, February 27, 1957

<sup>620</sup> *New York Times*, February 24, 1957.

them, and characterized the gambling industry as “a private pension until the day the strongman is overthrown or the day his term expires, whichever comes first.”<sup>621</sup>

Instead of viewing the new beach neighborhoods, buildings, and hotels as achievements, many Cubans considered them symbols of corruption. The presence of Santo Trafficante’s luxurious home in Vedado, along with the dwellings of other members of the Havana Mob who bought property in the posh renovated neighborhood, reinforced the idea that FHA loans served to increase the real estate interests of Batista’s shady cronies. As a result, the development banks, particularly the BANDES, came to be viewed as forms of institutionalized cronyism. This view was even reflected in the Cuban press. A July 1957 article in *Bohemia* described Havana’s new hotels as “constructed with funds stolen from the [Cuban] people.”<sup>622</sup> In addition, many Cubans were upset because millions in public funds had been spent to build the hotels, but for the most part they could not find employment in them.<sup>623</sup> The prevailing view in Cuba was that to benefit from Batista’s programs, one had to be a member of the small circle of his cronies.

Resentment by Cubans who felt generally disenfranchised from Batista’s economic programs clearly fed Castro’s volunteers and ranks. In 1958, the historian Emilio Roig de Leuchsenring characterized Batista’s rule as exclusive to urban elites. “The cities,” he pointed out, “monopolize the government and administration of the nation, centralizing it, with complete neglect of the countryside and rural dwellers... [who] live at the edge of civilization and the law.”<sup>624</sup> In early 1958, *Gente* editor José

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<sup>621</sup> Quoted in English, 265.

<sup>622</sup> Agustín Tamargo, “¿Por que lucha actualmente el pueblo de Cuba,” *Bohemia*, July 28, 1957.

<sup>623</sup> Louis Pérez Jr., *On Becoming Cuban*, 468.

<sup>624</sup> *Ibid.* 285.

Suarez Nunez remarked that Batista's negative publicity came from the "poor type of Cubans," who generally received little government services or benefits, but had heard Batista repeatedly raise expectations for his economic programs.<sup>625</sup> The December 1, 1958 issue of *Time* reported that Castro "gets ardent backing from students, professional classes who chafe at the indignities and corruption of the dictatorship."<sup>626</sup> In general, Batista's economic programs were not offered to Cuba's politically rebellious students and intellectuals, who rejected them anyway out of protest to his coup. Several times throughout the Second Batistano, Batista attempted to make peace with the students and include them in his regime's endeavors. The principal student leaders such as José Antonio Echeverría, President of the Cuban Federation of University Students (FEU), rejected them every time. Furthermore, Ortodoxo leader Raul Chibas and former BNC President Felipe Pazos who joined Castro in July, 1957, were excluded from Batista's patronage networks. In short, the overwhelming majority of 26 of July volunteers and supporters generally had no stakes, patronage, contracts, or economic interdependencies with Batista's economic programs.

On the other hand, the stakeholders and beneficiaries of Batista's programs generally supported him to the end. These included the sugar, construction, rice, tobacco, textile, and banking industries; unions; the U.S. business community; industrial contractors; hotel and casino owners; and BNC, FNC, BANFAIC, BANDES, and FHA bondholders. Those beneficiaries the Economic and Social Development Plan's 450,000,000 peso budget generally stayed in Batista's camp. The U.S. Embassy reported in July 1957 that the Cuban business community was "concerned about the reports that

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<sup>625</sup> *Gente*, January 5, 1958.

<sup>626</sup> *Time*, January 7, 1957.

have appeared in the press alleging that Castro will nationalize industries in Cuba,” and they hesitated to support Castro.<sup>627</sup>

Cronyism and corruption served as a central theme the 26 of July Movement’s appeal for supporters. In the spring of 1958 they burned the sugar mills and cane fields as a protest against the sugar barony that cooperated with Batista. Then the rebels set fire to a large amount of jet fuel at the Esso owned Belot oil refinery perhaps as a political statement (there were no casualties) against cronyism and imperialism. Shortly thereafter a team of rebels entered the BNC and held the employees hostage by gunpoint. Without taking any money, the gunmen started a fire that burned up the previous day’s checks and bank drafts. The rebels later attacked the American-owned nickel mining plant at Moa Bay in the eastern Oriente, and kidnapped the U.S. workers inside. They were later released unharmed; the rebels did not intend to hurt them, but use them to make a political statement. The rebels also condemned the Freeport Sulphur Company (mining) for engaging in business with Batista.<sup>628</sup>

To recruit volunteers, the rebels had turned Batista’s symbols of economic progress into icons of cronyism and corruption. “Were not only going to deport the gangsters,” Castro proclaimed, “but shoot them.”<sup>629</sup> Therefore, immediately upon taking Havana on January 1, 1959, Castro’s rebels dragged the slot machines and roulette wheels onto the street and bashed them to pieces with clubs.<sup>630</sup> When they stormed the Habana Riviera, they released pigs in the exquisite lobby to symbolize their disgust with the business practices that went into its construction. These symbolic actions intended to

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<sup>627</sup> U.S. Embassy Havana, Telegram 26, July 10, 1957, 737.00 (W)/7-1057, IA/1955-58.

<sup>628</sup> English, 260.

<sup>629</sup> Dispatch 1037, American Embassy, Havana, to Department of State, March 19, 1959. State Department Papers, National Archives; Lacey, 252.

<sup>630</sup> *New York Times*, January 4, 1959.



characterize Batista's rule as beneficial to an exclusive cartel and detrimental to the Cuban people. Castro's social justice narrative partly contributed to the growth of his support base. This enabled him to wage a two-year war in the Oriente, and eventually take over the island.

### Batista's Gamble: Economic Development over Defense

Throughout the Second Batistano, Batista had relied heavily on his economic programs to inspire support from the Cuban citizens and the international community. In almost every major speech throughout 1952–58 Batista had appealed for public support by touting the accomplishments of his development banks. He made sure to take personal credit for the economic boom that began in late 1955 and ended in mid-1958. “The island is highly prosperous,” Batista said in 1957, “through the efforts of my government.”<sup>631</sup>

Based on the belief that economic growth would inspire public support, Batista perhaps never thought that Castro's insurgency had a chance to prevail in the western half of the island. It was clear that Castro successfully recruited supporters in the impoverished Sierra Maestra that had been largely neglected by Batista's economic programs. But Batista displayed confidence that in the midst of two years of record-setting economic expansion, Castro's insurgency could never expand beyond those poorest regions of Cuba. A common theme in his speeches was to characterize himself as the defender of prosperity, and his opponents as standing for economic ruin.

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<sup>631</sup> *New York Times*, September 5, 1957.

As a result, Batista gambled with the national budget expecting that economic growth would increase his popular support and minimize the need to use military force to maintain power. “No insurgency can succeed,” Batista argued in 1957 as Castro was conducting his rebellion in the Sierra Maestra,

in an environment where the people can be seen pursuing their aspirations and enjoy having their needs covered. And Cuba today lives in a period of progressive development.<sup>632</sup>

As a result, from 1952–57 Cuba’s public expenditures prioritized economic development programs over defense. In this period, while Batista eventually outspent Prío on defense by an average of two hundred dollars per citizen, a large portion of the increased expenditures went to the soldiers’ salaries to insure their political support, and were not used to purchase modern fighting equipment.<sup>633</sup>

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<sup>632</sup> UMCHC 5155, Box 110, Folder 4.

<sup>633</sup> Enrique A. Baloyra, “Democratic Versus Dictatorial Budgeting : The Case of Cuba with Reference to Venezuela and Mexico” in *Money and Politics in Latin America*, ed. James Wilkie (Los Angeles: UCLA Latin American Center, 1977) 12.

Table 22. Budgetary Expense in Cuba (in C\$)

Category	1951–52	1952–53	1954–55	1955–56	1956–57
Public Debt	10,783	8,588	26,918	35,850	36,270
Legislature	8,214	5,119	3,144	8,214	8,443
Judiciary	9,891	10,870	12,048	10,976	10,976
Accounts Tribunal	-	-	3,000	3,600	3,600
Presidency	661	1,379	1,890	1,711	2,251
Prime Minister	714	-	-	516	529
<i>Ministries of</i>					
State	3,864	3,731	3,209	4,177	4,373
Justice	861	953	911	820	1,102
Interior	15,674	21,265	19,178	18,329	18,720
Treasury	24,520	17,388	14,466	14,473	19,569
Public Works	40,060	36,327	23,854	15,533	18,453
Agriculture	6,361	5,747	4,969	4,321	4,527
Commerce	2,218	2,267	2,012	1,853	1,864
Labor	2,220	2,590	1,459	1,331	1,446
Education	58,169	83,493	74,465	71,351	74,177
Health, Sanitation, and Welfare	21,180	21,428	22,273	21,752	23,602
Communications	10,678	12,755	11,596	10,945	11,747
Defense	39,176	56,520	54,950	54,345	53,324
Information	-	792	-	-	-
Pensions	23,291	42,323	28,332	28,848	29,237
University of Havana	2,167	2,779	2,740	3,940	3,940

Source: Baloyra, 12; 1951–52: BNC; 1952–53: *Gaceta Oficial*, Edición Extraordinaria Especial 63 (June 30, 1952) 2; 1954–55: Ibid. 1 (June 30, 1954) 2; 1955–56: Ibid. 1 (June 30, 1955) 2; 1956–57: Ibid. 2 (June 30, 1956) 2; the majority of expenses for self-liquidating and non-self liquidating public works programs financed through bonds were considered “extraordinary accounts” thus not displayed in the official national budget.

Therefore, in 1957, after having gambled in the past five years that public funds were better spent on the development programs rather than weaponry, the reasonably well-paid soldiers (on average seventy-two dollars a month with paid living expenses) sorely lacked the combat power required to defeat Castro. U.S. Ambassador Smith described in March 1958 that the “present [military] equipment in the hands of the Government of Cuba is obsolete and deteriorated,” and that Batista “is in dire need of remaining arms promised

by the U.S.”<sup>634</sup> The lack of sufficient equipment not only degraded the combat power of Batista’s military, but also its morale.

By the time Batista finally attempted to stock his military with adequate weaponry in 1957–58, it was too late, for the U.S. had approved an arms embargo. In March 1958 he ordered a thirty-five percent increase in the armed forces, but lacked adequate weapons to supply the new soldiers. Batista’s decision to prioritize his development programs over defense in the national budget from 1952–56 had contributed his downfall and Castro’s rise to power.

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<sup>634</sup> U.S. Embassy Havana, March 26, 1958, IA/1955-58.

## Abbreviations

IA/1945-49	Confidential Central Files, Cuba, Internal Affairs, U.S. Department of State, General Records, 1945-49, Record Group 59, NA
A/1950-54	Confidential Central Files, Cuba, Internal Affairs, U.S. Department of State, General Records, 1950-54, Record Group 59, NA
IA/1955-58	Confidential Central Files, Cuba, Internal Affairs, U.S. Department of State, General Records, 1955-58, Record Group 59, NA
IA/1959-60	Confidential Central Files, Cuba, Internal Affairs, U.S. Department of State, General Records, 1945-49, Record Group 59, NA
UMCHC	University of Miami Cuban Heritage Collection
UMSC	University of Miami Special Collections

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#### Newspapers, Magazines, and Periodicals

*Alerta* (daily except Sunday, a.m.) Political slant: pro-Batista, anti-communist.

*Ataja* (daily except Monday, p.m.) Political slant: strongly pro-Batista.

*Avance* (daily except Sunday, p.m.) Political slant: anti-communist.

*Bohemia* (weekly) Political slant: strongly anti-Batista, anti-communist, pro-Ortodoxo.

*Carteles* (weekly) Political slant: anti-Batista.

*Diario de la Marina* (daily except Monday, a.m.) Political slant: conservative, Catholic, strongly anti-communist.

*Diario de Cuba* (daily except Monday, a.m.) Political slant: anti-Batista, anti-communist.

*El Camagueyano* – Political slant: independent, slightly anti-Batista, anti-communist.

*El Comercio* (daily except Monday, a.m.) Political slant: independent, anti-communist.

*El Crisol* (daily except Sunday, a.m.) Political slant: fairly independent.

*El Mundo* (daily except Monday, a.m.) Political slant: independent, anti-communist, mildly anti-Batista.

*El Pais* (daily except Sunday, p.m.) Political slant: same as that of *Excelsior*.

*Excelsior* (daily except Monday a.m.) Political slant: pro-Liberal Party (centrist).

*Finanzas* (daily except Monday, a.m.) Political slant: independent; strictly a financial newspaper.

*Informacion* (daily except Monday, a.m.) Political slant: conservative, independent, anti-communist.

*La Capaña* (daily except Monday, a.m.) Political slant: pro-Batista.

*La Correspondencia* (daily except Monday, a.m.) Political slant: independent, anti-communist.

*Mañana* (daily except Monday, a.m.) Political slant: pro-Batista.

*Prensa Universal* (daily except Monday, p.m.) Political slant: pro-Batista, anti-communist.

*Prensa Libre* (daily except Sunday, p.m.) Political slant: leftist, independent.

*Pueblo* (daily except Sunday, p.m.) Political slant: independent, anti-communist.

*The Havana Post* (daily except Monday, a.m.) Political slant: pro-Batista, anti-communist.

*Tiempo en Cuba* (daily except Monday, a.m.)  
Political slant: pro-Batista, pro-Argentina, frequently anti-United States.