Good dictator, bad dictator: United Fruit Company and Economic Nationalism in Central America in the Twentieth Century

Marcelo Bucheli
University of Illinois at Urbana−Champaign, College of Business

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Marcelo Bucheli
Department of Business Administration
University of Illinois at Urbana-Champaign
DKH 117, MC-14
1206 South Sixth Street
Champaign, IL 61820, USA
mbucheli@uiuc.edu
http://www.business.uiuc.edu/mbucheli

Abstract

The US multinational United Fruit Company has been considered the quintessential representative of American imperialism in Central America. Not only did the company enjoy enormous privileges in that region, but also counted on authoritarian governments in dealing with labor unrest. The literature assumes that United Fruit and the dictators were natural allies due to their opposition to organized unionism. This paper shows that this alliance could only survive as long as the multinational provided the dictators with economic stability for the country. However, when the multinational proved to be incapable of doing that, the dictators allied with the working class to confront the multinational and extract higher rents from it.

Keywords: United Fruit Company, Economic Nationalism, Foreign Direct Investment, Multinationals and Democracies, Multinationals and Dictatorships, Central America, Oil Crisis, Banana Industry, Honduras, Guatemala, Costa Rica, Panama

Introduction

The pejorative term “Banana Republic” is often used to describe a small and backward, poor, and unstable country with widespread corruption and a submissive relationship with the United States. American writer O. Henry used this term for the first time to describe the imaginary country of Anchuria in his novel *Cabbages and Kings*.[i] Henry was inspired by what he saw in Honduras, a country invaded in 1910 by the American banana corporation Cuyamel Fruit, which later almost went to war with neighboring Guatemala due to the rivalries between Cuyamel and the Boston-based United Fruit Company. Other writers followed Henry in the perception of the corrupted nature of the Central American governments and the overwhelming power the American fruit companies had in those countries. Among them are Nobel awarded writers Miguel Angel Asturias with his novels *Strong Wind, Green Pope*, and *The Eyes of the Interred* (the so-called Banana Republic trilogy), Pablo Neruda with his poem “United Fruit Company,” and Gabriel García Márquez with his novel *One Hundred Years of Solitude*.

Unfortunately, the image of these countries as corrupt and unstable places strongly controlled by the foreign fruit companies was not a result of pure imagination. During the first half of the 20th century, the most Central America was ruled by some of the most infamous dictators of the Western Hemisphere; strong military men who maintained a highly unequal social system by repressing the masses of agrarian workers for the benefit of the local landowners or foreign investors. In addition, they repeatedly meddled in each other’s affairs generating a regional-wide state of continuous instability and constantly competed for the approval of the United States.[ii]

It was in this scenario where the American multinational United Fruit Company, and to a lesser extent the Standard Fruit Company, built an impressive production and distribution networks of bananas from Central America and the Caribbean to the United States. They included plantations, railways, telegraph lines, housing, hospitals, and ports in the producing areas. Many of these investments were made after getting concessions from local governments eager to attract foreign capital to modernize their economies. United Fruit employed thousands of local workers and created an export infrastructure where it did not exist before.

The close relationship United Fruit had with the local dictators made this company gain a terrible reputation in Latin America. This was apparent not only in the fiction works mentioned above, but also in social studies. The classic book by Charles Kepner and Henry Soothill argued that "[This] powerful company has throttled competitors, dominated governments, manacled railroads, ruined planters, choked cooperatives, domineered over workers, fought organized labor, and exploited consumers. Such usage of power by a corporation of a strongly industrialized nation in relatively weak foreign countries constitutes a variety of economic imperialism."[iii] Kepner and Soothill considered United Fruit partially responsible for the region's poverty and lack of democracy.[iv] For decades, Kepner and Soothill were obliged reference for those studying United Fruit shaping the view of the company as the quintessential representative of US imperialism.

Were United Fruit and the region's dictators natural allies? Under what conditions would nationalism rise in the local governments of the producing countries? In this paper I show that the multinational and the right-wing dictators were not necessarily natural allies. The alliance depended on the ability of the banana sector to generate economic stability and on the need the government could have to approach the working class. Right-wing dictators tended to ally with the local landowners and the foreign corporation against the labor force as long as the multinational's operations provided the country a steady income. However, if the banana sector failed to provide income to guarantee economic stability, the right-wing dictators broke their alliance with the multinational and intervened the sector in order to increase the rents generated by banana exports. If the multinationals resisted, the dictators allied with the working class to confront the multinationals. This kind of nationalist policy by the right-wing governments did not mean any change in their ideology, which remained strongly anti-communist and pro-American.

This paper shows three periods in Central American nationalism towards United Fruit:

The Era of the "Banana Republics" and the American "Mare Nostrum, 1900-1945: This is a period in which the resistance to United Fruit's power and the nationalist initiatives came mostly from the labor movement, with the government responding through repression and support to United Fruit. Although some planters resented United Fruit's power, most of them feared Communism more so they allied with the government and United Fruit. Additionally, the overwhelming political power and military presence of the United States in the region gave the governments more strength when confronting the opposition.

Reforms, Nationalism, and Rebellion in Honduras and Guatemala, 1945-1954: This is the period in which United Fruit faced for the first time government opposition to its operations. The election of Juan José Arévalo in 1945 and Jacobo Arbenz in 1951 as presidents of Guatemala created a brief era of government's initiatives that sought to control United Fruit's power increase the rents from banana exports. These policies created an alliance between the Guatemalan military, the local landowners, the US government, and the rulers of the other Central American countries against the Guatemalan government; Arbenz was overthrown in 1954. During the same period, encouraged by some social reforms, the Honduran labor movement confronted United Fruit in a process that peaked in 1954 with a strike that threatened the very existence of the Honduran government.

Cuban Revolution, Alliance for Progress, and Company's Retreat, 1954-1974: This was a period of nationalism all over the Third World. Recently decolonized countries expropriated properties of their former metropolis, Fidel Castro triumphed in Cuba expropriating American property (including that of United Fruit), and the US and the Soviet Union reached the tensest moments of the Cold War. In order to control the revolutionary tide, the US government encouraged the Latin American governments to follow some social reforms benefiting the working class, something that translated in new labor codes and the creation of agrarian reform legislation in most countries. The world was changing in a way United Fruit considered that it was better to gradually sell some of its production properties before they would become target of economic nationalism.

Oil Crisis and the New Nationalism, 1974-1976: The oil crisis of the 1970s was the event that forced the right-wing rulers to break their traditional alliance with United Fruit. The local governments imposed higher taxes and demanded a better participation of local planters in the banana export business. The crisis generated a new type of alliance between the right-wing dictators, democratically elected presidents, local landowners, labor unions, and left-wing politicians against United Fruit. The company decided to fight against these initiatives but failed to get support from the US government. In the end, the company was forced to accept the new terms but never lost control over world marketing.

Nationalism, political systems, and FDI

The relationship between multinational corporations and the local political actors of a host country has generated a wide body of scholarship. Neo-Marxist scholars argue that the existence of authoritarian regimes in poor countries facilitates the operations of a multinational corporation by keeping a low labor cost through repression of the labor movement. In addition, they claim, a non-democratic regime can write the kind of legislation the multinational needs without opposition. This is possible because the local elite and the country's rulers get economic benefits from the operations of foreign corporations. As a result, the multinationals, the government, and the local elite create what they called the "Triple Alliance" against the working class.[v] As a result, they conclude, the operations of the multinational corporations in poor countries exacerbate the existing poverty, unequal income distribution, and political repression.[vi]

Recent scholarship has debated on whether authoritarian regimes benefit multinationals more than democratic ones. Nathan Jensen argues that democratic institutions create a safer environment for foreign investors due to the existence of checks and balances that lead the government to respect agreements and contracts with foreign corporations.[vii] Li and Resnick agree that democracies protect property rights more than authocracies, however they also point out that elected politicians tend to control monopolies, and cannot offer foreign investors incentives that look too generous to their constituency.[viii] Thus, they conclude that the weaker the democracy, the more likely foreign firms will have monopolistic power. Oneal goes even further arguing that in developing countries authoritarian regimes and multinationals have a "cozy" relationship, which encourages both parties to protect each other.[ix]

Research on the political economy of FDI in the primary sector has shown that companies investing in agriculture, mining, or oil affect local polities more than those operating in the manufacturing or service sector. Kobrin and Li and Mihalache argue that not only firms producing in the primary sector are more vulnerable to nationalist policies due to their vertically integrated structure and sunk costs, but also are these sectors usually targets of political violence.[x] Other authors, point that multinationals working in the primary sector tend to support right-wing dictatorships more than multinationals operating in the manufacturing or service sectors.[xi]

My study shows that Central America had a "Triple Alliance" between foreign capital, local governments, and local elite until the late 1960s. The alliance with authoritarian regimes collapsed with the oil crisis. In this crisis, the US did not support the multinationals.

The Era of the Banana Republics and the American *Mare Nostrum*: 1900-1945

By the 1930s United Fruit had consolidated its power as the world's major banana producing and marketing company. The company, established in 1900 after the merger of several banana, steamship, and railroad companies eliminated all its competitors through aggressive acquisitions or merciless price wars. From the 1920s, United Fruit controlled more than 70 per cent of the banana business followed far behind by the New Orleans-based Standard Fruit Company.

United Fruit created its "Banana Empire" during times of unchallenged American political supremacy in the Caribbean. In the early 20th century, the Central American and Caribbean countries gradually fell under the American economic and political sphere after the US paid some of these countries' foreign debt with European powers, some of the secured with customs collections. This operation shifted the region from the sterling area into the dollar area, securing US economic hegemony.[xii] In their reports on Central America, the British could not avoid acknowledging their lack of power to deter the increasing American influence in the region.[xiii] In addition in 1907, the US organized a conference in Washington where the Central American republics signed the General Treaty of Peace and Amity in which the countries committed themselves to non-intervention in their neighbors affairs, constitutional reforms prohibiting re-elections, and non-recognition of non-elected governments.[xiv] Although the democratic elements of the treaty were largely ignored, it consolidated the US position as the only power in the Caribbean Basin.

The overwhelming American dominance in the region led the Central American politicians to follow an accommodating policy towards the United States. The different republics competed for an American approval by repressing left-wing opposition or blocking any social reform that would threaten the privileges of the traditional upper classes, while at the same time opened their doors to American investment. This political model of accommodation inevitably led to the creation of repressive regimes and poor economic conditions for the majority of the population.[xv]

United States also achieved its political preeminence in Central America by direct military intervention. Whenever one of the American ally regimes or American interests was in danger, the US did not dither about sending its armed forces, without fearing serious confrontation. Before 1945, the US had already invaded Honduras (1903, 1907, 1912, 1919, 1924), the Dominican Republic (1903, 1914, 1916), Haiti (1914, 1915), Nicaragua (1907, 1909, 1915), Cuba (1906, 1912, 1917), Panama (1912, 1918, 1925), Guatemala (1920), and El Salvador (1932).[xvi] The Caribbean had become an American *Mare Nostrum* giving the US companies the confidence to expand their business in that region.

The political process that assured the American political domination in Central America and the Caribbean was done simultaneously to what Mira Wilkins calls the "spillover" of American companies into that region. According to Wilkins, after the Spanish-American war (1898), the American companies started operating in Mexico, Central America, and the Caribbean as if they were natural extensions of the United States.[xvii] In addition to these favorable political conditions, United Fruit enjoyed an ever-growing demand for bananas in a tariff free system in the US that encouraged increasing investments in the producing areas.[xviii]

Before World War II, the Central American and Caribbean economies depended highly on the US. The percentage of exports to the US over total exports was forty-nine for Costa Rica, fifty-three for the Dominican Republic, twenty-seven for Guatemala, eighty-seven for Honduras, and ninety-four for Panama. Similarly, Costa Rica bought fifty-three per cent of its imports to the United States, the Dominican Republic sixty-two per cent, Guatemala fifty per cent, Honduras sixty-seven per cent, and Panama fifty-five per cent. To make things worse, these countries' exports had a very low level of diversification. By 1913, fifty per cent of Costa Rican exports were bananas and thirty-five per cent coffee; Guatemalan exports depended on eighty-four per cent on coffee and six per cent on bananas (which increased to 27 per cent in the 1930s and was around fifteen per cent in the 1950s); Honduras fifty per cent on bananas and twenty-five per cent in precious metals, and Panama sixty-five per cent on bananas and seven per cent in coconuts.[xix]

United Fruit got most of its first lands in Central America as a result of railway concessions rather than banana production land grants. The rulers of these republics were eager to modernize their transportation infrastructure and saw the solution in United Fruit and its subsidiaries (including the International Railways of Central America – IRCA). In many cases, the property rights over the lands granted by the government to United Fruit were not clear, and the company clashed with settlers already living in those lands or other people claiming ownership.[xx] This chaotic situation was exacerbated by the permanent political instability in the region.

Honduras. This country was the second largest banana exporter in Central America from 1900 until 1916, and the first one afterwards. The first banana companies operating in that country got their land grants during General Terencio Sierra's dictatorship (1899-1903). Sierra was deposed by a rebellion whose leader lasted in power for just six months before being ousted by General Manuel Bonilla who remained in power until another military coup in 1906. Bonilla's authoritarian government granted the first concession to the New Orleans-based company Vaccaro Brothers (later known as Standard Fruit and Steamship Company) to build railways and market bananas. Bonilla stepped down after another rebellion that put General Miguel Dávila in power. During Dávila's administration (1907-1911), the government approved some pieces of legislation that limited foreign ownership of Honduran soil. This attempt, however, was aborted by another rebellion by Bonilla who got funding for his rebellion from Samuel Zemurray, head of Cuyamel Fruit Company and future President of United Fruit. With Dávila out of power the rebels designated Francisco Bertrand as provisional president (1911-1912). Bertrand quickly eliminated Dávila's timid nationalist land legislation before giving power to Bonilla who returned as president in 1913. With Bonilla in power again, Zemurray and his Cuyamel Fruit Company got tax benefits and more generous concessions. Later, United Fruit benefited from this policy by getting concessions for banana production.[xxi] United Fruit and Cuyamel competed with each other until 1930, when United Fruit acquired Cuyamel and named Zemurray as United Fruit's president.

With an accommodating government and local elite, the only possible nationalist opposition came from the working class. The Honduran labor movement had never been very strong, and presidents like Bonilla, Bertrand, or even Dávila never showed much sympathy for it. The first Honduran experience with labor unrest took place in 1919, when the banana workers demanded a wage increase and protested against the government's generosity towards United Fruit. The strike turned extremely violent when the government tried to repress it and eventually the workers succeeded in their demands. As a way to avoid these kinds of protests in the future, United Fruit decided not to obtain new lands through railway concessions, but bought the lands from private owners instead.[xxii]

The main Honduran labor organization (the Honduran Unions Federation, or FSH) was created after the strike in 1920, but was constantly criticized by fellow Latin American labor unions for not being revolutionary enough and too modest in its demands. In 1930, a more belligerent FSH organized the first banana industry strike against United Fruit. This strike was a monumental failure. Most workers decided not to join it, the Army jailed and exiled most of the FSH leadership, and United Fruit protected itself against the few strikers with its own private security. Another banana workers' revolt took place in 1932 and had a similar fate.[xxiii]

In 1932, General Tiburcio Carías won the presidential elections –with a campaign financed by United Fruit- and soon turned his government into a dictatorship that lasted for sixteen years.[xxiv] The Great Depression generated a crisis in the coffee exports and a fall in the banana prices and consumption of the fruit in the United States. United Fruit exacerbated the crisis when it tried to compensate the fall in banana prices by reducing the workers' wages and the price it paid to local planters, something that led the workers to strike.[xxv] The company, however, had Carías as its ally. Once Carías took power, he quickly banned the Communist Party, prosecuted the opposition, and approached United Fruit who he saw as the only institution that could help Honduras in its economic crisis. The government supported the company during the strike and permitted it to reduce wages as planned.[xxvi] Carías quit voluntarily in 1949 leaving a former United Fruit lawyer, Manuel Gálvez, as his successor.

Guatemala: Before the Depression, Guatemala showed the most solid relationship between the government and United Fruit in the region. Between 1898 and 1921, only one president ruled Guatemala: the notorious General Manuel Estrada Cabrera. Through military repression, fraudulent elections (in one of them Estrada got half a million votes and his closest opponent just three), Estrada remained in power and consolidated the concession system. In 1901, he gave United Fruit a transportation concession over the between Puerto Barrios (in the Atlantic Coast) and New Orleans. In 1904, he granted the IRCA a 99-year concession over the construction and management of a railway that communicated the Guatemala City with Puerto Barrios, and in 1906 he granted United Fruit a banana production concession.[xxvii]

Estrada fell from power in 1920 and was succeeded by a series of short-term rulers until 1931, when General Jorge Ubico took power. There followed one of the most infamous dictatorships in Latin American history. Ubico took two approaches with the landless Indian masses. He visited them in their towns and listened to their complaints, something for which the Indians called him "the Father." At the same time he passed extremely harsh vagrancy laws by which all Indians who owned little or no land were ordered to work for local landowners for at least one hundred days a year. The landowners made the situation even more difficult for the Indians by agreeing among themselves not to compete for the labor force by offering higher wages, and kept artificially low salaries enforced by written contracts that the illiterate Indian population could not read. Additionally, Ubico made it legal for the landowners to murder stubborn or rebellious Indians. Rampant racism in Guatemalan society made these policies justifiable for the white and ladino (mixed race) population. A ladino intellectual said of the indigenous race, "[It] is cowardly, sad, fanatical, and cruel … [It is] closer to beast than man … For the Indians there is only one law — the lash."[xxviii]

Ubico saw Communist conspiracies everywhere. He created a spy network in the army, the government, and small cities, extending his control into every aspect of the Guatemalan people's lives. He opposed industrialization, fearing it would lead to the creation of a subversive proletariat. He forbade the use of "Communist" expressions like "trade union," "strike," "labor rights," and "petitions." He went so far as to decree the word "workers" illegal, replacing it with "employees," which had a less subversive connotation. Considering himself a Central American Napoleon, he commissioned artists to paint portraits of him similar to those of Napoleon and filled the presidential palace with busts of Napoleon.[xxix]

Ubico was a strong ally of the United States and welcomed foreign investors. When he came to power, IRCA showed this to its shareholders as a positive change.[xxx] Between Estrada and Ubico (1920-1931), IRCA constantly complained of the Guatemalan political instability and the triviality with which the Guatemalan government took its commitments, including the repayment of loans IRCA had provided it.[xxxi] In 1930, he signed a contract with United Fruit in which the company committed to build a port in exchange for land. However, by 1936 United Fruit dropped the port project so as not to compete with its affiliate IRCA. The port was never built, but Ubico permitted the company to keep its land and not pay any reparations.[xxxii]

Ubico was a victim of the social changes going on in his country. A small but growing Guatemalan middle class, composed of schoolteachers, government officials and shopkeepers felt that a country controlled by a land-owning oligarchy left no room for them. In 1944, a group of young officials –led by Col. Jacobo Arbenz- supporting striking schoolteachers overthrew Ubico and organized elections for 1945.[xxxiii]

Panama: The American influence in Panama was stronger than anywhere else because this country was an American creation. Before 1903, Panama was a Colombian province with secessionist aspirations. In 1903, the secessionist movement declared the independence of Panama with the political and military support of the United States, which eventually gained the control of the Canal Zone.

United Fruit arrived to Panama before 1903 and got its land concessions from the Colombian government. The Panama government not only did not alter the concessions previously granted by the Colombian government, but also gave new ones shortly after the creation of the new country. In 1904, the United Fruit subsidiary Tropical Telegraph and Telephone Company got a concession for the building of telegraph lines that communicated the different cities of Panama with each other, and Panama with the Americas. As part of the same contract, the Panama government committed itself to not build any telegraph line for fifteen years. The Tropical Telegraph and Telephone Company also provided services to the US Navy in Central America. Finally, the Panama government granted land concessions to United Fruit for banana cultivation in the Atlantic Coast and later, due to soil exhaustion and illness in the banana trees, in the Pacific Coast.[xxxiv]

Costa Rica: Although Costa Rica was more democratic than its neighbors, United Fruit managed to have a very strong influence in state matters thanks to the close relationship Minor Keith (one of the founders of United Fruit) had with the Costa Rican government. In 1900, the Costa Rican government gave Keith a land concession of 3,200 km2 to build the railway, which permitted the company to eventually monopolize banana production.[xxxv]

The existence of political competition in Costa Rica made the concessions to United Fruit a topic of debate during the presidential elections. Concessions were also openly discussed in Congress and found in Congressman Ricardo Jiménez one of its hardest critics. Jiménez approached both the workers and the planters showing his support and promising a change in the policy towards United Fruit.[xxxvi] In 1910, Jiménez was elected president, but once in power, his opposition to the company was neutralized by a United Fruit loan that permitted Costa Rica pay its foreign debt. The nationalist opposition continued from the labor unions, which failed to create a united front due to racial tensions among the workers.[xxxvii] The next government of Alfredo González (1914-1917) started a series of social and economic reforms that included higher taxation to landowners and big enterprises. These reforms cost González his presidency: in 1917, he was overthrown by a coup led by Federico Tinoco, who shortly afterwards modified the concessions to foreign companies making them more lax.[xxxviii]

Tinoco's military coup did not turn Costa Rica into a long-term dictatorship. He was forced to quit in 1919, after a series of mass strikes and revolts that permitted the re-establishment of a pluralist system. After Tinoco, United Fruit faced some relatively mild nationalist opposition from the banana workers and some politicians. This situation changed with the Depression, when the country faced problems in both its coffee and banana exports. When facing these difficulties, the landowner and planter elite protested against United Fruit's power, creating a bizarre alliance between landowners and agrarian workers that did not last long. Even the Costa Rican government itself wrote a report stating that United Fruit was not respecting the original contracts. This happened in a time in which the company was decreasing its banana production in Costa Rica as a response to the Depression. Supported by a large strike in 1934, the Costa Rican government negotiated a new contract with United Fruit in which the company allowed small planters to use part of its lands but did not oblige United Fruit to increase wages. The Costa Rican government did not go further from these modest achievements due to the strong dependence the country had on United Fruit and the economic crisis they were going through. In fact, United Fruit even got a new concession for banana production in the Pacific Coast to replace the plantations it was abandoning in the Atlantic due to disease.[xxxix]

During the 1930s and 1940s, the nationalist opposition to the company came mainly from the Communist Party, which never managed to attract large numbers of followers. In 1948, the traditional Costa Rican stability ended with a military revolt that prosecuted Communists and started creating a new pro-business environment with the support of the landowners. By this time, United Fruit had already revived the Costa Rican banana exports from the Pacific Coast keeping its monopolistic power in the country.[xl]

The period of the "Banana Republics" shows that the less democratic a government was, the more inclined it was to accommodate itself to the interests of the United States and United Fruit. These were also times in which the interests of United Fruit, the United States, and the local ruling classes were similar (except for Costa Rica). The dictators helped United Fruit's business, and United Fruit helped them to remain in power creating a system with little or no social reforms. During this period, Standard

Fruit suffered the expropriation of some already unprofitable lands by the Mexican revolutionary government.[xli] Mexico, however, was insignificant for the banana multinationals.

Reform, Nationalism, and Rebellion in Guatemala and Honduras (1945-1954)

Honduras: Honduras was always considered the quintessential Banana Republic, a characteristic reinforced during the Carías sixteen-years presidency. In 1949, the aging Carías quit voluntarily and named former United Fruit lawyer Manuel Gálvez as his successor. Carías might have been fooled by Gálvez's background. As soon as Gálvez took power, he freed political prisoners, permitted political exiles to return, created the country's first income tax, health insurance, social security, and an eight-hour day. These actions encouraged labor unrest in the banana plantations led by Communist organizations.[xlii]

In May 1954, the banana workers went on strike demanding higher wages and better working conditions. This strike encouraged other strikes all over the country; particularly in the urban areas and because of its peaceful nature, the local media and government officials showed their support. United Fruit requested Gálvez's government to send the Army and end the strike, but the government declared itself neutral in this conflict, something with no precedent in Honduras' history.[xliii] Although the United States government saw in this strike the first step towards a Communist insurrection, the conflict remained peaceful until the end in June 1954 when the workers settled an agreement with United Fruit of a 21 per cent wage increase (from the original 71 per cent demanded by the workers) and health care for the workers' families.[xliv] In fact, this strike is barely mentioned in the company's corporate reports to its stockholders.

Although Communists and nationalists started the strike, in the end a reformist attitude prevailed. Gálvez himself was not a radical but a reformist and was always concerned of the Communist influence among the strikers, which was never significant.[xlv]

Guatemala: The events in Guatemala were more dramatic than those in Honduras. After the fall of Ubico in 1944, the military junta wrote a new liberal constitution which ended censorship, forbade presidential re-election for more than two periods, classified racial discrimination as a crime, freed higher education from governmental control, banned private monopolies, established a 40-hour work week, forbade payment to the workers in tokens changeable for goods at the landowner's store (a common practice by landowners who did not pay wages in cash) and legalized labor unions. These changes created for the company "uncertainties" to be watched carefully, and complained about the costs labor reforms created and the increasing labor belligerence.[xlvi] The government organized new elections under this constitution, and former exile Juan Jose Arévalo won with 85 per cent of the vote and a strong participation of the recently legalized labor unions.[xlvii]

Arévalo faced a coup attempt in 1949 that was crushed by Captain Jacobo Arbenz, who became a hero with Arévalo's followers. Arbenz resigned from his military career and ran in the 1951 presidential elections. He won with 65 per cent of the votes against the Conservative candidate, and former friend of Ubico, Miguel Ygidoras.

Following his election as President, Arbenz pursued an ambitious social program that focused on income distribution and economic nationalism. He established the first income tax in Guatemala and tried to break monopolies by creating governmental competition. As a way to secure economic independence from the U.S., Arbenz promoted the construction of a highway from Guatemala City to the Atlantic that would run parallel to the railroad controlled by the IRCA; he pushed for the construction of a government-run port to compete with United Fruit's port Puerto Barrios; and he planned to build a national hydroelectric plant to offer cheap energy and break the American-controlled electric company monopoly. These actions encouraged IRCA's workers who organized more massive and aggressive strikes with stronger demands.[xlviii] A signal of the new times was that in 1951 the IRCA *Annual Report* included a "Labor Relations" section for the first time.

Arbenz's biggest goal was agrarian reform. He considered Guatemala's unequal land distribution as the main obstacle to economic development, and saw the great estates owned by the national oligarchy (*latifundios*) as a backward legacy of colonial times. Arbenz believed that the country needed agrarian reform to put an end to the *latifundios* and semi-feudal practices, gave the land to thousands of peasants, raised the peasants' purchasing power, and created a large internal market favorable to the development of domestic industry.

In 1952, the Guatemalan Congress approved the agrarian reform law, which started the distribution of 1.5 million expropriated acres to around 100,000 families. The first United Fruit expropriations started in March 1953 with 234,000 acres of uncultivated land at a plantation of 295,000 acres. In February 1954, United Fruit lost 173,000 acres of a 253,000 acres plantation. The government calculated the land value at $1,185,000, based on the amount declared by United Fruit for tax purposes. The company protested and claimed that the land was actually worth $19,355,000. United Fruit was not the only landowner that protested the amount they would receive as compensation; other Guatemalan landowners had done the same. The government responded to these protests by arguing that if the landowners had not cheated on their tax forms, they would have received the amounts they were demanding.[xlix]

United Fruit did not accept the government's proposed compensation amount and promptly appealed to the Guatemalan Supreme Court. When these attempts proved unsuccessful, they filed a complaint to the U.S. State Department, which had already vocalized its support of the company. In March 1953, the American ambassador to Guatemala demanded "prompt, adequate, and effective compensation."[l] In February 1954, the American government demanded the Guatemalan government pay $15 million in compensation. The government refused and insisted on their right to comply with the Agrarian Reform Law, and claimed that the expropriations did not damage United Fruit's production capabilities because they were only confiscating unused lands.[li] United Fruit countered this argument, saying that they needed extra acres to avoid soil exhaustion, and to keep the plantations separated to avoid dissemination of plant disease.

Throughout 1953 and 1954, tensions rose between Arbenz, the US government, and United Fruit.[lii] Convinced that Arbenz represented a Communist threat in the Western Hemisphere, the Eisenhower administration approved a secret operation to overthrow Arbenz using some Guatemalan rebel forces stationed in Honduras. The rebel forces successfully took Arbenz out of power and nullified many of his reforms for the relief of the American government, the United Fruit, and the conservative Guatemalan landowning class, ending the most aggressive nationalist initiative against United Fruit up to that moment.[liii]

Cuban Revolution, Alliance for Progress, and Company's Retreat, 1954-1974

The 1950s and 1960s, showed important changes in the banana market. First, banana consumption decreased in the United States, given that Americans were replacing fresh fruits for canned fruits. Second, United Fruit was forced to comply with the anti-trust regulations by getting rid of some of its lands. And third, despite Arbenz's overthrown, the company remained suspicious and cautious of the political developments in this area.[liv]

United Fruit faced its first permanent expropriations after the triumph of Fidel Castro in the Cuban Revolution in 1959. Although its investments in Cuba were not very important, the company feared that Castro's success could be used as an example by other countries. In that same year, Costa Rica passed a new legislation that forced United Fruit to significantly increase its wages. These two events, in addition to the previous problems in Guatemala made the financial analysts of Moody's Investors Services to classify United Fruit as a risky investment.[lv]

In the late 1960s the company publicly acknowledged that it had to adapt to the social and political changes going on in Latin America. In a retrospective analysis Herbert Cornuelle, United Fruit's president, wrote: "No matter how successful we are in this process, we still will be perceived, however, I am sure, as a threat to national independence and sovereignty. The fact that we are domiciled in a foreign country and that we are big assures that."[lvi]

In 1970 United Fruit merged with AMK Corporation creating a new company: United Brands. United Fruit then became part of a giant food conglomerate that included processed foods and meatpacking. In his first letter to the shareholders Eli Black, the first president of the conglomerate, emphasized again on the political issues the company had to deal with:

> [While] these operations are in stable countries with enlightened governments, the fact is that all Latin American countries are being swept by strong winds of nationalist aspiration. [The company] knows that it must adjust to change in Latin America. It is adjusting. […] One of the most sensitive areas is that of land use policies. […] Since 1952 the Company has divested itself of 65per cent of its holdings in the four countries. Many thousand acres have been given to the governments for distribution; the remainder has been sold to individuals and firms. […] In several countries land has been given to unions to build low-cost housing financed by the company.[lvii]

Moody's negative analyses improved as long as the company sold its production assets in Central America. In this way, Moody's told potential investors that the risk of expropriation or destruction decreased something that made the company less profitable but also less risky. The company's risk ratio, usually above the average, fell below the average of the top 200 companies traded in Wall Street. By 1970, the company had divested most of its plantations in Central America and transferred them to local growers or governments.[lviii] So, during this period United Fruit lost its lands not because of nationalism, but because of the uncertainties of nationalism in the future.

The sixties were also times in which the American government decided to follow a double edge policy towards Latin America. Aware that poverty made Communism attractive to lower classes, the US government encouraged and endorsed agrarian reform programs in the region through the recently created Alliance for Progress. These programs benefited United Fruit who sold its lands to governments that needed the land for the reforms and had the monetary resources from the US government to pay for it. At the same time, the US government supported anti-insurgency policies and military coups from its allies.[lix]

Besides the nationalist initiatives in Cuba and Costa Rica, the period 1954-1972 did not witness major nationalist threats from the local governments. Costa Rica was the only democratic regime in Central America and Cuba the only Socialist one, while pro-US military still ruled in the rest of the isthmus.

The Oil Crisis and the Collapse of the Alliance Between United Fruit and the Military Governments

During the 1960s and early 1970s, most of the Latin American countries fell in hands of military dictatorships. With the exception of Costa Rica, Colombia, Mexico, and Venezuela, military governments supported by the US ruled the whole continent. Moreover, the Alliance for Progress did not survive the Kennedy administration. The Alliance survived with a meager budget during the Johnson administration and died with Nixon and Ford. US military aid and other economic assistance, continued in Central America during the Johnson administration when the US government considered the Communist threat was higher than in the more solid South American dictatorships. However this aid almost disappeared during the Nixon years.[lx]

The oil crisis that started in 1973 had a terrible effect in Central America. All the countries imported oil (whose price increased 400 per cent in a few months), their economies were still highly dependent on banana and coffee exports (representing around 80 per cent of the region's exports), and the area was still the poorest in Latin America. This crisis forced the local governments to realign their alliances and follow protectionist policies.[lxi]

The cases of Colonel Omar Torrijos in Panama and General Oswaldo López Arellano in Honduras are clear examples of the shift in alliances during the crucial years of the early 1970s. Torrijos took power in 1969, after a military coup against the president Colonel Boris Martinez who had recently announced an aggressive agrarian reform and encouraged demonstrations against the American control of the Panama Canal. Torrijos' coup and subsequent repression against some of his comrades that participated in the coup was supported by the United States. Once in power, Torrijos made some changes to the banking legislation that decreased to the minimum any regulation, benefiting the Panamanian upper class.[lxii] United Fruit also supported Torrijos by giving him personal monetary donations. In 1970, Eli Black, the company's president, sent Torrijos a check for $25,000 with a note of support for the "cause you and your wife defend."[lxiii]

General López Arellano had a background similar to Torrijos.' He came to power for the first time in 1963 with a military coup against President Villeda who tried to create the first agrarian reform in Honduras facing the opposition of the large landowners and the Army. After the coup, López Arellano banned the National Peasant Federation, jailing peasant leaders and intellectuals. These initiatives did not stop the peasant movement, however, and the Honduran countryside experienced increasing turmoil despite government repression. In order to decrease tensions, in 1969 López Arellano bought some lands for distribution among peasants, but this was stopped by his successor, Ramón Cruz, who took power in 1969. Cruz did not last in power long. In 1971, there was another military coup in which López Arellano came back to power.

In the company's reports for 1972 and 1973 (the year the oil crisis started), President Eli Black proudly showed how the company was changing its behavior in Central America towards a more progressive and equalitarian relationship with the region. Black proudly presented the company's social programs saying: "[There] was a dramatic change in the image of our company. It is a reflection of many years of effort to improve the working and social conditions of our employees, especially in Latin America. Our changing image was exemplified in numerous articles in [the media] in which it was said of the company, 'It may well be the most socially conscious American company in the hemisphere.'"[lxiv] In another section of the same report, the company quoted the *New York Times* in saying "What emerges from talks with labor, management and government is a picture of a company that anticipated the changes that have swept Latin America and has quietly set about to adjusting them." As an example to show how things had changed, the company gave a very detailed description of the economic and social aid it provided the Nicaraguans after the devastating earthquake this country had in that year.[lxv] These changes, however, would not be enough for countries facing increasing problems in their balance of payments. Table 1 shows the dramatic situation the banana producing countries were facing by the time of the oil crisis, with trade deficits increasing with almost no control particularly between 1973 and 1974.

In September of 1974, pressured by the oil crisis, the governments of Costa Rica, Guatemala, Honduras, Panama, and Colombia signed an agreement creating a banana export cartel modeled after OPEC called UPEB (Banana Export Countries Union, in its Spanish acronym). UPEB's main goals were: a) to increase taxation on banana exported by the multinational corporations; b) to control supply in order to control the banana international prices; and c) to modify the land and tax concessions granted to the multinational corporations by the local governments several decades before.[lxvi] By this moment, the banana producing countries were not only dealing with the oil prices, but also with the devastating effects of hurricane Fifi that destroyed hundreds of Central American banana plantations.[lxvii]

The founders of UPEB claimed that the producing countries were getting an unfair share of banana exports profits. According to one of them, the Central American countries were getting 11 per cent of the income generated in the banana market, while the multinationals received 37 per cent and the retailers in the consuming countries earned 19 per cent.[lxviii] In addition, the inflation the oil shock created made local growers to pressure to increase the banana purchase fixed prices they had agreed with United Fruit decades before.[lxix] The new export taxes these countries wanted to impose under UPEB violated what had been originally agreed upon in the concessions given to the multinationals. These concessions had been granted for long periods of time (between 58 and 99 years, and sometimes with an indefinite deadline) and established an average tax of 2 cents per bunch, which is equivalent to 80 cents per ton. In order to increase the tax to 55 dollars per ton, the governments of Costa Rica, Honduras in Panama passed laws that nullified the previous contracts between the governments and the multinationals in

1974, 1975, and 1976, respectively. While a democratically elected government in Costa Rica did these measures, they were also passed by the military López Arellano and Torrijos in Honduras and Panama. These laws not only increased taxes but also eliminated many of the generous concessions the foreign corporations had enjoyed until then.[lxx]

The multinational corporations did not remain passive towards these changes. Both United Brands and Standard Fruit protested by interrupting their shipments and threatening the countries with export strikes and layoffs. Standard Fruit interrupted its exports from Honduras and United Brands reduced its Costa Rican exports by 30 per cent.[lxxi] After this, the Central American governments began to use a harsher language against the multinationals and mutual strong accusations began. The situation reached a tense point in June 1974 when two high-ranking officials of the Panama government accused Standard Fruit and United Brands of conspiracy to murder Panama's Torrijos and of supporting military coups in the region.[lxxii] In the meantime, the banana workers in Costa Rica went on several strikes supporting the creation of UPEB. Torrijos refused to give in to United Brands saying that he would "take the war to its last consequences." A diverse coalition of student groups, businesspeople, and labor unions mobilized to create a unified front against the attempts of United Brands to sabotage the governmental initiative. In spite of this, United Brands continued its boycott—destroying an estimated value of $1 million of its production and refusing to continue exporting. Torrijos promised the 15,000 banana workers to pay their wages as long as the conflict continued while Fidel Castro allied with Torrijos by offering to buy the Panamanian bananas.[lxxiii] These events helped Torrijos to show to the people at home and abroad his confrontation with United Brands as a war for national sovereignty, which reinforced the popular national support he needed and helped him to gain international popularity in the rest of Latin America. In the meantime, López Arellano decided to go forward with the most aggressive agrarian reform in Honduran history. He distributed lands he expropriated to Standard Fruit to 44,700 families and created 900 peasant cooperatives.[lxxiv]

The foreign companies did not get aid from the US when conflicting with the Central American governments. In fact, the producing countries even got loans for this program from US-dominated multilateral institutions such as the Inter-American Development Bank (IDB) and the International Monetary Fund (IMF).[lxxv]

The conflict was finally settled in September 1974. With strong resistance from Torrijos and no help from the US government, United Brands accepted the new policies of the Panamanian government, which also meant the acceptance of UPEB and the new political environment; shortly afterwards, the company re-started its operations and Torrijos became a very popular politician in Latin America.

López Arellano did not end this conflict completely clean. In April 1975, Eli Black committed suicide, initiating investigations by the Securities Exchange Commission (SEC), who uncovered a corrupt scheme by the company to negotiate a reduction in the UPEB's export tax. Black was at the center of a bribery case involving several high-ranking officials of the Honduran government, including López Arellano. United Brands admitted that it had paid $1.25 million in bribes to Honduran officials through the company's subsidiaries whose books had been falsified to cover up these transactions. According to the company, Black authorized the whole scheme. The deeper the investigations went, the worse the situation was for the company: the SEC also discovered that United Brands had paid $750,000 in bribes in Italy in order to get favorable business opportunities.[lxxvi]

1974, the year in which the "Banana War" took place was not a profitable one for United Brands. That year alone the company reported a net loss of $43,607,000, for which they blamed weather problems and the "Banana War."[lxxvii] The company informed the shareholders that the new agreements with the local governments were going to mean higher taxes and fees and less property in Central America, but added that the company "is proud of the long working relationships it has had with the nations of Latin America. We look forward to continued associations, which are mutually beneficial both to our company and to the peoples of the nations in which we work. We further have pledged to those nations our support as a responsible corporate citizen."[lxxviii]

Conclusion

For most of the 20th century, United Fruit benefited from the authocratic Central American governments, resembling what has been argued by Oneal, Kobrin, Li and Mihalache, Le Billion, and Ross. Most of the nationalist opposition came in periods of political opening (as in Guatemala and Honduras in the 1950s) or in countries with more democratic institutions (Costa Rica). The case of United Fruit in Central America does not show a pattern like that argued by Jensen in the sense that democratic institutions favored the multinationals' business activities, something that still holds true when we compare contemporary cases like India (more democratic but less foreign investment) versus China (authocratic but attractive for foreign investors).

The alliance with the authocratic right, however, was not set in stone. It lasted as long as the multinational's operations provided a constant flow of income and economic stability. Under those circumstances, an alliance between the government, the elite, and the company against the labor movement made sense. However, this alliance collapsed when the governments and the elite needed extra rents in times of economic crisis. If the company refused to provide this extra income, however, the anti-labor union governments were even willing to ally themselves with the labor movement in order to increase the country's rents and decrease the possibility of political turmoil. These initiatives were not a result of changes in the rulers' ideology but strategies of *real politik*. In fact, it is worth remembering that these military remained as strong allies of the US in the war against Communism. The previous alliances were created by external factors (arrival of FDI) but also collapsed by external factors (oil crisis).

This paper shows that an analysis the effects of a political regime over foreign direct investment requires the inclusion of factors like external economic shocks, relative importance of the multinational in the local economy, the general economic structure of the host country, and the host country's political relations with the company's home country. United Fruit was operating in small poor countries, with a non-diversified economy, and with little political independence. Its agenda coincided with that of the local generals, local landowners, and the US government. However, the oil crisis changed the world order too fast. Dealing with the Cold War and an oil crisis, the US government was not willing to fight over bananas. Facing possible social turmoil due to the economic crisis generated by the oil sector, the Central American rulers were willing to break their alliance with the multinational and approach the labor movement. The countries had been extremely vulnerable to the export of one single product, but the 1970s showed that they were also too vulnerable to the import of one product (oil) over which they had no control. Confronting the banana companies was a price the governments were willing to pay in order to have some control over their economies. The alliance depended on many external issues besides the class interests of the different social groups in the host country.

Table 1. Trade Balance Central America, 1965-1977 (Millions of Dollars)

	Costa Rica	Guatemala	Honduras	Panama
1965	-66	-43	6	-138
1966	-43	48	-5	-124
1967	-47	-21	-9	-171
1968	-43	-51	-4	-180
1969	-55	-23	-13	-199
1970	-86	6	-43	-247
1971	-125	-14	1	-279
1972	-94	3	19	-317
1973	-110	5	5	-364
1974	-280	-128	-87	-611
1975	-201	-109	-87	-606
1976	-178	-79	-43	-610
1977	-193	107	-47	-460

Source: Author's calculations with information from Latin American Centre at Oxford University, *The Oxford Latin American Economic History Database* (http://oxlad.qeh.ox.ac.uk/index.php)

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[i] Henry, O, *Cabbages and Kings,* 328

[ii] Bulmer-Thomas, *The Political Economy of Central America,* 16-20

[iii] Kepner and Soothill, *The Banana Empire*, 76

[iv] See also Kepner, Charles, *Social Aspects of the Banana Industry*.

[v] See Evans, *Dependent Development.* Although Evans made his study for the manufacturing sector, the concept of an alliance foreign capital-national elite-national government is present among neo-Marxist scholars.

[vi] See Dos Santos, *Imperialismo*; Frank, *Capitalism*

[vii] See North, *Institutions,* and Jensen, "Democratic Governance."

[viii] Li and Resnick, "Reversal of Fortunes."

[ix] Oneal, "The Affinity of Foreign Investors for Authoritarian Regimes."

[x] See Kobrin, "Expropriation as an Attempt to Control Foreign Firms in LDCs;" Li and Mihalache, "Democratic Institutions and Sectoral Foreign Direct Investment."

[xi] See Le Billion, "Political Ecology of War," and Ross, "What Do We Know About Natural Resources and Civil War."

[xii] Munro, *The United States and the Caribbean Area*, 216-222.

[xiii] See United Kingdom, *Survey of Economic and Financial Conditions 1921-1922,* 26-27, 54-55; United Kingdom, *Economic Conditions in the Republic of Honduras*, 12.

[xiv] Mecham, J. Lloyd, *A Survey of United States-Latin American Relations,* 336

[xv] Coatsworth, *Central America and the United States,* 46-48.

[xvi] Coatsworth, *Central America and the United States,*

[xvii] Wilkins, *The Maturing,* 154-160

[xviii] Bucheli, *Bananas and Business*, 24-46.

[xix] Bulmer-Thomas, *Economic History of Latin America,* 58, 74, 76; Britnell, "Factors," 106.

[xx] Kepner, *Social Aspects*, 77-80.

[xxi] Taracena, "Liberalismo y poder politico," 210-211; Kepner, "Social Aspects," 73-75, MacCameron, *Bananas Labor, and Politics in Honduras*, 10-11.

[xxii] Taracena, "Liberalismo y poder politico," 235.

[xxiii] MacCameron, *Bananas, Labor, and Politics in Honduras*, 15.

[xxiv] Posas, "La plantación bananera," 157.

[xxv] Bulmer-Thomas, "La crisis de la economía," 351; Bucheli, *Bananas and Business*, 31-33.

[xxvi] Bulmer-Thomas, *The Political Economy of Central America*, 352.

[xxvii] Taracena, "Liberalismo y poder politico," 212-215.

[xxviii] Gliejeses, *Shattered Hope*, 12-13.

[xxix] Gliejeses, *Shattered Hope,* 13-19.

[xxx] IRCA, *Annual Report 1931*, 6.

[xxxi] IRCA, *Annual Report 1919,* 5; IRCA, *Annual Report 1920,* 12-13.

[xxxii] Gliejeses, *Shattered Hope,* 21.

[xxxiii] Schlessinger and Kinzer, *Bitter Fruit.*

[xxxiv] Ricord, *Panama y la Frutera,* 11-14.

[xxxv] Taracena, "Liberalismo y poder politico," 200; Bucheli, *Bananas and Business*, 46-47.

[xxxvi] Chomsky, *West Indian Workers*, 214-215.

[xxxvii] Chomsky, *West Indian Workers,* 218-220.

[xxxviii] Taracena, "Liberalismo y poder politico," 220.

[xxxix] Bulmer-Thomas, *The Political Economy of Central America*, 347; Chomsky, *West Indian Workers,* 220-229.

[xl] Chomsky, *West Indian Workers,* 253-258.

[xli] See Standard Fruit, *Annual Report 1939,* 4, and *Annual Report 1941,* 4.

[xlii] MacCameron, *Bananas,* 17-19.

[xliii] MacCameron, *Bananas,* 28-30.

[xliv] MacCameron, *Bananas,* 52-53.

[xlv] MacCameron, *Bananas,* 23-24.

[xlvi] IRCA, *Annual Report 1944,* 6; IRCA, *Annual Report 1945,* 4; IRCA, *Annual Report 1948,* 3; IRCA, *Annual Report 1949,* 4.

[xlvii] Schlesinger and Kinzer, *Bitter Fruit*, 25-37.

[xlviii] IRCA, *Annual Report 1951,* 1-3.

[xlix] Gliejeses, *Shattered Hope*, 164.

[l] James, *Red Design,* 65.

[li] Schlesinger and Kinzer, *Bitter Fruit*, 99-118.

[lii] US Department of State, *Penetration*.

[liii] While United Fruit expressed relief after Arbenz's overthrown, IRCA mentioned good labor relations. See United Fruit Company, *Annual Report 1954,* 3; IRCA, *Annual Report 1956,* 4-5.

[liv] Bucheli, *Bananas and Business,* 33-38, 58-70.

[lv] Bucheli, *Bananas and Business,* 58-64.

[lvi] United Fruit Company, *Annual Report 1968*

[lvii] United Brands Company, *Annual Report 1970*

[lviii] Bucheli, *Bananas and Business*, 65-70.

[lix] Coatsworth, *Central America and the United States,* 108-109.

[lx] Coatsworth, *Central America and the United States*, 102-126.

[lxi] Bulmer-Thomas, *The Political Economy of Central America,* 204.

[lxii] Coatsworth, *Central America and the United States,* 128-129.

[lxiii] Bourgois, *Banano,* 116.

[lxiv] United Brands, *Annual Report 1972*, 5.

[lxv] United Brands, *Annual Report 1972*, 38-39.

[lxvi] Vallejo, *Productos Básicos*, 83-88.

[lxvii] See the dramatic Honduran government reports on the damages created by Fifi and the trade deficit in Banco Central de Honduras, *Informe Económico 1975*, iii, 32-43.

[lxviii] López, *Economía del banano,* 33-34.

[lxix] Bulmer-Thomas, *The Political Economy of Central America*, 203.

[lxx] United Nations, *La Economía*, 79-80.

[lxxi] Vallejo, *Productos básicos*, 284; Presa*, Aportes*, 11, 54-55; Clairmonte, "El imperio," 21-22.

[lxxii] Vallejo, *Productos básicos,* 285.

[lxxiii] Vallejo, *Productos básicos,* 286-287.

[lxxiv] Guerra-Borges, "El desarrollo económico," 58-59.

[lxxv] See the pleas by the Central American governors in IDB, *Proceedings 1974,* 127-131; IDB, *Proceedings 1975*, 102-108; IMF, *Summary Proceedings Annual Meeting 1975*, 102-108.

[lxxvi] McCann, *An American Company*, 232-234.

[lxxvii] United Brands, *Annual Report 1975*, 1, 2, 4, 10.

[lxxviii] United Brands, *Annual Report 1975*, 3.

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