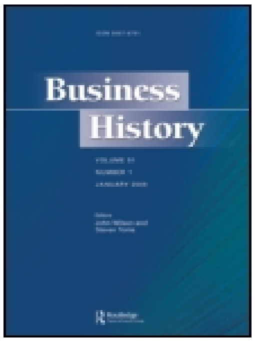

Business History

ISSN: 0007-6791 (Print) 1743-7938 (Online) Journal homepage: http://www.tandfonline.com/loi/fbsh20

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Marcelo Bucheli

To cite this article: Marcelo Bucheli (2008) Multinational corporations, totalitarian regimes and economic nationalism: United Fruit Company in Central America, 1899–1975, Business History, 50:4, 433-454, DOI: 10.1080/00076790802106315

To link to this article: https://doi.org/10.1080/00076790802106315

Published online: 19 Jun 2008.

Business History
Vol. 50, No. 4, July 2008, 433–454

Routledge
Taylor & Francis Group

Multinational corporations, totalitarian regimes and economic nationalism: United Fruit Company in Central America, 1899–1975

Marcelo Bucheli*

Department of Business Administration and Department of History, University of Illinois at Urbana-Champaign, USA

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 labour unrest. The literature assumes that United Fruit and the dictators were natural allies due to their opposition to organised 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; 1970s 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 (1912) used this term for the first time to describe the imaginary country of Anchuria in his novel *Cabbages and Kings*. 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 neighbouring Guatemala due to the rivalries between Cuyamel and the Boston-based United Fruit Company. Other writers followed Henry in the perception of the corrupt nature of the Central American governments and the overwhelming power the American fruit companies had in those countries. Among them are Nobel winning 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 twentieth century, most of Central America and the Caribbean was ruled by some of the most infamous dictators of the Western Hemisphere, such as the Somoza

*Email: mbucheli@illinois.edu

ISSN 0007-6791 print/ISSN 1743-7938 online

DOI: 10.1080/00076790802106315
http://www.informaworld.com

dynasty in Nicaragua, Jorge Ubico in Guatemala, Rafael Trujillo in the Dominican Republic or Tiburcio Carías in Honduras; strong military men who maintained a highly unequal social system by repressing the mass 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 region-wide state of continuous instability, and constantly competed for the approval of the United States (Bulmer-Thomas, 1987).

It was in this scenario that the American multinational United Fruit Company, and to a lesser extent the New Orleans' corporation Standard Fruit Company, built 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 modernise their economies. United Fruit employed thousands of local workers and created an export infrastructure where one did not exist before.[1]

The close relationship United Fruit had with the local dictators gained the company a terrible reputation in Latin America. This was apparent not only in the fictional works mentioned above, but also in social studies. The classic book by Charles Kepner and Henry Soothill (1935, p. 76) argued that '[This] powerful company has throttled competitors, dominated governments, manacled railroads, ruined planters, choked co-operatives, domineered over workers, fought organised labour and exploited consumers. Such usage of power by a corporation of a strongly industrialised nation in relatively weak foreign countries constitutes a variety of economic imperialism'. Kepner and Soothill (1935) considered United Fruit partially responsible for the region's poverty and lack of democracy. For decades, Kepner and Soothill were the primary reference for those studying United Fruit, shaping the view of the company as the quintessential representative of US imperialism. Most studies written after Kepner and Soothill assumed or found a mutually beneficial relationship between United Fruit and the Central American dictators in which both actors were almost natural allies (Argueta, 1989; Dosal, 1993; MacCameron, 1983; Ricord, 1974; Zanetti & García, 1976).

This article studies the relationship between United Fruit Company and the Central American dictatorships, analysing which factors determined the alliance between both actors. I argue that the multinational and the right-wing dictators were not necessarily natural allies. Rather, their alliances shifted according to two main factors: first, the ability of the banana sector to generate economic stability; and, second, the strength of the labour movement in the host country. Right-wing dictators tended to ally with the local landowners and the foreign corporation against the labour force as long as the multinational's operations provided the country with 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 in the sector as a means of increasing the rents generated by banana exports. If the multinationals resisted, the dictators allied with the working class to confront the multinationals. This turn towards a nationalist policy on the part of right-wing governments did not signify a parallel shift in their ideology, however, which remained strongly anti-communist and pro-American.

I define a democratic regime as one in which citizens chose an executive in free and open elections, and in which the executive is constrained by a strong constitution and works in concert with an independent legislature. In contrast, I define a totalitarian regime as one in which the executive has unlimited authority, is not constrained by a constitution (or can change it or interpret it at will), appoints the members of the accountability groups, and rules by decree (Henisz, 2000). I define a right-wing regime as one in which the government is supportive of the dominant economic class, and a left-wing regime as one that is autonomous of the dominant economic class (Knight, 2001). When analysing the labour movement I include both rural and urban workers.

This article is structured as follows: in the next section I explore the scholarly debates on the relationships between foreign capital and different types of political regimes, and show the benefits of these theoretical debates for business historians. In the third section I define the four historical moments the paper analyses, which correspond to changing relationships between the Central American governments and United Fruit. My analysis covers four key moments: a) the period during which United Fruit enjoyed unprecedented economic and political power in the region (1900–1945); b) early challenges to this power in Honduras and Guatemala (1945–1954); c) the new political landscape produced by the Cuban Revolution and the Alliance of Progress (1954–1974); and d) the rise of a new nationalism in the wake of the oil crisis of 1974. The remaining sections analyse each of these stages in detail and the last section draws the conclusions.

Nationalism, political systems and foreign direct investment

My findings have implications for both business history and the political economy of foreign direct investment in dialogue with one another. For the Neo-Marxist Dependency School, the operations of multinational corporations assumed crucial importance in explaining why some countries in the world are poorer than others. According to these scholars, the structure of the global economy allowed rich nations to exploit poor nations through economic and political methods. As a rule, the rulers of the poor countries allied with global capital to exploit their own people. In order for this to happen, totalitarian regimes in poor countries benefited the private economic interests of rich countries. For Dependency scholars, multinational corporations were one of the many arms of domination of the world's economic powers over poor countries, exacerbating poverty, unequal income distribution and political repression (Cardoso & Faletto, 1979; Castells, 1973; Dos Santos, 1973; Evans, 1979; Frank, 1971).

Dependency theory flourished in the 1970s and 1980s, but faced a crisis in the 1990s, a time in which most Third World countries adopted free-market policies. By the 1980s and 1990s, social scientists developed a Neo-Institutional approach derived from rational choice theories to explain the historical roots of poverty in the world. Borrowing from Douglass North, Neo-Institutional scholars went beyond the traditional definition of institutions as the executive, legislative and judicial branches of government, extending their definition to what they called the 'humanly devised constraints on action' (North, 1981, 1990; Weingast, 2003, p. 202). Human beings, they assume, seek their own benefit by making rational economic and political decisions given the information they have. Some institutional arrangements, however, might impose constraints on people, not allowing them to make the best decisions. These scholars conclude that a liberal democracy and a market economy are the best institutional frameworks that permit human beings to make the most rational decisions for their own interest. The assumption of existence of rational agents led Neo-Institutional scholars to use the methodological tools of micro-economic theory, which shares the same basic assumptions. As a result, quantitative methods have dominated rational choice political and historical studies (for some good examples of this approach, see Greif, 2005; Katznelson & Weingast, 2005; Acemoglu & Robinson, 2005).

The dominance of rational choice studies has had an impact in the study of multinational corporations and political regimes. While Dependency scholars argued that multinational corporations benefited from dictatorial regimes, Neo-Institutional scholars argue that these companies would benefit more from a liberal democracy. In a liberal democracy, Neo-Institutional scholars claim, the existence of checks and balances does not permit the government to change the rules of the game at its will, permitting foreign companies to rationally plan long-term investments. On the contrary, in a totalitarian regime the country's ruler does not have constitutional constraints and can change the rules overnight, creating uncertainties among investors (Feng, 2001; Henisz, 2000; Jensen, 2003, 2006).

Scholars with a Neo-Institutional approach have discovered variants in the ways in which multinationals and different political regimes relate to one another. Li and Resnick (2003) agree that democracies protect property rights more than autocracies, but also they also point out that elected politicians tend to control monopolies, and cannot offer foreign investors incentives that look too generous to their constituency. Thus, they conclude that the weaker the democracy, the more likely that foreign firms will have monopolistic power. Oneal (1994) even reaches a conclusion which does not differ dramatically to that of Dependency scholars when he argues that in developing countries (contrary to developed ones) authoritarian regimes and multinationals have a 'cosy' relationship, which encourages both parties to protect each other.

Research on the political economy of foreign direct investment 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 (1984) and Li and Mihalache (2006) argue that firms producing in the primary sector are not only more vulnerable to nationalist policies due to their vertically integrated structure and sunk costs, but also that these sectors are usually targets of political violence. Other authors point out that multinationals working in the primary sector tend to support right-wing dictatorships more than multinationals operating in the manufacturing or service sectors (see Le Billion, 2001; Ross, 2004).

The political scientist Guillermo O'Donnell has argued that the relationship between foreign firms and totalitarian governments depends on the stability or the volatility of the economic system. According to O'Donnell (1982, 1988), a totalitarian right-wing state will create an environment that permits the expansion of foreign capital in its country. This process will transform the local bourgeoisie (which might benefit economically from the multinationals' operations, but might also become subordinate to the interests of foreign capital). It will also worsen social inequalities, leading to increasing demands from the working class. As a result, foreign investors, the national government and the local bourgeoisie will become aligned through common interests. However, if the country faces a sudden economic crisis (not anticipated by the government, the multinationals, the bourgeoisie, or the working class), O'Donnell (1982, 1988) predicts the following outcomes: the working class will increase its demands, generating more uncertainty among private investors, while the foreign and domestic firms will try to accumulate as much as possible in a short time (a looting of the economy), generating a political crisis out of an economic one. Under these circumstances, the government can choose to co-opt the labour movement by giving attention to some of its demands, but without threatening the existing capitalist system and the privileges of the national bourgeoisie. O'Donnell (1982, 1988) also argues that if foreign investors perceive long-term transformations in the host society of a nature that might negatively affect their operations, they will gradually adapt to these transformations by increasing the participation of local actors (which can be both the government and the bourgeoisie) in the business in which the multinational is involved. With a sudden economic crisis, however, this gradual adaptation is not possible (O'Donnell, 1982, 1988).

By studying the case of United Fruit and the Central American dictatorships, this paper examines a process that follows the kind of relationships defined by Li and Resnick (2003), Le Billion (2001) and Oneal (1994), with the particularities for multinationals working in the extractive sector in less developed countries defined by Kobrin (1984) and Li and Mihalache (1986), but following a long-term process like the one defined by O'Donnell (1982, 1988). Several scholars have called on business historians to make use of theories of international business (Jones & Hertner, 1986), and academics in international business have advocated placing politics back into the centre of their analyses (Boddewyn, 1988; Leonard, 1980; Murtha & Lenway, 1994; Skocpol, 1995). More recently, Geoffrey Jones and Tarun Khanna (2006) made a call to bring history back into the analysis of international business. Most scholars on the political economy of foreign direct investment rely on large mega databases (usually unavailable for poor countries or long periods of time) for their quantitative analysis. This article advocates the use of historical case study analyses in dialogue with the theoretical contributions of political science for a better understanding of the subtleties and complexities of the political relations between multinationals and poor countries.

This paper makes a contribution to this debate by analysing the relationship between governments and international business in a historical perspective, using the theoretical tools of political science. For this paper I used the corporate reports of United Fruit Company, United Brands Company, Standard Fruit Company and the International Railways of Central America located at the Baker Library at Harvard Business School. I also used economic and political reports on the Central American countries by the United Kingdom Department of Overseas Trade, the United States Department of State, the International Monetary Fund, the Inter-American Development Bank and the Honduras Central Bank, which are located at the University of Illinois at Urbana-Champaign Library.

United Fruit Company and the stages of economic nationalism in Central America

This article identifies four periods in Central American nationalism towards United Fruit. First, the era of the 'Banana Republics' and the American 'Mare Nostrum' (1900–1945). Second, the era of nationalist and social reforms in Honduras and Guatemala (1945–1954). Third, the period of company's retreat after the political transformations taking place in the continent with the Cuban Revolution and the Alliance for Progress (1954–1974). And, fourth, the emergence of a new economic nationalism led by the Central American regimes resulting from the oil crisis (1974–1976).

During the first period (1900–1945), the resistance to United Fruit's power and the nationalist initiatives came mostly from the labour 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 even 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.

Between 1945 and 1954, 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 initiatives that sought to control United Fruit's power to 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 social reforms, the Honduran labour movement confronted United Fruit in a process that peaked in 1954 with a strike that threatened the very existence of the Honduran government.

During the period between 1954 and 1974, the whole Third World experienced strong economic nationalism. Recently decolonised countries expropriated properties of their former rulers, Fidel Castro triumphed in Cuba expropriating American assets (including those 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 labour codes and the creation of agrarian reform legislation in most countries. The world was changing in such a way that United Fruit considered that it was better to gradually sell some of its production properties before they became targets of economic nationalism.

Finally, 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, labour 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.

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% 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 twentieth century, the Central American and Caribbean countries gradually fell within the American economic and political sphere after the US paid some of these countries' foreign debt to European powers. In many cases, the US secured these payments with customs collections in the debtor countries. With this operation, the region shifted from the sterling into the dollar arena, securing US economic hegemony (Munro, 1934). In their reports on Central America, British officials could not avoid acknowledging their inability to deter increasing American influence in the region (see United Kingdom, 1923, 1938). In 1907 the US organised a conference in Washington to sign the General Treaty of Peace and Amity, in which Central American countries agreed to non-intervention in their neighbours' affairs, constitutional reforms prohibiting re-elections, and non-recognition of non-elected governments (Mecham, 1965). Although the democratic reforms stipulated by the treaty were largely ignored, it consolidated the US position as the only power in the Caribbean Basin.

The overwhelming US dominance in the region led Central American politicians to follow a policy of accommodation towards this country. The different Central American republics competed for American approval by repressing left-wing opposition and by blocking social reforms that would threaten the privileges of the traditional upper classes, while at the same time opening 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 (Coatsworth, 1994).

The United States also achieved its political pre-eminence in Central America through direct military intervention. Whenever one of the American ally regimes or American interests was in danger, the US did not hesitate to send 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).[2] The Caribbean had become an American *Mare Nostrum*, giving the US companies the confidence to expand their business in the region.

The political process that assured American political domination over Central America and the Caribbean was carried out simultaneously with what Mira Wilkins calls the 'spillover' of American companies into the region. According to Wilkins, after the Spanish-American War (1898), American companies began operations in Mexico, Central America and the Caribbean, behaving as if these regions were natural extensions of the United States (Wilkins, 1974). In addition to these favourable 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 (Bucheli, 2005).

Before World War II, Central American and Caribbean economies depended heavily on the US. Exports to the US over total exports was 49% for Costa Rica, 53% for the Dominican Republic, 27% for Guatemala, 87% for Honduras and 94% for Panama. Similarly, Costa Rica bought 53% of its imports to the United States, the Dominican Republic 62%, Guatemala 50%, Honduras 67% and Panama 55%. To make things worse, these countries' exports were very poorly diversified. By 1913, 50% of Costa Rican exports were bananas and 35% coffee; Guatemalan exports depended on 84% on coffee and 6% on bananas (which increased to 27% in the 1930s and was around 15% in the 1950s); Honduras 50% on bananas and 25% in precious metals, and Panama 65% on bananas and 7% in coconuts (Bulmer-Thomas, 2003; Britnell, 1953).

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 modernise 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 (Kepner, 1936). This chaotic situation was exacerbated by the permanent political instability in the region.

The country that has been considered the quintessential example of the so-called 'Banana Republic' is Honduras. Honduras was the second largest banana exporter in Central America from 1900 until 1916, and the largest afterwards. The first banana companies operating in that country received 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 received tax benefits and more generous concessions. Later, United Fruit benefited from this policy by receiving concessions for banana production (Kepner, 1936; MacCameron, 1983; Taracena, 1993). 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 labour movement had never been very strong, and presidents like Bonilla, Bertrand, or even Dávila never showed much sympathy towards it. The first Honduran experience with labour 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 (Taracena, 1993).

The main Honduran labour organisation (the Honduran Unions Federation, or FSH) was created after the strike in 1920, but was constantly criticised by fellow Latin American labour unions for not being revolutionary enough and for being too modest in its demands. In 1930, a more belligerent FSH organised 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 (MacCameron, 1983).

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 16 years (Posas, 1993). The Great Depression generated a crisis in coffee exports and a fall in banana prices and consumption of the fruit in the United States. United Fruit exacerbated the crisis when it tried to compensate for the fall in banana prices by reducing the workers' wages and the price it paid to local planters, a measure that led the workers to strike (Bucheli, 2005; Bulmer-Thomas, 1993). 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, which 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 (Bulmer-Thomas, 1987). Carías quit voluntarily in 1949, leaving a former United Fruit lawyer, Manuel Gálvez, as his successor.

United Fruit also had a long and influential presence in Guatemala. Before the Depression, Guatemala had 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 (Dosal, 1993). In 1901, he gave United Fruit a transportation concession between Puerto Barrios (on 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 linked Guatemala City with Puerto Barrios, and in 1906 he granted United Fruit a banana production concession (Dosal, 1993; Taracena, 1993).

Estrada fell from power in 1920 and was succeeded by a series of short-term rulers until 1931, when General Jorge Ubico took power. The short pre-Ubico administrations were more politically open than those who preceded and came after them. The government permitted certain political freedoms the country enjoyed for that brief period. During these years, the government tried to control United Fruit's excessive control of the economy and also attempted to increase the rents Guatemala got from banana exports (Dosal, 1993). The government got some modest gains from United Fruit and IRCA, but these initiatives were interrupted by the subsequent government of Jorge Ubico, 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 100 days a year. The landowners made the situation even more difficult for the Indians by agreeing among themselves not to compete for the labour 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 between Spanish and Indians) 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' (Gliejeses, 1991, pp. 12–13).

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 industrialisation, fearing it would lead to the creation of a subversive proletariat. He forbade the use of 'Communist' expressions like 'trade union', 'strike', 'labour rights' and 'petitions'. He went so far as to rule 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 (Gliejeses, 1991, pp. 13–19).

Ubico was a strong ally of the United States and welcomed foreign investors. When he came to power, IRCA presented this to its shareholders as a positive change (IRCA, *Annual Report 1931*). Between Estrada and Ubico (1920–1931), IRCA constantly complained of Guatemalan political instability and the triviality with which the Guatemalan government treated its commitments, including the repayment of loans IRCA had provided it (IRCA, *Annual Report 1919*; IRCA, *Annual Report 1920*). 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 (Gliejeses, 1991).

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 organised elections for 1945 (Dosal, 1993).

The American influence in the smaller republic of 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 in 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 linked the different cities of Panama with each other, and Panama with the Americas. As part of the same contract, the Panama government committed itself not to build any telegraph lines for 15 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 on the Atlantic Coast and later, due to soil exhaustion and disease among the banana trees, on the Pacific Coast (Ricord, 1974).

United Fruit also exercised significant political power in Costa Rica despite that nation's more open political system. Although Costa Rica was more democratic than its neighbours, United Fruit managed to have a very strong influence in state matters thanks to the close relationship Minor Keith (one of United Fruit's founders) had with the Costa Rican government. In 1900, the Costa Rican government gave Keith a land concession of 3200 km^2 to build the railway, which permitted the company to eventually monopolise banana production (Bucheli, 2005; Taracena, 1993).

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 the hardest critics. Jiménez approached both the workers and the planters showing his support and promising a change in policy towards United Fruit (Chomsky, 1996). In 1910, Jiménez was elected president, but once in power, his opposition to the company was neutralised by a United Fruit loan that permitted Costa Rica pay its foreign debt. The nationalist opposition continued from the labour unions, which failed to create a united front due to racial tensions among the workers (Chomsky, 1996). The next government of Alfredo González (1914–1917) started a series of social and economic reforms that included higher taxation for 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 relaxed the concessions to foreign companies (Taracena, 1993).

Tinoco's military coup did not turn Costa Rica into a long-term dictatorship. He was forced to step down 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 but short-lived alliance between landowners and agrarian workers. Even the Costa Rican government wrote a report stating that United Fruit was not respecting the original contracts. This happened at a time in which the company was decreasing its banana production in Costa Rica in response to the Depression. Taking advantage of 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. The contract, however, did not oblige United Fruit to increase wages. Given the fact that the country remained dependent upon United Fruit, and was going through an economic crisis, the Costa Rican government did not demand more from the company. In fact, United Fruit even received a new concession for banana production on the Pacific Coast to replace the plantations it was abandoning in the Atlantic due to disease (Bulmer-Thomas, 1987; Chomsky, 1996).

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 created a 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, maintaining its monopolistic power in the country (Chomsky, 1996).

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 coincided (except in Costa Rica). The dictators helped United Fruit's business by creating a system with little or no social reform, and in return United Fruit helped them to remain in power.[3] During this period the relationship between United Fruit and the local governments clearly resembles that defined by the early neo-Marxist historians. The alliance, however, depended on the socio-political conditions of the host countries and the multinational's ability to generate income and economic stability to the ruling governments.

Reform, nationalism and rebellion in Guatemala and Honduras (1945–1954)

The economic and political characteristics that made of Honduras the best definition of a 'Banana Republic' were reinforced during the 16-year presidency of Carías. In 1949, the ageing 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 systems and introduced an eight-hour day. These actions encouraged labour unrest in the banana plantations led by Communist organisations (MacCameron, 1983).

In May 1954, the Honduran banana workers went on strike, demanding higher wages and better working conditions. This strike sparked other strikes all over the country. The peaceful nature of the strike earned the support of the urban middle classes, local media, and even some government officials. United Fruit requested that Gálvez send the Army and end the strike. The government, however, declared itself neutral, something with no precedent in Honduras' history (MacCameron, 1983). 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 for a 21% wage increase (from the original 71% demanded by the workers), and health care for the workers' families (MacCameron, 1983). 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 about Communist influence among the strikers, which was nonetheless never significant (MacCameron, 1983).

The events taking place in Guatemala were even 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, prohibited 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 legalised labour unions. These changes created for the company 'uncertainties' to be watched carefully, and led to complaints about the costs labour reforms created and the increasing labour belligerence (IRCA, *Annual Report 1944*; *1945*; *1948*; *1949*). The government organised new elections under this constitution, and former exile Juan Jose Arévalo won with 85% of the vote and strong participation from the recently legalised labour unions (Schlesinger & Kinzer, 1990).

Arévalo faced a coup attempt in 1949 that was crushed by Captain Jacobo Arbenz, who became a hero among Arévalo's followers. Arbenz resigned from his military career and ran in the 1951 presidential elections. He won with 65% of the votes against the Conservative candidate, and former friend of Ubico, Miguel Ygidoras (Reid, 2007).

Following his election as President, Arbenz pursued an ambitious social programme 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 US, 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 organised more widespread and aggressive strikes with stronger demands (IRCA, *Annual Report 1951*). A signal of the new times was that in 1951 the IRCA *Annual Report* included a 'Labour Relations' section for the first time (IRCA, *Annual Report 1951*).

One of Arbenz's biggest goals 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 favourable to the development of domestic industry (Wittman & Saldivar-Tanaka, 2006).

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 acre 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 at 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 (Gliejeses, 1991).

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 US State Department, which had already vocalised its support of the company. In March 1953, the American ambassador to Guatemala demanded 'prompt, adequate, and effective compensation' (James, 1954, p. 65). In February 1954, the American government demanded the Guatemalan government pay $15 million in compensation. The government refused and insisted on its 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 (Schlesinger & Kinzer, 1990, pp. 99–118). 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 (Gleijeses, 1991).

Throughout 1953 and 1954, tensions rose between Arbenz, the US government and United Fruit (US Department of State, 1954). 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 removed Arbenz from power and nullified many of his reforms, to the relief of the American government, United Fruit and the conservative Guatemalan landowning class, ending the most aggressive nationalist initiative against United Fruit up to that moment.[4]

Cuban revolution, alliance for progress and company's retreat, 1954–1974

The 1950s and 1960s saw important changes in the banana market. First, banana consumption decreased in the United States, given that Americans were replacing fresh fruits with canned fruits (Bucheli & Read, 2006). 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 overthrow, the company remained suspicious and nervous of the political developments in the region (Bucheli, 2003).[5]

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 new legislation that forced United Fruit to significantly increase its wages. These two events, in addition to the previous problems in Guatemala, led the financial analysts of Moody's Investors Services to classify United Fruit as a risky investment (Bucheli, 2005).

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' (United Fruit Company, *Annual Report 1968*, p. 4).

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, again emphasised 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 65 per 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. (United Brands Company, *Annual Report 1970*, p. 9)

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 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 (Bucheli, 2005). So, during this period United Fruit lost its lands not because of nationalism, but because of the uncertainties of nationalism in the future.

The 1960s were also times in which the American government decided to follow a double-edged policy towards Latin America. Aware that poverty made Communism attractive to lower classes, the US government encouraged and endorsed agrarian reform programmes in the region through the recently created Alliance for Progress. These programmes benefited United Fruit, which 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 by its allies (Coatsworth, 1994).

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 Latin American countries fell into the hands of military dictators. 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 meagre budget during the Lyndon B. Johnson administration and died with Richard Nixon and Gerald Ford. US military aid and other economic assistance continued in Central America during the Johnson administration, when the US government considered the Communist threat higher in Central America than in the more solid South American dictatorships. However, this aid nearly disappeared during the Nixon years (Coatsworth, 1994).

The oil crisis that began in 1973 had a terrible effect in Central America. All the countries imported oil (whose price increased 400% in a few months), their economies were still highly dependent on banana and coffee exports (representing around 80% of the region's exports) and the area was still the poorest in Latin America. This crisis forced the local governments to realign themselves and follow protectionist policies (Bulmer-Thomas, 1987).

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 President Colonel Boris Martínez, who had recently announced an aggressive agrarian reform and encouraged demonstrations against the American control of the Panama Canal. As Table 1 shows, Torrijos was taking power in a country with a chronic problem of trade deficits. In fact, the information from the Oxford Latin American Economic History Database (http://oxlad.qeh.ox.ac.uk/index.php) shows that Panama overcame its problem of constant trade deficits only in 1980; thus, a solution to that problem was urgent. Torrijos' coup and subsequent repression against some of his co-conspirators was supported by the United States. Once in power, Torrijos decreased banking regulations to a minimum, benefiting the Panamanian upper class (Coatsworth, 1994). United Fruit also supported Torrijos by giving him personal monetary donations. In 1970, Eli Black, the company's president, sent Torrijos a cheque for $25,000 with a note of support for the 'cause you and your wife defend' (Bourgois, 1994).

General López Arellano had a background similar to Torrijos'. He came to power for the first time in 1963 in a military coup against President Villeda, who had tried to create the first agrarian reform in Honduras in the face of great opposition from 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 long. In 1971, there was another military coup in which López Arellano came back to power.

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).

In the company's reports for 1972 and 1973 (the year the oil crisis began), President Eli Black proudly showed how the company was creating a more progressive and egalitarian relationship with Central America. He announced a new set of company-sponsored social programmes, 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"' (United Brands, *Annual Report 1972*). In another section of the same report, the company quoted the *New York Times* in saying 'What emerges from talks with labour, management and government is a picture of a company that anticipated the changes that have swept Latin America and has quietly set about adjusting to them.' As an example of change, the company gave a very detailed description of the economic and social aid it provided the Nicaraguans after the devastating earthquake of 1973 (United Brands, *Annual Report 1972*). The company's social programmes, however, would not alter the deeper economic problems of the countries. Table 1 shows the dire situation the banana producing countries faced during the oil crisis.

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 modelled after the Organisation of Oil Exporting Countries (OPEC) called UPEB (Banana Export Countries Union, in its Spanish acronym). As Table 1 shows, these countries all suffered an increase of their trade deficit or a change from trade surplus to trade deficit. UPEB's main goals were: a) to increase taxation on bananas exported by the multinational corporations; b) to control supply in order to control international banana prices; and c) to modify the land and tax concessions granted to the multinational corporations by the local governments several decades before (Vallejo, 1982). By this time, 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.[6]

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% of the income generated in the banana market, while the multinationals received 37% and the retailers in the consuming countries earned 19% (López, 1986). In addition, the inflation the oil shock created made local growers press to increase the fixed banana purchase prices they had agreed with United Fruit decades before (Bulmer-Thomas, 1987). 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 and 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 introduced 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 (United Nations, 1986).

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%

(Clairmonte, 1980; Presa, 1975; Vallejo, 1982). After this, the Central American governments began to use harsher language against the multinationals and strong mutual 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 (Vallejo, 1982). In the meantime, the banana workers in Costa Rica went on several strikes in support of the creation of UPEB. Torrijos refused to give in to United Brands saying that he would 'take the war to its last consequences' (Vallejo, 1982). A diverse coalition of student groups, businesspeople, and labour unions mobilised 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 to pay the wages of the 15,000 banana workers as long as the conflict continued while Fidel Castro allied with Torrijos by offering to buy the Panamanian bananas (Vallejo, 1982). These events helped Torrijos to present to 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 from Standard Fruit to 44,700 families and created 900 peasant cooperatives (Guerra-Borges, 1993).

The foreign companies did not get aid from the US when in conflict with the Central American governments. In fact, the producing countries even got loans for this programme from US-dominated multilateral institutions such as the Inter-American Development Bank (IDB) and the International Monetary Fund (IMF).[7]

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 US Securities Exchange Commission (SEC), which uncovered a corrupt scheme by the company to negotiate a reduction in the UPEB's export tax. Black was at the centre 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 authorised 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 favourable business opportunities (McCann, 1976).

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' (United Brands, *Annual Report 1975*). 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' (United Brands, *Annual Report 1975*, p. 3).

Conclusion

This article has studied the evolution of the relationship between an American multinational corporation (United Fruit Company) and the Central American governments during the twentieth century. I have shown that for the first seven decades of the century, United Fruit benefited from the totalitarian Central American governments, confirming the arguments of Oneal (1994), Kobrin (1984), Li and Mihalache (2006), Le Billion (2001) and Ross (2004). The mutually beneficial relationship, however, collapsed after an economic crisis, whose outcome followed a process similar to the one defined by O'Donnell (1982, 1988). This means that the alliance between the foreign firm and the totalitarian regimes 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 labour 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-labour union governments were even willing to ally themselves with the labour 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 realpolitik. In fact, it is worth remembering that these military remained strong allies of the US in the war against Communism. The previous alliances were created by external factors (arrival of foreign direct investment) but also collapsed by external factors (oil crisis).

My results not only question some Dependency assumptions, but also some results of several rational choice authors. Contrary to what the more general works of Jensen (2003) or North (1981, 1990) argue, I do not find that more democratic institutions favoured the multinationals' operations. In fact, most of the nationalist opposition came in periods of political opening (as in Guatemala and Honduras in the 1940s and 1950s) or in countries with more democratic institutions (Costa Rica). This pattern holds true even for more recent times and larger and more diversified economies. For instance, during the first decade of the twenty-first century the more democratic India received less foreign investment than totalitarian China.

This article 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. 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 labour movement. The countries had been made extremely vulnerable by a single-product export regime, 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.

Finally, this article has shown that the great number of factors affecting the operations of large multinational corporations in poor countries makes it imperative to include the theoretical debates and achievements in political economy. The perception of the multinational corporations as creators of unacceptable levels of poverty, political oppression, and instability in the Third World did not die with the Dependency school, as the current anti-globalisation movement shows. The rational choice Neo-Institutional school found a perfect environment to argue for the benefits of capital expansion and liberal democracy during the late 1980s and 1990s, when the Communist countries in Europe were collapsing and the Third World governments decided to follow laissez-faire economics. This environment, however, has shown signs of change in the first decade of the twenty-first century. While the process of globalisation of markets has not halted, it has found a chorus of different voices to oppose it, ranging from radical Islam to populist left-wing Latin American politicians like Venezuela's Hugo Chávez. Multinational corporations do not operate in a political vacuum and undeniably affect the welfare of millions of people living in desperate poverty. By taking into account the insights of literature on the political economy of foreign investment, business historical studies can contribute to the debate on the origins of poverty and oppression in less-developed countries.

Acknowledgements

I wish to thank Mira Wilkins and Geoffrey Jones for useful comments on previous versions of this paper. I also thank Laura Linard and the staff of the Historical Collections at Baker Library at Harvard Business School for their help in this research. I take full responsibility for any error or inaccuracy.

Notes

1. For a history of the company's early stages, see Adams, *Conquest of the Tropics*; Bucheli, 2005, pp. 44–50; Kepner, 1936, pp. 45–91; Kepner & Soothill, 1936, pp. 43–208; May & Plaza, 1958, pp. 1–19.
2. For a detailed account of these interventions, see Langley, 2002; Musicant, 1990.
3. During this period, Standard Fruit suffered the expropriation of some already unprofitable lands by the Mexican government. Mexico, however, was not a significant country for the banana multinationals. See Standard Fruit, *Annual Report 1939*, p. 4, and *Annual Report 1941*, p. 4.
4. While United Fruit expressed relief after Arbenz's overthrow, IRCA mentioned good labour relations. See United Fruit Company, *Annual Report 1954*, p. 3; IRCA, *Annual Report 1956*, pp. 4–5.
5. Steve Striffler shows that the company also had to retreat in Ecuador due to labour unionism pressure. See, Striffler, 2002, 2003.
6. 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.
7. See the pleas by the Central American governors in IDB, *Proceedings* 1974, pp. 127–131; 1975, pp. 102–108; IMF, 1975, pp. 102–108.

Notes on contributor

Marcelo Bucheli is an Assistant Professor at the Departments of History and Business Administration at the University of Illinois (Urbana-Champaign), USA. He earned his PhD at Stanford University (2002) and was the Harvard-Newcomen Fellow in Business History at Harvard Business School in 2004–2005. In 2005, his book was published *Bananas and Business: The United Fruit Company in Colombia, 1899–2000* (New York: New York University Press). His article 'Enforcing Business Contracts in South America: The United Fruit Company and the Colombian Banana Planters in the Twentieth Century' *Business History Review 78* (Summer, 2004), 181–212, won the Newcomen-Harvard Award for the best article published in *Business History Review* that year. He contributed chapters to *From Silver to Cocaine*, edited by Zephyr Frank, Carlos Marichal, and Steven Topik (Durham: Duke University Press, 2006) and to *Banana Wars*, edited by Steve

Striffler and Mark Moeberg (Durham: Duke University Press, 2003), and published the article 'Banana Wars Maneuvers' in *Harvard Business Review* (November, 2005). He is currently developing a new project on oil multinationals in Latin America.

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