DOLLAR DIPLOMACY: FALLACIES AND CONSEQUENCES OF FOREIGN INVESTMENT IN CUBA, 1909–1924

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Historians in general show a natural propensity to overlook the most basic function of government: to protect and enhance the interests of the public whose views it has been called to represent. They do so by ascribing a moral component to governmental action that is often too broad, too impractical and indeed much incompatible with the reality of the aforementioned function. It is often implied from historical argumentation that most American administrations have neglected to fulfill their moral responsibility to treat their hemispheric counterparts with respect and love of kin. What is less often mentioned is that in order to do so, much of America's tremendous ambition would have required containment, a self-imposed prohibition not to search for opportunities overseas even in times when no alternative existed. This containment would ultimately result in the violation of the desire by the voters to gain opportunities for personal expansion and enrichment. Thus, such seemingly morally appropriate containment implies a violation of the most basic rule of modern government, a fact which renders the moral assessment by historians of American foreign policy largely meaningless and rather superfluous.

I approach my research in a way different to the one just mentioned. I intend to provide an *a*moral analysis of "dollar diplomacy," its underlying flaws, and its consequences in the Cuban case. I do not aim to prove that the intentions of those who defended the policy were, or were not, morally appropriate. I will not challenge nor favor any claim regarding their personal motivations in adopting dollar diplomacy. I will focus solely on the practical goals set by dollar diplomacy and I will challenge the view that defends they were promptly achieved.

My argument suggests that the circumstances which transformed Cuba's socio-political structure and made it impossible for her to attain stability and prosperity were in fact *provoked*, *caused*, and directly *brought about*, by foreign private investment during the dollar diplomacy era. The export of capital from the United States to Latin America was seen by President Taft (1909–1913) and his Secretary of State Philander C. Knox as the perfect form of foreign policy. They believed it would provide both an opportunity for American interests to expand, and an increase in the economic activity of the Latin American nations, which would benefit with greater stability, order and prosperity. However in the case of Cuba, and possibly many other nations of the continent, dollar diplomacy proved fallacious as it fostered political and economic instability, social disruption and a sense of false economic growth for more than half a decade.

The causal relations I will introduce to further my claim that foreign enterprise was in fact the sole catalyst of Cuban decadence add up more strongly than one may initially believe. And they do so even more convincingly in the context of a Caribbean nation that was a United States protectorate. One would expect

1. Editor's Note: This essay was awarded First Prize in the ASCE Student Competition for 2008 for undergraduate students.

this to guarantee a rather optimal level of security and stability, more so than in any other central-American country. Yet five interventions in less than thirty years were necessary—according, of course, to the United States—in order to restore peace.

These interventions were normally spurned by social, economic or political unrest. I will argue that these forms of unrest were a direct consequence, albeit unintended, of dollar diplomacy. The state of affairs on the island changed in a way contrary to what president Taft and Secretary Knox intended. Instead of bringing prosperity, stability and contributing to the advent of a strong middle class, dollar diplomacy was responsible for a shift in the socio-economic structure of Cuba dominated by increasing poverty, dependency, disrupted families and social conflict. My argument relies upon the connection between the emergence of *latifundia*, the advent of a capitalist wage-labor system, massive immigration, and the devastating impact upon the traditional family structure.

The foreign capital that flowed into Cuba was used by foreign-owned companies to acquire adjacent plots of land that belonged to peasant families. This gradual buy-out led to the emergence of large portions of land controlled by a single entity. This signified the downfall of subsistence and small-scale farming, which for generations had allowed families to remain together and planters to retain profits for their own prosperity. When the *latifundia* became the basis of a new agrarian system, large numbers of workers became necessary to maximize their productivity. A change in the status quo quickly ensued. Seasonal workers migrated to the plantations during the *zafra*—harvest—and to the cities in the dry seasons in search for work. The stable family life they had known ended during the dollar diplomacy era.

The capitalist wage-labor system not only destroyed the family structure, as it forced men to migrate and become separated from their families, but it also prompted record amounts of immigration from Haiti, Jamaica, and Spain. For this reason, the population of the island rose dramatically over the first two decades of statehood. This occurrence had, in turn, one devastating effect: labor became cheaper because of higher demand for jobs, and wages inevitably plummeted. As a consequence, mothers were persuaded to take jobs even if the prospect of making ends meet by adding to the man's salary was still out of reach. Rural families became impoverished female-headed households because men departed from the plantations to the cities in search for work. This domestic migration prompted a sense of skepticism about marriage, a drop in consensual unions, and an increase in the number of illegitimate children. These circumstances destroyed the nucleus of the traditional family and its stabilizing power over society. The basis upon which a prosperous nation had to be built was now comprised of individuals scattered all over the land scavenging for their own survival. Low wages, a change in the organization—or indeed disorganization—of the family, immigration and *latifundia* all formed a new social system that was unstable, prone to spark revolt, and destined to interminable poverty. The prospect of prosperity and stability became an illusion, for the destiny of Cuba did not rest in her own hands.

The capital that flowed into Cuba during the first decades of the twentieth century came mostly from the United States. Some large estates were indeed held by companies registered in European and other American nations, but proximity and availability of capital made the United States the most important player in sugar cultivation and trade in Cuba. By 1921, American-owned companies produced 67% of all Cuban sugar.[2]

Regardless of origin, foreign capital had yet another major implication for Cuban affairs that much concerns our inquiry. Due to a blend of circumstances that made Cuba most attractive for its sugar industry, the capitalist mindset of these foreign forces guided investments toward the industry that promised the most profits. This attitude caused the Cuban economy to become over dependent upon the export of sugar cane. The economic crisis of 1920 illustrates this point. After a decline in world sugar prices, the total revenue from sugar exports decreased from almost 800 million pesos in 1920 to just short of 280 million in 1921,

2. Robert W. Dunn, *American Foreign Investments* (New York: B. W. Huebsch and the Viking Press, 1926), 21.

even though the total amount of tons produced and exported actually increased.[3] Such a drop in revenues represented a severe decline in the solvency of the state, for sugar trade accounted for 92% of all exports.[4] Thus overdependence on the sugar industry left Cuba's economy at the mercy of vacillations in the value of the crop.

DOLLAR DIPLOMACY

William Howard Taft was elected President of the United States in 1909. A protégé of his predecessor Theodore Roosevelt, the new Republican incumbent pursued a foreign policy that remained true to the interventionist cause. He envisioned a relationship between the United States and Latin America in which dollars substituted bullets.[5] He modified Theodore Roosevelt's interventionist creed of peace and strategy by focusing on financial and commercial dealings with Latin America. Underlying this shift was the belief that a positive reciprocal relationship would be beneficial to the economies of both regions.

On the one hand, dollar diplomacy intended to foster and protect American investment abroad. Taft once pointed out that even though Washington's foreign policy stance had to be just, interventions were not to be ruled out if they were necessary for the government to protect the interests of its citizens overseas.[6] On the other hand, dollar diplomacy attempted to reconcile American economic expansion and investment in Latin America with the latter's need for development. Taft once stated that "the United States has been glad to encourage and support American bankers who were willing *to lend a helping hand to the financial rehabilitation of [Latin America]*."[7] It was believed that through large amounts of investment the poor nations to the south would develop a stable economy, a strong middle-class, and political stability. Secretary of State Knox announced in a speech that the American dollar could both "aid suffering humanity" and "replace insecurity and devastation by stability and peaceful self-development."[8]

Cuba was one of the largest recipients of American investment due to her proximity to the United States and her status as a protectorate. However, the events that occurred in Cuba after 1909 prove not only that dollar diplomacy failed in helping a poorer nation to develop, but that foreign investment in fact changed the social and economic structure of the island in a way contrary to that expected by Washington.

FOREIGN OWNERSHIP IN CUBA FROM 1902 TO 1924

Cuba was the most receptive of nations for Taft's plan, since its sovereignty never materialized after its campaign for national independence ended in 1898. Cuba was first ruled by a provisional American military government and then it became a protectorate of the United States, as the latter's control was legitimized through the Platt Amendment to the 1902 Cuban Constitution. The amendment gave the United States right to intervene in the internal affairs of the island at any time Washington deemed it necessary, on the pretence that the prosperous future of Cuba depended on the course of its stability and security. It is plausible to argue that a nation nurtured and protected by an emerging superpower would have the necessary levels of supervision, stability, and security to grow and make progress consistently. It could also be deduced that such direct American influence would have helped create the necessary institutions and the emergence of the right attitude that facilitate progress. Yet the opposite occurred. Even with American guarantees of security and stability, Cuba still failed to achieve development

3. Dirección General de Estadística, *Resúmenes estadísticos seleccionados* (Havana: Imprenta P. Fernández, 1959), 45.

4. Dirección General de Estadística, *Resúmenes*, 24.

5. Thomas L. Karnes, *Readings in the Latin American Policy of the United States* (Tucson: The University of Arizona Press, 1972), 198.

6. Scott Nearing, Joseph Freeman, *Dollar Diplomacy: A Study in American Imperialism* (New York: B. W. Huebsch and the Viking Press, 1925), 266.

7. Nearing and Freeman, *Dollar Diplomacy*, 265 (italics added).

8. "Knox tells about 'dollar diplomacy': Secretary of State Says What Began as a Term of Derision Is Proving Effective." *New York Times*, December 12, 1911.

substantial enough to lift her to industrialization and modernity.

The most important reason for Cuba's lack of progress after 1902 was the influx of unrestricted foreign capital and the consequences it had upon the economy and social organization of the island. Initially, however, foreign investment was seen in a positive light, considered capable of guiding the Caribbean pearl to prosperity. The Cuban government regarded this type of investment as the key to a fast recovery from the devastation created by the war of independence. Much of the infrastructure was destroyed and chaos dominated the rural areas, with fields burned and farmers forced to relocate. Foreign capital was an attractive short-term solution to finance the costs of reconstruction. It also promised to get the economy off the ground after thirty years of disruption. Employment, tax revenues and exports were expected to soar. People would have money to spend and the government would obtain the necessary resources to finance projects of reconstruction. These promises were sufficient for the Cuban government to open the doors of the island to American money.

This policy, however, had certain negative consequences for the Cuban economy. The sugar industry became the main beneficiary of foreign investment, so much so that the national economy became almost entirely dependant upon its exports. Two external factors prompted such dependency. First, the Reciprocity Treaty of 1903 guaranteed Cuban producers a share of the American market and lowered tariff rates on sugar imports by 20 per cent.[9] President Roosevelt himself strongly insisted in this special treatment toward sugar.[10] Favorable trade conditions coupled with a steady rise in international sugar demand and price were good enough reasons for investors to start turning their attention to sugar production. In 1902, unrefined cane represented almost half the total exports of the island. By 1910 the figure had risen to 73%. The amount of tons produced almost doubled during the decade after the signing of the Reciprocity Treaty, going from 1 million tons in 1903 to more than 1.8 in 1912. On average, only around 5% of all sugar produced in Cuba remained for domestic consumption.[11]

The second factor was World War I and its influence on the price of sugar. European beet sugar fields halted production because of the conflict, which caused international supply to plummet. Beet sugar production halved between 1914 and 1918, declining from 8.4 million tons to just 4.4 by the end of the war. Because of languishing world supply, the price of sugar increased 131% in the same period of time. A pound of the product sold at 2.05 cents in 1914. In 1917, buyers had to pay 4.74 cents for the same amount.[12]

These numbers propelled the increase in sugar investment and production in Cuba in the second decade of the twentieth century. In 1909, the year in which Taft was inaugurated and dollar diplomacy was made official, the total amount of American investments—not just sugar—in Cuba was $141 million. In 1924, when data was made official by the Department of Commerce, the number had increased almost nine fold, to $1,250.0 million. Of these, $750 million, or 60%, were invested directly in the sugar industry.[13] The rest can be broken down as follows: 8.8% went to railroads, 8% to public utilities, 6.4% to real estate, 4% to tobacco and cigars, 2.8% to mining, and the remaining 10% to other projects.[14] Furthermore, the production of other crops declined abruptly. Coffee plantations were once Cuba's primary export and the source of its wealth. In 1864, coffee plantations totaled 2,328, and produced about 50 million pounds of the crop. In 1919, due to the resurgence of the sugar industry, coffee came to be produced in "less than two hundred small farms." Pro-

9. Louis A. Perez, *Lords of the Mountain: Banditry and Peasant Protest in Cuba, 1878–1918* (Pittsburgh: University of Pittsburgh Press, 1989), 155. See also: Nearing and Freeman, *Dollar Diplomacy*, p. 189.

10. Nearing and Freeman, *Dollar Diplomacy*, 189.

11. Dirección General de Estadística, *Resúmenes*, 45.

12. Perez, *Lords of the Mountain*, 154.

13. Dunn, *American Foreign Investments*, 119–20.

14. Dunn, *American Foreign Investments*, 119–20.

duction totals were so small that the drafters of the census of 1919 did not bother to include an accurate estimate.[15]

Another striking statistic is the higher productivity of the American mills. Of all mills operating in Cuba in 1924 (182), 43 per cent (or 72) were in American hands, whereas 57% (104) were owned by Europeans, Cubans, or others. Even if American mills were fewer in number, their share of the total production was 64%, or 16 million bags. Non-American mills produced only 36%, or 9.2 million bags. Furthermore, many of the companies listed as "non-American" were French, Spanish, or English. Oriental Cubana, a French company, had as many mills, three, as Guantánamo Cane Sugar Company, one of the more influential ones and owned by Americans.[16] Thus it should not be thought that only 43% of the sugar mills were owned by foreigners, nor that $750 million was the total invested in the industry. These numbers, high already, belong just to American interests. Foreign companies controlled 73% of the total sugar production and owned 15–20% of Cuba's territory.[17]

American-owned companies hesitated little to establish themselves at the heart of the thriving industry. Atlantic Fruit Company bought 40,000 acres on the north coast and cultivated cane; Manatí Sugar Company acquired 76,500 acres of land and added 51 miles of railroad.[18] Other enterprises which were already operating in Cuba expanded their business. Foreign companies grew by purchasing small or medium-sized plots of land from local farmers, which allowed them to create large and highly productive properties. Companies like Cuba Cane Sugar Corporation, which in 1917 owned seventeen mills and cultivated a total of 547,000 acres of land, or Cuban-American Sugar Corporation, with its addition of 325,000 acres, eight mills, two refineries and 225 miles of railroad in 1916, are just two of the many compelling examples of the response investors gave to the attractive prospects of the sugar industry.

A more traditional way of cultivating sugar gave way to the industrialized, capitalist mannerism of foreign companies, which extinguished family-owned plots of land and substituted them for *latifundios* that were more productive and crucial in their quest to maximize profit. Prior to independence, land was owned mostly by local farmers, whose plots were normally of small or medium size. During the dollar diplomacy era, companies bought plots of land from local families and created large, profitable land-holdings. This process left many peasants unemployed and families without the most basic source of security: land. The case of Oriente province (the easternmost part of the island) provides a good example of this trend. In the city of Guantánamo, small farms and communal lands owned by locals were progressively transformed into large estates. By 1912, ten mills, all foreign, dominated the Guantánamo valley.[19] This trend was also described by Carleton Beals, the famous American journalist who lived in Cuba and reported many of the historical events of the time. He once wrote: "The [Cuban] independence leaders, eager to attract American capital, did not stop to remember that such capital inevitably would flow into large land-holdings and large-scale agrarian industrial activities."[20]

This shift in the state of affairs in Cuba due to foreign investment took two initial shapes. First, the economy became even more dependent upon the export of sugar because of favorable trade and market conditions. Second, there was a shift in land ownership from medium-sized family-owned plots to large landholdings owned by foreign capitalist corporations. As we will

15. Angel Betancourt Miranda*, Census of the Rrepublic of Cuba 1919* (Havana: Maza, Arroyo y Caso, 1920), 58.

16. Ibid, 121. See also: Yordanka Tito Moreira, *La compañía azucarera oriental cubana* (Guantánamo: Editorial el Mar y la Montaña, 2006), 32.

17. Miranda, Census 1919, p. 84; Alejandro de la Fuente, *A Nation for All* (Chapel Hill, N.C. & London: University of North Carolina Press, 2001), 105.

18. Dunn, *American Foreign Investments*, 154–55

19. Perez, *Lords of the Mountain*, 137.

20. Carleton Beals, *The Crime of Cuba* (Philadelphia, London: J. B. Lippincott Company, 1933), 193.

see in the following section, the disappearance of subsistence farming and family businesses gave way to a new social and economical system to which the Cuban people, and those who came from abroad in search of opportunity, had to adapt. And they paid a price for it.

THE CONSEQUENCES OF THE WAGE-LABOR SYSTEM

The emergence of *latifundios* forced the transition to a capitalist wage-labor system. Wage-labor in its simple form expanded in Cuba after slavery was abolished in 1885. Most slaves became salaried workers who often remained in the small or medium-size plantation that had previously owned them. If they decided to move, they would settle in another plantation where they would be able to lead a stable family life. In the dollar diplomacy era, however, capitalist forces prompted a change. Because companies were in a constant lookout for cheap labor to cultivate and harvest their immense landholdings, jobs became insecure and temporary. Seasonal workers had to leave the household during both the dry and the wet seasons in order to obtain a salary. Men were roaming the fields or the city streets for most of the year, which meant that a stable family life was no longer possible. For rural Cuba, this was a new state of affairs that furthered poverty and fuelled unrest. Jobs offered by American companies attracted record amounts of immigration and caused the breakdown of the traditional family structure.

Immigration prompted the initial decrease in wages that so much tormented Cuban families. It is calculated that the total number of immigrants that entered the island in the first three decades of the twentieth century is 1,259,846,[21] almost 32% of the entire population in 1931. Most were from Jamaica, Haiti, and Spain. The reason for their entry into Cuba was the great increase in opportunity that the *latifundia* afforded. Spurned by plentiful jobs and the possibility to escape stagnation or lack of success in the motherland, people fled to Cuba, legally or illegally, in massive amounts as news spread of mills and cane fields recently opened and in need of a strong workforce.

In Cuba, mills pressured the government to allow the entrance of immigrants from other Caribbean nations in order to fill the need for *macheteros*. In 1912, for instance, President Gómez allowed United Fruit Company to import 1,400 Haitians to work its plantations.[22] The pressure went so far that the government implemented a colonization policy that covered part of the traveling costs of immigrants and gave them small plots of land.[23] Immigration became so common that the demand for jobs quickly overtook the supply and wages inevitably decreased, since most of the demand was from recent émigrés who were willing to work for a lower remuneration.[24] Cuban workers were left with two choices. They either consented to work for less than the minimum wage or settled for unemployment. Many circumstances like the rise in the price of food made the latter option impossible.

The other major repercussion of the new agrarian system was its terrible impact upon the traditional structure of the family. Economically, things looked so bleak for Cuban households that women and children were often obligated to take up temporary jobs. Women were entering the proletarian workforce at more or less the same rate men were. A vicious circle thus emerged: women were regularly paid less than men for the same amount of work, a circumstance that allowed sugar planters to depress wages further. This, in turn, made it more difficult for families to make ends meet, a circumstance that compelled them to seek other employment in order to bring in more income. But the higher the demand for jobs the more salaries decreased. This, coupled with the steady rise in the prices of foodstuffs, put many rural families in the brink of starvation.[25]

21. Carmelo Mesa-Lago, *The Labor Force, Employment, Unemployment, and Underemployment in Cuba: 1899–1970* (Beverly Hills: Sage Publications, 1972), 9–10.

22. Luis E. Aguilar, *Cuba 1933: Prologue to Revolution* (Ithaca, NY: Cornell University Press, 1972), 42.

23. Aguilar, *Cuba 1933*, 9.

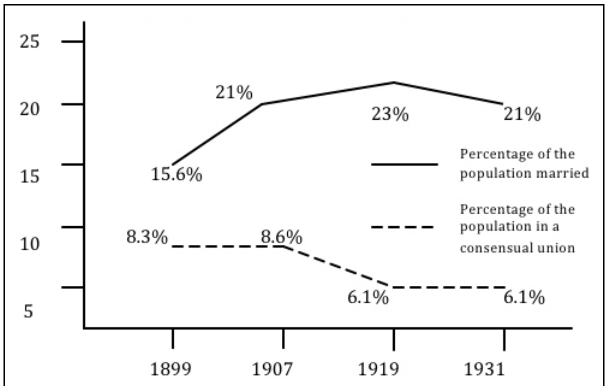
24. Aguilar, *Cuba 1933*, 42; see also: Perez, *Lords of the Mountain*, 164.

25. Perez, *Lords of the Mountain*, 168–70.

Cuban families were not only strained economically as a consequence of the wage labor system. They were also hurt in their structure and cohesion. The demographic changes that emanated from the swift shift in land ownership offer an example of how much—and perhaps how negatively—Cuba changed during the dollar diplomacy era. A consequence of the wage-labor system was that families no longer owned land, which sustained family unity and provided economic security. The land that their forebearers owned and cultivated was now in the hands of capitalist sugar planters. Now the only security that families had came in the form of wages from their employers, which were insufficient because of general economic hardship and immigration. With security and stability gone, marriage had little to offer to both men and women. As a consequence, the growth in the number of marriages stalled. In 1899, 15.6% of the total population was legally married.[26] The statistic grew to 21% just eight years later, in 1907, rising 5.4%.[27] In 1919, *twelve* years later, 23% of the population was married, a growth of only 2%.[28] This downward trend is confirmed by the census of 1931 which lists the percentage of married people in relation to the population at 21%, the same as in 1907 (see Figure 1).[29]

Another representative statistic that shows a change in the Cuban family structure is the evolution of consensual unions over the same period of time. In consensual unions, as in marriages, the man and the woman live together and may raise a family, but the union is not sanctioned by the law. It is often stated in the Cuban censuses that no analysis of marital history in the island is fair unless it accounts for consensual unions.[30] For our analysis it gains even more importance: unions of this type were more common among colored people and in rural areas. *Latifundios* and capitalist wage-labor had a more notorious negative impact upon the lives of colored wage-laborers and rural families. It would be expected that the number of consensual unions, endemic to these two demographics, would grow more slowly after 1907. In reality, it does not grow at all, not even in a period (1907–19) in which the total population grew 41%.[31] The number of consensual unions in 1907 was 176,509 and in 1919 it was 177,330. With respect to the total population they fell 2.5%. In the period between 1899 and 1907, consensual unions had grown 34% (see table 1). People forming these unions represented 8.3% of the total population in 1899, 8.6% in 1907, 6.1% in 1919 and 6.1% in 1931. The decline came during the dollar diplomacy era no doubt because of the latter's negative impact upon the lives of the rural population.

Figure 1. Proportion of Marriages and Consensual Unions to the Total



Source: US War Dep., *Informe sobre el censo de Cuba,* 1899 (Washington: Imprenta del gobierno, 1900), 309; Oficina de Censo, *Censo de a República de Cuba bajo la administración provisional de los Estados Unidos 1907* (Washington: Oficina del censo de los Estados Unidos, 1908), 412; Betancourt Miranda, *Census of the republic of Cuba 1919* (Havana: Maza, Arroyo y Caso, 1920), 517; Gladys Alonso, Ernesto Chave Alvarez, *Memorias inéditas de censo de 1931,* (Habana: Editorial de ciencias sociales, 1978), 87.

An additional indicator of the shift in family structure caused by the new socio-economic conditions is the

26. US War Department, *Informe sobre el censo de Cuba, 1899* (Washington: Imprenta del gobierno, 1900), 309.

27. Oficina del Censo, *Censo de la República de Cuba bajo la administración provisional de los Estados Unidos 1907* (Washington: Oficina del censo de los Estados Unidos, 1908), 412.

28. Census 1919, 517.

29. Gladys Alonso, Ernesto Chávez Alvarez, *Memorias inéditas del censo de 1931* (Havana: Editorial de Ciencias Sociales, 1978), 87.

30. Alonso and Chávez, *Memorias inéditas del censo de 1931*, 87.

31. The population of Cuba in the former year was 2,048,980 and in the latter 2,889,004.

birth rate of illegitimate children. The sudden need for men to migrate in search for the jobs they so badly needed left an unmistakable trail of broken relationships and casual encounters. In 1907, illegitimate children represented 12.6% of the total population of Cuba. In 1919, the figure had doubled to a staggering 24%.[32] In the province of Oriente, births out of wedlock rose from 21.7% in 1907 to higher than 35% in 1919, 61.9% of which were black.[33] From the viewpoint of the woman, committing to one man was no longer as persuasive as it had once been, due to the fear that she would have to move with work opportunities. Because of the decline in wages and the necessity that everyone in the family work in order to make ends meet, women shied away from marriage and took up jobs in cities and towns while their men worked in the fields. Separation and infidelity thus became the two main reasons for the rise in the number of illegitimate children.

Another reason that has been given for the rise in births outside wedlock is that children represented a potential source of income. Once they had reached an age sufficient for labor, they would go out and help provide for the entire family. What they failed to realize were the broader implications of this trend. Children were paid less than men and women but were often asked to work as much as adults. As a consequence of this new demand for labor, cheap in its nature, wages were depressed even further. The population increase did not directly contribute to stability, security and prosperity, but instead to more poverty and conflict.[34]

THE CRISIS OF 1920: IMPLICATIONS AND MEANING

Cuba's economy grew rapidly during and after World War I primarily because of the rise in the price and export of sugar. The war turned the European sugar plantations into battlefields, causing the world supply of the commodity to plummet. As a consequence, sugar prices rose to record levels, and so did the optimism of many Cubans. Then late in 1919, the value of the crop tripled in just 6 months, going from 7.28 cents per pound in November 1919 to 22.51 in May 1920.[35] A wave of investment in the sugar industry soon followed, with individuals and corporations taking up loans to expand their operations or to plant for the first time. The "Dance of the Millions," as this phenomenon is commonly known, was in full swing. For a while it seemed like "dollar diplomacy" as proclaimed by Knox in his speeches had triumphed ahead of schedule. However, the situation soon deteriorated. It was inevitable that a lack of fiscal policy and government control, which did not come until after the revolution of 1933,[36] would eventually give way to a "wave of speculation, economic irresponsibility and inflation."[37] Then the sugar bubble burst. International market conditions changed abruptly and the price of sugar plummeted to 5.51 cents a pound by the end of the year.

The crisis evidences the weakness of the Cuban economy during the dollar diplomacy era. Foreign investors developed the sugar industry in a way that rendered the entire economic landscape dependant upon the exports of the crop, a fact that left the economy at the mercy of vacillations of international market conditions. The expansion that Cuba experienced during and after World War One was superficial. Beneath the surface were signs of w+eakness that came to light in 1920. William LeoGrande explains that nations are underdeveloped because "they have 'developed' in a dependent way, in response to the needs of the international capitalist system generally and to the needs of

32. Oficina del Censo, *Census of 1907,* 267; Miranda, Census 1919, 364.

33. Perez, *Lords of the Mountain*, 173.

34. Perez, *Lords of the Mountain*, 170–175.

35. Perez, *Lords of the Mountain*, 43.

36. Carmelo Mesa-Lago, *Market, Socialist, and Mixed Economies: Comparative Policy and Performance: Chile, Cuba, and Costa Rica* (Baltimore; London: Johns Hopkins University Press, 2000), 171.

37. Aguilar, *Cuba 1933*, 43.

certain advanced capitalist economies in particular."[38] This was the case of Cuba. Its economy grew and fell with international sugar prices. The island had little influence upon its own future. American capital bought off the island with all its economic might, with no control by the Cuban government. The results of this situation, instead of falling within the expectations of the dollar "diplomats" in Washington, were in fact their opposite. Dollar diplomacy, according to its own goals, failed.

CONCLUSION

Cuba needed to avoid becoming an export economy dependent solely upon one product. Yet this was exactly what occurred through the influence of "dollar diplomacy" and foreign investment. Favorable political and trade conditions, coupled with the fact that the demand for and price of sugar were rising, convinced many American companies that investment in sugar production would yield the biggest returns. Cuba would have had a better chance at development had it focused its efforts on domestic expansion and created a diversified export portfolio. The need for reconstruction and economic growth after the war of independence and the influence of the United States prompted Cuba to embrace foreign capital. This led to a chain reaction of internal disorders in the island that created a social organization unlikely to facilitate the advent of a strong middle class. Dollar diplomacy caused immigration, low wages, a shift in land ownership, a broken family structure, and an increase in population and illegitimate births.

The first consequence of foreign investment was that it created a new agrarian system that revolved around the productivity and profitability of land-holdings of unprecedented size. The *latifundia* demanded large numbers of wage-laborers, a fact that attracted record levels of immigration. A decrease in salaries ensued as foreign cane-cutters were willing to work for less than the minimum wage. With fewer job opportunities and lower salaries, women and children had to take up jobs to provide for the family or themselves, a situation that depressed wages even further. Consequently, families became separated often without breaking legal ties, a circumstance that led to an unprecedented rise in the number of illegitimate births.

In light of this we can conclude that Dollar Diplomacy failed to develop a strong economy and a stable democracy in Cuba. Instead of effecting the advent of a strong middle class, which Taft and Knox believed was a necessary component of democracy, foreign investment furthered poverty by allowing wages to decrease. Foreign corporations pressured the government to pursue lenient policies towards immigration without much regard to the social unrest that immigration could spark. Instead of contributing to a strong economy, their acquisition of large land-holdings caused Cuba's dependence upon the export of sugar and thus it weakened the economy by pegging it to the unpredictable vacillations of the international price of the crop. Furthermore, dollar diplomacy did not attain democratic order in Cuba. A bloody rebellion erupted in 1912. Three more interventions by the United States were necessary to preserve peace. After 1933, the date of the last intervention, Cuban politics degenerated into a spiral of dictatorships, upheaval, and corruption.

Foreign investment was the factor that caused the dramatic changes in Cuba's socio-economic structure that I have presented. However, there are broader implications to my findings. I believe it is safe to say that this investigation has proven that foreign investment per se is not a reliable tool for development. Taxes and wages are insufficient for a strong middle class to emerge. The benefits of this strategy are felt slowly and in some instances, as was the case of Cuba, may create a social order unfit for development. I am even inclined to hint at the possibility that development comes from within the nation in the form of domestic capital and private domestic ownership and foreign investment *by* the developing nation. We should develop these ideas elsewhere, as they do not follow logically from any premise of my argument. I do take them, however, to be true to the fullest extent.

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38. William M. LeoGrande, *Cuban Dependency: A Comparison of Pre-revolutionary and Post-revolutionary Cuban International Economic Relations* (Amherst, NY: Council on International Studies, State University of New York at Buffalo, 1978), 4.