

CUBA AND ORIGINS OF THE US SUGAR QUOTA¹

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El factor institucional más importante en la historia de la industria del azúcar en Cuba después de 1930 fue la cuota de exportación que obtuvo en el mercado de los Estados Unidos en 1934. Este artículo revisa las tesis que consideran ese hecho como relativamente positivo y lo hace a la luz de los acontecimientos posteriores, que muestran que dicho sistema de cuotas perjudicó a la economía insular, sobre todo en la década de 1950, y examinando los stock prices de las empresas del sector, un buen indicador de las expectativas de retorno de las inversiones. Como conclusión afirma que el reparto del consumo azucarero norteamericano entre diferentes abastecedores fue fruto de la convicción de que el instrumento arancelario usado hasta entonces para proteger a la producción remolachera interna ya no era eficaz.

PALABRAS CLAVES: *Cuba, Estados Unidos, siglo XX, azúcar, crisis de 1930, mercado, proteccionismo, empresas.*

If one policy loomed large in the interwar history of Cuban sugar, it was the sugar quota adopted by the United States in 1934. Established under the rubric of the US «Sugar Program», the sugar quota governed the exports of Cuba's principal crop to its principal market. Sugar controls in the United States became central to the health and future of the Cuban economy. The importance of the United States as a market for Cuban sugar made any policy that governed that market central to Cuba's economic prospects. The international crisis and collapse of Cuba's access to the US market after 1929 made the restoration of that outlet for Cuban sugar an acute necessity. In 1929, just prior to the onset of the crisis, Cuba's sugar exports to the United States represented between 25 and 30 percent of Cuban national income —typical of the previous decade. Earnings from sugar

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exports to all destinations represented between 35 and 40 percent. According to existing estimates, from 1929 to 1933, Cuban real national income fell around 30 percent. The sharp reduction of sugar export revenues from the US market alone were equal to 60 percent of the decline in real national income². At the time of its inauguration, political rhetoric in Washington and Havana praised the sugar quota as a measure that would strengthen, if not restore, Cuba's position in the US sugar market. In apparent agreement, dominant views in the economic history of Cuba as well as the regulatory history of the United States interpret the US sugar quota as a policy measure that had positive consequences for Cuba.

If the literature casts a favorable light on the quota's effects on Cuban economic and political outcomes, recent work challenges the benign view of the sugar quota during the 1950s. New evidence shows that the quota system exposed the Cuban sugar industry more directly to the risks of domestic politics of the United States —because the volume of exports to its most important market were made strictly dependent on decisions in Washington about the size of Cuba's quota. Domestic sugar interests naturally had greater influence in the United States' representative political institutions over this decision than did Cuban sugar interests or diplomats. In a recent article, A.D. Dye and R. Sicotte show that a revision of the Sugar Program in 1956 exposed the Cuban sugar industry to a serious economic shock that came through a large unanticipated reduction in Cuba's sugar quota. The size and significance of this shock has been overlooked in the historiography, in part, because it was obscured by contemporaneous offsetting economic events. Sugar prices, aggregate income, unemployment, wages, and other indicators performed well in 1957 and 1958, the years immediately after the new sugar quota legislation went into effect.³ J.I. Domínguez suggests that this may explain why most scholars so strongly reject the proposition that economic events catapulted the island nation into revolution⁴. Scholarly attention has focused, instead, on the crisis in Cuban politics caused by the constitutional illegitimacy of the Batista regime, the popular demand to restore democracy, loss of faith in a corrupt political system, and the combination of strategic and military events that led to the rise of Fidel Castro's July 26th Movement.

Without challenging the primacy of the political explanation, A.D. Dye and R. Sicotte show that the negative consequences of the downward revision in the

² This figure is a rough estimate since estimates GDP are subject to a large margin of error. For the data sources, see A. SANTAMARÍA, *Sin azúcar no hay país: la industria azucarera y la economía cubana (1919-1939)*, Sevilla, Universidad de Sevilla, Escuela de Estudios Hispanoamericanos, CSIC, and Diputación de Sevilla, 2002, pp. 405, 416 and 418; O. ZANETTI, *Los cautivos de la reciprocidad*, La Habana, ENPES, 1989, app., table 2, and J. ALIENES, *Características fundamentales de la economía cubana*, La Habana, Biblioteca de Economía Cubana, Banco Nacional de Cuba, 1950.

³ A.D. DYE and R. SICOTTE, «The US Sugar Program and the Cuban Revolution», *Journal of Economic History*, 64/3, Cambridge, UK, 2004, pp. 673-704.

⁴ J.I. DOMÍNGUEZ, *Cuba: Order and Revolution*, Cambridge, Mass.. Harvard University, Belknap Press, 1978, pp. 120-9.

sugar quota were a major issue to contemporaries, which contributed to the loss of faith among the «economic classes» in Batista's ability to find a solution to the sugar question. By comparing projections of anticipated earnings from sugar exports to the US market under the old and new legislation, they show that the downwardly revised quota reduced the expected long-run rate of growth in export earnings in the US sugar market by about 70 percent. Two things prevented those negative effects from being felt immediately. First, they were muted in the immediate aftermath of the passage of the 1956 legislation because there were programmed delays in its implementation. Second, the Suez crisis, labor strikes in Hawaii, and other remote events disrupted short-run supplies of sugar in global markets and boosted the sugar price on the world market temporarily. Nevertheless, experts forecasted a dismal long-run growth path for Cuban sugar exports, punctuated erratically by occasional brief periods of favorable prices contingent upon exogenous sugar supply disruptions in the rest of the world. Noting that forward-looking investors in sugar-related securities markets would be responsive to these predictions, Dye and Sicotte examine the behavior of the stock prices of sugar companies in Cuba and the mainland United States. They find that, after 1956, there was a large increase in the risk associated with investment in shares in Cuban sugar companies. Further evidence shows that the fallout from the grim long-run prospects for the Cuban sugar industry, and the failure of the ruling regime to come up with an alternative plan, contributed to the decline in political support for Batista, which mounted throughout the latter half of the 1950s.⁵

These findings raise questions about the favorable light cast upon the inauguration of the sugar quota policy in the 1930s. As in the 1950s, the sugar quota system exposed Cuban sugar to risks of US domestic politics in the 1930s. What caused the nature of this political solution to Cuba's access in the US sugar market to differ in the 1930s? Two views have been offered. One view, put forth by A.O. Krueger, submits that the United States Government, through the leadership of President Franklin D. Roosevelt and the State Department, were motivated to use sugar policy to stimulate the Cuban economy and restore political order after the collapse of the Gerardo Machado regime in 1933⁶. A second view, offered by A. Santamaría, proposes that developments in the US sugar market caused an unusual alignment in the political interests of Cuban sugar producers and US beet sugar producers⁷. The adoption of a sugar quota, it is argued, served both their interests, hence the unlikely marriage of strange bedfellows. The current essay

⁵ A.D. DYE and R. SICOTTE [3].

⁶ A.O. KRUEGER, «The Political Economy of Controls: American Sugar», L. ALSTON, T. EGERTSSON and D.C. NORTH (eds.), *Empirical Studies in Institutional Change*, Cambridge, UK, Cambridge University Press, 1996, pp. 169-218 (first appeared in M. SCOTT and D. LAL (eds.), *Public Policy and Development: Essays in Honour of Ian Little*, Oxford, Oxford University Press, 1990).

⁷ A. SANTAMARÍA [2].

presents evidence that suggests, first, that the adoption of the sugar quota was less favorable to Cuba than the literature has reflected, and second, that neither of the explanations outlined is fully accurate.

The main purpose of the essay is to reconsider the intent of the inauguration of the Sugar Program to gain a new perspective on the political economy of its inauguration. It approaches this question, first, by observing the design of the institutions that were established to govern the Sugar Program in the United States and, second, by looking at the performance sugar companies to determine which participants benefited most from the program. To achieve the latter, I present an index of the stock prices of sugar companies, which serves as an effective indicator of sugar-company performance because it reflects the views of informed investors regarding the expected effects of the policy changes under question. The evidence shows that the US beet sugar industry was hostile to Cuba's participation in the program. It does not support the proposition that the original intent of the program was primarily to help Cuba; instead, it is consistent with an explanation driven by interest-group politics that emphasizes the multidimensionality of the salient political issues.

COMPETING HYPOTHESES

One of the most important contributions to this question comes from A. Santamaría's comprehensive and insightful study of the Cuban sugar industry during the interwar period. He finds that inauguration of the Sugar Program in the United States, under the Jones-Costigan Act of 1934, accommodated the restructuring of the Cuban sugar-dominated economy to the post-depression reality of its market in the United States. First, it represented a resolution of the crisis in the system of trade reciprocity that had characterized Cuban-US economic relations since 1903, which allowed Cuba to maintain its specialization in sugar. It did so by creating an institution by which cost-efficient Cuban sugar exports and the politically backed supply of US beet sugar were made consistent with a diminished demand for sugar in the US market during the 1930s. Santamaría highlights some other positive outcomes. First, the restriction on raw sugar exports stimulated the diversification of the products made by the Cuban sugar industry, that is, the production of by-products, such as molasses, alcohol and distilled beverages. Also, Cuba obtained a toehold in the US refined sugar market, from which it had been prohibited in the 1920s. Second, as part of the negotiated package, Cuba received a reduction in the tariff it paid for exporting sugar to the United States, indeed, the lowest tariff it had had in the US market since 1894⁸.

⁸ *Ibidem*, pp. 227-40.

The definitive piece, to date, from the standpoint of US regulatory history, is A.O. Krueger's study of the origins and path-dependence of the US sugar controls. She focuses on the question of program's capacity for survival. Once in place the took on a «life of its own», and it has remained in effect for seventy years at the time the essay was written. The institutions put in place persisted because, once created, the program was «seized upon» by domestic sugar interests that lobbied to preserve the benefits they received from it⁹.

Yet ironically, despite the domestic interest-group explanation of the Sugar Program's *persistence*, she finds that interest group politics does not help to explain the *inauguration*. Rather, she finds that the Franklin D. Roosevelt Administration acted as a «benevolent guardian» when it introduced the program in 1934. In part, it was introduced as a measure to reverse the perceived damage of the Hawley-Smoot tariff of 1930 (passed by the previous Republican Administration). However, A.O. Krueger concludes that Roosevelt's motive was «primarily to shore up the Cuban economy and only secondarily to increase American producers' incomes» to stabilize the Cuban political situation. In her analysis, the unintended capture by special interests became visible in 1960, when Cuba's quota was removed. Even though the program's primary justification had vanished, the quota system survived and became an instrument of US Cold War policy in the Caribbean—an unanticipated consequence¹⁰.

By contrast, historians writing about these events from the standpoint of Cuban political economy interpret the Franklin D. Roosevelt Administration's primary motives as a self-interested or rational public choice. O. Zanetti observes that Roosevelt resisted pressure from beet sugar interests, which sought to minimize the quota allocated to Cuba. Refusing, the President insisted that he did not want the quota policy to induce excessive expansion of the inefficient domestic sugar industry, which would unnecessarily raise the cost of sugar to consumers. Though he resisted political pressure from one constituency, it was to achieve political objectives that favored another constituency¹¹.

A. Santamaría observing a potential for a political coalition of US beet and Cuban sugar producers, proposes alternatively that the Franklin D. Roosevelt Administration was pressured by beet sugar interests to adopt the quota system. Since the passage of the Smoot-Hawley tariff, the reigning protection had displaced Cuban sugar, but the protection, aimed to benefit beet sugar, in effect failed to remove beet sugar's competition. Instead, it stimulated the expansion of sugar production in the insular possessions. Deducing that the quota would provide firmer protection for high-cost domestic beet sugar, Santamaría concludes that the alignment of interests of the domestic beet sugar and Cuba must have provi-

⁹ A.O. KRUEGER [6], pp. 210-11.

¹⁰ *Ibidem*, pp. 208-11.

¹¹ O. ZANETTI [2], p. 118.

ded the political pressure for the quota¹². This reasoning did apply to the renewal of the quota program in 1937, after beet sugar producers learned that the program would be governed in their favor. However, testimony in public congressional hearings, as well as extensive archival records, show that it did not apply in 1933 and 1934. Beet sugar initially fiercely opposed the quota and, then, argued that Cuba's participation in it should be residual¹³.

These contributions are, nonetheless, consistent with the predominant view in the Cuban historiography is that the quota system was beneficial to Cuba, or at least benign. This view is based on three observations. First, since 1925, the world sugar market was characterized by an unprecedented accumulation of physical stocks—a fact that was shared by many other commodity markets, which C. Kindleberger emphasized as an important antecedent to the world financial crisis of the 1930s¹⁴. As early as the *zafra* of 1926/27, Cuba unilaterally imposed quantity restrictions on its own production and began trying to coordinate worldwide quantity restriction in attempt to stabilize the sugar market. In 1931, Cuba and eight other countries formed an international cartel that established export quotas to the non-US world market—that is, the portion not behind prohibitive protectionist walls¹⁵. In 1930, private representatives of the Cuban sugar industry reached a «gentleman's agreement» with US domestic producers—a cartel agreement to reduce supplies to the US market, but it proved unenforceable.

In this respect, the introduction of the US sugar quota system has been interpreted as a favorable action at least to the island's sugar interests, which had sought such measures for years. The quota Cuba received was considerably less than its historical share of the US market; however, the US sugar tariff was perceived to be endogenous. Key players predicted that, if Cuba's exports to the United States remained unchecked, political pressures for increased tariffs might go so far as to eliminate Cuba's share of the US market.

Second, in the 1903 reciprocity treaty, Cuba had received a 20 percent discount on the US sugar tariff. The preferential tariff was intended at that time as a mechanism to allow Cuban producers to capture some of the rents from the protected US sugar market for rebuilding its war-torn economy. That is, it aimed to allow Cuban producers to appropriate a portion of the differential between the

¹² A. SANTAMARÍA [2], p. 225.

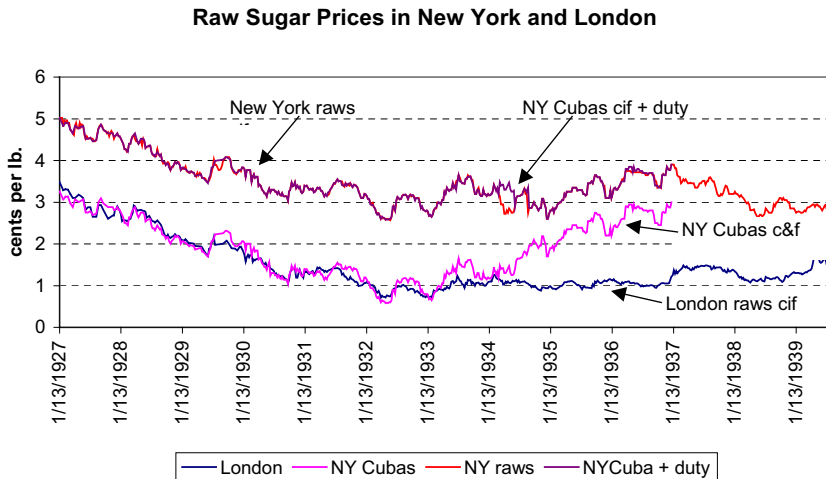
¹³ See U.S. TARIFF COMMISSION, *Sugar. Report to the President of the United States. Differences in costs of production of sugar in the United States and in the chief competing country*, Washington D.C., Government Printing Office, 1934; J. DALTON, *Sugar: A Case of Government Control*, New York, Macmillan, 1937, and A.O. KRUEGER [6].

¹⁴ C. KINDLEBERGER, *The World in Depression 1929-1939*, Berkeley, University of California Press, 1973.

¹⁵ A.D. DYE and R. SICOTTE, «How Brinkmanship Saved Chadbourne: Credibility and the International Sugar Agreement of 1931», New York, Working paper presented at the «Columbia University Seminar in Economic History», Oct., 3, 2002 (http://econ.barnard.columbia.edu/~econhist/papers/Dye_Sicotte_brinkmanship.pdf).

protected US price and the world price. Yet by 1909, by which time Cuban exports to the US had competed away all other foreign competition, no such gap existed because the differential between the market-clearing price in the protected US market and the world market was the Cuban tariff. With the aim of allowing Cuban producers to recapture a portion of that differential, the 1934 quota legislation included a reduction in the tariff on Cuban sugar, and the new reciprocity treaty of 1934, reduced the tariff on Cuban sugar. Figure 1 shows the effect that the combination of the quota and the lowering of the tariff had on the price of sugar received in Cuba. It rose above the world-market-clearing (London) price and approached the protected US price, stopping when the distance between the Cuban and US prices was equal to the tariff.

FIGURE 1
Raw sugar prices in New York and London, 1927-1939
(cents per lb., 96° pol., CIB basis)*



* London prices are expressed en cents US per lb. using exchange rate conversion. NY Cubas are for sugar in Havana for prompt delivery to New York. The prices is quoted CIF New York but excludes the duty.

Sources: WILLET AND GRAY, «Weekly Statistical Sugar Trade Journal, Commercial and Financial Chronicle», *The Saturday Times of London*, 1927-1939.

Third, the lack of economic diversification in Cuba, and principally its dependence on sugar, may be seen as its greatest structural problem. Therefore,

some historians interpret any policy that should reduce its reliance on sugar, and on the US market, and possibly stimulate economic diversification, as beneficial.

THE CRISIS IN US SUGAR MARKET

The US sugar market was supplied by eight major supplier groups with three broad political identities. (i) The targeted constituents of sugar protection policy were the mainland —the beet and cane sugar industries. (ii) An intermediate supplier group did not have representation in Congress but was given duty-free status were the insular possessions —the territory of Hawaii, Puerto Rico, the Philippines, and the Virgin Islands. (iii) Foreign suppliers paid the US sugar tariff. Although, among these, Cuba was distinct because the tariff preferential it received had permitted Cuba to take over virtually all sugar imports into the US from foreign suppliers. This does not, however, mean that Cuban sugar production was inefficient. Cuba produced 1-2 million tons beyond what it sold in the United States, which it sold competitively on the world market. Contemporary international cost surveys in the 1920s showed that Cuba and Java had the lowest per unit raw sugar costs in the world¹⁶. A fourth concentrated interest group were the refiners, who were the most concentrated among the consumers of imported sugar. Up to 1930, the tariff differential between raw and refined sugar almost fully protected refined sugar in the United States such that imports were of raw sugar (the differential was reduced with the Hawley-Smoot tariff legislation, which caused refiners to call for protection against a shift in import at the margins from raw to refined sugar after 1930).

Table 1 summarizes the total consumption and allocation of market shares in the US sugar market. It shows that in the 1920s, the mainland share of the US sugar market (beet and cane together) averaged 19 percent, which rose to 27 percent in the 1930s. The share of the market going to the US insular possessions (Hawaii, Puerto Rico, the Virgin Islands, and the Philippines) rose from 24 to 43 percent. The foreign share, almost all from Cuba, fell from 39 to 18 percent.

The lower panel of Table 1 focuses on the changes in sales volumes for each supplier group after 1929. Sugar consumption in the United States peaked in 1929 at 7.59 million short tons. By 1933, it had fallen by 17 percent —1.26 million tons less than in 1929. The decline was not shared among the supplier groups. Despite the decline in consumption, all protected areas expanded their production and sales during the Depression. By 1935, US mainland sales volu-

¹⁶ See H.C. PRINSEN GEERLIGS *et al.*, *Sugar: Memoranda Prepared for the Economic Committee*, Geneva, Series of League of Nations Publications, C.148.M.57; Economic and Financial, 1929.II.20, and F. MAXWELL, *Economic Aspects of Cane Sugar Production*, London, Norman Rodger, 1927.

mes had increased by 45 percent, insular possessions by 35 percent; and foreign suppliers' volumes were reduced by 55 percent. The domestic sales of no other major agricultural commodity in the United States expanded during this period.

TABLE 1
*US sugar consumption, supplier area contributions,
and their relative growth, 1905-1929*

	Mainland		Insular Possessions				Foreign		Total
	Beet	Cane	Hawaii	Puerto Rico	Virgin Islands	Philippines	Cuba	Other	
000s short tons									
1905	335	390	416	136		39	1029	773	3118
1910	546	355	555	285		88	1755	205	3789
1915	935	139	640	294		163	2392	155	4718
1920	1165	176	550	413	13	146	2881	993	6337
1925	977	142	755	600	11	493	3923	33	6934
1929	1089	218	882	507	3	711	4149	28	7587
1930	1293	215	868	809	6	794	2645	53	6683
1931	1343	206	998	796	2	872	2482	28	6727
1932	1319	160	1048	940	5	1028	1791	12	6303
1933	1366	315	990	793	5	1249	1573	40	6331
1934	1562	268	948	807	5	1088	1866	30	6574
1935	1478	319	927	793	2	917	1830	11	6277
1936	1364	409	1033	907	4	985	2102	29	6833
1937	1245	491	985	896	8	991	2155	89	6860
1938	1448	449	906	815	4	981	1941	75	6619
1939	1809	587	966	1126	6	980	1930	62	7466
Growth index 1929 = 100									
1929	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
1930	118.7	98.6	98.4	159.6	200.0	111.7	63.8	189.3	88.1
1931	123.3	94.5	113.2	157.0	66.7	122.6	59.8	100.0	88.7
1932	121.1	73.4	118.8	185.4	166.7	144.6	43.2	42.9	83.1
1933	125.4	144.5	112.2	156.4	166.7	175.7	37.9	142.9	83.4
1934	143.4	122.9	107.5	159.2	166.7	153.0	45.0	107.1	86.6
1935	135.7	146.3	105.1	156.4	66.7	129.0	44.1	39.3	82.7
1936	125.3	187.6	117.1	178.9	133.3	138.5	50.7	103.6	90.1
1937	114.3	225.2	111.7	176.7	266.7	139.4	51.9	317.9	90.4
1938	133.0	206.0	102.7	160.7	133.3	138.0	46.8	267.9	87.2
1939	166.1	269.3	109.5	222.1	200.0	137.8	46.5	221.4	98.4

Source: U.S. CONGRESSIONAL COMMITTEE ON AGRICULTURE, *History and Operations of the U.S. Sugar Program*, Washington D.C., 87th Congress, U.S. Government Printing Office, 1962.

One view holds that the gains registered by the sugar industry during the Depression were a consequence of substantial increases in the sugar tariff in the Fordney-McCumber (1922) and Hawley-Smoot (1930) tariff acts, and that the Sugar Control Act of 1934 was intended to correct those excesses. Yet the figures in Table 1 show that the 1934 legislation did not reverse the effective protection. Two protected supplier groups stand out in particular. By 1939, the cane sugar producers in the mainland (Louisiana and Florida) and Puerto Rico each more than doubled their sales volumes, relative to 1929. The domestic (mainland and insular) expansion was made possible by a spectacular fall in the sugar imports from Cuba. By 1933, Cuban exports of sugar had fallen by more than 2.5 million tons, to 47 percent of what it had exported in 1929. Because the price also fell and the tariff was increased, Cuba's earnings from the US market fell even more abruptly. Observation of real export revenues shows a similar pattern. By 1933, they fell to less than 30 percent of their 1929 level. Afterwards, Cuba's export volumes leveled off even as US sugar demand began to recover after 1935, whereas revenues from domestic sugar sales were up from 1929 levels in all domestic supplier groups. In short, despite falling demand for sugar during the economic crisis in the United States, all domestic supplier groups increased both sales volumes and revenues, and the expansion came at Cuba's expense.

It is difficult to overstate the severity of the consequences of the loss of market share and export revenue on the Cuban economy. Eighty percent or more of Cuba's exports consisted of sugar, and more than half of it was exported to the United States. By the 1950s, it is estimated that 25-30 percent of Cuba's national income was accounted for in its gross earnings from sugar exports to the United States¹⁷. Furthermore, the nation's ability to substitute out of the US sugar market was limited by widespread protection of sugar worldwide. Cuba's access to the other major sugar-consuming countries, except Great Britain, was more restricted than its access to the US market¹⁸.

The downward shock reverberated in Cuba's national economy. From 1929 to 1932, (according to the best estimate) national income fell by about 30 percent, and about 60 percent of that decline was explained by the 70 percent fall in sugar export earnings. Falling wages and shortened seasonal employment caused expected real income to sugar workers in 1932 to fall to somewhere between $\frac{1}{3}$ and $\frac{1}{4}$ of

¹⁷ See A. SANTAMARÍA [2], O. ZANETTI [2], and J. ALIENES [2].

¹⁸ A further constraint was instituted in 1931, when Cuba became a signatory (and leading advocate) of the International Sugar Agreement (ISA) of 1931, a private cartel, that had implemented export quotas to try to stabilize the price of sugar on the depressed world market. The Cuban Government had already instituted sugar controls for its own producers, and regulated the volume of sales going to the US, non-US, and home markets (see J. ÁLVAREZ DÍAZ *et al.*, *Un estudio sobre Cuba*, Coral Gables, University of Miami Press, 1963). At the time the sugar law of 1934 was being deliberated, a one-ton expected reduction in Cuban exports to the United States would have to be answered with a one-ton reduction in sugar production.

1929 incomes. Studies show that other wages followed this downward path¹⁹. The collapse threw the working population into destitution and the nation into a social and political crisis. Violent labor unrest erupted in 1931, led to the overthrow of the Government in 1933, and plunged the country into political disorder.

THE US SUGAR TARIFF

Contemporary cost studies concluded that the displacement of Cuba's share of the US sugar market was caused by the tariff, not competitive forces. The US Tariff Commission surveyed the costs production of all major supplier areas to the US sugar market in 1923 and 1933, and it found in both studies that Cuban costs of production were substantially lower than any of the other major supplier areas to the US market. The studies were consistent with international studies (cited above) which had shown Cuba to be one of the two lowest-cost sugar producers in the world. In both Tariff Commission studies, the Commission recommended reductions of the sugar tariff by 25 percent or more to maintain the prevailing cost differential between US mainland and Cuban producers²⁰.

The significance of this, perhaps surprising, policy recommendation comes from the flexible tariff powers given the President under the 1922 tariff act. The President was given discretion to alter tariffs, otherwise fixed by the tariff schedules of omnibus tariff legislation, in order to maintain the prevailing costs differentials between US domestic producers and their chief foreign competitors. The Tariff Commission was set up to study the cost differentials in protected industries and make recommendations²¹. Their findings on cost differentials give evidence for the cause of the shift in market shares from Cuba to domestic producers. They found that Cuba's cost advantage over US domestic producers had improved over the decade—it had certainly not eroded. Furthermore, although the cost differential was substantial, they found that tariff protection was higher than necessary to maintain the prevailing cost differential, implying that the improved market share of domestic producers was caused by the increased protection²².

¹⁹ See FOREIGN POLICY ASSOCIATION, *Problems of the New Cuba*, New York. J.J. Little & Ives Co., 1935.

²⁰ U.S. TARIFF COMMISSION [13], and *Sugar, Report of the United States Tariff commission to the President of the United States. Differences in costs of production of sugar in the United States and Cuba*, Washington D.C., Government Printing Office, 1926.

²¹ Its recommendation to reduce the sugar tariff in 1923 was not adopted. Its recommendation in 1933 concluded that the sugar industry was a special case in which the tariff as an instrument of protection was ineffective. Its recommendation to replace the sugar tariff with a quota system was one of the prime reasons the Franklin D. Roosevelt Administration focused its efforts on the quota, as explained below J. DALTON [13].

²² See U.S. TARIFF COMMISSION [13 and 20], J. DALTON [13], and R.A. BALLINGER, *A History of Sugar Marketing*, Washington D.C., U.S. Department of Agriculture, Economic Research Service, Agricultural Economic Report, n° 197, Feb. 1971.

TABLE 2
US sugar tariff of Cuban Sugar, 1898-1934

Year introduced	Tariff on Cuban raw sugar at 96° pol. (cents per lb.)	<i>Ad valorem</i> equivalent over period in effect (percent annual average)
1898	1.6850	71.8
1903	1.3480 ^a	51.3
1913	1.0048	20.3
1921	1.6000	53.7
1922	1.7648	68.8
1930	2.0000	167.1
1934	0.9000 ^b	40.2

^a From 1903, the tariff figures given incorporate the 20 percent discount Cuba received on the full sugar duty.

^b The quantity restrictions were suspended between September and December of 1939 in response to hoarding at the breakout of hostilities in Europe. Under the reciprocity treaty of 1934, the tariff on Cuban raws of 0.9 cents per lb. rose to 1.5 cents per lb. if or when quotas were lifted.

Source: Cuba Económica y Financiera, *Anuario Azucarero de Cuba*, La Habana, Cuba Económica y Financiera, 1940.

The depression explains a large part of the loss of sales and revenues, but the main cause of the loss of Cuba's market share was the sugar tariff. Before the trade reforms of the Franklin D. Roosevelt Administration, tariff policy was one of the primary issues dividing the major political parties. Republicans were protectionist and Democrats were relatively «free traders». Tariff rates oscillated as both parties, when in the majority, used omnibus tariff legislation to move tariff rates in their preferred directions²³. Table 2 shows how the sugar tariff followed the general fluctuation in tariff rates. Republicans consecutively passed consecutive protectionist tariff bills in 1922 and 1930. The Fordney-McCumber Act of 1922 boosted the 1921 increase in the tariff on Cuban raw sugar, setting it significantly at 1.7648 cents per lb. —75 percent higher than the prewar rate. Though the 1922 increase introduced the largest absolute increase, the increase to 2 cents on Cuban raw sugar, enacted with the Hawley-Smoot Act of 1930, had a greater effect at the margin. In another paper we use cost estimates from the Tariff Commission survey to show that despite the substantial increase in the tariff²⁴, most Cuban mills remained competitive because of the large cost advantage they

²³ See M. BAILEY, J. GOLDSTEIN and B. WEINGAST, «The Institutional Roots of American Trade Policy: Politics, Coalitions, and International Trade», *World Politics*, 49, Baltimore, 1977, pp. 309-38; J. Goldstein, *Ideas, Interests, and American Trade Policy*, Ithaca, Cornell University Press, 1993, and R.A. BALLINGER [22].

²⁴ A.D. DYE, «The US Sugar Tariff and the Cuban Revolution of 1933», Working Paper, Western Economic Association Meetings, San Diego, CA, July 6-10, 1999.

had over the majority of the US domestic industry²⁵. However, the 1930 increase of 2 cents pushed the majority of Cuban mills below the breakeven threshold. High fixed costs, however, determined that most mills remained active²⁶.

THE QUOTA SYSTEM

What were the rules set up to implement and govern the new policy? How did they function? Do these features offer insights into the intent of the policy, according to those who established it? Sugar controls in the United States were introduced under the Sugar Control Act, also known as the Jones-Costigan Act, of 1934. In effect, it amended the Agricultural Adjustment Act of 1933 to add sugar beets and sugar cane to a list of products, including wheat, corn, cotton, and tobacco, that were designated as «basic agricultural commodities», which made them available for the application of certain price stabilization measures provided under the law to be administered under the Agricultural Adjustment Administration (AAA), created for that purpose.

Besides placing sugar under the AAA, it provided a formula for determining the quantity restrictions on domestic production and import quotas on Cuban and other foreign sugar. The quotas were assigned on two levels: first, each of the major supplier groups —mainland beet, mainland cane, each insular possession, Cuba, and other foreign suppliers were assigned specific overall group quotas; then, separate arrangements were made within each domestic group, including crop curtailment contracts with individual growers of beet or cane and «marketing» (sales) quotas for each processor. The act gave the Secretary of Agriculture complete discretion for setting the latter, but it restricted how the supplier groups' marketing and import quotas were determined. Mainland beet and cane areas were given fixed quotas of 1.55 and 0.26 million short tons. Also, the mainland was guaranteed 30 percent of any growth in total US consumption exceeding 6.452 million short tons. The remainder was to be apportioned between the insular possessions and foreigners on the basis of historical sales levels determined by the Secretary of Agriculture²⁷. Na-

²⁵ Contrary to what many have presumed, the tariff increase was not a reaction to the stock market crash or subsequent events associated with the Great Depression. Though the law went into effect in June of 1930, the sugar tariff had been virtually decided by the fall of 1929, before crash in October 1929. Furthermore, studies of the political economy of Hawley-Smoot show conclusively that the tariff law would have passed even if the Depression had not occurred. See A.D. DYE and R. SICOTTE, «The Institutional Determinants of the Hawley-Smoot Tariff», Working Paper, New York, 2001 (<http://econ.ucalgary.ca/fac-files/rs/Institutional%20Determinants.pdf>).

²⁶ There was massive bankruptcy of Cuban sugar mills, but most were reorganized and put back into production as creditors tried to recover their losses.

²⁷ See J. DALTON [13] and H.A. WOLF, *The United States Sugar Policy and its Impact upon Cuba: A Reappraisal*, Ph.D. dis., Michigan, University of Michigan.

turally, the allocation of the overall quotas to individual foreign producers was done within each country's political institutions.

Cuba had agreed to limit its exports of sugar to the US in 1930 as part of a Gentlemen's (cartel) agreement; furthermore, it participated in an international cartel formed in 1931, which restricted exports to non-US markets, known as the Chadbourne Agreement²⁸. The Cuban Sugar Stabilization Institute, set up to implement the crop restriction and export controls since 1931 under the Chadbourne Agreement, thus predated US sugar controls.

Since the U.S. Department of Agriculture (USDA)'s estimate of overall sugar demand, given the target price, could be off, or supplier groups could fall short of their quotas, provisions were also made for adjustments and reassignment of deficits. Table 3 gives the proposed quotas at various stages of the legislative process, and the initial quotas for 1934-1938. The Sugar Act was renewed in 1937, when the formula for determining the quotas was revised. In 1937, each supplier group was allotted a fixed share of the USDA's estimate of demand, given its price target, except that domestic producers jointly were guaranteed a minimum of 3.715 million short tons²⁹.

Several observations about the 1934 quota assignments are noteworthy. The fixed quota for mainland beet sugar was not intended to be binding for the first few years at least; it was set at 20 percent higher than the average annual sales for 1931-1933, and 13 percent above its historical peak in 1933. Though less generous, the mainland cane quota was also not intended to be restrictive. It exceeded its annual average sales for 1931-1933 by 12 percent. The beet sugar industry did not fulfill its quota in any year prior to World War II. Mainland cane did grow to exceed its quota, regularly picking up part of the beet-sugar deficits; but Congress promptly expanded its quota by 70 percent in the 1937 revision of the sugar law.

By contrast, the 1934 law expressly confined other groups to historical levels. The letter of the law obscures some of the constraints. Nominally, it gave much discretion to the Secretary of Agriculture to determine the «representative» historical levels for the other groups. It instructed that he could use historical sales from any three consecutive years between 1925 and 1933 inclusive. However, the director of the Sugar Section of the AAA described later that the discretion was illusory, since the Secretary also (i) had to limit aggregate sales to a level that would prevent a further price decline, and (ii) he was constrained by implicit expectations, held by members of Congress, about the distribution of quotas that were not written into the legislation. These involved promises made by Congressmen to constituents in order to obtain their support for the legislation³⁰. If the Secretary used his discretion in ways that violated these implicit constraints, Congress would

²⁸ A.D. DYE and R. SICOTTE [15].

²⁹ H.A. WOLF [31].

³⁰ J. DALTON [13].

be inclined to remove his powers. Secretary Henry Wallace chose the years 1931-1933 as «representative» for all except Hawaii, for which he used 1930-1932³¹. This decision had the effect of maximizing the quotas for Puerto Rico and the Philippines, setting Hawaii's at 4 percent below maximum, and minimizing Cuba's quota, within the constraints of the rules provided in the law.

TABLE 3
*US Sugar Quota Proposals, Formulas, and Assignment,
1934-1937 (000s short tons, raw valor)*

	Quotas proposed in the industry's voluntary marketing agreement, Sept. 1933	Quotas proposed by Roosevelt to Congress in April 1934	Quota under the formula given in the 1934 Sugar Act	Quotas for 1937 based on the fixed shares under the 1937 revision ^a	Initial quotas				
					1934	1935	1936	1937	1938
Mainland beet	1750	1450	1550	1633	1556	1550	1550	1417	1591
Mainland cane	310	260	260	443	261	260	260	472	431
Hawaii	975	935	971	989	948	926	941	984	963
Puerto Rico	875	821	843	841	807	788	801	897	819
Virgin Is.	15	5	4	9	5	5	5	10	9
Philippines	1100	1037	1050	1085	1006	982	998	998	1057
Cuba	1700	1944	1949	2014	1866	1823	1853	2149	1963
Other foreign	—	—	27	28	26	25	26	115	27
Total mainland	2060	1710	1810	2076	1817	1810	1810	1889	2023
Total insular	1865	1761	1818	1839	2766	2701	2746	2890	2849
Total foreign	1700	1944	1975	2042	1892	1848	1878	2264	1990
Total	6725	6452	6653	7043	6476	6359	6434	7043	6862

^a Quotas for 1937 were proportional to estimated total US consumption. Quotas presented here are given assuming the USDA's initial estimate of total US sugar consumption for 1937

Sources: WILLETT AND GRAY, *Weekly Statistical Sugar Trade Journal, Commercial and Financial Chronicle, The Saturday Times* of London, 1927-1939; H.A. WOLF, *The United States Sugar Policy and its Impact upon Cuba: A Reappraisal*, Ph.D. dis., Michigan, University of Michigan; M. LYNISKY, *Sugar Economics, Statistics, and Documents*, New York, U.S. Cane Sugar Refiners' Association, 1938; J. BERNHARDT, *The Sugar Industry and the Federal Government: A Thirty Year Record (1917-47)*, Washington D.C., Sugar Statistics Service, 1948, and J. DALTON, *Sugar: A Case of Government Control*, New York, Macmillan, 1937.

To offset some of the deterioration in the Cuban economy that this otherwise would make permanent, Franklin D. Roosevelt used presidential powers under

³¹ This reduced Hawaii's quota by about 4 percent relative to what it would have received if the Secretary had used the same years as the others for its standard.

the flexible tariff provision of the Tariff Act of 1922 to lower the tariff on Cuban sugar to 1.5 cents per lb. Simultaneously, a new US-Cuban trade reciprocity treaty was negotiated, which gave more concessions to US farm and manufactured exports to Cuba in exchange for an additional reduction in the Cuban sugar tariff to 0.9 cents.

INVESTORS' PERCEPTIONS

What does the quantitative record tell us about its intent? Does the record of who benefited give insight into its original intent? One way to observe the effects is through examination of the stock prices of sugar companies. Investors in sugar companies responded quickly to any new information about policy and formulated new expectations about the expected returns and risk in each of the supplier groups. Stock prices thus rapidly incorporated the expected effects from the policy regime change. Indices of stock prices for each region, therefore, serve as indicators of the expected performance of the sugar industries in each of the constituent supplier areas.

Using a database of weekly stock prices of sugar companies from 1921 to 1941, traded on the New York Stock Exchange, curb, and over-the-counter markets (collected as part of a joint project with R. Sicotte), I have computed indices of stock prices for sugar companies located in the mainland beet sugar sector, Puerto Rico, and Cuba³². The indices consist of five mainland beet direct-consumption sugar producers, four Puerto Rican raw cane sugar producers, and seven Cuban raw cane sugar producers. Indices for each of these supplier groups were weighted by the total capital stock reported for each company³³.

The indices, displayed in Figure 2, confirm expectations but also offer new insights into the relative effects of program on the various supplier areas. First, the drop in 1921 and 1922 reflects the aftermath of postwar adjustment caused by the lifting of wartime sugar price controls in 1919. The recovery of the US mainland coincided with tariff increases in 1921 and 1922, whose timing were also explained in part by the postwar adjustment crisis. In Cuba, the postwar adjustment crisis was particularly severe, resulting in widespread bankruptcies of sugar mills and bank closures³⁴. However, the recovery was equally extraordinary be-

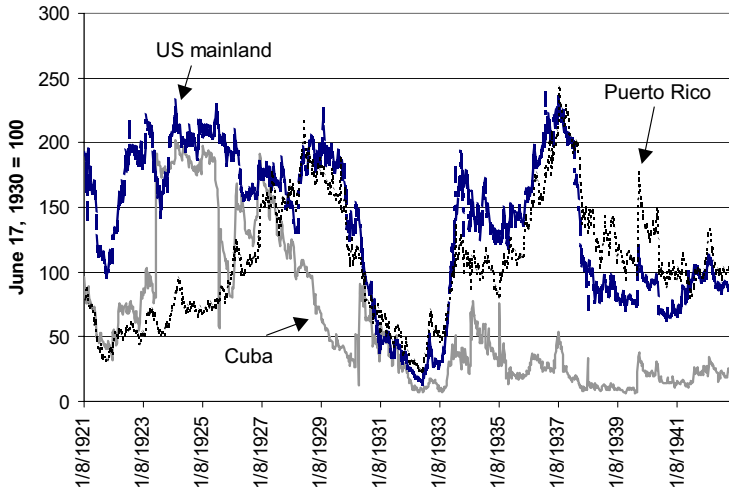
³² The data are end-of-week series collected from the *Wall Street Journal*, New York, and the *New York Times*, New York.

³³ Benchmarks for the weights were 1926, 1929, 1935, and 1939.

³⁴ See H.C. WALLICH, *Monetary Problems of an Export Economy: The Cuban Experience 1914-1947*, Cambridge, Mass., Harvard University Press, 1960 (1th ed. in Spanish, La Habana, Banco Nacional de Cuba, 1953), and E. COLLAZO, *Una pelea cubana contra los monopolios (un estudio sobre el crac bancario de 1920)*, Gijón, Vicerrectorado de Relaciones Institucionales, Universidad de Oviedo, 1994.

cause a large number of projects investing in new sugar mill technology, begun for the wartime expansion, were completed in the early and middle 1920s.³⁵

FIGURE 2
*Sugar-company stock price indices for the US mainland (beet sugar), Puerto Rico, and Cuba, 1921-1943**



* Individual company stock prices are scaled to equal 100 on the date the Smoot-Hawley tariff went into effect, June 17, 1930.

Sources: See text.

The slow, steady climb of the Puerto Rican index after 1922 reflects the beginning of a wave of investment in new sugar milling technology that was stimulated by the increased competitiveness against Cuba, due to increased protection under the tariff increases. The climb is slow because, prior to the war, unlike Cuba, there had been little investment in new sugar milling technology in Puerto Rico, where land availability and soil qualities were better than the mainland but not as favorable as in Cuba. Prior to the war, sugar had been scheduled for movement to the free list, but during the war that policy change became politically impossible. After the war, the increases in the sugar tariff signaled that sugar

³⁵ A.D. DYE, *Cuban Sugar in the Age of Mass Production: Technology and the Economics of the Cuban Sugar Central, 1899-1929*, Stanford, Stanford University Press, 1998.

would go onto the free list and made expansion of sugar milling capacity in Puerto Rico more attractive³⁶.

All three indices drop in response to the collapse of the sugar market from 1929 to 1932. Mainland and insular-possession stocks begin to recover significantly in early 1933. The most likely explanation is the expected passage of the Agricultural Adjustment Act because of the anticipated positive effects to the industry of measures to stabilize the price of sugar and subsidize beet and cane growers. The early upswing in 1933 needs some explanation, since sugar beets and sugarcane were not designated as «basic agricultural commodities» until the passage of the Jones-Costigan Act in May 1934. In fact, the passage was not the first attempt by the Administration to take measures to reform the sugar industry. As explained below, efforts to create an orderly marketing agreement began in early 1933, and although the designation of sugar as a «basic agricultural commodity» increases the Administration's controls over form that controls took, it was not necessary for an agreement to be established under the AAA legislation. The swift but steady decline of the Cuban sugar-company stock index until about 1932 and 1933, where it leveled off, is consistent with the fixing of Cuba's quota at its minimum historical market share (of 1931-1933)³⁷. One might have expected some recovery from the lowering of the tariff, but since most sugar companies operating in Cuba were bankrupt or threatened with bankruptcy, creditors had large claims on any surpluses, and common stockholders, last in line, were unlikely to be paid dividends. Scarcely any dividends were paid on Cuban sugar company shares in the 1930s.³⁸

³⁶ Correctly anticipating the trend in protectionism in the 1920s, some prominent sugar refiner interests began to shift their vertically integrated investments in raw sugar capacity away from Cuba to develop state-of-the-art operations in Puerto Rico. See J. DALTON [13], A. GAYER *et al.*, *The Sugar Economy of Porto Rico*, New York, Columbia University Press, 1938, and R.A. BALLINGER [22].

³⁷ The temporary rise in 1937 is probably explained by improved optimism about the possibility of recovery of the US economy and the sugar market. The reversal of that movement in 1938 appears to reflect a return of expectations to their former state. However, the downward trend in Cuban sugar company stock prices began in 1924 or 1925.

³⁸ Several factors help to explain why that did not boost stock prices. Sugar milling involves significant fixed costs, and Cuban mills were operating well below capacity, which meant higher unit costs of production. Maintenance of the cost advantage, which they had relied on in the 1920s to compete in the protected US market, depended on higher capacity utilization than mills could achieve under current market and regulatory conditions. In the long run, Cuba might have increased capacity utilization rates by allowed mills to close, thus reducing the aggregate milling capacity. But instead, the Cuban Government maintained a policy that preserved the excess aggregate milling capacity by allocating quotas proportionately to all existing mills (Cuban Economic Research Project 1963). Since the crisis, most Cuban sugar companies had gone bankrupt, and were under creditor or judicial oversight. They almost ceased paying dividends during the 1930s (Farr and Co., Fitch, Standard and Poor).

«BENEVOLENT GUARDIAN» OR MULTIDIMENSIONALITY?

Returning to the question of original intent of the Sugar Program, the quantitative evidence from the stock price indices shows that, if the program was designed to help Cuba, its effectiveness was strictly limited. The quota benefited Cuba only in the sense that it put a floor on Cuba's falling market share in the US sugar market. Yet it also committed Cuba to a share of the US sugar market determined by its pre-quota historical minimum³⁹. The quota-assignment rules clearly targeted mainland sugar interests. Neither was the program primarily installed for Cuba's benefit, nor did it benefit Cuba *de facto*, except in a limited sense.

Yet if these observations are correct, what led A.O. Krueger to conclude, on the one hand, that

«The 'benevolent guardian' [...] theory of governmental behaviour seems to conform reasonably well to the motives of the Roosevelt Administration in 1934 [...]»⁴⁰,

and on the other, that interest-group politics does not help to them? She drew primarily from statements of US Government officials to the press and testimony of interest-group representatives before Congress. Official statements of the Franklin D. Roosevelt Administration connected the program with the collapse of the Gerardo Machado regime in 1933 and expressed the Administration preference to limit the expansion of the high-cost domestic sugar industry. Meanwhile, domestic sugar producers voiced strong opposition to Roosevelt's proposal in the Congressional public hearings in April to consider including sugar as a «basic agricultural commodity» in the AAA⁴¹.

Yet additional context puts a different light on these statements. First, many on both sides of the debate had decided by 1933 that the tariff had «failed» as a protective instrument for sugar. This thinking was prompted by a Tariff Commission study in 1933 that found (i) that the sugar tariff served to stimulate the insular possessions rather than protect mainland industry, thus shifting but not eliminating its competition. Evidence from the last two tariff increases, in 1922 and 1930, showed that the principal beneficiaries of protection were Puerto Rico and the Philippines, both of which expanded substantially under increased protection. (ii) Furthermore, the Commission found that Cuba's economy was so dependent

³⁹ The reduction in the tariff was an important part of the package. It permitted Cuban producers to obtain some of the economic rents of the program and produced a partial recovery of sugar export revenues. This may be seen as constituting aid to Cuba at a time of crisis, but it did not come without a cost. The reduction was part of a reciprocity treaty that included broad concessions to exports of US farm products and manufactures to Cuba. Some historians criticize it as costly to Cuba because it constrained the economy's ability to diversify out of sugar. See O. ZANETTI [2].

⁴⁰ A.O. KRUEGER [6], p. 208.

⁴¹ *Ibid.*, pp. 180-1.

on the US sugar market that its sugar production costs were endogenous to the US sugar tariff. Past increases in the tariff were met with substantial wage reductions in Cuba. Further increases, the Commission predicted, would drive wages down further and intensify the political instability in Cuba.

The two findings together led the Commission to conclude that an increase in the tariff would not offer lasting protection for mainland sugar producers. Rather, it would encourage further expansion of production in the insular possessions (which were not the intended target of the protection); the increased competition from the insular possessions would cause mainland producers to press for further protection against Cuba imports, which would have serious destabilizing consequences to this important trading partner and political ally⁴². The Tariff Commission report, therefore, rejected the tariff as the preferred instrument for the sugar industry and, instead, proposed the alternative of a system of import quotas. This instrument had been growing in popularity in Europe for addressing the chaotic trade conditions since the crisis, when fluctuations in terms of trade and real exchange rates made it difficult to adjust specific tariff rates frequently enough to keep them effective⁴³. It also recommended a reduction of the tariff on Cuban sugar, but it had been making that recommendation for a decade.

It was not insignificant that the Tariff Commission's recommendation fit well into the Administration's existing programs for trade reform and agricultural relief. The Franklin D. Roosevelt Administration stood on a platform of trade liberalization, and it was in the midst of a major legislative reform, the Reciprocal Trade Agreement Act (RTAA), that finally passed both houses in June 1934. Discussion already was under way concerning a possible revision of the trade reciprocity treaty with Cuba, which contemplated a reduction in the sugar tariff, in exchange for preferential tariff reductions for a wide range of US exports to Cuba, a particularly important market for US agricultural exports. The reciprocity treaty was celebrated as the first in a series of bilateral treaties to be negotiated under the RTAA aimed at stimulating US exports⁴⁴.

Farm relief was another of the salient political issues that the incoming Franklin D. Roosevelt Administration tackled. The AAA thus became a central component of the New Deal package. A complex program of agricultural price stabilization, it radically departed from the previous Herbert Hoover Administration's attempt to use increased protection as the principle instrument of farm relief. The Democratic landslide in the presidential election in 1932 was, in part, a consequence of the failure of the Republican policy toward farm relief. The Roosevelt Administration took the position that, as a measure of farm relief, the Hawley-

⁴² See J. DALTON [13], and U.S. TARIFF COMMISSION [13].

⁴³ H. HEUSER, *Control of International Trade*, London, Routledge & Sons, 1939.

⁴⁴ W. LEUCHTENBERG, *Franklin Roosevelt and the New Deal: 1932-1940*, New York, Harper & Row, 1963, p. 204.

Smoot tariff debacle had failed to provide relief to farmers. If anything, it hurt farm interests, since it was blamed for retaliatory protection enacted by importers of US farm products. In this respect, the RTAA and the AAA were connected. The US Sugar Program and the Cuban reciprocity treaty were instituted as a part of a grand New Deal trade reform and agricultural stabilization agenda.

Cuban support for the trade concessions to the US that would be required for the Reciprocity Treaty were, in part, because the issue of trade reciprocity was tied to the proposal to abrogate the Platt Amendment. Meanwhile, representatives of the Cuban sugar industry favored the combination of an import quota and a reduction of the sugar tariff over the status quo. If import competition was constrained by quantity restrictions, the reduction of the tariff would allow Cuban producers to appropriate part of the rents from the protected US sugar market. Contrast this with the perceived status quo. The US Tariff Commission had shown the simultaneous endogeneity of sugar tariff and costs of production in Cuba. Cuban sugar producers had understood for years concerns that the US sugar tariff was endogenous to competition from Cuba. Since the mid-1920s various representatives of the industry had made attempts to come to agreement with US mainland industry leaders to mitigate this problem. Under the current conditions, concerns were expressed that, if the tariff remained the instrument of protection, Cuba's share of the US market could be driven to zero⁴⁵. John Lee Coulter, of the US Tariff Commission, predicted that even under the current tariff rate, established in 1930, Cuba's share of the US market would likely fall to 0.5 to 0.8 million short tons, significantly less than its peak of 4.1 million in 1929 or its 1933 exports to the US of 1.5 million. José M. Casanova, then President of the *Hacendados* Association, similarly predicted that, without the inauguration of the quota system, within three years, Cuba would have ceased to have access to the US sugar market due to rising tariffs⁴⁶. Manuel Rionda made a similar prediction occasionally in his private consultations with businessmen⁴⁷.

Therefore, there were several domestically motivated reasons why the Tariff Commission's to abandon the tariff as the instrument to protect sugar was taken up by President Franklin D. Roosevelt. Soon after the Tariff Commission report came out in June 1933, he called for sugar industry representatives to negotiate a «voluntary marketing agreement» under powers authorized by the Agricultural Adjustment Act, and he appointed John Lee Coulter to coordinate the negotiations. The Agricultural Adjustment Act authorized the President to pursue two approaches to negotiate industry-specific, voluntary stabilization programs. (i) For commodities designated as a «basic agricultural commodities», the AAA

⁴⁵ Braga Brothers Collection, papers of Manuel Rionda, University Archives, University of Florida at Gainesville, Record Group 2, Series 10C.

⁴⁶ O. ZANETTI [2], p. 119.

⁴⁷ «Letter from Jefferson Caffery to Sumner Welles, US Ambassador to Cuba, Sept. 28, 1933», U.S. National Archives, Record Group (USNA R.G.), 59, 811.6135/77a.

negotiated contracts with farmers to curtail crop, compensating them out of a «processing tax» on the industry. (ii) For sugar, which was not originally listed as a basic agricultural commodity, an alternative approach allowed federal sponsorship of industry-specific «voluntary marketing agreements», which could be enforced using federal licensing powers. In September 1933, sugar-industry representatives signed a voluntary agreement that apportioned the industry according to a proposed set of quotas. In the negotiations from June to August, beet sugar interests presented one of the biggest obstacles. On the one hand, they demanded a quota of 1.75 million tons. Obtaining that demand in the September agreement, they signed the agreement, revealing that they did not object to the principle of the quota system. However, when they faced opposition to it from the Roosevelt Administration, they demanded the adoption of a policy principle that gave priority to US domestic producers in the US market, insisting that Cuba's access conditional upon domestic industry's needs being met first⁴⁸.

So what was the domestic industry opposition, cited by A.O. Krueger, about? That testimony was made in opposition to the Franklin D. Roosevelt proposal before the House Committee on Agriculture in early 1934, after the voluntary agreement had been signed⁴⁹. The Secretary of Agriculture summarily rejected the industry's proposed agreement. A long list of reasons was given, but most significant was that the plan gave a monopoly position to processors, but the benefits it would provide to farmers—the targeted group under the AAA—were indirect and uncertain⁵⁰. So the Department of Agriculture rejected it and drew up a plan to include sugar beets and sugarcane as «basic agricultural commodities», which Roosevelt recommended to Congress in his April 1934 message⁵¹. Domestic sugar's opposition before Congress was against the proposed quotas, but they did not oppose the imposition of import quotas.

The hard bargain that beet sugar interests drove is explained by their greater bargaining power. Since they were more geographically dispersed, they were better represented in Congress than other parties to the agreement. Beet sugar factories were located in fifteen states, and beet growers were sometimes also located in states adjacent to those where factories were located, whereas raw cane sugar was

⁴⁸ See T.J. HESTON, *Sweet Subsidy: The Economic and Diplomatic Effects of the US Sugar Acts - 1934 to 1974*, Ph.D. diss, Cleveland, Case Western Reserve University, 1975, and J. DALTON [13].

⁴⁹ A.O. KRUEGER [6].

⁵⁰ It also gave an «extravagant» quota to beet sugar that was 40 percent above its 1931-1933 average, plus increases of some size to all mainland and insular-possession producers, cutting Cuba's share to well below its historical minimum. J. BERNHARDT, *The Sugar Industry and the Federal Government: A Thirty Year Record (1917-47)*, Washington D.C., Sugar Statistics Service, 1948, pp. 157-60, gives a matter-of-fact version of the criticisms. J. DALTON [13], pp. 81-9, argues that the official reasons were «not convincing» and provides a more in-depth explanation of the reasons behind the Administration's decision.

⁵¹ See *Ibidem*.

produced only in Louisiana and Florida⁵². Other supplier groups were not represented in Congress, but were confined to lobby only through relevant executive departments. Archival records reveal, for examples, that an official from the Department of the Interior acted as an advocate for the sugar interests in the territory of Hawaii; General Timothy Cox, of the War Department represented the Philippines in certain discussions; and US Ambassador to Cuba, Sumner Welles and other State Department officials, intervened to advocate sugar interests in Cuba.

Like most policies, one problem with identifying the primary objective of the Sugar Program is that multiple interests in the executive branch and in Congress sought control over the policy instrument. The Departments of Agriculture, State, Commerce and the Interior all were involved in the proceedings to reach an agreement with industry. The archival record shows that refiners and other representatives of the Cuban industry worked behind the scenes with State Department personnel⁵³. Interior officials advocated on behalf of insular possessions. Commerce was concerned about exporters. The RTAA, representing a major institutional reform of trade policy, had just been approved. Some scholars argue that this act introduced a significant institutional change in trade policy determination that caused the trade policy shift in the United States from protectionism to liberalization. M. Bailey, J. Goldstein and B. Weingast, and D.A. Irwin and R. Kroszner argue that the key institutional change was the replacement of legislative determination of trade policy through omnibus tariff packages, which favored special-interest protectionist coalitions, with greater presidential control over trade policy, which gave greater influence to exporter interests, because the President was elected from a national constituency⁵⁴. The new reciprocity treaty with Cuba in 1934, which lowered the sugar tariff for Cuba, was the first treaty signed under this legislation, but it probably could not have happened without the protections to the mainland sugar industry provided by the quota system⁵⁵.

In a February 1934 message to Congress, Franklin D. Roosevelt submitted that the sugar act should serve three purposes: to overcome low prices received by domestic beet and cane farmers; to stop using protectionism to expand the domestic and insular sugar industries, which contributed to high prices for sugar;

⁵² In 1933, beet sugar factories were located in California, Colorado, Idaho, Iowa, Kansas, Michigan, Minnesota, Montana, Nebraska, Ohio, South Dakota, Utah, Washington, Wisconsin, and Wyoming.

⁵³ USNA R.G. 59, Series 837.6135, boxes 5970-5980; Papers of Manuel Rionda, Braga Brothers Collection, R.G. 2, Series 10C; Archivo Nacional de Cuba (ANC), Fondo ICEA. A.O. KRUEGER [6] puzzles over the absence of refiner opposition to the bill; however, they naturally were avoiding publicity, as the refiners' cartel, the Sugar Institute, was under investigation for antitrust violations.

⁵⁴ See M. BAILEY, J. GOLDSTEIN and B. WEINGAST [23], and D.A. IRWIN and R. KROSZNER, «Interests, Institutions, and Ideology in Securing Policy Change: the Republican Conversion to Trade Liberalization after Smoot-Hawley», *Journal of Law and Economics*, 42, Chicago, 1999, pp. 643-73.

⁵⁵ See J. DALTON [13].

and to contribute to the economic rehabilitation of Cuba⁵⁶. In his April 1934 message to Congress, in which he submitted the Administration's version of the bill, he mentioned Cuba only in reference to the lost US exports⁵⁷. It was not accidental that the only reference to Cuba in this message was in reference to its effects on US exports to Cuba. Conflicted interests in the nation at large as well as within the executive branch led to compromise in the Administration's proposal. After the September sugar-industry agreement was declared a failure, Roosevelt had requested that Cuba's quota be raised from 1.7 to 2 million short tons to achieve economic and foreign policy objectives regarding Cuba (Cuban diplomats had argued that even 2 million was below the minimum necessary for adequate recovery.) Though some officials in the Sugar Division of the Department of Agriculture tried to preserve the 1.7 million ton quota for Cuba, that number was eventually brought up to 1.94 apparently largely through the efforts of officials in the State Department, with the President's backing⁵⁸.

To be sure, the motive to avoid further economic and political disruption in Cuba was present among the factors that determined Franklin D. Roosevelt's recommendation to Congress. Though the State Department worked some influence, the marginal increase in Cuba's quota even in Roosevelt's proposal (see Table 3) suggests that, though it received some consideration, it did not dominate among the competing demands upon the policy. The request for a 2-million-ton quota for Cuba did not come close to its former market share. Moreover, it was not proposed except as an alternative to an agenda that was effectively driven by the analysis of the Tariff Commission, the New Deal package represented by the RTAAA and the AAA, and the domestic sugar industry's proposed voluntary marketing agreement. Failure of Cuban sugar companies' stock prices to recover, when the stocks of sugar companies in the other supplier areas did recover, alters the received view that the quota program overall was beneficial to Cuba. It may be that the quota program prevented Cuba's complete elimination from the US market, as some contemporaries thought might otherwise occur. Nonetheless, it is only in that restricted sense that Cuba benefited.

As for the prominence of official language praising the benefits it gave to Cuba, official statements after it was passed naturally exaggerated those benefits for their political effect. Representatives of the sugar industry in Cuba praised it as an achievement for similar reasons. Years later, the Havana daily, the *Diarario*

⁵⁶ «Memorandum by Lawrence Duggan, of the State Department», USNA R.G. 59, 811.6135/209 ½, Feb. 9, 1934.

⁵⁷ See J. DALTON [13], and US COMMERCE DEPARTMENT, *Foreign and Domestic Trade*, Washington D.C., USCD, 1934.

⁵⁸ «Dispatch from H. Freeman Matthews, Chargé d'Affaires ad interim in the U.S. Embassy in Havana to the State Department», USNA R.G. 59, 811.6135/112, Feb. 13, 1934; and «Memorandum of conversation between Weaver, chief of the sugar division of the dept. of agriculture, Lawrence Duggan, Department of State, and Herb Feis, Office of the Economic Advisor, Department of State», USNA R.G. 59, 811.6135/91, Dec. 16, 1933.

de la Marina, continued to defend it: «Coordination, no matter how mediocre it may be, is better than anarchy»⁵⁹. At the time, it would have been seen as «bad form» for Cuban industry leaders, who had sought US help to restore their principal market, or Cuban diplomats who had sought US help to restore political stability, to be ungrateful to their friends in Washington for the efforts made. And besides, the outcome could have been much worse.

In the history of Cuban sugar industry, the most significant institutional factor after 1930 was the export quota gained in the 1934 United States market, which has been regarded in a positive perspective. This is here re-examined in the light of later events which prove that the quota system was detrimental to the island economy, particularly in the fifties. The analysis is based on the examination of sugar companies' stock prices which are a useful indicator of investment expectations. Finally, it is concluded that the 1934 North American quota system issued from the conviction that the tariff system applied until then was not enough to protect the domestic sugar beet production.

KEY WORDS: *Cuba, United States, 19th Century, sugar, crisis of 1930, market, protectionism, tariffs, companies.*

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⁵⁹ *Diario de la Marina*, La Habana, sep. 2, 1937.