

# Economics

## Introduction

Machado's promise to provide Cuba with "water, roads, and schools" was fulfilled despite a 90% drop in the price of sugar – Cuba's economic lifeblood – during his tenure as president. Immediately after assuming office, Machado introduced to the Cuban congress a public works bill appropriating \$300 million for over seven hundred projects.<sup>1</sup> State led infrastructural development financed through loans from American banks built Cuba's first domestically owned island wide transportation system, rebuilt the city centers, and offered opportunities for many island businesses. At the recommendation of a Cuban legal association, Machado also passed laws protecting Cuban businesses from American competition.

## Tariff Law

The new Tariff Law of 1927 (which was the first adjustment in Cuban tariffs since 1902) promoted self sufficiency in the Cuban economy. "New industries for the manufacture of garments, shoes, linens, beer, vegetable oils, and canned foods were so successful that imports of these products declined significantly," one analyst wrote.<sup>2</sup> Duties on raw materials, industrial machinery and oil were reduced to encourage the development of a domestic manufacturing industry. Such "import substituting industrialization"<sup>3</sup> measures had been encouraged by a group of Cuban

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<sup>1</sup> Hernandez, "The Second Administration of President Machado," p. 40.

<sup>2</sup> Schroeder, Cuban Statistics, 343.

<sup>3</sup> Import Substitution Industrialization, or ISI, was a common strategy employed after World War 2 by third world nation trying to diversify their economies.

lawyers, and were readily adopted by Machado.<sup>4</sup> Machado's protectionist policies gave him leverage to warn the Americans that Cuba would continue to make it more difficult for goods to enter the Cuban market unless the island received a better price for its sugar.<sup>5</sup>

The 1927 Customs-Tariff Law, "arguably one of the most important pieces of economic legislation of the early republic,"<sup>6</sup> favored small Cuban industries by protecting them behind higher tariff barriers for goods that competed with them while lowering tariffs on goods they used as raw materials. Thus, tariffs of sisal and crude oil declined to spur the creation of rope and fiber industries as well as oil refining. Tariffs on industrial machinery declined so Cuba could begin creating the manufactured goods they needed instead of importing them from the United States. Tariffs on agricultural products were raised so Cuban farmers could prosper. Special loan procedures were established to encourage the growth and diversification of small Cuban farmers and landholders. New industries, including those producing dairy products of all kinds, light industrial manufactures such as shoes, starch, paint, paper, a variety of clothing and glass flourished while existing industries expanded. Machado's government issued permits for fifty new industries within two years of this legislation.<sup>7</sup>

The 1927 tariff stimulated coffee production. Coffee bean imports dropped 99.5% in the decade Machado was in power, from 13 million kilos in 1925 to 58,600 kilos in 1935. Cuba doubled the amount of acreage it used for

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<sup>4</sup> Teresita Yglesia Martinez, "The History of Cuba and Its Interpreters," The Americas, January 1993, p. 384-5.

<sup>5</sup> Hernandez, "The Second Administration of President Machado," p. 57.

<sup>6</sup> Louis Pérez, Ties of Singular Intimacy, (Athens: University of Georgia Press, 1991), 178.

<sup>7</sup> *Ibid*, 178.

coffee production. The number of fincas (small farms) increased from 2854 in 1925 to 4458 in 1933.<sup>8</sup> Small independent coffee farmers multiplied. Corn imports dropped from 81.7 million kilos in 1925 to 3.8 million in 1933.<sup>9</sup>

These adjustments to Cuba's economic structure alleviated the effects of the Great Depression and the drop in sugar prices. According to Machado, "the evil consequences of depending on a single product would have been more accentuated" had the tariff reform not been implemented. The tariff laws had the effect of building up Cuban industry, rendering it less dependent on the United States when the depression hit. Machado explained this in his memoirs:

Fortunately, however, Cuba was already prepared to satisfy almost completely her own needs and the reduction of her purchasing power coincided with a general lowering of the cost of living. Everything essential which we had formerly had to import was now produced in Cuba -- fats, eggs, cheese, meat, fruit, cereals, etc. -- and they could now be distributed at a low cost from one locality to another, thanks to the central highway. Our protective tariff of 1927 had made us economically independent of the United States, which lost one of their best markets, a circumstance which eventually brought about painful repercussions for us, but which saved Cuba from greater affliction and famine and at the same time helped to develop her small-scale agricultural industries.

In spite of the economic depression, the Cuban people lived better in 1929 than in the days of splendor and riches, because the structure of the country had been altered and the system of distribution of wealth improved.<sup>10</sup>

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<sup>8</sup> Hernandez, "The Second Administration of Machado," 53.

<sup>9</sup> Schroeder, Cuban Statistics, 421.

<sup>10</sup> Machado Collection, Box 1, Folder 8, III-22.

Machado claimed that, in spite of the sugar depression, Cubans lived better in 1929 than earlier in the decade largely because the Central Highway altered the distribution of wealth. Now, small farmers everywhere had a market for their products, and in turn could acquire goods previously unavailable to them. The Central Highway provided an economic boost to the small rural farmers living beyond the market of Cuba's large cities. These reforms significantly benefited lower class and rural residents, much more than the urban middle and upper classes who were accustomed to government patronage, jobs, and money. This partially explains why Machado's opposition came from the wealthier sectors and not from the lower classes.<sup>11</sup> While adopting the government budget to the reality of declining tax revenue (due to the drop in sugar prices), Machado cut government employment rolls, claiming that they were bloated by some 400% due to political considerations of his predecessors.<sup>12</sup> These disaffected urban civil servants organized, and added their support to a brewing revolutionary momentum led by other disaffected political leaders.

### **Other Initiatives in 1928**

Clemente Vasquez Bello, President of the Senate, proposed a bill to protect Cuban molasses and alcohol industries. Instead of exporting molasses the sugar by-product would be used to produce alcohol for internal combustion engines. The bill heavily taxed petroleum products and

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<sup>11</sup> Ibid., Box 1, Folder 8, IV-23.

<sup>12</sup> Ibid., Box 1, Folder 8, IV-23.

petroleum consuming engines, while “those (engines) which are designed to use alcohol will be entered duty free for five years.”<sup>13</sup> Santiago Claret, member of the House of Representatives from Cienfuegos, introduced a bill to form a permanent committee to encourage domestic production of food, clothes, tools, and machinery, and to “make the island as nearly self-supporting as possible.”<sup>14</sup> Secretary of the Treasury Gutierrez de Celis outlined the possibility of a national income tax. This was regarding Cuba’s “tributary system being revised in accord with the most modern methods.”<sup>15</sup>

### **Economic Woes and Trade Diversification**

Cuban sugar production peaked in 1919 at a value of \$472 million, dropped to \$267 million in 1922, rebounded to \$424 million the next year, and then steadily dropped to its nadir of \$54 million the year Machado left office (1933).<sup>16</sup> It did not recover from this slump until after World War Two. Meanwhile, the economy was diversifying under Machado's efforts. The number of commercial vehicles licensed in Cuba increased 22% within one year of the opening of the Carretera Central.<sup>17</sup> Until Machado, the railroads, often old and inefficient, were the primary mechanical means of transportation. Petroleum produced in Cuba increased from 162,828 gallons in 1924 to 733,002 gallons in 1933.<sup>18</sup>

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<sup>13</sup> Evening News, May 2, 1928, Havana.

<sup>14</sup> Evening News, March 28, 1928, Havana.

<sup>15</sup> Havana Post, May 10, 1928, Havana.

<sup>16</sup> Schroeder, Cuban Statistics, 259.

<sup>17</sup> *Ibid.*, 325.

<sup>18</sup> *Ibid.*, 291.

Machado cut dependence on US trade. Between 1925 and 1933, US-Cuban trade as a percentage of total Cuban trade fell from 69% to 63%.<sup>19</sup> This was the lowest percentage level up until the United States cut off trade relations with Cuba in 1960. The majority of this adjustment was due to a decrease in US exports to the island. As a percentage of total foreign trade, the US share dropped from 63% in 1925 to 54% in 1933. Over all values of trade dropped dramatically, both from the decade long decline in sugar prices and from the 1929 depression. While exports to the US declined 78.4%, imports from the US declined even more -- 87.9%. In 1927, Machado's administration signed bilateral trade agreements with Canada, France, Japan, Portugal, and Chile.

### **Cuban Sugar**

The disastrous drop in sugar prices throughout the 1920s was compounded by the effects of the Great Depression beginning in 1929. The president blamed much of his troubles on the declining economic conditions, characterized by a drop in sugar prices from four cents to one half cent, a drop in the federal budget from 90 million to 40 million dollars,<sup>20</sup> all at a time when he was attempting to reform the financial mess left to him by his predecessors, build the national highway, and reconstruct Cuba's physical infrastructure.

Cuba's sugar industry grew quickly after the island's liberation from Spain in 1899. Spain had offered little as a trading partner in comparison to the United States, especially since America's burgeoning population was consuming increasing

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<sup>19</sup> Ibid., 433.

<sup>20</sup> Machado Collection, IV-22.

quantities of sugar. American sugar consumption rose from 62.2 pounds per person in 1900 to 119.2 pounds per person in 1928. World War One also caused the Cuban sugar industry to grow because Cuba was the only dependable source of sugar for Europe. The demand for Cuban sugar was so great that the Allied Powers (during World War One) set up a sugar board to limit the rise in its price, keeping it between 4.6 cents and 5.5 cents per pound. The sugar board closed its doors at the end of 1919 without any plan for easing sugar back into the mechanism of the market, suddenly releasing pent-up demand which sent prices soaring as eager speculators hoped to make quick profits. The price did not begin to stabilize until May of 1920, when sugar prices reached their peak at 22.5 cents per pound. The "Dance of the Millions" was over as prices took a nose dive, dropping to 3.75 cents per pound in December of the same year. Rebounding slightly by 1923 to around 5.24 cents per pound, the price of sugar again began a steady slide until it reached a low of 1.8 cents per pound in 1929,<sup>21</sup> and then 0.5 cents in 1932.<sup>22</sup>

Sugar prices fell for three reasons. First, the domestic production of sugar beets in both Europe and the United States replaced imported Cuban sugar for many countries. Second, a worldwide overproduction of sugar glutted the market and sent prices plummeting. And finally, the depression in the US weakened demand for Cuban sugar products and the tariff was raised on Cuban sugar twice to protect American suppliers. Cuba unsuccessfully tried a number of schemes to resuscitate the

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<sup>21</sup> Russel H. Fitzgibbon, Cuba and the United States, 1900-1935, (New York: Russell & Russell, 1964), 203-227. Chapter 8 "Sugar and Cuban-American Relations". This chapter is the best summarization I have found on the Cuban sugar industry and its affects on US-Cuban relations, and is the source for my statistics here. Fitzgibbon's sources for economic and trade statistics are both primary and secondary. Hereafter cited as Fitzgibbon, Cuba and the United States.

<sup>22</sup> Machado Collection, IV-22.

market. Had the price remained stable at four to five cents per pound, Cuba would have likely avoided a great deal of its travail in the succeeding decade. Since Cuba's economy was almost entirely dependent upon sugar, tax revenues and employment suffered greatly from the decline. Sugar was the source of 80% of Cuba's national revenues.<sup>23</sup>

Naturally, a monumental drop in sugar prices and in the amount of sugar supplied to the United States eroded Cuba's purchasing power in the world market. Imports of US goods into Cuba dropped from \$263,516,000 in 1921 to \$27,653,000 in 1932.<sup>24</sup> Since a resuscitation of trade was prescribed as a solution to the American economic crisis, the situation in Cuba was of great interest to the Roosevelt Administration. A revival of sugar prices was a one precondition for a restoration of trade with Cuba and, if successful, may have done much to pacify the growing restlessness of Cuba's middle class who valued employment and jobs more than the idealized revolutionary goals espoused by the younger generation.

Unfortunately, no short term solution was found to resuscitate Cuba's financial lifeblood, even though Machado had significantly reworked the island's import/export rules to favor the Cuban industry and small farms.

## **Conclusions**

Machado's reforms were the first since independence and the most profound up until 1959. These changes were accomplished without enslaving

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<sup>23</sup> Business Week, January 20, 1934, 27.

<sup>24</sup> Fitzgibbon, Cuba and the United States, 226.

Cuba to a massive external debt as so many other countries attempting import substitution industrialization experienced. Although he borrowed millions from American banks, Cuba's public debt decreased from 93 million dollars in 1924 to 51 million dollars a decade later when Machado was ousted from the presidency. It exploded to 105 million dollars by 1943.<sup>25</sup> Machado's reforms would become standard recommendations for import substituting industrialization policies after World War Two.

Machado's predecessors in office enjoyed the financial bounty of high sugar prices and had virtually nothing to show for it. From the beginning of Machado's presidency in 1925 until 1929, prices slid over 90% while Machado made significant and visible improvements to the island, diversified the economy, and reduced dependency on US trade and imports.

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<sup>25</sup> Schroeder, Cuban Statistics, 443.