ALWAYS IN DEMAND:

Recent Books in Latin American Economic and Business History

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SUGAR BARON: MANUELA RIONDA AND THE FORTUNES OF THE PRE-CASTRO CUBA. By Muriel McAvoy. (Gainesville, FL: University Press of Florida, 2003. Pp. 352. $27.95 cloth.)

ENCUMBERED CUBA: CAPITAL MARKETS AND REVOLT, 1878–1895. By Susan J. Fernandez. (Gainesville, FL: University Press of Florida, 2002. Pp. 192. $59.95 cloth.)

GOVERNMENT, FOREIGN INVESTEMENT, AND RAILROADS IN BRAZIL, 1854–1913. By William R. Summerhill III. (Palo Alto, CA: Stanford University Press, 2003. Pp. 297. $60.00 cloth.)

Alpine, New Jersey, is an affluent community in Bergen Country, just across the Hudson River from Yonkers, New York. It was once known, it is said, as the "Hamptons of New Jersey" in consideration of its well-heeled residents, one of whom, it seems, was a certain Manuel Rionda Polledo, one of a group known as Alpine's "40 Millionaires." Part of his estate, "Río Vista" still stands, an artifact of Jersey folklore called "Devil's Tower." Built sometime around 1910, the clock tower offered, from its location on the Palisades, excellent views of New York, and according to some accounts, was to be a place of interment for Manuel's beloved wife, Harriet. Today the tower is said to be haunted. The same Rionda had a grandnephew, Manuel Rionda del Monte, who was killed at the Bay of Pigs in 1961. By then, though, Manuel Rionda Polleda had been long gone, dead in New Jersey in 1943 at age 89. Wall Street paid him warm tribute, as well it should have, for in his own estimation, Manuel Rionda was the man "who did the most to introduce American capital into Cuba" (289). Considering that Yankee merchants and traders had been knocking at the door for nearly two hundred years when Rionda died, that must be counted as a remarkable epitaph.

I must admit I had never heard of him before Professor McAvoy's book, although he rates several mentions in Hugh Thomas' encyclopedic

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history of Cuba. Whether or not he merits the full biographical treatment he receives here is hard to say, although that is no reflection on the book, which is excellent. I should be the last person to complain about a lack of flesh-and-blood detail in what is, after all, essentially a business history, but I occasionally had the impression that Rionda was a useful device around which to organize financial data drawn principally from the Braga Brothers Collection at the University of Florida. Having never examined the documents, I can only imagine that they are strong on the sort of thing that warms the hearts of cost and general ledger accountants, but leave the rest of us gasping for air. It is difficult to get much human-interest material from these kinds of records, and it is not necessarily clear that whether Manuel Rionda smoked, drank or gambled (other than on sugar) is of much interest to McAvoy. Yet a lot of high-level business and political influence rests on just such personal foibles, and an occasional allusion to bribes, or funds needed "to grease the wheels" in Washington, D.C. (42) made me wonder how much McAvoy was holding back.

Rionda was an immigrant from the Spanish region of Asturias, and when he went to America, he joined his brothers. But he didn't stay in Cuba and was sent to the United States for an education. Running throughout the narrative is an appreciation, now scarcely comprehensible, of how closely the fortunes of Cuban sugar, not to say Cuban politics, were linked to the United States. Rionda certainly spent more of his life in the States than in Cuba, where the family's interests were managed by other members of a clan of García Marquesian proportions. From the outset, it was clear to Rionda that the United States could make or break Cuba economically, and it subtracts not a bit from the importance of the Cubans' own actions to say they understood this, even if they did not necessarily like it. When Rionda dismissively suggested that governing Cuba was not a job for poets but businessmen, he may have been a Philistine, but he was still pretty clearly a Hispano-Cuban Philistine, and a patriot in his own mind, for sure.

Distance from plantation to market had always played an important role in the geography of the sugar industry, and the proximity of Cuba to refineries on the East Coast of the United States (Rionda acquired a refinery in Philadelphia) all but guaranteed that the United States would play a decisive role in the marketing of Cuban cane sugar. In the same way, the rise of the European sugar beet industry in the nineteenth century would become a substitute for more costly Caribbean sugar. By century's end, the force of this competition concentrated the market for Cuban sugar still further, all the while driving down its price. The economies of scale to which the industry was increasingly subject would have imposed a consolidation on it in any event, but Rionda took it as his brief to finance the rationalization of the Cuban industry by incorporating the Cuba Cane Sugar Corporation in 1915, an "empire" capitalized at

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$50 million that accounted for a sixth of Cuban sugar output. Its Board of Directors included some of Wall Street's biggest names at just the time that New York City was taking over international financial leadership from London. The phrase *finance capitalism* hardly does justice to the maze of interlocking directorates of Cuban railroads and mills, and New York investment banks and sugar refiners (among others). In all this, Rionda was a central and, presumably, indispensable figure.

Still even a millionaire sugar baron, especially a Hispano-Cuban one, had only so much room to maneuver, and Rionda's supposed devotion to supply and demand took him just so far. This was especially true after World War I broke out, and even more so after April 1917, when the United States entered the conflict. Wartime brought price controls, government interference from both Cuba and the United States, and the perverse expectation of higher profits on the part of stockholders even as the Cuban crop fell under the complete control of the United States. Rionda was inevitably caught in the position of trying to serve many masters: one of them was bound to be disappointed. It was no small matter to attend to the operational side of the business in Cuba while attempting to manage a fractious assortment of regulatory committees, refiners, partners, financiers and politicians in the United States and elsewhere. Difficult in wartime, the task proved simply impossible once price controls were lifted in 1919 and the international market was flooded by sugar that the anticipation of high prices had elicited. In late 1920, Rionda resigned the presidency of Cuba Cane, his reputation sullied by an investigation into self-dealing that a hostile Director of the company had instigated. Rionda was, to put it mildly, miffed. "Had I ever surmised what would take place," he wrote, "I tell you that Company would have never had birth" (141).

The overall thrust of McAvoy's argument was that Manuel Rionda was a merchant, not a professional manager, or to put things in slightly more contemporary parlance, a rainmaker, not a bean counter. I suppose this is true: there are no photos of Rionda hunched over a ledger. He was running an enormous operation on an international scale, but there is little about Rionda or his many kin to put you in mind of the commercial acumen of, for instance, the Rothschilds. This may not be a terribly fair comparison. The Rothschilds were not dealing in a commodity of which there was simply too much on the market. In the late 1920s, the Cubans attempted to restrict production, but this was just the equivalent of leaving money on the table for producers in Hawaii, Java, or Europe to take. Unrestricted competition, Rionda complained, took too long, for the market's way of eliminating excess supply was to slowly erode the equity of the shareholders, or to force a business into defaulting on its debt. The International Sugar Conference of 1929 was not notably successful in resolving the problem, and for Cuba, salvation,

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such as it was, awaited the Reciprocity Treaty of 1934 with the United States and the sugar quota. A skeptic may be pardoned for wondering if the cure turned out to be worse than the disease.

This book does a good job on a very complicated subject and when I read it, I wondered why I hadn't heard of the author, who is identified on the jacket as "professor emerita of history at Fitchburg State College." This, as it turns out, is Professor McAvoy's first book, so I figured that she must have been working away at it for most of her career. Sort of. Professor McAvoy is eighty-four years old, she has been researching and writing this book for twenty years *since retirement*, and is currently studying sugar legislation under the New Deal. ¡*Enhorabuena, Doctora*! I'm looking forward to reading more.

Interestingly, the Rionda family makes an appearance in Susan J. Fernandez's study of late nineteenth-century capital markets in Cuba, so there is a species of record linkage here. Yet whereas McAvoy is interested in presenting a panorama of the sugar industry through Manuel Rionda, Fernandez is more interested in the narrower (if vital) question of financing sugar, particularly during the recovery from the Ten Years War after the Peace of Zanjón (1878). The crux of the issue for Fernandez is as follows: The war had been costly, and expanding sugar production in its wake would be proportionately more so. From where was the capital to come? For a series of institutional and historical reasons, Spain, itself underdeveloped, was unlikely to offer much assistance. The source of money to which Cuba turned was the United States, which provided capital for land purchases, trade and production. This made obvious sense in that the United States absorbed the largest share of Cuban sugar. Thus "even before the 1898 military intervention, U.S. economic influence in Cuba included not just trade but finance capital. Explaining the process of U.S. penetration of capital markets in Cuba helps further explain the movement toward independence as well as Cuban responses to U.S. intervention" (7).

I'll admit that I missed a balance of payments account for Cuba in this book almost as much as I missed a genealogical table in McAvoy's. In and of themselves, such decorations are otiose, but invaluable in trying to understand who is doing what to whom. In Cuba's case, it *appears* almost certain that the island was running a current account surplus (on goods) in the period Fernandez analyzes. In effect Cuba earned more from its exports than its imports cost. Yet I have the distinct impression from the narrative (especially 28–29, 97–108) that Cuba was little short of an economic basket case as well as a chronic burden on the public finances of Spain. In the absence of systematic hard data, the entire discussion is speculative, but there are some puzzles here. Cuba was exporting huge amounts of sugar and, presumably, earning hard currency (gold) from it. At the same time, Cuba was receiving

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substantial direct investment from the United States, so the island must have been awash in dollars. And indeed, Fernandez talks about the "dollarization" (97) of Cuba at the time. Fernandez thinks this was because the island was losing gold, but there may be a better explanation. Balance of payments accounting requires that the sum of the current and capital account equal zero. If the current account was positive and direct investment represented a capital inflow (a plus item on the capital account), there had to be some debit items on the capital account to make things balance. If Cuban planters were squirreling away gold in foreign securities and bank accounts, that could have done it, in which case the outflow of gold may have been an effect, not a cause. In any event, I have trouble figuring out what was going on here.

Similarly, the burdens of borrowing, the "encumbered" Cuba of the title, is a bit perplexing. As both McAvoy and Fernandez show, the sugar industry at the end of the nineteenth century underwent a major transformation, and the capital to underwrite it had to come from somewhere. Since the price of sugar had been in a secular decline almost from the 1840s, why would anyone invest in a potential losing proposition, especially when investment choices elsewhere in the world were plentiful?

Fernández argues (167) that vertical integration by lenders enabled them to make money downstream, even if the price of sugar fell, but is this really a convincing explanation? Falling prices meant lower profits and there was no point at all in bringing a worthless crop to market. I think that the foreign capitalists buying up plantations in Cuba were gambling they could operate them more efficiently than their current owners, a point McAvoy makes explicitly when she writes about the investigation of Cuba Cane. If so, then what happened in 1898 was a corporate takeover underwritten by Uncle Sam himself. Something similar had happened fifty years earlier to Mexico, so none of this was unprecedented. I don't know if cultural arrogance, naked aggression, or the urge to operate a ruthless monopoly is worse: history offers a choice of explanations. In any event, there is a big difference between borrowing when commodity prices are falling instead of rising, a lesson from the past that has to be periodically relearned in Latin America.

At the least, Fernandez is not afraid of using the d-word. People who write about dependency discuss trade, railroads, exchange rates, tariffs, and currency regimes, things that historians otherwise don't seem interested in anymore. In part a consequence of the retreat from materialism, the attitude is also a consequence of the cultural turn in historical studies. As a former colleague of mine put it once, "There's more to life than railroads." Nevertheless, some doughty few soldier on, people I would call second-generation cliometricians working on Latin America. Among them, and one of the best, is William Summerhill. What

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makes his contribution unusual is that it would fit in comfortably with a Chicago-style work on price theory (201–222), but Summerhill is listed as a member of the Department of History at the University of California–Los Angeles. I expected something very different here, and I wasn't disappointed.

For some people, the "did railroads matter" question may seem archaic and a discussion faintly remembered from the 1960s and 1970s, when it was very much au courant. As Stephen Haber has vigorously noted, these sorts of empirical exercises in applied price theory never made much headway in Latin American economic historiography, if only because the approach appeared a bit disreputable. If you were trying to help the poor and the oppressed, the notion that Chicago economics was the appropriate instrument would have seemed (justifiably) fantastic after the overthrow of Salvador Allende in 1973. Times change, even if people don't, so it was inevitable that someone might wonder what exactly the cliometric approach would yield if applied to crucial topics in Latin American history, especially to those which Summerhill terms as growing out of the "dependency-as-process" literature. The forthcoming *Cambridge Economic History of Latin America* is going to be an eye-opener, because historians like Summerhill, who are part of the enterprise, have done exactly that.

Summerhill's first point is that railroads mattered in Brazil, in some regions more than others, but that strictly private returns would have never sufficed to get them built. The reasons for this are laid out in a lucid discussion (41–43) that emphasizes the difference between meeting operating costs and covering the opportunity cost of investment capital. Rates that allowed railroads to cover the cost of a journey were not necessarily those that would induce investors, especially British capitalists, to lay rails and import rolling stock. It is a curious and revealing comment on the oligarchic nature of Brazilian society as well as on the privileged position of the British in it that dividend guarantees made by the Brazilian government to foreign (and domestic) capitalists would be politically acceptable, but pricing that would have directly extracted an equivalent amount from domestic shippers was not. But then, relative price elasticities are just another way of determining whose ox gets gored when taxes and subsidies are discussed.

What follows is an exhaustive discussion of the notion of social savings, the canonical metric by which resources savings from a transportation innovation are judged. I suspect that the details of Summerhill's calculations may tax the patience of many readers, especially when the conventional procedure used in estimating its size only requires that the demand for freight or passenger transportation be perfectly inelastic. Such an assumption inevitably yields an exaggerated ('upper bound') notion of the savings as a share of national income, but there

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can't be any doubt about the direction of the bias. Summerhill examines a range of intermediate assumptions about elasticities, but admits (95) "it would be imprudent to claim that any represents the true measure." The ambiguities that surround elasticity estimates are to blame, which Summerhill knows quite well. In the final analysis, he settles on a social savings from freight service in the range of 8 to 16 percent of gross domestic product in 1913. Even the savings from passenger service came to nearly 4 percent of GDP, "a figure that begins to take on important significance for the level of economic activity" (121). For most of Latin America, except perhaps Colombia (too late) or Ecuador (too little), the railroad was *the* major stimulus to economic growth.

What is more interesting in Summerhill's treatment of the social savings is less than the display of research and technical chops, which are impressive, than the recasting of the notion of social savings into an informal measure of the dynamic importance of railroad construction. Here (105), Summerhill concludes that railroads accounted for anywhere between 19 and 66 percent of productivity gains across the economy between 1885 and 1913. Even the mean of the interval is over 40 percent, which pretty much eliminates the possibility that anything else could have had an equal impact. I like to think of this in terms of the little Aggregate Supply-Aggregate Demand diagrams that old-fashioned macro teachers tortured their intermediate students with. In Brazil, the rightward shift in the supply curve rode the rails. To paraphrase a famous Nobel laureate in economics, this does not produce growth: it *is* growth. And it was not merely a growth in exportables that occurred. Freight bound for the use of the domestic market grew more than proportionately.

Why would this have such a dramatic effect on productivity change? I could think of many reasons (some of which Summerhill discusses), but there's no need to speculate when the text provides an ingenious example. Summerhill shows that in transport-using industries like textiles, the extension of rail lines enabled newer factories using more advanced technologies to be opened in the interior of the country. In other words, some of the freight bound for the domestic market was new machinery bound for new up-country textile mills. Summerhill estimates (153) that such mills were 40 percent more productive, that is, "newer firms, made possible by the railroad's expansion in the last decades of the nineteenth century, were systematically more productive than the industry average."

All of this, then, is the good news. Summerhill even finds that, contrary to the received wisdom, British-owned railroads did not enjoy unusually high profits relative to the returns enjoyed by Brazilian-owned lines. Since the London capital market was efficient, excess returns, presumably, would have attracted entry, and Summerhill presents no evi-

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dence that the Brazilian government erected barriers to favor the entry of one syndicate of foreign investors over another. What he *does* document, amidst this paradise of neoclassical efficiency, is clear evidence that the Brazilian government favored one *region* over another because of *domestic* political influence, and that lines were overbuilt in places such as the province of Rio de Janeiro, the Côrte, Pernambuco and Bahia. It was the far south that had the most rapid increase in construction after 1880, and by 1910, "the bulk of total trackage was heavily concentrated . . . in the center-south and far south" (56, 57). As a result, even though the social rate of return to the railroads in Brazil in 1913 was positive, there were many individual lines for which the marginal rate of return was low or even negative. So it's not as if this was the best of all possible worlds, but, as Summerhill decorously puts it, "unfavorable and regressive political and social outcomes that are so often believed to be rooted in 'dependency' may be best be sought in other dimensions of the political economy of growth and distribution in Brazil" (156). Somehow, I don't think British pre-eminence in Brazil, "informal empire," or any such other suspect rates high on the list of places that Summerhill would begin seeking.

That said, this is a very, very good book. The price of admission is a reasonably sophisticated grasp of price theory a la George Stigler or Milton Friedman, and a basic course in econometrics. If you don't have that, you can't really grapple with the rather unorthodox conclusions to which Summerhill comes. I think there a more than a few potential grapplers out there. Even Robert Fogel's work on United States railroads *still* generates searching criticism; I assure the uninitiated that no economic argument, however sophisticated, is unassailable.

One the basis of reading these three books, I would no more predict that economic history is going to make a comeback to its levels of interest in the 1960s and 1970s than that the Big Bands are coming back either. Like the Bands of the 1930s and 1940s, the boom in socioeconomic studies (for which, to be fair, the dependentistas were largely responsible) was the product of peculiar historical circumstances that are unlikely to be repeated. Yet I still hear a good band in concert every once in a while, and as long as monographs as varied and interesting as these can find a publisher, I'll count my blessings, even if I don't expect to see anyone dancing in the aisles to Harry Connick anytime soon.

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