CUBA'S DANCE OF THE MILLIONS: EXAMINING THE CAUSES AND CONSEQUENCES OF VIOLENT PRICE FLUCTUATIONS IN THE SUGAR MARKET BETWEEN 1919 AND 1920

By

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Between September 1919 and May 1920, raw sugar prices increased from 6½ cents per pound to 22½ cents. By December 1920 prices fell to 3¾ cents. Historically, 3¾ cents per pound was not bad. In fact, between 1885 and 1915, the annual average price of raw sugar not once exceeded 4 cents. My study examined the causes of the violent price fluctuations in the raw sugar market, and the consequences for Cuba.

The period in Cuba between 1919 and 1920 is referred to as *the Dance of the Millions*. Other writings that discuss the *Dance of the Millions* generally give scant mention to the fact that the United States, like Cuba, experienced an economic boom and collapse; and price volatility was not unique to the sugar industry, but rather occurred across a broad range of commodities. U.S. monetary policy played an important role in stimulating commodity price movements, and was in no small way responsible for the *Dance of the Millions*.

Several other factors, however, made the sugar market particularly susceptible to violent price movements. The world supply of sugar fell by nearly 20% between 1913 and 1918, and European beet sugar production was expected to require years to recover after World War I. Also, the demand for sugar was income elastic, and therefore sensitive to economic conditions in the United States and Western Europe (which, as a matter of fact, were volatile at the time). Finally, government policies and the speculative behaviors of buyers and sellers played an important role in stimulating price movements in the sugar market.

The consequences for Cuba were significant. Cuba experienced unprecedented wealth and prosperity during the *Dance of the Millions*, and many fortunes were made. The sudden and sharp decline in sugar prices between May and December of 1920, however, left turmoil in its wake. The crash in sugar prices resulted in the collapse of many of Cuba's oldest and largest banks, beginning in October 1920; paving the way for an even greater foreign presence in Cuba's banking industry. Furthermore, Cuban-owned capital (including sugar mills and plantations) switched hands from debtors to foreign lenders; and Cuba's sugar industry became increasingly foreign owned.

One of many sources of information for my study is the University of Florida's Braga Brothers Collection, which is one of the largest archives in the world pertaining to the Cuban sugar trade before 1961. The Collection reveals insights into the *Dance of the Millions* and contains extensive correspondence of Manuel Rionda, who was one of the most influential men in Cuba's sugar industry at the time.

CHAPTER 1
INTRODUCTION

Fluctuation in Commodity Prices during and after World War I

> I am old enough to remember the war of 1745 and its end, the war of 1755 and its close, the war of 1775 and its termination, the war of 1812 and its pacification. Every one of these wars has been followed by a general distress, embarrassments of commerce, destruction of manufacturers, and the fall of the price of produce and lands.
>
> — John Adams (Thorp, 352, 1941)

Had John Adams lived long enough, he might have added World War I to the list. Between 1913 and 1921, production was dramatically altered, trade shifted, and commodity prices fluctuated violently (Table 1-1). The general impression is that the war drove prices up during the war and down afterwards. Actually the effects were highly varied on different commodities and during different stages of the war (Figure 1-1).

Table 1-1. Wholesale price index (base 100 in 1947-49)

Year	Index	Year	Index
1914	44.3	—	—
1915	45.2	1920	100.3
1916	55.6	1921	63.4
1917	76.4	1922	62.8

Source: Meltzer, Allan H, *A History of the Federal Reserve* (University of Chicago Press, 2003, Table 3.6, pp. 111)

The initial impact of the war drove a wedge into the general commodity price level, causing certain commodities to increase sharply in price and others to fall. In general, the essential foodstuffs, such as wheat and sugar, were driven up, while non-essential goods,

such as coffee and cotton (the consumption of which could be put off for a while), were driven down. Cotton and coffee prices also suffered because the disruption in transportation curtailed exports and threatened to cause surpluses to accumulate.

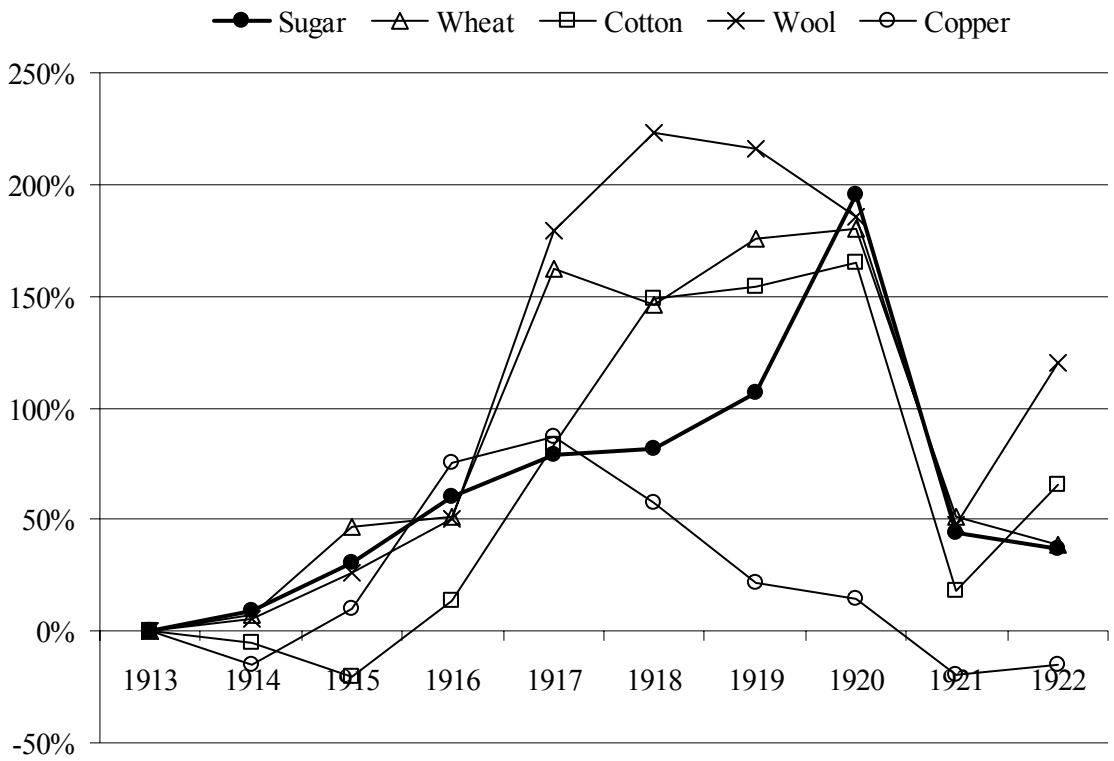

Figure 1-1. Wholesale prices in the United States for selected commodities, percentage change from 1913 to 1922. Source: *Historical Statistics of the United States: Colonial Times to 1970* (U.S. Department of Commerce, Bureau of the Census, 1975)

The first declaration of war occurred on July 28, 1914; and by August 7, most European powers were involved. On July 31, the New York Stock Exchange closed in response to falling prices, and the New York Cotton Exchange closed the same day. The Stock Exchange did not reopen until November 14, the Cotton Exchange did not reopen until November 16, and coffee trading did not resume until about the same time.

Within months, however, prices for certain commodities (particularly the essentials) began to increase. In 1914, despite a bumper crop in the United States, wheat

prices increased sharply on heavy European buying. European buying of American cotton, on the other hand, promptly fell at the outbreak of war; and remained low during the entire war, as civilian populations of the warring countries were forced to go short on clothing.[1]

The second year of war, 1915, showed less sharp divergence among commodity price trends. From the reopening of the Cotton Exchange, the price of cotton started upward, and so did prices of most of the other commodities that had initially dropped. Commodity prices continued upward, for the most part, into early 1917. Entrance of the United States into the war then started a wild upsurge in certain staples, particularly essential goods such as wheat, sugar, and copper (Table 1-2). The U.S. government moved promptly to stop the rise.

In August, trading in sugar futures on the New York Coffee and Sugar Exchange was suspended.[2] In September, a maximum price of $2.20 was placed on cash wheat in Chicago, which was continued throughout the war. Round-table conferences between government, army, navy, and copper-producing officials brought an official pegging of the price of copper at approximately 23 cents. The official price-control program was applied directly or indirectly to all commodities at that time found to be military necessities, and this put a lid on the commodity price structure.[3]

Almost immediately after the Armistice in November 1918, there was agitation for removal of wartime controls, and these controls were promptly lifted. After a brief

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[1] *Commodity Yearbook 1939* (Commodity Research Bureau, Inc., New York, NY, 1939)

[2] On February 16, 1920, trading in sugar futures was resumed, but with the trade rules somewhat amended to prevent wide fluctuations.

[3] *Commodity Yearbook 1939* (Commodity Research Bureau, Inc., New York, New York, 1939)

Table 1-2. Essential commodities for U.S. National Defense circa 1939

Materials:	
Strategic	Aluminum, antimony, chromium, coconut shell char, manganese, ferrograde, manila fiber, mica, nickel, optical glass, quartz crystal, quicksilver, quinine, rubber, silk, tin, tungsten, wool.
Critical	Asbestos, cadmium, coffee, cork, cryolite, flaxseed, fluorspar, graphite, hides, iodine, kapok, nux vomica, opium, phenol and picric acid, platinum, scientific glass, tanning materials, titanium, toluol, vanadium.
Essential	Arsenic, abrasives, acetic acid, acetone, alcohol (ethyl), camphor, castor oil, chlorine, copper, copra, cotton linters, helium, hemp, jute, iron and steel, lead, magnesium, methanol, molybdenum, nitrogen compounds (ammonia and nitric acid), palm oil, paper and pulp, petroleum, phosphates, potash, refractories, shellac, sisal, sugar, sulfuric acid (including sulfur and pyrites), uranium, webbing and duck, wheat, zinc, zirconium.

Source: *Commodity Yearbook 1939* (Commodity Research Bureau, Inc., New York, NY, 1939)

hesitation, an unprecedented speculation broke out in most of the leading commodities, sending some commodity prices through the ceiling.

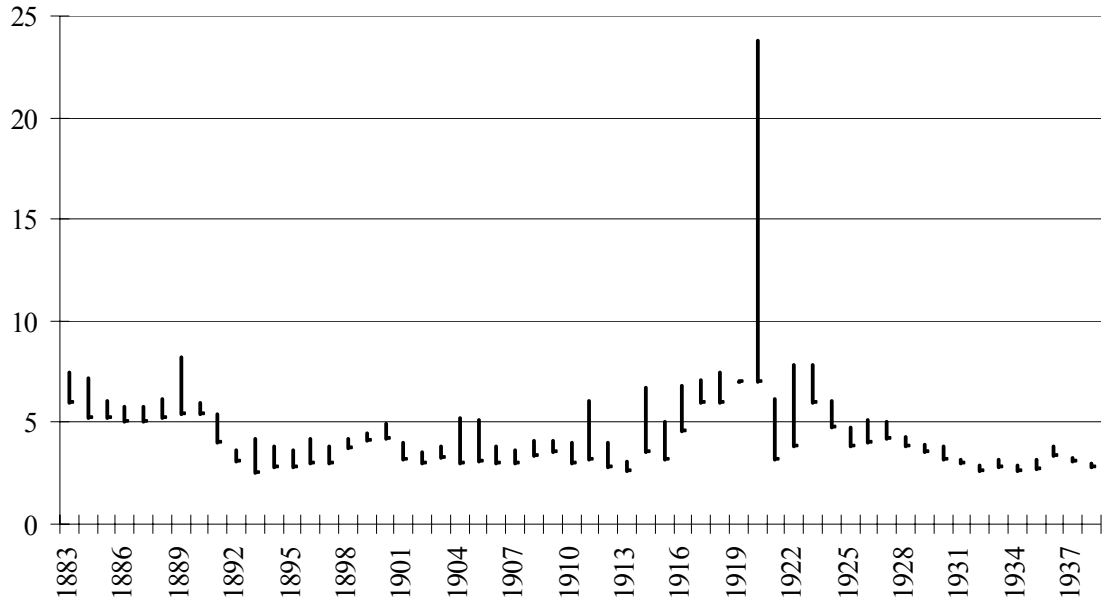

Figure 1-2. Raw sugar prices in New York – yearly highs and lows from 1883-1938, in cents per pound. Source: *Commodity Yearbook 1939* (Commodity Research Bureau, Inc., New York, NY, 1939)

Sugar, which had sold at around 3 cents per pound early in the decade, soared to 23.57 cents in May, 1920; cotton, which had been so depressed in late 1914 that a buy-a-

bale movement was started in the South, rose from a low of 7 cents to a high of 43¾ cents in the span of six years. Cash contract wheat in Chicago rose from the control price of $2.20 in 1918, to a peak of $3.50 at the end of 1919. Cocoa fluctuated from a low of 9½ cents in late 1917, to a high of 22 cents in 1919. Silk climbed from $6.00 a pound in 1918, to $15.00 a pound in 1920. Cottonseed rose from a low of 4½ cents in 1914, to 28 cents in 1919, and hide prices, always volatile, jumped from around 17 cents early in 1918, to over 60 cents in 1919. Cash lard fluctuated from a low of 7½ cents in 1915, to over 35 cents in 1919. Rubber and the metals were almost alone in not joining the rise.

The subsequent 1920-21 descent was as precipitate as the 1918-1920 rise; for some of the commodities the two-year speculation left a mark on the price charts almost needlelike in its sharpness (Figure 1-2). The 1914-1920 commodity rise was sharper in farm commodities than in manufactured and other goods. For sugar, cotton, wheat, and other commodities, a speculative bubble had burst.

Impact of 1919-1920 Sugar Prices on Cuba: The Dance of the Millions

> All commitments made in Cuba, no matter how well the risk seemed to be spread, were in fact commitments which depended upon the fate of sugar in the international markets. When sugar prices were good, no other enterprise in Cuba was so rewarding. When they were bad, most other activities suffered at the same time.
>
> — Hugh Thomas (Thomas, pp. 1152)

The phenomenal rise and subsequent fall in sugar prices in 1920 is commonly referred to as the *Dance of the Millions*. Cuba began selling sugar months in advance of the harvest at 6½ cents per pound, a price that exceeded the previous year's average price by one cent. By February, three months into the harvest, the world price of sugar had already risen to 9½ cents. This was well above any previous price ever obtained.

Previously in Cuba it had been assumed that 5½ cents was enough to stimulate the island to extreme prosperity.

Hugh Thomas wrote, "the rest of 1920 was passed, day by day, in a dream-like atmosphere more reminiscent of a film comedy than real life" (Thomas, pp. 543). Prices advanced higher and higher. On March 2, sugar sold at 10 cents; on March 18, at 11 cents; on March 27, at 12 cents; on April 8 at 15½ cents, and on April 15, at 18 cents. On May 19 prices had risen to 22½ cents.

When the price of sugar climbed, the island prospered (Figure 1-3).

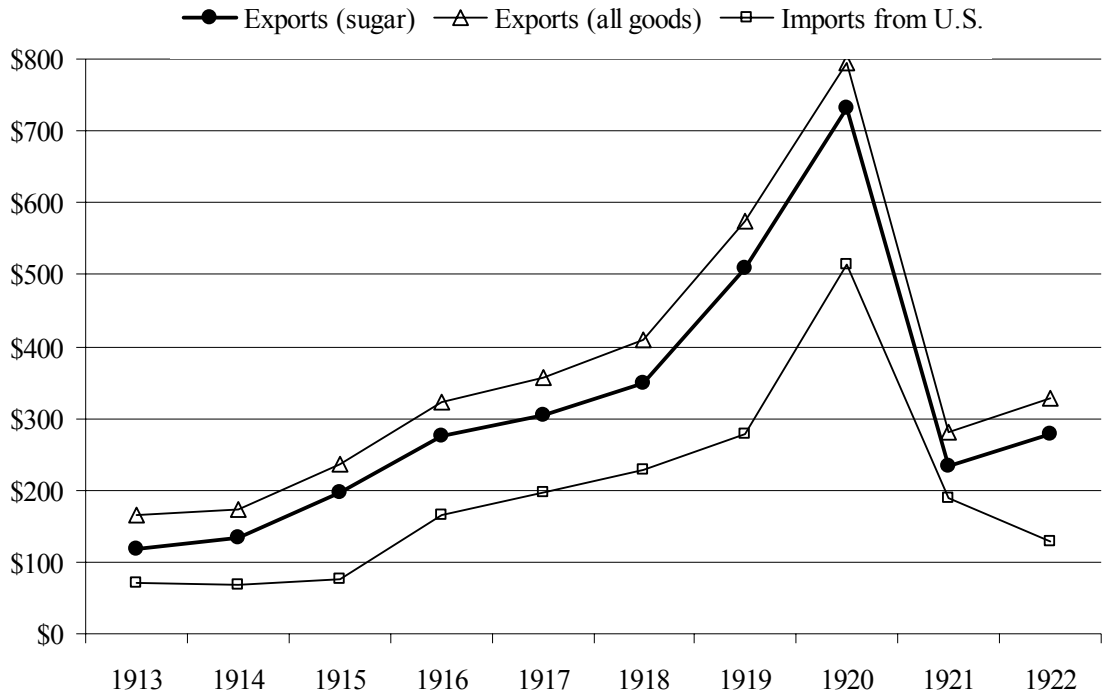

Figure 1-3. Value of Cuban exports and imports, 1913-1922 (1,000 dollars). Source: *Commodity Yearbook 1939* (Commodity Research Bureau, Inc., New York, NY, 1939) and *Sugar: Facts and Figures* (The United States Cuban Sugar Council, Washington, 1952)

The riches led to extravagant spending. The Prado in Havana reportedly was "as packed with cars as Fifth Avenue, New York, and mostly high-priced foreign machines like Pierce-Arrows, Packards and Rolls-Royces" (*Wall Street Journal*, June 28, 1920, pp.

7). In June, during the height of the *Dance of the Millions*, the *Wall Street Journal* reported the following:

> The Cuban is both a good spender and considerable of a gambler, when he is in funds. Fat bankrolls are now in evidence, at the race courses and many who formerly would risk $10 or $20 will now wager $1,000 without turning a hair. The Casino at Havana and the national game of Jai Alai are well patronized. (*Wall Street Journal*, June 28, 1920, pp. 7)

The party, unfortunately, came to an abrupt end once the price of sugar began its descent. By the end of June sugar sold at 17½ cents, by the end of July at 15¼ cents, and by late August at 11 cents. In September it had dropped to 8 cents. By late November, sugar sold at only 4¾ cents and by late December the price stood at 3¾ cents.[4]

Fortunately for Cuba, the vast majority of sugar had been sold before the decline (Table 1-3). In the end, the average price for the year was 11.35 cents, nearly double any previous or future year's price. Furthermore, the price of sugar had not fallen too low relative to prewar levels. The December price of 3¾ cents, for instance, was higher than any price reached between 1885 and 1915.

Table 1-3. Surplus of sugar in Cuba and its value, June and September 1920

	June	September
Quantity (tons)	460,000	335,000
Surplus as proportion of entire Crop	12%	9%
Value (million dollars)	$230	$75

Source: Thomas, Hugh, *Cuba or the Pursuit of Freedom* (Da Capo Press, New York, 1998, pp. 544)

The problem, however, was that during the *Dance of the Millions*, Cuban producers were no longer operating based on 4-cent, 6-cent, or even 11-cent sugars. Rather, their operations were based on twenty-cent sugars and expectations of even higher-priced

[4] Thomas, Hugh, *Cuba or the Pursuit of Freedom* (Da Capo Press, New York, 1998, pp. 543)

sugars.[5] Loans, wages, and expenditures were all calculated based on high-priced sugars. Banks had encouraged Cuban planters and farmers to borrow indiscriminately between 1915 and 1920.[6] Leland Jenks wrote, "bank managers had appeared during the golden days of wartime expansion as salesman – and competitive salesmen too." (Jenks, pp. 213)

At a hearing before the Lusk joint investigation committee in May 1920, George H. Finlay, a sugar broker, told the committee that $250,000,000 had been loaned by banks against sugar in Cuba.[7] Mr. Finlay in his testimony stated that one bank in Havana loaned $25 against a 320-pound bag while other banks loaned as high as $56 against a bag of the same weight. In late 1920 there were understood to be $80 million loans outstanding made on the price of sugar at 15 cents to 20 cents per pound.[8]

In the end, many Cuban producers had made money, but many had lost money too, and all were affected. In general, mill owners suffered greater losses than did colonos or laborers. The latter two by and large fared quite well.

The first sign of disaster for the mill owners came in July when the euphoria was just below its peak. Firms that had ordered goods two months before when prices were at their height refused to accept them. By September the banks were facing a crisis, due to over-commitment when prices were high. On October 6 the Banco Mercantil Americano gave borrowers a few hours only to settle their debts. The same day there was a run on the Banco Español. Two days later there was a run on the Banco Internacional, which

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[5] López-Civeira, Francisca, *Historia de las Relaciones de EE.UU con Cuba* (La Habana, 1985)

[6] Thomas, Hugh, *Cuba or the Pursuit of Freedom* (Da Capo Press, New York, 1998, pp. 546)

[7] *Wall Street Journal*, May 27, 1920

[8] Jenks, Leland, *Our Cuban Colony, a Study in Sugar* (New York, 1928, pp. 213)

closed on October 9. Finally, on October 11, President Menocal declared a general moratorium, to end on December 1. It was extended thereafter to February 1.[9]

The crisis would ultimately reshape Cuba's sugar industry as foreign banks entered the industry having acquired properties through mortgage disclosures. The National City Bank of New York for instance organized the General Sugar Company, made up of eleven sugar mills, which produced 5.1% of Cuba's total sugar output in 1923, and 20% by 1925. Foreign banks were virtually able to control – directly, through mortgages, and indirectly as the sole dispenser of credit – the whole of Cuba's sugar industry. Jenks cites one of the wealthiest U.S. citizens in Havana, who in the 1920's explained,

> The banks control about 79% of the output. They will lend money only to take care of the properties they are interested in. Other mills cannot clean their cane, or obtain advances on which to hold their sugar for better prices. Their yield will fall off. They will have to close down and take what they can for their land. Thus production will decrease. It was as plain as daylight as soon as the banks entered the sugar business. That is all there is to the sugar situation. (Jenks, 1928, pp. 283)

The ownership of capital in Cuba would, over the next decade and a half, become increasingly foreign-owned (Table 1-4).

Table 1-4. Land owned by Cuban and foreign mills, 1914 and 1933 (1,000 acres)

	1914	1933	% change
U.S. mills	1,135	3,813	236%
All foreign mills	1,599	4,997	213%
Cuban mills	898	860	(4%)

Source: Mondejar, John Patrick, *Neo-Colonialism as an Economic System: Cuba, 1898-1934* (Dissertation, University of Indiana, Bloomington, 1976)

While Cuban ownership had remained virtually stationary in spite of the disastrous transfer of property after the banking crash of 1921, foreign ownership increased more than three-fold.

[9] Thomas, Hugh, *Cuba or the Pursuit of Freedom* (Da Capo Press, New York, 1998, pp. 544)

Causes of Wartime and Post-World War I Price Volatility

During the war, production of European goods declined substantially as manpower and capital were diverted to, or destroyed by, the war (Table 1-5). As a result, Great Britain, France and other countries involved in combat soon faced a shortage of foodstuffs and other essential goods.

Despite a lack of shipping at the outset of war, U.S. exports resumed within a few months, and gold began to flow to the United States in large volume. In 1914 the United States held 19% of the world's monetary gold stock. Europe sent $1.5 billion in gold to the United States during the war as payment for goods, and the U.S. monetary gold stock increased by 88%.

Table 1-5. European production of sugar and wheat during World War I, 1914-1918

	1914	1915	1916	1917	1918
Sugar (1,000 tons)	8,217	5,987	5,600	4,142	3,422
Wheat (1,000,000 bushels)	1,301	1,072	1,125	1,049	740

Source: Braga Brothers Collection and *Historical Statistics of the United States: Colonial Times to 1970* (U.S. Department of Commerce, Bureau of the Census, 1975)

The Federal Reserve, which was newly formed, followed gold rate standards by reducing discount rates as market rates fell. By mid-December 1914 it had lowered discount rates at all reserve banks. In response to a brief rise in market rates in the spring of 1915, the Board issued a press release urging the reserve banks to "discount as liberally as prudent" (Meltzer, 2003, pp. 83). Interest rates resumed their decline. Gold inflows continued, and the U.S. monetary base grew substantially (Table 1-6).

Once the United States entered the war in 1917, government spending increased sharply. Effective income tax rates increased six fold from 1916 to 1918; however, the

increased revenue was much less than the increased spending, so the Treasury had to finance relatively large deficits.[10]

Table 1-6. Annual growth of the U.S. monetary base, 1915-1922 (percent)

Year	Growth rate	Year	Growth rate
1915	11.2	1919	5.0
1916	15.2	1920	3.6
1917	20.6	1921	-15.5
1918	16.2	1922	4.2

Source: Meltzer, Allan H, *A History of the Federal Reserve* (University of Chicago Press, 2003, Table 3.1, pp. 84)

In reality, the Federal Reserve's ability to curb inflation was quite limited, due to the fact that its independence had been sacrificed to maintain interest rates that lowered the Treasury's cost of debt finance. The System became subservient to the Treasury's perceived needs. The Treasury's reluctance to let interest rates rise was the traditional reluctance of a large borrower to experience an increase in interest. The Treasury's financial demands essentially controlled monetary policy during the war.

Table 1-7. Inflation rates, 1915-1920 (percent)

Year	Rate	Year	Rate
1915	2.0	1918	18.6
1916	11.0	1919	13.8
1917	17.0	1920	2.3

Source: Meltzer, Allan H, *A History of the Federal Reserve* (University of Chicago Press, 2003, Table 3.3, pp. 91). Rates are from fourth quarter to fourth quarter.

In the first four years of the Federal Reserve operations, the compound average rate of inflation was 12 to 13%. The peak in the quarterly rate of inflation is in the third

[10] Meltzer, Allan H, *A History of the Federal Reserve, volume 1, 1913-1951* (The University of Chicago Press, 2003)

quarter 1918, at the end of the war (Table 1-7), but the price level did not reach a peak until second quarter 1920.

The advance in prices during the war had been largely restrained by governmental controls implemented throughout much of Europe in 1916, and in the United States the next year. These actions included maximum prices and margins, purchases and resale of goods at a loss to the government, and subsidies of various industries.[11] Many governments also implemented quotas aimed at distributing essential foodstuffs and limiting their consumption. In 1919, many price controls and quotas were lifted, and prices soared.

Free to bid for goods whose consumption had been limited by government-imposed quotas during the war, European and other countries entered the market in full force. The consensus was that prices deserved to be much higher than those that prevailed under governmental control, and manufactures, retailers and households hastened to acquire supplies. These purchases, motivated by advancing prices, helped fuel the advance.

These conditions also attracted speculators, who, free to borrow money from banks, entered the market with hopes of making a profit on their transactions. To the manufacturer, demand from speculators is just as real as that from a bona fide consumer - production was stimulated all the same.

The Board's annual report for 1920 blamed the rise in prices on "an unprecedented orgy of extravagance, a mania of speculation, overextended business in nearly all lines and in every section of the country" (Meltzer, 2003, pp. 91). In fact, policy had as much if not more to do with inflation than consumer behavior.

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[11] Working, Holbrook, "War and Commodity Prices," *Journal of the American Statistical Association*, volume 35, no. 210, part 1, June 1940, pp. 309-324.

The volume of credit ballooned during this period due to the fact that the Federal Reserve discount rates were too low.[12] Member banks could borrow at preferential rates below the rate paid on Treasury certificates of Liberty bonds, so borrowing actually became profitable. This stimulated borrowing, and for more doubtful purposes than would otherwise be the case. Throughout 1919 and the first half of 1920, the abundance of purchasing media drove prices, rents and the cost of raw materials higher.

July 1920 marked the beginning of the end of the boom. The Federal Reserve finally obtained independence from the Treasury, and with it, the ability to control the monetary base. Once freed, the system raised interest rates in order to bring inflation under control.

Table 1-8. Market interest rates, 1919-1920 (percent)

Date	U.S. government bonds	Prime commercial paper	Minimum discount rate, New York
1919			
January	4.63	5.25	4.00
April	4.72	5.38	4.00
July	4.72	5.38	4.00
October	4.71	5.25	4.00
1920			
January	4.93	6.00	4.75
April	5.28	6.88	5.00
July	5.57	8.13	5.50
October	5.08	8.13	5.50

Source: Meltzer, Allan H, *A History of the Federal Reserve* (University of Chicago Press, 2003, Table 3.4, pp. 97).

[12] Macrosty, Henry W, "Inflation and Deflation in the United States and the United Kingdom, 1919-1923," *Journal of the Royal Statistical Society*, volume 90, issue 1, 1927, pp. 45-134.

The Federal Reserve's actions to reverse inflation were successful, but at a high cost. Prices and output fell sharply, and, together with the rest of the world, the United States fell into recession. During the 1920-1921 recession, millions lost jobs and farm prices fell by 50%, due in part to the faster than expected recovery in production.

Problem Statement

On July 19, 1919, the Cuban Commission wrote a letter to the U.S. Sugar Equalization Board advising the United States to avail itself of Cuba's offer to purchase its entire 1919-1920 crop. Failure to do so, the authors wrote, would likely result in harmful price fluctuations, unprecedented in scope. Their letter proved prophetic. Since Cuba became independent from Spain, nearly 20 years earlier, the average selling price of Cuban sugar had never exceeded six cents per pound, and seldom fluctuated by more than a few cents over the course of a year.

In August of 1919, three months before the start of Cuba's 1919-1920 harvest (and after two years of suspended open market trading) buyers and sellers once again began bidding on the open market. The earliest sales of 6 ½ cents per pound exceeded the average selling price of the previous year's crop (which had been the highest in decades) by approximately 15%.[13]

Nine months later, after single weeks in which prices fluctuated more than they normally fluctuate over the course of an entire year, the price of sugar soared to more than 22 cents per pound. The *Dance of the Millions* had begun. With nearly three-

[13] Manuel Rionda, in a letter to Higinio Fanjul, tells his friend that in a week they would know if the United States decides to buy Cuba's entire crop. He wrote, "If we manage to get 6½ cents we'll all be very happy." (BBC series 2, volume 47, letter no. 37-C, September 2, 1919, letter from Rionda to Higinio Fanjul)

quarters of Cuba's crop sold, many growers had amassed large fortunes. The *Wall Street Journal* reported,

> In Cuba, *colonos*, who before the war would have to ask advances from the mill of $3,000 to $5,000 to tide them over the planting season, are now worth $500,000. It is not unusual for a Cuban *colono* to have made from $200,000 to $300,000 this year, and the profits of a few of the larger ones have run into the millions. (*Wall Street Journal*, June 28, 1920, pp. 7)

Sugar prices did not remain high for long, however, before demand tapered off and bids began to subside. Convinced that the sudden downturn in the market was an attempt by large buyers to control prices, Cuban growers collectively banded together to hold sugar. Their actions proved detrimental. Prices fell so quickly and sharply that growers suddenly faced the prospect of defaulting on their bank loans. The market did not rebound.

As Cuba's banking troubles became apparent, worried depositors began showing up at banks to demand withdrawals. The situation soon escalated to panic, and amid floods of requests from depositors to withdraw their money, banks in Cuba one after the other began closing their doors. In October, the Cuban government declared a moratorium on withdrawals.

Relatively little has been written about the *Dance of the Millions* from a historical-economic perspective, according to Cuban historian Oscar Pino-Santos.[14] Leland Jenks wrote that no other event in pre-revolution Cuba, "was so dramatic, devastating, and complex" as the *Dance of the Millions* and no event is so "clouded by a lack of answers" (López-Civeira, 1985, pp. 91).

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[14] López-Civeira, Francisca, *Historia de las Relaciones de EE.UU con Cuba* (La Habana, 1985) Oscar Pino-Santos wrote that an in-depth study into the events that took place during the *Dance of the Millions* has yet to been done.

Literature Review

Pino-Santos, in *El Asalto a Cuba por la Oligarquía Financiera Yanqui* (1973) explained that in the five years preceding the war, Cuba produced more sugar than the United States was able to absorb, and prices, as a result, declined. World War I, by disrupting European beet-sugar production, positioned Cuba's sugar industry to expand into new markets.

The author believed that Cuba's sugar industry was on the brink of crisis before World War I, and the war simply helped delay the crash. The author explained that speculation in 1919-1920 was initiated first by the uncertainty, and secondly by the certainty, that the Wilson administration would not continue sugar control. The speculative wave, which fueled advancing prices, was stimulated by certain authorities, the press, and speculative elements in the United States. The author also faulted the credit policies of domestic and North American banks for stimulating the speculative bubble. Prices fell, Pino-Santos noted, once "invisible" sugar began to flow to the United States from remote places, filling refineries, wholesalers, retailers, and consumers.

In *Cuba: the Pursuit of Freedom* (1998), Hugh Thomas offered another explanation for the speculative price swing during the *Dance of the Millions*. Thomas believed that Cuban sugar producers' actions were responsible for the sharp increase and subsequent decline in prices.

Bullish media reports, based on beliefs that much of Europe had suffered tremendous losses in their capacity to produce beet-sugar, influenced the expectations and behavior of producers. Loose lending by banks resulted in producers overextending themselves in debt.

Leland Jenks', author of *Our Cuban Colony: A Study in Sugar* (1970) believed reckless political decisions by the Wilson administration and the bulling of the sugar market by the media fueled speculation and price fluctuations.

Objectives of the Study

My study examined the causes of the swing in sugar prices that occurred between 1919 and 1920, and its consequences. The period in Cuba between 1919 and 1920 is referred to as the *Dance of the Millions*. Despite its importance, relatively little has been written about the *Dance of the Millions* from an economic perspective. This author knows of no work that places the event in the broader context of U.S. monetary policy, and the economic conditions that developed simultaneously in the United States and Europe. Steep inflation and subsequent deflation occurred in many countries after World War I; price volatility was not unique to the sugar industry, and Cuba was not the only country that experienced an economic boom and recession.

The price of sugar, nonetheless, was more volatile than that of most other commodities, and the implications for Cuba were profound. When sugar prices soared in the spring of 1920, the excitement and prosperity in Cuba created a dreamlike atmosphere. Months later, after sugar prices plummeted, Cuba's banking system fell into disarray, which ultimately forced the Cuban government to declare a moratorium. In the months that followed, capital exchanged hands, and Cuba's sugar industry underwent an important transformation.

One of the sources of information for my study was the University of Florida's Braga Brothers Collection, which contains volumes of letters and documents from the time period that help further our understanding of the event. Among the documents are

letters and business dealings of Manuel Rionda, who was one of the most influential men in Cuba's sugar industry.[15]

Organization of the Study

Chapter 2 explains why the price of sugar was more volatile than other commodities. Market fundamentals are analyzed, and a chronological account of events is presented.

Chapter 3 discusses financial markets, particularly how Cuba's sugar industry operated within the framework of financial markets. Contracts, futures markets, and lending are all discussed. Also, Cuba's 1920-1921 banking crisis and its consequences are discussed.

Chapter 4 discusses the lessons from my study, conclusions, and suggestions for further research. The events, actions, and market forces that caused the violent movement in sugar prices is explained, as are the implications for Cuba.

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[15]Companies that Manuel Rionda owned or presided over produced or sold nearly one-quarter of Cuba's entire sugar crop. *Wall Street Journal*, January 28, 1920. "Down in Cuba all the sugar people wait for Manuel Rionda to move first."

CHAPTER 2
THE 1919-1920 RISE AND FALL IN SUGAR PRICES

While it is true that the post-World War I rise and fall in prices took place across a broad range of commodities, sugar was more volatile than most commodities (Figure 2-1). Between 1913 and 1920 (when wholesale prices in the United States peaked), the U.S. wholesale price index increased by 121%. During the same period, the average annual wholesale price of sugar rose by 195%. One year after the peak, in 1921, sugar sold for 44% more than in 1913, while the U.S. wholesale price index was 40% higher than the 1913 level.

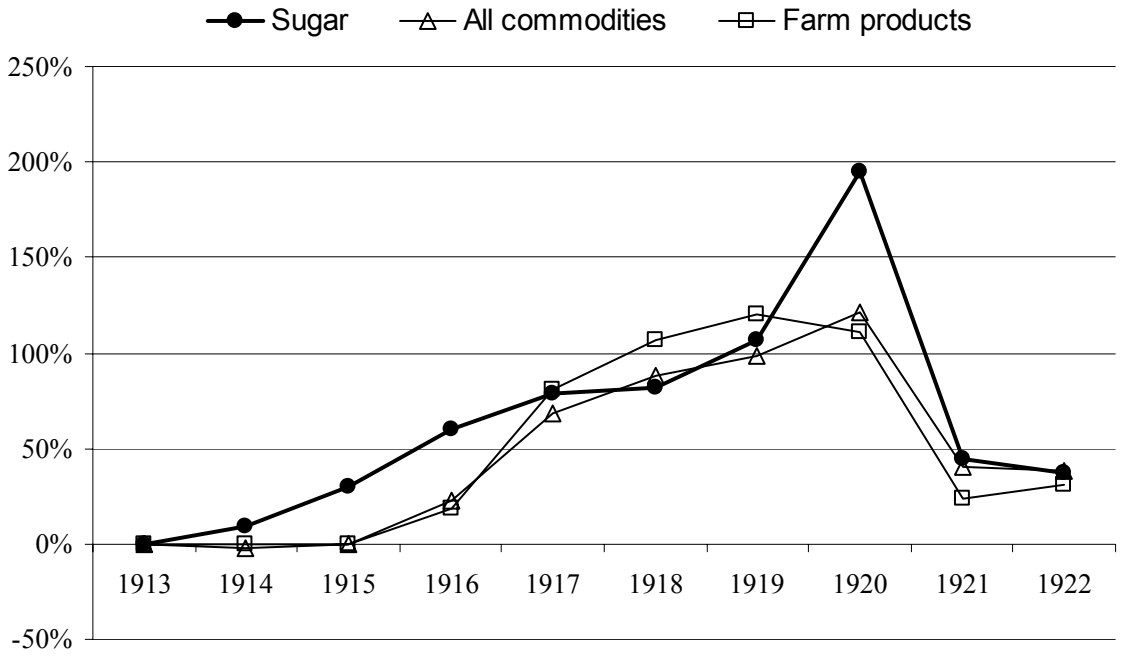

Figure 2-1. Wholesale price of sugar versus wholesale price indices, percentage change from 1913 to 1922. Source: *Historical Statistics of the United States: Colonial Times to 1970* (U.S. Department of Commerce, Bureau of the Census, 1975)

I examined the 1919-1920 rise and fall in sugar prices. I analyzed the fundamentals of the sugar industry, and explain the events, actions, and market forces that caused sugar prices in particular to be so volatile.

Demand for Sugar

Conditions during the war tended to stimulate demand for sugar. One important factor was the increase in consumer prosperity and purchasing power. Whereas sugar today is considered income inelastic, at the time sugar was more of a luxury good. This is evidenced by the fact that the only interruptions in the growth of per-capita consumption in the United States from the 1800's through World War II occurred during periods of economic depression and war.[1] During the Great Depression, for instance, per capita consumption in the United States declined by about 15%, which is in stark contrast to 70% increase in per-capita consumption that took place between 1900 and 1929. After the Great Depression, per-capita consumption promptly returned to pre-1930 levels.

The 1920 rise and decline in sugar prices can in no small way be attributed to economic boom and subsequent recession, which affected the principle sugar-consuming countries such as the United States, Great Britain, and France.

Regarding consumption in France, Harold Mott wrote Rionda:

> The working classes have a much larger buying capacity than ever before. In spite of the high price of sugar the laborer now has the means to indulge in sweets and his wife buys 20 pounds instead of one and the children have more change for candies. It is surprising here with the sugar shortage to see all the sugar sprinkled over candies and cakes and the amount of these articles that the people consume. The cafes and restaurants are full at all hours and people seem to spend money very freely. The government ration of sugar is sold at 2.10 francs but as much as 4.50 is paid for free sugar and prices seem to have no bearing on the purchase of this article. (BBC 10A, box 12, #40, Harold Mott to Manuel Rionda, Paris, October 6, 1919)

[1] Per-capita consumption in the United States increased from 8.9 pounds in 1822 to 103.7 pounds in 1941.

Rionda's assessment of the European economies, however, differed from that of Mr. Mott. In a September 1919 letter, Rionda wrote,

> I do not like to see so much enthusiasm on the part of growers. With the currency exchanges so low in France, England, and the rest of Europe, these countries are not going to be in a position to buy much sugar. We are going to touch on this subject in today's circular, which I will send you. (BBC series 2, volume 47, Manuel Rionda to Ramon Pelayo, September 26, 1919)

In another letter, Rionda, wrote the following:

> Until the Treaty is ratified and arrangements are made to prevent [these] depreciations in European monies, I cannot see how business can be resumed and placed on a prewar basis. The first thing to do, if we want to sell American merchandise to [your side] is to help towards giving value to the money of those to whom we want to sell, and so far I do not see that any efforts have been done along this line. (BBC series 4, volume 2, Manuel Rionda to Tiarks, September 10, 1919)

Despite these early concerns, Rionda's opinion of the market eventually changed. On April 1, 1920, weeks before prices peaked, Rionda wrote his nephews, "I am changed at last, and now expect higher prices – it is a pity we did not change before, however, perhaps we may make another mistake now!" (BBC series 3, volume 24, Manuel Rionda to his nephews, April 1, 1920)

Months later, the world's two largest sugar-consuming countries, the United States and Great Britain, entered into an economic recession. On June 10, 1920, only a few weeks after sugar prices had peaked, Gilbert Fox wrote Manuel Rionda:

> There seems to be a wave of pessimism in England with reference to all markets at the present moment, and the difficulties of getting loans from banks and the prospect of continuous serious taxation has brought about a want of confidence in all directions. This pessimism might find its way into the sugar market, notwithstanding the extremely strong position of that article. (BBC series 2, volume 49, Gilbert W. Fox to Manuel Rionda, June 10, 1920)

Reliable data do not exist that enables one to compare the relationship between buying power and consumption in selected countries during this time period. One would expect, however, a strong-positive correlation between buying power and consumption.

Figure 2-2 shows the relationship between sugar consumption and domestic product in 1948-1950, the earliest period in which accurate data are available. The figure reveals a positive relationship between buying power and sugar consumption, a relationship that was likely even stronger several decades earlier, during the *Dance of the Millions*.

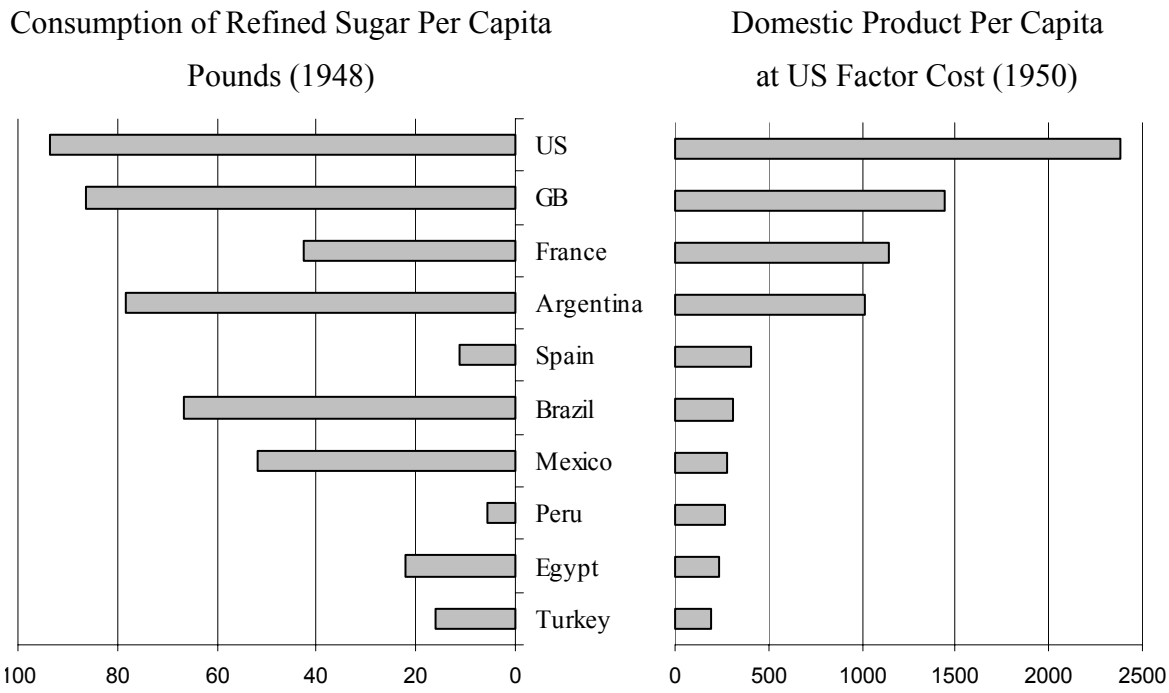

Figure 2-2. Consumption of refined sugar by GDP for selected countries. Source: *Sugar, Facts and Figures* (The United States Sugar Council, Washington, 1952) and Maddison, Angus, "A Comparison of Levels of GDP Per Capita in Developed and Developing Countries, 1700-1980," *The Journal of Economic History*, volume 43, issue 1, March 1983, pp. 27-41.

Sugar, unlike many other food commodities, was a primary ingredient in the production of many other food products, including condensed milk, candy, soft drinks, canned fruits and vegetables, ice cream, flavoring extracts, chewing gum, sweet pickles, catsup, chili sauce, baked goods and many other edible products. Although the cost of these products was relatively low, they were considered expendable luxuries; therefore their demand tended to increase during times of economic prosperity and decrease during

recessions. Not surprisingly, many new varieties of candies, soft drinks and other sugar-based products were introduced during the boom-time years.

One event that gave further impetus to the expansion of the soft drink and confectionery industries was the Prohibition Act.[2] A November 1919 newspaper article reported that, "on account of the greatly increased use of sugar in [this country], due in large part to prohibition, the increase in supply has been inadequate to meet the increase in demand" (Wall Street Journal, November 3, 1919, pp. 6). A December 1919 letter from Manuel Rionda iterates this point:[3]

> Some Americans believe that the sugar scarcity in the United States is due to a true scarcity of sugar. On the contrary, [we] are suffering the consequences of prohibition, which has increased the consumption of sugar in the first 8 months to a level comparable to the amount consumed for all 12 months in 1918. (BBC series 2, volume 48, Manuel Rionda to Antonio Cuyas, December 1, 1919)

Prohibition, which was ratified in January 1919 (although speculation of the law's passing had existed well before then, and some states implemented prohibition laws before the passing of the federal law) resulted in a boom in the consumption of soft drinks, as the supply of alcoholic beverages dwindled.[4] Per-capita consumption of soft drinks in the United States increased sharply, from 18.9 bottles in 1914 to 38.4 bottles in 1919 (Figure 2-3).

Consumers turned to soft drinks and sweets as substitutes for alcoholic beverages, and businesses adapted their operations to meet demand. Prohibition opened the door for more family-oriented soda fountain operations as corner salons disappeared. In addition,

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[2] *Wall Street Journal*, May 24, 1920

[3] Rionda went on to explain that the scarcity was also due to the fact that no other country besides Cuba had increased production. (BBC series 2, volume 48, Manuel Rionda to Anonio Cuyas, December 1, 1919)

[4] Rouch, Lawrence L, *The Vernor's Story, From Gnomes to Now* (The University of Michigan Press, 2003)

some breweries converted to the production of root beer or near beer (a nonalcoholic beer) to try to stay in business. Stroh Brewing Company of Detroit, for example, converted part of its production to a nonalcoholic beer to supply its in-state clientele after Michigan voted itself dry in 1916. Stroh Company ultimately turned to the production of soft drinks and ice cream. Bottling and production equipment and a distribution network were already in place to launch Birch Beer, a kind of root beer, along with other flavors including orange, cola, club soda, and Caledonia Dry Ginger Ale.[5] Stroh Company's experience was typical of many breweries, which switched operations from beer to soft drinks during prohibition.

Because the cost of sugar was relatively low and there existed few substitutes, the price-elasticity of demand was low. The dramatic increase in the price of sugar during 1919-1920 initially had little bearing on demand, particularly in the United States, where buying power was strongest. This is illustrated by the experience of Coca-Cola.

In 1917, sugar was by far the most costly ingredient used in the production of soft drinks. For many years, its wholesale price had hovered around 5 cents a pound. By May 1917, the price had gone to 8 cents, which required a 5-cent-per-gallon price hike. After expiration of the U.S. Sugar Equalization Board, which was created in July of 1918 to assure a supply of sugar at 9 cents a pound wholesale, the President of Coca-Cola, Sam Dobbs, wrote to the parent bottlers asking for permission to purchase "all the sugar [we] can at such a price as Howard Candler elects to pay" (Pendergrast, pp. 135).

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[5] *Ibid.*

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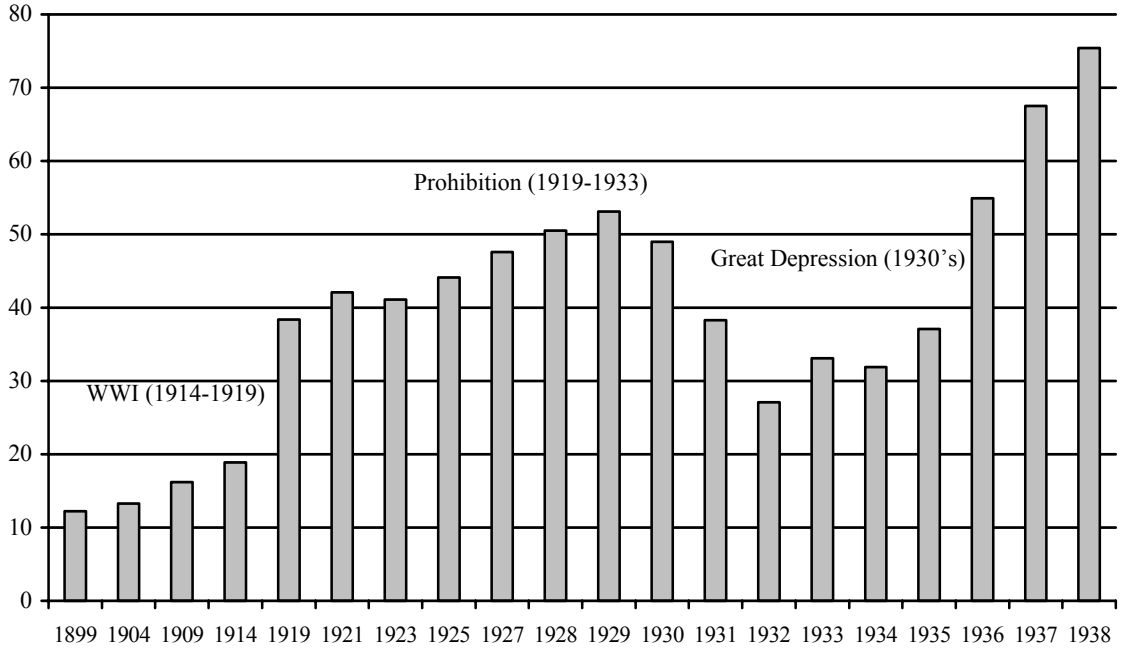

Figure 2-3. Per capita consumption of soft drinks, 1899-1938 (bottles). Source: Riley, John J, *A History of the American Soft Drink Industry* (American Bottlers of Carbonated Beverages, Washington, D.C. 1958).

In July 1920, Howard Candler, unable to obtain Cuban sugar at a reasonable quantity and price, ordered a gigantic shipment from Java at 20 cents a pound, which proved to be a mistake when several months later the price of sugar plummeted to 9 cents

a pound. Candler and other Company officials, "prayed that the boat from Java would be caught in a tropical storm and sunk," but it arrived as scheduled on December 15 with 4,100 tons of high-priced sugar, the largest single shipment of sweetener ever received in Georgia (Pendergrast, pp. 140). While most other soft drinks lowered their prices, Coca-Cola bottlers could not, and they were blamed for what was beyond their control. "It is very hard for the public to realize that we are NOT manufacturers of our syrup," wrote bottler Crawford Johnson (Pendergrast, pp. 140).

The fact that sugar substitutes, such as corn sweeteners and saccharin, were not yet popular and widespread at the time contributed to the price-inelasticity of demand for sugar. Corn-based sweeteners, which were the closest rivals to sugar, would not emerge as a major player in the sweetener industry for several more decades, until the 1940's and 1950's. In 1935, the combined consumption of corn syrup and corn sugar was approximately one-tenth that of sugar. Between 1935 and 1949, per-capita consumption of corn sweeteners in the United States increased from 10 pounds to 14.1 pounds, while that of sugar remained flat – 96.5 pounds versus 94.9 pounds.[6] It was not until the mid-1950's, when technology for purifying and crystallizing dextrose was developed, that corn-based sweeteners for the first time "could compete in some markets that had been the sole domain of the sugar industry" (Corn Refiners Association, 2002).

Supply of Sugar

World War I altered the world's sugar trade. The battle lines of World War I encompassed approximately one-third of the world's sugar supply, a large proportion of

[6] *Sugar: Facts and Figures*, (The United States Cuban Sugar Council, Washington, 1952)

which was concentrated in Germany and Austria-Hungary.[7] Consequently, production of non-Cuban sugars decreased 31% between 1913 and 1919, from 16.3 to 11.2 million tons (Figure 2-4).

The decline in world production was partly offset by the increased production in Cuba, however, world supply declined by nearly 20% during the war. In 1913-1914, world production totaled 18,677,400 tons. Assuming an increase of 3% per year, production would have been projected to equal 22,302,000 tons in 1919-1920, when in fact production totaled just 16,389,394 tons.[8]

In the short run, supply was inelastic, due to the fact that sugar production required a great deal of labor and capital. A paper read before the Royal Society of Arts in London, in 1918, explained,

> It is nearly certain that no return to prewar values can be expected, at all events for a considerable period after the war. The shortage of labor and other causes make it highly improbable that Germany or Austria will have any sugar to export, and in fact, they may require to import. The devastation of the best beet growing districts in France, Belgium and Poland indicate that these countries will be buyers. (Martineau, 1918, pp. 18)

Manuel Rionda believed Europe's sugar industry would not recover immediately, however, he did believe that low currency values would help stimulate production. In a December 1919 letter he wrote, "I believe that scarcity, especially in Europe, will continue for 2 to 3 more years until Germany, Russia and Austria can contribute beet

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[7] BBC 10A, 12, #3 (Letter to the Honorable Robert Lansing, Secretary of State, Washington D.C, New York City, October 2, 1918). López-Civeira, Francisca B, *Historia de las relaciones de EE.UU. con Cuba: Seleccion de Lecturas* (Ministerio de Educación Superior, La Habana, 1985, pp. 83). In 1913-1914, Germany produced 2,718,000 tons of sugar, Austria-Hungary produced 1,685,000 tons, France produced 781,000 tons, Russia and the Ukraine produced 1,740,000 tons, and Cuba produced 2,598,000 tons. In 1918-1919, Germany produced 1,749,000 tons, Austria-Hungary produced 607,000 tons, France produced 781 tons, Russia and the Ukraine produced 337 tons, and Cuba produced 3,972,000 tons.

[8] BBC 10A, box 13, #5, "The International Sugar Journal," January 1920.

sugars in proportion to what these countries produced before the war" (BBC series 2, volume 48, Manuel Rionda to Antonio Cuyas, December 1, 1919. Translated by K. Grogan).

Rionda believed France would not likely be a strong factor for some time to come due to the destruction of its beet fields during the war, and "Germany will recover faster, especially in view of the low value of the mark" (BBC series 2, volume 48, December 1, 1919. Translated by K. Grogan). Germany must export all it can so that its currency appreciates in value, Rionda explained.[9]

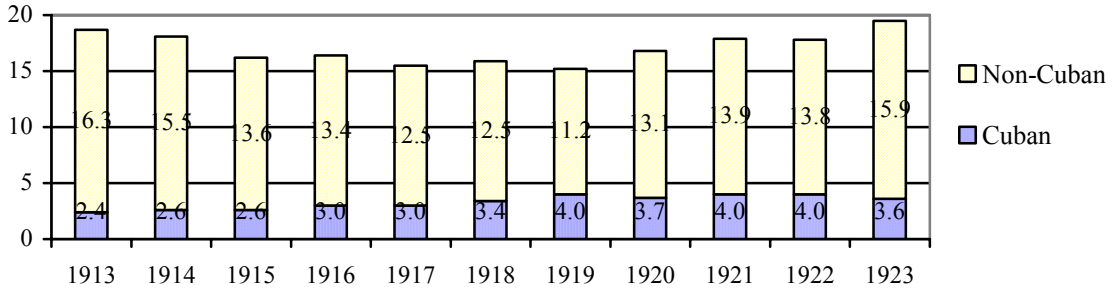

Figure 2-4. World sugar production from 1913 to 1923 (1,000,000 tons). Source: Thomas, Hugh, *Cuba: The Pursuit of Freedom* (De Capo Press, New York, 1998) and BBC 10A, box 12, #1, Czarnikow-Rionda Company, August 23, 1918.

The implementation of new technology would also help expedite Europe's recovery, as had happened in Cuba following the Spanish-American War. In Cuba, "large factories were erected, railways connecting them with the shipping ports were constructed, everything was done in the most up-to-date style" (BBC 10A, box 12, #1). Modern mills and plantations replaced those that had been destroyed, which ultimately proved beneficial to Cuba.

[9] BBC series 2, volume 48, Manuel Rionda to Antonio Cuyas, December 1, 1919.

Uncertainty Regarding the Possible Continuation of Wartime Sugar-Control Policies

Yet another factor that stimulated demand was speculation that sugar would be in short supply if and when government controls expired. The United States had purchased Cuba's entire 1917-1918 and 1918-1919 crops at a fixed price, and there was uncertainty whether a similar agreement would be reached for the 1919-1920 crop. In July 1919, the *Wall Street Journal* reported that, "the vacuum in the sugar markets abroad stands ready to absorb any sugar that is available" (*Wall Street Journal*, July 2, 1919, pp. 4).

Notwithstanding the end of the war, Cuba's leaders favored a sugar-control policy similar to that implemented the previous two years, at least through the end of the 1919-1920 crop. In July of 1919, the Cuban Commission - a group of three men appointed by the President of Cuba to negotiate the country's sugar interests - wrote a letter to the U.S. Sugar Equalization Board, urging the United States to avail itself of Cuba's offer to purchase its entire 1919-1920 crop. In the letter, the Cuban Commission (with regard to the global sugar situation) wrote, "a comprehensive review of the sugar statistical situation showing the world's sugar requirements and the sources of supply, present the undeniable fact that there will be a great scarcity of sugar during 1920" (BBC 10A, 12, #4, July 29, 1919).

The Cuban Commission added,

> Without a comprehensive program under which the Cuban crop would be acquired and distributed, it is but natural that the Cuban planter would look to the world's market (any good merchant does that) with the result that the large demand from Europe, Asia, and Pan-America would produce an orgy of speculation without parallel in the history of sugar. (BBC 10A, 12, #4, July 29, 1919)

In mid-July 1919, Java began selling sugar for the equivalent of 11 cents free on board, compared to 5.5 cents that the United States Equalization Board was paying for Cuban raw sugar. The *Wall Street Journal* reported that the price of Cuban sugar would

probably be much higher in the absence of governmental control or cooperation among sellers:

> Sugar men look for great speculation in raw sugars next year, unless some way of stabilizing the market is found. The marketing of the Cuban crop through a committee has been discussed with that end in view. With one-quarter of the world output of sugar in their hands, such a committee could aid in stabilizing the market by selling sugars on a rising market, and withholding sugars on a falling market. (*Wall Street Journal*, July 22, 1919, pp. 5)

Unfortunately for the Cuban Commission, the political and economic climate in the United States, in the wake of the war, did not bode well for their chances of negotiating a deal with the United States similar to that implemented the previous two years. The Wilson administration's involvement in other postwar matters and the general opinion among most people that trade should return to normal undermined the possibility of continuing sugar control for a third consecutive year.

The Cuban Commission's backup - the *Unico Vendedor* plan - failed to gain support among Cuban producers, and was discarded. In September 1919, Cuban sugars would for the first time in two years begin trading on the open market.

Market Power Possessed by Buyers

Entering the 1919-1920 crop, an important question was whether or not the United States and Great Britain would collaborate with one another in making purchases. Doing so would enable them to distribute sugar more equitably and exert downward pressure on prices.

Manuel Rionda believed that reactions in the market would depend on the cooperation of the Royal Commission, which purchased all of Great Britain's requirements, and the American Sugar Refining Company, which was the single largest U.S. buyer of Cuban raw sugar. Rionda believed that if these buyers did not cooperate

with one another, the market would remain high. In a January 1920 letter to his nephews, Rionda wrote, "If each [one] goes by himself, the market, in my opinion, will keep us high. Only if buyers combine can Cuba be made to come back gracefully to 9 cents" (BBC, series 3, volume 22, January 5, 1920).

Table 2-1. Domestic sugar consumption and production in the United States and Great Britain in 1919 (millions of tons)

	Domestic Consumption	Domestic Production
United States	4.1	1.9
Great Britain	1.5	0.9
Combined	6.0	2.8

Source: *Weekly Statistical Sugar Trade Journal*, 1919-1920 (Willet and Gray, New York, NY), BBC 10A, box 12, #1 and Thomas, Hugh, *Cuba: The Pursuit of Freedom* (De Capo Press, New York, 1998)

Combined, the United States and Great Britain consumed approximately one-third of the world's cane and beet sugars, and two-thirds of the world's total exportable surplus.[10]

Some, including Manuel Rionda, believed that the United States or British governments might impose restrictions that prohibit the rise in sugar prices. In an October 1919 letter to Higinio Fanjul, Rionda wrote, "I agree with [you] that in a free market we can obtain higher prices, but this will create many uncertainties" (BBC series 2, volume 47, October 1, 1919). Rionda believed that the United States government would intervene before allowing prices to advance too sharply:

> I am almost positive that the [U.S.] government - to avoid high prices and the shipment of large quantities of sugar to Europe - will distribute licenses to refiners and other sugar enterprises, stipulating that refined sugar not be sold for more than a certain price determined by them (the government). This, naturally, will mean that refiners will buy raw sugar at a price that corresponds to the price of refined.

[10] BBC 10A, box 12, #3, "Extracts from report of Committee on Agriculture and Forestry – United States Senate," Washington, October 21, 1919.

> (BBC series 2, volume 47, letter from Manuel Rionda to Pedro Laborde, October 14, 1919. Translated by K. Grogan).

Also, Rionda believed the American government could exercise control over prices by other means, given that the United States supplied the freight and the loans that enabled Cuban producers to move their product.[11]

There were also long-term relationships to consider. The United States was an indispensable market for Cuba, and Great Britain too had become important during the war. Cuba could ill afford for these markets to turn elsewhere for their sugar requirements, or give impetus to these countries' domestic sugar industries. On October 21, 1919, Senator Reed Smoot stated,

> If there is no restriction made upon sugar and if foreign countries can come in and buy the Cuban sugar and buy the sugar from the United States in any quantity they desire and we continue to use per capita the amount of sugar we have been consuming the past three months, then without doubt there is not enough sugar to go around, and it would not surprise me at all to see it go to 20 cents. But I say now that of all the people who want to prevent that it is the sugar producer. He has got to live. He has to produce sugar in the future, and he has got to deal with a people who, if they were compelled to pay 20 cents, would never forget it. It would be the most costly money that ever came into the coffers of the sugar producing interests if such a thing should happen. (BBC 10A, box 12, #3, "Extracts from Report of Committee on Agriculture and Forestry – United States Senate," October 21, 1919)

Manuel Rionda agreed that it was not in Cuba's interest to charge buyers too high a price for sugar. Other Cuban producers, however, particularly the colonos, had lofty expectations for prices.

Resumption of Open-Market Trading

A large portion of Cuba's 1919-1920 crop was sold for future delivery, well before the harvest began. The earliest reported sales took place in August 1919. Manuel Rionda

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[11] *Ibid.*

and others were opposed to these sales, due to the fact that the Cuban Commission was attempting to negotiate the sale of Cuba's entire crop to the United States at a fixed price. An August 1919 cable from Robert Hawley to President Menocal of Cuba stated,

> Reported here sale has been effected six five sixteenths fob Cuba to Canadian buyer January shipment. [We] regard sales of broken lots as premature unless the market is to be free in this event if publicly understood we expect active trading at advancing prices until situation came about described in our cable August first a deplorable condition for seller and buyer alike. We hope here for early indication of the probable policy of your Government. (BBC Series 10A, box 12, Folder 34, August 8, 1919)

By mid-September, Cuba had sold an estimated 10% of its 1919-1920 crop for December to May delivery, and the possibility of entering into an agreement with the United States grew increasingly slim. The Cuban Commission, realizing that it was probably too late to reach an agreement with the United States, took measures to demonstrate that Cuba had done everything possible and was not to blame for the fact that Cuba had not entered into an agreement with the United States:

> Last Tuesday night a dinner was given for Mr. Hoover, which Bernardo, Manolo and I attended. Many members of the Sugar Equalization Board and refiners were also there. From what we gathered, leaders of the Equalization Board think that the American government should continue to control sugar; but it is almost certain that this will not happen because of the political situation in the country. As [you] know, [here] there is a wave of sentiment for lower prices on all essential goods. As the U.S. Government favors this, you can imagine how difficult – if not impossible – it is for Congress to pass a law authorizing the purchase of Cuba's entire crop at a price one cent higher than that paid in 1918-1919. Since [we] will not be able to sell the 1919-1920 crop to the American Government, I have suggested to Mr. Hawley that he, Tarafa and I, as commissioners of President Menocal, write a letter to the Equalization Board referring to the letter of July 29, showing them that, in light of the fact that we have not received a reply from them, we would like to put our views on record. (BBC series 2, volume 47, letter from Manuel Rionda to Higinio Fanjul, September 18, 1919. Translated by K. Grogan)[12]

[12] The July 29 letter is from the Cuban Commission to the Sugar Equalization Board, expressing the importance of continuing sugar control.

Cuba's backup, the *unico vendedor* plan, meanwhile, failed to gain support, largely because producers were unwilling to place their trust in the hands of Manuel Rionda.[13] Frustrated with the criticism the plan received, Rionda told Higinio Fanjul that, "once it becomes impossible to carry out the *unico vendedor* plan, we return to free market conditions, and many people will realize the error they committed in creating the situation we are in" (BBC series 2, volume 47, September 18, 1919. Translated by K. Grogan).

Buyers' Behavior

By the time the United States confirmed, in December, that sugar control would cease, Cuba had already sold more than one-third of its 1919-1920 crop for December to June delivery, mostly to non-U.S. buyers. Several factors explain why U.S. buyers hesitated to enter the market and other countries purchased a large share of Cuba's new-crop sugar early on.

Unlike the United States, many countries, such as France, managed to acquire only a limited supply of sugar during the war. Therefore, once open market trading resumed, sugar interests and speculators in non-U.S. countries hastened to acquire supplies of sugar.

The United States, on the other hand, particularly refiners, hesitated to enter the market for a number of reasons. Firstly, U.S. refiners, the largest buyers of Cuban sugar in the United States, deemed the market risky. In the event of advancing prices, there existed the possibility that Cuban sellers might not deliver on early commitments made at

[13] BBC series 2, volume 47, letter from Manuel Rionda to Higinio Fanjul, September 2, 1919.

a time when low prices prevailed. On the other hand, buyers might be reluctant to accept delivery of relatively high-priced refined sugar in the event of a declining market.

The more volatile the market, the more risk refiners would assume. To avoid risk, refiners had no alternative but to participate in toll business, whereby Cuban merchants sold directly to buyers of refined sugar. Unlike U.S. refiners, who needed to maintain long-term, amiable relationships with their customers, Cuban merchants were able to demand irrevocable banker credits from these buyers, which protected them from the possibility of buyers refusing delivery.[14]

Another reason why refiners hesitated to enter the market was the uncertainty of continued sugar control. For months refiners awaited word on whether or not the U.S. government would control the supply and distribution of sugar, which discouraged them from purchasing large quantities of sugar.[15] An October 1919 *Wall Street Journal* article reported the following:

> Local refiners are still disposed to mark time, in order not to embarrass the Sugar Equalization Board or the Government by buying a large amount of Cuban sugar at advancing prices, until the question of Governmental control for the year is definitely settled one way or another. (*Wall Street Journal*, October 29, 1919, pp. 11)

Once it became apparent that governmental control would not occur, U.S. refiners were encouraged to secure requirements:

> Sugar refiners are purchasing new crop raw sugar in larger volumes than any time yet this year, the purchases last week being estimated at about 100,000 tons of Cubas. The Sugar Equalization Board has given them instructions to go ahead and protect their requirements of raws, according to officials on the Board, who regard Governmental control next year as practically a dead issue. They point out that the domestic supply of sugar would be endangered, unless refiners were given freedom

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[14] BBC Series 10A, box 14, #10, "Cuba Cane Sugar Corporation (Miscellaneous)," June 3, 1920.

[15] BBC series 2, volume 46, letter from Manuel Rionda to Higinio Fanjul, September 24, 1919.

> to go ahead and buy raws wherever they see fit, without waiting for legislation, which appears unlikely of passage. (*Wall Street Journal*, November 4, 1919, pp. 13)

Yet another reason why the United States acquired so little sugar from Cuba early on was refiners' belief that prices would likely ebb during peak-production months in Cuba. A large proportion of early U.S. purchases were made not by refiners, but nervous manufacturers, who produced candy, bakers' supplies, canned goods, soft drinks, etc. These manufacturers during the previous two years at times were unable to obtain their full sugar supplies, and unwilling to take chances, they hastened to secure their immediate and anticipated sugar requirements.[16] Willett & Gray reported the following:

> Refiners [on the other hand] have shown but little interest in the situation, as they appear to realize that during the height of production of sugar in Cuba, sugars will be produced so rapidly that it will be beyond the capacity of our refiners to turn into refined sugar, and they apparently see a chance of obtaining sugars somewhat below the prices at which manufacturers are willing to pay for these sugars. *(The Cuba Review*, December 1919, pp. 31)

Sellers' Behavior

Months before their mills began grinding cane, Cuba's largest sugar companies began selling new-crop sugar on the open market for future delivery. These companies included Cuban-American, Cuba Cane, Manati, and other American-financed firms, which together produced more than one-third of Cuba's entire output.

Once their hopes of selling the entire crop through a single seller had faded, these large companies turned their attention to navigating a market characterized by uncertainty and speculation. The companies' goal was to sell a large portion of their projected output, between one-quarter and one-half, between August and November for future delivery Many companies invited their colonos to participate in the sales and accept the

[16] *The Cuba Review*, December 1919, pp. 31.

company average. Early sales ranged in price from 6¼ to 6¾ cents per pound, which exceeded the previous year's price by approximately one cent. .[17]

In a September 18 letter to a friend and client, Manuel Rionda wrote, "my intention is to sell another two or three million bags, and see if each one of us can sell between 30 and 40% of our crops. In doing so, we will have defended ourselves" (BBC series 2, volume 47, letter from Manuel Rionda to Ramon Pelayo, September 18, 1919).[18] Clearly Rionda, and leaders of other companies that sold their administration cane, deemed these early sales as prudent and wise from a business perspective.

As prices steadily climbed, however, the early sales appeared less and less advantageous. Reports of a sugar scarcity drove prices higher, and, emboldened by the news of a sugar scarcity, colonos and workers organized and began to lobby for higher prices for their cane, and higher salaries.

By December, prices had risen sharply, to 12 cents per pound; and colonos wanted nothing to do with participating in the earlier sales, which were executed at lower prices. Many colonos who delivered cane in December refused to accept the company average, at which settlement was to be based. In a January 2 letter, Gerard Smith, manager of Cuba Cane's Francisco mill, wrote Manuel Rionda that, "colonos are being very disagreeable," and "since the first shipment to New York, they are asking all kinds of embarrassing questions" (BBC series 3, volume 22, January 2, 1920). Only after

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[17] Companies' output consisted of association sugars, which the companies themselves owned, and colono sugars. Cuban-American consisted primarily of association sugars, while Cuba Cane and most others consisted primarily of colono sugars.

[18] Ramon Pelayo was a client and friend of Rionda's, who had entrusted Rionda to sell his sugar at company prices. BBC series 2, volume 47, letter from Rionda to Manuel Pelayo, October 20, 1919. Rionda states that he and his clients had defended themselves by executing early sales because he believed that consumption restrictions would be imposed, and that buyers were well supplied by the early sales.

government intervention was resolution brought to the broad dispute between colonos and mill owners.

With production just underway, mill owners had sold a large portion of their association sugars, while colonos, on the other hand, had yet to sell much of their own.

The sugar companies, not wanting colonos to gain the upper hand by capturing high-priced sales, actually hoped for lower prices, particularly during the months in which colonos were to sell large quantities of sugar. In a letter to his nephews, Rionda wrote, "I am not in favor of these high prices, especially in December, when the colonos receive 90% of the benefits" (BBC series 3, volume 22, January 2, 1920).

In another letter to his nephew, Rionda wrote, "I am not a high price man, but we can not be fools and allow others to get high prices and we the lowest. If we do, good bye to Czarnikow-Rionda Company" (BBC series 3, volume 22, January 5, 1920).

Movement in Sugar Prices

By late January, nearly all of Cuba's sugar mills had commenced operations and begun producing raw sugar. A strike among transportation workers in Havana, however, reduced shipments for much of the month, which helped strengthen prices.

Many expected a decline in prices, including Manuel Rionda:

> Had it not been for the strikes in Cuba, shipments would have been so heavy that the market would have come to a stand and perhaps commenced to decline. As it is we must look on. If shipments in Cuba reach or exceed… 100,000 tons per week for 3 weeks I think you will see a change. If the market commences to hesitate, then prices are likely to go down suddenly. The Cubans are anxious to sell and always make the mistake to press sales on a weak market. (BBC series 3, volume 22, letter from Manuel Rionda to nephews, January 28, 1920)

Large shipments of sugar resumed in early February, and a general decline in prices ensued between February 5 and March 2.

March 2 marked a turning point. For the next two and a half months sugar prices advanced steadily, with only one decline, which was March 9, when sugar sold for 10 cents after selling for 10½ cents on March 3. Thereafter, prices advanced until the high point was reached on May 19, when prices were 22½ cents.[19]

Another factor for the rise in sugar prices was the fact that the U.S. dollar was at a premium over all other sugar-buying countries. The United States was at an advantage, and other countries were forced to compete with devalued currencies. Price became a secondary consideration in the United States, as households, retailers, wholesalers and manufacturers sought to acquire supplies of sugar.

Another factor that drove prices higher was the perceived sugar shortage. Even before the commencement of the 1919-1920 crop, it was widely perceived, based on supply and demand, that the world was facing a sugar shortage. In the spring of 1920, two events occurred which further heightened this perception.

The first event was a disruption in the distribution of sugar due to strikes. Strikes among shippers and railroad workers occurred frequently between January and May, causing some manufacturers, wholesalers, retailers, and households to go without sugar for periods of time. Consequently, available sugars sold at a premium.

A second event that occurred was news of lower than expected yield of Cuban sugar. Unfavorable weather conditions in Cuba were largely responsible for the lower than expected yield. Before the harvest, experts estimated that Cuba's crop would yield approximately 4,400,000 tons. By March, estimates had been reduced to four million tons. A March 17 letter from Manuel Rionda to a colleague explained,

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[19] *Weekly Statistical Sugar Trade Journal* (Willett and Gray, New York, New York, December 23, 1920)

> I hear everywhere that there is a great shortage of cane on account of the extraordinary drought. Consequently, I very much fear that the crop will be much below our estimates, and that this will also be the case at other plantations throughout the island. My estimate for the total sugar production of Cuba for this crop is 4,000,000 tons. (BBC series 3, volume 24, letter from Manuel Rionda to Strauss, March 17, 1920)

Conditions continued to worsen, however, and by mid May it was reported that Cuba's output would be 3,650,000, nearly a 21% decrease from earlier estimates.[20]

Another important factor leading to the rise in sugar prices was the fact that Cuban producers held sugar, expecting prices of 25 cents or more. Cuban producers believed that they were entitled to high prices, given the favorable statistical position of sugar.A May 28 circular from the Brokers of Matanzas encourages Cuban holders to abstain from offering sugar:

> The Brokers of Matanzas alerts all Cuban holders that, given the favorable statistical position we face, everyone abstain from offering lots. With a little patience Cubans can obtain prices they deserve. It is our understanding that Cuban sellers are not offering sugar in the American market, for all of them, absolutely all, are holding firm, awaiting 25 cents. And if it is true that in the past three days sales have been made in New York, these are done by American speculators who fear the government's campaign to eliminate speculation. But because the volume of sugar in their hands is not enough to meet even the most immediate needs, once gone, prices will go even higher! We advise all holders to remain calm and hold sugar firmly, for given the statistical situation, all are entitled to receive higher prices. (BBC series 2, Matanzas, Colegio de Corredores, Matanzas de Circular Impresa, volume 49, May 28, 1920, pp. 223-224. Translated by K. Grogan)

After the 2½ month advance, when prices jumped from 9½ cents to 22½ cents, a decline ensued for 4½ months. The drop totaled 15¾ cents, hitting 6¾ cents on October 8.[21]

An important factor for the decline was the reluctance on the part of U.S. refiners and manufacturers to advance bids. Both threatened to withdraw from the market if

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[20] *Wall Street Journal*, May 18, 1920.

[21] There was only a slight break in the decline (July 9 to 15) when a ½ cent advance occurred.

sugar prices advanced beyond a certain level. In the event of a market downturn, these buyers faced losses, as clients would likely try to cancel contracts for sugars purchased at peak prices.

In mid-May, U.S. refiners announced that they would not pay more than 18½ cents for raw sugar. Cuban producers, expecting higher prices, responded by holding sugar firmly. Unfortunately for Cuban holders, large volumes of sugar began to arrive in the United States from other parts of the world, where, at its peak, sugar sold for 7-8 cents less than in the United States.[22]

Critical of Cuban producers' decision to hold sugar, Rionda wrote the following:

> [Their] pretensions are absolutely ridiculous. They don't seem to realize that they are holding the umbrella for Java and other sugars to be sold in [this] market. The larger the quantity the syndicate holds, you put it at one million bags, the worse it is for them. (BBC series 2, volume 49, letter from Manuel Rionda to Victor Zevallos, July 14, 1920, pp. 522-523)

By year's end, approximately 500,000 tons of foreign sugar had been attracted to the United States, far surpassing expectations.

Furthermore, a railroad strike in the United States halted distribution of refined product to buyers. Coupled with the arrival of large quantities of foreign sugar, refiners became glutted with sugar, and raw-sugar prices began to fall on weak demand.[23] Manufacturers and wholesalers, believing refined prices would be adjusted downward to reflect the lower cost of raw sugars, sought to cover no more than their immediate needs in order to hedge themselves from risk.

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[22] BBC series 8, volume 10, letter from Braga Rionda to Laureano Falla Guitierrez, August 31, 1920, pp. 56-57.

[23] *Wall Street Journal*, June 26, 1920.

Cuban produces and holders of sugar, on the other hand, were confident that demand for raw sugar would pick up. This, however, did not occur. For months households had been warned of a sugar scarcity, and urged to curb consumption, as the following newspaper article illustrates:

> ….Sugar today is dear because there is not enough of it for our own luxury demands… We have our own sweet tooth to thank… Prohibition has astonishingly increased the consumption of candy. There is a short supply of sugar at a high price to the consumer because the demand is measured not by our needs but by our wants. The remedy is squarely up to the consumer. If he will deny himself, for only three months, even 50% of the candy he unnecessarily consumes, he can have all the sugar he wants for his coffee or his tea, or his rice pudding, at his own price. (*Wall Street Journal*, May 27, 1920, pp. 1)

Amid sharply rising prices and expectations of a sugar scarcity, households, retailers and speculators stockpiled sugars that were believed to have been consumed. As a result, an invisible supply accumulated. During the market decline, rather than purchasing sugars, holders of sugar consumed the supplies they had been sitting on.

The price of sugar fell to 4¾ cents by late November. By late December the price stood at 3¾ cents. Twenty-cent sugars were a thing of the past. For Cuba, the roller coaster ride had ended and a crisis enveloped Cuba's financial institutions.

CHAPTER 3
FINANCIAL MARKETS

One of the biggest problems that Cuba's sugar industry faced before World War I was its antiquated method of selling sugar as fast as it was made, regardless of market conditions. Cuban producers, particularly *colonos*, were compelled to do so because loans were not widely available and they could not afford to postpone their income. Consequently, *colonos* accepted the market price for their cane, and in the midst of their greatest production, current value generally was at its lowest.

Indeed, it was this problem that prompted Manuel Rionda to write a January 1918 letter to George Rolph of the U.S. Food Administration admonishing Mr. Rolph to help secure funds for Cuba's sugar producers:

> I am very much disappointed and worried over the little progress made in carrying out the banking arrangement to finance the Cuban crop. As often explained to the International Committee during our conferences, Cuba has not the financial means to move her crop. Heretofore the planter needing funds chartered a steamer at whatever rate he had to pay, sold his cargo and thus was able to keep paying the cost of gathering the crop. (BBC 10A, 12, #4, letter from Manuel Rionda to George M. Rolph, January 31, 1918)

Rionda believed that the United States would need to loan Cuba's producers more funds in order for Cuba to fulfil its commitment to provide the United States its entire 1917-1918 crop. Under the terms of the contract, producers were bound together, and unlike open-market conditions, it was not possible for them to act independently in chartering steamers and selling when monetary needs dictated.

Small-scale producers in particular were vulnerable, as banks were traditionally more reluctant to loan funds to small producers. Manuel Rionda explained,

> Those companies with large means and relations in the United States at a pinch may be able to finance themselves by making special arrangements with banks in New York, but the small planter and farmer cannot and this worries me, for I fear these small ones may blame Mr. Hawley and me for not having provided them the necessary funds. (BBC 10A, 12, #4, letter from Manuel Rionda to George M. Rolph, January 31, 1918)

Banks would likely loan the funds, Rionda explained, if the U.S. government would guarantee shipping:

> Why cannot the United States Government guarantee sufficient tonnage to move the crop? If the Government would do that I am sure the banks would grant $100,000,000. I cannot understand the reasons why the United States Government cannot enter into some arrangement to guarantee the banks making the loans, the repayments thereof within a certain specified period – say, by December 1st, 1918. As the last resort, why cannot the United States Government loan to the Cuban Government as one of the Allied Countries $100,000,000 against sugar in warehouse, at the rate of 3 cents per pound? Would that not be a perfectly legitimate, sound financial transaction? Personally, I should be far prefer to avoid having the transaction go through the Cuban Government, but as the last resort, even that would be better than having the small Cuban farmer and planter leave the cane in the fields. (BBC 10A, 12, #4, letter from Manuel Rionda to George M. Rolph, January 31, 1918)

Rionda rationalized the need for funds:

> Could any one imagine the wheat crop of the United States being gathered without large sums of money going from the money centers like New York to the Western ones? Cuba's sugar, tobacco, molasses and fruit crops will probably reach the large sum of $500,000,000. How can these crops be moved with the small banking facilities on the island, especially when sugar cannot be sold independently but must be shipped in eleven months. (BBC 10A, 12, #4, letter from Manuel Rionda to George M. Rolph, January 31, 1918)

Within one month of Manuel Rionda's letter to George Rolph, a syndicate of American bankers agreed to lend Cuba $100 million. This was not the only money pouring into Cuba at the time. Backed by funds from American banks, large corporations began purchasing plantations and sugar mills in increasing numbers. In January 1916, for instance, Manuel Rionda purchased 17 plantations. By 1919, five companies owned 13% of Cuba's sugar mills. On June 3, 1920, during the height of the *Dance of the Millions*,

Rionda proudly proclaimed that Cuba's sugar industry had come a long way: "sugars are no longer sold as fast as made, [we] have warehouses and [we] have credit. The old system is relegated to the past" (BBC series 10A, #14, June 3, 1920).

Characteristics of the Banking System in Cuba

The banks that existed in Cuba at the end of World War I did not form a cohesive banking system and operated practically without legal controls. The absence of a central bank was not unusual at the time, however, Cuba was also without effective banking legislation.[1] Although the Department of Agriculture, Commerce, and Labor had a mandate to examine credit institutions, the organization did not carry out inspections.[2] The Commercial Code of 1886 stipulated that banks must carry 25% of reserves against their deposits, however, no penalties were imposed for violations of this rule, nor were means at hand for determining whether requirements were being met regularly.[3] There was no control over the creation of new banks, the sole requirement being their inscription in the Commercial register, and there was no control over their operations.

The oldest institution was the Banco Español de la Isla de Cuba, which was founded in 1856 under the name Banco Español de la Habana. Its business was chiefly with the Spanish colony of Cuba.[4] The largest bank in Cuba in terms of resources was the Banco Nacional de Cuba, which was founded in 1901. It served as fiscal agent for the Cuban government, and was involved in the coinage of the Cuban government.

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[1] Wallich, Henry Christopher, *Monetary Problems of an Export Economy: The Cuban Experience 1914-1917* (Harvard University Press, 1950)

[2] *Ibid.*

[3] *Ibid.*

[4] *Ibid.*

Second to these two institutions were the branches and subsidiaries of American and Canadian banks. The oldest of these was the Royal Bank of Canada, which in 1899 entered Cuba by taking over the Banco de Comercio. The Cuba Trust Company was founded in 1905 with American capital and management. The National City Bank began to open branches in 1914 and the Bank of Nova Scotia appeared in 1901.[5]

Banks' Role in the Dance of the Millions

During the 1917-1918 and 1918-1919 crops, which were purchased at a fixed price by the United States, ample loans were made available to producers. There was doubt among some, however, including Manuel Rionda, that loans would be readily available to producers upon termination of wartime sugar-control policies, notwithstanding the favorable statistical position of sugar. Manuel Rionda and others were concerned that banks would be reluctant to lend money against a product that was susceptible to large fluctuations in value. This is one of the reasons why Manuel Rionda advocated the continuation of sugar control policies for the 1919-1920 crop, under some sort of agreement similar to the 1917-1918 and 1918-1919 contracts. In a September 2, 1919 letter to Higinio Fanjul, Rionda wrote,

> Without a contract with the United States, no bank will want to advance loans, due to the fact that prices will fluctuate to a considerable extent. It is possible that some days we will sell at 7 ½ cents, other days at 6 cents, and other days at 5 ½ cents. Under such conditions bankers will get scared. It will be impossible to get loans, therefore producers will be obligated to sell at terribly unfavorable prices and panic will set in. (BBC series 4, volume 47, letter from Manuel Rionda to Higinio Fanjul, September 2, 1919. Translated by K. Grogan)

Rionda's concerns did not resonate, however, with most of Cuban producers. Fundamentals were strong, and producers increasingly rallied in support of an open

[5] *Ibid.*

market, believing high profits were to be made. Banks, in fact, did not hesitate to advance loans to producers.

The total value of Cuba's 1919-1920 crop was calculated at $999.9 million, against $454.5 million for the 1918-1919 crop. An increment of more than 100% in the value of the sugar crop required a correspondingly greater volume of financing, and bankers were more than willing to oblige.[6] Sugar producers and speculators absorbed large amounts of credit, but not for sugar alone. The sugar boom plunged all of Cuba into an, "orgy of prosperity and speculation" (Wallich, 1950, pp. 53). All values became inflated, wages increased, fortunes were made, and properties changed hands rapidly. The consolidation of Cuba's sugar industry, which began several years earlier, accelerated, and it was reported that fifty mills, more than one quarter of the 198 existing in Cuba, were acquired by new owners in 1919 and 1920.[7] New enterprises were being started recklessly, and existing enterprises were absorbed by large capitalists. Cuban industrialists and cane planters built lavish houses and spent money freely on luxury items. For all this the banks were glad to lend the necessary money.[8]

The increase in business activity during World War I had led to the establishment of new banks and greatly expanded the resources of existing institutions. The Banco Internacional, of purely Cuban origin, opened for business in December 1917 and quickly built 105 branches, second only to the Banco Nacional, which expanded by opening 112 branches. The Banco Mercantil Americano de Cuba, incorporated in 1918, operated

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[6] *Ibid.*

[7] Jenks, Leland H, *Our Cuban Colony: A Study in Sugar (Vanguard Press, New York, 1928)*

[8] Wallich, Henry Christopher, *Monetary Problems of an Export Economy: The Cuban Experience 1914-1917* (Harvard University Press, 1950)

under the auspices of Mercantile Bank of the Americas in conjunction with the Guaranty Trust Company, J. and W. Seligman and Company, and Brown Brothers. The American and Foreign Banking Corporation, controlled by the Chase National Bank, opened a branch in Havana in January 1919.[9]

Before 1920, the rate at which the older banks expanded their business was rapid but not exorbitant. During the first half of 1920, however, total assets of the Banco Nacional increased by 66% and those of the Banco Español by 33%.[10] The Banco Nacional became heavily involved in the speculations of its majority stockholder, López Rodríguez, one of whose earlier exploits included the purchase of the bank's stock with loans from the same institution. The Banco Internacional, in an attempt to build itself up to the size of the older banks, established branches without regard to permanent profitability and lent money with little restraint.[11] The value of many banks was dependent upon the sugar boom, which could last only as long as the price of sugar remained at previously unheard-of levels.

Records are sparse and limited in their ability to enable one to determine the cash positions of Cuba's banking institutions during the peak of the *Dance of the Millions*. The fall in sugar prices and subsequent refusal or inability on the part of buyers to accept shipments of refined sugars, nonetheless, set in motion a chain of events that Cuba's banks were unprepared to handle. As early as February, Manuel Rionda had expressed reluctance towards advancing money to colonos (which was common practice) for fear of

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[9] *Ibid.*

[10] *Ibid.*

[11] *Ibid.*

what the future held in store.[12] Regarding advancing money to Pilar, a plantation with which his company did business and lent money, Rionda wrote in a July 1920 letter:

> It is not our intention to advance money to [that] plantation nor to any other. We are going to see if we can limit ourselves to general business without much advances, for I am afraid of the bad years. For this reason, please do not compromise yourselves to make any advances to anybody, not even to Silvestre would I advance money. As long as the banks are ready to advance money we should hold ourselves aloof, for the high prices of this year are going to precipitate the lean years. (BBC series 2, volume 49, letter from Manuel Rionda to Victor Zevallos, July 7, 1920)

By then, however, banks too had become nervous. In August the New York banks began to call in loans from their Cuban correspondents, who had been restricting their own lending since early June.[13] Press campaigns were started against individual banks, especially Banco Español,[14] whose shares began to fall.[15] The situation of all banks became increasingly tighter, but there was little cooperation between the various institutions.[16] Indicative of the tense financial situation in Cuba, Manuel Rionda received a telegram in early August, signed by the *Comisión de Ventas Asociación Hacendados Colonos*:

> Trusting in your will to defend Cuba's national interests we urge you to use your influence to alter the politics of Banco Mercantil Americano. We clearly understand the situation, however, we trust that with your influence it will be possible to arrive at a solution with the bank. We are willing to cooperate. (BBC series 2, volume 49, letter from Manuel Rionda to Alfred Meyer, Mercantile Bank of the Americas, Inc., New York, NY, August 11, 1920. Translated by K. Grogan)

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[12] BBC series 3, volume 23, letter from Manuel Rionda to Victor Zevallos, February 27, 1920.

[13] Wallich, Henry Christopher, *Monetary Problems of an Export Economy: The Cuban Experience 1914-1917* (Harvard University Press, 1950)

[14] Jenks, Leland H, *Our Cuban Colony: A Study in Sugar (Vanguard Press, New York, 1928)*

[15] Wallich, Henry Christopher, *Monetary Problems of an Export Economy: The Cuban Experience 1914-1917* (Harvard University Press, 1950)

[16] *Ibid.*

Referring to the cable, Rionda told a representative of Mercantile Bank of the Americas, in New York, "the signers of the telegram are the holders of Cuban sugar. I do not know what they mean by 'alter the politics of Banco Mercantil,' I presume the Bank is rightfully asking to have the loans of sugar paid" (BBC series 2, volume 49, letter from Manuel Rionda to Alfred Meyer, Mercantile Bank of the Americas, Inc., New York, NY, August 11, 1920).

Beginning in September, banks began trying to collect everything and stopped making new loans. This action created alarm, particularly amongst the depositors of the Banco Internacional, which bank, not being able to meet the demands made upon it, suspended payments. The alarm increased and runs started on the Banco Nacional de Cuba and the Banco Español. The banks, naturally, were unable to respond. The Banco Nacional paid $6 million the first day. Their total deposits in July were $160 million and they had $57 million in cash.[17] On Monday, October 11, President Menocal, upon the request of the bankers, declared a moratorium.

Characteristics of Futures Markets in Cuba's Sugar Industry

When producers sold raw sugars to buyers, they generally agreed to deliver the product not for immediate delivery, but rather for future delivery, anywhere from one month to five months ahead. In the years leading up to *the Dance of the Millions*, raw sugar prices tended to peak in November and December, right before the harvest began, and the lowest prices tended to occur from February to April, when raw-sugar production was fully underway. Before World War I, Cuba did not possess the resources – namely credit and warehouses – to distribute raw sugar evenly throughout the year, which

[17] BBC series 4, volume 2, letter from Manuel Rionda to Ganzoni, October 13, 1920.

explains this pricing pattern. Despite, or because of, these limitations, however, well-off producers who had the resources to store raw sugars were able to sell their product long or short, based on their perception of market conditions. The New York Coffee and Sugar Exchange, which was suspended from August 1917 to February 1920, also enabled speculators to profit on advances or declines in the sugar market.

In April 1917, J.M. Tarafa, President of the Association of Sugar Planters and Manufacturers, was among those who purchased future with the intention of making a profit. After first attempting to purchase the sugars from Manuel Rionda, Tarafa eventually turned to the New York Coffee and Sugar Exchange. Tarafa believed that current raw sugar-prices were too low given the increased cost of production, and in a letter to Manuel Rionda he explained,

> I decided to buy certain tons of sugar for future delivery in New York Coffee Exchange, believing that the market would advance considerably when the world was informed of the fact that the cost of 1 pound of sugar had increased 100% during the last crop, of which I was then convinced and am still more convinced now, that the price at which sugars were selling in New York were below the cost of production. (BBC 10A, 13, #14, May 31, 1917)

To Tarafa's great disappointment, sugar prices actually declined, and Tarafa accused Manuel Rionda himself of being responsible for the 60 to 100 point-decline, which occurred between May 12 and May 18:

> I have devoted all my capacities and energy to fathoming the causes for this irrational decline… I discovered, and anyone who looks into the market will convince themselves of the facts – that you have caused the decline in the sugar market in order to bring about a panic amongst the Cuban sugar planters…with the intention of covering your short sales which you made at very high prices during the month of April last... you have been placed as a Trustee representing the great majority of sugar manufacturers in Cuba and as you handle now perhaps three-quarters of the Cuban production, you must not avail yourself of the privileges of that position as Trustee to make millions for yourself at the expense of your clients and the public in general. (BBC 10A, 13, #14, May 31, 1917)

Rionda denied the allegations, and explained to Tarafa that had he paid more attention to the statistical situation he would have reached a different conclusion regarding the future price of raw sugar. Regarding the cost of production, Rionda stated, "as I am not a small factor in the sugar world but represent, perhaps, the largest sugar interests in Cuba, I can assure you that you must be misinformed, judging from the results of the plantations under my supervision" (BBC 10A, 13, #14, May 31, 1917).

It should be noted that Mr. Tarafa had had a personal disagreement with Manuel Rionda in the past that was unrelated to this matter, and the allegations were very likely false. What the correspondence does reveal, however, is that speculation and futures trading were prevalent at the time.

The Role of Futures Markets during the Dance of the Millions

The New York Coffee and Sugar Exchange did not reopen, after a two-and-a-half year hiatus, until February 1920, by which time a large proportion of Cuba's 1919-1920 crop had been sold. Notwithstanding the fact that the Exchange was closed, futures trading took place since the earliest sales, which occurred months before the harvest began.

During the *Dance of the Millions*, it was but natural for buyers to feel reluctant to accept shipments of raw sugar in the midst of a declining market and sellers to feel reluctant to ship product in the event of an advancing market. Cuban producers, however, had little to worry about when it came to buyers honoring their contracts, because they were able to protect themselves by demanding irrevocable bank credits from buyers. Buyers of raw sugar, on the other hand, who were primarily refiners and speculators, were in more of a precarious situation. Unlike sellers of raw sugar, they were unable to demand irrevocable bank credits from jobbers, wholesalers, manufacturers

and other buyers, because business with their clients was customarily conducted on more friendly terms. They faced the risk, therefore, of buyers refusing shipment of sugars in a declining market, and sellers not honoring their commitments to deliver raw sugars during an advancing market.

Sugar trading adapted somewhat to these conditions. Before World War I, refiners generally purchased raw sugars for their own account, and sold the refined product to their customers. During the crops of 1917-1918 and 1918-1919 (under governmental control), however, there had been considerable toll contracts made in the United States for European buyers.[18] The Royal Commission turned over a certain portion of its allotment of Cuban sugars to American refiners who, with the approval of the U.S. Equalization Board, agreed to refine it at a certain specific toll.

Toll business, which enabled sellers of raw sugars to enter directly into contract with buyers of refined sugars, was common at the outset of the 1919-1920 crop. Sellers of Cuban raw sugars were safeguarded from the risk of refusals because, unlike refiners, they were able to demand irrevocable bank credits from buyers of refined, as already explained. Referring to the practice of demanding irrevocable bank credits from buyers of refined sugars, Rionda stated,

> [This] houses like Czarnikow-Rionda Company could do very readily, never having been in the refined business before and perhaps never will be again, but a refiner could not very well demand these terms from the customary consumer without running the risk of losing their customers. (BBC 10A, box 14, #10, Speech from Manuel Rionda to the board of Cuba Cane Sugar Corporation, June 3, 1920)

It was under this toll-business arrangement that Manuel Rionda and other sellers, many of whom were tolling for the first time, began selling new-crop sugars for

[18] BBC 10A, 13, #7, letter from Manuel Rionda to Mitchell Palmer, Attorney General of the United States, May 27, 1920.

December 1919 to June 1920 delivery, as early as August 1919. For reasons mentioned earlier, many sellers, including Rionda, speculated that it would be advantageous to sell a large proportion of their projected sugars before December 1919. As mentioned earlier, a letter written on September 19, 1919 from Manuel Rionda to a friend reads, "My intention is to sell another two or three million bags, and see if each one of us can sell between 30 and 40% of our crops. In doing so, we will have defended ourselves" (BBC series 2, volume 47, letter from Manuel Rionda to Ramon Pelayo, September 18, 1919).

By the end of September 1919, one-quarter of the new-crop sugars on all of Manuel Rionda's properties had been sold for future delivery, and an estimated 600,000 tons, or 15%, of Cuba's entire crop had been sold.[19] By early November 1919, one month before the harvest commenced, Cuba had already sold an estimated 1,200,000 to 1,300,000 million tons of sugar for December 1919 to June 1920 delivery.[20]

Speculators purchased a portion of these sugars. In a November 13, 1919 letter to Manuel Rasco, Rionda wrote,

> What we have noticed is that after buying a quantity of sugar, the buyers are turning around and offering it on the market days later. For this reason, not all of the quantities sold disappear, but rather they are being sold again, which means they are competing with us. I have never seen anything so confusing! (BBC series 2, volume 48, November 13, 1919)

As prices increased, so too did the expectations of Cuban producers, and none of the colonos wanted anything to do with the earlier sales. By mid-November, a number of colonos that had done business with Manuel Rionda threatened to strike if they did not receive higher payment. Defensively, Rionda explained that he had yet to sell any sugars

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[19] BBC series 2, volume 47, letter from Manuel Rionda to Ramon Pelayo, September 26, 1919. BBC series 2, volume 47, letter from Manuel Rionda to Luis del Vale, September 29, 1919.

[20] BBC series 2, volume 47, letter from Manuel Rionda to Ramon Pelayo, November 6, 1919.

for December to January delivery, which commanded higher prices than February to June delivery. The average price would go up, he believed, once he sold some December to January sugars.[21] During the months of January and February, sugar prices for both immediate and future delivery steadily climbed.

February, on the other hand, was characterized by a general decline in prices, and emerging signs of financial distress in the United States, particularly in the stock market. In a February 6, 1920 letter to Regino Truffin, Rionda wrote,

> I believe there is good reason for this panic. It is not possible to be happy and prosperous when a neighbor with whom we must live and do business is unhappy and broke. The Americans do not want to see this, and they are sticking their noses in the air. The Sterling Pound has fallen to $3.25 and the Franc to 15 Francs to the Dollar, and it is believed that these countries will buy our merchandise! It is not possible… The United States is going to need to close factories once production exceeds consumption, and with that will come the solution to the strikes. It is the only way to resolve the imbalance. This will happen in Cuba also... To me, we are living in a fool's paradise. (BBC series 3, volume 23, February 6, 1920)

Rionda's opinion on the sugar market was bearish. The high prices, in his opinion, were due to strikes and the fact that low-priced sales from October to December set the base for 12-cent sugars afterwards. Rionda wrote,

> [We] would have been in bad shape had the depreciation in European exchange rates occurred before we had already sold more than 60% of the crop. Those know-it-alls do not want to believe it, but the firmness in the market and high prices in December were caused by the large quantity of sugar sold to Europe earlier. (BBC series 3, volume 23, letter from Manuel Rionda to Miguel Arango, February 11, 1920)

By late February, small lots of sugar were being sold by colonos in Havana at prices one cent higher than the New York price, for the purpose of setting the market. Manuel Rionda, disturbed by this practice, contemplated selling sugar in the Havana market if the practice continued. Regarding the market, Rionda wrote the following:

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[21] BBC series 2, volume 48, letter from Manuel Rionda to Salvador Rionda, November 14, 1919

> The way I see it, it is better that the market fall a little than return to January prices. I have never seen an article recuperate what it has lost. If it is true that Cuba has sold a lot, so too is it true that buyers are well supplied. Later, there is no doubt that exchange rates will curb consumption. Nonetheless, despite everything I have mentioned, we see that even Silvestre, among others, has attempted to profit in the market. Under such circumstances I think that we, the big players, should let the little ones run the show. For this reason I cabled New York with instructions to let the Market run its natural course. If they take it far, then we will come in and bring it back; but in the future it will be necessary that all colonos realize that the world market today is New York. That is where they should get the numbers. (BBC series 3, volume 23, letter from Manuel Rionda to Victor Zevallos, February 25, 1920. Translated by K. Grogan)

On February 28, 1920, days before the market began to advance, Rionda wrote his nephews:

> I wanted to sell before the decline and regret it was not done. In that case the next best thing was to let it alone until it went too much the other way. It is useless to hold it up artificially – it is better to let it slide, then it responds quicker. I want it to go to about 8½ cents and stay around that level until March 10, as to have the colonos share in the lower prices. They are having too much advantage… I fear we cannot pull the market up right away. Better wait a while longer and place our efforts on lifting it from the bottom. I want to help the market up, but prefer doing so in April or May rather than in February or March. For by doing it now we are helping the colonos who do not appreciate it. Cuba Cane is practically sold out and the same has happened with our other plantations. When the summer demand comes we may make up what we are losing now. That is why I cabled to let the market drift with the current. We can come to the rescue later… My experience is that after a collapse such as we had of 3 cents, it is better to let prices go too low than to check the decline too soon. This year, under present circumstances, much more so. (BBC series 3, volume 23, letter from Manuel Rionda to H.F. Kroyer, February 27, 1920)

Between March 2 and May 19, when prices were 22½ cents, prices advanced with only one decline, which was March 9 when sugar sold for 10 cents after selling for 10½ cents on March 3. Cuba was suffering one of its worst droughts in decades, which reduced output sharply. Even Rionda started to become more bullish, and the market became increasingly firm, with few offerings. On April 1, 1920, he wrote his nephews, "I am changed at last, and now expect higher prices – it is a pity we did not change

before, however, perhaps we may make another mistake now!" (BBC series 3, volume 24, letter from Manuel Rionda to nephews, April 1, 1920).

In general, conditions were extremely complicated and unpredictable. The market was rife with speculation, evidenced by the fact that quantities of Cuban sugar in Europe were being resold to the United States apparently.[22] An April 9, 1920 letter from Rionda to his nephews reads as follows:

> By message received by me at Mercedes yesterday from Cuban Trading Company I see that Senator McNary telegraphed to me as President of Cuba Cane, that he was informed that I have information bearing on Sugar Speculation, and would like to have some statement from me or some representative of the Company appear. As a matter of fact, it is very rarely that there has been so little speculation in sugar, unless any one call speculation the sale by producers of a great portion of their crop in September/October (long before made) at a very low price! This matter in a nutshell is that the law of supply and demand cannot be demand! During the two years of war against Germany, Cuba came to the rescue of the world by supplying her sugar at very low prices. That checked, or damned, the law of supply and demand for the time being – the Government having bought the whole Cuban and domestic sugar crops at a fixed price, and the people showing willingness to abstain from eating the customary quantity of sugar. (BBC series 3, volume 24, April 9, 1920)

Rionda contended that his conservative nature compelled him to sell sugar in advance of the harvest, at low prices. "We sold the greater portion of [our] sugar at between 6½ cents and 8 cents, leaving the colonos' share – which we could not sell because it was not ours" (BBC series 3, volume 24, letter from Manuel Rionda to nephews, April 9, 1920). The small quantity of sugar that he had remaining, and that of the colonos, remained unsold, Rionda explained, because it had not yet been made. The colonos would end up with a higher yearly average, because they did not anticipate sales in September and October of 1919, as he had. In a May 6, 1920 letter to Gilbert Fox, Manuel Rionda wrote,

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[22] BBC series 2, volume 48, letter from Manuel Rionda to Ramon Pelayo, April 22, 1920

> In my forty-five years experience I do not remember a time when it has been more perplexing to forecast the future of sugar values. We have seen fluctuations this year of ½ cent to even 1 cent within a few hours, whereas in prewar days fluctuations of ⅛ cent or ¼ cent extended over a period of weeks. (BBC series 2, volume 49, May 6, 1920)

In the month of May, Cubans were in a dream-like state, and colonos saw no end in sight for high prices. The mid-May announcement by American refiners that not more than 18½ cents per pound would be paid for a pound of sugar met stubborn resistance from colonos, who believed they were entitled to receive 24 cents or more per pound for their raw sugar. Despite a number of warning signs, colonos banded together and held sugar firmly, with only a few broken lots. They were convinced that the refusal on the part of American refiners to advance their bids beyond 18½ cents per pound was a ploy to deny them what they rightfully deserved. In a June 2, 1920 letter to Victor Zevallos, Rionda wrote,

> I think the Cubans are making a tremendous mistake in trying to bulldoze people with the demand that they get 24 cents for their sugar. I understand they even went so far as to cable the Secretary of State offering the sugar at 21 cents f.o.b., saying they should get that price inasmuch as refined is selling at 23 cents; the cost of refining, duties and everything is far more than 3 cents. I don't think they will get the slightest sympathy [here]. (BBC series 2, volume 49, June 2, 1920)

In June, relief began arriving in the United States in the form of foreign sugars from Java, Formosa, Mauritius and elsewhere. Manuel Rionda played a role in bringing raw sugars from some of these countries to the United States, as his company brokered at least one deal, and probably many more. In a July 6, 1920 letter to a business associate in London, J.C. Ganzoni, Rionda wrote, "that the matter of the 2% brokerage that we have charged for sales of Javas should be causing you worry during your holiday is beyond me" (BBC series 2, volume 49, July 6, 1920). Rionda apparently lost friends and clients in Cuba because of his decision to deal in Javas, and in defense of his actions he

explained that it was inevitable that if he had not, somebody else would have dealt with the Javas. He noted that his commission for the Javas was higher than that which he generally charged producers in Cuba.

In June, Manuel Rionda was among the first to begin selling 1920-1921 crop sugars for January to February 1921 delivery. The price at which he sold the sugars, 12½ cents, was much lower than the prices that prevailed in Cuba at the time – 17½ cents.[23] Naturally, Rionda received a great deal of criticism from Cubans for having gone low.

Pressures bore on the sugar market, however, and prices continued to slide. In a July 6 letter to J.C. Ganzoni, Rionda explained, "…. as regards the market, [we] are just as much at sea as anyone else. I think the present crop will go down until it reaches the level of new crops" (BBC series 2, volume 49, July 6, 1920). Within one month, prices had in fact fallen to 12½ cents, which was the price at which 1920-1921 sugars were selling.

The pace at which sugar prices fell accelerated and Rionda's early sales appeared more and more advantageous as a result. In late August, with current prices hovering at around 11 cents, Rionda wrote,

> In view that the sugar market now is very much lower than when we made sales of next crop at 12½ cents, I don't think we ought to ask our colonos any further about participating… especially since I expect lower yet. As a matter of fact, January/February new crop sugars have already sold at 10 cents, which price, under the present circumstances, I consider good. (BBC series 2, volume 49, letter from Manuel Rionda to Oliver K. Doty, August, 24, 1920)

Manuel Rionda was the first, and among perhaps only a few producers to sell 1920-1921 crop sugars for future delivery at or above 10 cents per pound. Having disposed of all of his own 1920-1921 sugars early on, which he conceded was a mistake, he and

[23] BBC series 2, volume 49, letter from Manuel Rionda to Townbridge, June 29, 1920

others helped regularize the market by selling future sugars at prices under current-market value.[24] Many Cuban producers, meanwhile, had overstayed the market, and were left holding quantities of 1919-1920 sugar. Manuel Rionda sums it up well:

> It's a shame that colonos and hacendados that were earning so many millions of pesos this year are left holding so much sugar, and it's even a greater shame that their decisions were influenced and driven by inexpert people, without first having done a statistical study of the world's sugar situation. [They] did not even think about the long or short-term implications of the United States purchasing 500,000 tons of sugar from foreign countries with which they have not done business for years. (BBC series 2, volume 49, letter from Manuel Rionda to Pedro Urquiza, July 29, 1920. Translated by K. Grogan)

The Banking Crisis and its Consequences

The aftermath of the *Dance of the Millions* exposed a problem in Cuba that the United States had addressed in its own country less than a decade earlier with the formation of the Federal Reserve. In the event of a severe economic crises that threatens the solvency of banks, it is necessary to have a lender of last resort. Having no such lender of last resort, the Cuban government, in response to a flood of demands on its banks, had no choice but to declare a moratorium on October 11, 1920.

The moratorium prevented the immediate collapse of many of Cuba's banks, however, it did nothing to prepare the way for a resumption of payments, and in fact opened the door to a number of abuses which, together with the losses sustained, eventually forced most banks into liquidation.

One of the inherent problems of the moratorium was the fact that it protected not only the banks, but debtors as well, which thus made it difficult for banks to call in their loans and improve their cash positions. Exasperating this problem was the abuse of a clause that enabled depositors to withdrawal funds for government payment. Most

[24] BBC series 2, volume 49, letter from Manuel Rionda to Pedro Urquiza, July 29, 1920.

depositors who owed customs duties, taxes or other debts to the government, or were able to make a pretense of having such obligations, immediately took advantage of this clause to salvage part of their balances.[25] So large was the amount of funds withdrawn in this manner that ten days after the original decree, on October 21, the authorities were forced to modify this loophole. By that time, however, many accounts had been greatly reduced.[26]

Something else that hindered the banks' ability to improve their cash positions was related to the bizarre practice of certified check trading that emerged. Although the moratorium made it illegal for depositors to withdraw more than 10% of their balances, there was nothing to prevent them from writing checks, having them certified, and selling them at a discount on the black market. Depositors who needed money, or who were sufficiently skeptical about the future of their banks, found this a quick, though painful, means of converting part of their frozen assets into cash.[27]

Purchasers of certified checks used these to repay loans owed to the banks upon which the checks were drawn, or to purchase properties, which the banks had acquired. In theory, banks were essentially 'liquidating' their assets and thereby reducing their deposit liabilities, both sides of the balance sheet shrinking by the same amount. In fact, what was happening was that still-solvent debtors were using certified checks to escape part of their obligations, to the determinant of depositors and stockholders.[28] The loans

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[25] Wallich, Henry Christopher, *Monetary Problems of an Export Economy: The Cuban Experience 1914-1917* (Harvard University Press, 1950)

[26] *Ibid.*

[27] *Ibid.*

[28] *Ibid.*

that were compensated with certified checks, bought at a discount, were largely the sound ones, which otherwise would frequently have been paid off in cash. By accepting compensations, the banks were able to reduce their liabilities, but without receiving much cash and at the cost of a progressive deterioration of their portfolio. This deterioration caused a gradual fall in the market value of certified checks, which in turn permitted even weaker debtors to compensate and left the domestic banks with only the worst types of assets.[29] The banks were in trouble, and needed help. In an October 22, 1920 letter to Higinio Fanjul, Manuel Rionda wrote,

> The editorial I enclose, "Cuba a Paradox of Prosperity" is very significant, and while it is conceded that American bankers should help to restore the financial balance, the caution is given that Havana banks should be pledged to use all their power to prevent a renewal of the carnival of extravagance and speculation, which has brought about this present crisis. (BBC series 4, volume 2, October 22, 1920)

By the time the moratorium was due to expire, however, on December 1, 1920, help had yet to arrive and the domestic banks were still not in a position to resume payment. In the meantime, there was commotion raised in the United States among wheat and cotton growers who demanded sufficient money from the Federal Reserve Bank to hold their commodities.[30] Rionda wrote, "I cannot see how the Federal Reserve Bank is going to favor Cuba more than their own national products" (BBC series 4, volume 2, letter from Manuel Rionda to Higinio Fanjul, October 14, 1920).

The downward trend in sugar prices, meanwhile, continued, and sugar speculators still were faced with execution of their credits and loss of their equity once the moratorium expired. By the end of December 1920, some help arrived, not too soon, in

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[29] *Ibid.*

[30] BBC series 4, volume 2, letter from Manuel Rionda to Higinio Fanjul, October 14, 1920.

the form of a syndicated loan of $50 million from American banks. The money was used by the Cuban Government to help the Cuban banks finance the producers against the balance of sugars left and against the 1920-1921 crop.[31] Cuba also organized a finance committee that was responsible for marketing and selling the balance of sugars from the 1919-1920 crop. These efforts were too little too late, however, for saving Cuba's troubled domestic banks.

In January 1921 the Cuban Congress enacted a group of three laws for the rehabilitation of the banking system, know as the Torriente Laws. The first of these provided for the gradual lifting of the moratorium, the second dealt with the reorganization or liquidation of insolvent banks, and the third created the Commission of Bank Legislation, which was to formulate proposals for a banking law. The Torriente Laws were in a way responsible for the future development, or rather lack of development, of the Cuban banking system.

The first law, entitled "Law for the Lifting of the Moratorium" (enacted January 27, 1921) provided for the gradual repayment of debts, including bank deposits, in accordance with the schedule shown in Table 4-1.

Adherence to these provisions was optional. Firms and banks that were able to resume full payments did so immediately, all of the foreign banks among them.[32] Cuba's domestic banks, however, were in no position to adhere to the schedule.

The second of the Torriente Laws, dealing with bank liquidation, applied to banks that had failed to meet the schedules set up in the first law. Upon suspending payments,

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[31] BBC series 4, volume 2, letter from Manuel Rionda to Ganzoni, November 4, 1920.

[32] *Ibid.*

these banks were to come under the administration of a Temporary Commission (Comisión Temporal de Liquidación Bancaria) created by the same law.[33] This commission, composed of three members and presided over by the Secretary of the Treasury, was charged with the responsibility of acting as receiver and appointing liquidating committees to conduct the affairs of each bank. Within three months after the suspension of payments, the liquidating committees were to present plans for reorganization. No plan could be approved unless all creditors could be paid within one year and unless at least one-half of the bank's capital remained unimpaired. If these conditions could not be met, the bank was to be placed in liquidation.

Table 4-1. Schedule for the "Law for the Lifting of the Moratorium"

Debts other than bank deposits	Bank deposits
15% payable within 15 days	15% payable within 15 days
25% payable within 45 days	15% payable within 45 days
25% payable within 75 days	20% payable within 75 days
35% payable within 105 days	25% payable within 105 days
	25% payable within 135 days

Source: Wallich, Henry Christopher, *Monetary Problems of an Export Economy: The Cuban Experience 1914-1917* (Harvard University Press, 1950, pp. 62-63)

These provisions, modeled upon the receivership proceedings of American law, were in certain respects more severe than the bankruptcy regulations of the Cuban commercial code, which would have governed in their absence. The commercial code allowed insolvent firms more time and maneuverability to come to terms with their creditors, thus giving them a better chance to regain solvency. There is some reason to argue that without this law Cuba's domestic banks would have stood a better chance of survival. Some even alleged that the law was purposely designed to make liquidation of

[33] *Ibid.*

domestic banks inevitable, and that American interests wanted to destroy the Cuban banking system in order to increase Cuba's dependence upon the United States.[34] In the midst of the crises, in fact, American bankers dissuaded Cuba from developing a central bank, and advocated instead that Cuba accepts loans from American banks.[35]

A less sinister interpretation suggests that framers of the laws underestimated the difficulties in saving the banks. Public opinion appeared to have been optimistic about the future of at least some of the banks, such as the Nacional, although the ultimate collapse of the Español was more generally expected.[36] This optimism was shared not only by representatives of the American government, but apparently also by the former Havana manager of the National City Bank, Porfirio Franca, who early in 1921 accepted the presidency of the Banco Nacional.[37] Had Senator Torriente known how unfounded the optimism was, he might have formulated a more lenient law.[38]

But if the Bank Liquidation Law made reorganization unduly difficult, it permitted a more lenient treatment of the banks after they had definitely closed than did the commercial code.[39] Under the provisions of the commercial code it would have necessary to auction off their assets in short order, once attempts at settlement had failed. The chances were that very little wold have been accomplished had large amounts of real estate and sugar properties been thrown on the market. Owing to the impoverishment of

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[34] *Ibid.*

[35] BBC 10A, box 12, #34, October 23, 1920.

[36] Wallich, Henry Christopher, *Monetary Problems of an Export Economy: The Cuban Experience 1914-1917* (Harvard University Press, 1950)

[37] *Ibid.*

[38] *Ibid.*

[39] *Ibid.*

illiquidity of most Cuban capitalists, moreover, the buyers of these assets would have been Americans by and large. The application of the commercial code, therefore, would not only have injured the creditors of the closed banks, but would also have done harm to Cuba through the alienation of much of its national wealth.[40] One cannot say that the law achieved an outstanding success at preventing this, however, since much Cuban property passed into American hands.

The third of the Torriente Laws created the Commission for Bank Legislation (Comisión de Legislación Bancaria), whose goal it was to develop a central bank, a banking law, and the framework for agricultural banks. If enacted, the project would have contributed materially toward rebuilding the Cuban banking system. Unfortunately, the plan did not move forward, and Cuba therefore remained not only without a central bank, but also without a domestic banking system.[41]

The final collapse of most of the domestic Cuban banks came quickly. Altogether, twenty banks with 334 branches closed their doors.[42] Of the larger domestic banks in Cuba, the only ones to survive the crisis were Gelats and Company, the Banco Territorial de Cuba, and Pedro Gómez Mena. The latter was taken over by the Royal Bank of Canada two years later.[43] The foreign banks, with the large resources of their head offices behind them, were able to weather the storm. Their losses, however, were very heavy, and the Banco Mercantil was liquidated by its sponsors after meeting all claims.[44]

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[40] *Ibid.*

[41] *Ibid.*

[42] *Ibid.*

[43] *Ibid.*

[44] *Ibid.*

In the process of taking over the assets of their defaulting debtors, the foreign banks acquired very substantial property interests, primarily in the sugar industry, some of which they were unable to dispose of until after the outbreak of World War II, when a new sugar boom got underway.[45]

The disappearance of most of the domestic Cuban banks left the foreign banks in a dominant position. The extent to which the distribution of resources between domestic and foreign banks was reversed as a result of the *Dance of the Millions*, and the crisis that followed (Table 4-2). Whereas by 1923 foreign banks had more than made up their losses in deposits caused by the crash, the surviving domestic banks had retained less than 10% of the deposits that the domestic sector had held in 1920. In terms of total deposits, foreign banks controlled 76.1% in 1923, while in 1920 they had only 20%.[46]

The events of 1920 made it abundantly clear that Cuban banking need a stabilizing element. One option was for Cuba to establish a central bank. The other option was to have the United States become more involved in Cuba's banking operations. As it turns out, the latter prevailed, and in 1923 close ties began to forge between Cuba and the Federal Reserve. The Federal Reserve Banks of Boston and Atlanta both established a presence in Cuba, with the Atlanta agency issuing notes, and the Boston agency conducting actual banking operations.[47]

The agencies' roles were limited in regards to performing central bank functions. They did not engage in the regulation of credit, nor could they do anything to make credit available to those sectors of the Cuban economy that were unable to gain the confidence

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[45] *Ibid.*

[46] *Ibid.*

of the foreign banks. In all respects, their functions fell short of the powers that a Cuban central bank probably would have had. Moreover, their mere presence was for years sufficient to put a damper on all plans to establish such a bank.[48] Incidentally, Cuba did not establish a central bank until 1950.

Table 4-2. Loans and deposits of Cuban banks, 1916-1931 (millions of dollars/pesos)

	Loans			Deposits		
End of year	Foreign banks[a]	Domestic banks[b]	Total	Foreign banks[a]	Domestic banks[b]	Total
1916	27.2	70.5	97.7	30.7	109.0	139.6
1917	36.5	101.7	138.2	40.6	147.0	187.6
1918	44.4	124.9	169.3	51.6	170.7	222.3
1919	86.1	155.6	241.7	81.5	234.7	316.2
1920[c]	82.8	203.1	285.9	88.2	352.5	440.7
1921	85.8	19.1	104.9	55.2	24.8	80.0
1922	89.9	16.9	106.8	72.5	32.2	104.8
1923	101.8	17.9	119.8	104.3	32.4	136.7
1924	114.8	17.4	132.2	123.9	33.7	157.6
1925	152.2	17.3	169.5	134.8	38.8	173.6
1926[d]	201.3	26.5	227.8	106.2	61.3	167.6
1927	181.9	27.5	209.4	177.7	61.7	239.4
1928	164.8	26.8	191.6	181.3	61.1	242.4
1929	157.4	26.6	183.9	166.0	56.4	222.4
1930	139.9	23.7	163.6	107.7	37.0	144.7
1931	116.4	18.7	135.1	85.9	25.1	111.0

Source: Wallich, Henry Christopher, *Monetary Problems of an Export Economy: The Cuban Experience 1914-1917* (Harvard University Press, 1950, pp. 68)

[47] *Ibid.*

[48] *Ibid.*

CHAPTER 4
LESSONS, CONCLUSIONS, AND SUGGESTIONS

Lessons

When I began researching the *Dance of the Millions* for my thesis, I (like many researchers) did not have a clear topic in mind. One idea that I initially pursued was examining the *Dance of the Millions* as a case study of speculation. I eventually came to realize, however, that such a study was beyond my skills.

Later I settled upon the idea of examining the causes and consequences of the *Dance of the Millions*. I had access to the Braga Brothers Collection, and leveraged this resource to produce an original work on the subject. The collection confirms that Manuel Rionda was a major player in the world's sugar industry. His letterbooks, circulars and records shed light on all of the important events that transpired during *the Dance of the Millions*. The collection is a fascinating window into Cuba's past, and was a joy for me to explore.

Aside from the Braga Brothers Collection, newspapers also played an important role in my research. As part of my research, I combed through microfilm of the *Wall Street Journal*. It was time consuming to go through every *Wall Street Journal* from July 1919 to August 1920, however, the insights were valuable and contributed a great deal to my study.

Conclusions

The boom and bust that occurred in Cuba during and after *the Dance of the Millions* roughly paralleled, in terms of timing, a similar economic expansion and

recession in the United States. Indeed, the monetary policy in the United States, which was largely responsible for the expansion and contraction that took place in its own economy, provided the combustion for Cuba's economic roller-coaster ride as well. U.S. monetary policy, however, was but one of the causes for Cuba's *Dance of the Millions*. Market fundamentals, the behaviors of buyers and sellers, and political policies all played a significant role.

Between 1917 and 1920, the U.S. monetary base expanded considerably. Amidst a booming economy, interest rates in the United States were too low, and borrowing was widespread. Wages went up, spending increased, and inflation climbed at a steep pace. Cuba, which was linked to the United States by close trade ties and a common currency, also experienced an increase in wages, spending and inflation. The rise and fall in sugar prices paralleled (and was influenced by) the economic boom and crisis in the United States.

But the price of sugar fluctuated more so than that of other commodities, due in part to the market fundamentals. The world supply of sugar declined between 1913 and 1919, while at the same time demand increased. There existed few substitutes for sugar, and the cost of the article was relatively inexpensive for consumers, therefore the market naturally favored higher prices.

Early on, however, when Cuba first began selling 1919-1920 sugars, many of Cuba's largest sellers, and America's largest buyers, failed to anticipate the high prices that would prevail in the summer of 1920. Between September and October 1919, months before the harvest began, Cuba's largest raw-sugar producing companies sold a sizeable proportion of their association, or company, sugars, while colonos, who

controlled approximately one-half of Cuba's sugar cane, remained largely withdrawn. At the same time, American refiners, who were the largest buyers of Cuban raw sugar, remained on the sideline as well.

A spike in demand for sugar, after World War I, raised alarm of a possible sugar shortage, and many speculative elements entered the sugar market. European countries, which were deprived of their normal supply of sugar during the war, hastened to acquire new-crop sugars as soon as open market trading resumed in September 1919. By the time Cuba began harvesting its new crop, in December 1919, approximately one-quarter of the crop had been sold. American refiners, who up until then had acquired little sugar for domestic consumption, were encouraged to purchase sugars and protect the immediate and anticipated domestic requirements.

Prices advanced between September 1919 and January 1920, and then the market cooled down and steadied a bit in February. Meanwhile, financial problems began to arise in Great Britain and the United States, as monetary controls were tightened. Nonetheless, in March, reports of a smaller than estimated yield in Cuba, and a railroad strike in the United States that temporarily kept sugar off shelves, once again sent prices rising.

By May 1920, speculation had reached a feverish pitch as sugar prices soared to unprecedented highs. Some buyers, such as nervous manufacturers, purchased sugar to protect their anticipated requirements. Others were speculators, who planned to buy sugar and then turn around and sell it for a profit. Cuban producers, namely colonos, speculated that sugar prices should be higher. In response to a boycott by American

Refiners, who refused to pay more than 18½ cents per pound for raw sugar, colonos united, and together held their sugars firmly.

The United States and Great Britain, meanwhile, continued to tighten monetary controls by raising interest rates, and before long, the changes were felt. Confidence began to wane, and soon banks began turning their attention to calling loans, which were very abundant during and after the war.

Due to high prices and the reluctance of Cuban producers to offer sugars at buyers' asking price, Americans began turning elsewhere for supplies of sugar. Java, Formosa, Mauritius and many other countries were happy to oblige, especially given the fact that sugar was selling at a premium in the United States.

Approximately 500,000 tons of foreign sugar, which generally never found its way to the American shore, would eventually be attracted to the United States in 1920. By the time shipments began arriving, the sugar market had already begun to cool down. A strike in the United States caused refineries to become glutted with sugar, which hurt the market even more.

Amid falling prices, a crisis began to develop. Buyers in the United States suddenly began refusing shipments of refined sugar that they had ordered when prices were much higher.[1] Instead, they would wait until the price of refined reflected the lower cost of raw sugar. Demand fell considerably, as manufacturers, retailers and households began to consume the supplies they were sitting on.

The price of raw sugar fell sharply, and Cuban producers, who operated based on prices of 20 cents or higher, faced tremendous losses on unsold sugar. This problem

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[1] BBC Series 2, vol. 49, Copies of Western Union Telegrams, August 13-16, 1920.

triggered a panic, which led to a run on Cuba's banks. Left with no alternative, the Cuban government declared a moratorium on October 11, 1920.

The *Dance of the Millions* illustrates the extent to which Cuba and its economy were bound to the sugar market. The sharp increase in sugar prices brought fantastic wealth to the island, and many Cubans, not foreseeing leaner times ahead apparently, engaged in lavish and indulgent spending.

The episode also exposed the powerlessness with which Cuba was able to stabilize its own economy. Cuba had no central bank, and the monetary adjustments of the United States, essentially, adjusted Cuba's own money supply.

Although the presence of American banks and sugar interests were well-established in Cuba before the *Dance of the Millions*, their presence increased significantly after 1920. Cuba's domestic banks were unable to weather the storm, and were largely replaced by American banks. At the same time, American banks acquired sugar properties from producers who were unable to repay their loans. The *Dance of the Millions* had opened the door for an even greater American presence in Cuba.

Suggestions

One idea for further research is to study the dynamics of protectionism as it pertained to Cuba and its sugar economy. Cuba was essentially a mono-export economy, based primarily on sugar and to a lesser extent tobacco. As such, Cuba was very dependent on foreign markets.

During World War I, Cuba increasingly began supplying sugar, via the United States, to Great Britain and Western Europe. Because Cuba had expanded its sugar production by 66% between 1913 and 1919, it was very important for Cuba to try to retain at least a sizeable share of the British market. There are ample materials in the

Braga Brothers Collection related to efforts on the part of Cuban producers to provide sugars to Great Britain, and Great Britain's efforts to develop its own domestic sugar program. Cuban producers fought an uphill battle of having to compete with domestic producers in foreign markets that they supplied.

Another research idea would be to study the industrial organization of the sugar market. During the *Dance of the Millions*, when sugar prices began to fall, manufacturers, wholesalers and jobbers who had agreed to purchase high-priced refined sugars suddenly refused to do so after prices fell. Refiners suffered large financial losses as a result, and there is discussion on this in the Braga Brothers Collection.

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BIOGRAPHICAL SKETCH

Kevin Grogan was born in Milwaukee, Wisconsin on June 5, 1973. He attended high school in Ponte Vedra, Florida. In 1996, he graduated from Southwestern University in Georgetown, Texas with a Bachelor of Arts degree in international studies.

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