A HISTORY OF THE UNITED FRUIT COMPANY
IN GUATEMALA
1908-1953

by

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CHAPTER I

INTRODUCTION

The republic of Guatemala lies between 15° 42' and 17° 49' North and 88° 10' and 92° 30' West. The total area of the country is 42,355 square miles, making it slightly smaller than Nicaragua in extent. The country has a coast line of about seventy miles on the Caribbean and two hundred miles on the Pacific shores. Its boundary on the north and west, which touches Mexico, runs from the Suchiate River in an irregular line northwestward until it strikes the parallel of 17° 49' North, which it follows to the border of Belize, or British Honduras. The eastern border follows the meridian of 89° 20' West, southward to the river Sarstoon, which it follows eastward to the Gulf of Honduras on the Caribbean Sea. The Gulf of Honduras, an arm of the Caribbean, forms the short shoreline of Guatemala on the Atlantic side.

The climate is healthful, even on the coasts, where tropical diseases that were so long a curse of the country have been largely conquered by modern medicine and sanitation. The rainy season in the interior lasts from May to October, but on the coast often continues until December. The coldest month is January and the warmest is May.

The racial division in Guatemala is difficult to define, as it has never been a matter of satisfactory public record. The Spaniards who came with Pedro de Alvarado in 1524 were few. After the area was conquered no large numbers of Europeans came into it. The majority of the

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Spanish soldiers married Indian women and many mixed bloods or mestizos resulted.

As time passed, the number of mixed bloods standing between the peninsulars and white creoles and the Indian population increased, though the high degree of racial intermixture found in some of the other Spanish settlements apparently never occurred. Mixed bloods tended to marry mixed bloods or Spaniards rather than to join their fortunes with the aborigines. As a result, the crossings between persons with varying degrees of Spanish ancestry created a complicated scale of blood inheritance as the mestizo class grew in numbers.

When Negroes began to be imported, still another set of blood mixture appeared. Africans were not permitted by law to make alliances with Indians, but there was no similar restriction as to their relations with Spaniards and mestizos, and the number of mulattoes steadily increased.

At the present time, the portion of the population of exclusively European ancestry is negligible because the immigration of European stocks which might increase its size has failed to occur.

The last official census conducted in Guatemala was in 1940. The results showed that of the 3,283,209 people reported, sixty per cent were Indian, thirty per cent mestizo, and less than five per cent white. The balance of roughly five per cent were Negroes and mixtures of Indian and Negro, the latter proudly calling themselves "Carib Indians" in some sections, and probably, on the Caribbean shores, the descendants of the original Carib and Mosquito Indians and the slaves brought in by the Spanish conquerors. The Negro population is now entirely an importation from

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2. Chester Lloyd Jones, Guatemala, Past and Present (Minneapolis: The University of Minnesota Press, 1940), p. 269.
the British West Indies brought in for work on the banana plantations of
the United Fruit Company.

Guatemala's present constitution was adopted in 1945. Its bill of
guarentees. But these constitutional guarantees can be easily suspended
by the executive in time of crisis. The constitution may be amended by
a two-thirds vote of the total membership of the national congress. This
seldom happens, however, as the executive generally has the congress
under control, and unless he has the desire to amend it, it is extremely
difficult to get the congress to act on its own.

The president is chosen by direct vote of the people for a term of
six years, and may not be reelected until twelve years have passed. His
power of appointment is extensive and he may introduce bills in congress.

The separation of powers in Guatemala exists only on a formal level.
Although the separation of powers is provided for in the constitution,
Guatemala has always been under the thumb of a dictator who has been able
to stretch the constitution to suit his own purposes, either by suspend-
ing guarantees or by a liberal interpretation of it to suit his particular
needs.

The foreign policy of the United States, at the outset of its career
as a state, was largely concerned with two kinds of problems, the social
and economic problems created by the coming of the French Revolution and
those concerning neutrality. Few American statesmen looked outside their
own borders. Those who did began to think of the Caribbean, and especially
the island of Cuba. Early in 1809, Thomas Jefferson spoke of Cuba as an

3. Ibid., p. 102.
interesting addition to the Federal Union. The importance of Cuba to
the United States was again noted in 1823 when John Quincy Adams, then
secretary of state, wrote a famous letter to the American minister in
Spain in which he said that the United States would not accept the trans­
fer of Cuba from Spain to a foreign power. Such declarations, in diplo­
matic business, are very likely to conceal a more positive interest on
the part of those who enunciate them. It is probable that had it not
been for the slave states and their desire to acquire more territory for
the purpose of greater representation in the Congress, the territorial
desires of the United States might have found more vigorous expression.
The northern states presented a united front and blocked all attempts of
the South to add the island to the Union as a slave state.

In many instances in the nineteenth century the United States was
called upon to act as mediator in boundary disputes involving the states
of Mexico and Central America. The dispute between Guatemala and Mexico
over the status of the State of Chiapas and the coastal district of
Soconusco was the most important of these. The United States was called
upon to mediate this dispute in the early 1820's, but it was not until
many years later that the matter was finally settled under the regime of
General Justo Rufino Barrios of Guatemala. Mexico was given the State
of Chiapas and all of the Department of Soconusco, and Barrios was severely
criticized in Guatemala. It was charged by the conservatives that Barrios
was dominated by the United States and was induced by the State Department
to give up these precious lands. In addition to the Mexican-Guatemalan


5. Ibid., p. 120.
dispute, there were several minor ones throughout the nineteenth century in Central America in which the United States extended its good offices as an aid in settling them.

When gold was discovered in California, American interest in the Central American area was intensified. As the news of the discovery of gold spread throughout the United States there was a tremendous movement by land and sea to the western gold fields. Those who went by sea had to make a perilous voyage around Cape Horn. Many shipwrecks resulted and the loss of life ran high. This situation brought demands for a canal route across Nicaragua. As a result, an economic interest in the small nations of Central America was awakened, and they shortly became involved in the bitter rivalry between England and the United States for the Pacific coast trade.

In October, 1849, the United States Government authorized a wealthy promoter of New York, William Henry Aspinwall, to build a railroad across the Isthmus of Panama. In order to accomplish this, concessions were obtained from New Granada. They provided that the South American state might acquire the road after a number of years and the payment of several million dollars. On January 27, 1855, the last rail was laid. Two days later a locomotive was dispatched over the road from ocean to ocean. Disease had taken a fearful toll of the workers, but the grim determination of Aspinwall saw the road through to successful completion. American capital built the railroad and American engineering skill prevailed in the face of severe challenges from the terrain. This was truly the beginning of American economic interest in the Caribbean.

Great Britain was alarmed over the construction of a railroad across the Isthmus of Panama. When the news of the completion of this road was announced, the Admiralty immediately gave orders for the British fleet in the Caribbean to move in on Greytown, Nicaragua. In doing this, the British placed themselves in a position to control a potential canal route across that country. Because of this move by the British, Nicaragua became involved in the commercial struggle between the United States and Great Britain in the Caribbean area.

The importance of Nicaragua was further emphasized when the king of the financial filibusters, Cornelius Vanderbilt, obtained a concession from Nicaragua to operate river and lake steamers and to build a road or canal to connect with the Pacific. It was stipulated in the articles of concession that the Accessory Transit Company was to pay Nicaragua $10,000 annually and ten per cent of the profits for the privilege of transporting passengers by steamer and road or canal across the country. Vanderbilt agreed to construct a canal from Lake Nicaragua to the Pacific, but this was never done, and his managers saw to it that very little profit was recorded to be shared with Nicaragua. The Transit Company brought little benefit to the Nicaraguans; it was simply a means of transportation for passengers from the east coast of the United States to the gold fields of California. The Transit Company was profitable to Vanderbilt, but it later proved to be a burden to him when William Walker challenged him in Central America.

Walker's filibusters were lawless men, social outcasts, and soldiers of fortune, ready to invade the countries of Central America on the pretext

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7. Ibid., p. 308.
of freeing the people of those countries from bondage. To the arrogant
filibusters the natives of the small Central American countries were all
"greasers" unable to manage their own affairs. Central America was ripe
for exploitation by these men. Political conflicts, taking the form of
armed revolts, had distracted and hindered these countries and most of
them, except Costa Rica, remained in the throes of a backward culture.

Walker made an unsuccessful filibustering expedition into Sonora
and Baja California early in his career, but he was not discouraged and
boasted that he would eventually master all of Mexico and Central Amer-
ica. The people of Central America had resented all interference from
the Yanquis in the past, but Walker decided to try to convince them that
they were oppressed and he would liberate them from bondage.

In June, 1855, Walker and fifty-eight men, known as the "Immortals,"
landed at Realejo, Nicaragua, to offer their aid, according to the fili-
busters' statement, in freeing Nicaragua from oppression. He was not
well received by the people, who felt that he was meddling in their af-
fairs. Despite their lack of cooperation, however, Walker and his men
quickly overran the country and established a new government.

Walker realized that in order to establish a Central American empire
he would have to control Vanderbilt's Transit Line. He did this by con-
spiring with Vanderbilt's agents in San Francisco and New York. This was
the filibuster's biggest mistake, for Vanderbilt had unlimited funds at
his disposal.

8. Ibid., p. 313.

9. James Jeffrey Roche, The Story of the Filibusters (New York:

The people of the United States in general were favorable toward Walker. The northern states felt that he was a hindrance to British interests and designs in Central America. The southern states favored him because they felt that he would eventually bring Nicaragua into the Union as another slave state.

The recognition of his government became a political issue in the presidential campaign of 1856. President Pierce gave what amounted to a recognition to the government of President Rivas in order to forestall those Democrats who wanted full recognition. However, when Walker was elected president of Nicaragua his minister to the United States, Parker French, was not received.

In the spring of 1856, the governments of Central America, with the help of Cornelius Vanderbilt, combined their forces and marched against Walker. The filibuster was quickly defeated and surrendered to the commander of the U.S.S. St. Marys on the morning of May 1, 1857.

Walker returned to the United States, but as time went by he became restless and once again attempted to establish an "empire" in Central America. He was unsuccessful and he was executed before a Honduran firing squad on September 12, 1860.

From 1865 until 1885 the relations between the United States and Central America were quite cordial. In this period the great Guatemalan liberal, General Justo Rufino Barrios, was president of Guatemala. Barrios was very friendly to the United States, and trade relations between the

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United States and Central America reached a high point in the nineteenth century during the regime of Barrios. Moreover, he employed many American engineers and scholars to help bring Guatemala out of the throes of a backward culture. Guatemala City was converted into a modern city with the help of American engineering skill and the unlimited use of American capital. Communications were extended throughout Guatemala and many additional miles of railroad track were laid under the direction of American capitalists.

In 1871 an American came to Central America by the name of Minor Cooper Keith. This man was destined to play one of the most important roles in the development of Central America in the late nineteenth and early twentieth centuries. He became a fearless and daring promoter in an age of big enterprises. His uncle was the famous railroad contractor of Chile and Peru, Henry Meiggs. In 1870, Meiggs left South America to devote his time to railroad development in Central America. In October, 1870, he negotiated a contract with the Costa Rican government to build a railroad from the tropical Caribbean coast to the capital. In December of that year the work was begun. Difficulties were immediately encountered that slowed the progress of construction. Disease and weather conditions accounted for many deaths in the first two weeks of work.

Keith arrived in Costa Rica the day before Christmas in 1871 to assist his uncle in the tremendous task that lay ahead. Unseasonable hurricanes nearly wrecked the project on two occasions during the first year of construction, but the grim determination of Meiggs kept the construction going. In the second year Meiggs and his nephew were more successful, and they succeeded in laying about twenty miles of track.

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Toward the end of the second year, the entire project fell into the hands of Keith when his uncle and three brothers died of yellow fever. Keith was stricken with the disease several times, but managed to recover. On several occasions he directed operations from a sick bed. The workers knew that he was sick, and they gained much respect for him as they watched his determined efforts to complete the railroad.

During the third year of construction the Costa Rican government ran out of funds to continue the road, which had not advanced enough to reach the highlands. Keith studied the situation and decided that he needed freight to raise money. He imported banana root stocks from plantations in Panama and planted them in the Costa Rican lowlands. As the plants produced he went into partnership with Carl B. Francis, a banana grower of Panama. With the revenues derived from the shipments of bananas to the United States, the road was completed despite the fact that the government of Costa Rica was bankrupt.

Minor Keith had launched a banana trade primarily to develop his railroad interests in Costa Rica and Central America, but it was destined to become one of the world’s great enterprises.

When the railroad to the capital of Costa Rica was completed, Keith became popular in that country. He decided to go to London to see what he could do about restoring the credit of Costa Rica. From the London banking house of G. de Murrieta, he obtained for Costa Rica a loan of about six million dollars to extend the railroad from the capital city to Reventazon, Cartago, and San Jose. He also re-negotiated the foreign debt of the country and obtained very liberal terms for repayment.

While in London Keith attended to some of his expanding enterprises. He set up formal accounts and published stock certificates for his British-incorporated Tropical Trading and Transport Company, and the Colombia Land Company. He told English bankers of plans he had formulated for a railroad through Guatemala and for new and expanded banana plantings in Nicaragua, Panama, Guatemala, and Honduras, as well as Costa Rica—future Keith plantations that would supply freight for future Keith railroads. He also talked to the wealthy fruit dealers of that city and boldly told them that he could export Central American bananas to England to supplement the small shipments London was then receiving from the Canary Islands.

Meanwhile, Andrew Preston and Captain Lorenzo Baker, Boston shipping men, were convinced that Boston was ready for a large banana-selling company. Captain Baker's associates in the Boston Steam Navigation Company also shared this view.

In spite of heavy losses of tropical fruit from spoilage and freezing, and the usual marine hazards of sailing craft and over-aged steamships, Baker and Preston had done much to prove that the production of bananas could be successful. They studied the techniques of the trade and decided that Jamaica would be the best continuing source of supply.

Captain Baker knew Jamaica well. He had made friends among the planters and businessmen of the island. Baker had many opportunities to observe the growing performances of bananas in Jamaica. He noticed that practically all sections of the island were suited to growing bananas. He also learned from business sources on the island that the planters no

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longer wanted to depend on sugar as a money crop.

Andrew Preston, on the other hand, approached the problem of establishing a banana-selling firm by considering the marketing situation in Boston. He had already succeeded in selling bananas profitably in Boston and vicinity on a small scale, but he now felt that it was time for a widespread expansion of his activities.

After a year of quiet observing and explaining, Preston and Baker, with about a dozen associates, established the Boston Fruit Company. Few people outside of Preston and Baker realized it then, but this firm was destined to grow into the biggest tropical farm and shipping company in the world.

The Boston Fruit Company was an informal partnership, with a paid-in capital of $15,000, well divided among twelve New Englanders. All of the partners agreed that no dividends were to be paid or claimed during the first five years of operation.

The first year of business was profitable; the second year was even more successful. In 1886 the imports amounted to almost a third of a million bunches of bananas, and by the end of the year, without any dividend obligations to its owners, the firm showed cash resources of $200,000. In twenty-three months the $15,000 initial investment had increased threefold, and during the summer of 1886 it was doubling itself by the month.

On September 20, 1890, the Boston Fruit Company was incorporated under the laws of Massachusetts. The new corporation listed assets of $551,000. Out of this amount, $500,000 became the capital stock of the new company, and $31,000 its working surplus. Some of the original stock-
holders sold their interests in the new corporation, and in the reorganization Baker was made president and tropical manager of the firm.

Busy and prosperous years followed. But Boston markets were being flooded with bananas, and Preston, who was still Boston manager for the company, went to several big cities on the east coast of the United States seeking new outlets for his banana imports. He found severe competition in the majority of these cities and decided that the company could not hope to compete with all of the companies doing business in these cities. After careful study he suggested a plan to his associates by which the Boston Fruit Company would "incorporate" some of these firms. The plan was accepted with little debate, and the Buckman Fruit Company of Baltimore was created as a subsidiary of the Boston company. This was the beginning of a plan that was to erase much of the competition in the banana trade in the United States. In Philadelphia the Quaker City Fruit Company was incorporated into the Boston company's holdings. In New York the American Fruit Company came under the direction of the Boston concern. In spite of its growth in the 1890's, Boston Fruit was not a big company, and it held an important place only in Boston, which was fourth among banana-market ports.

In 1895 Preston reported to the directors of the company that it was losing money on its new firms in Baltimore, Philadelphia, and New York, and that without superior ships the company could even lose its position in Boston. Accordingly, Boston Fruit leased several fast steamships to carry bananas to the great ports on the east coast to prevent spoilage and to help in faster delivery.

17. This was the beginning of the "Great White Fleet" of the United Fruit Company.
When the Boston Fruit began in 1885, the name of Minor Cooper Keith meant practically nothing to the owners of the company. By 1890, every banana grower and every banana seller in the United States was hearing a great deal about the exploits of this man. In the space of a few years he had become the world's largest producer of bananas. Keith companies were expanding all over Central America and northeastern South America. The production of these firms could deluge any market port in the United States. Late in December, 1894, Keith went to Boston for conferences with Preston and his associates. These conferences resulted in an agreement which authorized the Boston Fruit Company to sell within the United States north of Cape Hatteras all the bananas grown and exported by Keith through the Colombia Land Company Ltd., and the Tropical Trading and Transport Company. This was the beginning of a chain of events which later led to the establishment of the United Fruit Company.

After the Spanish-American War the Boston Fruit Company began to experience some setbacks in the banana trade. The company had relied heavily on the Jamaican plantations, but the weather on the island was beginning to change. During the year 1898 hurricane after hurricane swept over the island, destroying at least five times as many bananas as the company had been able to export. Yet despite these losses the company looked to the future with the hope that a great financial enterprise would eventually be built in the tropics. But Boston bankers were not receptive to the request for loans. They felt that the company had possibilities, but it needed the guidance of a man like Keith.

18. Ibid., p. 91.
19. Ibid.
The year 1898 had been an unlucky one for Keith. A New York investment banking firm that had extended short-term loans to Keith's Tropical Trading and Transport Company had gone into bankruptcy, thereby leaving Keith the unpleasant choice of paying off about $1,500,000 in ninety-day notes or closing the company. He made no secret of his plight, and the president of Costa Rica extended the credit of the country to help him out of a difficult position. Keith accepted the loan and eventually paid it off in full. This help enabled Keith to weather the storm in 1898, but his bad luck continued. Tropical diseases harassed Keith's plantations. An epidemic of yellow fever broke out at Limon. Floods destroyed bridges and railway grades. Hurricanes blew down hundreds of acres of bananas and in October, Hoadley and Company, of New Orleans, a principal Keith distributor of bananas, went into bankruptcy with about a million dollars of Keith banana money.

Minor Keith left Costa Rica early in 1899 to go to Boston to talk to Preston and his associates about the possibilities of a merger. Other interested parties joined in the talks, including T. Jefferson Coolidge of the Old Colony Trust Company, Bradley Webster Palmer, a distinguished "Hub" attorney, and the representatives of many prominent families of Beacon Hill.

The results of these talks were revealed on March 20, 1899, with the formal incorporation of what was called the United Fruit Company, a New Jersey corporation with an authorized capital stock of twenty million dollars.

CHAPTER II

THE EARLY YEARS OF THE UNITED FRUIT AND THE ENTRANCE INTO GUATEMALA (1899-1906)

The career of the United Fruit Company began with many inventories and transfers of tropical lands and transportation facilities. Minor Keith was compelled to trade his tropical properties for cash in order to get out of an almost impossible financial situation brought on by adverse weather conditions in the Caribbean.

The Boston Fruit Company had formed from time to time, for business convenience, seven companies which were either owned outright or largely controlled by the parent company. The Boston company owned the Sama Fruit Company, the Banes Fruit Company, and the Cominican Fruit Company. These companies operated for the purpose of growing bananas in Cuba and Santo Domingo. They were strictly agricultural organizations. Other organizations, such as the American Fruit Company, Buckman Fruit Company, and the Quaker City Fruit Company, were organized to transport bananas from Cuba, Santo Domingo, and Jamaica to ports in the United States. The Boston Company imported bananas to the Port of Boston, the American Fruit Company imported the fruit to New York City, the Quaker City Fruit Company to Philadelphia, and the Buckman Fruit Company to Baltimore. The Boston Fruit Company furnished to the American, Quaker City, and Buckman companies all of the bananas imported and sold by them. They were just branches of the Boston company.

When the inventories of these companies were completed, the Boston Fruit Company had total net assets and good will of $5,105,000. The United Fruit Company bought these assets with United Fruit Company stock at par, which amounted to a block of 51,050 shares. Thus it can be seen that Boston interests controlled the United Fruit Company from the beginning.

The United Fruit Company purchased from Keith the real estate and equipment owned by the Tropical Trading and Transport Company, Limited, the Colombia Land Company, Limited, and the Snyder Banana Company, all three of which had been under the control of Keith. The Colombia Land Company, Limited, and the Tropical Trading and Transport Company, Limited, were organizations operated solely to cultivate banana plantations in Colombia and Costa Rica. The Snyder Banana Company owned plantations near Bocas del Toro, Panama, and chartered steamers carried the fruit from the port to New Orleans and Mobile. Keith traded the entire outstanding stock of the Tropical Trading and Transport Company, which amounted to 389,000 common shares, at one pound sterling per share, along with 500,000 shares of the Snyder Banana Company and 3,400 shares of his Colombia Land Company, Limited, for a total of $3,964,000 in United Fruit Company stock at par.

The consolidation of these companies into a single corporation was only the beginning of the new enterprise. The early success of the new company was not taken for granted and much organizational work had to be done to mold all of the incorporated companies into a workable enterprise. The task of organization fell to Preston, for Keith was now engaged in new tropical pursuits and did not enter actively into the management of the corporation.

The new company had a total of 58,000 acres of banana plantations in Latin America, the most productive being in Costa Rica and Colombia, each of which had over 10,000 acres devoted to banana cultivation. The Cuban lands, very early in the life of the company, proved unsuitable for growing bananas due to uncertain general climatic conditions, and the soil was planted with sugar cane. The 3,000 acres which had been planted in Santo Domingo were quickly abandoned as unsuitable, while the banana lands under cultivation in Honduras totalled less than five hundred acres. On the British island of Jamaica the total land under cultivation amounted to 5,000 acres, but on that island, as elsewhere, the company tried to encourage independent planters to raise their own bananas and sell them to the United Fruit on a contract basis.

The new company had ten steamships. In addition to these vessels the company chartered thirty more. Most of the chartered ships were old and very unsanitary. The condition of these ships prompted the officials of the company to make plans for an immediate program of sanitation not only on the ships, but also at the various shipping points of the organization in Latin America. In addition to a serious health problem in water transportation, the new company was faced with the problem of developing an adequate railway system in Central America. At the time of the final incorporation it was found that the company had only 112 miles of track in all of Central America. Most of this track was in bad condition. The expense of maintaining the inadequate facilities was very high, as the mountain bridges would frequently wash out in the flood season. Years of general neglect had so deteriorated the lines that they were in a constant state of disrepair. This situation continued until finally solved by Keith in 1912.
In 1900, after his interests were incorporated into the United Fruit Company, Keith once again turned to railroad construction. He had at one time, during the early years of his career, envisaged a through rail route from the United States to South America.

The Guatemalan railroads were the first to engage the attention of Keith because they were insufficient to serve even a country in the backward state of Guatemala. Guatemala City was connected by rail with San Jose on the Pacific; and there were some other lines, built by English enterprise, on the Pacific slopes of the country. In order to build up the Guatemalan railroad system, Keith needed money. The important line from Puerto Barrios on the Caribbean had stopped at El Rancho, and no money was available to continue construction up the mountains to the capital city. Keith realized that the Caribbean road could be made to pay only if it had more freight. Therefore, he arranged with the United Fruit Company to start banana plantations along the line, but it was not until 1906 that the United Fruit finally entered Guatemala.

Keith sent for two of the most notable railroad men of the day to help him plan a railway system for Guatemala and Central America. These two men were Sir William Van Horne, the builder of the Canadian Pacific, and General Thomas Hubbard of the Guatemalan Central Railway. As a result of their investigations it was decided to ask the Guatemalan government for permission to form a company to improve the railways of the country. The government readily agreed to the proposal, but added the provision that Keith and his associates complete all lines then under construction. On this basis the Guatemalan Railway Company was formed. This concession

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was the beginning of what was to become, in later years, the International Railways of Central America.

The first annual report of the United Fruit Company revealed that the company had tropical investments estimated at $16,949,753. Nearly $10,000,000 of this amount had been expended for the purchase of plantations, their cultivation, and the erection of buildings thereon. Approximately $400,000 was represented by livestock, $1,255,428 by railways, $74,000 by telephones, $95,674 by small sea-going craft, $233,560 by wharves, and $365,000 had already been expended in the construction of a sugar mill in Cuba. The United Fruit owned $1,244,096 in the stock of other companies. This included all of the stock of the Belize Royal Mail and the Central American Steamship Company, which owned and operated ten ships of 1,000 to 1,600 tons. It also included all of the stock of the Fruit Dispatch Company, which, to this day, has always been maintained as a distinct corporation for purposes of transportation.

In addition to the ten ships owned by the company it was necessary to charter or lease many others. This number ranged from thirty to fifty steamships, and varied according to the season and to the productivity of the plantations.

The report went on to say that in the first fiscal year the company had determined to make a comprehensive experiment in sugar cultivation, and the location selected was the Nipe Bay district of eastern Cuba. The land in this area proved to be much better suited to sugar cane than bananas. A sugar mill was constructed in 1900, and 7,800 acres were planted in cane. The early sugar crops were so successful that the United Fruit

6. Ibid.
Company concentrated on that crop in Cuba, and sugar cane thus became the United Fruit's second most important crop in the years that followed.

During all of the years of the corporate existence of the Boston Fruit Company, no destructive hurricane had swept Jamaica, its chief source of banana supply. More than average good luck had attended its operations in Santo Domingo and Cuba, but Preston was aware of the fact that climatic disasters would occur sooner or later. It is rather a remarkable coincidence that all of the districts of banana production of the old Boston Fruit Company were levelled in the very year following its purchase by the United Fruit Company. The season opened with the first hurricane in twelve years in Jamaica, the blasts of which destroyed a large percentage of the growing banana plants on that island and severely crippled its supply. A few months later Santo Domingo was swept with high winds which did great damage to the plantations formerly owned by the Boston Fruit Company. To make the coincidence complete, a deadly and very unusual drought afflicted Cuba.

The United Fruit Company lost the bananas destroyed by the hurricanes and drought and was compelled to meet the expense of bringing new plantations into being, but the bananas raised by the company in Colombia and the other countries of the Caribbean more than made up for the losses in Jamaica, Santo Domingo, and Cuba, and there was no delay in shipping them to Boston, New York, Philadelphia, Baltimore, and other ports formerly dependent almost entirely on the islands of the West Indies.

The destroyed banana plantations of Jamaica, Santo Domingo, and Cuba greatly curtailed the productivity of these sections in 1901, but despite this the company distributed in the United States and Canada about 14,000,000 bunches of bananas, nearly all of which were consumed in the
United States. This was an increase of nearly three million over the first year. The sixty steamships owned or chartered by the company also brought from the tropics 13,500,000 coconuts and 200,000 boxes of oranges.

The sugar mill at Banes, Cuba, was put into operation and yielded a profit of about $110,000 for the year. But the price of bananas dropped in the United States to a point so low that fair business profits on them were impossible.

Owing to the curtailment in production as a result of the hurricanes and a steadily declining price level for bananas in the United States, net earnings for the year showed a decided decrease. Yet the officials of the company were not discouraged and looked to the future. The capital stock of the company was increased from $11,230,000 to $12,369,000. The money derived from the sale of this additional stock was applied to new plantations and other productive assets.

The company increased its improved land holdings from 66,294 to 75,055 acres, and its total holdings, owned and leased, from 236,201 to 262,425 acres. The bulk of this increase was in Central America. Experience was proving that banana production was safer and more profitable in Central America and Colombia, but it was deemed best to give Cuba and Santo Domingo a further chance. During 1901, 3,500 acres in Costa Rica were set aside for new banana cultivation, and 3,000 acres in Colombia made ready for such planting. The sum of $460,000 was expended on the Banes Sugar Mill.

The climatic disasters which had afflicted the company and diminished

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7. Ibid., 1901.
its profits did not turn the management from its belief that it would be possible to build a great business structure in the tropics; but the world of finance and investment looked with increased doubt on this venture, and there was limited public demand for its securities.

The United Fruit made better profits in the year 1902. Its plantations had recovered from the effects of the hurricanes, droughts, and floods, and there was a better market and higher prices for bananas in the United States and Canada.

The importations of bananas for that year reached about 16,000,000 bunches, most of which were consumed in the United States. The new sugar mill in Banes produced more than 40,000,000 pounds of sugar, but the market prices were so low that it was operated at a loss approximating $100,000.

The wisdom of the United Fruit Company in diversifying its tropical products was shown in 1902. Competition frowned on sugar but smiled on bananas and cocoanuts, which were in demand because of a scarcity of apples and other fruits and foods raised on home soil. After devoting $453,365 to improvements and allowing for depreciation and all other charges, there remained a net income of $2,185,000 available for dividend purposes, and the stockholders were paid total dividends of eight and one-half per cent for the year.

The banana output of the plantations of the United Fruit throughout Central and South America increased enormously in 1903. This prompted the officials of the company to decide to begin to export bananas to Great Britain. A shipping agreement was entered into with the English

8. Ibid., 1902.

9. Ibid.,
steamship line of Elders and Fyffes, which later became a subsidiary of
the United Fruit Company. This company monopolized the transportation
of bananas to the British Isles for many years and it was not until the
"Great White Fleet" came into being that this monopoly was broken.

The year 1903 was marked by extensive land purchases and improvements
entailing an expenditure of about $1,350,000. The Changuinola district
of Panama was acquired by the company and work was immediately and vigor­
ously started on the railroads and equipment required to place all parts
of the new district in quick communication with the port of Bocas del
Toro. These and other acquisitions increased the improved land holdings
of the company to 97,609 acres, and its total possessions, owned and
leased, to 288,177 acres.

Despite an improvement in earnings in 1903 all was not well with
the company. It became involved in a bitter boundary dispute between
Colombia and Costa Rica. The area involved in the dispute was north of
the Sixaola River in Costa Rica.

In 1900 President Loubet of France arbitrated this long-smouldering
dispute between the two countries. He decided that the eastern boundary
should be drawn along a mountain spur running from the central Cordillera
to the Caribbean, rather than further south along the Sixaola River, which
previously had been considered the boundary. Costa Rica rejected that
part of the award which gave Colombia territory north of the Sixaola River,
claiming that the arbitrator had exceeded his powers by putting the line
outside the territory in dispute and on land which had always been ac­
cepted as Costa Rican.

10. Ibid.

11. Agnes S. Waddell, Unsettled Boundary Disputes in Latin America
Colombia, by refraining from making any move to establish her authority over this region, permitted Costa Rica to keep control there pending further negotiations. The disputed territory, almost entirely uninhabited, was classified as superior banana land. Upon it both the United Fruit Company and its competitor in the region, Camors-McConnell Company, cast envious eyes.

Herbert L. McConnell, President of Camors-McConnell, tried to secure authority to operate in this region from both the governments which laid claim to it, but he was unsuccessful. Colombia and Costa Rica felt that the severe trade war that would result from a concession would probably damage their claim to the disputed territory in any further negotiations.

Early in 1903, a Colombia subject received a concession from the Department of Panama purporting to give the concessionaire the right to build a railroad on the south bank of the Sixaola. This concession was dated April 2. On May 1 this concession was transferred to McConnell as an individual and not to the firm of Camors-McConnell. Although the concession was concerned only with the south bank of the river, McConnell began planting on both sides and building his railroad on the northern side. Moreover, he had started his activities before he obtained the concession, and he continued them after the concession had been suspended by the Department of Panama and also had been declared void by the national government on grounds that a department had no right to issue such a concession.

Minor Keith repeatedly tried to persuade McConnell to get out of the disputed territory, but he was unsuccessful in his efforts. McConnell had felt that Keith, although seemingly speaking for himself, was actually acting in the interests of the United Fruit Company.
Further misunderstandings arose on November 3, 1903, when a revolution broke out in Panama. As a result of the uprising, Panama declared its independence from Colombia. As an independent nation it maintained that its rightful boundary was that settled by the Loubet award. It made no attempt, however, to establish this claim, but it agreed informally with Costa Rica to preserve the status quo pending further negotiations. The situation in the disputed territory remained in a state of turmoil during the early months of 1904. On July 23, 1904, a critical situation arose between Costa Rica and Panama in which McConnell was involved.

A ship laden with materials of the American Banana Company, of which McConnell was president, landed at Gandoca, on authority from Panamanian officials and against the orders of Costa Rica. The Costa Rican government accordingly confiscated the cargo. This action by Costa Rica nearly caused a breach in the peace between the two countries, but fortunately this never came about. Negotiations between them provided a settlement by which the cargo was turned back to the American Banana Company without the payment of damages.

On August 30, Jose Astua Aguilar, Secretary of Public Works of Costa Rica, filed his intention to denounce 6,000 hectares of national domain—which included some of the land claimed by McConnell. Despite the protests of McConnell the land was turned over to John Keith, nephew of Minor Keith, who later turned it over to the Northern Railway Company. McConnell said publicly that the whole transaction was a conspiracy on the part of the United Fruit. He claimed that the Northern Railway was dominated by

the United Fruit and would eventually turn the land over to the company.

The courts of the United States were drawn into the banana fight of McConnell and the United Fruit. On November 30, 1904, the United Fruit Company instituted a bill in chancery seeking to enjoin McConnell from violating an agreement made by him on December 8, 1899, in which he promised not to compete in the banana trade with the United Fruit. On August 31, 1905, District Judge Toolmin of the United States Circuit Court for the Southern District of Alabama declared that the complaint was justified and that McConnell should be restrained from breaking his contract.

McConnell appealed this decision to the United States Circuit Court of Appeals for the Fifth Circuit, charging that the United Fruit had taken unfair advantage of him when it attempted to suppress the existing competition in the business of growing, importing, and selling bananas. After a lapse of many months the court ruled that the agreement between McConnell and the United Fruit was made for the purpose of restraining trade and overruled the decision of the lower court.

While the United Fruit was un successfully attempting to restrain McConnell, the American Banana Company brought suit against the United Fruit for triple damages for illegally interfering with its business by creating a monopoly in the fruit business. The case was finally carried to the Supreme Court of the United States, where it was disposed of on the grounds of lack of jurisdiction. Justice Holmes wrote the opinion of the Court, which declared that: "The courts of one country cannot sit in judgment on the acts of the governments of another." With this decision,

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the bitter struggle between McConnell and the United Fruit Company was closed, and the United Fruit Company added many acres of choice growing land to its domain.

The year 1904 was marked by a decided increase in the fleet owned or controlled by the United Fruit. The Tropical Fruit Steamship Company, Limited, was organized for the purpose of providing better freight and passenger facilities. Several new ships were added to the fleet. The company was now beginning to carry passengers as well as freight. The cleanliness and appearance of these ships of the "Great White Fleet" were a boon to tropical tourist travel as well as to the earnings of the company.

Prices for sugar continued low in 1904, and the prospects for a rise in prices were very remote. Despite the low prices, the Cuban mill owned by the company showed a fair profit for the year and added $345,000 to the net income, which totalled $1,940,000, from which dividend payments aggregating seven per cent were made. The total bananas imported amounted to about 15,000,000 bunches, a decrease of 2,500,000 bunches over the preceding year. The decrease was the result of a hurricane that destroyed a major part of the banana crops in Jamaica in August, 1903. The company expended more than a million dollars in new plantations, new railroads, and new equipment in Central America in 1904, part of which was raised by the issuance and sale of new stock. The total capital stock of the company then stood at $15,782,000, which was far less than its assets.

The ensuing year, 1905, was one of low prices for bananas and comparatively high prices for sugar. As a result of this condition the profits from sugar were more than half of those derived from bananas and

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other tropical fruits, the figures being respectively $1,044,703 for bananas and $573,017 for sugar.

The uncertainties of the banana industry are clearly shown by a comparison of items found in the annual reports of the United Fruit for the years 1904 and 1905. In 1904 the company imported about 15,000,000 bunches of bananas, and realized on them a net profit of approximately $1,245,000. This was at the rate of eight and three-tenths cents a bunch, or a profit of one cent on each eighteen bananas. This was not considered a satisfactory return for a corporation with $20,000,000 invested.

In 1905 the importations of bananas made a startling increase from 15,000,000 to nearly 20,000,000 bunches, but the net profits of the company tumbled from $1,245,000 to $680,000. The latter figure shows that the United Fruit Company realized a net profit that year of only three and four-tenths cents a bunch, or a profit of one cent on each forty-two bananas sold.

It was in 1905 that the United Fruit Company finally decided to abandon all cultivation of bananas in Cuba. Experience had demonstrated that the rainfall and general climatic conditions were not suited to growing bananas on that island. A fortune had been expended on these Cuban banana plantations, but it was finally decided to convert them to the production of sugar cane.

In order to replace the banana plantations in Cuba, the United Fruit Company decided to ask the Guatemalan government to grant concessions

17. Ibid., 1905.

18. Frederick Upham Adams, op. cit., p. 110.
for the purchase of plantation land in the Motagua Valley. Manuel Estrada Cabrera was president of Guatemala at the time the request was made. Cabrera, like Díaz in Mexico, urged foreign corporations to do business in Guatemala. The United Fruit made a formal request for permission to establish banana lands near the mouth of the Motagua River. The request was immediately granted and the company purchased an initial block of 50,000 acres in this area.

Cabrera inherited an almost impossible financial situation from the regime of President Jose Maria Barrios and he was determined to correct it. To do this he ruled the country with an iron hand. An elaborate secret service system kept watch on potential enemies of the state and protected foreign holdings with strict vigilance. People lived in fear of this despot, but Cabrera stayed in office for a period of twenty-two years even though many attempts were made on his life during his long period of rule. Cabrera had a great interest in agriculture and had an ardent desire to see the country developed along this line.

When the United Fruit took over the newly-acquired acreage in the Motagua Valley, it put into operation an experimental plantation of 1,250 acres. The results were successful, and an additional 747 acres were added in 1907. In 1908 the banana plantings were increased to 5,080 acres, although the company had not acquired any additional acreage. It had been demonstrated that banana cultivation in the Motagua Valley was practical and extremely profitable, but the company did not attempt to take advantage of this knowledge and of its position to monopolize all or any considerable part of the natural banana lands.

19. Ibid., p. 197.
It was not until 1910, five years after the original purchase of 50,000 acres, that the United Fruit Company increased its holdings by the purchase of an additional 30,549 acres, and since that year it had gradually acquired other tracts, which gave it in 1913, a total of 126,189 acres, of which 27,122 were devoted to banana cultivation. The annual report of President Preston for 1915 placed the cost of Guatemalan development at $3,884,807.27, thus placing it fourth (in money invested) in the list of tropical divisions of the company, Costa Rica, Panama, and Colombia leading in the order named, with Jamaica in fifth place. 20 Guatemala, however, stood third in the production of bananas.

Until the present unrest in Guatemala arose, Puerto Barrios was the leading port in the Caribbean for the export of bananas and other fruits from the plantations of the United Fruit Company in that country. When the company first moved into the area the port was very unsanitary and unattractive, but work was started at once to sanitize it and make it more attractive. The low site of the native town of Barrios was raised and protected with a sea-wall. The squalid huts which lined the beach were torn down, and in their place rose a fine hotel and office building for the company. All of the adjacent swamps and lowlands were reclaimed and made sanitary, and the reconstruction of the small native town solved the only remaining sanitary problem which harassed the company.

The Guatemalan government cooperated with the United Fruit in the drive to clean up the swamp areas around the port. Cabrera told the company that it had a free hand in the drive to rid the coastal areas of disease. He also promised that the government would provide the company

with all the native labor it could use. With the aid of the government the work proceeded at a rapid rate, and within six months Puerto Barrios became one of the most attractive ports of the Caribbean.
CHAPTER III

BUILDING A FINANCIAL EMPIRE

Early in the career of the United Fruit Company it was recognized by the managers of the corporation that in order to build a great financial empire in Central America transportation would have to be developed.

In Guatemala, railroad history antedates the beginnings of the modern fruit industry. Lines were laid out from the point of view of meeting the transportation needs of the nation; banana interests were not concerned.

During 1880-1890, when Minor C. Keith was concerned with loans, railroads, and bananas in Costa Rica, other persons were laying the foundation of the railroad development of Guatemala. General Justo Rufino Barrios, who conceived the plan of connecting the capital, Guatemala City, with the Caribbean coast, secured the construction of about twenty miles of the line before his death in 1885. During this same decade North American contractors built the Guatemalan Central Railroad, connecting Guatemala City with the Pacific port of San Jose, and the Occidental Railroad, tapping ocean traffic at another Pacific port, Champerico. Later, during the presidency of Jose Maria Barrios, the Caribbean line was carried inland to El Rancho, 156 miles from Puerto Barrios, falling short by sixty-one miles of reaching Guatemala City.

During the administration of Cabrera several contracts were entered into, but none with definite results until, on January 12, 1904, a contract was made with Percival Farquhar, a representative of Keith and Van Horn, for completion of the northern road, a distance of 51.4 miles. Thus Keith, whose first railroad interests were in Costa Rica, entered into contractual relations with Guatemala, in which country, together with El Salvador, his main interests were to lie in the days ahead. Six months later, on June 8, 1904, the Guatemala Railway Company was formed and incorporated under the laws of New Jersey at $40,000,000, to take over the 136 miles of the Northern Railway of Guatemala from Puerto Barrios to El Rancho, and to build the remaining sixty-one miles up the mountains to Guatemala City. Many hardships were encountered by the American engineers and native workers. It was not until January 19, 1908, that the railroad was completed.

The close relationship between Keith and the Guatemalan government was shown in July, 1907, when the government signed a contract with the Guatemala Railway Company to improve the sanitary condition of Puerto Barrios. Under the terms of the contract timber and underbrush were to be cleared from the waterfront to the adjoining town and immediate neighborhood, as well as the draining of stagnant water to defeat the malaria menace. The cost of the work was borne by the Guatemala Railway Company, which was reimbursed by the government in custom-house certificates to the value of $100,000 in gold; said certificates were receivable in pay-

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2. Under the terms of the contract, Keith received permission to organise the Guatemala Railway Company. It was also stipulated that ships bringing supplies and laborers for the railway should be exempt from any and all tax burdens. This presumably referred to the fruit steamers of the United Fruit, of which Keith was first vice-president.
ment of duties on merchandise subject to duties imported by the Guatemala Railway Company and the United Fruit Company.

Early in 1907, Keith had ambitions to extend his railroad operations into El Salvador. It was his intention to connect eventually the Guatemala lines with the Salvadorean lines.

On May 2, 1907, a contract was entered into between the government of El Salvador and Rene Kilhauer to construct a railroad from Santa Ana to a point on the Guatemalan frontier, where it was to connect with a branch line to Puerto Barrios. The duration of the contract was ninety-nine years, at the expiration of which time the line was to revert to the Salvadorean government. It was stipulated that the concessionaire had to complete the railroad in a period of four years. It was also stipulated that, from the date of completion of the railroad and for a period of twenty-five years, the government should pay the concessionaire an annual subsidy of $7,000 gold for every kilometer of railroad constructed.

The opening of the Guatemala Railway, running from Puerto Barrios on the Caribbean to San Jose on the Pacific, was formally accomplished on January 19, 1908. On this date the first train over the line entered Guatemala City from Puerto Barrios. With the opening of this line the United Fruit Company, in cooperation with the Guatemala Railway, inaugurated a fortnightly service between New York and Puerto Barrios. The inauguration of this service brought the port into prominence not only as a commercial port but as a tourist port as well.

3. Kilhauer was the agent for the United Fruit Company in El Salvador at this time. He was later named agent for the company in Costa Rica.

The beginning of work on the Los Altos Railway started on November 21, 1908. The main line of this railway ran in an easterly direction from Quezaltenango, in the western part of Guatemala, through the great central section of the country to Zacapa in the eastern part, fifty-five miles from the boundary line of El Salvador, then in a southeasterly direction to the Republic of Salvador, where it connected with the Santa Ana Railway then under construction. Branch lines were built in Guatemala to San Marcos, Soloza, Tonicapan, Quiche, and Huehuetango. The construction of these lines opened a new agricultural and mining region of the republic to commerce. This area, in later years, became the site of some of the most productive plantations in the empire of the United Fruit.

In December, 1908, the United Fruit Company planted in the Department of Izabel, about twenty miles from Puerto Barrios, more than 9,000 acres of bananas. The lines of the Guatemala Railway Company conveniently ran past the plantation, making it easy for the company to transport the fruit to the shipping point at Puerto Barrios. This action by the United Fruit made it clear that the company had intentions of making the port the main shipping port in the Caribbean.

Keith and his associates contracted with the Guatemalan government in July, 1909, to build a railway from Zacapa to the frontier of El Salvador. Following this concession, the government of El Salvador permitted Keith to extend the line to Santa Ana.

The year 1909 marked the granting of the most important railroad

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5. This 9,000 acres was in addition to the many hundreds of acres already under cultivation in the Motagua Valley.
concession in Guatemalan history. This concession permitted the construc-
tion of a railway line from Coatepeque to the Mexican frontier.
Before work was started on this line, plans were made to connect the
Guatemalan railway system with the Pan American branch of the Mexican
railways. This was later accomplished at the town of Mariscal.

The forging of another link in the great chain which was to bind
the continents of North and South America began on November 21, 1910,
with the inauguration of the work on the Pan American division of the
Guatemala Railway Company between Las Cruces, Coatepeque, and Ayutla, on
the Mexican border. Already in operation from Santa Maria to Las Cruces
was 83.3 miles of track. This track had been laid during the regime of
President Rufino Barrios.

The total Pan-American division of the Guatemalan Railway Company
was destined to be 124.3 miles. Upon the completion of this work, Guat-
temala was in direct railroad communication with Mexico and the United
States. From the capital, Guatemala City, to St. Louis, the distance
is only 2,824 miles, and the actual running time for freight trains was
five days and eighteen hours.

The importance of the railroad development in Guatemala was brought
out in a report submitted to the Department of State of the United States
by General William Davis, who represented the President of the United
States at the opening of the Guatemala Railway's line from Puerto Barrios
to San Jose in 1908. General Davis paid tribute to Keith and his asso-
ciates when he said:

About three years ago the work of completion of the railroad
was taken up by an American company of which Mr. Minor C. Keith
is president. The work proceeded under the most trying conditions,
but ended successfully due to the determination of these men.

General Davis described the country as very dry and sterile for the most part, but felt that the lands would be potentially good banana lands with proper irrigation.

The total length of the Guatemalan railways at the close of the year 1911 was 679 kilometers. During the year the railroads transported 1,187,455 passengers and 252,882 tons of freight, of which 149,453 tons represented local freight and 103,449 tons were made up of exports and imports.

The Guatemalan plantations showed a steady increase in production in the years 1906–1910. This increase led the directors of the United Fruit Company to increase the holdings of the company by purchasing an additional 30,549 acres of banana land. As a result of this increase in land ownership many new towns came into existence, some of them betraying their American origin by their names. The towns of Dartmouth and Virginia were typical of the names given to the towns.

In 1910, after the United Fruit Company had been in Guatemala only four years, the town of Virginia was modern in every respect, with well-equipped railroad shops, an electric lighting and power plant, an ice plant, steam laundry, and up-to-date stores, well stocked with supplies from the United States. The residential district contained streets and dwellings comparable to many residential districts in the southeastern part of the United States, yet all of this area had been a jungle only a few short years before. The same was true of the towns of Dartmouth and Quirigua.

7. Ibid., October, 1912, p. 838.
Keith and his associates realized that in order to extend the railways in Guatemala, the health problem would have to be solved. Tropical disease had taken a terrible toll of the workers on the railway projects and on the plantations of the United Fruit. It was, therefore, decided to embark on a plan to build up the medical structure of the company.

In Quirigua a new hospital was built by the United Fruit to serve the entire Motagua Valley. This modern structure was erected and equipped at a cost of $100,000. The building was 340 feet in length and had two connecting wings. It had space for 150 hospital beds, with reserve space for 100 more. There was an administrative building with quarters on its upper floors for fifty doctors. A large steel and concrete building was devoted entirely to surgery.

The efficiency of the medical supervision of the Guatemalan banana districts is shown by results which indicate that out of the 1,634 hospital cases in 1915 only 42 died, a remarkably low rate of 2.57 per cent. The dispensary and sick-camp services treated 14,745 cases in that year.

Not a single case of contagious disease appeared in Puerto Barrios or in any port in which the United Fruit operated that had to be isolated during 1915, nor did any case appear on any one of the ninety or more ships which sailed under its flag. This result was attained despite the fact that widespread epidemics swept western Cuba, Ecuador, and even the Canal Zone. There were outbreaks of yellow fever in the Canal Zone, Venezuela, and Trinidad, and Mexico was infected with small-pox and other

8. Frederick Upham Adams, op. cit., p. 278.

9. Ibid.
highly contagious diseases. But the medical department of the United Fruit ended the year with a clean record.

On November 50, 1912, the Guatemala Railway and other railway companies of Salvador consolidated into a single company under the name of the International Railways of Central America. This company, under the leadership of Keith, obtained from the governments of Guatemala and El Salvador the concessions necessary for the construction and operation of the newly-formed company. With these concessions, Keith and his associates proceeded to connect into a continuous line the Mexican, Guatemalan, and Salvadorean railways, forming the Pan-American System. The Pan-American Railway in Mexico was built to Mariscal on the Guatemalan frontier, and the Guatemalan link of the same railway extended to Las Cruces, a distance of sixty-eight miles from Mariscal.

If there was any doubt in the minds of the people and governments of Central America that the interests of Minor G. Keith had intentions of controlling the entire transportation system of Central America, that doubt was put to rest on April 4, 1914, when it was announced that a plan for settling the foreign debt of Honduras had been proposed by Keith and his associates. Under the plan, the United Fruit Company would settle the debt. In return, the interests of Keith would acquire "absolute control of present and future railroads of Honduras for a period of 10 ninety-nine years." The interests of Keith, which already controlled the combined railroads of Guatemala, were regarded at that time as the controlling factor in the transportation interests of Costa Rica.


11. Ibid.
Tene Kilhauer, agent of the United Fruit Company in El Salvador and Costa Rica, was in charge of the negotiations. The agreement provided for payment to the Honduran government of $1,400,000 for the Honduran National Railroad, which extended fifty-six miles from Puerto Cortez to El Piemento, and the franchise of the Inter-Oceanic Railroad from Puerto Cortez, on the Caribbean side, to the Bay of Fonseca, on the Pacific Coast, a distance of 252 miles.

The United Fruit Company announced plans early in 1914 for large-scale expansion of their operations in the Caribbean area—particularly in Guatemala. A year earlier they had been charged by the Department of Justice of the United States with violation of the Sherman Anti-Trust Law. The Attorney General called for an extended investigation of the activities of the company by the Federal Grand Jury. The request was granted and the Grand Jury convened in New York City early in 1913.

The Department of Justice charged that the United Fruit controlled eighty-five per cent of the fruit import trade of the United States, and was concerned with certain trade practices which would violate the Sherman law. During the long investigation many witnesses were called to testify, including the company’s tropical managers, employees of competing companies, and many former employees of the United Fruit. Investigators were sent to all parts of the tropical empire of the United Fruit seeking evidence against the firm. Records were examined in Boston, New Orleans, Philadelphia, and Baltimore, but little evidence was gathered.

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12. As a result of this agreement there were rumblings of discontent in Honduras. The liberal factions said that the government was handing the country over to the United Fruit.
On May 27, 1915, the Federal Grand Jury refused to return an indictment against the company on grounds that there was insufficient evidence to warrant an indictment for violation of the Sherman law.

The company was elated with the results; however, an event of far-reaching importance to corporations doing business in Latin America took place on October 2, 1918, at the Southern Commercial Congress at Mobile, Alabama. President Woodrow Wilson made a speech at the Congress which marked a reversal in the policy of the United States toward Latin America. In the speech the President declared:

I want to take this occasion to say that the United States will never again seek one additional foot of territory by conquest.

The Latin-American states have harder bargains driven with them in the matter of loans than any other people in the world.

I rejoice in nothing so much as in the prospect that they will now be emancipated from these conditions.  The United Fruit Company officially ignored the speech, but many individual officers of the company expressed concern for the future of Latin-American trade.

At the outbreak of World War I in 1914, the United Fruit Company entered into immediate negotiations with the United States to permit transfer of her twenty-five passenger and freight steamships from British registry. Permission was quickly granted to make this change. This move by the United Fruit permitted the ships of the company to fly the American flag, thereby protecting them from the U-boat menace that was later to terrorize ship owners in the Caribbean.


Continued prosperity of the Caribbean banana ports was thereby assured. The news was welcomed by the Guatemalan government, as the continued prosperity of Puerto Barrios was also economic prosperity for the entire country.

The United Fruit lost some of their ships in the early stages of the war, but the big drain on her fleet was to come when the United States entered the war in 1917. Forfeitures and losses reduced the imports of bananas to the United States to a point not experienced by the company since its organization in 1899.

An event of great significance to the United Fruit Company took place in October, 1915, when a revolution broke out in Guatemala against the despotic rule of President Cabrera. The revolution was led by General Jose Leon Castillo, a prominent Guatemalan exile, who was then in New Orleans. It has been contended that the company was behind the move to overthrow Cabrera; however, there is little evidence to support this contention. The revolt failed to unseat Cabrera, but it did have noticeable liberalizing effects upon the government. And it is well to note that cooperation between the government of Guatemala and the United Fruit Company was very apparent at the time.

The hands of the United Fruit Company's managers were freed of any possible hindrances in 1916, when a jury in the United States District Court in Philadelphia returned a verdict for the United Fruit Company in the suit of the Bluefields Steamship Company against the United Fruit.

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17. Leon Castillo had an office close to the United Fruit Company's offices near the docks.
The suit was entered under the Sherman Anti-Trust Law and was known as the Banana Trust Suit. Originally the action was for the recovery of $15,000,000, the Bluefields Company alleging that its business was damaged to that extent, and that the defendant violated the Sherman law in acquiring stock control of the Bluefields Company and then throttling the concern as a competitor.

In his charge to the jury the judge instructed them that if the two companies mutually formed a monopoly for the purpose of controlling and restraining trade, the steamship company as a willing partner was not, under the Sherman Act, entitled to redress for damages inflicted by other members of the combine. The officers of the United Fruit were elated by the results and proceeded to make long-range plans for expansion in Central America.

The first of the company's enterprises to engage their attention was the International Railways of Central America. This company increased its operations in 1916. New rails were laid in the western part of Guatemala from San Antonio to Suchitsapeques, making it possible to use heavier locomotives and larger trains. Improvements were also made on the Central, Verapaz, and Urban railways, and direct train service was established between the capital city and Ayutla, the junction point of the Guatemalan railways and the Mexican line.

The attention of the officers of the United Fruit Company was diverted from their expansion program in 1917, when the company became involved in a bitter boundary dispute between Honduras and Guatemala. This dispute dated back to the days of the old Captaincy-General and was the

result of the indefiniteness of the original boundaries set by the Spanish officials. Its acuteness was increased in 1917 by the economic activities of the United and Cuyamel fruit companies. The United Fruit was supported by concessions from Guatemala, the Cuyamel by concessions from Honduras. The territory seriously disputed consisted of about 2,000 square miles between the Motagua River and the watershed of the Merendon mountains, two natural boundary lines and each running in general from southwest to northeast. The main line of the International Railways of Central America runs from Puerto Barrios, Guatemala, up the northwestern bank of the Motagua River for about sixty-four miles and then crosses the river on the El Rico bridge into a corner of this disputed territory. Connecting with the I.R.C.A. on the disputed side of the river are about fifty kilometers of branch railway lines belonging to the United Fruit Company.

The banana and railroad activities of the United Fruit Company had been extended into this region eastward from Guatemala, the similar activities of the Cuyamel Fruit Company had been pushed westward from Honduras. Between the mountains and the sea, about ten miles west of Puerto Cortez, is the port of Omoa, to the west of which William F. Streich of Philadelphia leased 5,000 hectares of land in 1902. These lands were later turned over to the Cuyamel company. In 1911, the year of the formal incorporation of the Cuyamel Fruit Company, the latter obtained a new concession permitting it to lease 10,000 additional hectares of national lands between its former properties and the Guatemalan border; later the company's engineers measured out lots of land on the banks of the Motagua River. In 1915 a representative of the Cuyamel Fruit Company sought to obtain from Guatemala the right to construct thirty-three miles of rail-
way. After two years of negotiation, the government of Guatemala refused to grant the concession desired by the Cuyamel, but allowed the company to continue its railroad one mile farther to the town of Cuyamelito.

The company thereupon built the additional mile, but it did not stop there. No longer seeking authority from Guatemala, it continued its railroad construction under the armed protection of Honduras over lands which Guatemala had granted to other interests. Thereupon Guatemala interfered with the construction, in which policy it had the support of the United Fruit Company, as had Costa Rica when the American Banana Company was extending its operations across another international border. At the request of Honduras, the United States exercised its good offices to prevent an armed conflict, and in November both sides expressed a willingness to accept American mediation.

A conference was held at Washington on May 20, 1918, at which the Guatemalan and Honduran representatives presented documents and maps to prove their maximum claims. The representatives of the State Department were confused and ordered an economic survey of the region in dispute by a representative of the American Geographical Society. It proved impossible, however, to reach a solution which both parties would accept, and the mediation proceedings were finally suspended.

At the Washington Conference in 1923 Guatemala and Honduras announced that they had decided to submit the dispute to arbitration by the President of the United States. The efforts of the two governments to negotiate

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the necessary treaty for this purpose were, however, unsuccessful.

In 1924 the government of Guatemala granted to the United Fruit Company a concession leasing for twenty-five years unoccupied land on both sides of the Motagua River from the bridge at El Rico to the sea, about sixty-four miles away. This concession was not accepted by the Guatemalan Assembly until 1927. During this time hostility against the United Fruit Company developed in Honduras, not only because some Hondurans and the Cuyamel Fruit Company claimed portions of this land, but primarily because it was feared that this would frustrate the attainment of the nationalistic ambitions of Honduras. The National Defense League of that country, composed to a large extent of students, addressed a communication to the United Fruit Company demanding that it renounce the concession. Both the United Fruit Company and the Cuyamel Fruit Company made public their respective positions. The United Fruit Company, which had property in both of the republics, notified the President of Honduras of its neutral position, declaring:

    The United Fruit Company will respect any decision or settlement which may be made, be it temporary or permanent, with the full confidence that it will continue enjoying in the future, as in the past, the same full confidence of the governments of the countries in which it operates.

On the other hand, the Cuyamel Fruit Company, having no property in Guatemala, appealed to Honduran nationalism as follows:

    The Cuyamel Fruit Company is not only disposed but desires to cooperate and assist by all means within its power the Government of Honduras in whatever situation it finds itself with regard to the boundary dispute with Guatemala, in order that, as the company desires, the result of the controversy may be the most sound and merited Honduran triumph; and that Honduras may not lose one single inch of land, not only in the disputed strip but in any indisputable Honduran zone.22

In 1927 new incidents occurred on the frontier, and the two governments again requested the United States to assist them in reaching a settlement, but a conference held at Cuyamel in the disputed territory was unable even to establish a provisional boundary line pending a definitive settlement of the dispute.

In 1930 Assistant Secretary of State Francis White succeeded in getting the Guatemalan and Honduran governments to agree on a settlement of the boundary by arbitration. It was rumored, while the negotiations were going on, that each country had entered the area under the control of the other. The rumors, however, were promptly denied by the respective governments. Eventually the matter was settled by a special court of arbitration authorized to deal with this controversy by the treaty of July, 1930, between Honduras and Guatemala. In January, 1935, Chief Justice Hughes of the United States Supreme Court, chairman of this special court of arbitration, handed down the award "essentially on the basis of status quo of operation." This award, denying the major portion of the claims of both countries, effected a compromise which it "deemed to be equitable." It granted to Guatemala the left bank of the Motagua River, and also the right bank as far as she had taken control in good faith. On the seacoast, however, the Omoa and Cuyamel districts, which for so long had been operated under the laws of Honduras, were awarded definitely to the latter republic. A commission of five engineers was appointed to locate the frontier.

Although this boundary dispute had existed previously quite independently of the two American fruit companies, it was intensified by their

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25. Dana G. Munro, op. cit., p. 224.
rival interests. It is difficult to discern, however, whether the companies were more anxious to use the governments to attain their economic ends than the governments were to use the companies to attain their political ends. Many of the lands in the Cuyamel district have become exhausted after two decades of exploitation; several years ago both the banana plantations and the railroad serving them were abandoned.

24. After the decision of the special commission, the interests and fortunes of the Cuyamel declined steadily in Central America, and the company was taken over by the United Fruit Company in 1929.
CHAPTER IV  
BETWEEN WORLD WARS  

Prior to the entrance of the United States into World War I, the attitude of the Guatemalan government toward the war was a matter of concern to the United States government and the United Fruit Company. Although the Guatemalan government declared the neutrality of the country in August, 1914, there was a large German population in the Republic, and it was feared that they might create trouble for the Allies. An elaborately developed espionage system was operated under the direction of Kurt Lehmann, the German Minister to Central America. Lehmann realized the importance of the Central American States to the German Empire as far as strategic materials were concerned, and he devoted all of his efforts toward bringing these states into the German orbit. He was confident that he would eventually accomplish this by arousing the pro-Germans against American-operated companies through propaganda and whispering campaigns. What he failed to take into account was the attitude of President Cabrera.

Cabrera, in the early years of the war, observed an expectant attitude. German and Allied propagandists were given a free hand in distributing the many pamphlets and leaflets which began to flood the country in 1914.

As the war progressed, and it looked as though the United States would support England and France, Cabrera changed his attitude. He now

expressed a desire to cooperate with the Allies. There are good grounds for the belief that the dictator was anxious to rid himself of all connections with German firms doing business in the country. Such a result—in many ways exceedingly profitable to President Cabrera—might easily have been consummated had Guatemala entered the war as an ally of the United States.

On April 27, 1917, Cabrera formally severed diplomatic relations with Germany and the Central Powers. Lehmann and his entire staff left the country and the American companies felt that the threat to their operations in Guatemala was now definitely removed.

War was declared by the Guatemalan government on April 23, 1918. In the months that followed, Cabrera cooperated with the United States and her allies by permitting Allied warships to use the facilities of Puerto Barrios. The United Fruit Company was given renewed assurances of the support of the government in the critical months that lay ahead.

The operations of the United Fruit were stepped up when the war began, but when the United States declared war the company embarked on an all-out effort to produce for victory. The company was the biggest agricultural concern of the Americas, and despite war forfeitures and losses of ships and men, its plantations in Central and South America continued to supply the United States with about 38,000,000 pounds of bananas a week in addition to the entire output of the sugar fields at Banes, Cuba. Many tons of cocoa and coconuts were also supplied for the consumers in the United States.

As war forfeitures stripped the company's fleet of its better refrigerated ships, cargo after cargo of bananas spoiled because of slower transportation and poorly functioning refrigerator equipment on the over-age vessels. But the trade carried on. In fact, the trade between Puerto Barrios and New Orleans reached new heights in 1918.

As the year 1918 ended, the largest banana company in the Americas studied its records. In a decade of operations in Central and South America, the farmers under contract to the United Fruit had produced and sold nearly a third of a billion bunches of bananas, and about one-sixth of them had gone to England and Europe. The Great White Fleet still had about ninety ships. The company now owned or leased one and a quarter million acres of tropical or subtropical lands and operated about one thousand miles of railroad. The company had also completed twelve tropical hospitals, into which ninety thousand patients were being admitted annually.

In 1919 the United Fruit Company began to shift back to a peace-time economy. Many new contracts were entered into with independent planters in Guatemala and in other countries of Central America. Under the terms of these contracts the planters were to sell their bananas exclusively to the United Fruit Company. The operations of the company were expanded and it now began to show an interest in the public utilities system of the capital city.

By executive order of July 1, 1919, the electric lighting and power plant of Guatemala City (Empresa Electrica de Guatemala) was leased to Henry W. Catlin of New York for a term of ten years. This plant was

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4. It has been asserted that Catlin acted for the United Fruit in this transaction, but there is no evidence to support this assertion; however, he was a close associate of many of the officers of the company.
owned by a German institution before the war, and more than ninety per cent of the stock was held by the Deutsche Bank of Berlin. By executive decree No. 742 of October 16, 1918, this property was taken over by the Guatemalan Alien Property Custodian and by later decree was declared forfeited to the Guatemalan government and nationalized. Under the terms of the lease, the lessee also became the preferred bidder in any future sale of the property. Thus, a source close to the United Fruit Company gained control of the power facilities of the capital city of Guatemala.

As the year 1919 ended, the United Fruit Company continued to show gains in Guatemala. Tropical disturbances were few and production increased enormously. The company now looked to the Great White Fleet as a means of spreading the banana trade to the Mediterranean countries. Eight new steamers were ordered by the company for United States trade, while contracts had been let for six steamships to be used in European trade. It was also announced that the company was pleased with the showing of the Guatemalan plantations in 1919, and plans were formulated for the further expansion of Puerto Barrios.

In March, 1920, the independent plantation owners in Guatemala looked with great interest at an action taken by the United Fruit Company in far-away New York City. A suit described as a test to determine whether the United Fruit could compel Central and South American planters to live up to their agreements to sell their fruit exclusively to them was filed in the Bronx Supreme Court on March 12, 1920. On the morning of that day a ship of the Caribbean Steamship Company docked in New York

with a cargo of bananas consigned to Alejandro Angel and Company, an import ing concern. The bananas were shipped by a Colombian plan ter who was under contract to sell only to the United Fruit. In the afternoon the United Fruit filed a replevin action against the steamship company, Alejandro Angel and Company, and the Colombian plan ter.

A writ of replevin was granted by the court on the affidavit of Victor M. Cutter, vice-president of the United Fruit Company. The affidavit stated that the United Fruit had a contract with the Colombian plan ter to sell exclusively to them. Cutter said that in violation of the agreement, persons unknown to the plaintiff "maliciously persuaded" certain planters to sell to others than the plaintiff, and the bananas were shipped at a time and date unknown to the plaintiff.

The United Fruit's iron-clad contracts had held up in court to the delight of the officials of the company. This system of placing the small, individual planters of Guatemala and Central America under contract to sell exclusively to them continues to this day. Under this system the company is able to dictate the price to be paid to these planters and at the same time escape the tax on additional plantations that the company would be obliged to pay if they raised the fruit exclusively on their own plantations. This system is one of the causes of the current anti-United Fruit campaign in Guatemala.

At the end of World War I small disturbances took place all over Guatemala, but they were all put down by the army. Yet on April 8, 1920, a


8. The Law Librarian at the University of Arizona Law College assisted the writer in trying to locate the official records on this case, but their efforts were unsuccessful.
full-scale revolution broke out against the despotic rule of Cabrera. The uprising was successful and Estrade Cabrera, the friend of foreign enterprise, was overthrown. He was replaced by Carlos Herrera, a wealthy businessman, who was named by congress to rule the country until an election could be arranged. In the ensuing election Herrera was chosen as president of Guatemala by an overwhelming majority. There had been some fighting before the change in presidents, because a part of the army had remained loyal to Cabrera, but order was restored when the old dictator capitulated. He was imprisoned for some months, but was released in 1921 and retired to his estate, where he lived until his death in 1924.

There were many people in Guatemala at this time who wanted the reestablishment of the old Central American Federation. After the victory of the Unionist Party, it looked as though the recreation of the federation might become a reality. In December, 1920, a conference met at San Jose, Costa Rica, to draw up a treaty of declaration. Nicaragua soon withdrew from the meeting because of a dispute over the Bryan-Chamorro Treaty, but the other four states signed the agreement. Costa Rica failed to ratify the document, but Guatemala, Honduras, and El Salvador went ahead with the plan and set up a provisional federal council at Tegucigalpa in June, 1921. But a coup d'etat in Guatemala on December 6, 1921, drove the Unionist Party from power and destroyed the whole project.

The United Fruit Company was opposed to the reestablishment of the Central American Federation in the early years of the 1920's and is just as strongly opposed to it today. The company prefers to deal with individual states rather than with a strong central government representing

all of the people of Central America.

With the Central American Federation movement destroyed, the officers of the United Fruit Company devoted their energies to the further exploitation of Guatemalan lands. It was decided to exploit the oil lands in the western part of the country. The officers felt that if oil were discovered in the area allotted to them by the government, the ships of the Great White Fleet would have a ready reserve at the ports of San José and Puerto Barrios.

At this time Puerto Barrios had already reached a peak in imports, exports, and tourist business undreamed of in the days of the old Boston Fruit Company. It was becoming the most important of all the ports in the tropical empire of the United Fruit Company in 1920. In that year the company loaded 3,194,700 bunches of bananas from the docks in Puerto Barrios, while during the first nine months of 1921 the exports were 3,209,855 bunches. As the exports from Puerto Barrios continued to rise the port became modern in every respect, and today it is not only one of the main commercial ports of the Caribbean but a tourist mecca as well.

The United Fruit decided in June, 1921, to make the port the anchor point of the International Railways of Central America. In that month the railway company constructed a bridge over the Suchiate River on the Mexican border. This made it possible to travel from Puerto Barrios to Nogales, Sonora, by rail. The construction of this bridge not only made Puerto Barrios a focal point of rail transportation in Guatemala, but it

was also a boon to the fruit products of the United Fruit Company. Previously the fruit was shipped to Mexico on the International Railways of Central America, but owing to the delay in changing engines at the border, most of it would spoil, resulting in severe losses to the company.

The political situation became acute again early in 1921. Much opposition had developed to the administration of Herrera because of his stand on the Central American Federation. Some factions felt that he had done little to accomplish its reestablishment, while others felt that he was devoting too much time to the question when he should be concerned with domestic development in Guatemala. Faced with the danger of revolt, he resigned December 5, 1921, after almost a year of political strife. He was replaced by General Jose W. Orellana, who was chosen in an election where votes were cast in a very free atmosphere, which was something new for Guatemala. Orellana proved an able administrator who did much to raise the country from the financial marsh in which it lay; inflation of the currency in the Estrada Cabrera regime had depreciated the exchange value of the peso to sixty on the dollar. He realized that his first task would be to correct this situation. With this in mind, he consulted the foreign companies doing business in Guatemala at that time for guidance. The United Fruit Company sent representatives to assist the president in getting the country out of the muddle, and at one time offered the assistance of its planning department. In exchange for this assistance the government granted the request of the company for permission to plant bananas near San Jose. The purpose of planting near this port was to have a supply of bananas available for shipment to the Pacific ports of the United States. This undertaking defied one of the fundamental principles of the trade, for that section was comparatively dry, but extensive
irrigation corrected this situation. It was shown, after a few years, that shipments from San Jose relieved the strain on the port of New Orleans, which had shipped previously one hundred carloads of bananas a week to the western markets of the United States.

With the activities of the company expanding throughout Guatemala, it was announced that the officers of the company considered it essential to develop a wireless communications system in the country. Negotiations were carried on with the Guatemalan government for permission to construct a wireless station in Puerto Barrios. The government agreed to the proposals of the company, and an agreement was signed in November, 1922. Under the terms of the agreement, the United Fruit consented to construct a wireless station at Puerto Barrios and agreed to pay all expenses of installation and import duties for construction materials. It was further agreed to construct the station on United Fruit Company property. The government demanded and received an agreement from the company to transmit all government messages free of charge and to give a fifty per cent reduction to the press on the basis of cable rates. The United Fruit also agreed to teach wireless telegraphy to national operators and pay the salary of the government censor. The company further agreed to let the government submit all disputes over the wireless telegraphy system to the national courts rather than to resort to diplomatic means.

The chief advantage of this agreement to the United Fruit was that they were enabled to know exactly when their ships would dock, and they would be able to cut their bananas at the last moment, thus avoiding spoilage. This system of transmitting messages from ship to shore was

12. Ibid., 1922.
later established at San Jose and Champerico.

In order to develop the western banana trade, the United Fruit Company backed a movement in 1923 to organize a cooperative banana association in the southern and western part of Guatemala. Under the rules of the proposed association, membership was extended to any producer who furnished a certain amount of fruit for export annually. Those delivering two thousand to five thousand bunches annually were to receive shares to the value of five thousand to ten thousand shares in the association. These shares were valued at ten cents gold per bunch. Those delivering ten thousand to fifteen thousand would receive shares to the value of fifteen cents per bunch, and those delivering from fifteen thousand bunches upward were to receive shares to the value of twenty cents per bunch. Hence the independent planters of southern and western Guatemala were quick to join the organization, thus increasing enormously the export trade in bananas from the southern and western part of the country. This system is used throughout the entire Caribbean area by the United Fruit Company today.

Prior to 1924 it was generally accepted that the United Fruit Company controlled the International Railways of Central America. Critics of the company pointed to Keith's positions as president of the International Railways and vice-president of the United Fruit Company as a basis of their argument. They also pointed to C. A. Hubbard, who was vice-president of the International Railways and treasurer of the United Fruit Company. These two men, through an interlocking directorate, controlled the railway company. However, the officers of the United Fruit Company denied holding

13. Ibid.
large blocks of stock in the railway company.

Early in 1924 information reached Guatemala City that the United Fruit was about to buy a controlling interest in the railway company. This was denied by the United Fruit, but it was admitted that certain interests connected with the company were involved in negotiations to purchase the railway, but the United Fruit Company as a company was not involved. The company did become involved in 1927, however, when it manipulated a concession granted to them by the Guatemalan government to get control of a large block of the stock issue of the railway company.

In that year the Guatemala Company, a subsidiary of the United Fruit Company, was granted permission by the Guatemalan government to build two new ports, one on the Caribbean and one on the Pacific shores of the country. The concession stipulated that the Guatemala Company had permission to build a port in the Gulf of Amatique, on the Caribbean coast, in competition with Puerto Barrios, the Caribbean terminus of the International Railways of Central America. The site of the proposed port on the Pacific coast was not disclosed at the time the concession was made. The Guatemala Company was to pay the I.R.C.A. $2,165,000 and agree to exercise its rights under the concessions only at such time and in such manner as shall be agreed by the railway company and the Guatemala Company. It was further stipulated that the subsidiary would agree to buy ten new locomotives and three hundred banana cars for use on the railways, and enable the I.R.C.A. to acquire track ballast from the Las Quebradas mines on favorable terms.

In return the I.R.C.A. would deliver to the United Fruit subsidiary

$1,750,000 of new three and one-half per cent, twenty-year collateral notes and 185,000 shares of common stock, at that time authorized but not issued, or, at the option of the railways, voting trust certificates for the stock. It was provided that the notes could be paid before maturity and were to be secured by first lien and refunding bonds. Thus the issuance of the 185,000 shares of stock to the United Fruit subsidiary gave it a thirty-one per cent voting privilege in the railway.

The United Fruit Company was severely criticized throughout Guatemala for this transaction, and it was charged in some quarters that the company had broken faith with the government. However, the Guatemalan government continued to grant concessions to the company, and it was not until after World War II that the United Fruit experienced serious difficulties in its dealings with Guatemalan authorities.

Since the entrance of the United Fruit Company into Guatemala in 1906, the average American read only of the cultivation, shipping, and selling of bananas by the company. Medical research, railroad building, and educational accomplishments were fields of endeavor seldom associated with the company. On May 18, 1924, it was announced that the United Fruit Company had embarked on an extensive program of archaeological research in Guatemala. The purpose of the program was to locate and excavate the lost empires of the Mayas and Chorotegos. The first location selected for excavation was the ancient city of Quirigua. Though Hernan Cortes, the Conqueror of Mexico, must have passed within a few miles of

16. Ibid.
17. Ibid., May 18, 1924, Section VIII, p. 6.
this city on his famous march to the Gulf of Honduras in 1525, he probably heard nothing of the ruins, for they were buried deep in the jungle, where they had already lain for more than five hundred years. The site was not made known to the world until 1840, when two scientists from the United States accidentally discovered the ruins. Nothing was done, however, to investigate the area until the United Fruit Company acquired title to the site in 1909. The following year the adjacent lands were cleared and planted in bananas, but a thirty-acre tract of land was left untouched surrounding the ruins.

The United Fruit Company invited archaeologists from all over the world to come to the area to engage in research. But it was not until 1924 that the company took full charge of the program. In Central America today the United Fruit Company has invested a great deal of money in the development of archaeological research, but the project at Quirigua remains the most productive. In 1947 the United Fruit Company excavated the ancient Mayan city of Zaculeu in the Department of Huehuetenango in western Guatemala. After twenty-one months of work the project was completed, and the excavated city was turned over to the Guatemalan government on April 1, 1949.

Relations between the company and the Guatemalan government remained good in 1925 and 1926. But on September 26, 1926, President Orellana died in office. He was succeeded by Lazaro Chacon, who continued to cooperate with the company in general, but in some instances it was shown

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that dissatisfaction with the labor policies of the United Fruit was arising.

On October 10, 1926, Chacon issued a decree ordering all commercial and banking houses and industrial and agricultural undertakings to register with the National Labor Department within one month of the date of promulgation. The decree further stipulated that sixty-five per cent of the persons employed in all such undertakings should be of Guatemalan citizenship. It was clear that this decree was directed against the United Fruit Company and the International Railways of Central America. These firms brought in many young American college men to fill the positions of responsibility in their areas of activity.

The officers of the United Fruit Company wondered if this was a trend. It marked the first time since the company entered Guatemala that a decree was issued against them. Events in later years show that this was the beginning of a trend which eventually led to the present-day difficulties of the company in Guatemala.

In spite of the action by the Chacon government, the United Fruit Company went ahead with its program with undiminished vigor. The activities of the medical department were expanded not only in Guatemala but in all of Central America. An educational program was launched to educate the people on how to fight tropical disease. Yellow fever was no longer a threat in Central America, but malaria, dengue, and blackwater fever still cost the United Fruit hundreds of man hours each year.

In 1927 the campaign against the malarial-carrying mosquito was pushed forward by the company. Teams of natives under the direction of

a member of the medical staff began to drain stagnant pools of water throughout the possessions of the company in Central and South America. Nine years later malaria was still a threat in these countries, but the percentage had declined noticeably. Dengue and black-water fever are still threats in Central and South America today, but due to the efforts of the United Fruit Company and the Rockefeller Foundation the number of people afflicted each year has been radically reduced. By 1929 the health problem in the countries in which the United Fruit operated showed signs of diminishing, and the company laid plans for further expansion in Guatemala and all of Central America.

In that year it was announced that the railroads of Guatemala and El Salvador would be merged into what was to be the largest foreign system operated by United States’ interests. The system, it was said, would comprise eight hundred miles of track and represent an investment of eighty million dollars. As part of the system an eighty-mile link costing close to twelve million dollars was opened in July, giving El Salvador its first rail connection with the Pacific. This move was important to the United Fruit, as it now had an unbroken chain of transportation between her farms and plantations in El Salvador and Guatemala.

The empire of the United Fruit was growing fast. The company now had adequate transportation for its products on land and sea; the health problem was close to being solved; and the plantations were producing in increasing quantities. The last remaining hurdle in the path of complete dominance in the banana trade in Central America was the Guayamel Fruit Company. However, the fortunes of this company were declining fast, and it was announced on November 26, 1929, that the United Fruit
had purchased the Cuyamel Fruit Company. With this company out of the way, the United Fruit Company became a monopoly so great that it was impossible to compete with it in the Caribbean area.

The early years of the Great Depression were trying ones for the United Fruit Company. Not only were financial conditions in a state of turmoil, but the political situation in Guatemala was considered very dangerous. President Chacon was stricken with a brain malady and announced his retirement in December, 1930. Baudilio Palma succeeded Chacon, and his government was promptly recognized by the United States. Two days later the government was overthrown by a coup d'etat, and General Manuel Orellana, cousin of Jose M. Orellana, was made provisional president on December 17. Because the United States declined to recognize his government on grounds that he shot his way into office, he resigned. The situation continued in a state of turmoil until the election of Jorge Ubico in June, 1931.

With the political situation in Guatemala in a state of turmoil, the officers of the company turned to another problem that was awaiting solution, the economic problem. Though the United Fruit Company was not as badly off financially as many large companies in the 1930's, it was in need of immediate and careful attention. It was obvious that if the company failed, the banana trade would be set back many years and would perhaps find itself faced with problems of reconstruction similar to the problems of organization it experienced at the turn of the century.

Samuel Zemurray, former president of the Cuyamel Fruit Company and a leading stockholder of the United Fruit, decided that the situation

was a critical one and proposed to the directors of the United Fruit that he be appointed managing director of the company. His request was complied with almost immediately, for the directors were concerned with the future of the company and they knew that Zemurray was experienced in managing a tropical enterprise.

Zemurray immediately made an appraisal of the holdings of the United Fruit and decided on a program of rigid economy. Wages were cut, personnel was decreased, and the values of the tropical land holdings of the United Fruit were reduced by fifty million dollars. As a result of these economies by Zemurray and a slight improvement in the banana market, the fortunes of the United Fruit began to rise again in 1934. During the year banana shipments rose and the net income of the company also rose from $9,240,941 in 1933 to $12,049,299.

In 1935 the picture changed again. In Guatemala and the other countries of Central America, the banana lands were ravaged by a fungus disease known as sigatoka. Pathologists knew practically nothing about sigatoka other than to rename it sigatoka. The disease spread so rapidly that at the end of 1935 the United Fruit Company and, indeed, the entire banana industry were face to face with disaster. Hence, pathologists worked frantically to devise measures to curb the destroyer. Banana workers sprayed test plots of the stricken plants with all kinds of chemical solutions. They chopped down infected plantings only to see them replaced by new growths that yielded even more readily to the ruining blight.

From Honduras, where sigatoka had struck hardest, came the first

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small promise of a workable defense against the disease. At La Lima, Dr. V. O. C. Dunlap, of the United Fruit tropical staff, reported that he had tried out a spray solution that was somewhat effective against the fungus. After several field tests, Dunlap and his staff had reason to believe that the fungicide Bordeaux mixture, composed of copper sulphate, lime powder, and water, sprayed repeatedly on the foliage, arrested the blight. Later tests proved them to be right, and the United Fruit Company appropriated large sums of money for the installation of spraying equipment on its plantations.

By 1937 the United Fruit had substantially won its fight against sigatoka. Spray systems were working on approximately 75,000 acres of the best plantings. But the company needed to do more than re-establish its own plantings. It provided independent farmers with loans needed to restore their plantings and equip fields with permanent spray systems. These farmers were to repay the company with specified deductions from the price of bananas sold to the company. By 1940 the United Fruit had advanced loans, materials, and engineers for rehabilitating 13,000 acres of privately-owned banana lands.

Meanwhile, Ubico was rapidly becoming a dictator in Guatemala. He had suppressed many of the liberal decrees of the past administrations, and as a result many attempts were made on his life. Yet, despite his reign of terror, he embarked on a program of public works and economy which saw Guatemala through the worst phase of the depression.

Ubico cultivated the friendship of the United States. In 1936 a reciprocal trade agreement was signed between the two countries, and,

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in accordance with the economic policies of Cordell Hull and the state department, tariff reductions up to fifty per cent were granted on a number of Guatemalan products, while other products, such as coffee, bananas, hardwoods, and skins were allowed to enter the United States duty free. Guatemala, too, reduced her tariffs on a number of United States products.

The United Fruit Company was elated by this agreement and made plans for new plantation expansion in Guatemala as well as in the other countries of Central America where reciprocal trade agreements were concluded. But trouble was ahead for the company in Central America, especially in Guatemala, as World War II approached.
CHAPTER V
WORLD WAR II AND ITS AFTERMATH

In the months following the outbreak of war in Europe, there were many conferences among the states of the western hemisphere. These conferences, for the most part, were concerned with neutrality and defense. The question of raw materials seldom came up in these meetings, as materials were coming from the East Indies in an unending stream. The supply of raw rubber, Manila hemp, and other tropical products was ample for the needs of the countries of the western hemisphere as Pearl Harbor approached.

In the first ninety days after the Japanese had launched their attack on Pearl Harbor, the war machine of Nippon had swept over more than two million square miles of tropical or subtropical lands which held the world's decisive supplies of raw rubber, quinine, palm oils, tropical grass oils, abaca or Manila fiber, staple spices, and about twenty other important products.

Early in 1942 the company signed a contract with the Defense Supplies Corporation to plant from seven thousand to thirty thousand acres of abaca. Guatemala's plantations were called upon to uproot much of its banana plantings to make room for this badly needed product. Following this contract, many others were signed with the government to supply such tropical products as rubber, rotenone (for insecticides), cinchona (quinine), and vegetable oils.

The United Fruit Company was successful in producing practically all of these products. The first harvests of abaca fiber in Central America averaged over one thousand pounds of fiber per acre. Within one year this average had climbed to fifteen hundred pounds to the acre.

Having achieved the first mechanical processing of the crop, the United Fruit began to build more decortication mills in Guatemala and to increase the plantings of abaca. The output of bananas of the Guatemalan plantations was very low, but the company did not forget the fruit that made it the largest agricultural organization in the western hemisphere, and plans were constantly being made for the post-war conversion from defense output to banana output.

In Guatemala the United Fruit made trial plantings of castor beans, another important export crop of the tropics. The company also supervised extensive plantings of tropical grasses such as citronella, lemon grass, and vetiver. These grasses, which were formerly grown in Ceylon, Java, Madagascar, and other Eastern tropics, are the sources of volatile oils used for making menthols, perfume bases, soaps, insect sprays, and numerous pharmaceutical products.

During the war years the list of experimental crops grew longer and the plantings spread over fifty thousand acres in Panama, Costa Rica, Honduras, Guatemala, Nicaragua, Ecuador, Colombia, and Cuba. In all these activities the United Fruit Company had taken an introductory role. The company did not intend to grow or sell the new crops, but it had simply prepared a series of exhibits for the benefit of the tropical farmers.

The war years saw much political unrest in Guatemala. Many attempts had been made on the life of Ubico during the early years of his regime, but as the war progressed and inflation ran wild in Guatemala, unrest spread.

This unrest broke out into bloody revolt on June 22, 1944, in Guatemala City, and constitutional decrees were suspended by Ubico. Strikes spread rapidly throughout Guatemala as a protest over suspension of constitutional guarantees. Most of these strikes were by students, but the dictator responded with machine guns. Many were killed and the people were so outraged that they joined in a general strike. Storekeepers kept their shops closed. Even judges refused to sit on the bench. Priests shut the doors of the churches. The army tried in vain to restore order, but without success. It was clear to Ubico that he had lost control of the country, and he submitted his resignation.

There can be no doubt that the dictator was responsible for many material improvements. He built more roads than all his predecessors combined, and he greatly expanded the school system. Most Guatemalans readily admitted these benefits, but thought that they were paying too high a price for them, and they revolted.

With the resignation of Ubico, three army officers took control of the government, and one of them — General Federico Ponce — became provisional president. It soon became apparent, however, that the new regime was a pale reflection of the old. Ponce still took orders from Ubico, who remained quietly in the background. Finally, on October 19, a revol-

4. Ibid., July 6, 1944, p. 5.
volution broke out against the Ponce regime. It was led by liberal elements who had been agitating for free national elections. Ponce was swept from power and Ubico was forced to seek refuge in the English legation.

A group of revolutionaries, calling themselves the Committee of Liberation, announced that the presidential election would be held on schedule and without government interference. There were a number of presidential candidates, but the leading contender seemed to be Juan Jose Arevalo, a forty-two-year-old teacher just returned to Guatemala after a ten-year stay in Argentina. His opponents claimed that he had acquired Argentine citizenship during his stay in that country, and therefore was ineligible for the presidency. Arevalo did not answer the charge and continued his vigorous campaign. He received ninety-two per cent of the total vote and took office on March 15, 1945. Meanwhile, Congress had passed a law removing any doubts as to his citizenship. A new constitution was put into effect just forty-eight hours before the inaugural ceremony.

With the inauguration of Arevalo it was apparent to many foreign observers that Guatemala was now undergoing an economic and a social revolution. The officers of the United Fruit Company became concerned by this turn of events, but they failed to express themselves officially.

Soon after the new president took office, it was evident that the country was swinging radically to the Left. Leftist leaders suddenly became prominent and many of them demanded that the Congress recognize Soviet Russia. The request was granted by the Congress, which voted

recognition of the Russians on March 21, 1945.

A few months later, on September 6, 1945, the Guatemalan government indicated that it was embarking on a pro-labor policy when it announced that it was increasing wages twenty per cent for workers on plantations taken from enemy aliens during the war. The United Fruit Company felt that this move was aimed at establishing a standard for plantation workers all over the country.

The Arevalo government continued to show partiality toward the labor unions in 1946. Many decrees were passed by which the unions grew stronger. Spokesmen for the unions now spoke out boldly in talking to the representatives of the United Fruit Company. They knew that they had the support of the government and could afford to present their demands in a forceful manner.

In the meantime the United Fruit Company changed its attitude toward the liberal elements in Guatemala. Its policy toward them was less hostile than it had been during the administrations of Cabrera and Ubico. This change was brought about for obvious reasons. The company felt that a great social, economic, and political revolution was now underway in Guatemala and it would be better to cooperate with the forces in power than to oppose them. The company had been deeply involved in the rise of Ubico to power, but it deserted him when he fell from power and showed partiality to the Liberal group.

Labor troubles plagued the United Fruit Company late in 1946. They

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6. Ibid., March 22, 1945, p. 5.

7. Ibid., September 7, 1945, p. 5.

began after a giant demonstration by pro-labor factions took place in Guatemala City on September 8, 1946. The demonstration was well-planned and many speeches by labor leaders praised Arevalo for his pro-labor policies and condemned the United Fruit Company. This demonstration led American newspapermen to ask Arevalo if his government was pro-Communist. He replied that his government was leftist but in no way Marxist.

A general strike of the United Fruit Company plantation workers took place on October 15, 1946. It quickly spread over the entire Atlantic Division of Guatemala, involving not only the plantation workers, but also most of the native clerical help. The unions were firm in their demands for higher wages and better working conditions for their members. A united front was presented, with all labor unions working in close cooperation, and it looked for a time as though the workers on the International Railway lines would call a strike in sympathy with the plantation workers.

The United Fruit Company refused to deal with the representatives of the unions and called the strike illegal. The company did, however, make one concession: their negotiators told the representatives of the unions that they would be willing to negotiate after the workers had been back on their jobs for a period of thirty days.

Meanwhile, President Arevalo was alarmed by the turn in events and called a special meeting of his cabinet to consider the crisis. After long and bitter discussion it was decided to order the workers back to work. This order was followed by a decree on December 12, 1946, ban-

10. Ibid., October 15, 1946, p. 23.
11. Ibid., October 27, 1946, p. 31.
ning strikes and slowdowns. This was done to forestall a threatened strike against the United Fruit and the International Railways of Central America. Foreign observers felt that Arevalo was deserting the labor unions in favor of the United Fruit, but this proved not to be the case.

Arevalo was biding his time, and the United Fruit Company felt that he had a plan worked out that would be revealed to it in due time. The company did not have too long to wait. On June 10, 1947, a new labor code directed against the United Fruit was put into effect. One provision granted workers the right to collect pay for a forty-eight-hour week even when they worked less than that. Paragraph B of the code said that the requirement applied to agricultural activities employing more than five hundred workers. This meant that the United Fruit was the target of the new code, as the company was the only one operating in Guatemala employing that many agricultural workers.

After the labor code was announced, the United Fruit felt that it was now definitely on the defensive in Guatemala. But it was felt that as long as the unions would negotiate with them, there was always hope for a settlement between them and the workers on plantations. However, a new threat to the company took place in July, 1947, when a series of acts of sabotage against the company's property swept Guatemala. Trains were derailed and fires started on plantations. The company protested to the government over these unwarranted acts. The government said that it did not approve of these acts of violence, and that it would punish the persons involved. However, no arrests were made. Sabotage continued.

Late in 1947 the United Fruit charged that the labor unions in

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Guatemala were dominated by "Reds." To combat this, the company put in a request to the Ministry of Economy and Labor for recognition of its plantation workers as an "agricultural" union. This request was turned down, and the workers were classified by the government as a company union, a classification that permitted overnight strikes, generally prohibited for agricultural workers. Following this rebuff by the government, the company charged that Article 238 of the Labor Code was discriminatory, as it applied only to companies employing five hundred or more agricultural workers. The company was so incensed by the moves against it in 1946 and 1947 that some of the officers hinted that the company would make no more capital investments in Guatemala.

Labor troubles continued to harm the United Fruit in 1949. In June of that year, the unions of the workers on the plantations presented demands for salary increases to the National Conciliation Board. When the conciliators failed to provide an acceptable agreement, the unions sought a strike. However, the unions failed to get a two-thirds vote and the strike was not called. The company charged that government labor inspectors had assisted union leaders in seeking signatures for the strike petition, but this charge was denied. Of the six points recommended by the Conciliation Board, the company accepted four, including an increase in the minimum wage from $1.50 to $1.36 a day.

Although strike efforts failed, the company was asked to accept arbitration. It refused to accept, however, on the grounds that the company representative would be outvoted by the labor and government representatives on the three-man board. The company said that it was not legally obliged to accept arbitration when there was no strike. The government did not press the company to accept, however, and the
matter was dropped temporarily.

Labor unrest continued throughout 1949 with acts of sabotage and agitation against the company throughout Guatemala. The power of the unions grew with each passing month, and toward the end of the year Vicente Lombardo Toledano of Mexico, a Communist, was nearly in complete control of the unions of Guatemala.

Early in 1950 it was announced from Guatemala City that several threats had been made upon the life of U. S. Ambassador Richard C. Patterson. On March 31, 1950, he returned to the United States for a medical checkup, and it was rumored that he had been recalled by the State Department on the request of the Guatemalan government. The same day the Guatemalan National Political Committee accused Ambassador Patterson of being involved in a plot against the government leaders of Guatemala.

American newspapermen in Guatemala City approached Leon Strecker, Undersecretary of Foreign Relations, in regard to the Patterson case. They were informed that no attempt had ever been made on the life of Patterson. Three days later the Guatemalan government officially asked for Patterson's recall. It was charged that Patterson had unlawfully and undiplomatically interfered in the internal affairs of Guatemala, and the Guatemalan government felt that his life was in danger and that he should be recalled for his own protection.

The State Department investigated the affair and said that Patterson had not meddled in the internal affairs of Guatemala. The Guatemalan


government was informed that he would return to his post after his medical treatments had been completed. However, he did not return to Guatemala City, and he was replaced by Rudolph E. Schoenfield.

The year 1950 saw the Communists gain much power in Guatemala. They were in control of the labor unions, several Communist publications were back in circulation after being banned for many years, and the Congress was fast falling under their control by their dominance of several important committees.

On June 13, 1950, the United Fruit was somewhat encouraged by the signing of an agreement between the company and the labor unions. Under the terms of the pact the company retained the right to appoint key employees whether they were members of the union or not. No wage increases were contained in the pact. As the result of the agreement, fifteen hundred acres were cultivated in the western part of the country that the company had planned to abandon on account of the uncompromising stand of the unions over wages.

The company was further encouraged on October 2, when a new law aimed at the Communists in Guatemala was introduced in the Congress. The law sought to ban totalitarian organizations and propaganda. In addition to this, the editors of the Communist publications were rounded up and the Marxist school at Guatemala City was closed by the government. All of these moves by the government were welcomed by the United Fruit, for they indicated that the government of Arevalo was not dominated by the Communists, as generally believed.

In November of that year Colonel Jacobo Arbenz Guzman was elected.
president of Guatemala. He had the support of the labor unions and the other leftist groups. That election proved to be very bad for the United Fruit Company, as Arbenz, in later years, cooperated with the Communists, who gained further power. Under Arbenz the Communists came out into the open once again with a renewal of their anti-American campaign.

In the early months of 1951 labor strife once again swept over the United Fruit plantations. On August 23 a new collective labor pact came up for discussion between the United Fruit and the labor unions. At the end of the early stages of the discussion, William L. Tailon, General Manager of the Guatemalan Division, issued a statement in which he termed the union demands for higher wages "monstrous." Urgent meetings were held in the New York and Boston offices of the company to determine what to do about the situation. As a result of these meetings the United Fruit Company served a thirty days' notice to the Guatemalan government of its intention to close down its entire holdings in Guatemala. However, the company was willing to give the government another chance and asked Arbenz for a meeting.

In the meantime the United Fruit Company notified workers in the Tiquisate Division of a temporary suspension of their contracts. The company explained that this was necessary due to a banana shortage caused by heavy winds that practically ruined the company's Pacific Division. The unions appealed to the courts of Guatemala and the action of the company was held to be illegal and the workmen threatened to strike. The company appealed to the Department of Labor for help,

16. Ibid., August 24, 1951, p. 5.
but this department claimed that, although the company suffered heavy losses because of the storms, the proposed cancellation of contracts was unwarranted. As the result of this decision, the company was forced to keep the workers on the payroll. The loss to the company as a result of the storm and the decision of the Department of Labor was estimated at seven million dollars.

By October 28 there was still no reply to the company's request for a conference with the Arbenz government. Finally, on November 12, 1951, the government notified the company of conditions for continued operations in the country. These conditions included the adjustment of all contracts to comply with the constitution, a change in the operation of the company wharves for the benefit of the legitimate interests of the nation, payment of taxes on profits from operations of the company in Guatemala, and readjustment customs and tax exemptions heretofore enjoyed by the company that may not presently be justified. The government further demanded supervision and control of the contracts of independent planters with the company, compensation by the company to the government for exhaustion of the soil of plantations, compensation for abandoned lands, and periodical revision of workers' contracts to meet changing conditions in the national economy.

The United Fruit Company was shocked by these terms and announced on November 13 that it was breaking off negotiations because of a wide diversion of views between the company and the government. However, the company held out hope for a change in the attitude of the Guatemalan government. The government, on the other hand, called for a clarification of the company's views.

On December 4 the United Fruit presented a new offer to the Guate-
malan government. The company assured the government that as soon as an agreement was reached on extension of work contracts with the banana workers' union, work on restoration of 10,000 acres of plantations at Tiquisate would be started. The company said that it would involve an investment of $10,000,000, and would re-employ nearly 4,000 workers laid off since the destruction of the plantations.

The company also offered to freeze prices in its stores that supply workers to assure them a reasonable cost of living. However, the company asked for the right to end work contracts on one month's notice in the event that increased production costs made the operation unprofitable. The company conceded that all contracts should be in accordance with the constitution.

Meanwhile the International Railways of Central America was experiencing difficulties. It was announced on January 1, 1952, that because of the cuts in banana shipments and the closing of the plantations at Tiquisate, the company would be unable to meet the January payroll. Urgent requests were made to banks in the United States for a loan of $500,000 to help meet the payroll, but the company was turned down. The banks sympathized with the company, but felt that the risk was too great, owing to the uncertain labor situation in Guatemala.

Another event in the seemingly unending difficulties of the United Fruit Company occurred on January 3, when a Guatemalan labor court ruled that the action of the company in suspending 4,000 workers in the Tiquisate area was illegal. The ruling further stipulated that the company was bound to pay back wages to their employees from the date of the lay-

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17. Ibid., December 5, 1951, p. 14.
off. The court also ruled that the workers could end their contracts with the company and collect indemnities in addition to their back pay. The company refused to obey the order of the court until a guarantee was forthcoming from the unions that they would return to work.

As a result of its refusal to comply with the order of the court, the United Fruit was informed on January 7 that unless it complied with the order within three days its estimated $25,000,000 investments in Guatemala would be confiscated.

The company decided on February 1 to divert attention from the Tiquisate dispute. It ordered an increase in wages ranging up to forty per cent, free dental care, and a minimum weekly wage to $1,500 stevedores employed at Puerto Barrios. But the labor court of appeals at Guatemala City was suspicious of the move and ordered the labor courts at Puerto Barrios to make a personal investigation. In compliance with this order, the labor court at Puerto Barrios ordered the company to furnish the investigating judges with certified copies of its reports for the Guatemalan Division showing revenues and losses and also production costs for the years 1948 to 1951 inclusive. In response to this order, the company reported that it had yearly losses of $1,000,000 from 1949 to 1952. The court thereupon allowed the increases for the stevedores.

Meanwhile, the labor court in Guatemala City took no action to confiscate the Tiquisate properties, and it was rumored in financial circles that this was a sign of weakness. However, on February 9 the court ordered confiscation of the properties.

The General Confederation of Labor had a change of heart on February 27, when it asked the workers on the plantations in the Tiquisate Division to request the government not to auction off the plantations. The unions acted, and the government put off the sale of the plantations for one week to give the company an opportunity to resume negotiations.

The new date for the auction was March 11, 1952, but less than twenty-four hours before the sale was to begin, an agreement was reached between the unions and the company. Under the terms of the agreement, the company was to pay the workers $650,000 in back wages to their employees in three monthly installments. There was to be an immediate cash payment of forty per cent, another of thirty per cent in March, 1953, and thirty per cent in March, 1954. The company also agreed to reemploy the suspended workers, grant a three-year labor contract to seven thousand workers at the prevailing wage scale, and freeze the prices in the company's stores. As a result of the agreement, the auction of the Tiquisate Division was called off.

During the remainder of 1952, no major issue came up to trouble the United Fruit in Guatemala. Yet the Communists were constantly gaining in power, and pressure was being brought on the Arbenz government to confiscate all the properties of the company in the country. The government gave in to the demands of the Reds and informed the company in February, 1953, that 225,000 acres of its Pacific coast holdings would be expropriated. The company appealed to President Arbenz on grounds that, while only 225,000 acres on the Pacific coast were placed in bananas, altogether eighty per cent of its total holdings were in use, and there-
fore outside the provision of the law. President Arbenz rejected the appeal, and the company appealed to the Guatemalan Supreme Court, but the appeal was denied and the lands were expropriated.

A curt official telegram to the Guatemalan manager of the United Fruit told him that the government would pay $594,572, or $2.52 an acre, in twenty-five-year, three per cent government bonds.

In September, 1953, the United States Department of State told the Guatemalan government that prompt payment of the amount should be made to the company, but the request was angrily rejected and the Arbenz government announced plans to confiscate the company's plantations at Malaga. This was speedily accomplished, causing great loss to the company.

As 1953 drew to a close, the United Fruit Company was fighting for its life in Guatemala. The Communists were gaining in power in national and municipal politics, and they had a clear domination of the labor unions. Yet, the Communists are not the only cause for the political, social, and economic revolution going on in Guatemala today. It is a strong nationalistic sentiment that prevails all over the world today.

The United Fruit Company has been caught in this maelstrom of nationalism, and stands the chance of losing all of its properties in the country.

The policy-makers of the United States failed to see this surge

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20. The Expropriation Law provided that all banana lands not in use would be confiscated and distributed to the farmers in the vicinity.


of nationalism in time, and the Communists have taken advantage of the situation to gain power. They are now spreading their influence and doctrines all over Central America. Hate-America campaigns are in full swing in such countries as Honduras, Costa Rica, El Salvador, and Nicaragua. Radio Moscow is received in these countries with clarity, and the Voice of America can hardly be heard due to the jamming of the air-waves by the labor-sponsored radio stations in Guatemala.

The United States is faced with a serious problem in the western hemisphere, and it is to be hoped that the Department of State will take action to stem the tide of Communist infiltration in Central America before it is too late.

Representative Mike Mansfield of Montana, speaking before the House of Representatives on March 6, 1952, recognized the seriousness of the situation when he said:

The rise of the Communist-dominated minority to power in Guatemala must be recognized before it is too late. The Guatemalan Red beachhead is directed primarily against the United States and the strings are pulled in Moscow.24

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