

Cuba's Builders of Wealth prior to 1959

A Wide Brush Review

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Of Purpose and Caveats

Notwithstanding the overwhelming evidence about Cuba's rank in the world economy in 1958, there is limited knowledge about those men and women responsible for those achievements. Therefore Herencia's request to write about those entrepreneurs and managers presented an invaluable challenge not to be missed. This article pursues the same goals that led us to the publication of *Captains of Industry, Builders of Wealth*^[1]. As in the book our goal here is to avoid Castro's destruction of Cuba's wealth and his rewriting of Cuba's history relegate to oblivion the accomplishments of Cuba's businessmen.

We hope that this anecdotal and broad brush overview will move the reader to share our conclusion that the quality and number of Cuba's entrepreneurial and managerial class was disproportionately large to the size of its economy. Consequently we need to preserve the innovative Cuban businessman DNA, whose traits have taken the Cuban exile community to leading positions in the business world in United States and elsewhere.

We recognize the risk of relying only on memory and compressing our recollections in a few pages to perform this historical review, but the opportunity to reach Herencia's readership is worth it.

Limitations of time and space impose two major shortcomings. First we should stress that while highlighting such relevant individuals, one must recognize the contribution of the hundreds of thousands of small and medium firms such as the 147,772 independent cattlemen and the 62,000 sugar cane growers. Those small and medium firms are to the socio-economic fabric what the small veins and arteries are to the human body: suppress them and decay ensues. We have written about the few but extend our recognition to the broad base of small and medium entrepreneurs who supported Cuba's dynamic economy.

The second shortcoming applies to the limits of our selection of both economic activities and their leaders. This brief review leaves out industries that had firms at or close to world-class standards in health care, where we had HMO's even before independence. Cuba had a symphony orchestra, ballet companies, music recording, baseball clubs and a flourishing tourism industry. Also to be noted is the limited information that could be offered about those outstanding business leaders and how they went about to develop such successful enterprises.

We also recognize that there could be many "Builders of Wealth" worthy of recognition that our limited knowledge may have omitted; we ask the readers' benevolence

for our errors and omissions. All corrections and additions are welcome, as they will serve to accomplish our goal.

The Rank of Cuba in the World Economy prior to 1959.

There is copious and well documented evidence of Cuba's high rank in the world economy in 1959. Measured by income per capita, Ginsburg's 1959 Atlas of the World Economy placed Cuba 22nd among the 122 nations covered. Cuba's per capita income of US \$400 in 1957 was similar to that of Italy and above those of Spain and Portugal.^[2] Other economic indicators confirmed this ranking as Cuba was 4th in the world in ownership of TV sets per capita and 2nd in Latin America in automobiles per capita.

In social indicators Cuba also ranked extremely well. By 1957, Cuba had an advanced health sector with the lowest infant mortality rate in Latin America (32 per 1000 live births) and 9th lowest in the world, ahead of France, Austria, Belgium, and Italy.^[3] It also boasted the third highest number of physicians and dentists per capita in the world, with figures comparable to the Netherlands and higher than in the United Kingdom and Finland.^[4] Cuba's caloric intake was the third highest in Latin America after Argentina and Uruguay^[5].

Before Castro, Cuba also stood out in educational achievements which were consistent with its ranking in income per capita. In 1958 according to United Nations statistics, Cuba with over 80% literacy ranked 3rd in Latin America, after Argentina and Costa Rica. In 1953 the United Nations data shows that 82% of Cuba's population over 15 years of age had a certificate of primary education, only second to Argentina with 95%.

What explained Cuba's high rank in economic and social indicators?

Certainly other countries enjoyed Cuba's good soil and climate and its privileged closeness to the USA, the world's largest market. So what is the explanatory variable of Cuba's economic and social success? We venture to say that it was its entrepreneurial, managerial and working classes.

Therefore let us review, albeit in a very limited way, their accomplishments.

Cuba's World Leaders: Sugar, Tobacco and Rum

Let's start with sugar, Cuba's largest industry, summarizing Chapter IV of *Captains of Industry, Builders of Wealth*.

The roster of the major sugar companies in 1947 offers outstanding evidence of the resilience of many sugar firms in overcoming the financial difficulties of the late twenties and

early thirties. Cia. Azucarera Atlántica del Golfo S.A. was the largest of the sugar companies, with 14 mills, of which 12 were active in 1947, producing 755,873 MT or 13.1% of the 1947 crop and 856,337 (12.02) in 1952. By 1956, when John Loeb obtained control of the company and, at the recommendation of his cousin Alín Suero, appointed Miguel Ángel Falla as President and CEO the company continued to be the largest in the world but lost that title after Miguel Ángel, on December 31, 1957, sold to Julio Lobo the Hershey Group (Rosario, San Antonio and Hershey) for US \$25 million (recovering the total investment of John Loeb) and to the Sucesion Falla the “Violeta”. This brief history explains why we selected Miguel Ángel Falla to inaugurate our proposed series about Cuba’s “Builders of Wealth”. The first reason was Miguel Ángel, was the president, but not the owner, of the largest sugar company in the world, and we wanted to highlight **wealth creation** through innovation, entrepreneurship and management **not wealth ownership**. The second as “Cia. Azucarera Atlántica del Golfo”, was controlled by a powerful American family, the Loeb’s, Miguel Ángel’s tenure as president and CEO of the company offers proof of a healthy relationship between a Cuban CEO and its American shareholders, dispelling Castro’s utterly distorted description of Cuban–American relations prior to 1959.

In second place was the Cuban Trading Company, producing 367,286 MT or 6.4 % of Cuba’s production in 6 mills. Cuban Trading Company was the trade name in Cuba of Czarnikow Rionda, the trading house based in New York founded in 1891 when Don Manuel Rionda moved to New York. Don Manuel started in sugar as purchasing agent of Julius Cesar Czarnikow, going to the *trapiches* in Cuba buying sugar to fill a tall ship. Next was Sucesion L. Falla Gutierrez, a sugar group that had its origin when Don Laureano Falla, a grocery store owner in Cienfuegos, jointly with his brother Don Miguel bought “Central Patria”, where Miguel Ángel Falla enter the industry to eventually become the General Manage of the Sucesion L. Falla Gutiérrez which at the time of Don Laureano’s death had 6 mills, five active, accounting for 3.9% of the total national production. In forth place in 1947 was Galbán Lobo Trading Co, managed by Julio Lobo with 8 mills that produced 3.1% of Cuba’s output.

Two of those four groups, Galbán Lobo Trading Co and Czarnikow Rionda Company Inc, had Sugar Trading Houses well established in the New York and London Sugar Exchanges. Other distinguish trader were Francisco Blanco Calás, with two mills in Cuba, and Rodríguez de Mendoza e Hijos. The direct ownership or control of “physicals” (actual sugar, not certificates) gave the Cuban Trading Houses a very important competitive advantage. Cuban-owned sugar traders dominated that commodity in the New York Sugar Exchange. Cuba was thus the most influential sugar producer of the world.

By 1958 the number of mills owned by Cubans had more than doubled to 121, their share of production, at 62.3%, was almost tripled. Cuba’s annual exports of around 5 million metric tons provided almost one-third of global sugar exports up to 1959. Cuba succeeded in maintaining its dominant role due to three major factors. The first one was its higher productivity in sugar was due to its outstanding natural conditions of soil and climate and the efficiency with which it used its resources. The second factor was its special commercial relationship with the United States, consecrated in treaties and in US law by the Sugar Quota System, which reinforced Cuba’s position in the world market. The US Quota System

allowed Cuba to profitably cover most, if not all, of the cost of the entire crop by exporting over 50% of its production to the United States at the highly protected prices of the US market. This preferential price helped Cuba to have a standby reserve of almost a million tons of raw sugar and a capacity to extend the crop season and harvest for almost an additional one million tons when needed. This reserve — amounting to almost 20% of what at the time was the volume of the international sugar market- made Cuba the dominant factor in policing the International Sugar Agreement representing a larger force in the international sugar market than Saudi Arabia is now in oil exports.

The third factor in Cuba's favor was the prominence of the Cuban Trading House previously referred to. But the confiscation of their mills irreparably harmed those Cuban Sugar Trading Houses and led to their disappearance with the exception of Czarnikow Rionda which enjoyed a privileged relationship with The Philippines. The overthrow of Ferdinand Marcos affected Rionda's standing and almost led to its ceasing of operations in 1992. Fortunately a Cuban-American investor who had no sugar lineage led others from Venezuela, Perú, Panamá and Nicaragua to purchase the Company from Leandro Vázquez making it by 1995 the largest Hispanic owned company in the United States according to the metrics of Hispanic Market Magazine. Unfortunately after leverage buy out by the traders in 1996 the company went into bankruptcy in July 1999. Also the largest sugar producers in Florida and the Dominican Republic, "Alfie" and "Pepe" Fanjul brothers trace their sugar lineage to their grandfather Higinio Fanjul, nephew of Don Manuel Rionda and shareholder of his company and to their maternal grandfather, "Pepe" Gómez Mena, whose family too owned several mills.

Upon losing his mills to Castro's confiscation, Julio Lobo opened an office in the Philippines, an event that permanently influenced the industry there, as one of his managers in the Philippines, Leandro Vázquez, was instrumental in organizing their disparate cane growers and mill owners after the model of Cuba's "Instituto Cubano de Estabilización del Azúcar" ICEA (Cuban Institute for the Stabilization of Sugar).

Continuing with the export-led industries we turn to tobacco, which accounted for close to 10% of exports in the two years before the revolution,^[6] at a volume of 11,434 million cigarettes and 591 million cigars in 1959.^[7] While grown on about one-fourth of all Cuban farms, in only 14 % of them was tobacco the primary source of income^[8] and occupied only about 3% of all cultivated area and employed 35,000 Cubans in the 1950s.^[9] For many years, before Castro took over the industry, the world renowned cigar brands were Romeo y Julieta, Partagás, Montecristo, Gener, Fernando Palicio's Hoyo de Monterrey, José L. Piedra and Menéndez García. In 1845 Jaime Partagás founded the cigar brand that bears his name but it was Ramón Cifuentes and the son who was named after him who made Partagás the leading Cuban cigar. In 1961, two years after Fidel Castro had seized control of the Cuban government, Ramón Cifuentes was forced to flee the island, never to return.

Seventeen years later, he was finally able to begin producing his Partagás cigars again, this time in the Dominican Republic.^[10]

Another well known Cuban cigar firm H. Upmann had an unconventional origin. Herman Upmann arrived in Cuba from Germany with his brother Augustus to set up a branch of the family bank in 1841, yet the Havana's Cigars he had sent to his European clients stamped with the bank's logo had proved so popular that he decided to invest in a cigar factory whilst calling on two cousins, Albert and another Herman, to come out and manage the bank. Demand for cigars in Britain, Germany, France and Denmark and to a lesser extent in Spain and America was satisfied by Cuban cigars, and peaked in 1855 at 360 million pieces.

In 1935 Alonzo Menéndez and "Pepe" García purchased H. Upmann from J. Frankau for \$250,000 (£100,000). Menéndez y García reorganized the brand's production and added a new brand: Montecristo. After H. Upmann was confiscated by the Cuban government in 1960 Alonzo Menéndez and his sons Alonzo and Benjamín carried on their production in the Dominican Republic and the Canary Islands^[11], later selling their operations to General Cigar Co. where they became top executives. "Pepe" Méndez, who was one of the owners of Regalías, moved to the Dominican Republic, where he improved the production of tobacco. Others moved their operations to Nicaragua, Honduras and Venezuela.

The other world class Cuban industry was rum, with its most recognized brand Bacardí. Founded in 1862 in Santiago de Cuba by Don Facundo Bacardí, it survived the wars of independence. Later the Schueg family became his partner, expanding distilleries to México and Puerto Rico in the 1930s. Bacardí flourished under José "Pepín" Bosch, who became Cuba's Minister of the Treasury in 1949. As with other leading firms Bacardí opened abroad after being confiscated by Castro, relocating its headquarters to the Bahamas in 1959. Today it is in Hamilton, Bermuda. Bacardí is the world's largest privately held, family-owned spirits company and the fourth largest in the world and controls 50% of the US rum market. Since the 1970's Bacardí is the largest selling brand in the world. Noteworthy in the industry was Ramón Arrechabala, producer of Havana Club, the brand used today by the Cuban government but in litigation with Bacardí, which bought the brand a few years ago.

Sugar, tobacco, and rum were not the only industries of world-class stature. There were other entrepreneurs who qualitatively matched those in industrialized countries. Without attributing any significance to the order, let us start their review.

Cattle and Mining, the other Examples of the Primary Sector.

Let's continue with another agro industrial complex, meat and leather goods. Cuba was 4th in heads of cattle per capita (.90) in the world after Uruguay (3.01), Argentina, (2.39) and Brazil, (1.01) which were meat exporters, almost double of the United States (0.60)^[12]. The large consumption of beef was attributable to the low controlled price for cattle sold for slaughter. The way to increase the rate of return was to export 'purebred cattle' That began in the 50's to Costa Rica, San Salvador and Nicaragua and the opening of the import

market in Venezuela. The Dominican Republic imported smaller amounts, mostly for Trujillo's herds. So it should be no surprise that the "Cebú" lines of Celso González Hierro,, with bulls that sold for \$10,000 and more, were instrumental in improving the breeds in Venezuela and Santo Domingo. There were other exporters of purebred Cebú cattle: Fernández de la Hoz, Espinosa, and other members of Association of Breeder of Cebú Cattle of Cuba. After leaving Castro's Cuba, Gustavo de los Reyes and Bernabé Sánchez were tapped by the King Ranch, the premier cattle ranch in the US, to manage the King Ranch holdings in Venezuela and Colombia respectively.

As a consequence of Cuba's large cattle industry, tanning and leather goods were also a successful industry. By the mid-1950s, Cuba produced about 7.5 million pairs of shoes, thereby coping with all but the fanciest of shoes in public demand.^[13]

Cuba was one of the world's largest producers of nickel and iron, as well as an important producer of chromium, cobalt, and copper. An incredible 96% of the mineral output was sold to the United States.^[14] By 1946, Cuba produced 10% of the world's supply of nickel, satisfying 40% of the US demand in the 1950s. During that time, Cuba also produced half of the world's chemical grade manganese,^[15] an essential component in steel production. Importantly, minerals in 1957 were equal to tobacco in their contribution to Cuban exports, both totaling 6%.^[16]

The Secondary Sector: Chemicals, Pharmaceuticals, Textiles and Publishing

In manufacturing, Cuba had very advanced chemical, and soap and toiletries industries. Colgate Palmolive and Procter and Gamble acquired Crusellas and Sabatés respectively but retained their names, brands and former owners as part of the management team. The Cubas brothers' indigenous brand, Pasta Gravi, held the leadership position. By 1959 the country had 40 pharmaceutical labs, most owned by individual Cubans which led the World Bank to note that there were "*literally hundreds of Cuban enterprises producing patent medicines, home remedies, lotions, pomades,*" and the like. Of all the drugs and medicines sold in Cuba prior to 1959, 50% were made in Cuba.^[17] The success in the pharmaceutical industry was consistent with Cuba's high rank in the world's economic and social indicators.

In other industries Cuba had successful examples, sometime initiated by foreigners but then run by their Cuban-born heirs. The largest non-sugar plant was a textile company Textilera Ariguanabo at Bauta, build in 1931 by Dayton Hedges of NY and then run by his sons Burke and Jimmy, who also ran the Rayonera in Matanzas, which was the object of a sale and lease-back to BANDES, the Government Development Bank, in 1958.^[18]

In text book publishing Antonio Fernández, José López Serrano, “Potico” and my father, Oscar Echevarría Cassola, sold their text books, published as P. Fernández y CIA, Cultural S.A and Colección Cenit, widely in Central America and the Caribbean. They were still being reprinted in the 1980’s. My father’s Colección Cenit was an innovation in primary school textbooks, with integrated text and workbooks in full color. The text were authored by active teachers covering, without overlap, the academic programs for grades one to six, which each subject supervised by distinguished figures such as, Luis Pérez -Espinós, a former Minister of Education who supervised all the language texts. Technical director for the entire collection was the President of the Association of Catholic Schools, Dr. Marino Pérez Durán. The workbook concept allowed for larger runs which cut the price to the students to US\$ 1.40, 25% of the typical hardcover book of that time. In 1958 a proposal was presented to provide the public school system with the same books printed in one color in newsprint for \$0.25 a copy, an initiative that was ignored by Castro’s Government.

As proof of Cuba’s competitiveness in printing, Benito Lagueruela’s Editorial Omega was selected by Reader’s Digest (Selecciones), Time Magazine, and Life to be their printer for their Latin American editions; a fact that highlights Cuba’s communication and air traffic facilities capable of receiving the “copy” and distributing the weekly and monthly editions throughout Latin America. I remember that my father’s firm, Editorial Echevarría, printed books for the Pan American Health Organization in Washington D.C., lithographs of saints and missals for Rafael Ciceraro and Co. of Miami and New York, and calendar blocks for Galas de México, indicating that for short runs Cuba was competitive with printing firms in Miami, New York, Washington and México..

The Service Sector: Retail, Fast Food, Media, Advertising, Professional Services and Banking

Finally we reach the Service Sector. In retail José Solís’s and Aquilino Entrialgo’s El Encanto as well as Amado Gabriel’s Fin de Siglo, José Gasch’s La Filosofía, and José Alonso’s La Época, gave Havana cosmopolitan department stores on a par with Bonwit Teller, Saks Fifth Avenue and Marshall Field’s both in the quality of the international brands they carried and their organization. They were the model “Pepín” Fernández, José Areces and others of their *interesados* used when establishing the first such stores in Madrid, Galerías Preciados and El Corte Inglés, leveraging their earnings and experiences in Cuba.

Like many of his generation, Don Segundo Casteleiro arrived from Spain at age 16, to work as assistant bookkeeper at Cagigal y Hnos. He became their General Manager at age 22. Nine years later he was one of the founders of the Cuban Chamber of Commerce, and by age 42, jointly with Don Laureano Falla, was one of the promoters of three sugar mills, the Electricity of Cárdenas, La Papelera Nacional and several other ventures. “Casteleiro y Vizoso”, a corporation that he established with his brother in law, Don Gaspar Vizoso, sold sugar machinery and office and warehousing equipment delivered in the Seatrain wagons all over the island that returned with Cuban exports to the United States.

In Food Distribution the importers such as the Porvén Brothers and Antonio Rodríguez packaged rice and beans in Cuba under the brands of Hon Chi and Bola Rojas before Spain had packaged branded grains.

Domingo Moreira, Bernabé Sánchez and Joaquín Sanjení launched fast food services with “Pollos El Caporal” at the same time as such chains appeared in the United States. In Guatemala, Domingo Moreira founded a similar chain in the sixties, which deserved public laudatory comments from President Ydígoras for making accessible this type of meals to the general population.

In media, Gaspar Pumarejo brought color television to Cuba just after its introduction in the United States and then went on to revolutionize TV programming in Puerto Rico and Guatemala. Goar Mestre’s CMQ TV provided in 1956 the first live broadcast, outside the United States, from a Cubana de Aviacion DC3 fitted with back-to-back receiver and transmitter flying above Key West. After being forced out of Cuba, the three Mestre brothers established leading TV operations in Venezuela and Argentina.

In telecommunications, Havana was the first city in the world to have an automatic multi-exchange telephone system and Cuba was generally perceived as a leader in the scramble for instant communication.^[19] In fact, the transport and telecommunication industry had the second highest capital investment after the sugar industry.^[20] Firms such as Amador Odio’s “Tráfico y Transporte” and Agapito Amaro’s “Transportes Amaro” serviced most of Cuba’s cities and towns, managing dedicated trucks for carrying specific merchandise as well as miscellaneous packages picked and delivered at specific points. Odio employed World War II surplus trucks to reach the smallest towns even during the rainy season. After leaving Cuba, with trucks that he diverted to Guatemala before they reached Cuba in 1960, Amaro reestablished himself in Guatemala and helped in the integration of Central American countries at the time those countries were considering a Central American Common Market.

In advertising, Mariano Guastela established the standard for billings, 17.5% of media cost, and his leadership led McCann Erickson to open in Cuba as Guastela- McCann Erickson. Fermín Cross of Godoy y Cross and Fernando Álvarez Pérez established successful practices in Venezuela and México, while Guastela opened in Madrid and Puerto Rico.

In banking, Agustín Batista made the Trust Company of Cuba the largest bank of Cuba and Latin America (with the exception of one government-owned bank in Brazil) in competition, at home, and internationally, with power houses such as The Royal Bank of Canada, Chase, Bank of Boston, and City Bank of New York among others. In the seventies and eighties Cubans headed the international divisions of several money center banks in New York. Many founded or managed banks in Miami, Panamá, and Guatemala, among other countries. Also, as proof of Cuba’s place in the financial world, in 1946 Kent Crosby opened in Havana the first ticker tape of Merrill Lynch outside the United States.

The Cuban accounting firms supplied the cadre that provided the managing partners of four of the major international CPA firms in Venezuela. Alberto Krieger led Arthur Anderson, Carlos Morales Arthur Young. Ernst and Whitney Managing Partner was Luis Pérez Mena, who became the Partner in Charge of Latin America at Ernst and Young World Council, and Tony Vidal Larrauri was head of Peat Maverick and Mitchell for Latin America based in Caracas. Aurelio Fernández Díaz not only was the Managing Partner of Deloitte and Touche in Guatemala but his book was the classic text for CPAs all over Latin America.

In Conclusion, a Challenge and a Hope

The challenge is that this review leads to a fundamental question whose answer, will benefit not only Cuba's reconstruction, but the development of Latin America: What gave rise to that thriving entrepreneurial class, many self-made men?

And the hope is that this article will serve to stimulate other authors, and especially the heirs of these and other businessmen, to correct our errors and more important, to write about the lives and accomplishments of those outstanding individuals. Such rejoinders are welcome as they will result in many supplementary monographs on the subject of Cuba's entrepreneurial and management class. To do justice to the numerous Cubans that led in the development of world class firms, will require in-depth research similar to that which supported the publication of *Captains of Industry - Builders of Wealth*,^[21] which I published in 2002 to inaugurate what we hope would be a series on key entrepreneurial and management figures.

Arlington, Virginia, January 11, 2006

Notes

1- Falla, Miguel Ángel and the Cuban Sugar Industry. Ena Curnow et al. Oscar A. Echevarría, Editor: *Captains of Industry, Builders of Wealth*. New House Publisher; Miami, Florida, 2002

2- Montaner, Carlos A.: "The Miami Herald", September 29, 1996

3- Smith, Kirby and Hugo Llorens: *Renaissance and Decay, a Comparison of Socio Economics Indicators in Pre-Castro and Current Day Cuba. Economy in Transition*. ASCE, 1996. Data from United Nations Statistics, 1979

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<http://www.cubafacts.com/Economy/econmain.htm#Cuba%20in%20the%201950s>

5- Smith and Llorens: loc. it.

6- Blasier, Cole and Carmelo Mesa-Lago: *Cuba in the World*. University of Pittsburgh Press, 1979. Table 9.9

7- *Ibidem*: Table 9.3

- 8- Thomas, Hugh: *Cuba: The Pursuit of Freedom*. Harper & Row, New York, 1971. Page 1158.
- 9- Ibídem: Page 1159.
- 10- http://www.cigarworld.com/brands/partagas/partagas/partagas_history.cfm
- 11- <http://www.uk-cigars.co.uk/archives/hupmanship.htm>
- 12- Diario de la Marina: *Siglo y Cuarto*. La Habana, Cuba, septiembre 15, 1957, Pág.106
- 13- Thomas, Hugh: *Cuba: The Pursuit of Freedom*. Harper and Row, New York, 1971. Page 1167.
- 14- Ibídem: Page 1169.
- 15- Ibídem: Page 1171.
- 16- Blasier, Cole and Carmelo Mesa-Lago: *Cuba in the World*. University of Pittsburgh Press, 1979. Table 9.9
- 17- Thomas, Hugh: *Cuba : The Pusuit of Freedom*. Harper & Row, New York,1971. Entire paragraph's supporting data from page 1166.
- 18- Ibídem: Page 1165.
- 19 Ibídem: Page 1163.
- 20- Ibídem: Page 1165.
- 21- *Captains of Industry,- Builders of Wealth*. Op. cit.
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