AGENCY FOR INTERNATIONAL DEVELOPMENT
WASHINGTON, D. C. 20523
BIBLIOGRAPHIC INPUT SHEET

FOR AID USE ONLY
BATCH #16

1. SUBJECT CLASSIFICATION	A. PRIMARY: Agriculture	AE70-0000-G352
	B. SECONDARY: Distribution and marketing--Central America	

2. TITLE AND SUBTITLE
An approach to the study of the industrial surplus,the case of the United Fruit Company in Central America

3. AUTHOR(S)
Villanueva T.,Benjamin

4. DOCUMENT DATE	5. NUMBER OF PAGES	6. ARC NUMBER
1969	85p.	ARC LAT338.542.V718

7. REFERENCE ORGANIZATION NAME AND ADDRESS
Wis.

8. SUPPLEMENTARY NOTES (*Sponsoring Organization, Publishers, Availability*)
(In Land Tenure Center research paper no.40)

9. ABSTRACT

10. CONTROL NUMBER: PN-RAA-799	11. PRICE OF DOCUMENT
12. DESCRIPTORS: Bananas, Central America, Corporations, Surpluses	13. PROJECT NUMBER
	14. CONTRACT NUMBER: CSD-2263 211(d)
	15. TYPE OF DOCUMENT

AID 590-1 (4-74)

This study was undertaken while the author held an appointment as Assistant Professor with the Department of Agricultural Economics and the Land Tenure Center at the University of Wisconsin during the academic year 1968-69. The author expresses his debt to these Departments for the opportunity provided in this research undertaking. He also wishes to thank Professor Peter Dorner for helpful comments and John Bielefeldt for his editorial assistance. The continuous cooperation provided by officials of the United Fruit Company in Boston, Massachusetts, who provided most of the quantitative information requested from them, is greatly appreciated. The author thanks in particular Victor C. Folsom, vice-president and general counsel, and G.M. Walwood, Assistant Controller, for their invaluable assistance.

40

December 1969 RP No. 40

AN APPROACH TO THE STUDY OF THE INDUSTRIAL SURPLUS: THE CASE OF THE UNITED FRUIT COMPANY IN CENTRAL AMERICA

by

Benjamin Villanueva T.

The author is presently a Staff Economist with the General Secretariat for Central American Economic Integration.

The Land Tenure Center is a program of the Agency for International Development and the University of Wisconsin. All interpretations, recommendations, and conclusions are those of the author and not necessarily those of the supporting or cooperating organizations.

AN APPROACH TO THE STUDY OF THE INDUSTRIAL SURPLUS:
THE CASE OF THE UNITED FRUIT COMPANY IN CENTRAL AMERICA

by

Benjamin Villanueva T.

Introduction

The approaches to the study of economic development policy are numerous and varied. Some emphasize the economic significance of markets and firms in accelerating the process of development; others stress the important role of political and social institutions in the same process. Still others dwell on the necessary complementarity between these two approaches and on the need to integrate existing knowledge into a more coherent system of ideas. The approach followed in this study is an eclectic one: it attempts to investigate the problem of economic development in Central America by exploring the importance of market determined phenomena in the area and the significance of economic institutions for capital accumulation.

Lewis, Ranis and Fei, and other distinguished economists have emphasized the uses and consequences of economic surpluses of various kinds in the process of development.[1] The use of the economic surplus is also a cornerstone of the Marxist approach to the developmental problem. Underlying the issue of economic surpluses is a whole set of ethical and legal interpretations which do not seem to converge at any meaningful

---

(1) See W. Arthur Lewis, "Economic Development with Unlimited Supplies of Labor," The Manchester School (May 1954); and John C. H. Fei and Gustav Ranis, Development of The Labor Surplus Economy (Homewood, Illinois: Richard D. Irwin, 1964).

consequence for the study of economic development. However, the practical significance to the policymaker in the underdeveloped world of the capital created or capable of being created by these economic surpluses cannot be denied. A crucial issue investigated in this paper--which forms part of a broader study on capital accumulation in preparation--is the theoretical significance for the process of development of economic surpluses originating in the industrial and agricultural sectors.

Economic surpluses can be analyzed from three different, complementary perspectives: 1) from the viewpoint of the significance of the reinvestment process for capital accumulation; 2) from the standpoint of providing the conditions for the attainment and maintenance of full employment in underdeveloped economies; and 3) from the perspective of the possibilities of institutional innovations designed to create and to rechannel economic surpluses to programs of economic development.

Concern about the process of economic integration in the area underlies most of the conclusions and recommendations of this work. As a first step in Central American development, the process of consolidation and strengthening of the Common Market appears to be one of the most productive approaches yet undertaken by the five countries. Its policy guidelines, developed through consultations of the Ministers of Economics--who together form the Central American Economic Council--and implemented through the Central American Executive Council, have been shaped and modified according to the evolving conflicts and opportunities which develop in the process.

Though most of the economic integration activities have been oriented to the industrial sector, important advances have been achieved in the integration of the agricultural sector. Common price stabilization policies, implemented through the Coordinating Commission for Marketing and Stabilization of Basic Grains, and the development of some promising studies for regional specialization and development are two of its most distinctive characteristics. The gradual building of common commercial policies vis a vis third countries in primary products is another significant step.

Even though, in my personal opinion, Central America is not yet ready for the common development policy envisaged in this study, it appeared worthwhile to investigate the possible implications of a Regionalization Policy for the Banana Industry. With this purpose in mind, the quantitative significance of the economic surplus produced within the United Fruit Company in Central America was analyzed as a stimulus for theoretical discussion on this interesting topic and as a case study which could have important implications for Central American development policy.

The data analyzed in this study are related to the asset and equity structure and the income statement of the United Fruit Company as an ongoing enterprise. Analysis of such relationships has so far been left to professional accountants, to such an extent that sometimes effective communication between the accountant and the economist seems hopeless. However, the findings of the accountant (especially the corporate accountant) and the manner in which he sets them forth have become or can potentially become the basis for significant decisions and policies, not only in business affairs, but in economic, social, and political matters as well. Elaboration on the issues raised by this professional dichotomy is not possible here, but some may become clear in this analysis of the accounting data of the United Fruit Company, which is made <u>from the perspective of the development economist</u>.

The activities and consequences of an ongoing enterprise are summarized in the income statement of the enterprise, and the professional accountant derives useful guidelines for future action from examination of different perspectives and possibilities. His analysis of the income statement has its theoretical basis in the "going concern" or continuity concept in accounting, which views the business enterprise as a continuous stream of activities, with those of the moment conditioned by those of the past and in turn conditioning those of the future. The going concern concept also complements and strengthens the concept of earning power, since earning power of an enterprise forms the basis of enterprise value, or going concern value. In accounting terminology, these factors can be analyzed by recourse to the income statement; by means of this statement a section of the continuous flow of cost and revenue is made available as an exhibit of management's effectiveness in handling the available resources.

It has generally been asserted that sound accounting requires the drawing of a clear-cut distinction between capital contributed to the corporation by the stockholders and surplus accumulated by the corporation as a result of profitable administration of resources. This distinction is basic to the analysis of the "managerial surplus" which follows.

The concept of a managerial surplus explored in this paper springs essentially from the theoretical and operational dichotomy between

between ownership of the instruments of production and direct control of managerial operations. While the former is a legal concept stating the legal boundaries of financial instruments such as common stock, bonds, and debentures, the latter refers to special capabilities which are developed by experience in direct management of productive operations.

Even though the details of the process of measuring the rate of income remain unsettled, there is no question as to the importance of earning power as mentioned before. This paper considers that, for purposes of economic development policy, measurement of the rate of income of a corporation, especially a foreign corporation as the United Fruit Company in Central America, should include the depreciation charges in the measurement of income from which the managerial surplus is computed. This process of measuring the managerial surplus will no doubt provoke some controversy among accountants and economists alike. However, in justifying this procedure one must remember that we are not measuring the rate of return on capital, or taxable profits, or the efficiency of allocation of resources.

Admittedly it is easier to define what we are <u>not</u> measuring than what we in fact measure by including depreciation allowances in the estimate of managerial surplus. In the latter case we want to estimate the capacity of a going concern--the United Fruit Company--as a capital-accumulation enterprise for development policy under a completely different institutional structure than the present one. That is, we want to arrive at a quantitative figure which describes the capacity of the enterprise to provide working capital for economic development projects.

Whether the inclusion of the depreciation component in the concept of capacity in this context is appropriate should depend--in my opinion--on the particular circumstances and the specific significance of these figures, rather than on a preconceived theoretical formulation. For instance, if corporation X in Central America produces a managerial surplus equal to \$ 100 million (which includes, say, \$ 40 million of depreciation allowances), it should be understood that the owners of corporation X have at their disposal, in that year, \$ 100 million which they could use in "any way" they see fit. "Any way" of course will be conditioned by the rationale of corporation X's activities; they could use the \$ 40 million to replace obsolete capital or to start a new business somewhere else or for some other purpose.

In more simplified terms, if corporation X sells \$ 200 million worth of bananas in year t and incurs \$ 100 million as direct costs of production plus \$ 40 million as depreciation costs, then in orthodox fashion corporation X made a profit equal to \$ 60 million in year t (\$ 200 million minus \$ 140 million of costs). But what actually happened is that corporation X got \$ 200 million, say in cash, in year t and spent \$ 100 million in cash to produce and market the bananas. Forty million in cash went to the vaults of corporation X as part of the cost of capital invested in the corporation, and it could be used in various ways. This of course is a very oversimplified view of corporation X's activities, but this view in no way alters the main implications of the analysis.

Now suppose there is a way by which the government of country Y can acquire corporation X <u>and maintain its profitability and corporate</u>

efficiency. Suppose in year t they sell \$200 million worth of bananas, at a direct cost of \$100 million plus \$40 million in depreciation charges. The government of country Y then has at its disposal \$100 million for investment in year t + 1 (and not only \$60 million as the profit figures would indicate). Of this \$100 million, part could be used for reinvestment within the company itself or for reinvestment somewhere else within country Y, depending on the particular value of the parameters which need to be included in any investment - reinvestment decision.

It could be argued that the \$40 million of depreciation charges may be needed to maintain corporation X in the same shape as before. But this factor, in itself subject to empirical investigation, is not enough to call these \$40 million unavailable for reinvestment purposes outside company X. Furthermore, if we required \$40 million of expenses each year to maintain the company as an ongoing enterprise, such quantity should be included in the figure of direct production costs rather than in the depreciation account.

Thus, the inclusion of depreciation charges in the computation of the managerial surplus originating in the United Fruit Company assumes that such estimates have in mind a policy objective different than the objective of the professional accountant when he makes similar estimates. The theoretical basis of depreciation charges is not the main subject of discussion here, but rather the policy significance of the managerial surplus of which depreciation charges are a part.

However, the particular validity of the quantitative estimates for the managerial surplus included in this paper have at base a specific conception of development policy summarized under the heading "Regionalization Policy for the Banana Industry by the Central American Common Market." Further discussion on this methodology, therefore, should be made with this idea in mind.

Regionalization Policy deals partially with one of the crucial issues of development policy in Central America. The Region has been characterized by extreme dependency on a few export crops--bananas, coffee, and cotton--with very limited spillover effects on the domestic economies of the area. In the banana industry especially, heavily dependent on two U.S. owned corporations (the United Fruit Company and the Standard Fruit and Steamship Company), the development of agro-industrial activities oriented toward the export markets has created enclave economies within the Central American republics.

This study deals only with the United Fruit Company's activities in the Central American divisions, but does concern all aspects of banana operations in the area. The study thus examines the possibilities of Regionalization of the Banana Industry--an approach at incorporating the managerial surplus produced in this sector and the development process implicit in the efforts at multinational cooperation in Central America--from the perspective of a case study of the United Fruit Company.

It must be emphasized, however, that the Regionalization Policy envisaged here does not necessarily reflect a preference for state intervention in the Central American economic system vs. the "private" activities of the U.S. corporations mentioned. Central American regulation of the banana industry as a Regionally-owned enterprise could provoke serious administrative and political problems with potentially disastrous effects for the banana industry. Rather the thesis maintained is that Central American participation in such an important business as the banana industry could have a highly significant impact on the development activities undertaken within the Central American integration scheme.

By preserving the actual "technostructure" of these corporations, it is expected that managerial efficiency could be preserved. It is also expected that financial participation by the Central American Bank for Economic Integration, rather than direct ownership and management by a Central American institution, could provide a solid basis for coordinated participation in the industrial surplus produced within the banana industry. Such Regionalization might also be an interesting experiment in mutual cooperation between a developed economy and an underdeveloped one.

The United Fruit Company as a Going Concern

Historical analysis of the United Fruit Company's operations in Latin America provides interesting,, controversial, and sometimes meaningful implications about the important role this foreign-owned corporation has played in the economic and political life of the countries affected. This is not the place, however, for an evaluation of the relative merits or demerits of the several interpretations of the Company's role in Latin America.[2] This section is thus primarily devoted to a general description of the Company's operations and its relative economic importance in the Central American region.[3]

At the present time, the United Fruit Company grows, purchases, transports, and sells fresh bananas in the markets of the United States, Canada, Great Britain, and continental Europe. In addition, the Company processes and sells various processed banana products; grows, refines, and sells sugar; grows, processes, and sells African palm oil and cottonseed for linters and oil; manufactures and sells shortening, margarine, and salad oils; produces and sells cacao; manufactures and markets beverage bases, toppings, flavors, and a variety of freeze-dried foods; and raises and sells cattle in Latin America. It also franchises and operates about 2,700 drive-ins and snack shops (fast-food service establishments) in the United States and Canada, and in the United States it franchises about 500 ice cream specialty stores.

The Company operates railways, unloading and loading facilities, and warehouses and terminals, particularly in the Central American countries. It owns and operates an ocean-going fleet carrying bananas,

---

(2) The literature on the United Fruit Company is very abundant. Perhaps the most informative source both quantitatively and historically is Richard Allen La Barge, "A Study of United Fruit Company Operations in Isthmian America, 1946-56," Ph.D. Thesis, Duke University, 1960. A complete bibliography on the Company can be found in the same study.

(3) Most of the following description of United Fruit's operations comes from United Fruit Company, Information File, published by the Company, and from the Company's Annual Report of 1967.

general cargo, and passengers, and also charters ships from others. In addition, it operates a radio, telephone-telegraph communication network in the United States, Latin America, and Caribbean areas.

As a successful going concern, the United Fruit Company has one of the most sophisticated research laboratories in tropical agricultural products and the techniques of food processing on the American continent. The Company also has a 40 percent financial interest in other Central American packaging materials and plastic products firms, and holds a 40 percent interest in a linerboard mill that commenced operations in 1968.

Although the United Fruit Company engages in all these activities and has already started a broad diversification program, its revenues and earnings at present largely depend upon the cultivation, shipment, and sale of bananas (as illustrated in Table 1).

Table 1. Basic Features of the Banana Operations

of

the United Fruit Company

	1966	1965	1964
	(Percent of Total)		
Revenues by major categories:			
Bananas	65%	65%	65%
Sugar	13	14	17
Shipping	8	8	8
Processed foods	6	6	5
Other	8	7	9
Total	100	100	100

(continued)

	1966	1965	1964
Distribution of sale of bananas:			
United States	52%	50%	54%
Europe	42	44	38
Canada	6	6	8
Total	100	100	100
Sources of bananas sold by the Company and produced on Company-owned or operated plantations:			
Honduras	48%	44%	24%
Panama	25	29	31
Costa Rica	19	22	29
Guatemala	8	5	16
Total	100	100	100
Banana Acreages:			
Company	81,089	87,333	94,336
Associated Producers	54,066	72,807	64,950
Total	135,155	160,140	159,286

As part of its modernization program, the Company's development of the Associated Producer Program is particularly interesting. Under this program, the Company sells, leases, or contracts to nationals certain of its banana-producing areas, encouraging nationals in various countries to become producers, landowners, and independent businessmen in their own right. The Company agrees to purchase all fruit which meets its specifications, provides technical advice, and handles on a contract basis such services as spraying and disease control. Often the Company also assists in financing associate producers, preferably in cooperation with local banks.

In recent years especially, the Company has sought lower operating costs, improved product quality, and a broader marketing area. As improvement in the earnings potential of its major assets has proceeded, the Company has tried to attain an ever broader base for future growth and earnings through a vigorous program of corporate diversification. As one step to carrying out such diversification, the stockholders at the April 1966 annual meeting approved the creation of a preferred class of stock and substantially increased the amount of authorized common stock. The Company in July 1965 purchased for cash the assets and business of Numar, S. A. of San Jose, Costa Rica, an important processor of edible oils. Through the acquistion of Numar, the potential of the Company's already successful oil palm operations has been enhanced. Numar's products, such as shortening, margarine, salad oil, and mayonnaise, are manufactured in Costa Rica and sold under the Clover brand label in that country and in the rest of the Central American Common Market countries.

The Company's diversification acquired special importance in 1966. The largest of several mergers and acquistions was effected in April of that year with the merger of the J. Hungerford Smith Company, a manufacturer and marketer of beverage bases, syrups, and toppings for the restaurant, hotel, and drive-in trades.[4]

---

(4) Through Smith's ownership of A&W Root Beer Company of Santa Monica, California, which franchises and/or owns 2,500 drive-ins and snack shops in the U.S., the Company achieved a major position in the fast-food service business. In another acquistion, the Company acquired 100 percent of A&W Drive-Ins of Canada, Ltd. This company, which is independent of A&W Root Beer Company, is the largest drive-in chain in Canada and it franchises or owns more than 170 fast-food service establishments.

In 1967 United Fruit acquired Baskin-Robbins, Inc, which franchises almost 500 ice cream specialty stores in 31 states in the United States.

Complementing the diversification program, the Company has also engaged in an integration program, exemplified by the purchase of 40 percent interest in the Central American operations of Polymer International. This company manufacturers packaging materials, polyethylene film, and pressure-sensitive labels used by United Fruit, as well as blow-molded bottles, polyethylene and polyvinyl chloride pipe, a line of plastic shoes, and other plastic products. Manufacturing facilities are located in Panama, Costa Rica, and Honduras. Additionally, in order to assure a supply of low-cost linerboard required for its three box plants in Central America, the Company in 1966 entered an agreement to participate with MacMillan Bloedel, Ltd. in the organization of a new corporation which will operate a pulp and linerboard mill to be constructed in Alabama, U.S.A. In this arrangement, United Fruit acquired 40 percent of the shares, with McMillan owning 60 percent and furnishing the management.

In 1967, the Company acquired the business and assets of Clemente Jacques & CIA, S.A., Mexico's largest food processor. Clemente Jacques produces and markets a full line of processed food products including canned and bottled specialty items as well as preserves, juices, fruits, vegetables, and fish and meat items. This eighty-year-old company has Mexico's best know consumer brand franchise for high quality products and its distribution system extends throughout that country. Some of its products are exported to the United States, Canada, Western Europe, and Central and South America.

Given these successful integration and diversification programs, plus the approximately $128 million of retained earnings in Company vaults, the Company naturally became a target for other acquistion-minded United States corporations.

The AMK Takeover

The reasons for and the process through which the United Fruit Company was taken over by the financial interests of the AMK Corporation offer particularly interesting insights into the relationship between capital or asset structure of an enterprise and the nature of its productive operations.

In order to place such processes and results in the context of United States corporate financial policy, we must refer to the increasing occurrence of corporate mergers and acquistions within the United States economy. Widespread concern exists in both private and governmental circles about the "conglomerate syndrome" in the United States and the type of financing which is often used in corporate acquistions. The logic behind this type of acquistion is better illustrated by a somewhat exaggerated example of two companies "A" and "B".[5] "A" is a fledgling electronics company with one million shares outstanding and annual earnings of $2 million after taxes (equal to $2 a share), the shares paying no dividend and selling at a price of $40 It wants to take over company "B", a conservative, old-line steel

(5) This example is derived from "Conglomerate Maze," in the New York Times, February 27, 1969.

company which has shown little growth in recent years. "B" has ten million shares outstanding and earnings of $30million after taxes ($3 a share), the shares paying a dividend of $1.50 and selling at $39.

A "friendly" deal between the two companies could probably not be arranged because of the disparity in the companies' sizes. Therefore "A" decides to make a tender offer to "B" stockholders, hoping for a response good enough for control of the merged concern and eventual consolidation. "A" might offer its own stock to "B's" holders, but it would gain much greater financial leverage by offering other securities. Furthermore, if "B" holders exchanged their shares for those of "A" they would no longer get dividends since "A" pays none. "A" thus decides to offer "other securities," in this case straight debentures (unsecured bonds). In order to make its offer attractive, "A" offers for each "B" share $50 face amount of debentures paying interest at the rate of 7 1/2 percent, or $3.75 a year. The $50 is $11 more for each share than the level at which "B" shares were trading, and the interest is $2.25 more than "B" stockholders were receiving. "A" might throw in some warrants good for purchase of "A" shares in the future. This addition is to offset the probability that the new debentures would sell at a discount on the market because of the relatively small amount of "A" assets behind them. "B" holders believe this is a worthwhile offer. They make an "instant" capital gain, receive higher interest and also a long-term option to buy

"A" stock. They accept and before long "A" has obtained enough "B" shares to consolidate the companies. "AB," a new American enterprise, has taken shape. Now the combined company, adding its components and assuming no further change, earns $64 million before taxes; the aftertax picture, given present tax laws in the United States, is considerably to the benefit of the new company.

Something not too dissimilar happened in the case of the United Fruit Company. The best account of its takeover by AMK is found in Fortune magazine of April 1969.[6] According to Fortune's account, the AMK-United deal grew inevitably from the two disparate approaches that now prevail in American business life. One stresses the side of direct productive operations; the other puts its main emphasis on management of the asset and equity structure of the enterprise.

The two most important attractions displayed by the United Fruit Company were the absence of any funded debt, and around $100 million in cash. It is clear that United's top management knew exactly what they had and knew that they ought to put those assets to work for United's shareholders. The reasons for the management's inability to use those assets plus the added borrowing power (estimated at easily $300 million) in making, for example, other significant acquistions, are not very clear.[7]

---

(6) See Stanley H. Brown, "United Fruit's Shotgun Marriage," Fortune (April 1969), p. 132.

(7) According to Fortune, the effectiveness of United Fruit management comes from their operational accomplishments-- from efficient management of directly productive resources--while that of Eli Black, chairman of AMK, lies in management of assets--increasing value on a large scale, getting control of it, and putting it to work uncovering more assets. The first approach requires technical knowledge of productive operations, but in the latter approach "..whether he knows a banana tree from a potted palm is largely irrelevant..."

As part of its acquistion strategy, AMK on Tuesday, September 24, 1968, bought about 733,200 shares of United Fruit's stock at $56 a share, more than $4 above the market price. In terms of shares and dollars, this was the third largest block ever traded on the New York Stock Exchange up to that time. By the end of the same day, AMK had bought a total of 740,300 shares in the open market, or more than 9 percent of the total stock outstanding. To finance the bulk of its purchase, which cost $41,778,000, AMK borrowed $35 million from a group of banks headed by Morgan Guaranty Trust Company. As another inducement to United Fruit's stockholders, AMK proposed that if it decided to ask for tenders, it would allow the former owners of those 733,200 shares to return AMK's money and accept instead the package of AMK securities offered.[8]

Another important company was also competing in takeover bids for United Fruit at about the same time. Zapata Noness, Inc.--a company engaged in offshore drilling, dredging, shipping, construction, and fish meal production--made a first proposal of a $50 ten-year note, plus three-sevenths of a share of Zapata's common stock for every share of United Fruit. Since Zapata had some financial difficulties on the debt side, this offer met with resistance in financial circles. Zapata made a second offer through Lehman Brothers--the same Lehman

(8) At $56 a share, AMK through Eli Black could have bought more United Fruit Company stock, but by buying just less than 10 percent, Black avoided becoming an insider under the Securities and Exchange Commission regulations. Otherwise he would have had to report his trades and would have been prohibited from taking short-term profits-- an option he wanted to leave open in case he changed his mind about acquiring the company.

Brothers represented on United Fruit's board of directors. This time Zapata offered a share of a $2 non-cumulative preference stock, convertible, in a complicated formula, into no more than two Zapata shares. AMK's offer, though not essentially much different, had the advantage of being more understandable. It would give a $30 convertible debenture, 0.55 share of AMK common stock, and 1.5 AMK warrants. In its bid for United Fruit's stock, Zapata came up with a still better, but complicated, deal. AMK in turn raised the value of its debenture to $38. Eventually, Zapata withdrew from the race (on January 27, 1969) and made a deal with AMK to sell it whatever shares Zapata received for cash up to $3 million. AMK also agreed to pay Zapata's cost of soliciting the shares.

Among the demands made by Zapata, which probably disturbed United Fruit's management team, was the insistence that it have a majority on United Fruit's board of directors. AMK asked only for minority representation. Soon after the original AMK purchase at $56 a share, United Fruit Company stock began climbing. When Zapata and others (particularly Dillingham Corporation and Textron, Inc.) came into the auction, the price rose as high as $88 a share. Every stockholder who tendered stock to AMK--more than 80 percent of the shares came in--gave up stock that earned a dividend of $1.40 in 1968, in exchange for a debenture that pays $2.09. Furthermore, the shareholder received pieces of AMK's future in the form of common stock and warrants, as well as through conversion of the debenture.

It is still too early to decide how good a deal AMK's acquistion will be in the long run. Up to the time of writing, Fortune concluded that it was a good deal for just about everyone concerned-- the small as well as the large stockholders of United Fruit, the brokerage firm that first brought the prospect to AMK, the other brokers who profitted by the churning markets in the securities of AMK and United Fruit, and the commercial bankers who lent Black the money to buy the company. Even though United Fruit's executives came through with "Some feelings bruised and managerial powers lost," they hardly suffered any dislocation on what they know how to do best--grow bananas and bring them to market. As to AMK itself, according to Fortune, no one knows yet what Black will do with United Fruit's untapped resources, but he picked up plenty of them to tap.

Further reference to the United Fruit Company in Central America should now be understood in the context of a subsidiary of the AMK Corporation. What effects such corporate conglomeration will have on Central American development are still to be seen.

Anti-Trust Problems of United Fruit Company

Under the Sherman Anti-Trust Act of 1890, the United Fruit Company was involved in what the U.S. district court of Louisiana clearly considered "unlawful restraints and monopolies," in terms of protection of trade and commerce within the United States.[9]

---

(9) See United States of America vs. United Fruit Company, Civil Action No. 4560 (U.S. District Court, Eastern District of Louisiana, February 4, 1958).

Consequently, United Fruit entered a consent decree with the United States government in February 1958. Under the terms of this consent decree, United Fruit was required to present a plan by June 30, 1966, to divest itself of banana lands and banana purchase arrangements, ships, terminal arrangements, and other accessory assets reasonably calculated to give the owner of the divested property the capability of importing into the United States approximately 9,000,000 stems of bananas annually.

The Company's proposed plan for compliance provides for the organization of a new company, to which United Fruit proposes to transfer banana lands and related facilities and ships. The plan contemplates that United Fruit will also make available to the new company terminal arrangements in United States ports, and that UF will provide the new company with sufficient personnel, working capital, and other specified accessory assets to meet the requirements of the court's judgment. The organization of the new company by UF, if approved by the court, the transfer to it of assets and arrangements as contemplated by UF's proposed plan, and the establishment of the new company as an entity capable of independent operation will then enable UF to dispose of the stock in the new company by distribution to the shareholders of United Fruit Company, by sale to others, or by a combination of distribution and sale as set forth in the final judgment.

In the final judgment the court also ordered that by June 30, 1966, the United Fruit Company should divest itself of all capital stock whether common or preferred, or other proprietary interest in International Railways of Central America that United Fruit then owned, either (1) by a private sale of the said capital stock to purchasers who have no relationship or affiliation directly or indirectly with United, or (2) by sale of the said capital stock in the open market of the New York Stock Exchange, the London Stock Exchange, or on any other stock exchange on which the said stock may be listed, or (3) by a private sale of part of the said capital stock to purchasers who have no relationship or affiliation directly or indirectly with United and by sale of the other part on the open market or on a stock exchange. In addition, the court ordered that United Fruit's officers and directors should be restrained and enjoined from acquiring or holding, directly or indirectly, any legal or beneficial interest in any capital stock of International Railways of Central America.

The problem with International Railways of Central America (IRCA) arose from legal action brought against the United Fruit Company on behalf of IRCA by its minority stockholders. The claim was upheld by the Appellate Division of the New York Supreme Court, which supported the referee's 1957 ruling that the Company had used its 40 percent interest in IRCA to obtain unfair low rates. The appellate court ordered United Fruit to pay IRCA $4,628,997 plus interest, to make up the differences on shipments through 1957, and to increase the rate of payment for future shipments. In 1960, the Court of Appeals upheld the adverse decision of referee against the Company. As a result the Company was required to compensate the railroad for low freight rates and interest in the amount of $9,102,829 which was subsequently paid November 1, 1961.

In January 1962, the Company sold a 32 percent interest in IRCA to B.S.F. Company for $1,752,000 cash. The transaction involved 233,600 shares at $7.50 a share and partially fulfilled the previously mentioned 1958 civil antitrust consent decree signed with the Justice Department.

In February 1965, IRCA filed a $507 million triple-damage suit in U.S. district court against United Fruit. IRCA, which is controlled by Transportation Corporation of America, claims that in monopolistic acts allegedly committed prior to 1943, United Fruit (1) obtained preferential rates; (2) deprived carrier of revenue in lost traffic because of the Company's monopoly of the banana business in its territory; and (3) caused IRCA further damages by reductions of its banana plantations in Guatemala which were sold under conditions preventing them from being used again for that purpose. These damages were thus sought on the ground that IRCA was deprived of certain revenues from 1928 through 1961. However, Federal Judge S. J. Ryan of New York in May 1966 ruled that IRCA may not, in its suit against the United Fruit, prosecute claims that arose prior to 1961. This decision was upheld by Federal Circuit Court of Appeals Judge Henry Friendly in Boston in February 1967.

The present combination of a big meatpacker--AMK's Morrell subsidiary--and a company still predominant in the banana trade may cause some further antitrust problems. Furthermore, most of the shares in the original AMK block came from investment funds, a source which could generate some ground for criticism, even though most of the funds that provided the shares either deny it or insist on anonymity. The funds justifiably fear criticism that they took too active a role in corporate politics.

Whatever the outcome of these latter developments, it is clear that any attempt by Central American Regional Authorities to devise policies more directly relevant to the problems of economic development in the area must consider the existing financial and legal arrangements within the United Fruit Company.

The Managerial Surplus and Economic Policy

Lewis termed the difference between the total income of an enterprise and the wages bill as a "capitalist surplus." Such a figure is a theoretical postulate useful in studying the interactions between the capitalist and the traditional sector. A "managerial surplus" corresponds to efficient administration of resources without substantial ownership in the equity structure of the enterprise by the technical and managerial team. This study tries to investigate the quantitative significance of this concept in relation to United Fruit Company's operations in Central America. Such an investigation has two main objectives: it presents an overall picture of United Fruit's operations in the area, and it serves as a comparative tool with alternative policy variables to be considered shortly.

In terms of economic analysis it appears somewhat awkward to coin a term "managerial surplus" when probably the concept of "accounting profit" could serve as well. However, the primary purpose of this section is to show that the use of reported accounting profits for analyzing the industrial surplus could be greatly misleading and that recourse to an alternative variable is necessary.

The total number of United Fruit's shares outstanding was about 7,914,000 in December 1968, of which United Fruit's management owned about 5 percent. At present AMK owns more than 80 percent of these shares, but its direct participation in the United Fruit management functions is as yet insignificant.

The data made available by the controller's office of the United Fruit Company comprise information pertaining to the seven years 1960 through 1967, for the three countries of Central America where United Fruit has its most substantial operations--Guatemala, Honduras, and Costa Rica. From these data, it was possible to derive gross income figures for each division by adding the total sales, interest income, rental income, and profits resulting from sale of property. Table 2 demonstrates that the total income originating from the Central American area has averaged about $72 million per year, while the total wages bill for the area has averaged about $26 million per year. Notice the substantial increases in total income obtained by the Company from the three Central American countries in 1965-1967, the last three years of the period. From these data, we can derive a quantitative estimate of the capitalist surplus, which averages about $46 million per year for the area as a whole. Any interpretation given these data must depend on the particular theoretical formulation used in this study. As an accounting figure, the "capitalist surplus" is meaningless, but as one of the significant conceptions in economic development theory, it probably has more importance.

Table 2. Estimates of United Fruit Company's Capitalist Surplus in Central America, by Country, 1960-1967 (Thousands of Dollars).

Year	Guatemala Total Income	Guatemala Wages and Salaries	Guatemala Capitalist Surplus	Honduras Total Income	Honduras Wages and Salaries	Honduras Capitalist Surplus	Costa Rica Total Income	Costa Rica Wages and Salaries	Costa Rica Capitalist Surplus
1960	$ 19,252	$ 8,426	$10,826	$ 22,078	$10,286	$ 11,792	$ 19,467	$ 9,563	$ 9,904
1961	15,844	6,728	9,116	28,939	9,537	19,402	19,896	9,455	10,441
1962	14,839	5,464	9,375	23,796	9,047	14,749	25,105	8,202	16,903
1963	16,695	6,014	10,681	19,280	8,682	10,598	24,244	8,189	16,055
1964	16,281	7,233	9,048	23,328	9,300	14,028	24,687	8,581	16,106
1965	6,073	2,932	3,141	41,689	13,817	27,872	22,090	7,591	14,499
1966	8,145	3,375	4,770	56,989	16,427	40,562	22,158	7,061	15,097
1967	11,465	4,107	7,358	65,831	18,287	47,544	24,235	7,740	16,495
Totals	$108,594	$44,279	$64,315	$281,930	$95,383	$186,547	$181,882	$66,382	$115,500
Average	$ 13,574	$ 5,535	$ 8,039	$ 35,241	$11,922	$ 23,319	$ 22,735	$ 8,299	$ 14,346

(continued)

Table 2 (continued). Estimates of United Fruit Company's Capitalist Surplus in Central America, 1960-1967 (Thousands of Dollars)

Central America			
Year	Total Income	Wages and Salaries	Capitalist Surplus
1960	$ 60,797	$ 28,275	$ 32,522
1961	64,679	25,720	38.959
1962	63,740	22,713	41,027
1963	60,219	22,885	37,334
1964	64,296	25,114	39,182
1965	69,852	24,340	45,512
1966	87,292	26,863	60,429
1967	101,531	30,134	71,397
Totals	$572,406	$206,044	$366,362
Average	$ 71,551	$ 25,755	$ 45,796

Source: Computed from data provided by the Assistant Controller, United Fruit Company, Boston, Mass.

In developing the theoretical framework on which this study is based, it was assumed that the capitalist surplus as previously defined is "used" to meet all other necessary production expenditures. "Other necessary production expenditures" means concretely all the costs incurred which are directly and technically related to the production process, excluding such accounting-determined estimates of production costs as depreciation and other miscellaneous expenditures.

"Direct production costs" refers to all the materials and supplies used in the production process, repairs, rentals, freight, and other technical production costs of similar category. The reason for excluding the "other production costs" of depreciation, taxes, and miscellaneous will become clear in a moment.

For the Central American area as a whole, 64.8 percent of the capitalist surplus was used to meet these necessary direct production costs of United Fruit Company operations, as shown in Table 3. Notice that the Guatemalan division has the highest percentage (70.4 percent) and Honduras the lowest (59.1 percent), this difference perhaps reflecting different productive efficiencies in each country. Table 4 shows the other production costs as a percentage of the capitalist surplus. For the Central American area as a whole, an average 24.4 percent of the capitalist surplus was "used" to meet all the other production costs. Significantly, notice the sharp drop in the last three years in this percentage, from about 35 percent for the years 1960-1964, to only slightly over 14 percent

Table 3. United Fruit Company, Direct Production Costs as a Percentage of the Capitalist Surplus, by Country, in Central America (Thousands of Dollars)

	Guatemala			Honduras			Costa Rica		
Year	Capitalist Surplus	Direct Production Costs	Percent	Capitalist Surplus	Direct Production Costs	Percent	Capitalist Surplus	Direct Production Costs	Percent
1960	$10,826	$16,710[a]	a	$ 11,792	$ 9,908	84.0	$ 9,904	$ 5,863	59.2
1961	9,116	6,598	72.4	19,402	12,033	62.0	10,441	6,939	66.5
1962	9,375	5,233	55.8	14,749	11,015	74.7	16,903	9,917	58.7
1963	10,681	7,167	67.1	10,598	9,623	90.8	16,055	11,269	70.2
1964	9,048	5,988	66.2	14,028	11,084	79.0	16,106	11,425	70.9
1965	3,141	2,825	89.9	27,872	14,565	52.2	14,499	9,401	64.8
1966	4,770	4,093	85.8	40,562	18,516	45.6	15,097	8.682	57.5
1967	7,358	5,740	78.0	47,544	23,586	49.6	16,495	9,292	56.3
Totals	$64,315	$54,354	70.4	$186,547	$110,330	59.1	$115,500	$72,788	63.0
Average	8,039	6,794	70.4	$ 23,318	$ 13,791	59.1	$ 14,438	$ 9,099	63.0

a) Direct production costs for 1960 were much larger because of retroactive adjustment in freight rates (IRCA settlement). This year is excluded from the final average.

(continued)

Table 3 continued. United Fruit Company, Direct Production Costs as a Percentage of the Capitalist Surplus, by Country, In Central America (Thousands of Dollars)

Central America			
Year	Capitalist Surplus	Direct Production Costs	Percent
1960	$ 32,522	$ 32,481	
1961	38,959	25,570	65.6
1962	41,027	26,165	63.8
1963	37.334	28,059	75.1
1964	39,182	28,497	72.7
1965	45,512	26,791	58.9
1966	60,429	31,291	51.8
1967	71,397	38,618	54.1
Totals	$366,362	$237,472	64.8
Average	$ 45,795	$ 29,684	64.8

Source: Computed from data provided by the Assistant Controller, United Fruit Company, Boston, Mass.

Table 4. United Fruit Company, Other Production Costs as a Percentage of the Capitalist Surplus, by Country, in Central America, (Thousands of Dollars)

	Guatemala			Honduras			Costa Rica		
Year	Capitalist Surplus	Other Production Costs	Percent	Capitalist Surplus	Other Production Costs	Percent	Capitalist Surplus	Other Production Costs	Percent
1960	$10,826	$ 4,474	41.3	$ 11,792	$ 8,277	70.2	$ 9.904	$ 3,612	36.5
1961	9,116	4,900	53.8	19,402	8,405	43.3	10,441	3,632	34.8
1962	9,375	3,544	37.8	14,749	3,429	23.2	16,903	3,483	20.6
1963	10,681	3.374	31.6	10,598	3,202	30.2	16,055	2,938	18.3
1964	9,048	3,729	41.2	14,028	5,413	38.6	16,106	2,897	18.0
1965	3,141	1,652	52.6	27,872	2,954	10.6	14,499	3,850	26.6
1966	4,770	1,641	34.4	40,562	3,147	7.8	15,097	3,041	20.1
1967	7,358	1,185	16.1	47,544	3,604	7.6	16,495	3,189	19.3
Totals	$64,315	$24,499	38.1	$186,547	$38,431	20.6	$115,500	$26,642	23.1
Average	$ 8,039	$ 3,062	38.1	$ 23,318	$ 4,804	20.6	$ 14,437	$ 3,330	23.1

(continued)

Table 4, (continued). United Fruit Company, Other Production Costs as a Percentage of the Capitalist Surplus, by Country, in Central America. (Thousands of Dollars)

Central America			
Year	Capitalist Surplus	Other Production Costs	Percent
1960	$ 32,522	$16,363	50.3
1961	38,959	16,937	43.5
1962	41,027	10,456	25.5
1963	37,334	9,514	25.5
1964	39,182	12,039	30.7
1965	45,512	8,456	18.6
1966	60,429	7,829	13.0
1967	71,397	7,978	11.2
Totals	$366,362	$89,572	24.4
Average	$ 45,795	$11,197	24.4

Source: Computed from data provided by the Assistant Controller, United Fruit Company, Boston, Mass.

for the years 1965-1967. This drop might reflect a change in accounting practice in the estimation of other production costs, an increased managerial efficiency in the use of the Company's resources, or both. As discussed shortly, the possibilities of making accounting adjustments in these other production costs, even though fully justified within the legal tax structure, could cause misleading estimates of real resource potentialities of a given corporation.

For purposes of this analysis, the managerial surplus was defined as the difference between the capitalist surplus and the direct technical cost of production. The managerial surplus therefore equals total gross income minus wages, salaries, and direct production costs, excluding depreciation, taxes and other miscellaneous expenditures. It also equals net reported accounting profits before income taxes, plus depreciation, other taxes and miscellaneous costs.

From a strictly accounting framework, we should not exclude depreciation and other expenditures as non-production costs. The facilities provided by fixed plant and equipment render a technical and essential service to production and their cost must clearly be absorbed in the cost of production. Of course, depreciation expenditures and "other" are essential components of direct production costs, but since this analysis is primarily concerned with economic development policy, the following elements should be taken into account.

In terms of accounting theory and practice, the best procedure for apportioning depreciation costs is to do it whenever possible in relation to the stream of services rendered.[10] The main difficulty hindering general adoption of this approach is that of making a reasonably dependable estimate of the number of units of service to be rendered during the probable life of the particular element. In addition, it is plausible to argue that physical detioration is not always proportionate to intensity of use, and some evidence also indicates that the effect of such factors as obsolescence is not related to fluctuations in output. For most situations straightline calculation of annual depreciation is an acceptable and even a preferred form of the production standard. One of the objections to this method of apportionment, with its uniform yearly charges is that it ignores the relation of rate of return and remaining investment.[11]

One of the burning issues in accounting theory, related to depreciation estimates, is excellently summarized by Paton and Littleton:

> Is net income what management chooses to say it is or is it the result of objective conditions? Granting the inherent difficulties involved, it seems necessary

---

(10) This discussion on depreciation borrows freely from the ideas expounded in W. A. Paton and A. C. Littleton, An Introduction to Corporate Accounting Standards (Ann Arbor, Michigan: American Accounting Association, 1967).

(11) To deal with this theoretical limitation of the straight-line method, the compound interest method of apportionment is used in its various forms. It is not generally recommended, however, because of its undue complexity.

> to hold that the net income of an enterprise for a period is not made large or small by a method of calculation: Its real amount is determined by operating activities and attendant economic conditions. An accounting reckoning should be an attempt to capture objective realities which exist whether the reckoning is made or not. It follows that a manipulation of figures cannot provide a profit or lessen a loss. Moreover, neither the conception of income as a stream nor the accrualapproach in accounting imply that calculated periodic net income should be a uniform amount. The accounts should not be artificially modified in order to yield income statements which show a smooth flow of income. Although the obligation remains to determine the life span and periodic rate as carefully and objectively as possible, there should be no tinkering with the established gauges solely for the purpose of influencing the level of reported earnings.[12]

Since it is so difficult to forecast the approximate date of retirement for the typical unit of plant, it cannot be expected that the program of apportionment adopted will be precisely validated by future events. Thus the depreciation program should be carefully revised whenever the facts clearly indicate that revision is warranted. For example, if there is some evidence of early retirement as a result of technical progress or any other factor, an acceleration of the write-off process is in order. Similarly, circumstances may develop which afford a sound basis for a reduction in the depreciation rate.

In terms of our quantitative estimate of the managerial surplus in which depreciation charges are included, two elements must be considered. In the first place, this study does not take

---

(12) Paton and Littleton, op.cit.,p. 86 (emphasis added).

the position that depreciation is a hypothetical, arbitrary item in sharp contrast to the ordinary direct technical costs of production. In the second place, it also <u>does not</u> take the view that depreciation accounting is equivalent to the financing of replacements--that is, the view that holds that the basic purpose of accruing depreciation is to accumulate funds to provide for the renewal of plant assets. According to Paton and Littleton, these two views at best represent only half-truths and as ordinarily applied they suggest conclusions that are definitely erroneous.[13]

The investigation of the managerial surplus which follows recognizes that if all costs are covered by revenue, there will be available for disposition current funds sufficient to maintain all elements of working capital and, in addition, an amount equivalent to the portion of plant considered to have been currently consumed.[14] In terms of economic development policy such a conceptualization yields more meaningful predictions of potentially available economic resources form a given enterprise.

Another important element in estimating depreciation charges is the current cost to be assigned to land and other wasting assets.

---

(13) The view which is taken here should be repeated -- that depreciation does not differ fundamentally from other types of operating charges. In undertaking production, the business enterprise finds plant facilities just as necessary as materials and labor; plant costs thus have the same standing as the more current costs.

(14) "But recognizing this fact is a far cry from assuming that the process of accruing depreciation in itself insures the recovery of investment in plant." Paton and Littleton, <u>op</u>. <u>cit</u>., p. 89.

There is no definite consensus as to the appropriate practice regarding these estimates, particularly in regard to agricultural land, or agricultural cultivations. Does land actually depreciate in value? Do cultivations first appreciate in value while they grow and then depreciate as they decay? These are significant questions to which no definite answer could be given without more careful empirical investigation of actual results.

Consider for instance the important role which land plays in the United Fruit Company's operations, and the more important role which cultivations play in the agricultural phase of business operations, as described in Table 5. Very emphatically, this study does not suggest that an alternative accounting method should be pursued by the United Fruit Company. It is probably true that they have arrived at the best accounting framework for purposes of corporate reporting. It does suggest that inclusion of the depreciation deductions in our concept of the industrial surplus could yield more meaningful predictions, given the complexity of the accounting framework within which United Fruit operates, than reported accounting profits.

Keeping these factors in mind, the managerial surplus which results from the data available was estimated and compared with the results of conventional estimates of accounting profit. Table 6 shows what we can call the capital-accumulation capacity of United Fruit Company's operations in Central America. On the average, for the seven years considered, this capacity represented about 23.4 percent of the net investment for the company. Notice that this

Table 5. Fixed Assets Employed by the United Fruit Company, Totals, 1966, and 1967. (Thousands of Dollars)

	Investment		Accumulated Depreciation		Net Book Value	
	1967	1966	1967	1966	1967	1966
Lands	$ 10,722	$ 10,374	$ 4,238	$ 4,837	$ 6,484	$ 5,537
Houses and Buildings	61,927	59,536	35,572	35,879	26,355	23,657
Cultivations	63,005	62,839	33,250	35,103	29,755	27,736
Equipment	96,651	92,216	53,773	54,802	42,878	37,414
Railways, Tramways, and Rolling Stock	38,174	38,440	28,591	30,648	9,583	7,792
Wharves, Boats, etc.	7,222	6,755	3,036	2,798	4,186	3,957
Sugar Mills and Refineries	18,631	17,804	10,092	9,457	8,539	8,347
Steamships	116,646	117,071	58,357	54,409	58,289	62,662
Total	$412,978	$405,035	$226,909	$227,933	$186,069	$177,102

Source: United Fruit Company Annual Report, 1967.

Table 6. United Fruit Company, Managerial Surplus as a Percent of Net Investment In Central America, by Country, 1960-1967 (Thousands of Dollars)

	Guatemala			Honduras			Costa Rica		
Year	Managerial Surplus	Net Investment	Percent	Managerial Surplus	Net Investment	Percent	Managerial Surplus	Net Investment	Percent
1960	-----	$ 28,929	(-)[a]	$ 1,884	$ 37,767	5.0	$ 4,041	$ 27,075	14.9
1961	$2,518	24,284	10.4	7,369	30,185	24.4	3,502	26,910	13.0
1962	4,142	21,378	19.4	3,734	27,129	13.8	6,986	25,901	27.0
1963	3,514	17,225	20.4	975	28,096	3.5	4,786	26,536	18.0
1964	3,060	15,540	19.7	2,944	32,552	9.0	4,681	27,424	17.1
1965	316	14,098	2.2	13,307	34,409	38.7	5,098	25,591	19.9
1966	677	13,637	5.0	22,046	37,749	58.4	6,415	26,118	24.6
1967	1,618	12,822	12.6	23,958	39,772	60.2	7,203	28,038	25.7
Totals	$15,845	$147,905		$76,217	$267,659		$42,712	$213,593	
Average	$ 2,264	$ 18,488	12.2	$ 9,527	$ 33,457	28.5	$ 5,339	$ 26,699	20.0

[a] Not representative due to retroactive adjustment in freight IRCA rates.

(continued)

Table 6 (continued). United Fruit Company, Managerial Surplus as a Percent of Net investment in Central America, by Country, 1960-1967 (Thousands of Dollars)

	Central America		
Year	Managerial Surplus	Net Investment	Percent
1960	(--)[a]	$ 93,771	-----
1961	$ 13,389	81,379	16.5
1962	14,862	74,400	19.9
1963	9,275	71,857	12.9
1964	10,685	75,516	14.1
1965	18,721	74,098	25.2
1966	29,138	77,504	37.6
1967	32,779	80,632	40.7
Totals	$128,849	$629,157	
Average	$ 18,407	$ 78,645	23.4

[a] Not representative due to retroactive adjustment in IRCA rates.

Source: Computed from data provided by the Assistant Controller, United Fruit Company, Boston, Mass.

rate of return has considerably increased in the last few years, reaching about 25, 38, and 41 percent respectively for the years 1965, 1966, and 1967. The average managerial surplus has been about \$18.5 million per year, attaining a high of almost \$33 million in 1967. Compare these results with those of the same estimate procedure but using accounting profits as the policy variable, as shown in Table 7. In this latter case the average rate of return from the Central American countries was about 10 percent per year, less than half the capacity for capital accumulation revealed by the managerial surplus. Notice that while there are no negative rates of return for Guatemala when considering the managerial surplus--in fact, the average rate was 12.2 percent--it yields a negative rate of return, equal to 3.5 percent per year when estimated by using accounting profits. (However, for the last three years, in which profits from Central America have been substantial, the rates of return of both estimation procedures are a little bit more in line.)

The importance of computing the managerial surplus resides in providing a better picture within which regional authorities in Central America could analyze alternative policy proposals. If financial control of United Fruit Company operations were suddenly obtained by the Central American governments--either via purchase in the open market or via nationalization--<u>and if management efficiency were preserved</u>, the Central American governments

Table 7. United Fruit Company, Rate of Return on Investment in Central America, by Country, 1961-1967 (Thousands of Dollars)

	Guatemala			Honduras			Costa Rica		
Year	Net Investment	Net Profit Be-fore Taxes	Return on Investment	Net Investment	Net Profit Be-fore Taxes	Return on Investment	Net Investment	Net Profit Be-fore Taxes	Return on Investment
1961	$ 24,284	$(-2,382)	(-9.8)	$ 30,185	$(-1,036)	(-3.4)	$ 26,910	$ (-130)	(-4.8)
1962	21,370	598	2.8	27,129	305	1.1	25,901	3,503	13.5
1963	17,225	140	8.1	28,096	(-2,227)	(-7.9)	26,536	1,848	7.0
1964	15,540	(-669)	(-4.3)	32,552	(-2,469)	(-7.6)	27,424	1,784	6.5
1965	14,098	(-1,336)	(-9.5)	34,409	10,353	30.1	25,591	1,248	4.9
1966	13,637	(-964)	(-7.1)	37,749	18,899	50.1	26,118	3,374	12.9
1967	12,822	433	3.4	39,772	20,354	51.2	28,038	4,014	14.3
Totals	$118,976	$(-4,180)	(-3.5)	$229,892	$ 44,179	19.2	$186,518	$15,641	8.4
Average	$ 16,997	$ (-597)	(-3.5)	$ 32,842	$ 6,311	19.2	$ 26,645	$ 2,234	8.4

(continued)

Table 7 (continued). United Fruit Company, Rate of Return on Investment in Central America, by Country, 1961-1967 (Thousands of Dollars)

Central America			
Year	Net Investment	Net Profit Before Taxes	Return on Investment
1961	$ 81,379	$(-3,548)	(-4.4)
1962	74,400	4,406	5.9
1963	71,857	(-239)	(-3.3)
1964	75,516	(-1,354)	(-1.8)
1965	74,098	10,265	13.8
1966	77,504	21,309	27.5
1967	80,632	24,801	30.7
Totals	$535,386	$55,640	10.4
Average	$ 76,484	$ 7,949	10.4

Source: Computed from data provided by the Assistant Controller, United Fruit Company, Boston, Mass.

could use the managerial surplus estimated here for any other economic development project or other investment opportunities, or even, as an extreme case, for repaying a loan obtained for purchasing or nationalizing the Company. The real resources available for investment and reinvestment in the future are actually given by the managerial surplus, rather than by the accounting profit. Sound financial practice will require, however, that adequate consideration continue to be given to the estimation of depreciation expenditures. This continuing estimate will in no way alter the developmental potentialities of the managerial surplus as a development tool. The main policy implications of the analysis, however, must be looked upon within the context of alternative investment opportunities in the area, the possibilties of international financing, and the theoretical implications of such considerations for an overall development strategy.

United Fruit Company's Contributions to the Economic Development of Central America

Almost any study which deals with this aspect of economic development--whether it favors or opposes foreign investment in underdeveloped countries--invariably includes an evaluation, with varying degrees of objectivity, of the past and potential contributions of foreign investment. While this study investigate the future developmental potentialities of the United Fruit Company as a going concern, a study of past contributions to

Central American development will help put these possibilities in proper perspective.

A general discussion of the relative significance of the managerial surplus in Central American development has preceded this section. This section will now attempt to relate this policy variable to alternative parameters which purport to show the direct and indirect effects of United Fruit Company's operations in the area. As a first approximation, it will be assumed here that the direct contributions to Central American development are indicated in an index of the dollar payments to governments in the form of income taxes, import duties, export duties, other federal and municipal taxes, railway compensation, and warfage and compensation insurance, in relation to the managerial surplus. Table 8, by taking the managerial surplus figures equal to 100, gives an index of these payments to governments. For the three countries, on the average, about one-fourth of the managerial surplus went to the coffers of the Central American governments per year. This result means that the direct effect of the United Fruit Company on governmental revenues was on the average only one-fourth of what its potential contribution could have been had the Company belonged, as a going concern, to the Central American governments (the general observations regarding depreciation expenditures made before must be taken as cushions against this observation). In the conventional context of foreign investment in underdeveloped countries, the direct

Table 8. United Fruit Company, Direct Contributions to Central American Governmental REvenues. Payments-to-Governments/Managerial Surplus Index, by Country, 1960-1966 (Thousands of Dollars)

	Guatemala			Honduras			Costa Rica		
Year	Payments to Governments	Managerial Surplus	Index	Payments to Governments	Managerial Surplus	Index	Payments to Governments	Managerial Surplus	Index
1960	$1,025	-------	----	$ 1,278	$ 1,884	67.8	$ 1,293	$ 4,041	32.0
1961	727	$ 2,518	28.9	1,095	7,369	14.9	1 575	3,502	45.0
1962	661	4,142	16.0	705	3,734	18.9	1,975	6,986	28.3
1963	1,030	3,514	29.3	1,190	975	122.0	1,558	786	32.6
1964	855	3,060	27.9	1,022	2,944	34.7	1,323	681	28.3
1965	664	316	210.1	1,230	13,307	9.2	1,309	5,098	25.7
1966	503	677	74.3	4,767	22,046	21.6	1,983	6,415	30.9
Totals	$5,465	$14,227		$11,287	$52,259		$11,016	$35,509	
Average	$ 781	$ 2,371	32.9	$ 1,612	$ 7,465	21.6	$ 1,574	$ 5,073	31.0

(continued)

Table 8 (continued). United Fruit Company, Direct Contributions to Central American Governmental Revenues. Payments-to-Governments/Managerial Surplus Index, by Country, 1960-1966 (Thousands of Dollars)

Central America

Year	Payments to Governments	Managerial Surplus	Index
1960	$ 3,596	-----	----
1961	3,397	$13,389	25.4
1962	3,341	14,862	22.5
1963	3,778	9,275	40.7
1964	3,200	10,685	29.9
1965	3,203	18,721	17.1
1966	7,253	29,138	24.9
Totals	$27,768	$96,070	
Average	$ 3,967	$16,012	24.8

*Source: Figures relating to payments to to governments derived from the "Statement of Contributions to National Economics of Latin American Republics by United Fruit Company and its Subsidiaries," published by the Controllers office, United Fruit Company, Boston, Mass.

contribution of the United Fruit Company to government revenues, averaging almost four million dollars per year, is quite substantial. In terms of net profit before taxes, the average percentage paid as foreign income taxes to Central American governments amounted to about 31 percent per year, as seen in Table 9, or an average of \$2.6 million per year. Total payments to governments amounted to a yearly average of about 47 percent of Central American profits before taxes.

For indirect or "spillover" effects of United Fruit Company operations in Central America, the index used was the following. United Fruit makes payments to individuals and other companies within the national economies in the form of payrolls, purchase of agricultural products (bananas, cacao, sugar cane, plantains, palm oil, and livestock), purchase of merchandise and material, payments for transportation (railway, air, and other), aerial spray contracts, rentals, insurance premiums, utility services, and other miscellaneous payments. Clearly, these payments must have some kind of multiplier effects in the Central American economies, but it is virtually impossible to estimate the magnitude of such effects. An index relating the total amount of payments to individuals and others to the managerial surplus, however, could give some general idea of these indirect effects from United Fruit's operations. These computations are shown in Table 10. Notice that on the average, almost three times the amount of the managerial surplus has been spent yearly in the form of payments to central Americans, with the subsequent

Table 9. United Fruit Company, Foreign Income Taxes as a Percentage of Net Profit Before Taxes in Central America, by Country, 1960-1967 (Thousands of Dollars)

	Guatemala			Honduras			Costa Rica		
Year	Net Profit before Taxes	Foreign Income taxes	Percent	Net Profit Before Taxes	Foreign Income Taxes	Percent	Net Profit Before Taxes	Foreign Income Taxes	Percent
1960	---------	-----	----	$(-6,393)	-----	----	$ 429	$ 124	28.9
1961	$(-2,382)	-----	----	(-1,036)	-----	----	(-130)	---	----
1962	598	$180	30.1	305	$ 56	18.4	3,503	1,047	29.9
1963	140	115	82.1	(-2,227)	------	----	1,848	550	29.8
1964	(-669)	241	(-43.5)	(-2,469)	------	----	1,784	531	29.8
1965	(-1,336)	56	(-4.2)	10,353	3,106	30.0	1,248	370	29.6
1966	(-964)	71	(-7.4)	18,899	5,670	30.0	3,374	1,008	29.9
1967	433	130	30.0	20,354	6,054	29.7	4,014	1,200	29.9
Totals	$(-4,180)	$843	(-5.8)	$37,786	$14,886	39.4	$16;070	$4,830	30.0
Average	$ (- 597)	$105	(-5.8)	$ 4,723	$ 1,861	39.4	$ 2,009	$ 604	30.0

(continued)

Table 9 (continued). United Fruit Company, Foreign Income Taxes as a Percentage of Net Profit Before Taxes in Central America, by Country, 1960-1967 (Thousands of Dollars)

Central America

Year	Net Profit Before Taxes	Foreign Income Taxes	Percent
1960	$(-1,362)	$ 124	(-7.6)
1961	(-3,548)	---	------
1962	4.406	1,283	29.1
1963	(-239)	665	(-278.2)
1964	1,354	822	60.7
1965	10,265	3,532	34.4
1966	21,309	6,749	31.7
1967	24,801	7,384	29.8
Totals	$ 58,348	$20,559	35.2
Average	$ 8,335	$ 2,570	30.8

Source: Computed from figures provided by the Assistant Controller, United Fruit Company, Boston, Mass.

Table 10. United Fruit Company, Indirect Contributions to Central American Development. Payments-to-Nationals/Managerial Surplus Index, by Country, 1960-1966 (Thousands of Dollars)

	Guatemala			Honduras			Costa Rica		
Year	Payments to Nationals	Managerial Surplus	Index	Payments to Nationals	Managerial Surplus	Index	Payments to Nationals	Managerial Surplus	Index
1960	$16,969	------	----	$ 18,142	$ 1,884	965.0	$ 17,244	$ 4,041	426.7
1961	13,458	$ 2,518	534.5	18,083	7,369	245.4	14,698	3,502	419.7
1962	10,291	4,142	248.5	18,183	3,734	487.0	12,103	6,986	173.2
1963	11,722	3,514	333.6	17,861	975	1,832.0	13,506	4,786	282.2
1964	13,777	3,060	450.2	20,249	2,944	687.8	14,158	4,681	302.5
1965	7,053	316	2,232.0	23,384	13,307	175.7	14,357	5,098	281.6
1966	8,515	677	1,258.0	26,650	22,046	120.9	16,733	6,415	260.8
Totals	$81,785	$14,227		$142,552	$52,259		$102,799	$35,509	
Average	$11,688	$ 2,371	492.8	$ 20,365	$ 7,466	272.8	$ 14,686	$ 5,073	289.5

(continued)

Table 10 (continued). United Fruit Company, Indirect Contributions to Central American Development. Payments-to-Nationals/Managerial Surplus Index, by Country, 1960-1966 (Thousands of Dollars)

Central America

Year	Payments to Nationals	Managerial Surplus	Index
1960	$ 52,355	$------	-----
1961	46,239	13,389	345.4
1962	40,577	14,862	273.0
1963	43,089	9,275	464.6
1964	48,184	10,685	450.9
1965	44,794	18,721	239.3
1966	51,898	29,138	178.1
Totals	$327,136	$96,070	
Average	$ 46,734	$16,012	291.9

Source: Figures relating to payments to individuals and others (nationals) derived from the "Statement of Contributions..." op. cit.

"spillover" effects which such payments could conceivably have for the regional economies. An average of almost $47 million per year has been injected into these economies as part of the indirect effects of United Fruit Company's operations in Central America for the years 1960-1966. The highest indirect contributions of United Fruit have occurred in Guatemala, in which the total payments to nationals averaged about five times the managerial surplus obtained from that country.

The index of indirect contributions is actually a "neutral" index as contrasted to the index for direct contributions, in the sense that in the former case, no matter who owns the Company, the benefits still will accrue to the countries in reference. In the latter case, who obtains the direct benefits of productive operations is the crucial variable.

It has generally been asserted that the United Fruit Company takes out of the Central American countries an amount substantially in excess of what the Company leaves. Such an assertion merits more careful quantitative consideration in light of the direct and indirect contributions previously mentioned. The above type of statements usually mean that the net addition to total fixed assets--the real incremental investment of United Fruit Company-- is substantially below the net profits before taxes which the Company takes out. As can be seen in Table 11, such an assertion is patently false. In this table, the net amount of construction expenditures--which presumably include such things as new plantations,

Table 11. Net Incremental Investment of United Fruit Company in Central America as a Percentage of the Managerial Surplus, by Country, 1960-1967 (Thousands of Dollars)

	Guatemala			Honduras			Costa Rica		
Year	Construction Expenditure	Managerial Surplus	Percent	Construction Expenditure	Managerial Surplus	Percent	Construction Expenditure	Managerial Surplus	Percent
1960	$ 4,277	$ -----	----	$ 2,106	$ 1,884	111.7	$ 1,640	$ 4,041	40.1
1961	970	2,518	38.5	645	7,369	8.8	1,512	3,502	43.2
1962	360	4,142	8.7	1,118	3,734	29.9	2,103	6,986	30.1
1963	354	3,514	10.0	3,248	975	333.1	3,724	4,786	77.8
1964	1,030	3,060	33.7	9,110	2,944	309.1	2,178	4,681	46.5
1965	1,536	316	486.1	6,201	13,307	46.6	2,465	5,098	48.4
1966	1,776	677	262.3	4,009	22,046	18.2	5,399	6,415	53.0
1967	1,731	1,618	107.0	6,754	23,958	28.2	5,773	7,273	80.1
Totals	$12,034	$15,845		$33,191	$76,217		$22,794	$42,712	
Average	$ 1,504	$ 2,263	66.5	$ 4,149	$ 9,527	43.5	$ 2,849	$ 5.339	53.0

(Continued)

Table 11 (continued). Net Incremental Investment of United Fruit Company in Central America as a Percentage of the Managerial Surplus by Country (Thousands of Dollars)

Central America			
Year	Construction Expenditure	Managerial Surplus	Percent
1960	$ 8,023	$ ------	----
1961	3,127	13,389	23.4
1962	3,581	14,862	24.1
1963	7,326	9,275	79.0
1964	12,318	10,685	115.3
1965	10,202	18,721	54.5
1966	9,184	29,138	31.5
1967	14,258	32,779	43.5
Totals	$68,019	$128,849	
Average	8,502	18,407	46.2

Source: Computed from data provided by the Assistant Controller, United Fruit Company, Boston, Mass.

irrigation canals, housing, etc. -- is compared with the managerial surplus. In this particular case, this comparison seems the proper relationship to establish since the managerial surplus includes depreciation expenditures from which presumably this incremental investment comes. On the average the United Fruit Company made about $8.5 million in construction expenditures per year; about 46 percent of the managerial surplus was "used" for reinvestment purposes.

Notice that the average yearly amount of reinvestment for Central America as a whole almost exactly equals the average yearly net profit before taxes obtained by the Company. In a very loose way it could then be said that the United Fruit Company has been "taking out" an amount equal to what the Company has been "putting in." If we add the direct and indirect contributions of the Company to Central American development, then the Company has been "putting in" a substantially larger amount than it has been "taking out."

Another important aspect for consideration here is the net increment to the total investment of the Company's operations in Central America. Company data show that it has depreciated fixed assets in Central America at an average of $8.6 million per year. Thus, if the Company has produced a net profit before taxes equal to a yearly average of $8.3 million, and has made additional "construction expenditures" equal to $8.5 million per year on the average, then the Company has been "keeping up" with its investment in Central America--that is, it has not increased its net investment in the area--while obtaining a net profit before taxes about equal to its net "construction" investment for the year.

In terms of the analytical framework on which this investigation is based, such general statements as the latter ones are clearly irrelevant. What matters from this study's viewpoint is how much of a developmental potential the United Fruit Company has for the regional economies of Central America as a privately-owned concern, vis-a-vis the same potentialities as a regionally-owned enterprise.

The United Fruit Company and the Central American Divisions

The Central American subsidiaries of the United Fruit Company are just a part--albeit a very important part--of the complex network of production and marketing organization which forms the United Fruit Company as a going concern.

About 36 percent of the Company's total net income before taxes originated in the Central American divisions (see Table 12); of the average net profit of about $23 million per year earned by United Fruit, $8 million per year originated from the three countries of Central America. Notice, however, that in the last three years shown in Table 12, the net profit before taxes originating from Central America has been on the average about 42.5 percent of the total profits. If the figures for the Panamanian division are included in this computation, about 59 percent of total United Fruit profits originated from Central America; in the last three years alone, this average rises to about 67 percent when Panama is included.

Table 12. Net Profit Before Taxes Originating in the Central American Divisions as a Percentage of Net Income Before Taxes of the United Fruit Company, 1961-1967. (Thousands of Dollars)

		NET PROFIT BEFORE TAXES							
		Guatemala		Honduras		Costa Rica		Central America	
Year	Net Income Before Taxes	Amount	Percent	Amount	Percent	Amount	Percent	Amount	Percent
1961	$ 12.321	$(-2,382)		$(-1,036)		$ (-130)		$(-3,548)	
1962	16,256	598	3.7	305	1.9	3,503	21.6	4,406	27.1
1963	2,433	140	5.8	(-2,227)		1,848	76.0	(-239)	
1964	4,505	(-669)		(-2,469)		1,784	39.6	1,354	30.0
1965	32,531	(-1,336)		10,353	31.8	1,248	3.8	10,265	31.6
1966	43,015	(-964)		18,899	43.9	3,374	7.8	21,309	49.5
1967	53,113	433	8.2	20,354	38.3	4,014	7.6	24,801	46.7
Totals	$164,174	$(-4,180)		$ 37,786	23.0	$15,641	9.5	$58,348	35.5
Average	$ 23,453	$ (-597)		$ 4,723	23.0	$ 2,234	9.5	$ 8,335	35.5

Source: Net income before taxes derived from United Fruit Company Annual Reports.

Table 13. Managerial Surplus Originating in the Central American Divisions as a Percentage of Net Income Before Taxes for the United Fruit Company as a Going Concern, by Country, 1960-1967. (Thousands of Dollars)

		MANAGERIAL SURPLUS							
		Guatemala		Honduras		Costa Rica		Central America	
Year	Net Income Before Taxes	Amount	Percent	Amount	Percent	Amount	Percent	Amount	Percent
1960	$ 2,871	$		$ 1,884	65.6	$ 4,041	140.7	$	
1961	12,321	2,518	20.4	7,369	59.8	3,502	28.4	13,389	108.7
1962	16,256	4,142	25.5	3,734	23.0	6,986	43.0	14,862	91.4
1963	2,433	3,514	144.4	975	40.1	4,786	196.7	9,275	381.2
1964	4,505	3,060	67.9	2,944	65.3	4,681	103.9	10,685	237.1
1965	32,531	316	9.7	13,307	40.9	5,098	15.7	18,721	57.5
1966	43,015	677	1.6	22,046	51.3	6,415	14.9	29,138	67.7
1967	53,113	1,618	3.0	23,958	45.1	7,203	13.6	32,779	61.7
Totals	$167,045	$15,845	9.5	$76,217	45.6	$42,712	25.6	$128,849	77.1
Average	$ 20,880	$ 2,263	10.8	$ 9,527	45.6	$ 5,339	25.6	$ 18,407	88.2

Sources: Net income before taxes derived from United Fruit Company's Annual Reports.

Since figures corresponding to the managerial surplus for the whole United Fruit Company were not available at the time of writing, a comparison of the managerial surplus originating in Central America with the net income before taxes of United Fruit is included in Table 13. Under this comparison, 88 percent of the Company's profits could be formed by the managerial surplus produced in Central America. For some reason or another--reasons which could very well merit some additional research--there are some years such as 1961, 1963, and 1964 in which the total Central American managerial surplus was larger than net income before taxes for the whole corporation. Losses in other divisions could be the most important determinant, although we have to remember that "losses" in this case are reported within the acceptable standards of accounting theory, after depreciation charges.

The importance of the Central American divisions within the profit structure of the United Fruit Company is very large, and the possibilities of developing a strong bargaining position vis-a-vis third countries are very real in relation to the banana industry as a regional enterprise. If Panama is included as part of this regional enterprise, the importance of the Central American divisions is greatly enhanced.

Furthermore, when referring to the banana industry in Central America, we should include the second most important enterprise in the area, the Standard Fruit and STeamship Company, whose total net income before taxes averaged about $3.9 million for the years 1962-1964. No financial connection of any sort exists between the

United Fruit Company and the Standard Fruit Company, except perhaps the implicit price policies which in one way or another these corporations tend to establish according to oligopolistic theory. In terms of regional policy in connection with the banana industry, careful quantitative consideration must also be given to the importance of the managerial surplus produced within Standard Fruit, as well as careful qualitative investigation of the problems and potentialities of a reorganization of these corporations on a regional scale as part of a Central American development strategy.

Labor Productivity and Capital Intensity

Two important policy variables in the examination of United Fruit Company's operations in Central America remain to be studied. One of these parameters is labor productivity, defined in this section as gross United Fruit product per worker. Table 14 shows the necessary calculations for the three Central American countries considered here. The gross product per worker equals about $2,897 on the average, and the Central American divisions have employed an annual average of 23,224 workers. In terms of productivity per worker, this is probably one of the highest to be found in the agricultural export sector, even though the data referring to the other sectors are not very conclusive. In terms of the employment capacity of the United Fruit Company, the average number of workers employed per year amounts to 5 percent of the total salaried workers in the agricultural sector of Central

America, or about 1.4 percent of the total number of agricultural workers.

As a guide in understanding the possible costs of an industrialization program which attempts to reach the average levels of labor productivity described in Table 14, the amount of capital per worker now employed in the United Fruit Company is particularly relevant. Table 15 shows that on the average $3,374 was employed per worker in Central America; this figure is approximately the usual estimate for industrial development projects. It is extremely doubtful whether any policy designed to increase employment opportunities within the going plant of United Fruit's operations in Central America would be to the long-run benefits of the regional economies. A more productive alternative might be to investigate the potentialities of reinvestment of the managerial surplus as a means to full employment <u>outside</u> the boundaries of the Company.

<u>United Fruit Company's Wages in Central America</u>

The figures included in Table 16 indicate that the average basic wage paid by the Company is consistently higher, with the exception of Honduras, than the average daily wage including fringe benefits paid in adjacent agricultural enterprises. When the average daily wage is adjusted to include the fringe benefits paid by the Company also described in Table 16, these are consistently and substantially higher for all countries included in that table.

Table 14. United Fruit Company, Labor Productivity in the Central American Divisions, by Country, 1960-1966.

	Guatemala			Honduras			Costa Rica		
Year	Gross Income[a]	Number of Workers	Product per Worker	Gross Income[a]	Number of Workers	Product per Worker	Gross Workers	Number of Workers	Product per Worker
1960	$19,252	7,850	$2,452	$ 22,078	9,477	$2,330	$ 19,467	8,785	$2,216
1961	15,844	5,570	2,845	28,939	8,847	3,271	19,896	7,430	2,678
1962	14,839	5,645	2,629	23,796	9,007	2,642	25,105	8,125	3,090
1963	16,695	5,818	2,870	19,280	4,555	4,233	24,244	4,713	5,144
1964	16,281	4,114	3,957	23,328	13,833	1,686	24,687	7,399	3,337
1965	6,073	3,825	1,588	41,689	14,253	2,925	22,090	6,210	3,557
1966	8,145	4,472	1,821	56,989	15,062	3,784	22,158	7,578	2,924
Totals	$97,129	37,294	$2,604	$216,099	75,034	$2,880	$157,647	50,240	$3,138
Average	13,876	5,328	2,604	$ 30,871	10,719	$2,880	$ 22,521	7,177	$3,138

[a] Thousands of Dollars.

(continued)

Table 14 (Continued). United Fruit Company, Labor Productivity in the Central American Divisions, by Country, 1960-1966.

Central America			
Year	Gross Income[a]	Number of Workers	Product per Worker
1960	$ 60,797	26,112	$2,328
1961	64,679	21,847	2,961
1962	63,740	22,777	2,798
1963	60,219	15,086	3,992
1964	64,296	25,346	2,537
1965	69,852	24,288	2,876
1966	87,292	27,112	3,220
Totals	$470,875	162,568	$2,897
Average	$ 67,268	23,224	$2,897

Source: Data referring to number of workers derived from "Statement of Contributions..." op. cit.

Table 15. United Fruit Company, Capital/Labor Ratios in the Central American Divisions, by Country, 1960-1966.

	Guatemala			Honduras			Costa Rica		
Year	Net Investment[a]	Number of Workers	Capital per Worker	Net Investment[a]	Number of Workers	Capital per Worker	Net Investment[a]	Number of Workers	Capital per Worker
1960	$ 28,929	7,850	$3,685	$ 37,767	9,477	$3,985	$ 27,075	8,785	$3,082
1961	24,284	5,570	4,360	30,185	8,847	3,412	26,910	7,430	3,622
1962	21,370	5,645	3,786	27,129	9,007	3,012	25,901	8,125	3,100
1963	17,225	5,818	2,961	28,096	4,555	6,168	26,536	4,713	5,630
1964	15,540	4,114	3,777	32,552	13,833	2,353	27,424	7,399	3,706
1965	14,098	3,825	3,686	34,409	14,253	2,414	25,591	6,210	4,121
1966	13,637	4,472	3,049	37,749	15,062	2,506	26,118	7,578	3,447
Totals	$135,083	37,294	$3,622	$227,887	75,034	$3,037	$185,555	50,240	$3,693
Average	$ 19,298	5,328	$3,622	$ 32,555	10,719	$3,037	$ 26,508	7,177	$3,693

[a]Thousands of Dollars

(continued)

Table 15 (continued). United Fruit Company, Capital/Labor Ratios in the Central American Divisions, by Country, 1960-1966.

Central America

Year	Net Investment[a]	Number of Workers	Capital per Worker
1960	$ 93,771	26,112	$3,591
1961	81,379	21,847	3,725
1962	74,400	22,777	3,266
1963	71,857	15,086	4,763
1964	75,516	25,346	2,979
1965	74,098	24,288	3,051
1966	77,504	27,112	2,859
Totals	$548,525	162,568	$3,374
Average	$ 78,361	23,224	$3,374

[a] Thousands of Dollars.

Table 16. United Fruit Company, Wages (Dollar Equivalents) Paid Agricultural Laborers in 1967 in Latin American Operations by Country

Country (Division)	Legal Minimum Per Day	Minimum Daily Wage Paid by the Company	Average Basic Wage Paid by the Company	Social Benefits Per Diem	Medical Care Per Diem	Average Daily Wage Including Fringe Benefits pd. by the Co.	Average Daily Wage Including Fringe Benefits pd in Adj. Entps.
Guatemala	$----	$2.16	$2.73	$0.87	$0.14	$3.74	$1.70
Honduras	----	2.80	3.38	0.50	0.17	4.05	3.80
Costa Rica (Golfito)	2.42	2.66	4.04	0.77	0.19	5.00	3.23
Panama (Almirante)	2.00	3.20	4.38	0.74	0.09	5.21	3.00
Panama (Armuelles)	2.00	3.20	4.06	0.70	0.13	4.89	3.00
Colombia (Turbo)	0.86	1.48	2.12	0.54	----	2.66	1.85

[a] Includes wages and fringe benefits paid by Standard Fruit and Steamship Company.

Source: Data provided by Personnel Office, United Fruit Company, Boston, Mass.

The comparative wage paid in adjacent enterprises includes the wages and fringe benefits paid by other fruit corporations such as the Standard Fruit and Steamship Company, and these are not fair reflections of the prevailing level of wages outside the export sector. For instance, Schmid found the level of wages and perquisites per day characteristic of other export enterprises such as coffee and cotton in the Guatemalan economy, shown in Table 17.

Table 17. Wages and Fringe Benefits Paid to Workers in Coffee and Cotton Enterprises in Guatemala, 1967.

Enterprise	Wages and Perquisites Per Day			Average
	Cuadrilleros[a]	Voluntarios[a]	Colonos[b]	
Coffee	$0.774	$0.711	$0.717	$0.734
Cotton	1.15	1.29	1.06	1.17

a) Cuadrilleros and Voluntarios can be considered migratory laborers for all practical purposes.
b) Colonos represent the permanent labor force.

Source: Lester Schmid, "The Productivity of Agricultural Labor in the Export Crops of Guatemala: Its Relation to Wages and Living Conditions," Inter-American Economic Affairs, Vol. 22, No. 2 (Autumn, 1968), pp. 33-45.

Apparently, the average daily wage including fringe benefits paid in adjacent enterprises is somewhat overstated for Guatemala in Table 16, in which the estimated average daily wage was $1.70, compared to $0.73 and $1.17 for the coffee and cotton plantations, respectively studied by Schmid. If these wages are considered representative for the coffee and cotton sectors in Central America--an assumption perhaps not far from the truth given present conditions of labor supply--then the United Fruit Company has paid considerably higher wages in Central America than other export enterprises, excluding other large-scale fruit corporations. This last exclusion is necessary, because it is reasonably clear that the well-organized labor unions which these corporations face in their bargaining negotiations--plus high labor productivity within the corresponding enterprises--have led to considerable improvement of the standard of living of the workers.

In contrast, neither the permanent nor the migratory labor employed by coffee and cotton enterprises in the area have yet developed any bargaining capability vis-a-vis their employers. It would seem proper to assert that while the wage levels prevailing in the large corporate export enterprises in Central America are to a large extent determined by conditions of bargaining power, those of the coffee and cotton enterprises are clearer reflections of the equilibrium mechanism prevailing in the labor market. The level of wages in Table 17 shows in more detail the alternative productive opportunities available to the labor force in the agricultural sector. It is now more apparent that any wage-increasing policy for other export enterprises in Central America will face three complementary alternatives: (1) increase the bargaining capabilities of the labor force as exemplified by the labor unions in the United

Fruit Company and the Standard Fruit Company; (2) increase labor productivity within the other export enterprises; or (3) increase agricultural productivity outside the export enterprises, particularly that of migratory labor.

It has often been asserted that the United Fruit Company "exploits labor" and that the "cheap labor policy" pursued by this corporation has been detrimental to economic development. Some important theoretical and empirical elements regarding this position are completely valid--at least for the Company's operations prior to the organization of labor unions in Central America. Nevertheless, this study provides another perspective within which to analyze the role of wage levels in general economic development. In brief, the most important policy variable considered here is the generation and productive reinvestment of the managerial surplus, rather than a shifting of this surplus toward labor's share. While some possible impact on regional development could result from higher standards of living and increased purchasing power by the workers of the United Fruit Company, this study proposes that a rational development strategy for Central America would lay more weight on reinvestment. It is also plausible to argue that a continuous reinvestment of the managerial surplus in profit-generating projects of regional scope could have more employment-creating effects than increased consumption policies. Obviously, these statements apply not only to the managerial surplus

surplus which originates in the United Fruit Company, but to any industrial surplus of comparable magnitude now being produced in Central America.

Summary and Conclusions

This paper has attempted to describe briefly the importance of the United Fruit Company, as a going concern, in the national economies of Central America. The underlying orientation of the analysis has been that of establishing criteria through which acquistition of financial control of the Company could be economically justified by regional authorities. The analysis, however, does not provide all the necessary elements which should be considered in such an endeavor. The potential or expected profitability of operations of the Central American divisions should be compared with alternative rates of return obtainable from other investment projects. This factor obviously makes the analysis of the available means of acquisition and its economic justification a little more complicated.

The concept of the managerial surplus appears more directly relevant to the particular purposes of this investigation than alternative conceptions. In simple terms, the managerial surplus is nothing more than the financial margin which remains after all technically-determined costs of operation have been deducted from gross income figures. Some consideration has been given to the reasons for excluding depreciation expenditures--which are admittedly clear costs of production -- from estimation of the managerial surplus. The "Managerial" surplus as a different working conception than reported accounting profits has been developed not because it introduces new elements into generally accepted accounting procedures, but because it helps expose the real capacity for capital accumulation of a given enterprise. The "managerial" part is added because important consequences arise for public policy, especially for regional development policy in Central America when only an insignificant percentage of ownership in the asset and equity structure of an enterprise is held by its effective management group as is the case with the United Fruit Company.

The computations summarized in Table 6 show that in the 1965-1967 years of Central American operations, the United Fruit Company obtained a managerial surplus equalling \$18.7 million, \$29.1 million, and \$32.8 million, respectively. These amounts correspond to a real return on net investment equalling 25.2, 37.6, and 40.7 percent, respectively. The book value of investment in these same years has been estimated at \$74.1 million, \$77.5 million, and \$80.6 million. This analysis puts more emphasis on the last years for which information is available because they tend to show more effectively the present trend of United Fruit's operations than does the average for the eight years studied.

Assuming, somewhat conservatively, that we could reasonably expect a yearly managerial surplus of \$26.8 million, the relevant

Central American authorities should ask: How good an investment is the United Fruit Company vis-a-vis other available alternatives? Such an investment could be evaluated, as a first and gross approximation, in terms of the net book value of United Fruit's investments in the area, which are about $77.0 million . If $77.0 million were the price of the Company, and if we could expect a yearly return of $26.8 million, such an investment will be self-liquidating in about three years! This of course is a very oversimplified and misleading calculation.

In the first place, a reasonable price for the United Fruit Company's investments in Central America lies somewhere between the net book value of its investments and the corresponding market value of the Company's operations in the area. For the <u>whole</u> going concern, the estimated market value, derived from the AMK, Texton Corporation, and Dillingham Corporation's bids for control of the Company, fluctuated from $716 million to $771 million. The value of the exchange carried out in the AMK merger previously described cannot be determined accurately, but Wall Street sources put a price tag of between $95 and $100 on the package which AMK offered for one common share of the United Fruit Company. Based on United Fruit's shares outstanding in December 1968, the transaction was then valued at between $763.8 million and $804 million if all outstanding shares (8,040,299) were tendered and accepted.[16]

---

[16] See <u>Wall Street Journal</u>, December 5, 1968.

If we assume that 80 percent of the shares were accepted by AMK, then AMK paid about $604 million to obtain control and beneficial ownership of the United Fruit Company as a going concern. Based on an estimated $186 million reported by the Company as its net book value for 1967, the relative gap between this value and its market value is then estimated at about 324 percent, taking net book value as 100.

Since the net book value of the Central American divisions is about $77 million, a gross approximation of their market value will lie somewhere between $231 and $308 million. Assuming that the Central American governments had $250 million to spend, would purchase of United Fruit be justified? If this amount were available in cash, and if we could still expect a yearly managerial surplus equal to $26.8 million, the Company will self-liquidate, ignoring other complicating factors such as interest, in less than ten years. However, the relevant question is related to cost-benefit considerations. If the Central American governments had $250 million, would it be more advantageous to the Central American economies to invest this amount in alternative projects such as colonization schemes, new industrial enterprises, schools, roads, etc.? Of course, the calculations needed for such a comparison are extremely complex, and much more investigation of empirical material will be needed before arriving at a somewhat convincing position. The practitioner of cost-benefit analysis is more familiar with the necessary procedures required in this estimation.

The above questions have been framed as if the Central American governments had \$250 million to invest and as if they were willing to consider buying financial control of United Fruit Company's operations in the area. Clearly, such assumptions--at least the first one-are unwarranted for the Central American region. The combined public sector receipts of the five countries--Guatemala, Honduras, Costa Rica, Nicaragua, and El Salvador--hardly amounted to \$418 million in 1966; and their combined gross national products for the same year amounted to \$4,047 million. In this context, \$250 million, an "everyday" figure for corporate finance in the United States--seems a substantial amount. Thus, the most immediate and relevant question which the Central American governments should consider could be framed in the following manner. Given that the Central American countries, through the already established institutional mechanisms of the Central American Common Market, want to accelerate the processes of regional industrialization, increased agricultural production, and attainment of full employment, what are the policy alternatives in relation to already-produced industrial surpluses? Or in more concrete terms, given the empirical basis of this investigation, what are the most appropriate means to rechannel the managerial surplus produced by the United Fruit Company into the process of regional development?

The consequences of pursuing conventional alternatives--increased taxation of profits, indirect taxation, direct taxation, and export taxes--are summarized in Tables 8 and 9, which examined the relationship of these payments to governments to both the managerial surplus (a yearly average of about 25 percent) and net profits before taxes (a yearly average of about 35 percent). It is doubtful that these conventional routes could substantially increase Central American revenues from the banana corporations. Furthermore, deep consideration must be given to the needs of the region in terms of foreign investment and the implications which increased taxation could have for investment incentives within the region.

A more palatable and not completely unconventional approach is the path of Negotiated Regionalization, as could be illustrated by recent actions within the Chilean government. Since these actions seem particularly relevant to the Central American case, a brief description of the latest of these is in order. On May 21, 1969, Chilean President Frei indicated that the Chilean government intended to obtain at least part interest in the huge copper mines of the Anaconda Company, an American corporation in that country. The process of "Chileanization" of the mines envisaged by Frei did not mention the possibility of outright nationalization. However, the plan implied that if Anaconda refused to cooperate in this program, they would be liable to expropriation or the penalty of extremely heavy taxes.[17] The

[17] More complete information is found in The New York Times, May 22, 1969.

Chilean Congress is considering obtaining 51 percent government control of the most productive Anaconda mines in the country. In the Chilean case, Anaconda is the only major company with United States ownership that has refused to form mixed corporations with the government for joint operation of mines. Since Anaconda depends largely on its Chilean mines for its total copper production--a situation similar to United Fruit's banana operations in Central America--it is obviously less willing to lose direct control.[18] According to Frei, experience had shown the advantages of Chileanization wich "enjoys prestige abroad and permits the financing of development plans without difficulty and conforming with our possibilities."

In brief, the lack of readily available capital resources for an effective program of Regionalization of the banana industry in Central America should not be considered an insurmountable obstacle, as Chilean experience with international lending agencies, plus the government's willingness to issue acceptable bonds, has shown. Notice that the "Regionalization Program" now refers to a Regionalization of the banana industry as a whole, and not only the United Fruit Company. Some further implications

---

18 According to the New York Times, another important copper corporation, Kennecott, agreed to Chileanization if its giant "El Teniente" mine, in which Kennecott retained only 49 percent interest. The majority interest in this mine was acquired by the Chilean government partly in exchange for government bonds issued to the Kennecott Corporation. Kennecott gave the government 51 percent of their operation for $80 million, plus a $93 million loan and another loan of $110 million from the Export-Import Bank in Washington.

of this latter policy alternative are briefly discussed in a moment.

The necessary Regionalization procedures by the relevant Central American authorities could possibly take several complementary routes. As a first step, a high level meeting of the Central Americn governments--through the Economic Council of the Central American Common Market or possibly through a Presidential meeting--with the possible attendance of Panama, could examine the potentialities of Regionalization of the banana industry as a whole, based on the best information and financial analysis available. In this meeting the basic steps for a coordinated policy of regional scope could be worked out.

The Central American Bank for Economic Integration could also explore the financial possibilities for an issuance of competitive-yielding bonds to be marketed in the financial centers of New York and London, with the financial support of international lending agencies, such as the World Bank and the Interamerican Development Bank. A new financial instrument, similar to the convertible debenture or convertible bond widely used by American corporations could also be explored. The convertible feature in this case will be mostly designed to satisfy the more speculative-minded investor, but will not carry voting rights as is the usual case with bonds or debentures convertible into common stock. The idea of such a financial strategy is to provide some degree of confidence on the marketable securities issued by the Central American Bank as a means to a ready source of capital funds. These funds could later be used either to pay for the Regionalization program or to underwrite any new industrial ventures within the Central American Common Market. The financial alternatives available to the Central American governments are almost as numerous as those available to private corporations, provided that adequate steps are taken to ensure proper international cooperation and security of expectations in relation to the financial instruments.

Such a long term policy for Regionalization of the banana industry would of course involve a series of political negotiations both with the companies affected, within the national governments, and between these and the United States government. Such negotiations will by no means be easy, but nobody expects the process of development to be an easy thing anyway.

There are some grounds for optimism too, in some recent changes in U.S. policy towards Latin America. Even though this change has its roots in the liberalization of trade barriers within the industrialized countries in relation to the underdeveloped world, it is possible that a unified Central American policy regarding the banana industry could get an adequate response from the U.S. government. And this is probably one of the essential ingredients for the success of the Regionalization policy, i.e., U.S. support to a Unified Central American Program.

If proper steps are taken toward an effective process of Regionalization of the banana industry, another important long term policy problem likely to require immediate attention is the exercising of executive and management functions. In the case of the United Fruit Company, there is sufficient basis to conclude that the present managerial functions exercised on behalf of the Company's effectiveness as a profit-making concern are perfectly adequate for the purposes envisaged in this study. In other words, if financial control of the Company's operations in Central America were acquired by these governments, there is no a priori valid reason why present executive and managerial functions should be changed. Nor does there appear any valid reason why the present managerial team will want to leave their present roles if the same compensation and incentives continue to prevail. Of course, effective participation of the Central American governments on United Fruit's board of directors will be required in accordance with their degree of financial participation. A long term Regionalization policy will also require training in actual banana operations of an adequate number of Central American technicians. If for no other reason than nationalistic sentiments within the Central American area.

In terms of the banana industry as a whole, the Central American governments could possibly get representation on the boards of directors of the other important banana corporations in the area, particularly on that of the Standard Fruit and Steamship Company, if as in the first case financial participation is assured. The full implications of such an arrangement for the area's long term development perspectives are somewhat difficult to foresee. The bargaining power and consequent effects on terms of trade for banana sales of such a quasi-monopolistic position in the banana business could have serious implications for international trade and trading arrangements. It should be added that these implications, ceteris paribus, could be highly beneficial to the area's development. Other implications for trade, given antitrust legislation in the United States, and other regulations concerning the banana industry, will have to be worked out on a bilateral basis.

Fundamentally, this analysis' conception of Regionalization in Central America involves concerted cooperation between private corporations, the Central American governments, and the government of the United States. The "realism" of the conditions and consequences of such cooperation cannot be definitely settled before any action in this general direction has been taken.

If successful, the Central American governments would acquire financial--if not technological--control over the banana operations in Central America. They would be represented on the board of directors of the affected corporations as going concerns in proportion to the financial participation acquired. More importantly, they can rechannel the managerial surplus originating from banana operations into profitable investment projects in the Central American area, over which the Central American authorities could have direct financial control. The affected American corporations would continue operating in more or less the same way they have been operating, at least so far as their Central American operations are concerned. The most significant change will be the particular use to which the managerial surplus is directed.

Among the most important advantages of such a concerted effort at Regionalization of the banana industry, the creation of important economic links between the Central American countries--resulting from multinational participation in an on-going enterprise--could strengthen the already strong process of economic integration in the area. Regionalization could also see some important disruptive political effects arising from the problem of distribution of benefits obtained from the regional enterprise. But these, as all the other political problems and frictions originating from multinational cooperation, can be surmounted.

Some other significant implications of this approach, however, still remain to be defined. In this study, the possible consequences of relationships between the state and the economy, very grossly described in such terms as "state capitalism" or "corporate state," or even "socialist state," do not appear highly productive in terms of pragmatic economic development policy. One important implication which demands careful examination--but which for obvious reasons is not examined in this essay--is the following: if underdeveloped countries could acquire badly needed capital resources more or less in the manner described in this section, what stops these countries from attaining financial control of other successful corporate enterprises, no matter where they are located? In popular terms, what is there to stop these countries from investing in, say, IBM Corporation? Conventional economic analysis would prescribe that if the benefits obtained through a given capital expenditure in a going enterprise are greater than the benefits obtained through alternative development projects, then the first alternative should be undertaken. In such a general statement, "benefits" is supposed to include all other intangible and indirect effects of development projects within the national economies. Also, to analyze this question we must start from a position in which the underdeveloped country has some possibility of obtaining financial control in the first place. As a tentative conclusion, this study ventures the idea that the above question is only relevant to economic enterprises in which the underdeveloped country or region has a vital economic or political interest. Obviously, it is an extremely difficult endeavor to prove that Central America has any vital economic or political interest in

IBM, while these interests are not so difficult to illustrate in the case of the United Fruit Company.

If the policy of Regionalization previously analyzed were a viable long-run alternative for the Central American region, what impact will the pursuit of such a policy have for foreign investment in the area? At first sight, it would appear that such a policy could lead to an improvement in confidence regarding foreign investment in Central America. Here foreign investment is not related only to the laissez-faire type which occurred in Central America during most of the nineteenth and twentieth centuries, but rather also refers to a cooperative enterprise between foreign corporations and regional authorities in the financing, underwriting, and carrying out of successful entrepreneurial ventures. Again, as a long term proposition, executive and management control by Central American entreprene should be directly stimulated and effective rechannelling of reinvestable funds undertaken by Central American institutions to the extent of their participation in new regional enterprise