

Milton S. Hershey Ventures into Cuban Sugar

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The timing was not right for chocolate baron Milton Hershey to be part of the early and frenzied orgy of direct investments that Americans made in Cuba at the turn of the century, investments that many Cubans obviously found intrusive and threatening. Hershey had struggled with several false starts in the candy business during the 1870s and 1880s, and did not have much to show for his efforts before his caramel business, headquartered in Lancaster, Pennsylvania burgeoned in the 1890s.¹ When he sold out to American Caramel in 1900 for a reported million dollars in cash, he focused his immediate efforts over the next decade and a half on building a chocolate factory and the community of Hershey in rural Derry Township, Dauphin County, just east of Harrisburg. It was not until 1916, therefore, that Milton Hershey took a long, hard look at investing in Cuba.

Reasons for the Investment

Direct foreign investment in the Caribbean was no small step for a man and a firm whose universe often seemed circumscribed by a modest company town in rural central Pennsylvania. What, then, prompted the decision to expand overseas? Many modern corporations seek to control their sources of raw materials. A shortage of sugar during World War I brought home this truism to Milton Hershey. He also hoped to circumvent the market power of the Sugar Trust—an industrial combination prosecuted but not convicted under the Sherman Anti-Trust Act in 1895. Evidence of Hershey's concern in this area can be seen in his experiments with sugar processing in Hershey, Pennsylvania.²

Mira Wilkins, a leading authority on international investments, argues that United States foreign investment logically followed from the revolutionary growth "of the innovative business enterprise." This conforms to the model of Alfred D. Chandler,³ challenging earlier historians who had emphasized horizontal consolidation. Chandler contends that major American corporations grow in a remarkably predictable fashion. Many big businesses became giant enterprises c.1900 through vertical integration.⁴ Hershey thus sought to acquire everything he needed to manufacture his products—including sugar plantations—rather than to obtain more manufacturing plants.

The final explanation for Hershey's decision to commit capital to Cuba was his personal infatuation with the island: the breathtaking quality of Havana Harbor, the sprawling fields of sugar cane, the allure of private estates enveloped in lush and exotic trees and plant life, the aroma and taste of a Havana cigar.

On the more rational side of the ledger, Hershey, like other American busi-

nessmen of his day, found it reassuring that the entire island came under the jurisdiction of the Platt Amendment, that the United States Navy maintained a base at Guantanamo Bay since 1903, and the United States Marines were never far away. As Louis Perez has noted in *Cuba Under the Platt Amendment*, "U.S. investments . . . expanded with minimum competition and a maximum guarantee of protection. The 'Roosevelt Corollary' proscribed European warships in Caribbean waters. 'Dollar Diplomacy' preempted European capital from Caribbean economies." Furthermore, "capital demanded . . . a docile working class, a passive peasantry, a compliant bourgeoisie, and a subservient political elite."⁵ In addition, myriad banks, public utilities, and "advisors" stood spring-loaded to facilitate direct investment. For all the aforementioned reasons, Cuba seemed to be, and was in fact, the right place for Hershey to invest.

The Scope of Hershey's Investment

From 1916 until the early 1930s, the chocolate baron established an operation worth an estimated \$40,000,000.⁶ Hershey's investments included sugar plantations, sugar mills, a refinery, company towns (including an orphans' school), a personal estate, and an electric railway together with the power plant to run it. By anyone's standards, Milton Hershey became a major player in Cuban sugar cane.

The candy-maker's initial exploration of the island—in part by auto and in part by horse and carriage—spanned the rich cane fields of the northern coastal region between Havana and Matanzas to the east, a distance of roughly fifty-five miles. The most appealing locale he saw was on a plateau roughly four hundred feet above sea level overlooking Santa Cruz del Norte, a modest port twenty-five miles east of Havana. Beyond the spectacular view, the site had a reliable supply of water. In general, it struck Hershey as a healthier environment than the land below. He selected the plateau as the site of Central Hershey—another model company town and the headquarters of his Cuban operations.

In selecting the Matanzas region, Hershey was locating in the heart of Cuba's sugar region. The sugar "prosperity" of the area, not surprisingly, had never trickled down to the unskilled workers. Accordingly, "high rates of illiteracy and infant mortality, disease and seasonal unemployment were accompanied by low levels of life expectancy."⁷ Stated another way, "the income generated by the provincial economy . . . was so extremely concentrated in the hands of elite groups that the development of a domestic market was negligible."⁸ In brief, life in Matanzas was representative of so many corners of the Caribbean or Latin America.

For his personal use, Milton Hershey acquired a hacienda at Rosario reputed to have been built a century earlier. The hacienda included gardens covering ten acres, a moat, and watchtowers. From the roof of his abode Hershey could watch carts drawn by oxen making deliveries to the sugar mill.⁹ The sugar mill in Central Hershey was probably grinding as early as January of 1919. By the following year it had ground 149,000 tons of cane yielding 31,669,900 pounds of sugar.¹⁰

From *The Story of Chocolate and Cocoa* (1926); Courtesy Hagley Museum and Library



Hershey/Cuba Operations: The 1920s

Corporate correspondence and data only recently made available by the Hershey Community Archives provide a comprehensive overview of Hershey's Cuban operations in the 1920s. The decade began with a major technological achievement and a grinding financial disaster. The technological achievement was the extension and especially the electrification of the Hershey Cuban steam-operated railway. It comprised 35 miles of single track by spring 1920. Soon the railroad connected "Havana and Matanzas, some 56 miles apart."¹¹ Three branch lines added another 16.5 miles to the endeavor. This project was, understandably, celebrated in Hershey corporate literature. Further, it was splashed over six pages in the *GE Review*, a story abstracted and condensed into a major three page piece for *Scientific American Monthly* in June, 1920.¹²

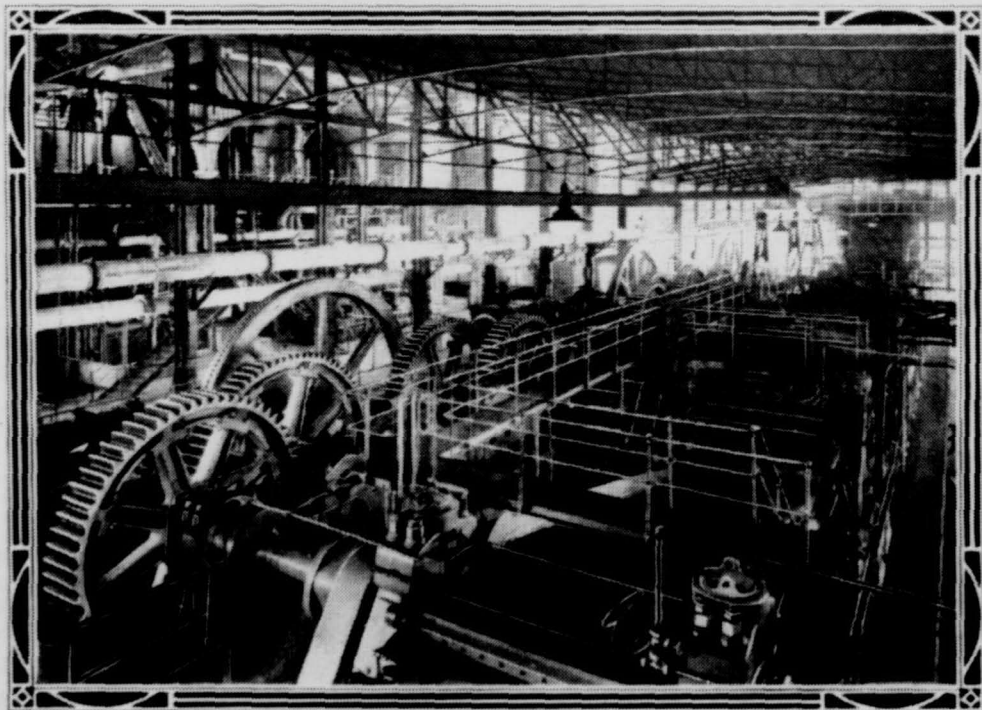
In practical terms, Hershey was investing in "a reliable railway system to supply . . . a continuous flow of cane, thereby eliminating cane shortage shut downs which prove so costly to the sugar operator."¹³ At the same time, he was employing a modern substitute for the antiquated steam locomotives on the line. As always, Hershey was delighted to be recognized for his technological innovation, which F. W. Peters captured effectively in the *Scientific American* article through his choice of illustrations. On the first page he utilized a photograph depicting a bale of sugar cane being hoisted and transferred from an ox cart to a primitive railway cane car in Cuba. On the second page the article employed two separate and impressive photos:

a 60-ton, 1,200-volt synchronous converter used in the substations. Obviously, sugar production "before" and "after"—Hershey.¹⁴

While the electrification of the Hershey Cuban Railroad impressed the editors of *Scientific American*, of comparable or greater importance was the application of electricity to the sugar mills and nearby communities. The equipment used to operate the railroad and to provide power to Matanzas and lesser communities "comprises a generating station, one main railway sub-station and two outlying automatic substations. The generating station is equipped with three turbine alternators and has four 600 h.p. oil-fired steam boilers."¹⁵ The magazine story went on to note: "Power for station auxiliaries and shops is obtained from transformers stepping down from 2300 to 480 volts. This latter voltage, largely used in sugar mill work . . . permits a direct tie-in with. . . the sugar mill power house which is close to, but distinct from the new railway station."¹⁶ In short, electrification was applied not only to the Hershey Cuban Railroad, but to neighboring communities along the right of way, and to the Hershey sugar mills. The mills, no doubt, enjoyed a marked increase in efficiency; however, lacking the relevant data, the magnitude of the gain remains unknown.

Shortly after Hershey introduced his improvements, the price of sugar plum-

From *The Story of Chocolate and Cocoa* (1926); Courtesy Hagley Museum and Library



The grinding unit at the Hershey Mill. It crushed the cane and extracted every ounce of its juice, which constituted about eighty per cent of the weight of the cane.

meted—from a high of 22 cents/pound, May 19, 1920, to 1.3 cents/pound by January 19, 1921. As Harold van B. Cleveland and Thomas F. Huertas have noted, an earlier “surge in the price of sugar unleashed a capital-spending boom. . . . Mills were constructed and railroads were laid to haul the cane. . . . Cane land was cleared. . . . Because of its seasonal nature, the industry depended heavily on bank credit.”¹⁸ National City Bank, for example, opened 22 new branches in Cuba in 1919, and by 1921 had a “total exposure” to a bankrupt Cuban sugar industry estimated to be \$79,000,000. Chase National and Guaranty Trust were also deeply involved.¹⁹ In addition to hurting bankers, this collapse in prices caught many sugar users unaware. The damages were felt well beyond the chocolate maker from south central Pennsylvania. For example, Pepsi Cola fell into receivership, and Coca Cola claimed a \$2,000,000 loss on their profit and loss statement for 1920.²⁰ Hershey grumbled about even greater losses. Depending on which bit of grumbling you listened to, he lost somewhere between \$2,500,000 and \$7,000,000.²¹ Whatever the magnitude, it was large enough to cause him to lose control of both his Pennsylvania and Cuba operations to the National City Bank of New York. The bank floated some \$20,000,000 in Hershey bonds, placed a mortgage on Hershey’s property, and immediately set about to manage the newly-acquired property.²²

This devastating financial blow hurt Milton Hershey’s pride as much as his pocketbook. He like to think of himself as a former farm boy unusually adept at combating and outwitting big city bankers and financeers. He became furious when forced to deal with R. J. de Camp, an allegedly haughty and arrogant agent of the bank sent to oversee operations in Pennsylvania and Cuba. The way to get rid of deCamp, obviously, was to restore prosperity. This was achieved by the end of 1921, primarily through cost cutting and the identification of additional retail outlets willing to carry Hershey’s chocolate.²³

Hershey’s Cuban operations continued to grow during the 1920s, primarily through the acquisition of additional cane lands. More precisely, Central San Juan Bautista (1916) and Central Rosario (1920) had been purchased prior to the sugar debacle, and Central Carmen (1925), Central San Antonio (1925), and Central Jesus Maria (1927) were purchased afterward. All told, Hershey owned about 60,000 acres of sugar plantations and leased another 30,000 acres.²⁴

Hershey/Cuba Company Towns

Hershey’s growing Caribbean investment included the creation of several company towns, with Central Hershey and Central Rosario the apparent showcases. Company towns had long been an interest—some might say an obsession—with Milton Hershey. He had been much impressed with a visit to Bourneville, the Cadbury creation near Birmingham, England. He had visited Pullman in suburban Chicago, and most likely had seen Ambridge in western Pennsylvania and many others. Some combination of these models inspired Hershey, Pennsylvania, a community that kept growing even during the Great Depression of the 1930s.²⁵ At the risk of belaboring the obvious, all Hershey towns, wherever built, were carefully planned

and tightly controlled.

Some current scholarship suggests that company towns such as Central Hershey and Central Rosario did more than house workers. Thomas F. O'Brien, writing on early twentieth century United States's investment in Cuba, contends that "North American corporate culture had a profound effect on Latin America as the United States rapidly became the dominant foreign economic power in the region."²⁶ O'Brien further notes that "corporate reformers operated on the assumption that American corporate culture would improve societies."²⁷

Mira Wilkins has described the typical company town that most American firms were likely to construct in Cuba. Her model provides an accurate accounting of what Hershey built. She notes that the town lacked a mayor or town council, but had a "power plant, water supply, sewerage . . . churches and schools."²⁸ Electricity and running water were provided for a modest fee. Equally important, the workers' homes were "far superior to anything existing locally."²⁹ Hershey's communities featured abundant trees, flowers, and Hershey-provided maintenance.

Wilkins has also pointed out that the planning of company towns necessarily led to some significant advances in the quality of local health care. Bluntly stated, the corporation had to be able to guarantee its American staff stationed in Cuba that their families would be free from tropical diseases such as malaria.³⁰ Hershey addressed health care in his company towns by making doctors, dentists, and nurses available through a clinic, and by contributing to a nearby Havana hospital that provided care for more serious illnesses. In a letter written in the early 1930s, P. A. Staples, Hershey's leading executive in Cuba, noted that the chocolate baron in a feisty mood promised to donate \$25,000 to the Havana hospital—provided another corporate titan in the region matched the gift.³¹ Company records indicate that laborers received free medical treatment in most emergencies, particularly in response to on-the-job injuries. Routine illnesses, however, were treated in return for fees.³²

Beyond life's most elementary needs, Central Hershey and Central Rosario provided recreational facilities including swimming pools and baseball fields. Central Hershey housed a golf course and country club for managers.³³ In Central Rosario Hershey started a school for orphans that provided boys with a basic education and training to work in agriculture or industry—obviously modeled after the boys' school he had created in Pennsylvania. In these aforementioned ways Milton Hershey's values and American corporate culture were conveyed to Cuba.

From "The Story of Chocolate and Cocoa" (1926). Courtesy Hagley Museum and Library.



Workers at the Hershey Plantation

Labor

While the Hershey/Cuba records in the Hershey Community Archives shed very little light on the labor relations and conditions, a number of useful conclusions can be drawn from what does exist. For example, wages paid to a variety of laborers declined steadily between 1923 and 1928. A field laborer earning \$1.20 a day in 1923 earned \$1.00 in 1928; a skilled sugar boiler's salary fell from \$7.00 to \$5.54.

Hershey/Cuba Daily Wage Rates

	1923/4	1925/6	1927/28
Field Labor	\$1.20	\$1.20	\$1.00
Cutting (per 100)	1.40	1.25	1.00
Mill Laborers	2.23	2.09	2.17
Sugar Boilers	7.50	5.77	5.54
Centrifugal Tenders	4.10	3.75	3.26

Source: "Production and Costs of Making and Refining Sugar in Cuba," January 12, 1929, Hershey Community Archives

No explanation is provided for falling wages, but the influx of even cheaper labor is the most likely answer. Haitian and Jamaican immigration was both encouraged and was legal as early as 1912. Historian O'Brien observes that in 1919, "34,000 West Indians arrived; within ten years they constituted one-third of the work force in the island's sugar cane fields."³⁴ It seems reasonable to suppose that ultimately the bulk of the Hershey/Cuba labor force was made up of black Cubans, Haitians, and Jamaicans.

The allegation that Hershey/Cuba exploited cheap labor was more than a problem in ethics or public relations. It constituted the primary argument that United States mainland cane and beet producers used to call for higher tariffs against Cuban sugar. Indeed, Hershey officials who examined their own data in their 1929 Report on Cuban Operations understood that use of cheap labor would look bad in the eyes of the United States Tariff Commission. Accordingly, Hershey, P. A. Staples, and John Snyder (Hershey's corporate counsel) gleefully noted the penetration of Mexican labor into the beet fields of the American midwest. United States Bureau of Labor estimates revealed that Mexicans made up only 17% of the labor force in the northern or midwestern beet fields in 1922, but soared to between 75 and 90% in 1927.³⁵ United States sugar producers exploited labor in the very manner of which they accused Hershey.

Data on the number of employees working for Hershey/Cuba are confusing at best. It appears that by the late 1920s (in either growing season) between 1,300 and 2,000 people were performing manual labor related to sugar production. Over 100 worked in "administration"—most of whom were probably foremen. The Hershey Cuban Railway had a payroll approaching 700.³⁶

Additionally, hundreds and perhaps thousands of "colonos" had an ongoing relationship with Hershey. Colonos cultivated and cut their own cane on their own or others' land but had no means for grinding it — apart from a standing agreement, for example, with a Hershey mill. They brought their cane to the mill, had it ground, sold most of it to Hershey, and retained a portion to dispose of as they saw fit. Some colonos were strong and independent entrepreneurs who had "subcolonos" working for them. The attractiveness of the colono system to Hershey resided in colonos having sufficient independence to assume risks and essentially bear the brunt of crop failures. Thus, while not on the payroll in a traditional sense, colonos were a very important source of labor with a stable economic relationship with Hershey. A *Fortune* magazine article for January, 1934, estimated the Hershey/Cuba labor force to be 12,000. This generous estimate probably included thousands of colonos and subcolonos.

Labor Demands

The extensive correspondence of P. A. Staples, head of Hershey/Cuba, exhibits little evidence of concern over labor issues or disputes with unions. Hershey/Cuba expected to control its work force and they apparently did. Indeed, one letter of 1935

from Staples confidently asserted that if the current union leaders did not behave better, they would soon be replaced by company sympathizers. Staples's implication was that union elections were easily controlled.³⁷

A printed list of "Labor Demands of Cuban Workers," dated September 12, 1933, appears in the Staples correspondence. Next to each demand is a handwritten response on the right, possibly the reaction of Staples:

PRINTED DEMAND	HANDWRITTEN RESPONSE
1. Recognition of union	Will recognize union but not close shop
2. 8 hr. day in all depts	Yes
3. Minimum wage \$1.00/day for unskilled labor	Field labor No Other labor Yes
4. Pay daily or fortnightly in cash	No, Yes
5. Buy where workers want	Yes
6. Sanitary conditions in all houses and barracks	Yes
7. Fulfillment Accident Law	Yes
8. Doctor and Medical Care Free in urgent cases	Accidents Yes Sickness No
9. Light, water, & house free for laborers all year	No
10. —deleted—	
11. Strikebreakers not allowed to work in any dept nor non union men	No, No

The aforementioned responses suggest that Hershey/Cuba became a bit more liberal over time. The leverage for change was not the strength of the union as such but rather national political currents in Cuba. The Revolution of 1933, combined with unrest which extended through the General Strike of March, 1935, rocked the island and its chief industry, sugar. Rebellious sugar workers in eastern Cuba organized, seized myriad mills, and ousted managers from the island. In the face of this upheaval, as modern radicals have stated it, you did not need to be a weatherman to know which way the wind was blowing. Put another way, a whiff of revolution seemed to loosen Hershey's purse strings.³⁸

Conclusion

The Milton Hershey, P. A. Staples, and John Snyder correspondence in the Hershey Community Archives allow the historian to reconstruct a substantial portion of the early Hershey/Cuba story. Milton Hershey made a major investment in Cuba beginning in 1916, which continued through the 1940s and 1950s when confidence in the future political stability of the island triggered a gradual sale of assets to the Cuban Atlantic Sugar Company. In part, his ownership of sugar plantations encouraged financial analysts to observe that to purchase Hershey stock was to play the commodities market. Hershey carried American corporate culture to Cuba in the towns he constructed, and he brought a bit of Cuba back to Hershey, Pennsylvania, as any visitor to the Hershey Hotel quickly recognizes. To say that Hershey/Cuba was paternalistic and endeavored to control its island investment is obvious — the company acted, essentially, like other United States firms in Cuba and Latin America. Further, it was entirely possible for Hershey to be relatively generous with his Cuban employees, particularly in the face of revolution, and still prosper.

Notes

1. See Thomas R. Winpenny, "A Father Who Distracts and A Family That Underfinances: The Early Bittersweet Career of Milton S. Hershey," *Proceedings of the Economic and Business Historical Society*, 9 (1991), 12-19.
2. One of the best sources of information on Hershey Chocolate in the early twentieth century is an unpublished manuscript "Milton S. Hershey," produced under contract in the early 1950s by Lebanon Valley College Professor Paul Wallace. A copy of this manuscript can be seen in the Hershey Community Archives, "Highpoint," Hershey, Pennsylvania.
3. Mira Wilkins, *The Maturing of Multinational Enterprise: American Business Abroad, 1914-1970* (Cambridge: Harvard University Press, 1974), 414.
4. Alfred D. Chandler, "The Beginnings of Big Business in American Industry," *Business History Review*, 33 (Spring, 1959), 1-31.
5. Louis A. Perez, Jr., *Cuba Under the Platt Amendment, 1902-1934* (Pittsburgh: University of Pittsburgh Press, 1986), xv and xvii.
6. P. A. Staples to John E. Snyder, May 16, 1933, Staples Correspondence, Hershey Cuba Collection, Hershey Community Archives, Hershey, Pennsylvania.
7. Laird W. Bergad, *Cuban Rural Society in the 19th Century: The Social and Economic History of Monoculture in Matanzas* (Princeton: Princeton University Press, 1990), xvii.
8. *Ibid.*, 386.
9. Not surprisingly, from his mansion "High Point" in Hershey, Pennsylvania, the chocolate baron could watch over some of the activities of the chocolate plant.
10. This estimate appears in a book for young readers that was based on the Wallace research. See Katherine Shippen and Paul Wallace, *Milton S. Hershey* (New York: Random House, Milton Hershey School, 1959), 34.
11. F. W. Peters, "Electrification of the Hershey Cuban Railroad: A High Voltage Direct Current System," *Scientific American Monthly* (June, 1920), 540.
12. See the *GE Review* (April, 1920), 307-312, and *Scientific American Monthly* (June, 1920), 540-542.
13. Peters, *Scientific American Monthly*, 540.
14. *Ibid.*, 542.
15. *Ibid.*, 541.
16. *Ibid.*
17. Harold van B. Cleveland and Thomas F. Huertas, *Citibank, 1812-1970* (Cambridge: Harvard University Press, 1983), 106.
18. *Ibid.*
19. *Ibid.*
20. Mark Pendergrast, *For God, Country, and Coca Cola* (New York: Charles Scribners' Sons, 1993), 144.
21. Wallace, unpublished manuscript, "Milton S. Hershey," 268.
23. *Ibid.*
24. *Ibid.*
24. See *Fortune*, 9 (January, 1934), 72-80, for a detailed story of Milton Hershey's many interests. This particular account angered Hershey by criticizing his much-beloved school for boys and thereby severed relations between *Fortune* and the firm — apparently forever. (Numerous citations for articles on Milton Hershey and Hershey Chocolate in *Business Week* in the 1930s and 40s indicate that *Business Week* probably became the firm's business magazine of choice.)
25. It seems to be commonly held throughout the firm that Cuba was the "cash cow" that financed construction back in Hershey, Pennsylvania.
26. Thomas F. O'Brien, "The Revolutionary Mission: American Enterprise in Cuba," *American Historical Review*, 98 (June, 1993), 765-785, quotation 767.
27. *Ibid.*
28. Wilkins, 123.
29. *Ibid.*, 124.
30. *Ibid.*, 125.
31. P. A. Staples to C. H. Stapleton, Habana, Cuba, June 1, 1933, Staples Correspondence in the Hershey Cuba Collection.
32. See "Labor Demands of Cuban Workers," presented later in this paper.
33. Wallace, unpublished manuscript, 249.
34. O'Brien, 770.
35. These data are cited in a position paper enti-

tled "Tariff on Sugar" by Milton S. Hershey in the Staples Correspondence in the Hershey Cuba collection.

36. "Report on Cuban Operations, 1929," in Staples Correspondence.

37. P. A. Staples to Milton S. Hershey, February, 1935, Staples Correspondence.

38. Samuel Farber, *Revolution and Reaction in Cuba, 1933-1960* (Middletown: Wesleyan University Press, 1976), 106.

