Bananas, Diamonds, and Regime Change: The Authoritarian Tendencies of the United Fruit Company and De Beers

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Throughout the twentieth century, multinational extractors of natural resources (NRMNCs) routinely manipulated the political apparatuses of their host countries in their favor. Despite the considerable variation in the nature of NRMNC-host country relationships, one feature remains constant. There not a single case in which an early twentieth century NRMNC supported a democratic power transition in one of its host countries as opposed to an incumbent authoritarian regime. Why did twentieth century NRMNCs uniformly supported authoritarian regimes in their host countries? The common histories of the United Fruit Company and De Beers suggest that although authoritarian regimes were better suited to deliver certain benefits than their democratic counterparts, NRMNCs ultimately possessed little agency in determining the regime type of their host countries. Instead, circumstances outside of NRMNCs' control were ultimately responsible for keeping authoritarian regimes in power.

I. Introduction

The mercantile companies of the Early Modern period possessed nearly all of the powers of sovereignty. Chartered companies such as the Dutch East India Company and Hudson's Bay Company could raise armies, declare war, mint currency, enter treaties, and govern their fellow nationals. While these erstwhile giants were largely extinct or neutered beyond recognition by the end of the 1800s, multinational extractors of natural resources (*NRMNCs*, short for "natural resource mutlinational corporations") resurrected the practice of politically interventionist economic colonialism during the early twentieth century. Although these multinational corporations did not enjoy the quasi-sovereign legal status of their forebears, they did attempt to approximate operating by governmental decree and routinely supported authoritarian regimes in their host countries. While the invariable tendency of NRMNCs to support authoritarian leaders is clear, the circumstances that compelled them to do so are not. Why is there not a single case in which an early twentieth century NRMNC supported a democratic power transition as opposed to an authoritarian regime?

The fact that NRMNCs uniformly supported authoritarian leaders in the early twentieth century makes it impossible to empirically examine the causal significance of structural factors. However, the empirical cases of the United Fruit Company (UFCO) in Latin America and De Beers in Africa reveal a set of conditions that both motivated NRMNCs to support authoritarian regimes in their host countries and also impinged on their effectiveness in doing so. UFCO and De Beers were domiciled in different countries, operated on different continents, trafficked in extremely differ-

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ent commodities, and had entirely different operating structures, yet both companies engaged in relatively similar patterns of behavior. Formed in the 1899 merger of several competing tropical fruit-trading businesses, UFCO was a Boston-based grower, transporter, and marketer of bananas. The company controlled vast expanses of Latin America and operated the most extensive logistics network of its time. Originally chartered by Cecil Rhodes under the auspices of the British Empire, De Beers is a pan-African NRMNC focused on the extraction, refinement, marketing, and sale of diamonds. For much of the twentieth century, the German-Jewish Oppenheimer family controlled De Beers and led a global cartel of diamond producers that inflated diamond prices by artificially limiting supply. The common histories of UFCO and De Beers suggest that although NRMNCs stood to benefit from currying the favor of their host governments—and authoritarian regimes were better suited to deliver certain advantages than their democratic counterparts—NRMNCs ultimately possessed little capacity to determine the regime type of their host nations.

By virtue of their very presence, NRMNCs strengthened the authoritarian bargain by which undemocratic leaders persevered in their domination of the state.[1] However, this repercussion was incidental to the essential operations of NRMNCs, and did not constitute an active choice on their part. Moreover, because NRMNCs' investments were fixed and non-lootable, the companies had to bargain to forestall their hosts' expropriation of their hostage assets and possessed scant latitude to make additional requests.[2,3] Even the newfound wealth arising from the influx of NRMNC's foreign direct investment (FDI) dollars bore little impact on regime type, as rising levels of income do not trigger democratic transitions[4] and primary sector investment does not directly result in political liberalization.[5] Lastly, powerful nations such as the United States tapped their domiciled NRMNCs in the service of their own initiatives for political, economic, and ideological hegemony.

The toolkit of democratization is slow-acting and uncertain. However, NRMNCs stood to gain little even if they were able to precipitate a democratic transition in one of their host countries. Authoritarian regimes could provide an abundance of docile labor at controlled rates, rewrite tax codes, and guarantee monopoly rents.[6] While the preponderance of veto players in an electoral democracy might have fostered policy stability that would prevent disruptions to NRMNCs' operations and increase contract stickiness,[7] these benefits were offset by an attendant pitfall. Each veto player also represented an incremental actor that NRMNCs would have had to integrate into their patronage networks.[8] Co-optation was not always an inexpensive endeavor. Similarly, while audience costs might have deterred democratic leaders from reneging on contracts, the fickleness of popular opinion made it a dangerous instrument to rely upon.[9] NRMNCs had compelling reasons to prefer authoritarian regimes in their host countries, but circumstances outside of their control were responsible for keeping these regimes in power.

II. Existing Scholarship

Despite the richness of anecdotal cases to draw upon, social scientists have performed relatively little direct analysis on the capacity of NRMNCs to effect regime type. This may be due to the impossibility of performing comparative statistical analysis on cases with such similar historical outcomes or the opacity of NRMNCs' private communications. However, social scientists have proposed numerous theories with consequences that predestine or preclude NRMNCs from effecting regime type regardless of their intentions.

The most famous of these theories is Michael Ross' resource curse hypothesis. According to the resource curse, resource wealth retards long-term economic growth and shores up the regime durability of whoever is in power—whether authoritarian or democratic.[10] Politically, leaders of states with natural resource wealth are able to provide more public services per dollar of tax revenue, creating a cushion of popular contentment[11] that allows leaders to be more cavalier to the preferences of their citizens. This political buffer develops regardless of the source of non-tax or the type of regime that receives it, but for different reasons depending on regime type.[12,13] Resource rents allow democracies to persist by augmenting popular support.[14] However, in the case of authoritarian regimes, increases in resource rents neither inspire nor subvert democratic opposition movements. Instead, resource rents decrease the turnover of authoritarian leadership as profits can be diverted to co-opt would-be contenders to the throne.[15] Taken as a whole, this body of literature suggests that state leaders of the Latin American and African recipients of UFCO and De Beers' FDI were preconditioned to persist regardless of NRMNC involvement.

Raymond Vernon's obsolescing bargain model offers a valuable framework for understanding the relationships between NRMNCs and their host states that largely supersedes the more traditional race to the bottom thesis. The race to the bottom thesis posits that MNCs (*multinational corporations*) hold the power in the MNC-host relationship, as they can dangle the promise of an influx of foreign investment dollars to force potential hosts to compete to offer concessions to attract them.[16] While the race to the bottom thesis may explain the MNC-host relationship prior to investment, the moment that an MNC plants its fixed investments in a state, these dynamics are instantly reversed. Once the investment is made, the threat of expropriation shifts the upper hand in negotiations from the MNC to the host country. At this point, even the terms of the initial deal are up for re-negotiation, as the host country effectively holds the MNCs' assets as hostage.[17] The implications of the obsolescing bargain model are particularly dire for UFCO and De Beers, as their extractive investments are massive and immobile. Unlike a manufacturing concern, which might simply vacate a factory and relocate production, the cost of the next best alternative is nearly incalculable for NRMNCs pursuing specific, hard-to-find resources that require large, sunk investments to extract.

One final body of literature pertaining to MNC-host relations is David Gibbs' business conflict model. In this model, Gibbs seeks to demonstrate that relations between states are often just a theater for relations between states and companies.[18] Gibbs argues that international diplomacy is neither driven by states' national nor ideological interests, but by the economic interests of their domiciled companies. According to Gibbs, if an American company favors intervention, its CEO simply calls up a government policymaker—a former general counsel, perhaps—to advocate for a military deployment.[19] It is readily apparent that Gibbs' model resembles conspiracy theories at their most cynical, yet the evidence needed to prove or refute the prevalence of these activities is disarmingly scarce. While it is incontrovertible that wealthier citizens possess more avenues to articulate their preferences than their poorer fellow nationals[20], even Gibbs admits that "[scholars] can only infer motivation from circumstantial evidence."[21] The extent to which back room politics actually resemble the cut and dry graft Gibbs described is hopelessly enshrouded by history and clandestine interactions.[22]

Despite the abundance of literature on the subject of historical globalization, only Daniel Litvin's *Empires of Profit* provides a thorough treatment of NRMNC-host country relations that links De Beers to UFCO and even more contemporary companies. Litvin's central contention is that NRMNCs have a bad habit of finding themselves in situations they aren't fully prepared for, and that their political entanglements in their host countries are often the product of friction between misguided ambitions and more prickly realities.[23] Litvin's work has informed my own understanding of NRMNC-host country relations, particularly as they exhibit heavy-handed realpolitik and cultural insensitivity.

III. Inheritors of Circumstance

A. The Incumbency-Favoring Resource Curse

Despite their immense wealth, twentieth-century NRMNCs were nearly powerless in determining the regime type of their host countries. As former De Beers chairman Nicky Oppenheimer pronounced in 1999, "natural resources are morally neutral. As such, they can be a source of great good or dreadful ill. The key element is not the resource itself, but how it is exploited."[24]

In similar fashion, the literature on the resource curse suggests that the incumbent leadership of resource-rich nations is likely to endure, regardless of the type of regime in place or the type of resource being extracted.[25] The resource curse doesn't favor democratization or authoritarianism; it simply preserves the political status quo of its afflicted countries.[26] The feature that made the resource-rich states of Latin America and Africa so conducive to rentier politics was that resources were being extracted at all, so that state revenues were decoupled from the countries' overall levels of economic development.[27]

The primary factor in determining the ratio of public goods per tax dollar is the sequence of institutionalization vs. natural resource wealth.[28] If resource wealth arrives before political institutions are fully developed, resource-rich elites will ensure that the ensuing institutions that do emerge serve to line their pockets further, and the resource curse will set in.[29] If, on the other hand, states build institutions with provisions for revenue redistribution well before they have any revenue to account for, their institutions are more likely to promote egalitarian socio-economic development.[30]

The case of UFCO's involvement in Guatemala provides a textbook example of how the resource curse can set a country down a path of authoritarian persistence. When UFCO arrived in Guatemala in 1901, the company discovered a quasi-feudal system where a small handful of elite families controlled the vast majority of the nation's arable territory.[31] There were virtually no political institutions to speak of, aside from the joint bureaucratic-civic apparatus of reigning dictator Manuel Estrada Cabrera. Cabrera believed that the development of a chief export was the best antidote for Guatemala's backward economy, and that military-backed authoritarian rule offered a swifter path to transforming the country into an export-oriented powerhouse than any political alternative.[32]

Following from this belief, in 1904, Cabrera struck a deal with Minor Keith, co-founder of UFCO. Cabrera offered UFCO a bounty of significant concessions, including exclusive postal rights between Guatemala and the U.S., land grants at a nominal price, and a 99-year lease to operate the Atlantic portion of Guatemala's national railway.[33] In return, UFCO would enlist its engineering talent to construct Guatemala's national railway and would pay the country's government a small fraction of its Guatemala-derived revenues. Although Cabrera never elucidated his full intentions in writing, the dictator also hoped that an alliance with UFCO would signal tacit U.S. military support for his regime and deter would-be coup-plotters.[34]

From the moment the ink dried until Guatemala's democratic transition in 1986, the country's political environment was dominated by a series of dictators backed by the country's chief source of revenue—its relationship with UFCO.[35] UFCO worked with whatever regime was in power when it arrived. Due to the fact that Guatemala did not have any pre-existing guarantees for rent redistribution, the country's citizens languished under authoritarian rule for over three quarters of a century.

The implications of the resource curse are considerably more complex in the case of De Beers' involvements on the African continent. In some countries, De Beers' diamond mines cemented the incumbent leadership in power for decades, while in other countries , mineral rents had virtually no effect on regime durability whatsoever. While the dire politics of Rhodesia in the twentieth century stemmed at least partially from the country's mineral wealth, the vaunted history of Botswana typifies the serendipitous potential for countries to sidestep the resource curse entirely.

In Rhodesia, De Beers itself was responsible for building state institutions. When Cecil Rhodes originally received his charter for the British South Africa Company (the precursor to De Beers), his intent was to "provide an administrative and transport infrastructure, but otherwise… take its profits [through distributions]."[36] Under company rule, the Rhodesian state spawned little endogenous institutional development and relied entirely upon Rhodes' beneficence. Even later, in the 1920s, Rhodesia's railways, mines, and press were all owned by the Oppenheimer-controlled De Beers.[37] Company influence was so pervasive in the nascent state that "the average [congressional] session of the twenties resembled more a well-conducted shareholders' meeting than a national convention."[38] Just as Rhodesia belonged to De Beers, De Beers belonged to Rhodesia as well. The company filled a power vacuum and shepherded the country through its first decades of existence, operating the railroad that was so essential to the isolated resource-based economy.[39] As time progressed, De Beers overstayed its welcome; the company's formidable presence crowded out the development of alternative economic and political institutions in the state.[40] But Rhodesia's misfortune was not common to all of De Beers' host countries.

According to a World Bank study, "the case of Botswana illustrates how a natural resource curse is not necessarily the fate of all resource abundant countries, and that prudent economic management can help avoid or mitigate the detrimental effects of the resource curse."[41] Prior to declaring its independence from Britain in 1966, Botswana instituted provisions for revenue sharing in its election manifesto, which were reinforced in the country's 1967 Mines and Minerals Act that transferred all mineral rights to the central government.[42] Importantly, Botswana implemented these measures a full four years before the country struck its joint venture mining partnership with De Beers, and half a decade before the Orapa mine opened and diamond wealth really began to pour into the country.[43,44,45] Because Botswana's redistributive institutions preceded the advent of resource rents, the proceeds of the country's diamond mines were allocated relatively uniformly throughout the country and the country was able to sidestep the political implications of the resource curse. However, Botswana is a historical accident. Despite the country's apparent success, De Beers narrow-mindedly collaborated with whatever regime served as a gatekeeper between the company and the country's natural resources.[46] In the case of Botswana, democracy endured simply because it got there first.

B. Hands Tied by the Obsolescing Bargain Model

The evolving relationships between NRMNCs and their host governments is governed by the principles of the obsolescing bargain model. From the very moment that an NRMNC plants fixed investments in a foreign state, it has to bargain with its host government to preempt national expropriation of its hostage assets. Any non-essential requests that an NRMNC makes of a host country—particularly those relating to a subject as fundamental as regime type—would subvert the company's negotiating leverage that might otherwise be devoted towards the retention of its assets.[47]

The rate at which the bargain between an NRMNC and its host obsolesces is best expressed as a function of the investor's remaining profit potential from its hostage investments and the degree to which its host country cares about its ongoing reputation as a hospitable place to do business.[48] Countries with a diverse array of unexhausted exportable resources have more incentive to preserve their reputation in order to attract further FDI in the future. Both UFCO and De Beers contended with single natural resource states that felt that the bulk of their extractive potential had already been accounted for.

UFCO's demeanor during the early 1950s reign of Guatemalan leftist dictator Jacobo Arbenz epitomizes the patterns of behavior that the obsolescing bargain model predicts. Although Guatemala had often held the title of UFCO's single largest banana-producing country, Guatemala grew particularly important to UFCO as the middle of the century drew near.[49] In the preceding decades, Panama Disease swept from Costa Rica in both north and south directions. The fungal disease caused specimens of Big Mike, the dominant strain of bananas at the time, to wither and die before they could be harvested. By the early 1950s, Guatemala, along with parts of Colombia and Ecuador, were the only growing regions that remained unsullied.[50]

During Arbenz' short tenure from 1951 to 1954, the dictator launched a series of leftist reforms that injured UFCO's interests in Guatemala.[51] However, despite UFCO's displeasure with Arbenz' reforms, the company refrained from articulating its grievances in order to avoid casting itself as an unwanted guest whom Arbenz would be eager to expel.[52] Arbenz gave workers the right to form unions.[53] He laid out plans for a coast-to-coast highway and a hydroelectric facility that would compete with UFCO's monopolies on transportation and electricity.[54] UFCO silently suffered insult after insult from Arbenz, hoping that the company's reticence would be rewarded with legislation no more punishing than higher compensation for laborers or increased utility competition.[55]

UFCO's cultivated abstention reflected the strategic importance of its Guatemalan investments and the perceived likelihood of expropriation. Arbenz clearly disregarded Guatemala's international reputation as a favorable business environment, given his coordinated maneuvers towards economic self-sufficiency.[56] However, Arbenz finally crossed the line in 1952 with the passage of his Agrarian Reform Bill. The bill effectively redistributed Guatemala's large unused plots of land—including the hundreds of thousands of UFCO-owned acreage that lay fallow at any given time during a rotational banana harvest[57]—to the country's peasant population.[58] The Agrarian Reform Bill constituted exactly the kind of naked act of expropriation that UFCO had been dreading all along. Suddenly, the company had nothing left to lose. It was only at this point that UFCO could play hardball with its host, and begin to set in motion the events that would eventually topple Guatemala's fledgling democracy.

As early as 1925, De Beers faced similar threats of expropriation when the South African parliament passed the Diamond Control Act. This legislation, which permitted the state to nationalize its diamond mines at any point, was designed in order to scare the company into submission.[59] It succeeded. Even at a much later point, De Beers capitulated bashfully when faced with the threat of expropriation at the hands of the newly independent Namibian state. The pre-independence South African leadership appreciated De Beers as a utensil for apartheid through the establishment of a white capitalist overclass.[60] On the other hand, the revolutionary socialist SWAPO party of Namibia believed that De Beers had plundered the country and openly discussed its intentions to nationalize De Beers' mines once elected.[61] However, for the time being, SWAPO'S threats were just hollow words to De Beers. Despite SWAPO'S verbal assaults, De Beers wanted to retain its mines at all costs, and the company was diplomatic in its responses to SWAPO. How could it afford not to remain amicable, in case the party won? De Beers CEO Harry Oppenheimer publicly announced that the company was "prepared to deal with any legitimate government that comes to power"[62] in Namibia. Oppenheimer occasionally chided party leaders on the perils of communism, but was careful to never equivocate when conveying that he would do whatever it took to keep Namibia in the cartel—with SWAPO in power or not.[63]

Although SWAPO was not yet in power in the 1980s, the party had a particularly strong negotiating position given De Beers' fragile strategic position at the time. De Beers' business is based on a cartel structure. Via one of its subsidiaries, the company operates a cartel that purchases and resells diamonds sourced from all over the world. In order to preserve the myth of scarcity and inflate diamond prices, De Beers even purchases diamonds produced outside the cartel—sometimes even at a loss.[64] In cases where a producer broke from the cartel, De Beers would flood the market with diamonds of a similar quality to those of that particular producer, depressing prices and bullying the producer into rejoining the cartel.[65] However, at the time of Swapo's threats in the late 1970s and early 1980s, De Beers' cartel seemed more precarious than ever.[66] De Beers' stranglehold on supply had been attenuating ever since the blossoming of an illicit international diamond trade in the early 1970s.[67] The Soviet Union was openly on the verge of breaking from the cartel, and the secession of a major producer such as Namibia just might have given the Soviets the confidence to leave the cartel for good. Once that happened, the whole cartel was liable to unravel.[68]

Fortunately for De Beers, by the time SWAPO succeeded in gaining Namibian independence in South Africa, the party had recognized that Namibia needed De Beers more than it had previously cared to admit. The fledgling country lacked the capital, equipment, and expertise required to continue extracting and marketing the country's diamond deposits. [69] As part of its constitution, Namibia included legislative protections against state expropriations, provided that the government was permitted to participate as an equity partner in any extractive endeavors that take place in the country.[70]

C. In the Case of Primary Sector FDI, "No Bourgeoisie, No Democracy"

Unlike investments in the manufacturing and services sectors, FDI investment in the primary sector of natural resources does not directly produce politically liberalizing effects.[71] While Debora Spar's original formulation of this relationship does not denote the specific mechanisms through which FDI fails political liberalism[72], the foundational scholarship of Barrington Moore suggests that a robust middle class is an essential ingredient for democracy. The critical development of a middle class is undermined by the polarizing effect on income that primary sector FDI tends to produce.[73,74] Although the presence of a middle class is certainly not a sufficient condition for democracy, the heterogeneity of middle class interests provides a tempering influence on policy that moderates extremist politics.[75] The cases of UFCO and De Beers demonstrate empirically the ways in which primary sector FDI might be intrinsically illiberal (which is not to say anti-liberal). In both instances, company efforts to build institutional stickiness subjugated lower class employees and consequentially undermined democratic state-building efforts.

UFCO sought to "lock-in" its domestic and expatriate employees through the issuance of tender and the development of company towns.[76] The company paid workers' wages in a currency that was only accepted at UFCO-owned stores, generating further profits from the sale of merchandise and creating a disincentive for workers to leave the company.[77] Corporate-issued tender bred a financial feedback loop that was virtuous for the company, but prevented rising incomes from diffusing throughout the country.[78] Moreover, when carving out plantations from virgin forest, UFCO built an extensive infrastructure for its employees. The company outfitted its demesne with schools, hospitals, churches, and even housing units that were free for its workers—a perk that strengthened UFCO's ability to justify its grueling working conditions.[79] However, these facilities came at great cost for the national development of UFCO's host countries; as soon as the area was no longer useful to the company (perhaps through the arrival of blight), UFCO would abandon and destroy its improvements to encourage workers to pick bananas elsewhere.[80] As far as the Honduran government was concerned, the country's national infrastructure was provided by UFCO.[81] However, the company's offerings were strictly provisional and inadequate substitutes for the long-term solutions that they inevitably forestalled. Stranded without vital public works such as schools and hospitals, the country's lower classes stagnated in pre-industrial poverty for decades.

In the case of South Africa, the Oppenheimer family supported apartheid throughout much of the twentieth century in order to provide cheap labor for De Beers' mines. Both Ernest and Harry Oppenheimer "never subscribed to the view that apartheid was morally wrong."[82] Recognizing that a disenfranchised black population could provide an endless supply of cheap unskilled labor for its mines, the company conspired with the Afrikaner government to institutionalize the marginalization of blacks in South Africa.[83] Harry Oppenheimer's enthusiastic support for apartheid was not motivated by racial prejudices, but instead by an eagerness to check rising incomes that would erode De Beers' profits. He hoped for "informal restrictions on… income, education and opportunity," and repression was simply most politically viable along ethnic lines.[84] To this end, Oppenheimer personally bankrolled the pro-apartheid Progressive Party beginning in 1959 and was the founding chairman of the South Africa Africa Foundation, which attempted to drum up support for apartheid internationally[85]. The profitability of De Beers' mining operations was intimately linked to the company's wage expenses, and curtailing the political and economic rights of blacks depressed the company's cost basis of extraction. Under apartheid, a segregated South Africa failed to valorize individual liberties, deprived blacks of voting privileges, and violated both electoral and liberal definitions of democracy.

D. Flying Blind

When operating in foreign lands, NRMNCs resembled blind giants stumbling in the dark. Employees of UFCO and De Beers were insulated from the broader social, political, and cultural environments of their host countries. Too often, both companies were embroiled in political strife only because their employees were so out of touch with the values of the indigenous populations surrounding them.

Employees of UFCO were separated from the broader currents of Latin American nations both psychologically and spatially. UFCO erected company towns specifically for its expatriate workers, lavishing upon them free housing, education, healthcare, and utilities.[86] Living in these segregated enclaves, foreign workers rarely encountered UFCO's indigenous pickers.[87] UFCO simultaneously propagated a belief in its apparent beneficence, spreading the notion that it was a force for modernization throughout the country.[88] Given this isolation, UFCO's imported workers had no way to discern that the living conditions of workers' villages were any less agreeable than their own. Moreover, dictators such as Guatemala's Jorge Ubico, Honduras' Manuel Bonilla, and Nicaragua's Anastasio Somoza gave UFCO's officers every impression that civil discontent with the company (nicknamed *el pulpo*) was *de minimis*, so as not to frighten off future investment.[89] The political violence that the company committed often stemmed from an ill-founded arrogance that UFCO was the true force behind any positive development that occurred in its host countries, and that dictators who got in its way were justly removed.[90] Moreover, the few voices of civil discontent that did reach UFCO's ears were those of the countries' elites, who decried UFCO's transportation monopoly but not the company's treatment of workers or political entanglements.[91] However, this disconnect between UFCO and the true sentiments of its indigenous workers ultimately cost the company dearly. The disaffected children of UFCO's beleaguered pickers initiated a wave of liberal revolutions that swept across Latin America in the 1970s and 1980s and robbed the company of much of its holdings.

De Beers was most ignorant of its surrounding social climate during the earliest years of its existence, when it was helmed by Cecil Rhodes. Rhodes harbored a single-minded obsession with keeping ahead of his competitors and gobbled up territory as quickly as he could to keep it out of their hands.[92] Along the path of expansion, Rhodes struck a deal with Lobengula, the combative ruler of the Matabele Kingdom, who granted De Beers exclusive mining rights to the kingdom's minerals in return for a paltry sum of money and assorted weaponry.[93] Lobengula did not recognize the value of these resources or the great extent to which De Beers would infringe upon his territory and lobbied the British crown to discipline Rhodes for his actions and to annul De Beers' contract with Matabele.[94] From Rhodes' point of view, Lobengula's actions were not a desperate effort to rectify a cultural misunderstanding. Rather, they constituted a malicious attempt to go over Rhodes' head and break contract.[95] After the crown sided with Rhodes, Rhodes waited until Lobengula took a single objectionable move—a small race on the neighboring Shona Kingdom—before he dispatched a militia that stripped Lobengula of his power. While De Beers employees were under the impression that they had liberated the Matabele people from the tyrannical Lobengula, they were unaware that the populace actually adored their former leader, and resented De Beers for its actions.[96] Moreover, no ruler emerged to replace Lobengula as soon as he was deposed. This was not because the kingdom was disbanded, but was instead due to the years-long process by which the Matabele council selected its king.[97] When no leader appeared, company men looted the Matabele Kingdom and apportioned its bounties amongst themselves, further incensing the Matabele people. After De Beers and its employees (for which it could scarcely be held responsible) unwittingly committed these injustices, the Matabele commenced a series of violent rebellions that only ended after two years of fighting and culminating in De Beers' annexation of the territory.[98]

E. Pawns of Interstate Politics

In certain instances, NRMNCs did not even intervene politically of their own accord. Instead, NRMNCs' countries of domicile employed their domestic corporations to further their own agendas. The Guatemalan coup of 1954 and De Beers' aggressive expansionism at the turn of the twentieth century may have coincided with the companies' prerogatives, but NRMNCs' violence was endorsed, and in the case of Guatemala even perpetrated, by their parent states.

The matter of UFCO's culpability in the Guatemalan coup of 1954 depends upon just how responsible the company was for generating CIA interest in intervention. Several facts point to a pre-existing US strategic interest in the region that was unswayed by UFCO's lobbying efforts. First, the US had been determined to build a sphere of influence throughout Latin America well before UFCO was even conceived. Articulated by Theodore Roosevelt in 1904, the Roosevelt Corollary was an addition to America's Monroe Doctrine that asserted the right of the US to intervene in any Latin American nation that was guilty of "flagrant and chronic wrongdoing."[99] When the US was seeking to build a trans-oceanic waterway to fasten California to the eastern seaboard, it traded military support to a Colombian rebel group in return for their amenability to the construction of the Panama Canal.[100]

Second, there was a two-year window between Guatemalan dictator Jacobo Arbenz's initial implementation of his nationalizing Land Reform Acts and when the US eventually intervened. During this period, the enraged UFCO dispatched lobbyists to Washington to galvanize support for a US-backed coup. The US Secretary of State and Director of the CIA, brothers John Foster Dulles and Allen Welsh Dulles respectively, had both previously served as corporate counsels to UFCO, and neither was more than a single phone call away from the company's president.[101] Yet despite the company's exhortations, Washington demurred.[102] In 1951, UFCO tried to covertly send guns to its most loyal nearby dictator, Anastasio Somoza of Nicaragua, so that Somoza might annex the country for himself.[103] However, the Truman administration found UFCO's concealed weapons and reprimanded the company for going behind its back.[104] It wasn't until later that year that the CIA received proprietary intelligence suggesting that Arbenz was in communication with the Soviet Union and was on track to transform Guatemala into a full-fledged "communist puppet state."[105] It was only at this point that the agency finally jolted into action. The CIA shipped down its weapons via the company's "Great White Fleet" and its operatives stayed in UFCO facilities throughout the country.[106] The CIA's paramilitary forces deposed Arbenz and installed in his place a man who would be immune to Soviet influence, the right-wing military dictator Carlos Castillo Armas.

Even today, it is unclear to what extent this action was motivated by UFCO. The Guatemalan coup aligned with UFCO interests, and the company did have high-level access to the government units that were ultimately responsible for pulling the trigger on the coup. But, by the same token, the US government also had strategic interests in the region, and the country's deep relationships with UFCO made the company a trusted partner that could carry out national objectives.

The precursor to De Beers was the British-chartered British South Africa Company. The company's charter effectively rendered it an agent of the crown, through which the British Empire could fulfill its own hegemonic ambitions. Corporate non-compliance with British command would be punished either with the revocation of the company's charter or the termination of its founder, Cecil Rhodes. Pressured by the domineering British crown, Rhodes feverishly scrambled to subvert Dutch power in Africa through the containment of the Dutch-influenced Transvaal state.[107] Rhodes' first step was to forge a political alliance with the Afrikaner Bond political party that granted him the electoral base to become Prime Minister of the British Cape Colony. As minister of the Cape Colony, Rhodes launched numerous expeditions to extend the colony's territory northward to form a land bridge that would prevent the Transvaal territories on either coast of the continent from meeting. These excursions were often bloody and rash, but Rhodes drove recklessly northward as the crown impressed upon him the paramount importance of territorial acquisition.[108] Over time, the crown's persuasions even subsumed Rhodes' own intentions.[109] At the end of his life, Rhodes' highest ambition was to build a railway on this land bridge that would connect Britain's claims in South Africa and Egypt and cement the empire's continental dominance.[110] Rhodes had transformed into a thoroughly indoctrinated crusader of the Empire.

III. The Hypothetical Case for Authoritarianism

A. Benefits of Authoritarianism

Although twentieth century NRMNCs were nearly powerless when it came to determining the regime type of their host countries, there was little for them to gain even if they were able to effect a democratic transition in one of their authoritarian host countries.

Authoritarian regimes afforded NRMNCs a host of unique benefits. Primary among these, authoritarian regimes could guarantee NRMNCs monopoly rights to mineral extraction and revise tax codes to their benefit.[111] After the completion of the CIA-initiated Honduran coup of 1908, the installed dictator Manuel Bonilla appointed UFCO divisional president Samuel Zemurray as director of the country's finances. Bonilla and Zemurray jointly arranged for generous UFCO tax concessions and a nationally backed loan to underwrite the company's Honduran operations.[112] Buttressed by its formidable economic might and negotiating prowess, De Beers extracted similar benefits from its authoritarian host countries. In 1935, the autocratic colonial authorities of present-day Sierra Leone granted De Beers exclusive mining and prospecting rights throughout the country for 99 years. However, after the country attained independence in 1968, overwhelming public pressure compelled the populist Prime Minister Siaka Stevens to strip De Beers of its monopoly and to eventually nationalize the company's Sierra Leonean subsidiary.[113]

In addition to authorizing monopolies and tax exemptions, authoritarian regimes could also furnish a large supply of docile labor at controlled wages.[114] While Rhodes was serving as prime minister of the Cape Colony, he assured a steady flow of labor to his mines with the passage of the Glen Grey Act, which levied a tax on black workers who sold their labor outside of a certain area.[115] As successful as Rhodes was, when it came to labor, there were limits even to what dictators could provide. During the first decade of UFCO's involvement in Guatemala, Estrada Cabrera forcibly drafted workers from all over the country to serve on UFCO's and in the company's railway facilities.[116] However, when the company attempted to transition from paying workers based on daily rates to piece rates, workers went on strike. UFCO appealed to dictator Estrada Cabrera to defuse workers' assaults, but Cabrera responded that even he could do nothing to mollify the workers, and that violence would ensue as long as UFCO did not guarantee its workers subsistence wages.[117]

B. Costs of Democracy

Higher rates of personnel turnover and the larger number of veto players in a well-functioning democracy impose significant co-optation costs upon NRMNCs seeking political influence.[118] UFCO's most loyal national host was the Nicaraguan Somoza family, a hereditary dictatorship that ruled the country for three generations. Ever since U.S. Marines installed Anastasio Somoza Garcia in 1912, the family felt deeply indebted to UFCO, which it perceived as a projection of American power.[119] Three generations of Somozas have provided UFCO with cheap, abundant labor and deep tax rebates. The Oppenheimer family, on the other hand, grew so fed up with the recurring outlays required to keep elected Unionist Party politicians loyal to De Beers' cause that Harry Oppenheimer eventually founded his own Progressive Party through which he could singlehandedly shape South African politics.[120]

Moreover, any action that a democratically elected leader undertakes impacts his or her chances for re-election.[121] While reneging on contracts with NRMNCs might lower politicians' public approval ratings and increase contract stickiness, citizens and domestic business leaders may, in fact, favor the expulsion of NRMNCs. Jacobo Arbenz, the populist democratically elected leader of Guatemala, reneged on the country's long-standing contract with UFCO. Under this agreement, UFCO would be the country's sole operator of the country's railroads for 99 years. However, when Guatemalan growing families complained that UFCO's stranglehold on the country's transportation system suffocated competition, Arbenz set about building an alternative railway to appease his constituents.[122] Siaka Stevens, the elected Prime Minister of Sierra Leone, failed to honor the country's promise to De Beers in order to win popular support. In 1935, Sierra Leone granted De Beers a mining monopoly for 99 years, but Stevens encouraged any private citizens who wished to launch their own mining concerns to proceed with their enterprise regardless of the previous guarantee.[123]

IV. Conclusion

As the cases of UFCO and De Beers illustrate, early twentieth century NRMNCs were unable to dictate the regime type of their host nations. NRMNCs faced pressure from their host countries and their parent states. The authoritarian regimes of NRMNCs' host countries were buffered by the resource curse and lack of a politically moderating middle class. Once an NRMNC planted its investments in a host country, the host country's government could bend the behavior of NRMNCs to its will by threatening to expropriate the company's captive assets. Cases where NRMNCs were embroiled in political strife were often due to managerial misinformation or the indiscretions of their employees. Finally, the parent states in which NRMNCs were domiciled also sought to further their own political and economic agendas and exerted tremendous influence over their companies' actions. Moreover, even if NRMNCs did have the capacity to determine the regime type of their host countries, companies would have preferred to preserve the authoritarian regimes that were typically in place.

One outstanding consideration in the study of NRMNC-host country relations is the impact of public perception. While UFCO's actions were lauded by Red Scared Americans, intermittent hordes of anti-imperialist protestors punctuated De Beers' successful European advertising campaigns.[124, 125] It was only out of fear of Communism that America looked the other way. When describing the UFCO-allied Nicaraguan dictator Anastasio Somoza, President Franklin D. Roosevelt remarked, "Somoza may be a son of a bitch, but he's our son of a bitch."[126, 127] The demise of communism may have taken with it the sole circumstance under which democratic consumers might pardon an NRMNC for collaborating with an authoritarian regime. Perhaps the liberal dictators have run their course.

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