TRADE talks

A podcast about the economics of trade & policy

with Chad P. Bown

Episode 190. Why a notorious banana company spared workers in Costa Rica

[Episode webpage]

July 26, 2022

Transcript

(lightly edited)

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Chad Bown: The United Fruit Company was one of the most controversial multinational corporations of the 20th century. The company employed thousands of workers operating massive banana plantations across Latin America and the Caribbean. United Fruit became one of the biggest banana exporting companies in history. But behind those exports, the company was a problem.

United Fruit was involved in a brutal pattern of deadly worker strikes. It was accused of corruption and bribing government officials. The company was caught up in coups. The CIA and US administrations even supported invading Central American countries on its behalf.

But in Costa Rica, United Fruit was somehow different. There, bananas may have been a silver lining.

On this week's show, we're going to explore why things were so different in Costa Rica, and to look for lessons from United Fruit for today.

Chad Bown: You are listening to an episode of *Trade Talks*, a podcast about the economics of trade policy. I'm your host, Chad Bown, the Reginald Jones Senior Fellow at the Peterson Institute for International Economics in Washington.

To learn more about the United Fruit Company in Costa Rica, we're going to speak with Diana Van Patten. Diana is a professor at Yale university. She's a trade economist and she has some new research about the economics of working with United Fruit.

Hi, Diana.

Diana Van Patten: Hi.

THE EPISODE

Chad Bown: Today, I want to start *Trade Talks* a little bit differently. Not to put you on the spot, but if you don't mind, I wanted to ask a little bit about your background.

Nowadays you are one of *Trade Talks's* favorite trade economists. But people aren't just born being trade economists. Tell us a little bit about yourself beginning with where you grew up.

Diana Van Patten: I am Costa Rican. I grew up in San Jose. That is the capital of Costa Rica. I lived there until I was 23 years old, and I actually went to college at the University of Costa Rica and then moved to the US to pursue my PhD.

Chad Bown: The United Fruit Company is the topic of your research that we're going to discuss today. United Fruit was a multinational corporation headquartered in the United States and became hugely divisive, especially for the problems it created in Central America. What did you learn about the company growing up as a kid in Costa Rica?

Diana Van Patten: As part of the books that you have to read while you're in primary school I read one book about the United Fruit Company. It was kid friendly – it was not painting a very dark picture or anything like that, but I did know that the company existed.

Later on, when I was in college, I also read a famous book called *One Hundred Years of Solitude*, that was inspired by the experience of the company and its influence in Colombia. And this book did paint a much darker picture about what the company was and the effect that it had on workers – it painted it as almost a neocolonialist company that was exploiting workers there.

Chad Bown: *One Hundred Years of Solitude* was a 1967 novel written by the Colombian author Gabriel Garcia Marquez. It became a literary classic and sold over 45 million copies worldwide.

The book is fiction, but it draws on real events, including a 1928 labor dispute in Colombia involving United Fruit, where the Colombian army intervened and ended up massacring people who had been on strike because of really bad working conditions. So, as you said, ultimately, it painted a very dark picture about the company.

What ultimately got you interested in doing your own research into United Fruit?

Diana Van Patten: When I was taking my second year history class at UCLA my professor was Walker Hanlon, we had to propose a research project. If you had all the data and resources in the world, what would you write about? And we had read a paper about the experience of mines in Peru and their long run negative effect on development. This is a paper by Melissa Dell. And so I thought I'm going to do the exact same thing, but instead of mines in Peru, I'm going to study the United Fruit Company in Costa Rica, because that's where I'm from. And I'm going to document how negative it was for long run outcomes.

Chad Bown: Melissa Dell is the incredible economist at Harvard. She won the John Bates Clark Medal in 2020, including for her pathbreaking work that you mentioned. Melissa Dell documented meticulously how a system of forced labor that the Spanish government had imposed on Peru's mining sector between the 1570s and early 1800s had negative effects on Peru's economic development that lasted for a really long time – even after the forced labor system was dismantled. I can see how this would be inspiring and make you challenge yourself with applying her new techniques to study questions you had about the history of United Fruit in Costa Rica.

I want to turn now to your research about the United Fruit Company and Costa Rica. Take us back to the country in the late 1800s, when this story starts, and maybe begin by explaining what the Costa Rican government was trying to do.

Diana Van Patten: In the case of Costa Rica in the late 1800s, the government wanted to construct a railroad that would connect the center of the country – that's where the capital is – with the Caribbean Sea. They asked for a big loan to construct that themselves. But building railroads is actually quite hard and there are many things involved in the process. What happened was they ended up using up the money and they didn't finish the construction. And so they still wanted to finish the railroad, but had no money left. And so what can we do?

They found this American investor named Minor Keith, and Minor Keith offered a deal where he would finish the railroad. And instead of paying him with money, he could be paid with a land concession. The government agreed to that deal because what they had was land and not money.

Chad Bown: Minor Keith is this American entrepreneur. The Costa Rican government has a half-built railroad that they want finished, but they've run out of money. And so Minor Keith says "you can pay me with land – a land concession – and I'll finish building the railroad for you."

What happened next?

Diana Van Patten: Minor Keith built the railroad. While he was building it, he brought some people from the Caribbean to help in the construction and these people, in turn, brought bananas with them, and they started planting these bananas alongside the railroad. And Minor Keith realized that "This fruit grows really well here! And it's very tasty!"

The United Fruit Company was founded from this entrepreneur who saw a potential business in the bananas and who already had all this land that he could use to start the company.

Chad Bown: When exactly did Costa Rica give Minor Keith this land concession and for how long was the lease expected to last?

Diana Van Patten: Minor Keith was assigned a concession in 1884 and it was a 99 year lease. The company was founded in 1899, and it lasted until 1984. So we should think about the company as a firm that is thinking long term.

Chad Bown: So in 1899 Minor Keith uses that original lane concession from Costa Rica to begin to grow bananas for the United Fruit Company to export to the world. For Minor Keith and United Fruit, where did things go from there?

Diana Van Patten: Costa Rica was the first experience that Minor Keith had in Latin America doing this sort of business. But afterwards the United Fruit Company started operating in many different countries in Latin America with a similar business model. They would get a land concession – maybe because of building a railroad (this also happened in other countries in Central America) – and then they used that land to plant, in the case of Costa Rica, mostly bananas, but in the case of other countries it could be bananas and something else.

Chad Bown: For Costa Rica, how important economically were bananas and United Fruit? Costa Rica was not a heavily populated country at the time. I looked it up in the national population was something like 340,000 people in 1900. And even by 1950 the population was still less than a million. Was United Fruit a big part of the Costa Rican economy?

Diana Van Patten: United Fruit was huge for the Costa Rican economy. It occupied 9 percent of the national territory. At some point it was exporting 58 percent of Costa Rica's exports. It employed 14 percent of the agricultural labor force and 7 percent of Costa Rica's total employment.

Chad Bown: Wow. OK, so United Fruit was a huge part of the Costa Rican economy.

Geographically, where in Costa Rica was the land concession for bananas? I have in my mind that Costa Rica is this skinny country in the warmth of Central America with the Pacific Ocean on the west side. I think you said the land concession was near the Caribbean Sea, which runs all the way down to the east side. How close was the land concession to, say, the capital city or the population centers at the time?

Diana Van Patten: Given that there was no fast way of transportation, it was pretty far away from other civilization centers and, in particular, the capital city, that was where most of the population was. What the company needed when it started was workers that would work year round because bananas are not seasonal. You can grow them year round. So you needed workers year round, and you needed them to live there and work there, even though the area was pretty unpopulated when the concession started and the company had not yet invested much.

Chad Bown: Bananas are a year round crop, but United Fruit's land concession is out in the middle of nowhere, a long way from the cities. The company needs to convince workers to move there and then stay and work year round.

But why was that a problem? Did the workers that United Fruit needed to grow the bananas have other – maybe better – outside options?

Diana Van Patten: For an agricultural worker, the main kind of outside option that they would have would be to work in coffee if they were not working in bananas. Coffee was one of the main export crops of the country at the time. During coffee harvesting season, people would leave the plantation, go to coffee areas and then work there.

Growing coffee is very different from bananas. Bananas are usually planted in areas that are low and the area is very humid. Coffee grows better in highlands that are not that humid. That's exactly where the capital city is.

So, the outside option for workers was to get closer to their families, to an area that has a lot more amenities and work there during the coffee harvesting season and then, when that was over, go back to work for the United Fruit Company.

Chad Bown: For its banana business, United Fruit finds it has to compete with the coffee plantations for workers. And one problem was its geographical disadvantage. The banana plantations are far away from the city and in humid areas. Coffee is grown where it's drier and also closer to the cities where the workers' friends and families were living.

But why was this competition for workers such a problem for United Fruit?

Diana Van Patten: That led to very high worker turnover. So the average worker turnover at the time was around three months, and company reports constantly complained that it was a challenge to maintain workers in the area. They said, "we train them in our methods and as soon as they become efficient in producing, they leave and then they have to be retrained."

There was an additional complication that was malaria. In areas that are low and that are humid, malaria was quite a concern. (The experience of the Panama Canal taught the company a lot of things here, as the Panama canal was finished in 1914). It had been shown that if people are moving around too much, in and out of an area, malaria can spread faster. And so the fact that people are fluctuating so much from different regions of the country was also making the malaria problem even harder within the company.

Chad Bown: United Fruit has a hard time keeping workers for its year round banana plantations. When workers left to go pick coffee during peak coffee harvest season, there were not enough left to pick bananas. New workers the company hired would be less productive and this high worker turnover required constant retraining. Combine that with the health problem of malaria, a killer disease that spread more easily when workers were constantly moving in and out of the region.

For United Fruit and its banana plantations in Costa Rica, things just weren't working. The company needed to do something different.

Chad Bown: Worker turnover was a really big problem for United Fruit in Costa Rica in the early 1900s. What did the company start to do to fix its problems?

Diana Van Patten: What the company started doing was investing in local amenities. This was a company that was planning on being there for many years. So they're thinking from a long run perspective.

One type of amenity in which they invested -- which is quite intuitive – is health, as malaria was a problem in the area. To deal with malaria, it was important to have a relatively good health system in place. This was a pretty core part of their business.

There are other amenities that are not as intuitive. Later on, they started providing larger houses for workers where they could also potentially move their families. They also built parks near the areas where workers lived, and things like that.

Chad Bown: United Fruit starts to build hospitals, housing, parks, all to help it keep its workers from leaving. Were there other worker amenities the company began to provide that surprised you?

Diana Van Patten: The more surprising part was that the company also started building schools, and the schools were intended for the kids of workers to attend. Now, these schools were mostly primary schools. At the time, even finishing primary school was something that was not normal, especially for the kids of an agricultural worker. But it's something that United Fruit felt was potentially attractive for workers. Remember that the company is trying to convince workers to move from the capital city into this very remote area with their families, because this is something that they believe will decrease worker turnover. If the worker is living there with their family and he or she decides to leave and work for coffee, then what is the family going to do?

So this was a way to keep them in place even during the coffee harvesting season.

Chad Bown: United Fruit is building hospitals and schools – today these are often government funded public goods, of course.

I suppose the big question this raises though is why? Why didn't United Fruit just pay its workers higher wages instead of going through the trouble of investing in all these amenities?

Diana Van Patten: First of all, let's remember that during coffee harvesting season, coffee wages were higher. So the company would have to compete with these higher wages every year. Now, as I said, coffee was grown near the capital city. So United Fruit was also competing against the workers being closer to their families for a few months a year. That is harder to compete with.

So instead of paying these very high wages, the company decided to invest in these local amenities. To do that, of course, it has to be thinking about long run. I invest once, and then this investment is going to last for many years – e.g., an investment like a hospital or a school.

Chad Bown: In a relationship between the worker and a company like United Fruit – does the bargaining power between the two change if the worker is paid in amenities, as opposed to cash wages?

Diana Van Patten: The company's power over the worker is higher the more they pay them in amenities versus wages.

So think about it in this way. To quit my job, I need to have some cash in my pocket because potentially I need to move. I need to pay some expenses. But if I'm not being paid in cash, because I'm being paid in amenities, then it's going to be harder for me to leave.

In the extreme case – and this is something that happened in other countries in Central America with this company – the company could say, "I'm going to pay you with vouchers – i.e., with company money. This is something that is only useful here. And if you leave, you have nothing in your pocket."

Then the company has a lot of power over that worker. In Costa Rica, the company actually attempted to pay with vouchers, but this is something that the Costa Rican government didn't allow. So United Fruit couldn't actually do it, but they actually did it in other countries.

Chad Bown: Company vouchers – like United Fruit dollars or something – i.e., its own currency, that that could only be spent at company stores.

So the company is paying workers in amenities because that gives the company more power over its workers. It's in United Fruits's own best interest to not pay them too much in cash.

Diana Van Patten: The company is not building these amenities and providing these services out of the goodness of their heart. They're doing it because it's profitable. And the reason why it's profitable is they would have to pay much more if it was just wages and they would have less power over the workers if they were just giving them higher wages.

Chad Bown: Diana, what you just described is really a preview of where your research ends up. But I want to take you back in time again to your second year of graduate school when you were really just getting started.

If I heard you correctly, you were originally pretty skeptical about United Fruit. You'd read *One Hundred Years of Solitude* in college. You just studied this amazing paper from Melissa Dell, where she developed new economic techniques and she had used those techniques to show that when the Spanish had imposed a forced labor system on Peru's minds, things had ended up really badly for Peru. You were thinking maybe you could adapt Melissa Dell's research techniques, look at banana workers, and maybe you'll be able to document just how bad the United Fruit Company was for Costa Rica.

So, how did you start your second year project?

Diana Van Patten: In my second year project, I decided I'm going to test how bad the United freight company was. So I went to Costa Rica and the first thing I tried to get were the maps from where the company was operating.

I went to the archive and searched for the maps. And we found that these maps had really deteriorated by humidity. They were not that great. We couldn't read them that well. We feared the project was over before it had even started.

But then we dug a little bit deeper, because Costa Rica is not a very big country. We found someone who had been in contact with a cartographer that made the maps. And in his garage there was a copy of those maps. So our first contribution was to digitize those maps and then donate them to the archive.

Chad Bown: For you, the maps are super important because you need to find the exact boundaries of the United Fruit Company in Costa Rica. Your approach is going to carefully compare the living standards of households inside the United Fruit boundary with the living standards of similar people outside the boundary – i.e., households that were not working for United Fruit. The details of these georeferenced locations on the maps are going to be absolutely critical.

So, initially when you looked, what did you find?

Diana Van Patten: We found that the United Fruit Company's areas were better off.

Our first interest instinct was, "This is obviously wrong!" It's probably because our data is too aggregated. So we went to search for better data, and we actually got the census data that was geo-referenced by census block. So these are almost like house blocks. They're really precise measures.

We ran it again and, again, we found households in United Fruit Company households were better off.

Chad Bown: Better off. Sorry to interrupt, but this is great. Your thinking at this stage is that your results must still be wrong. You were expecting to find United Fruit workers doing worse off. And that was because of these well-known stories that United Fruit workers had been exploited. And so when you don't find that you're convinced you are the problem and your results are wrong. OK, sorry, keep going.

What happens next?

Diana Van Patten: We thought probably there was something that we were not taking into account – i.e., that the comparison was missing something.

So we went to the University of Costa Rica and did an interview with an historian whose dissertation was on land tenure in this area in this time, period. (He knew a lot!)

And so we decided to look at this particular area. Here we think the company could not choose the land. And we had the super-detailed census block data, so now we're going to find the right effect.

But again, we found that the United Fruit Company households were better off. So at that point we were convinced that this was true. Then, it was just a matter of, "Let's find out why!"

Chad Bown: Your intellectual journey here is amazing. You were convinced your results had to be wrong. But you kept digging and digging and eventually the data screamed at you loudly enough – your data – to tell you that your results were actually correct.

Households, living and working for United Fruit were actually doing better than households elsewhere in Costa Rica. The United Fruit Company's impact on Costa Rica's living standards was actually something positive.

But at the same time, this was so puzzling. Now the question you need to figure out is why. Why had United Fruit actually had a positive impact? So what was your starting point?

Diana Van Patten: Our starting point was qualitative evidence from historical reports. So we went back. There was roughly a report every year from the company intended to inform shareholders of the situation on challenges in the plantations. And, consistently, early reports were saying that they had this problem with worker turnover. Later on, reports started talking about investing in amenities as a solution to the turnover problem.

So they said we can invest in our workers beyond their healthcare. We can construct parks and schools so that they will move in with their families. Reports actually say this explicitly.

Chad Bown: From the company's annual reports you now have the smoking gun. Or at least, you know where to look for the smoking gun.

How were you able to independently examine the impact of United Fruit on the living standards of Costa Rican households?

Diana Van Patten: Using very detailed Census data we were able to compare households that were directly exposed to the United Fruit Company with almost equivalent households in other areas of the country that were not exposed to the United Fruit Company. And we document that United Fruit Company households were better off along different dimensions, including consumption, better access to housing, sanitation, and education.

And this is important because these are measures of living standards that are not wages. If we were only looking at wages we wouldn't be taking into account the amenities that are such a key part of the story.

Chad Bown: Amenities are hugely important and your theory is that the company needed to offer amenities instead of higher wages to keep its workers from leaving because United Fruit really had to fight for workers against the coffee plantations.

But to investigate whether using amenities to compete for workers was really the story for United Fruit in Costa Rica what did you do?

Diana Van Patten: The exercise was to find areas within the United Fruit Company that potentially were facing more competition in the labor market – i.e., where workers could have access to a better outside option.

What we did was to identify areas around the company – while the United Fruit Company was operating – where agricultural workers could get higher wages. And we found that areas within the United Fruit that were closer to this – let's call them high wage competing nearby areas – received disproportionally more investment in amenities than other areas within the United Fruit are that were farther away from these, say, high outside option places.

Chad Bown: And the outside option places for these banana workers was working in this other agricultural sector – coffee. So what information did you need?

Diana Van Patten: What we did is to look at suitability to grow coffee. So we asked, are areas within the United Fruit boundary that are closer to regions that are suitable to grow coffee or more suitable – there are different degrees of suitability – are they receiving more investment in amenities? And we find that that is indeed the case.

Chad Bown: That exercise compared differences in geographic locations – i.e., Costa Rican households got more amenities when they worked for the United Fruit Company and lived in a territory closer to a coffee growing region because the workers' threat to leave and earn higher wages under this outside option was more credible.

What else about the company did you examine?

Diana Van Patten: We also examined time variation. Does the company behave differently at different moments in time, depending on what is happening with coffee?

What we look at is world coffee prices. Both banana and coffee are exported, and most of it was exported at the time.

We see that, with respect to banana prices, when coffee prices are very high, first the company is more likely to invest in amenities. I.e., it's much more likely to open a school, for example.

But also if we look at worker compensation – this is something that we have several reports for many years in which the company reports how much it is spending in wages and how much it is spending in amenities – we see worker compensation and we can understand what share of that compensation is amenities versus wages.

We see that in time periods when coffee prices are very high with respect to banana prices, amenities as a share of total compensation go up. This also aligns with the mechanism that it is really competition that is making the company invest in amenities and not just pay with higher wages.

Chad Bown: In Costa Rica workers did better when they had a stronger outside option of leaving to go somewhere else like when the coffee sector, United Fruit's competitor for their services was booming. That outside option incentivized United Fruit to spend more on these amenities for its workers. The company will build hospitals, housing, parks, and even schools. And to see that the workers were doing better in Costa Rica, it was important to look beyond their wages. We needed to examine more complete measures of their living standards, like access to sanitation, housing and education

By the mid-1900s, United Fruit was a huge part of the Costa Rican economy. You told us the plantations made up 9 percent of the country's land. The company employed 14 percent of farm workers. And at one point its bananas were more than 50 percent of Costa Rican exports.

United Fruit's investment in all these amenities – hospitals, housing, parks, and schools – certainly benefited Costa Ricans at the time, but the company stopped operating and its lease ran out in 1984.

So how about today? Did all these investments in amenities in the mid-1900s translate into long run benefits for Costa Rica?

Diana Van Patten: Many of these effects still exist today. For example, we can look at census data while the company is there and document gaps between United Fruit and non-United Fruit company households. And we can follow areas across time. Even if we look at the 2011 census – that is the most recent census that has come out – we still see significant differences in living standards for households in United Fruit company areas.

Even after the company leaves the area, education is embedded in people. I think that is very important for the persistence result.

Chad Bown: The impact of United Fruit on Costa Rica was persistent. Even today, Costa Ricans that live within the boundaries of where United Fruit was operating continue to have higher living standards than Costa Ricans living elsewhere. Somewhat surprisingly, United Fruit seems to have had a positive impact on Costa Rica's economic development.

Diana, a key part of your research to understand why is the story about labor mobility – i.e., workers in bananas, having an outside option. Maybe it was the ability to threaten to go and work for the coffee harvest instead. Your paper also has a formal economic model that allows you to think about counterfactuals – i.e., "what if" types of questions.

What can you tell us about the prospects for Costa Rica's economic development? What if that Costa Rican labor mobility had been a lot lower?

Diana Van Patten: We find that if labor mobility was sufficiently low – e.g., if it was half the level that we observe – then the company would have actually hurt the local economy because it has this power over workers and potentially the ability to exploit them.

Chad Bown: As you described earlier, United Fruit also had plantations elsewhere in Central America during the same period, and may have been operating there differently.

What do we know about United Fruit's impact on other countries? Do you have any data to look at differences for workers there?

Diana Van Patten: We don't have the quality of data that we have in Costa Rica. But we do find, for example, in Colombia that areas that were exposed to the United Fruit company are doing worse today than comparable areas outside of what was the United Fruit Company.

In Colombia we don't have data on labor mobility, but there's some historical evidence that there was repression of workers. Some of them were not even allowed to leave the area.

In Guatemala if you look at United Fruit Company areas, even today, they look much more disconnected in terms of the road network than other areas in the country. So if the area is disconnected, then worker mobility could be lower as well.

Chad Bown: United Fruit's workers in other parts of central America seemed to have had much less labor mobility than in Costa Rica. It may have been the formal repression of workers, like the story in Colombia from *One Hundred Years of Solitude*. It could also just be being cut off because of poor road networks like in Guatemala. But this also helps explain why Costa Rican workers had it so much better.

Aside from labor mobility during this period are there other ways that Costa Rica was just fundamentally different from some of these other countries that United Fruit was operating in?

Diana Van Patten: Historians have studied this question of whether Costa Rica was different than other countries where the United Fruit company was.

Costa Rica was a pretty stable democracy. At the time, it had two parties, political parties that were alternating power roughly every four years. And so you could think of it as a repeated game, they were powered today, but maybe in four years they're going to be in power again. And so, overall they wanted the population to be happy and to reelect them in the future.

In other countries in Central America this was not the case. Coups happened relatively often and so it was more of a one shot game. While you were there, you wanted to maximize maybe not what was good for the people, but maybe what was best for your position in the government or for your party. This led to other countries maybe making agreements with United Fruit that were not in the best interest of the population.

So thinking about the story in Costa Rica – so I told you the company could choose whether to pay higher wages or provide higher amenities, you could think of a third option of capturing the government and then not doing any of those things, but actually securing people in some alternative way through the government. In Costa Rica, again, it was a stable democracy. Observationally this was not the optimal thing to do because the company didn't do it. But maybe in other countries that was the most profitable option for the company.

Chad Bown: The results of your research on the effects of United Fruit in Costa Rica are amazing and yet also somewhat surprising. They're much different from what other scholars have found when looking at different industries and other countries in different time periods. You talked a little bit about Melissa Dell's work on mining and forced labor in Peru.

How should we think about lessons from your results on concessions and labor market arrangements, in light of all of this other research?

Diana Van Patten: Previous papers studying, for example, concessions in Africa or mining in Peru with forced labor, have found very negative and long lasting effects from these arrangements. Why our results were surprising to begin with comes from a study of this literature.

However, in these other studies, something that works very nicely to identify effects is that people cannot move. So you don't have to worry about what type of people are getting into the area – this is something that do we do worry a lot about in our study. But if people cannot move, then it also means that their outside option is basically zero. Or maybe they can move, but it's very dangerous, so it's not a very high outside option.

In our case, we have people moving around. This is going to complicate the estimation of the effects because you have to take into account whether the people moving in are better than the ones moving out or not. But at the same time it is what drives our mechanism.

If people were not able to move around then the company would be facing a fixed supply of labor. They wouldn't have the incentives to invest and we could potentially see the under investment in workers that we see in other settings.

Chad Bown: In other settings this idea – that a private company, in your case, it was United Fruit in Costa Rica, providing amenities that are essentially nowadays public goods that governments typically provide – is this rare?

I think I remember reading about something like this, maybe in the Upper Peninsula of Michigan here in the United States. Are there other examples from history where this kind of thing has happened?

Diana Van Patten: Historically it has not been extremely rare that private companies provide amenities to their workers. An example is Unilever in Britain or Ford in the Upper Peninsula. Actually many companies that got established in the Upper Peninsula started investing in amenities. And when you read reports of why, it's surprising how well they align with the ones of United Fruit. "We need to attract and maintain a stable workforce and therefore we're going to provide these amenities for workers to attract them and make them stay." And so the incentives seem to be much more general than just for the United Fruit Company.

Chad Bown: My last question for you brings us back to today. Land concessions have been in the news again lately. Countries like China and Saudi Arabia are involved in acquiring land in various parts of Africa, often for food.

Suppose an African government is thinking about offering a land concession to a foreign company as part of its economic development policy. What lessons from your research would you want the government to be aware of?

Diana Van Patten: In recent years it has been sort of a revival of land concessions. There are many land concessions that have been assigned since the early 2000s because of biofuels or concerns with food security. I think the paper can teach us something about the factors that can be key in determining whether these land concessions are going to have positive or negative effects for the population in the country receiving that concession.

So, for example, a key that we document is the role of outside options. Labor mobility is part of that outside option, but also is not only moving to opportunity, but actually having the opportunity there.

So, for example, if a country is thinking about a land concession, but doesn't have a competing sector in place, maybe thinking about two or three planned concessions to different companies might be a better way to go.

Chad Bown: Diana, this has been incredible. Thank you so much.

Diana Van Patten: Thank you.

GOODBYE FOR NOW

Chad Bown: And that is all for *Trade Talks*.

A huge thanks to Diana van Patten at Yale University. Do read her paper with Esteban Mendez titled, “Multinationals, Monopsony, and Local Development: Evidence from the United Fruit Company.”

As always, a huge thanks as well to Collin Warren, our audio guy.

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<insert super funny double underscore joke here>. ■

Read more…

- Esteban Méndez and Diana Van Patten. Forthcoming. Multinationals, Monopsony, and Local Development: Evidence from the United Fruit Company. *Econometrica*.
- Gabriel Garcia Marquez. 1967. *One Hundred Years of Solitude*. Harper Perennial Modern Classics (English translation).