

## **Long-Term Objectives and Transitional Policies -- A Reflection on Pazos'**

### **"Economic Problems of Cuba"**

**by *Ernesto Hernandez-Cata***

**Comments by *Elias R. Ason***

Felipe Pazos has expressed the view that in the transition from a centrally planned to a market economy, a policy of gradualism seems to be optimum. Hernandez-Cata differs from Pazos on this issue, proposing a more frontal and radical approach. I would argue that it will not be easy to sell such an approach to the politicians, unless we identify and confront the possible negative impacts of such a recommendation.

Hernandez-Cata is concerned with what is the optimum economic policy to be followed in various areas and as a background for his prescriptions he compares the economic development experience of the developing countries in Asia against those in other parts of the world. On the basis of his analysis he concludes that the policy framework for the long term must include: (a) a competitive market economy; (b) privatization; (c) free flow of goods, services and factors of production in and out of the country; (d) a strong fiscal policy that fosters savings and investments; and (e) a monetary policy that aims primarily at keeping inflation under control, with adequate support from fiscal and exchange rate policy.

A competitive market economy is the cornerstone of the policy package. He asks for price decontrols at all levels and concludes that the social welfare of the population will not change significantly because everyone will benefit from the elimination of "lines" in stores. But we should realize that the proposed policy may result not only in a decline of real income but in a significant redistribution, and that when real income is redistributed no social welfare conclusions can be derived.

To cushion the impact on the poorest section of the population, Hernandez-Cata allows for some transfer payments. He proposes that unemployment benefits be financed, at least partially, by the firms to avoid the budgetary costs and the inflationary repercussions. But given that real incomes are already low and falling we should not underestimate the potential budgetary costs of any alternative chosen. Moreover, such an approach will increase the costs of the firms and push them to try to increase their prices (lowering their competitiveness). There is no free lunch.

We should realize that price liberalization is also a rationing device; the shortages are real for those who do not have the economic means to acquire essential goods. While price mechanisms may be economically efficient, the welfare costs may be very high and the optimal path from a political point of view may not be evident.

I disagree with Hernandez-Cata's assessment that during the transition Cuba's external sector will encompass a wide range of exportable goods. I think that the balance of payments will provide meager resources to pay for imports, because the exporting producing industries will suffer as a result of the changes in the economic and political structures. But I agree with his prescription that a flexible exchange rate regime should prove far superior to a fixed exchange rate system with exchange controls as an instrument to help reduce the balance of payments situation.

Perhaps the most important point made in the paper is that we should always keep a clear view of our ultimate objectives in framing the policies of the transition period, so that we can ensure that they guide us in the appropriate direction. However, if we do not identify and offer some kind of solutions to the short run problems, we are doomed as political economists and we may end up losing the war, because politicians will look for someone else in search of "better" solutions.