

REMARKS ON THE CURRENT CUBAN ECONOMIC SITUATION

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I would like to give my point of view on Cuba's recent economic results. By that I mean the economic results for 1995 and the first part of 1996.

I am going to assume for purposes of these remarks that the official information of the economic results that has been reported is reliable. So, if the economy is finally growing, where eventually will it head? Do the economic results imply the beginning of an economic recovery? Are the "soft" economic reforms enough to guarantee sustained economic recovery?

The recovery of the nation's economy is only possible under two conditions: 1) economic stabilization; and 2) deep economic reform. I do not see either of them in the current situation.

ECONOMIC STABILIZATION

Economic stabilization requires the solution of the problem of inflation. The results attained in this area in 1995 and the first part of 1996 indicate that this problem has not been solved.

It is true that during 1995 the monetary growth was limited. In fact, the monetary overhang was reduced in this year from around 12,000 million pesos to 9,000 million pesos. But a monetary overhang of such magnitude is still an inflation factor.

To achieve stabilization, the level of monetary flow should be around 3,000-4,000 million pesos. This means that there are excess currency holdings of around 5,000-6,000 million pesos. So, it is necessary to remove the excess currency holdings and at the same time to avoid the reproduction of the inflation again.

The problem is that the current mechanisms are not sufficient to remove the necessary levels of excess currency. For example, the design and implementation of the new tax system approved by the Cuban Parliament in 1994 are irrelevant in relation to the magnitude of the excess currency. The new tax system responds to political considerations, focusing on the self-employment sector, the "new rich," according to Cuban official speech.

In order to avoid the return of inflation, it is necessary to attack its source: the budget deficit. Let's take a look at the composition of the budget:

- On the spending side, the solution of the budget deficit problem is in cutting the subsidies to state enterprises. This item alone comprises 27 percent of overall spending
- On the revenue side, the solution is changing the composition of the sources of revenue. Right now, the principal source of revenue feeding the state budget is taxes on cigarettes, tobacco, and alcoholic beverages (raising 45 percent of revenue). These taxes are not a reliable source, especially as the demand for these products is dropping. Only 10-15 percent of revenues are from profits of state enterprises. This number is logical because around 70 percent of the enterprises are unprofitable. Taxes on profits should be the principal source of budget revenue. The only way for this to happen is to make the enterprises profitable.

So, in our opinion, economic stabilization should begin with a daring reform of the enterprise system that

should include privatization of some enterprises or sectors and real autonomy for state enterprises.

ECONOMIC REFORM

But the reform of the enterprise system should occur in the context of a deep transformation of the economy, the second condition for sustained economic recovery.

Essentially, economic reform should guarantee a decentralized market economy with some degree of state participation. State and private enterprises alike would operate according to a market dynamic that would demand a high level of efficiency and profit.

In the economic reform scenario, the state would have three fundamental characteristics:

- It would have participation in the control of the fundamental means of production.
- It would retain the capacity to set the strategic lines of development through direct and indirect mechanisms.
- It would have the capacity to produce the necessary resources to guarantee social spending.

And, of course, one important condition of this transformation is to put the relation between economy and policy in the right way: let the economy work with autonomy.