

ALTERNATIVE POLICIES TO DEAL WITH LABOR SURPLUSES DURING THE CUBAN TRANSITION¹

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It is axiomatic that an aging, centrally-planned economy, such as the Castro administration has nurtured in Cuba, will suffer from underemployment or labor redundancy. Because most economic decisions are made by a central planning agency, the economic system exhibits both distributive and allocative inefficiency. Such an economy suffers from hidden unemployment as well as underemployment. The government guarantees workers lifetime jobs, regardless of the level of aggregate demand, and often places workers in positions ill-suited to their training and qualifications.

Recent changes in Cuba's international relations with other countries, including the loss of economic support from the former Communist Bloc countries and the tightening of the United States embargo, have added to the island's normal economic ills that stem from central planning. Slow economic growth, limited foreign exchange, and reduced access to markets for supplies and replacement parts have forced the Cuban government to adopt policies that have moved the economic system slightly toward a capitalist orientation. This movement has not been accompanied by a perceptible softening of central control and government intervention in the marketplace. The result is a growing number of unemployed Cubans, a labor surplus in an economy that is never supposed to suffer from this malady. The Castro admin-

istration is now confronted with the problem of finding employment for these displaced workers in an economy that cannot accommodate them.

THE CUBAN ECONOMY AND LABOR MARKET

Córdova (1994) argues that the Cuban economy has been operating under a Stalinist model. In such an economy, both employers and labor organizations, such as unions, become subservient to the state (and to the Communist Party). Córdova lists the following additional characteristics of the Stalinist model:

1. Work is a right, a duty, and a source of pride for every citizen.
2. Non-paid voluntary work for the benefit of society is regarded as an important element of the system.
3. Brigades, micro-brigades, and other forms of militarizing labor are used.
4. Self-employment is looked upon with disapproval as all production efforts are supposed to be carried out for the government.
5. Workers are constantly subjected to an intensive system of social mobilization intended to maintain the "heroic" tempo of the revolution.

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6. Strikes are prohibited and free and voluntary collective bargaining disappears (p. 145).

The only sectors of the Cuban economy that would depart from this model are the tourist industry, various joint ventures involving foreign investors, and the underground or secondary economy.

Svejnar and Pérez-López (1993) confirm the similarity of the Cuban economy to those of the former Communist Bloc nations. They identify the major features of the socialist economies of the 1980's as follows:

[T]he limited existence and functioning of domestic markets; an openness to regulated trade within the CMEA, together with isolation from other international markets; centrally controlled prices; perverse economic incentives that encouraged inefficiency; policy imperatives such as the maintenance of full employment irrespective of labor productivity in a given use; ill-defined property rights within the state or social ownership system; and the virtual absence of institutions essential to market-related activities such as banking, accounting, auditing, and taxation. These common conditions resulted in misallocated resources, little incentive to innovate and maintain infrastructure and capital equipment, low incomes and productivity, and macroeconomic instability (p. 342).

UNEMPLOYMENT AND UNDEREMPLOYMENT IN CUBA

In an ideally-planned socialist economy, only frictional unemployment should exist, as the government shifts labor resources from one employment to another. In Cuba, the 1992 Constitution unequivocally guarantees employment and income for every able-bodied worker. Section 9(b) reads as follows:

El Estado como poder del pueblo, en servicio del propio pueblo, garantiza que no haya hombre o mujer, en condiciones de trabajar, que no tenga oportunidad de obtener un empleo con el cual pueda contribuir a los fines de la sociedad y a la satisfacción de sus propias necesidades.

Full employment is clearly not the norm in real-world economies, however. Porket (1989) suggests that command socialist systems suffer from almost all of the unemployment ills of market capitalist systems (some of them not officially admitted), and com-

pound the situation by widespread overmanning (Porket's term for labor redundancy or underemployment). He observes that

. . . market capitalism is prone to the more visible open unemployment (combined with an economical use of the employed labor force), whereas command socialism is prone to the less visible hidden unemployment (combined with open unregistered unemployment and a continuous demand for additional labour). This describes the differences between them more accurately than saying . . . that while unemployment is a basic problem of capitalism, labour shortage is a basic problem of socialism (p. 19).

Based upon current news reports, it can be concluded that Cuba suffers from all of the unemployment and underemployment ills listed by Porket, but, interestingly, does not now have a labor shortage.

THE CUBAN ECONOMY BEFORE THE REVOLUTION

During the 1950's, Cuba exhibited a contradictory picture to observers. In spite of Cuba's apparently favorable economic situation, relative to its Caribbean and Central American neighbors, it suffered from serious internal socioeconomic problems. Carmelo Mesa-Lago identifies the following: (1) low rates of economic growth; (2) the dominant role of sugar as a generator of income and foreign exchange; (3) extreme dependence upon the United States for capital and markets; (4) high rates of unemployment and underemployment; and (5) extreme differences between urban and rural standards of living (cited in Azicri, 1988, 36).

Between 1953 and 1959, while the Cuban population grew at an average annual rate of 2 percent, the labor force increased at about 1.8 percent per year. Brundenius (1984, 133-134) estimates the 1960 labor force to include 2.276 million persons, of whom 86.8 percent were male. At that time, the estimated national unemployment rate was 11.8 percent. By comparison, annual unemployment rates in the United States during the 1950's ranged between 2.9 and 6.8 percent, with the higher rates occurring during the recessions of 1953-54 and 1957-58 (United States Bureau of Labor Statistics, 1975, 145).

Ritter (1974) attributes the high unemployment rates of the 1950's to rapid population growth, slow job creation, a bias toward imports in Cuban consumption patterns, inappropriate imported technology, and high barriers to entry in urban industrial labor markets. Seasonal patterns in unemployment were also evident, with rates rising after the sugar harvest had taken place. Other crop seasons, including those for tobacco, coffee, rice, and vegetables contributed to the seasonality in a less pronounced fashion (p. 50).

LABOR DURING THE REVOLUTION AND AFTERWARD

The revolution that Fidel Castro led from 1953 through 1959 brought significant changes to Cuba. Although the Castro government attempted to diversify the Cuban economy after 1959, moving away from sugar in agriculture and encouraging the development of light industry (consumer goods, in particular), the initiative failed. Governmental policies attempted to force the Cuban economy away from those goods and services in which there was a comparative advantage. The inexorable and predictable response of international markets was quite damaging. Declining earnings from sugar exports, combined with the United States embargo and Soviet trade pressure, served to move Cuba back toward a primary dependence upon sugar. Pérez-López (1991) concludes that "management of the Cuban economy by the revolutionary government over the last twenty-five years appears to have had a marginal impact in changing the structure of the economy to reduce the role of the sugar industry. . . . Moreover, Cuba's plans to increase sugar production . . . virtually assure that the industry will continue to play a predominant role in the economy" (p. 228).

It is also clear that Cuba suffered from the recessions that hit other countries in 1960-1961 and 1970-1971. A third sharp recession hit the island by mid-1979, triggering the Mariel exodus of approximately 125,000 persons. Although the Castro government had permitted some liberalization of economic activity, allowing both produce and handicraft markets to flourish, encouraging state enterprises to exercise more independence, and encouraging labor produc-

tivity through wage incentives, the economy was performing more slowly as the 1980's arrived. By the middle of the decade, Castro decided on structural reform.

In 1986, he proclaimed a rectification process (*proceso de rectificación de errores y tendencias negativas*) that was designed to move Cuba back toward a full-blown socialist system. Free markets were discouraged, personal wage incentives were abolished, and state enterprises were warned to toe the socialist line. Not surprisingly, the Cuban economy dropped into recession in 1986-1987, and has never recovered (Bethell, 1993, 107-115).

Mesa-Lago (1981) describes the path of unemployment as follows:

Open unemployment stood at about 12 percent of the labor force in 1958, increased in 1959, and reached a peak of 20 percent early in 1960; thereafter it declined to a low of 1.3 percent in 1970. Unemployment increased in the early 1970's, peaked in 1974, declined again possibly until 1978, and increased in 1979-1980 (p. 189).

Brundenius (1984) takes a contrary view, arguing that the overall unemployment rate showed a rising trend from 1970 until 1979 (1.3 percent to 5.4 percent), largely because of rapidly increasing female unemployment. Since Marxist regimes typically encourage increased female participation in the labor force, the higher participation rate may contribute to the unemployment Brundenius identifies.

THE CUBAN ECONOMY AS IT ENTERED THE 1990'S

Ritter (1994) points out that the Fourth Congress of the Cuban Communist Party, held in 1991, ratified a new economic plan that emphasized import substitution, export promotion, energy substitution to handle the lack of petroleum, programs to encourage foreign investment, management reforms to increase efficiency, and greater decentralization of business firm decision-making. This complex of policies and programs was formulated in direct reaction to the loss of subsidization by the former Soviet Union and the debilitating effects on the economy of the United States trade embargo (pp. 69, 75-76).

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Although recent events, such as the “dollarization” of the Cuban economy, and the adoption of a liberalized foreign investment law in September, 1995, suggest more than cosmetic changes in the Cuban system, the basic socialist structure has persisted. Economic policy is set by the Council of State, headed by Fidel Castro. The Central Planning Board (JU-CEPLAN), together with the Banco Nacional de Cuba, administer that policy and establish specific price levels and target levels for production and trade. All of the legal industrial enterprises in Cuba are still state-owned and/or operated, with the exception of some joint ventures with foreigners. Agriculture is still largely socialized, with state farms holding 70 percent of farmland, peasant cooperatives holding 20 percent, and private farms holding the remaining 10 percent (U. S. Department of State, 1993 and 1994).

THE IMPORTANCE OF BROKEN TIES WITH EASTERN NATIONS

Two key factors dominate recent Cuban economic history. The first is the strengthened U. S. embargo, newly supported by the Helms-Burton Act. The second is the breakup of the former Communist Bloc countries, followed by the reduction or elimination of economic support from those nations.

Blasier (1993) points out that, by 1989, the Soviet Union was providing a secure and protected market for Cuban exports. The Soviets absorbed almost 60 percent of sugar exports, and 50 to 60 percent of nickel-cobalt exports, neither of which the Soviet economy actually needed. Other CMEA countries took another 20 percent of the nickel-cobalt ore. It is reported that, in 1991, the Soviets paid Cuba 24 cents per pound for sugar, at a time when the world market price was at 9 cents (pp. 79-82). It should also be remembered that Communist countries provided Cuba \$18.5 billion in economic and military aid between 1970 and 1989, and that other countries and agencies (excluding the United States) extended another \$710 million in aid over the same time period.

Both of the mentioned factors have weakened the Cuban economy. Many Cuban firms have gone out of business because of the lack of spare or repair parts. Major damage has occurred in the electrical

power, food processing, cigar, chemical, petroleum, textile, and metallurgy industries. As indicated above, attempts to diversify the economy have failed. The sugar industry, which has been the major producer of foreign exchange, has shown a drastic reduction in output since 1990 (Mesa-Lago, 1993, 79-82).

CUBAN ACCOMMODATIONS TO LABOR MARKET PROBLEMS DURING THE “SPECIAL PERIOD”

When Fidel Castro announced a “special period in time of peace” (*periodo especial en tiempo de paz*), it was in explicit recognition of the problems noted above. As noted above, the Fourth Congress of the Cuban Communist Party reaffirmed the right of Cuban workers to employment and income. From 1990 through 1992, a series of emergency laws and resolutions, most of them promulgated by the Comité Estatal de Trabajo y Seguridad Social (CETSS), provided the detailed rules and regulations to make this policy workable.

Díaz-Briquets and Pérez-López (1994) indicate that the following emergency measures were in effect in late 1992: (1) workers were eligible for retraining or reassignment in the case of permanent dislocation (factory closings or restructuring); (2) workers were eligible for reassignment in the case of temporary dislocations stemming from a shortage of fuel, raw materials, or spare parts; (3) workers who were not reassigned were eligible for full salary for one month, and 60 percent of full salary thereafter; and (4) workers were encouraged to swap jobs, so as to reduce commuting distance and time. Additional policies were aimed at changes in working hours and the retirement process (pp. 132-133).

Only fragmentary information is available concerning the success of these policies. Tourism and agriculture were the two sectors identified by the Cuban government as suitable outlets for displaced workers. Since the tourist sector has expanded since 1990, it probably absorbed a modest proportion of the total. Most displaced workers have apparently been relocated to agricultural jobs, in the *programa alimentario*, in support of Castro's policy to reduce dependence on imported foodstuffs. Reportedly, late in 1992, 85 to 87 percent of then-displaced workers had been re-

employed. The remaining 13 percent were idle and receiving government support (Díaz-Briquets and Pérez-López, 1994, 136-142).

RECENT POLICY DECISIONS IN CUBA

The deepening economic crisis has forced the Castro government to make unusual recent adjustments to confront the situation. A chronology of Cuban policy actions and public pronouncements, compiled by Nancy Singer for Radio Martí, details some of the major changes:

- In February, 1995, Pedro Ross Leal, president of the Cuban Workers Union and a member of the Politburo of the Cuban Communist Party, argued for a more open, flexible, and less imperfect labor market, so that workers could become self-employed if economic conditions required it. Significantly, he stated that workers were no longer to be guaranteed lifetime employment.
- In May, 1995, the Cuban government began layoffs of certain workers, as part of an economic restructuring effort to increase economic efficiency. Governmental figures indicated that as many as 800,000 workers might be displaced, or about 20 percent of the official figure for the Cuban labor force.
- In June, 1995, reports circulated that the Cuban government intended to legalize some family-operated businesses. Many small restaurants (perhaps as many as 4,000 *paladares*) and boarding houses were then operating illegally. It was also reported that the revenues of the again-legal businesses would be taxed.
- Later in the same month, laws were passed opening another 20 job categories for private-sector employment, adding to the 130 occupations from which restrictions were lifted in September, 1993. Official estimates at this time suggested that about 500,000 workers were losing their jobs, and would need remunerative alternatives somewhere in the economy.
- On April 1, 1996, the government imposed a new income tax on private professional incomes.

- Finally, on July 1, the Cuban government announced that university graduates could legally obtain licenses to enter about 140 different trades and services, basically becoming self-employed (Singer, 1995 and 1996, *passim*).

It is important to note that these marginal movements toward a market economy aroused strong reactions in the Castro administration. Both Raúl Castro and Carlos Lage expressed reservations about the developments, and emphasized that the central government should still maintain strong control over the labor markets (The New York Times News Service, 1996, April 1).

The exact current level of unemployment in Cuba is very difficult to ascertain, since centrally-planned economies are supposed to enjoy full employment over time. If 500,000 workers have been displaced, and the economically active population is 4.6 million persons, then the *additional* unemployment created by the surplus is 10.9 percentage points. The initial government estimate of as many as 800,000 displaced workers would indicate an increase in the unemployment rate of 17.4 percentage points. Note that these figures do not reflect any of the underemployment that certainly exists in the Cuban economy today.

The National Association of Independent Economists of Cuba (ANEIC) recently argued for an unemployment rate of 51.6 percent of the labor force. They posit a labor force (*población apta para el trabajo*) of 6,213,700, out of a total population of 11 million. They argue that total employment is 3,006,000, leaving 3,207,700 unemployed. Male workers show an unemployment rate of 36.1 percent, while 66.4 percent of working force women are unemployed. According to these figures, half the Cuban work force is supporting the other half, plus the remaining Cuban population (ANEIC, 1995).

SHORT-TERM OPTIONS OPEN TO CASTRO

The consensus view of Cuban analysts is that the needed structural changes to accomplish the transition to a market economy may require an entire generation to be accomplished, in spite of probable high levels of capital inflow and possible intervention by

the United States to maintain stability during the transition. Svejnar and Pérez-López (1993) point out that the state ownership of production facilities is more extensive in Cuba than in Europe; that the private sector is weak, or functional only in the underground economy; that, unlike some Eastern European nations, Cuba has not experienced any significant partial market reforms before the transition; and that Cuba has been partially isolated from world markets (pp. 336-338). In the short run, therefore, accommodation will probably take place within the existing institutional structure of Cuba, apart from any marginal changes that may be accomplished.

There are several possible eventualities or policies that may ameliorate the problem of labor surplus—apart from the abdication or displacement of the Castro government and the beginning of the true transition to a market economy. They are as follows.

Institutional Change

The latest transformations in the Cuban economy are obvious movements away from the command socialism model, and toward market capitalism. They follow earlier, grudging moves by the government to “dollarize” the system and to legalize certain private-sector business concerns.

Given the political and ideological stance of the Cuban government, any significant institutional change is unlikely in the short run. It is possible that more occupations will be added to the list for private-sector licensed employment, and that other types of small businesses will be legitimized. Full-blown acceptance of private property, free markets, a revamped financial system, and all of the other characteristics of market capitalism will not happen, however. The impact of any additional institutional change on unemployment will therefore be small.

Economic Expansion

It goes without saying that market restructuring will succeed only if the economy is in a state of expansion or of relative economic health. And without restructuring, lasting economic health is unlikely to be generated. Even without restructuring, an economic expansion could put large numbers of unemployed Cubans back to work. In its present depressed state,

the Cuban economy cannot create substantial numbers of additional jobs, even private-sector jobs that might be permitted by law. A growing private sector also requires some strength on the aggregate demand side of the market.

Even if Cuba's trading partners are able to circumvent the provisions of the Torricelli Act and the Helms-Burton Act, and continue pouring investment funds into the Cuban economy, the stimulus so generated will probably be slight, affecting only limited sectors such as tourism. Economic expansion will not solve Cuba's unemployment and underemployment problems in the short run.

The Emigration of Surplus Labor

Mesa-Lago (1981) points out that the reduction in Cuban unemployment during the 1960's was accomplished partly by the emigration of workers, opening up approximately 200,000 jobs (p. 124). Another 125,000 Cubans left the country during the Mariel boatlift of 1980. The current immigration agreement between the United States and Cuba originated in 1987. It was renegotiated in 1994. According to its provisions, 20,000 legal Cuban immigrants will be accepted into the United States each year. This outflow of labor will slightly reduce labor market pressure for jobs.

Other significant flows of emigrants appear to be unlikely at the present time. In order to achieve significant relief, an exodus of the size Cuba suffered in the 1960's would have to take place. Since population movements of this kind require not only a stimulus to emigrate but also a country or countries willing to absorb the migrants, relief through substantial migration seems unlikely.

Military Expansion

The Cuban military involvement in Africa permitted an expansion of the armed forces from about 185,000 persons in 1974, when unemployment peaked, to 230,000 in 1978. Mesa-Lago (1981) points out that the 45,000 additional troops so employed helped to lower domestic unemployment (p. 131). At the present time, Cuba's relationships with other countries do not appear to favor the export of violence or the housing of Cuban troops on foreign

soil (at foreign expense). This alternative appears to be a weak one, and unlikely to provide any relief for short-term unemployment, especially since the Cuban economy cannot financially support such activities.

The Movement of Labor Into Private-Sector Employment

Over the past three decades, the Cuban government has toyed with the expansion of private-sector employment, although under the licensing control of the central government. In 1976, a law was passed legalizing employment in a variety of private-sector occupations, ranging from bootblacks and electricians to physicians and dentists. By 1979, as many as 100,000 non-agricultural workers had taken advantage of this change (Mesa-Lago, 1981, 131).

As noted above, recent governmental policy changes have expanded the list of approved private-sector occupations, have permitted university graduates to become self-employed, and have legalized many small businesses. Private-sector employment will clearly rise as a result of these changes, absorbing some displaced workers, but the extent of that increase is uncertain. There is additional uncertainty about further market reforms. More jobs can be added to the approved list, and more small business types may be legalized. At some point, however, private-sector activity becomes extensive enough that it clearly conflicts with the ruling ideology of the land. Institutional reform then becomes necessary for further private-sector expansion. Such reform, as argued above, is unlikely. The bottom line is that additional private sector jobs can and will be created, but not in numbers large enough to make a significant dent in overall unemployment.

The Movement of Labor Into the Underground or Secondary Economy

The size of the underground or informal or secondary economy in Cuba, like most informal economies around the globe, cannot be stated precisely. Pérez-López (1995) has taken the measure of Cuba's "second economy" as effectively as possible, and concludes that it is a significant part of Cuba's overall economic operation.

As long as the Castro government tolerates an underground economy in Cuba, and the U.S. dollar remains the key currency on the island, then illegal or "off-the-books" activities constitute a possible outlet for unemployed labor. Again, the state of overall economic health in Cuba will affect the ability of the underground economy to absorb displaced workers.

In the short term, then, the Cuban government faces a perhaps insoluble problem: providing employment for 500,000 workers in an economy that is depressed and constricted by both internal inefficiency and external embargo pressures. Some relief may be found through the expansion of private-sector employment and the leakages of labor into the underground economy. Without significant economic expansion in the near future, however, the outlook for many Cuban workers is bleak.

THE LONGER-TERM VIEW

The preceding analysis and discussion suggest several conclusions concerning the labor situation in the longer term, in post-transition Cuba. It is likely that the size of the labor supply will not restrict economic growth, although the number of available workers will clearly be affected by both in-migration and out-migration, as the restrictions on human movement are lifted. It is also likely that the labor force will not require extensive retraining, especially in the export industries. Given that the transition will probably be prolonged, and will be open to the forces of international trade and investment, there will be adequate signals given to the post-Castro government to permit planning for any needed job training. As the transition progresses, the development of financial and other support institutions for small business should permit the resurgence of a healthy private-sector trade and service sector. The existence of a healthy underground economy suggests that the spirit of entrepreneurship has not died out.

The major challenge faced by the new, post-Castro government will be the renewal of a free and open labor market, something that has not existed in a meaningful form in Cuba for three decades. Probably one of the most difficult tasks will be the inculcation of free market attitudes among both workers and employers. Workers are not accustomed to making their

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own choices in the labor marketplace, or of responding to wage signals. Two generations of Cubans have grown up under a system of controlled training and employment. By the same token, businesspersons have not had the opportunity of responding to market-determined profit or loss, but have instead tried to meet JUCEPLAN guidelines and goals. The prolonged nature of the transition may be one of its disguised blessings, as a new generation of workers and entrepreneurs experience a revived private sector, and gradually learn its workings.

CONCLUSIONS

Unemployment has been a persistent problem in the Cuban economy. According to the best estimates, perhaps 20 percent of the Cuban labor force was out of work in 1960, when the Castro administration took over. Subsequent socialist restructuring of the economic system was supposed to provide a job for every able-bodied Cuban citizen. Accordingly, official unemployment rates dropped over time, reaching a low in 1970 of about 1.3 percent of the labor force. This figure obviously does not reflect the extensive underemployment that must have existed at the time. After 1970, unemployment crept upward, with some fluctuations over time. It did not become a serious problem again until the 1986-1987 recession damaged the Cuban economy. From that time forward, the combined effects of the loss of Communist Bloc financial support and the restrictive forces of the United States trade embargo pushed the Cuban economy into depression. Today, a large percentage of Cuban workers are unemployed. Some

Cuban economists argue for a current unemployment rate as high as 50 percent or more.

Given this virtually intractable problem, the Castro administration will be forced to find some short-term policies to provide work or financial support to displaced workers. An economic expansion would clearly relieve the pressure, rejuvenate the labor market, and revive the system. The U.S. embargo, now tighter than ever, is unlikely to permit such an expansion, regardless of recent pronouncements by Cuban government officials.

In the absence of an economic expansion, the most likely outlets for Cuban displaced workers are the complex of again-legalized private sector jobs, and the jobs that can be created in the underground economy. Unfortunately, both job-creating sectors are unlikely to have the ability to absorb several hundred thousand workers. The expansion of both the private sector and the underground economy will be constrained and limited by the ruling ideology of the island, since they presage the emergence of a non-socialist, market economy.

Continued mass unemployment and underemployment are therefore likely, as long as the economy is in a depressed condition. Only in the longer-term, when the transition to a full market economy is accomplished, will the changes occur that will provide jobs for the displaced workers. Time is on the side of Cuban workers. It is also the worst enemy of the Castro administration.

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