

THE STRUCTURAL TRANSFORMATION OF THE CUBAN ECONOMY: A REPORT OF THE LAST TWELVE MONTHS

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Over the last 38 years, quantitative and institutional information on the Cuban economy have typically been fragmentary and incomplete. The serious observer or investigator must reconcile his or her understanding of what is happening with reports that are vague and contradictory. That is why formal or scientific investigation of the Cuban economy is very difficult and must be reported with all sorts of caveats.

The latter statement is particularly valid when it comes to standard, generally quantitative, analysis of Cuba's economic activity during any given period. By standard economic analysis I mean, basically, the study of the evolution of the most important macroeconomic indicators for a year or longer. The traditional indicators are the Gross Domestic Product (GDP), its sectoral breakdown, and the aggregate levels of investment, consumption, external and internal savings, exports and imports, etc. The analysis of these indicators would include a description of their changes over time and a discussion of the causes of the changes.

In the Cuban case, however, the difficulties in carrying out standard macroeconomic analysis result from several conditions: (1) the statistical information is not reliable because Fidel Castro's government prefers to keep the public—and its own officers—in the dark about the real economic conditions of the country; (2) virtually all economic data are severely affected by an arbitrary and distorted price system; (3) the government does not seem to be gathering data on the economic activity of the self-employed and other

private forms of economic activity that contribute to the GDP; and (4) the government needs to hide the sources of funds that are dedicated to foreign covert operations and Castro's own personal finances. In addition, Cuban state enterprises—those that do not share ownership with foreign investors—are known for their faulty accounting systems. Finally, to the direct price distortions one must add the distortions introduced by an extremely overvalued exchange rate with which many official transactions are still carried out.

I base these propositions on my own experience in the Central Planning Board (*Junta Central de Planificación*, JUCEPLAN) between 1963 and 1966, first as an economist and then as Head of the National Investment Planning Department (*Departamento de Planificación Global de Inversiones*). One of my responsibilities was to estimate the actual levels of investment expenditures, which at the time had an order of magnitude of 20 to 25 percent of GDP. Though this is not the place to discuss this topic, it is necessary to say that my estimates were always produced under the most precarious conditions due to the lack of a proper statistical base. It was clear that the Cuban government was not particularly interested in national account statistics. There is no evidence that this situation has fundamentally changed since then.

The accompanying paper by Jorge Pérez-López¹ is a report of what I call standard analysis. It is also an excellent example of what an investigator can do, despite the data constraints mentioned above. In this

report, however, I concentrate on the evolution of the Cuban economy from a qualitative, institutional or structural point of view. My main sources are: (1) individual accounts by former members of the Cuban public administration system; (2) reports from individuals still residing in Cuba whose identities cannot be revealed without jeopardizing their personal security, and (3) fragmentary and scattered reports by official and semi-official sources in Cuba.

BACKGROUND

Between 1960 and 1961, the Cuban economy was subjected to the structural shocks caused by massive expropriations of all forms of private enterprise, combined with the exodus of a large proportion of Cuba's best entrepreneurial and technical talent and with radical changes in international trade and financial relations.

Until the demise of the Soviet Union and the socialist bloc, the Cuban economy had the appearance of a typical socialist centrally planned economy, with almost no private economic activity except for some small farms. An essential characteristic of this economy was that it depended heavily on subsidies from the Soviet Union. The dependence on such subsidies gives rise to the argument that Cuba never achieved a socialist economy, at least not one operating at the typically mediocre levels of output of Cuba's partners in the socialist bloc.

The disintegration of the socialist bloc provoked the sudden and unexpected interruption of the subsidies, causing an economic trauma of enormous magnitude, this time out of the control of the Cuban government. Before, the Cuban economy can be said to have been in a state of structural equilibrium, with more or less stagnant levels of economic growth in per capita terms. The disappearance of the subsidies, however, caused such a disturbance to the economy that it has altered its structural equilibrium.

The Cuban government, unable—and perhaps unwilling—to adopt the policies necessary to engineer an economic stabilization and recovery has, in-

stead, implemented emergency measures that have caused some intended and some unintended results. Its main achievement seems to have been the stabilization of an economic subsystem that provides for the security of the top members of the government at the central level. The structural decay of the rest of the economy and the gradual loss of government control over parts of the population are among the most important unintended outcomes.

THE APPARENT ECONOMIC EVOLUTION IN THE LAST 12 MONTHS

Based on the several sources of information we have access to, the economic evolution of the Cuban economy in the last 12 months can be best summarized by sectors.

The sugar industry seems to continue to deteriorate and lose ground as the first source of income and foreign exchange for the country. At the time of this report, the Cuban government has failed to produce any official figures about the total output of sugar for 1997. In addition, there is no information available about production costs. Scattered but consistent reports, however, indicate that the industry has become a net loser of value added and of foreign exchange. Although the government insists that the main cause of the crisis in this sector is the lack of short-term credit, it seems that the major cause may be the lack of an effective management system and the lack of incentives to the workers in the fields and the sugar mills.

International tourism seems to have gained ground in absolute and relative economic importance vis-à-vis the sugar industry. Its net contribution to the Cuban economy, however, is constrained by the high dependence of the tourist industry on foreign imports as a result of the chronic crisis in agricultural and food production. Some estimates put the rate of gross foreign earnings to gross revenues at below 20 percent. The industry is also heavily dependent on foreign operators who, besides managing most tourist facilities in Cuba, also bring the visitors to the country. The main tourist attraction in Cuba seems

1. Pérez-López, "The Cuban Economy in Mid-1997," in this volume.

to be the widespread availability of prostitutes in the country and their low cost—a result of the predominantly low level of wages and the generalized lack of economic opportunities for young workers.

U.S. dollar remittances have become the most important source of foreign exchange to the Cuban economy. Grossly estimated at between US\$500 and \$800 million, the remittances are generated by an undetermined number of members of the exile community, in the United States and other countries, who send money to relatives resident on the Island. The remittances consist of physical transfers of cash to Cuba by individuals (called *mulas* in Spanish) who charge from 10 to 20 percent, depending on conditions (speed of delivery mainly). Since the volume of food distributed to the population remains very tight, it is plausible to assume that without the cash remittances Cuba could be suffering severe food and health crises, possibly in the form of scattered famine with epidemic events. Sources still residing on the Island estimate that the food distributed in Havana under the rationing system covers a maximum of 15 days per month. The food for the rest of the month must be purchased in the black market or in the U.S. dollar shops. The situation in the interior of the country and in the countryside seems to be more precarious because the availability of dollars is more constrained and the sources from which to obtain them are more limited.

As a result of Cuba's continuing inability to produce efficiently and deliver on time, the country continues to have difficulties in obtaining short-term credit in international markets, although some credit is still accessible at high interest rates and with Cuban collateral. It has recently become known that Castro himself has become a lender of last resort to the Cuban government. The funds involved belong to strategic reserves of unknown origin, balances that Castro manages as private accounts deposited in foreign institutions, and a Cuban bank expressly created for that purpose under the name of *Banco Financiero Internacional* (International Financial Bank).

MAJOR STRUCTURAL CHANGES IN THE CUBAN ECONOMY

Besides the changes of a quantitative nature that are taking place, Cuba is undergoing profound changes in the structure of its economy and in its economic management system. These changes have been taking place for many years and with the knowledge of a relatively small circle of Cuban officials. Such structural changes, as reported by recent defectors from the Cuban government, indicate that the Cuban economy has been evolving into four major interrelated economic subsystems or sectors.

The subsystem that holds the most economic and political power is the one administered by Castro himself, represented by enterprises such as Cubanacán and CIMEX, the Banco Financiero Internacional, Castro's monetary and physical reserves, and productive installations such as the cheese and yogurt factories. This economic subsystem operates outside the traditional public sector, as if it were Fidel Castro's manor or consortium. Its revenues come from tourism and the sale of imported goods to Cuban nationals who receive U.S. dollars through remittances from exiled Cubans, tips from tourists, payments for sexual services, and transactions in private, informal markets.

Castro's economy seems to have developed as a result of his own lack of trust in the economic system that he created and that never followed the strict discipline of a centrally planned system. Since Castro demanded loyalty instead of competence as the main criterion for promotion of individuals to executive positions (in the public enterprises or in government administration), the efficiency of productive activities in Cuba fell chronically, a phenomenon hidden by the Soviet subsidies for several decades. The main role of Castro's economic subsystem is to generate the resources necessary to guarantee the security of the government; the traditional planned economy, after the disappearance of the Soviet subsidies, could not be relied upon to maintain the minimum standard of living required for the personnel in the security police and in the armed forces.

A second economic subsystem is made up primarily of the foreign investors and entrepreneurs who oper-

ate in the tourist industry in partnership with Castro and possibly other Cuban officials who enjoy the grace of Castro and participate in the concomitant benefits. The foreign operators, as discussed already, bring marketing and managerial skills as well as some capital, the latter in limited amounts given the underlying lack of trust in Fidel Castro.

These two economic subsystems, Castro's and the foreign or mixed, may be the two most prosperous sectors of the entire economy. They benefit from each other's activity—the foreigners providing a large proportion of the foreign exchange earnings and Castro providing some property rights and contractual security on a case-by-case basis.

The presence of some privileged Cuban nationals in these two subsystems as possible stockholders or managers represents a form of clandestine privatization that is similar to the Sandinista *piñata* with one major difference: the Cuban *piñata* is taking place in a much larger country, involves greater volumes of wealth, and is being carried out long before the government is out of power. Some economic activities managed by the armed forces, especially in the production of food, can be included in one or both of these two systems since, on the one hand, they serve to support national security while, on the other hand, they are managed as private enterprises by the military.

The third economic subsystem, and possibly the one deteriorating at the fastest rate, is made up of the remains of the planned economy and public enterprises fully owned by the state. The entire sugar industry, with its agricultural and manufacturing branches, is the most important sector of this subsystem. Nevertheless, it is becoming apparent that Castro's investment priorities are neglecting this entire subsystem, since foreign resources are focused primarily on tourism and other foreign exchange-earning industries. The reason for this probably lies in the breakdown of the centrally planned apparatus and the government's inability to manage a sector that is widely scattered throughout the island. It seems that this sector is subjected to a policy of benign neglect, a condition that will have very negative effects on the

future prospects for an economic reconstruction of the Cuban economy.

A large proportion of the Cuban installed capacity in the traditional public sector is underutilized due to lack of parts and supplies. This condition was the basis for allowing self-employment in Cuba, a measure that the government reluctantly implemented due to the need to keep a degree of equilibrium between the total volume of salaries and the aggregate consumption and to avoid the further debasement of the Cuban peso. Self-employment then gave rise to what I propose is the fourth economic subsector—private but highly constrained, dedicated to those economic activities allowed under the law of self-employment but with the constraints already explicitly stated in the same law, the most important of which is the prohibition to hire workers.

This subsector is also made up of retired military personnel who perform some economic activities to make ends meet, especially through ventures such as *paladares*, improvised restaurants in regular residences that are limited in size by the government to four tables and are subject to very heavy taxation in U.S. dollars. This catch-all sector also includes workers of the third sector, since the rationed quotas are reported to be only sufficient to cover half the month's supply of food, requiring the additional contribution of black market activities, part-time (illegal) self-employment, some U.S. dollars received as remittances from exiled Cubans, or a combination of the above.

The picture that emerges upon observing the activities of these four economic subsystems is one of widespread corruption and uncertainty. Economic growth may be happening in subsectors one and two, and perhaps in four, though this is highly unlikely given the extreme constraints imposed by Castro and his reluctance to provide certain degrees of economic freedom, such as allowing the emergence of small enterprises, that could very well be compatible with his socialist rhetoric and would reduce the country's risk of a food crisis, even starvation. However, given that sector three is by far the largest of the four subsystems—composed of 80 or even 90 percent of the working population—the overall economy can

be considered stagnant, possibly shrinking, and definitely in disarray.

CONCLUSIONS

For many years, several authors have questioned the socialist character of the Cuban “revolution.” One of the earliest critics seems to have been Ernesto “Che” Guevara, who considered himself an orthodox Stalinist and was a strong advocate of central planning. René Dumont, an early admirer of Castro and an economic adviser on agricultural affairs, also questioned the socialist character of the Cuban system under Castro. The picture that appears after putting together the available pieces of this gigantic jigsaw puzzle that is Cuba under Castro’s rule, leads one to doubt not only Cuba’s socialism but also Castro’s sincerity about his public utterances in this regard. The facts that have been accumulating over the years confirming the *sui generis* character of this system are many. Some important instances are the following: (1) the chronic lack of commitment and interest of the government in installing a reliable system of national accounts; (2) the abandonment of long-term planning at the very beginning of planning in Cuba in 1962; (3) the long-term dependence on Soviet subsidies and the parallel lack of effort to develop Cuba’s internal economy; (4) the lack of productive discipline in Cuba’s public enterprises; (5) the current breakdown of central planning to manage the Cuban economy; and (6) the surreptitious creation of private enterprises in the hands of Castro and some of his most intimate collaborators.

Ironically, many could argue in the future that socialism did not fail in Cuba because it was never really tried. It seems that if Castro had a real socialist agenda for Cuba, instead of his plans to export his revolution to other countries, Cuba would be better off today, even under the constraints of the U.S. embargo. This is not to say that a socialist economy would be better than a market economy, but simply that at least a socialist economic system would have provided Cuba with a level of economic mediocrity superior to what Castro actually achieved for his country.

Under the current conditions, Cuba cannot prosper until Castro lifts his own embargo from the Cuban workers and would-be entrepreneurs. This is a condition that those advocating a unilateral and unconditional lifting of the U.S. embargo fail to acknowledge—the most constraining element on the Cuban economy is Castro’s own reluctance to liberalize, even within socialist canons. Under the current conditions, the lifting of the American embargo would only benefit Castro, since he is holding all the monopolistic powers that impede Cubans from enjoying the benefits of free domestic and foreign trade, free enterprise, private property, etc. In the meantime, Cuba’s economy at large continues drifting towards unknown waters. With the exception of the minority of Cubans benefitting from the economic activities of subsystems one and two, most of the country seems to be following the fate of Congo under Mobutu Sese Seko, *mutatis mutandis*. Under these conditions, achieving stagnation would be an improvement.