

THE CUBAN ECONOMY IN 1997-98: PERFORMANCE AND POLICIES

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The timid, oscillating and tightly-regulated market-oriented reform has been halted since March 1996, when Raúl Castro strongly criticized the negative effects of the reform, followed by the purge of some academic reformists. That halt was ratified by the Economic Resolution approved by the Fifth Communist Party Congress held in October 1997. Rather than turning back the reform (an unfeasible option) or moving ahead (as the purged reformists recommended), the Party maintained the status quo, because a further opening of the economy and expansion of the non-state sector could have threatened the regime's control. Political logic, therefore, prevailed over economic logic, i.e., the limited but positive effects of the reform. This paper analyzes performance in 1997 and preliminarily until mid-1998, as well as policies (and targets) set by the Economic Resolution of the Party Congress and Castro's speech at the National Assembly held in July 1998.

ECONOMIC PERFORMANCE

Table 1 summarizes Cuba's major economic and social indicators, as reported by key government institutions and the U.N. Economic Commission for Latin America and the Caribbean (ECLAC) based on official data. The series start in 1989, the year before the crisis began, show their worst point in 1993, and sluggish recovery in 1994-97. A few targets are shown for 1998, and a comparison of performance in 1997 versus 1989 is presented in the last column. All these indicators are scrutinized below (for a more detailed analysis of the 1989-96 period see Mesa-Lago 1998; for 1996-97 see Pérez-López 1997).

Domestic Macroeconomic Indicators

Policies prior to the halt of the reform, although modest and with reversals, in general produced fair economic results, but there has been a significant slowdown since 1997. The GDP growth target for that year was initially set at 4% to 5% but actually was 2.5% (2% per capita); official reasons given for the poor performance were: the failure of the sugar harvest planned to be 5 million tons but that actually reached only 4.2 million tons; restrictions on external credit due to the Helms-Burton Act; paralysis/delays in two-thirds of the supply of inputs for the sugar harvest; the heavy burden of debt service; the hurricane of 1996 that caused an estimated loss of US\$800 million; bad weather in the winter of 1996-97; and pests in 1997 that harmed agriculture. The annual average GDP per capita growth rate in 1995-97 was 3.6%; even at that rate, it would take 15 years to recover the GDP per capita level that Cuba had in 1985, which was a meager one to begin with.

The GDP growth target initially set for 1998 was from 2.5% to 3% but, in May of that year, the lower figure was projected. The main reason for the downgrading was, again, the failure of the sugar harvest, originally set at 4.5 million tons but with actual output officially reported to be "less than 3.3 million tons" (unofficial estimates range from 2.8 to 3.2 million tons, the latter conservative figure has been selected for Tables 1 and 2). Lage ("Palabras..." 1997) claimed that the planned growth rate for 1998 still will be achieved through increases in the nickel and tourism industries, but world prices of nickel de-

Table 1. Selected Economic Indicators for Cuba: 1989-1998

Indicators	1989	1993	1994	1995	1996	1997	1998 (targets)	1997/1989 (%)
A. Macroeconomic (%)								
GDP growth absolute rate ^a	1.2	-14.8	0.7	2.5	7.8	2.5	2.5 ⁱ	
GDP growth per capita rate ^a	0.2	-15.1	0.0	1.9	7.1	1.9	2.0 ⁱ	
Gross domestic investment/GDP ^a	26.7	5.4	5.7	8.8	9.0	9.4		-74
Inflation rate ^b	n.a.	19.7	25.7	11.2	0.5	2.9		-85
Monetary liquidity/GDP ^c	21.6	73.2	51.8	42.6	40.6	39.7		+84
Fiscal balance/GDP ^c	-7.2	-33.5	-7.4	-3.5	-2.4	-3.1 ^g	-3.0 ⁱ	-58
B. External (billion US \$)								
Exports (goods)	5.4	1.1	1.3	1.5	1.8	1.9	2.1	-65
Imports (goods)	8.1	2.0	2.1	2.8	3.6	4.3	4.5	-47
Trade balance (goods)	-2.7	-0.9	-0.8	-1.3	-1.6	-2.4	-2.5	-11
Terms of trade (1989=100)	100.0	57.5	79.7	70.5	61.0	60.0		-40
External debt (hard currency)	6.2	8.8	9.1	10.5	10.5	10.5		+69
Foreign investment	n.a.	n.a.	n.a.	2.1	n.a.	n.a.	2.2 ^l	
Exchange rate (pesos per 1 US\$) ^d	7	78	95	32	19	23		+228
Tourism gross revenue (millions) ^e	168	720	850	1,100	1,380	1,500	1,830	+793
Tourism net revenue (millions) ^e	101	240	280	363	455	495		+390
C. Physical output (thousand metric tons)								
Sugar	8,121	4,280	4,000	3,300	4,450	4,252	3,200 ^k	-48
Nickel	47	30	27	43	54	62		+32
Citrus	1,016	644	505	564	662	808		-20
Fish catch	192	94	94	106	120	137	149	-29
Cigars	308	208	n.a.	181	189	n.a.		-39
Oil	718	1,107	1,299	1,471	1,500 ^h	1,500 ^h		+100
Electricity (billions Kwh)	16	11	12	12	13	14	14	-12
Cement	3,759	1,061	1,067	1,400	1,485	1,700		-55
Rice	532	177	226	223	239	325		-39
Milk	1,131	585	622	608	640	571		-50
Eggs	2,673	1,512	1,561	1,415	1,282	1,460		-45
Employed (thousands)	4,356	4,313	4,195	4,131	4,106	4,183		-4
Open Unemployment (% EAP)	7.9	6.2	6.7	7.9	7.6 ⁱ	6.9 ^j		-13
Real Wages (1989=100)	100.0	81.8	63.4	58.5	61.2	n.a.		-39
Infant mortality (per 1000)	11.1	9.4	9.9	9.4	9.0	7.2		-35
University enrollment (thousands)	242	166	141	122	112	n.a.		-54

^a Constant 1981 prices. ^b GDP deflator. ^c Based on current prices. ^d Unofficial rate, annual average. ^e Gross revenue includes costs of inputs; net revenue deducts costs of inputs (author's estimate). ^f Author's estimate based on ECLAC wages, and inflation rates based on Mesa-Lago 1998. ^g Ministerio 1998; ECLAC 1998 gives -2%. ^h Rounded. ⁱ ECLAC 1997 gives 6.8% for 1996 but ECLAC 1998 raises it to 7.6% and gives 6.9% for 1997. ^j The official target is from 2.5% to 3.5% (2% to 3% per capita); ECLAC 1998 shows a projected GDP growth rate of 0.7% in current prices (Table 27). ^k Actual output; estimates range from 3 to "less than 3.3" million. ^l Actual figure released by Osvaldo Martínez, Director del CIEM, EFE, Havana, May 17, 1998.

Source: BNC 1995, 1996; ECLAC 1997, 1998; Mesa-Lago 1998; Ministerio de Economía y Planificación 1998.

clined in 1998 and tourism faces high costs of imported inputs (as Cuba has been unable to produce them domestically). The projected value of sugar and nickel exports, as well as revenue from tourism (*gross* or including costs of imported inputs, and *net* excluding them) for 1997-98 are exhibited in Table 2: if the gross tourist revenue for 1998 is chosen, its combined value with nickel exports is \$148 million less than in 1997, while if the net revenue is used, the result is \$248 million less; these estimates rebut Lague's assertion. ECLAC's (1998) report on the Cuban

economy for 1997 shows (bottom of Table 27, p. 41) the GDP in current prices for that year (23,500 million pesos) and the projected figure for 1998 (23,667 million pesos), for a growth rate of 0.7% (0.2% per capita); these and other data to be analyzed later suggest that GDP per capita will either stagnate or have a low growth rate in 1998.

Gross domestic investment as a percentage of GDP shrunk from 26.3% to 5.4% in 1989-93, but rose since 1995, reaching 9.4% in 1997, still 74% below

Table 2. Estimates of the Dollar Value of Cuban Sugar and Nickel Exports and Tourism Revenue: 1997-1998

Revenue	1997	1998
Sugar		
Output (thousand tons)	4,252	3,280 ^d
Exports (thousand tons) ^a	3,552	2,630
World Market price (U.S. cents/pound) ^b	11.16	10.70
Revenue (million US \$)	853	620
Nickel		
Output (thousand tons)	61.5	64.0 ^e
Exports (thousand tons) ^a	61.0	63.0
World Market price (U.S. cents/pound) ^b	314.3	264.7
Revenue (million US \$)	423	368
Tourism (million U.S. \$)		
Gross revenue	1,500	1,650 ^f
Net revenue ^c	495	545
Sub-totals (million US \$)		
1. Sugar	873	630
2. Nickel and tourism (gross)	1,923	2,018
3. Nickel and tourism (net)	918	913
Totals (millions U.S. \$)		
1 + 2	2,796	2,648
1 + 3	1,791	1,543
Difference 1998 over 1997 (million U.S. \$)		
1 + 2		-148
1 + 3		-248

^aBased on previous years' ratio of exports/output. ^bAnnual average in 1997, January-June average in 1998. ^cBased on ratio net/gross in 1990-96. ^dHigh estimate; others are as low as 3 million tons. ^eAuthor's projection based on installed capacity. ^fAuthor's projection based on 1996-97 growth.

Source: 1997 sugar and nickel output and tourism revenue from Table 1; 1998 are author's estimates. World Market price 1997 from World Bank, *Pink Sheet* 1998, and 1998 from *Wall Street Journal*, January-June 1998.

the 1989 level. Lage ("Palabras..." 1997) told the V Party Congress that investment had been "almost totally interrupted" before, but had "begun again" in 1997, and the Economic Resolution stated that new investment projects should not be started unless a previous feasibility study is done.

The inflation rate decreased from a peak of 25.7% in 1994 to reportedly 0.5% in 1996 (a questionable figure) but increased to 2.9% in 1997. The monetary liquidity was reduced from 11 to 9.2 billion pesos in 1994-95 (from 73.2% to 40.6% of GDP), but increased again in 1996 (to 9.5 billion pesos) and decreased in 1997 (9.3 billion pesos and 39.4% of GDP), still twice the 1989 level (an intriguing ques-

tion is how come there was virtually no inflation in 1996 when the monetary liquidity rose). The fiscal deficit was cut from 33.5% to 2.4% in 1993-96; there are contradictory figures for 1997: 3.1% according to the Ministerio de Economía (1998) but 2% based on ECLAC (1998).

External Sector

After its dramatic decline of 79% in 1989-93, the value of exports increased by 73% in 1993-97 (still 65% below the 1989 level); imports dropped 75% and rose 105%, respectively (still 47% under the 1989 level). As imports expanded faster than exports (mainly due to the decline in sugar output and exports), the trade deficit per capita jumped three-fold in 1993-97 and became close to that of 1989. There was a significant steady deterioration in the terms of trade in 1989-97 (-40 percentage points) as the world prices of sugar and nickel dwindled. The world price of oil also fell, helping to reduce the share of oil in total imports from 35.4% to 26.4% in 1994-97. Export concentration on sugar decreased from 72.7% to 51.4% of total export value in 1993-96, mainly a result of the fall in sugar export volume and value, and yet although all other export shares increased, their actual value shrunk (ECLAC 1998; Mesa-Lago 1998). In 1998, Cuba was granted observer status in the Lomé Agreement and moved towards admission into CARICOM, a more political than economic triumph as Cuba has little to export to countries in both regional groups.

The hard-currency external debt jumped from \$6.2 to \$10.5 billion in 1989-95 and has been stagnant since then; as of August of 1998 there has not been an agreement with the Club of Paris on that debt, the cause for Cuba not receiving new loans. (The debt with Russia has significantly decreased in dollar terms but Cuba has neither paid any part of it nor reached an agreement on the sum to be repaid, an irritant in trade relations between the two countries.) Access to external credit is extremely limited: new one-year loans from foreign banks were received in 1996-97 to finance the sugar harvests of 1997 and 1998 (from \$200 to 300 million each year), but the cost was quite high (14% to 16% interest), and the net gain was lower than the amount of the loan and

interest because of low sugar production. Lage and the Resolution acknowledged the financial difficulties caused by the crop failure of 1997 including less foreign credit available for 1998.

Cumulative foreign investment since 1990 was officially reported at \$2.1 billion in 1995 and \$2.2 billion in August 1998, almost stagnant over three years. Furthermore it appears that only one-third of it has been disbursed.

Gross revenue from tourism steadily rose from 168 million pesos in 1989 to 1.5 billion pesos in 1997 (about eight-fold); but the net revenue was about one-third of the gross, due to the high cost of inputs, and rose from 101 to 495 million pesos in the same period (about four-fold). Although occupancy of the growing number of tourist rooms has been climbing since 1993 (44%), it was only 57% in 1997 (ECLAC 1998), raising the question of how the added rooms will be filled. My estimate of all Cuban hard currency earnings in 1997 (combining exports, tourist net revenue, foreign investment or aid, and external remittances) shows it was 70% less than in 1989.

The exchange rate of pesos to one U.S. dollar in the black market deteriorated from 78 to 95 in 1993-94, steadily appreciated to 19 in 1996, and deteriorated again to 23 in 1997 (state exchange houses established in 1995 pay about one peso less than the black market).

Physical Output

Except for nickel, production for export was significantly lower in 1997 than in 1989. We have referred already to the poor performance of the sugar sector: output in 1993-97 averaged one-half of the 1982-89 average. Citrus production sharply decreased in 1989-93 and increased in 1994-97, but was still 20% below the 1989 level; similar trends occurred in fish catch and cigars: their output in 1996-97 being 29% and 39% below 1989, respectively. Nickel production decreased 43% in 1989-94 but, with the help of Canadian investment, surpassed the previous peak in 1996 and kept climbing in 1997 (output level that year was 32% above 1989). Canadian investment, however, has focused on the former U.S. plants, not in the new plants built with CMEA aid (Punta Gor-

da and the not completed one in Las Camariocas) due to their obsolete technology. Hence, there are questions about increases in output in the near future absent significant new investment and technology transfer.

Oil extraction reached almost one million tons in 1986, declined by 44% in 1987-91, and steadily rose in 1992-95 to reach 1.5 million tons (a 109% jump over 1989 but 60% over 1986); extraction was virtually stagnant in 1996-97 and the contribution of domestic output to total supply shrank from 20% to 17.8% in 1995-97 (while oil imports increased). Manufacturing output generally decreased in 1989-93 and rose thereafter but in 1997 was still below the 1989 level, e.g., lower by 55% for cement and 12% for electricity (in per capita terms the gap was bigger).

The 1998 sugar harvest has been the lowest under the Revolution and in the last 55 years: production in 1943 was 2.8 million tons and in 1998 about 3.2 million tons; in per capita terms, the former (0.60 tons) was more than twice the latter (0.29).

The non-sugar agricultural sector has had a poor performance and its recovery has been sluggish and unsteady, thus in 1997 output was well below the 1989 level, e.g., -50% in milk, -45% in eggs, -39% in rice (the same trend was observed in the output of fruits-other-than-citrus, tubers, green vegetables, poultry, beef and pork). The number of heads of cattle and the production of beans were stagnant. The only crops that in 1997 reportedly had a higher output than in 1989 were corn and plantains (ECLAC 1998). The major problem in the whole agricultural sector is the inefficiency of the new cooperatives created in 1994 (UBPCs), which are highly dependent on the state which in practice directs production and buys virtually all of it at prices set below the market price, hence, creating severe disincentives. As a result, in 1997, the UBPCs' share of cultivated land was 57.6% but their share of total sales in the free agricultural markets was 3.6%; conversely the private sector's shares were respectively 16.9% and 72.7%, while the state farms' shares were 25.5% and 23.7%. Furthermore, total cultivated agricultural land decreased by 15% in 1990-96. UBPCs' yields in the

1998 harvest sank, which forced an increase in state subsidies (ECLAC 1998).

Social Indicators

According to ECLAC (1998) figures, the open unemployment rate decreased from 7.9% in 1989 to 6.2% in 1993, then rose to 7.9% in 1995, but fell to 7.6% in 1996 and 6.9% in 1997; this trend contradicts that of the employed labor force which steadily declined in 1989-96 with a small increase in 1997. In this year, the employed labor force was 4% below that of 1989 but the open unemployment rate was one percentage point lower. ECLAC (1997) has also estimated that the "equivalent unemployment rate" (open unemployment and displaced workers receiving unemployment compensation) peaked at 35.2% in 1993 but decreased to 27% in 1996 (no estimates are available for 1997). The cost of unemployment compensation of surplus workers is a heavy fiscal burden, and led to the announcement of the dismissal of 500,000 to 800,000 unneeded workers in the state sector in 1995. Three years later such dismissals have not taken place, due to the lack of jobs in the private sector, in turn caused by the government's resistance to allow its expansion. The increase in the cost of licenses (300%) and fees (650%) imposed on the self-employed in 1996 led to a drop of 18.5% in the number legally registered at the end of that year: from 208,500 to 170,000, although there was an increase to 175,267 towards the end of 1997 (ECLAC 1997, 1998). Urban mean real wages (based on 1989 levels) steadily shrank to 58.5% in 1996 and slightly rose to 61.2% in 1997, 38.8 percentage points below the year base. The cost of social security (basically pensions) rose again in 1997 and took 7.1% of GDP.

The infant mortality rate reportedly decreased from 11.1 (per 1,000 born alive) in 1989 to 9 in 1996 (with an increase to 9.9 in 1994) but fell dramatically to 7.2 in 1997, almost two percentage points in one year (Ministerio 1998, reproduced by ECLAC 1998); this rapid drop in infant mortality is unusual, particularly in a country as Cuba with already such a low rate, and the 1997 figure is seriously questioned also in view of the overall deterioration in health standards.

University enrollment dropped by one-half in 1989-96 due to the lack of incentives for university graduates, who are unable to find jobs in the state sector and prohibited from practicing their professions as self-employed.

I have estimated that, in 1995, the ratio of extreme income inequality was 800:1 *vis-a-vis* 4.5:1 in 1987 (Mesa-Lago 1998), while figures released by Castro (1998) suggest a ratio of 143:1 between the salary of a teacher and the income of a restaurant operator. Rationing has been extended to all consumer goods but ceased to be a significant equalizer because the monthly rations cover less than two weeks of the minimum food requirements; the rest has to be bought in state dollar shops or the agricultural and black markets, at very high prices affordable only to those who earn or receive hard currency from abroad.

ECONOMIC POLICIES

The V Party Economic Resolution and the 1998 National Assembly

The V Party Congress took place in October 1997 but its Economic Resolution was not published until February 1998 ("Resolución..." 1998). It maintained and strengthened the current system, neither endorsing new reforms nor setting a date for the implementation of those pending. According to the Resolution, the reforms are geared to maintaining the predominance of state property, which shall continue to be an intrinsic element of the socialist system, and its efficiency increased above other property forms such as cooperative and private. The transition from "excessively centralized planning" to another form (not defined, but based on financial balances) is still in process, but planning will continue to play a fundamental role and the state will keep the direction of the economy. Although some space has been opened to the market, the latter will be kept under strict state control and regulation, and the government will correct any distortions created by it and impede unjustifiable profits. Enterprises managed by the armed forces shall be extended to other economic branches, and state enterprises should be profitable, except in cases of national or social interest, when they will be subsidized.

The majority of UBPCs suffer from inefficiency and must correct their problems and increase output, but within the current system. The partial reform of the banking system approved in May 1997 (it relegated Cuba's National Bank to commercial functions, transferred its central bank functions to a newly created Cuban Central Bank, and established a legal framework for commercial banks and financial institutions under the latter's supervision) was briefly mentioned by the Resolution but without specifying when the full banking reform will take place. There was no reference to the needed price reform, but the Resolution ratified that prices should be centrally set, although avoiding monopoly prices (an oxymoron). The Congress stressed the need to move gradually toward a more realistic and adequate foreign exchange rate, but without setting a timetable, and declared that the peso should be strengthened by increasing the nation's output but without a concrete plan.

There will be an adequate balance between economic and moral incentives — the Resolution stated — and voluntary labor will be re-asserted. Self-employment will continue under current regulations and control, despite the decline in the number legally registered. A draft law granting Cuban citizens the right to manage small and medium businesses, circulating for almost three years, was not mentioned in the Resolution (Lage explained that it was not a government priority and would have to wait), and it did not say anything either on authorizing university graduates to practice their professions as self-employed. Concern was expressed on the existing labor surplus (without alluding to the 500,000 to 800,000 state workers scheduled for dismissal in 1995), as well as on open unemployment-underemployment and the need to create jobs, but this was said to be a relatively small problem compared with other Latin American countries, and no concrete program was suggested (the Congress ignored ECLAC's estimate of 27% "equivalent unemployment," as well as its recommendations to expand the private sector to create jobs).

The Resolution acknowledged that social security is a heavy fiscal burden and that the 1994 tax law had mandated (although postponed) the imposition of a

payroll tax on the workers, but did not stipulate the date of implementation (Lage said it would have to wait until "proper conditions" were present); the Resolution did not even mention the wage tax, also included in the 1994 law. The new regulations introduced in May 1997, establishing the right to rent rooms to citizens or foreigners, albeit requiring a permit and paying a tax, were equally overlooked. Finally the Resolution stated that once "the worst disequilibria are attenuated," but certainly not solved, a new stage will begin with emphasis on export diversification, rising labor productivity and enterprise profitability, achieving food self-sufficiency, etc. but, in the short run, current restrictions will continue.

In his closing address to the Party Congress, President Castro made clear that he opposes any type of privatization of state enterprises as the Chinese have done, and the Party Secretary in Havana declared that Cuba could not follow China's path because of different conditions and the adverse effects it would cause on social services (Rohter 1997). At his speech to the National Assembly, on July 22, 1998, Castro expressed his disgust about the negative social effects of the reform: "The more contact I have with capitalism, the more revulsion it causes me." He then criticized the legal operation of small restaurants and house renting because of their high earnings, saying that the amount of money owners have is causing much harm. Castro warned that the state will not sell cars and other durable consumer goods to those "Creole" millionaires and may increase their taxes even more (Castro 1998).

Short and Medium-Term Targets and their Feasibility

The cut in the 1998 GDP target and its unfeasibility have been analyzed already. Equally unrealistic, in view of the decline in sugar output, low world prices of sugar and nickel, and poor performance of agriculture, are the 1998 targets to expand exports by 10.7% (contrasted with a 0.6% increase in 1997) and reduce the expansion of imports to 4.7% (compared with a jump of 20% in 1997); even if those unfeasible targets were to materialize, the merchandise trade deficit would slightly rise. Another unrealistic goal for 1998 is the swell of occupancy in tourist

rooms by 7 percentage points (from 57% to 64%), despite a projected increase in the number of such rooms and an expansion of the occupancy rate of only 1.1 percentage points in 1997 (1998 targets from ECLAC 1998).

The Congress set very ambitious targets for the medium term (apparently for 1998-2002), but failed to come up with concrete, detailed policies to achieve them (the following targets come from Table 1; "Resolución..." 1998; and ECLAC 1998): (i) GDP will grow at an annual rate of 4% to 6% (compared with 2.5% in 1997, possibly less than 1% in 1998, and an average of less than 3% in 1994-98); (ii) sugar output will increase to 7 million tons, contrasted with 3.2 million in 1998 and an average of 3.9 million in 1993-98 (mechanization and fertilizer use should be limited, and replaced by manual work, animal traction and natural fertilizers); (iii) nickel output will reach 100,000 tons (a 61% leap over the 1997 level), tobacco 50,000 tons (a 100% jump over 1995 level), and the level of fish caught "sustained" (but an 8.8% increase is planned for 1998); (iv) 2 million tourists and a gross revenue of \$2.6 billion will be reached (a 100% vault over 1997); (v) oil needs shall be met with increasing domestic production, savings, cut in population consumption and in use by public transportation mainly through bikes (the domestic contribution to total oil supply in 1995-97 decreased down to 17.8%); (vi) 50,000 dwellings will be built annually, particularly in the countryside (difficult to achieve because of the low domestic production of cement, part of which is earmarked for exports); (vii) health care should continue to partly rely on traditional and herbal medicine (a palliative but not a solution to the current problem); (viii) state pensions should be supplemented with individual savings accounts and life insurance (the question is how many people can save a significant amount to finance such supplemental pensions); and (ix) inequalities will be curtailed through taxes (but these would lead to less incentives in the non-state sector).

The possibility of achieving these unrealistic goals, particularly on agricultural production, is seriously put into question by the severe drought that the five

eastern provinces of Cuba (Holguín, Santiago, Guantánamo, Las Tunas and Granma), and to a lesser extent the central provinces, have been suffering in 1998, attributed to *El Niño* and reportedly the worst since 1941. In July it was estimated by an international mission of the U.N. World Food Program (together with FAO, UNDP and UNICEF) that the drought would reduce food output by 42% in those provinces (from 609,648 to 259,000 metric tons) due to partial or total loss of thousands of hectares planted with beans, yucca, plantain, green vegetables and rice, as well as thousands of heads of cattle dead or transferred to other areas, which has led to a decline in milk output; poultry and egg production also have been harmed. The drought is likely to affect both the 1999 sugar harvest and the grandiose target of 7 million tons for 2002: it is calculated that as much as 14% of the sugar cane sown in 1997 has been lost, and significant delays have occurred in the sowing of new cane for the 2000 harvest (only one half of the planned target has been achieved, and most of the afflicted provinces are in the central part of the island, not in the east: Villa Clara, Ciego de Avila, Camagüey and Las Tunas). About 539,000 people have been adversely affected by the drought through lack of water and food, and decline in income, and \$7 million in relief has been granted by international agencies. In August 1998, the decline in food output began to push up prices in Havana and the western provinces, which should lead to an increase in inflation in the rest of 1998 (*Juventud Rebelde*, July 12, 1998; EFE, La Habana, July 26, 1998; *Miami Herald*, July 31, 1998; and *El Nuevo Herald*, August 9 and 10, 1998).

Cuban authorities should leave aside their ideological resistance in order to: further open up the economy; facilitate the expansion of the private sector; transform the UBPCs into real cooperatives, which are autonomous and have more incentives to increase production and profitability; allow university graduates to practice their professions as self-employed; and authorize Cuban citizens and groups of workers to manage small and medium businesses, hence, creating enough jobs in the non-state sector to permit the dismissal of non-needed workers in the state sector; complete the banking reform and implement a com-

prehensive price reform; create a domestic capital market; allow foreign enterprises and joint ventures to hire, promote and pay their employees directly; establish a truly convertible peso; introduce a progressive income tax and workers' contributions to social security and reform the pension scheme; and devise a social safety net to protect the most vulnerable

groups of the population. The decisions taken in the V Party Congress do not augur that such urgently needed reforms will be implemented in the near future. Therefore, the probability of a strong, steady recovery in Cuba appears to be very low, particularly after the poor performance of 1997-98.

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