

A PRELIMINARY APPROACH TO A SOCIAL MARKET ECONOMY FOR POST-CASTRO CUBA

Antonio Jorge¹

Forty-five years after the inception of a Revolution that was to be a trail blazing example for Latin America and Caribbean nations to follow, no takers have appeared despite innumerable professions of sympathy and moral support by near neighbors and far nations alike in our continent and elsewhere. The Cuban Revolution awoke deep sentiments and latent populist expectations dormant in the Latin soul and cultural character. In that sense, the Revolution was to be a misguided romantic movement that was going to prove very costly to the Cuban people and, to a lesser degree, to others as well. However, when push came to shove, everyone realized that the revolutionary project was totally unfeasible. It was an unnatural conception that was completely out of context in the Latin American ambience. Geo-economic and geo-political reasons, not to speak of native socio-economic conditions, condemned the Cuban model to utter failure.

Some peculiarities of the Cuban case have aggravated the failure of that paradigm, leading the Cuban people to the disastrous and near terminal economic situation in which they find themselves at present. First is the *caudillo-cacique* syndrome, which epitomizes and embodies the very essence of the Revolution. The symbiotic relationship between Castro and his revolution cannot be accurately described except by

referring to that fusion as a hypostatic union. Second, as a result of that total identification, the personal goals of Castro have incarnated as the Revolution's ideological, political, social, and economic platform. Naturally, under such conditions, any attempt at implementing economic rationality will become frustrated as a matter of logical impossibility.

If to the above one were to add the monumental error of implanting a centrally planned and administered economic system in a small, open, lop-sided, monoculture type of economy, traditionally oriented towards a huge market only ninety miles away, the Cuban catastrophe becomes readily explainable. It goes without saying, of course, that the magnitude of the crisis was magnified by the collapse of the Soviet bloc after 1989 and the termination of the subsidization of the Cuban economy by the Soviet Union and the Council for Mutual Economic Assistance (CMEA).

Post-Castro Cuba will inevitably have to travel back the road to market. How will this be done? We propose to offer a few preliminary thoughts on this extremely complex problem, which requires for us to navigate on mostly uncharted waters. The experience of other nations is only a very partial guide in attempting to map the course to be followed in deso-

1. This paper has been adapted from several of the author's works, principally *A Reconstruction Strategy for Post-Castro Cuba* (Coral Gables: The North-South Center, University of Miami, 1991). See also, "A Post-Castro Cuban Paradigm: Travelling the Road Back to Market"; "Small, Developing Economies in Transition: Prospects For Post-Castro Cuba"; "The Political Economy of Post-Castro Cuba: Revisiting my Socio-Economic Paradigm"; and "Nation, Society and Economy in Post-Castro Cuba," all reprinted in the author's book, *On Cuba* (Coral Gables: University of Miami, 2004).

cializing and reconstructing an economy. Each case is unique in its conformation and characteristics. Institutions, organizational modes, functional patterns, cultural values, social mores, historical antecedents, and still more, must be taken into account in devising the singular path to be traveled by each individual society in the complex and laborious process of creating a market-type of society.

As we proceed with this task, we shall see that a strategy especially suited to attain both, the desocialization and the sustained development of the Cuban economy, will have to be conceived and implemented. Fortunately, elements of that strategy were already in existence in pre-revolutionary Cuba. In effect, as far back as the decade of the twenties, Cuban authorities were trying in earnest to transform the nation's economy. Interestingly, the intellectual antecedents for that strategy had been formulated as early as the XVIII century by members of the *Sociedad Económica de Amigos del País*, a kind of Cuban Academy of Social Sciences, where economic ideas were discussed with great vigor and considerable sophistication. Lastly, it is also of much interest to note that in the proposed transformation process, the price system, that cornerstone of economic rationality, will have to perform some unorthodox functions in the dual task of marketizing and developing the Cuban economy. Efficiency and maximization in this new setting may call for the price system to perform in a non-optimal fashion, in the traditional sense of established economic theory. There will be much more for the price system to do in the case of Cuba than to allocate scarce resources among competing individual ends in pursuit of a maximum of aggregate utility for the members of society.

It is in this context that it is important to remember that the social sub-system which we define as the economy, never functions in a totally autonomous fashion, even in the case of post-industrial nations which are highly modernized and secularized. The economy is always conditioned by an enormous set of non-economic factors—be them historic-cultural, socio-psychological, technological, geographic, religious, or legal in nature. These forces influence the selection of goals and objectives by the society and also the ways and means to achieve them. They mold

strategies and policies; set priorities; point up prohibitions, restrictions and limitations; and define areas of freedom of action and economic choice. The foregoing explains the decisive importance of formulating a general social model within which the economic subsystem may function in an effective fashion in the complex process of nation building. In turn, this requires an understanding of the historical evolution of a people, their beliefs, values, and feelings, plus an interpretation of how the cultural medium permeates the conduct of the members a society.

It may be inferred from the preceding that there are many roads leading to the rebuilding and desocialization of a society. The choice of one over another is a very complicated matter, which definitely must ultimately be left in the hands of the people of a nation, and their representatives, in open and politically participative systems. Any recommendations made by a particular individual, even a professional or expert in economic or political matters, must be taken only as a partial expression of a multifaceted reality. In the end, only the people as a whole should decide on their future. Political freedom is a final value itself, as well as a necessary condition for the attainment of a high level of economic development.

CUBA AS AN EXAMPLE

As pertains to Cuba, we now offer a few indications regarding the possible nature of the strategies best suited for its reconstruction, development, and desocialization. We believe the proposed strategies, broadly speaking, should conform to the spirit and purposes of the Cuban political and socio-economic developmental stage which began in 1927, a watershed in Cuban history.

It is essential to understand that in Cuba, the period spanning the end of the 1920s to the close of the 1950s had its own identity and continuity. This was certainly the case in the social and economic arena, independently of the vicissitudes occurring in the political sphere, which seriously fragmented Cuban society. Some of the most salient characteristics of that historical period were a marked nationalist spirit; economic diversification; deeper socialization and modernization; growing technicalization in the productive and administrative spheres; an accelerated movement toward social integration, progressive leg-

islative programs, and the building of institutions the creation of a more humane and close-knit society; as well as a more active political management style, accompanied by vigorous entrepreneurial activity.

It is obvious that the future of a nation cannot seek to mechanically copy the past. The historical alterations introduced by mutation and redirected evolution makes this impossible, even in the absence of social discontinuities, as well as in the more infrequent cases when a violent social rupture leads to a reversal of tendencies and established secular movements. That which is feasible and desirable, however, is a creative reinterpretation of the fundamental values, cultural essence, and national character of a people, so that a society may evolve freely while preserving its own ethos and sense of identity.

CUBA'S CHALLENGE AT THE BEGINNING OF A NEW MILLENNIUM

The Cuban people are vivacious, independent, intelligent, and literate, living in a strategically situated country with reasonably abundant and productive natural resources. Cuba is a society in search of a social market economic system that would agree with its particular historical social and cultural traits. That system should be able to maintain a dynamic balance in the macroeconomic sphere in order to pass safely over the hurdles of a contemporaneous international panorama in constant flux (globalization), while also promoting the sound internal development of the economy in a climate of relative economic efficiency and quasi-price rationality.

This challenge is compounded by a mix of historical, cultural, and economic factors that call for a delicate and difficult blend of policies and institutions, not entirely unlike in their nature to those that have characterized the developmental strategies of nations such as Taiwan and South Korea. A relatively very high and concentrated foreign trade coefficient and external dependency, along with the perennial instability induced by an economy dominated by the production and export of primary commodities in a fluctuating world market, are two fundamental traits still marking the Cuban economy after forty five years of misgovernment by a putative Revolution that was supposed to put an end to its structural imbalances. To this must be added the very low efficiency and

productivity of the production system, at present reaching catastrophic levels and threatening a complete breakdown in the immediate future.

As for the traits of the socio-cultural and socio-psychological order, not only is Cuban society influenced by a paternalistic ethos and welfarism, but it also shares elements of historical corporatism with other Ibero-American societies. In pre-revolutionary Cuba, this was reflected in institutions such as those providing mutualistic health services, a populist labor legislation, and the legally-dictated distributive mechanism of the sugar industry.

An important point to consider in designing a transition strategy is the coordination of the means of structural change (organizations and institutions) with those of liberalization, stabilization, adjustment policies, and measures (such as monetary and fiscal policies, corporate restructuring, price reforms, competition, and foreign trade and exchange policies), so that by the end of the transformation stage all basic structural changes and stabilization and adjustment policies will be fully harmonized. It would be impossible to orchestrate in a parallel fashion for both types of changes to march in tandem, or to seek to achieve them instantly, given the proven danger of trying overly-ambitious solutions to the transition process, like the one popularly referred to as the "Big Bang" approach.

THE GRADUALISTIC APPROACH

As a theoretical proposition, the Big Bang theory is very attractive, but it implies enormous political and social risks, while at the same time requiring administrative, economic, human and moral resources which did not exist in socialistic and communist societies at the time the transition was to begin. As a result of hard won experience, the gradualist position has become the only realistic one. This is evident in the case of the former Soviet Union, as well as in the countries of Eastern Europe. Only Poland was at the start a partial exception to that preference, although it too pretty soon joined the gradualist camp. East Germany should be treated as a unique phenomenon in the former socialist world because of its having been totally absorbed by West Germany, albeit at an enormous economic cost.

The execution of the gradualist position assumes the need to choose and prioritize the sequences of structural changes and economic policies to be followed, as well as the speed at which these are to be conducted. This a complex task, for which there are no full historical antecedents available to serve as a standardized reliable guide.

Next, we need to emphasize that not opting for the Big Bang solution (that is, an immediate transformation of the economic system) does not mean that gradualism is exempt from dangers of its own, like is the case of arrested change or reversals. Let us now point to some objectives to be adopted and sequences of movements to be followed in formulating the specific Cuban strategy for reconstruction and development. In the short term, there is no more expeditious, safe, and effective way to go about the transition than to adopt the gist of the general developmental strategy that was followed by the country during the period 1927 to 1958. In essence, that strategy constitutes the best route for the economic reconstruction of the nation, as well as for the simultaneous beginning of the process of decollectivization and desocialization of Cuba.

RECONSTRUCTION AND DECOLLECTIVIZATION

The policies of agricultural diversification and rational economic self-sufficiency, applied to the production of basic goods for general consumption and to primary activities in general, should enjoy maximum priority in the dual programs of reconstruction and decollectivization. A close second priority should be given to light industry for the production of consumer goods and intermediate manufacturing. We include in this program the reconstruction and development of the broad manufacturing base already existing in the 1950s in semi-durable consumer goods, as well as the gradual expansion of the production of industrial raw materials—the latter in connection with the growth and needs of the national agroindustrial complex.

This program would yield optimum results along a varied gamut of fronts, and would accomplish several desired objectives:

- It would serve to re-establish, relatively quickly and massively, personal and private initiative as well as free enterprise in society.
- It would contribute decisively in the short term to the diversification and stability of the economy, and to a greater degree of self-determination over the nation's future and over the direction economic policy itself.
- It would be of substantial value in the promotion of the country's domestic and external financial stability.

The first two objectives would be affected by the stimulation of entrepreneurial activity and the accelerated increase in the production of consumer goods. This would, in turn, help promote a stable equilibrium in price levels, a high level of employment, and the continued expansion of the Gross Domestic Product (GDP). The third objective, financial stability, would be promoted by policies favoring a positive trade balance and by increased savings of foreign exchange, with the consequent accumulation of reserves in convertible currency. That, in turn, would serve to facilitate the gradual and orderly transition from a collectivist, centralized economy to a healthy market-system economy through spontaneous, natural growth.

Primarily, growth of a market system economy and a semi-rational price system would result from the flourishing of the personal and private initiative of the economic agents presently repressed by the political system. The outlined program would constitute the best vehicle for introducing free markets and real prices for goods, services, and inputs of all kinds. Finally, it would also serve to facilitate the creation of financial and credit markets in general, and of the corresponding institutions for their operation.

This approach represents the least complicated path with a minimum of government intervention, and is also the least upsetting in relation to existing economic activity, facilitating the sound and orderly growth of markets and a new economic order. The option we have sketched would stimulate the structural evolution of society towards a market type of economy, as well. At the same time, it would make possible the introduction of highly sensitive stabiliza-

tion policies, such as the gradual cancellation of subsidies for production and consumption purposes, and the limitation of the magnitude of approved salary increases, making unnecessary other still more unpopular measures, such as the freezing of savings and a drastic increase in taxation.

The solution we offer for consideration avoids sudden breaks or discontinuities in the economic process, with their deflationary aftermath in terms of production and employment, and also avoids the forced changes in the transition path which lead to errors in economic and social policy, such as those often made in East European countries. Finally, the proposed path is the one that more easily adapts to the disastrous Cuban economic situation at present, to the country's level of development, its market size, productive resources, land availability, population, climate, topography, energy infrastructure, transportation, communications, and distribution networks. Eventually, as a new social and economic reality ensues, incentives, motivations, and different forms of behavior will take shape, which should be compatible with the historical, social, and cultural characteristics of Cuba and its people.

PRIVATIZATION AND BUILDING OF A FREE MARKET

The gradualist, organic process, based on the sequential building of a matrix composed of the connections among proximate forward and backward linkages, is the only one that can solve the antinomies and contradictions that a radical change in the economic system inevitably would present. We have often referred to this question in addressing the serious problems faced by Eastern European countries in their attempt to go directly to a program of privatization without having first created the conditions which could assure the success of the program.

In order to privatize the means of production, one must be able first to evaluate them economically. To do that, one must project the future yield of productive assets. However, this would require the existence of a free market, where supply and demand determine prices, not only of finished products but also of the means of production, whether in the form of physical capital, land, labor, or entrepreneurial and administrative services.

In turn, free markets require a regime of private property and the use of financial and commercial instruments of credit and investment credit that only private banks can facilitate. Moreover, the assessment of the financial assets of productive entities requires the existence of a stock market.

To function effectively, all of the above need a stable fiscal and monetary medium. That, in turn, presupposes budgetary austerity and the control of the money supply, which implies the hardening of budgetary constraints and the elimination of subsidies to businesses, without which many existing enterprises will go bankrupt.

In this intricate process, we will run up against many obstacles, such as the relationship between the amount of free monetary reserves, the financial state of the current account balance, the influx of capital and the balance of payments, monetary and trade policies and their impact on the convertibility of the national currency and its exchange rate vis-a-vis other currencies, and the like.

Another example is the interdependency between the levels of production and the growth of productivity, wage policies, domestic prices and foreign trade activity, and so forth. The solution to the unsolvable puzzles that the complex interdependence of economic factors posits, and that constitute the Gordian knot of the decollectivization and desocialization processes, resides in the growth and expansion of the structural and functional network that makes up the material substratus of that entity called a social market economy.

The above discussion has had as its purpose the clarification of the essential logic of the process of decollectivization, by means of the application of an appropriate reconstruction strategy that, making use of structural economic relationships and mechanisms, will serve to promote the formation of a social market economy in the particular case of Cuba.

THE POLICY OPTION PROGRAM FOR CUBA

It is impossible to describe in a concrete fashion the policies to apply in the implementation of the strategy and the specific results that would follow from such policies. We can only point at the rationality and internal logical requirements involved in the out-

lined strategic process. These obey two conditions: (1) a clear, precise vision of the final objective to be achieved, namely, the creation of a social market economy adapted to the fundamental characteristics of the Cuban nation; and (2) the adoption of appropriate programs of decollectivization, desocialization, and reconstruction. The latter are supposed to reproduce mimetically the ordered, sequential, harmonic, and gradually differentiated evolution of the natural economic processes of growth and development. They must initiate the procedures and stimulate the spontaneous patterns that govern the creation of the complex interrelationships that characterize biological entities in their developmental process.

If we proceed according to the norms and policies of a system of natural economics, as A. Smith would have it, these apparently inextricable conundrums will become solvable. Among the necessary norms and policies for this to occur are the establishment of semi rational price systems favoring developmental activities; the privatization of the productive assets of the nation in an economically rational (effective) form; the determination of an adjustable rate of foreign exchange that corresponds on the main to the parity of the real purchasing power of domestic and foreign currencies, albeit tempered by the need to prioritize opportunities for the development of dynamic comparative advantage in foreign trade; the creation of a balanced pattern to be followed in the interweaving of businesses, projects, activities, industries and sectors, and in the allotment of resources to them in the process of implementing the investment strategies; the creation of financial, banking, and credit systems; and many other building blocks which would seem to frustrate any rational (planned) solution of the puzzle facing former socialist societies.

It is evident that the emergence of semi rational price system(s) in the economy will not take place instantaneously. No matter how intellectually satisfying that would be, it would be practically impossible to attempt to create fully rational prices in one fell swoop by following a policy of unimpeded price liberalization. In the same manner in which a market system cannot be constructed by the intervention of a *deus ex-machina*, prices cannot be formed by the

waving of a magic wand. “Economistic” solutions are, in fact, the bane of economics.

Similarly, it is essential to avoid the false dilemma posed by those who argue in favor of either instituting competitive market structures or bringing about first a complete liberalization of prices. To cast the economic system reform in that light is to incur in a logically fallacious *ab ovo* or “chicken-and-egg” causal relationship. Actually, the appearance of a reasonably free price system is a process coextensive with the emergence of competitive market structures.

We must also realize that the functions of a semi rational price system are different in an advanced market economy from what they are supposed to be in a developing economy. The order of the functional priorities involved will radically vary in both cases. The reason for the variation resides in the nature of the differing long-term goals of the developed and less developed market economies and societies. In the former case, maximum aggregate satisfaction of the consumers is postulated as the standard goal or *raison d’être* of a modern, liberal economy; in the latter case, in an ambience characterized by poverty and acute scarcity, a more production oriented, big leadership or mercantilistic type of approach is called for optimality, as the classical and neoclassical economists conceive it, to eventually obtain. Nevertheless, as has already been indicated, the imperative need to promote growth rapidly imposes a burden upon the economy in the form of a dual strategy: reconstruction on the one hand and development on the other, inevitably creating friction and diminishing the static (at each point in time) efficiency of the general economic process. The reward lies in the acceleration of economic development by the exploitation of key activities with a real or potential comparative advantage, mainly through the generation of exports to international markets.

With the passage of time, perhaps ten to fifteen years for decollectivization and reconstruction and twenty or more years for the creation of a full system of social market economy, these dualities and antinomies will disappear. At the end of the latter period a single system of internal and external prices will prevail, as well as unified, competitive markets for all the resources, goods and services of all kinds, whether their

uses are in production or consumption, in this or that sector, industry, activity or project, then or in the future.

THE QUEST FOR INCREASED FACTOR PRODUCTIVITY

For advanced socialistic economies seeking to transform themselves into market economies, the primary goal is to increase their factor productivity and overall efficiency. To that end, rational prices are required to eliminate biases in factor and commodity pricing and to approximate optimal resource allocation, as well as to attain cost minimizing factor combinations in the production functions and in the choice of technologies. By contrast, less developed socialist economies traveling the road to market have to be mindful of other objectives, such as creating attractive investment opportunities, reducing risk, and promoting stability. Their governments have to devise diversification strategies, hedge against sharp fluctuations in world market primary commodity prices, insure continuity of a domestic flow of investment resources, and induce a net inflow of external capital resources and technology. In the specific case of Cuba, the difficulties characterizing poor economies are severely compounded by the catastrophic state of the economy.

By definition, less developed, open economies like the Cuban, have to direct their energies to a rapid acceleration of their rate of growth, while pursuing the diversification of production and a higher level of stability. At the same time, they have to at least minimally satisfy the social and economic expectations of the population. None of this negates the importance of economic efficiency as a central goal. It signifies that the requisites of growth are such that Pareto optimal static efficiency will not necessarily be conducive to a near optimal multi-period dynamic growth path. It also means that social and political parameters are to be recognized as necessary conditions for a successful ride on the growth turnpike, even if this means occasional detours into second best roads.

The above translates into different functions for the price system. These would be the elimination of a pervasive anti-export bias in resource allocation; the correction of the persistent undervaluation of capital and overvaluation of labor; the use of the price sys-

tem as an incentive to induce effort and as an opportunity cost guideline in orienting public policy in areas such as the provision of public good; and the introduction of compensatory and offsetting measures, as is the case with subsidies, tariffs, and fiscal exemptions. In this regard the experience of Asian countries, especially South Korea, is extremely pertinent.

The introduction of more competition, the drastic reduction in overregulation, the freeing of trade, the pursuit of fiscal balance, and monetary restraint are indispensable in improving the economic efficiency of developing countries. However, it is also true that that group of nations should not aspire in the foreseeable future to the creation of a pure and perfectly competitive market structure and a corresponding Hayekian price system, directed at providing perfect information and price fluidity. Those countries are simply not rich enough to use prices as an index of personal preference rather than as a social opportunity cost indicator. Finally, generic terms such as competition, profit maximization, cost minimization, and optimality, are all culture bound themselves. Their meaning is contingent upon cultural variation in a broad sense, and the function of the price system will differ accordingly from one society to the next.

In the case of more advanced socialist economies engaged in the process of change to a market system, the distortions blocking the improvement of economic efficiency and *seriatim* factor productivity are very deeply embedded. It is difficult to say if the root cause of those distortions and malformations lie in a reaction to late industrialization or rather in the ideological realm itself. Be that as it may, they compound the difficulties involved in the metamorphosis of one system into the other.

THE SOVIET DUAL ECONOMY MODEL

The Soviet type system is the original incarnation of the dual economy model. The maze of interlocking notions posed by a particular concept of modernity based on the development of capital good industries and an investment concentration in the higher stages of production, along with the belief that capital intensiveness in the choice of technologies and production functions represent a superior and more productive method of production than other alternatives;

the idea that factor productivity is absolutely higher as capital intensity increases, which in turn leads to a Stalinist surplus-maximizing-for-investment-purposes type of policy; and the exponential growth of the capital stock in a Von Neumann-Mahalanobis or Chakravarty type of model of multi-period accumulation, are responsible for the distortions and malformations of that system.

This type of developmental model for a socialist economy has its counterpart in the postwar literature on economic development in the investment model favored by Galenson and Leibenstein. In the Soviet Union, such ideas led to an inconsistent price structure, with capital goods being invariably undervalued and durable consumer goods being consistently overvalued, while perishable consumer goods and foodstuffs were generally in need of heavy subsidization. In less developed countries, a similar approach has led to unproductive industrialization and capital waste as evidenced by the abundance of so-called white elephant projects. Incidentally, Cuba is a prime example of this erroneous policy. Cuban industrial strategies amount to an excellent primer on the pitfalls of the fallacy of the intrinsic desirability of industrialization and capital intensity as a preferred pathway to development.

It is interesting to reflect how the persistent error of confusing material production with economic value, which found such favorable reception in Marx, has come to haunt both Soviet and Third World developmental practices. In effect, Marx and Stalin were to mistake Kuznets' higher capital-output ratio at the time of the Industrial Revolution period with a higher stage of productivity and a superior form of production. As P.J.D. Wiles puts it, Stalin came to think of capital goods as final consumer goods—ultimately identifying steel with bread.

In a minor way, Fidel Castro has incurred in the same misconception. His early policies of forced industrialization in the 1960s, his efforts at expanding the industrial base of the Cuban economy during the Second Quinquennial Plan of 1981-1985, and his attachment to all kinds of technologically advanced Special Projects, testify to the dangers inherent in a materialistic conception of economic activity.

Cuba is not a replica of the former Soviet Union. Still and all, Castro has been able to do more damage to the Cuban economy than the Soviet leaders were able to do to their economy. However, the reasons for his failures are materially different from those explaining the Soviet fiasco. First and foremost, he did not possess the resources or the policy latitude to reproduce the Soviet experience. Moreover, the discipline imposed on him by Krushchev's Principle of the Socialist International Division of Labor, effectively limited his macro and sectoral resource allocation possibilities.

As the Cuban economy gradually returns in the post Castro era to a resource allocation pattern in keeping with its real static and dynamic comparative advantages, as measured in world market prices for factors and commodities, the distortions imposed by Castro's legacy will disappear. Once the Cuban economy frees itself from its present fetters, reorienting its resources in accordance with its natural market ties as dictated by international prices, it will eventually return to normality of its own accord.

CLOSING COMMENTS ON PRICE FORMATION

The tasks of semi-rational prices under the circumstances obtaining in an economy such as the Cuban in the aftermath of the present political regime, will include the need to reconstruct first, and then develop, a devastated, fragile, open, and unbalanced economy. It is not simply a matter of "getting the prices right" as the IMF of old would have it. *Policy makers will have to help facilitate the formation of price structures that will serve both the development and existential needs of the nation.* What the situation calls for is not simply the determination of normal values for the prices and quantities of resources and commodities under conditions of long-term equilibria in perfectly competitive markets, but a socio-economic and political strategy of nation building. A far more complex goal indeed, for which a political and social economic approach would prove more useful than the mechanical application of textbook microeconomic principles and theorems.

THE ROLE OF THE DEVELOPMENTAL STATE

A few concluding comments in connection with the role of the state during the period of desocialization, reconstruction and development, are in order at this point.

As is readily apparent from the nature of the desocialization and developmental strategy advanced in this paper, in the case of an underdeveloped, monoculture, and very open economy, which to boot is in an extremely precarious situation, the role of the state must perforce, at least initially, be a very prominent one. Especially so, if to the preceding characteristics one were to add the political and social instability which will inevitably materialize in the case of Cuba in the immediate post-Castro stage as institutional and behavioral mega changes are unleashed.

In effect, under those conditions, the state is charged with the function of providing the institutional and organizational frame within which economic relations generally, and the market system in particular, is to operate. Such a state would not be the liberal or benevolent one of welfare economics, nor the pluralist state of developed, modern western democracies, but the nation building state of old with social goals of its own.

Considerations of allocative efficiency and Pareto optimality become historically relevant only after the foundations of society are firmly established. Domestic perfect competition, rational prices, and free trade are kind of the icing on the cake. That is, albeit static efficiency is not to be underestimated as an important economic goal, it nonetheless is a contextual and not an absolute value. It certainly cannot antecede, as history abundantly exemplifies, the overriding objective of creating a sound and stable society and polity.

It is of much interest to point out in this context, that there is an ample and growing body of evidence showing the absence of a clear and significant relationship between modest, and even not so small, effective protection rates and price distortion indexes, and historical differences in productivity and growth increments among nations. There is no decisive evidence either of a firm or strong link between degree of competition and productivity growth, the latter

being a most important (and a very large residual) in explaining long term differential growth rates among nations.

Managerial and organizational factors are increasingly at the forefront of explanatory attempts of the causes behind dynamic efficiency, productivity advances, and secular growth. Bureaucratic control of the self-serving and asphyxiating kind existing in most less developed countries is certainly detrimental to vigorous economic growth and the sound performance of the economy. However, state guidance of the nation building kind geared to laying the groundwork of the economy and the proper relationship that should obtain between the public and private sectors at a given stage of socio-economic development, is an entirely different matter. Such grand strategies and broad policy making are not to be governed by the optimization rules of microeconomic theory. In the longest of long-runs, *historical sense and a correct course of social development is definitely the decisive factor in promoting sustained growth and, ultimately, the maximum benefit for the society*. The developmental state, indeed, should not be dismissed as an anachronism of the mercantilist era.

CULTURE, INSTITUTIONS, AND DEVELOPMENT STRATEGIES

It is within this universe of thought that I would like to comment on two germane questions. One, directly related to the thoughts discussed immediately above, has to do with the fascinating and relatively unexplored topic of development and growth under conditions of cultural variation and institutional and organizational diversity. This topic, one of the greatest importance, has been almost entirely left to the curiosity of social anthropologists and economic sociologists, with some interest of late being shown by those in the fields of international management and organizational theory.

One can do no more than to call attention in passing to the increasing recognition and sensitivity on the part of scholars concerned with this matter to the so-called phenomenon of functional equivalence. That is, of the observed fact that different sets of institutions, organizations, and policies may be equally efficient in the attainment of the same socio-economic goals and objectives. The existence of a cultural indif-

ference map, so to speak, and of an isoquant efficiency curve relating diverse cultural forms to a common level of efficiency is, perhaps, the most important insight and fruitful field of investigation to be explored in the immediate future in the entire area of social and economic development. Much is still to be learned from the examples of Japan, South Korea, and Taiwan, and their organizational and institutional arrangements.

The second question pertains to the much debated issue of the effectiveness of alternative development strategies in promoting their avowed goal of maximizing economic growth. It seems that as more empirical evidence becomes available for examination, the less certain appears to be the conclusion that ultra-outward oriented or export promotion type of strategies are superior to moderately inward bound ones. This is especially so the poorer the country happens to be and the slower the growth of world trade during the period under investigation. As has already been observed, "getting the prices right" *a la* IMF or World Bank is not always necessarily the best policy. As a matter of fact, it can be shown that a certain degree of price distortion and a slant towards investment goods may be positively correlated with higher rates of growth. This, in turn, is related to the notion of a developmental state, like in the case of the newly industrialized countries of the Asiatic periphery, where the public sector has assumed a proactive role in leading the market, sometimes even in a big leadership kind of way, socializing the risks of investment, making resources available to some sectors or industries on preferential terms and diminishing the impact of foreign competition.

Lastly, it is essential to realize that the overall efficiency of a socio-economic system and its degree of both *x* and *y* efficiency, is related not only, perhaps not even importantly, to competitiveness in the traditional or textbook sense of a pure or perfect market but, rather, to absolute levels of effort and to the so-called traditional work-ethic in a general fashion. If that is indeed the case, nation and state building,

along with the proper set of incentives, expectations and institutions in an appropriate cultural context is as relevant, if not more so, to development as is the accumulation of physical capital technology, or other growth related factors.

The preceding remarks are exceptionally pertinent in the case of Cuba. As discussed *passim* in this paper, the country's historic-cultural and economic characteristics are sufficiently differentiated as to merit singular consideration in the formulation of its institutional, organizational, political, and socio-economic policy contexture. In fact, as already noted, some general similarities with the Korean and Taiwanese experience should not be overlooked and could prove to be very intriguing in a comparative analysis of those societies and Cuba.

One final observation: in the opinion of the author, the only way in which Cuba is going to be successful in reconstructing and developing its society and economy after the disaster of the last four decades is by recovering and creatively reinterpreting its historic-cultural background, which is where its essence and national character lies, thus instilling into its people a new life and a renewed sense of hope and faith in the future of the society.

Carrying out that program for the new Cuba requires a remodeling of the role of the state and its relationship with the private sector, as well as a reconsideration of the specific tasks to be performed by the price system. It is also necessary to redesign the proper investment, reconstruction, and developmental strategies to be adopted by the society, and the kind or type of market structures and financial institutions to be created and, above all, it is essential to redefine the nature and content of the relations between the separate members of society and the state, the individuals in question and the various social groups and institutions and, finally, the individuals *qua* such among themselves. No trivial matters, indeed. But, then, neither is the creation of a new society *ex nihilo*.