

## THE CUBAN ECONOMY IN 2005

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In his speech of July 26, 2005, Fidel Castro claimed that the Cuban economy had grown 7.3 percent during the first semester of the year. Upon hearing this, my first reaction was amazement about how rapidly national account statistics are being produced in Cuba. How the country produces its national account statistics has always been and still is a mystery to me.

Then I wondered whether Castro was talking about the growth of the Gross Domestic Product (GDP) or any other credible indicator. Castro never makes references to standard macroeconomic variables or statistics of any kind. He usually refers exclusively to figures in physical terms or very vaguely, as when he says “the economy has grown.”

Of course, there are no independent means of verifying these figures or his statements. On top of this rosy picture for the first half of the year, Castro also predicted that the economy would grow at the even faster rate of 9 percent per annum in the second half.

Other official information and various unofficial reports coming from Cuba strongly contradict such claims. Probably the most glaring official contradiction is the recognition, in another part of Castro’s speech, that national generation of electricity declined by 4 percent in the same period. A decline in the electricity production sector of course has deleterious effects for the rest of the economy, but especially in the supply of water and the storage of food.

A report by the international press service Reuters indicates that sugar production in 2005 has been the lowest since 1907, and almost half of the production level of 2004. It is interesting to note that Castro did

not mention the sugar industry in his speech. In a separate development, the United Nations World Food Program “has launched an emergency food aid operation in Cuba for more than 700,000 people affected by the ongoing drought in Cuba.” Hurricane Dennis is also reported to have caused considerable damage to the economy.

The government has been reporting sustained growth in the tourist sector, which combined with Venezuelan oil subsidies and credits should have a positive effect on the Cuban economy. But it is impossible to evaluate whether this has been enough to offset the fall in sugar and electricity.

Reports by independent journalists and economists like Oscar Espinosa Chepe, Vladimiro Roca, and others indicate that there is no improvement in the level of consumption and in the standard of living of the Cuban population. Castro does not refer to the levels of consumption in the speech, yet he makes a number of consumption promises that suggest that the situation remains tense on this front. There are continuous reports of increasing discontent among the Cuban people due to uncertainties and insufficiencies in their levels of consumption. One wonders how the economy can grow at such rapid rate as reported by Castro without tangible improvements in the levels of consumption.

In the last 12 months there have been three major developments affecting the Cuban economy: (1) the elimination of the U.S. dollar as legal tender, combined with the appreciation of the official rate of exchange between the regular peso and the convertible peso; (2) the rolling back of the so-called economic

reforms of the nineties, especially regarding self-employment; and (3) the new economic entente between Cuba and Venezuela, whose most visible component is the oil subsidies.

Neither of the first two developments can be expected to contribute to Cuba's real growth. Rolling back the so-called reforms of the early nineties confirms my suspicion of 12 year ago that such measures were only temporary, simple adjustments to the economy to navigate the crisis resulting from the loss of Soviet subsidies. The contribution of the new subsidies to growth depends on how they will be used, something about which we know little. In fact, chances are that the subsidies will go to help increase Fidel Castro's reported personally-managed cash reserves, with no impact on economic growth.

This situation confirms my vision of the Cuban economy not as an independent entity with its own internal dynamics. Economic development has never been an objective function of Fidel Castro's policies, if we use the language of mathematical programming. Castro's objective function appears to me as exclusively political: to maximize his international influence as a world leader with a given set of constraints. Consistent with this objective, Castro has transformed the Cuban economy to pursue his top priority. There are no tradeoffs between economic and political objectives; for him, political considerations always come first. The economy is to be managed as part of the bigger repression system of a totalitarian society, providing minimum consumption and rationing Cubans' leisure time, to make political activities more "expensive" in terms of Beckerian analysis of the allocation of time. In other words, totalitarianism in Cuba has allowed Fidel Castro to ration the ultimate good in hands of the population: time.

That is why Castro's apparent economic mistakes are not such. In fact, when I hear comments about Castro's economic follies, what I hear is a great deal of misunderstanding of how this society works under his rule.

In my view the regime developed not as an attempt to build a socialist society, but as a gigantic privatization process with one and only one owner: Castro himself. When we adopt the vision that Castro owns the entire country, many of the seemingly irrationalities of the Cuban government become easier to understand and explain.

Under such conditions, the relevant analysis of the Cuban economy is to view it as a household with one decision maker. In analyzing the Cuban economy it is critical to keep in mind the profound methodological differences between evaluating an economy with an almost infinite variety of economic forces, and a simple household economy.

The changes in the Cuban economy are a reflection of political decisions, almost nothing more than that. For Castro, the economy is a constraint, a necessary evil, and economic activity is nothing else but a residual of political decisions.

This analysis has important implications for the future of Cuba, politically and economically. As the country has become little more than a single plantation, a transition towards a more complex society, for instance, with a market economy and a democratic form of government, can be expected to be more difficult perhaps than many of the other socialist transitions. That is why I believe and insist on the need to prepare for the future, especially by increasing the general level of understanding of the population about issues like this.