

COMMENTS ON “A DIFFERENT PERSPECTIVE ON CUBA’S ‘STRUCTURAL’ REFORMS” BY ROGER R. BETANCOURT

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The reform process taking place in Cuba under the direction of Raúl Castro affects the entire society in different modes and to different degrees. A thorough analysis of this process requires recognizing and dealing with the complexity of the economic system. In his paper Betancourt combines a New Institutional Economics perspective with a political economy point of view to develop an excellent methodological approach to deal with the complexity of the Cuban economy and its reform process. Such approach is made even more effective by his classification of the reforms into three main groups of changes that he denominates macro reforms, economic model updating, and market liberalization. Betancourt also recognizes appropriately the *sui generis* conditions under which the Cuban economy operates, which provides us with an almost unique analytical opportunity to study rapid and profound institutional change under quasi experimental conditions. These comments will follow Betancourt’s classification of changes.

Exchange rate unification between the convertible peso (CUC) and the traditional Cuban peso (CUP) is placed at the center of the macro structural reforms, as it has been widely recognized by analysts of the Cuban economy—and belatedly by the Cuban government—to be a main source of distortions of the country’s economy. Though the origin of this problem in the early nineties was the official creation of two economies, one operating with tourists’ and remittances dollars and the other with pesos, for obvious political reasons the government did not recognize the extreme overvaluation of the Cuban peso at the time it created the monetary dualism. As the gov-

ernment endeavors to eliminate distortions that impede Cuba’s economic growth, such recognition is now unavoidable, as it posits another political economy problem for the government when it discloses numerically how much the Cuban peso has depreciated in real terms since the beginning of the revolution. This consideration should be added to the one political economy question Betancourt raises regarding who are the winners and the losers in the unification process based on their holdings in each currency. The fact is that the unification will allow Cubans to easily measure how much they lost once the process is implemented.

Betancourt also raises political economy considerations on tax reform issues. As the Cuban government has been collecting revenues by what is in fact a form of arbitrage as a de facto intermediary regarding the employment of Cuban workers by foreign enterprises in Cuba or the export of professional services, mainly medical doctors employed abroad, the unification of the exchange rates means that the government will have to develop compensatory sources of revenues, presumably from taxation. This represents, as Betancourt rightly points out, another incentive not to change the system, as the current surreptitious form of taxation via a form of official arbitrage in labor markets offers an opaque mode of revenue collection that avoids most forms of scrutiny.

In his analysis of Cuba’s “updating of its economic model,” Betancourt applies the concept of relational contracts to characterize the changes proposed by the reforms. This analytical device helps visualize what

would happen at the microscopic level in Cuba’s productive system with the unleashing of virtually millions of informal relationships between individuals and organizations that will occur as the reforms lift the many constraints impeding the development of the Cuban economy. As the reforms increase the degrees of freedom of the most productive agents in Cuba, this will create a major departure from central planning as it would allow contractual relationships that were non-existent or even criminalized until recently. The new set of relational contracts in fact would represent an increase of the complexity of the institutional fabric of the Cuban economy, presumably a necessary condition to take the country’s economy out of its secular stagnation and insolvency. This change in the degree of complexity is analogous to the development of Cuba’s productive neural network, involving individuals and productive entities, private and public, national and foreign, though still under a (looser) set of constraints, as the government under Raúl Castro refuses to openly move towards a market economy.

In any case, the development of relational contracts is equivalent to an increase in individuals’ social capital, as citizens become freer to establish linkages with other individuals in search for profitable opportunities to collaborate in the production and exchange of goods and services. Yet as the “stock” of social capital grows and develops for productive purposes, it could also serve other, non-economic purposes in which freer behavior is preferred by the agents, especially regarding organization and exchanges of a political nature. Such exchanges, which in practice can be seen as surreptitious improvements in civil liberties, may nurture expectations towards more political liberties and democratization, while allowing citizens to exercise their organizational skills in practice. In the Cuban context, such non-intended consequences, from the government’s point of view, can provoke negative reactions among the members of the *nomenklatura* and potentially limit the reach of the liberalization measures. The Cuban authorities are very aware of the trade-off between the level of liberties of any kind they can grant to the population and the degree of stability of their government. After all, they cannot easily discriminate between those Cubans that will

use their relational contracts for strictly economic purposes and those that will include political objectives with economic ones.

Betancourt is right to include market liberalization as a component of the policy of “updating of the model.” Nevertheless, it is not clear what model the Cuban government is exactly talking about but the official acceptance of some forms of private property rights can be seen as a departure of the orthodox socialist “model” that was previously implanted in the island, a point that Betancourt rightly recognizes. The departure is more significant if we consider the *sui generis* version of socialist economy that Fidel Castro personally implanted in 1968 through the “revolutionary offensive,” by which all forms of private property of productive activities were radically forbidden in the country. At the time the official goal was to rapidly build a communist utopia where money and commercial transactions would not be necessary.

I agree with the author on not expecting a high rate of growth for the Cuban economy as compared with the results achieved by China and Vietnam in their corresponding liberalizations. However I believe that country size is not as good an explanatory factor as the fact that the Cuban market liberalization strategy is circumscribed to the domestic economy, not necessarily its export sector, an essential ingredient in the success of China and Vietnam. Though the reform process in Cuba includes a new law of foreign investment which emphasizes the importance of the external sector, this initiative is not integrated with the market liberalization strategy in the plan of reforms. Domestic market liberalization is aimed at freeing the Cuban government from its promise of providing full employment through state enterprises, but does not allow Cuban private entrepreneurs to invest in the export sector or engage in international trade. All this can be expected to become the most important impediment to Cuba’s future economic growth. If the new Cuban foreign investment law is successful in attracting foreign capital, it will be because it is aimed at exports, where the size of the island’s economy and domestic markets matters much less.

Betancourt closes the paper with a very interesting and thought-provoking—yet highly abstract—digression on the nature of markets. In this regard, I believe that the “third factor,” besides the small size of the economy and the relative small size of the agricultural sector, that could affect Cuba’s potential growth (and institutional development, I would add) could be more explicitly spelled out. As I think I understand it, the transmission mechanism of the growth-limiting effects of the “third factor” is clearly visible when evaluating the ability of socially contrived markets to develop and operate in Cuba. Though Betancourt is right in pointing out the importance of civil liberties in “allowing socially contrived markets to operate” to impact growth, he does not evaluate how this condition is operating or expected to operate in Cuba under the current wave of reforms.

I must say that I was very excited about Betancourt’s treatment of institutional change in Cuba from the perspective of nonlinear dynamic systems of complexity theory. His identification of relational constraints as related to information theory (an indispensable topic in the study of cybernetic systems, such as an economy) opens up great analytical opportunities to evaluate the evolution of institutional change in Cuba. I confess that at the end of the paper I selfishly wanted to read more on how different forms of entropy were affected by the relational constraints as they could be put in place by the Cuban government, but at this point I can only recommend the inclusion of these elements in future research. A relevant question could be, in what way is Cuban institutional change reducing or augmenting entropy in the different parts of its economic system? And how can such changes in the level of order of the economic subsystems affect the interests of the Cuban population?