

“Where is Cuba’s Economy Going in the Second Decade of the Twenty-First Century?”*

Interest in this question arises from recent events in Cuba. Perhaps the most important one is the transmission of power from Fidel to Raúl Castro, which started in 2006, and the resulting possibility of profound change. What does it mean for the Cuban economy? Both books under review imply answers to this question. Chronologically one ends its discussion at the end of 2010 and the other at the end of 2012. I will extend the discussion to the end of 2013 with respect to important aspects of two critical issues. These aspects are neglected in both books. By the way of a conclusion I provide alternative answers to the question posed above.

One book is a collection of essays, *Cuban Economists on the Cuban Economy* (University Press of Florida, 2013), edited by Professor Al Campbell of the University of Utah. He notes that the book’s aim is to present views from inside the island on “...how to continue Cuba’s five decades of working to build socialism...not only for growth and efficiency but at the same time directly for human well-being”(p.4). The twelve essays are written by thirteen Cuban economists who fall into two categories: eight associated with the National Institute of Economic Studies, including several former Directors; and five who have occupied high level positions in the government during the Special Period (1990-2010), including José Luis Rodríguez (Minister of the Economy and Planning, 1998-2009). The Special Period provides a focus for this book, covering adjustments begun with the demise of socialist systems in Eastern Europe and the break-up of the Soviet Union. These essays present views on economic issues that are as close to official positions as one can find in English.

The second book, *Cuba under Raúl Castro: Assessing the Reforms* (Lynne-Rienner Publishers, Inc., 2013), is written by two Cuban-American scholars, Carmelo Mesa-Lago and Jorge Pérez-López. Both authors have been writing on the Cuban economy throughout their professional careers. Mesa-Lago is a Distinguished Service Professor Emeritus of Economics at the University of Pittsburgh; Pérez-

López is a former Director of the Office of International Affairs, U.S. Department of Labor, and has been the editor of *Cuba in Transition*¹ over the last twenty years. This book focuses on the period 2006-2012, which covers the transfer of power from Fidel to Raúl Castro and the reforms explicitly adopted by Raúl as well as their implementation through November of 2012. They describe their aim: “It is our sincere hope that the analysis embodied in this book will contribute to the success of the structural reform process taking place in Cuba by fostering economic and social development in the island”(p.xv).

I first discuss the initial chapter in each book to provide a quick comparison of approaches. They offer the greatest overlap. Afterwards, discussion focuses on the chapters in the Mesa-Lago and Pérez-López book because they are the ones of greatest interest to an AEA-based audience for several reasons. First, the Cuban- American scholars pay meticulous attention to data issues, and provide relevant anecdotal information as well as comprehensive coverage of most issues. Campbell acknowledges them in his book as authors “...who do serious work on Cuba...” (fn.8, p.21). A second reason for concentrating on the work of the Cuban-American scholars is the extent to which they incorporate research on the Cuban economy by Cuban economists from the island who differ from those in the edited book. Mesa-Lago and Pérez-López rely extensively on economic analyses by economists who are or have been associated with the Center for the Study of the Cuban Economy (CEEC) at the University of Havana.

Most importantly, the emphasis of Mesa-Lago and Pérez-López lies on the recent period and ongoing economic reforms, including their evaluation, which makes their book of great interest in general and to the economics profession in particular. By contrast, Campbell’s book approach to the reforms is limited. To wit, (p.8): “The third reason for not writing about the upcoming reforms is that, as

¹ Go to <http://www.ascecuba.org/publications/proceedings/> to view these volumes.

concepts, they contain nothing new, nothing that has not been under discussion for at least the two decades of the Special Period.” Interestingly, his recommended approach was not followed in a couple of the essays.

Chapter one’s essay on macro economy issues (José Luis Rodríguez “Fifty Years of Revolution in the Cuban Economy: A Brief Overview”) provides an example. It discusses problems faced by the Cuban economy in the 1959-2009 period and the economic and social achievements of the solutions adopted from a socialist perspective. Nonetheless, it devotes the latter part of the essay to a discussion of urgently needed changes in economic policy and challenges ahead. The author identifies three ‘critical’ economic imbalances that need to be addressed: a perpetual balance of payments deficit, domestic financial imbalances, and infrastructure imbalances in electricity generation, transportation and water supply. It suggests as solutions to the first problem expansion of tourism, improvements in agriculture, diversification of exports to include knowledge-based ones as well as trade (and investment) agreements with willing or friendly countries, bilaterally or multilaterally (presumably these would include resolution of external debt problems). With respect to domestic financial imbalances it suggests efficiency improvements by eliminating underemployment in the state sector, improving managerial efficiency in state-owned enterprises, and elimination of the dual exchange rate system. Finally, increased investment is the main proposed solution to the infrastructure imbalances.

While chapter one in the Mesa-Lago and Pérez-López book covers the same territory, it does so differently. An important substantive difference centers on Fidel’s role in guiding the economy. During the same fifty years Mesa-Lago and Pérez-López identify pragmatist and idealistic cycles underlying social and economic policies that include reliance or non-reliance on markets, respectively. They associate deterioration in economic performances with switches to idealistic cycles driven by Fidel whereas Rodríguez would view them as policy re-evaluations driven by both Raúl and Fidel, e.g., the

1986-1990 period described as the rectification process in both books. This chapter categorizes Raúl's reforms as part of a pragmatist cycle started in 2007 which accelerated recently.

Their second chapter discusses domestic economic performance during Raúl's era (2006-2012). They rely on various sources for data on important macroeconomic aggregates (Table 2.1). One aggregate is gross capital formation as a percentage of GDP (9% in 2005 and 7% in 2011, based on ECLAC as a source). Another aggregate in the same table is the rate of growth of GDP (11.2% in 2005 and 2.7% in 2011, based on Cuban official statistics). In the text they discuss a change from standard accounting methodology in 2003 by Cuban statisticians and the associated controversy. It added to GDP the value of free social services, which is estimated to have increased the reported rate of growth of GDP considerably. Regardless, these official statistics show deterioration in growth during Raul's era. Economic analysis would lead one to expect low growth based on the capital formation figures. Mesa-Lago and Pérez-López make this point indirectly by discussing the work of a Cuban economist who argued that long term recovery required investment rates of 25% of GDP.² The rest of the chapter provides a wealth of detailed information on the domestic economy. For instance, it even provides specific data on one infrastructure imbalance noted above by Rodríguez, i.e., they report for 2011 a 46% decline in number of passengers transported since 1989 and a 10% decline from the lower levels of 2008.

Cuba's external sector and its performance is the subject of chapter three. It is approached in the same style with respect to data details and evaluations of reliability as well as comprehensiveness as the previous chapter. Yet the task is more difficult than in the previous one since Cuba has a dual currency system: the convertible peso (CUC) and the Cuban peso (CUP) officially trade at the rate of 1: 24 or 25 in the government exchange houses (CADECAS). Mesa-Lago and Pérez-López present data in

² Pérez Villanueva (2006).

US dollars. Notwithstanding the data difficulties, several 'facts' are established convincingly. Exports and imports have recovered past their 1989 levels, but imports have done so more than exports. This negative balance on the goods side has been compensated by a positive balance on the services side. On the latter side international tourism is an economic success story, e.g., the total number of tourists went from 270K in 1989 to a record of 2.7 million in 2011. Remittances have also become an important source of foreign exchange. Estimates vary widely and Mesa-Lago and Pérez-López report what exists, including a figure of US \$2.3 billion for 2011. Finally, it may surprise some readers to learn that by 2010 the share of sugar in Cuba's exports was only 5.6% while the share of medicines and pharmaceuticals was 10.7%.

Mention must be made of a detailed discussion in this chapter of foreign debt, foreign direct investment and relations, trade and investment with Cuba's main partners (Venezuela, China and Canada top the list). Relations with Venezuela since 2001 are given prominent attention. Economic reasons for this special treatment are: its share of Cuba's goods trade (40% of total goods trade); its imports of Cuban professional services (in 2010, 40,000 Cuban professionals worked in Venezuela); and the value of its co-operation agreements, e.g., with respect to oil Mesa-Lago and Pérez-López report a debt accumulation to Venezuela's oil company between 2001 and 2009 of US\$ 4.9 billion. Political reasons include explicit concerns by Cuba's own officials and economists about this dependence.

In chapter four Mesa-Lago and Pérez-López address social welfare issues during Raúl's era. They provide interesting data on: extent of underemployment in the state sector and reasons for delays in its elimination; decline in real salaries; and limited quantities at list prices of rationed items as well as the much higher prices in unrestricted agricultural markets in 2012. In addition, they assess evolution of inequalities with respect to income (increased), geography (mixed), race (increased) and gender (decreased). Social services are discussed comprehensively in the second half of the chapter. In summary, impressive past accomplishments are threatened by serious inefficiencies. One illustration

suffices. Overemphasis in tertiary education led to a total enrollment of 743,979 students in 2007-08; its correction entailed a decline to 351,116 in 2011-12!

Proposed reforms and the institutional and political context in which they were developed are reported in great detail in chapter five, whereas the last and final chapter is devoted to an assessment.

The reforms are usefully classified into three groups: administrative measures started in late 2006; non-structural changes, implemented with varying degrees of success through 2009 due to bureaucratic resistance (these did not change the system's core and were largely oriented to reduce fiscal imbalances); and structural reforms, with only one implemented through 2010, i.e., distributing idle state lands in usufruct. In April 2011 the Sixth Party Congress took place. It codified and adjusted earlier reforms through guidelines but in small ways, e.g., private sector employment possibilities were increased to 178³ occupations (from 157) and limits on employment of non-family employees lifted (up to five persons in 50% of these occupations). Nevertheless, it authorized one important structural change, sale and purchase of homes, although not as part of the guidelines.

Since then, other important structural changes have been authorized, e.g., sale and purchase of automobiles, tax reform and migration policy both internally and externally. Despite limitations and restrictions, as well as reversal possibilities, these structural changes are substantial departures from the past. One particularly valuable contribution of the last chapter is a table (6.1) of nineteen reforms (nine of which are viewed as structural) indicating dates, measures, objectives and results. Mesa-Lago and Pérez-López also present evidence of greater openness to criticism and pluralism and conclude with recommendations to enhance reforms often relying on suggestions from island economists. Suggestions are oriented toward greater decentralization and improved performance whether within a market or a

³ Since the book was finished two dozen occupations have been added.

socialist perspective. Briefly put, they provide a balanced but pessimistic evaluation of future outcomes without major improvements to the reforms.

Is there anything important missing from this outstanding work? Yes. Crucial aspects of major structural reforms are not explicitly addressed. For instance, exchange rate unification has been extensively discussed for many years without implementation. In October of 2013 it was officially announced without giving details, other than it would start in the business sector first and take at least 18 months. Why the delays? Mesa-Lago and Pérez-López make no mention of an important reason for the delays: Namely, the dual exchange rate acts as a crucial mechanism for the state to tax and acquire foreign exchange at the expense of most of its citizens. This implicit taxation is accomplished in various ways. An important one is requiring foreign enterprises to hire workers through the Cuban government. The latter gets paid in foreign currency at 1\$:1CUC, but the Cuban worker gets paid by the government in CUP's (similar considerations apply to thousands of Cuban professionals hired by other governments). Canler (2008) provides an insightful economic analysis of winners and losers from the dual exchange rate system in Cuba. He shows that the big losers, besides the economy as a whole, are households.

A similar issue arises with respect to 'updating of the model', which is another major structural reform mentioned throughout the book. One ignored aspect of this 'updating' is that corruption at the top creates conflicts between reforms and already established monopolies. One of the two authors of this book has also co-authored what is, arguably, the best academic work on corruption in Cuba, Díaz-Briquets and Pérez-López (2006). Chapter five on corruption in socialist Cuba devotes substantial attention (pp.146-156) to a process similar to 'spontaneous privatization' in Eastern Europe, which in Cuba is accomplished mainly through domestic enterprises called 'sociedades anónimas' (S.A.). The managers of these enterprises are viewed as Cuban entrepreneurs, manage state assets transferred to S.A.'s as if they were their private property and are primarily former high ranking members of the Communist party or retired military officers. Díaz-Briquets and Pérez-López (pp.147-148) identify the

first S.A. as established in 1979, by 1992 they note 63 as operating in Cuba, and by 2003 "... the number is probably in the hundreds." (p.148). These figures exclude enterprises that do business abroad or are run directly by the Armed Forces, e.g., Gaviota S.A.

Underlying the importance of this corruption at the top is the wide variety of potential conflicts arising from the reforms. I illustrate with a recent example which can be scaled-up to many different transactions in all sectors. Self-employed seamstress is an authorized occupation. International migration policy reform was implemented in January 2013 with far fewer restrictions than expected from both Cuba and the US. As a result, seamstresses (and others) were able to import attractive clothing from abroad and sell it as part of their businesses. A fall 2013 regulation unauthorized the practice by forbidding resale. Why? It competes with government-owned dollar stores. The latter sell these goods at much higher prices. Updating the model requires resolving the myriad of similar conflicts of interests that arise from the reforms. If the resolution is always in favor of existing monopolies, as in the above example, the path of Cuba's economy this decade will be shifted downwards substantially.

I conclude with two alternative perspectives on the reforms. Several structural reforms are more fundamental in enhancing individual economic welfare than any prior policy of the Cuban government, e.g., purchase, sale and ownership of houses and cars as well as migration reform. They represent a major expansion of one sub-category of civil liberties, e.g., Freedom House's sub-category G (Personal Autonomy and Individual Rights, Piano and Puddington 2006). This is the only sub-category positively and robustly associated with economic development, Benyishay and Betancourt (2010). Nonetheless, these same reforms operate as survival mechanisms to a possible end of Venezuelan subsidies. Serious economic difficulties of Venezuela's government increase the need for survival mechanisms. Indeed, Cuba's accumulation of external financial assets in major international banks has been explained as a policy or survival mechanism to ameliorate consequences of such negative external shocks, Luis (2012). Cuba's economic path this decade will be determined by whether ongoing reforms

operate as building blocks to subsequent ones or as survival mechanisms to compensate for absence of subsidies from foreign patrons. Time will tell.

References

Benyishay, Ariel, and Roger R. Betancourt. 2010. "Civil Liberties and Economic Development." *Journal of Institutional Economics* **6** (3): 281-304.

Canler, Ed. 2008. "Pesos, Poverty and Perversions: What's Wrong with Cuba's Money and How to Fix It." In *Cuba in Transition*, Papers and Proceedings of ASCE, **18**: 31-36.

Díaz-Briquets, Sergio and Jorge Pérez-López. 2006. *Corruption in Cuba: Castro and Beyond*. Austin: University of Texas Press.

Luis, R. Luis. 2012. "Cuba: External Cash Flow, Barter Trade and Potential Shocks." In *Cuba in Transition*, Papers and Proceedings of ASCE, **22**: 102-110.

Pérez Villanueva, Omar Everleny, editor. 2006. *Reflexiones sobre Economía Cubana*. Havana: Editorial Ciencias Sociales.

Piano, Aili and Arch Puddington. 2006. *Freedom in the World 2006: The Annual Survey of Political Rights and Civil Liberties*. Lanham, Md.: Rowman and Littlefield.

Roger R. Betancourt

University of Maryland (College Park)

*I would like to thank Jim Anderson and Mushfiq Mobarak for very useful comments on an earlier draft while taking responsibility for any remaining errors.