Book Review: Cuba's Aborted Reforms by C. Mesa-Lago and J. Perez-Lopez.

This book consists of six substantive and relatively independent chapters addressing various aspects of Cuba’s economic system, the policies that have governed its functioning and potential changes in the near future. While the first chapter provides a historical overview of the policies followed by the Castro regime between 1960 and 2004, the last chapter focuses attention on possible future reforms. For the scholarly inclined, however, the most interesting parts of the book lie in three of the other four chapters.

An excellent chapter, The Economic Crisis, Recovery and Stagnation, presents a detailed discussion of the economic situation from 1989/90 to 2004. One feature of the authors’ work is their careful search, study and evaluation of data on this subject. For instance, they present data on GDP per year, but this is supplemented with yearly data on the output of 13 important commodities for the economy that corroborate their statements about GDP. They also identify problems with some of the data available and provide evidence of inconsistencies in these cases. Finally, they present evidence from the work of five non-dissident Cuban economists to support their main conclusions about this period. Namely, the crisis of 1990-1993 led to a pro-market reform period from 1993-1996 and this reform process has stalled and retrogressed since that period. The comprehensiveness and level of detail in their discussion is so impressive that this chapter should be required reading in all well designed courses on the Cuban economy, and at least background reading in courses with a broader perspective.

An equally outstanding chapter, Cuba and the Human Development Index, is a convincing and devastating critique of the procedures used by the United Nations in coming up with a number to include Cuba as one of the countries in the HDI. The critique is devastating because, in contrast to the methodological criticisms that exist in the economics profession, they accept the rationale and methodology for the index provided by the United Nations in its Human Development Report. The critique is convincing because the authors apply their careful, systematic and well documented approach to the analysis of the data underlying these numbers. They find a number of inconsistencies in the way the three components of the index (income, life expectancy, and literacy and education) are measured for Cuba. The most telling example of the problems they point out is that the GDP per capita in purchasing power parity terms for Cuba is obtained as an average of the same concept for several other Caribbean islands! Furthermore, no details on how this average is calculated are provided by the UN. One of their findings is also of more general interest than the Cuban context. They show that a surprising jump (upwards) in the rankings for Cuba on the overall index in 1997 is due to a change in the methodology. They also show that the same change leads to an equally surprising jump (downwards) for Brazil. I doubt most users of HDI are aware of the magnitude of the potential changes due to this change in methodology. An indirect but important contribution of this chapter is bringing this possibility to the attention of users.

Social Welfare and Growing Inequalities focuses on the evolution of social issues during the 19989/90-2004 period. It stresses a general level of deterioration in these areas during the period as well as increasing inequalities in most of these areas. While it continues to pay great attention to the presentation and evaluation of detailed data on these issues, it is somewhat hindered (as they note) by the lack of quality in the underlying measurements in most of these areas. It covers health, education, income and wealth distribution, housing, pensions, poverty and the rationing system among others. One of the most controversial issues addressed in this chapter is the issue of remittances and their role in increasing racial inequality. Remittances to Cuba are measured indirectly. The authors describe three methods: the Cuban method, foreign exchange that is acquired through dollar stores plus exchange houses, minus bonus payments of various kinds; ECLAC's method that mirrors indirect transfers in the balance of payments accounts; and '…other estimates based on surveys or analysis by scholars…". They go on to report that for 2002, the first method yields estimates of $500, $800 and $1.1billion and the second method yields estimates of $820 million; the range of estimates they give for the third method, regardless of year, is from a minimum of $100 to a maximum of $400 million.

Part of the reason for such large differences is that the first two methods can include many other things besides remittances. For instance, they include income generated by illegal activities, for example earnings from prostitution or commissions for money laundering in the drug trade, that are spent in the dollar stores or end up in exchange houses. In addition, these two indirect methods capture foreign exchange earnings by the considerable number of Cuban workers (doctors , dentists, teachers and soldiers abroad for example) detailed abroad by the Cuban government that are spent in dollar stores or end up in the exchange houses. On the other hand, the estimates by scholars are focused on remittances only and usually are limited to those sent by Cuban exiles in the US. Unfortunately, the authors never make this point, proceed to create a hypothetical example using the number of $820 million that is more than twice the maximum estimate for remittances from the US, and conclude on this basis that racial inequalities are increasing by comparing the racial distribution in Cuba with that of Cuban exiles in the US. This comparison implies that all of the $820 million came from US exiles to their friends and relatives in Cuba! Nonetheless, I view this inconsistency as a minor mistake among a large number of other important issues covered in an insightful manner in this chapter.

Finally, The Performance of Cuba's Economic and Social Model Compared with Chile and Costa Rica is an update of one chapter in an earlier book by one of the authors. This update is flawed by two fundamental conceptual problems that also afflicted the earlier work. Both problems stem from the use of 20 different indicators of performance that are characterized in terms of more is always better or less is always better. The first conceptual problem is that for some of these indicators whether or not more or less is better depends on other things. Over the 50 year period they are considering these other things can change, e.g., less export concentration on a single commodity. If the export is oil and the time is now, when the price is around $70 per barrel, this characterization makes no sense. In the case of Chile, there is a high concentration on copper exports and some controversy on the contribution of a high price for copper to its economic performance during the last 50 years. There are several other indicators that suffer from the same problem.

A second problem is that the authors want to summarize the information on these 20 indicators and their rankings by putting them together in some way. Unfortunately, their attempts at synthesis entail adding up apples and oranges. Adding rankings does not solve the problem and it has problems of its own (rankings are ordinal scale variables where order has meaning but differences and ratios have no meaning). A telling example that illustrates both conceptual problems is the construction of one of their indicators for the performance of the external sector. The adding up problem is illustrated when the authors add the volume of trade per capita (X + M)/POP and the trade balance per capita (X-M)/POP to come up with only one indicator. Using equal weights (1/2) to construct the average yields exports per capita (X/POP) as the actual indicator and, thus, imports disappear from the analysis! The more is always better problem is illustrated by the interpretation of this indicator. There are two ways to increase this indicator, increase exports or decrease population. The mechanisms for the latter are left to the imagination of the reader, but I doubt most of these mechanisms will lead to the conclusion that increasing exports per capita in that manner is 'better' in any civilized society.

Notwithstanding the problems discussed above, this book is an outstanding analysis of the economic situation in Cuba during the 1989 -2004 period. There is no better single reference on this subject anywhere.

Roger R. Betancourt
Professor of Economics
University of Maryland
College Park, MD 20742