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Cuba's Socialist Economy Today: Navigating Challenges and Change

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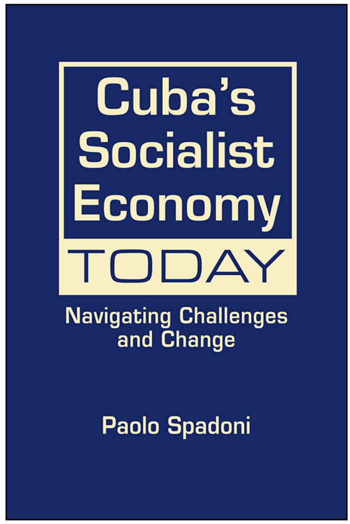

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Introduction

January 2014 marked fifty-five years since the Cuban Revolution, and this book comes at a crucial time in view of Raúl Castro's unprecedented economic reforms, which are aimed to revive the wobbly economy of Cuba and solve serious problems that accumulated during more than five decades of centralized socialism. Albeit not with the pace and depth that many people on the island had hoped, the ongoing transformation of Cuba's notoriously inefficient socialist economic model has been impressive. A quick look at past Cuban economic policies only magnifies the importance of recent changes.

The revolution of 1959 profoundly transformed Cuba's political landscape, economic organization, class structure, and foreign relations. Through a major process of agrarian reform, nationalization of private property (including all US-owned assets on the island), elimination of foreign investment, expansion of employment, and income redistribution, Cuba virtually eradicated capitalism in favor of a socialist economic system emphasizing inclusive development (Pérez-Stable 1999, 84). Efforts to elicit a new popular consciousness based on moral incentives and social obligations also took center stage. In order to reduce economic dependency on the United States and mitigate the pressure of a comprehensive US embargo, Fidel Castro proclaimed himself to be a Marxist-Leninist and signed favorable trade agreements with the Soviet Union, under which Cuban sugar was exchanged for Soviet oil, machinery, technology, and credits. In short, Cuba embraced a development path that was quite different from that of any other Latin American country.

Cuba's most distinguished feats under socialism cannot be overlooked, among them substantial improvements in health-care indicators, the formation of a highly educated and skilled labor force providing a considerable resource of human capital, low levels of unemployment, egalitarian access to basic social services, and, at least until the late 1980s, a rather equitable distribution of wealth. The socialist model remains in place today, but its organizational policies have changed several times since 1959. Cuban economic policies have oscillated from idealistic antimarket strategies that often involved improbable targets to pragmatic concessions to the market. The latter were introduced to address the shortcomings of the former and thus avoid potential threats to the stability of the regime and its economic system. While spurring inequality and unemployment, moves toward the market generally resulted in improved macroeconomic performance and living standards, which strengthened the regime until it felt safe to initiate a new idealistic cycle (Mesa-Lago and Pérez-López 2013, 1–25; Mesa-Lago 2012, 23–52; Mesa-Lago 2004).

Cuba's offensive against capitalism in the immediate aftermath of the revolution was accompanied by the pursuit of unlikely goals such as self-sufficiency in food and rapid industrialization through an import-substitution approach. These objectives were replaced in the mid-1960s by a greater focus on sugar production and exports, showing the difficulties in overcoming the country's traditional monoculture dependency. In the second half of the 1960s, the Fidel Castro government further radicalized its policies with a push for more centralized decisionmaking, the nationalization of all small private businesses, the expansion of rationing and free social services, and a greater use of moral stimulation. It was only in 1971 that Cuba launched a new system of planning characterized by modest decentralization, increasing attention to enterprise efficiency and market mechanisms, and emphasis on material rather than moral incentives. In 1986, however, Havana's authorities embarked on a "rectification process" that abandoned the timid market-oriented measures of the previous decade and a half.

A number of policy shifts have also occurred in Cuba in the post–Cold War period, most notably a structural adjustment program in the wake of the demise of the Soviet Union that resulted in the enactment of limited capitalist-style reforms, a subsequent retrenchment during an economic boom, and the latest round of market-based reforms by Raúl Castro in the midst of a global economic crisis and domestic financial problems (Mesa-Lago 2012, 36–50). However, some key differences from the past should be underscored. First, although political considerations have continued to determine the nature and scope of economic policymaking, the latter's main objective moved from "the defense of socialism" to "the defense of the achievements of socialism" after the constitutional reform of 1992 replaced Marxism-Leninism with nationalism as the guiding principle of the revolution (Rojas 2006, 92). Second, the antimarket cycle of the mid-2000s increased state control over the economy and tried to breathe new life into the egalitarian precepts of the Cuban model, yet it lacked the idealistic character of the cycles of the 1960s and 1980s given that socialism's failings had already saturated popular consciousness. Finally, Raúl Castro's initiatives represent a clear and much-needed departure from past ways of managing the Cuban economy, suggesting that his reforms, albeit insufficient, are meant to stay and will be deepened in the future.

When its Soviet benefactor collapsed in the early 1990s, the Cuban economy took a nosedive. In addition to "coordinated supply plans" and exports, Ernesto Hernández-Catá (2001, 4) estimates that Soviet subsidies and aid to Cuba averaged $4.3 billion a year between 1986 and 1990. With the loss of the external support that had sustained its economy, Cuba's real gross domestic product (GDP) plummeted by a cumulative 40.1% between 1990 and 1993. Cuban exports and imports also fell dramatically during this period. Thus, owing to the disappearance of the economic and financial system in which it had been situated during the Cold War era, Cuba suffered a debilitating blow and was forced to devise new and effective strategies to reinsert itself into the global market economy. The September 1990 implementation of an austerity program called the Special Period in Time of Peace stimulated a more pragmatic stance toward economic policy. The program consisted of a series of measures intended to conserve energy and raw materials, stimulate food production, expand markets for exports and imports, and accelerate the development of international tourism. Between the second half of 1993 and 1994, several other measures were adopted: (1) the legalization of the possession and circulation of US dollars with important implications for remittances from Cubans living abroad as well as state-owned dollar stores and exchange houses open to the public; (2) the authorization of self-employment and the breakup of the state monopoly on land to set up agricultural cooperatives; (3) the reorganization of the central administration of the state and reduction of bureaucracy with the establishment of a new structure of ministries and institutes for both horizontal and vertical functions; (4) the creation of free agricultural markets; and (5) the active promotion of foreign direct investment (FDI) (Jatar-Hausmann 1999, 61–62). On the whole, these reforms were crucial in keeping the Cuban economy afloat during the 1990s and laying the foundations for future growth.

Between 2003 and 2006, Fidel Castro's government reversed some of the liberalizing reforms that it had implemented a decade earlier to secure the survival of a system then on the verge of collapse (Pérez-Stable 2007, 17). Among various actions, it cut the number of Cuban agencies authorized to import goods, strengthened central control over the tourism industry, put an end to the commercial circulation of US currency in Cuba, and created a single account in the Cuban Central Bank (Banco Central de Cuba, BCC) to which it forced state firms to transfer all of their hard currency earnings. A process of economic recentralization, which took place amid strong growth and coincided with the emergence of Venezuela as a critical source of support for the Cuban economy, lasted until Fidel Castro fell ill and temporarily relinquished power to his younger brother, Raúl, in late July 2006. Since then, and especially after his appointment as president in February 2008, Raúl Castro has introduced significant reforms primarily intended to improve living standards on the island, boost domestic production and efficiency, and overcome chronic economic woes.

Outline of the Book

In this book I analyze the conditions of today's Cuban economy, its principal challenges, and the reform process under Raúl Castro. In Chapter 2 I review the performance of the Cuban economy in the post–Cold War era, with an emphasis on recent developments. In Chapter 3 I analyze the largest generators of hard currency revenues for Cuba and its main sources of growth; namely, professional services, international tourism, remittances from abroad, nickel, and oil products. In Chapter 4 I offer an examination of foreign investment activities in Cuba, and their results, and in Chapter 5 I examine key domestic sectors such as agriculture, transportation, housing, electric power, telecommunications, and biotechnology. In Chapter 6 I examine the achievements and shortcomings of Raúl Castro's economic reforms. Finally, in the concluding chapter I summarize the findings of the study and shed further light on the economic model that is emerging in Cuba.