

## **The Carlos F. Díaz-Alejandro Lecture**

### **"The Economic Problems of the Period of Transition"**

**by**

**Dr. Felipe Pazos**

The first Carlos F. Díaz-Alejandro Lecture was delivered on December 28, 1990 at the "Salon de las Americas" of the Inter-American Development Bank by Dr. Felipe Pazos, our Ex. Officio President. This presentation served to raise a number of important issues concerning the Cuban economy which have served as a framework for later discussions during the first annual meeting of the Association for the Study of the Cuban Economy. We have decided therefore to reproduce the full text of the spanish version of this lecture in this volume. An english summary of the main points covered follows:

Dr. Pazos' presentation centered on an outline of some of the main types of economic problems likely to be encountered by the Cuban economy during the period of transition. While recognizing that the problems to be faced will depend, in part, on the nature of the political process that leads into the period of transition, Dr. Pazos pointed out that some issues were likely to arise irrespective of how this process evolved and that it was, therefore, important to give some thought as to how they would be tackled when they arose.

The main problems, as he saw them, were:

- 1) How to handle the reconversion of the economy from a centrally planned to a market determined system? In this context, one of the main issues will be how to bring about the privatization of the existing publicly owned enterprises?
- 2) How to manage the country's international trade policy during the period of transition?
- 3) How to prevent economic activity from declining sharply in the initial stages of the transition and how to mobilize external economic and financial assistance?
- 4) How to implement a realignment of domestic prices, to bring them in line with costs of production, without depressing further the low levels of income of the population or giving rise to inflationary pressures?
- 5) How to keep the fiscal deficit under control and prevent the development of hyperinflation?
- 6) How to reestablish the work ethic to the population?
- 7) How to create the necessary institutions (financial and other) required for the proper functioning of a market economy?
- 8) How to encourage external private capital inflows without selling off existing assets at bargain prices?
- 9) How to reincorporate into the Cuban economy those entrepreneurs, administrators, technical personnel, and professionals now living in exile without creating undue friction and resentment in the population?

Dr. Pazos proceeded to explore in more detail the nature of these problems and to outline some possible strategies as to how to handle them. In doing so, he indicated, he did not wish to give a categorical

solution to any of these problems but rather to highlight their complexity and to urge the members of the association to begin to give some serious thoughts to possible approaches so as to be ready when the time comes.

In particular, he expressed a preference to see the reprivatization of the state enterprises to take place in a manner that resulted in a distribution of a portion of the ownership to the workers of the enterprises, while settling any indemnization claims of former owners through the issuance of government bonds. He felt that such an approach would encourage a rise in the productivity of the enterprises and contribute to the build-up of appropriate work ethics principles among the work force. He foresaw that the Soviet Union would have to continue to be a significant trade partner to Cuba--at least during the transition period--as it would not be easy or costless to bring about a prompt restructuring of international trade flows. Thus, we should be prepared to find a modus operandi that allows Cuba to continue exporting its sugar. He saw the risks of going through a period of large falls in output and real incomes, and the possible rise in fiscal disequilibrium, and called for a cautious approach to the process of realignment of domestic prices and for the implementation of rigorous economic and financial policies to avoid the development of hyperinflation. He supported the encouragement of external private investment, but saw the need for some regulations in the initial stages to prevent existing assets to be sold off at irrisory prices. Finally, he felt that the exile community could contribute a lot to the rebuilding of a new Cuba, but that their reintegration to the Cuban society had to be done gradually and in a manner that contributed to the revitalization of the economy, so as to minimize the frictions with the rest of the society.

### **Joaquin P. Pujol**

Dr. Felipe Pazos is a distinguished Cuban economist who has had

a long, varied and eminently successful career. He has been an inspiring teacher, in the true sense of the term, for many of our members. His scholarly contributions on inflation are frequently cited. He has served with distinction in several international organizations, including the International Monetary Fund, the Committee of Nine of the Alliance for Progress, and the Inter-American Development Bank. One of the founders of the Cuban National Bank, he served twice as its president. Currently, he is a Senior Advisor to the Central Bank of Venezuela.

### **Carlos F. Diaz-Alejandro: In Memoriam**

Carlos Federico Diaz-Alejandro was born in Havana, Cuba on July 18, 1937. After obtaining his Ph.D. in Economics from the Massachusetts Institute of Technology in 1961, he became Assistant Professor of Economics at Yale University (1961-65) and then at the University of Minnesota (1965-69) where he was promoted to Associate Professor. In 1969 he returned to Yale as full Professor, and in 1984 he was appointed Professor of Economics at Columbia University, a position he held until his untimely death on July 17, 1985. As part of his distinguished career, Díaz-Alejandro was consultant to many organizations and projects and served as member of a wide variety of committees. To cite only a few examples, Carlos was a Consultant to the Commission on United States-Latin American Relations (the "Linowitz Commission"), a member of the National Bipartisan Commission on Central America (the "Kissinger Commission") and a member of the Brookings Panel on Economic Activity.

In his brief career, Carlos published more than 70 articles and four books, including "Foreign Trade Regimes and Economic Development: Colombia" and his now-classical "Essays on the Economic History of the Argentine Republic." He was co-editor of "Política Económica en Centro y Periferia" which, significantly, is subtitled "Essays in Honor of Felipe Pazos." Four years after his death a number of distinguished economists honored Carlos Díaz Alejandro by dedicating to his memory a major collection of essays on "Debt, Stabilization and Developments."

Carlos Díaz-Alejandro was my teacher, my thesis director at Yale, and my friend. His kindness, his intelligence, his exceptional ability to combine theory with historical knowledge, his respect for the opinions of others and his love for Cuba will remain an unparalleled source of inspiration to me and to many of the founding members of the Association for the Study of the Cuban Economy.

**Ernesto Hernandez-Cata**