

The Farmers' Free Market: A Rejected Approach but a Possible Solution

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I. Introduction

In Cuba, the non-sugar agricultural sector produces significant amounts of food staples essential to the people's diet and contributes handsomely to the international trade accounts of the nation. This is the only sector in the country which operates with a significant number of private entrepreneurs (farmers and small parcel owners *o parceleros*).

**Table 1 Private Sector Production of Selected Commodities
(in thousand tons)**

Items	1970	1975	1980	1981	1986	1989
Roots & Tubers						
Total production	122.8	302.5	736.8	728.9	674.9	681.2
Non-state sector	40.8	91.7	225.6	190.0	186.6	188.4
% Non-state sector	33.2	30.3	30.6	26.1	27.7	27.7
Vegetables						
Total production	130.4	401.7	445.9	625.8	554.9	671.0
Non-state sector	43.2	194.4	293.2	357.6	356.1	459.1
% Non-state sector	33.1	48.4	65.8	57.1	64.2	68.4
Rice						
Total production	374.5	446.7	477.8	460.9	575.7	550.0
Non-state sector	8.7	24.5	35.0	37.3	84.9	83.2
% Non-state sector	2.3	5.5	7.3	8.1	14.8	15.1
Beans						
Total production	4.4	4.0	9.4	8.2	13.2	14.1
Non-state sector	2.6	1.8	2.7	2.1	3.4	3.3
% Non-state sector	59.1	45.0	28.7	25.6	25.8	23.4
Plantains						
Total production	73.5	162.8	233.4	260.7	317.2	368.0
Non-state sector	5.5	24.1	81.4	87.9	136.5	178.3
% Non-state sector	7.5	14.8	34.9	33.7	43.0	48.5

In 1989, over 35 percent of planted vegetables, tubers and fruits were harvested and sold to the state by the private sector. Table 1. of the appendix indicates the contribution to the agricultural economy for selected commodities.

In May 1992 Fidel Castro explained the importance of this sector during the National Association of Small Farmers'-ANAP VIII Congress.

If private farmers reduce their production or if there is no growth, the Food Program will be affected. This is due to the importance of their production. In some provinces, private farmers' output is more important than in others and for many crops, such as tobacco, their

production is extremely important. Between the Agricultural Production Cooperatives-CPAs and the private farmers, their output importance is tremendous. (*Granma*, 19 May 1992. pp.4-7.)

The area dedicated to farming by the private sector diminished over time. In 1963 total arable land in the private sector was 36.5 percent while in 1981 it accounted for 15.3 percent. At the end of the collectivization drive of the eighties the private acreage further declined to 9.8 percent of the available agricultural land. Figure 1. of the appendix reflects the agricultural sector land distribution by its principle tenants.

Although private farmers retain ownership of the land and are not allowed to contract labor, production is performed with minimal state guidance. However, inputs and output remains under government control. Organizations like ANAP channel equipment, seeds, fertilizers, financial resources, equipments (rentals), and other essential inputs for production. Other government agencies like Ministerio del Azúcar(MINAZ), Ministerio de Agricultura(MINAGRI) and the Banco Nacional de Cuba(BNC) also play a major role in agriculture.

Agricultural production is planned and controlled by the State through MINAGRI AND National Small Farmers Association(ANAP). Purchasing, consolidating and distribution of agricultural products to retail is performed by an national system known as *A copio*. Once private sector production quotas are met and *acopio* purchases its share, the state allows farmers to keep the remainder for self-consumption or for other uses. In many occasions, the quantities not consumed directly by the private farmers becomes the supply source of a well-developed black market for agricultural products which in reality is an important supplement to the ration book purchases.

Production targets set by the state for the private sector have very seldom been met. Among those factors contributing to low output are the failure of the government to recognize the credit needs of the private farmers and parceleros, while at the same time, giving priority to the state sector (CPA's and State Farms) engaged in similar non-sugar productions.(Burnhill, p.32) Equipment rental priority has been accorded to the CPAs and only unused equipment is rented to private farmers.

In reality the effect of State policies has been to severely limit expansion of the agricultural sector in relation to domestic demand. The results of these policies has been the need to spend substantial sums of Soviet foreign economic assistance and hard currency in food imports to meet domestic consumer needs. The government, as far back as 1962, introduced rationing of food products to meet the countries demand. The rationing book included different food products as well as consumer goods. In relation to dietary needs a concept of a minimum food basket was implemented through the rationing mechanism so as to achieve fair distribution of available products.

While rationing attempt to provided a minimum dietary requirements of every household since the 1960's, overall demand was not satisfied. Consequently, popular clamor request for increases in the availability of durable and non-durable goods from the government was made. This demand for more goods was the result of not only changing economic conditions over time, but was also due to chronic production deficiencies that have not been resolved. These conditions also affected the private agricultural sector, whose output consistently remained low through the sixties, seventies and eighties.

The poor availability of all types of goods and limited services resulted in an accumulation of cash in the consumers' hands. The population felt that they deserved better living conditions. Furthermore, this desire for better living conditions was exacerbated by two factors: a) the visits of the Cuban friends and families living abroad which provided a good example of consumerism (demonstration effect) and b)

wage increases and economic incentive policies implemented by the government during the early eighties.

To meet consumer demands and to curtail excess liquidity, the government introduced several measures considered non-conventional in Cuba's controlled economy. Basically, those were to liberate a series of durable and non-durable products from the rationing book and to create several markets using the principles of supply and demand to determine prices. Among those markets created to supplement the official Rationed Market and hopefully reduce black market operations were: the Parallel Market, the Free Farmer Markets, the Artisan Market and others. In addition, the government allowed carpenters, plumbers, electricians, etc. to offer their services on private remuneration basis.

The introduction and performance of these markets successfully met consumer demands, but the government expectations were not fulfilled. In fact, the government became frustrated by the round of consumerism, trading and wealth accumulation that took place during these years. After a mid-course review, and having the leadership to continuously observe and receive very negative reports and complaints from different segments of society, the experiment which began in 1981 ended in May 1986.

The objective of this paper is to review the economic events and experiences of markets which functioned during the late seventies and eighties in Cuba. The scope of this paper is limited to the marketing of fresh produce (vegetables and tubers) and fruits. The food processing industry is state owned and buys directly from official sources. The focus will be placed on the Farmers' Free Market (FFMs) since it was the only manifestation of free enterprise where production responded to the forces of supply and demand and was the only source which provided certain degree of relief in the short term for the food shortages affecting the country. To accomplish this objective we will examine major events and problems encountered by its participants. Some conclusions and recommendations for future use are made based on the developments and the functioning of these markets.

II. Overview of food markets in Cuba

Since the early 1960's food distribution in Cuba was done through an official market system which consumers accessed through ration books and a black market. In order to supplement produce deficiencies and provide production incentives the government during the eighties, authorized a government controlled Parallel Market and the use of the FFMs.

To better conceptualize the economic and social implications of the experiment of the FFMs a brief description and analysis of the functions and operations of the various market outlets graphically depicted and enumerated above.

III. Market channels of distribution.

Rationed Market This market is supplied by the government distribution system *acopio* that purchases foods from State farms, CPAs and private farmers. Sales are done through established government retail outlets. Price and quantities are fixed by the government and sales are conducted at designated government establishments through the rationed book (La Libreta). This marketing system has been in existence since the 1962 until today.

Black Market Since the beginning of the Revolution a lively black market has existed in Cuba as a direct result of food shortages. This illicit markets serve as a clearing house for illicit operation. Its supplies are obtained from all domestic sources of production and an additional important source the Diplotienda. Diplotienda is a supply outlet payable in U.S. currency, available to all foreigners registered in the country, (diplomats, foreign students, etc.) some of which resales purchased merchandise to Cuban nationals.

Free Sales Since the early seventies free sales of products were allowed to meet consumer demand for certain items. These products were sold in the official retail establishments but not subject to quantity limitations. Prices were those established by the government and resembled supply and demand conditions.

Parallel Markets Established in the late seventies to further supplement consumer demand and to introduce certain degree of flexibility in meeting needs. These special stores did not required the use of the rationed book. Almost any kind of consume r goods were available including durable and non-durable products. It was also used as a vehicle to curtail black market operations and to reduce consumer excess liquidity. Sales took place in specified established government stores. Prices were not subsidi zed and were fixed by the government. Customer purchased were not limited but subject only to availability.

Farmers Free Markets The principle objective of this market was to meet consumer dissatisfaction with quantity and quality of fresh, vegetables, tubers and fruits. It was conceived to provide additional incentives to those in the private agricultur al sector by providing a legalized market place without government intervention. Prices were determined by supply and demand. This markets began operations in 1981.

IV. Economic conditions leading to the enactment of the FFMs'

As Cuba entered the seventies, the economy and the agricultural sector were stagnant and needed a boost. Policy decisions made during the second half of the sixties to boost sugar production resulted in the ten million ton sugar campaign fiasco. In the meantime, the non-sugar agricultural sector was neglected and the results were evident. Investments allocated to the agricultural sector, including sugar amounted to 30.5 percent in 1964 and 40.4 percent in 1966 of total national investments.(See Mesa -Lago, p.45.) Clearly, investment allocations show the neglect of the government toward the sector. Production of principle agricultural non-sugar commodities in which the private sector specialized< tobacco, coffee, vegetables and tubers< fell to critical low levels by 1970. It was not until the late seventies, when the government began to pay adequate attention and production of some commodities recovered.

**Table 2. Selected Agricultural Productions
(in thousand metric tons)**

Commodity	1965	1970	1976	Percent Change	
				1965-70	1965-76
Tobacco	43,000	32,000	??	??	??
Coffee	24,000	20,000	??	??	??
Malanga	47,000	12,000	??	??	??
Tomatoes	120,000	62,000	??	??	??
Beans	11,000	5,000	??	??	??
Pork	48,000	15,000	??	??	??
Yucca	62,000	22,000	??	??	??

Sources: Carmelo Mesa-Lago, The Economy of Socialist Cuba: A Two Decade Appraisal. University of New Mexico Press, Albuquerque, New Mexico, 1981. p.37.

In Table 2 above, we can see that tobacco production, a hard currency crop and mainstay of the private agricultural sector, declined 31.6 percent in three years and began to recover in 1976. Productions of

other crops, coffee, yucca(cassava) and mala nga(taro root), fell consistently through the seventies. In general, during the seventies, private sector productions fluctuated but the overall recovery trend registered a very slow pace.

in the 1970's, the low output of the non-sugar agricultural sector, combined with other politico-economic events, began to put pressure on the government for an improvement in living conditions during the 70's. In 1972, the aftermath of the 10.0 million tons sugar fiasco, Cuba's leadership decided to join the Council for Mutual Economic Assistance (CMEA) as a tropical agricultural product supplier. CMEA provided a guaranteed market for sugar and at the same time was a reliable source of oil supplies. Also the country acquired on favorable terms, additional quantities of agricultural inputs and commodities that were needed to supplement the domestic productions shortages. Domestically, the leadership of the country implemented a series of governmental structural changes during the early seventies which were known as the "Institutionalization of the Revolution." This period attempted to introduce a more credible and sensible economic structure in the country. The new economic system was patterned after the Liberman Soviet model known as "Cálculo Económico". (See Mesa-Lago, p.29)

In 1973, *Juceplan* (Central Planning Board), began to implement the *Cálculo Económico*, leading to a general improvement in economic conditions. In 1975, the Sistema de Planificación Económica-SDPE was formally adopted and introduced a series of economic reforms which led to a greater participation of workers in running the enterprises and to a general movement toward decentralization. Many of these measures and reforms were introduced in response to unacceptably low productivity and production levels. (See Mesa Lago, p.151)

While the SDPE was implemented, consumers began to criticize the extensive rationing system and the lack of availability of good quality fruits, vegetables and tubers. The government, while cognizant of the need for more quality consumer products, was also aware of the extensive black market in food products supported by private farmer sales. As a response, *Juceplan's* junior economists, with the leadership's consent, decided to implement principles of market economics to obtain a more smoothly functioning economy. To pursue that goal, several experiments were tried from 1973 to 1980. For example, a group of products was removed from the rationed list and allowed to be freely sold in unlimited quantities *Ventas por la Libre* to the public. The ultimate goal of those measures were an effort to decrease excess cash in the hand of the consumers and to reduce the level of subsidization. This was accomplished by making the consumers pay higher prices for some items.

The measures undertaken in 1973 gave rise to a period of experimentation with market economics. These measures included price increases and supply distribution directives. Consumers received the first round of measures with certain joy because they began to have access to many desirable products which were not available for years. In addition, the general standard of living improved due to a general increase in wages and disposable income.

V. Creation and initial results of the CPAs

In addition to the free sale of items and other measures undertaken to upgrade the standard of living, the First Party Congress of the Cuban Communist Party in 1976, decided to transform the private agricultural sector. To accomplish this transformation, the Party authorized the creation of non-state operated agricultural organization: the Agricultural Production Cooperatives- CPAs. ANAP was in charge of managing the organization, including recruiting members, organizing cooperatives and providing material inputs and services. The justification was that the private sector needed to increase output and incentives were available to private farmers who pledged their land to form CPAs. The material incentives offered were as follows: preferential access to machinery, inputs, cheaper credit, lower taxes, housing and electricity. (See Burnhill, p.32-34) Cooperative managers were elected by CPA members. Output belonged to the state with *the acopio* in charge of collecting and distributing products.

Initially, collectivization did not produce satisfactory results, although it was thought to be an effective method to improve production in a short period of time. The acceptance of the concept of collectivization by private landholders was slow. (See Deere, Meurs and Pérez, p. 9-11) Moreover, increments of production had a marginal effect on population consumption because the CPA's major output was in cash crops for export.

CPAs are dominated by the production of export crops, principally: sugarcane (43% of CPA land and CPA members); tobacco (10% of CPA land and 15% of CPA workers), and; coffee (15% of CPA land 13% of CPA workers).(See La Sociedad Económica.,p .3.)

In addition, the CPA movement experienced serious organizational and managerial difficulties which inhibited its development. Among those difficulties were unprofitable enterprises, lack of adequate personnel in management and shortage of labor force to work in the fields. (Deere, Meurs and Perez, p.13-18) Nonetheless, the government decided to expand the period of market experimentation which had been underway since the introduction of the free sales.

VI. The Parallel Market and general price increase of 1981

The Parallel Market as previously mentioned was a government retail outlet where customers could purchase unregulated scarce goods in addition to agricultural products. The experiment coincided at a time when the leadership believed it had regained control of the economy and signs pointed towards an economic recovery. Plans contemplated to eventually free all products through the parallel market. Therefore, in 1981 a period of prosperity began with an increasing need to increment the availability of foods.

This experiment posed serious challenge to the State as a result of having to increase foreign currency expenditures to keep this market stocked. The government had to import durable and non-durable consumer goods as well as food products not available domestically. An example of this type of market were two stores located in downtown Havana: *Mercado Unico* and *El Centro*. Access to these "super" markets was allowed to the Cuban community living abroad visiting relatives with dollars . Consumers eagerly accepted the parallel market. Prices were substantially higher and the leadership wanted them to reflect free market conditions.(See Deere and Meurs, p.14) The government expected to achieve the following:

- 1- to increase availability of consumer products, and choices.
- 2- to sell surpluses of manufactured goods and other items not considered essential.
- 3- to introduce prices based on supply and demand.
- 4- to curtail black market operations and to reduce consumer liquidity.

Agricultural production did not increase significantly with the creation of this market because it was essentially an outlet for state surpluses although provided incentives to the farmers. The newly-created CPAs were in no position to compete against the farmers supplying the black market because most of the CPAs were not engaged in specialized crops (fruits, vegetables and tubers).

Private farmers' supplies continued to command higher prices in contrast to the parallel market philosophy. In order to optimize output of fresh products, they needed to sell fast. The consumer paid higher prices for purchases made from all the available markets to them. However, the parallel market was only utilized when buyers could optimize his cash availability in relation to his need.

The *Acopio* market scheme contributed to higher prices because it was an unreliable distributor. The

system was unable to collect farmers' output on time and to properly grade production. All this led to waste and to shortages. In essence *A copio* as an intermediary was not able to function as a wholesaler can in a free market economy. As an additional outlet the parallel market was able to improve consumer satisfaction. To certain extent the state reduced consumer liquidity and black market operations.

Concurrent with the establishment of parallel markets, several economic measures were enacted during the 1976 First Party Congress leading to major salaries and wage reforms and the introduction of workers' incentives. These measures were the result of serious production problems resulting from poor work quality and absenteeism. The expected results of the measures were to increase productivity and output. (See Mesa-Lago, p. 146-150) Bonuses, overtime and production quotas began to function in state enterprises with the introduction of the SDPE, and with it came new policies as additions to income base as did liquidity.

The proposed measures were best summarized as follows:

The 1981 price rises increased average family expenditures by an estimated 8 pesos per month and contributed to a significant reduction in the food subsidy. Wage increases, however, had provided the average family with an extra 36 pesos a month. To deal with the problem of excess demand the government also announced measures to encourage savings. More important however, were measures designed to increase the supply of consumer goods and services. (Utting, p.128)

VII. The Free Farmers Market

The political debate over the FFM began prior to 1976 and ended in 1986. The economics of this market had its theoretical underpinnings on a supply and demand model. Proponents of the FFM were a group of junior technocrats at *Juceplan*, charged with implementing the SDPE (Economic Management and Planning System). They had the support of foreign advisors who favored decentralization of the means of production for certain sectors.

According to Figueroa and García, the FFMs were a response to "the low efficiency of agriculture during the 70's which was not capable of fulfilling consumer demand. The farmers also needed economic incentives to increase production." In 1976, non-sugar agriculture sector problems were taken up during the First Communist Party Congress. The focus of the debate was aimed at "the objective need of the agrarian economy of Cuba and the creation of a non-state market to commercialize a portion of the agricultural production." (See: Figueroa and Garcia, p.46-51) In addition, there were other considerations under study related to the creation of the FFMs, such as the continuation of black market operations despite the parallel market and free sales (*ventas libres*).

Since 1975 Cuban visitors living abroad increased the local population expectations and the Mariel boatlift of 1980 clearly signaled to the government that consumer dissatisfaction was running at an all time high and had to be taken seriously. Consumers were purchasing imported household appliances and durable goods at almost any price during the family visits who had dollars and thereafter. Consumerism ran high for several years after the end of the family visits, despite the government desire to suppress it. The government reacted by enacting legislation to create the Free Farmers Market. (See: Figueroa and García, p. 44-47)

FFMs' were sanctioned by Law-Decree 66 published in *Granma* on April 5, 1980. Some of the principal dispositions and regulations were:

- 1 - Authorized sellers in the FFMs were: private farmers (CCS's Credit and Service

Cooperatives and Parcel Owners), areas of state farms set aside for self-consumption and CPAs.

2 - Participants were authorized to sell the portion of production not requisitioned by the state *acopio*.

3 - Products which the state was not interested in acquiring through *acopio* could be sold at the market.

4 - Sales would be made directly to the population at specified market locations.

5 - Prices would be determined by supply and demand without government interference.

6 - Intermediaries were strictly prohibited from participating in the market place.

7 - Farmers in geographically disadvantaged areas were not required to meet their quota to *acopio* and thus their entire production could be sold at the FFMs.

8 - A tax on gross income was imposed on independent farmers, parcel owners and others.

9 - Produce sales were restricted to local nearby markets. Written permission was required to sell anywhere else in the country and direct sales to households and to private individuals at the farm were prohibited.

10 - The only products excluded from FFMs were beef, tobacco, coffee and cocoa. (The state kept control over these commodities because their exports provided substantial convertible currency.)

11 - The local Peoples Power authorities were in charge of market stall rentals and sales of packaging materials. Tax collection was supervised and under the control of the State Finance Committee. (*Comité Estatal de Finanzas*)

An important consideration in the regulation of the FFMs was the preference granted to CPAs which were permitted to sell their output. Furthermore, special consideration were

given in obtaining prime location, logistical support and tax exemptions were granted. CPAs were authorized to contract with the state transportation system to ship goods to the markets, thus receiving the benefit of low state shipping rates. This was a considerable advantage over private farmers.

Many government agencies intervened directly in the regulation and operation and supervision of the FFMs and at times created difficulties in their regular operations. In addition to the primary purposes of the FFMs, the government had plans to utilize them as:

- a) divert consumer complaints about the poor quantity and quality of produce and fruits in the regularly operated rationed market.
- b) create incentives, using the free pricing system, to stimulate production and better utilization of private farms and CPAs that produced specialized crops. This made it acceptable that prices would remain high for a while, close to those of the parallel market and/or the black market for some goods. Increases in production from state farms and CPAs would stimulate the FFMs and eventually eliminate the black market.
- c) reduce consumer liquidity by forcing the consumers to pay higher prices.
- d) eliminate the apparent thefts of products from government organizations and enterprises, etc. (See: Figueroa and García, p.45-46)

The FFMs began to operate in April 1980 and the initial reaction was very favorable. The consumer finally had the possibility of acquiring unlimited produce and other quality agricultural products not seen for years. The press gave positive accounts of the FFMs. In addition, Fidel Castro during his initial speech announcing the creation of the FFMs, led consumers to believe that prices would be high for a while, but soon after would be reasonable.¹

After a year of operations, problems arose concerning high prices, dishonesty of some stall operators and other difficulties. Consumers reacted negatively to price fluctuations, price differentials due to locations, transportation expenses and source or origin of the merchandise. Despite these problems, consumers began to depend on these markets for certain products. While prices were high, there was plenty of money in circulation and the government's newly-enacted wage policies injected more liquidity. Further incentives to agricultural producers were introduced in 1981, when agricultural prices increased by an average factor of 1.6 to 1.7. (See: Utting, 1992, p.130.) However, the government began to perceive that it was not receiving the expected benefits of the FFMs. In effect the government lost control of these market. The market developed its own set of rules and the farmers were learning to operate at the fringes of socialist legality.

The national leadership and ANAP (National Association of Small Farmers), who earlier praised the FFMs, began to criticize its *modus operandi*. (See: Ramirez, p.15) Both groups observed that: prices were not decreasing, some consumers were complaining because of limited access, black market operations continued and those farmers receiving higher income were competing for scarce government resources by unorthodox business practices.² But worse still, some farmers were getting rich, as well as the intermediary. The necessary middle man, the evil-like *merolicos*, who made market operations possible, were a new class of entrepreneurs in a socialist country. Examples abound to illustrate the problems

encountered. Benjamin, et.al., tell us the following:

One semi-retired small farmer, who had sold off most of his land to the government in the late 1960's, proudly showed us the onions he had stored up for the farmers' market. While government farms produced only one variety, he could plant several varieties and staggered portions of the harvest as well as set aside some varieties that stored well. After the May 1981 harvest, government produce stores sold onions for 8 to 18 cents a pound. By October, when the government had no onions to sell, one could find them easily in the farmers' markets in Habana for 2.40-3.00 pesos a pound. (Benjamin, et al. p. 62-63)

The government reacted with authority against traders-*merolicos* and other market participant by setting up several police intelligence operations which, according to the press accounts, identified "criminal and felonious activities, wrongdoing and illegalities". (See: Barredo Medina, p.6) The police operations immediately discouraged further participation in the markets.

Opponents of the market idea including the leadership, which warned against the potential development of an intermediary class and farmers getting rich began to criticize the farmers. This group was also very concerned about the theft of government property from State farms and cooperatives and the negative impact which the FFMs was having on collectivization. Fidel Castro on two occasions manifested his opposition to the free market idea. In May 1982 he indicated: "But what happened? The go-betweens took over the markets and inflated the prices. Some of them would have been brilliant on the New York Stock Exchange." Also, "people do not want to be robbed." But the thought of people getting rich bothered him greatly. "You know there are millionaire farmers earning 10 times as much as an outstanding medical specialist." (See: New York Times, June 14, 1982 p.D1-D2)

The government wanted to devise a mechanism to control prices and profits without discouraging production. However, private farmers and artisans reacted by not bringing their goods to market. As a result a mid- course review was initiated by the leadership.(See Granma, 5/17/82, pp 4-5).

VIII. Mid-Course Review

Soon after the government concluded that FFMs developed operating difficulties, the press no longer gave the experiment positive reviews. An article appearing in Granma on 27 May 1982, by Barredo Medina, criticized *acopio* and its officials for violations of contracts. It was evident that the farmers and operators were finding "friends to do business with." The government was now on a collision course with the intermediaries, the farmers, the cooperative, *acopio* personnel and others.

In 1983, the government promulgated a new set of regulations affecting the FFMs. (Burnhill, p.23) Among those implemented were:

- a) Limit the access to the FFMS to ANAP members only and to those who owned and tilled the land for their personal benefit. This excluded cooperatives from participating in the FFMs.
- b) Increase the sales tax from 3.0 percent to 20.0 percent, on a graduated scale.

c) Require the show of documentary proof that *acopio* quota had been met by the farmer.

The government's objective was to continue offering a variety of produce to the consumer while protecting the goals of its collectivization program and limiting access of the intermediary or middlemen. Cooperative production surpluses would be now channeled through government-operated parallel markets. The state was, therefore, challenging the FFMs with the parallel market. Goods sold in the parallel market would command higher prices than in the rationed market, but its profits would go to the state's coffers. As a result of the new regulations and police monitoring, the volume of sales in the FFMs fell from 140 million pesos in 1981 to 81 million pesos in 1984. A further drop occurred in 1985 when sales were recorded in the amount of 70 million pesos. (Burnhill, p.38). Meanwhile, goods such as garlic, malanga, onions and others were found in the FFMs, which produced over 80 percent of the available quantities. These new results were not those desired or expected by the government.

New government regulations essentially curtailed access to some producers and discouraged consumers from using the markets for a while but could not end major consumer complaints. Production continued to move from farmers' markets via intermediaries into the black market where prices were substantially higher. Farmers and operators, including *merolicos* were getting richer and the newly-developed class of entrepreneurs was acquiring wealth and assets.

Collectivization, a major goal of the government and ANAP leadership, was stagnant. This was essentially the result of higher income earnings realized by the private farmers and operators who were more attracted to farming their land as individuals rather than to forming cooperatives. The government underestimated the power of the FFMs to harm the state cooperative system. However, supporters and opponents soon revived their debate and it signified the end of the period of limited experimentation with market economics and decentralization.

IX. End of the Farmers' Free Markets

Between 1983 and 1986, the FFMs operated under a set of constraints and rules that reduced its scope and access for some of the previous participants (CPAs). However, there were still opportunities for participants and consumers. Consumers were reaping the benefits of new sources of products to supplement their basic food needs. The expanded parallel market, according to Meurs, "produced steady increases in private sector sales to the state, while private non-cane agricultural sales to the state grew only by 2.9 percent annually between 1975-80. Over the next five years, private sector sales averaged an annual increase of 4.9 percent." (See Meurs and Deere, *Markets*, p.25) Cooperatives were also pulling their weight in terms of marketable surpluses, "contributing 46 percent of private sector sales" despite opposition by the government. (ANAP Magazine, May 1986, pp.6-7.).

Complaints were raised by many, including ordinary consumers. In general by 1986, buyers access to the FFMs was becoming limited; many products were carrying very high prices in some markets, while in other markets with slightly lower prices, lines were longer. Price differentials affected the parallel market also. Produce prices in the parallel market were higher even than those in rationed markets, and on occasion, even in the black market. This resulted from state price rigidities and regulations which did not allow for prices to fluctuate freely in markets other than the FFMs. Finally, after several rounds of discussions, in a very

terse speech during the II-Encounter of the Agricultural Production Cooperatives, held in May 1986, Fidel Castro announced the end of the FFM's experiment.

Several reasons were provided for the closing of the FFM's by Fidel Castro and by others. (Figueroa and García p.55-60) Some were related to problems that had been encountered, while others reflected new government concerns. Among those problems raised by Castro during his speech were:

- 1) high earnings by the farmers, middlemen (merolicos) and others participating in the market who were labeled as profiteers.
- 2) high prices resulting from the limited production of the state system and of the inability to compete with private farmers.
- 3) continuation of the black market, fueled by excessive liquidity.
- 4) difficulties in the *acopio* system, whose services were deficient and could not be improved due to transportation difficulties and to poor administration.
- 5) purchase of assets by the private farmers and wealth effects felt throughout the entire economy as indicated by Fidel Castro during the mid course review and as observed by the increasing level of savings.
- 6) state fear of losing its control of the economy. If not checked, economic power of the farmer class meant potential political power.
- 7) state fear of losing ground on its collectivization efforts.
- 8) land and resources were sometimes diverted away from sugar and into productions of fruits, vegetables and tubers where farmers could make a profit.
- 9) farmers had contracted labor to diversify production within the plots, including private sharecropping. This was due to high income possibilities of the newly-found market freedoms which still were not completely closed.

Farmers became overnight entrepreneurs and the wealth effects began to be felt in other sectors of the economy. In *Granma* on 19 May 1986, it was reported that "estimated income derived by the farmers from the FFM was in the order of 100 million pesos in profits while the state collected approximately one million pesos in tax revenues." Housing was very attractive to the wealthy farmers because it was not under strict government control. Again, according to *Granma* in Cabaiguán, a landlord reportedly built a house worth over 25,000 pesos. (See: Deere and Meurs, Markets...p.27)

Several positive aspects of the FFM were mentioned by other sources despite the virulent rhetorical attack by the leadership. Among the positive results of the FFM that were mentioned were:

- a) a substantial increase in commercial production and *acopio* operations due to the new material incentives provided to the private farmers.
- b) a better and more comprehensive use of the land in small parcels.

c) an increase in the quantity and quality of the supply of fruits, vegetables and tubers, especially more supplies destined for the big cities and for the surrounding areas.

d) a considerable increase in income of farmers and small parcel operators. (See: Figueroa and García, p.59)

In reality, very little of the market experience and outcome could have been positive for the leadership. Most of the benefits were received by consumers and by farmers. The latter received their due. They were finally paid for their production effort and were able to reap the benefits of having a high income.

X. State distribution Difficulties After the End of the FFM

After the demise of the FFMs, the government accepted that the distribution problems were more serious than originally suspected. Notorious in *acopio* operations was the failure to pick up produce from the farmer and its subsequent waste. Government action to correct difficulties in the distribution system was too little too late. The successor, *Frutas Selectas*, and its marketing outlets, *Placitas*, were only an extension of the parallel market operations. Experience with the *acopio* substitute revealed that it did not perform any better.

Strolling through the agro-markets of the capital, there is ample evidence that there are not enough supplies of products in those units of *Frutas Selectas*. Why is it that fruits, vegetables and tubers does not arrive more regularly at this market, which functions similarly to the parallel market? (Radio Rebelde, 23 October 1989)

The FFMs and the transportation and distribution difficulties exhibited by the performance of *acopio* and *Frutas Selectas* amply justified the role of the intermediary. The aftermath of the FFMs demonstrated that the state was not interested in changing its predominant central role in the economic endeavors of the country.

XI. An Encore to the FFM

Speculation centered around the Fourth Party Congress held in 1991 that FFMs would be reinstated. In fact during the Congress a delegate from the Pinar del Rio Province, Manuel Alvarez proposed the idea as a possible solution to "an uncontrollable black market". (Castro on Farmers' Markets. FBIS-LAT-91-190-S, p.45) This proposed idea by Alvarez prompted a very negative response by delegates from several provinces whose remarks were along the following lines "I am terribly ashamed to be talking about this again, since we, as farmers, told Fidel that the free farmers market will never return."

Fidel Castro reacted to the Alvarez proposal during the same session explaining at length why the free farmers markets must not be reinstated. His lengthy remarks recognized the failure of *acopio* and all the wrong things done during the period of existence of the FFMs. But, Fidel Castro also recognized the need to improve the situation. His final arguments permeates his thinking about free markets. (Castro on Farmers' Market. FBIS-LAT-91-199-S, pp.45-46)

However, I feel that the way we are working is correct for solving the supply problems. Another way would complicate things a great deal. What we are doing would become disorganized. It would sow corruption and cause a loss of morale. Of

that I am completely convinced. If things get worse, what would happen? Imagine if part of the population had to move to rural areas. Just imagine.

Finally, the free market concept came to rest when Fidel Castro indicated that "the free farmers market was an error which affected the cooperative movement and state production." (Radical Econ. Changes. FBIS-LAT-91-190-S, p.46) However, for the general population, the FFMs became a symbol of change and hope after the demise of the Socialist bloc.

XII. Future of the FFM

It is very difficult to predict the ending of the present course. The future will greatly depend on when and how the changes will occur and if these will result in destruction of assets and specially those related to agricultural activities.

One of the lessons from the FFMs was that given the price incentives of a free market, production could respond in a short period; usually the time between planting and harvesting (a crop cycle). This could be further implemented if production and all location of resources are not interfered with by the government.

The FFMs is not a permanent solution to the problem of the agricultural sector, but it is an excellent source of fruits, vegetables and tubers and could be expanded to include some meat products, pork and poultry. A reasonable beginning will be to combine this market forces with access to agricultural inputs, supplies, credit and machineries for all producer during the transitional period toward a market economy. Further support should be in the form of transportation, logistic and storage facilities from government sources. Allocation of resources is a function of the markets and not of the government. Producers know best when to expand or reduce operations.

The future government could stimulate the expansion of agricultural production quickly during the transition to a market economy. This could be accomplished if the government and agricultural authorities undertake the role of facilitator and begin to convert the state controlled agriculture to a private economic activity. The following ideas and suggestions could facilitate the conversion process:

Convert the CPAs into market oriented businesses (agribusiness) in which the cooperative system retains the land property, would join production and operate as a modern agricultural enterprise.

Facilitate the procurement of all agricultural inputs and credit to producers.

Ascertain that, during the initial period, farmers have access to the market. Transportation, logistics and supplies, if available, should be facilitated to farmers at cost by the state. A poor distribution and marketing system contributes only to higher prices and inadequate resources allocation.

Disseminate price information to avoid imperfections and lack of transparency in the FFMs. This objective could be achieved through clearly displayed posted prices which could be serve as references. Prices could be disseminated through farmer's and consumer's organizations and the media.

Educational support to farmers in at least two areas agricultural practices and marketing techniques will be essential in developing a reliable domestic sources of

food. This could be facilitated by MINAGRI with the support of international agencies both private and public.

MINAGRI and monetary authorities, from the beginning, should formulate sound and clear lending policies, to have adequate financial resources and easy access to financial facilities without discrimination of any components of the agricultural sector. Financial assistance should be based on proven qualification and repayment ability with minimal red tape.

Provide investments incentives for agricultural and other related sectors.

Obtain economic and technical assistance from international agencies. Perhaps some contributing agencies such as USDA, UNDP, FAO and IICA could assist in the agricultural sector expansion and in reordering of priorities.

Establish an effective national tropical agriculture extension program. This should be a priority program of the MINAGRI in cooperation with international agencies and universities through out the world.

The goal of the transitional period with regards to agriculture should be, among others, to smooth out difficulties created by production shortages which creates scarcity prices. As production increases and availability improves, excess liquidity will diminish and prices will tend towards equilibrium.

An optimal solution for the future of Cuba's agriculture will be complex and will require a combination of sound agricultural policies, with appropriate fiscal and monetary ones. In the longer term, agricultural expansion will depend on a legal framework which will recognize and protect private property. The government role will be vital but it should be portrayed with minimal interference in the production process and establish the basis for the creation of modern agribusinesses. The bounty of the land can provide plenty for the population with incentive and work.

XIII. Conclusions

For the years that the FFMs operated, they achieved the expected results with respect to consumer expectation. Some of the government's goals were also attained: consumers were able to purchase a better quality and a larger mix of vegetables and tubers. Scarcity prices resulted from insufficient production and higher demand.

The creation of the FFMs' was a political decision which took a number of years to implement, because the leadership struggled with the concept of opening the economy. (See Rosenberg, p.53 and 59). It appears that a compromise was made to promote collectivization of the private sector (create the CPAs) at the same time that the FFMs were authorized to operate. The benefits gained by private farmers began to erode the collectivization drive because the profit motive was very strong. If left unchecked, the results could have been the creation of a powerful class of entrepreneurs competing with the cooperative system.

Intermediaries or *merolicos* provided an important link between the producer and the consumer through the FFMs. These entrepreneurs contributed to the functioning of these

markets. *Acopio* and its successor *Frutas Selectas* failed to operate an efficient distribution system that would meet the consumer's need. Rather than blame the farmer for his lack of market knowledge and commercialization skills, the government would have done better to provide him with transportation equipment and to facilitate his access to commercial centers. However, if the farmers had been allowed to engage in labor contracting, and fulfilling his production potential, the state would no longer be needed to supply the market demand for specialized products. (Deere and Meurs, p.32.) The newly-found entrepreneurs were acting on their own best interest by minimizing their cost of production and by maximizing profits, given price and income constraints. (ANAP magazine, No.1, 1986, p.12.)

The resource allocation function of the market could not occur since the state did not want to relinquish its prerogative. The government prohibited the farmers from allocating production inputs and output independently. That is, the farmer could not optimize his production function with respect to cost, as well as maximizing his income with respect to prices. The government sought to continue its control over the economy.

Planned distribution totally conflicted with the goal of the FFMs. Socialist planners do not receive the benefits of price signals to adjust inputs or output. The centralized economic model is only optimized with respect to quantity because prices are rigid and subsidies distort the outcome. In the case of the FFMs, the political premises and plans of the leadership were totally frustrated. If anything, FFMs created serious conflicts within the leadership. The attempt to use market tools to solve problems of self-generated distortions by the socialist economic model applied in Cuba was a failure. The leadership decided to finish the FFMs due to its political control being challenged from within. The leadership at all cost wanted to retain absolute control.

Attempts to reinstate the FFMs during the Fourth Party Congress in 1991 resulted in a resound veto by the leadership who considered the idea quasi counterrevolutionary. The FFMs became a de-facto symbol among the population of the free enterprise system.

Note

Agricultural production statistics are available from 1960 to 1989 only. The AEC (Anuario Estadístico de Cuba) publishes production for selected crops only; thus, it becomes a very difficult task to undertake a complete analysis of the contribution of each sector of the agricultural economy. Dis-aggregated data on production by CPAs' are not available. Total private farm output is not known, nor is the output of the parcel owners accounted for. As an alternative *acopio* data could be used but it understates the actual amount of production of the private sector.

1 Initial prices were high, and there were some fluctuations in accordance to consumer preferences and seasonality. (See *Bohemia*, 13 June 1980, pp.56-57)

2 José Ramirez Cruz, an earlier proponent of the FFMs was dismissed as ANAP president in 1985.

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