

## **Report of the Cuban American National Foundation's Blue Ribbon Commission**

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What have we learned, what have been the main lessons of the numerous conferences and studies carried out by the Blue Ribbon Commission? The conclusion is one which will not surprise any of you: If Cuba wants to prosper, it must change the system under which it operates. I think we can agree on that.

The real debate is this: first, how do we change the system? Second, how do the Cuban people give themselves some new rules of the game (a constitution) which would in turn, bring about prosperity and political freedom? Therein lies the key to the future! To paraphrase a recent political campaign in this country, perhaps we should send Fidel Castro a note saying, "It's the system, stupid", but I am sure he knows that!

Every time I have the opportunity to speak on this subject, knowing well that in Cuba we are dealing not only with the problems of dismantling a communist economy but also of addressing a host of traditional problems facing other Latin American countries, I am reminded of the story which I will share with you . It is one of a Latin American President who, upon taking office asked his advisors for a solution to the numerous problems facing his nation. He gave them 72 hours to come up with solutions. Within 24 hours, the advisors came back and said: "Mr. President, there are only two solutions: One is practical, but the second one would require a miracle. The President, having grown tired of wishing for miracles, asked for the practical solution. The practical solution they said, calls for it to rain \$100 bills over the whole nation for two days and nights. The surprised president then asked, "If this is the practical solution which would be the miracle?" "Mr. President, they said, it would take a miracle for us to give ourselves a system which would permit us to prosper and solve our own problems". As many of you know the preceding fictitious story is not far from the truth.

It is not an easy or simple procedure to solve the problems that relate to the most basic principles which should guide a nation. To do this we must all recognize whether we believe in government participation in the economy or not, that the constitutional and legislative norms as well as governmental policy, determine the economic system under which a nation shall live. There might, however, be disagreement on the following: Should we let the individual make decisions based on information he obtains from a system of prices and natural market incentives, or should we allow public institutions to determine behavior by establishing prohibitions, duties, special incentives, subsidies, etc.?

We are convinced, as the former Socialist Prime Minister of Jamaica Michael Manley is, that "if you want a really dynamic, effective economy, the only thing you can do is pursue the market logic completely. Whole hog, not halfway." The economic and political system must be able to respond to market conditions by giving citizens the freedom to make choices. At the same time it must assure to all access to the most basic services.

The new Constitution of Cuba, which has to be the result of an internationally-supervised, free election, must in our opinion, recognize all individual rights. But in particular, it must recognize the right to private property and the rights of individuals to freely enter into contracts. At the same time, it must establish an independent system of justice which will guarantee those rights. The Constitution should also limit the capacity of the national legislature to pass laws which assign privileges or benefits to certain individuals or segments of the population, in detriment to the rest of the citizens. All laws should be characteristically general in nature and address future events that must be conceived in the abstract. In this manner, every act, from the most basic and general law, as the constitution should be, down to the

most routine decisions on governmental policy, will have the necessary neutrality so that a market economy can do what it does best: allocate resources according to their relative scarcity.

We must emphasize that what we propose is the creation of a truly free market, where the consumer decides, without undue pressure or orders from government bureaucracies or from groups which have been granted special privileges, what he wants to buy. Does this mean there is no role for the state in the economic development of any nation? There is a role, but that role must be first and foremost to guarantee the best it can for its citizens equality of opportunity and protection of individual freedoms to the maximum extent possible.

What does this mean in practical terms? Let me give you some examples in regards to some of the most basic questions facing Cuba after Castro. No reform is going to be more essential for the successful transition to a free market than the establishment of a stable monetary system. Cuba provides ample evidence of the costs of monetary and fiscal irresponsibility that are the hallmarks of a command economy. By establishing an arbitrary peso to dollar value of roughly one to one while refusing to recognize inflationary pressures caused by flooding the Cuban economy with pesos, Castro has inflicted severe shortages and economic stagnation on the Cuban people. The new policy of dollarization will only make the problem worse for the great majority of Cubans who have no access to dollars. Already the Cuban peso is at 70 or 80 to 1 in the black market and will continue to inflate at a very fast rate.

Replacing this disastrous system with a Central Bank responsible for establishing a fixed rate of foreign exchange would only offer a marginal improvement. The history of Latin America Central Banks offer some sober lessons. The Great Train Robbery pales in comparison to the Great Central Bank Robbery perpetrated through inflation on the people of Latin America. The destruction of the savings, investment opportunities and to a great degree the social fabric of many of these nations can be traced, without doubt, to the policies followed by Central Banks and governments throughout the region.

Therefore, I believe the best solution is not to tempt some new well meaning savior-of-the nation with the power to control the national currency. Instead, we should get the new Cuban government out of the foreign exchange business completely and allow citizens to conduct transactions in any currency of their choosing without restriction or fees. The Cuban government could still have a national currency and could conduct government transactions in an official currency. Taxes could be paid and calculated in foreign exchange at the latest officially published rate, at the option of the taxpayer. This would force the government to be extremely careful in issuing currency and in time this new currency could earn the respect of the Cuban people and the international community.

The same principles should apply to trade. This issue is another crucial factor in the success of a new Cuba. We must put in place a free trade policy which is applied equally and consistently across the board without discrimination towards specific industries, income groups or individuals. All producers of goods and services, Cuban-made or foreign made should compete fairly and equally in a new Cuba. We should welcome free trade agreements with other nations but the Cuban people should not be held hostage to the negotiations for those agreements by withholding from them the immediate benefits of free trade.

The issues of privatization, property claims and current commercial agreements with the Castro regime are closely related to one another. Clearly the top priority of a freely elected Cuban government would be to put the means of production into private hands as quickly as possible. To be able to achieve this, any privatization program must provide an opportunity in which all of the Cuban people participate. Fortunately, the new Cuban leadership will have the extensive experience from this process, in Latin America, Europe and the former Soviet Block countries to serve as a guide for effective action.

The Czech Republic, for example, has implemented innovative programs to sell 22,000 small businesses

and more than 2,000 large enterprises worth some \$17 billion into private hands. The first rounds of these programs were limited to Czech citizens only. The national voucher plan implemented by the Czech government which provided coupons allowing each citizen to obtain a stake in newly privatized industries has been enormously successful.

The repudiation of foreign commercial agreements with the Castro regime by a Post-Castro leadership is essential. This in fact will reinforce investors confidence that the new Cuban Government will act on the basis of the law and not on that of the whims of one man. All those currently doing business in Cuba are well aware of the risks they took in dealing with an illegal regime and they should not expect to profit from them. Some of these people claim, rather hypocritically, that they will be essential in a new Cuba. Someone needs to remind them they are not running microchip factories or satellite tracking systems-- they are running hotel operations. And there are thousands of good hotel operators in the world who have not invested with Castro and would be delighted to run a hotel in Cuba.

We must at the same time recognize that former property owners in Cuba were the victims of a massive illegal act by the Castro regime and any privatization program must take this into account. At the same time the privatization program should not be destroyed by a long and drawn out process of property adjudication. Restitution of property to former owners can be a viable option when, for example, there is no contest over titles or with persons who in fact occupy the property in question and where former owners are prepared to re-invest. By the same token confiscated properties which have been substantially altered, consolidated, or improved could be the subject of compensation.

The one exception to properties subject to privatization, restitution or compensation should be homes or residences of Cuban citizens on the island. We strongly oppose any eviction of Cuban citizens from their homes. What is needed is a program which puts the means of production into private hands while respecting the rights of all, and is the product, let me emphasize once again, of the free will of the Cuban people as expressed in a free and democratic election.

Some will say that the concept of a free economy is simplistic, that it does not address the needs of society and that it produces wealth for the few and poverty for many. I personally find this view incredulous when one takes into account the cumulative evidence of the civilizations freedom has created where it is practiced, even with all its human failings. Others will say that the market has no soul, no sentiment and no compassion. I submit to you that these are not qualities of any system. Only real people can have compassion. The law of gravity has no compassion. Economic laws are not descriptive; they are prescriptive. We can ignore economic laws as well as the laws of gravity but we can not ignore their consequences. Those who pretend to relegate compassion, charity or plain human decency to the system, are only evading their personal responsibilities as free human beings.

Many choices will be offered to the Cuban people after Castro. We believe the best alternative is one that includes a truly free market in the context of a free society. In any case it will be their choice to make. We believe they will choose freedom.