

EVALUATION OF CHANGES IN ECONOMIC POLICY IN CUBA

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In order to evaluate Cuba's movements towards some forms of market economics, let us first identify the conditions that characterize a market economy in its most ideal state. Then we will be able to determine the magnitude and significance of the deviations between the model and the practice, actual or projected.

DEFINITION OF A MARKET ECONOMY

In its purest state, a market economy can be defined as one that cannot be affected by the decisions or actions—mainly purchases or sales—of a single agent or decision-maker. This implies that no agent has the power, economic or otherwise, to significantly alter the workings of such an economy. The quantities of the goods and services transacted in a market economy, and their corresponding prices, are determined by the simultaneous and continuous decisions of innumerable agents pursuing their self-interest.¹

One central characteristic of a market economy is the freedom with which individuals can make decisions and express preferences about consumption and production alternatives. A consumer, for instance, reveals his or her preferences in a market by choosing what he or she wants within a budget constraint. A worker, on the other hand, expresses his preferences in the labor market by choosing how much time to dedicate to work and how much to other activities. Entrepreneurs choose production technologies, and production factors and resources (mainly labor and capital) to produce what they expect consumers will

buy. If they produce what consumers want, they will be rewarded; if they make a mistake in this regard, they may lose their businesses and leave their workers unemployed. All individuals, either as consumers, workers or entrepreneurs (a special category of worker) also make decisions about how much to consume and how much to save for future use or investment. This involves decisions on how much to hold as wealth and what to do with it. Private property rights are derived from these freedoms and represent one of the pillars of a market economy.

In other words, free choice and decentralized power are vital characteristics of a market economy. Without them, all production and distribution activities become distorted and less efficient. In order to maximize social welfare, an economy should work under these conditions. The role of government should never include intervention in markets (prices, levels of production, etc.), but be limited to providing the rules of the game; guaranteeing property rights, contractual security, and competition; and making provisions for the supply of public goods (national security, public order, etc.)

First Tier Imperfections of the Theoretical Model

The ideal market economy would be in what economists call long-term competitive equilibrium. It depends on virtually perfect flows of information among decision-makers. At the same time, long-run competitive equilibrium can only be achieved when there is no innovation of any form. Thus, in reality,

1. Self-interest does not exclude altruistic behavior, but implies that individuals make decisions on their own, without any external coercion to behave as if they were altruistic.

even the most efficient market systems are always operating around equilibrium positions but they manage to grow and provide increasing levels of welfare to its members. One possible deviation of the market system arises when there are monopolies, or rent-seeking coalitions, that distort prices preventing them to respond to regular supply and demand conditions. However, these deviations can be controlled—or at least their impact can be minimized—when the government intervenes in behalf of freedom and competition. But the reverse does not hold.

Government Induced Deviations

When governments intervene on the premise that they can correct “market imperfections” and also improve efficiency and equity of a market economy, economic theory demonstrates, and practice teaches us, that distortions are severe and welfare losses instantly occur. The reason for this is relatively simple: no government has the wherewithal to gather and process the amount of information that a market system requires to be efficient. No computer system or algorithm managed by a group of bureaucrats can replace the versatility and capacity of millions of decision makers pursuing their own interests. The more centralized the government is, the worse the information glut it creates and the more serious become the deviations from a market system.

Privately Induced Deviations

Governments are not the only actors who create distortions in a market system. Rent-seeking individuals or coalitions may exercise influence to have legislation enacted creating certain privileges, such as protective tariffs and quotas, monopolies, etc. A society committed to a market economy will have a government capable of monitoring these phenomena and enforcing the rules of the game to guarantee fair practices in competition. This implies that having or not having a market economy is a social contract not simply a matter of decision by a single government.

THE CUBAN DEVIATIONS

Cuban deviations from a market economy were extreme with the installation—formally although not in reality—of a Stalinist centrally planned economy. In 1960, as the country started building a socialist

economy, the country lost its traditional markets, its investors, and its entrepreneurs. It also started losing its production capacity in almost every single industry. The Soviet subsidies hid for three decades the Cuban inability to produce. Their disappearance uncovered a sad reality: Cuba not only destroyed a market-based economic system that, despite its problems, provided a degree of welfare and independence to the country, but also failed to develop a socialist economy with at least a mediocre productive capability.

In adopting a socialist economic system, the Cuban Government imposed itself an internal embargo on all productive activities of the country. In adopting a policy of confrontation and antagonism with the United States, besides the massive expropriations of U.S. holdings, it provoked the external embargo by the United States that has lasted for over three decades. The Cuban Government adopted a myopic attitude towards the U.S. embargo until it realized, even before the demise of the Soviet Union, that the embargo was a liability for the country. What they never have realized is that the main problem is the planning system they adopted. The U.S. embargo obviously exacerbates the problem, but its unilateral lifting is not the complete solution to Cuban economic problems.

The process of dismantling the pre-1960 Cuban economic system that took centuries to develop can be summarized as follows: a) a virtual total loss of free choice for consumers, workers, and other economic agents; b) an extreme centralization of economic power in one single person, Fidel Castro; c) a dramatic loss of the closest and most natural external markets for Cuba’s imports and exports; d) a deviation of economic resources to wage war and finance subversion in other countries; e) complete secrecy, total lack of transparency on the use of funds by the government; and f) loss of Cuba’s best human resources, especially entrepreneurs, and consequent loss of productive and investment capabilities.

CURRENT CHANGES IN CUBA:

HOW FAR FROM A MARKET ECONOMY?

The Cuban Government does not seem to have a master or game plan to install a market economy, or

even a mixed economy. The first piece of evidence is the repeated public utterances of president Fidel Castro when he declares his commitment to Marxist values and socialism and expresses his criticisms of market economies at large.

The current changes seem to obey a strategy of slow retreat as, first, foreign investment, second, the efforts to develop tourism, and third, the reluctant liberalization of self employment and farmers markets, fail to produce the economic recovery that the country desperately needs.

If the Cuban Government were serious about genuine economic reforms it would try to relax the political system to some degree. It is simply inconceivable that a market economy or even a mixed economy can coexist with the current degree of political absolutism present in Cuba. A one-man government does not provide sufficient guarantees to foreign investors and traders. Even if we accept the need to have a strong executive to implement profound economic changes in a country, the current situation in Cuba is ridiculous.

There is no middle ground between a market economy and a centrally planned system that can be justified on arguments of efficiency or equity. The evidence of the reduced efficiency of state enterprises is overwhelming and cannot be ignored by serious scholars. The so-called achievements of the Cuban revolution in matters of health and education can be maintained by a market economy through a well-designed tax and fiscal expenditure system or by other means, without having to sacrifice economic freedoms. The fact is that social gains must be affordable

and therefore based on an efficient economic system. The social “conquistas” of the revolution were funded by the Soviet system, therefore they were not real achievements. Anybody knows how to spend; few know how to create wealth.

A more efficient economic system must be de-politicized. Economic considerations, not political ones, must prevail in economic decision making. In order to achieve this, economic agents (consumers, workers, investors, etc.) must have sufficient freedom of choice and economic power, even if their political choice is still constrained. Economic changes in Cuba are so far cosmetic in essence, simply because the government refuses to give a role to the Cubans.

Finally, the U.S. embargo undoubtedly constrains the development of the Cuban economy, but not more so than the current economic and social systems in Cuba. Such systems, combined with the lack of transparency in the management of fiscal matters in Cuba, determine that the advantages to the Cuban population of an eventual lifting of the embargo are severely limited. Fidel Castro today would be the main beneficiary of the lifting of the embargo, while the Cuban population would only receive token benefits. More than thirty years of experience in the mismanagement of public affairs sustain this proposition. The current economic crisis has halted Fidel Castro’s ability to finance subversion outside Cuba. Without fundamental changes (in personnel as well as in structure) in the Cuban political system, little positive can be expected on behalf of the Cuban public interest.