COMPARISON OF INTERNATIONAL MONETARY FUND AND WORLD BANK CONDITIONALITIES AND CUBA’S ECONOMIC REFORMS OF THE 1990S

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The economic reforms that have been implemented in Cuba in recent years bear similarities to the structural adjustment programs of the International Monetary Fund (IMF) and the World Bank (WB). Pressured by the economic crisis of the early 1990s, the Cuban government has moved toward deregulation of foreign investment and partial privatization of state enterprises through joint ventures in some sectors of the economy. This paper compares the measures taken by the Cuban government and the traditional IMF and WB conditionalities and attempts to forecast the possible performance of the new—if it can be considered new—Cuban economic system.

IMF AND WB CONDITIONALITIES

Structural adjustment loans made by the IMF and the WB to member countries are predicated on the adoption by the recipient country of certain policies, generally known as conditionality. Generally, IMF and WB officials advise governments to cut budget deficits by reducing government expenditure and to implement orthodox structural adjustment programs to stabilize the economy and control inflation (Cardoso and Helwege 1995, p. 173). According to the orthodox view, economic stabilization and control of inflation is achieved by reducing government subsidies, bureaucracy, and by privatizing state enterprises.

In addition, following the orthodox view, officials from the IMF and WB recommend an increase in interest rates, a liberalization of imports and currency exchange controls, an elimination of price regulation, and a devaluation of the national currency in order to stabilize the economy. Furthermore, these officials suggest a restructuring of the tax system in order to increase taxes, and as a result, increase government income. As will be discussed below, many of these same policies have been recently implemented in Cuba, with others soon to follow.

In line with structural adjustment programs similar to the ones recommended by the IMF and WB to third world countries like Chile, Bolivia, Brazil, Peru and Ghana, the Castro regime has decreased government subsidies, stimulated exports, indirectly pushed import substitution, increased taxes on cigarettes and rum, increased admission fees to sports and cultural events and established currency exchange houses (for the first time in thirty six years), presumably in an attempt to control inflation and advance economic growth by curtailing the money supply and increasing the government’s revenue.

The bulk of these changes, however, seem to be directed towards the goal of gaining admission into the IMF and WB. Admission into these international monetary institutions would provide the Cuban government with economic financing and aid, thus, extending the life of the Castro regime.

Furthermore, the dilemma is that Cuban laws are only on paper, since in actuality almost everything depends on the will of Fidel Castro. There is little due process in Cuba; it is not a country of laws.
Therefore, the structural adjustment programs that are trying to be implemented in Cuba are an illusion, since the obsession of Fidel Castro against profit, capitalism and the “Yanquis,” would never allow a full free market economy. However, it is possible that the half-hearted economic reforms implemented by the government might nevertheless unleash a real economic liberalization process that escapes the control of the government.

All in all, however, the Cuban government is also developing its own structural adjustment program and economic model by combining it with orthodox and neoconservative approaches to stabilization. Still, this “cubano” structural adjustment program appears to be an attempt by the Castro government to portray the island as an open economy and prolong its control over the people.

EARLY REFORMS

Foreign Investment

The first measure implemented was in 1991 after the Fourth Cuban Communist Party Congress. At that time, the Cuban government amended the Law-Decree 50 of 1982 (the Foreign Investment Law) in order to attract foreign investment (Barquín 1995a, p. 11). The Cuban government needed to attract foreign investment, since the island’s economic activity decreased by more than 50 percent after the elimination of Soviet subsidies connected to the disappearance of the Council of Mutual Economic Assistance and the Soviet Union.

In September 1995, the investment law was amended again, allowing 100 percent foreign ownership of enterprises and further liberalizing the export economy in an attempt to stimulate investment and enhance the faith of foreigners in the economic reform process. Supposedly the new investment law reduced the bureaucratic “red tape” in the approval and licensing process of foreign investment and allowed foreigners for the first time in the Island’s communist government to engage in real estate transactions. However, the deregulation and stimulus of foreign investment has been small, since government licensing and approval of foreign investment and joint ventures is highly regulated. Furthermore, decision-making and oversight is exercised by the Executive Committee of the Council of Ministries, or by the Council itself. Thus, a decrease in the decision-making bureaucracy has not been significant.

Nevertheless, foreign investment has increased rapidly. Between 1989 and 1996 it has more than doubled. The Cuban government reports that foreign investment has surpassed $2.1 billion. However, according to Gareth Jenkins, president of the consulting company, Cuba Business Ltd., and publisher of Cuba Business, less than 25 percent of the reported foreign investment has been delivered. Yet, economic activity between Cuba and members of the international community is continuously increasing.

The exemption of foreign and joint venture enterprises from tariffs, duties, and prior government approval on imports and exports, the flexible policy on taxes—except for social security—and the authorization to do business in hard currency, are supposed to be incentives for foreigners to invest in Cuba. Therefore, at the present large corporations are heavily investing and establishing joint ventures in the island. These foreign investors include (US-Cuba Trade and Economic Council 1995c):

- Canadian Sherritt and MacDonald Mines corporations (Investment: Mining and Tourism);
- Japan’s Mitsubishi and Suzuki Motor Corp. (Investment: Automotive, Tourism) and Komatsu (Investment: Industry-Heavy Machinery);
- Germany’s Mercedes Benz (Investment: Industry-Heavy Machinery);
- United Kingdom’s Castrol (Investment: Oil) and Unilever (Investment: Soap, Detergent);
- South Africa’s Anglo-American Corporation and AMSA (Investment: Mining);
- Venezuela’s Cerveceria Nacional (Investment: Beer) and Gibraltar Trading Corporation (Investment: Steel);
- Mexico’s Pemex (Investment: Oil) and Grupo Domos (Investment: Communications);
- Brazil’s Petrobras S.A. (Investment: Oil);
- France’s Total Corporation (Investment: Oil);
Israel’s World Textile Corp. S.A. (Investment: Textile and GBM (Investment: Citrus));

Italy’s Benetton (Investment: Textile), Spain’s Grupo Hotelero Sol and Guitart Hotels S.A. (Investment: Tourism); and

Australia’s Western Mining Corp. (Investment: Mining).

Furthermore, an increasing number of foreign businesses, including large corporations in the United States, are anxious to invest in Cuba once the U.S. embargo is lifted.

Recently, the Helms-Burton Act was signed by the president of the United States. Consequently, a temporary decrease in the flow of foreign investment into the island as a result of the strengthening of the U.S. embargo will occur. Canadian, Spanish, Mexican, Israeli, Chilean, Italian and French companies will think twice before investing in Cuba, when they take into consideration the stress that would be imposed on their economic and political relationship with the United States.

Furthermore, even after the law is challenged in the International Court of Justice, North American Free Trade Agreement, and the World Trade Organization, it will take months and perhaps years until the cases are settled in the United States legal and political institutions. Therefore, some foreign investors in Cuba will exit the island to prevent an economic or legal confrontation with the United States. Others, however, will counter-attack the Helms-Burton law with similar policies towards the United States.

Meanwhile, the similarities between the IMF and WB economic policies for economic development and the Cuban economic reforms increase. Traditional IMF recommendations consist of political and economic reforms geared towards a reduction in the size of the government and a stabilization of the balance of payments through the promotion of exports and foreign investment (Cardoso and Helwege 1995, p. 176). Today, according to Cuban government sources (US-Cuba Trade Council 1995b, p. 4), more than 600 foreign businesses are represented in Cuba, approximately 4,000 non-United States companies are involved in economic transactions with the island (US-Cuba Trade Council 1995b, p. 1), and over 230 have established joint-ventures (Pérez-López 1995b). Foreign investment in Cuba as of May 1995 was reported at $2.1 billion, joint-ventures being the most common form of investment (Pérez-López 1995b, p. 5). According to the US Cuba Trade and Economic Council (1995b), “the Republic of Cuba maintains commercial dealings with over 4,000 foreign businesses in more than 80 countries,” and “total announced intended foreign investment exceeds $4 billion by more than 100 businesses from 30 countries.” Even though the above figures are debatable, it has been a good first step towards a real economic liberalization. Still, these figures are insignificant if we compare them with foreign investment in Colombia, Venezuela, Chile, Argentina, Panama, Costa Rica and even the Dominican Republic.

Stimulus of Private Enterprise

The stimulus to productivity and private enterprises has been pursued by the deregulation of foreign investment activity and the passage of law decrees aimed at increasing food availability and self-sufficiency through sustainable development.

In September 1992, Law-Decree 141 decriminalized some forms of self-employment and small, family operated private enterprises, in an attempt to reduce the unemployment produced by the decrease of activity in the state-controlled sectors of the economy and increase the availability of goods and services that the government is not able to provide efficiently. In addition, the government could generate revenue by taxing the self-employed and reduce its expenditure by decreasing subsidies to agriculture, sports events, and unemployment compensation.

But, self-employment is still tightly controlled by the state bureaucracy; which prevents students, professionals, and individuals classified as “essential” from being self-employed. This excessive regulation has induced an increase in the second economy and loss of government income through taxation. Today Cuba has more than 200,000 licensed self-employed, in comparison to 28,600 in 1989 (Rodríguez 1995), and between 1.5 to 2 million unofficial self-em-
ployed in the second economy (Mesa-Lago 1995, p. 34).

Privatization

Some early forms of privatization have occurred either through foreign enterprises, joint ventures or cooperatives. After the initial round of reforms in 1992, the government transformed most of the managed and state owned agriculture sector into cooperatives (Unidades Básicas de Producción Cooperativa). The ownership is passed to the farmers, who are allowed to keep or sell excess production beyond state production quotas. Not only is this supposed to increase food supply, but should help reduce the budget by eliminating government subsidies to the agricultural sector. Furthermore, it stimulates domestic production to improve import substitution, while creating the necessary conditions to potentially increase the exports of some products. This exchange of “ownership” could be considered a form of Orthodox style privatization.

Stabilization

To date, the elimination of price controls has been minute. Most of the economic activity is controlled by the state. Perhaps, the only area where prices are decided by the interaction of supply and demand is in the special sites of farmers and artisans markets, where some products (after production quotas have been met) are allowed to be sold at unregulated prices. However, the government still maintains a strong oversight on the operation of these markets, since price caps have been established in an attempt to prevent excessive accumulation of capital and emergence of “capitalistas.”

Neoconservative policies recommend market liberalization, fixed exchange rates, free entry and exit of capital into the economy, prices reflecting costs, freely determined interest rates, and an elimination of control over the allocation of credit (Cardoso and Helwege 1995, p. 180). These policies became popular during the 1970s in the authoritarian regimes of Argentina, Chile, and Uruguay. These countries lowered wages, eliminated export taxes, decreased trade barriers, decreased government subsidies, engaged in wide-scale privatization, and restricted labor unions. Today, similar measures are being applied in Cuba. For example, unionization of labor and collective bargaining—since the late 1960s—is severely limited in Cuba as it was in Chile, Argentina and Uruguay. Pursuant to the September 1995 Foreign Investment Law, Cuban employees in the hard currency sector (tourism, joint ventures) are employed through a Cuban agency that receives the pay in hard currency and in turn pays them lower wages in national currency (Gaceta Oficial 1995). In addition, a decrease in government subsidies to its bureaucracy has been attempted; sixteen ministries were eliminated and restructured into six new ministries; reducing the number of employees from 12,879 to 8,228 (Quijano 1995).

The Cuban government, as in Argentina, Chile, and Uruguay twenty years earlier, has decreased subsidies in attempts to decrease the government budget and increase its income. For example, according to a report in Cuba News in September 1995 from the Vice Minister of Agriculture, Eduardo Chao, subsidies to agriculture decreased from 370 million pesos in 1994 to 57 million in the first six months of 1995 (“Agriculture” 1995). Furthermore, he said that “the ultimate goal is to eliminate agricultural subsidies altogether” (“Agriculture” 1995). The difference between Cuba and the above mentioned Latin American countries is that the decrease in subsidies was partially achieved through privatization, something that has not occurred in Cuba.

Traditional subsidies of tobacco, rum, beer, gasoline, and communications were reduced by increasing their prices (Quijano 1995). Fees charged for utilities and transportation have also increased since October, 1994 (Quijano 1995). Through these actions the government has managed to decrease the budget deficit. However, we should not base this result on a comparison between the 1993 and 1996 budget deficits, since 1993 was not a normal year for the Cuban economy.

There has been a reallocation of government resources from idle and inefficient enterprises to tourism, mining, and oil exploration. Since the tourism and mining industries have increased dramatically their share of the gross domestic product in recent years,
and their ability to generate hard currency and high and quick rate of return on investment makes them desirable, the government has decreased subsidies in manufacture and agriculture transferring resources to the dollar economy infrastructure. Consequently, the government is improving its allocation of resources, pressured by market mechanisms.

Similar to the three South American countries mentioned above, privatization was pursued in Cuba to a lesser degree. Presently, many formerly state owned enterprises in Cuba have been transformed either into joint ventures or cooperatives, which are still controlled by the government. However, under the September 1995 Foreign Investment Law, quasi-governmental, foreign and joint-venture enterprises have freedom to export and import; which to some academics is an example of the economic liberalization process that is emerging in the island. Therefore, foreign trade has been significantly deregulated with the decrease in export and import tariffs, and the creation of industrial parks and free trade zones (FTZ) as of mid-1996.

SECOND ROUND OF REFORMS

Exchange Rate

While orthodox policies rest on the belief that less government involvement in the economy is better, heterodox policies take the view that government intervention is necessary to control inflation and “to settle the struggle between workers and firms over relative shares of national income” (Cardoso and Helwege 1995, p. 188). Heterodox and neoconservative policies attempt to stabilize and restructure the economy not only through market liberalization, but by fixing the exchange rate. On August 13, 1993, the Cuban government legalized the use and possession of hard currency and allowed Cubans to open savings and bank accounts at market interest rates between 1 to 4 percent (“Budget Deficit” 1995). The exchange rate was fixed at one peso equal to one dollar. The government also slightly liberalized interest rates and monetary transactions from its control. These measures led to a “dollarization” of the Cuban economy, and inflation rose instead of being controlled through the capture of excess national currency in circulation. According to Hiram Marquetti Nodarse, from the Center for the Study of the Cuban Economy in Cuba, “the dollar market represents more than $400 million per annum.”

Consequently, the Cuban government enacted a second round of economic reforms aimed at reducing inflation and stimulating economic growth. Farmers markets were created, where products could be sold after meeting the state production quota and prices are regulated by supply and demand. Also, paladares (small, family owned restaurants) were legalized again under strict government licensing and taxation (Pérez-López 1995a). Through the creation of farmer and artisan markets, the legalization of paladares and an increase in the allowed number of small enterprises and self-employed, the government seeks to reduce the scarcity of food and to capture the hard currency in circulation. Since the government taxes and charges licensing fees to the self-employed (including operators of paladares), individual farmers, artisans, and small entrepreneurs, excess national currency in circulation has been reduced (“Excess Liquidity” 1995). Thus, inflation has decreased and the peso has been strengthened, with a current value in the black market of 25 to 30 pesos to the dollar. Still, some academics in the field believe that a behind the scenes influx of dollars prompted by the government enabled these changes to take place. In addition, there are many complaints about how excess taxation is hurting paladares, farmers and artisans.

According to Cardoso and Helwege (1995, p. 189), during the mid-1980s programs like the Cruzado Plan (1986) in Brazil, the Austrál (1985) in Argentina, and the Inti Plan (1985) in Peru, established “new currency emissions as a symbol of policy change and to fight the expectation of inflation.” Today Cuba has done something comparable by creating the “convertible peso” and establishing currency exchange houses as part of a larger financial and banking reform at the end of October, under the name of Casas de Cambio S.A. (“Exchange Houses” 1995). The official exchange rate was established at 25 to 30 pesos to the dollar. In the black market the peso has maintained value of 25 pesos to the dollar since September 1995, “following the sudden strengthening of the peso prompted by the unex-
plained availability of dollars in the black market” (“Exchange Houses” 1995). However, according to Francisco Soberón, president of the National Bank of Cuba, “the official rate of one peso to the dollar will continue to exist for international trade, government to government operations and other bookkeeping purposes” (“Exchange Houses” 1995). The Cuban government seems not too supportive about the idea of devaluing the national currency (“Budget Deficit” 1995).

**Taxation**

The Cuban government has increased taxes and in June 1995, established an agency to collect tax revenue similar to the Internal Revenue Service, the Oficina Nacional de Administración Tributaria (National Office for Tax Administration). These reforms have been in line with traditional IMF and WB adjustment programs in Third World countries.

In August 1995, a new income tax law was approved, imposing income taxes on all hard currency earners (10 - 50 percent) beginning on January 1, 1996. In addition, the Ministry of Finance and Prices has said that the establishment of a “progressive peso income tax on the self-employed would be announced before the end of 1996” (US-Cuba Trade Council 1995a, p. 3). Cubans already pay admissions fees to sport events, cultural activities, transportation, and recreational activities, activities which used to be free to consumers as they were subsidized by the state. Additionally, corporate taxes were implemented throughout 1995: 14 percent tax on employers for social security, 25 percent tax on gross payroll, 35 percent on foreign companies (Quijano 1995). Furthermore, there is a present debate on the creation of a sales tax (Quijano 1995).

The increase in taxes and the creation of a national tax agency not only will increase government income by collecting hard currency, reduce the excess of pesos in circulation, and help decrease the government deficit, but the tax should also aid in controlling inflation in order to stimulate economic growth. On the other hand, if the increase in taxes is directed towards the self-employed, as it seems to be, then the emerging and struggling “working” and entrepreneurial sectors of the population could be severely harmed.

**Import Substitution**

Other structural adjustment policies implemented by the Cuban government to cope with the economic depression of the 1990s are either original or have been used before with some success. Import substitution, a by-product of the lack of imports and necessary input during the present economic crisis, promoted the use of alternate fuel resources, the use of oxen to replace tractors in agriculture, and the use of bio-agriculture. Import substitution rapidly increased in every day activities from cooking to personal hygiene. For example, many Cubans citizens began to marinate and cook grapefruit peel as a substitute to beefsteak, and to raise pigs, chicken, cattle, goats, rabbits and other animals for consumption.

While this may be good for the environment, the import substitution “a la cubana,” however, is perhaps the saddest outcome of the Castro regime. An island that pre-1958 enjoyed one of the highest standards of living in the developing world is now suffering badly for lack of food production. The island’s per capita daily food consumption before the Revolution surpassed 2,680 calories per person, third place in Latin America and only preceded by Argentina and Uruguay (Molina 1995, p. 259).

Although positive in terms of reducing imports, stimulating self sufficiency instead of state and foreign dependency, and even improving the environment in some areas, this awkward import substitution as positive as some academics have, it has created serious problems like the misuse of natural resources. With the reduction of fuel imports by 60 percent (Rivero 1994), Cubans increasingly turned to wood as cooking fuel. As a result, many trees have been cut and deforestation has significantly increased. Deforestation not only destroys the ecological environment and increases global warming, but it prevents the trees from holding part of the rain which now falls completely into the ground inducing floods and decreasing soil fertility.

This “cubano” style import substitution, has stimulated the use of alternate fuel resources produced
with cattle and agriculture manure (bio gas), alcohol produced from sugar cane, and solar and hydroelectric energy production (Barquín 1995a). Still, how positive is this outcome for an island that pre-1958 enjoyed abundance of imported oil to produce energy?

CONCLUSION
Even though the economic picture that the Cuban government conveys may be brighter than reality, Cuba may have started a process of economic reform and recuperation.

- According to Vice President Carlos Lage, the economy grew by 0.7 percent in 1994 and over 2.5 percent in 1995. Further, according to National Bank of Cuba’s President Francisco Soberón, the economic growth for 1996 should surpass 7 percent (US-Cuba Trade Council 1995a, p. 3).

- International reserves have increased by more than 50 percent since 1992; and the fiscal deficit has been reduced from 5 billion pesos in 1993 to 1.4 billion in 1994—a reduction of more than 60 percent, to 5 percent of the Gross Domestic Product (GDP), compared to 33 percent a year earlier (“Economic Indicators” 1995).

- According to Foreign Trade Minister Ricardo Cabrisas, exports increased by 18 percent in 1994 (“International Trade” 1995).

- Industrial production has slightly increased and import substitution has been successful in some areas. Tariffs have been reduced in trading activities conducted by quasi-government agencies, joint-ventures and private foreign enterprises.

- Production in the agriculture, mining, tobacco, and sugar industries has increased; and tourism has experienced significant growth in the last five years (“Economic Indicators” 1995).

Perhaps the most important trend is the aggressive encouragement of trade in the export economy and entry of capital through foreign investment. However, the changes in the rigid control on interest rates and capital markets has been minimal, domestic investment is restricted, and further liberalization of trade is needed. Hence, more economic reforms are needed; but they need to be implemented gradually in order to prevent the collapse of the government during the restructuring process.

According to Cardoso and Helwege (1995, p. 177), the implementation of economic stabilization programs can be more successful in authoritarian regimes, because of their tight control on domestic policies. Based on their recommendations for structural reform and stabilization (Cardoso and Helwege 1995, p. 200), the Cuban government should move towards a “gradual stabilization, more realistic exchange rates, and promote export production and import substitution (in industry and agriculture).” These are the policies that the Cuban government has pursued in recent years.

The Cuban government has been implementing orthodox structural adjustment programs a lâ IMF and WB which attempt to improve the economic indicators and reestablish the balance of payments to service the foreign debt. By servicing the foreign debt the Cuban government would attempt to gain some credibility with the IMF, WB, the Inter-American Development Bank, the Club of Paris and the London Club, institutions that could assist Cuba in its reform process. Furthermore, smaller banks and individual creditors would increase their activities in the island once the IMF and WB were involved in Cuba, increasing the availability of financial resources to the Cuban economy. Admission into the IMF and WB may be the objective of the soft line on economic reform and hard line on politics that the Cuban government has adopted.
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