

# SECOND ECONOMY, SECOND SOCIETY, AND POLITICAL CONTROL IN CUBA: PERSPECTIVES FROM NETWORK AND INSTITUTIONAL ECONOMICS

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While economic liberalization movements in Latin America have much in common, national policies often take distinctive forms. Even Cuba has found it necessary to take a number of market-oriented steps to address the economic crisis ushered in by the loss of Soviet economic support after 1989. At issue in this regard are patterns of interaction among market liberalization policies, along with specification of the institutional sources and effects of policy. On the basis of network economics, it will be suggested that incipient institutional change may be found in the development of entrepreneurial, managerial, and interorganizational networks.

Cuba's *sui generis* liberalization policies are tentative, opportunistic, and tactical in nature, consistent with earlier market experiments. Economic policy is conditioned by an overriding propensity toward political control. Cuba's response to the end of Soviet subsidies is one instance, involving stricter rationing of food and consumer goods to curtail demand, diversification and expansion of exports, expansion of tourism, and strategic efforts to bolster the nation's international relations.

Notwithstanding these efforts, during the first three years of the so-called "special period" there was a 40 percent drop in the gross domestic product, 70 percent drop in industrial and agricultural capacity, and 60 percent decline in domestic consumption. Beginning in 1993, the government undertook additional liberalization measures, legalizing certain kinds of

foreign investment and private microenterprise as well as legalizing the dollar. It thus sought to balance diverse aims on a fulcrum of political control: to create demand abroad for Cuban products, and generally to obtain hard currency, while attending to growing domestic demand that far outstrips rationing. Cuba has thus approached market liberalization in the nineties as it did in the early eighties, with contingent policies always subject to modification for political reasons.

## CUBA'S SECOND ECONOMY

Cuba's distribution system for foodstuffs and essential consumer goods consists of the old rationing system complemented by alternative markets (farmers' markets and government-run "parallel" markets) and a fast-growing "informal" sector which accounts for a rapidly increasing share of domestic production and consumption (Betancourt, 1992). In addition to the state-run "first economy" and the newly-established, market-based "second" economy (joint ventures, foreign investment), there is a partially legalized informal economy. There is therefore significant development of market mechanisms and incentive structures (Pastor and Zimbalist, 1995).

As Jorge Pérez-López argues, participation in informal or second economy activities has come to the fore during the post-Soviet transition (Pérez-López, 1995b). He describes the difficult balancing act that the legalization of private or "own account" economic activities represents for citizens and the govern-

ment alike. Own-account activities range from the most common type, services—cook, taxi driver, mechanic, electrician, produce seller, small restaurateur (running small restaurants out of private homes)—to production, of beef, agricultural products, and small-scale manufactures. Restrictions include requirements for vendor registration and an often-flouted prohibition against hiring salaried employees who are not close relatives. Other strictures affect university-trained professionals, who were at first totally excluded from selling services but more recently have been allowed to do so if these lie outside their area of university training. Still excluded from self-employment are public officials, members of the armed forces, judges, prosecutors, and others holding a public charge. A related issue is the deprofessionalization of traditional professions as state compensation falls far behind remuneration in private commerce. And while new registration and taxation requirements seem onerous to Cubans, the number engaged in private economic activity of all kinds exceeds a million.

Ironically, the coupling of limited liberalization with efforts at close regulation has only underscored the institutional limits of state control. Mesa-Lago raises the issue rhetorically:

. . . Is the state capable of executing the legal dispositions and regulations that have been approved? Can the government really act against the hundreds of thousands who work on their own without registering? How many inspectors would be needed to control the hundreds of thousands of mini-businesses which very often do not have a fixed locale but operate as temporary mobile vendors? How can the hiring of salaried employees who are not family members be avoided? What exactly constitute “excessive” earnings and prices? To what extent is the vagueness of these formulations a weapon that the government is ready to use against own-account work, in case the process escapes its control? The answer given by a Cuban economist to all these queries was: the leadership knows that the law is unenforceable; these restrictions are established for ideological reasons, to give the impression that the State is still in control of the economy and to let those who are excluded from own-account work that these activities occur within a severely limited framework and that those operating

there are obligated to turn over a part of their profits to society (Mesa-Lago, 1995, p. 69).

Service workers in tourist resorts—whose names are drawn from Party lists—are closely monitored to ensure they turn over at least 40 percent of dollar tips to management for pesos, an often futile effort at surveillance. Under current law (decree No. 50), the government contracts with joint ventures to hire workers at an average monthly remuneration of U.S. \$400 in hard currency. This goes to the state, which in turn pays workers an average of 250 pesos per month—U.S. \$20 at current exchange rates of twenty pesos per dollar. Many justify underreporting of earnings by recalling these confiscatory policies, involving retention by government of some nine-tenths of wages in the tourism/foreign investment sector.

One concern about the informal sector found in the empirical literature is that the greater level of illegal activity, the more people are prone to combine legal with illegal forms of activity, so that flouting of law becomes ubiquitous, undermining civil society (Wolfsfeld, et al., 1994). Likewise, Mesa-Lago (1995) suggests that in Cuba significant informal sector growth arising from looser regulation would prompt more illegal activity, as economic linkages proliferate and incentives for theft from the state multiply. Kummels (1995) describes patronage networks in the Cuban economy and the way they come to involve almost everyone:

Despite the external differences between defenders of socialism and of capitalism, in daily life . . . there is a close cooperation between [them] . . . Those who are not socialists depend on the cooperation of Party militants to obtain lucrative jobs in meat or sausage plants, in the tourist network or in diplomatic circles. These positions are advantageous because of the possibility of access to hard currency, beef, rum, or other goods, which can later sustain black market activity. Furthermore, the non-socialists need the protection of the militants for their illegal businesses. Only with their help can they obtain and produce the goods which the central administration cannot make available to the public, at least in sufficient quantities. For their part, the declared socialists need these tradespeople in order to be able to enjoy illegally-acquired goods with clean hands . . . [I]n daily life, cooperation

between socialists and non-socialists is assured above all by way of family solidarity and the understanding that without the tradespeople the planned economy would long ago have come to an end (p. 136).

Most Cubans, therefore, find it necessary to buy from or sell in the parallel economy, access to which depends on cross-cutting familial and social networks that span political boundaries. This reality helps explain government's reluctance to police the second economy: The often-revised decrees that regulate it may be little more than a *paean* to revolutionary principles and an effort to mollify those who are unhappy with the turn toward capitalism.

### THE IMPLICATIONS OF INDEPENDENT ECONOMIC ACTIVITY

The implications of independent economic activity are not all salutary for the state. While there could be dramatic productivity growth in an expanded private sector, with growing incomes reducing fiscal pressures on the socialist welfare state, the pluralization of economic activity is seen as an ideological and practical threat in Cuba. Although the informal economy typically serves as an economic outlet and social buffer, in Cuba it acts more as an irritant for a population closely attuned to economic inequalities.

The dollarization of the economy, overvalued peso and scarce consumer goods, unprofitable operation of state enterprises, and orientation of joint ventures toward export, tourism, or other hard-currency-generating activities rather than to domestic needs, combine to make for repressed inflation in the state-run economy and sharply rising prices in the second economy. These tendencies also play into ideological conflicts: A recognition of the problems associated with monetary and pricing policies led during the first years of 1989-93 "special period" to a rift between two factions: technocrats in several ministries with significant peso holdings, who proposed decontrolling prices, ending subsidies, and imposing new taxes, and a losing "populist" faction which wanted the issuance of a new currency under conditions unfavorable for those with peso savings or profits, notably farmers and merchants in the second economy (Valdés, 1995, p.2). In a similar vein, wrangling between *dirigist* and reformist factions has led to the re-

shuffling and renaming of ministries in the guise of restructuring (Mesa-Lago, 1995). While there may be elite consensus about the need for economic change, there is little agreement concerning *means*.

In Cuba as elsewhere, *dollarization* has been in part a response to high inflation, an effort at fixing prices (Melvin and Peiers, 1996), but also a way of releasing hoarded dollars into the economy and encouraging exile remittances, which have consistently exceeded U.S. \$600 million a year. The divergence of prices in the first and second economies shuts out of the parallel economy anyone without dollars, which are typically obtained through remittances from relatives abroad or by access to the tourist industry. Only 15 percent of the population, mostly concentrated in Havana, receives dollar remittances, and relatively few have access to hard-currency generating activities, so that the vast majority of the population is excluded from the dollar economy. This is a situation in which public policy places "a fiscal constraint on a government that follows long-term inflationary macroeconomic policies" (Melvin and Peiers, 1996, p. 10). This occurs in Cuba with the rationing system, radically redistributive pricing and social policies, and the systemic protection of an inconvertible peso. The risk of dollarization, according to Melvin and Peiers (1996, p. 11), is that "the domestic currency will lose its role in providing the major functions of money." In Cuba, the peso is becoming a political currency for price-controlled goods and subsidized services, while the dollar becomes the marketplace alternative.

Thoroughgoing liberalization of the Cuban economy—which would likely presuppose internal political change and the lifting of the U.S. trade embargo—would mean a natural realignment of Cuban trade toward the United States. As much as 80 percent of Cuban exports and imports would shift away from current partners, especially Canada and Japan but also Spain, Germany, and other European countries (Montenegro and Soto, 1996). The Cuban elite does not relish the prospect of a cultural or political repenetration of the country by the United States in the wake of economic *rapprochement*. Contrariwise, were it to relinquish some of its control

over the economy, a growing domestic market would foster Cuba's integration with the world economy as a whole, not just with the United States.

The Cuban government has just begun to permit producers' associations, consumer cooperatives, and quasi-contractual private associations that create small service enterprises. There is also tentative movement toward allowing own-account workers to pool their resources in partnerships, for example to provide services such as auto repair (Valdés, p. 16). Castañeda and Montalván (1994) suggest that it is because of ingrained collectivism and centralism that such microeconomic relations are lacking, while, collaterally, the government is incapable of managing them; as far as foreign investment is concerned, Cuba has moved haltingly and inconsistently, in ways that "avoid and postpone unavoidable and necessary changes" in the structure of economic relations (p. 6)."

### INSTITUTION-BUILDING

Economic reforms introduced in the 1990s may be significant in the Cuban context but are modest in comparison to those instituted by other countries in Latin America, Asia, and Eastern Europe. In Latin America (for example, Peru) the creation of trade associations and pressure groups, along with small-scale financial institutions, has given "informals" significant political leverage and facilitated various kinds of economic integration, notably subcontracting. The Cuban government has looked to China and Vietnam as models of centrally-controlled political and economic change, but it has been unwilling to go as far as these nations in instituting legal and institutional reforms of property relations and contracts. Without settled policies and laws that protect private property and the freedom to contract, entrepreneurial activity and technical innovation in the economy will be stunted. Organizational innovation in the economy—the development of institutional structures that correspond to market demand—will likewise lag, leaving Cuba behind in competitive global markets.

Kelley (1994) finds that it is principally the lack of formal sector employment that generates informal activity, which affects the capital- and labor-intensity

of the economy and complicates distributional issues when demand, productivity, and incomes in the formal and informal sectors diverge. His findings are consistent with the situation in Cuba, where so-called factor productivity—efficiency in the use of financial, technical, and labor inputs—is *higher* in the informal sector than in the economy as a whole, contrary to what is known of informal economies in general. For instance, state-run factories, are grossly overmanned, and either idle or functioning well below capacity (Valdés, 1995, p. 18).

Mead and Morrison (1996) find an inverse relationship between a nation's level of politico-economic institutional development and the scope and type of its informal economic activity, so that large are seen as a sign of institutional insufficiency. Morrison et al. (1994) similarly examine the institutional links of informal enterprises with the suppliers and consumers of goods and services, and they conclude that regulatory constraints and insufficient financing make for diminished institutional capacity as well as fiscal evasion. This underscores the need for public policies that support banking and commercial credit for ordinary citizens and small enterprises. In Cuba, there has been debate about reform of the banking system in this direction, but with great reluctance about reform: One issue has been whether foreign banks should be restricted to dollar (rather than peso) accounts for Cuban nationals (Mesa-Lago, 1995, p. 76).

In a comparative East Asian study, Ranis and Stewart (1994) focus on the relation of economic informality to: (1) the viability and productivity of the agricultural sector; (2) the nature of economic linkages and institutions in the urban formal sector; and (3) type of governmental intervention. They contrast instances of policy success when, as in Taiwan, there is a moderately-sized urban informal sector with significant production and consumption links to the modern economy (such as subcontracting and various forms of vertical integration), along with adequate labor absorption, to instances of policy failure such as the Philippines, where urban informal and traditional subsectors and agriculture have grown in isolation from modernizing elements of the economy. There,

inadequate financing mechanisms and inflationary monetary policies make for excessive labor mobility and a labor surplus.

In Cuba, direct state intervention in the agricultural sector is decreasing, and the quantity and quality of output correspondingly increasing, in newly-established forms of private and cooperative farming, though inputs like chemical fertilizers, fuel, and irrigation equipment are in short supply. In the 1980s, Cuba had institutional mechanisms for centralized administration in agriculture under the System of Management and Planning of the Economy (Meurs, 1992). The creation of cooperatives (Basic Units of Cooperative Production) in former state farms as a substitute mechanism is part of a stated policy of switching to low-input and self-reliant farming. However, the simultaneous creation of military Agricultural Districts may signal the *militarization* of the agricultural sector (Rosset, 1997). In October 1977, the military added to its control of ministerial posts at the head of Communications, Transport, Ports and Merchant Marine, Fishing, Civil Aeronautics, State Reserves, Justice, and Higher Education the portfolio of Sugar Minister (with the appointment of first deputy Armed Forces Minister Rosales del Toro, Raúl Castro's second-in-command and a Politburo member). Some attribute the military's key role in the economy, through top appointments and control of commercial enterprises, to a relatively high level of professionalism and institutional strength. It has also capably conducted policy experiments, with limited tests of initiatives such as the Agricultural District farms before full implementation.

There are over 200 farmers' markets in Cuban cities (more than 30 in Havana alone), providing a fourth of all of the foodstuffs the population consumes. The development of an agricultural economy in which both private and state enterprises (and the military) operate is far more advanced than counterpart markets for small-scale manufactures, craft products, and services in the second economy; in fact, it is the agriculture is making for the "generalization of monetary-mercantile relations" across Cuba Valdés (1995, p. 15). The centrality of this sector has implications for institutional development, as Betancourt (1991)

suggests: (1) because those active at the commercial end of Cuban agriculture tend to have "experience in participation in market exchanges" (p. 15) and are thus poised to adapt to changes in agricultural organization and commerce; and (2) because this sector lends itself to privatization, possibly beginning with provisional grants of secure property rights to farmers and operators of parallel markets, which would allow for continuity in food distribution together with new forms of agricultural enterprise. However, there is still no sign of the kind of market innovation and institutional integration in agriculture that should drive relations between it and other sectors of the economy. What is apparent instead is what economic theory calls *disarticulation*, or weak linkages between economic sectors, and production disparities limiting the growth of markets (Wickrama and Mulford, 1996, p. 378).

With regard to governmental reform or restructuring, Valdés (1995, p. 17) stresses the way that the "State, progressively, has stopped being employer," no longer accounting for 95 percent of all employment, as it did in 1990, but for 80 percent or less for the economically active population of 3.6 million; government rhetoric is no longer concerned with "unemployment" as such but with the "rationalization" of work and "reordering" of the labor force (p. 18), which may simply amount to a tacit acceptance of unemployment. It would not seem too large a step, in light of the regime's apparent willingness to reconsider programmatic positions, to address changes in property rights and the creation of a contract law system in a revised constitutional framework. Following the arguments of Betancourt (1991) and of Alvarez and Puerta (1994), however, such steps would entail fundamental institutional as well as ideological change. Political and economic reforms, according to Pérez-López (1995a), are instead tentative and self-limiting:

Cuba's reforms—legalization and liberalization of self-employment, changes in the agricultural sector that converted state farms into cooperatives, reauthorization of farmers' free markets and artisan markets, some managerial reforms, encouragement of incoming foreign investment—bear a strong resemblance to the (Soviet Union's) *perestroika* program, although

the Cuban reforms fail to include measures that stimulate a domestic private sector, such as those embodied in the Soviet Law on Cooperatives, and [fail to] grant state enterprises freedom to manage their own affairs.[Unlike China] Cuba has not undertaken meaningful price reforms and has not created free economic zones to attract investors (pp. 15-16).

### **CIVIL SOCIETY OR SECOND SOCIETY: PROSPECTS FOR POLITICAL CHANGE**

Today, Latin American political thought stresses the idea of civil society, with emphasis on deliberate institutional change and reform. The argument is that the state should not unduly limit institutional autonomy, nor any options for the creation of a multiplicity of social and economic associations capable of acting in the public arena (Trinidad et al., 1988). Poland, Hungary, and Czechoslovakia “experienced the emergence of [such a] second society even within the framework of authoritarianism,” while in Romania, Bulgaria, and Albania, “where neither economic reforms nor a second, or civil, society quite jelled, the ruling Communist parties [was nonetheless capable of calling] elections amid the regional revolutionary wave of 1989-90 (Pérez-Stable, 1995, p. 1).” The development of a more pluralistic political culture in Cuba, even to these standards, would require fundamental and widespread acceptance of democratic rules, greater respect for differing interests, values, and political views, and a greater trust in the basic fairness and trustworthiness of political and economic institutions. Instead, as Castañeda and Montalván (1994) argue, “[Cuban] civil society is very poorly developed, providing almost no organized counterweight to the pervasive and weighty influence of the state. ... There is no space or tolerance of open (or public) debate, dissent or even disagreement, because the leadership is extremely hostile to public criticism... (p.9).”

John Hall (1995) suggests that the ability of a nation such as Cuba to manage a transition from communism is determined by the state's ability to cooperate with as well as coordinate society—to organize society without resort to despotism—so that in post-communist transitions “more rather than less democracy is needed,” in the sense of incorporation of excluded actors and greater political participation.

Rather than ideological positions favoring either the state or the market, the public and private sectors should be regarded as having unique and complementary capabilities. Master (1997) cautions, however, that *incomplete* and *inconsistent* market reform creates political and economic difficulties beyond the responsive and absorptive capacity of existing institutions.

The Swedish economist Stefan de Vylder (1991), in a study of Cuba, Chile, Nicaragua, and Peru, finds that avowedly progressive social policies, though aimed at combating inequality and mobilizing popular participation, have often worsened income and resource disparities and promoted various forms of corruption. These policies exhibit complex causation: overspending based on “exaggerated optimism” engenders shortages and deficits along with excess demand and a lack of financial and monetary discipline, while an overvaluation of central planning, price controls, subsidies, and redistributive policies, perpetuates demand for government largess and in effect, therefore, strengthens the institutional mechanisms of political control in the economy. In Cuba, the pattern of excess demand and consumer good shortages already noted has led to “spiraling black market prices in spite of widespread price controls and severe rationing of most goods and services” (Castañeda and Montalván, 1994, p. 7). Castañeda and Montalván argue that, rather than satisfy basic needs, the ration system has “stimulate[d] administrative corruption because [of the] widening gap between official prices and market prices” (p. 7).

There is a theoretical countercurrent that rejects the “civil society” thesis in the Cuban case, despite the endemic problems of socialism. Valdés dismisses the argument that a civil society *in opposition* to Cuba's political, economic, and social system should or could appear there. Neither the appearance of dissident groups nor the creation of institutional spaces for independent thought and action (e.g., among academics and research scientists), nor even the reduction in “number and functions of state organizations” and “lateralization” of state power, translate into the creation of a civic space in the liberal sense (p. 4). For Valdés, 1993 is the watershed year in a

transition from a statist and dual economy to a “progressively mixed economy where new sectors are opened, but gradually . . . [a] process which has come to be called the *new socialist market economy*” (p. 6). Progression toward less state control of the economy and more “self-management” (“autogestión”) at the level of the firm, enterprise, or microenterprise, is affecting the state-economy but not the state-society relation. Market forces and values are ever more pervasive, but there is no radical transformation of the revolutionary state in prospect.

That the Cuban leadership seems little concerned with the establishment of reliable procedural and substantive rules for either politics or commerce is consistent with the thesis that a liberal reconstitution is unlikely in Cuba. If nothing else, rectification policies and the fear and uncertainty they create militate against liberalization and liberal-democratic values.

As suggested earlier, in Cuba government restructuring has meant the downsizing and consolidation of certain ministries. The Communist Party has been implementing reductions in personnel in state agencies since 1991, and the loss of what are pejoratively called “functionaries” has resulted in delegation of authority to lower levels of the Party and provincial and municipal governments. Also making for shifts in administrative authority is friction between “new professionals” and Party cadres whose careers owed principally to political considerations. This conflict, which surfaced during the 1986 rectification, is one which the younger officials should win, if only by attrition. It is still often the case, however, that “political credentials govern managerial appointments,” making for “widespread dissatisfaction [among] middle-managers and technicians and demoralization among younger professionals” (Castañeda and Montalván, 1994, p. 10).

Andrej (1996) argues that under “conditions of institutional uncertainty,” what he *calls articulatory managerial networks* can play an important compensatory role. These entail “parallel processes” in the development of managerial and organizational capabilities, and they can serve as the “scaffolding” on which new ideas, outlooks, and behaviors become institutionalized (Gilmore and Krantz, 1991). Network ap-

proaches to institutional analysis suggest that the introduction of multiple, decentralized, interlinked centers of administrative control can create functional substitutes, and potentially the foundations, for new institutions.

Barring a violent transition in Cuba, the enabling condition for the development of administrative capability and organizational autonomy will be the creation of countervailing institutions, or institutional “countercontrol” (Lamal, p. 84). This took place in the Soviet Union by means of new political parties, multicandidate free elections, labor strikes, and public demonstrations led by dissident groups immediately prior to the collapse of the political system. These very undesirable results have strengthened Fidel Castro’s distrust of *perestroika* and rejection of anything like it for Cuba.

#### NETWORKS AS INCIPIENT INSTITUTIONS

It was suggested earlier that the overweening exercise of political control in Cuba has tended to thwart the full development of market structures such as commercial and property law, even to the limited extent that these have taken shape in China and Vietnam. Coupled with American sanctions, this creates a climate of uncertainty that deters investment and entrepreneurial activity. Network analysis is gaining prominence in economics on the premise that it is precisely in circumstances of fundamental uncertainty that enterprises seek strategic alliances, conducting business cooperatively as well as competitively in pursuit of common goals, operating at the conjunction of the organizational and the personal. Such alliances are functionally interdependent, basing their operations on the control of activities, resources, and knowledge. Networks are defined structurally by actual and latent relations, and by their positioning, whether horizontally across firms or vertically. Government can engage in coproduction activities with and otherwise support such networks, if it affords them enough autonomy. The development of autonomous networks in commerce is tantamount to the institutional development of markets.

In a similar vein, managerial networks can develop as managers’ interactions within or across sectors (e.g., tourism, trade, and shipping) settle into predictable,

social-exchange forms of governance or coordination, which gain structural “embeddedness” in the course of complex exchanges under conditions of uncertainty. Network structures are characterized by an institutionality of process rather than hierarchy, particularly in a society and economy of Cuba’s scale, where there is little difference between managerial or inter-firm relations and interpersonal relations. Cuba’s is a relational rather than individualistic culture (Earp, 1996) so that entrepreneurial and managerial nets consist mainly of interpersonal ties and reciprocal exchanges even when the institutions involved are well-developed. Network structures involve an identity-type of relation, i.e., relationships where social status predominates, whether based on school or family ties, social class or political standing, or provenance (e.g., coming from the same town or neighborhood, an important consideration in Cuba). The earlier analysis of Cuba’s second economy similarly found that it is based on cross-cutting family and social networks.

The argument of the network literature is that institutional development based on the increasing embeddedness of process (of social resources and production and commercial transactions) is salutary, on the assumption that network ties reduce transaction costs, noise, friction, and uncertainty in economic activity. Moreover, they do so without resorting to hierarchy or bureaucratic rules, so that process supersedes structure—as tends to be the case with informal economies. Social and human capital then become a function of brokerage activities, as key individuals (managers, entrepreneurs, and other *boundary-spanners*) facilitate transactions on the basis of interpersonal ties, obligations, and tactical alliances. The economic value of networks is a function of their requisite complexity along with traits like flexibility and maneuverability. Networks depend on the ability of some individuals to span institutional gaps (or “holes”) and to connect with other critically-situated individuals in common courses of action.

There are some early signs of the development of more autonomous management practices outside of the state ministries in Cuba, particularly in the liberalization and decentralization of trade relations by

parastatal agencies, and it is here that one might look for prospective managerial networks. While imports and exports were until recently entirely a matter of state control, now any manager of an enterprise producing for export may arrange commercial transactions directly. During a roughly ten-year period (begun with the mid-eighties rectification program) Cuba undertook an intensive process of managerial development, beginning with a three-year collaboration with the United Nations Development Program through an agency called the Unified System for the Selection, Development and Training of State Managers (Brandwayn, 1993). From the ranks of over 14,000 administrators trained during this period, and hundreds of others trained more recently in England, Spain, and elsewhere, have come the managers of the many new types of hybrid enterprise, including the import-export arms of state agencies, joint ventures in tourism, “mixed enterprises” (a foreign partner and a parastatal agency forming a mercantile society), and “risk contract” partnerships—foreign and Cuban investors retaining separate legal identities and assuming risk individually, an arrangement that is becoming common in mining and petroleum (Valdés, 1995, p. 7). In these new kinds of public-private enterprise, managers act as entrepreneurs, avidly seeking commercial associates and investors in Cuba and abroad.

The State Committee for Economic Collaboration (Comité Estatal de Colaboración Económica) assumed major responsibility for foreign investment in 1991 and to that end formed a “Central Negotiating Group” which works with counterpart trading groups in most state ministries (Monreal and Rúa del Llano, 1995, p. 156). Despite the reluctance to abandon centralism that its very existence betrays, this trade and investment mechanism allows managers unprecedented access to the marketing and distribution networks of foreign companies and to “marketing agreements, joint-production agreements and other types of strategic alliance between state enterprises and transnational corporations” (Brandwayn, 1993, p. 368). It is in these defining elements of domestic and international market integration that one might find the basis for institutional development in commerce and trade, following Andrej. Here manag-

ers directly experience the world of commerce with a rare measure of independence, in a setting where productive initiative is rewarded.

Again, however, the development of social and economic institutions of this kind in Cuba is limited by the exercise of state control. There is pendular movement toward and away from the codification of rules, control of information, and political repression. The institutional base for changes in economic and commercial practices is lacking, and a sustaining foundation for essential legal institutions such as contract or property law is missing. As a consequence it is found that the rapid move toward international joint ventures and foreign direct investment has meant improvised rules essentially detached from Cuban civil law.

Nonetheless, new institutional linkages and developments are evident everywhere in Cuba today, notably in trade and commerce, as the following instances in the area of trade and services suggest: (a) there is a rapidly growing transportation and logistical infrastructure, warehousing, and distribution system in Cuba, including maritime facilities and import-export and insurance services; (b) corresponding to the growth of cargo transportation and logistics systems has come growth in customs law and regulation, along with the introduction of tariffs and income taxes (U.S. prohibitions under the trade embargo dictating that vessels docking in Cuban ports may not enter U.S. waters for 180 days already double the cost of shipping, so that taxation seems all the more burdensome to those concerned); (c) free trade zones (FTZs), found throughout Latin America, have come to Cuba on a limited scale, notably with the Villa de Berroa FTZ in Havana and the Santiago de Cuba FTZ; and (d) mining (under Minister of Basic Industry Marcos Portal) has seen the development of 52 risk-contract partnerships with foreign investors, in concert with hundreds of foreign consultants; Cuba produces 10 percent of the world's cobalt, is the third largest nickel producer, and its National Geological Service has made geological mapping along with specialized technical services available to potential investors. Petroleum has recently established 40 joint ventures, including land exploration contracts and offshore risk contract partnerships.

The island's telecommunications system, which until 1993 was a state monopoly under the Ministry of Communications, has been broken up into a series of hybrid enterprises: the national telephone company, EMTELCUBA, found a foreign partner in Grupo Domos, a Mexican holding company, while the CUBACEL cellular telephone company paired with other Mexican investors and Japanese suppliers; notwithstanding the Cuban Democracy Act and the tightening of the U.S. embargo, beginning in 1995 trilateral negotiations among the American and Cuban governments and AT&T resulted in the reactivation of the undersea cable to Cuba and expansion of long-distance service, MCI was licensed to provide direct-dial service via satellite, and other services and companies moved to provide service, among them IDB WorldCom (for telex and telegraph), LDDS Communications (long distance service), WilTel International (construction of fiber-optic lines from Florida), and ItalCable (for a satellite earth station linking Cuban resorts with Ital-Rome). Several of these joint ventures provide for conjoint operations networks among foreign managers and Cuban counterparts.

Negotiations over the expansion of telecommunications and liberalization of access by U.S. and European providers have been the most intensive, sustained, and effective of bilateral talks, engaging both sides in commercial policy determinations apparently unaffected by the United States trade embargo. In this case, it may have been the pragmatic, technical collaboration of a transnational elite network that bridged the great divide of U.S.-Cuba relations.

### **CONCLUSION: ALTERNATIVE PROSPECTS AND THEORETICAL IMPLICATIONS**

The prevalent view of Cuban-American students of the Cuban transition might be the one voiced by economist Antonio Villamil (1993), who argues that, whether through modest or radical change, Cuba will have to move toward a free-market or mixed economy and also toward democracy. Doing so would enable it to involve the United States, Latin America, Europe, and international financial institutions (the World Bank, the Interamerican Development Bank, and the International Monetary Fund in particular)

in national reconstruction. Villamil's argument is that a liberal civic culture is inherently and necessarily prone to generate institutional diversity, autonomy, and capacity, and economic dynamism.

Pérez-Stable (1995) suggests that the overwhelming presence of Fidel Castro has prevented the effective institutionalization of even one-party politics. A measure of the weakness of the Communist Party of Cuba is its inability to "call and win [at least] a first round of elections," as did corresponding parties in countries of Eastern and Central Europe—which, however, could claim a modicum of autonomy in civil society. Pérez-Stable claims to detect the emergence of civil (or what she calls "second") society in Cuba, but not yet its institutional "articulation" or integration (p. 2). In sum, Cuba is lacking today, as much as it ever has under the Revolution, in the political and institutional preconditions for transition to a democratic society.

If there is a general lack of independent institutions in Cuba, there is also an absence of intermediary institutions capable of mediating citizenry relations with the state. Centeno (1995) contends that "the capacity for order will rest on the ability of the FAR [Revolutionary Armed Forces] to maintain some institutional coherence (p. 5)," since the Communist Party cannot be relied upon to maintain the "organizational infrastructure of the state (p. 6)," and since there is neither "organized and institutionalized politics" nor "the symbolic or institutional slack needed to manage the delicate balance of imposing neo-liberal policies while maintaining legitimacy and control (p. 7)." In short, for Centeno and other observers, it might be a Hobson's choice between institutions of state control and some unimaginable domestic crisis or intervention engendering a transition. That "the level of collectivization or socialization of economic activity was more extensive in Cuba than in Eastern Europe" represents an obstacle to a liberal transition, and the "divisions stemming from access to dollars or to nomenklatura privileges" may also represent a significant obstacle (p. 9).

The Cuban nationalist view, which Nelson Valdés (1995) may exemplify, is that the current transition will be worked out in unique Cuban terms on the is-

land, in basic continuity with the Revolution; Valdés believes that even the most spontaneous change, such as the aforementioned appearance of small, informal groups of scientific and academic researchers involved in international collaborative networks, is occurring within revolutionary bounds. The fits and starts of policy initiative and rectification characterizing recent liberalization policies have simply been manifestations of the conflicting imperatives of political reform and control. In Valdés' view, therefore, the cyclical nature of economic policymaking in Cuba is not cause for concern so much as a corollary of pluralism—of a plurality of intersecting and competing interests within the confines of a socialist civil society. The creation of mixed enterprises, joint ventures, and other hybrid forms of commerce, and the rise of managerial, entrepreneurial, and other social networks in the economy, is an indication of a potential for the development of capable institutions, both public and private, in a democratic direction.

What are the theoretical implications of this overview of Cuba's transition? It may be argued that neo-classical economic models are of little value in assessing new institutional forms such as own-account work and hybrid joint ventures. Unlike classical economics, network theory stresses sociocultural issues, like those found in the reorientation of entrepreneurship and management toward the market in Cuba. There, exchange and patronage networks once served to consolidate the institutions of the Revolution, mainly through the incorporation of critics (Linger, 1993). One might now look for so-called *venture-support* networks, mechanisms (common to socialist transitions) which surmount political and institutional barriers, engaging entrepreneurial "outsiders" with political insiders who offer resources and provide logistical support and protection (recall Kumtels 1995).

What is suggested is a research agenda focused on institutional transitions toward the market and emerging proto-institutional networks in Cuba. Network brokers and innovators are interstitial actors poised between existing and emerging institutions, and between present and future sociopolitical and economic systems. Once again, the point at issue is what these

realities and changes portend for Cuba's political transition. The operative assumption is that institutional change and development in the economy in a

liberal direction will have corresponding political effects in Cuba.

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