

# WILL THE VI COMMUNIST PARTY CONGRESS SOLVE CUBA'S ECONOMIC AND SOCIAL PROBLEMS?

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Cuba held the VI Communist Party Congress (PCC) in April 2011 presided by Raúl Castro, after 14 years without holding a Congress. The economic crisis that began in 2008 and was aggravated by the global crisis was a reason for the market-oriented reforms introduced by Raúl in recent years and ratified by the Congress. This article summarizes key economic-social indicators in 2010, Raúl's reforms, and the Congress process of guidelines and agreements. Next it analyzes in detail four key aspects of said reforms and Congress agreements: updating the economic model, granting usufruct rights, dismissing unneeded state employees and creating private jobs, and changing social policy. With respect to each of these aspects, the article identifies innovations and limitations, adjustments made if any, results and ability to solve the country's economic-social problems. The article ends with an exploration of potential causes for the slow and restricted process of change and its perspectives.<sup>1</sup>

## THE ECONOMIC CRISIS PRECEDING THE CONGRESS

Cuba confronted a severe economic crisis in 2008–2011 that, although not reaching the extremes of the 1993–1994 crisis, came quite close (Mesa-Lago and Vidal, 2010; Pérez Villanueva, 2010).<sup>2</sup>

The GDP growth rate increased from 1.4% to 2.1% in 2009–2010, one-third the regional average growth rate and a doubtful statistic: 65% of GDP was generated by services (health, education, management, defense, commerce) that are overvalued and grew by 7%, while only 19% was attributable to physical production, which shrank by 7% (as a result of industrial de-capitalization, the collapse in sugar production and contraction in construction), and 16% to water, gas and electricity, which dwindled by 1%. Gross capital formation decreased for the second consecutive year to 10%, less than half of both the regional average and Cuba's level in 1989 before the first crisis. Inflation grew by 1.4%, still only a quarter of the regional average, although monetary liquidity increased to 42% (twice its level in 1989). The fiscal deficit declined from 5% to 4% as a result of strong budget cuts compared to the regional average of 2.4%.

The external sector had a mixed performance. Exports of goods increased (although still 22% lower than the 1989 level), while imports of goods stagnated, aggravating the severe domestic scarcity of many goods, and the commercial deficit decreased (although it was still 74% higher than the 1989 level). Export of services (payments for Cuban professionals

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2. This section is based on ONE, 2011c, and regional comparisons from ECLAC, 2010. As of the time this volume went to press, official detailed data on national accounts and the external sector for 2010 had not been released by the Oficina Nacional de Estadísticas (ONE).

working abroad—primarily in Venezuela—and tourism) increased, offsetting the commercial goods deficit. The terms of trade fell for the third consecutive year due to an increase in oil and food import prices, the external debt increased to US\$20 billion (tripling the 1989 level), and Cuban dependence on Venezuela grew at the same time that the latter's economy suffered the worst performance in the region.

In the social arena there was a nominal increase in salaries and pensions, but adjusted for inflation they were respectively 73% and 50% below 1989 levels. Infant mortality, at 4.5 per 1,000 live births, was the lowest in the hemisphere after Canada, but maternal mortality was 43 per 100,000 live births (47% higher than in 1989) and housing construction per 1,000 inhabitants declined to half the 1989 ratio. Open unemployment increased from 1.7% to 2.5%, still one of the lowest rates in the world, although this was really 12%, as will be shown later. The population shrank due to the accelerated aging process that aggravated the already high cost of pensions and health care, as well as continuous emigration.

#### **RAUL'S REFORMS, AND CONGRESS GUIDELINES AND AGREEMENTS**

To confront the current crisis as well as the socioeconomic problems accumulated during 50 years of socialism, Raúl announced a set of "structural reforms" on July 26, 2007 that were followed by the broadest and deepest debate in the revolution's history. Between 2008 and March 2010, the government approved several market-oriented reforms, most of them modest but two more profound: (1) granting usufruct rights on idle state lands to persons and entities; and (2) massive dismissal of redundant state workers to be shifted to new-expanded private jobs. The "guidelines" for the VI Congress were published in November 2010 (*Proyecto...*, 2010) and, after a broad national discussion, were submitted in April 2011 to the Congress. The latter modified or added to 68% of the original 291 guidelines, expanding them to 313 agreements (92% in the economic arena and only 8% in the social arena), although most changes were fusions and stylistic corrections with few substantive modifications (*Información...*, 2011). The agreements recognized that previous

measures were insufficient to solve the country's problems, thus the need for more changes. The reforms and agreements are positive but limited, with built-in obstacles and/or disincentives that limit their effectiveness to resolve the cited problems (see Espinosa Chepe, 2011); they will be implemented through laws approved by the National Assembly or through Executive decrees and resolutions.

#### **FOUR KEY ASPECTS OF THE AGREEMENTS**

Space constraints do not allow a comprehensive analysis of all the agreements emerging for the Party Congress. In what follows, four key aspects are discussed. Each of the aspects are described, innovations and limitations/disincentives are noted, and their known effects and adjustments made are evaluated.

##### **"Updating" the Economic Model**

The socialist economic model is not to be changed substantially but rather "updated" to confront existing problems, in a planned and gradual manner. Central planning continues to be the fundamental instrument to direct the economy, although transforming itself and taking into account the market and "non-state" activities (the term "private" is never mentioned in the agreements). Both mechanisms remain under the influence of the plan, financial and administrative controls, and strict regulation. While state enterprises continue to be the principal economic actors, existing forms of private activity and those newly introduced in Raúl's reforms are ratified—foreign investment (in mixed enterprises where the state owns the majority of shares), cooperatives (current agricultural cooperatives and recent ones in production and services), small private farms, usufruct, self-employment, and rental of dwellings—but no new forms are added.

The agreements prescribe higher decentralization in management of state enterprises, with the objective that they be self-financed without fiscal subsidies. State enterprises and cooperatives that fail to meet their obligations and make losses would be liquidated or transferred to private management. With their profits, state enterprises may establish funds for investment and for compensating workers/managers. State enterprises should also have more flexibility to set prices for their output. The agreements also stipu-

late management autonomy in certain cooperatives and permit them to negotiate freely and without intermediaries (a consistent proposal from most Cuban economists) after meeting their commitments to the state. The state should develop wholesale markets to sell materials and rent equipment to the private sector.

Updating the model faces questions and serious limitations. The agreements neither define a “model,” nor specify the degree of participation of and interrelations between the plan and the market,<sup>3</sup> there are contradictions between some agreements, and important gaps remain. Vidal (2011) asks: “The plan is above the market, but up to what point?” Decentralization, self-financing, the closure of unprofitable enterprises, and the creation of stimulus funds were attempted several times during the revolution without success. The “perfecting” of enterprises (*perfeccionamiento empresarial*)—introduced by Raúl in the armed forces but not successfully expanded to the civilian sector—is incorporated into the updating of the economic model, without explaining how it will be meshed with the market and the private sector. “The concentration of property will not be permitted” in the private sphere, according to the agreements; furthermore, cooperative property may not be sold or rented to cooperatives or to private actors, nor may it be used as collateral for loans to finance investments. Central price-fixing is maintained in areas where the state has an “interest in regulation,” while “decentralizing the rest,” but there is no specificity as to which areas fall under each. The guidelines left the possibility open of enterprises to set prices through regulations to be issued in the future that “ensure the country’s interests,” but the agreements eliminated that clause. A “complete revision of the price system” is stipulated without guidelines on how to do so. Foreign investment continues to be subject to previous restrictions, as it is circumscribed to “those activities of interest to the country,” an ill-conceived policy that led to the closing of many en-

terprises with foreign investment in 2002–2009, despite the severe lack of liquidity and desperate need for foreign capital and technology in all economic branches.

Idealistic goals also abound in the agreements: elimination of monetary duality (convertible peso and national peso); recovery of sugar, nickel, tobacco and fishing exporting capacity; reduction in the dependence on imports and eradication of export subsidies. Yet no strategies are even suggested to attain these objectives. There are some suggestions that monetary unification should be preceded by an increase in production and productivity, and that a reduction in the dependence on food imports requires an increase in domestic output. However the reforms and agreements are insufficient to achieve those objectives. Further, the termination of export subsidies requires an integral price reform, which is noted in the agreements but without specificity.

The historical experience and the cited limitations raise serious doubts on the success of the “updating of the model.” Raúl informed that such updating will take at least five years and warned that “what we approve in this congress cannot suffer the same fate of previous ones, in which almost all was forgotten without being fulfilled” (Castro, 2011). Vidal (2011) argues for “change” (instead of “update”) of the model: “If the goal is to perfect what has not worked in decades, then we will never get anywhere. I do not see an important structural change with regard to ... the planning mechanism. More space should be granted to the market... regulating it with indirect penalty and incentive instruments, not [updating] a centralized system that has demonstrated a thousand times to be inefficient inside an outside of Cuba.” The socialist-market model applied in China and Vietnam allows a greater role to the market and the private sector than Cuba and has generated excellent results for decades; if it had been followed in the Island, adapting it to the country’s characteristics, the

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3. In a debate among four social scientists in Havana in 2011, there was a consensus that no model had been developed either during the “Rectification Process” (1986–1990) or the “Special Period” that began in 1991 and, according to the majority, has not yet concluded (Espina et al, 2011).

chances of economic success would have been much greater.

### Granting Usufruct Rights

Cuba imports 80% of foodstuffs consumed domestically at a cost of US\$1.5 billion annually (US\$800 more in 2011), whereas 1.8 of a total of 6.6 million hectares of state land are idle or under-exploited. To increase production and reduce imports, Decree-Law 259 of July 2008 authorized the distribution in usufruct of most of such land to individuals, cooperatives and state entities. In June 2010, Pedro Olivera, Director of the Center for Land Control, reported that one million hectares had been turned over to 110,000 individuals and 1,175 entities. In March 2011, usufruct rights had been granted to 128,000 recipients covering 1.2 million hectares (AP, Havana, 6–27–2010; Reuters, Havana, 3–22–2011). The agreements stipulate the delivery in usufruct of additional state idle land, with the “corresponding legal modifications to “ensure its sustainability,” and allow the usufructuary to take the produce to the market with his/her own means.

Usufruct rights face strong limitations/disincentives that were not relaxed by the agreements. The parcels that have been distributed have a maximum size of 13.4 hectares, typically are covered by a hard-to-remove thorny bush (*marabú*) or have low-yield, and frequently lack access to water, therefore requiring a very a significant effort to prepare and cultivate the terrain. The usufructuaries are banned from constructing a home in the land, which often requires them to travel a considerable distance. The state retains property rights over the land and concedes it to individual usufructuaries only for ten years (20 years to cooperatives and state entities), renewable for another ten if the user meets all obligations. The government assigns to the usufructuary a harvest quota (up to 70% of total production) which must be sold to the state (*acopio*) at a government-set price lower than the market rate (albeit with “faster payment mechanisms”); the original guidelines provided for most prices to be set by supply and demand, but the agreements eliminated that clause and ratified the state's right to determine the *acopio* price. The contract is canceled if the land is not farmed in a “ratio-

nal and sustainable manner” (at the discretion of the government), or the *acopio* target is not met, or for public use or social interest reasons. The law is unclear if, in case of cancellation, the state keeps any improvements made or reimburses the usufructuary for them. Although most usufructuaries lack land-cultivation experience, there is a maximum of two years for them to begin producing and selling to the state, and from the start they must pay three taxes—workforce use and social security, possession and use of the land, and income tax—all of which reduce earnings. Users of this newly-distributed parcels need low-interest credit to buy seeds, fertilizers, tillage and other equipment.

Some of the explained limitations have been mitigated. Raúl promised that “the state will compensate usufructuaries for their investment and improvements” (Castro, 2010). In March 2011, the government approved state banks to grant small loans with an increasing annual interest rate of 3% to 7%, according to the length of the loan, but credit can only be used for production and not to eradicate *marabú* (*Granma*, 12–18–2010 and 3–30–2011; Reuters, Havana, 3–22–2011). It was reported that the government could accept foreign credit to increment agricultural output, but going to a state bank (Banco de Crédito y Comercio) instead of to the usufructuaries (*El Financiero*, 10–11–2010).

After the congress, the President of the National Association of Small Farmers (ANAP) Orlando Lugo (2011) noted flaws and suggested changes. The ten-year contract limit and the state power to cancel the contract are disincentives to production, hence usufruct should be permanent and children of usufructuaries should have hereditary rights. The user should be allowed to build a home at the parcel and get facilities to buy construction materials. Although credits to purchase supplies have been disbursed to 10,000 peasants (not only usufructuaries), this is only 2.5% of the 400,000 members of ANAP, and in 2010 no credits or supplies were given (partly explaining the decline in agricultural production) and there are complaints regarding the high prices and low quality of state-sold goods. Commercialization should not be monopolized by the state (*acopio*) but

allow the direct delivery of produce by peasants to the retail market. Nova (2010) recommends that the usufructuary make his/her own decisions on what to plant, to whom sell and at what price, that the cooperatives have autonomy, that *acopio* be reduced to indispensable levels, and that most production be sold at market prices.

In mid-2010, the Minister of Economy and Planning Marino Murillo expressed his concern regarding the lack of productive usufruct results. Olivera argued that an evaluation of usufruct was premature, since it would take two years to have an impact on output (AP, Havana, 6–27–2010). Yet in 2010, two years after the creation of usufruct, overall agricultural production decreased 3%: 19–27% in tobacco, rice, beans and most fruits; 16–17% in citrus and vegetables, and 0–3% in eggs and tubers; there were only increases of 2% in cattle heads and 5–6% in milk and corn. Preliminary figures for the first quarter of 2011 show a reduction in the area of land cultivated by the private sector, with few exceptions, accompanied by increase in output for most crops relative to the depressed year of 2010 (ONE, 2011a, 2011b, 2011c).

Although solid conclusions will require complete 2011 figures, current information available indicates that usufruct has failed to increase agricultural production (just the opposite has occurred), and the distribution of the rest of idle state land—of lower quality and yield than the land already distributed—under the same conditions, would not help to achieve said objective. In China and Vietnam, like Cuba, the state retained property rights after the agrarian reforms. But in contrast to Cuba, these two countries granted contracts of undefined duration, and gave farmers the freedom to plant what they wanted, to sell the products to whoever they desired, and to set their prices according to supply and demand. The result was an enormous increase in agricultural production, the achievement of food self-sufficiency, and the ability to export excess production. Today, Vietnam is the top rice exporter in the

world and sells to Cuba most of the rice consumed by Cubans.

### **Dismissing Redundant State Employees and Expanding Private Employment<sup>4</sup>**

The official open unemployment rate in 2010 was initially reported as 1.6% and later revised to 2.5% (ONE, 2011a, 2011b). Raúl acknowledged that the state payroll was “inflated” (because of hidden unemployment) and ordered, in a first stage (a six-month period from October 2010 to March 2011), the dismissal of 500,000 redundant employees, equivalent to 9.8% of the labor force in 2010, what would translate into an unemployment rate of 12%. A total of one million workers were to be dismissed by the end of 2011 and 1.8 million by 2014, respectively 20% and 35% of the labor force (author’s calculations based on ONE, 2011c). Such dismissals are necessary to cut government expenditures, raise labor productivity and increase badly depressed wages. To provide employment for those who would lose their government jobs, 250,000 self-employment jobs and a similar number in other private activities (like usufruct farming) would be created.

The PCC agreements introduced some positive elements: approval of 178 self-employed occupations, 21 more than before; authorization to hire employees outside of the family unit (totally banned before) in half of the approved self-employment occupations; possibility of selling goods and services to the state; greater flexibility in renting facilities and assets to the state and individuals; possibility of the Central Bank making small loans to the self-employed to finance the purchase of goods, supplies and equipment; one-year permit to mine small amounts of construction materials; compulsory affiliation to social security pensions (previously voluntary), thus extending protection to a sector expected to grow considerably; and increase in the number of seats in small restaurants (*paladares*) from 12 to 20 (Vidal and Pérez Vilanueva, 2010; *Granma*, 3–30–2011; AFP, Havana, 4–5–2011).

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4. This section is mainly based on Mesa-Lago, 2010b.

Self-employment has had its ups and downs under the revolution: it was initially prohibited, then authorized in the 1980s although later criticized, expanded in the 1990s and subsequently again restricted. The high-water mark of 169,000 self-employment jobs was reached in 2005, 25 years after the initial authorization. Many Cuban and foreign economists had recommended that the state allow self-employment in the economy at large save for a few strategic sectors or occupations, or that it set flexible general categories responsive to changes in demand. Instead, the government took a much narrower approach, approving only 178 narrow occupations in 2010, of which some had some importance (electrician, producer/seller of specific goods, cargo and passenger transporter, translator and interpreter, repairperson), but the great majority artisanal and unskilled (water carrier, shoe shiner, fruit peeler, clown, liquid filler for cigarette lighters, button fabric-liner, animal-cart pusher). Professionals continue to be excluded from self-employment, and many of them will be fired from their posts and be forced to take up unskilled private jobs. Despite Raúl's warning against sex discrimination in the dismissals, there is evidence that is happening (*Diario de Cuba*, Havana, 6–13–2011).

Multiple and burdensome taxes are imposed on the self-employed: an annual work license; 10–40% on earnings according to occupations; 25% for workforce use; social security contribution; and 10% each for sales and use of public services. According to Ministry of Finance and Prices Lina Pedraza (2010), the tax charge averages 30–35%, leaving an average utility of 20–25%. But Ritter (2010, 2011) estimates that the effective tax rate can exceed 100% of net earnings and is higher than that levied on enterprises with foreign capital. Minister Pedraza (2010) stated to the National Assembly that the workforce-use tax will increase in tandem with the number of employees hired, so that there is less profit, to de-stimulate the contracting of more workers and avoid a concentration of wealth.<sup>5</sup> With the taxes paid by the self-

employed, the government expected to increase fiscal revenue by 300% in 2011, but due to the cited restrictions, it killed the goose before it had a chance to lay the golden egg. Murillo (2010) admitted that there had been complaints on the fiscal burden and that the authorities would study them. In January 2011 it was rumored that the government would grant a moratorium or a one-year grace period on self-employment taxes (interviews by the author in Havana).

The self-employed need small credits to acquire supplies, materials, and equipment from the wholesale market. Murillo recognized this necessity and said that it would be resolved “in the coming years” (*Granma*, 9–24–2010). The European Union, Brazil, Spain, and a group of open-minded Cuban-American entrepreneurs in Florida (the Cuba Study Group) have offered nearly US\$20 million in financial assistance and business advice to the self-employed (*El Financiero*, Havana, 10–11–2010). Until now, the government has not publicly revealed whether it has accepted such offers.

At the end of 2010 there were 147,400 self-employed workers, only 3,600 more than in 2009, albeit the program had started on October 1 (ONE, 2011c). Raúl exhorted the party and the government to facilitate self-employment and “not create stigma or prejudice against it” and “modify the current negative views” toward self-employment (Castro, 2010). But on February 28, 2011, he recognized the impossibility of meeting the goal of creating 250,000 self-employed positions, failing to set a deadline to reach such target and only vaguely referring to the five-year plan 2011–2014. In March 2011, when the first goal for the first stage should have been met, 171,000 net self-employed jobs had been created (68% of the goal). Between October 1, 2010 and April 30, 2011, 221,839 licenses had been granted, but 68% of the new self-employed lacked a previous labor relationship, 16% were pensioners and only 16% (35,494) were recent unemployed, furthermore 27,000 had returned their licenses. Official reasons given for the

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5. A congress agreement also prescribes that there should be no accumulation of property, with the goal of avoiding income inequalities.

slow process of dismissals and private-job creation were the resistance of state-enterprise managers, illegal requests of documents and procedures applied to the self-employed and excessive delays to grant sanitary licenses (*Granma*, 2–28–2011, 5–17–2011 and 21–5–2011; *Juventud Rebelde*, 3–19–2011).

In May 2011, after an analysis of dismissals and self-employment, the Council of Ministries approved several adjustments: (1) froze all state jobs and extended the timetable for dismissals without determining the date; (2) allowed the hiring of non-family employees in all 178 authorized occupations; (3) raised the number of chairs in *paladares* from 20 to 50 and stated that state restaurants with low activity might be rented to the self-employed; (4) suspended the work-force use tax in 2011 for those that hire up to five employees and also reduced monthly quotas or taxes with respect to several activities; (5) eliminated the obligation to affiliate and contribute to social security for women age 60 and over and men 65 and over; (6) assigned US\$20 million to sell merchandise to the self-employed, but left for the future the creation of a wholesale market; (7) authorized the self-employed occupation of insurance agent; and (8) granted to dismissed pregnant women who could not get a job, a maternity leave that was previously cancelled after one month (*Granma*, 5–17–2011 and 5–27–2011).

### Changing Social Policy

Before the Congress, Raúl warned the National Assembly that the cost and expansion of social services (51% of the state budget and 31% of GDP in 2010) were unsustainable and therefore they had to be subordinated to increases in production and available fiscal resources, and would be subject to cuts.<sup>7</sup> In 1995 three Cuban economists proposed substituting subsidies to goods and services for subsidies to individuals in need, an approach now accepted by Raúl Castro (2010). Cuba does not publish poverty statistics, but some surveys show that in 2002, before the current crisis, poverty averaged 20% of the urban population and reached up to 40% (Espina, 2011).

The agreements uphold Raúl's policies regarding the elimination of "gratuities" (costly services offered at no cost) and of rationing in "an ordered and gradual manner." The rationing booklet (*libreta*) assigns monthly quotas for foodstuffs sold at prices below cost, but rations are meager and only cover consumption over 7–10 days in the month; the rest of household consumption items must be bought at very high prices in agricultural markets and state hard-currency shops. Rationing was the most debated theme at the congress and opinions ranged from its immediate abolition to strong opposition to its eradication; Raúl asserted that it will not be eliminated at once "without the creation first of the needed conditions" (Castro, 2011). In 2010, several foodstuffs and manufactured goods were removed from the rationing booklet (potatoes, green peas, soap, toothpaste, laundry detergent and cigarettes) and the prices of some goods and services were raised (electricity, gas, water and gasoline). Because rationing is universal, its elimination is justifiable for the upper- and upper-middle income strata, but it is crucial for the poor and low-income population that does not receive foreign remittances. Therefore, it cannot be eliminated without first strengthening social assistance.

Vidal (2011) recommends that social assistance be bolstered rapidly, without delay, otherwise "there would be a very high social cost," thus vulnerable groups should be identified, new mechanisms created and proper personnel trained. One agreement promises to guarantee social assistance to "people that really need it," which if properly targeted, should exclude non-poor beneficiaries and save essential resources. However, agreements also propose to "eliminate benefits that can be financed...by family members" of the beneficiaries. Between 2006–08 and 2010, social assistance expenditures decreased by 39%, the number of beneficiaries by 61%, the elderly with assistance by 51%, and the beneficiaries of social assistance by 67% (author's calculations based on ONE, 2011c). These severe cuts, combined with the gradual elimination of gratuities and rationing, as

6. Author's calculations based on ONE, 2011b.

7. This section is mainly based on Mesa-Lago, 2010c.

well as the agreement that curtails aid to beneficiaries with relatives who can provide support, damage vulnerable groups and weaken the social safety net, essential in the process of structural reform.

Social security pensions are a heavy and growing burden on the economy (7.6% of GDP in 2010) and the state covers the deficit (40% of spending) because contributory revenues are lower than expenses, a problem aggravated by accelerated population aging (the second highest in the region): 17.8% of the population in 2010 was over age 60 and this share will jump to 30.8% in 2030 (Pelález, 2011). To confront this situation, a pension reform in 2008 increased by five years the retirement ages and introduced other changes. One agreement calls for a decrease in the subsidy to pensions through an expansion of contributions paid by state and private workers. Compulsory affiliation and collection of contributions from the self-employed would be additional sources of income (if a substantial increase in their number is achieved), but this would be offset by a drop in employment and contributions from the state sector, where only approximately one fourth of employees contribute and is difficult to extend due to low salaries (Mesa-Lago, 2010a, and estimates based on ONE, 2010b). The pension reform postponed by five years (from 2015 to 2020), the time when there will be more pensioners than new workers in the labor force (Pelález, 2011) and has not significantly reduced the severe deficit of the system. In order to reach a financial balance in 2010, the current contribution of 12% on wages (paid by enterprises) would have had to be raised to 21% and continue to be raised in subsequent years. In April 2011, 198,511 persons had enrolled in the social security scheme, including self-employed that worked prior to the social security system being extended to those jobs (*Granma*, 4–30–2011).

In higher education, the explosion of enrollment under the “Battle of Ideas” launched by Fidel Castro in 2003 (Cuba created 3,150 municipal universities in just two years) generated an enormous increase in enrollment in the humanities, social work, teaching, and medicine, whereas enrollment in the natural sciences and mathematics contracted and increased only

slightly in agricultural sciences and technical disciplines. This provoked a deficit of scientists and agronomists, compromising the future economic development of the country. Despite the increase of the number of graduates in education, low salaries have prompted an exodus to other more lucrative activities and to a scarcity of teachers that the government tried to tackle with “emerging teachers” (youngsters brought from the countryside and hastily trained). The result was a decrease in the quality of teaching and serious deficiencies in basic skills in university entry exams. Raúl corrected some of these problems: closed the inefficient program of social workers (who were used for other tasks), offered incentives to retired teachers to return to the classrooms, toughened entry-exam requirements, restricted excessive registration in non-essential disciplines and tried to increase enrollment in the most important ones (Mesa-Lago, 2010c). The agreements stipulate that enrollment in university disciplines should correspond to economic and social development demands.

With regard to public health, the export of physicians, ophthalmologists, nurses, and other healthcare professionals, especially to Venezuela, has harvested earnings of about US\$5 billion annually, but also created a domestic deficit of those professionals (approximately one-third of all physicians are working abroad). One agreement guarantees that the graduation of medical specialists will meet “the country’s needs and those generated by international commitments.” Enrollment in the medical profession, which rose by 61% in 2005–2010, actually shrunk by 21% in 2010–2011, clearly a challenge to fulfill said agreement. Education expenditures decreased in 2010, mainly because the number of municipal universities was cut by 96% in 2009–2011, and all schools for social workers were shut down (ONE, 2011c).

One of the most important agreements, not included in the original guidelines, is the authorization to buy and sell homes, prohibited since 1960, and which had given rise to a system of “barter” (*permutas*) or exchange of homes of “similar” value, a practice clogged by bureaucratic obstacles and corruption. The agreement does not give any detail on the rules governing buying/selling, and “flexibilizes” rather than

eliminates bartering. It also legitimizes private construction of homes (*de facto* existing for decades) and promises to satisfy the people's demand for construction materials in order to maintain and rehabilitate their dwellings. Murillo (2010) announced the elimination of subsidies on prices of construction materials for home building (e.g., the subsidized price of one cement block was 10% of the regular price) due to the illegal sale of such blocks generating huge profits. This policy is correct from an economic standpoint, but will harm the poor and low-income strata who will not have access to materials sold at prices ten times higher, hence subsidized housing for vulnerable groups should be considered. Said policy could also cause a fall in the building of private homes that already decreased by 19% in 2010, whereas total dwelling construction fell 6% (ONE, 2011c).

Raúl acknowledged that salaries were insufficient to satisfy basic needs, and their real value fell 73% in 1989–2010. The agreements stipulate a gradual raise in salaries, but subordinated to significant increases in production and productivity, which in turn require deeper reforms than those already implemented and approved in the Congress.

### FINAL OBSERVATIONS

At this point in time, the two key structural reforms have not been successful: agricultural output fell despite the granting of usufruct rights and the goals of dismissals of state employees and creation of private jobs were not met. The “updating” of the economic model while maintaining the stubborn predominance of centralization and of state enterprises, after half a century of failed attempts, augur similar failure. Dismissals of state employees, elimination of gratuities and rationing, cuts in social assistance and other services, could provoke a dangerous situation. Raúl's reforms and the Congress agreements are positive and well-oriented, but partial, embedded with obstacles and excessive tax burdens that generate disincentives, and insufficient to solve the socio-economic problems accumulated in 50 years of centralized socialism.

Design flaws in the reforms that led to their failure to accomplish the expected results, analyzed by Cuban

and foreign economists, were not corrected by the agreements, although some problems were acknowledged and future modifications hinted. The key question is: why were these flaws not corrected in the months of debates in which almost 9 million Cubans participated, as well as in the National Assembly, the PCC Central Committee and its Political Bureau, the Executive Committee of the Council of Ministers, and by 1,000 congressional delegates?

After the Congress, the Council of Ministries made some adjustments, particularly to self-employment activities, but without addressing the structural flaws. Raúl first announced a PCC National Conference aimed at determining the role of the Party and its relationship with the government in the second half of 2011, and then postponed it until the end of January 2012 (Castro, 2011). The National Assembly regularly meets only in June and December but did not do so in June 2011, despite the substantial legal work needed to implement the agreements (*Granma*, 1–30 June 2011).

The effectiveness of the reforms/agreements is blocked by mutually exclusive or contradictory objectives. On the one hand, the needs to increase production and productivity, eliminate excessive state employment and reduce the cost of social services are recognized, as well as the growing role that the market and private sector should play. On the other hand, too much emphasis is placed on central planning, control, regulation, and heavy taxation of the private sector, hence impeding its development. This suggests a conflict in the leadership (as well as at intermediate leadership levels): some in favor of the structural reforms and others reluctant or fearful of them. The result has been a feeble compromise.

In conclusion, the reforms and agreements may achieve modest improvements but, unless they are deepened and the existing contradictions within the leadership solved, they will be unable to tackle the nation's fundamental economic-social problems. Two potential scenarios may be envisaged: a struggle in the leadership to expand and deepen the reforms, or the continuation of the status quo with the risk of a further erosion of the economic and social fabric.

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