

FROM CHAOS TO A SOCIALIST MARKET ECONOMY: A CONTRIBUTION TO THE UNDERSTANDING OF CURRENT CHANGES AND TRENDS IN CUBA

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The final collapse of Cuba's alliance with the former Soviet Union—a process that unfolded between 1979 and 1989—brought the Cuban economy to a complete state of disarray, leading to an unparalleled chaotic set of developments. How to deal with them became crucial and extremely conflicting.

Fidel Castro's strong refusal to give in to demands from various Cuban leaders and academics for significant internal reforms and to similar friendly suggestions from abroad was based, essentially, on a new sort of "holy trinity": reforms would inevitably lead to a loss of control, and if we lose control, we lose power. A sequence of events was there to prove it: first and foremost, the events in Eastern Europe, the Tiananmen Square events (1989), and the collapse of the Soviet Union (1989–1991) along with domestic events such as the early warnings represented by the Mariel boatlift (1980), MGR (Navy)-Cuza case (1988), Ochoa-Abrantes case (1989), the social clashes at Cojímar and Regla (1992), followed by what is known as the Maleconazo and the "balseros" (rafters) crisis, both in 1994.

Instead of a comprehensive and orderly redesign of the system—following, for example, the experiences of FAR's *Perfeccionamiento Empresarial*—Fidel Castro resorted to a number of tactical moves known to all of us, such as massive public spending, increased subsidies, default of Cuba's foreign debt, temporary free circulation of the U.S. dollar, dual currency system, promotion of the tourism industry, a growing role for remittances, a limited space for

foreign investments, extremely limited approaches to issues such as a new banking system, "finqueros," co-operatives, self-employment, and other initiatives. In essence, it was a lot of patch-work guided by two basic notions: scaffolding the crumbling system and sheer survival.

At this particular moment, society was faced with staggering shortages and needs, and regardless of the fact that most Cubans were demanding major changes aimed at surmounting the crisis and improving their precarious livelihood and despite the threats of social and political tensions, Fidel Castro persisted in maintaining such a course of action. Finally, at the National Assembly, in 1995, he stated that the time had come to put an end to the idea of more reforms.

Scaffolding the crumbling system proved to be a useless attempt. A growing set of chaotic developments went from bad to worse: monumental inflation, acute financial instability, bloated exchange rates, prolonged default of its international obligations to foreign creditors, lack of international credit, very few investments, extreme shortages in every area, bankruptcy and collapse of most of the existing industries and services, followed by more unemployment and increased rates of poverty. Yet the system did not collapse and managed to survive.

A quarter of century later—and despite whatever criticisms and objections we may have about Fidel Castro's handling of its most complex crisis—the Cuban leadership, now under Raúl Castro, and in close consultation with his brother Fidel, remains

very much in power and faces no significant challenges from its local opposition or the United States, and is currently engaged in an encompassing process of reforms and changes that entail a complete redesign of the economic, social, cultural, institutional, and political foundations of the Cuban experience, something that many in Cuba still believe should, and could, have been adopted since the late 1980s.

ECONOMIC CHANGES

Agriculture

Close to 1.5 million hectares of land have been granted in usufruct (Decreto-Ley 259/Decreto-Ley 282) to private farmers (“finqueros”) and to different types of cooperatives, with more than 70% of this land already under cultivation (produce, rice, sugarcane, coffee, and tobacco), animal husbandry, cattle raising, production of timber, and other activities. Terms of usufruct will be extended from 10 years to 30, including family inheritance rights but without fragmentation. The consensus seems to be that the land will eventually become family/private property sooner rather than later. The best individual performers are being rewarded with additional land concessions (from 13.45 to 40.26 hectares). Permission has been granted for the construction of homes and other shelters on the allotted land. The ability to market products grown on this land to the tourist industry, directly to hotels, resorts, and restaurants, without any sort of state mediation, is another major incentive.

The forced government procurement mechanism—the much hated ACOPIO—is being downsized and increasingly replaced by free market relations regarding the products that can be grown on the land, to whom products can be sold, and prices. The government is also increasing support to farmers in the form of new lines of credit and loans, tax reductions, as well as expanded supplies for the special needs of farmers (farm tools, equipment, seeds, fuel, etc.).

State farms are rapidly disappearing, either because they have been broken down into cooperatives or because they have transformed themselves into cooperatives known as “integrales.” The UBPCs (Unidades Básicas de Producción Agropecuaria), which held almost 50% of the most productive land when they

were organized in 1993, are moving from a very restricted framework of state regulation to a new legal framework of property and organizational setting, closer to family/private cooperatives, where the family farms (“fincas”) become the basic unit of the new type of cooperatives. Members can set up small, individual outlets to sell their output or sell it through the existing free markets. Many private farmers (“finqueros”) and cooperative members are among the wealthiest within an expanding wealthy sector. Some of the more visible evidence of this new wealth are two-story houses, with garages, bought or built in towns nearby farms, cities, and beaches; ownership of different vehicles, including automobiles and trucks; holiday vacations in Varadero or in other tourist resorts; and homes fully equipped with a range of home appliances and electronic devices. These newly wealthy have been investing in restaurants, trucks and cars, construction, and money lending; they also own a large percentage of the savings accounts in the Cuban banking system.

Services

Turning over hundreds of services to individuals, families, and coops (barbershops, beauty parlors, restaurants, repair shops, garage services, and many others) has been another major change in government reforms.

Major public transportation services connecting towns, cities, and provinces are currently in private hands, by individuals operating cars and trucks they own, or by small companies owning three, five or six vehicles. These transportation services providers are making thousands of pesos a day. The adoption of Decree-Law 292 (permitting the sale of vehicles) has given rise to thousands of transactions involving vehicles, many of which are being bought in order to expand private options in the transportation and cargo sectors.

Significant private services can also be found in the tourist industry. Approximately 30% of rooms, apartments and houses rented involve private hands (in towns and small cities in the countryside percentages are much higher), providing “bread and breakfast” (B&B) facilities (lunch and dinner are optional). Foreigners who have bought new apartments

from government real-estate projects have the right to subcontract their property. The owners of real estate rentals have high incomes and can afford to travel abroad and even have bank accounts in foreign countries. With the approval of Decree-Law 288, the housing sector has become part of the expanding market relations and thousands of apartments, houses, and even mansions are being sold at very high prices, from 50,000 to 250,000, 500,000, 700,000 CUC and even more. An important indicator of this emerging real estate market is the number of people who are hurrying to register their homes. Having an official property deed was completely irrelevant in the past, but now things are changing rapidly. Tens of thousands have registered before and after the housing legislation. Before 2010, only 92,500 families had registered their homes (at the time, 70% of Cubans had not registered their homes), but in 2011 alone 140,000 did so; in the first quarter of 2012, 133,000 had already registered their homes. Property rights are becoming extremely important.

The size of the *paladares* (private restaurants) is another clear indicator of the pace of reforms. Starting with a ceiling of 12 seats in the mid 1990s, currently the limit has gone up to 50 seats. The number of *paladares* has multiplied by the hundreds, not only in major cities but in small towns and along important highways. The B&Bs and the *paladares* represent a serious, and very healthy, competition to the state sector in terms of quality services, productivity, and prices, and at the same time, are a major source of highly rewarding employment (providing access to foreign currency and CUC). A B&B provides, on average, from 4 to 6 jobs; a small *paladar* will provide jobs for some 12 to 15 people. Private hiring has no limits anymore and salaries, and tips, are not subject to regulations of any sort.

Registered “cuentapropistas” (self-employed) are close to 400,000, involved in all kinds of trades, from service providers in small cafeterias, to plumbers, electricians, carpenters, construction workers, mechanics, various types of handymen, and all sorts of street vendors and peddlers. According to unofficial estimates for every registered “cuentapropista,” there are 3 that have not registered yet due to one of the

following reasons: (a) waiting to see if he/she is successful in managing the trade or business that is being started; (b) gauging if the new business is going to be sufficiently profitable; and (c) lack of trust in government policies, fearing that at some point there might be some sort of reversal of policies as happened in the past.

Small businesses (which are very different from “cuentapropistas”) in the form of start-ups are flourishing everywhere and in every field. Examples are many: making furniture (doors and windows included), fences (one of the main urbanization features nowadays), mattresses, shoes, clothing, leather bags, luxury items like jewelry and sculptures, construction companies/coops, and production of many other commodities, including religious items, and services such as gyms and wedding planners. Some small business owners have become already extremely wealthy by Cuban standards, such as those engaged in furniture and fence-making, construction, and artisans. The latter have already achieved one important goal: to get organized and build their own artisans guild, the Asociación Cubana de Artesanos (ACA), a bargaining instrument and an influential tool in negotiating with Cuban authorities, an important turning point in an expanding civil society.

If commercial advertising is an important indicator of a growing economy, then this is a major fact in Cuba’s current developments. Brochures, pamphlets, fliers, cards, signs and billboards, videos, magazines, websites in the Internet (and the infrastructure and material resources behind them), are broadly present in major cities, small towns, the countryside, and even along highways. State-sponsored tourism journals and even the telephone Yellow-Pages are devoting growing space to the “sector no-estatal” (non-state sector).

Specialized courses in marketing techniques, finance, business administration, the foundations of small and medium size businesses (PYMES), promotion of cooperatives in industrial/urban economies, and others areas of expertise, are already incorporated into the curriculum and postgraduate courses in higher education and at various levels of Party and Government training institutions. Retooling cadres and ex-

perts has become a high priority. Foreign experts are frequently invited as lecturers by various universities and other government institutions. The Catholic Church is also engaged in similar activities. Books on the above topics and on the promotion of PYMES are being sold by state institutions while research centers and various publications, including *Temas*, are fully committed to critical discussions and dissemination of them.

The Banking System

After a major reform in the mid-1990s to be able to meet and serve a market socialist economy, the banking system faced an awkward situation: it had been completely redesigned to serve market principles and techniques which, at that time, were minimal. In 2011, through Decree-Law 289, the banking system was finally given the powers to accomplish its goal regarding a socialist market economy facing a new reality: the socialist market economy was now a very tangible reality, still unfolding and expanding.

From two simple functions before the 1990s—personal savings and payments—Cuba's banking system today encompasses practically all the functions of any banking system in a market economy, from lines of credit to mortgages, from individual accounts to plastic money. The breadth of activities is clear from a brief review of Decree-Law 289. The number one priority of the banking system is to support all kinds of private ventures, from small businesses to “cuentapropistas,” to businesses and/or families in need of funds to finance major repairs.

In addition, it should be highlighted that at present there is also an important group of individuals engaged in a very profitable “private” banking activity: money lending. These private lenders are ready to provide funds to start up a business.

Pending Issues

Alongside these promising developments, several other issues are still waiting for crucial definition, policy development, creation of institutional arrangements. They include:

1. First and foremost, what to do with the state-owned industries and services providers that have been operating at a loss for more than 20 or even 30 years and that have survived because of state

subsidies. The Cuban economy consisted of some 3,700 economic units (industries, services, and others). Fewer than 900 met the standards of production, productivity, profits, and management set out by the FAR-inspired Perfeccionamiento Empresarial; the rest were not even close and—again and again—it was acknowledged that the state could not go on subsidizing unviable businesses. The *Lineamientos* (Guidelines) adopted at the VI Party Congress (in 2011) have stressed that such cases are absolutely incompatible with a healthy economy and that the only solution would be to close them down, although this has not been reported as happening yet.

2. How to deal with this challenge is a major headache and no specific policies have been announced by Cuban authorities. Many in Cuba suggest that such industries and services providers should become cooperatives; others, point at fire sales to promote PYMES; yet others insist that many of the former should be closed down because there is no way to save them or “retool” their industrial profiles.
3. Assuming either cooperatives and/or PYMES should take over such industries and services providers, a recurring challenge is how would they function in terms of the raw materials, tools, spare parts, equipment, fuel or machinery they might need? Will they have access to wholesale stores and warehouses to buy the necessary supplies, as it is being done with private/cooperative farmers? Even more, will they have access to imports and be able to engage in exports, including its financial implications? No definitions or policies have been announced or discussed publicly, and the whole issue remains one of the complex challenges currently faced by the reform process in Cuba. Meanwhile, most of such needs and supplies are subject to an enormous host of black-marketeering.
4. Equally challenging, complex, and still lacking clear-cut policies, time-table, and decisions, is the issue of the dual currency system and its multiple implications. This issue continues to be a subject of considerable debate as to how and

when the current system should be replaced by a single-currency system. Discussions have brought up two recurrent lines of argument: first, tackling the dual currency issue demands as a prerequisite levels of production and productivity throughout the economy that currently are still very far away from being achieved; and second, establishing a rate of exchange for commercial and family needs is by no means less complex, and sooner or later includes not just increased reserves and credibility, but also Cuba's reinsertion in the international monetary system and some degree of settlement of U.S. and Cuban claims over property. And so far, every Cuban official or academician discussing this issue sees neither easy nor short term solutions. It is precisely in this context that the Feinberg Report (Brookings Institution) is extremely relevant and explains why it was welcomed in numerous quarters of Cuba's academia and government officials.

5. Salary reform, and its two underlying topics of financial stability and individual incentives, is also extremely important and very closely related to the issue of the currency, production and productivity. A debate as to what should come first—the salary reform or significant increments in production and productivity—has been going on for years. Although there might be some middle ground, without increasing production and productivity, implementing huge incentives would lead to a new wave of inflation and worthless paper money without real results.
6. Although the concept of PYMES has been used frequently used in this paper, until now there is no “official” recognition of it in approved or pending legislation or regulations, which does not mean that they do not already exist and play a role in the new modeling of Cuba's socialist market economy. Yet it is an overwhelming consensus that the current reform/changes in policies in Cuba will have to adopt and promote the concept and multiple implications of the PYMES. Among the leadership and in academia there is absolute certainty that PYMES will be a key component of the new redesign. Debates,

workshops, literature, recommendations, papers regarding its nature, characteristics, and potential roles can be found throughout universities, research centers, and publications.

7. Recently, in April and May, two important official statements were made. First, Vice President Marino Murillo announced that cooperatives in the urban/industrial/services economy would now receive support and a boost from the government (a first step toward PYMES?). And Vice President Esteban Lazo pointed out a most crucial trend: 3 to 5 years from now, more than 45% of Cuba's GDP will be generated by the “non-state sector.” These two “official statements” effectively indicate the shaping of important developments in a short term perspective.

The External Sector

“Zonas Especiales de Desarrollo” (ZED) have been designated in or nearby the most important city-port areas of Cuba. These ZEDs are already hosting most of the major investment projects from Venezuela, Canada, Spain, China, Brazil and others. ZEDs follow the pattern of industrial parks, tourist resorts, and other similar arrangements mostly in Asian countries, and currently mining, oil, selected industries and services, tourism facilities with 99-year land-leases such as for marinas and golf courses (Decree-Law 273), and various real estate projects. ZEDs will play a very special role in attracting foreign investments and in reshaping the dynamics of Cuba's economic recovery.

A new foreign investment law that will replace the 1995 law is in the making—if not already completed—at the time of this writing. To offset the obstacles connected to the U.S. embargo (the recent outcomes on Havana Club and ING Bank are important reminders of how relevant these obstacles) as well as the many blunders made by the Cuban government in trying to attract foreign investors. Very serious efforts will have to be made to attract investments not only as a source of hard currency, new technologies, and markets, but also as an important source of employment under an entirely new set of

rules and regulations that will avoid the obstacles and blunders of the past.

This legislation will have to address, either in the legislation itself or in a separate piece of legislation, the participation by Cubans abroad in reference to investments and property rights, something that was completely omitted by the *Lineamientos*. This is particularly important regarding Cuban-Americans, once a formula is achieved by which they can bypass or overcome the U.S. embargo.

As already mentioned, something that has not been defined yet is the access and interactions of Cuba's new private sector with the external sector, as exporters and importers, as well as suppliers and contractors of foreign investors in Cuba. Whatever is said or done with regard to this relationship will have to provide flexible and rewarding arrangements for the new "non-state sector."

A Different Society

By 2015–2017, 1.8 to 2 million people or even more (close to 50 percent of Cuba's labor force) will not depend for their livelihood on a state job or on a state salary. And just this one fact reveals the true nature, scale, and complexities, of current and future changes in Cuba. Inevitably, such a society will have to reshape, change, adjust, and create a very different economic redesign, as well as a totally different constitutional, institutional, social and political setting in which half or more of its population will be economically independent from the state. And these challenges are not too far ahead.

THE ROLE OF CULTURE AND LEADERSHIP

The developments outlined above point toward a complete redesign of the chaotic Cuban economy along the patterns of a socialist market economy. They also provide the opportunity to examine and discuss some of the most important trends currently unfolding. But at the same time, these reforms and changes in the economic system cannot be separated from two other dimensions—culture and leadership—that are equally important and whose influence on society cannot be separated. Some reflections concerning these two dimensions are imperative in understanding current developments in Cuba.

Culture

Five years ago, in 2007, Cuba witnessed an important national debate. Intellectuals, artists, Party members, officials at various levels, and the political class at large were involved for almost a year in a sort of chain reaction in which Party policies and figures—past and present—were discussed and criticized. As never before, this national debate did not meet any restrictions whatsoever from the top leadership. It was, indeed, a major catharsis about past experiences, but it was also a clear demand on the need to redesign the totality of the system and its future.

The debate went a step beyond and the floor was given to the people in the form of hundreds of thousands of assemblies across the nation. Everyone spoke out criticizing the past, the present, and putting forward ideas and recommendations. What happened here cannot be ignored, dismissed or minimized. It was a turning point, and the Cuban leadership fully acknowledged what was going on. What came after, step by step, measure after measure, law after law, is inextricably connected to that debate; it was a lesson and a clear message to the Cuban leadership.

Culture has become one of the most powerful energizers of the current dynamics of change in Cuba, regardless of Party and Government control and influence over the media, especially the print media. But other channels of culture such as universities, movies, theater, radio programs, art galleries, film festivals, conferences, and workshops, media from the Catholic church, blogs, websites, and other means of communication are pushing forward in support of expanding and accelerating reforms and changes. Such an influential form of media as TV today is largely based on popular programs from U.S. networks and to a lesser extent those from Europe. Programs from China and Vietnam typically celebrate the achievements of their respective economic reforms.

Culture is Cuba's dimension that interacts the most with ideas, experiences, models, influences, and discussions across the world. Culture is a net "importer" of alternatives that represent a strong feedback in shaping or reshaping the articulation of different projects connected to the current reforms and changes, thus becoming a major source of enlightenment.

Culture and its components and key players have been, and will continue to be, a pillar in support of changes and reforms in Cuba.

Leadership

Many may wonder how and when the Cuban leadership—dominated at its highest level by the older generation or “históricos” (meaning participants in the most important episodes of the revolution prior to 1959)—will step aside and promote younger generations and leaders. For the most part, experts have focused almost entirely on Fidel Castro’s leading role, to a lesser extent on Raúl Castro’s, and hardly on other “históricos” or younger leaders. Such emphasis tends to be extremely inaccurate and partial.

Predicting changes inside the Cuban leadership may point to the following tentative observations:

In the absence of any serious challenge to the existing power structure within Cuba or from direct intervention from the United States, the top level of the Cuban leadership will remain stable until Raúl Castro—seeking to set the example of the “10-year term”—steps down five years from now (excluding unforeseeable biological outcomes, such as the recent death of Casas Regueiro). Should his not be around anymore, this decision should be easier to implement and perhaps would be implemented sooner.

From the ranks of the remaining “históricos,” everything points to Ramiro Valdés Menéndez, Politburo member and (second) vice president of the Council of State, to rise in importance in the leadership due to his political credentials, authority, and performance, especially over the last 25 years. This is an overwhelming perception inside Cuba, including among many young technocrats, due to Ramiro’s incredible “retooling” from a military figure to a first class technocrat with ample international experience. In case of an earlier stepping down of Raúl Castro and most probably of Machado Ventura, the most qualified—again, this is the dominant perception—would be Ramiro but, for obvious reasons of age, for the short term.

Concerning the promotion of a younger leadership, the first thing to highlight is that this is not a problem that has not been dealt with. It has been a con-

cern and a well-established policy to address it has been implemented over the last 25 years. A whole new generation that can be described as the post-revolution, or as it was called in the early 1990s, “Generación Intermedia” (Intermediate Generation), consisting of young UJC leaders and cadres (engineers, mathematicians, economists, accountants, doctors, social scientists, and others) in their late 20s and early 30s, and today in the late 40s and mid-50s, form this generation. Some of them were promoted even to the Politburo and top government positions since late 1980s. The names of Luis Orlando Domínguez, Carlos Aldana, Humberto Pérez, Roberto Robaina, Nelson Torres, Victoria Velázquez, Marcos Portal, Juan Carlos Robinson, Carlos Dotres, Orlando Rodríguez Romay, Wilfredo López, Carlos Lage, Felipe Pérez Roque, Pedro Sáez, José Luis Rodríguez, Fernando Remírez Estenoz, Carlos Valenciaga, Jorge Luis Sierra, and others, became rising stars for ten or twenty years until they were dismissed, demoted, or expelled from Party and Government positions, with some of them even losing their Party membership. The reasons for their downfall—one after another, at different stages of their careers—were not for the most part connected to political differences or conflicting issues in economics or foreign policy, but to major policy implementation/administrative blunders, corruption scandals, wrongdoings, and personal misconduct that, in most cases, were fully documented and informed to the membership of the Party and nationwide. Today, all of them are “history,” back to their private lives and professions, some even as “reformed businessmen.”

Some foreign observers saw this as “the end” of the younger generation. Big mistake, showing lack of understanding of Cuban dynamics. Those who got “out-of-the game” were just a few, and what we have today is that more than 90% of Cuba’s power structure (Central Committee, Council of Ministers, provincial Party leaders, and in the leading officers’ corps of FAR/MININT) are from younger generations. A few examples to illustrate the current dynamics of promotion are the following:

Three of them have already been promoted to the Politburo (Miguel Díaz-Canel Bermúdez, 51, much

praised repeatedly by Raúl Castro when he was first secretary of the Party in Villa Clara and Holguín; Marino Murillo Jorge, 51, a technocrat emerging from the ranks of FAR's Perfeccionamiento Empresarial; Mercedes López Acea, 52, Party cadre with very good credentials as Cienfuegos First Secretary); two of them (Díaz-Canel and Murillo) have been promoted to government vice presidents.

Looking at some of the key positions in the Cuban government today, we can see many of them already in the hands of the post-revolution or "Generación Intermedia." Murillo is not only a member of the Politburo and Vice President, but he is also in charge of the extremely important Comisión de Implementación y Desarrollo de los Lineamientos (Guidelines) adopted at the VI Congress of the Party; Díaz-Canel was recently promoted to vice president; Division General Onelio Aguilera Bermúdez, 54, is currently chief of the most powerful army in Cuba (the Eastern Army); Bruno Rodríguez Parrilla, 53, is Minister of Foreign Affairs.

These leadership changes are a clear indication of the decision of the "históricos" to promote the younger generations to replace the older and declining generation. It clearly points out to the standards to be followed for the coming promotion of an additional 20% of new members of the Central Committee and how this will be reflected in the Politburo. It will also be a clear sign that by the time Raúl Castro steps down, many of these new generation representatives may have been promoted to even higher and more important positions in the Party and Government.

The most positive outcome would be for this scenario to take place within the next five years and even better, for some of the younger leaders in their 50s to take over effectively between now and some time before 2020. This younger generation will be the one in charge of leading the second big stage of the complete redesign of the Cuban experience, along the lines of a modernized socialist market economy with all its economic, social, cultural, and political implications.