

## CAN CUBAN RULERS RULE CUBA?

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Many thanks. I am delighted to be here to see again many friends whom I have known for a long time. When I was invited, I looked at my very long list of copies of the proceedings from this association's meetings, realizing that I have been connected to you for such a long time. I was also thrilled that part of the activities of this event has been to honor the work of these excellent students. Make sure to attend the student panel today; the future study of Cuba is in excellent hands. These have been really terrific presentations.

As I was preparing for my remarks today, I re-read some of Ernesto Betancourt's writings. I brought with me what I think was his last book: *Context for Cuban Transition*, published in 2004, and I have organized my remarks around the key themes of that book. To give my talk a title, a title that Ernesto would have understood very well, it is: "Can Cuban Rulers Rule Cuba?" That is an Ernesto Betancourt-question. It's a question that he asked when Fulgencio Batista was in power in the 1950s. It's a question that he continued to ask throughout his life—including in this book. I frame my remarks around the following sentence that combines the insight, the thoughtfulness, the cleverness, and the speculative sides of Ernesto. Published in 2004, it was probably written in 2003: "the cumulative impact of events," he was summarizing, "has eroded Castro's charismatic hold over Cuba, and divided the regime, making the Raúl-succession less feasible."

We now know that his point-prediction was incorrect. The point-prediction is, however, the least important part of this book. Instead, I will try to flush out the elements of an argument implicitly in Ernesto's text. Just as I call to your attention a phrase where Ernesto went wrong, I want to begin by saying that, if Ernesto and I would have been having a conversation in 2003/2004, I would have made an argument that today would also have been wrong.

I am about argue that the Cuban political regime, the Cuban state, and the Cuban government—I'll tell you what I mean by those words as I go along—has weakened systematically over the last 20-odd years. Early in the previous decade, I would not have expected this outcome. I would not have expected that the government would weaken under Raúl Castro's presidency, that is, that there would be a number of government officials who do not implement the decisions that have been made. That is unexpected in a country whose official slogan was for so long: "Comandante en jefe, ordene." These points are consistent as well with events about which Ernesto wrote in his book.

### WEAKENING OF THE POLITICAL REGIME

My first points will be very familiar to you so they will not require long discussion. Cuba's political regime, as we all know, weakened in the early 1990s because of the collapse of the Soviet Union and the collapse of Cuba's internal economy. This group knows this; I'm not going to say more about it. I do

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1. ASCE would like to thank Sjamme van de Voort, ABD, for his work in transcribing this presentation. Professor Domínguez has reviewed the transcription and approved its publication.

want to add, however, two items about this weakening of the political regime. First, the political regime means the rules whereby there is a relationship between the rulers and ruled; the rulers may be authoritarian or democratic. The claim in Ernesto's quotation is that a charismatic ruler had governed Cuba; in his book, Ernesto argued that this basis for rule had weakened. From the perspective of 2012, it may be easy to forget that Fidel Castro really did have a dramatic hold over great many Cubans. Ernesto employed the concept "charismatic legitimacy" in a way that is most useful and important: It is not the characteristics of the individual. It is not how my blow-dried hair—if I had hair to blow-dry—would look like. A charismatic leader is in some fundamental sense a creation of those who want to believe in this leader.

The word 'charisma' has a religious origin. Ernesto argued, and I agree with him, that Fidel did have a "hold" on the commitments of Cubans. This "hold" finally cracked. When it cracked, two important processes began. One was the rise of an organized and sustainable—that second word is particularly important—political opposition. As Ernesto put it in his book: "A dissidence that can be repressed, but not finished." Let me make the same point somewhat differently. Cuba in the 1970s and 1980s had martyrs, that is, people who would stand up in the face of the power of the state, and affirm: "Here I am. I can do no other." From the 1990s on, however, there was a new process, namely, a set of individuals collectively organized, some of whom may die, emigrate, or be arrested, but who are replaced by those whose names we may not yet know today, and who go on to organize political activity in ways that we may not yet understand. That was the key difference: the cracking of the political regime, as Fidel's charismatic hold on Cubans cracked.

A second related process was that many policies that had repressed all forms of organized religion began to be set aside. There began a gradual decomposition of state repressive policies regarding the Roman Catholic church, Afro-Cuban religions, evangelicals, and other forms of religious expression. This change in the relationship between the state and communities

of faith picked up speed during the Raúl Castro presidency. Yet, it is important to remember, today just as before 1959, Cuba has been profoundly and deeply secular. Cuba is not and it has never been Poland.

The last observation regarding change in the political regime pertains to forgone opportunities. At one time years ago, it would have been possible to enact changes to respond in a democratic direction, albeit in a very limited and controlled way, to manage more effectively the politics of the regime. Fidel Castro and his associates chose not to use the more democratic instruments that were then, and remain today, at their disposal. Raúl has not used them either. I'll give you just one example: The Cuban electoral law—not one that I recommend to any other country. The Cuban electoral law mandates multi-candidate municipal elections. This has been the case since the adoption of the 1976 Constitution. These municipal candidates are chosen through tightly controlled processes, but every municipal election, including the one that will take place in October 2012, is multi-candidate. The municipal candidates cannot campaign. At the national level, in contrast, the number of seats equals the number of candidates, and these National Assembly candidates may campaign.

The Cuban government could have retained a single party system with multi-candidate competition at both the municipal and the national levels, and it could have allowed campaigning at both levels. It did not choose to do that; there is no sign that it wants to do so now, but this could still be a way to open up the political regime and to create the possibility for better management of public expectations.

These elections are not silly. National Assembly elections will also take place in early 2013. Consider the results of the National Assembly election of 2008, where the number of candidates equaled the number of seats. Cubans, recall, vote in multi-candidate districts for the National Assembly, that is, the same district may have two seats and two candidates to be elected from the same district. The communist party's orientation or guidance has been to vote for the united or single slate. You should vote for everybody. Therefore, look at the official results and at three kinds of non-conforming behavior. Leave aside peo-

ple who abstain, people who stay home—it is very difficult to decide why people do or do not stay home. Look at those who vote blank, look at those who annul their ballot—they scratch their ballot—and also at those who do not vote for the united or single slate, who thus break with the party's orientation or guidance. Sum those three categories. In the last National Assembly election, 1.1 million Cubans cast a non-conforming vote. In an election with a single party in power, where all media and all forms of national communication are controlled from the top, in an election where there is no competition, 1.1 million people nevertheless cast a non-conforming vote.

These elections do matter. That's why further changes have not been adopted. Such changes to the electoral law remain an option, but they are not likely to occur. The effect of the forgone decisions has been to weaken the political regime because citizens must look for means of political action outside the formal electoral system. This weakening of the political regime has also been marked by the greater freedom for people who choose to exercise their religious beliefs.

### **WEAKENING OF THE STATE**

I turn now to my second topic, the weakening of the state. By the state I mean those who exercise a legitimate monopoly of force. Cuba had been a law-abiding society. That law-abiding society came about not merely from the explicit exercise coercion—some of it of course did—but mainly because citizens chose to be law-abiding. Cuba today remains a fairly low-crime society but no longer law-abiding in other respects. Illegal markets had of course existed for decades but they boomed after 1990. The rise of illegal markets is a clear indicator of a much weaker state. Because the state is weaker, it cannot enforce all of its laws and instead it engages in forbearance. Because officials cannot enforce the law, they do not do so, and in some sense create the conditions to nurture illegality. Illegal markets can only function when some of those in authority—police officers, state security officers, and local government officials—accept them. Illegal markets can only function when those who have the authority to repress them instead tolerate them and often induce them.

State officials allowed capitalism-of-a-sort to be reborn in crime. We can begin to estimate the size of illegal markets. Among the self-employed, Cuban government statistics tell us, two-thirds had had no job before, nor were they pensioners or in retirement. The new self-employment regulations try to bring out into the legal economy those who had been in the illegal markets all along. In that sense, the main advocate of self-employment, of legalizing activities that had been illegal, has been the Ministry of the Interior. State security has better things to do than to chase after people who are trying to sell bananas.

Ernesto Betancourt's argument on this point was important and should not be forgotten. Ernesto argued that this law-abiding characteristic, this support for the rules of the state—because there were the laws of the land—had come about because there was a social fabric to support this dimension of the existing state institutions. Ernesto claimed, I believe correctly, that this social fabric also broke in the 1990s and in the early years of the 2000s. As Ernesto put it, revolutionary rule from the 1960s to the 1990s had fashioned an egalitarian appeal to buttress the social fabric. Egalitarianism had already been a very high value in Cuba before the 1959 revolution. Egalitarianism surely blossomed in the 1960s, and it remained a very important value, broadly shared among Cubans, evident in poems as well as in social science surveys and in the work of anthropologists, in the decades that followed. Today egalitarianism appears in the documents of the sixth party congress, held a little over a year ago, as something to struggle against. Equality of opportunities is OK, says the party congress echoing neo-classical economists; what is really not good, according to the party congress, is the idea of egalitarianism. Yet many Cubans who do support many changes, not only in economic policy but also in many other respects, bemoan the loss of equality. That loss of equality, highlighting Ernesto's important insight, includes a wide variety of elements.

The demonstrable widening of inequality stems from various sources but surely one is the phenomenon is beach tourism. Beach tourism places on display the relative opulence of the tourists from Canada, Western Europe and elsewhere other than the U.S. (Er-

nesto did not make this point about beach tourism; that is my observation. But Ernesto did make the point about the consequences of the breakdown of egalitarianism.) Beach tourism funds the inequality that enables those who work in the tourism sector to become privileged workers, allocated through a labor ministry mechanism that privileges those who belong already in the communist party and the communist youth union. The effects of this visible opulence, the effect of privileging those who are already powerful, the effect of this widening of inequalities tore apart the moral fabric of egalitarianism that had been an important underpinning for the political regime and the state.

Let's make sure you understand what I am arguing and what I am not arguing. I am not saying that beach tourism promotes philosophical discussions when you are not wearing any clothes. That's not the point. The point is that beach tourism is a dramatic external shock to the structure and the moral fabric of the regime. This moral fabric has weakened markedly as a result, and a consequence of that result is to weaken the willingness of citizens to obey the rules of the state.

Under those circumstances, the most obvious opportunities to strengthen the regime and the state would have been to emulate China and Vietnam. Unleash market forces, not because you are enamored of capitalism, but because the economic growth that results, as in China and Vietnam, would strengthen the power of the state and the regime. Such a stronger state and regime would have made it possible for Cuban rulers to rule Cuba. Fidel was not interested in that solution, however.

### **WEAKENING OF THE GOVERNMENT**

I turn now to my third topic, the weakening of the government. At the meeting of the National Assembly held in July 2012, the government reported that one-third of all the new cooperatives were already in violation of the contracts they had signed with some government agency. This is not unprecedented; it is just a new and recent example of a familiar process. With a weaker government, even if President Raúl Castro were interested in unleashing market forces, implementation becomes much more difficult. Con-

sider the inherited extraordinary ideological constraints that still hinder innovation by Raúl Castro's government. Raúl Castro may continue to believe in these ideas himself, or he has allowed colleagues to persuade him that these ideas should govern national policy. I want to illustrate the impact of these ideological constraints on reducing the potential benefits from market-oriented economic policy changes through two examples, namely, self-employment and taxation policies.

Take the manner of authorization for self-employment. The government could have said: "We are deregulating a whole bunch of relatively minor types of economic activities, with the following two or three exceptions." Yet, that is not how it proceeded. I want to call to your attention five points about the manner of the deregulation, which illustrate the government's difficulties in working effectively.

First: it remains amazing that so many of these self-employment activities had been prohibited. Who would care if a dandy were a government employee or a self-employed private person? Second, focus on the micromanagement. By naming each of these activities—this band may play this type of music but not that other type of music, or you can be a *repasador* (tutor) but not a *maestro* (teacher)—this micromanagement signals a government that does not believe that it should truly deregulate. It should not let go. Third, by choosing to proceed in this way, the government creates extraordinary uncertainty because it signals, at one and the same time, not only that you can now engage in this activity but also that the government can take away its authorization. Why would you invest to improve any number of economic activities under those circumstances of uncertainty? Fourth, note that pretty much everything that now has been authorized had already existed illegally. That is why I mentioned a moment ago that state security is one of the principal advocates for economic liberalization. Fifth, the manner of implementation has widened inequality more.

I turn to the second example of the impact of ideological constraints on reducing the benefit of market-oriented economic policy changes. The tax law was just reviewed and revised at the 2012 National As-

sembly meeting, but this particular feature has endured. If you hire six employees, as opposed to five or fewer, your tax bracket goes up. Note that this is not about taxing income where your tax bracket may change. This is not an argument that an economist might make about the various consequences of taxing income. This is a direct tax on the generation of jobs. The explicit rationale, articulated by the Finance Minister at the December 2010 National Assembly session, when the law was adopted, is to prevent the concentration of wealth and the exercise of economic power. Let me remind you again, this is not about income. This is about economic power, penalizing job creation, and preventing owners of small businesses from growing through the addition of employees.

There is a lively debate in Cuba among government officials, academics and others, about the deregulation of employment rules and about better tax policies. The same could be said about ideological constraints that slow down new bank credit. And also about the policies on the use of state land, where one acquires use-rights as opposed to full property rights—*usufructo* in Spanish. The debate thus far has favored those who prefer the ideological constraints. These enduring ideological constraints constitute an important explanation for the limits evident in the changes that have been enacted and therefore for why Cuba's GDP has grown so little. These ideological legacies have hindered Raúl Castro's government in implementing the president's own announced goals.

Turn now to consider some evidence regarding the weakening of the government under Raúl Castro. I find these facts stunning. In 2008, the agricultural laws were changed to authorize the *usufructo*, that is, to authorize private persons to work for themselves on state land, albeit without full property rights. In 2008, there were 2.25 million hectares of idle land. For the most part, this was the legacy of the *de facto* bankruptcy of the sugar industry earlier in that decade, permitting *marabú* weeds to grow instead of using the land for other productive purposes. At the end of 2011—more than three years later—1.25 million hectares were still idle.

Raúl Castro's government has too many officials who chose not to enforce the new regulations that they

should be enforcing. Remember, under Fidel, there were lots of bad rules, but they were surely implemented. The problem under Fidel was not the lack of implementation; the problem had been that there were bad policies. *Usufructo* is not something that I would have done, but *usufructo* is surely better than idle lands full of *marabú*. The *usufructo* policy has not been implemented as Raúl Castro had intended. What he got was—to put it politely—bureaucratic procrastination. To put it perhaps more forcefully, it is the equivalent of a bureaucratic insurgency against the government's decision-makers. This theme of lack of policy implementation explains the extraordinary frustration evident in appears Raúl Castro's speeches, which are much easier to read because they are much shorter than his brother's.

Take another more dramatic example because it became public: government employee dismissals. In the fall 2010, the government announced that it would dismiss 500,000 employees in the next six months. Procrastination, bureaucratic insurgency—choose your preferred word. On the eve of the party congress, it was announced that the government had not been able to dismiss a half million government employees, notwithstanding the public announcement. In fact, after a full twelve-month period, the Cuban government had managed to dismiss only 127,000 government employees. Raúl Castro went on national television to take personal responsibility and to announce the failure of a policy that he had authorized. I respect enormously his willingness to take personal responsibility for a failure. In doing something that Fidel had never done, Raúl was also signaling to Cubans how he was a different president of their country. Yet, the president's inability to get his own government to follow his own decisions is striking.

Turn next to the sixth communist party congress in spring 2011. The program, *lineamientos*, submitted to the party congress differs from the decisions that came out of the party congress. They are not the same. *Lineamiento* number 23 had said that enterprises would set their own prices and could change their own prices: they could raise them, they could lower them. That *lineamiento* was cut. It never made it out of the party congress. *Lineamiento* number 27

had said that cooperatives could sell directly to customers. What came out of the party congress inserted a phrase that said: cooperatives could sell directly to customers but only after they had met all the obligations to sell to state agencies, as determined by the state agencies. The party congress inserted another change, not in the original *lineamientos*, that cooperatives could do sell to customers but only if they did so without relying on commercial intermediaries. Merchants remained a disapproved profession. *Lineamiento* number 66 had focused on international economics. The party congress cut all references to decentralizing decisions to the level of the firm. Decisions with regards of exports and international economic transactions would remain centralized in central government agencies. And on and on.

Let me underline that the communist party assembled leaders were doing something to which they had not been accustomed under Fidel's leadership. The communist party was actually exercising its constitutional authority to say to the government: "No! You cannot implement the decisions you thought were the better decisions." There is still a featured emphasis on planned rationality, not on market rationality. It is an emphasis on discipline, not an emphasis on entrepreneurship.

Who are the managers of state enterprises who might become entrepreneurs? The Centro de Estudios de la Economía Cubana (CEEC) at the University of Havana has been engaged in studies since the early 1990s, one of which has interviewed the high-fliers, the managers who have been doing what appears to be the better work, the managers who are so promising that they are sent to training schools to become even better at what they do. CEEC scholars have asked, "What do you value? What would make you really good? Or really effective?" The top values—and they are remarkably consistent during the 1990s and through the 2000s—are, first, "a sense of belonging," secondly, "we follow rules," and third, "I want to be a good professional."

In themselves, those are reasonable values. What is striking is the set of values at the bottom of the preference list for these managers: creativity, quality of a product, quality of a service, and almost no orienta-

tion to serve customers. These managers follow the rules, and the rules are not about quality of a product, quality of a service or customer orientation. The scholar who most recently carried out this research characterized two-thirds of these managers—again, a very consistent proportion over time and in the present—as "resistant to change." These are managers who follow orders but they are not entrepreneurs.

Cuba's government has weakened. It has weakened because its own officials resist the implementation of new policies. The government has weakened because its own bureaucracy engages in petty acts of insurgency. Raúl Castro's government has weakened because communist party officials, for the first time in a half-century, are beginning to assert their authority in policy setting over government agents and decision makers, and because enterprise managers think of themselves as followers of orders, not as entrepreneurs.

### IMPLEMENTING RAÚL'S POLICIES

How can the government gather support to implement the changes that President Raúl Castro affirms he wishes to implement? The government has undertaken and performed better on other policies, but these more successful policy implementation changes have not built popular support. One policy change that has been implemented, using the language from North America and Western Europe, has been to address unfunded pension liabilities—that was the December 2008 decision to postpone the retirement age for men and women, each for five years. A sound decision, no doubt. Popular? Unlikely. This is a case of proper policy implementation that adds little to political support for Cuba's rulers.

The separate decisions with regard to authorizing the free sales of products or services cater—again to borrow from the language of the last several months at various places in the U.S. including at my own university—to the top 1% of income receivers. These have tended to be very expensive products and services. This makes sure that top professionals remain loyal but it also contributes to the perception of unacceptable inequality.

Is the government seeking support through social liberalization policies in lieu of political or economic liberalization? Social liberalization is, perhaps surprisingly, an important undertaking of Raúl Castro's government. One prominent example of social liberalization is Mariela Castro's campaign to make sure that Cuban police officers understand that being homosexual in Cuba is not a crime, nor is being a homosexual an aggravating circumstance if some crime has been committed. I have met with trainers who come from other countries to train the police of the city of Havana, and I am amazed and impressed. Mariela Castro's father is, of course, Raúl Castro. He had been the Minister of the Armed Forces who sent thousands and thousands of people to the UMAP camps in the mid-1960s, most on suspicion of being homosexual but having committed no crime. I do not know what may be the discussions between father and daughter. But I celebrate the fact that the enormous repression of homosexuals from the 1960s and in the decades that followed seems to have been lessened significantly. Yet, this is a dramatically divisive policy in terms of political support. There are as many people who think that this is a wrong-headed policy advocated by Mariela Castro, and they have criticized her father for supporting her.

Consider race relations. Cubans are long overdue for a debate on race relations. The social science evidence indicates that verbally expressed racism is worse in Cuba than it is in the Dominican Republic, Puerto Rico, or the U.S. Talking about race relations, addressing the issues of racism in Cuba, is therefore long overdue. Cuban leaders deserve praise for authorizing such discussions. This too is deeply divisive, however. It is unlikely to generate net political support but it is something leaders do because they believe it is right.

Another example of liberalization, much closer to politics, is available every Friday. *Granma*, the most boring newspaper on the face of the earth, publishes letters to the editor on Fridays. And on July 13, 2012, one of the letters to the editor didn't just complain about the poor quality of bread at the corner grocery store—many letters do that—but about communist party officials who abused power. Let me

repeat: the published letter complained about communist party officials who engaged in acts of dishonesty. Wow! That's impressive.

A further example of liberalization, even if undertaken for the sake of savings on the use of busses and other transportation and cafeteria food, was to make it possible for kids to be able to attend middle school near their home, instead of being compelled to go away from their homes to board during their middle school years. That was an enormously popular policy among parents and kids.

The use of time signals another impressive change. Raúl Castro abolished the policy known as "the battle of ideas," which mobilized people to march in front of the U.S. Interests Section in Havana, or to march for other purposes, but generally engaged in time-consuming but economically un-productive activities. Raúl also has emphasized, and publicly commented, that he is punctual. His events start on time and end on time. He does not say that he is comparing himself to anybody else, but the Unnamed Other is well remembered. At the end of the July 26<sup>th</sup> celebration, Raúl was in charge of the conclusion; he congratulated the people in attendance. He said: "This is how all events should be." It only lasted 55 minutes. Those who might have been listening might have wondered how it may have been possible to hold a July 26<sup>th</sup> celebration in only 55 minutes.

Social liberalization is in many ways Raúl Castro's most important accomplishment. Where do my kids go to school? That is my decision as a parent. Liberalization of time, meaning that "my time is my own," and I have the liberty to do with my time as I please, is a change that perhaps only Cubans appreciate but it makes a real difference and thus may popular.

Of all the Raúl Castro statements of recent years, the one that gives me pause, because if he had believed it in the 1960s then the history of the last half century would have been different, is: "*¿Por qué tenemos que meternos en la vida de la gente?*" "Why do we have to butt in on people's lives?" If the leadership of this regime, state, party, and government had believed this a lot sooner, the history of the country would have been different.

## CONCLUSION

If Ernesto Betancourt and I had discussed these issues in 2003/2004, he and I would have agreed that the regime and the state had weakened, but I would also have argued that the government was strong and likely to remain so—and in so saying I would have been inaccurate and he would have been right to disagree with me. Government officials today refuse to implement decisions made by the president. And the foregone or the delayed opportunities to strengthen the state now also contribute to its weakening.

The continuing dependence on ideological prescriptions holds back many of the benefits there might be from the economic changes, which were already designed to be modest. Many of the more praiseworthy policies that have been adopted, say, authorizing dis-

cussions of race relations, are right but often divisive, and in other examples, like the postponement of the retirement age, deeply unpopular. And liberalization presents a dilemma. Does giving up some power—by definition that's what liberalization entails—strengthen the ruler, because people will rally to the liberalizer, or will it weaken the ruler further?

That is the question for the future, and unlike Ernesto, I don't make point predictions. But I am very honored to have had the opportunity to reflect on the work, the thinking, and the ideas of a man that we miss—Ernesto Betancourt, who contributed so much to the study of the Cuban economy, which is the purpose of this association, but also who did so through his thinking, his feeling, and his love for Cuba. Thank you.