THE FUTURE OF THE CITY OF HAVANA: 
THE ECONOMIC DIMENSION

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“The Americans, like many Germans, believed—rightly or wrongly—that physical reconstruction was something that would follow from, rather than something that would itself help create, economic recovery. Thus in a letter to the author on May 25, 1989, Charles Kindleberger, who helped formulate the Marshall Plan, said that his interest 43 years ago was in money, trade, food, investment in productive activities, plus property questions, and not in the German standard of living in housing.”

—Diefendorf (1993b, pg. 351)

The expansion of the city of Havana came to an abrupt halt in 1959 with the advent of the revolutionary government led by Fidel Castro. From the very beginning, there was a great deal of uncertainty about the direction the new government was to take, especially regarding the economy and private property rights. As a result, virtually all private investment and construction activities were paralyzed, while the country’s level of economic activity was reported as stagnant for the year 1959 (Sanguinetty, 2010, pg. 80). The concentration of political powers in Fidel Castro’s hands deepened in 1960 as the executive, legislative, and judicial powers were collapsed into one. The massive expropriations of foreign enterprises and large national businesses later started the concentration of massive economic powers under Castro’s control, a process that was completed shortly afterwards with the expropriation of the rest of private enterprises, including medium, small and micro-enterprises.

By the time the Urban Reform Law was enacted in the mid-1960s, private construction was already totally paralyzed, including basic maintenance of buildings of all types. This law expropriated rental buildings and houses, making the government the new landlord for a set number of years while collecting the rents (but not doing repairs), until the corresponding tenants would become the eventual owners of their dwelling, according to a formula based on the age of the building.

The physical decay of most buildings in the country seems to have been especially severe in the city of Havana by express design of the government. The uncertainty of 1959 and 1960 had already inhibited the former owners to spend money in basic maintenance, while construction materials started to become scarce during 1960, increasingly less available in 1961, and practically disappearing from the markets for private uses in 1962.

Fidel Castro declared the socialist character of the Cuban economy in April 1961, an event followed by a fast transition from a relatively free to a centrally planned (or controlled) economy, with the government and the entire public administration system becoming the owners and administrators of most enterprises in the country. In a very short period of time,

1. I am grateful to architect Alfredo Echeverría for critically important comments to an earlier version of this draft. Of course I remain entirely responsible for the content of this version.
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the level of economic freedom in Cuba went from one extreme to the other as goods, services, labor, and capital markets were replaced by government agencies with almost absolute discretionary powers to define prices and allocate resources in their corresponding areas of jurisdiction.

As prices did not correspond to the interplay of supply and demand and were fixed at well below their natural equilibrium positions, severe shortages of most consumer and producer goods became widespread in 1961, followed by extensive black-market activities and a strict rationing system through quotas officially established in March 1962. Many items, especially capital goods and construction and industrial supplies, freely available two years earlier, totally disappeared for the general public and became scarce even for government agencies and state enterprises.

The lack of basic construction materials has affected Cubans from 1962 until recently, when limited supplies have been made available by the government. Generally speaking, families could not purchase or otherwise obtain the materials to carry out simple maintenance of their dwellings. Even the most basic supplies—such as paint, cement, bricks, wood, electrical fixtures and plumbing materials—could only be obtained in small quantities through the illegal black market at extraordinarily high prices and at the risk of severe government sanctions. It should be noted that the source of the building supplies transacted in black markets was invariably government enterprises or depots. Cubans were forced to steal from the government, as the central planning system eliminated the allocation of even minimum quantities of construction materials for private consumption. Yet, the level of supplies obtained was highly insufficient to satisfy maintenance needs. The effects of lack of maintenance started showing in the deterioration of buildings of all kinds, while new construction, especially in the housing sector, came to an almost total halt at times, with the exception of military and other government projects. As housing deteriorated physically and the urban population continued to grow, the need for more living space was met by improvised and precarious subdivisions of existing dwellings. Besides buildings and individual houses, the lack of maintenance has also affected all forms of infrastructure, including water supply and sewage systems, roads, utilities, etc.

In the 1990s, and as a result of the need to enhance foreign earnings, the government implemented a plan of conservation of some buildings in areas selected as attractions and resorts for foreign tourists or singled out by UNESCO as historical or cultural landmarks. The municipal authorities are still implementing this plan but, as it is concentrated exclusively on tourism, it is far from enough to stop the deterioration of the city.

The magnitude of this one-man-made catastrophe is impossible to exaggerate. There is no other city in recent history that has suffered such a devastating process of deterioration in times of peace. And even if today the government or a new economic system were to allow a free flow of building materials to restart maintenance of structures and infrastructure, many aspects of the process have been made irreversible because of the long period of neglect. This means that an unknown but presumably high number of buildings, though still standing, will have to be eventually condemned and demolished while entire sections of the infrastructure will have to be rebuilt.

It is not possible to determine when this process of urban decay could be slowed down or stopped and how and when it could be reversed. A great deal depends on the future economic conditions of the country. Raúl Castro’s government does not seem to have either the political will or the resources to radically change this situation. He has not spoken publicly about this concern, though there have been official complaints about the housing deficit. What is known is that the longer it lasts the greater the economic losses for the city and the country as a whole; losses that are accumulating along with the decay of other cities and towns in the island. It is necessary to emphasize that the losses represent a major reduction of the total wealth accumulated by the Cuban economy along centuries of efforts as the total value of the assets affected is staggering and almost impossible to measure with precision. And the losses cannot be measured or evaluated from a relatively simple economic standpoint as the summation of a presumed
market value of the individual components of the city. As I discuss in the next section, the value of the city can be and in fact is much more than the sum of the value of the individual components.

THE COST AND THE VALUE OF THE CITY OF HAVANA

It is easier to think of the cost of a city than of its value. The cost could be calculated as the sum of the present value of the stream of resources invested in its development. But as the summation has to extend over a large span of time, it would be largely irrelevant as unit costs of construction vary widely over time (it could even include slave labor), there is physical and economic depreciation, and innumerable additions and modifications. A relevant datum, however, would be the cost of replacing its missing parts, of its reconstruction, of components that might have disappeared due to sudden destruction or gradual decay. Nevertheless, in this paper we do not measure costs of any reconstruction activity as I neither have the elements nor the data to attempt even a gross approximation. At this point, we do not even know the cost of the resources necessary or the extent of the damage resulting from the lack of maintenance of buildings and infrastructure nor do we have the technical data to start providing an estimate.2 In any case, the most efficient way to stop the further deterioration of the city and commence its reconstruction is to liberalize all the markets of the construction and building materials industry, plus providing the necessary freedoms for Cubans to undertake construction activities of all kinds, individually and through enterprises.3

It is useful to introduce some definitions of the concepts of reconstruction and preservation activities. Even if both kinds of activities can be carried out jointly, I prefer to differentiate between them for analytical purposes. I also believe that in many instances, especially when some buildings have been seriously damaged or have collapsed, or if the ownership of the premises is not clearly defined, and the capacity of local authorities to enforce building codes cannot be taken for granted, minimal—even precarious—reconstruction could take place without sufficient regard for preservation of old values.

I therefore define reconstruction as the bare restoration of building structures without regard for previous historical, artistic or architectural values. Preservation, in contrast, embodies efforts to recover partly or totally the original design of the object under reconstruction. In other words, preservation is a more complex—and presumably costlier—activity than simple reconstruction. On this basis, we can assume that the cost of reconstruction alone would be lower than the cost of reconstruction cum preservation. Nevertheless, the process of reconstruction regulated by building codes could combine both objectives if effectively enforced. In general, the total cost of unregulated construction activities to replace old structures can be expected to be below the cost of the same activities adapted to a preservation goal, and this may represent a significant incentive to conduct expedite simple reconstruction.

If measuring cost is difficult, measuring value is impossible. A city is not a tradable commodity even though it is composed of many tradable units, such as individual houses and buildings that could belong to individuals, groups of private citizens, or any other organization private or public and can be the subject of transactions in a real estate market. In fact, Havana was “owned” by the Spanish until 1762, when it was taken by the British, and then returned to Spain in exchange for the Florida peninsula in 1763. It is obvious that some measure of comparative value to each party must have been taken into consideration, yet in the typical situation, the “ownership” of a city falls upon its citizens and the idea of value becomes difficult to conceptualize at the collective level.

From a market economics point of view, an individual component of the city can represent an economic

2. This in fact would require a joint effort between economists, architects, and engineers.
3. The recent measures liberalizing the exchange of building materials and granting some limited (even if illegitimate) property rights and freedom to exchange property represent a small step in that direction.
or financial value to its owner, tenant or user, but even at an individual level, there are other dimensions of value to the individual. Obviously, the value of a city cannot be measured by the simple addition of the individual values to the owners of its components. Moreover, a city is not just a summation of physical assets, as it includes other attributes that affect the many dimensions that determine its value however it could be conceptualized or measured.

It is necessary now to briefly introduce the economic concept of private goods vis-à-vis public goods. Private goods are defined as those which are typically consumed exclusively by one individual. The consumption of an orange, for instance, is an act performed by one and only one individual. All other consumers are excluded from the consumption of that particular orange. Public goods, in contrast, are those consumed collectively by more than one consumer. Some individuals cannot be excluded from the consumption of a public good. One textbook example is public street lighting, which is consumed by all those who are benefited by it. Other examples are: national security, a clean environment, a beautiful landscape or city, the stability of a monetary system, the predominance of the rule of law, and a democratic organization of the society.

The distinction between private and public goods is important because they imply different incentives for their production or availability. For instance, the individual producer or consumer of oranges is willing to spend his resources to produce or purchase oranges, but not to purchase a lighting system for his neighborhood. In such a case, many of his neighbors may find advantageous to wait for someone to invest in the lighting system and therefore enjoy its benefits as a “free rider.” Only an altruistic and probably wealthy neighbor might be willing to incur such an expense. It is generally the community of neighbors, or the government, who fund and undertake such an investment. Governments, for instance, can impose a tax or a fee for issuing development permits to finance infrastructure developments, including improvements to the public right of way, landscaping, land set asides for community facilities, etc.

These simple examples illustrate one of the main roles of government, i.e., the supply of public goods desired by groups of citizens at the neighborhood or community level or at the level of entire societies. A related issue to be kept in mind is the type of mechanism through which societies and governments relate in supplying and funding the provision of public goods. Governments of democratic societies, for instance, where citizens are not only free to elect their government officials or representatives but also to express their wishes and preferences more openly, tend to be (at least in theory) more responsive, but they must also collect the funds necessary for the supply of public goods.

A beautiful city that embodies a number of historical, cultural, and architectural treasures is a public good if and only if, a sufficient number of citizens value those attributes. Otherwise, they would rarely be inclined to allow their government to spend in the preservation of such values in a democratic process. For the sake of completing this part of the analysis, let us set out that a dictatorship could spend resources if its leadership valued those attributes, provided it could afford the expense.

Applying these considerations to the city of Havana, we can expect that few citizens acting on their own will have an incentive strong enough to spend on preservation beyond their need for simple reconstruction, unless of course it involves their private properties. When it comes to paying for the cost of overall preservation, most citizens can be expected to behave as free riders, even if they personally value the public treasures of their city; they might be willing to enjoy at no expense the public treasures, but would wait for someone else to pay for the preservation. The value of Havana, as the value of any other urban setting, thus depends on the aggregate value individually given to it by its residents, partially and roughly measured by the volume of resources, financial and otherwise, they are willing to spend, directly or indirectly, through means such as taxation and private investments, to finance its reconstruction with preservation.
SOME ECONOMIC ISSUES REGARDING THE RECONSTRUCTION

This section presents a catalog of economic issues that should be taken into consideration in any plan for the reconstruction of Cuban cities, especially the city of Havana, the capital of the country and the neural center of its economic activity. I believe—and I think it can be expected by many others—that from day one of an unregulated reconstruction phase, there will be two main forces at play, one favoring its fast economic and social recovery and the other favoring the preservation of the historical and architectural value of the city. The forces favoring a quick economic recovery will be in sync with the forces of expedited and unregulated reconstruction, but not necessarily with those favoring preservation, unless there is a critical mass of citizens (including government officials) that can visualize the long-run economic value of preservation.

Many of the issues and problems Havana and other Cuban cities will face in their recovery bring to mind those Germany dealt with in its reconstruction and historic preservation after World War II (see Diefendorf, 1993a, 1993b). Even though there are many differences between the conditions of Cuban and German reconstruction, there are similarities that should be taken into consideration.

The economic variables we must have in mind include those that define the need to raise the levels of production, investment, employment and consumption of the entire population. Cubans have suffered severe scarcities for many years and their needs have been accumulating over time. This will put pressure on a transition government to reactivate the Cuban economy as quickly as possible, even at the sacrifice of important areas that would be considered differently under more favorable and relaxed economic conditions. But economic growth needs will not be the only source of pressure on the government. The deficit in the social sector is staggering too, and one of its dimensions is the need to start alleviating the overcrowding in housing, the continuing physical decay of buildings and infrastructure, and other related problems. Even the social problems will require economic solutions, however, and will present a transition government with its most critical dilemma from the first days of its administration.

Actually, the opposing forces of economic versus social recovery and quick urban reconstruction versus preservation represent more complex trade-offs. For instance, short-run economic expediency might be achieved at a very high cost in the long run if economic factors destroy too much of the historical and architectural heritage of the city. In other words, how much economic development are those in charge of the first stages of the recovery of the city willing to sacrifice for the sake of the preservation of the higher values of the city? Before we return to this fundamental issue, let us identify and examine in some detail some of the specific economic problems that will demand attention from the beginning by the authorities and the general public.

There are many scenarios we could assume about the future of the Cuban economy and its impact on its cities, but it is obvious that some major changes must occur to stop the continuous deterioration of cities. The liberalization of prices, the reallocation of resources to new economic activities, the dissolution of the monopolistic and centralized powers of government, the privatization of property holdings, the removal of barriers to trade, and the increase in the private initiative of citizens were common reforms in the transition of ex-socialist economies since 1989. This process has been widely documented by many authors, among them Benemelis (2006), Dabrowsky (2001), Lavigne (1995), and Parker, Tritt and Woo (1997). Though the future of the Cuban economy is surrounded by a great deal of uncertainty, I carry out this analysis under the assumption that at some point in the future, Cuba will undertake a liberalization process similar to those experienced by the Central and Eastern European countries. Full-fledged economic liberalization which disregards minimal building and zoning regulations should be considered the fundamental challenge to preservation, and it is under this assumption that we should evaluate its consequences. At the same time we should take into account that preservation is in itself an economic activity that creates wealth and contributes to the reconstruction of the overall economy on its own.
It is important to point out that compared with other ex-socialist countries Cuba seems to present the worst case of urban decay, caused by the socialist government’s sustained neglect. This is an important difference from the destruction of German cities during World War II, as the generation in charge of reconstruction was the same that valued their heritage before the war, while in the Cuban case the memory of its heritage is outside Cuba and dying, and preservation might not have the same meaning for the generation that will be in charge of the reconstruction. Generally speaking, preservation in old cities tends to be carried out by many generations.

The decay in Cuban cities is especially acute due to the accumulation of housing deficits over many years, and the concomitant problem of overcrowding. This means that as soon as a transition government liberalizes prices and restrictions on supplies of building materials, and private enterprise development, there will likely be an avalanche of housing repairs and renovations simply to stop the current deterioration of existing structures. To make things worse, a presumably large proportion of such repairs will likely be improvised by individuals with very little training, as the ranks of building trades have dwindled after half a century of stagnation. A parallel and more serious and threatening development will be the rapid building of new structures to replace the many that are collapsing or about to collapse. This activity should be regulated by minimum codes to protect the health and security of not only the affected dwellers, but also of neighbors and passers-by.

Under these circumstances, it is impossible to predict how much unit and total construction costs will rise, as a number of factors will work in opposite directions while the economic reforms take place. One of the first effects to be expected is the expansion of the demand for building materials, which will immediately put a significant upward pressure on their prices, though labor costs can be expected to remain low until there are increases in the demand for labor fueled by economic growth. Prices of building materials will most likely rise instantly since, at the beginning of a transition to a freer economy, general price liberalization will have presumably been implemented, in line with a recommended transition strategy for Cuba, as discussed in Sanguinetty (2005).

The level of prices will eventually fall, as supply expands, but this may not happen as quickly as the liberalization of the demand side of this market. The first push in the expansion of the supply of building materials will probably depend on a better level of utilization of domestic installed capacities and the availability of foreign exchange to import materials that are not produced nationally or are produced in insufficient volumes to meet demand. The second push expanding supply will occur as the production capacities increase resulting from new investments, a process that can be expected to take a few years.

The combined impact of higher prices of building materials and low wages for labor will probably increase unit construction costs for several reasons. Even though this is highly speculative, and only based on theoretical principles, if the Cuban economy were widely liberalized to the point that it attracts a high volume of external investment, as it has been the case in some of the ex-socialist economies, there might be scarcities of some categories of skilled labor in the construction sector. Even with an expansion of supplies of building materials, a surge in construction activity will keep prices at a relatively high level, at least for a while. There will be at least five main sources of construction activity competing for materials and labor: housing, business, infrastructure, recreation, and government. Each of these sources represents both an opportunity for reconstruction and possibly a short-term threat to the historical preservation of Havana.

Notice that the level of prices, wages, and construction costs will be the same for reconstruction activities, though preservation might require, in some cases, more specialized and skilled—and therefore more expensive—labor. Nevertheless, it is important to understand that such prices, if resulting from a free-market economy, represent the combined effect of the country’s productive capabilities and its citizens’ time and social preferences in consumption and investment. An attempt to control those prices in favor of facilitating construction activities will distort the entire relative price system of the economy, which
will inevitably diminish the country’s prospects for a fast economic recovery, including the recovery of its cities.

FINANCING RECONSTRUCTION CUM PRESERVATION

It is reasonable to assume that sheer physical reconstruction would be less costly than reconstruction cum preservation. Yet, both components should be identified separately because the justification for funding any requests should provide convincing arguments on both counts. Short-run economic gains, as discussed earlier, will be a strong incentive for politicians, investors and even the population at large, to follow the most expeditious routes at the expense of sacrificing the preservation of the heritage and other values of Havana and other cities. Therefore, the discussion that follows takes into account both components of the effort to carry out the future urban development of the country. We also assume that when the opportunity arises to liberalize the Cuban economy, there will be no “Marshall Plan” to fund its recovery, as Western Europe enjoyed after World War II, though some foreign donations might become available. In other words, the recovery of the Cuban economy, its cities, and the entire nation can be expected to depend mainly on the combined efforts of Cuban citizens, the private business sector, the communities, and the governments at all levels.

The potential sources of funds for the reconstruction of the city of Havana, especially its infrastructure, public buildings, and parks, are: (a) the central (national) government; (b) municipal and provincial governments; (c) the private sector; (d) loans and donations from multilateral financial institutions; (e) loans and donations from bilateral aid agencies; and (f) external donations from private sources. The governments’ ability to finance any activity will depend on their capabilities to collect fiscal revenues mainly through taxation, which at the same time depends on the level of economic activity of the country, which includes construction activities. It is a well-known fact that Cuba is fiscally bankrupt and has a staggering public debt, grossly estimated at higher than the annual Gross Domestic Product. Besides, the volume of potential claims on confiscated properties and other liabilities adds to this burden, presenting the transition government with a very difficult situation from the beginning of any liberalizing transition.

Yet, regardless its fiscal capabilities, the central government will have to consider, along with Havana, the reconstruction needs of other Cuban cities, which have suffered a similar process of chronic deterioration over the last half century. In other words, from the point of view of the national hard budget constraint, the city of Havana will have to compete with other cities for reconstruction and preservation funds. Each city will have to develop its own rationale to defend its requests for funding from this source alone, though they will have to compete for funds from other sources. Nevertheless, as the capital and also one of the main tourist attractions, the city of Havana will probably enjoy a privileged position. From that point of view, if the fiscal authorities see the city’s preservation value as an asset for the tourist industry, they might be more willing to invest in its preservation than on any other economic activity. This is probably the most powerful argument in favor of preserving the historical and architectural heritage of the city, an argument that should serve as a stimulus to enact and enforce building codes that could serve multiple purposes.

It is obvious that the municipal government of the city of Havana will have a special interest in investing in its preservation, but its ability to do so will be a direct function of its ability to collect tax revenues. But such ability will also depend on the degree of economic recovery of the city itself, its taxation regime, and possible transfers from the central government. In any case, the municipal budget will have to fund other activities besides the reconstruction of the city, part of which requires construction in the sectors of education, health, justice and security, but also in salaries of public servants at the municipal level.

Tax revenues from the private sector will not be the main source of funding for the reconstruction of the city, however, even if there is an added interest in the preservation of its heritage via the economic incentive of the type mentioned above regarding the tourist industry. The main source of funds for reconstruction will be the private sector. But the private
sector is a very heterogeneous entity, as it includes enterprises of all sizes, different financial capabilities, with all kinds of planning horizons, and a variety of economic sectors. Factories and warehouses, for instance, may be less interested in terms of architectural restoration than companies’ buildings housing headquarter offices in prime urban locations. In any case, private enterprises might be provided with fiscal incentives such as tax holidays for the funds invested in preservation, but this avenue has to be made compatible with the fiscal revenue needs of the tax authorities at the national as well as the provincial and municipal levels.

Private foundations located in other countries might also be interested in assisting Cuba in its recovery. Foundations dedicated to the preservation of historical, artistic and cultural heritage will be interested, both with regard to specific projects as well as providing support to certain institutions domestically created with such purposes.

CONCLUDING REMARKS
As previously explained, the preservation dimension of the reconstruction is a public good, and achieving it requires some form of collective action by private initiatives, government intervention, or a combination of both. The challenge is how to achieve it. As Olson (1965) has demonstrated, large groups lack the capacity to work voluntarily on behalf of their common interests. Instead, Olson argued, a system of what he called “selective incentives” must be put in place to achieve the production of the public good that citizens enjoy. In the case of urban preservation, selective incentives might have to be put in place by a strong government initiative, in all likelihood starting with some legislative actions followed by the organization of an office in charge of reconstruction and preservation for a few years, with a focus in establishing the right building codes and their proper enforcement mechanisms.

Something very similar was proposed by Walter Gropius, the architect founder and former head of the Bauhaus, who served as planning advisor to the American occupation forces in Germany after World War II. Gropius was aware of the need to recruit personnel from the ranks of the best technical experts, a condition that might take some time to fulfill but that can be assumed as feasible. We can expect that there is a cadre of personnel in Cuba that eventually could serve in this capacity. These remarks however should not be construed as an endorsement or suggestion to follow Gropius’ socialistic approach to architecture as a model for Cuba.

When the authorities and the residents of the city of Havana are able to enjoy the freedom necessary to stop the physical destruction of its buildings and its infrastructure, and at the same time could normalize the life of the city and endeavor to restore its past grandeur, the legacy of the totalitarian era would be gradually left behind, but they will face a political conundrum. In order to combine the city’s reconstruction with the preservation of its past heritage, it will be necessary to somewhat constrain the building initiatives of its citizens. In other words, the freedoms necessary for the physical reconstruction must be bounded if a measure of preservation is to be achieved. That may be the function of any national, regional authority, or agency created for the preservation mission.

Is that consistent with the development of a democratic society? My answer is yes, but the general public would have to agree. Will the citizens of Havana or any other city in the country accept what they might perceive as less individual freedom in return for achieving historical and architectural preservation? After so many decades of overwhelming government control, will Cubans accept the role of a powerful government agency that will limit in some degree their individual initiatives? Hopefully yes, but they will have to understand that the need for establishing and enforcing new zoning and building codes is a form of organizing the new freedom, not an arbitrary imposition of government power.

These questions are raised in this paper to contribute to enlighten a debate that must take place among Cuban citizens, but also among architects, urban planners and economists in any city regarding the issues discussed here. As there may be trade-offs between short-term advantages and disadvantages of strict and expedite reconstruction with or without heritage preservation, there are also trade-offs be-
tween the minimal freedoms citizens will be willing to sacrifice in return for a synchronized effort that would yield a magnificent urban setting for Havana and other Cuban cities. It will all depend on the cultural sensitivity of the current and future generations of Cubans, their values and views on the cultural, architectural and historical heritage of their cities, and the price they would be prepared to pay, collectively, to have the satisfaction of living in a great urban setting.

REFERENCES


