

POTENTIALS AND PITFALLS OF CUBA'S MOVE TOWARD NON-AGRICULTURAL COOPERATIVES

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In the process of re-analyzing the issues and problems facing the Cuban economy following the July 2006 accession to power by Raúl Castro, it was concluded that much of the state sector of the economy—and the planning process under which it operated—was irredeemably inefficient. Numerous attempts had been made to improve its operation, but all were without significant success. This was typified sharply by the collapse of the sugar agro-industrial sector, by the inability of the non-sugar industrial sector to be revived after its collapse in 1989–1992, by the continuing shortcomings of the consumer economy and by the burgeoning of the underground economy. In response to this continuing predicament, Raúl Castro's Government produced the "Draft Guidelines for Economic and Social Policy" of October 2010 with a final version in May 2011, which notably called for the establishment of an enabling environment for small enterprise, among other things. The "Guidelines" document also included a section on the promotion of new non-agricultural cooperative enterprises. This institutional form was the object of considerable analysis within the Cuban Government between 2008 and 2012.

On December 11, 2012, a battery of new laws and regulations on cooperatives were published in the *Gaceta Oficial No. 53*, including two Council of State Decree-Laws, two Ministerial Resolutions, one Council of Ministers Decree, and one Ministerial

"Norma Especifica de Contabilidad." This legislation outlined the structuring, functioning, governance and financial organization of the new cooperatives and provided the legal framework within which they were to operate. It permitted and defined a new type of economic institution for Cuba, one that would have been out of the question under the presidency of Fidel Castro, but that holds the potential for revolutionizing the institutional structure of the Cuban economy. The legislation presented the cooperatives as "experimental," and indicated that after some 200 were initially approved, the institutional form would be reappraised and modified as appropriate. There is therefore some uncertainty regarding the long-term character of the legislative framework governing the structure and functioning of the cooperatives. However, in our judgment, the reform will more likely be more "loosening" rather than restricting—assuming that Raúl and his successors do not return to the de-marketizing and centralizing orientations of the previous "Fidelista" era.

In essence, the new legal regime for non-agricultural cooperatives provides for ownership and management of the enterprise by its employees, with mainly independent management and control—over the setting of prices, the purchase of inputs, decisions regarding what to produce, labor relations and the remuneration of members.

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Reforms of state enterprises were announced on July 7, 2013 by the Minister responsible for the reform process, Marino Murillo (Frank, 2013). State enterprises were to be granted greater control over their profits—retaining 50% thereof for their own uses—as well as over wages and salaries, investment expenditures, and the purchase of imported inputs. It was unclear as to whether prices were to be controlled by the state planners or by market forces. It is still too early at the time of writing to say whether these changes in the regimen for state firms will amount to a reliance on the forces of supply and demand for their social control. However, they signal a shift towards a more mixed economy, greater decentralization of economic management, and a diminished role for the central planning authority.

This type of worker ownership and management within a market environment could be regarded as a variant of “market socialism.” Cuba is launched on a path towards a hybrid type of mixed economy with a still-significant state sector, an expanding small enterprise sector, a joint venture (foreign and domestic state enterprise), and now an employee-owned and managed sector.

Only Yugoslavia prior to its break-up included a large part of its economy under a unique form of workers’ management, though it still seems to have involved authentic workers management in theory more than in practice (Carson, 1973). Most other countries have cooperative enterprises of various types that survive and thrive. However, while some cooperative enterprises are large and highly successful, no form of cooperative model has taken over a majority share of the economy in any country since Yugoslavia disintegrated in 1990–1992.

If Cuba’s new legislative framework for non-agricultural cooperatives is sustained, and if they actually function as they are intended, their governance and operation will be quite democratic and egalitarian in terms of the decision-making process within the enterprise and the distribution of income among members. The adoption of this cooperative model, involving workers’ ownership and management and operating under market mechanisms, could turn out to be a major institutional innovation for Cuba. In

the current context of the existing economic structures in virtually all of the countries of the world, this might prove to be innovative and perhaps revolutionary, though it is still too early to judge.

THE COOPERATIVE ALTERNATIVE

Cooperative enterprises of various sorts have an important place in the economies of most countries. Cooperatives are usually more than economic in character, however, and are widely viewed as elements of participatory democracy in the economy. Cooperatives are an attempt to combine efficiency in the economy with democracy in the workplace as well as social responsibility in the wider community. For this reason, they are often part of socio-economic and political movements.

A standard definition of a cooperative enterprise is set out by the International Cooperative Alliance (ICA) in its website:

A co-operative is an autonomous association of persons united voluntarily to meet their common economic, social, and cultural needs and aspirations through a jointly-owned and democratically-controlled enterprise.

Co-operatives are based on the values of self-help, self-responsibility, democracy, equality, equity and solidarity. In the tradition of their founders, co-operative members believe in the ethical values of honesty, openness, social responsibility and caring for others.

The ICA also has stated the principles by which co-operatives put their values into practice. In summary, these include:

1. Voluntary and Open Membership.
2. Democratic Member Control: Co-operatives are democratic organizations controlled by their members, who actively participate in setting their policies and making decisions.
3. Members’ Economic Participation: Members contribute equitably to, and democratically control, the capital of their co-operative. At least part of that capital is usually the common property of the co-operative. Members usually receive limited compensation, if any, on capital subscribed as a condition of membership.

4. **Autonomy and Independence:** Co-operatives are autonomous, self-help organizations controlled by their members.
5. **Education, Training and Information:** Co-operatives provide education and training for their members, elected representatives, managers, and employees.
6. **Co-operation among Co-operatives:** Co-operatives serve their members most effectively and strengthen the co-operative movement by working together through local, national, regional and international structures.
7. **“Concern for Community.”**

There are large numbers of cooperative enterprises of various sorts in many countries. For example, Chile had 2,132 coops in 2004 with 1.25 million members (including employees and others). Similarly, Brazil has 6,652 coops with 300,000 employees; Canada has 9,000 coops with around 150,000 employees; the United States has 30,000 coops employing over 2 million people; and France has 21,000 coops employing 3.5% of the labor force (ICA Ibid.) Agricultural cooperatives are present in many countries, but credit unions, insurance services, consumer coops, cooperatives in retailing, mining, transportation, construction and housing, and “second level” cooperative confederations of coops are all significant to varying degrees in different countries. Cuba will have substantial company when it expands its non-agricultural cooperative sector.

Since the early days of the revolution, Cuba has had a cooperative and a pseudo-cooperative sector in agriculture. In 1960, Credit and Services Cooperatives (CCS) were established for small independent farmers who continued to own their land and farm it independently. While these were not created at the initiative of the farmers and were imposed from above, they have continued to operate more or less “cooperatively” with respect to marketing, equipment and input purchases, and obtaining credit. In 1975, Agricultural Production Cooperatives (CPAs) were established by the government and small farmers were required to incorporate their farms into the larger units and become members (Mesa-Lago, 2000). This process was not voluntary and it would not meet the first

principle of the international cooperative movement as it is articulated above. In 1995, the state farms were converted by the government into “*Unidades Básicas de Producción Cooperativa*” (UBPCs). However, they were not voluntary. Their managers were appointed by the state and not elected by the membership. They did not determine the remuneration of their members. They required superior authorization for input purchase, decisions regarding output mix, and appropriate markets for outputs. They were also subject to the prices set by superior authorities. In sum, the UBPCs were far from being real cooperatives and continued to be a species of state-controlled enterprises.

By 2010, there were some 579,440 members of alleged agricultural cooperatives, but the membership of the more genuine CCS cooperatives was 362,440, according to Cuba’s *Oficina Nacional de Estadísticas* (see Table 1). CCS membership constitutes a significant 7.2% of Cuba’s total labor force.

In view of the problems facing Cuba’s agriculture, the government of Raúl Castro instituted in 2012 a series of reforms in the management of the UBPCs aimed at converting them into more authentic cooperatives (*Granma*, September 11 and 14, 2012; Peters, 2012). The directors of the UBPCs are to be elected by UBPC members rather than appointed from above. The UBPCs are to have independent control over the purchase of inputs and equipment for the production unit and for workers housing and daily necessities. Volumes of output above clearly defined amounts contracted to state sector purchasers can be sold freely in any market. Accumulated past UBPC debts will be covered by the state, with some portion to be covered by the UBPC itself paying 5% of its gross revenues over a 25-year period. Current financial losses will not be covered by the state, but UBPCs could go bankrupt if losses are unmanageable, unless the UBPC is of special interest to the government (a rather elastic criterion.)

If the UBPCs were to become genuine producers’ cooperatives, Cuba would indeed be one of the more “cooperativized” countries in the world. However in view of the difficulties that cooperatives have faced in the past under all of the institutional variants, there is

Table 1. Cooperative Agricultural Organizations in Cuba, 2010

	Number of Cooperatives	Members	Percentage of Total National Employment	Percentage of Cultivable Land
Credit and Service Cooperatives (CCS)	2,949	362,440	7.2	35.3
Agricultural Production Cooperatives (CPA)	1,048	30,000	0.6	8.8
Unidades Básicas de Producción Cooperativa (UBPC)	2,256	187,000	3.7	30.9
Total	6,253	579,440	11.5	74.0

Source: Piñeiro Harnecker, 2012, p. 81, based on *Oficina Nacional de Estadísticas*.

some doubt if the above reforms, useful as they may be, will permit them to survive and to thrive. Moreover, it would be hard to argue that they were truly the result of free and informed decision-making on the part of their membership.

THE 2012 LAW ON NON-AGRICULTURAL COOPERATIVES

Some features of the new cooperatives were referred to briefly in the “Draft Economic and Social Guidelines for the Party and the Revolution” of November 2010 and then modified slightly in the final version that was approved in the VI Congress of the Communist Party on April 18, 2011.

The “Draft Guidelines” of 2010 included five paragraphs (out of a total of 291) on cooperatives. According to this document, cooperatives were to be based on the “free association” of the workers, who were to be the owners of the means of production, or the leasers of state property (Paragraph 25). The cooperative property could not be sold to other enterprises: cooperative, private or public (Paragraph 26). The cooperatives could sell directly to the public and maintain contractual relations with all other forms of enterprise (Paragraph 27). The cooperatives were to be empowered to determine the incomes of the workers and the distribution of profits, while paying taxes and social security contributions (Paragraph 28). “Second-order cooperatives,” consisting of other “first-order cooperatives,” were to be permitted (Paragraph 29). These guidelines were modified only slightly for the final document, their main change being to articulate in more detail what the “second-order cooperatives” were to be—in response to some 993 comments from citizens.

Legislation published in November 2012 then spelled out in detail the legal framework, governance structures and operational modalities for the cooper-

atives. According to the set of laws on cooperatives, the range of activities for cooperative enterprise is not restricted (Decree-Law 305, 2012). Presumably all areas of the production of goods and services are permissible under this institutional form; these would include low-tech services of all kinds, such as retailing, transportation, construction, and manufacturing. The instructions for eliminating redundant labor for the City of Havana put forward some 76 possible areas for low-tech cooperatives, including 15 in agriculture, 8 in construction, 3 in construction materials, 9 in transportation, 5 in food production and 36 in miscellaneous activities (Ciudad de la Habana). “Higher-tech” or professional services are not specifically excluded in the legislation so one might assume that they may be included. These services would include accounting, architecture, engineering consultants, management and environmental consultants of all kinds, as well as legal services, computer electronics and web site services, computer instruction, economic and market research, graphic design, real estate agents and travel agencies, music, dance and arts instruction, etc. All of these services would represent significant contributions to Cuban society and the economy and would permit well-educated Cubans to practice their professions within their own cooperative enterprises. One could assume, however, that the central core of educational and medical services would remain in the state sector. Yet some ancillary educational and medical services such as music lessons, educational tutoring (which is already widely practiced in the “informal” or underground economy), herbal-remedy vending and fabrication, chiropractic and therapeutic massage, could also be candidates for cooperative enterprise. It should be noted that there is already a private university-level program in existence, namely the provision of business administrative courses to “*cuentalpropistas*” by the Centro Cultural Padre Félix Varela, of the Archdio-

cese of Havana, in cooperation with the Universidad Católica San Antonio, Murcia, Spain.

Any Cuban citizen or resident over 18 years of age and possessing the relevant skills can be a member of a cooperative (Decree-Law 305, 2012, Article 10.1). As noted above, professionals are not excluded, and can presumably offer services in their own profession. Members of a cooperative must in fact work within the enterprise (Ibid, Article 23).

The minimum size of a cooperative was set at three individuals (Ibid, Article 5.1). No maximum was defined; cooperatives with over 60 members were mentioned in the legislation (Ibid, Article 18.1). New prospective members must be approved by the General Assembly of the cooperative. In cases of the transfer of economic activities from the state sector to a cooperative enterprise, the original workers are to have priority for employment as founding members of the cooperative.

The approval process for the establishment of new cooperatives starts at the local level with the “Organs of Popular Power,” which put forward applications to the “Permanent Commission for Implementation and Development of the Guidelines”; the latter then must obtain the approval for the new cooperative from the Council of Ministers (Ibid, Articles 11.1 and 12.1). This Permanent Commission, which is headed by Marino Alberto Murillo Jorge, also bears overall responsibility for the implementation of the “Guidelines” proposals for economic reform. Murillo is, in effect, Cuba’s new economic czar and the main manager of this new cooperative sector.

The initial capital for the cooperatives is to come from the financial resources of the members plus bank credits (Ibid, Article 21). For the transformation of a state enterprise to a cooperative, the latter must pay a rental fee to the state. Moreover, the prices of equipment purchased from the old state enterprise are to be negotiated between the state sellers and the cooperative buyers (Ministry of Finance and Prices, Resolución 427/2012, Paragraphs 14–15).

The cooperatives are to be financially autonomous from the government. They are empowered to set their own prices, which are ultimately to be determined by the forces of “supply and demand,” except

in undefined cases where fixed prices are set by the relevant Ministry. Cooperatives are empowered to determine their own wage structure and profit distribution after paying taxes and social security contributions (Decree-Law 305, 2012, Article 25). Bankruptcy is their fate if they are unable to cover their costs (Ibid, Article 30.)

A cooperative can hire additional contractual workers, but only to a maximum of 10% of the total work hours of the enterprise (Ibid, Article 26.1). A contracted worker can work only for 90 days, after which he or she becomes eligible to join the cooperative and receive equal status and voting rights with prior members. Otherwise, his or her employment must be terminated.

“Second level” cooperatives can be established (Ibid, Article 5.1). These would comprise smaller or lower-level cooperatives, labeled “first level” cooperatives. In effect they would be cooperative confederations of smaller cooperatives.

The ultimate authority within any single cooperative is its General Assembly which would include all its members. This body would be empowered to elect a president, a substitute and a secretary by secret ballot (Ibid, Article 18.1). The specific managerial structure of the enterprise is to be determined by the complexity of the activity and the number of members in the cooperative. Cooperatives with fewer than 20 members can elect an “Administrator”; those with 20 to 60 members can elect an “Administrative Council”; and those with more than 60 members can elect a “Directive Committee” as well as an “Administrative Council.” Thus, depending on its size and complexity, a cooperative’s financial management is to be the responsibility of a member or a financial committee. The management structures and functioning are delineated in detail in Decree 309 of the Council of Ministers.

The cooperatives are to pay a sales tax, a tax on the hiring of workers, a social security contribution, and a tax on cooperative profits, according to the Ministry of Finance and Prices, Resolution 427/2012. Sales of food products are exempted from the sales tax. The social security payments and the hiring of labor taxes are defined in other legislation. A special

regimen for social security for cooperative members—including pensions, disability payments, accident and sickness benefits, maternity leave and death benefits—is delineated in Decree-Law 306. For the cooperative profits tax, profits are defined as the residual amount after input costs up to a maximum of 40% of revenues and for contingency reserves are deducted, after wages are paid to members at the level of the average for that activity in the province, and finally, after payments are made for the rental of facilities (Ministry of Finance and Prices, Resolución 427/2012, Paragraph 6).

Input purchases for cooperatives are apparently to be given advantageous treatment. Inputs purchased at the retail level are to be given a 20% discount from the going price. Inputs purchased from the wholesale market are also to be given a 20% discount from the going wholesale price (Ibid, Paragraph 13).

POTENTIAL OF THE COOPERATIVE COMPONENT FOR THE CUBAN ECONOMY

The 2012 legislation on non-agricultural cooperatives appears to open the door for a broad range of new entrepreneurial initiatives that had been contained and blocked for almost half a century under the government of President Fidel Castro. The legislation allows for a wide variety of new enterprises. It may constitute a major institutional innovation that in time could promote a surge of new economic activity and productivity enhancing improvements. The conversion of a range of state enterprises in services and light manufacturing to the cooperative format will likely be significant. As noted, under the new legal framework, it is possible that providers of professional services of various sorts could be established as cooperatives—as many providers of these types of these services can operate in relatively small groupings. Whether all of this happens or not depends on how the law is administered, and on what activities can be organized under the cooperative rubric. This cannot be judged yet in as much as the legislation came into effect only in November 2012.

Cuba's legislation might permit a great diversity in the types of cooperatives that could come into existence in a variety of settings. Among the possibilities are:

- A small corner coffee-shop, a shoe-repair shop, a beauty salon or a barber shop consisting of three or a few more employees;
- A former state restaurant converted to a cooperative, with up to 20 former employees becoming members;
- A high-end women's clothing retailing store;
- A manufacturing plant including some 60 plus workers;
- A group of plumbers, electricians, or plasterers establishing a cooperative enterprise together;
- A group of citizens establishing a plant nursery and florist enterprise, growing and selling flowers;
- A group of computer specialists setting up a cooperative for the provision of web design, internet, computer-repair, and computer reselling activities;
- A group of architects, accountants, market analysts, or consultants setting up a cooperative enterprise;
- A combination of various building tradesmen such as carpenters, concrete construction workers, plumbers, or electricians setting up a house-building co-op;
- A confederation of small cooperative coffee-shops or retail outlets.

Not surprisingly, the effectiveness of the cooperative form of enterprise has some major advantages as well as some disadvantages. There was a long debate within the economics profession dating back to the 1960s and 1970s concerning the relative merits of the cooperative form of enterprise. Some of this debate focused specifically on Yugoslavia, which organized its economy on the basis of state-owned worker-managed firms coordinated mainly by markets. Some analysts, among whom Jaroslav Vanek (1969) was prominent, argued that labor-management enterprises operating under markets were the optimal form of enterprise. Criticisms of the Yugoslav model generally were put forward by Branco Horvath (1971) and analyzed more fully by Richard Carson (1973).

Perhaps the most powerful advantage of worker-owned and managed enterprises—or cooperatives—vis-à-vis state enterprises and privately-owned firms

relates to incentives and labor relations (Carson, 1973, pp. 639–641). Because cooperative members share in the benefits of the enterprise—including profit-sharing—presumably they will have a strong incentive to work hard, to “pull their weight,” and to provide mutual monitoring, supervision, encouragement and discipline for each other. The interests, objectives and behavior of the workers and managers who are also the owners are in relative harmony rather than at cross-purposes. In a capitalist or state-owned enterprise on the other hand, the incentive for workers is weaker because they earn the same amount regardless of their effort, and the monitoring of their work effort and output quality from above is more difficult and costly. (However, if workers in either private or state enterprises are paid on a piece-rate pay system or if production bonuses are a major component of workers’ incomes, the incentive to work seriously and efficiently would be strong.) In a workers’ cooperative, the members also probably would be observing and trying to motivate their fellow cooperative members, a phenomenon that would likely be weaker in either state or private enterprises..

The wide-spread phenomenon of petty theft from the enterprise, as practiced by large numbers of employees in Cuba’s state firms, especially after the early 1990s, probably would not be tolerated in a cooperative firm. The behavior encapsulated by the saying “They pretend to pay us so we pretend to work” would likely be criticized and countered by the other members in a workers’ cooperative enterprise. However, if the cooperative is so large that the benefits of the efforts of one diligent worker are shared by a large number of others, there may be a tendency to “free ride” and let other workers do the “heavy lifting.” This means that a smaller cooperative may generate stronger incentives for serious effort by the members than larger cooperatives. Remunerating members with an hourly wage plus a share of profits may well be optimal in order to elicit serious, sustained and effective effort on the part of the members. In any case, the incentive to work industriously is likely stronger in a cooperative than in either a state enterprise or a private enterprise.

Second, the cooperative enterprise likely will operate with a greater degree of flexibility and responsiveness to its market than is the case with the state enterprises. Members of the cooperative will observe and analyze its market directly. They will be in a position to structure its output in terms of quality, price, product diversity and availability to more closely reflect the demands of the market and to adjust its production plans accordingly. The cooperative will also have some flexibility in that the income payments made to its members through the profit sharing arrangement can be directly adjusted to reflect any fluctuations and changes in the demand for the outputs of the enterprise.

It is unclear whether a cooperative would have “incentive” and “flexibility” advantages over a similar-sized private enterprise, however. The continued co-existence of both cooperatives and private firms in the same type of economic activity in many other countries (e.g., credit unions, dairies, hardware retailing) suggests that neither has a huge advantage over the other in these respects. If one form of enterprise were in fact superior, it would presumably push the other forms into extinction, but this has not happened.

In the Cuban case, a third advantage for cooperatives is that they can obtain economies of scale that are unavailable to a “*cuentapropista*” (self-employed worker) or to a very small private enterprise. Many types of economic activity, especially in manufacturing, require larger volumes of output, a larger capital stock and a larger cohort of workers in order to lower the costs per unit of output. This is not possible for most of Cuba’s small enterprise and self-employment sector though it is possible in the state-owned and in the joint venture sectors of the economy at this time. The worker-managed cooperative sector should make possible greater efficiencies associated with larger enterprises than are yet possible in the small enterprise private sector.

Fourthly, the cooperative form of enterprise would generate a more egalitarian distribution of income than privately-owned enterprises of similar size. This is simply due to the profit sharing among the cooperative members. Control by the cooperative members’

assembly over the structure of hourly or monthly wages and salaries and over the profit-sharing arrangement should also be conducive to a reasonably equitable distribution of income, notably between the workers and the elected managers. This is a major advantage of cooperatives, especially in the Cuban context where a high priority has been placed on the equity of income distribution.

The “second degree cooperatives” envisaged in the legislation are of special interest (Decree-Law 305, 2012, Article 5.1). One could envisage a “cooperative coalition of cooperatives” that might resemble a large centralized organization such as “Starbucks” or a franchise operation such as “McDonalds.” Such an arrangement could permit major economies of scale for the design of facilities, for the purchase of inputs, and for advertising and brand-name development, etc. In contrast to large privately owned chains, the distribution of income could remain highly egalitarian among the owners of the coffee-shop cooperatives who would also be the owners of the cooperative confederation. This form of cooperative might be relevant for a variety of retail outlets, personal services, or gastronomical services.

Finally, the cooperative enterprise involves democracy in the work-place, a major improvement over both state enterprise and privately-owned enterprise, in the view of many observers. Under the Cuban state enterprise system, workers have been “order takers.” Their labor unions have largely served as conveyor belts for orders from the top to the workers at the bottom. Rather than defending the interests of their membership, the main purpose of Cuba’s unions has been to ensure that the interests of the nation—as determined by its political leadership—are implemented through the unions. In a private enterprise in most market economies, the worker is also an “order taker,” but may or may not have a strong labor union to defend his or her interests. However, with the cooperatives, the members should be in substantial control through the governing mechanisms that the cooperatives legislation outlined above creates. Democratic enterprise control is an end in itself, but it also strengthens worker commitment to a shared endeavor thereby improving the intensity, dedication

and effectiveness of workers’ efforts. Thus, greater democracy in the work place should result in improved productivity.

Cuba’s establishment of a democratic form of workers’ ownership and control is ironic since its political system is characterized by a highly centralized one-party monopoly in which genuine participation is manipulated effectively from above. Elections in Cuba’s one-party system are a transparent charade and an insult to Cuban citizens. Yet the cooperatives legislation envisages a system of democratic workers’ control. This is indeed an interesting paradox. Presumably the government of Raúl Castro does not feel threatened by the type of workplace democracy that is implicit in the proposed governance structures and the functioning of the cooperatives.

DIFFICULTIES AND LIMITATIONS OF CUBA’S COOPERATIVE LAW

There are some generic weaknesses of the cooperative model and also some specific problems that one can foresee arising from Cuba’s legislative framework for cooperatives.

First, while convincing arguments can be made concerning the potential efficiencies of worker ownership and management, this model has not proven that it is actually more efficient. Cooperatives have certainly passed the “survival test” and indeed some of them have been highly successful (note Mondragón in Spain, and Desjardins and Home Hardware in Canada, for example). However, if they truly represented a more efficient form of enterprise, one could reasonably have expected that they would have gradually captured increasingly large shares of economic activity in many countries. This has not happened to any significant degree, though cooperatives certainly seem to be “holding their own” and maintaining their market shares.

What has held cooperative enterprises back? Cooperatives are often difficult both to establish and to sustain. Indeed, the most basic cooperative in society is marriage and the family, and this institution certainly requires continuous commitment, goodwill, compromise, hard work and perhaps good luck in order for it to endure.

Governance may be a continuing problem for cooperative enterprises. The “transactions costs” of participatory management may be significant. Personal animosities, ideological or political differences, participatory failures, and/or managerial mistakes can all serve to weaken the decision-making process and to generate dysfunction. Of course this can also happen with private enterprises as well as state enterprises.

The conversion of state enterprises to cooperatives, with the former employees as the founding members, may be easier to establish than many other types of cooperatives. When the promotional actions and enabling environment provided by the government are strong, as presently appears to be the case in Cuba, the formation of cooperatives may well be facilitated. As cooperative enterprises get larger, the effectiveness of worker control likely diminishes. In complex capital-intensive manufacturing for example, management has to be delegated to higher-level enterprise managers. This is built into Cuba’s new cooperative governance guidelines.

There are a number of specific features of Cuba’s new cooperative law that are potentially worrisome and could cause difficulties.

Firstly, new cooperatives must go through a complex vetting process before they are certified and can come into existence. As noted above, they must be initially approved by the municipal “Organs of Popular Power” then by the “Permanent Commission for Implementation and Development of the Guidelines” and ultimately by the Council of Ministers. Will this be a reasonably automatic process or will onerous political controls be exerted to determine which cooperatives can come into existence? One can envisage efforts at the highest political levels to approve favored cooperatives or cooperatives in particular areas of the economy and thereby to shape the evolution of the sector in accordance with preconceived official ideas, as opposed to letting the sector evolve spontaneously and naturally. With such controls on the approval process, the emergence of the cooperative sector could be deformed and stunted. On the other hand, conceivably the approval process will be less controlling and permit all feasible proposals to be attempted. The

Chief of the Management Model Section of the “Permanent Commission” assured journalists that this process would be “open” (*Juventud Rebelde*, 2012). But in the same article, he stated that some cooperatives would be established “according to the interests of the state” (Ibid). If this is the case, the principle of voluntary membership could be jeopardized. Cooperatives established in this manner would resemble those in agriculture that were imposed from above, with negative consequences in terms of both worker commitment and the effectiveness of the incentive system in the cooperative.

Secondly, the cooperative legislation calls for the initial creation of some 230 cooperatives only, on a type of experimental basis after which they will be evaluated—perhaps in one year’s time (Ibid). The legal framework will then be revised in the light of this evaluation. This could be a very positive process, and is in keeping with the cautious and deliberative character of President Raúl Castro’s approach to policymaking. It is also appropriate in view of the lack of experience in Cuba with non-agricultural cooperatives. However, this could also permit either a policy reversal or else an intensification of political controls on the cooperatives if their emergence displeases the Commission

Third, it is unclear whether or not the Commission and the Council of Ministers will permit cooperatives offering professional services to obtain certification. Such permission would represent an important step forward in the evolution of the Cuban economy, because a wide variety of professional enterprises are likely to come into existence quickly. These would utilize Cuba’s professional human resources more effectively than is currently the case under the state-controlled economic system.

A fourth weakness is inherent in the rules for hiring non-member workers by a cooperative. According to the legislation, a cooperative may only hire workers for a maximum of 90 days, at which time they have to be permitted to join the cooperative or else they must be dismissed (Decree-Law 305, 2012, Article 26.1). Moreover, the amount of labor that can be hired is limited to 10% of the total number of labor-hours worked in the enterprise.

These two rules will probably limit employment generation in cooperative enterprises—hardly a desirable outcome. They may impose an undue rigidity on the cooperative and do a disservice to potential short-term contract workers. If a worker provides a specialized full-time or part-time service to one or perhaps several cooperatives, the worker may prefer not to become a cooperative member and the cooperative itself may prefer this arrangement. Furthermore, a cooperative could consist of a number of professionals as principal partners who also need some different and less-skilled tasks completed. Imagine cooperatives of lawyers, architects or web designers that need some short-term form of secretarial support or the services of a receptionist or of a computer specialist. In such cases, if the cooperative members could not hire a longer-term employee, perhaps they would have to expend their own time on such work, wasting their time, reducing the effectiveness of the operation and also depriving someone else of a job. In these instances, a case could be made for permitting the longer-term employment of hired non-member workers by the cooperative. However, this could also lead to a two-tier arrangement in which the cooperative members—who share the profits—restrict membership in the cooperative in order to reduce the number of persons to whom profits are distributed. This is a complex issue that presumably will require future adjustment.

Fifthly, egalitarian rules for membership in a cooperative (Ibid, Article 21.1) may be advantageous in some sense because they seem fairer and perhaps strengthen work incentives. But when differential contributions to a cooperative are ignored by the membership rules, there may also be a harmful impact. Why would a worker who commits a major amount of personal capital into the establishment of a cooperative willingly relinquish the control over this contribution to other cooperative members who had made no such investment? This could militate against the establishment of cooperatives, and promote private sector small enterprise instead.

Sixthly, governance in cooperatives can be difficult. For a very small cooperative of approximately three to seven members or so, perhaps it is easier and more

worthwhile to have an owner-operator in charge, taking full responsibility, working seriously and ensuring that the few employees involved also work seriously and act responsibly. Such a small-sized cooperative might not have any significant advantage over a small private enterprise of the same size. But as a cooperative gets larger, perhaps its democratic governance structure and incentive environment enable it to develop a growing advantage over comparable-size private firms. Thus, it is difficult to make generalizations on the relative efficacy of cooperatives and private firms without going into the specifics of alternate governance arrangements.

The three alternative governance structures delineated in the Cuban legislation (Ibid, Article 10.1) try to match the complexity of administrative structures to the size and complexity of the cooperative. However, the high level of detail in the legislation concerning the governance of the first degree cooperatives (as presented in Council of Ministers Decree No. 309) suggests that governance may be difficult, contentious and cumbersome, and may impede more “nimble” action by the cooperative.

Lastly, what will be the role of the Communist Party in the new cooperatives? If the control of the general assemblies of medium and large-sized cooperatives is captured by nuclei from the Party, not only would workers’ democracy be subverted, but incentives to work seriously would likely be diminished. Will the Party keep out of cooperative enterprise management?

IMPLEMENTATION BEGINS

The first sixteen non-agricultural cooperatives began operation on July 1, 2013 in the province of Artemisa (*La Nación* 2013). A total of 126 had been approved for the whole country and were expected to become established soon thereafter. Of the sixteen cooperatives in Artemisa, thirteen were retailers of agricultural and food products, one was in transportation, one in construction, and one in recycling. The transportation cooperative had 71 members—a significant size. These cooperatives are considered to be experimental pilot projects. They will serve as a test case for further modification of the legislative framework in order to ensure that the cooperatives

can be viable. This cautious approach would seem to be reasonable. Cuba is entering an area that is virtually uncharted territory for the country. Moreover, there is very limited experience in the rest of the world from which Cuba can draw insights and inspiration regarding an economic system that includes a large cooperative worker owned and managed sector operating within a market framework.

While there is very limited information available at present given the newness of this experiment, initial reports from a number of journalists specifically invited to the island by the government in July 2013 to see the new cooperatives in action were not encouraging (Frank 2013a; Caruso-Cabrera 2013). While the economic reform czar Marino Murillo openly acknowledged that, “Life has demonstrated that the state cannot occupy itself with the entire economy, that it must cede space to other forms of administration,” he also poured cold water on hopes for bolder pro-market reforms by stressing that the introduction of non-agricultural coops and reforms in large state companies constituted a “transfer of administration and not a ‘property of the people’ reform” (Frank 2013).

SUMMARY AND CONCLUSION

Cuba’s December 2011 initiative for the establishment of non-agricultural cooperatives may permit the emergence of larger scale non-state enterprises that could operate with greater effectiveness than state enterprises. Moreover, such cooperatives may well have advantages over private sector enterprises particularly regarding the equity of their income distribution arrangements and also workers’ incentives and levels of commitment.

If this initiative is implemented broadly in the Cuban economy, it could constitute a change and perhaps an improvement of historic dimension. With much of the state sector of the economy converted to cooperative institutional forms, Cuba could become a country of “cooperative socialism,” which would be

quite different from the highly centralized and state-owned system to which it has aspired for half a century.

However, authentic cooperatives are not easy to establish, to manage or to operate effectively. There are also a number of uncertainties and potential problems which are specific to the Cuban case, judging from the legislation. Perhaps the more serious of these potential difficulties include firstly, the approval process which is unclear and susceptible to control from the center; secondly, the nebulous role of the Communist Party in the functioning of the enterprises; thirdly, the limited possibility of hiring of non-member workers; and finally, the uncertainty as to whether or not cooperatives providing professional services of various sorts will be permitted.

It is wise that the government is proceeding cautiously and that it is considering the cooperative enterprises’ first phase as “experimental” and tentative in character. The legislative framework within which these cooperatives operate can then be modified on the basis of the initial experience. This pragmatic approach is pointedly different than the decision-making process under President Fidel Castro, in which substantive policy shifts and institutional changes were determined by the President and implemented rapidly such that the full foolishness of the decisions would become apparent only after it was too late to change course.

If it comes to fruition as it is envisaged in the cooperatives legislation, the role of worker management and of worker control could constitute a significant degree of “economic democracy” for Cuba. This would be a significant and, indeed, a paradoxical development in view of the near complete lack of authentic democracy in Cuba’s political system. Will democracy in the workplace generate a strong pressure and impetus for the spread of genuine participation in the political sphere?

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