

THE CUBAN ECONOMY 15 YEARS LATER— ON FIRMER GROUND, BUT MUCH STILL TO DO

Gary H. Maybarduk¹

I arrived in Cuba in 1997 as Counselor for Economic and Political Affairs at the United States Interests Section. At the time, the Cuban Government had completed the economic reforms it felt necessitated by the “special period.” Before I left 22 months later, in 1999, some of those reforms were coming undone. This past March, I returned after 15 years, for an 18-day visit. I had been reading, writing and studying Cuba during my absence, but had reached the point that I needed to experience the country again if I was going to continue to write and be relevant. I also hoped to gain access to many places, farms and people denied to me years earlier as an American diplomat. I was fortunate to achieve more than I expected, if less than I had hoped. The trip changed some of my perceptions.

This paper is by its nature wide-ranging, but it is not a presentation on the state of the Cuban economy. Rather it is a report on my observations, collected anecdotes, and some research conducted after my return. Where possible I try to analyze what I found and report my conclusions. Elsewhere I just report what I found. I hope readers and researchers will find it useful.

GENERAL OBSERVATIONS AND FIRST IMPRESSIONS

The first change I noticed was on the flight from Tampa to Miami. The passengers appeared to be mostly Cubans—not Cuban-Americans. Cuban-Americans have always brought large packages of goods for their Cuban families, but this time the packages seem to have grown exponentially with some passengers unloading large bundle after bundle in Havana. Despite the threats of a ban on the importation of clothing for resale in Cuba, most of those bundles seemed to be clothing, along with computers and televisions. Customs and immigration officials appeared quite relaxed and let most suitcases through without examination.²

The drive into town from the airport brought back memories as well as changes. The old refrigeration/air conditioner factory near the airport seemed as rundown as ever. My driver said it only does repairs now. I was impressed with the new paint covering most houses along the road. Closer examination revealed the new paint did not often penetrate into the side streets. My driver informed me that the houses had been painted for the Pope’s visit.

Miramar, however, showed considerable improvement, with many painted and renovated houses, some new and expensive looking apartments, and a

1. The author would like to thank the many Cubans, farmers, *cuentalpropistas*, economists, and old friends who shared their experiences and opinions with me. They are the real authors of this paper.

2. On September 1, the Cuban government announced new restrictions on the amount of goods that could be imported by Cubans returning from abroad.

multitude of restaurants, both state and privately owned. Similar improvements were evident in Vedado. Old Havana, which is very crowded with tourists and ordinary Cubans, also showed similar improvements, although that process had started during my first stay in Cuba and I was surprised it had not progressed further. There remain numerous tenements. For the tourist at least, Havana is no longer a culinary wasteland. Many of the restaurants are quite good, have an international flavor, and are luxurious and modern. Dining costs are about the same as in the US.

The obvious question is the source of the money that has paid for the renovations and new construction. Much, probably most of the money is coming from families in the diaspora—Miami, Spain, Ecuador—and foreign investors who see a chance for a niche business. The financial arrangements are varied. Near where I stayed in Havana, there is a restaurant owned by an Italian who acquired three houses for their previous occupants and then rebuilt the structure. Apparently, it failed as a high-end restaurant, but now serves a modest menu and excellent pizza (for 3.5 CUC³). At one place I stayed the owner received a 10-year loan from family that he has since paid off. Another owner has been able to make improvements with the help of satisfied guests, who contribute in exchange for discounts on future visits. It was also apparent that some of these businesses might now be self-sustaining and able to make improvements through self-financing.

Two common complaints from private businessmen were the lack of wholesale markets and taxes. The lack of wholesale markets forces many business owners to spend most of their day finding supplies. Generally, the owners felt their taxes were fair but burdensome, especially the fixed-monthly license taxes, which must be paid even when business is slow. Businesses are required to keep detailed records of their revenue and expenses. Inspectors come regularly. It appears the Government is very efficient at collecting

taxes. I should note that the need to ensure the collection of taxes from the private sector was an expressed concern of Cuban officials during the “special period.” Any evaluation of Cuban tax policies needs to consider that concern.

Many of these businesses have non-family employees. The first five employees they hire are required to pay their own taxes. For the sixth onwards, the employer is required to pay an employment tax directly to the Government. Most businesses I talked to have been careful to keep their number of employees at or below five.

Miramar and most of the places I visited also seemed to have more stores of various types. I found a hardware store in Miramar. I do not believe I could find one anywhere in Havana 15 years ago. Clothing stores are also more obvious although they only seem to sell foreign clothes (more in the section on manufacturing). I also found a tropical fish store.

A family that 14 years ago had a small private plant nursery now has a thriving bakery that makes pastries and cakes to order. It supports three adults and two younger family members and several employees. The business is registered but they do not have an open shop or a sign, because of a jealous neighbor who is quick to report anything she deems suspicious. They deliver the pastries via an old Soviet sidecar motorcycle.

One sign of better economic conditions is the local artisanal fishing fleet operating out of the Almendares river that divides Havana. During my previous stay in Cuba the boats never moved; now they go out on a regular basis. They pay full price for their gasoline and sell to the Government wholesaler. The old system of providing some gasoline at a very low subsidized price has disappeared.

ARE CUBANS BETTER OFF?

Visually, most Cubans seemed better off than before. Many people seemed to be better dressed, the span-dex is gone, and better shod.

3. The CUC is convertible with other foreign currencies with \$1=1 CUC. The other domestic currency used in Cuba is the Cuban peso CUP (1 CUC = 25 CUP).

The most visible changes are in power and transportation. The blackouts that dominated Havana in 1999 seemed to have disappeared. I encountered only one short blackout during my entire stay in Cuba and that only lasted an hour.

One economist pointed to consumer behavior as an indicator of improved living conditions. According to this source, in 2008 only 80 thousand Cubans stayed in hotels or lodgings that charged in CUCs or hard currency. By 2013 that number had risen to 648 thousand.

Chinese buses now dominate inter-city travel and are quite prevalent in Havana as well. The old “Camels” are now gone. Taxis—almost all privately owned older cars—that drive along fixed routes and pick up and drop off passengers anywhere along the route—are now plentiful and cost 10 pesos per zone. Taxi owners pay \$70/month in taxes. Those who rent their taxis from the Government pay several times that amount. A trip from the Marina Hemingway to the Capitolio costs 30 Cuban pesos (CUP).

That said, about half the Cubans to whom I spoke did not believe their lives had improved. One person exiting a dilapidated old mansion right around the corner from where I used to live in Miramar, was quite firm on the subject. He is a *cuentalpropista*, who constructs metal fences and grill work. Although he recognized the improvements in transportation and power, and like virtually all Cubans was grateful for the free system of health and education, he did not believe his life was significantly better. He spoke of the gratitude Cubans felt when salaries were raised, but noted that two weeks later the costs of electricity and water were raised so high as to more than wipe out the salary increases. Many other Cubans, who also complained about high food prices that had risen faster than salaries, echoed his views.

On my last day, I toured by Coco Taxi the area of town called 10 de Octubre, an industrial area near the port and home to a large part of the city’s population. There I saw no progress whatsoever—crumbling factories and homes with no signs of reconstruction or new building. Even peoples’ footwear seemed reminiscent of the 1990s.

Old contacts from the 1990s and the families with whom I stayed on this trip divided on the subject of the public’s welfare. Several, however, thought that the majority of the population was not benefiting from the changes. There was general unanimity that income inequality was growing and was likely to continue to do so. That view coincided with my own impressions.

¡AQUÍ NO SE HACE NADA!

Almost every Cuban I interviewed volunteered the comment that Cuba manufactures nothing. Cuban statistics report that non-sugar manufacturing has remained constant in recent years at about 13–14 percent of GDP. The same statistics also show a growth in non-sugar industry of about 20 percent since 1999. Despite those numbers and aside from rum, cigars and beverages, it is hard to find much evidence of Cuban manufacturing.

I found no evidence of Cuban manufactured clothing in the stores, a finding confirmed by several of my interviewees. A visit to a textile store, at 42nd and Quinta in Miramar, turned up only one bolt of Cuban fabric—a medium weight white material made of cotton and polyester. Discussions with one Cuban family suggested individuals sewed little clothing as it was too expensive, primarily because of the cost of materials. At stores selling clothing, almost everything was from China.

Packaged food and household products showed the same phenomena, although the foreign sources varied. Products from Argentina, Brazil, Ecuador and Spain were common. I was a little surprised to find nothing from Venezuela, although that is likely due to the deindustrialization going on in that country. I have listed some of the Cuban-made products in the attached price survey. At the hardware store and other stores that sold hardware, I found no Cuban products. Cuban-made inexpensive plastic products such as bowls and cups were available when I left in 1999. Today Chinese products seem to have replaced them.

I sought out manufacturing plants in Placetas, Santa Clara and Havana. At the closed Benito Juárez sugar central in Placetas, I found an aluminum manufacturing plant although I could not determine what it made. It may have just processed recycled aluminum

cans. The government bottles soda type beverages in Guane at the Western tip of the island. There was another aluminum plant in Santa Clara. My driver said it made antennas, but what else was uncertain. There is also a plastics factory. We also passed a factory that supposedly manufactured agricultural equipment, but all I could see was one tractor-pulled cultivator in front of the plant.

Santa Clara also has a large electro-domestic factory, although it now mostly does repairs. A large number of dilapidated apartment buildings built for its workers surrounds the factory.

In 10 de Octubre in Havana, we passed a detergent factory that was in operation. A meat packing plant that dates to pre-WWII was also open. My driver pointed out a metal fabrication plant that apparently did specialized tasks for the government. There was no obvious activity. A factory that once assembled auto parts was closed.

Although my look at the manufacturing sector was cursory and less than systematic, it would seem that manufacturing has not benefited from the current reform effort.

CONSUMER PRICES

I collected data on consumer prices in Havana and Santa Clara at the request of several colleagues who wanted them for exchange rate studies. They would also be useful for cost of living studies. As a reference, the mean wage in Cuba was 465 CUPs in 2012. The data is presented in the appendix. Researchers using this data should read the notes with care.

A few prices merit special notice. Very high tariffs and taxes on new cars have made them unaffordable, although the government now allows Cubans to buy and sell cars freely. The income cars can generate when used as taxis and the remittances that often help with their purchase has driven the price of old cars to impressive levels. Fifteen thousand CUCs seemed a standard price for 40–45 year old cars in good condition.

A similar phenomenon appears to be occurring in real estate. The bed and breakfast where I resided in Miramar in Havana was a comfortable, partially remodeled, but not luxurious 4–5 bedroom home. The

owner had recently received an offer of 600,000 CUCs from a foreign investor. With a boom in tourism these homes are money-makers, but my own calculation was that gross earnings, before taxes and expenses, were unlikely to exceed 20,000 CUCs per year. That would suggest that real estate prices have a large speculative element.

DOCTORS—CUBA’S PRINCIPAL AND FUTURE EXPORT INDUSTRY OR “TO EACH ACCORDING TO HIS WORK”

Cuba’s growth industry is the export of medical services and it is likely to remain the country’s largest earner of foreign exchange for years to come. During my visit, the government announced a doubling of wages for doctors and nurses in most specialties and almost a tripling for other specialties. The government justified the increase by emphasizing the amount of foreign exchange the doctors earned. According to the March 21, issue of *Granma*, Cuba expects earnings of 8.2 billion CUCs in 2014 from the export of medical services. That is 64 percent of all exports of services, including tourism and donations.

A large part of the services component is of course essentially a subsidy to Cuba by the Venezuelan government and perhaps now the Brazilian government as well. However, given the excess of doctors on the island and the need for doctors elsewhere in the world, Cuba’s medical professionals are likely to provide a large source of remittances in the future, even if the government-to-government agreements disappear. Now that Cuban citizens can travel, there appears little to prevent Cuban doctors from seeking their own employment abroad.

CURRENCY UNIFICATION

An issue that dominated my contacts’ policy interests was currency unification. The uncertainty over the conversion rate between the CUC and the CUP is of critical importance to the average Cuban since individuals need to decide in which currency to place their savings. I was reminded by several contacts that unification *will* take place fully by the end of 2016 if not before. All seemed to believe that date is fixed. (Maybe they were simply responding to my skepticism.)

The Cuban economists I interviewed all mentioned that the conversion would first take place in state enterprises, where it is already underway. The details, however, are very foggy. All state enterprises have moved from the 1:1 exchange rate, but some essential goods are still valued at 4 CUPs to 1 CUC. Others operate at a 10:1 rate and still others at 25:1. There may be other rates as well. One economist reported the IMF had recommended against any rate less than 25:1.

Among the economists, there was general agreement that the transformation for some firms would be difficult. One said that the 25:1 rate would wipe out some firms' capital and suggested some sort of support for those firms would be needed, at least temporarily. The inflationary effects were clearly a concern and one source said the government had to avoid the problems going on in Venezuela—which was going through mass protests. I suspect we will see currency unification on schedule; a unified exchange rate may take more time.

CUBA'S FOREIGN INVESTMENT LAW (WITH VENEZUELA ON THEIR MIND)

The Cuban government has to be cognizant that Venezuelan assistance will not last forever. They have made economic simulations that confirm the obvious—that the cessation of the aid would set back the economy, but several economists are convinced it will not be as severe as the withdrawal of Soviet aid in the 1990s. One thought that economic growth might restart within two to four years.⁴ Key to their thinking is the diversification of the economy, the increase in tourism and the likely continuation of the export of medical services, including to Venezuela. However, there also seemed to be an almost universal recognition of the need for foreign investment, with many contacts arguing that it is necessary for economic growth.

The new foreign investment law was eagerly awaited by many of my Cuban contacts and was finally published on April 16, 2014. Although I will let others fully dissect the law, it appears on the surface to be truly paradigm changing. Foreign firms will be able to buy and sell directly in the international markets with no government intermediaries, to remit dividends, to hold foreign banks accounts, and to obtain credits from foreign institutions. It grants the same rights to joint ventures, which can include non-state Cuban entities.

Perhaps most significant is the opening of almost the entire economy to foreign investment. The only limitation the law allows is in investment in education, health and non-commercial military enterprises. The potential exists for foreign investors and joint ventures to engage in retail and wholesale trade, sell agricultural inputs to individual farmers and enter into transportation industries, although other laws will need to be changed before this potential can be realized.

Of course, the law still takes place in a Cuban context and the government does not easily relinquish its desire for control. Foreign investments and joint ventures must still obtain approval from the Council of Ministers or other state entity authorized by the Council of Ministers. It is not clear if foreign investors interested in small enterprises such as *paladares*, bed and breakfasts, or *cuentapropistas* will have to go through the same process. A redeeming feature comes in Article 22.3, which calls for the competent authority to make a decision to approve or disapprove an application within 60 days. It will probably take some time before we will know how far into the Cuban economy foreign investment will be allowed to spread.

Although perversely the law seems to give more rights to foreign than Cuban investors, the ability of

4. This likely came from a recent paper from Pavel Vidal Alejandro, "Proyecciones macroeconómicas de una Cuba sin Venezuela," available from the Cuba Study Group at www.desdelaisla.org. Vidal does not give the equations behind his estimations, but does give his assumptions. Key is that Venezuela would reduce its assistance gradually, perhaps keeping many of the Cuban health workers for a prolonged period. He also assumes that the export of medical services to other countries would increase. Vidal's assumptions are very plausible, but not certain. His principal conclusion, however—that a loss of Venezuelan assistance would not lead to a downturn as bad as followed the loss of Soviet assistance —is, I believe, correct.

foreign firms to form joint ventures with private Cuban companies may mitigate the difference. Any medium scale Cuban firm is likely to need foreign investment for some time. The law could also help fully owned Cuban wholesale and retail stores since, at least in theory the foreign firms and joint ventures could now sell to the stores directly without prior government approval.

The requirement that the foreign firms must still use a government employment agency is a disappointing provision carried over from the older foreign investment regime. One economist promoting the new law pointed out that in the Mariel special development zone the employment agencies are only able to charge for transaction costs, and no more than 20 percent of the wage rate charged to the employer. He thought that system would eventually be implemented for all foreign investment.

However, the new labor regime in the Mariel special development zone still presents a major roadblock to foreign investment. The government will still collect the largest part of the wages, since it calculates the exchange rate of the CUP to the dollar at 10, rather than the current common rate of 25. The government also sets the wage rate the employer pays, usually much higher than market rates. The result is still a system that inflates wage costs while leaving a huge gap between what the foreign investor pays and what the employees receive. The latter problem, but not the former, may disappear when and if the government unifies the exchange rates. Until the Government addresses both problems, it is unlikely that Cuba will be able to attract much in the way of export-oriented assembly industries.⁵

Most Cubans with whom I spoke were eagerly awaiting the new foreign investment law. To be sure, Cuba has a history of taking two steps forward and one step back or sometimes one step forward and two steps back, but this time, despite the caveats, the new

legislation feels organic, the natural next step in an accelerating process.

BRAZILIAN INVESTMENT

I was unable to find much information on Brazilian assistance. We tried to visit the 5 de Septiembre sugar mill near Cienfuegos, but we were denied entry, a policy that appears to apply to other foreign observers. From the outside, the mill looked in good shape and was processing cane. No new equipment was visible from a distance. The Brazilians are reportedly putting in a sizable cash transfusion in this joint venture, but the terms of the agreement are not accessible. One source reported the Brazilians do not have an equity interest. The Cuban press has generally been silent about this joint Cuban/Brazilian venture, as demonstrated by the blank stares I received by many Cuban contacts who had never heard of it.

A journalist told me that the Cuban Government has eight mills available for such joint ventures. The eight, all constructed after the revolution, are not subject to Helms-Burton problems. So far, there is little reported interest in the other mills and the government may be reconsidering the terms. Another source reported that the 5 de Septiembre mill was chosen because it was the newest and most modern in the country.⁶

The new port at Mariel remains closed to diplomats and journalists. From a distance, four large cranes are visible along with what are presumably warehouses. The area around the port is a new special development zone. On the outskirts of the new port, there is considerable road and interchange construction underway. One journalist suggested that one should not read too much into the Brazilian involvement. The contractor, he said, is a Brazilian firm whose shares are widely held by Brazilian legislators.

Other observers, somewhat less cynical, are hopeful that the zone will attract new investment, but the key word is “hopeful.” Cuba initiated export-processing

5. An excellent and very complete discussion of this issue has been done by Jorge Perez-López, “Investment Incentives of the ZED Mariel: Will Foreign Investors Take the Bait?” in this volume.

6. For a list of Cuban sugar mills, their new and old names and dates of construction see: <http://www.cubagenweb.org/mills.htm>, accessed July 27, 2014.

zones in 1997. They were not successful and the Government closed them in the early 2000s. A key problem was inflated wage costs as discussed in the previous section, but a lack of markets must also have been a drawback. Most free trade zones in the Caribbean and Central America export to the US market. Cuba did not and does not have that opportunity.⁷

AGRICULTURAL CHANGES ARE TAKING PLACE AND RESULTS SHOULD BE FORTHCOMING

A key puzzle for Cuba's economic reforms has been the apparent lack of response in production; to explore this with respect to the agricultural sector, I devoted a good part of my trip to visiting farms.

Tobacco

My first stop was in Viñales where I stayed at the home of a tobacco farmer. His farm has been in the family for five generations. (Tobacco farms escaped the nationalization of land that occurred in the rest of agriculture in the 1960s and 70s.) He has five *caballerías*, less than his grandfather had, but said he had no desire for more land. He had one full time employee, an old man who worked for his grandfather. He hires others as needed and had two youths working part time when I visited, but from observation, I gather he does much of the labor himself. He has a new drying shed made from corrugated tin, which replaced an older wooden shed destroyed by hurricanes. Throughout Eastern Cuba, I noticed numerous homes with new roofs replacing those destroyed in the 2008 hurricanes.

The farmer is also a doctor who works in Pinar del Río, while his wife, a nurse, works in public health in Viñales. They make home visits and patients come to their house for consultations. They have two teenage daughters. He bought their car, a late model Mitsubishi, while working as a doctor in Ecuador. Their house in downtown Viñales is modest, but comfortable and well built, with two guest rooms for visitors. His parents built it in the 1970s and from the outside seemed similar to many other homes in Viñales.

The original family home is on the farm and houses a disabled aunt.

The farm produced about 6 tons of dried tobacco in both 2013 and 2014. This year the crop has suffered from cold weather and too much rain. However, prices paid by the state were raised this year and he sold the crop to the state for 55,000 CUPs. Last year he received only 7,000 CUPs. He expected prices to remain high in the future, but had no plans to increase production.

The farmer reported he had no problem getting financing, which came from a bank, not the *acopio*. He was pleased that the bank would roll over the loan in a bad year. (It was not clear if this was a new system of financing, but I suspect not. Tobacco farming has operated on a much more commercial scheme than the rest of agriculture for a long time.) Lately he has had no problem in obtaining the inputs he needs. He belongs to a *Cooperativa de Créditos y Servicios (CCS)*, and shares equipment with other members. The CCS does not have its own transport.

Tobacco is only in the ground for 3 months, so he rotates the land with corn and grows some coffee and beans. He has several pigs and twelve head of cattle, which he sells to the state and uses for a personal source of milk. He claimed he does not use the cattle as a source of beef for personal consumption—which would be a violation of the law—explaining that the state meat inspectors are very efficient.

A visit to a second tobacco farm near Pinar del Río resulted in similar information. The farm was large and appeared more organized. It also doubled as a tourist location. There, the spokesman, I believe the owner, confirmed that tobacco prices had been raised, and inputs and financing was readily available. Rain and cold weather had also been a problem for his farm.

Sugar Cane

A trip from Santa Clara took me to three sugar centrals, a pig farm, a CPA and a pineapple farmer. I was especially interested in visiting some of the closed

7. Again, it is worth reading Jorge Perez-López, *op. cit.*

sugar mills, to try to determine what has happened to the displaced workers.

In Placetas, I visited the Central Benito Juárez, a sugar processing plant that was closed around the late 1990s. It was a sad scene. The mill had been scrapped, with a large part sent to Japan. What remained was some of the structure, some homes and community buildings, dusty and empty streets, and a working forge and machine shop. Three older, former employees of the mill staffed the latter and did some work for an aluminum fabricating plant on the site and some private work. They were making tire irons while we were there. The two American-made machines were over 50 years old and, according to the blacksmith, the anvil had seen seven generations of blacksmiths. They make their own charcoal from wood using a bellows.

According to the three ex-employees, the Central once had 210 employees in the mill and perhaps—the sources were less certain—a thousand more in the fields. Some were now working in the aluminum plant, which apparently did recycling, or working on cattle farms or on land they had received from the state as *usufructuarios*.

In Matanzas, I visited the 10 de Octubre sugar mill, closed in 2006. It was one of four mills originally in the area. Only one is still operating. The desolation was similar to what I had seen around the Central Benito Juárez although there were more people and activity in the immediate vicinity and agricultural activity near the mill was more apparent.⁸

According to those who still resided around the mill, it once had 300–400 employees. I asked about the fate of the employees, and heard that many had retired, since very few young people were working at the mill when it closed. Others were now working at the remaining mills. A state production firm was now working much of the land, which belonged to the UBPC. Signs along the highways suggested it was common practice to have a production firm managing farming on many UBPCs.

Some former employees were also working in usufruct land, apparently granted by the UBPC rather than the state. An economist in Havana later told me that he thought the practice was common, although not specifically provided for under the law.

Throughout the trip I noticed uncut and short sugar cane. The explanation from several sources was that the season had been cold and wet and delayed or impeded growth.

Two Usufructuarios

In Matanzas, I visited a pineapple farmer, a member of a CCS. He earned 3–4 CUPs per fruit, more than he used to receive. The pineapple would sell in the cities for 6 CUP. His main complaint was the cost of intermediation. Only a small part of his production went through the *acopios*. Credit and agricultural inputs were sufficient and his income was growing. He also produced milk and used sugar cane as feed.

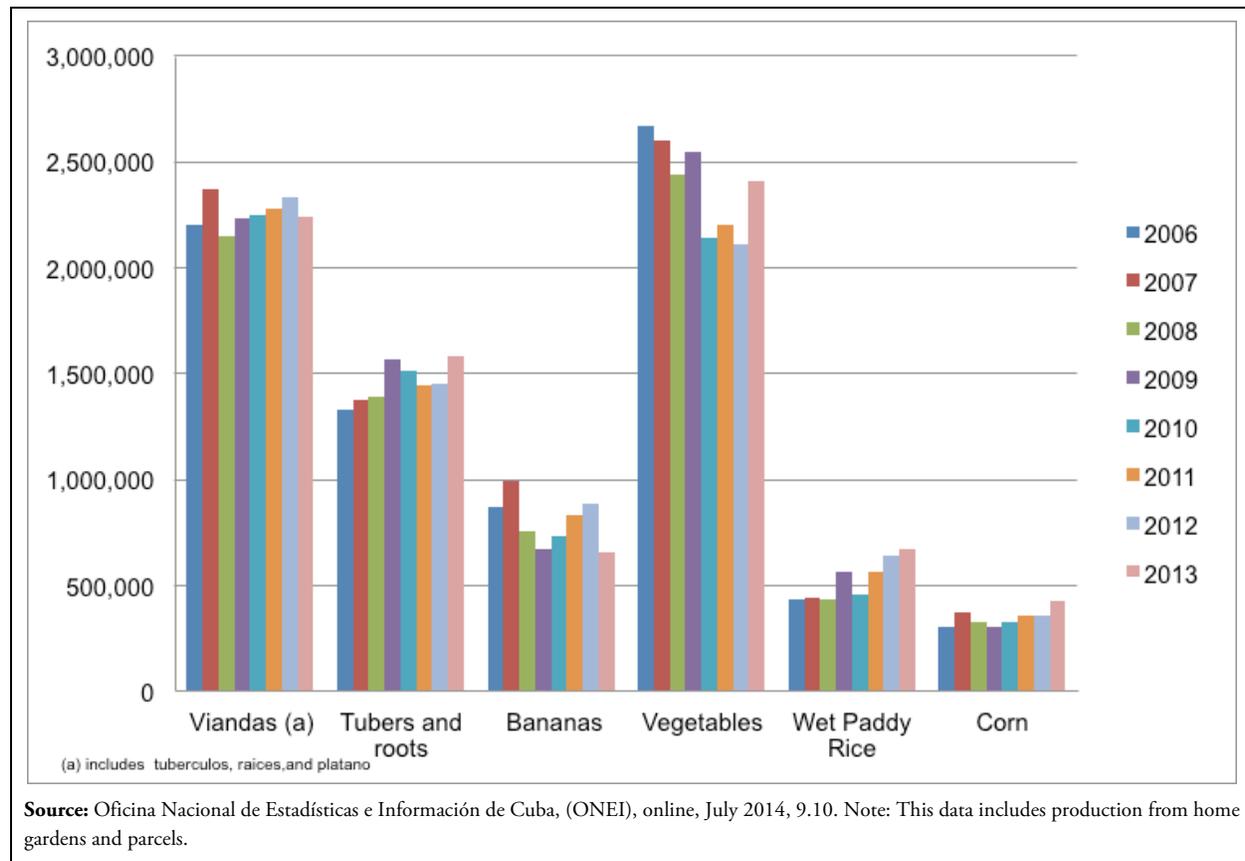
Placetas is a major center for Cuban pig production and there I visited a very successful pig farm. The owner, a member of a CCS, had received his two *caballerías* of land, 66 acres, in usufruct, but told me that under Ley 300 he can receive as much land as he can farm. He is in the process of clearing more land. He was not new to farming and originally had a smaller farm at a different location. He has 300 pigs. His sole customer is the state. He purchases his feed, made from soy and wheat husks, from the state or his CCS. He is apparently considered a model farmer and was expecting a visit from the Minister of Agriculture the following week.

He has also purchased two quarter-horses for breeding which cost \$14,000. It was not clear who would buy the foals, but my host in Santa Clara thought there were now enough rich people in Cuba to afford it.

A CPA

In Placetas, we stopped by a CPA where we met a retired farmer who was once on the cooperative's governing board. Production on the CPA is almost entirely for auto-consumption. It produces numerous products including sugar cane used as feedstock for

8. A Soviet tractor passed us at the mill. It was operating on three wheels, despite having lost the entire right front wheel.

Chart 1. Agricultural Production by major groups thousands of metric tonnes

cattle. The cooperative once had 80 members but now far fewer. Active members once received salaries and shared profits according to hours worked. This cooperative was clearly dying.

There were several rows of modest single-family homes on the site, built by the CPA about thirty years ago. They looked like much of the rural housing found throughout the island. The home we visited original's cost was about 5,000 CUPs, which the owner paid for over 20 years. An open, airy structure with one or possibly two bedrooms, it had a bath, simple furniture, a stove and a newer refrigerator of the type found in every home I visited. The Cuban government distributed the refrigerators throughout Cuba as part of its campaign to reduce electrical consumption. Compact fluorescent lights, also part of the campaign, are now the norm as well.

¿Y producción?

Virtually all the private farmers interviewed on my trip appeared optimistic for the future. All approved

the reforms so far. Unfortunately, there is no evidence of a systemic supply side response. The question is why?

A review of Chart 1, agricultural production by major groups from 2007 through 2013, provides little insight into the impact of the new changes in the agricultural sector. Further disaggregation by types of farms, given available data, also fails to produce any sense of movement.

However, if we focus on production by the private sector, principally the output of the CSSs (Chart 2), we find a somewhat brighter if still tentative picture.

Although the data vary from year to year, the overall trend of private sector production is upward, except for potatoes and beans. Both the latter are dependent on the government providing the seed. During my visit, several people told me that potato production for 2014 would again decrease due to the late delivery of seed and too much rain.

Chart 2. Year to-Year Growth of Private Sector Agricultural Production by Major Groups



The general deficiencies of the new agricultural reforms have been apparent from the beginning. They include the lack of agricultural inputs, tools and other farm implements; lack of credit, inadequate prices, the difficulties of clearing *marabú*-infested fields, lack of transportation, and bureaucratic delays in the approval process of usufruct contracts.⁹

In a recent paper, Armando Nova González has pointed out many of the disincentives in Decree-Laws 259 and 282, the two statutes passed in 2008 regulating the distribution of idle land.¹⁰ Farmers could receive up to one *caballería*, about 32 acres, for 10 years, renewable at the government’s discretion for another 10 years. Nova Gonzalez observes that

this was an inappropriately short period, especially when no differentiation was accorded for the type of agricultural use. There was no right of inheritance and there was considerable vagueness in the non-compliance provisions that could cause revocation of the usufruct license. If the government reclaimed the land the farmer was entitled to compensation for any improvements to the land, but not for any residence improved or built on the land.

In late 2012, the law was amended by Decree-Laws 300 and 304, which increased the amount of land that could be distributed to five *caballerías*, about 167 acres. The new contracts are for 25 years, renewable in 25-year increments. In case of the death or incapacitation of the original contract holder, preference for new contracts is given to families working the land.

The law also provides that those who hold their land in usufruct and are affiliated with a UBPC, CAP, or CCS *can* obtain their agricultural inputs via their institutional affiliates. That provision appears to have reduced the role of the *acopios* as the intermediaries for inputs, which corresponds to what was reported by the private farmers. In his paper Nova González expresses the concern that this provision is actually limiting the choices presented to the farmers, but the use of the word could (“podrán”) would seem to leave open other possibilities.¹¹

In March 2014, the government made it explicit in the case of the Isla de Juventud, when it announced an experiment to allow farmers to buy agricultural implements and inputs directly.¹² As in so many Cuban government announcements, there was ambiguity in the decision. Some agricultural implements are now available for regular sale in new farmers supply

stores around the country, but the new policy in the Isla de la Juventud apparently allows for a wider variety of inputs, including fertilizer and medicine. However, from the newspaper reports it appears that only government stores are selling the inputs. That is likely to ensure periodic shortages and missing inputs until private firms can import and sell to farmers directly. That may come with the new foreign investment law, but would be more successful if the importers could also provide supplier’s credit to the farmers.

In any event, if the government deems the experiment a success, it may allow its implementation throughout the country. The experiment is in line with a new government willingness to try new economic models in selected provinces.

In summation, there are many reasons to be skeptical of the government’s reform efforts in agriculture, but I believe it is too early to dismiss the possibility of a strong supply response as the recent changes in policy take hold and other reforms begin to fall into place.

Observations on Rural Cuba

The view from Cuban highways was not much different from 14 years ago, but there were some important changes. Far fewer people were hitchhiking along the roads. Modern Chinese buses now provide reliable and comfortable service between the major towns and cities. Truck traffic, although not very frequent, was also more evident. There were numerous heavy trucks of Chinese and Bulgarian origin hauling agricultural products. They looked more like construction vehicles than farm trucks. Most had license plates indicating they belonged to cooperatives. It was difficult to tell the age of the trucks; the styling

9. Armando Nova González, “Continuidad de los cambios en la agricultura,” *Miradas a la economía Cubana* (Omar Everleny Pérez Villanueva and Ricardo Torres Pérez, compiladores). La Habana, Editorial Caminos, 2013, reports that the process for approval of a usufruct contract was between 98 to 128 days. Decree-Law 300 has not substantially shortened the process.

10. Nova González, *op. cit.*

11. The provision in question reads as follows: “ARTÍCULO 10.- Las personas naturales usufructuarias de tierras se vinculan según el caso, mediante contratos, con granjas estatales con personalidad jurídica, unidades básicas de producción cooperativa, cooperativas de producción agropecuaria o cooperativas de créditos y servicios que se autoricen, a través de las cuales podrán adquirir insumos agropecuarios, recibir servicios y comercializar sus producciones.”

12. <http://www.juventudrebelde.cu/cuba/2014-07-19/destacan-aporte-economico-de-la-venta-liberada-de-insumos-agricolas/>, accessed July 23, 2014.

looked dated, but they appeared in good condition. I saw very few pickup trucks.

Horsepower still seems important outside of Havana, even in Santa Clara where horse-drawn carts remain the principal mode of public transportation both in and around the city.

Santa Clara seemed much the same as I remembered it. There are many more restaurants. In my first trip there 15 years ago, it was hard to find a place where a foreigner could dine. The houses and buildings appeared to be in good repair, but they were before as well. Many had new roofs. During my first visit, I noticed stores catering to Cubans were much more visible than in Havana, where they were hard to find. Havana has caught up, but the shopping opportunities in Santa Clara were slightly better than before. Still there were shortages. Neither toothpaste nor toilet paper could be found in the city. Potatoes were also absent, but that was a countywide problem. Bread was readily available and better than 14 years ago. One man sold it fresh on the street. His product came from a state bakery, but the retail business was his.

Santa Clara's main industry may be health care. Its extensive medical center—at least in size and specialties—does open heart surgery. There is also a hospital for disabled children.

I found a store that sold agricultural implements: pipes and tubes for irrigation, some work clothes, electrical supplies, sinks, and mechanical sprayers. There was no sign of shovels, picks, hoes or rakes. Most of the items sold in the supply store were also available down the street in a general goods store, where I saw one shovel. Perhaps a dedicated agricultural supply store was needed to meet some planner's goal.

We passed one large and seemingly active urban farm in the city. There were people in the fields and a produce store with several customers. My guide reported it provided work to the retired and pensioners. He also pointed out a small farm that was private and sold seed to other farmers.

Life is probably a little easier in Santa Clara today, but aside from the restaurants and bed and breakfasts, it was still hard to see much development.

I had not previously traveled the main road along the Northwestern coast before, but then few others seem to as well, preferring the central highway through the middle of the country. During my stay in Viñales, I took a long day trip through San Vicente and passing near La Esperanza, before turning east to Hato Guane. The road was slow going as much of the asphalt had disappeared and filled in with well-packed clay. Still it was mostly free of potholes. More striking, however, was the lack of vehicle traffic on the 100+kilometer stretch from La Esperanza to Hato Guane. The first hour we traveled without seeing a single car or truck. The next hour we saw three. There were, however, a fair number of horse and more often ox carts along the road.

There was little evidence of settlement along the road, but vegetation was thick and likely hid some farms and homes. Google maps show some settlements and farms between the road and the ocean. A stop at Dimas, a small coastal town off the main road, revealed a fishing fleet of perhaps a dozen 40–60 ft. fishing boats. Unfortunately, we were denied access to the port itself.

Guane is a larger town. It has the principal, perhaps only, facility in the island that cans soft drinks. It also has fish processing plants that provide fish to much of the eastern half of the country. Guane is a short distance from La Fe, another fishing port. La Fe is reported to be a departure point for smuggling people to Mexico. A recent article in *Granma* complains of illegal fishing in the area.

We returned to Havana on the central highway, passing through several towns. I found it a little depressing. Again, I saw a lot of new roofs, but little new construction. Judging from the signs along the road, the Committees for the Defense of the Revolution (CDRs) seemed more prominent in Havana or Santa Clara. I saw a few military posts, but most striking were the modern, bright blue Ministry of Interior, MININT, buildings. Their complexes were large and seemed to occupy numerous acres.

CUBAN ATTITUDES ON THE ECONOMY

“Tengo afecto a Fidel.

Cerebro

Nos engañó al pueblo Cubano por cincuenta años.

Es muy cerebro.

Yo tengo afecto a Fidel.”¹³

Dicho por una mujer joven—con una sonrisa—en camino de Santa Clara a La Habana

“I am fond of Fidel; Intelligent; He deceived the Cuban people for fifty years; He is very intelligent; I am fond of Fidel.” All said with a smile. This was absolutely the best quote of my trip and it summed up the feelings of most of my contacts.

The overwhelming sentiment of my contacts on the trip, *cuentalpropistas*, economists and ordinary Cubans was that Cuba’s old economic model was a failure. Yet, expressions of anger I encountered in 1997–1999 seem to have disappeared. Fidel seems to have become a comfortable, but eccentric and largely irrelevant grandfather figure. Surprisingly, Raúl seems to get little credit for the economic reforms. He compares unfavorably to Fidel, who most people believe was an excellent teacher—even if what he taught was wrong.

Everyone wants the government out of the economy, except for health care and free education. They are

also bored or apathetic to politics. That attitude is reflected in the state of the CDRs, which for so long were a mainstay of political control. In Havana they have been marginalized. They no longer have control of peoples’ lives or where and if their children can go to college. Several people told me the CDRs only function was to hold occasional parties and even then, few people attend. One respondent was not even sure if his CDR still existed. Two respondents, however, were not sure if their influence had waned that much in smaller rural communities. The prevalence of signs advising of the CDRs throughout Eastern Cuba lends credence to their view.

Parents and older Cubans complain that young people have simply checked out, with no interest in politics, work or education. Most Cubans, however, seem to want to get on with making money in the new economy and want nothing to do with politics. I found considerable interest in the then-still-to-be-revealed foreign investment law. Cuban entrepreneurs need investment capital and they do not have it. The local economists are quite open in their belief that further economic growth depends on foreign capital. A new Milton Freeman would be very comfortable discussing economics with Cubans today. That perhaps is one of the best omens for the future.

13. Quoted verbatim.

APPENDIX

Table 1. Market Prices in Santa Clara and Havana, March 2014
(Prices in CPUs unless otherwise specified)

PRODUCT	Santa Clara	Havana
cerdo/trimmed	36/libra	40–45/libra
aji cachucha	5/pote (coffee cup)	10/pote
ajo	1/cabeza chiquita 2/grande	3/grande
arroz	5/libra	6/libra
pesca del mar	30–35/libra	2.5–3.5 CUCs/libra
malanga	4/libra	6–8/libra
boniato	2/libra	2/libra
pimiento	1/cada uno	3–4/cada uno
cebolla	15–25/libra	15–25/libra
mamey	8/cada uno	20–25/cada uno
naranja dulce	3/libra	1,5–2/cada una
fruta bomba	3/libra	3/libra
café	14.6 CUCs/mil granos (mercado); 10 CUCs por la calle	
piña	5/cada uno small; 8/grande	10/small; 15–20/grande
maiz (on cob)	2/cob	
col (cabbage)	8/head	10–15/cada una
pepino	3/cada uno	
tomate	4–6/libra	8–10/libra
yuca	2/libra	
plátano lady fingers	5/mano	1/cada uno
plátano burro (green)	5/mano	10/mano
plátano fruta	1–2/cada uno	1/cada uno
string beans	5/bunch	6/bunch
tomato puree		1.25 CUCs/520g
tomato puree premium		1.35 CUCs/520g
calabaza	2/libra	
leche en polvo	60 CUPs/600 gramos	5.75CUCs/1000gramos;3 CUC in black market
leche en polvo en calle 42 market		6CUC/3100 gramos
soy oil		2.4 CUCs/litro
vinegar		1CUC/750ml
refrescos nacionales en mercados	1 CUC/lata	.5 CUC
refrescos a servir	.8–.9 CUC/lata	
cerveza nacional	1 CUC/lata	1 CUC
toilet paper (malo)		1.2 CUCs/ 4 rolls
toilet paper bueno		2 CUCs/4 rolls
tooth paste	8/85ml	
jabón ordinario (LIS brand)	5/bar	
jabón ordinario upgraded	18/bar	

Table 1. Market Prices in Santa Clara and Havana, March 2014
(Prices in CPUs unless otherwise specified) (Continued)

PRODUCT	Santa Clara	Havana
aceite nacional	2.5 CUC/litro	
Sanbrill all-purpose cleaner and disinfectant		8.45 CUCs/kilo
Dish soap		5.2 CUCs /750ml
Clean Pac greaser for oven, grills		3 CUCs
Fabric, Cuban-made, white cotton/ polyester , 1x2.5 meters, medium weight		3.8 CUCs
Havana Club 7-year rum		16 CUCs/750 ml
TRAVEL		
Havana—Viñales Via Azul—nice bus		12 CUCs
Havana—Viñales by taxi		100 CUCs
Viñales—Havana by taxi via North Coast		60 CUCs
Havana—Santa Clara por Via Azul		18 CUCs
Santa Clara—Havana via taxi		50 CUCs
Taxi por ruta—Havana		10 pesos/zone
Lodging		
Private home—Santa Clara	25 CUCs/night	
Private home—Havana		42 CUCs/night
Private home—Viñales		25 CUCs/night
Gasoline		
gasolina low octane		1 CUCs/litro
gasolina med octane		1.2 CUCs/litro
gasolina high octane		1.4 CUCs/litro
gasolina premio		1.6 CUCs/litro
Hardware store—made in China		
shovel		12.9 CUCs
spade		14.95 CUCs
pick		19 CUCs
4 amp dual bench grinder		231 CUCs
small electronic kitchen scale		11 CUCs
Hamilton Beach 7 speed mixer		48 CUCs
Other		
I gallon vinyl paint—Mexico		13.85 CUCs
toilet		170 CUCs

**Table 1. Market Prices in Santa Clara and Havana, March 2014
(Prices in CPUs unless otherwise specified) (Continued)**

PRODUCT	Santa Clara	Havana
toilet seat		7 CUCs
42 year old Lada auto in decent condition		15,000 CUCs
modest 4–5 bedroom house, partially remodeled, in Miramar		600,000 CUCs

Source: Gary H. Maybarduk, Ph.D., April 25, 2014. Data available for public use if attribution given.

Note: The author collected food prices in the Santa Clara market. Food prices in the Havana markets and some processed food prices were provided to the author by his host at a bread and breakfast. Other prices were collected by the author in supermarkets and other retail establishments. Comparing prices between Santa Clara and Havana should be done with caution, since market fees charged to sellers are likely to be different.