

# CUBA'S POLITICAL AND ECONOMIC ARTERIOSCLEROSIS —IT IS NOT JUST THE CASTROS

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Cuba has become an enigma. Even after the death of Fidel Castro, even after Fidel admitted the Cuban economic model was not working, even after some tentative attempts to upgrade the economy by his brother Raúl, even after the loss of foreign benefactors, and despite the economic hardships of the Cuban people, economic reform has remained paralyzed. The question is, of course, why?

The most common explanation blames Raúl and the revolutionary dinosaurs around him. Raúl will retain leadership of the Communist party for three more years and many of his contemporaries are either still in the government or in the party leadership. His son was until recently prominent in state security and an ex son-in-law leads the military-owned enterprises. The argument assumes that the leaders will want to maintain power either for themselves or their heirs and have little incentive to change the system. At best, this theory predicts that little will change until Raúl leaves the scene completely.

I will argue in this paper that while this theory is largely correct, it is incomplete. It does not explain why there is insufficient incentive to make necessary economic changes nor does it explain the underlying political culture that supports it. It assumes that the leadership believes it can maintain their power even as its citizenry see little hope for economic improvement. This paper will argue that the underlying political culture, put together over many years by Fidel and Raúl, is essentially stable and likely to survive Raúl's departure for at least another generation.

## **BARRIERS TO CHANGE**

The forces that resist change are varied and also overlapping. For expository reasons I will organize them into seven categories.

- Fear of losing power.
- Fear of violence amid political collapse.
- Fear of losing control.
- Fear of losing personal economic well-being.
- Commitment to ideology.
- Party democratization.
- Inability to understand how to bring about economic change.

## **Fear of Losing Power and of Violence Amid Political Collapse**

I combine these two fears because both their causes and consequences can overlap. A spontaneous mass protest which brings down the government is a possibility that has intrigued American policymakers for years and concerned the Cuban elite. They watched popular uprisings bring down governments in Eastern Europe, almost bring down the Chávez regime, and seriously threaten Ortega's control in Nicaragua. In Chile, the economic collapse attributed to Allende's government allowed Pinochet to stage his bloody coup, and in the last 50 years numerous governments have been replaced following public demonstrations against economic reforms that seemed to harm the public at least in the short run.

The Cuban authorities have studied the results of Gorbachev's attempts at political liberalization and Yeltsin's attempts at economic reform and are determined not to repeat either.

### **Fear of Losing Control**

At all levels Cuban authorities must worry about losing control. Cuban authorities are always ready to imprison or temporarily detain visible dissidents, but political control has always depended more on control of the economic system. Before the withdrawal of Soviet assistance and the beginning of the “special period,” the state controlled where you lived, where you worked, how much you made. Major purchases for refrigerators, stoves, air conditioners or even fans were generally impossible. You obtained them from your place of work, sometimes for achieving “high productivity” but always dependent on political reliability.

If you wanted to buy something special such as a car or a musical instrument, you needed to seek permission from the Vice-President’s office. If your son or daughter wanted to go to the University, you needed clearance from your local Committee for the Defense of the Revolution (CDR). You therefore needed to be very careful. You always voted and regularly attended mass rallies and demonstrations. Generally, you did not spruce up or make improvements to the outside of your house or any room where visitors might appear. Otherwise, you might face questions regarding where you got the money. During my stay in Cuba, 1997–1999, I visited homes where the owners stored anything valuable in a back bedroom.

Much of this control disappeared during and after the Special Period, as the government allowed for some private commerce (cuentapropistas), and remittances from abroad began to flow. The authorities could no longer assume that the “luxuries” people enjoyed came from illegal dealings, although they often did. The government no longer had the resources to provide the extras through the workplace and in many districts the power of the CDRs began to wane.

Instead they put regulations on the cuentapropistas, a process they have been refining ever since. They have gone back and forth loosening and tightening the rules and often their enforcement. The Government has understood the value of the private sector, but has feared its ability to diminish their political control. For the bureaucrats and Party officials, the fear

of losing control is also personal since it threatens their jobs and privileges. The Government suspended new licenses for cuentapropistas in August 2017. It should not have been a surprise. The problem of collecting taxes from the private sector had been a concern since the 1990s. In the Seventh Party Congress, Party officials had made clear their intention to prevent the accumulation of wealth. (See Ideology below.)

The Government announced new regulations on July 10, 2018, effective in December 2018. A first impression of the new rules suggests much tighter regulations with many delegated to various ministries and various levels of government. Collectively, the threat of loss of control presents a barrier to political or economic change.

### **Fear of Losing Personal Economic Wellbeing— Cuba’s Military Industrial Complex**

Military corporations, most of them headed by Raúl Castro’s ex son-in-law, Luis Alberto Rodríguez López-Callejas, control much of Cuba’s tourism, foreign exchange stores, and heavy industry. Like much of the other nomenklatura, the military officers benefit from the system and could be big losers if economic reforms were to disrupt the profitability of their firms—most if not all of which derive their revenue from rent-seeking rather than competitive productivity.

### **Ideology**

Winding its way through all the concerns of the various parties is the thorny vine of ideology. Presumably a critical concern to some, and of much less concern to others, ideology provides legitimacy to the existing order.

In recent years Larry Catá Backer has produced a series of deep probing and illuminating articles analyzing Cuba’s Marxist ideology. Based on classic Soviet style Marxism-Leninism, infused by José Martí’s nationalism and distrust of the United States, and personalized by the thoughts of Fidel Castro, Cuban ideology became fixed and largely impermeable in the first few years of the revolution. Backer compares Cuba’s Marxism-Leninism to the Chinese version, which undergoes regular modifications to meet the conditions of the time.

Cuban ideology parallels Chinese ideology in that it considers the Party the vanguard of the society that leads the government. It differs, however, in its insistence that the Party must control all aspects of the economy. With the issuance of the *Lineamientos* of the Cuban Sixth Party Congress in 2011, it appeared that the Party might be willing to broaden the scope of activity of the national private sector. It also seemed to welcome the prospect of controlled private investment by foreigners. The following year it introduced what appeared to be a welcoming foreign investment law. After that, the Cuban policy makers seemed to have trouble digesting the *Lineamientos*. At the 2017 Seventh Party Congress, Raúl discussed the problem:

We have continued to steadily advance in this process, without haste, but without pause, that is, with the necessary speed and perspective to achieve success. The main obstacle we have faced, just as we had predicted, is the issue of outdated mentalities, which give rise to an attitude of inertia or lack of confidence in the future. There also remain, as was to be expected, feelings of nostalgia for the less difficult times in the revolutionary process, when the Soviet Union and socialist camp existed. At the other extreme there have existed veiled ambitions to restore capitalism as a solution to our problems.

Despite this, we have worked systematically and intensely to implement the guidelines, having fully applied 21% of the 313 approved, with 77% currently in the implementation phase, while 2% have not yet been initiated.

These figures do not clearly reflect the extent of efforts or substantial progress made thus far, as demonstrated by the approval of 130 policies and the establishment of 344 new legal regulations, the modification of 55 norms and the revocation of 684. However, above all, the implementation of approved policies has been delayed by the slow rate at which legal regulations have been put into practice and assimilated.

As a result of efforts undertaken in the policy implementation process and new tasks which were incor-

porated into the process of updating the country's economic model, a revised proposal for the period 2016–2021 is being submitted to the Congress, with a total of 268 guidelines, 31 of which have not been modified, 193 of which have—with 44 new additions.<sup>1</sup>

By the time of the Seventh Party Congress, and even after the re-establishment of US–Cuban relations and a loosening of the US embargo, Cuba took a significant step backward. It re-emphasized the role of the Party and State control, it accepted—rather reluctantly—that there was a role for a limited domestic private sector—but made it clear it could take back those property rights at any time.

The Party also took another step to ensure its control over the economic sector. While it long had a policy of preventing the concentration of property, it added another prohibition—against the concentration of wealth.

Backer takes up these issues when he refers to the documents of the Seventh Party Congress:

Chapter 2 [of the essay] takes up the issue of the ownership of the means of production (§§ 116–202). Here one comes to one of the central elements of Cuban theory—state ownership. The dominant position of state ownership, when combined with state control (Chapter 3) forms the core basis of the theoretical conception of Cuban socialist modernization, whose “perfeccionamiento” is the object of this exercise. This stands in marked contrast to the Chinese General Program; whose central object is state management for the purpose of moving Chinese society closer to its ultimate objective—the establishment of a society so rich it can produce a communist social and economic order.<sup>2</sup>

Later in a footnote, Backer makes the point again.

One need only compare the General Program of the Constitution of the Chinese Communist Party, *supra*, and its articulation of the Chinese Party's basic line, with the caution and reactive approach of the PCC. In both cases, for example, there is a wariness of the errors and allure of “right” and “left” error in

1. “7th PCC Congress Central Report, presented by First Secretary Raúl Castro Ruz, Apr 18th, 2016”, accessed on July 16, 2018 at <http://en.cubadebate.cu/news/2016/04/18/7th-pcc-congress-central-report-presented-by-first-secretary-raul-castro-ruz/>.

2. Larry Catá Backer, “Embracing a 21st Century Planning Marxism Model: The Cuban Communist Party Confronts Crisis, Challenge and Change in its 7th Congress,” accessed on July 18, 2018 at: [http://www.ascecuba.org/asce\\_proceedings/embracing-a-21st-century-planning-marxism-model-the-cuban-communist-party-confronts-crisis-challenge-and-change-in-its-7th-congress](http://www.ascecuba.org/asce_proceedings/embracing-a-21st-century-planning-marxism-model-the-cuban-communist-party-confronts-crisis-challenge-and-change-in-its-7th-congress)

theory. But for the Chinese that is merely a caution as they elaborate Marxist-Leninist theory in line with emerging historical stages. For the Cubans, the formative historical stage has been reached, and there is only adjustment to protect its essence against a relentless outside world. The General Program of the Chinese Communist Party, for example, embeds avoidance of left and right error within the more important task of integrating the basic line of reform and opening up with the Four Cardinal Principles, with vigilance against errors of the right but “primarily against ‘Left’ tendencies.” In Cuba, on the other hand, it is “Right” error that constitutes the greatest fear.<sup>3</sup>

And finally, Backer also addresses the difference in attitude on the problem of wealth creation. And for people in Cuba, that suggests the contradiction between motivated workers and a paymaster state which also directs all the means of production to its own ends.

For Cuban Central Planning Marxism, that leads almost inexorably to the task of remaking individuals to better serve the state and the project of maintaining a communist society. All of the provisions touching on labor obligations and on the making of the model citizen elaborate the fundamental principle of that model. But it also suggests an almost permanent separation between individuals who serve as revolutionary worker, and those whose function is to serve within the vanguard party apparatus itself. The permanent class struggle element inherent in that produces a theoretical contradiction that is not addressed by the Model. For Asian Markets Marxism, on the other hand, both class struggle, and the relationship of the individual qua (sic) worker to the state takes on a distinct complexion. This is reflected in their respective approaches to wealth differentiation. For Asian Markets Marxism, the rise of income and wealth differentiation must be tolerated as the nation develops its productive forces. ¶85 For Cuban Central Planning Marxism the state must use law to avoid the development of wealth differences. The determination that private enterprises may be limited to the extent they amass too much wealth is a central element of this approach. ¶86<sup>4</sup>

If Backer is correct, and I suspect he is, and if these ideological views extend to the upcoming generation of party leaders, then those views will be a barrier to change that might survive another decade or two. I suspect that strict ideology will be less important to the younger cadres, but the self-interest of the nomenklatura is consistent with the need for Party control and the two therefore interlock and reinforce each other.

### **Party Democratization—Bureaucracy, Ideology and the Party**

Note how bureaucracy and ideology fit together in this pattern. The nomenklatura will prefer the status quo to protect their interests. Ideology also advocates the status quo and the Party, the supposed vanguard of the society, cannot lead because it too has decided that the system developed at the time of the writing of the 1976 Constitution should not be changed. Together they interlock into an almost unbreakable wall.

One could find hope in the China experience after Mao, when new leadership took the Chinese Communist Party and ideology in a new direction. However, Arturo López-Levy has argued that the more significant difference between China and Cuba has been the power of the nomenklatura and lower level bureaucrats in the Cuban Communist Party, the Government and the state enterprises, all of whom benefit or believe they benefit from the current system. He argues that Deng Xiaoping's reforms in the late 1970s, came after Mao's Cultural Revolution had decimated or at least cowed the bureaucracy. The Cuban bureaucracy has encountered no such disruption or purge.<sup>5</sup>

### **Inability to Understand How to Bring About Economic Change—the Multiple Exchange Rate System**

Finally, even if a critical mass of actors at all levels are ready to make major reforms, the question becomes how to proceed. Cuban authorities have recognized

3. Ibid, footnote 58.

4. Ibid.

5. Conversation with author in the Spring of 2017.

that economic efficiency requires the elimination of the dual currency system (essentially a system of multiple exchange rates) and a policy of market prices. Yet those goals would require the closure of many state corporations, or increased subsidies which the Government cannot afford and has tried to reduce for the past decade. These state corporations are, according to Party ideology, the pillars of the economy. Their bankruptcy would mean considerable unemployment and the loss of employment and privileges of the lucky and politically reliable people who run them.<sup>6</sup>

To take another example, consider the effect of consolidating the exchange rate on the food supply. Currently, the Government prices food imports at something closer to a one to one rate of exchange of the Cuban peso (CUP) to the dollar rather than the 24:1 rate for CUP versus the convertible peso (CUC). Considering that a unified rate is closer to the 24:1 rate, food prices will likely have to rise several-fold. Most Cuban households will not be able to afford purchasing basic food items at that rate, threatening political stability. The government could raise salaries accordingly, but that could increase the budget deficit and the money supply and put further pressure on the exchange rate. The government could hope for a quick supply response from Cuba's agricultural sector, but, despite a patchwork of off and on-again reforms, the supply response so far has not been very good. Cuban agriculture needs not only higher prices, but a ready supply of seeds, fertilizers and agricultural machinery, all currently supplied by the government. Since the government has proved unable to supply or even manage the needed inputs, Cuba should allow private imports, but that would take a change in the constitution. (This will be worth

watching as they consider changes to the constitution.)

Changes in the price of agricultural goods, increased production on private farms or for that matter any rewards to small businesses that increase their output, also present an ideological problem. The Cuban constitution mentions the need to prevent the concentration of economic power, but the Seventh Party Congress stressed the need to also prevent the accumulation of wealth.<sup>7</sup> Although the statement was startling in its directness, it was not a new concern, it was a major reason Fidel cut short an earlier experiment to stimulate private agriculture in the 1980s.

Other needed policy changes such as the growth of the private sector, entrepreneurship in the public and private sector, and the accumulation of wealth for investment are either not understood or viewed as a challenge to the system.

### SYSTEMIC ISSUES IN DECISION MAKING

As the leader of the revolution Fidel Castro was able to maintain sole leadership of the Party, government and the military. Fidel could and did make abrupt changes in policy without facing any serious dissent at the higher levels of government.<sup>8</sup> Raúl has operated differently. He is the organization man who developed close bonds with his military officers and built the army.

As President and First Secretary of the Communist Party Raúl expressed a desire to introduce democracy within the Party. Although it is not clear how far he succeeded, he often went through significant efforts at surveying the Party for their ideas. This was very evident at the 6<sup>th</sup> Party Congress in 2011, where Raúl claimed there were over 163 thousand preparatory meetings and a long deliberation process lasting al-

6. The closing of state enterprises would also be a challenge to ideology, since it violates the principle that the state must guide the pillars of the economy. This is where the desires to maintain power, preserve ideology, and protect bureaucratic privilege all interlock.

7. "In the forms of non-state management, the concentration of property shall not be allowed.... nor of wealth", see "7th PCC Congress Central Report, presented by First Secretary Raúl Castro Ruz, April 18, 2016", accessed on July 16, 2018 at <http://en.cubadebate.cu/news/2016/04/18/7th-pcc-congress-central-report-presented-by-first-secretary-raul-castro-ruz/>

8. The decision making at the upper levels of the Cuban government is almost always a black box to the outside observer. In this and many other observations in this paper, the author is guided by many other Cuban watchers as well as his own observations.

most a year with significant changes to the original document.<sup>9</sup>

The outcome of that Congress was a lengthy list of guidelines (lineamientos) that were to direct the nation in the years ahead. It read like a work of central planners, which it was. Still, with the hope of foreign investment, acceptance of a private sector and promise of juridical status for all types of ownership including cooperatives, many of us read the results as the beginning of a significant step to stimulating growth. Five years later, however, very little of the lineamientos had been accomplished and the Seventh Party Congress took a different direction.<sup>10</sup> The lack of progress reflects the over-ambitious scope of the lineamientos but also the lack of consensus at all levels of the Government and Party.

I already discussed the Seventh Party Congress above in terms of ideological constraints, but it is worth repeating in the context of Party dynamics. It asks the question: who is dictating the ideology, and is it less an issue of philosophical differences or more of special interests? In 2012 at ASCE's Ernesto Bentacourt lecture, Jorge Domínguez wondered if Raúl had lost control of the Party.<sup>11</sup> Now the question might be: What needs to happen for a leader to be able to lead the Party and Government in a new direction?

## WHAT TO WATCH FOR!

Cuba announced on June 2, 2018 the formation of a Commission to review and advise on changes to the current Constitution, last revised in 2002. Raúl heads the Commission with Miguel Díaz-Canel as deputy. Machado Ventura also serves on the Commission. Cuban Government supplied information on the expected changes is uncertain, but news reports suggest it will make permanent already announced term limits for higher positions and some reorganization of the Party.<sup>12</sup> Such changes would not change the conclusions of this paper. More optimistically, there is a possibility that a new Constitution along with just-announced changes for self-employment (announced on July 10, 2018) could allow juridical status for small enterprises and non-agricultural cooperatives. (Some of these businesses are allowed but are still technically illegal under the current constitution.) Juridical status could allow these businesses to sign contracts and apply for bank loans. An even bigger step would be permission for private business to import and perhaps export directly instead of through government institutions, although that possibility has not yet been mentioned in the press and seems unlikely in view of the new law regulating cuentapropistas.

9. See Raúl's speech, "The discussions extended for three months, from December 1, 2010 to February 28 of this year, with the participation of 8, 913,838 people in more than 163 thousand meetings held by the different organizations in which over three million people offered their contributions. I want to make clear that, although it has not been accurately determined yet, the total figure of participants includes tens of thousands of members of the Party and the Young Communist League who attended the meetings in their respective cells but also those convened in their work or study centers in addition to those of their communities. This is also the case of non-party members who took part in the meetings organized at their work centers and later at their communities". Central Report To The 6th Congress of the Communist Party of Cuba, presented by First Secretary Raúl Castro Ruz on April 16, 2011"; accessed on 9/01/2018 at <http://en.cubadebate.cu/opinions/2011/04/16/central-report-6th-congress-communist-party-cuba/>.

10. There appears to have been considerable discussion within the Party before the 7th Party Congress, but this time there was less consultation with non-members. "The final versions of the proposals to be analyzed by their respective commissions were first discussed in two plenary sessions held by the Party Central Committee last December and January, a process in which over 900 opinions and suggestions were gathered. This led to the creation of new versions of the proposals which were reviewed by delegates to the Congress in meetings held in all provinces at the beginning of March, where opinions and proposals from over 3,500 invited guests representing different sectors of Cuban society, including deputies to the National Assembly, took the total number of contributions to 8,800.", 7th PCC Congress Central Report, presented by First Secretary Raúl Castro Ruz on April 18, 2016; accessed on 7/3/2108 at <http://en.cubadebate.cu/news/2016/04/18/7th-pcc-congress-central-report-presented-by-first-secretary-raul-castro-ruz/>.

11. Jorge Domínguez, "Can Cuban Rulers Rule Cuba?", accessed on July 15, 2018 at: [http://www.ascecuba.org/asce\\_proceedings/can-cuban-rulers-rule-cuba/](http://www.ascecuba.org/asce_proceedings/can-cuban-rulers-rule-cuba/).

12. As this paper neared completion for the Conference the Cuban Government announced a preview of the changes. "Visión hacia el presente y el futuro de la Patria", *Granma*, July 14, 2008. Accessed on July 16, 2008 at [Http://www.granma.cu/impreso/2018-07-14](http://www.granma.cu/impreso/2018-07-14). A first reading of this article does not suggest any changes are necessary to the author's conclusions.

### ARE THERE ALTERNATIVE SCENARIOS?

There are alternative scenarios to those presented in this paper. They are most likely to happen when the system exhausts itself, along with a stark realization that the economy is not likely to get much better and no new foreign sponsor is likely to appear. It is not likely to be a quick process.

I have already alluded to the possible ascendance of a Gorbachev-like figure to lead the Party and Government. The Party is very afraid of this scenario and I would look to changes in the Constitution to limit the possibility, but still, the culture of the top down command structure that the Cuban people have become accustomed for most or all their lives may allow for it. Given the opposition from below to a radical change, this scenario would essentially require a major political liberalization as a first step towards economic reform. This is the reverse of what many observers, including myself, have foreseen. Economic collapse may force changes in the rules that govern the economy and afterward possibly in the political system—but that has not happened in China, Vietnam or North Korea. I once argued the contrary—that once economic freedom comes to the Cuban people, a dictatorship is unlikely to survive in the democratic sea of the Americas. Events since, in Venezuela and Nicaragua, have demonstrated that dictatorships are still possible in the Americas.

A social explosion that brings down the entire system is also possible. It is what the American government and the Cuban diaspora expected for years. It has not happened and is essentially unpredictable.

### CONCLUSION

Cuba's leaders are going around in circles. They have too many goals and not enough means. In the broadest sense, they are stuck between preserving the social system and bringing the prosperity they will need to preserve that system. They are stuck between economic efficiency and deeply held ideological beliefs.

They are stuck between getting rid of the multiple exchange rate system and preserving the state corporations and preventing social upheaval. They are stuck between allowing the development of a strong private sector and preventing the concentration of wealth that the system is supposed to prevent. They are stuck because a solution that allows greater entrepreneurship will provoke resistance by the *nomenklatura*, whose privileges will be threatened.

And so, they go in circles from economic liberalization to economic repression.

They cannot bring themselves to the realization that they have to let go of something before they can devise some coherent strategy. And I think they are stuck because there is no obvious leader who can see the problem clearly and who can bring the rest of the leadership along.

It is like watching an artery clog with plaque. Sometimes the plaque thins, often with a foreign introduced stent, but the plaque keeps coming back depriving the body of oxygen until someday—not necessarily soon—something will burst. It is fascinating to watch even if it is to come to a tragic end.