RAÚL’S REFORMS: ACTIONS AND PENDING AGENDA

Jorge F. Pérez-López

The start of the cycle of Cuba’s economic reforms that is the focus of this paper—referred to by Cuban authorities as actualización del modelo económico (up-dating of the economic model) can be traced to 2006–2008, roughly the time period when Raúl Castro assumed and consolidated his role as Cuba’s top leader. In a formal sense, they ended in April 2018, when Raúl Castro retired as President and he was re-placed in that post by Miguel Díaz-Canel. Although this paper focuses in the decade or so (2007–2017) when the bulk of Raúl’s reforms were implemented, it also covers developments through the end of 2020 to provide as current a picture of the reform process in Cuba as possible.

Cuba’s economic policies through the first three decades of socialist rule tended to fluctuate between what Carmelo Mesa-Lago has called “idealistic” and “pragmatic” policy cycles, with the former embodying policies unbendingly pursuing socialism and eliminating or attenuating market-oriented mechanisms, and the latter embodying some flexibility and introducing market levers within a socialist model. This changed in the first half of the 1990s, when Cuba suffered a deep economic crisis—called the “special period in time of peace”—that resulted primarily from the loss of trade and economic aid associated with the break-up of the socialist community and dissolution of the former Soviet Union. To counteract the “special period” crisis, the Cuban government adopted a set of policy measures that actually diverged from the socialist paradigm and actually promoted decentralization in economic policy-making, including (more or less in chronological order): (1) legalization of the holding and use of foreign currency by Cuban citizens; (2) legalization of self-employment; (3) break up of state farms and creation of agricultural quasi-cooperatives; (4) modification of the tax code; (5) creation of agricultural and artisan markets; (6) modifications to the banking system; and (7) enactment of a comprehensive foreign investment law.

The implementation of the mentioned decentralization measures, coupled with macroeconomic stabilization actions, resulted in Cuba overcoming the crisis...
and returning to positive economic growth rates by the end of the decade. Also contributing to the relative economic improvement was massive foreign assistance from Venezuela in the form of subsidized oil shipments, investment in joint projects, and import of Cuban services, primarily in the form of health professionals. This economic rebound strengthened the hand of opponents of further liberalizing reforms. From the late 1990s onward, Cuba’s decentralization reforms were slowed down and even reversed in several respects, as the leadership pursued counter-reform initiatives as part of what was called from 2003 forward the “Battle of Ideas.” Thus, as a result of the counter-reform and reinstatement of centralization measures, at the time Raúl assumed the country’s leadership in 2006–2007, the island was— with respect to economic liberalization—at a stage comparable to pre-reform socialist China or Vietnam.

This paper describes Cuba’s economic reforms roughly over the decade 2007–2017, the period when Raúl Castro exercised the country’s leadership. The paper does not evaluate the economic effects of the policies themselves, which although a desirable objective, goes beyond our scope. The paper is divided into four parts. The first part presents a chronology of personnel-related actions and internal and external developments that shaped the reform process. The second part identifies the different categories of actions under consideration and gives examples of each. The third part focuses on structural reforms and briefly describes the most significant ones; it also does the same with respect to pending issues. The fourth part makes a few closing remarks and presents some very recent policy actions taken by the Cuban government during the COVID-19 pandemic to try to stimulate a stagnant national economy.

**BACKGROUND: CHRONOLOGY OF RAÚL’S REFORMS**

Table 1 seeks to put Rakl’s reforms in historical context. Included in the table are selected personnel-related actions and internal and external developments that shaped the reform process.

The timeline begins in August 2006, when Fidel Castro, 80 years old and gravely ill, took leave from his Cuban government leadership positions; his powers as President of the Council of State were temporarily transferred to Raúl. On July 27, 2007, Raúl de-
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livered a major address in the city of Camagüey, at the ceremony celebrating the 54th anniversary of the Cuban revolution. At this address, he spoke extensively about deep-rooted problems afflicting the Cuban economy that could not be solved overnight and hinted about an openness to new ideas. In particular, he spoke about the need for “structural and conceptual reforms” to improve economic performance.5

In February 2008, the Cuban National Assembly formally chose Raúl as President of the Council of State and of the Council of Ministers. The international economic environment in 2007–2008 was quite turbulent, with a major financial crisis that had begun in the U.S. and Western European countries, but expanded to affect global financial markets, including Cuba’s access to international credits, and weakened world oil markets to the detriment of the Venezuelan economy and its ability to support Cuba.

Over the period 2007–2011, the Cuban government engaged in preparations for the VI Congress of the Cuban Communist Party (PCC), which was held in April 2011, after a hiatus of more than ten years (the V Congress was held in 1997; normally the PCC Congresses are held every five years). As part of the preparations, government officials consulted with a wide range of academic and non-government experts to solicit ideas and proposals on how to shape the Cuban economy going forward. This period probably represents the high-water mark for Cuban academic economists and experts being included in the national decision-making process.6

In April 2011, at its VI Congress, the PCC adopted the Lineamientos de la Política Económica y Social del Partido y la Revolución (Guidelines for Economic and Social Policy of the Party and the Revolution.) Consisting of 311 specific guidelines to be implemented over the period 2011–2016, the objective of the Lineamientos was the “actualización” (updating) of the Cuban economic and social model though not its “reform.” This is an important distinction, as the leadership wanted to drive the point home that while it was willing to update the economic model to improve economic performance, it was not willing to contemplate political/economic changes that might imply a move away from socialism. To stress the seriousness attached to the implementation of the guidelines, the VI Congress also created a Permanent Commission to oversee guidelines implementation of guidelines and placed it under the supervision of the then-Minister of Economics and Planning Marino Murillo. A structure of sub-commissions was also created to support implementation of specific aspects of the guidelines. Adding to the atmosphere of changes and renovation, the National Assembly re-elected Raúl as President of the Republic for five more years; at the time of this decision was announced, Raúl stated that he would not be a candidate for re-election when his period ended in 2018.

External events added to the optimism regarding Raúl’s actions in the economic sphere. On December 17, 2014, quite unexpectedly, Cuba and the U.S. announced normalization of relations, launching a “thaw” in diplomatic and economic relations that had the potential for contributing positively to the economic reform process. On July 20, 2015, Cuba and the U.S. formally reestablished diplomatic relations, reversing an action taken in early 1961, during the Eisenhower Administration; this meant that the Interests Sections that Cuba and the U.S. had been operating in each other’s capitals since 1977 (established during the Carter Administration) were upgraded to Embassies. The link between the two nations was boosted in March 2016, when President Barack Obama made a three-day visit to Cuba accompanied by a large delegation of Congressional members and businessmen. The improvement in relations between the two countries augured well for the Cuban economy, with immediate gains foreseen in boosting tourism and creating a positive climate for increased trade, remittances, and trade between


6. In private conversations held around this time, several Cuban economists expressed to this author optimism about the reform process, stressing the unprecedented openness of the government to their input and their lack of fear about potential reprisals for offering advice that might have been perceived as opposing official dogma.
the two nations. Little of substance would come from the rapprochement, however, as lifting of U.S. economic sanctions was blocked by the U.S. Congress and the Cuban side was unwilling to take meaningful steps to provide its citizens with political and economic freedoms.

By the time the PCC held its VII Congress in April 2016, the reform process had stalled. Two of the principal documents adopted by the VII Congress (Conceptualización del Modelo Económico y Social Cubano de Desarrollo Socialista; and Plan Nacional de Desarrollo Económico y Social Hasta 2030: Propuesta de Visión de la Nación, Ejes y Sectores Estratégicos) are dense, ideologically-laden documents that lack practicality. As the head of the Implementing Commission for the 2011–2016 guidelines reported to the VII Congress, 21% of the guidelines adopted by the VI Congress had been fully implemented, 77% were in the process of being implemented, and implementation had not commenced with respect to 2%.7 Needless to say, the guidelines whose implementation had shown the most progress were the most basic ones, with more complex directives that required coordination across industries or regions or material or human resources lagging behind. For the period 2016–2021, the VII Congress adopted 266 economic and social policy guidelines, 31 of which were the same as in the earlier guidelines, 191 were based on modifications to the earlier guidelines, and 44 were new.8

The unexpected election of Donald Trump as President of the U.S. in early November 2016, followed by his assumption of Executive Power in January 2017, formally ended the “thaw” in relations between Cuba and the U.S. under the Obama Administration and doomed any prospects for improvement of relations and potential for increased trade and investment. In June 2017, President Trump formally announced the “cancellation” of what he called “one-sided U.S. policy” toward Cuba and resumed and even deepened the system of sanctions imposed by the U.S. on trade with Cuba.

CATEGORIES OF POLICY ACTIONS

In a book published in 2013,9 Carmelo Mesa-Lago and I categorized the multiple economic policy actions spearheaded by Raúl into three types: (1) administrative measures; (2) non-structural changes; and (3) structural reforms. The principal characteristic that defined the type of action was whether they operated within the prevailing socialist system and sought to “perfect” it (administrative, non-structural) or introduced a change to the system. In this paper I adopt the same categorization of measures as Mesa-Lago and Pérez-López and seek to update their research, which ended in 2012.

Administrative measures: These policy actions have in common that they are intended to modernize and restructure state organization and processes to improve efficiency/reduce costs. They do not seek to modify the socialist nature of the economic system but rather to work within that system. Examples of administrative measures include:

- Reorganization of state entities.
- Elimination of ministries/government institutions (e.g., elimination of the Ministry of the Sugar Industry and of the Ministries of Fishing, Light Industry and Basic Industry).
- Wider use of perfeccionamiento empresarial management techniques.
- Campaigns against labor indiscipline and corruption.
- Openness to criticism of the system.
- Policies to make public more economic information.

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Non-structural changes: These policy actions actually make some changes to economic institutions or processes, but do not challenge the socialist nature of the system. Many of the changes address restrictions on the behavior of consumers or enterprises that have been imposed as a result of failures of the socialist system, such as rationing. Cuban officials often refer to these actions as “eliminación de restricciones en la sociedad” (elimination of restrictions on the society.) Examples of non-structural changes include:

- Elimination of restrictions that limit access by Cuban citizens to restaurants and hotels.
- Elimination of restrictions on consumer purchases of electric and electronic appliances.
- Creation of private markets for the sale and purchase of real estate and automobiles.
- Payment of arrears to farmers who had made sales to the state acopio system.
- Removal of certain items from the family ration card (libreta de abastecimiento).
- Increase in the number of internet connection spots.

Structural reforms: These policy actions seek to change aspects of the socialist core of the system, liberalizing economic decision-making and reducing the state’s role in the economy. Typically, structural reforms are complex and difficult to implement; they take a substantial period of time to show results and even a longer period of time to be able to measure results. Cuban government officials refer to the aim of these measures as “detrabar la economía” (disentangle the economy) or “desatar los nudos que entorpecen el desarrollo de las fuerzas productivas” (untie the knots that hinder the development of the productive forces.) Examples of structural reforms include:

- Distribution of idle agricultural land in usufruct to private farmers.
- Reduction of payroll of state enterprises; increase in the number of occupations suitable for self-employment.
- Creation of services and production cooperatives.
- Migration reform.
- Revisions to tax code.
- Revised foreign investment code.

The next section of the paper elaborates on some of the principal structural reforms launched during Raul’s leadership and pending agenda.

STRUCTURAL REFORM ACTIONS AND PENDING AGENDA

To promote growth and generate employment, the European Commission advocates among its members an economic strategy based on fiscal responsibility, investment and structural reforms. According to this institution, structural reforms tackle obstacles to the fundamental drivers of growth by liberalizing labor, product and service markets, thereby encouraging job creation and investment and improving productivity. Structural reforms are designed to boost an economy’s competitiveness, growth potential and adjustment capacity. Typical structural reforms include policies that: (1) make labor markets more adaptable and responsive; (2) liberalize service sectors, boost competition in product and service markets, specific sectors, or improve the overall business environment; (3) encourage innovation; (4) improve the quality of public taxation systems; and (5) address the challenges of population ageing on the welfare state.

This section of the paper describes briefly significant structural reforms undertaken by Raul Castro’s administration roughly between 2007 and 2017. It also discusses policy issues that were not addressed during Raul Castro’s tenure and therefore constitute a pending reform agenda.

Structural Reform Actions

Distribution of idle agricultural land in usufruct to private farmers: Decree-Law No. 259, on transfers of idle land, was passed in July 2008. The objective of the law was to distribute large amounts of idle land
held by the state (including land formerly devoted to sugarcane cultivation that had been abandoned as a result of the shrinking of the sugar industry in 2002) to landless individuals. Thus, according to the new statute: (1) landless individuals could obtain up to 13.42 hectares and existing landholders could bring up their total holdings to 40.26 hectares for their use for 10 years, renewable for an additional 10 years; and (2) existing state farms, cooperatives, and other legal entities could apply for the usufruct of unlimited amounts idle lands for 25 years, renewable for an additional 25. The statute was modified in 2012 and 2017–2018 to lengthen the usufruct period and remove other restrictions. Despite these adjustments, the distribution of idle land to private farmers has not resulted in an increase in agricultural output and the number of usufructuaries actually fell in 2013–2017. This is quite disappointing, as introduction of usufruct farming in China and Vietnam (through the so-called “contract responsibility system”) resulted in massive increases in production and exports that propelled overall economic growth and financed further reforms.

Reduction of payroll of state enterprises; increase in the number of occupations suitable for self-employment: In a speech to the Unión de Jóvenes Comunistas (Union of Communist Youth) in April 2010, Raúl Castro riled against state paternalism that reduces incentives for individuals to engage in productive work. He complained about “plantillas infladas” (inflated payrolls) in state entities across all sectors of the economy, estimating that the number of surplus workers on state payrolls could well exceed one million. (Considering that total employment in 2009 was roughly 5.07 million workers, about 20% of state workers were deemed not to be making productive economic contributions and the elimination of surplus workers would reduce state employment by one million workers or 1 in 5 jobs.) Pursuant to the guidelines adopted by the VI PCC Congress, Cuba approved 178 categories for self-employment, 21 more than previously approved; authorized hiring of up to 5 nonfamily individuals in more than 50% of the approved occupations; authorized some self-employed workers to sell goods and services to state enterprises; made certain types of loans available to self-employed workers for the purchase of goods, equipment and inputs; and increased the allowed number of seats in small private restaurants (paladares) from 12 to 20.

Creation of services and production cooperatives: Prior to Raúl’s reforms, cooperatives in Cuba were limited to the agricultural sector. In 2010, barbers, hairdressers and manicurists were authorized to form cooperatives, paying monthly rent as well as payment for electricity, water, gas, telephone and taxes to the state. These non-agricultural cooperatives were required to offer high quality services to consumers and were able to charge prices for their services based on supply and demand. In 2011, services cooperatives were reorganized subject to a number of conditions and limitations, among them their ability to lease state property for 10 years subject to extension, a limitation of three customers (seats) at a time, and access to state wholesale markets to purchase needed inputs; cooperative agreements were also extended to an additional 24 services and production activities, in petty state enterprises ranging from repair shops for electric appliances and electronic equipment to shoe repairing. In 2012, the Minister of Internal Commerce announced a pilot project to lease state-owned restaurants to workers in the provinces of Artemisa,
Villa Clara and Ciego de Avila following terms similar to those applied to barbershops and beauty shops leased to workers.

Migration reform: Decree-Law No. 302, on migration, approved in November 2012 and effective in January 2013, made several positive changes to migration policy. First, it eliminated a number of procedures that hampered Cuban citizens’ ability to travel abroad, among them the requirement that they obtain permission from the government to travel (the so-called “white card” and letter of invitation), so that henceforth Cubans would only need a passport to leave and enter the country. Second, it extended the time that Cuban citizens could legally reside abroad to two years, renewable twice, for a total of six years. And third, the legislation facilitates the return to the island of individuals who had emigrated—for whatever reason—but now wished to return or spend considerable periods of time in Cuba, presumably bringing with them human and/or financial resources.

Revisions to tax code: Law No. 113, which was passed in 2012 and became effective in 2013, is an overarching reform of the Cuban taxation system. The preamble of the law states that the new taxation system is intended to be “coherent with the new social and economic scenarios of the nation.” The new taxation system shifts the burden of taxation from indirect to direct taxes (sales taxes, turnover taxes) toward direct taxes on income, profits, assets held, thus supporting the private sector.

Revised foreign investment code: Law 118, Law on Foreign Investment, was approved by the National Assembly in March 2014. It superseded the previous foreign investment law, Law 77 of 1995, passed during the Special Period. In addition to Law 118, the National Assembly also approved a host of regulations and complementary norms that seek to implement the pertinent 2011 Lineamientos, principally the streamlining and speed up of the investment approval process. The new legislation recognized the role of foreign investment as a source of national growth and development, particularly with respect to certain sectors and economic activities key to the achievement of economic and social objectives in the short, medium and long terms. According to Cuban authorities, the island seeks foreign investment aimed at diversifying and promoting exports, enhancing the acquisition of advanced technologies, substituting for imports (particularly of foodstuffs), and generally at increasing foreign financing, creating new sources of employment, acquiring new managerial methods, developing supply chains, and changing the national energy mix in favor of renewable energy sources.

The results of the new law and regulations have been disappointing. In December 2016, Raúl Castro criticized “the excessive delays of the negotiating process” for foreign investments and urged lawmakers to “overcome the obsolete mentality full of prejudice against foreign investment.” Amendments to the law aimed at simplifying project approval procedures were passed in 2018.

Pending Reform Agenda

By the time that Raúl Castro’s term as President ended, several important economic reforms, critical to the stimulation of the economy, were pending. Despite numerous announcements and exhortations, little if any progress had been made with respect to the following:

• Elimination of monetary duality system.
• End of consumer goods rationing system.
• Enterprise reform, both with respect to enhancing the autonomy of state enterprises and granting legal personality to small and medium size enterprises (pequeñas y medianas empresas, PYMES).


Break up state monopoly over foreign trade and authorization for enterprises to engage directly in exporting/importing.

A roadmap of legislative actions to be undertaken by the Cuban authorities, approved by the National Assembly in December 2019, foresaw the passage of 39 laws and 31 decree-laws through 2023. Most of the new legislative actions had to do with government administration issues, but a handful did address the economy, among them a Housing Law (to be taken up by the National Assembly in December 2020), an Environmental Law (slotted for National Assembly consideration in July 2021), a Law on Intellectual Property Rights (slotted for consideration in October 2021) and a Law on Enterprises (slotted for consideration in April 2022). As the National Assembly failed to consider the legislative priorities for 2020 as a result of restrictions on physical movement and assembly resulting from COVID, it is reasonable to assume that the entire legislative package will be substantially delayed.

CONCLUDING REMARKS

The expressed willingness of Raúl Castro upon his rise to Cuba’s top leadership position to tackle the national economy’s ills and to be open to consider policy actions altering the socialist model—actions that would have been inconceivable during Fidel Castro’s leadership—created an atmosphere of optimism about impending improvements in the well-being of Cubans.

The process of taking actions in support of this objective started swiftly, propelled by the economic and social development guidelines approved by the VI PCC Congress in 2011. The process stalled out shortly after, however, as a result of push back from the conservative National Assembly, the worsening economic situation in Venezuela and uncertainty on the part of the Cuban leadership on how to react to the “thaw” in diplomatic relations advanced by the U.S. Administration of Barack Obama. The ascension to the U.S. Presidency of Donald Trump not only froze the potential normalization of commercial relations but actually strengthened sanctions against Cuba, with the U.S. aggressively using its leverage to limit Cuba’s already-restricted access to international financial markets. The balance of a decade of Raúl’s reforms, which had much promise but delivered little, is apt to be described with the Spanish saying “mucho ruido y pocas nueces” (a lot of talk, little action).

At the time of this writing (end of 2020) Cuba is suffering a very serious economic crisis, aggravated by the COVID-19 pandemic, which in some ways resembles the crisis associated with the Special Period. As has been the case in previous other economic crisis, in 2020 the Cuban government acted to take a number of liberalizing steps that have been considered before but not implemented, that could have a positive impact on the economy if maintained, intensified and expanded.

For example:

- Effective in mid-July, the Cuban government eliminated the 10% surtax it imposed since 2004 on the exchange of U.S. dollars, encouraging the population to convert their dollar holdings into domestic currency and creating an incentive for relatives abroad to increase remittances to the island.
- To capture more of the dollars held by the population, the Cuban government simultaneously

created stores selling food and personal hygiene items only for dollars.22

- Also in mid-July, Cuba began to allow self-employed owners of small restaurants and cafeterias to make purchases of beer, flour, yeast, shrimp, sugar and cooking oil at the wholesale market MERCABAL, operated by the Ministry of Internal Commerce; up to that time, only non-agricultural cooperatives had been able to shop at MERCABAL.23

- In early August in a TV appearance, Minister of Labor and Social Security Marta Elena Feito Cabrera announced that regulations were being drafted that would scrap the “positive list”24 of categories permitted for self-employment. Thus, “according to the new regulations, there will be no limits in activities to be performed in the private sector. The scope of the activity shall be determined on the basis of the proposal made by the party interested in carrying it out, and its authorization will be based on its compliance with the law and that its resources come from licit origin.”25

- In December, Ministry of Foreign Trade and Foreign Investment Rodrigo Malmierca announced that henceforth, Cuba would allow majority participation by foreigners in joint ventures, including those in tourism, biotechnology, the pharmaceutical industry and in wholesale trade.26 Until this action was announced, foreign investors were not allowed to own more than 49% of a joint venture except in very extraordinary circumstances.

- And also in December, sitting alongside the former leader Raúl Castro, President Díaz-Canel announced at a press conference that effective January 1, 2021, there would be a single exchange for the Cuban peso vis-à-vis the U.S. dollar, which would be fixed at 24 pesos equal to one dollar.27 Implicitly, this decision means that Cuba’s other currency, the convertible peso, would cease to exist as of the new year. This monetary overhaul and elimination of multiple currencies has been a goal of the Cuban government for more than a decade and the many delays in its implementation are indicative of the economic pain that it is anticipated it will bring to the Cuban population.

It remains to be seen whether these recent actions represent the rekindling of a reform process or just band aids to patch up a downward spiraling national economy.

24. In international economic negotiations, a positive list refers to an approach whereby only products, services or sectors that are listed are allowed to be exchanged or are subject to disciplines, in contrast. A negative list approach specifies products, services or sectors that may not be exchanged or are subject to disciplines, thereby permitting exchange or freeing from disciplines all products, services or sectors not listed. It stands to reason that negative lists are more inclusive than positive lists.