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The Cuban economy: Data on today's performance and information on tomorrow's projected changes

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DEPARTMENT OF ECONOMICS WORKING PAPER SERIES

**The Cuban Economy: Data on Today's Performance and Information on
Tomorrow's Projected Changes**

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Working Paper No: 2008-08

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The Cuban Economy: Data on Today's Performance and Information on Tomorrow's Projected Changes

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Abstract

There is widespread discussion both within and outside Cuba concerning what direction the Cuban economy will go under its new interim president Raúl Castro. This short paper is intended to contribute two pieces of information that are needed to intelligently discuss that issue: where Cuba's economy stands today, and what type of reforms Cuba's political and economic leadership say they intend to implement. Its goal is to compactly present current information on some of the key economic issues Cuba faces in regards to both the present and the near future, and thereby give a solidly information-based picture of Cuba's current economic reality. It presents two central conclusions. First, that the evidence supports that there indeed has been real and meaningful accelerated improvement in the Cuban economy in recent years, and at the same time Cuba remains far from being able to meet many of its citizens' economic needs in accord with its own principals of human development. Second, that Cuba intends to continue the process of economic reform that it has been engaged in since at least the early 1990s. This will involve significant restructuring of aspects of how the economy functions, with a central concern with improved efficiency. Cuba intends to introduce some (further) market-mechanisms and in certain areas even markets. But the whole reform process will be conducted in a frame that intends to keep both efficiency considerations and market instruments subordinated to their central goal of building socialism. Two aspects are particularly important in assuring that capitalism-like instruments remain subordinate. The first is an expanded role of the entire population in determining both what is most socially desired, and in presenting ideas on how to improve the economy. The second is the continued use of central planning even as they shift many appropriate decisions in their planning and management process out from the central ministries to the regions and especially to the enterprises.

Keywords: Cuba, Current Economic Conditions, Socialism

JEL Classification: P27, P30, O54

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I. Introduction

There is widespread discussion both within and outside Cuba concerning what direction the Cuban economy will go under its new interim president Raúl Castro. This short paper is intended to contribute two pieces of information that are needed to intelligently discuss that issue: where Cuba's economy stands today, and what type of reforms Cuba's political and economic leadership say they intend to implement.

Cuba puts out a lot of information, both on its current economic performance in any given year, and on the discussions it is having concerning its plans for the future. This data and information are, however, very scattered. The goal of this short paper is to compactly present the current information on some of the key economic issues Cuba faces in regards to both the present and the near future, and thereby give a solidly information-based picture of Cuba's current economic reality. The paper will be divided into two parts: Cuba's current and recent economic performance, and the indications of what they intend to do in the near future, concerning both continuity and reform.

Before turning to these two topics, I want to make three points.

1) One of course needs to understand at least the development of Cuba's new economy from 1990 onward to understand its current performance, and one should really consider its development by the Revolution since 1959. Those are each book or multi-book projects, beyond what this paper can address. For a fairly detailed description of the economic changes of the 1990s, see Campbell (1999). For a shorter informative overview of the 1990s by the Cuban Minister of Economy and Planning, also in English, see Rodriguez (2004). For a fairly detailed overview that covers through the mid 2000s, see Skinner (2006).

2) I want to stress that it is necessary to understand the first issue, Cuba's actual performance, before one can understand its plans for the future. Most (not all) trained economists from the First World start with a faith-based belief that markets and capitalism will necessarily perform better than planning and socialism. The Cuban government believes to the contrary that over the last almost five decades their non-capitalist performance, as measured by growth¹ but even more when measured by their people's well-being, has exceed that of almost any other Latin American country, the region they should be compared to.

3) At the same time that one needs understand the actual past performance of the Cuban economy to understand the choices they are making today and in particular why they are not proposing changing to capitalism, one simultaneously needs to understand the ideology of the Cuban revolution to understand the filter through which they see their own past experience. In the simplest terms, they presently hold that building socialism is the best, if not the only, road for major social and economic development for a Third World country, and it is in that frame that they are debating how to proceed with continuing economic reform. For reasons of space this paper cannot consider their rich discussions on their social-political-economic ideology. For a good recent discussion of that important aspect of their development, in addition to Rodriguez (2004) see Mendes and Marques (forthcoming).

I. Cuba's Recent and Current Economic Performance

I will begin with the most standard indicator of comparative national economic performance, GDP growth. The limitations of this as an indicator of development are well

¹ For a methodologically careful detailed study of the growth of the Cuban economy from 1959 to the mid 1980s that found that only Brazil had outgrown it, see Zimbalist and Brundenius (1989). While other authors of course have debated this, the point relevant to this paper is that all members of the Cuban government have always presented the position that Cuba has performed better with its non-capitalist development than most of its Latin American neighbors most of the time, and better than it would have under a capitalist "development" scenario. That in turn is one of the central determinants of their ideas concerning the future.

known, and I do not want to then dwell on the usual further economic indicators of trade, balance of payments and capital flows, government deficit, inflation, and so on, notwithstanding their importance for a number of economic considerations.² Rather I want to here turn to indicators that more immediately reflect the current economic well-being of the population. As Cuba's successes in healthcare and education are frequently written about, I want to here address five more contentious indicators that are being, or have recently been, much discussed and debated in Cuba: food, housing, transportation, blackouts and employment.

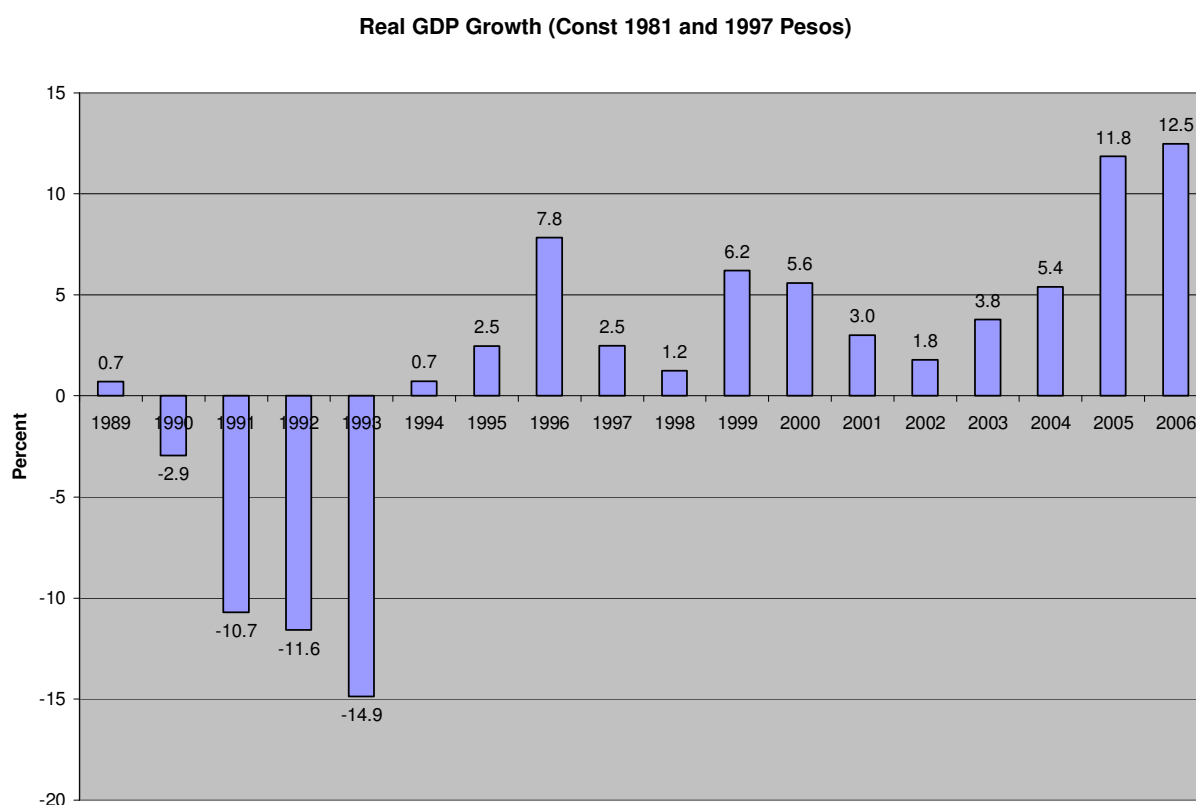


Figure 1. Sources: *Anuario Estadístico* (1998, 1999, 2007)

A) GDP growth. Figure 1 gives Cuba's real GDP growth rate since 1989. One sees the much discussed collapse of the early 1990s, and the continual medium-paced recovery from

² I will however need to introduce something on trade to argue against one common interpretation of Cuba's recent excellent growth.

1994 - 2004. Not surprisingly the US press has barely mentioned the exceptional growth of 2005 and 2006. Note that while those years were good for all of Latin America and the Caribbean, their average for that region was 4.5 and 5.3% respectively. (ECLAC, 2007b, Table 2.1.1.1) Preliminary indications for 2007 indicate Cuban growth will drop to roughly 7%, still well above the regional average of 5.6%. The economically more important GDP per capita growth rate of 6.9% is only marginally below the top four countries in the region for 2007 and solidly above the regional average of 4.2%. (ECLAC, 2007a, Cuadros A-2, A3) Cuba's current performance clearly involves something more than the improved conditions for the majority of Latin American countries.

This paper will not try to discuss the reason for the strong economic growth of Cuba in the last three years.³ But I do want to dismiss as too simplistic one often heard explanation, which will also give two interesting insights into the changed current Cuban economy. One often hears that high agricultural and raw material prices (especially nickel and tobacco) are behind the recent strong Cuban economic performance. First, Table 1 shows the balance on trade in goods and services from 2001 to 2006.

	2001	2002	2003	2004	2005	2006
Export of goods	1,621.9	1,421.7	1,688	2,332.1	2,159.4	2,904.9
Import of goods	-4,851.3	-4,188.2	-4,672.8	-5,615.2	-7,604.3	-9,503.2
Balance on goods	-3,229.4	-2,766.5	-2,984.8	-3,283.1	-5,444.9	-6,598.3
Export of services	2,571.5	2,450.3	2,961.9	3,788.7	6,803.5	6,945.1
Import of services	-258.0	-246.5	-222.4	-225.9	-218.0	-246.1
Balance on services	2,313.5	2,203.8	2,739.5	3,562.8	6,585.5	6,699.0

Table 1. Millions of Pesos. Source: Anuario Estadístico (2007)⁴

³ Certainly the often cited explosion of economic relations with Venezuela and China is one important factor. (Mendes and Marques, forthcoming). But it is important to also note the ongoing (and under consideration for expansion) 1.2 billion dollar investment by Sherritt (Boadle, 2007a), among many other factors.

⁴ Technical note. Unfortunately the National Accounts no longer present exports and imports of services as they used to in the 1990s. They can be calculated, but there is a small point to be careful about. At www.one.cu select Anuario Estadístico 2006. Table VI.1 gives exports and imports separate but only for goods and services lumped

What we see is that while the export-goods earnings indeed achieved a significant gain in 2006 (after actually marginally falling in 2005), that gain was only about one quarter of the gain in export-service earnings in 2005. Those export-service earnings were then maintained and marginally increased in 2006. Hence the data in the table dismisses the assertion that higher export prices and hence earnings were fundamentally responsible for the recent strong economic performance. The table also reveals an important continued change in the nature of the Cuban economy, with the importance of services recently growing rapidly in its external trade. A second reason to dismiss the high price of raw material and agricultural products as centrally important to the recent strong performance is that even among goods, the export of “generic and biotechnological medicines moved up to second place behind nickel.” (ECLAC, 2006, 116) This too is indicative of an important ongoing change in the Cuban economy, where knowledge-based goods and services have become important in their foreign trade (as well, of course, as domestically), something that has been possible only because of Cuba’s commitment to education since 1959.⁵

B) Food. In 1986 Cubans consumed 2,948 calories and 79.9 grams of protein per day. This caloric intake was above the 1989 level of Brazil (2,751) and just below Mexico (3,052) and Argentina (3,113). With the cessation of publication of its major source of statistical data in 1990, the *Anuarios*, this information was no longer readily available. The American Association for World Health estimated that in the worst year of the crisis, 1993, the average intake dropped

together. Table VII.1 breaks down goods into imports and exports, but one has to add the “authorized donations” to exports and “received donations” to imports to get the number they list as “export of goods” in the Balance of Payments table VII.11 (where they only give data for 2005 and 2006). With this one can create Table 1. Note that “services” so defined includes “Goods acquired at ports and airports.” One cannot correct for this because it is given only net (but of course it is almost all exports) and it is given only in Table VII.11, hence only for 2005 and 2006. It had a value of 243 in 2006 and 210 in 2005, so not correcting for this does not significantly change the trends.

⁵ The economic leadership of Cuba has long seen a knowledge-based economy as their goal. In his December 2006 address to the national Assembly, the Minister of the Economy and Planning said: “We can count on the human capital created by the Revolution as a base for the development of the knowledge-based society that is the guarantee of the future.” (Rodríguez, 2006)

to 1,863 calories and 46 grams of protein, below even Haiti's 2,013 calories (Campbell, 1999). Actual 'minimum necessary calories' calculated by governments and international agencies depend on age, gender, and level of activity (e.g. UNU, 1989). As an average minimum requirement Cuba used 2310 calories and 35.5 grams of protein in its last *Anuario* that had nutritional information.⁶ (CEE, 1989, 174)

Although the publication of the *Anuario* resumed in the mid 1990s, food intake was removed from the new format and remains to this day not readily available data.

Since 2000 Jean Ziegler has been a Special Rapporteur of the Right to Food for the United Nation's Human Right's Commission. Following an 11 day visit to Cuba at the beginning of November 2007, he concluded that "Cuba was a model in feeding its population." He noted that there are 32 countries in the world that have the right to food written into their constitution, and not all of those in fact do guarantee food to their people - Cuba is one that does. (Weissert, 2007) As of the writing of this article (12/30/07) Ziegler's report, which I expect will have some concrete statistics on the current food situation in Cuba, had not yet been posted.

The International Herald Tribune printed a story of a US visitor who lived in Cuba for a month in 2007 and ate what was included on a standard month's ration card plus what could be bought with an average Cuban monthly salary of 350 pesos. A bit less than half the Cuban population has no access to foreign currency earnings, so they would have to live roughly this way. In fact their food intake is generally somewhat better, for they have established personal social networks that help those in greatest need, but the article nevertheless provides a good feel for the human dimension of the current food situation, and roughly matches this author's personal experience in Cuba. Rationed goods include "rice, legumes, potatoes, bread, eggs and a small amount of meat products. The government estimates that the ration provides a third of the

⁶ The IMF and World Bank today generally use 2100 calories as their average figure for policy purposes.

3,300 calories the average Cuban consumes daily.” (IHT, 2007) While 3,300 strikes this author as slightly high and I would like to see official government statistics, the IHT author does point out that the diet has become overly starch-rich, which has caused 30 percent of Cuban adults today to be classified as overweight. This latter number gives support to the position that caloric intake may indeed once again rival those of the top Latin American countries. These numbers and this author’s personal observations support Ziegler’s position that clinical hunger is not an issue in Cuba. As he stressed, that is a major accomplishment for any Latin American country and must not be underemphasized. At the same time, lowering the cost of more foods off the ration card other than starches is necessary for improved social health. This is an issue addressed by one economic reform already started by Raúl that is slated to be extended, which will be discuss below.

C) Housing. “Housing is widely acknowledged by Cuban leaders to be one of the country’s most pressing problems.” (Hamberg, 1990, 248) Written in 1990, this could have been written in 1960, 1970, 1980, 2000 or today. Housing was recognized as a problem on day one of the Revolution in 1959, but two conscious policy decisions combined to keep it that way to date. First, they decided that notwithstanding the serious housing needs, they had to first greatly expand their productive and social facilities (schools, hospitals, etc) before they moved massively to resolve the housing problem. Second, they decided, and successfully implemented, that one top priority of the Revolution would be to reduce the huge gap in all aspects of life between the city and the country. This second decision did not actually make the total housing problem worse, but it did determine that housing would improve in the countryside and severely deteriorate in Havana, the latter being the only place other than tourist resorts seen by so many visitors to Cuba to this day. (Griffiths and Griffiths, 1979, 122-3).

A National Housing Institute report issued June 27, 2005, estimated that 43% of Cuban housing required repairs. It further estimated that Cuba would have to build 50,000 houses a year for 10 years to address its housing shortage. (Wroclavsky, 2005) Actual housing completions have been as follows:

Years	1985	1990	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
Total	41,170	36,326	27,128	33,465	44,499	57,318	54,479	44,963	41,997	42,940	35,805	27,460	15,590	15,352	39,919	111,373
State	27,265	22,510	16,933	21,813	24,034	30,206	26,504	21,267	19,347	20,670	17,202	19,643	7,318	8,295	14,585	29,692
NonSt	13,905	13,816	10,195	11,652	20,465	27,112	27,975	23,696	22,650	22,270	18,603	7,817	8,272	7,057	25,334	81,681

Table 2. Housing units completed. Source: *Anuario* (2007, Table XI.1)

One sees from this table a number of interesting things concerning housing. First, if the estimates are correct and they need only produce 50,000 houses a year to resolve their housing shortage in ten years, this table indicates that resolving their housing problems certainly is an obtainable goal, given their historical production. Second it is interesting that while housing production slumped with the depth of the crisis in 1993, it recovered to respectable levels by the mid 1990s, but then declined in the late 1990s, plummeted in 2001-2 and crashed in 2003-4, all at a time when we have seen the economy had been doing continually better for almost 10 years. Third, we see that following the statement of their goal in 2005 they indeed achieved an unprecedented year in 2006, and even if they only achieve half of that in 2007 (approximately their target) they will still meet the required 50,000. And finally, we see an important trend that appears likely to continue – state output was sharply boosted from 2004 to 2006, increasing over 3 ½ fold, but non state output increased over 11 ½ fold. All indications are that in the near future this non state output will continue to play a central role, while the state continues to make an important

contribution. Prospects for resolving the permanent housing crisis in Cuba look better today than they have at any time since (and since before) 1959.⁷

D) Transportation. Three months after assuming the powers of interim president in August 2006, Raúl Castro fired the Minister of Transportation. In March 2007 the new Minister of Transportation Jorge Luis Sierra declared that the basic system of transportation in Cuba had serious problems. Two major programs have been initiated.

In 2005 the Chinese automaker Yutong Group Ltd began exporting coaches⁸ to Cuba, and had exported 1,200 by the end of 2006. (PDO, 2007) During a visit to Cuba in June 2007 this author was told by both government and non government people that these had dramatically improved intercity bus transportation, that at that time nothing had been done about the (abysmal) city bus system (particularly in Havana), and that plans were to begin completely renovating that in 2007. By September 2007 Yutong had exported 200 city transport buses to Cuba. The current agreement calls for exporting to Cuba 5,348 buses or coaches for \$37.5 million from 2007 to 2009. (PDO, 2007)

Government statistics support this picture. In 2006 the number of trips made transporting passengers⁹ in the urban regions declined by 1.7% (after an 8.9% decline the year before), while the number of trips made transporting passengers outside the urban areas increased by 13.5% (ONE, 2007, Table XII.8)

The other major transportation project about to begin is the renovation “to their original condition” of the train systems. In September 2007 Cuba received a \$100 million loan from

⁷ Three short pieces that together give a rich picture of housing over the whole Revolution are Griffiths and Griffiths (1979), Hamberg (1990) and Kapur and Smith (2002).

⁸ Buses of the standard type used around the world for intercity transportation, with an aisle down the middle with two reclining seats on each side.

⁹ By trains or motor vehicles operated by the Ministry of Transportation or Poder Popular, excluding for tourists, students or by taxis.

Venezuela to upgrade the tracks, signals and communications. In addition they have contracted to buy 100 locomotives from China and 100 freight cars from Russia. The Transportation Minister said the repairs will allow trains to travel at 100 km/h instead of the present 40 km/h, an essential improvement not only to make long distance train travel attractive to Cubans, but to cut train cargo transportation costs. (*Reuters*, 2007)¹⁰

E) Blackouts – (almost entirely) resolved. A major complaint of the Cuban population for over a decade was the electrical blackouts. From 2005 to the present over \$2 billion has been spent in renovating and modernizing the national electrical system. (*Reuters*, 2007) Blackouts still occur, but relatively infrequently, (Martínez, 2006) and they are no longer a significant complaint of the population. Successes like this in resolving what was a major social concern are of course important in shaping how Cubans today view the possibility that the government will resolve other of their long standing complaints. Not many people that this author knows in Cuba will argue privately that they are *sure* that the government will now finally resolve all the longstanding social irritations. On the other hand, many people have a more positive attitude toward the *possibility* that the government might now make really meaningful advances on many of these problems. My impression from many conversations is that there has been a significant decline in the number of people with a strong social pessimism, and a shift by many (certainly not all) to a “hopeful let us see” attitude concerning these quality of life/living standard issues.

It is interesting to note that the massive blackouts that persisted for many years were caused by a drop in electrical output of only 27% from the 15,024.7 Gw.h in 1990 to the low year of 1993. Following that, production climbed very slowly and steadily until it finally surpassed 15,000 Gw.h again in 2000, and after that it stayed fairly constant until 2005. (ONE,

¹⁰ The Minister of the Economy and Planning gave some additional information on recent transportation problems and developments in his last two yearly reports to the National Assembly. (Rodríguez, 2005, 2006)

1998, 2006, 2007) In 2006 with the first results of “the energy revolution” (see Mendes and Marques, forthcoming) being recorded, electricity output did increase 7.3%. But the real source of the resolution of the blackout problem was not boosting output, or in this case the related effective social drive to reduce consumption, but rather repairing an infrastructure that had deteriorated for at least a decade, and parts of it were not properly maintained from the time they were built. The new heightened attention to repair as opposed to only new production is very much part of the economic reforms since the late 1990s, and very much seen in Cuba as a longstanding focal concern of Raúl.

F) Unemployment. Unemployment, which had been essentially non-existent from 1959 to 1989, climbed in the 1990s following first the economic crisis, and then the economic measures to increase productive efficiency¹¹ that were a central part of overcoming the crisis.

Unemployment was never the same individual problem for the unemployed person as it was in other Third World or even most First World countries. There was an extensive safety net, and as discussed above under food, no one went hungry. But unemployment still put added economic pressure on the individual and his/her family, it was an important psychological problem for some individuals, and it was a social problem, both because of the lost social output while trying to overcome an economic crisis, and because it bred hostility in a layer of people to the government and its social policies. When the Social Worker program was begun in the early 2000's, efforts were made to get especially young people who were neither studying nor working reintegrated into the social fabric. The success in lowering the unemployment rate was a combination of that program, the related expansion of the number of working-age people who

¹¹ Above all this consisted of, over a decade, the important reduction (not elimination) of the massive hidden unemployment that had been one central characteristic of the pre 1989 economic structure.

became full-time students, and the continual strengthening of the economy since 2000 that we saw above. The fall in unemployment since 2000 has been

2000	2001	2002	2003	2004	2005
5.4	4.1	3.3	2.3	1.9	1.9

Table 3. Unemployment in Cuba. Sources: *Anuarios* (2007, 2006)

II. Cuba's Declarations Concerning its Near-term Economic Future: Continuity and Reform

A) Continuity. The key element of continuity in Cuba's near-term economic plans is the continued rejection by the Cuban government not only of a neo-liberal reform program, but more basically, it rejects developing a capitalist economy. While it is well known that Fidel had maintained his commitment to building socialism throughout the difficult times of the special period right up to the present, a more important question today for the future direction of the Cuban economy is the views of other influential figures around him.

The essential point is that all declarations by leading government figures indicate that they are firmly committed to pursuing their goal of working to construct a socialist economy. This appears as a passing phrase in many public speeches. What I want to do here that is more important than an indication of the ubiquity of these passing references is to indicate three very recent speeches by arguably the three leading economic policy figures in Cuba at the time of the writing of this article, where they go in some depth into the centrality of socialism to their ideas about Cuba's economic future. From all indications the general ideas (there appears to be a debate among the leadership on many details) expressed here are shared by the entire Cuban leadership. These discussions of some of their ideas on socialism are much too long to even reproduce all the direct references to that topic. Here I will just select a short passage from each speech, but all the speeches are readily available and I maintain that reading the three of them

will give a good general picture of the commitment to building socialism by the top economic policy people in Cuba today.

In 2004 the Minister of the Economy and Planning, José Luis Rodríguez, wrote an article “The Road to Economic Recovery.” From the introduction on, Rodríguez was very clear about the centrality of the commitment to building socialism in Cuba’s near-term economic intentions. “In this chapter we will share some reflections about those factors that established the basis for a successful economic recovery within a Socialist context” (Rodríguez, 2004, 149). One important aspect to understand about their concept of socialism is that while it includes providing social services (“education, public health, social security, culture, and sports” (ibid, 150)), it also must involve changing the way people see themselves and their relation to society from what exists under capitalism, the “... creation of a humanistic and solidaristic political consciousness” (ibid, 150). A second important issue Rodríguez spoke to directly, again in line with not only what Fidel but also other top leaders have repeatedly said, was the significant expansion of market mechanisms in Cuba in the 1990s.

Cuba made the necessary changes in order to adapt the Socialist model to the difficult conditions it was facing. Cuba was convinced that it was possible to achieve efficiency and equity without embarking on the road to a market economy. ... This process of transformation in the economic paradigm would, without renouncing its Socialist essence, open considerable space to market mechanisms in order to reactivate production and services, a course with considerable complexities. ... However, it is important to emphasize that this growing importance was always seen as contradictory to the interests of a Socialist society such as Cuba’s. (ibid, 150-1)

At the December 2005 session of parliament (“National Assembly of Poder Popular”), Cuba’s Minister President of the Central Bank, Francisco Soberón, gave a speech that was reproduced in full in the press, whose final line was “Socialism is not a conjunctural option for Cubans but rather the destiny that we have freely and irreversibly chosen.”¹² Like Rodríguez, he

¹² The references for this and the next speech are in Spanish, and all translations are by the author.

considered it necessary to begin his report on the performance and growth of the Cuban economy in 2005 by setting it in a frame that everything done was related to the permanent project of building socialism. While the emphasis of the talk was that Cuba is still far from its socialist goals and therefore needs to apply market mechanisms such as directly linking distribution of goods and services to individual work effort, and ending the ration card and the subsidy of particular basic goods, the speech nevertheless made clear that the goal that had to always be kept in mind was to move beyond these.

To approach this theme {of economic performance in 2005 – A.C.}, we should begin by emphasizing that for its 46 years the Revolution has always tried, even under the most adverse circumstances, to assure the most equitable distribution possible, in accord with the morals of our Socialist system. ... In our Socialist system the environment of cruel insecurity {which exists under capitalism – A.C.} has disappeared, and people have a good part of their basic necessities guaranteed, independent of their contribution to society. ... Comrade Fidel said on a particular occasion that the Revolution will not have reached its highest moral values until we are able to create much more as free humans {ie, not under economic compulsion such as from markets – A.C.} than we are able to produce as slaves. ... Perhaps one of the most complex dilemmas that confront a Socialist revolution is to achieve efficiency in economic management without renouncing the politically strategic objective of creating a communist consciousness. ... In Socialism, which gives dignity to humans and frees them from alienating consumerism.... By expressing these ideas, one runs the risk that some will think that what we are trying to make understood is that people should work only for money. That would be a grotesque transfer to Socialism of the most vulgar relation that any ignoramus is capable of perceiving in capitalism.¹³

A speech in August 2007 to state enterprise managers (subsequently published) by Carlos Lage, a vice president of Cuba and often considered the top economic policy person in the Cuban Communist Party, made clear another aspect of economic continuity. It also implicitly indicated more about their concept of socialism, and in particular the role they have in mind for the market mechanisms and in some cases markets that they have introduced and will expand. Presumably reflecting as well the position of Raúl, Lage clearly stated that Cuba would not be following the

¹³ A fourth leading economic figure in Cuba, the President of the Commission of Economic Affairs of the National Assembly, Osvaldo Matrínez, made these same points more briefly in his presentation to the National Assembly in December, 2006, which I will not reproduce here for reasons of space. (Martínez, 2006)

Chinese and Vietnamese paradigms of so-called market socialism. Rather, Cuba would continue with the economic model developed originally by the Cuban Army under Raúl in the late 1980s and explicitly adopted as the model for the whole economy in the early 1990s. This model was further developed through the 1990s and then began to be implemented as the system of “enterprise improvement” (*perfeccionamiento empresarial*) in 1998. Put overly simply, its goal is to raise the productive efficiency of state enterprises, thereby enabling a predominantly (but not exclusively) state run economy to meet the population’s need for goods and services.¹⁴ This reflects a central aspect of economic continuity in their concept of socialism. Unlike China and Vietnam, markets are to remain subordinate to comprehensive social economic planning and private property in the means of production is to remain subordinate to state ownership. Lage and the Cuban leadership believe this program has so far been fundamentally very successful. Lage said

The companies applying *perfeccionamiento*, being 28 percent of all companies with 20 percent of sales, account for 51 percent of all profits, 72 percent of foreign exchange earnings and are 50 percent more productive. (Frank, 2007)¹⁵

With only about a quarter of the roughly 3,000 Cuban enterprises (involving only a fifth of sales) yet operating in this improved fashion after 10 years, the Cuban leadership sees this as both a project that still has tremendous potential to further improve the Cuban economy, and as a project that will remain a central component of their economic program for many years to come.

B) Reforms. On the surface there seem to be two very different types of economic reforms that are rapidly growing in Cuba in the last year: an opening up to popular input and

¹⁴ For a detailed look at what is involved in the enterprise improvement program, see Peters (2001). Note that as he indicates his article was written before any results could be evaluated. Note also that while Peters consciously tries to discuss what he considers both the strengths and weaknesses of the program, he also operates with a very strong mainstream “markets-are-optimally-efficient” bias.

¹⁵ Frank correctly notes that some of the companies are joint ventures, and without giving some indication of what contribution to the numbers given come from that and what part comes just from the enterprise improvement effect, the numbers given have an unknown possibly significant bias.

increased transparency¹⁶, and a restructuring. In the frame established in this paper, and as perceived by the Cuban leadership, they are in fact just two aspects of the same process – reforms both appropriate and necessary today for building socialism in Cuba.

1) Opening up the economy to popular input and increased transparency. In his first presentation of the yearly high profile July 26th speech in 2007, Raúl said (quoting Fidel from 2001): “Revolution means a sense of our moment in history, it means changing all that ought to be changed.” This was not an isolated sentence put in as a rhetorical flourish but rather one of the central themes of the speech. Raúl said that all Cubans are “duty-bound to accurately identify and analyze every problem in depth” in their workplaces. (Castro, 2007) The speech became highly symbolic, and people to this day refer to it as the call from above for the open criticism that is, as of this writing (12/2007), continuing to grow. But what is particularly reflective in this of Raúl’s approach is that this very high visibility call was only part of a process that he had begun many months before.

Raúl began calling for more openness almost immediately upon assuming the role of interim president while not knowing when or if Fidel would return to the presidency. His first call came as a continuation of a campaign already launched by Fidel to fight corruption, both to preserve the moral authority of the revolution and to improve economic performance. Raúl continued to stress those themes (and continues to do so to this day), but he also began to stress that not only could this only be done with broad popular participation (a theme already repeatedly advocated by Fidel), but further that people were already discussing and complaining about these and other problems and the responsible authorities were not really listening. In a

¹⁶ The economic system from the mid 1970s to 1990 was a *modified* form of the model in the USSR, which was already more open to popular input than the USSR model. Raúl has indicated by both words and actions that he considers it important to make it significantly more open to popular input

speech to the 19th Congress of the Cuban Trade Union Confederation (CTC) on September 28, 2006, Raúl said,

[For the unions] to concentrate on political work in the work centers implies discussing with the people, but really discussing, to know what they think. We cannot be satisfied with talking but we also need to listen, even though we are not pleased by what they say to us. (Castro, 2006)

By the Fall Raúl took this call for openness to a new level, beginning a process of directly calling on various institutions and groups to increase their open constructive criticisms of any social problems. He first called on newspapers to undertake authentic investigative reporting on corruption and popular problems. The first result was the series of reports in October by youth investigators for *Juventud Rebelde* on corruption which was occurring at the expense of both consumers and workers, in various types of small state enterprises that directly served the population. (Lexington Institute, 2006) This new role for newspapers has continued and grown slowly to this day, and is an important part of the social opening-up going on in Cuba that is insufficiently commented on outside of Cuba. On December 20, 2006 in a speech to the Federation of University Students (FEU) later broadcast on TV and published in newspapers, Raúl called on students to “debate, analyze, and disagree” as the way to achieve the best solutions. (*JR*, 2006) In his speech to the National Assembly on December 22 Raúl returned to his call for openness, this time linked to a theme he had already begun to put forward earlier in the Fall and which has continued to be one of his central themes for economic reforms since then; Cuba’s economy needs results from its bureaucrats in spite of the real difficulties that achieving results may involve, and not excuses as to why the difficulties precluded results. He called on them to “analyze things as they are and tell them as they are. Tell the truth. Without justifications, for we are tired of them in this Revolution.” (Barrio and Rodríguez, 2006a) This author encountered in Cuba as a *hope*, tempered by either skepticism or cynicism varying

between different individuals from none to total, the claim made by *Juventud Rebelde*'s reporters that this meeting of the National Assembly "amply demonstrated that the top leadership of the Revolution is paying special attention to the opinions, complaints and concerns of the people with regard to matters as sensitive as the situation of transportation, housing and food." (ibid.)

The President of the National Assembly Ricardo Alarcón indicated at the end that as a result of the open discussion in the assembly meeting, the five main lines of work of the National Assembly over the coming year would be those three areas plus a continuation of 'the Energy Revolution' and work to increase work and social discipline. (Barrio and Rodríguez, 2006b) In June 2007 there was a very important nation wide survey of Party members throughout the Cuban economy on how state-run businesses could be operated more efficiently. As described by a participant, "We were told to express our views absolutely freely and that is what we did." (Cuba Study Group, 2007; Peters, 2007; Frank, 2007a) Finally, the process took its biggest step forward following Raúl's July 26 speech, starting in August and accelerating in September. For two months meetings were held in Communist Party cells, Committees for the Defense of the Revolution (neighborhoods), and in work places, about whatever social and economic concerns people had. A vast discussion unfolded of everything from salaries, food prices, housing, transportation, restrictions on travel, the two tiered money system, and the lack of resources at the once academically outstanding schools in the countryside, to opposition to police interference with retired people who sell whatever they can in the street such as roasted peanuts to increase their income. (Vicent, 2007; Frank, 2007b; Boadle, 2007b) As a member of the Communist Party expressed it on emerging from one of these meetings, "people were expressing themselves like never before about all the problems in their lives." (Frank, 2007b)

2) Economic restructuring. There are in fact many facets to the economic restructuring repeatedly called for by Raúl. Here I will discuss just three central ones: increasing state-enterprise efficiency, increasing the domestic production of things presently imported and above all food, and increasing foreign investment.

a) Increasing-state enterprise efficiency. We have already seen above that this has been a central concern of Raúl's since he assumed the interim presidency. But in fact, his approach to this problem has evolved over time. In his speech in the *Aula Magna* on November 17, 2005, Fidel made his famous warning: "This country can self-destruct; this Revolution can destroy itself, but they can never destroy us; we can destroy ourselves, and it would be our fault." (Castro, 2005). Fidel's message was that a campaign against corruption and workplace theft, both by management and workers, was necessary to maintain the moral authority of the revolution to avoid what was perceived as central to the collapse of the Soviet and East Block systems. We noted that Raúl continued that theme from the day he received power, including Fidel's call on the workers to play a central role in stopping the corruption and theft, but from the beginning Raúl added two additional components. One was that corruption and workplace theft were only one aspect of what the central problem really was – the inability of the economy to produce and supply goods to the population at a level they considered acceptable. Hence from the beginning he broadened the issue to raising productivity, as a necessary prerequisite to raising salaries and the standard of living. Second, as we noted above, he indicated from the beginning, while calling on workers to play a key role in the campaign just as Fidel had, that in fact workers were already constantly commenting on the existing economic and social problems, and the responsible officials were not seriously listening to them. (Castro, 2006) Then the important shift came in expanding the reform process to involve calling on many different

institutions and individuals – unions, newspapers, students, members of the National Assembly, enterprise management and worker Party members, and finally the whole population – to increase their level of constructive criticism of the economy, to criticize whatever needed criticism. All of this is one central pillar of his continuing campaign to raise productivity, salaries and the standard of living in Cuba. A second pillar is his call for Cuban academics and think tanks to address this issue (Peters, 2007; Frank, 2007b), and a third pillar noted above is the continued extension of the enterprise improvement system to the whole Cuban economy.

A final aspect of Raúl's approach to increasing state-enterprise efficiency (and in general to addressing economic and social problems in Cuba), that is generally perceived in Cuba as different from Fidel's and key to how he operated both in the economic enterprises of the military and in the military itself, is reflected in the following quote:

I reiterate that our problems will not be solved spectacularly. We need time and, most importantly, we need to work systematically and with devotion to consolidate every achievement, no matter how small. (Castro, 2007)

b) Food production. As noted above, the supply of food continues to be a central concern of Cubans despite its great improvement since its low point of 1993. The government is pursuing three central strategies to increase domestic food production.

First, in accord with directives of the National Assembly meeting in December 2006, the Cuban government has both paid up its large debts to its farmers, and it has greatly raised the prices paid to the producers (but not charged to consumers) of a number of food products. As an example, milk and beef prices have been tripled. (Castro, 2007; Peters, 2007; Frank, 2007b)

Second, and again very inadequately discussed outside of Cuba other than in passing references to its existence, is the urban agriculture program. Its 28 subprograms have all been successful, and some exceedingly so. An example of the latter is the vegetable and condiment

program. Urban Agriculture output in this area has increased 1,000 fold from 1994 to 2006. As a result, Cuba now produces over one kilogram per capita of vegetables per day, compared to the FAO 0.3 kilogram recommended minimum consumption. “As a result, urban populations and institutions such as schools and hospitals have access not only to healthy, organic fresh produce but also to an impressive variety of it, ...” (Koont, 2008)

Finally, as discussed in the next point, Cuba is looking for foreign investment in joint ventures in some areas of food production that are still performing inadequately to meet the domestic needs, such as for example production of soy, grains and cereals.

In addition, the July 26th speech called for “structural and conceptual changes” in agriculture. (Castro, 2007) There is much speculation both within and outside Cuba what this may entail, but as of this writing (12/2007) nothing has been done along these lines, nor has Raúl given any further indication of what he had in mind with these terms.

c) Increasing foreign investment. In the same important July 26th speech referred to above, Raúl said:

...we are currently studying the possibility of securing foreign investment, of a kind that can provide us with capital, technology or markets, to avail ourselves of its contribution to the country’s development, careful not to repeat the mistakes of the past, owed to naivety or our ignorance about these partnerships, of using the positive experiences we’ve had to work with serious entrepreneurs, upon well defined legal bases which preserve the role of the State and the predominance of socialist property. (Castro, 2007)

This has been the theory behind Cuba’s foreign investment policy since the early 1990s, but in practice Cuba’s need to keep its economy going during the hard times led it to accepted most joint enterprise proposals that were not clearly harmful to the country. Small joint ventures in particular were often not transferring technology or bringing access to foreign markets or large amounts of capital, and so Cuba has shifted somewhat away from them in line with its goals stated above. Hence the total number of joint ventures has fallen over the last years, while the

total foreign investment in joint ventures has increased. (Smith and Schuett, 2007) One particular area that they are hoping to attract foreign investment to, in line with the discussion above about increasing domestic food production, is the agricultural sector. As of the writing of this article (12/2007), Cuba had just one joint venture in agriculture out of its 233 joint ventures. According to the Director of the Department of Investment Project Evaluation and Management, Anaiza Rodriguez, Cuba is looking at proposals from Argentina, Venezuela and other Latin American and European countries to produce soy and other grains and cereals. (Frank, 2007c)

III. Conclusion

This paper presents two central conclusions. First, that the evidence supports that there indeed has been real and meaningful accelerated improvement in the Cuban economy in recent years, and at the same time Cuba remains far from being able to meet many of its citizens' economic needs in accord with its own principals of human development. Second, that Cuba intends to continue the process of economic reform that it has been engaged in since at least the early 1990s. This will involve significant restructuring of aspects of how the economy functions, with a central concern with improved efficiency. Cuba intends to introduce some (further) market-mechanisms and in certain areas even markets. But the whole reform process will be conducted in a frame that intends to keep both efficiency considerations and market instruments subordinated to their central goal of building socialism. Two aspects are particularly important in assuring that capitalism-like instruments remain subordinate. The first is an expanded role of the entire population in determining both what is most socially desired, and in presenting ideas on how to improve the economy. The second is the continued use of central planning even as they shift many appropriate decisions in their planning and management process out from the central ministries to the regions and especially to the enterprises.

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