

Actualización in Perspective

Mauricio Font

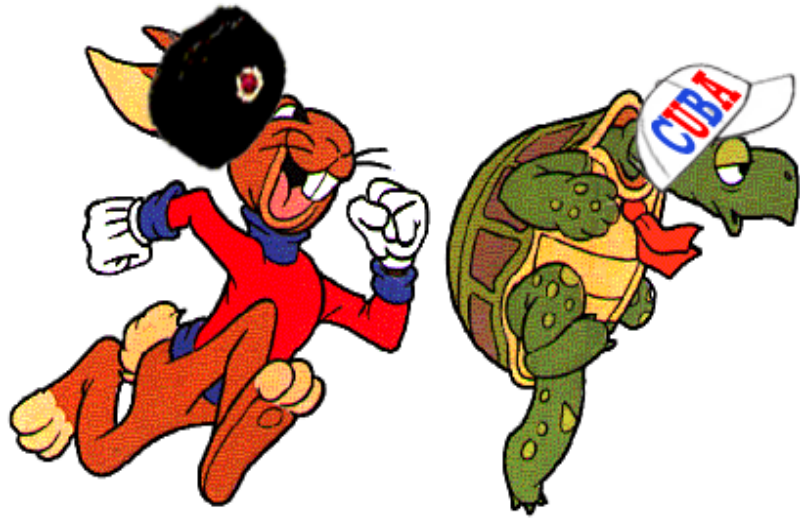
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Assessing the Current Reform Drive

1. What difference will the current economic reforms led by Raúl Castro make in the future of Cuba?
2. Review of past shifts of the Cuban economic model may help assess the current effort to “update” it.
3. Authorities insist they are serious. They have
 - baptized their policies--**actualización**
 - defined objectives--**lineamientos**
 - defined tempo--**“sin prisa pero sin pausa”**
 - added complementary measures--migration, expansion of tourism, new port of Mariel, others.





Will Raúl Castro's approach perform like the fabled tortoise that in the end beat the hare's "*big bang*" to the finish line?





Make sense of the past to explore future of the present

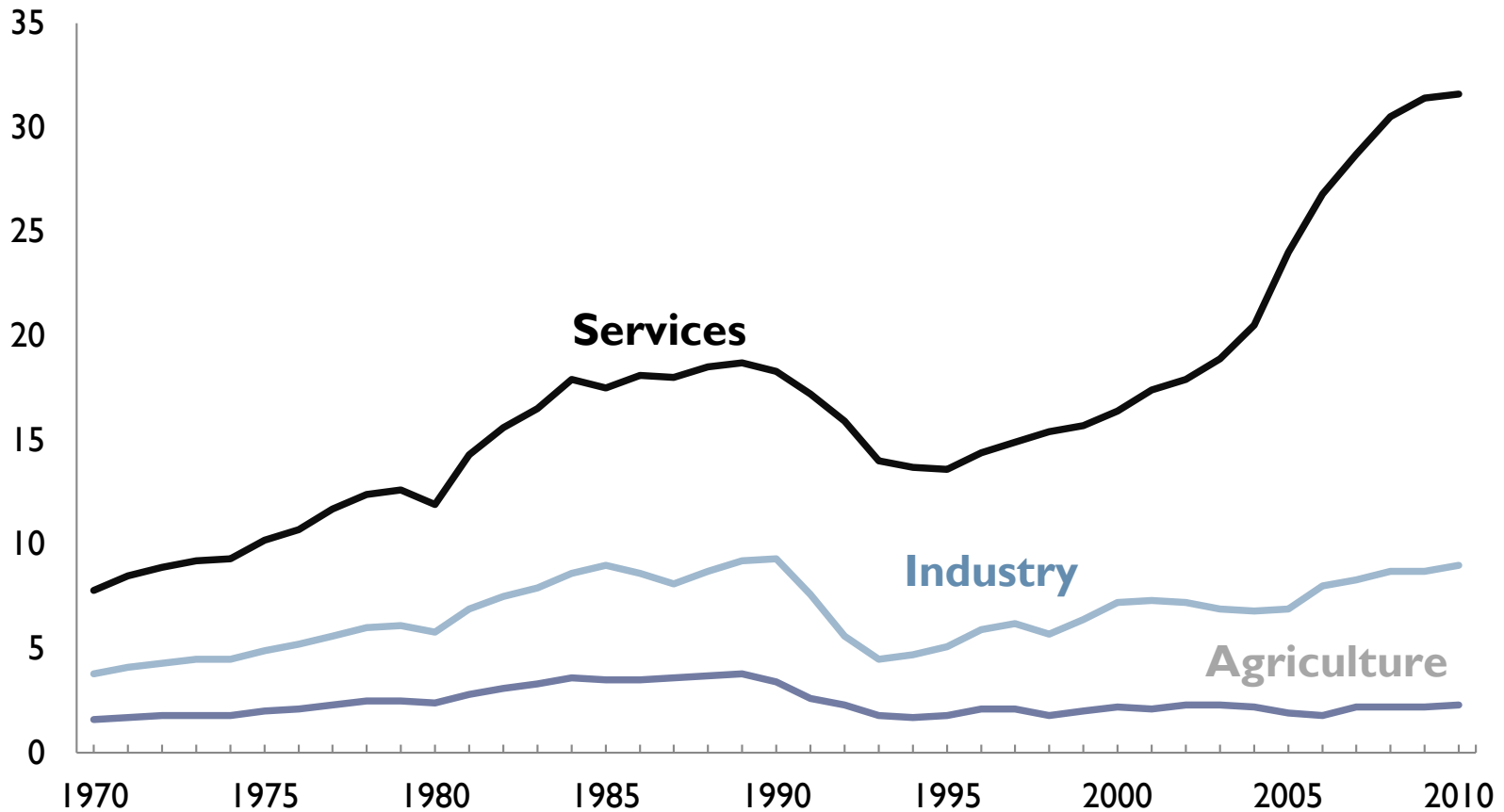
This presentation seeks:

- a basic *analytical narrative* to frame the current process of economic reforms in historical context
- to summarize essential details of the evolution of Cuba's economic model into a few *historical moments* (shifts)
- explore *prospects for the future* from past turns of the economic model.



Economic Performance by Sector 1970 - 2010

\$Bn Net Output in Billions of 2000 Constant US\$



Source: World Bank, World Development Indicators

Cuba's GDP Growth Rate 1970 - 2010



Source: World Bank, world Development Indicators

DEBATE: Mesa-Lago et al. vs JL Rodriguez & associates

- ▶ Research on the evolution of the economic model of Cuban socialism and socialist reforms by Cuban American economists focuses on cycles of alternating pragmatic and ideological phases (Mesa-Lago).
- ▶ Mesa-Lago's contribution: effectively engaging Cuba specialists like Jose Luis Rodriguez (*Temas*), European economists, UNDP specialists, and others in very useful debate and dialogue.



Evolution of Cuban Socialism

- ▶ 1960–1970: Rise of Cuban Socialism
- ▶ 1971–1985: Institutionalization
- ▶ 1986–1989: Rectification
- ▶ 1990–2008: Post-Soviet Era
 - ▶ *Special Period* (1990–1997)
 - ▶ *Socialist reaffirmation* (1998–2008)
- ▶ 2008–Present: ***Actualización***



1960–1970: Road to Socialism ...

Origin and end point	Elements
<ul style="list-style-type: none">➤ Consolidation of power (1959 to 1961)➤ Construction of socialism (early 1960s)➤ US trade embargo (1962)➤ Alignment and formal cooperation with USSR➤ Internationalism➤ Ten million sugar harvest drive of 1970	<ul style="list-style-type: none">➤ Agrarian reform, nationalization and revolutionary offensive➤ Industrialization strategy falters➤ Gradual rise of Soviet influence➤ <i>Guevarismo</i> and “The New Man”➤ Moral incentives over economic incentives➤ Revolutionary offensive of 1968➤ Legacy: <i>Seremos como el Che</i>



The 1960s ...

- ▶ National Planning Board (JUCEPLAN) and annual economic plans
- ▶ Ministries: Labor, Commerce, Finance...
- ▶ Nationalization in early 1960s:
 - ◆ industry 95%
 - ◆ agriculture 70%
 - ◆ commerce 75%
 - ◆ other sectors 98-100%
- ▶ Measures after 1963 and *ofensiva revolucionaria* of 1968 complete state control and centrally-planned economy
- ▶ Sugar cooperatives replace sugar *latifundios*
- ▶ Credit and Service Cooperatives (CCS) in 1961-1962
- ▶ National Institute for Agrarian Reform (INRA): Carlos Rafael Rodriguez



Debate About Socialist Model

- Guevarista approach (vs Carlos Rafael Rodriguez)
 - Focus on the **New Man**:
 - ideals before economic pragmatism based on sense of duty, patriotism, solidarity and collective interest; moral incentives
 - State provides education and social services to all
 - Develop *communist* stage of development:
 - complete collectivization** of the means of production
 - Search for **administrative apparatus to manage economy**:
 - centralization** of economic decision-making/planning/financing,
transfer of all enterprise gains/losses to the State
- CRR: Market mechanisms, Soviet model, material incentives**



Guevarist socialist model

(continued)

Administrative apparatus to manage:

- elimination of market-based exchange between SOEs
- gradual elimination of money as medium of exchange (but not as a unit of account to measure enterprise performance)
- elimination of economic incentives, production bonuses or awards to stimulate workers
- price controls (by a central planning board)
- elimination of market-based coordination and replacement with bureaucratic, centralized, mechanism.



Some Results of the 1960s

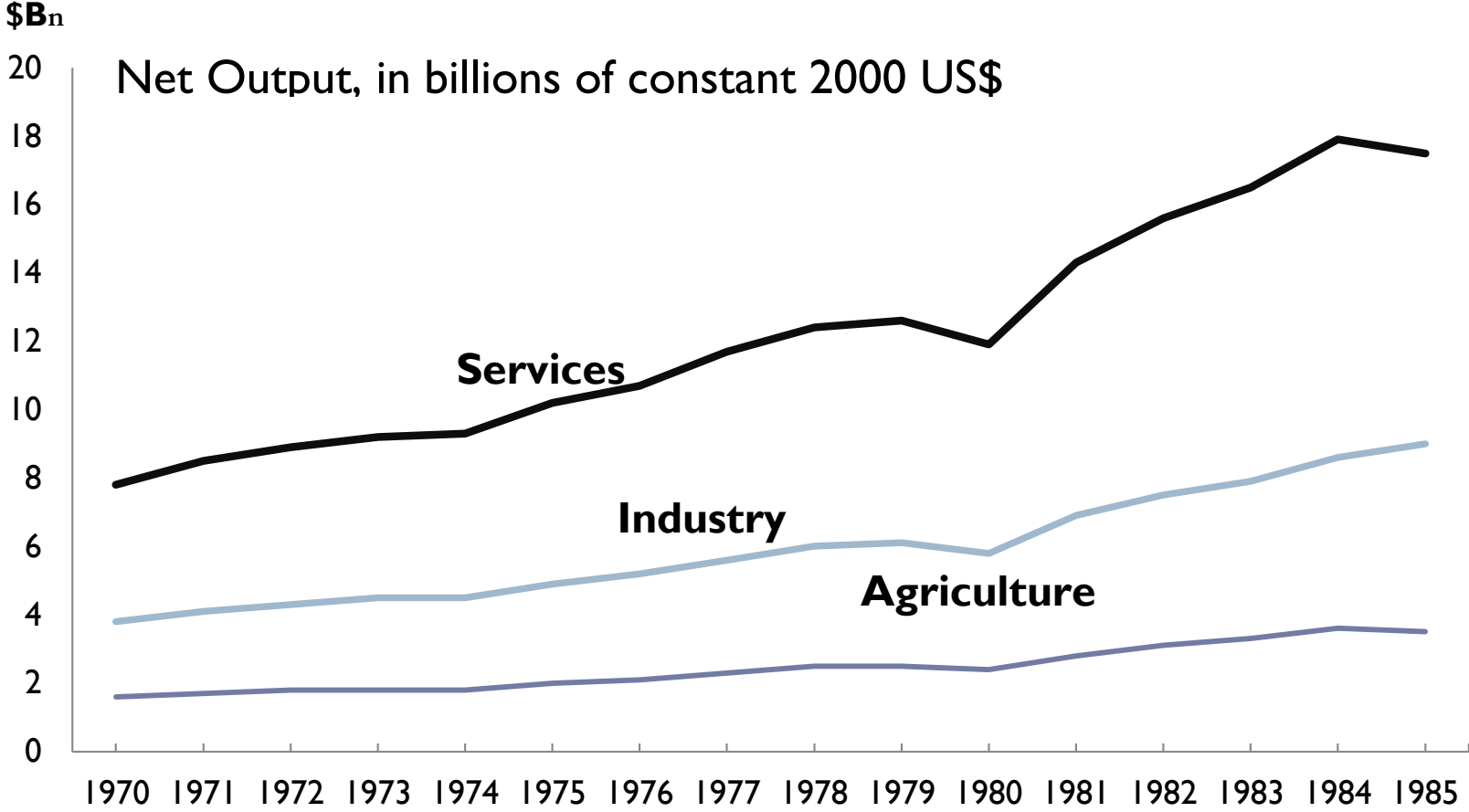
- **Deterioration of infrastructure**
- **Most targets established by the 5-year plan (1965-1970) not reached:**
 - ▶ **Declining output** – 1970 sugar production at 8.5 mil tons below the target of 10 mill
 - ▶ **Economy grew only 0.4% per year between 1966 & 1970**
 - ▶ **Increasing trade deficits** with the USSR
 - ▶ Low worker productivity and high rates of absenteeism
 - ▶ **Shortages** of rationed goods and services
 - ▶ **Monetary overhang/excess liquidity**
 - ▶ Inefficient allocation of resources and output



1971–1985: Institutionalization

Origin and key moments	Elements
<ul style="list-style-type: none">➤ Revision of model after 1970➤ First Congress of the Communist Party (PCC) in 1975 strengthening the party's institutional role➤ Constitution of 1976➤ Africa campaigns in the 1970s and development of armed forces (FAR)➤ Second Congress of PCC in 1980	<ul style="list-style-type: none">➤ Cooperation with USSR: Soviet oil, machinery, military hardware in exchange for Cuban sugar➤ New Economic Management and Planning System (SDPE) to manage and coordinate economy (Humberto Pérez)➤ Creation of farmers' markets➤ Liberalization of consumption of select goods; parallel markets➤ Material incentives: wage and pricing policy➤ Cuban-Americans authorized to visit Cuba

Economic Performance by Sector 1970-1985



Source: World Bank, World Development Indicators

1986–1989: Rectification

Origin and end point	Elements
<ul style="list-style-type: none">➤ Third Congress of PCC in 1986 launches <i>rectification</i> campaign (Feb, Dec); FC April 19 speech; Central Committee changes➤ Rejection of 1985 Soviet path (Fidel Castro's speech of July 26, 1986), though continued close economic ties to the USSR	<ul style="list-style-type: none">➤ Critique of bureaucracy and planning; on-going reforms: material incentives & farmers' markets➤ Return to volunteer work, agrarian collectivization, rekindling of moral incentives, and the primacy of politics over economic considerations➤ Reaffirmation of Fidel Castro's personal leadership. Adaptive practices from below (<i>black market</i>) cannot be stopped

FC on Rectification (from JL Rodríguez 1992)

- ▶ “No system under socialism can substitute for the role of ideology, the conscience of the people; ...political, ideological, and normative aspects are fundamental and decisive.” (p.105)
- ▶ Individualistic interests vs. communal; speculators and middlemen; technocracy without consideration to political and social impact
- ▶ Other experiences (Soviet) assimilated uncritically
- ▶ Weakness in administration; indolence and lack of discipline
- ▶ Economic mechanism ignore political factors in construction of socialism.



Approaches to Rectification

- ▶ Mesa-Lago (1994): Emphasis on ideology
- ▶ Rodríguez (1992): Focus on economic problems
- ▶ León (1992): Focus on economic problems as well as “vanguard of internationalism”
- ▶ Pérez-Stable (1993): Eclectic
- ▶ Domínguez (2006, 1986): Focus on 1986-1988, links to FAR & Africa wars (sacrifice)
- ▶ See also Zimbalist, Eckstein, Brundenius

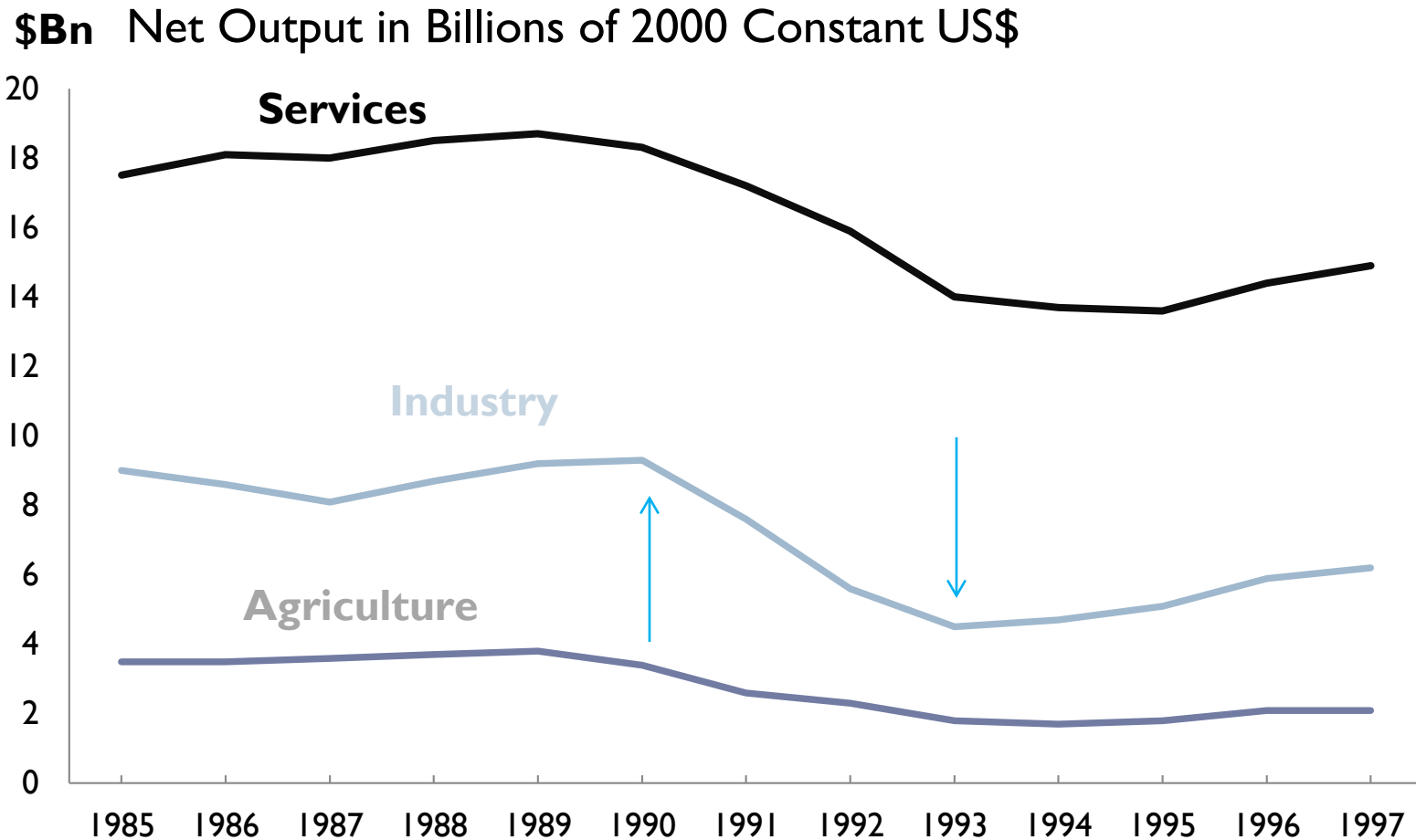


Background to 1986

- ▶ 1985: High-level dismissals (Ramiro Valdés, Humberto Pérez, and party secretary for ideology (Pérez Herrero)).
- ▶ “Debt crisis” in 1986. Efforts to renegotiate debt to the Paris Club. Drop in hard currency revenue linked to low prices of re-exported Soviet oil; devaluation of dollar, climate (drought and hurricane Kate).
- ▶ Still, help from Soviets and COMECON (1986-1989) prevents crisis.



Economic Performance by Sector 1985-1997

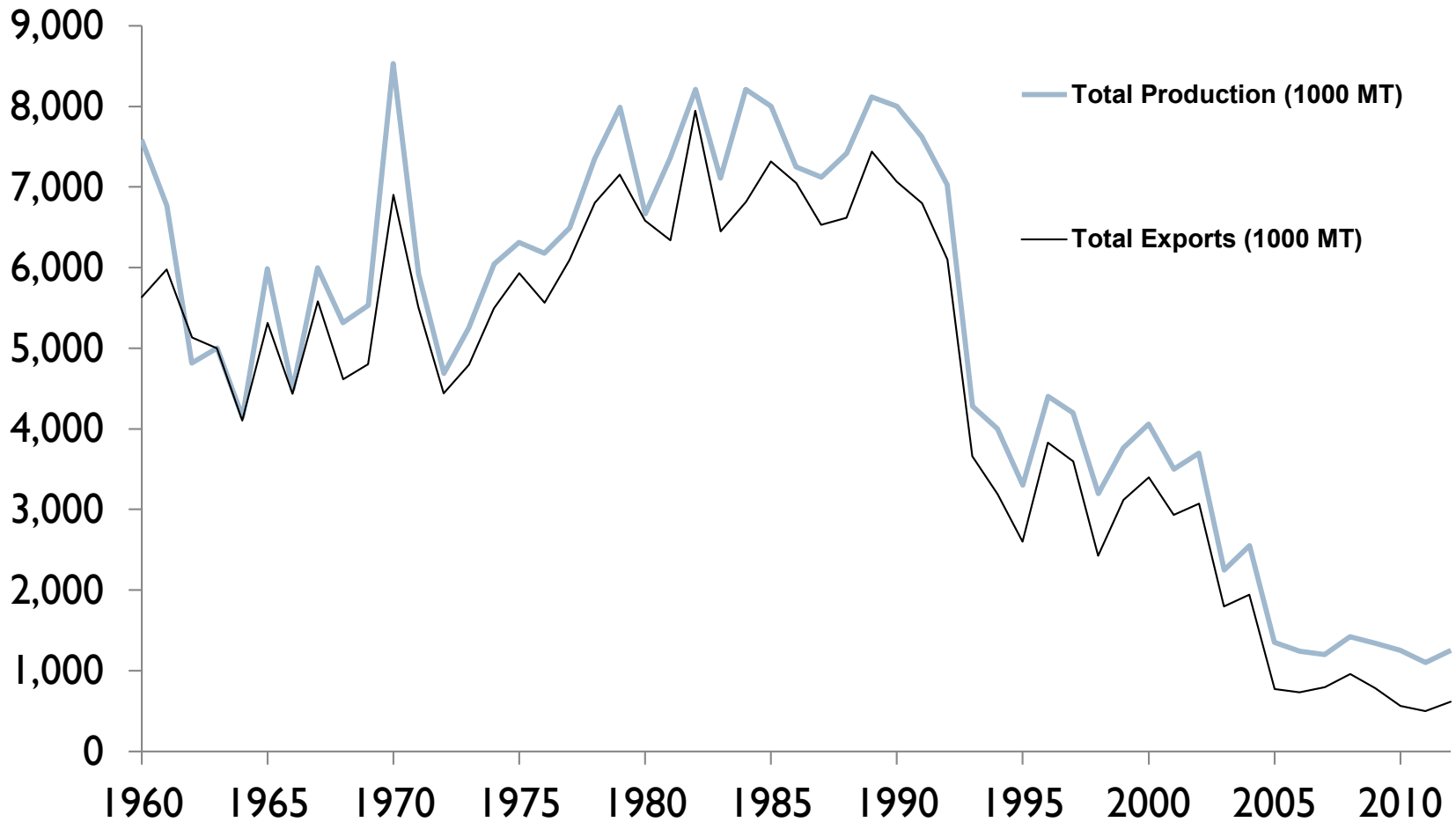


Source: World Bank, world Development Indicators

1990–1997: Special Period

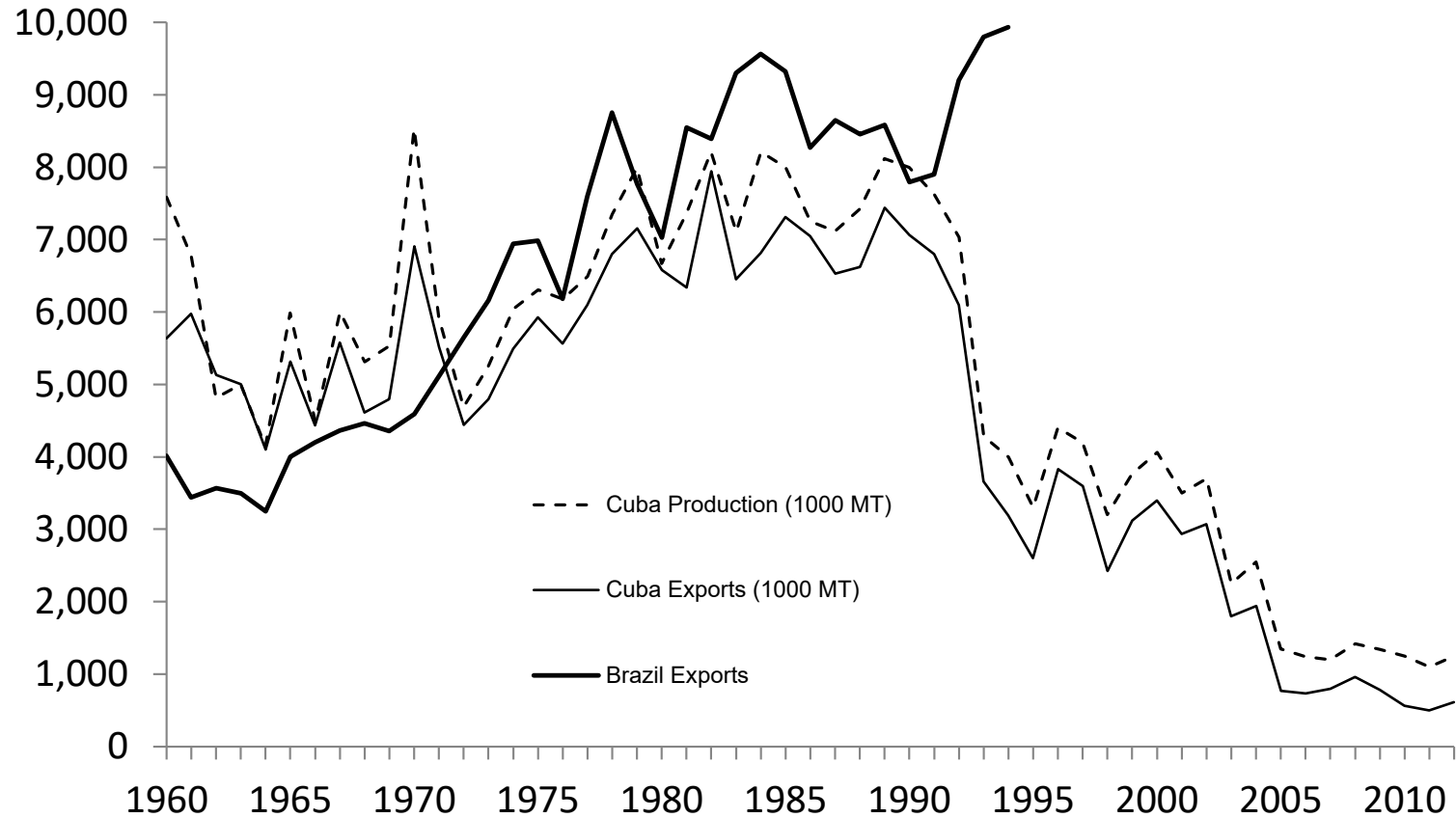
Origin and key points	Elements
<ul style="list-style-type: none"> ➤ Dissolution of the Soviet Union and CMEA (1989-1991) ➤ Fourth Congress of PCC (1991) ➤ Global shift: transitions and liberalization eastern/central Europe; China and Vietnam ➤ US trade embargo II: Cuban Democracy Act, 1992 ➤ Constitutional Amendment of 1992 (less Marxist-Leninism; limited foreign investment & private prop; religious expression ...) 	<ul style="list-style-type: none"> ➤ Exports and imports contract by 80%, GDP by 35% ➤ Fuel and other shortages: blackouts, reduced diets, breakdowns in transportation, industry, and agriculture; sugar production declines ➤ Informality and new forms of out migration ➤ Expanded foreign investment and tourism ➤ Expansion of farmers' markets, self-employment, agrarian cooperatives ➤ Remittances and legalization of dollar; liberalization of currency exchanges; hard-currency stores ➤ Financial: policies to attract remittances; slow recovery

Sugar Production and Exports 1960–2010



Source: U.S. Department of Agriculture

Sugar Production and Exports in Cuba vs. Brazil Exports: 1960–2012



Source: US Department of Agriculture

1995–2008: Socialist Reaffirmation

Origin and end point	Elements
<ul style="list-style-type: none">➤ Fifth Congress of PCC, 1997➤ US trade embargo III: Helms-Burton, 1996➤ Fidel Castro's <i>Battle of Ideas</i> builds on post-1999 mass mobilizations--Elián González case➤ Hugo Chávez elected in 1998 (2000, 2006, 2012); Venezuela's role as key supporter of Cuba➤ Illness of Fidel Castro in 2006 and end of his presidency	<ul style="list-style-type: none">➤ Cooperation agreements with Venezuela: petroleum for medical and other services.➤ Reaffirmation of socialist ideology combined with strong nationalism➤ Fidel: <i>socialism is irreversible</i> renewed emphasis on political unity/consensus against American hegemony and capitalism➤ Constitutional revision of 2002



Constitutional Revision, 2002

▶ Article 3:

- ▶ It was decided that the following paragraph should be added to the current Article 3:
- ▶ "Socialism and the revolutionary political and social system established in the Constitution and proven through years of heroic resistance to aggression of all kinds and economic warfare waged by the successive administrations of the most powerful country that has ever existed, and having demonstrated their capacity to transform the country and create an entirely new and just society, are irrevocable; and Cuba will never again return to capitalism."

▶ Article 11:

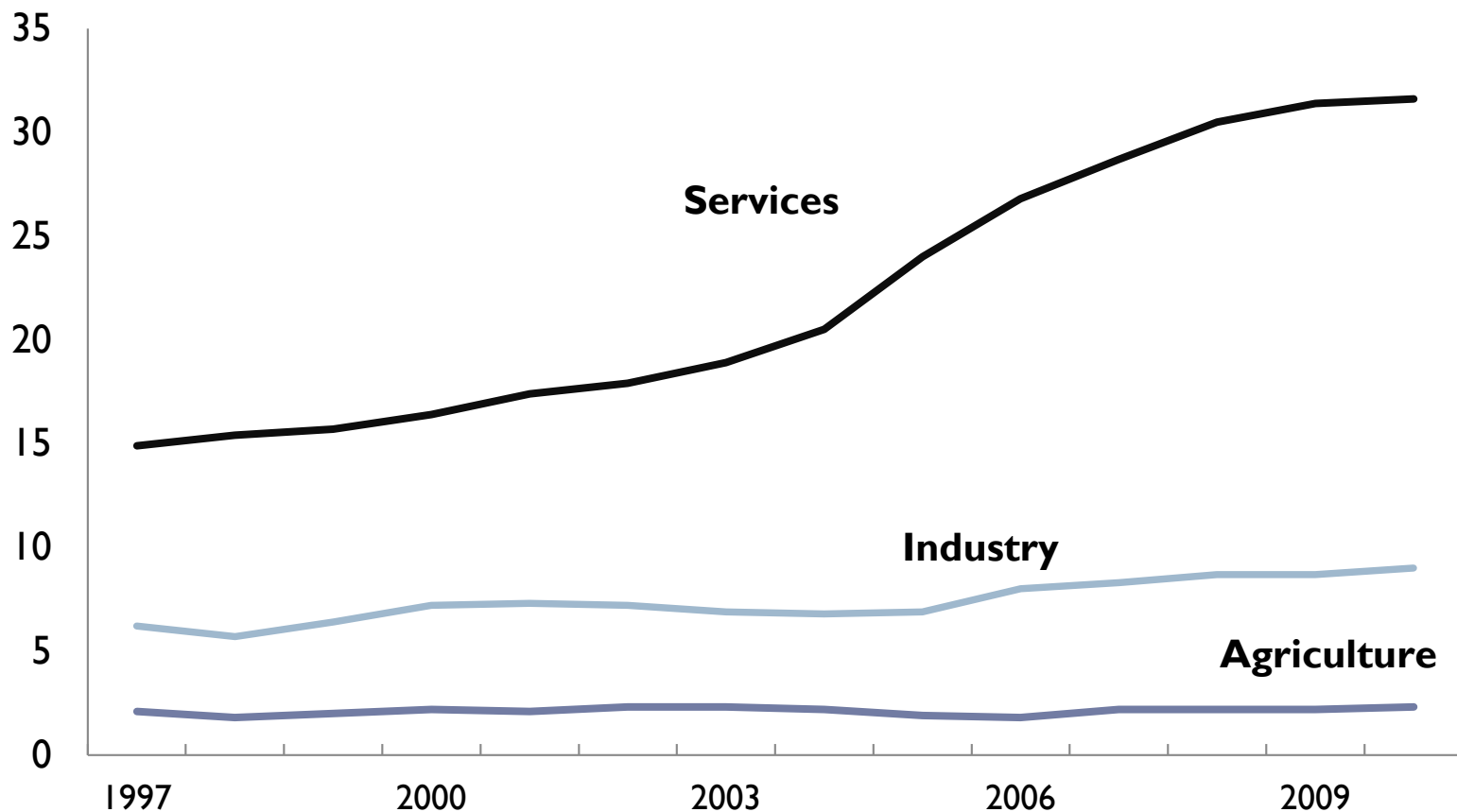
- ▶ *Prohibiting international negotiations while Cuba is subject to “aggression, threat, or coercion from a foreign power.”*

2008– *Actualización*

Origin and key points	Elements
<ul style="list-style-type: none">➤ Raúl Castro elected president➤ Debate about reforms and search for a new economic model➤ Sixth Congress of PCC in 2011 formalizes the new economic plan➤ PCC conference in early 2012 to strengthen political institutions	<p>Pragmatism & search for a new model of Cuban socialism:</p> <ul style="list-style-type: none">➤ Land to agriculturalists➤ 2011-2014 <i>Lineamientos</i> and <i>cuentapropismo</i>➤ Institutional development--limits to terms in office and role of Communist Party➤ Expanded role of military and former military personnel➤ Emphasis on consultation; dialogue with the Catholic Church

Economic Performance by Sector 1997-2010

\$Bn Net Output, in Billions of Constant 2000 US\$



Source: World Bank, World Development Indicators

Broad debate, many positions

- ▶ Different views on current reforms: Cuban publications like *Temas*, *Espacio Laical* and academic books and journals outside Cuba; conferences; new media and journalists.
- ▶ To better understand transformation in Cuba, need to go beyond economic descriptions/assessments to provide richer academic frameworks.
- ▶ Research and debate/dialogue to clarify points about past and present is in itself a key aspect of the learning process necessary to construct a different, better future.
- ▶ We need more.
- ▶

Propositions

- ▶ Ambivalence (?) toward market mechanism, material incentives: What about current liberalization efforts?
- ▶ Periods of excessive orthodox socialism have been less friendly to growth than periods of liberalization.
- ▶ Socialist Leviathan has been weak in terms of creating conditions for sustained economic development.
- ▶ The reform process: State Reform (less state and more society and market). Current logic would lead from Leninist state socialism to *enabler*. Less and different organizational forms.
- ▶ Such new roles need to be developed and are best accomplished by states that are strong in key areas. It takes a strong state to successfully reform itself. New capabilities of institutional development need to be developed.

