

Balancing Economic Efficiency, Social Concerns, and Political Control

By Gillian Gunn

The Cuban government is facing a triple challenge. To survive it needs to improve economic efficiency while ensuring reforms do not erode political control nor tear Cuba's social fabric. Strategies to satisfy each of the elements are not easily rendered compatible, and indeed some aspects may be mutually exclusive.

While current Cuban strategy errs in favor of political control, it involves greater concessions to economic efficiency than previously contemplated. The reforms already undertaken have caused some social problems, and those under consideration will have an even more profound effect. The authorities are seeking to neutralize the political impact of these social hardships by mounting an elaborate public education/consultation campaign designed to simultaneously: educate the population about the hard economic choices the nation faces; divert blame from the leadership for the suffering which accompanies reform, and; help the authorities identify how far living standards can be cut without provoking regime-threatening levels of resistance.

The cautious compromise will probably produce modest economic improvement, but the resultant growth will not be enough to re-stabilize Cuban society. A fresh compromise will likely have to be struck in late 1994 or early 1995, further sacrificing political control and social concerns in the name of economic efficiency.

Future of State Enterprises

Among the most pressing problems facing the Cuban government is the crisis in the state enterprise sector. In his December 28, 1993 presentation to the National Assembly, Minister-President of the State Committee for Finance José Luis Rodríguez reported that "31 percent of our enterprises are profit making and 69 percent make no profit." Not publicized was the even more disturbing conclusion by leading Cuban economists that only a small portion of the unproductive enterprises could ever be rendered profitable. Considered unsalvageable are most of the food production and processing enterprises, and virtually all light industry.

One possible source of salvation for state enterprises capable of economic efficiency is foreign investment. The Cuban government seems willing to entertain joint venture proposals in every sector of the economy except for portions of the sugar industry. Several problems have made investors cautious, including unstable supplies of electricity

and other key resources. Unresolved compensation claims by U.S. companies have also provoked fears that titles to Cuban assets could be disputed in the future.

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An innovative compensation proposal that might eliminate this problem is now quietly circulating in Havana. Although only vague details are available, it apparently proposes that U.S. companies be issued "claims certificates" by Cuba which could be sold on the secondary market. A potential foreign investor could then purchase the claims certificates from the U.S. firm, and subsequently use them to buy discounted shares of Cuban enterprises. In marked contrast with past Cuban references to the compensation issue, this proposal would not require the U.S. government to simultaneously consider Cuba's claim that the U.S. embargo cost the Cuban economy \$40 billion over the last three decades.

This proposal has not received official blessing, perhaps because it separates U.S. compensation demands from the embargo damage claim. For the innovative mechanism to work, U.S. companies would have to be able to opt out of their relationship with the U.S. government's Foreign Claims Settlement Commission, which has taken responsibility many of the claims.

In the absence of joint venture partners or other efficiency-enhancing innovations, Cuba's reformist economists argue the only solution is to shut down many of the state enterprises. They further propose discontinuing the past practice of paying the unemployed 60 percent of their former salaries, for this only contributes to the quantity of excess currency in circulation and exacerbates inflation. Instead, reformists argue, rules regarding private sector activity should be relaxed, permitting the unemployed to make their own way. 'In truth, the people don't want subsidies, they want the ability to earn a living on their own in the private sector,' said one academic recently.

Self-Employment

Solving the state sector's problems by a greater private activity is seen by an important portion of the leadership as jumping from the economic frying pan into the political fire. Policy has consequently been inconsistent and ambiguous.

Though expanded "work on one's own account" was authorized at the Cuban Communist Party's Fourth Congress in 1991, the decision was not implemented until September 1993. The official explanation for the delay was that it made no sense to license additional private activities if the state could not provide start-up resources to the fledgling entrepreneurs. Issuing additional licenses in an era of scarcity the authorities argued, would only guarantee massive theft of state resources. The cautious wing of the party suggested expansion of private activities wait economic situation improved.

Observers suspected additional motivation for foot-dragging was edge that workers not dependent upon the state income would become harder to control politically.

Nonetheless, on September 8, 1993, the Cuban Council of State issued "Decree-Law 141 on Independent Labor." It listed 117 jobs artisans may perform "without employing paid personnel." Those with university degrees were excluded for fear they would flock to the private sector thus paralyzing hospitals, schools and other state institutions. Non-professional workers were required to apply for licenses for which they paid a monthly fee. By early December 1993, 106,000 license applications had been received of which 87,000 were issued, representing an 18 percent denial rate. Individuals were rejected if their application appeared to be a pretext to undertake an unauthorized activity, or if they received unsatisfactory evaluations from their local *Consejo Popular de Residencia* (Residential Popular Council) or their employer.

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Three developments then put the advocates of private self employment on the defensive. First, just critics had warned, theft from state enterprises escalated. The Cuban police estimate that 60 percent of value of the private self employment sector is now stolen property. Second, due to the July 1993 decision to permit Cubans to legally hold hard currency, of the new services were offered only for US. intensely irritating that portion of the population without access to such funds. The proliferation of currency restaurants established in people's homes, where food unavailable to the general population consumed, caused great agitation.

Third, private individuals began to compete state enterprises by providing the same services, eroding the state's profits. For example, when the author visited the Varadero beach resort area in December 1993, a conflict was brewing in the taxi industry. Private drivers of horse drawn carriages were competing with car and carriage drivers employed by state enterprises. The state employees complained that the private horse coach drivers w stealing clients by offering tourists lower fares. The state employee received a peso salary directly free to the total dollar fares he collected, and was free to retain the dollar tips tourists provide. Therefore, every 'stolen' client reduced both the peso and dollar income of the state driver.

Even while offering reduced fares, the private driver was still able to make more money than his state counterpart. While not officially supposed to charge in dollars, in reality he did and retained the full fare for himself, only paying a monthly license fee in pesos to the state. If he charged \$4.00 to take tourist from the beach to town, he could exchange the fare for 360 pesos on the black market. Even if he paid the maximum license fee to the state, 80 pesos, and had to pay for the maintenance costs of his horse and carriage at black-market rates, he could still clear 200 pesos, about two thirds of the

monthly peso salary of a state driver, in only one fare. The state vehicle, on the other hand, was required to charge 50 percent to 100 percent more for the same journey, and the driver was lucky to get a 10 percent hard currency tip, between 60 and 80 cents.

Consequently, state enterprises were losing revenue to the private sector and state employees wanted to go into business for themselves. As of mid-December,, the local municipality was contemplating banning private carriages from Varadero. Since there were not sufficient police to enforce such a provision, state drivers believed this would not solve the problem. The state/private taxi competition in Varadero is a classic example of the Cuban government's inability to control the secondary effects of its modest liberalization.

The Cuban leadership had already been uneasy about the political effects of increased self employment. As one government official reflected in late 1993, "Once some [economic] freedom from the state is offered, there is always the risk that some people will demand still greater freedom from the state." The combination of escalating theft from state enterprises, resentment about growing inequality and competition with state enterprises triggered a decision to slow down the process. Issuance of additional private licenses was suspended in most of the country in December 1993,, and certain activities were subsequently removed from the list.

Reformers, however, believe it will soon be possible to amend the law banning self employment by all university educated workers to only exclude doctors and teachers. They expect the number of self employment licenses will reach 300,000 by the end of 1994. In contrast, the conservative element wants to draw up elaborate self employment regulations, meticulously test them, and only then shut down inefficient enterprises and legalize greater private activities. Both the cautious and reformist elements now agree change is necessary; they simply disagree on its content. To date, the conservatives have the upper hand, but appear to be losing ground.

Agriculture

In his December 28, 1993 presentation to the National Assembly, Minister Rodriguez reported that 54 percent of the budget deficit over the last three years was caused by subsidies to the sugar industry and agriculture. The Cuban people had already known the agricultural sector was producing insufficient food, now they knew it was also responsible for the bulk of the fiscal imbalance.

Ever since the collapse of European socialism sent the Cuban economy into a tailspin Cuban economists within and outside government have debated how to enhance agricultural productivity. A food program was launched, combining increased periods of voluntary labor by city dwellers with half hearted efforts to link agricultural workers' incomes with productivity. In addition, the contingent mechanism, originally developed in the construction industry, was applied to agriculture. Contingents are groups of workers who continue to be paid their old salaries and bonuses by their former employers

while working at an intense pace for long hours in separate, priority tasks. While in the contingent, workers are given improved living conditions.

Although food production did increase, it did not compensate for the decline in food import capacity. Consequently, the Cuban food supply plummeted, as reflected in the 300 percent inflation rate for food products sold on the black market in 1993. At a showing of the new Cuban film, *Strawberry and Chocolate*, the sight of a character slicing a roast chicken produced a collective gasp from the audience. Neither the film's sex scenes nor its frank treatment of homosexuality provoked a similar response.

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As it became evident that the food program was not resolving shortages, the most reformist wing of the Cuban Communist Party advocated re-establishing some form of the 'free farmers' markets," which had permitted farmers to sell produce directly to the public at uncontrolled prices in the mid-1980s. The reform wing further advocated placing more land in the hands of private farmers, on the grounds that the latter are more efficient than large state operations in an era of scarce resources.

The cautious sector of the party dissented, claiming that expanding private farming would lead to price gouging and unequal distribution of food products. Reformers countered that these social problems were already evident, for an increasing portion of Cuba's food was purchased on the black market. As in the debate concerning private services, the cautious element harbored an unstated concern about the political implications of privatized agriculture. Furthermore, Fidel Castro's categorical declaration at the 1991 Congress that he opposed the return of free farmers' markets had a chilling effect on debate.

When the food situation steadily deteriorated in 1993, it became clear action had to be taken. As in other questions, the authorities introduced a reform which provided greater scope for efficiency-enhancing private initiative, while seeking to maintain levers of political control.

On September 15, 1993, Decree-Law Number 142 established a new agricultural mechanism, bureaucratically titled *Unidades Básicas de Producción Cooperativa (UBPC* - Basic Cooperative Production Units). These built upon the experience of the *Cooperativas de Producción Agrícola (CPA* - Agricultural Production Cooperatives) which have long existed in Cuba. The CPAs involve a number of private farmers with land pooling their resources to operate as a cooperative. The CPAs own their implements and animals, and technically are dissolvable because the farmers retain title to the land. Approximately half the CPAs are believed to operate at a loss.

In contrast, the UBPCs are groups of workers who join together to lease land and animals from the state. In the words of Havana's *Radio Rebelde* announcement, the new cooperatives are designed to "boost motivation and a sense of individual and collective responsibility," "link income to production" and "broaden management autonomy." Critically, the UBPCs are created 'within the structures of current enterprises' and 'the enterprise will exert state control over these units.' Political control is even further enhanced by the declaration that, 'The state has the right to dissolve any cooperative production unit that violates the established guidelines.'

When announced, the UBPCs were described as having the following characteristics:

- They have the use of the land for an indefinite period of time;
- They "own" their production;
- They are required to sell their production to the state;
- They pay for technical and material supplies,
- They manage their own bank accounts;
- They are allowed to purchase, using state supplied loans, basic production resources;
- They organize themselves and select their own leadership;
- They must pay taxes.

As the UBPCs developed, however, some of these guidelines were queried. In late October 1993, Enrique Martinez, Deputy President of the State Central Planning Commission, said the units might be permitted to sell surplus production directly to the public, outside the state buying system. When asked about this possibility in early December 1993, a high ranking government official remarked, 'It's useless to debate what to do with surplus production until there is a surplus. Once there is excess production we will have to decide how it should be sold.'

Loans provided to the UBPCs bear interest, but the units will be given a grace period of three to five years. While cooperatives must sell a pre-negotiated amount of goods to the state at a fixed price, they can renegotiate higher prices for additional production. The cooperative policy is still evolving. As Minister Rodriguez remarked in early December 1993, "We are open to other ideas The key is to stimulate people to sell to the state, rather than force them to do so."

By early December 1993, 580 of over 2,000 UBPCs planned for the country had been established. As of January 1994, Havana Province had 90 UBPCS, 48 in sugar cane, 29 in miscellaneous crops, 10 in tobacco and 3 in citrus. According to Party officials, these new-style cooperatives use 37 percent less labor the farms they replaced.

A day spent at the *Empresa de Cultivos Varios* at Guira de Melena in Havana Province illustrated the strengths and weaknesses of the new system. This state farm had contained 10,000 acres cultivated by four types of workers: state farm employees; agricultural contingents; voluntary labor - urban residents who worked for two weeks at a

time in agriculture, and; workers from the *Ejército Juvenil de Trabajo* (EJT - Youth Labor Army) - a form of alternative national service.

In October 1993, the state unit was divided into eight farms of 1,000 to 1,500 acres each. Three were converted into UBPCS, with 130, 258 and 226 workers respectively. The other five farms continue to be worked by the EJT, with voluntary labor and contingents virtually eliminated. As of mid-December, the enterprise management expected that the remaining five farms would be permitted to function more or less as UBPCs in 1994, and would gradually evolve into full cooperatives as the EJT workers finished their period of national service and, management hoped, volunteered to stay at the farm as cooperative members.

The management of the state enterprise was then left "without any land," though it retained "state control" over the eight farms. The enterprise manager saw his role as selling inputs to the farms and then purchasing their production and selling it directly to the public. "We should not go through the *Acopio*, which I think should disappear," said the enterprise manager, referring to the infamously ineffective state distribution network modelled on the Soviet system.

Each UBPC had an "Implantation Commission" which decided the value of the farm. A 1,300 acre cooperative with necessary equipment and already planted crop was valued at 930,000 pesos, excluding the cost of the installed micro-jet irrigation system. "If we had included that, it would have brought the valuation to four million pesos, which the LTBPC could not afford to pay," said the enterprise manager. Usually UBPCs purchase only a fraction of the equipment owned by the state farm.

At a meeting held for all the state farm workers, the new cooperative system was explained. Among the advantages highlighted were:

- Each UBPC has land set aside for food cultivation, which workers can purchase at production cost. (This is a major incentive in Cuba where food is scarce and mainly available at inflated blackmarket prices.)
- Each worker is allowed to raise and privately sell two pigs per year;
- Workers are allocated an extra rice ration, which they can eat or sell;
- Workers can purchase milk and food cultivated elsewhere at the cost of production;
- Workers who perform extra labor receive both extra pay and extra food.

The main disadvantage mentioned was that, depending upon previous status, a worker might experience a temporary decline in peso income. There were two contingent teams in the work pool, some of whose members earned a five hundred peso per month salary plus bonus retained from their previous work place. In the UBPC workers receive a modest *anticipo*, an advance payment of anticipated profits, and an additional share of the profits at the end of the year. (In Guira de Melena, 50 percent of the UBPCs' profits were to be used as working capital, and 50 percent distributed to the workers.) Apparently workers believed the benefits overrode the drawbacks, for 70 percent of the contingent

members decided to join the three UBPCS. Workers can, however, be expelled from the cooperative by the other members, and do not have the protection of Cuba's usual labor laws.

A five member *Junta Directiva* (Executive Board) was then elected by each UBPC's *Asamblea de Trabajadores* (Worker Assembly) to draw up the cooperative's internal rules. The three UBPCs established at Guira de Melena decided that they would permanently eliminate salaried contingents, believing they do not work hard.

There are also general rules that apply to all UBPCS, and cannot be abrogated by the Executive Boards. Among these are a prohibition against workers having private land, and restrictions on equipment sales. The UBPC can sell its equipment on the private market, but must offer the right of first refusal to the state. This is to prevent UBPCs from purchasing equipment from the state inexpensively and then selling it on the black-market at a huge profit.

Although the three Guira de Melena UBPCs had their formation assemblies in late October, they effectively started to operate on December 1. Three weeks later, when the author visited the UBPCS, some changes from previous conditions were already evident. In the past, the state farm had allocated twelve people to monitor each section of irrigation, now it required only six who cultivated and monitored simultaneously. It had taken six people to work one trailer of *plátano*, now it took only three. The extra personnel freed up by these efficiencies were assigned to weeding.

"Unlike the previous managers we have to cover expenses," one UBPC leader said. "Therefore... we won't apply fertilizer if we don't have the water to help the soil absorb it."

At one presumably typical Guira de Melena UBPC a yearly budget was designed to cover petroleum, fertilizers, repairs, seeds and *anticipos*, the last item accounting for 200,000 pesos. The state provided a 230,000 peso credit at 4 percent interest to cover the period from December 1993 to July 1994. While economists in Havana reported that the UBPCs would have to pay a 17.5 percent tax on profits the first year, rising to 35 percent thereafter, the UBPC was hoping for a three-year tax holiday. The payment for one *jornada* (the normal amount of work performed in eight hours) was set at 7.20 pesos. At this cooperative each worker performed an average of 1.22 *jornadas* per day. If a worker missed five days of work, he could be automatically expelled from the cooperative. A record is being kept of each worker's earnings, and at the end of the year the worker will receive ten centavos of profits for each peso earned.

The UBPCs at Guira de Melena decide what to plant "via negotiation with the state enterprise." They are allowed to purchase inputs from "anywhere they wish," though currently inputs are only available via the state enterprise. This clause implies the UBPC architects expect private suppliers will emerge in the future. The UBPCs are not yet

allowed to sell directly to the local population, but expect to do so shortly. At the time of the visit, the workers were celebrating the news that they would be permitted to sell to *Fruta Selecta*, the state firm which supplies the hard currency shops. While *Fruta Selecta* demands high quality, it also pays higher prices.

The main difficulty facing the three UBPCs in mid December was a shortage of resources, particularly oil. Nonetheless, the Executive Boards believed the cooperatives would be more efficient than the state farms. "Unlike the previous managers we have to cover expenses," one leader said. "Therefore ... we won't apply fertilizer if we don't have the water to help the soil absorb it."

Two interactions at the Guira de Melena complex reflected inherent, if unacknowledged, contradictions in the UBPC structure. First, in discussions between the author, the cooperatives' leaders and the former state farm manager (now the head of the "state enterprise"), the latter dominated the meeting, answering questions directed at UBPC officials. This good natured, hyperactive man occasionally interrupted himself mid-sentence, apologized, and handed his UBPC colleagues the floor. However, no one in the room was in doubt as to which individual exercised the most authority.

A Cuban economist at a conference with U.S. colleagues recently remarked, "If they [Cuba's leaders] are willing to let..[foreigners] make private investments in Cuba...why won't they let me, a Cuban, make private investments in my own country?"

This confusion was understandable, considering the UBPC leaders formerly worked for the enterprise manager. Under the new scheme they were supposed to be equal colleagues, but habits are slow to change. The incident also reflected official ambiguity about the precise relationship between the enterprise management and the UBPCs. The former head of the state farm was now the Ministry of Agriculture representative. He provided technical advice, sold inputs to the UBPCs and would eventually purchase their production. The Guira de Melena manager proudly showed off a small new factory located next to his office, which produced biological pesticides designed to paralyze the digestive tract of the most common agricultural pests in the area. This was one of the products he intended to market to the cooperatives.

A second unacknowledged contradiction was evident when a small private farm was pointed out in the middle of a UBPC. "They do very well," a UBPC member remarked. "Every private farmer has at least 300,000 pesos saved." This was an unintentional acknowledgment of both the economic efficiency of the private sector and the greater personal advancement private farming can bring to the worker.

Even the relatively modest expansion of private initiative represented by the UBPCs caused considerable soul searching within the Communist Party. In a November 5, 1993 interview on the radio program *Straight Talk*, *Bohemia* journalist Luis Sexto was asked if

the cooperatives would lead to increased individualism. '[O]ur country is ... trying to give greater elbow room to individuals,' Sexto replied. 'This does not necessarily mean, however, that it is giving more elbow room to individualism.'

The ability of cooperative members to determine rules has also caused political concern. In the January 7, 1994 edition of *Straight Talk*, a letter from a veterinarian was discussed. The vet had previously been employed by a state farm in Sancti Spiritus, which was now converted into UBPCS. The new cooperatives had told him "the only thing he could do there was be an agricultural laborer [There was no place for a veterinarian." The vet had complained to the Ministry of Agriculture, and been told "that is just the way it is" because UBPC members have the right to decide membership. The journalists on the radio program were outraged. "[How can we possibly allow a veterinarian with twelve years of study ... to be without a job because no one can find a place for him? ... I think no state organization can be allowed to give such an answer!"

The journalists realized there was another way to solve the problem. "If Decree-Law 141 permitted the veterinarian to treat privately, as a self employed person, all the dogs and cats in Sancti Spiritus, it is possible that this man would not be facing this worry.... But the Decree law does not - for now permit [this]...."

The vet's case illustrates Cuba's quandary as it tries to balance political control, economic efficiency and social needs. If cooperatives are to be efficient, they must determine their own membership. People laid off have to be found employment, or the social fabric will be stressed. Private enterprise, the only viable employment option in the current circumstances, has serious social connotations, however. In the vet's case, rich people's dogs would have better access to health care than poor people's, violating the system's egalitarian ethos. Even more importantly, the private vet would not be as susceptible to political pressure as the state farm employees.

The balancing act is likely to become even more difficult if, as some reformist Cuban economists predict, the UBPC initiative fails to sufficiently increase Cuban food production. There will be strong economic pressure to authorize a more genuine form private production, which will be even harder to reconcile with the competing demands of social needs and political control. Greater room for private agriculture could also lead to pressures in other sectors. "One change triggers another," said a Cuban economist at a recent University of Havana conference. "if they are going to let agricultural workers retain part of their production to sell privately, industrial workers will say 'why not us too?' You cannot discriminate against one group."

Capitalist/Socialist Friction

Part of Cuba's problem is that despite the introduction of market mechanisms, it is not actually moving towards a mixed economy. Instead, it is operating a dual economy in which old and new style enterprises operate side by side, frequently undermining each other.

Among the most serious frictions are those associated with foreign investment. A Cuban economist at a conference with U.S. colleagues recently remarked, "If they [Cuba's leaders] are willing to let...[foreigners] make private investments in Cuba ... why won't they let me, a Cuban, make private investments in my own country?"

Capitalist-style joint ventures have also caused serious difficulties in the state-controlled labor unions. One incident at the Habana Libre hotel illustrates how the search for efficiency via joint ventures is changing the Cuban state's relationship with the populace. The Spanish firm Guitart recently signed a management contract to run the hotel and provided a credit for remodeling. The Habana Libre had been run on planned economy principles. The new Guitart management wished to change labor practices, and was resisted by the hotel's union leader, a representative of the state-controlled *Confederación de Trabajadores Cubanos* (CTC - Confederation of Cuban Workers). Guitart then fired the individual and the CTC protested, saying the foreign manager did not have the right to dismiss union leaders.

A sector of the CTC then found itself in conflict with the Cuban government when it proposed that strikes against joint ventures be legalized. The government countered that the society had to accept foreign companies' demands, or Cuba would not receive needed investment. The authorities further argued that such strikes would also be against the 50 percent of the joint venture that was Cuban-owned, and by reducing profits the strike would deprive the Cuban people of resources to purchase needed food and medicine. The strike proponents countered that if strikes were successful workers would receive higher salaries, and would directly benefit. Furthermore, the strike advocates argued, the Cuban state would indirectly gain. A joint venture in Cuba pays dollar salaries to the state, which then compensates the venture's Cuban employees in pesos calculated at the official rate. Consequently, if a strike lead to a wage increase, the Cuban joint venture partner would earn less profits but the Cuban state would obtain more income in the for-in of dollar salaries.

The controversy was made still more complicated when labor unions in Spain sent a letter to the CTC characterizing Guitart as one of the most exploitative tourism firms in Europe, and claiming that instead of investing Spanish profits to improve Spanish workers' living conditions the firm was diverting those funds to Cuba. The Spanish unions urged the CTC to prepare itself for various management practices Guitart had used in Europe.

The manner in which joint ventures ally the Cuban state with capitalist "exploitation" was also highlighted by a Spanish hotel manager's comment concerning Communist Party membership. In a December 1993 interview he remarked, "I prefer to employ Party members. If I say they have to work twelve hours they do, because if they don't they not only have a problem with me, they also have a problem with the Party. The Communist Party and hotel management are working for the same thing - to make money." While the hotel manager was quite happy with this interaction of the socialist and capitalist worlds, those concerned with retaining the Party's legitimacy as a supposed protector of the poor

certainly were not. They were fully aware that the effort to increase hard currency earnings was eroding the Party's ability to present itself as a defender of social justice.

'Let Us Fight for Equality and Against Egalitarianism'

"...[E]quality is not sustainable if it does not become a stimulus to increased and improved production. In other words, equality is not only a fine ideal of humanism; it must also be a condition for economic development.

-If, today, Cuba can successfully meet the challenge of moving its economy into the changed world we are living in, this will largely be due to the fact that equality of access to education, health care, and work have, during all these years, created invaluable human resources. This is made up not only of a strong work force with a high educational level, but it is also composed of a pool of educated people unmatched in any other country with a similar level of development. One of the most valuable treasures of the revolution is the love for ideals of justice and equality that the revolution planted in the people, especially in the young people who today constitute the majority of the nation.

But during all these years, we must admit, our national consciousness has not always discerned with proper clarity the limits between equality and egalitarianism.

We have frequently created rights of equality exceeding the nation's real economic possibilities; often practice has converted into egalitarianism an idea originally intended to stimulate production and efficiency based on differences in earnings. This lack of precise and realistic limits between equality and egalitarianism may be considered one of the deep-seated causes of our imperfect application of the socialist principle of distribution to each, in terms of both quantity and quality, according to his contribution. The full application of that principle, the foundation not only of the economy but of all the true ethics and justice in socialist society, is a historic goal of the workers and their union movement...

... [W]e will work to establish the principle deeply held by our workers that the inequality to be rejected is not that which differentiates well earned incomes, but equality based on equal treatment for persons of different behavior and ability in their work."

November 22, 1993 editorial from Trabajadores, the official newspaper of the Confederation of Cuban Workers, page 2. Original published in Spanish. This translation provided by Foreign Broadcast Information Service, Latin America Daily Report, January 11, 1994, FBIS-LAT-94-007, page 8-9.

The same hotel manager did find some aspects of the Cuban duality frustrating. He was required to pay for oranges with dollars, and was allowed to purchase only from one

specific enterprise. Frequently, the designated enterprise did not have oranges, whereas another Cuban enterprise did have a supply, and was willing to sell. The latter enterprise, however, was not authorized to receive dollars, the currency in which the hotel was required to pay—so the hotel often paid a higher price for imported oranges. The hotel manager encountered a similar difficulty with garbage collection. While he was required to pay for the service in dollars, the garbage collection enterprise was not allowed to use those dollars to purchase gasoline, rendering it incapable of performing the task for which it was paid.

The Cuban state is keeping a tight reign on the number of enterprises authorized to earn and spend dollars, in part because that right makes the enterprise less dependent on central organisms. Consequently, the desire to maximize political control damages economic efficiency.

The dollar and peso worlds also clash in the use of credit cards. Vice President of the Council of State Carlos Lage has said that Cuba will never pay salaries in dollars, but only in pesos. Yet it is well-known among economists that since September 1993 the Cuban enterprise dealing with tourists' credit card transactions, Cimex S.A., has paid hard currency commissions to individuals who detect fraud. The foreign credit card firms insist these bonus payments are necessary as an incentive for waiters to wrest credit cards away from angry tourists. If Cuba does not accept credit cards, its attraction to tourists would obviously decline. So, the government is permitting a foreign entity to make hard currency payments, through Cimex, S.A., to Cubans on the foreigner's choosing for services performed on the foreigner's behalf. Only one sector of the Cuban population enjoys such a privilege, it will not be long before other sectors demand the same.

A new development in the publishing sector has created the potential for further friction. The official newspaper of the Union of Young Communists, *Juventud Rebelde*, cut back publication frequency and size due to paper shortages, leaving journalists unemployed. It recently received permission from the Cuban Communist Party to publish a new periodical, *Opciones*, in both Spanish and English. *Opciones* will be aimed at foreign visitors, feature paid advertisements, and be sold for one U.S. dollar per issue. What might occur if *Opciones* should wish to publish an article considered controversial by the authorities but of intense interest to businessmen? Since the Union of Young Communists will be deriving part of its operating revenue from *Opciones*, there will clearly be an incentive to satisfy advertisers and readers, rather than political superiors. *Opciones* might join the many Cuban organizations that increasingly defend the interests of their own members, rather than those of the "masses."

A high-ranking Cuban government official concisely expressed the problem when he remarked in a December 1993 interview, "We have to keep the old and new parts of the Cuban economy separate so the latter are not damaged by the problems of the former. This was possible when the new part of the economy was fairly small. It is becoming increasingly difficult to avoid dangerous contradictions between the two parts of the dual economy as the new sector shows."

Financial Issues

One way to ease the frictions between Cuba's dollar and peso worlds would be to establish a genuine relationship between the two currencies which reflect their real buying power. If adjustments to financial policy produced a peso able to purchase something the Cuban people might want, the offer of higher peso payments for greater efficiency would play its intended incentive role. If the peso has real value people would once again be interested in obtaining the currency printed by Cuban presses, rather than only that printed by the U.S. Treasury Department. This desire for the government's currency would also enhance political control somewhat.

The Cuban authorities are well aware of the damaging effects of the country's financial imbalances. The Cuban press has reported statistics gathered by Cuban author Jorge Rodríguez Hernández which indicate a 650 percent increase in the cost of a basket of nineteen consumer items from September 1990 to October 1993. Though officially one peso equals one dollar, the black-market rate is now ninety to one.

The government acknowledged these financial imbalances in the December 1993 National Assembly session, revealing that there are 12.3 billion pesos of surplus currency in circulation, equivalent to fourteen months' salary, and that the budget deficit is 4.2 billion pesos. Many observers expected the Assembly to approve a comprehensive financial adjustment package. Instead, measures were simply discussed, and final decisions were postponed until a special meeting of the Assembly likely to be held in early Spring.

The problem, once again, involves striking a delicate balance between efficiency, social needs and political control. Reformists wish to devalue the currency dramatically. If not accompanied by prior monetary reform this would have a catastrophic social effect; because 51 percent of Cuba's internal demand is currently satisfied by imports prices would skyrocket. The State Committee for Finance, headed by after Rodriguez, reportedly favors accelerated devaluation, while the National Bank authorities say there is no point unless it is accompanied by comprehensive economic reform.

Oswaldo Martinez, head of the National Assembly's new Economic Commission, favors creating a dual currency, establishing convertible peso certificates worth about thirty-five regular pesos. His plan would include opening stores at which goods could be purchased with the certificates. The stores would be stocked with goods purchased on credit abroad. To obtain such credit Cuba's long standing foreign debt problem would have to be resolved. Martinez reportedly suggests Cuba do so by accepting widespread debt for equity swaps and outright selling Cuban assets for foreign exchange. The Martinez proposal is controversial and has not received official blessing. Cuba has established a national commission to study the dual exchange rate experiences of China and Spain, and will probably not make a final decision soon.

Another currency question concerns ways to eliminate the profits of the large scale black-market entrepreneurs. Some Cubans call for an abrupt change of currency, after

which old pesos could only be exchanged for new pesos if the holder could prove the former were legally acquired. Government economists do not appear to be seriously considering such a move, though the idea is popular at the street level.

Along with devaluation, the financial package under consideration also includes a gradual introduction of taxes on individuals, state corporations and joint ventures. The idea has been greeted with skepticism by the Cuban populace, which has not paid taxes since 1967. The package further involves plans for price adjustments. It is dear prices must be raised to reflect their true (non-subsidized) production costs, but if they were to include the real costs of their imported inputs, few Cubans could afford to live. Once again, the search for efficiency clashes with social needs.

A February 8, 1994 discussion of cigarette and rum prices on the *Radio Rebelde* program *Straight Talk* illustrated the dilemma. Commentator Osvaldo Rodriguez remarked, "Now I do not believe that regulating these products by price would be legal or ethical, as in a market economy, [sic] supply and demand. But if prices were to increase slightly, we might be able to stabilize supply and demand." The program host remarked that prices should not be raised to the black-market level because then it would be a privilege to drink and smoke in this country, and that cannot be." The commentator agreed, saying, "...[E]verybody should have access to these products, but at an increased price." The utopian conversation ignored the fact that unless prices are raised high enough to exclude some purchasers, making consumption of the products a "privilege," demand will still exceed supply and black-market inflation will continue.

A top Cuban official eloquently summarized the government's financial quandary in a December 1993 interview. 'AU reforms will not work unless we stop internal inflation," he said. "Right now we cannot increase supply, so we have to decrease demand. This will hurt the Cuban people. We will have to carefully explain to the Cuban people why this is necessary." The official let out a deep sigh, and continued, 'Soon I will not be a very popular person in this country.'

The Political Campaign

In January 1994 the process of "careful explanation" was launched, and is still underway. The campaign is designed to:

1. Bluntly inform the Cuban people about the hard economic choices the country faces. The Cuban press has begun to resemble a modified version of "market economics 101," with simply worded explanations of the connections between prices, productivity, wages, employment, social service costs, taxes, trade imbalances and subsidies. The explanations leave out much that is politically inconvenient, and are couched in socialist rhetoric, but nonetheless serve as an economic "reality check."
2. Create a record of public consultation which can help protect the authorities when the negative social consequences of reforms are felt. The authorities are making it dear that if "X" remedy is adopted it will fix "Y" problem, but also have "Z" side

- effect. If the remedy receives general "support," and is adopted, then a year or two later when the social costs are felt the government can rightfully claim it forewarned the population. The campaign resembles a preemptive strike against the disillusionment with reform that has complicated the Russian political scene. Of course, there is a modicum of artificiality to this process, for via various levers of political control the authorities can engineer apparent support for policies that exceeds the genuine consensus.
3. Identify just how far living standards can be cut, and in what way, without provoking de-stabilizing levels of resistance. It is dear the authorities will be partly guided by their judgment of the public's tolerance for various degrees and types of economic pain. While much of the discussion appears directed, there is a thread of genuine dialogue between the government and the governed.

Discussions have been conducted in the print and electronic media, but the most prominent element of this campaign is the so called "workers parliaments" - meetings at work places arranged by the CTC. That institution is striking a public posture of acute concern about the social impact of reform. It was selected to run the discussions in order to slow the process, to reassure the public the social dimension would receive adequate attention, and as part of a common Castro strategy of manipulating state institutions by giving them responsibility for implementing decisions they dislike. The Cuban authorities also believe that work place debates tend to be more focused and controllable than those implemented by other institutions.

Cuban press coverage of and commentary on the workers parliaments" illustrate the tone of the campaign.

- In a *Radio Rebelde* commentary, journalist Luis Sexto remarked, "Employment was made a right of the people [and] ... efficiency was sacrificed The country cannot continue to subsidize inefficiency, and at all work places only the necessary, more capable and more efficient workers should remain.
- According to Renato Recio, a journalist for the CTC publication *Trabajadores*, the workers at one cigar factory suggested that 'sick leave be restricted to a specific number of days per year What we must avoid is people using paternalistic laws to rob the other workers and the country as well," said Recio.
- Juan Bautista, a worker at Miguel Fernandez Tobacco Factory, remarked after a work place discussion, "I believe inefficient enterprises should not be subsidized.-" However, he said the inflationary imbalance between supply and demand should be corrected "by increasing production," making no reference to price increases. When asked about prices, he vaguely said workers should "have access to determined products."

These excerpts reflect the uneasy blending of economic lecturing about Cuba's limited economic options with worker efforts to both accommodate the new demands and resist changes which would hurt them. The reports also illustrate the Cuban population's limited knowledge of market principles.

Conclusion

Cuba's economic course over the next twelve months depends on sugar earnings, the outcome of the political campaign, internal Communist Party jockeying and Fidel Castro's personal wishes. The first variable is largely dependent upon weather and market trends beyond Cuba's control. Preliminary results from the second suggest the Cuban people now better understand Cuba's predicament and are willing to accept some additional austerity if still able to retain the social safety net; perhaps an incompatible combination.

Internal party politics are harder to ascertain. Part of the difficulty in structuring a coherent economic policy is the division between insiders and outsiders. Minister Rodriguez and Economic Commission leader Martinez are technically competent and reformers believe they understand what is required to set the economy on a new path. However, they are outsiders to the Cuban political game. Most insiders either do not understand the technical issues involved, and therefore are not in a position to 'sell' them to Castro, or are personally opposed to them. Vice President Lage is one of the few insiders with at least a partial grasp of the urgency of the situation and the utility of reform. Some doubt, however, if he truly understands the inter-dependent nature of economic adjustment and believe he is reluctant to jeopardize his status as a potential successor to Castro.

The economic collapse has forced the cautious wing of the party to permit official discussion of far reaching reform ideas previously rejected as capitalist. However, those uneasy with change still have sufficient influence to slow the debate and implementation process. Reformers know there is enough discontent on the island that a populist anti-reform crusade could quickly gather momentum. Therefore, they hesitate.

Fidel Castro's personal wishes are perhaps the most important variable. Two of his remarks at the December 1993 National Assembly summarize his position. On the one hand, he has made partial ideological peace with market reforms. 'Back in 1917, Lenin suggested the construction of capitalism ... under the leadership of the people,' he said. 'The Marxist theory considers the principle of the need to develop productive forces The idea of building capitalism under the leadership of the proletariat, under the leadership of a revolutionary government, means there are many possibilities and alternatives within a revolutionary process.'

On the other hand, Castro knows reform e great political risk. When a delegate to the December 1993 National Assembly remarked that he trusted Cuba's economists, Castro

countered. 'You do but I not. Economists frighten me. There is only one thing I know a little about, and that is politics.... ideas presented by the specialists must be analyzed from a political viewpoint. Our best economists are those who can suggest and draft measures with political meaning. If they are going to propose something that technically may be good, but politically catastrophic, our mission is to stop them.'

A Cuban economist interviewed in December remarked, "The obstacle is Fidel's perception that the government will lose political control if reform moves forward fast We economists counter that Cuba doesn't reform fast the authorities will definitely lose control."

It appears that Castro would rather let the economy deteriorate still further due to the lack of sufficient market reforms than lose important political control tools or be blamed for cutting social services the population wishes to keep. However, further economic deterioration could be as destabilizing as reform. A Cuban economist interviewed in December 1993 remarked, 'The obstacle is Fidel's perception that the government will lose political control if reform moves forward fast. We economists counter that if Cuba doesn't reform fast the authorities will definitely lose control.'

The coming months will probably witness modest economic measures which will not produce sufficient economic improvement to ensure the regime's survival. By the end of the year a new compromise emphasizing economic efficiency to the decant of social needs and political control will have to be crafted. Cuba's reformists are already preparing for that day, writing up detailed proposals for comprehensive restructuring. While not specifically solicited by the authorities, the studies are making their way to top officials' desks.

Ironically, in some ways Cuba is better equipped to undergo this difficult transition than many other nations. Cuba has a fairly well educated population able to grasp at least some of the justification for painful adjustments. Unlike Eastern Europe and the former Soviet Union, the island has no cold winter, meaning electricity shortages cause discomfort rather than hypothermia. Cuba is not under direct pressure from international financial institutions, therefore reform opponents cannot present themselves as nationalistic resisters against foreign meddling. While the country does have a black/white ethnic division, the groups do not have the separate geographic bases that usually accompany civil conflict. While Cuba's lack of genuine democratic institutions is both morally regrettable and not propitious for long-term stability, it may make the short term task of fine tuning adjustment easier than in nations which must negotiate complex legislative processes.

The down-side to the political circumstances that a portion of Cuba's population does not believe in the Cuban government actually has the welfare of the Cuban people at heart, and perceives that neither the hardships nor the benefits of reform will be evenly distributed. A Havana taxi driver reflected this he remarked, 'If I thought the tourism

profits were really going to buy medicine for Cuban children, I would not resent the fact that Cubans can't enter hotels. But I think the profits are simply going to enrich Fidel's friends." It is difficult to gauge just how many Cubans agree with this sentiment. If it is a large number, the lack of democratic legitimacy may turn out to be the Achilles' heel of the reform process.

Should the current regime fall, however, any successor government would still have a difficult task. While the political control variable of the challenge would have a different content, reconciling the competing demands of social needs and economic efficiency would be equally problematic. A future Cuban leader would still have to cope with a population which: takes free, albeit eroded, education is health care for granted; is unused to the work habits necessary for efficient production, and; is uneasy about "privilege" acquired by some and not others.

Some Cubans believe the Communist Party leadership has a contingency plan to exploit political tensions arising from a new government's efforts reconcile efficiency and social needs. The new Association of Veterans of the Cuban Revolution, composed of those combat veterans considered highly loyal, is supposedly intended to carry on the "revolutionary" message should the Communist Party split or be overthrown. Among other things, the Association of Veterans would present itself as a nationalistic defender of "social justice," reminding the population of the revolution's comprehensive social safety net and complicating task of the new authorities.

The likely post Castro continuation of the social needs/economic efficiency competition should perhaps not be too surprising, After all, striking an acceptable balance between these elements is the challenge facing virtually all countries at the end of the twentieth century.

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