

D. Gualerzi

Chapter 20

Cuba: Political Success and Economic Failure?

The present essay attempts to clarify the question of Cuba's future by examining the development and recent reform of its economy, which ultimately leads us to consider the profile of "21st-century socialism", to use the term coined by Venezuela's president Hugo Chavez. In the spirit of sparking further discussion, the purposefully provocative title stresses the particular angle from which the issue of Cuba's economic reform is considered here. It will be addressed with respect not only to the success of the island's political stance in the international arena, especially its criticism of neo-liberal policies in Latin America, but also to the reality of an economy that, despite overcoming the harsh *período especial* and showing many signs of vitality, remains locked in a difficult process of integration into the world market. These and other related issues are also addressed in other essays of the present volume¹. Opposite this integration process, moreover, is the issue of Cuba's "dual economy" – formed by two markets that are regulated by different currencies – and the two-tier society such an economy has the potential to engender. This latter issue appears to be vastly perceived by Cubans and external observers alike as a very serious problem. Although it is a part of the "*cambio en la vida cotidiana*" that has evolved since the end of the *período especial*, it also raises a number of questions. Most of all, as the cohesive force of the revolutionary leadership and the generation that lived through the triumph of the revolution fade away, it threatens to break apart the consensus that the regime has managed to maintain thus far.

¹ See in particular the essays by Duccio Basosi, Maria Stella Rognoni and Candace Sobers in this volume.

I. The Problem of Development: Industrializing and Diversifying

Cuba is a strategic island for the Caribbean, Latin America and the world for one simple reason: it is the site of an experiment with the potential for profound change. Its interest and originality depends largely on the way its economic development has been addressed since the revolution. The challenge facing all developing countries is industrialization and the development of an industrial structure that can integrate into or compete in foreign markets. In order to produce the manufactured goods necessary to promote development, a country must be able to sell in foreign marketplaces in the first place. A country has to sell in order to have access to the hard currency that allows it to buy foreign-produced goods. So a country has to sell in order to buy, and it has to buy in order to develop. One of the main issues, then, known in development literature as the “balance-of-payments constraint”, concerns the relationship between exports and imports². The faster a country develops, the faster its imports grow. If the country cannot then match that rise with a corresponding rise in exports, it runs a commercial deficit, which, given the structural and financial weaknesses of a developing nation, poses a serious threat to the development process.

The more a country attempts to industrialize and ensure at least an initial diversification of its growing industrial base, the stronger its need to buy. A strong inter-industry structure and diversified output are among the distinguishing characteristics of developed economies. Only reasonably diversified economies can claim the status of being developed. The challenge, then, is two-fold: to ensure rapid industrialization while also building an economic structure that is both efficient and, if possible, diversified. But herein lies the problem. A country with little industry and a relatively uniform economy does not produce many of the goods it needs and therefore has to buy them from foreign markets. However, according to the aforementioned process, it has to sell in order to buy. The “reasonable” response, then, would be to specialize in what is more likely to ensure a conspicuous stream of exports, in order to pay for imports. In other words, in order to develop and diversify, a country first has to do the opposite, that is, specialize. Are developing nations going to specialize in industrial or advanced-technology products, which are already successfully produced by industrial economies? Of course not. Developing economies will typically specialize in their traditional industries and the goods they produce best or, as economic theory would suggest, in what they can produce with a reasonably competitive advantage.

This is precisely what developing nations are told to do, specialize in what they can rapidly export, and of course the items first on the list are agricultural products and raw materials in general. This, then, is the trap, because when

² John McCombie and Mark Roberts “The Role of the Balance of Payments in Economic Growth”, in *The Economics of Demand-Led Growth*, ed. Mark Setterfield (Cheltenham: Elgar, 2002).

a developing economy integrates into the world market as a supplier of raw materials: a) it depends on the demand of the developed world and the prices in foreign markets; b) it is exposed to the balance-of-payments constraint; and c) the establishment of a vibrant, well-diversified economy becomes a secondary concern, entrusted to a long-term development strategy. Indeed, the experience of Argentina suggests that a reasonably diversified economy can even revert to the status of a raw-materials exporter.

To summarize: the integration of a relatively small developing nation into the world economy by means of international trade and a flow of imports and exports does offer the possibility of industrialization; however, the price tag that comes with it, i.e. a subordinate position and stringent constraints, makes it very uncertain that a developing economy could eventually break out of such a position. Integration is therefore both a blessing and a curse.

2. The Cuban Answer: Socialism on a Caribbean Island

For Cubans, their victorious revolution also meant having to cope with the problem of development, which gave rise to a Caribbean socialist experiment that was bound to face the same problems encountered by centrally-planned economies. This vast topic touches on the island's variations on the basic Soviet model and the considerable debate that took place among Cuban leaders, as witnessed for example in the economic writings of Ernesto "Che" Guevara. It is unnecessary to expand on the topic here. Suffice it to observe that socialism meant economic integration into the Soviet bloc and a system of exchanges with other socialist economies. For this reason, Cubans did not have to deal with the challenge of integrating into the international market as an indispensable premise for their country's development. They did not have to sell (export) to import, since the development process could be sustained via a transfer of technology and goods with administered prices among socialist economies. It was still an exchange of manufactured goods for agricultural products, i.e. sugar, but rather than productivity and prices, it reflected a broader set of goals involved in a privileged relationship between Cuba and the Soviet Union, cemented in the solidarity of the socialist camp. While the solution had its problems, it did get around the suffocating constraints imposed by the balance of trade and market prices.

Admittedly, the Cubans made good use of this privileged relationship. Overall, the economic integration into the market constituted by the socialist economies – at least partially insulated from international prices – ensured the economic basis for the Cuban government's remarkable social policy and the possibility of experimenting with industrial and development policy. Together with investments in health, education and social services were attempts at industrial development and diversification. Most important, however, was the overall positive effect on Cuban living standards. The public provision of goods and services lessened the pressure on salaries that,

although relatively low by market economy standards, were sufficient to ensure acceptable living conditions for the great majority of Cuban citizens.

In sum, integration into the socialist camp relieved the island's economy from the urgency of industrializing under the discipline of international-market integration, while at the same time allowing it to postpone the major issue of diversifying and internally articulating its industrial structure, at least until the post-1989 *período especial*. Indeed, Cuba mostly paid for imports with sugar exports, confirming the specialization inherited from the island's colonially-integrated pre-socialist economy.

3. The *Período Especial* and Economic Reform

The collapse of the Soviet Union brought all of this to a rapid close. The *período especial* that followed was therefore the manifestation of problems that had been deferred by the previous "arrangement", based on subsidized prices for sugar and integration into a protected socialist market. The dramatic effects on the economy and the standard of living, with a decrease of national income and per capita consumption, were similar to those of the debt crisis in Latin America (Mexico, Brazil, Argentina) during the early 1980s. The causes and consequences were, however, entirely different. In the Latin American case, it was precisely the integration into foreign financial markets, and therefore a dependence on the monetary policy of the US Federal Reserve, that caused the problem, whereas in the Cuban case it was the end of a relative insulation from those markets. As for the results, in the case of Latin America, the crisis opened the way for a firmer establishment of neo-liberalism, a turn in economic policy that was to lead to the disaster best witnessed by the Argentinean crisis at the beginning of the 21st century. In Cuba, it was instead the beginning of a painful transition, one that brings the central issue discussed here into focus.

Cuba was now forced to face the problem of integrating its economy into the international market, since doing otherwise would lead to economic collapse and the consequent weakening of its socialist institutions. There was no time to waste and every possible resource was needed, from economic ones developed over thirty years of socialism to any international relations that had survived the island's isolation, all largely depending on the relentless hostility of the US and its ongoing embargo. In response to this unavoidable dilemma, Cuba ended up accepting, and fostering the rise of, a "dual economy". The policy was less a choice than a necessity, but at least it made room for more than one option. More resources would be allocated to those industries that could conceivably achieve an acceptable level of productivity and quality so as to become export sectors in a few years. Their modernization and capacity to sell in foreign markets, i.e. to be competitive, would go on to mark the path and set the pace at which part of the Cuban economy

would integrate into the international market³. These industries would earn the hard currency badly needed for imports, in addition to that already entering the Cuban economy via industries like tourism, which traditionally worked on the basis of hard currency and international prices, and remittances from relatives living abroad, which had formerly been the primary channel through which Cubans had accessed hard currency.

The 1993 decision to legalize the circulation of the US dollar, aside from the need to respond to the emergency created by the *período especial*, is part of this same course of action. What had previously only been tolerated became part of a determined effort to create a sector using the US dollar for its transactions and therefore operating under international market conditions. The “dollarization” of the Cuban economy⁴, although manifesting all the problems and risks implicit in a dual economy, was to be understood as an indispensable and transitory step within the more general strategy of integration into the world economy. Indeed, one can appreciate the difference between this dual-economy approach and the adoption of the dollar as the national currency – as done, for instance, in Ecuador – by the fact that a Cuban currency soon took the place of the dollar: the *peso convertible*, introduced around the same time that the US dollar became legal currency in the mid-1990s, was in wide use by 2004.

When the dollar was banned from all domestic commercial transactions on November 8 of that year, it became the regulating currency for international transactions alone, under the control of the government. The *peso convertible*, which exchanges for hard currency at a fixed rate and has maintained a fairly stable rate of exchange with the Cuban *peso* over the years, effectively became the domestic currency regulating the new modernizing sector. In this sector, prices and salaries are now in convertible *pesos*, which provide access to goods previously only bought using US dollars, thereby creating the conditions for domestic demand as part of the effort to build an internationally-integrated sector of the economy.

4. Market vs. “Social” Economy

Avoiding dollarization means protecting the national economy and preventing the US Federal Reserve from effectively becoming the regulating monetary authority. Yet the result of the island’s economic and currency reform has nonetheless been the establishment of a dual economy regulated by two currencies existing within the same socio-economic system. Indeed,

³ For an analysis of the evolution of Cuban exports, see Hiram Marquetti, “Cuba: importancia actual del incremento de las exportaciones”, in *La economía cubana en el 2001*, CEEC-Centro de Estudios de la Economía Cubana ed. (La Habana: Universidad de la Habana, 2002).

⁴ Antonio Covi, Alessandra Lorini and Davide Gualerzi, “The ‘dollarization’ of the Cuban economy: Problems and Prospects”, paper presented at the First Conference *Por el equilibrio del mundo*, La Habana, 27-29 January 2003.

alongside the modernizing sector – which includes agro-industry, certain manufacturing and hi-tech industries as well as those that have traditionally earned hard currency like tourism – is the rest of the economy. Overall, this latter part pays low, at times ridiculously low, salaries in Cuban pesos. The Cuban peso gives exclusive access to domestic products that have no relation to international standards of quality and productivity. The traditional Cuban currency therefore regulates what is still a large part of the economy. There is, furthermore, a third system of allocation: the *libreta*, a rationing system that guarantees the availability of staple foods and other basic items of consumption and is still important for the poorest Cubans.

The resulting dilemma is that some people are increasingly being discriminated against, or made unequal, by the access of others to the currency and salaries of the modernizing sector, and in turn to the consumer items that are coming to dominate these two separate standards of consumption and lifestyle⁵. While one side reflects the country's integration into the world economy, and thus market-imposed conditions like higher standards of efficiency and quality but also a rising social status and purchasing power, the other reflects the traditional profile of a "social" economy directed at satisfying primary needs and maintaining social equality through access to social services and education. But this very equality is called into question by a rising divide in terms of access to goods and services bought and sold on the market.

When judged according to standard economic indicators, the overall outcome of the economic reform appears to be positive. A series of encouraging data concerning the rate of economic growth, the improvement of living standards, and an end to the most stringent bottlenecks in industrial production and the availability of consumer goods shows that the Cuban economy has recovered from the *período especial*. A second such indicator is the diversification of the industrial structure and a diminishing reliance on sugar production as the main source of exports. Thirdly, there is proof in the relative political stability and social cohesion that have been retained in the face of the difficulties of adjusting structurally to the new economic conditions. Despite tensions and opposition, the government has been able to maintain a remarkable degree of consensus. Yet none of these indicators take into account the social divide being created by the dual economy and the potentially destabilizing effects this might have in the future. How long can a social-economy model support itself in the face of the social differentiation set in motion by market mechanisms? This issue is central to the economic failure of the socialist experiment and the development pattern that could potentially emerge from it.

⁵ It has been observed that at the beginning of the 21st century the life of the majority of the population had become more "complex" and social differentiation more acute. See: CEEC-Centro de Estudios de la Economía Cubana, *La economía cubana en el 2000* (La Habana: Universidad de la Habana, 2001), 4.

5. Political Success and Economic Failure? Perspectives for the Strategic Island

This very limited sketch is sufficient to drive home the main point. Though probably unavoidable, Cuba's economic reform has nevertheless laid the groundwork for a differentiation that is bound to have an impact on both the country's social fabric and the prospects of further transformation of its economy. Considering the economic results at the macro level, speaking of a failure might appear excessively harsh. Still, it is an intentionally provocative reminder of the fundamental issue. This failure belongs to a socialist experiment that, deprived of external support, seems unable to advance an alternative development strategy. From this point of view, the dual economy signals a turning point: it could either be followed by an acceleration down the path of growing inequality and wealth concentration or by a rethinking of economic and social policy in the pursuit of a new socialist model. However, it is striking how this problem contrasts with the tremendous improvement of Cuba's image and political status in the international arena. Both the end of its political isolation from Latin America and, to a lesser extent, the rest of the world, as documented by Basosi in this volume, as well as the growing prestige of the Cuban leadership must be seen in the context of the island's rising criticism of neo-liberal doctrine and policies. While only partially depending on the political stance of Cuba alone, and largely on the failure of these policies, this assessment has vindicated Cuban leaders' long-standing criticism of capitalism and its effects on the regional and world scales, giving a tremendous boost to the image and political status of the strategic island. Interestingly enough, this vindication and political success is occurring at a time when economic reform is leading the island to a new and crucial phase of its development, as the rise of the dual economy suggests.

One positive outcome of the reform would of course be a progressive integration into the international market while maintaining the desirable aspects of the social-economy model and, in particular, avoiding a massive rise in inequality. Economic and social inequality is the main problem facing progressive governments in Latin America, which have profoundly changed the political landscape of the continent in the last few years. Although the social polarization so evident in most of Latin America is hard to imagine in Cuba, the risk of a two-tier society is a distinct possibility contained within further development of the dual economy. The country's challenge lies in determining how to properly handle the growing social differentiation that arises from a progressive integration into the world economy.

Younger generations in particular, who have not lived through the revolutionary fervor and achievements of Cuban socialism of the 1960s and 1970s, have much less incentive to look positively at the social economy,

whereas the modernizing sector appears to offer them a host of chances. On the other hand, the more disadvantaged members of the population – blue-collar workers, blacks and peasants – might feel increasingly thrust into the social and psychological condition of losers. Disenchantment with their country could lead them to consider the socialist institutions irrelevant. It might not then be enough to recall, as external observers often do, the remarkable features of Cuban society, such as the provision of social services, access to education and culture, and the overall level of equality and even income distribution, at least compared to much richer Latin American countries and, in general, developing nations.

As the cohesive forces of the revolution disappear, including the generation actually responsible for it, and the social economy becomes primarily a support for the disadvantaged, Cuba's integration into the world market may increasingly dictate the evolution of its economy and society. It is therefore the task of the post-revolutionary leadership to guide the country's transition while at the same time retaining the inherited socialist achievements and aspirations to a fairer and more advanced society. Indeed, the "Socialism of the 21st-century" that has been advocated as a possible alternative to the neo-liberal development model has this as its goal.