

Challenges of Economic Restructuring in Cuba¹

Jorge Mario Sánchez Egozcue

jmario@uh.cu

.....

Published originally in:

Socialism and Democracy S&D, No.60, November 2012, vol. 26, no. 3,

Routledge, Taylor & Francis

ISSN 0885-4300 print / ISSN 1745-2635 online

<http://www.tandfonline.com/doi/abs/10.1080/08854300.2012.716928>.

<http://sdonline.org>

REPRINT in 2014

“A Contemporary Cuba Reader The Revolution under Raúl Castro” - Second Edition, Chapter 9: “Challenges of Economic Restructuring in Cuba”, American University, Washington DC., Edited by Philip Brenner, William M.LeoGrande, John M. kirk, Marguerite Rose Jimenez. Rowman & Littlefield Publishers Inc. ISBN 978-1-4422-3098-9 • Hardback 978-1-4422-3099-6 • Paperback 978-1-4422-3100-9 • eBook <https://rowman.com/ISBN/9781442230989>

.....

Introduction

Once again Cuba is in the midst of structural change. Unlike the adjustments made in the 1990s (required by the re-insertion in the international economy that resulted from the collapse of the socialist bloc), this time the catalysts are accumulated internal pressures and an inability to deal with them within the framework of the “prevailing rules.”

For the first time in the history of the revolution, what is involved is a restructuring of the social contract between state and society. Among the most important aspects in the economic realm is that this restructuring will gradually leave behind the model of massive social coverage based on subsidies and administrative transfers of profits, to move instead toward more targeted policies of social protection, administrative decentralization, and a reduction of the state’s exaggerated presence in economic life, so as to make more room for cooperative associations and the private sector.

No less important is the recognition that in the socio-political realm the current panorama is quite different from that of only a few years ago. The state’s traditional hegemony is becoming more porous as new actors and spaces of opinion-formation emerge, rendering internal political dialogue

¹ Some of the subjects discussed here were partially treated in the author’s “Cuba, el cambio interno y la política norteamericana, en busca de la racionalidad perdida,” in Luis Fernando Ayerbe, ed., *Cuba, Estados Unidos, y América Latina en el cuadro actual de las relaciones Hemisféricas* (Editorial ICARIA, Barcelona; Ediciones CRIES, Buenos Aires; IEEI-UNESP, São Paulo, 2011), 11-46. None of the opinions expressed are ascribable to the institutions where the author works or cooperate, namely the Center for the Study of the Cuban Economy CEEC, University of Havana.

more complex. Critical internal debate is gradually re-emerging, as is legitimization of differences by way of an explicit rejection of “false unanimity.” Cuba is moving toward term limits – a maximum of two five-year periods – for those holding the highest offices. The January 2012 Communist Party Conference agreed to “rejuvenate the cadre rolls and avoid immobilism and inertia.” Even before the Conference there were calls for a change of mentality among leaders and administrators, including a call to listen to the population, at the same time that the press began to publish letters and articles exposing wrong or arbitrary decisions in state enterprises and ministries to public scrutiny. Similar measures have included a national program to “recycle” officials through professional development schools focusing on economic issues. Insofar as internal mechanisms of Party work are concerned, there have been calls to reject imitative theories and submissive mentalities, and to forge its own path free of “immobilism based on dogmas and empty slogans.”

In essence, what is involved is not so much a reconfiguration of actors and rules as a change in the basis of government, on a new and irreversible scale, so as to eliminate once and for all the complacency, false triumphalism, and social apathy which constitute, in fact, a negation of the culture and thinking that have been years in the making. At the same time, there is an attempt to introduce forms of economic management that will counter deep accumulated deterioration.

It is true that some very important restrictions on the country’s activity derive from external factors. These include the global economic crisis; the US policy of international harassment and sanctions affecting investors, banks, and other commercial entities; the complex effects of growing international economic interdependence; and the severe effects of climatic events such as hurricanes and droughts.² However, it is also true that today’s domestic Cuban society displays many symptoms that are not attributable to these factors, and these symptoms must be addressed. Unless there are changes, the viability of the system has clearly been compromised by increasing erosion of its capacity to achieve economic sustainability on efficient and stable bases.

Among the factors provoking internal strains are: an overgrown public sector, an unbelievable over-abundance of quasi-judicial rules and restrictions that have strangled enterprise-level initiatives (both public and private), institutional structures and incentives that are distorted or inherited from other circumstances that no longer apply, a powerful state bureaucracy that is resistant to change and to public scrutiny, inertia, corruption, a culture resistant to critical discussion, low productivity and decapitalization of productive structures and industry, and severe demographic pressure resulting from an aging population conjoined with a human resource drain tied to emigration. Some of these characteristics have manifested themselves most sharply in a serious deterioration of the country’s capacity to feed itself (by way of high percentages of idle land and an accelerated accumulation of foreign debt due to food imports).

These are the conditions surrounding the initiation of the program of reforms contained in the “Economic and Social Policy Guidelines” – a program that seeks to gradually meet the challenges of

² Over the course of ten years, sixteen hurricanes caused damages in the range of \$20.5 billion. In 2008 alone, the losses due to hurricanes represented 20% of GDP. Between 2003 and 2005, damages due to drought totaled \$1 billion.

reviving the economy and introducing new ideas and mechanisms that will equip the country's institutional and political life for the future.

The changes whose implementation has begun imply a "loss of habitat" for the bureaucracy which has, up until now, benefited from the status quo. Therefore, it is natural for the bureaucracy to respond by obstructing these changes. Such obstruction, in turn, leads in one way or another to discontent in a population that already resents limitations and shortages that result from not-always-justifiable flaws (high losses in the channels of food distribution, artificially high prices inflated by inefficient quality control, etc.) which cause significant losses that could sometimes be resolved without much additional spending. All of this erodes the credibility of institutions.

The Cuban intellectual Graziella Pogolotti, a member of the secretariat of UNEAC (the national writers' and artists' union) and of the Cuban Academy of Language, comments that "current circumstances require a change of mentality" in a country where "established rhetoric obscures the formulation of appropriate questions." She adds, "It seems slow, but the manner of writing reports has become a decisive factor in a way of structuring ideas that forgets the 'why' and 'wherefore' of the things being discussed."³

Without having to resort to any sophisticated analysis, a simple review of the problems publicized by the press over the past two years (management style, efficiency of controls, output of farm enterprises, investment, public services, housing construction, etc.) reveals that the fundamental challenge has been to recognize the need for profound change in the way things are done.

Thus, a consensus finally emerged among decision-makers that partial improvements were not enough. Without radical modification of the economic bases and of the policymaking process in general, there could be no development model that would succeed in breaking the vicious cycle in which widespread social coverage and control of poverty also implied massive subsidies that piled up increasing debt, losses from deteriorating efficiency, and low international competitiveness. Therefore, today's reforms are more closely related to policy changes than to specific technical-economic measures. Without a redefinition of the content and reach of State administration, economic actors, and the Party, any specific adjustments would merely reproduce a structure and methods that have already shown themselves to be insufficient.

The Cuban change agenda: "the guidelines"

The formal initiation of this process came in November 2010 with the issuance of a document called "Proposed Guidelines for Economic and Social Policy." This document was to be discussed in public meetings in order to collect proposals for modification, preparatory to the April 2011 Communist Party Congress. The guidelines, as they are generally called, were at once the response to public opinion's growing demands for change and the strategic platform which would define the transformations to be promoted by the government after consensus had been reached.

The consultation process had three stages. In the first, between December 2010 and February 2011, the public received a first draft with 291 articles (or guidelines). This phase included

³ Graziella Pogolotti, "Otra vuelta de tuerca al pensamiento burocrático," *Granma*, July 21, 2011.

discussions in the Sixth Ordinary Sessions of the Seventh National Assembly of People's Power. The result was an expansion of the guidelines to 311 articles, on the basis of the 395,000 statements of opinion that were accepted. The next stage, in April 2011, moved the scene of discussion to the provinces, into the hands of delegates and other invited figures who would shortly attend the Sixth Party Congress. In the last phase, at the end of April, the final discussions took place within five commissions at the Congress itself, from which emerged the final version of the guidelines, containing many modifications and a total of 313 articles.

The priorities in these discussions may be judged by the fact that among the twelve chapters to which they were directed, the largest share of proposals (50.9%) referred to the chapters on Social Policy and Macroeconomic Policy, followed by the chapters on Construction, Housing, and Water Resources; Transport; and the Economic Management Model. Altogether, these five chapters accounted for 75% of the opinions that were collected. These opinions were largely about such subjects as the elimination of the ration book, pricing policies, public transportation, education, elimination of the dual currency, and the quality of healthcare. With respect to the speed at which the changes listed in the document would be implemented, Raúl Castro warned in his speech against sowing false hopes among the population; he said that successful implementation would require at least five years.

Once they were approved, the Guidelines became the policy outline for the transformations to be promoted. The major changes being introduced or to be introduced in the economy, institutional structures, and (by extension) the society are thus partially codified in a process officially termed "updating of the socialist economic model." Past measures have been placed in the context of this new and broader perspective, whose ultimate goal has been explicitly defined as adjusting the system, not dismantling it.

The direct antecedents of the Guidelines document are contained in two speeches by Raúl Castro. The first, given in Camagüey on July 26, 2007, announced the need for "structural and conceptual changes" to revive the economy. The second, at the National Assembly of People's Power in December 2010, analyzed the economic situation and the proposed budget and economic plan for 2011 and referred to a goal of "defining, with broad popular consultation, the society we want to construct under current and future conditions" and "the economic model that will govern the life of the nation."

The document contains a diagnosis of the causes of Cuba's economic problems, which it attributes to a lack of integration in the planning process that stemmed from over-prioritizing the foreign sector and the short-term balance of payments. The main consequences are noted as: disproportionate over-employment by the state, decapitalization of industries, significant expanses of idle farmland, unsustainable levels of state subsidies, high dependence on imports, predominance of egalitarianism without attention to social and geographic differences, paternalism, a need to strengthen local and regional development, and a need to eliminate the dual currency (gradually and to the degree that necessary conditions are present).

Major identified priorities are: sustainability (nutritional, economic, energy, environmental, and social), more institutional flexibility, promoting international competitiveness, and restructuring the relations between state and society in a way that retains a dominant role for state planning and a commitment to preserve equality of rights and opportunities.

The document also points out that two different approaches must be reconciled. One has to do with short-term solutions: eliminating the balance of payments deficit, promoting export earnings, substituting domestic production for imports; facing the biggest immediate problems affecting economic efficiency, worker motivation, and income distribution; and creating the necessary conditions for transition to a later era of deeper changes. The other, longer-term, has to do with promoting sustainable development which will allow for food and energy self-sufficiency, efficient use of human resources, improved competitiveness of traditional products, and new product lines in high-value-added goods and services.

In sum, the context envisioned for the coming years is framed by the challenge of how quickly and effectively the change from a vertical administrative structure to a flexible decentralization of the state can be achieved, alongside a reconfiguration of institutions and incorporation of new, non-state actors (the private and cooperative sectors) in a relationship of complementarity and competition which will have to be built almost from scratch and will surely lead to some degree of social re-stratification. This “structural migration” will be achieved through coordinating incentives to promote autonomy of state-owned enterprises along with parallel development of the private and cooperative sector.

Change in priorities: from foreign threat to internal vulnerability

The change in focus from foreign pressures to accumulated domestic problems constitutes an explicit recognition that the most immediate threat to the continuity of the Cuban political system does not emanate from the effects of the international crisis nor from United States government policy.

New policies to address adverse changes in the domestic and international environments began to be implemented in 2003. Among the most important were reorganizing the structure and functions of the State and the Government by combining some and simplifying others, while seeking a better distribution of tasks among them. Institutional restructuring included fusing the Ministry of International Trade with the Ministry of Foreign Investment and Economic Collaboration, and similarly fusing those of the Food Industry and Fishing. Restructuring extended also to other entities such as the so-called *Polo Científico*⁴ and some related branches.

Other measures included: reorienting investments with a priority on short-range objectives so as to help relieve the effect of debt on the balance of payments; decentralizing the use of hard currency so as to promote exports; rescheduling debt payments; granting usufruct rights on state lands to private farmers and cooperatives; energy-saving initiatives; selective experimental elimination of state services (in the areas of transportation and food); and renting out space or equipment to individuals in some small-scale activities (taxis and local services).

More and more prohibitions were eliminated, but without this being publicized through the big media campaigns that marked previous eras. This is another of the distinguishing traits of Raúl Castro’s presidency. His style is more pragmatic and directed toward solving the problems that have

⁴ “Polo Científico” refers to an area in western Havana devoted to research in biotechnology, pharmaceuticals and medical technology as well as related activities located in other areas of Havana and nearby provinces.

been identified, making a clear distinction between immediate and medium-term goals. There is also a notable tendency toward increasing delegation of responsibilities.

The modification of prohibitions began in 2006 with the elimination of restrictions on Cubans buying goods and services with convertible currency (household appliances, cellular phones, car rentals, and tourist services in international hotels). Land grants to individual farmers to stimulate domestic food production began at this same time. Also, the artificially low prices paid to farmers for their output were raised, and almost all their debts to the state were written off, some of many years' duration. The year 2007 saw liberalization of the granting of licenses to private *transportistas* (drivers of taxis and other service vehicles), and more recently people have been encouraged to legally build and repair houses. (Relieving the housing deficit is one of the most important demands, and its potential for job creation has been harnessed very little.)

Other important changes have come in the area of government spending. Excessive subsidies and other "gratuities" have gradually been eliminated. For example, state-funded foreign travel by officials and managers has been cut by more than 50%, and an incentive program for outstanding officials, leaders, and workers costing more than \$60 million a year was dropped. The budgeting of resources for some cultural, health, and sports services has been modified, cigarettes have been removed from the ration book, and provision of subsidized meals in workplace cafeterias has been gradually reduced or in some cases eliminated. Finally, the system of supplying of rationed goods to households through the nationwide ration book is in the process of being dismantled, with the products (coffee, beans, oil, cleaning products, etc.) being gradually shifted into other markets whose prices include profit margins. Other changes include updating the tax system and raising electricity prices (in response to the worldwide growth in petroleum prices).

None of these measures is by itself very complex or is particularly disruptive for social development as a whole, but taken as a group they show a will to implement, step by step, concrete actions that represent a profound change in the national environment, one occurring without large-scale trauma.

In a speech closing the National Assembly sessions of 2008, Raúl Castro noted that these transformations should be carried out "without hurry and without excess of idealism, in accordance with available resources." Soon afterward there was a temporary postponement of the process due to the urgent tasks of recovery from the hurricanes that hit the island that year.

Action resumed in mid-2009, and in late 2010 there began a new stage, going beyond piecemeal changes to the presentation of the structured ensemble of changes embodied in the Guidelines. In practice, the steps taken from 2003 to 2008 pointed in the right direction but were insufficient to deal with the roots of dysfunctionality. Some studies at this time showed that the policies prioritizing short-term economic growth, and the predominance of discretionary methods, were leading to a state of virtual paralysis. They were eroding monetary stability and compromising medium-term sustainability.⁵

⁵ Pavel Vidal, "La Disyuntiva Actual de la Política Económica Cubana," CEEC *Boletín Cuatrimestral*, December 2008 www.ceec.uh.cu .

In effect, a combination of several elements led the country into a financial liquidity crisis. This resulted in part from the international crisis, whose effects were multiplied by domestic mechanisms, including insufficient response to the modest changes that had been introduced, and an over-extended state budget.⁶

This period gave rise to steady deceleration of economic growth, while at the same time food imports were growing – a result of evident failures in the way agriculture was being managed⁷ – and distortions in the ratio of income to consumption deepened,⁸ in the context of an environment made more difficult by unresolved issues like market segmentation and the dual currency. Thus, the steps taken up to that point clearly represented only a small portion of those truly needed.⁹

The need for a reform of the Cuban economic system grew ever more evident – a reform that would assign new roles to the state and the market, to various forms of property, and to enterprise organization.¹⁰ More than a few studies were devoted to putting forward proposals regarding these issues,¹¹ but several years passed before these received the attention they deserved.

In December, 2010, the office of the president declared a commitment to these transformations in dramatic terms. In his key National Assembly speech, President Raúl Castro said. “Either we will rectify [our course], or we will run out of time perched on the edge of disaster, and we’ll sink, dooming ... the efforts of whole generations.”

To comply over the medium term with the needed changes in the role of the state, the directives included: reducing excess spending; making more rational use of existing infrastructure to increase the quality of social programs in healthcare, education, culture, and sports; supporting export growth; and concentrating investment in the activities that can be revived most quickly.

Proposals for immediate action included ending over-spending of state budgets and under-fulfillment of economic plans. The speech called for eradicating “all types of excuses, extending to vagueness and lies, whether intentional or not, when stated goals are not reached,” because supplying false data, even without fraudulent intent, can lead to wrong decisions with greater or lesser effects on the nation.

The same speech pointed out the importance of open discussion of the guidelines in order to shape a democratic consensus (not excluding divergent opinions) on the necessity and urgency of introducing strategic changes in the functioning of the economy, including the legitimization and

⁶ Pavel Vidal & Carmelo Mesa Lago, “The Impact of the Global Crisis on Cuba’s Economy and Social Welfare,” *Journal of Latin American Studies* 42 (2010), 689–717.

⁷ Armando Nova González, “El papel estratégico de la agricultura: problemas y medidas,” *Temas*, April 2010.

⁸ Mayra Espina Prieto, “Looking at Cuba Today: Four Assumptions and Six Intertwined Problems,” *Socialism and Democracy* #52, March 2011, 95-107.

⁹ Omar Everlery Pérez Villanueva, “Notas recientes sobre la economía en Cuba,” presentation at the Tenth “Semana Social Católica,” *Espacio Laical*, June 2010. www.espaciolaical.net

¹⁰ Jorge M. Sánchez Egozcue and Juan Triana Cordoví, “Panorama de la economía cubana, transformaciones y retos futuros,” in Omar E. Pérez, ed., *Cincuenta Años de la Economía Cubana* (Editorial Ciencias Sociales, Havana, 2010), 83-152.

¹¹ Carlos Alzugaray, Arturo López-Levy, Alexis Pestano, and Lenier González, in “Cuba: ¿Hacia un nuevo Pacto Social?” *Espacio Laical, Suplemento Digital* #125, April 2011. www.espaciolaical.org

stimulus of private initiative and of cooperative associations as “irreversible” components – while also making clear that accumulation of capital by the new owners would not be permitted and that the plan would have primacy over the market.

Furthermore, the speech recognized the urgent need for Cuban leaders to modify the old methods of work to which they had become accustomed, and to support implementation of the changes. “This is, simply stated, a matter of changing erroneous and unsustainable concepts about socialism, deeply rooted in broad sectors of the population for years, as a result of the excessively paternalistic, idealist, and egalitarian focus instilled by the revolution in pursuit of social justice.”

As part of the above-mentioned process, Raúl Castro took personal responsibility for preparing a November 2010 national seminar for some 500 high-level leaders and administrators who would lead public debate all over the country in the following months. All this should have begun years ago, but was postponed for various reasons and has now been revived and “energized” by the country’s leadership. The aim is to streamline utilization of State personnel and budget and to change the work style of the Communist Party, which must stop assuming administrative tasks and concentrate on supervising the efficiency of procedures and assuring social consensus.

A decisive transformation in the relationship between state and society

One of the key immediate challenges is a short-term transition from a vertical administrative culture to a flexible decentralization of the state. This involves granting a more active role to local and provincial government while reshaping the institutional fabric and incorporating new, non-state actors from the private and cooperative sectors, which will doubtless have important effects on future social re-stratification.

This “structural migration” will require coordinating incentives for promoting state-enterprise autonomy with a parallel development of the private and cooperative sector based on economic and financial criteria, so as to eliminate massive dependence on state subsidies while removing artificial barriers from the areas in which self-sustainability might be achieved. This process requires innovations including shutting down enterprises that become bankrupt, forming second-level cooperatives (cooperatives made up of other cooperatives), and allowing competition between private and state suppliers (which has already begun in farm-product sales to hotels).

It has been argued that more oversight, organization, and discipline will solve the economic problems. In fact, this is only one of many necessary corrections. Besides excess bureaucracy, long-established habits of improvisation and provisional measures have grown up within public agencies and state-owned enterprises, as logical adaptations to chronic shortages and to the priority placed on short-range goals rather than fundamental problems. Thus it is not surprising that some observers have a reductionist vision of the reform process – one centered on reinforcing controls and discipline – and view this as the basic item on the agenda.

If the only imperative were to recover from such defects, then those who argue that there is no point in repairing what obviously doesn’t work would be correct. But if the reform process is limited to that perspective, then other, more important changes would be left out. These include formation of a social consensus, legitimization of new spaces and actors, changes in the legal structure, a

different role for the state, changes in managerial culture and renewal of leadership, empowerment of local institutions, redefinition of property forms, etc.

Part of the Cuban adjustment requires a re-alignment of the visions and proposals emanating from intellectuals and technocrats. Many of the measures now being implemented had been discussed and suggested for years within these circles of thinking, without having much impact on decision-making. The difficulty did not lie in any inability to diagnose problems or generate proposals, but rather the failure of decision-makers to legitimize such efforts. Thus, in the new circumstances, it is crucial to create a basic understanding of the “state of discussion” within the circles that generate ideas.

Equally important is the dynamic of interactions among the various social groups. The traditional model of stratification rested on clearly differentiated identities such as officials, technocrats, intellectuals, and citizens, but these identities have lately been breaking up into newer and more unstable categories. This tendency is also reflected in new spaces, subjects, and methods of dialogue, so that the formation of social consensus is now a more diverse and complex task.

Two of the most active intellectual forums – the journals *Temas* and *Espacio Laical* – provide clear examples of how spaces for discussion and the content of discussion have been evolving. New digital communication technologies have given rise to an unprecedented variety of actors and subjects in a sort of “parallel atomization” which has gone beyond the formal institutional framework and has also made room for the opinions of Cuban emigrants with a wide range of perspectives. An intense debate about the country’s future – perhaps less sophisticated but in some sense broader – is also taking place in cyberspace and the blogosphere. (One of the clearest examples, perhaps, is the BBC Cuba blog directed by the journalist Fernando Ravsberg, but the list grows longer every day, with broader thematic diversity.)

These new dynamics drive a transformation that is taking place in the culture of discussion, to which state and party structures must adapt. In contrast with Venezuela, where even Chávez has an active Twitter feed, such participation by Cuban officials remains beyond the pale. In the Cuban state-run press and communications media, the syndrome of “captive information” and homogenization of thought continues to prevail. Though some relatively more critical analyses suggesting a moderate change of attitude have begun to appear, we are still a long way from a press that would adequately represent today’s society in all its complexity and conflicts. Raúl Castro himself has remarked on how, to get an article published that severely criticized the management of a state entity, he had to personally intervene in order to overcome resistance that hid behind the argument that we “cannot reveal our internal weaknesses to the enemy.”

The challenges associated with the transformations now beginning may be viewed in three general dimensions. The *first* is connected with the results of the process now underway, particularly its effects on the underlying social contract (equal opportunity, preservation of full access to social services, state protection against vulnerability and poverty). This approach recognizes that the social changes which will necessarily occur (re-stratification of socio-economic sectors, greater polarization of incomes, etc.) are still in process, and it is still too early to know how far they will go.

In this dimension, it is equally important to see that if an economic vision of the changes prevails, that would carry the latent danger that social impacts would be minimized and the need to

provide parallel supports that absorb some of the social costs would be undervalued. (Such supports include increased retiree pensions, retraining and placement of workers, protections for vulnerable low-income families, etc.)

Although it has been stated that no one will be left out in the cold by this transition (the transition from the traditional massive state subsidy of products to a more focused subsidization of low-income individuals and families), adjustments in income levels will not necessarily keep up with spontaneous changes in prices that will occur when private supply mechanisms increase in a context of scarcity. In fact, the polarization of incomes will continue to widen the gap between state employees and private sector workers, no matter how aggressively the latter are taxed, given that so far the problem of the immense parallel underground economy has not been resolved.

A *second* dimension of analysis is associated with the political consequences potentially implied over the longer term by an expansion of the private and cooperative sector in the midst of an environment in which other problems, such as corruption and growing polarization, have not been resolved. The decision to promote a larger self-employed (private) sector constitutes an important transformation reflecting the emergence of a different way of thinking that does not assume a dichotomy between state and market in which one side or the other must prevail (as was assumed under the conception of socialism prevailing for the previous fifty years).

The socialist implosion of the 1990s and the changes it brought to Cuban society and economy allowed for the emergence of a private sector – “permitted but not desired or promoted” – without any “facilitating” legislation or a policy of state protection or recognition that would include incentives, links to state entities, etc. In that decade, what predominated was the notion that allowing room for a private sector was an ad hoc, temporary phenomenon (that is, one lasting only until conditions improved and there could be a return to the state-owned property and employment of the 1980s). This position was clearly linked to fear or rejection of the possible increase in social inequality that would result. Thus, what emerged was an eminently urban private sector engaged in small-scale activities of providing prepared foods, lodging, transportation, repairs, etc., which excluded any interaction or links between the state and the private sector. The regulatory environment was primarily fiscal (taxation) and restrictive concession of licenses).

In spite of this relatively hostile environment, these limited actors created a sector of self-employment for economic survival – a peculiar development in which small private businesses took advantage of the market niches allowed by the state, but without much hope for future success. (Research has shown that at least 50% of small private business shared this perception).¹²

As the idea of a eventual reversion of the private sector has explicitly disappeared, the rationale underlying that model – which saw coexistence of such a sector with a socialist economy as impossible – has been subverted. Now, the state has become the main promoter of the private sector’s formally institutionalized relation to the market and its independence of action. In principle,

¹² Aymara Hernández Morales, “Estado y sector privado en Cuba. Políticas, relaciones y conflictos de un manejo restrictivo.” Presentation at the Taller Internacional Centro de Investigaciones Psicológicas y Sociológicas (CIPS), Havana, 2006.

this reconsideration also allows for that sector to compete with the traditional state dominance in areas not considered essential.

Some of the changes now underway are truly new in their conception and proportions. What has attracted most attention is the downsizing of state employment through reduction of inflated payrolls. At first it was announced that 500,000 jobs were to be eliminated in stages, primarily those linked to bureaucratic and service tasks in state enterprises and organizations. These workers were expected to move to other productive jobs, both in state enterprises and in the private and cooperative sector. A complementary measure was broadening the categories of licensed self-employment to 178 economic activities, many of which would be permitted to subcontract workers. (Paradoxically, none of these categories included professionals, who are one of the most important labor reserves created by years of mass access to education.)

The original announced goal was to relocate around one million state employees (nearly a quarter of the country's economically active population), which would substantially reduce the enormous and costly bureaucratic apparatus. The word "layoff" (*despido*) was never used. Rather, commissions created in the various work centers would propose which employees should be deemed "available," and they could take advantage of temporary benefits which would be offered based on seniority, qualification, etc., in the form of payments over a period of one to three months, according to what was deemed necessary.

The secretary-general of the Cuban Workers' Union, Salvador Valdés, declared repeatedly that this plan of workforce adjustment would "not leave anyone unprotected." In spite of this and other similar pronouncements, the fact is that after nearly fifty years during which several generations grew up with the idea of job security and stability as an unquestionable right, a change of this sort gives rise to natural uncertainty which cannot be satisfied until reality confirms that the promised alternative spaces will effectively replace lost family incomes.

The sectors chosen to initiate this gradual "labor reorganization" were five ministries: Sugar, Agriculture, Construction, Public Health, and Tourism. However, the process was soon apparently postponed, possibly to provide a margin of time for introducing and consolidating new legal regulations and systems of credit to aid in the formation of cooperatives and private businesses that would create alternative jobs. More than 300,000 licenses for self-employed work have been granted in record time, but it has been announced that the process of reducing state employment will continue, albeit "in accord with circumstances and with flexibility as to deadlines."

This workforce reform is absolutely necessary. If the sizeable losses caused by artificial over-employment are not eliminated, efforts to put other economic activities on a sound footing will remain permanently at risk.

Finally, the *third* dimension or level – no less important – to be considered is the positioning of key countries in Cuban foreign relations with regard to these new developments. This involves issues of multilateral exchanges and assistance, including support for the development of local and small businesses (*microempresas*) – primarily through international organizations – as well as bilateral mechanisms of trade, investment, and aid, and (indirectly) probable scenarios of trade with and/or assistance from the United States, and other, broader, collateral influences.

The current changes are more significant than those of the 1990s

Even before the collapse of the socialist bloc, the Cuban economy was showing clear signs of stagnation due to its own structural problems, such as: low levels of productivity and competitiveness; limited ability to generate internal savings; an international position based on low-value-added exports and financial and commercial dependence on a single market (the USSR) and a single product (sugar); a weak industrial fabric; and mounting fiscal disequilibrium.

The adjustments introduced in the 1990s represented a change unprecedented in the history of the Cuban revolution. Several major transformations occurred during that decade. Sugar, for the first time in Cuban history, ceased to be the economic engine of the country; it was replaced by tourism and the export of medical services. There was an opening to foreign banks and foreign investment. State agricultural property was redistributed to the cooperative sector, and licenses for small private urban businesses were granted. The dollar became a legal currency, and markets were segmented into different circuits using different currencies, generating a permanent tension that affected efficiency, salaries, and prices, reinforced in turn by remittances from abroad which became a significant source of income.

As a consequence of these changes and their mutual interactions, social impacts soon followed. Problems of poverty, growing inequality, and geographic stratification appeared, along with increased migration from countryside to cities. New challenges demanded responses on an unprecedented scale. It should not be surprising, therefore, to find these phenomena reflected in the realm of ideas and values. Nearly twenty years later, the main negative macroeconomic effects of the shock have been reversed, while others persist and are accompanied by new challenges. The current era has neither the pressure nor the sense of urgency of those earlier days, which were marked by a crisis of reinsertion in the global economy and reshaping of the economic system in response to an external shock. Today's challenge is a political-institutional transformation that responds to new internal realities, a process that extends farther than the generational changeover to which many observers reduce it.

As one Cuban intellectual has pointed out, the main challenge now is how to remodel the system without creating greater problems¹³ – not to repair an exhausted and dysfunctional model still bearing the marks of European “really existing socialism,” but to gradually develop a different one, according to the logic of current Cuban society's problems and needs.¹⁴

At both the subjective and the practical level, conditions have reached a point of no return. What distinguishes this moment and today's transformations from what was done in the 1990s is that the current process began with a public admission that things were not going well domestically, with a real political will to make the changes, and with an acceptance of these changes as irreversible. Within a few years, Cuban society will be different from what it has been. It is quite possible that the

¹³ Aurelio Alonso, “Salir del caos sin caer en la ley de la selva,” in: *Cuba desde el periodo especial hasta la elección de Raúl Castro*, May 2008,

<http://www.pensamientocritico.info/articulos/otros-autores/139-salir-del-caos-sin-caer-bajo-la-ley-de-la-selva.html>

¹⁴ Rafael Hernández, “Cuba, políticas en la transición,” *La Vanguardia* March 2008,

<http://www.almendron.com/tribuna/index.php/19322/cuba-politicas-en-la-transicion>

normal process of trial and error will give rise to still-unforeseen alternatives, as those who govern and those who are governed will learn how to reform what can be salvaged and discard what is not viable. What is beyond doubt is that the society will never again be the same as it was in the previous decades.

The specific steps that are being taken, like the tightening of state employment and subsidies, mean that this time the responses will be deeper, going beyond the limits of the reforms of the '90s, when the level of public spending and the policy of full employment were maintained in the midst of the crisis that followed the socialist collapse. Thus, this time there is a frank acceptance of the need to do away, once and for all, with the vicious cycle of low wages and low productivity.¹⁵

The changed conception of the role of the State has left behind the 1990s model of vertical subordination in which the upper levels laid out the plans for every other stratum, moving instead in the opposite direction, toward a separation of government from enterprises. The key sectors remain in the hands of the State, and administrative decisions are based on economic and financial criteria, while unprecedented powers are granted to enterprises within the context of a general policy.

Now, enterprises decide for themselves who will make up their management teams, and they may choose alternative means of financing their operations, eliminating their traditional dependence on the national budget. Similarly, they have autonomy in investment decisions, hiring, and pricing. When enterprises make profits, they may devote these to creating development funds, to new investments, or to employee bonuses.

Changes in the Party: concepts, methods, and officials

Interest in the Guidelines seems to have removed the spotlight from an equally important subject, which is the changeover not just in leadership but in the effectiveness of leadership practices. This issue was directly addressed during the opening of the Party Congress, with an unambiguous declaration of the need to end the dominant mentality of immobilism and dogmatism, as well as a proposal for term limits in important posts.

In an analysis of continuity and change in the Cuban constitutional order, the intellectual Aurelio Alonso has suggested that the longevity of the Cuban leadership in their positions can be traced to a particular combination of political judgments and bureaucratic adaptations. According to this interpretation, in the 1970s both political behaviors and the legal system created an institutional legitimacy for Cuban socialism in such a way that “the design came to link sovereignty with continuity.”¹⁶

The changes underway today include this delicate question, but in more complex conditions and in a different manner. The difference from previous periods lies in the fact that this time the historic generation is at the threshold of ceding its position to another one. Although it is true that a process of replacement of officials had been underway for some years, it occurred principally at the provincial and municipal levels and with marked continuity of methods and visions that have now been shown to be ineffective in relation to the problems that must be solved.

¹⁵ Gerardo Arreola, “Más allá de las reformas de los 90, *La Jornada*, November 10, 2010, 36.

¹⁶ Aurelio Alonso, *Nota incompleta sobre la institucionalidad*, unpublished essay, March 2009.

In the three years since Raúl Castro became head of State, the government team at the highest level has been almost completely replaced. In fact, some of those newly appointed have themselves been removed from their posts after a brief time if their actions did not achieve the expected results. Noteworthy is the dominant presence, in most of the replacements, of cadre who come from the Armed Forces. This confirms the key role played by that institution as guarantor of political stability in the current circumstances.

The projected changes with regard to officials (*funcionarios*) involve not only the methods and quality of administrative work, but also its content. Speaking at a ceremony celebrating the 50th anniversary of the schools for Communist Party cadre, Esteban Lazo, a member of the Political Bureau of the Central Committee, stressed that today's political, economic, and social context is completely different from that of the Party's founding days. He specified that today's institutions must lead the fight against dogmatism, imitative theory, subservient mentality, passivity, and the toleration of mismanagement.¹⁷

Resistance from within

The transformations described above face internal resistance that is expressed in multiple ways. On one hand, there are the inherited bureaucratic culture and the vertical, rigid institutional structures. On the other, there are a lack of practical experience with the new mechanisms, a pressing and immediate scarcity of resources (financing, equipment, inputs, tools, etc.), and the multiple layers of rules and regulations generated at different levels and by various institutions that must be adjusted to make application of the new directives faster and more efficient.

In his speech at the opening of the Party Congress, Raúl Castro referred to the role of state institutions and enterprises in moving from a centralized economic model to a decentralized system, emphasizing the need to eradicate the widespread attitude of waiting for decisions to be made at higher levels so as to avoid the risks of taking one's own positions. This mentality of inertia must be definitively uprooted, he said, and he stressed a need to insist on fulfillment of contracts between parties as a way to spread responsibility. He noted that it was necessary to increase political sensitivity, to confront violations, and to demand discipline of everyone, especially leadership cadre. Over the years, many resolutions aimed at solving practical problems had become empty words. What we approve at this congress, he urged, cannot suffer the same fate as previous accords that were not fulfilled.

To these factors must be added a lack of legal instruments and services. Both the farmers and the new urban cooperative members and private workers have had, literally, no other options if the established mechanisms for supplying financing, transport, packing materials, and other inputs fail to work. Although new legal regulations covering the private and cooperative sector have now been presented (a review of more than 180 existing laws is now underway), some of the old mechanisms are still partially in effect – and these either do not recognize the new forms of property and economic action, or even penalize them. In this area, the first steps have barely been taken.

¹⁷ Granma, AIN, "Subraya Lazo misión dada por Fidel a escuelas políticas," December 2, 2010. <http://www.ain.cu/2010/diciembre/02igg-lazo.htm>

Implementation and monitoring of the new measures also runs up against the interests of socio-economic groups that have enjoyed powers and access to resources that are now threatened by new competitors, structures, and priorities. It is natural that, instead of facilitating the changes, these groups put up resistance in a variety of ways.

Perhaps the most illustrative example of practical barriers to the transformations is the food production sector. Cuba has been spending more than \$1.5 billion per year on food imports (which supply 80% of demand), a financially unsustainable burden that is totally irrational given that 40% of arable land on the island remains idle¹⁸ for lack of incentives and because of bureaucratic restraints.

Paradoxically, harvested crops frequently go to waste because of lack of transport. The solution – recognized or not – requires dismantling the whole scaffolding of regulations and prohibitions that block any alternative methods (whether state or private) when the established mechanisms fail to work. Otherwise, the adaptive response by the farmers is to prioritize harvesting in order to be able to collect payment, whether or not the food ever makes it to market.

Since September 2008, with the goal of increasing food production, 1.18 million hectares of idle land have been awarded as usufruct holdings to 128,435 new proprietors. However, two and a half years later, 30% of these parcels are not yet ready to produce food because of bureaucratic delays in making the actual grants, delays in training new proprietors, insufficient provision of necessary tools and inputs, and the above-mentioned shortfalls in the systems of transportation and commercialization.

Continuity and change: old habits die hard

It may seem that the repeated emphasis on restoring control and discipline is the slogan that best expresses the vision behind the changes. In reality, however, the determining factor is the dismantling of obsolete ideas, practices, and structures.

There is no doubt that restoring the role of the law is a necessary strategy in a society that became accustomed to living with the breaking of rules and with ad hoc improvisation as means of survival in the face of accumulated prohibitions and recurrent scarcity. That context generated a culture of permanent subversion of the law which now must be reversed.

However, the vision behind the changes has been declared to rest on: the priority of state management, gradual implementation so as to avoid improvisation, preservation of consensus, and keeping the social costs of the changes under control.

Nor can one ignore the fact that alongside dealing with current problems, the process introduces some relatively new problems as well. One example is reintroducing the use of loans to the nonstate sector, to stimulate farm production, self-employment, and housing rehabilitation. Another is

¹⁸ Pedro Olivera (director of the Agriculture Ministry's National Center for Land Control), in a statement to the official daily *Granma* cited in *El Universal*, January 25, 2011.

restoring the use of taxes. These will require learning-by-doing and restoring a culture of banking services almost from nothing.

Right now, the delicate balance between elements of continuity and of change is substantially evident in the field of economic management, in the restructuring of the institutional apparatus, and in policymaking (methods and styles of work). However, it would be illusory or reductionist to assume that the success or failure of the process is limited to these dimensions. The collateral improvements needed in other areas – such as updating legislation, restructuring institutions, changing the vision of the role of the Communist Party and its methods of coordination and oversight, broadening and empowering new actors such as local government, the cooperative and private sector, and the multiplying interactions in various forums in civil society – point toward a necessary process of decentralization (not only de-statization) which must, progressively, lead to greater transparency and relative transfer of governance toward intermediate levels.

While building consensus out of various visions of the changes is of the most visible importance, still the challenge facing Cuba in the current circumstances is not just about whether the reforms can be put into practice, but about their effectiveness in truly replacing the inherited culture that has viewed change more as a threat than as an opportunity. That culture, as noted, expresses itself in many and varied forms of resistance. The importance accorded to this issue is demonstrated by Raúl Castro's declaration that "We will be both patient and persistent with respect to resistance to change," but that "any and all bureaucratic resistance to the strict fulfillment of the Congress's accords, which are massively supported by the people, will be useless."

This directive took concrete form in the National Conference of the Cuban Communist Party, where the importance of changing party members' mentality was cited as a necessary condition for carrying out the transformations. Also singled out was the need to separate the Party's activities from those of the Government and administrative entities, so as to eliminate interference and arrogation of functions.¹⁹

Every two or three months, there are press reports of some prohibition being made more flexible, or of the introduction of a new mechanism with that same goal, or of the experimental application of some new regulation or incentive (which later becomes generalized). This illustrates the way in which some of the reforms are being introduced, without great fanfare or national campaigns.

Before it was extended throughout the country, for instance, the transfer of barbershops and hair salons to private operators or cooperatives was tried out for several months in some cities. A similar procedure was followed with transferring taxi service to private operation, and with incentives to promote individual housing construction and repair after a period of obvious contraction in this activity in spite of the growing housing shortage, one of the main problems of Cuban society. In the case of housing, channels for supplying materials were decentralized, and permission to subcontract

¹⁹ Alina Perera Robbio and Francisco Rodríguez Cruz, "Ser parte, no observador," First National Conference of the CCP, Commission #1, on functioning, methods, and style of work. Cubaweb. Jan. 30, 2012. <http://www.granma.cubaweb.cu/2012/01/30/nacional/artic04.html>

the work to private tradesmen was re-introduced. Prohibitions which limited citizens' ability to build houses were lifted, as was the ban on buying and selling houses. Another change was an end to the practice of confiscating the homes of citizens who emigrate; the emigrants can now sell or give them to others. The state soon began to issue bank loans for housing construction or repair (and, in parallel fashion, subsidies to poor families to repair their homes). All this has led to a visible, short-term reactivation of micro-enterprise in housing repair and construction, which now does not depend on public programs that for years were overwhelmed by the demand.

In the case of large state entities, two ministries (sugar and telecommunications) were restructured and were converted into state-owned enterprises, thus noticeably reducing their numbers of employees and saving considerable artificial management costs. In the new provinces of Mayabeque and Artemisa (out of the former single province of Havana) and in the special municipality of the Isle of Youth, important reductions of administrative structures and spending have been achieved, in pursuit of a more rational and efficient integration of what had previously been a multitude of parallel and overlapping structures. The experience gained from this initial experiment will serve as a practical reference point for later implementation of these models of public administration throughout the country.

As far as the speed and content of the reforms are concerned, reference has been made on various occasions to a strategic plan containing projections as far ahead as 2016. This plan has not yet been made public, but evidently the procedure is one of a sequence preceded by studies of alternatives and evaluation of impacts (for perhaps as long as two years) followed by small-scale implementation and then by the full-scale one, which will only occur after the minimal conditions to avoid additional problems are in place.

Some conclusions

The process of change in Cuba is inevitable and irreversible. Whether or not one agrees with the proposed content or the pace of implementation, there can be no doubt that a transition which allows for an institutionalized reshaping of the economy (and the resulting interactions), one which guarantees stability and at least a minimum of coherence about priorities, is preferable to a situation of ad hoc and uncoordinated responses. Decentralization of state administration, emergence of new forms of property, and creation of new legal frameworks will cause the conventional actors and mechanisms to be reshaped and progressively displaced by new dynamics.

The immediate tasks identified in the Guidelines point unambiguously to a need to shake off the accumulated obstacles and deformations that led to a generalized loss of economic efficiency. They similarly point to a need to review and revise institutional structures and policies, while creating the conditions for transition to a later period of deeper transformations.

In practice, what is underway is a dual process, involving both a learning curve and a shift in the limits of what is permissible and appropriate. This perception will be reinforced to the degree that the changes which are introduced succeed in generating the expected results. There is no process of rupture associated with these transformations, nor one of dismantling government structures. To mechanistically equate an economic reform with drastic political change would constitute an oversimplification of the complex internal dynamic which is taking place in Cuba, and a failure to

understand the priority being assigned to the governability of the process and the management of its effects.

An improvement in relations between Cuba and the United States is not a necessary condition for the Cuban process of transformation to unfold. However, it would be a welcome component implying an important economic potential that could have a favorable and significant impact on the depth of the process. By continuing to isolate itself, the United States also denies itself the opportunity to have any effective influence on the changes underway in Cuba.

Cuba’s major challenge today does not lie in determining the speed or depth of the transformations, nor in improving the quality of methods and oversight, although all of these are clearly needed. Nor is the key issue which particular leaders will be at the head of the country in a few years, though this is also an important issue. What *will be* decisive to the viability of the transformations has been clearly stated by Graziella Pogolotti: “Without a doubt, what is crucial to the viability of the Cuban project is a rearticulation of a vision of the future, one which links the personal life projects of the country’s citizens with the transformations being implemented. This alone, not the institutional aspects, is the key to sustainability.”²⁰

Translated by Dick Cluster

.....

²⁰ Pogolotti, Graziella, “Para dialogar con los jóvenes,” *Juventud Rebelde*, March 3, 2010.

About the author.

Jorge Mario Sánchez Egozcue is Senior Researcher and Professor at the University of Havana's Centro de Estudios de la Economía Cubana (CEEC). From 1990 to 2010, he served as Senior Researcher at the Center for US Studies also at the University of Havana. His research focuses on economic development and foreign policy. Currently is co-president of the Cuba Section at LASA – Latin American Studies Association, in the U.S. In fall 2011 was appointed Visiting Research Fellow at ILAS, Columbia University, New York City. Previously he has been a Visiting Scholar at the David Rockefeller Center for Latin American Studies at Harvard University. He also has taught at the Institut des Hautes Etudes de l'Amérique Latine (IHEAL) at the Université de Sorbonne Nouvelle Paris III, and at the Institute of Sciences Politiques -SciencePo-, as well as served as visiting scholar and lecturer at several universities in the U.S., Canada, Belgium, Spain, Brazil and Mexico. He has served as a consultant for the offices in Cuba of the United Nations Development Program UNDP, and for the Canadian Agency for Cooperation ACDI. Recent publications include, "United States-Cuba Economic Relations: The Pending Normalization" in "Debating U.S.-Cuban Relations Shall We Play Ball?" edited by Jorge I. Domínguez, Rafael Hernández, Lorena Barbieria, Routledge Publishers. "La inserción internacional del comercio cubano" coauthor with Omar Everleny Pérez, in "Cuba en tiempos de cambios" José A. Alonso, Francesc Bayo y Susanne Gratius (coords.) Estudios Internacionales Editorial Complutense – ICIEI., "Panorama de la economía cubana, transformaciones y retos futuros" coautor con Juan Triana en: "Cincuenta Años de la Economía Cubana", Edit. Ciencias Sociales, La Habana. Compilador, Omar E. Pérez.