

THESIS

WITHOUT PAUSE BUT WITHOUT HASTE:
ECONOMIC AND POLITICAL CHANGE IN CUBA

Submitted by

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ABSTRACT

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Developments in US-Cuba relations in December of 2014 impelled a renewed interest in Cuban affairs amongst academics, business professionals, and the general population in the United States. But very substantial reforms were taking place in Cuba since about 2007 –years before the US and Cuba decided to initialize a normalization of relations. This thesis provides an overview and analysis of these recent reforms. It also provides an overview and analysis of Cuba’s past reform cycles, mainly through a theoretical lens developed by Carmelo Mesa-Lago, which characterizes Cuban reform cycles as either “pragmatist” (towards the market) or “idealist” (away from the market). Also contained in this thesis is an analysis of Cuba’s monetary duality; Cuba’s potential for further inserting into the Cuban economy; a history of US-Cuban relations, with particular emphasis on the United States embargo against the island. This thesis concludes that the Cuban economy has entered a permanent pragmatist period, characterized by a shift towards marketization and privatization on the island. Regarding US-Cuba relations, this thesis provides an explication of recent moves by the Obama administration, but stresses that the Embargo has not ended, as only Congress has the authority to fully abrogate the Embargo.

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Introduction

Developments in December of 2015 impelled a renewal of interest in Cuban affairs amongst academics, business professionals, and the general population in the United States. I was lucky enough to be wrapping up this thesis when the United States and Cuba, at the end of 2015, announced a forthcoming normalization of relations. Indeed, at the time this happened, I was in the process of writing this thesis's chapter on US-Cuba relations. Such developments imbued this thesis with a certain degree of topical relevance.

But long before the two states decided to engage in diplomatic normalization, since about 2007, the island had been engaged in substantial economic reforms. This thesis provides an overview and analysis of these recent reforms. It also provides an overview and analysis of Cuba's past reform cycles, mainly through a theoretical lens developed by Carmelo Mesa-Lago, which characterizes Cuban reform cycles as either "pragmatist" (towards the market) or "idealist" (away from the market). Also contained in this thesis is an analysis of Cuba's monetary duality; Cuba's potential for further inserting into the Cuban economy; a history of US-Cuban relations, with particular emphasis on the United States embargo against the island. This thesis concludes that the Cuban economy has entered a permanent pragmatist period, characterized by a shift towards marketization and privatization on the island. Regarding US-Cuba relations, this thesis provides an explication of recent moves by the Obama administration, but stresses that the Embargo has not ended, as only Congress has the authority to fully abrogate the Embargo.

Chapter one provides a literature review and theoretical framework for analyzing *past* periods of reform in Cuba. Past periods of marketization and privatization – "pragmatist" cycles – occurred when economic exigencies required Cuban authorities to allow a larger role for the market, while "idealist" cycles were launched when economic conditions had been ameliorated

sufficiently to allow for a halting or scaling back of pragmatist policies. It must be emphasized that this framework does not necessarily apply to recent reforms, since current reforms are occurring under Raul Castro, who seems to be much more pragmatic than his brother. Hence, the theoretical framework that applies to reform cycles that occurred between 1959 and 2007 is not applicable for current reforms.

The second chapter provides an overview and analysis of periods of reform in Cuba: the idealist cycle of 1959-1971; the pragmatist cycle of 1971-1985; the idealist cycle of 1986-1990; the pragmatist Special Period of 1991-1996; the deceleration of Special Period policies from 1996-2001; and the island's "holding pattern" of 2001-2007.

Because of the significance of the Special Period in shaping Cuba's current reforms and approach to marketization and privatization, the Special Period is allocated the entire third chapter in this thesis.

The fourth chapter focuses on a peculiarly Cuban issue: monetary duality. The Cuban economy uses the Cuban Convertible Peso (CUC) and the Cuban Peso, along with the dollar and other currencies in its foreign invested sector. These currencies hold different exchange rates, depending on which sector of the economy in which they are exchanged. This arrangement has led to significant distortions and accounting problems in the Cuban economy, as some entities appear more profitable, others less profitable, than they actually are. This chapter gives a rough outline of how the Cuban economy can unify its currency.

The fifth chapter addresses the issue of Cuba's insertion into the world economy. Cuba is already an open economy with a significant amount of interaction with the international economy. This chapter identifies Cuba's highly educated population and biotech sector as its

comparative advantage, and argues that the island should further exploit these advantages when engaging with the world economy.

The sixth chapter focuses on reforms that occurred on the island between 2007-2010, including substantial liberalizations in the area of agriculture, and analyzes shortcomings regarding these reforms. Such shortcomings include bureaucratic and administrative flaws in the way certain agriculture liberalization measures were introduced and implemented.

The seventh chapter provides an overview and analysis of reforms that have occurred since 2010. Many of these measures were meant to address flaws that obtained in 2007-2010 reforms. The main point to be taken away from chapters six and seven is that Cuban authorities are sincere in their determination to move towards the market and privatization, but are doing so at an incremental, deliberate pace, in an attempt to avoid the effects of shock therapy capitalism.

Chapter eight provides a history of US-Cuban relations since the Cuban Revolution of 1959. It provides an overview of relations through each American presidency, and gives an account of the steadily increasing power of Congress in US-Cuba relations. The authority Congress holds in US-Cuba relations makes this bilateral relationship very unique, as foreign policy is traditionally the prerogative of the Executive Branch. This chapter is largely composed of a history and analysis of the Embargo the United States maintains with Cuba. Most of the thesis focuses on domestic politics and economics in Cuba, without focusing on the Embargo. This is not due to any kind of irrelevance regarding the Embargo and its effects on domestic issues. Rather, the Embargo is such an important topic that it seemed much more appropriate to devote a large portion of a single chapter to it.

Chapter eight also gives an account of recent developments in US-Cuban relations, specifically the decision by US and Cuban officials to initiate a normalization of relations. This

chapter overviews what changes have been made to US policy, as well as what changes are not allowed under current law, due to Helms-Burton.

There are surely many important facts, developments, and concepts that have been left out of this thesis. The scope of this thesis was ambitious, which explains why, as of February 2015, I have been researching and writing on the topic for two-and-a-half years. When the scope was so extensive, omissions were a foregone conclusion. However, I hope that I was able to achieve my goal, which was to implement, and expand upon, Carmelo Mesa-Lago's theoretical framework for analyzing Cuban reform cycles, as well as apply it to Cuba's current reforms. This thesis should also provide a thorough, concise account of recent developments in US-Cuba relations for anyone who is curious as to what changes have occurred, and which changes have not yet occurred, but are desirable.

I would like to provide a brief note on economic and political ideology in this thesis. As Dr. Braunstein pointed out, much of the thesis seems to evince a neoliberal bent. For instance, the sections of this thesis that cover FDI and capital account liberalization seem to suggest that neoliberal approaches to these issues are more rational or optimal than other approaches. The explanation in this lies largely in the resources that were available to me when constructing this thesis. I do not speak Spanish, and it happens to be the case that most economists who write on Cuban issues are somewhat neoliberally inclined. As such, my writing on these topics was unavoidably influenced by their writing. I am much more inclined to agree with the lenses of authors such as Ilene Grabel, who advocate capital controls/alternative approaches to international economic integration, but the writing of this persuasion that is available on Cuban economics is rather sparse.

Chapter One: Theoretical Overview of General Pattern of Reform & Literature Review

The General Pattern of Reform in Cuba: A Theoretical Overview

This chapter provides a theoretical overview of the general pattern of reform and retrenchment in Cuba. It cannot be overstated that this theoretical framework applies to *previous* (pre-Raul) periods of reform. Current reforms represent a permanent shift towards relative privatization and marketization in Cuba, and thus do not comport with the pattern of pragmatist reform and idealist retrenchment that is proffered in this chapter.

The general pattern of reform in Cuba may be characterized as follows. First, material exigencies, often a result of previous “ideological” cycles, necessitate political and economic reforms (usually economic). Often, pragmatic “reforms” are simply the legalization of practices that have already been ubiquitous in the island’s informal economy for some time (Pumar on NPR, 08-09-12).¹ The question in such instances is why some practices are formally legalized, while others are penalized. A possible answer is that small-scale economic activities, such as buying and selling vehicles, are allowed, since they pose little political threat to the Cuban government, while more politically threatening behavior, particularly by state officials, is not brooked. This view garners further support in light of recent economic reforms. As explained in a recent New York Times article on Cuban capitalism, personal enterprise and initiative is tolerated only insofar as it does not pose a political or ideological threat. Describing the experience of one Cuban entrepreneur, Héctor Higuera Martínez, the New York Times article explains:

¹ Regarding the recent legalization of private/self-employment, of the roughly 350,000 people licensed to be self-employed under the new laws by the end of 2011, 67 percent had no prior job affiliation listed — which most likely means they were running underground businesses that then became legitimate (Cave/New York Times 12-01-12).

(Hector Higuera) was about as capitalist as it gets. But will his ideas ever be adopted? Like everyone else, he faces severe limits. He can hire no more than 20 employees, for example. He does not have access to private bank loans, and the government has shown little inclination to let people like Mr. Higuera succeed on a grand scale.

Instead, when success arrives, the government seems to get nervous. This past summer, officials shut down a thriving restaurant and cabaret featuring opera and dance in what had been a vacant lot, charging the owner with “personal enrichment” because he charged a \$2 cover at the door. A news article from Reuters had described it as Cuba’s largest private business. A few days later, it was gone, along with 130 jobs (Cave, 2012).

The above excerpt illustrates that not only does the Cuban government take measures to discourage private enterprise when sought on a substantial scale, but that the government also has laws that can be implemented to shut down businesses when they garner too much capital. Such policies help illustrate what Ted Henken refers to as the “schizophrenic” nature of the Cuban leadership: they promote yet discourage capitalist reforms simultaneously (Cave, 2012). Similarly, Archibald Ritter has referred to recent conditions in Cuba as “handcuffed capitalism”: a system of “highly regulated competitive markets for low-skilled, small family businesses.” Ritter argues that the Cuban government has insured a restricted role for micro-enterprise through “a tough regulatory environment and an onerous tax regime, both designed to reduce incomes and restrict growth in the microenterprise sector” (in Ritter, 2004: 15). What economic freedom there is has mostly accrued to those whose main ambition is making and selling pizza” (in Ritter, 2004: 15). Hence, capitalism is tolerated at an innocuous, small scale; such tolerance is not usually extended to large-scale endeavors. Importantly, Dani Rodrik argues that this schizophrenic tendency of Cuban policy must be amended in the future if Cuba wishes to experience gains in policy reforms: “If the private sector gets mixed signals about the direction of reform, no amount of policy tinkering will have much effect. The government needs to make up its mind, and communicate its strategy clearly. Will it foster private markets and private entrepreneurship, or not?” (in Dominguez et. al, 2012a: 57).

Some authors implement social-psychological and cultural concepts to explain this ambivalence towards capitalism, and the Cuban population's proclivity to brook it. Jose Azel argues that Cubans behavior illustrates the phenomenon of "dual consciousness," in which "individuals hold one set of beliefs based on the mainstream culture and a contradictory set of beliefs based on their actual experience" (2012: 3). Gomez (2012) argues that any "transition" in Cuba may be difficult for similar reasons: Cubans have been indoctrinated against the market, but are now being told to embrace it. Hernandez (2010) argues that there is ensconced amongst the population a cultural ambivalence regarding the desirability of reforms. On the one hand, Cubans have garnered substantial social gains from the Revolution's achievements. On the other hand, Cubans have witnessed firsthand the shortcomings of Cuban socialism: hyper-bureaucratization, decreased efficiency and productivity, and diminished freedoms. Because of these somewhat contradictory experiences, Cubans advocate changes that would allow for greater political and economic freedoms, while simultaneously being suspicious of the effects that potential reforms will have on their prized social programs. Regardless of the explanation, it should be understood that Cuba's politicians and general population suffer from a pronounced ambivalence to marketization and privatization reforms.

Second, while reforms are underway, they must be justified, so as to not contravene Cuban socialism. They are often justified through either a reconceptualization of socialist ideology, or an explanation that the measures are only temporary expedients to achieve material goals. Alternatively, if reforms allow for state-level, rather than individual-level, market liberalization, then reforms may be justified on pragmatic, rather than ideological, grounds. Generally, to justify reforms, constitutional amendments are necessarily introduced.

When the first route, reconceptualization of socialist ideology, is chosen, Cuban socialism is amended to comport with necessary reforms, which obviates, or at least alleviates, problems of cognitive dissonance between socialist ideology and pragmatic policy. Campbell has recognized the central role of such reconceptualization in Cuban reforms in recent decades:

Sometimes the transition from one period to the next involved fundamentally different reconceptualizations of what was actually central to socialism. In all cases, the policies of successive periods implemented significant changes in emphasis to achieve what was necessary at that moment to promote a socialist economy in Cuba. The continuity through all the changes has been exactly that commitment to building a socialist economy, even though discussions have never ceased in Cuba about exactly what that means and how best to do it (Campbell, 2013: 1).²

The above excerpt illustrates a very important fact on the island, which is that, while economic reform has always been, to varying extents, both necessary and real in Cuba, abrogation of Cuban socialism has *never* been an option. As such, when reforms are necessary, and they contravene Cuban socialism, it is the very idea of socialism itself that has been necessarily amended. This is the essence of reconceptualization of Cuban socialism at different times in Cuba's history.

Such was the case in the 1990s, when Cuba, in desperate need of hard currency after the collapse of the Soviet Union, introduced foreign investment reforms that allowed for protection from nationalization, repatriation of profits, and one hundred percent private foreign ownership (Jatar-Hausman 1999: 81). Lopez-Levy explains that such measures had hitherto been denigrated as facets of neoliberalism (Abrahams and Lopez-Levy, 2011). To justify its much-needed reforms, Cuba altered its stance on such measures, and instead of characterizing all forms of foreign capital as capitalist Trojan Horses, the discourse shifted to strategies of responsibly managing globalization (Abrahams and Lopez-Levy, 2011: 84).³ Hence, globalization, *per se*,

² While I began my research on the Cuban political economy in 2011, and developed my idea of reconceptualizing Cuban socialism shortly thereafter, it is not surprising that others writing on Cuba have written about essentially the same concept. However, I did not come across Campbell's writing on the subject until June 2013.

³ A similar process has begun with current economic reforms: "as a recent gathering of Cuba's Communist Party earlier this year included a session on overcoming prejudices against entrepreneurs" (Cave/New York Times 12-01-12).

stopped being demonized, and instead it was *neoliberal* globalization that became the target of umbrage. Moreover, the Cuban constitution was amended so as to “limit the state monopoly to the ‘fundamental means of production’ instead of the previous ‘means of production,’ which was more expansive” (Arnavat in Ed. Lopez-Levy 2007: 84). This allowed for a reconceptualization of Cuban socialism through a constitutional amendment, so as to avoid logical and legal contradictions.

A very important aspect of the reconceptualization of socialist ideology so as to brook necessary aspects of globalization regarded *who* determined the nature of the discourse on the topic. Prior to the 1990s, the Trade Union Central held an ideological monopoly in this regard, and this group’s meeting on the subject (globalization) was titled “Workers Meeting against Globalization and Neoliberalism” (Lopez-Levy 2011: 85). However, beginning in the 1990s, meetings regarding globalization started being held by the Economists Union, with Fidel’s full support; the conference title of the meeting held by this group was “Globalization and Development,” which was much more neutral. This group, in these meetings, showed “less hostility toward all market-based systems and attack(ed) more narrowly what was called ‘neoliberal globalization’.” (Lopez-Levy 2011: 85).

A general model of ideological justification can be taken from the above account. First, for socialist ideology to be most effectively redefined, so as to comport with reforms, it is important that the meaning of “dirty words” be narrowed. In the above case, this entailed narrowing the definition of unacceptable forms of global capital from globalization *per se*, to *neoliberal* globalization. It also required a constitutional amendment that redefined the necessary purview of state ownership. By narrowing the facets of capitalism to which socialism is opposed, Cuba was able to obtain much-needed hard currency, while allowing for a greater role for foreign

private ownership. Moreover, the circle of actors discussing the issues must be widened if socialist ideology is to be effectively redefined to comport with reforms. In the above case, this entailed including the Economists Union in a debate that was previously the sole purview of the Trade Union Central. This last point is important to recent reforms, as “new” actors in the Cuban government, including Raul Castro, may be more amenable to limited marketization on the island

If reforms are presented as temporary expedients, then there is not as much of a need for ideological justifications and redefinition. Rather, the reforms can be introduced as necessary to achieve a material goal, and the public understands that the reforms will likely be repealed once their purpose has been served. An instance of such a strategy is currently occurring in Cuba’s cooperative sector, in which 200 non-agricultural cooperatives are being introduced, with an explicitly “experimental character” (Peters, 2012). Such a law is a very large step towards liberalization, and allows new cooperatives to be self-governing entities that are not attached to state ministries (Peters, 2012). However, by describing such entities as “experimental,” the Cuban government reserves the right to dissolve any entity that it deems unacceptable in the future, without any ideological justification. This does not necessarily mean that such reforms will be abrogated; it simply means that the Cuban government leaves itself an exit route if such reforms become politically jeopardous.

However, there are times when reforms are justified on pragmatic, rather than ideological, grounds, even when they are not intended to be temporary expedients. For instance, in 1995, foreign investment reforms were justified in terms of efficiency, and no contradiction with socialist ideology was acknowledged by the leadership (Jatar-Hausman 1999: 122). One plausible explanation for this phenomenon lies in Cuba’s schizophrenic approach to state-level

and foreign capitalism versus micro-level capitalism: Cuban authorities have accepted the former two as legitimate (Jatar-Hausman 1999: 118), while the latter necessitates ideological justification, since Cuban socialism perceives individual level capitalism as anathema, both because it contravenes Cuban socialism and because it poses political risks. In other words, market reforms are accepted at the state level for their potential to rationalize state enterprises, while Cuban authorities have hitherto been suspicious of small-scale market reforms that grant individual Cubans more economic power. This is because private enterprise in Cuba is difficult to manage, and has the ability to substantially exacerbate inequalities, while state capitalism allows for greater control over the economy, while not posing the same implications for inequities (Jatar-Hausman 1999: 117-9). Importantly, while this stylized model has applied in the past, this dynamic is currently changing, as Cuban authorities seem more willing to brook (constrained) individual level entrepreneurship.

Third, once reforms have had the intended effect, in terms of ameliorating material exigencies, Cuban authorities must decide whether or not the reforms should be retained or repealed. Reforms are implemented for as long as is necessary to mitigate the material conditions that necessitated the reforms. The argument that material exigencies drive (often temporary) reforms is illustrated by the fact that reforms are often scaled back once material conditions have improved sufficiently for reforms to become unnecessary. For instance, Special Period market reforms of 1993-94, ranging from dollarization to self-employment, were halted (not scaled back, as will be explained below) once economic conditions had improved in the late 1990s (Perez-Lopez in Ed. Perez-Stable 2007: 171). If reforms were not being driven by material exigencies, then they would have greater staying power once conditions improved, but this has not been the case in Cuba.

Often, when reforms create unsustainable political and ideological tensions, authorities opt for their repeal: “the Cuban government has a history of switching signals on its citizens, encouraging private enterprise and then pronouncing it counterrevolutionary and shutting it down again” (Gorney, National Geographic online, 11-12). Or, as Jatar-Hausman states,

The island has flirted with capitalism since the revolution and has seemed to alternately embrace and reject limited economic openings throughout the socialist period. The result: a perennial, politically charged balancing act between the drive for efficiency and loyalty to socialist principles. Freedom versus equality has been the ever-present political trade-off in Cuba’s revolutionary history (1999: 27).

This was the case in 1986, when it became clear that market reforms were introducing nascent inequalities, as well as creating the conditions for ideological tensions between nascent capitalists and orthodox Cuban socialists (Jatar-Hausman 1999: 37). Hence, Cuba entered its “Rectification Process, which aimed to renew socialism and rejected many of the capitalistic openings of the late 1970s and early 1980s” (Jatar-Hausman 1999: 37). The regime at this time was so concerned about the negative political and ideological implications of 1970s reforms that it chose to roll many of them back, despite their recognition that these very reforms had allowed for greater productivity and efficiency, including higher food production (Jatar-Hausman 1999: 36-8). The repeal of reforms at these junctures is easier to understand when one recognizes that Fidel Castro often showed, at most, minimal support for the actions when they were being implemented – the reforms are often not meant to be permanent, but are presented as temporary expedients to achieve material goals (Jatar-Hausman 1999).

It is important to recognize that reforms are not scaled back out of pure political self-interest on the part of Cuban authorities. Rather, reforms are often repealed because they engender conditions that are diametrically opposed to Cuba’s tradition of social justice and equity. For instance, the legalization of the use of US dollars in 1993 has been characterized by one analyst as “the most successful reform undertaken in the 1990s” (Perez-Lopez in Ed. Perez-

Stable 2007: 178). Dollarization created a substantial source of hard currency, surpassing sugar exports and revenue generated from tourism. However, the use of dollars has also generated or exacerbated significant inequalities on the island, as dollar-denominated sectors of the economy, and participants therein, have been flourishing, while those outside of these sectors have experienced relative and absolute declines in income (Perez-Lopez in Ed. Perez-Stable 2007: 178).⁴ Hence, it is not surprising that the Cuban government has such a schizophrenic attitude towards reform: if incredibly “successful” reforms, such as dollarization, can have such negative implications for Cuban socialism, then Cuban authorities are justifiably suspicious of the consequences of further reforms.⁵

Importantly, reforms are not always formally repealed; instead, Cuban authorities often find ways to effectively scale back reforms, while maintaining their formal legality. For instance, the reforms of the 1970s were not completely abrogated, but rather the Cuban government found other ways to regulate nascent capitalists. For instance, instead of an outright repudiation of self-employment, the government chose instead to require privately employed individuals in many sectors to purchase all inputs from state enterprises, which effectively reduced the number of self-employed from 52,100 in 1985 to 43,200 in 1987 (Jatar-Hausman 1999: 38). Hence, Cuban authorities were able to achieve their goal of garnering greater control over the private sector, without completely repealing previous reforms. This is an important point, because it illustrates

⁴ Hence why Fidel Castro admits that the legalization of American dollars in Cuba’s economy is one of his biggest regrets (Castro and Ramonet 2006). It is also illustrative of the fact that reforms have had unintended consequences, and have created conditions that must be addressed, for the sake of a legitimate political and economic transformation in Cuba, if the island hopes to maintain its tradition of social justice. Erikson (in Ed. Perez-Stable 2007: 228-9) argues that dollarization was largely responsible for the culture of corruption that has emerged in Cuba since the 1990s – as disparities emerged, the social contract of egalitarianism was shattered, and Cuban citizens have evinced fewer qualms about stealing from the state.

⁵ The introduction of a foreign-currency sector in Cuba’s economy has caused an effective devaluation of education, since much more money can be earned driving a taxi than being a doctor. Hence, the foreign currency sector in Cuba has engendered two conditions anathema to Cuban socialism: inequality, along with a devaluation of education, which has been the hallmark of Cuban socialism since Che.

another general pattern in Cuba's struggle with reforms: when Cuban authorities realize that erstwhile necessary reforms have come to pose political and ideological threats to Cuban socialism, and hence desire to effectively repeal such reforms, they very often opt for heightened regulations that allow for an effectual abrogation of reforms, while maintaining those reforms in formal terms. One explanation for this approach may be as follows – when ideological redefinitions have already been made in defense of reforms, to make socialism comport with material exigencies, authorities may find it to be too politically costly to once again redefine socialist ideology in such a short time period⁶ (the Cuban people are understanding, but their patience has limits, and they are anything but stupid).

It is also important to understand that Cuba often implements contradictory policies simultaneously. For instance, regulations on self-employment have often been introduced, while at the same time prohibitive taxes and informal regulations are levied on those very same businesses (Jatar-Hausman, 1999). Jatar-Hausman characterizes such practices as common in Cuba: “what the Cuban government gives with one hand, it takes with the other” (Jatar-Hausman, 1999: 97). As an example of the Cuban government's ambivalence regarding reforms, the 1990s reforms promoting greater liberalization of *paladares* (restaurants run out of Cuban homes) were met with restraints on their size, as well as prohibitive fees. As a result, the number of these establishments fell from 600 in 1995 to 150 in 2003 (Perez-Lopez in Perez-Stable, 2007: 176-7). Similar constraints were simultaneously placed on other forms of formally legalized self-employment, causing the number of self-employed workers to fall “from a peak of about 208,500 in 1995 to 152,900 in 2002 and to an estimated 150,000 in 2004” (Perez-Lopez in Ed. Perez-Stable 2007: 177). Thus Cuban authorities often do not even wait for reforms to

⁶ This would be an area of study in the future. This explanation is simply offered here as conjecture.

pose real political and ideological threats; rather, they introduce restrictions on the very sectors that they are liberalizing, thus mitigating the potential for undesired effects of such reforms. Current reforms regarding self-employment, private enterprise, and travel, and their contradictory restrictions, can more easily be understood within this context.⁷

If authorities choose to retain the reforms, then they are likely to provide further justification for the reforms in ideological terms, while also attempting to allow the state a stronger hand in affected sectors, so as to consolidate control and prevent nascent capitalists from garnering too much influence.

In sum, the reform process in Cuba can be stylized as follows:

1. Material exigencies necessitate political and/or economic reforms
2. Such reforms are justified through:
 - a) Redefinition of socialist ideology, so as to comport with reforms. Even if socialist ideology is not explicitly redefined, Cuban authorities nonetheless argue that necessary reforms do not contravene Cuban socialism. Either way, socialism must at least be acknowledged, and sometimes modified to comport with reforms.
 - b) An explanation that such reforms are only temporary expedients to cope with material conditions.
 - c) Either way, reforms are usually accompanied by constitutional reforms, given Cuba's long history of constitutionalism (Arnavat, in Ed. Perez-Stable 2007: 72-95)
 - d) Healthcare has never been on the table for serious reductions, but education has undergone a significant reduction in expenditures.
3. Once reforms have achieved their intended goal (or not), the government has to make a choice:
 - a) Repeal/scale back the reforms
 - i. This can be done either through formal or effective means, or both. Importantly, the Cuban government often chooses to mitigate the effects of reforms by implementing *informal* measures; the explanation for this may be that the Cuban government does not want to change formal ideological course in a short period of time, once an instance of reconceptualization of socialist ideology has already occurred.

⁷ For instance, see Yoani Sanchez, *You Can Check Out Any Time You Like* (11-13-12), in which she argues that formal liberalization of Cubans' ability to travel will simply be alloyed with passport-related restrictions, and that those who have the greatest need/desire to leave will likely be those who are not allowed to leave. However, despite Sanchez's predictions that she would not be allowed to leave the country, she visited Miami in early April of 2013.

- b) Retain the reforms, in which case further ideological justification for the reforms may follow.
 - i. Reforms of the state capitalist variety are much more likely to be retained than are micro-level reforms

It cannot be stressed enough that the above model regarding Cuban reforms applies mainly to reforms during Fidel's regime. Under Raul's government, legitimacy is, more and more, being based on pragmatism and performance (Abrahams and Lopez-Levy, 2011: 217). Hence, less rhetorical adherence to socialist ideology is likely to be necessary under Raul. This will especially be the case if Raul's regime succeeds in adapting the Chinese model of political economy (state capitalism) to the island's particular needs. Under such circumstances, the Cuban government's claim to legitimacy would rest, to a large extent, on their achievement of economic growth, and reforms will not need to be justified in socialist rhetoric, as long as such reforms engender increased living standards on the island.

Literature Review

Integrating Cuba into the World Economy

A key question that Cuba must address as it moves forward with reforms is how the island nation can integrate into the world economy in a politically and socially responsible manner. While most economists in the developed world pushed for capital account liberalization during the period when the Washington Consensus was prominent, a much more nuanced approach has since been adopted. This approach, while recognizing the need to attract foreign capital, also recognizes that the composition/term structure of such foreign capital is important. Such an approach stresses the necessity of attracting foreign direct investment (FDI) and long-term debt and equity (preferably equity) investments, while avoiding volatile, short-term capital flows that can easily be reversed, as in the case of the Asian financial crisis. Hence, economists such as Ilene Grabel (2003; 2004) have emphasized the need for developing countries to adopt

development policies similar to the “Chilean Model,” which maintained strong controls on capital flows, while still attracting foreign investment. Grabel argues that the model that Chile developed in the second half of the twentieth century, which included reserve requirements for investments and taxes on capital inflows, engendered a much more stable flow of capital. Importantly, such a model changes the *composition*, not the *amount* of capital flows, which is the very point of the Chilean model. While some economists (Forbes, 2007) have argued that microeconomic analysis reveals the inefficiencies created by the Chilean model, proponents of the model counter that inefficiencies are preferable to volatility (Grabel, 2004). Indeed, development economists have argued that “inefficiency” need not be a dirty word when dealing with developing countries; in fact, inefficiencies can actually be a good thing, since they protect domestic markets and mitigate volatility (Rodrik, 2011).

Cuba’s best policy option moving forward may well be to adopt policies similar to the Chilean Model. While integrating into the world economy, Cuba will have to take political and social considerations into account. The Chilean Model allows both of these concerns to be addressed and satisfied. By maintaining capital controls, in multiple forms, Cuban authorities will be able to determine the pace and composition of foreign investments, thus avoiding volatile capital flows that can have politically destabilizing effects. Moreover, Cuba’s integration must occur with social considerations in mind if Cuba wishes to develop economically but not abandon its tradition of social equity. By maintaining controls in the financial sector and the real economy, Cuba can develop while still protecting its citizens from the vagaries, and to a lesser extent, the competition, of the world market. This will give Cuba’s infant industries a chance to develop, while introducing a certain measure of competition into the economy. The last thing Cuba wants is a repeat of the pre-1959 era economy, in which dependence on world market

demand for sugar caused massive swings in Cuba's net exports. To be successful, Cuba must combine diversification with growth, which may necessitate protection of its infant industries for a time. Cuba will not be alone in adopting such policies, as other developing countries, including China, have adopted, and continue to maintain, similar controls.

One aspect to keep in mind, however, is that Chile was able to adopt its model of capital controls, and still attract foreign investment, because it had something that foreign markets desired: commodities. The extent to which Cuba will be able to adopt the Chilean Model will depend on what the Cuban economy has to offer. The island has a highly educated workforce, which will be a significant attraction, particularly when combined with the low relative wages that Cuban workers will likely accept from foreign employers. Discovering oil reserves will also be a significant attraction; however, Cuba has thus far been disappointed in its search for oil. Cuba's ability to adopt the Chilean Model will also be determined by the quality of its institutions moving forward, and whether foreign capital trusts future Cuban governments not to nationalize their investments. Cuba's experience in its tourist sector is a good representation of how Cuba will treat foreign capital moving forward.

In sum, if Cuba wants to develop, it must integrate more completely into the world economy. However, the character of the Cuban regime is such that integration must be accomplished in a politically and socially acceptable manner. Chile's development over the past three decades suggests one promising avenue of integration. By adopting a development approach similar to the Chilean Model, one that maintains strong financial controls, Cuba may be able to mitigate the volatile effects of foreign capital, while still attracting investment. Moreover, by protecting infant and/or state industries for a time, as China still does, Cuba may be able to diversify its economy while it grows.

Democracy in Cuba

One of the main questions that arises in Cuban studies is, “to what extent does democracy obtain in Cuba?” Essential to a sufficient response to this question is a coming to terms, semantically, amongst analysts, regarding the meaning of “democracy.” Perhaps more than any other aspect of Cuban political economy, a definition of democracy is important, because diametrically opposed answers may emerge without such a definition.

The facet of equality, and equal rights, is one of the most important to understand regarding Cuban democracy, because it is perceived by some analysts (Lambie 2010, for example) as being the essential component of what makes Cuba democratic. Cubans themselves, argue such analysts, have since the Revolution viewed democracy as being synonymous with equality. Such a perception of democracy as equality has historical roots, dating to pre-Revolution Cuba, in which “Cuba’s underdevelopment had produced a highly unequal society, and those who constituted the mass support of the Revolution were mainly from the poor, undereducated, disadvantaged sector” (Lambie, 2010: 126). Once the Revolution transpired, “the dissolution of the old system opened up possibilities for a dramatic redistribution of wealth, and created new opportunities for a wide range of the population,” and as a result, “Democracy, which had been meaningless to most people previously, came to be understood as equality, participation, national unity and meeting society’s needs, rather than a concept dealing with competing political parties and remote representation” (Lambie, 2010: 126).

At a more basic level, the debate about whether Cuba is a democracy is really a debate about whether liberal democracy is the only legitimate definition of democracy. Analysts such as Lambie argue that Cuba’s pursuit of economic equality, and thus equality of rights for its citizens, indeed makes the island more democratic than polities such as the United States (Lambie, 2010:

79). While advocates of liberal democracy place primacy on individual rights and *political* democracy, developmentalists/structuralists argue that *economic* democracy should take precedence (Lambie, 2010: 79). For instance, Richard Wolff argues that true democracy cannot exist without democracy in the workplace. For Wolff, this entails workers composing, or at least democratically electing, boards of directors of corporations (Wolff, 2012). When assessed according to criteria of striving for economic equality, Cuba fares pretty well: its healthcare and educational levels are redoubtable among Latin American nations. In terms of according with Wolff's conceptualization of democracy, in terms of workplace democracy, the island still falls short, but no more so than western countries, such as the United States.

Tovar argues that equality of rights requires equality of opportunity, and that equality of opportunity requires equality of education (1997: 20). In this respect, Tovar argues that Cuba has been exceptional: "When the Cuban government takes pride in stating that it has eradicated illiteracy, it means exactly that: illiteracy has been extirpated, rooted out" (Tovar, 1997: 21). Along with, and causal of, this achievement, Cuba has ensured that access to quality education is not contingent on economic means (Tovar, 1997: 22). Hence, in terms of equality of education, and thus equality of rights, Cuba can be considered more "democratic" than a country like the United States. This dedication to education and literacy dates back to the Cuban Revolution, of which one of the main goals was eradication of illiteracy and the promotion of education as a Revolutionary ideal (Castro and Ramonet 2006). A tangible example of this goal was the Literacy Campaign of 1961, "in which educated Cubans taught reading and writing skills to the illiterate" (Lambie, 2010: 154).

Tovar also argues that if one includes the right to work and the right to health care in one's definition of "equal rights," then Cuba unequivocally fulfills the requirements of such a

definition. Regarding work, Tovar argues, “The conquests gained by Cuban workers are among the most advanced in the world” (Tovar, 1997: 43). While an active project has been promoted in Cuba to encourage Cuban citizens to fight for workers’ rights, it is trade unions in particular who “have an obligation and a duty to ensure that labor legislation is complied with” (Tovar, 1997: 44).

Regarding health care, Tovar argues that Cuba has reached a truly democratic standard: “Cuba provides a powerful health care system working on behalf of all the people, who have free access to medical check-ups and examinations,” amongst myriad other medical services (Tovar, 1997: 58). Importantly, Tovar argues that it is the characterization of health care as a democratic right and public good that has allowed this small island, with its relative lack of economic resources, to obtain such exemplary health outcomes:

The effectiveness and quality of the Cuban medical system lies in the fact that public health care is no longer a market commodity. In Cuba, doctors are not businesspeople, and in order to fully understand these achievements, one has to grasp the material and spiritual changes in a society where doctors, divested of mercantilism, identify with a community all the more generous for being free of the petty selfishness that corrodes societies divided into antagonistic social classes. When their basic needs are covered, people regain their humanity (Tovar, 1997: 58-9).

Regarding democracy in Cuba, vis-à-vis elections, Tovar holds a rather favorable view, arguing that democracy does not necessitate multiple parties. Rather, Tovar argues that political parties can often do more harm than good, in terms of representing the general will of the people, and that Cuba serves as an alternative to such party-induced fracturing: “Cuba has demonstrated that it is not necessary to fragment the country to hold truly democratic elections in the interest of the nation” (Tovar, 1997: 146). Tovar emphasizes the fact that candidates to the National Assembly of People’s Power are not nominated by the Communist Party; hence, it is “possible for any citizen, worker, student, farmer, employee, soldier or housewife to be nominated without being a member of the Party” (Tovar, 1997: 147).

Other analysts are not so sanguine about the record of, or prospects for, democracy in Cuba. Abrahams and Lopez-Levy argue that while Cuba's political system approaches democracy at the municipal level, democracy is constrained at the national level: "Today, unlike nominations to the municipal assemblies, where two or more candidates must stand for each position, in elections for the National Assembly there is only one candidate for each position" (2011: 110-111). Moreover, contrary to Tovar, who argues that the Party does not interlope in the electoral process, Lopez-Levy and Abrahams argue that the Communist Party, effectively, if not formally, intervenes to a significant degree in the electoral process:

The list of candidates for National Assembly elections is made by a commission of organizations controlled by the party and the trade unions. Defenders of the system say the party does not intervene but this is very hard to believe. In fact, the party gives clear directions about how they should run the show. Therefore, one of the most important reforms being proposed is that more than one candidate must run for each seat in the National Assembly. Candidates should compete against each other and explain their positions to the people. This is presented by some as appealing to the complexity of society in Cuba (Abrahams and Lopez-Levy, 2011: 111).

Hence, while recognizing that "Multiparty elections are indeed essential to a modern democracy" (Abrahams and Lopez Levy, 2011: 103) Abrahams and Lopez-Levy also argue that intraparty political competition is more likely, but that the Cuban electoral system is currently lacking in this category. Abrahams and Lopez-Levy argue that, in the short term, in terms of impelling political reforms, intraparty competition will be more significant than pressure from outside the party, since "dissidents in Cuba actually constitute a fairly small, dispersed, and divided segment of the population" (Abrahams and Lopez-Levy, 2011: 98). Moreover, these authors argue that any political changes that eventuate in Cuba will mirror the gradual nature of economic reforms on the island (Abrahams and Lopez-Levy, 2011: 103). It is important to note that Abrahams and Lopez-Levy argue that intraparty reforms will only be sufficient in the short-term; in the long-term, these authors argue, multiple parties will emerge in Cuba, though not necessarily

engendering the disappearance of the Communist Party from the political scene (Abrahams and Lopez-Levy, 2011: 103).

Regarding the potential for multiparty democracy in Cuba, Abrahams and Lopez-Levy argue that there are four main impediments to reforms (2011: 104-5). First, historically, Cuba did not have a favorable experience with democracy between 1902 and 1952. Regarding Cuba's fraught experience with democracy, Marc Frank gives a basic overview of what the island endured during its approximately fifty years of "democracy": a 1901 electoral law that extended suffrage only to a few hundred thousand literate, land-holding, or war veteran males; the Platt Amendment of 1901, which, although not a facet of Cuban democracy, was a concomitant of its introduction, and thus may have negatively affected Cubans' perception of democracy, since Cuban policy was often directed, in all actuality, by US interests; electoral fraud and graft, accompanied by the United States' reoccupation of the island from 1906-9; Cuban governments that focused on Havana, neglecting the countryside, relinquishing its control to large landholders (often from the United States); the brutal and vindictive rule of General Gerardo Machado, who, after his election in 1925, proceeded to orchestrate death squads to suppress his political rivals, often implementing such drastic measures as castration, while the United States feigned ignorance; the twenty-four-hour presidency of Carlos Manuel de Cespedes in 1933, followed by the Grau San Martin presidency, which only lasted until January of 1934, at which time he was replaced by Carlos Hevia, who was then pushed out of office after only a few days; and the seizure of the presidency in 1952 by Fulgencio Batista, who faced near-certain defeat in his licit bid for the presidency (Frank, 2013: 10-12).

Second, Abrahams and Lopez-Levy explain that, because sovereignty is a prerequisite for true democracy on the island, Cuba's potential for true democracy is constrained by the United

States' attempts to impinge on Cuba's sovereignty, both politically and economically. Third, high levels of political indoctrination against multiparty democracy act as an impediment to multiparty democracy. Lastly, nationalism plays a significant role in Cuban political culture, and many Cubans prefer a political system that paternalistically manages differences between Cubans, so as to avoid divisions that may vitiate nationalist fervor (Abrahams and Lopez-Levy, 2011: 104-5).

As to Cuba's political future, vis-à-vis democracy, Perez-Stable (2007) analyzes the likelihood of three different scenarios: party consolidation, democracy, or a hybrid regime. She predicts that party consolidation, similar to what has occurred in China and Venezuela, is unlikely to occur in Cuba, since "the Cuban Communist Party has been so dependent on [Fidel Castro] for direction and so incapable of taming him...that its fate as a governing party without him is in question" (Perez-Stable, 2007: 41). However, she does recognize that party consolidation may eventuate if elites are able to reach a consensus on economic reforms, and if those reforms can achieve positive effects quickly enough to gain legitimacy in the eyes of the Cuban populace (Perez-Stable, 2007: 41). Importantly, the Communist Party in Cuba will gain legitimacy in such a scenario by claiming that market reforms are a necessary step for the improvement of living standards, similar to the strategy that has been implemented by the Communist Party in China (Perez-Stable, 2007: 41).

Regarding the likelihood of full-fledged democracy in Cuba, Perez-Stable sees such a prospect as being unlikely. However, the author does recognize that if Castro's successors are unable to "stabilize a new order," then they may be forced to engage in a democratic opening, out of self-interest, to avoid external intervention (Perez-Stable, 2007: 42). In such a scenario, the National Assembly would emerge as a less impotent, and more legitimate, national

legislature. However, in such a situation in which elites adopt a democratic inclination, Perez-Stable argues that it will still be incredibly difficult to foster democracy at the civic level, since a long history of political culture in Cuba has engendered patrimonialism and clientelism on the island, as well as a passive/docile demeanor amongst Cuban citizens (Perez-Stable, 2007: 44).

Because of the above difficulties regarding the consolidation of democracy on the island, Perez-Stable sees the likelihood of a hybrid regime as having the most potential in Cuba: “As Cuba moves away from authoritarianism, it would more likely emerge as a hybrid regime than one more or less clearly tracked toward full democratization” (Perez-Stable, 2007: 20).

Importantly, Perez-Stable argues that support for sovereignty and social justice amongst the Cuban elites may engender successful populist movements, and that as a result, “Building checks and balances to consolidate democracy would then be an uphill battle, and hybridity may settle over Cuban politics” (Perez-Stable, 2007: 44).

The Cuban Economy

Many scholars and commentators have provided analyses on the state of the Cuban economy, since Cuba’s economy has been in a state of significant flux for the last ten years. For instance, writing as far back as 2004, Dominguez stated, “Today the dynamic sectors in Cuba’s economy operate increasingly on market principles, even if the state enterprise sector still employs the largest number of people” (Dominguez et al., (ed.) 2004: 1).

Perhaps one of the reasons so much attention has been paid to the Cuban economy is its sheer resilience since the Special Period began after the fall of the Soviet Union. Perez Villanueva notes that, despite experiencing a recession in which gross domestic product (GDP) fell by 35% between 1989 and 1993, Cuba was able to rebound by 1994. The island did so through “a series of economy policy measures aimed at reactivating economic growth...[such as]

the reforming of state enterprises, the opening of the economy externally and decentralizing functions” (Dominguez et al., 2004: 49).

Addressing the issue of what Cuba’s comparative advantage is, or could be, multiple analysts argue that Cuba must take advantage of the investment that it has made in human capital for the past several decades (Dominguez et al., 2004: 1). In other words, Cuba, rather than relying on tourism and raw materials, must substitute knowledge-intensive, service sector exports, and should “harvest a half century of investment in human capital to emphasize high value-added economic activities in an open economy” (Dominguez et al., 2004: 1).

As to what models Cuba may be able to implement as it develops, Dominguez, among other analysts, argues that the island would do well to learn lessons from China and Vietnam, as these two countries were able to marketize their economies while still maintaining a strategic role for the state during their development (Dominguez et al., (ed.) 2012: 7). Particularly appealing to Cuban officials should be the fact that both China and Vietnam “maintain a ‘socialist’ regime, a single party, and a mixed economy, which began from a relatively low level of development. Each has achieved favorable results after transforming its economic system” (Dominguez et al., 2004: 198). Hence, since Cuban officials have stressed the need to transform, rather than abandon, socialism, while gradually opening the Cuban economy, the Chinese and Vietnamese models would seem rather felicitous for the island’s development.

As to what lessons Cuba can glean from China’s transition experience, William Ratliff (2004) argues the following. First, Fidel Castro, drawing from Deng Xiaoping’s tactic, should peacefully transfer power to a successor, particularly Raul Castro. Such a tactic would allow for the establishment of a precedent, vis-à-vis peaceful power transfers, for future regimes in Cuba. Such a power transfer has transpired since Ratliff first made this argument; moreover, the

establishment of a precedent of peaceful transition seems to have successfully occurred, as Raul Castro recently stated that he will abide by his term limit and leave office in 2018 (CNN, 02-26-13).

Second, Ratliff argues that even if Fidel does not fully relinquish control, he should allow for the consolidation of (relatively) pro-market sentiment amongst the Cuban military and the Communist Party. If such a tactic is followed, then, similar to the Chinese experience, market reforms can be introduced with socialist modifications. Hence, market reforms can be spun in a “realist” manner, and Ratliff believes that “if the [Cuban] people believe...that their lives will on balance improve as a result, the vast majority may well be disposed to giving the new leadership a chance” (2004: 25). Thus, Ratliff is arguing that pragmatic market reforms, if properly sold to the Cuban people, can be a means through which the next generation of Cuban leaders can acquire legitimacy in the eyes of the populace. This second lesson seems to have been learned by the Cuban government, and is already being implemented, as market reforms are well underway.

Lastly, Ratliff argues that Cuba can implement China’s lesson regarding reconciling with ex-pats, so as to attract investment from them. Ratliff does note, however, that such investments will not be as important for Cuba as they were for China, and that the difficulties of obtaining such investment may be more difficult than was the case for China (Ratliff, 2004: 36).

Importantly, Ratliff notes that many officials in the Cuban government, most prominently Fidel Castro, have been opposed to “learning” from China. Indeed, such opposition dates back to the early days of the Cuban Revolution, as Fidel Castro chose to build a narrow, rather than a broad, political base, the latter being the path which was implemented by the United Front in China (Ratliff, 2004: 12). Then, during the 1990s, Fidel Castro continued to voice his opposition to Chinese policies, this time regarding China’s market reforms. Particularly, Fidel (and other

Cuban communists) was opposed to the dismantling of China's social security system as state-owned enterprises were rationalized (Ratliff, 2004: 13). Fidel saw such rationalization as “a blatant sacrifice of equality to efficiency” (Ratliff, 2004: 15). It is important to note that Raul Castro has a track record of finding more appeal in China's political and economic strategies. For instance, Ratliff notes that,

When Raul Castro went to China [in 1997] he spent long hours talking to Zhu [Rongji] (the key architect of many of China's economic reforms) and his principal adviser, something that was not reflected in the Cuban media. Raul Castro invited this key adviser to visit Cuba, where he lectured hundreds of Cuban executives and leaders, causing a tremendous impact. Among the points that most interested the Cuban audience were ideas on economic reforms and the critically important involvement of the overseas Chinese community (2004: 13-4).

Because Fidel Castro's opposition has historically stood as an impediment to Cuba's adoption of Chinese style market reforms, and because Raul Castro seems much more willing (maybe even eager) to adopt aspects of Chinese reforms, it would seem that the next five years, during which Raul will hold the presidency, will give an indication as to what path the island will take in the near future.

Some analysts are more skeptical regarding the China Model. Barry Naughton (2010), for instance, argues that phrases such as the “China Model” and the “Beijing Consensus” are vacuous, and upon dissection lose their meaning. For instance, Naughton, similar to Kennedy (2010) argues that there is far from a “consensus” regarding China's model of development, and that the very phrase “Beijing Consensus” is an oxymoron (Naughton, 2010). Moreover, Naughton argues,

In order to achieve the level of a paradoxical truth – as opposed to a simple logical contradiction – its proponents [of the Beijing Consensus] would need to demonstrate (a) why the distinctive approaches of Chinese policy-makers were the key to China's remarkable rapid growth; and (b) why those distinctive approaches are also applicable to other, dramatically different, contexts. So far, nobody has come anywhere close to demonstrating either one of those propositions (2010: 437).

In addition, Naughton argues that there were three unique conditions in China that must be taken into account when attempting to draw comparisons with other countries' economies.

First, China's size meant that it had a very large internal market that could attract foreign investment (Naughton, 2010: 438-9). Second, although China was pursuing a capital-intensive socialist development strategy, "it had already been investing in human resources, and its relatively healthy and well-trained labor force *increased* its comparative advantage in labor-intensive activities... When China finally shifted to a labor-intensive development strategy, the results were explosive" (Naughton, 2010: 439). Third, Naughton notes that while China was transitioning, it "rebuilt a hierarchical authoritarian political system which it actively deployed in the new market economy" (Naughton, 2010: 439). It should be noted that while the first condition in China could be an impediment to Cuba's adoption of the "China Model," the second and third conditions are very similar to current Cuban conditions, insofar as Cuba has a great wealth of human capital and has a very strong, hierarchically oriented, authoritarian political structure.

Despite the three conditions listed above, Naughton still argues that other countries can learn a few lessons from the Chinese experience. First, China has taught us that public ownership may be preferable to regulation of a private sector, particularly for countries that have little experience regulating a private sector (Naughton, 2010: 442-3). Second, Naughton argues that competition, rather than public vs. private ownership, is what matters for developing economies. He notes that China's size afforded it an advantage in this respect, as "China's regional markets are generally open to product competition from numerous other locales" (Naughton, 2010: 445). Naughton argues that a third lesson that can be gleaned from China's experience is that public ownership can be exploited to generate revenues for investment and public goods' creation (Naughton, 2010: 446).

Fourth, Naughton argues that China has taught us that investment-led growth is essential. He argues that the area of China's development strategy that has diverged most from conventional economic wisdom is its investment tactics, insofar as China often invested (and continues to invest) far ahead of demand. China has encouraged high levels of investment by allowing state-owned enterprises (SOEs) to retain after-tax profits (100% of after-tax profits until 2007 and 95% since 2008). By allowing SOEs to retain after-tax profits, and discouraging non-investment uses of profits (using profits for oversized bonuses or managerial compensation can get state firms in trouble), China has ensured that its SOEs maintain a high level of investment, thus avoiding bottlenecks as the Chinese economy grows (as is a problem in India, which has not historically invested ahead of demand) (Naughton, 2010: 448-9). Cuba is now in the process of implementing a similar system, under which many SOEs will be allowed to retain fifty percent of profits for investment and increased wages (Rodriguez, 07/09/13).

Naughton's fifth lesson from China is that the dividing line between public and private benefits need not be so distinguished, and that the state can actively champion private entities (Naughton, 2010: 451). Lastly, Naughton argues that many developing states can learn from the Chinese experiencing of tying compensation of public enterprise managers to asset-value growth (Naughton, 2010: 453).

Analysts also argue that there is much Cuba can implement from the Chinese model, vis-à-vis how to attract foreign direct investment (FDI). For instance, Perez Villanueva notes that prior to 1979 when Deng Xiaoping decided to open the Chinese economy, there was virtually no FDI to speak of in China (Dominguez et al., 2012: 198). However, after implementing an FDI-attraction strategy that includes allowances for equity joint ventures, cooperative businesses, wholly foreign-owned companies, and joint exploration contracts, among other forms of FDI,

China, in 2008, received the most FDI of any developing country (\$108 billion) (Dominguez et al., 2012: 195, 198). Hence, China has been able to enjoy the benefits of such large amounts of FDI, which include “technology transfer, economic and job growth, and acceleration of both economic development and integration into world markets” (Dominguez et al., 2012: 193), all of which Cuba is currently pursuing.

It should be noted that Cuba has, since the early 1990s, maintained policies to attract FDI (this will be addressed below). However, Cuba should, in an expanded effort to further attract FDI, take some lessons from China. Cuban officials should note two key facets of China’s Joint Venture Law (the legislation that allowed for FDI into China – see Dominguez et al., 2012: 198). First, policies for attraction of FDI were adopted in a gradual, experimental fashion, both in terms of kinds of investment allowed, and in terms of geographic regions that allowed for FDI (Dominguez et al., 2012: 198; Naughton 2007). Second, China adopted policies to attract FDI in a purely pragmatic fashion, regardless of “whether or not these policies were consistent with Communist ideology” (Dominguez et al., 2012: 206). Hence, an important question in Cuba will be how such policies can be made to comport with Cuban socialism, particularly since, “as a historical fact, in the socialist economies that have existed up until now, foreign investments were long identified as bearers of bourgeois penetration during the imperialist phase of the capitalist system. For years this was the reigning view of the presence of foreign capital within such economies” (Dominguez et al., 2012: 193). This should not act as too much of an impediment in Cuba, as the island has already created a significant foreign-invested sector, particularly in tourism. However, the major question is whether Cuba can open the rest of its domestic economy to FDI, and whether it can do so in a manner that does not infringe to too large of an extent on the ideals of Cuban socialism.

As to the role that FDI has historically played in Cuba, Perez Villanueva notes that “In the early 1990s, Cuba faced a serious economic crisis that gave rise to a reform period characterized as a process of adjustment, management of the crisis, and opening to the international economy,” and that “the most important aspects of the economic opening to the outside world were the promotion and acceptance of foreign capital investment, the restructuring of foreign trade, and the accelerated development of international tourism” (in Dominguez et al., 2012: 213-4). To attract FDI during that time, Cuba enacted Law 77 of 1995 and Resolution 5290, the goals of which were to complement domestic efforts to develop, technologically and economically, in strategic sectors; find new export markets, technologies, and financing; substitute imports, stimulate exports, and stimulate domestic production (Villanueva in Dominguez et al., 2012: 214).

The incentives that Cuba introduced in 1995 to attract FDI remain in effect, and have been supplemented. Such incentives include: tax-free repatriation of dividends; taxes capped at 30% on profits and 25% on payroll; and other incentives that depend on the individual investor and the sector in which an investment occurs (Villanueva in Dominguez et al., 2012: 215).

Perez Villanueva stresses that the amount of FDI that Cuba has been able to attract has been limited by the US embargo on the island nation: “As a result of the U.S. embargo, Cuba is subject to the impediments posed by a foreign law that restricts its access to FDI resources. Consequently, Cuba is rated a ‘risk country’” (Villanueva in Dominguez et al., 2012: 218). Moreover, this author notes that the incentives Cuba offers foreign capital could be expanded if the U.S. embargo were loosened, but that because of the embargo, “many foreign businesses have left Cuba after merging with companies based in the United States” (Villanueva in Dominguez et al., 2012: 215).

Despite the embargo, Cuba's foreign investment laws have allowed foreign capital to play an important, and successful, role in the Cuban economy in the last two decades. As Perez Villanueva explains, joint ventures, while declining in number over the last decade, have continued to increase in efficiency and productivity, increasing their total sales of goods and services. As of 2008, such ventures reached nearly \$5.3 billion in total sales, their exports reached \$1.9 billion, and direct income to Cuba from such ventures totaled \$1.07 billion. Hence, this author states, "In almost all the productive areas in which Cuba has shown its best production or export results, foreign capital is present in one form or another. This should point toward the potential for further developing such businesses" (Villanueva in Dominguez et al., 2012: 218-9). Some of the sectors in which Cuba has actively attracted FDI include tourism, mining and petroleum, geological surveys, infrastructure, agriculture, packaging, and renewable energy (Villanueva in Dominguez et al., 2012: 219-220).

Notwithstanding the benefits that have accrued to Cuba as a result of FDI, Perez Villanueva argues more that more substantial levels of FDI will not occur without an active effort on the part of the Cuban government to 1) increase domestic investment, and 2) stimulate domestic economic growth. In other words, FDI growth must be achieved as a result of, and as a part of a more general, strategy of economic reform (Villanueva in Dominguez et al., 2012: 224).

Dollarization and the Cuban Economy

Analyses of the Cuban economy often include analyses of Cuba's social policy, as, historically, Cuban authorities have attempted to ensure that economic reforms are reconcilable with the island's goals of equality.

Prieto argues that the story of the Cuban economy is one of Cuba's attempts to meet crises with economic reforms, and that these reforms often have a deleterious effect, vis-à-vis the

island's desired social goals (Dominguez et al., 2004: 209-243). Particularly, she argues that Cuba's response to the collapse of the Soviet Union "produced social vulnerability and poverty" (in Dominguez et al., 2004: 217). Prieto explains that one of the most, if not the most, impressive achievement of the Cuban Revolution was the reduction in inequality that was achieved in a relatively short period of time: in 1953, the top 10 percent of Cubans received 38 percent of total income, while the bottom 20 percent received 2.1 percent; by 1978, the top 20 percent of Cubans received 27 percent of total income, while the bottom 20 percent received 11 percent (Prieto in Dominguez et al., 2004: 218). This reduction in poverty was achieved through the state's takeover of the economy: in 1953, government workers composed 8.8 percent of the total workforce; this figure rose to 86 percent in 1970 (Prieto in Dominguez et al., 2004: 218). One of the most tangible manifestations of Cuba's dedication to income equality came with the 1983 General Salary Reform, under which the Cuban government established 13 different pay scale groups, which could not exhibit a difference in salary ratio greater than 4.5 to 1 (Prieto in Dominguez et al., 2004: 219). As a corollary of Cuba's revolutionary social policy, the island's Gini coefficient in 1984 stood at .24 (Prieto in Dominguez et al., 2004: 219).

In contrast, by 2002, Cuba's Gini coefficient had reached .38, largely as a result of Special Period policies, argues Prieto (in Dominguez et al., 2004: 221). Moreover, the proportion of the Cuban population "at risk" (very poor) increased from 6.3 percent in 1985 to 14.7 percent in 1995 (in Dominguez et al., 2004: 223).

Many analysts point to the dollarization of the Cuban economy as one of the largest contributors to Cuba's burgeoning inequality during the Special Period. Essentially, one's wealth on the island is, in large part, determined by one's access to foreign exchange: "In contemporary Cuban society the main source of inequality is determined by those having a source of income in

foreign exchange. That reflects the appreciated exchange rate (\$1US: \$26Cuban) in effect along with the fact that meeting some essential household needs requires foreign exchange” (Prieto in Dominguez et al., 2004: 223). Togores and Garcia concur with this argument when they state,

Access or the lack of access to hard currency guarantees or limits consumption of a certain number of products. Moreover...some of these products available only in U.S. dollars are essential goods, which are no longer available in sufficient supply through the rationed market. As a result, these measures have created differences across social strata which were previously nonexistent (in Dominguez et al., 2004: 286).

Interestingly, there is some ambivalence amongst analysts about the effects of dollarization on the Cuban economy, since dollarization has had both positive and negative impacts, socioeconomically. For instance, Perez-Lopez argues that dollarization was the most successful achievement of the Cuban economy during the 1990s, as it allowed the island to obtain much-needed hard currency. However, the same author simultaneously recognizes the deleterious effects dollarization has had on the Cuban economy, vis-à-vis inequality, as those with access to US dollars have flourished, while others have struggled (Perez-Lopez in Perez-Stable, 2007: 178). Togores and Garcia also recognize the complicated effects of dollarization. As stated above, these two authors recognize the effects of dollarization, vis-à-vis increased inequality on the island, but they also recognize the positive effects that dollarization has had on the Cuban economy:

The opening of the domestic market in U.S. dollars has had multiple positive effects. Net income guaranteed by US dollar sales is basically allocated to finance the very consumption of households that rationed goods target.⁸ Thus, this source of stable financing has enabled the restitution of supply for some goods and improvement in their distribution. This market has also served as platform for reviving Cuba’s manufacturing sector via import substitution and prevented the subsequent job loss in the manufacturing sector. Access to this market makes it possible to improve the quality of the consumer goods basket and exposure with the most modern trends in these categories. The existence of this market and the incentives in U.S. dollars introduced through stimulus packages in some prioritized activities has triggered improved job performance and greater productivity (in Dominguez et al., 2004: 288).

⁸ This is because dollar must be spent in state-sanctioned dollar stores. Sales in these stores are then diverted to funding rationing shortfalls for those without access to dollars.

As to sources of foreign exchange, Prieto notes that the sources, in order of importance, for obtaining foreign exchange, are “remittances, employment in work with special advantages such as tourist-connected dining and sales in the black market” (in Dominguez et al., 2004: 224).

Post-Fidel Predictions and Analyses

Multiple authors have attempted predictions at Post-Fidel Cuba, while others have simply offered analyses of what are likely to be the most salient impediments facing future regimes. In the vein of the latter, Edward Gonzales and Kevin F. McCarthy, in *Cuba After Castro: Legacies, Challenges, and Impediments* (2004), analyze the structural and institutional distortions that emerged in Cuba as a result of Soviet aid and central planning. Moreover, they analyze how these distortions will pose problems for future, post-Fidel regimes. Gonzales and McCarthy argue that the Cuban government has a history of subordinating economic pragmatism to socialist ideology and power politics: “the regime remains unwilling to allow economic objectives to interfere with its ideological predispositions and power imperatives” (Gonzales and McCarthy, 2004: 107).⁹ It is important to note that the authors were basing this conclusion on the recent reversal of Special Period liberalizations that had been promulgated during the 1990s (Gonzales and McCarthy, 2004). Hence, they may have arrived at a different conclusion had they been writing as of 2013, given the significant liberalization that the Cuban economy has experienced. However, they may also argue that current reforms are temporary expedients, and that such reforms will be rolled back as soon as is economically possible.

As to specific institutional and structural distortions that will pose problems for future regimes in Cuba, Gonzales and McCarthy identify a few main problems that must be addressed: low productivity in the labor force; an undersized private sector; corruption; absence of the rule

⁹ It should be noted that, temporary or not, economic liberalization measures are proof that the Cuban government has not *always* placed socialist ideology above economic pragmatism.

of law; the need to make the island's economy more competitive in world markets; and a rapidly aging population (and shrinking work force) (Gonzales and McCarthy, 2004: 109-113). First, because of the Cuban government's policy of promoting full-employment, even at the expense of underemployment, and the practice of basing work compensation on a national pay schedule, low productivity has been a chronic problem on the island, due to lack of incentives for labor (Gonzales and McCarthy, 2004: 110-111). Hence, the island faces the paradox of high education but low productivity amongst its work force (Gonzales and McCarthy, 2004: 111). These authors argue that this is one of the most salient issues regarding reform on the island, since increasing worker productivity (particularly to compensate for the shrinking work force) will require the introduction of more significant compensation incentives, which will inevitably increase income inequality (Gonzales and McCarthy, 2004: 110).

Second, the island faces the problem of an undersized private sector. The authors argue that the first structural problem (low productivity) can actually be addressed by taking steps to expand the private sector, since higher pay could be introduced in the private sector, thus providing the incentives needed to spur productivity (Gonzales and McCarthy, 2004: 111-112). The authors explain, however, that the Cuban government, despite introducing measures to legalize self-employment, has simultaneously done everything possible to discourage any significant growth in the private sector (Gonzales and McCarthy, 2004: 112). This seems to be changing currently, as the Cuban government has progressively taken steps to allow self-employment. However, the authors, writing in 2004, would still be correct if writing today that, "the Cuban government has actively discouraged the development of a wholesale market" (Gonzales and McCarthy, 2004: 112). Indeed, the introduction of an actual wholesale market is one of the most pressing needs currently facing Cuban entrepreneurs.

Third, regarding corruption, Gonzales and McCarthy argue that the combination of Cuba's centrally planned economy, along with Special Period policies, has engendered the growth of a significant black market (Gonzales and McCarthy, 2004: 112-113). Transactions in the black market have become necessary for both Cuban citizens and government employees. Hence the authors come to the fourth shortcoming in Cuba: the absence of the rule of law. As illegal dealings have become more and more necessary, and thus more common, in the last two decades, the development of institutions to ensure the rule of law has become increasingly difficult and unlikely (Gonzales and McCarthy, 2004: 113).

Fifth, future regimes in Cuba will have to address the task of making the island's economy more competitive in world markets (Gonzales and McCarthy, 2004: 113). Gonzales and McCarthy argue that Fidel Castro's decision to tie the fortunes of the Cuban economy to those of the Soviet Union, through favorable terms of trade for Cuban sugar, led to overdependence on sugar production on the island. Moreover, the Cuban industrial sector became far too dependent on imports of inferior Soviet industrial inputs (Gonzales and McCarthy, 2004: 113). Importantly, although beginning in the 1990s the Cuban government sought to diversify its sources of hard currency through exports in the tourist, nickel, and tobacco industries, it has refused to rationalize its sugar industry. In other words, although the Cuban government has shuttered sugar mills, it has refused to lay off the workers that were employed in those mills – hence, the creative destruction that is needed in the island's economy has been avoided/postponed (Gonzales and McCarthy, 2004: 113-4). It should be kept in mind, however, that these authors were writing in 2004. Since then, the Cuban government has introduced significant steps toward rationalization, including the laying off of at least 500,000 state employees in inefficient enterprises (Azel, 2010). Justifying these layoffs, Cuban authorities

stated, "Our state cannot and should not continue supporting... state entities with inflated payrolls, losses that damage the economy, are counterproductive, generate bad habits, and deform the workers' conduct" (Azel, 2010: 109).

Finally, Cuba faces the structural problem of a rapidly aging population, along with the decrease in the size of its workforce (Azel, 2010: 109-110). Gonzales and McCarthy estimate that the graying of Cuba's population will cause a fifty percent increase in pension expenditures in the near future (Azel, 2010: 109). Because the pension system in Cuba has been such an integral facet of the Revolution, it will be politically difficult (to say the least) to introduce necessary reforms, such as raising the retirement age, reducing pension amounts, or forcing future retirees to pay into the pension system (Azel, 2010: 109). Moreover, decreasing other social expenditures will be difficult because, in the simplest of terms, Cuba does not have adequate resources in the first place. For instance, if expenditures were to be taken away from education spending and diverted to pension spending, the necessary increase in pension spending would undoubtedly exceed resources available in the educational realm (Azel, 2010: 110). Moreover, because Cuba has a shrinking workforce, it will need to rely on highly productive, efficient workers, rather than a large amount of workers. Hence, the island cannot and should not divert resources from educational spending to help fund pensions (Azel, 2010: 110).

Brian Latell (2005) offers a rather skeptical prediction regarding Cuba's post-Fidel future. Latell argues that the most likely post-Fidel regime will be a "praetorian regime," dominated by Raul and his generals (Latell, 2005: 241). He contends that the military, owing to its substantial personnel and economic resources, is the "most powerful, competent, and influential institution in Cuba. It is also the richest" (Latell, 2005: 242). Because of the military's control of tourist – and other – enterprises, this institution has access to hard currency that other institutions lack.

Hence, Latell asserts, “Civilian elites, individually or in any conceivable alliances, will be unable to challenge the military as long as it remains united” (Latell, 2005: 241).

Latell believes that Raul Castro is the “practical brother,” and as such, will move towards reconciliation with the United States on a number of matters (Latell, 2005: 246). Latell notes that Raul, who was actually viewed by many as being the more doctrinaire brother in the early days of the Revolution, adopted a much more practical stance after the fall of the Soviet Union (Latell, 2005: 247). Importantly, Latell notes that Raul has already shown an alacrity to cooperate with the United States on some issues, particularly the issue of Al Qaeda detainees at Guantanamo: “Raul told reporters that if Al Qaeda detainees were to escape into Cuban territory, he would be sure they were returned to Guantanamo” (Latell, 2005). There are a couple main, ultimate goals that Latell believes Raul is seeking through potential cooperation with the United States. First, Raul is seeking for an end to the embargo that has plagued the Cuban economy, particularly the facets of Helms-Burton that further tightened the embargo (Latell, 2005). Second, Latell argues that Raul has an affinity for the China Model of political and economic management; hence, he believes that Raul is seeking the United States’ acceptance of a China-style political and economic model on the island (Latell, 2005).

As to the difficulties that Raul and the members of his regime will face, Latell argues that once Fidel has passed, the Cuban government will have to deal with a revival of Cuban civil society (Latell, 2005: 248-9). Some of the demands that are being proffered by Cubans include the freedom to travel, and the freedom to own property and businesses (Latell, 2005: 248). Latell argues that the post-Fidel regime’s ability to maintain political stability on the island will depend on how well it is able to address these demands without introducing reforms too rapidly – which would pose risks to the island’s stability (Latell, 2005: 248-9). Interestingly, many of these

demands are already being addressed by Raul's regime, as it has liberalized travel, property, and business policies on the island.

Anna Louise Bardach (2009) concurs with Latell's (2005) assertion that Raul Castro is the more "practical" of the Castro brothers, and that his pragmatism was engendered by the fall of the USSR: "Raul's evolution to Marxist-Leninist to wary pragmatist owed its origins to the collapse of Soviet communism" (Bardach, 2009: 257). However, Bardach cautions against misinterpreting Raul's pragmatism for any kind of wholesale endorsement of unalloyed capitalism. Because the global financial crisis occurred two years into Raul's tenure, Bardach notes that Raul will be rather wary of capitalist reforms on the island, and thus will implement them in a tentative fashion (Bardach, 2009: 257).

Regardless of his qualms with capitalism, Bardach explains that Raul has already implemented significant marketization measures, and that he has evinced a significant skepticism of traditional socialism: in 2007, he issued a two-hundred page decree to the effect that many of Cuba's state-owned enterprises (SOEs) were to be rationalized, and run according to the management style of private sector enterprises. The goal of such measures was to attack inefficiencies in Cuba's SOEs. Importantly, these reforms introduced merit and achievement into calculation of pay. Bardach notes that "Conceptually, at least, it was revolutionary – a system Fidel Castro would once have castigated as counter-revolutionary" (Bardach, 2009: 260). Justifying these reforms, and even going so far as to deprecate socialism when decrying the sad state of the Cuban economy, Raul stated, "We cannot hope that two plus two are five. Two plus two are four," he said, setting up his punch line. "Sometimes, actually, in socialism, two plus two comes out to three" (Bardach, 2009: 260).

Bardach overviews some of the reforms that have already been promulgated under Raul. For instance, recent reforms have liberalized home ownership for the first time since the Revolution (Bardach, 2009: 267). Also, caps on salaries have been removed, so as to provide incentives for increased productivity amongst Cuban workers (Bardach, 2009: 267). Moreover, “individual farmers are now permitted to cultivate up to ninety-nine acres of government land and keep their profits” (Bardach, 2009: 268). Raul has also removed the ban on Cuban citizens’ access to hotels and tourist facilities, long one of the island’s “thorniest issues” (Bardach, 2009: 268). Bardach takes all of these reforms into account when predicting that significant reforms are likely to occur under Raul. However, she cautions that such reforms will have to occur “under the radar” until Fidel leaves the picture (Bardach, 2009: 270).

Bardach agrees with Latell (2005) that the army will continue to play a significant role in the Cuban political economy. She argues that Raul’s regime will be one of institutions, rather than personality (as was the case under Fidel) (Bardach, 2009: 270), and that the army will be the most important institution in the regime: “Of these institutions, Raul’s Army, the FAR, will remain the central organ of the government and the prototype for other businesses. It is now Cuba’s über-company” (Bardach, 2009: 273). Although this literature review will not provide a list, Bardach’s work is interesting and unique insofar as she provides a list of important individuals to watch for during Raul’s regime (Bardach, 2009: 274-8).

While not specifically offering predictions for Cuba, Harlan Abrahams and Arturo Lopez-Levy (2011) offer one of the most recent, and most thorough, analyses of Raul Castro’s regime, and the reforms that have been promulgated during his tenure. Such an analysis gives an idea as to what policies will be pursued in the near future.

One “prediction” that Abrahams and Lopez-Levy proffer is more of an attempt on their part to confute what they call “the single most persistent myth when it comes to Cuba” – the notion that Cuban ex-pats will be able to reclaim their land once Fidel is deceased (2011: 154). The authors argue that this “fantasy” has – through voting power of Cuban ex-pats in Florida – shaped American foreign policy that deleteriously affected not only Cuban elites, but all people on the island (Abrahams and Lopez-Levy, 2011: 154). Abrahams and Lopez-Levy argue that Cuban ex-pats should abandon such hopes. Because the military in Cuba is highly institutionalized, and because opposition forces on the island have no military capability and do not control any of Cuba’s national territory, it is essentially impossible that any significant change regarding land ownership will transpire with the passing of Fidel (Abrahams and Lopez-Levy, 2011: 154-5). Hence, these authors agree with Bardach (2009) and Latell (2005) that the military in Cuba is highly institutionalized.

As to the nature of market reforms, and how they comport with Cuban socialist ideology, Abrahams and Lopez-Levy argue, “the succession from Fidel to Raul completed a regime change from totalitarianism to post-totalitarianism... Since the 1980s significant trends toward social, cultural, and even economic pluralism have emerged.” Furthermore, “communist ideology has weakened within the limits of the single-party system, driving a shift toward more pragmatic decision-making” (Abrahams and Lopez-Levy, 2011: 210). The authors argue that in Cuba’s post-totalitarian system, nationalism has replaced communism as the source of legitimacy amongst many of Cuba’s moderate elites (Abrahams and Lopez-Levy, 2011: 217). Hence, in contemporary Cuba, “legitimacy relies more on performance than on ideology” (Abrahams and Lopez-Levy, 2011: 217). This is important, vis-à-vis the island’s potential model for future development, because basing legitimacy on economic performance, rather than on socialist

ideology, gives Cuban officials more latitude in implementing mixed-market reforms (this is very similar to the shift in legitimacy that has occurred in China in recent decades, where nationalism similarly replaced communism as the defining aspect of politicians' and policies' legitimacy).

Abrahams and Lopez-Levy analyze the potential that Cuba will adopt China-style political and economic reforms. The authors concur with Bardach (2009) that the recent financial collapse has reinforced the legitimacy of those in Cuba who have been most wary of market fundamentalist reforms. Indeed, The authors argue that the crisis has completely refuted the legitimacy of market fundamentalism, not just in Cuba, but everywhere (Abrahams and Lopez-Levy, 2011: 177). However, the authors argue that what has not been completely discredited is the idea of capitalism itself, particularly well-regulated capitalism. Hence, market reforms, per se, have not fallen out of favor on the island. They believe that Chinese-style market reforms hold particular appeal for Cuban officials, since “Adopting the Chinese model would do the least violence to [Cuba’s] present ideology,” and “It would keep the one-party system in power during a protracted period of economic liberalization” (Abrahams and Lopez-Levy, 2011: 179). However, Lopez-Levy believes that there are particular facets of the China Model that will not be sufficiently palatable to Cubans. For instance, Cubans are wary of the dismantling of China’s health care system that occurred during reforms (Abrahams and Lopez-Levy, 2011: 179). Thus, these authors believe that the China Model will be implemented in Cuba, but with significant modifications, so as to comport with Cuban ideology and culture (Abrahams and Lopez-Levy, 2011: 179).

Redefining Socialism for the Long Run

A major issue Cuba will have to address as it moves forward with reforms is what a viable form of socialism should actually look like on the island in the twenty-first century. Ostensibly, it may seem that Cuban socialism cannot exist alongside measures of privatization and marketization, similar to those that the island is recently undergoing. This is because, conventionally, we characterize socialism as being a combination of central planning and state ownership of the means of production, while we characterize capitalism as being a combination of market mechanisms and private ownership of the means of production. However, these are antiquated and misleading definitions. When we implement a more appropriate definition, one that focuses on class structure and the production/appropriation of economic surplus, we arrive at a definition of socialism that Cuban officials could adopt and apply more felicitously to Cuba's particular situation.

Richard Wolff (2012) proffers a definition of socialism that is much more readily applicable to Cuba's current conditions than the tradition definition that emphasizes state ownership and planning. Wolff's definition emphasizes the importance of "workers' self-directed enterprises," or WSDEs. According to this definition, socialism is defined by which social groups produce, appropriate, and distribute, the economic surplus within a society. Simply put, according to this definition, a capitalist system is one in which there is not synonymy between those who produce, and those who appropriate and distribute, the economic surplus within enterprises; a socialist system is one in which such synonymy obtains.

Rafael Hernandez (2010) is less clear about the specific form that a new socialism would take in Cuba, but nonetheless argues that Cubans must adopt a new socialism that is better-suited to the current needs of the island's population, and responds to the population's demands. According to Hernandez, a new socialism could indeed a much larger role for private actors and

the market, which would comport with the Cuban population's desire for the continuation and expansion of reforms that extend greater freedoms to Cuban enterprises and individuals (Abrahams and Lopez-Levy, 2011: 25). However, Cubans have hitherto been unable to formulate a complete economic model to replace the Revolution's form of socialism, which emphasizes the equation of social ownership with state ownership. Regardless of the new form that Cuban socialism adopts, Hernandez argues that a comprehensive reformulation of "socialism" must take place amongst the current generation of Cubans:

In summary, there is not *one* truth about socialism, nor can we take for granted ideas that, with the benefits of half a century of experience, are accepted in the present. Only from a multiplicity of ideas, and especially of questions, of problems, can the younger generations build that new society. Their ability to do so, of course, does not come from a linear logic associated with their youth and the possibility of living 50 years, but from the political will to contemplate socialism and to pursue it on new terms, different from those of their fathers and grandfathers. This changeover does not consist of passing the baton, so to speak, but of a change in batons, of roles for all the runners, and of running styles (Hernandez, 2010: 29).

To understand current conditions in Cuba, it is necessary to understand how and why the island arrived at its current state. For such an understanding, we must briefly overview the periods of reform and retrenchment since 1959, which is the topic of our next chapter.

Chapter Two: Overview of Periods of Reform in Cuba: 1959-2007

Introduction

Since 1959, Cuba has undergone alternating periods of pragmatist (market-oriented) reforms, followed by periods of retrenchment of those reforms (idealist cycles).¹⁰ Market-oriented reforms have been driven by economic exigencies on the island, as Cuban authorities attempt to remedy material shortcomings by implementing policies that move towards marketization and privatization. Once these reforms achieve their purpose, vis-à-vis ameliorating economic conditions on the island, Cuban authorities halt or scale back these reforms, usually in an attempt to steer the island's policies back into line with traditional Cuban socialism, and to curb the economic power that was garnered by nascent capitalists during periods of liberalization. Such was the pattern until the dissolution of the Soviet Union, at which point Cuba lost its largest trading partner and political ally. Since then, while Cuban authorities have at times chosen to *halt* liberalization measures, they have not had the option to *scale back* such policies in earnest, because international economic conditions have changed. Cuban authorities, due to the uncertainty that surrounds Venezuela's socialist status, and its ability to provide favorable terms of trade to Cuba, have been forced to conduct economic policy in a manner that comports with pragmatist (market-oriented), rather than idealist (anti-market), cycles on the island. Hence, the island entered a holding pattern during the 2000s, in which few reforms or retrenchments occurred on the island, until the late 2000s, when international conditions compelled Cuban authorities to introduce significant measures of liberalization. This chapter provides an overview

¹⁰ Drawn from Carmelo Mesa-Lago's framework of pragmatist and idealist economic cycles in Cuba (see Mesa-Lago and Perez-Lopez, 2013, for instance).

of economic periods/cycles from 1959 until the late 2000s, while recent reforms on the island are analyzed in a separate chapter.¹¹

1959-1971

Font emphasizes that a very unique form of socialism emerged on the island after the Revolution of 1959. After affirming its embrace of socialism between 1961-1963, Cuba assessed available models of socialism that could be implemented, and eventually decided upon the ideological/moral approach to communism, favored by China (rather than the pragmatic approach of the USSR) (in Centeno and Font, 1998: 109-10). According to Mesa-Lago, rapid collectivization, along with the declaration of the socialist nature of the Cuban Revolution in 1961, led Cuban authorities to attempt the implementation of a Soviet-style economy, based on rapid industrialization and agricultural diversification (in Ritter, 2004: 30). However, conditions on the island proved infelicitous for Soviet-style industrialization. In a general sense, Cuba experienced difficulties with economic planning because of an exodus of managers, a lack of previous planning experience, and a dearth of economic data (which is imperative when attempting to allocate resources in a planned economy, whereas the price mechanism would allocate resources in a market economy) (in Ritter, 2004: 30). Moreover, Cuba's economy was largely based on sugar production, hence, the above problems related to data and management meant authorities' attempt to diversify Cuban agriculture simply led to a drop in sugar production, along with a deficit in the island's trade balance (in Ritter, 2004: 30).

As a result of the failure in Cuba's attempt at Soviet-style central planning, there was a two-year (1964-66) debate between Guevarists, who advocated "an idealist antimarket approach," and the pro-Soviet pragmatists, who favored "a timid market-oriented reform" (in Ritter, 2004: 31). Particularly, Guevarists advocated "forging a New Man with moral stimulation, voluntary

¹¹ See Chapter, "Recent Reforms."

labor and mobilization, and further collectivization, egalitarianism, and free social services,” while pragmatists, led by Rafael Rodriguez, favored “use of selected market tools with more reliance on material incentives, some decentralization in decision making, and a halt in collectivization, egalitarianism, and free social services” (in Ritter, 2004: 31).

Mesa-Lago notes that Fidel Castro remained silent during the debate, but that by 1965 he was playing a central role in steering the direction of the economy, since Che Guevara had left for South America¹², and Rodriguez had resigned as director of the Institute of Agrarian Reform (in Ritter, 2004: 31). Starting in 1966, at the behest of Fidel Castro, the Cuban economy took a substantial turn towards the Guevarist model, though “in a more idealist manner and distorted with [Fidel Castro’s] own additions” (in Ritter, 2004: 31). Some of Fidel’s “additions” included the following: abrogation of any tangible budget, strengthened centralization, and exaggerated use of moral incentives (in Ritter, 2004: 31). During this period, which lasted from 1966-71, Cuba’s development strategy shifted away from import substitution industrialization (ISI), and towards sugar exports, as illustrated by the 1970 Sugar Plan, which set a production target of 10 million tons (in Ritter, 2004: 32). Moreover, during this period the Cuban economy experienced its “most dramatic shift away from the market under the revolution” (in Ritter, 2004: 32), as illustrated by the 1968 Revolutionary Offensive. Under this initiative, there was a further push towards collectivization/abrogation of free peasant markets and family spots in state farms; the elimination of 58,000 small businesses; penalization of self-employment; the continued ban on

¹² It is believed by many that Fidel sent Che to Bolivia at the behest of the generals in the Cuban military, who had grown increasingly intolerant of Che’s aggressive and opinionated stances on many issues. Che himself believed that he had been abandoned by Fidel, according to General Gary Prado Salmon, the Bolivian soldier who captured Che in Bolivia (Kennard, “Fidel Abandoned Che...”, 2010).

foreign investment; expansion of rationing; and labor mobilizations to reach sugar production targets, among other facets (in Ritter, 2004: 32).¹³

The adoption of this idealist/Guevarist approach to socialism led Cuba to have “one of the most collectivized forms of socialism the world had known,” and an economy that was particularly non-market-based (Font in Centeno and Font, 1998: 110). Such collectivization and central planning engendered exceptionally large economic units, particularly in the sugar and nickel industries, with investments contributing to further collectivization and consolidation of state enterprises as the 1960s progressed (Font in Centeno and Font, 1998: 111). Even in agriculture, which was “the least collectivized sector, land reforms gave state farms 76 percent of all agricultural lands by 1963 – a figure that increased to 83 percent by 1993.” (Font in Centeno and Font, 1998: 111). Small-scale, private operators were allowed to continue producing in the agricultural sector, but were continually pressured to collectivize or join the state sector. Hence, notwithstanding the allowance for small-scale agricultural operations, by 1988 the agricultural sector “claimed only 8 percent of all land against 80 percent for state farms and 12 percent for cooperatives” (Font in Centeno and Font, 1998: 111).

Mesa-Lago notes that this “idealist” cycle is difficult to assess economically because of deficiencies in data, but that available information indicates mostly negative outcomes (in Ritter, 2004: 32). Economic growth in 1970 was either stagnant or negative, as the sugar production target fell short of its 10 million ton target by 15%. Moreover, liquidity ballooned in the economy, resulting in a significant devaluation of the currency, which prompted worker

¹³ A more complete list of initiatives during 1966-70 includes the following: “a further push in collectivization with the elimination of free peasant markets and family plots in state farms, the nationalization of fifty-eight thousand small businesses, and penalization of self-employment (foreign investment continued to be banned; huge labor mobilizations and voluntary work to help in the sugar harvest for ideological reasons; expansion of rationing and virtual elimination of scarcity prices as allocating tools; significant emphasis in egalitarianism, such as reduction in wage differentials, gradual substitution of material incentives by moral stimulation, and further expansion of free social services; and more centralized decision making but with a decline in the central plan, substituted by sectorial plans (sugar, cattle) directly controlled by Castro (the state budget disappeared for a decade)” (Carmelo Mesa-Lago in Ritter (Ed.) 2004: 32).

absenteeism (reaching approximately 25% of the workforce). The economy also experienced an expansion of the trade deficit (in Ritter, 2004: 32). However, income inequality narrowed, and open unemployment dropped substantially (though at the cost of underemployment and decreased productivity) (in Ritter, 2004: 32).

Mesa-Lago, utilizing his idealist/pragmatist cycle framework, actually divides the period 1959-1970 into two periods: 1959-1966, which was largely an idealist cycle, with some pragmatics aspects; and 1966-1970, which he classifies as a “strong idealist cycle” (Mesa-Lago and Perez-Lopez, 2013: 2). The important point to keep in mind regarding the period 1959-1970 is that it was mostly characterized by some of the general facets of idealist cycles: movement away from the market, and towards collectivization and centralization. Moreover, there was a strong emphasis on moral incentives during this period, as Cuban authorities, along Guevarist lines, attempted to forge a “socialist ‘new man’,” that would operate on idealist, rather than pragmatist, imperatives (Mesa-Lago and Perez-Lopez, 2013: 8)

1971-1985 Period of Liberalization

Significant changes, largely impelled by the 1970 sugar harvest debacle, were introduced in the Cuban economy in the 1970s. Fidel Castro predicted that the Cuban sugar harvest would surpass 10 million tons in 1970, and when it fell short of its target by 15% (Mesa-Lago in Ritter, 2004: 32), the entire Cuban economy experienced a substantial disruption, since significant resources had been diverted from other areas of the economy to achieve the 10 million ton harvest (Font in Centeno and Font, 1998: 111). Fidel took responsibility for the shortfall, and liberalization measures were introduced into the economy, thus initiating a new “pragmatist” cycle (Mesa-Lago in Ritter, 2004: 33; Mesa-Lago and Perez-Lopez, 2013).

During this time period (1971-1985), a more pragmatic, market-oriented form of socialism was promoted on the island, similar to the model that had been implemented by the Soviet Union (Font in Centeno and Font, 1998: 112). Mesa-Lago characterizes this shift as a virtual reversal of all previous policies, as the Cuban leadership moved “timidly” towards the market (Mesa-Lago in Ritter, 2004: 33; Mesa-Lago and Perez-Lopez, 2013: 8). The state continued to gradually reduce state farms and expand state-controlled cooperatives during this time, but it also engaged in significant liberalization reforms. For instance, the state reintroduced free peasant markets, allowed family plots in state farms, allowed self-employment, allowed private farmers to hire workers, allowed private home construction and swaps, and allowed foreign investment (though foreign investment was effectively non-existent, due to burdensome restrictions) (Mesa-Lago in Ritter, 2004: 33). Moreover, previously advocated initiatives, such as egalitarianism, voluntary labor, and moral incentives, were scaled back and denigrated as “idealistic errors,” and “wage differentials were defended and material incentives were reinstated and expanded” (Mesa-Lago in Ritter, 2004: 33). While the state reinforced the central planning apparatus, there were also significant decentralization initiatives during this period, such as increased decision-making capabilities at the enterprise level (Mesa-Lago in Ritter, 2004: 33). One of the most salient illustrations of liberalization in this period came with the introduction of farmers’ markets in 1980. Font notes that the introduction of farmers’ markets was a result of the emergence of a “reformist coalition involving agencies in the state system, farmers, and consumers” (Font in Centeno and Font 1998: 112).

As noted above, these reforms were defended by officials through a denigration of previous idealist reforms, defining such idealist measures as “errors” (Mesa-Lago in Ritter, 2004: 33). However, Fidel Castro, who was opposed to 1970s liberalization measures (Mesa-Lago in

Ritter, 2004: 33), framed these reforms as a “retreat into socialism,” presumably, as Font explains, “from the more ‘advanced’ earlier pursuit of communism” (Font in Centeno and Font, 1998: 111-2). It seems that, recognizing the necessity of liberalization measures during the 1970s, Cuban officials found it necessary to frame previous idealist reforms as being ill-suited to current exigencies, while Fidel Castro, who was opposed to such reforms, chose to characterize them as “socialist” reforms, to effect public solidarity, even though they were clearly marketization measures.¹⁴

Regarding outcomes, Mesa-Lago argues that, economically, the reforms of 1971-85 were highly successful, with economic growth reaching its highest rates under the Revolution (Mesa-Lago in Ritter, 2004: 34). During this time, liquidity and inflation were kept under control, the government ran fiscal surpluses from 1978-1985, and the island experienced either static or declining trade deficits (largely as a result of large Soviet subsidies) (Mesa-Lago in Ritter, 2004: 34). However, open unemployment also emerged during this period, and Mesa-Lago notes that inequality “probably rose” (data deficiencies preclude a definitive conclusion) (Mesa-Lago in Ritter, 2004: 34).

There are three main points to take away from this period, which Mesa-Lago notes was the longest continuous reform cycle since 1959. First, it was initiated as a result of the economic failures of the previous idealist cycle. Second, it was mainly composed of policies that moved the island away from collectivization and moral incentives, and towards the market and material incentives. Finally, there was a significant reconceptualization of socialist ideology on Fidel’s

¹⁴ As noted previously (see literature review), marketization measures do not contravene socialist principles, if socialism is conceptualized as an organization of class structure, specifically the organization of who produces, appropriates, and distributes corporations’, and the larger society’s, economic surplus (See Wolff 2012). However, Cuban socialism has traditionally been synonymous with soviet socialism, insofar as it there has been a disparity between those who produce the surplus (laborers) and those who appropriate and distribute the surplus (the state). In this sense, marketization measures, which move away from the state’s monopoly on distribution, necessitates a rationalization on Fidel’s part.

part, as he characterized moral incentives and voluntarism as “idealist errors,” ostensibly to garner public support for new pragmatist policies.

The Period of Rectification: 1986-1990

According to Mesa-Lago, “the significant economic recovery in [the pragmatist cycle of 1971-85] solved the crisis of 1970 and led to a noticeable improvement in living conditions on the island, and yet both domestic and external forces conspired against the continuation and strengthening of market-oriented policies” (in Ritter, 2004: 34). At the domestic level, economic conditions had improved to a level that was sufficient to allow the scaling back of 1971-85 reforms. This is just one illustration of the tendency on the island to scale back reforms once they have achieved their purpose of ameliorating material exigencies. Moreover, Fidel and the “Old Guard” had grown increasingly disconcerted by the following: the emergent economic power of Cuba’s planning technocracy; rising levels of inequality; the abrogation of specific revolutionary institutions, such as voluntary labor; and the emergence of a nascent, wealthy class of “peasants, middlemen in the free peasant markets, self-employed, and housing traders” (in Ritter, 2004: 34). Castro paved the way for the scaling back of liberalization measures by criticizing these groups with accusations of greed and corruption, and by threatening and actually imposing new taxes on them (in Ritter, 2004: 34).

Regarding external pressures, with Gorbachev’s assumption of power in the USSR in 1985, along with the launching of Glasnost and Perestroika, “pressure in the USSR began to mount on Cuba to reduce the trade deficit and better use Soviet economic aid” (in Ritter, 2004: 34). Moreover, Reagan and Bush both continued the Embargo on Cuba, “giving an excuse to the Cuban leadership to tighten control as a defense against imperialism and capitalism” (in Ritter, 2004: 35). Arturo Lopez-Levy argues that Perestroika was particularly poignant for Fidel, as he

felt a need to “reaffirm his communist ideology,” as a reaction against Soviet market reforms (Lopez-Levy and Abrahams, 2011: 85).

The confluence of internal pressure from Fidel Castro and the Old Guard, combined with external pressures from the US and the USSR, led Cuban authorities (read: “Fidel Castro”) to launch a new idealistic cycle, “The Rectification of Errors and Negative Tendencies.” The purported goal of this campaign/cycle was to find a balance between the “idealist errors of 1966-70 and the economic mistakes of 1971-85” (in Ritter, 2004: 35). As a practical and a symbolic measure, the head of the planning agency during the previous liberalization/pragmatist cycle was fired and put on trial, “accused of mechanically copying a model not suitable for Cuba” (in Ritter, 2004: 35). Although these reforms were supposedly meant to achieve “balance,” Mesa-Lago argues that reforms of the Rectification period decidedly resembled the “antimarket” tendencies of 1966-70, though without reaching the extremes of that period (in Ritter, 2004: 35).

In terms of substance, the idealist reforms of the Rectification period included the following (listed in their entirety, from Mesa-Lago):

The process of elimination of private farms was accelerated, free peasant markets and self-employment were abolished and their functions expected to be performed by the state, and private housing construction and swaps were considerably restricted; voluntary labor was reintroduced with the creation of military-style construction brigades and massive use of labor mobilization in agriculture; material incentives were sharply reduced and moral incentives reinstated; the emphasis on egalitarianism and free social services came back (there was a resurrection of the Guevarist ideals); rationing expanded again and the parallel market was eliminated; and decentralization measures were halted and decision making retaken by the political leadership but with a decline in planning and lack of an integrated model of organization to substitute both the central plan and the market. A new development strategy was based on a food program with unrealistic targets that optimistically foresaw that in five years the island would be self-sufficient in food and generate a surplus for export (in Ritter, 2004: 35).

In 1986, farmers’ markets in Cuba were shut down by the state. At the same time, raids on prosperous intermediaries and farmers were conducted (Font in Centeno and Font, 1998: 112). Lopez-Levy notes that the campaign of “rectification” was particularly draconian as it was applied to agriculture, as “the state went after the private farmers markets, emphasizing

voluntarism and support for state farms” (Lopez-Levy and Abrahams, 2011: 85). The termination of farmers’ markets was part of a larger shift to “rectification,” which focused on “rectification of errors and correction of deviant trends, with respect to the presumably correct and coherent socialist strategy or path chosen in the 1960s” (Font in Centeno and Font, 1998: 112). Under the project of rectification, the state sought to eliminate, among other things: gains made by independent producers; illegal use of state resources; tax evasion; and the reluctance of farmers to sell to the state (Font in Centeno and Font, 1998: 112-3). Moreover, there was a renewed emphasis on centralization and moral incentives during the rectification period (Centeno and Font, 1998: 113). It was also during this period that Cuba stopped servicing its foreign debt, thus precluding its access to international credit markets (Mesa-Lago in Ritter, 2004: 34).

Font notes that multiple analysts, who approach Cuban questions from a political economy perspective, have argued that the Rectification process was a rational response to “mounting fiscal problems and the need to control slack resources to address them” (Centeno and Font, 1998: 113). Hence, according to this viewpoint, the scaling back of 1971-85 reforms could be seen as a necessary response to material exigencies – in this case, fiscal shortfalls, combined with anticipation of reduced Soviet aid after Gorbachev assumed power. As a result, the state engaged in a period of substantial centralization to regain control over expenditures and revenue. To justify such Rectification processes, the state invoked egalitarianism, and an effort to combat inequalities that had emerged during the liberalization process (Centeno and Font (ed.) 1998: 113). This political economy explanation contrasts with another school of thought, which stresses the predominance of socialist ideology in driving changes on the island. Drawing a strict dichotomy between these two approaches, particularly in Cuba, may be ill advised, though, since both arguments seem to have explanatory power. A political economy perspective seems to be

applicable to the initiation of policies that are meant to be foster economic “responsibility,” while ideological explanations seem to be more applicable to the promulgation of idealist cycles.

Regarding outcomes, Mesa-Lago argues that the Rectification period was a disaster: “this cycle provoked a recession and virtually all indicators of performance deteriorated” (Ritter, 2004: 35). Economic growth was negative; liquidity expanded, the state experienced fiscal and trade deficits, and open unemployment increased (whereas it had decreased during the last idealist cycle of 1966-70) (Ritter, 2004: 35). Moreover, as a result of Rectification policies, the island in general experienced “material deprivations,” and labor, in particular, was presented with austerity demands between 1985-1990 (Eckstein in Centeno and Font, 1998: 136). To justify such austerity measures, which were necessary to remedy Cuba’s mounting hard-currency debt and domestic budget deficit, Cuban authorities invoked “Guevarist and Marxist principles” (Eckstein in Centeno and Font, 1998: 135-6). Font notes that “resentment of and resistance to new material deprivations and demands on labor at the time might have been greater had the government not defended new austerity policies in the name of fundamental revolutionary objectives” (Eckstein in Centeno and Font, 1998: 136). Hence, the government was able to maintain social and political stability by submitting that fiscal exigencies were aligned with the island’s Marxist ideology. Unfortunately, the austerity measures that were implemented left Cuba’s fiscal problems unresolved, as its external debt and domestic budget deficits continued to increase (Eckstein in Centeno and Font, 1998: 136).

Structural problems in the Cuban economy, largely the result of dependence on Soviet aid, also began to emerge in the late 1980s. Between 1960 and 1990, the island received a total of approximately \$65 billion in rents, in the form of discounted oil and other inputs, in exchange for Cuban sugar, on very favorable terms of trade (Font in Centeno and Font, 1998: 114). Centeno

and Font argue that it was Cuba's ability to obtain such favorable terms of trade, and thus be shielded from market forces during this period, that allowed Cuban authorities to maintain "disdain for the market," and make decisions within the country without concerns of economic efficiency (Font in Centeno and Font, 1998: 115). Such dependence on Soviet subsidies also had a deleterious effect, however. Because Cuba relied on favorable terms of trade (Cuban sugar for discounted Soviet oil being the most salient example), Cuban officials focused allocation of resources towards the sugar sector in the Cuban economy. Believing that the USSR provided a long-term export market for sugar harvests, "sugar continued to account for roughly 80 percent of exports and a third of economic activity (27 percent of arable land and 12 percent of the workforce) while overall diversification and industry received a lower priority" (Font in Centeno and Font, 1998: 116). As a result of Cuba's status as a Soviet subsidiary, it not only became dependent on inputs from other socialist states, but also failed to diversify its economy, as stated above (Font in Centeno and Font, 1998: 116).

In sum, The Rectification Period was impelled by factors both internal and external to Cuba. The economic success of the 1971-85 pragmatist cycle allowed for material exigencies on the island to be mitigated sufficiently to allow for the scaling back of those reforms. Although this may seem counterintuitive, it must be stressed, once again, that reforms on the island have historically only been maintained until they relieve the economic and political strains they were meant to address. Moreover, the nascent power of Cuba's planning technocracy, along with incipient inequality, caused Fidel Castro and the Old Guard to drastically scale back reforms, so as to obviate threats to their political power. At the external level, Gorbachev's assumption of power in the USSR, along with Reagan and Bush's continuation of the Cuban Embargo, provided pressure for scaling back of reforms on the island. These reforms were justified in

Guevarist/Marxist rhetoric, with Cuban authorities explaining that Rectification measures comported with revolutionary ideology. When problems began to mount as a result of Rectification policies, Cuban authorities justified necessary austerity policies as having their roots in Marxist ideology.

The Special Period (1991-1996)^{15,16}

The “Special Period in Time of Peace,” as the period of time associated with 1990s market reforms and austerity measures came to be known, has largely set the stage for Cuba’s current economy, including in terms of its structure and its social implications. In the period leading up to 1990, external and internal developments converged, leaving Cuba with no other option than to “integrate into the world capitalist market”; hence, “a new, pragmatist cycle was launched and labeled the ‘Special Period in Time of Peace,’ a euphemism for an emergency structural adjustment program to save the economy and the regime” (Mesa-Lago in Ritter, 2004: 36).

This period, for academic purposes, formally began on June 23rd, 1990, when the Cuban Communist Party announced, “The solid stability of the country, together with intelligent policies, attract the confidence of foreign investors and open the way for cooperation in the form of joint ventures. This does not clash with our socialist system; rather it means speedier use of potential resources” (Dominguez in Dominguez et. al. (Ed.) 2004: 17). This statement illustrates the shift towards marketization and attraction of foreign capital that was to characterize the Special Period. Moreover, the statement that such reforms do not contravene Cuban socialism illustrates the Cuban government’s insistence during the Special Period that market reforms and

¹⁵ This is an abbreviated description of the Special Period. For a full overview of the Special Period, see the chapter dedicated to the Special Period.

¹⁶ The Special Period is often considered to be ongoing on the island (Perez Villanueva in Dominguez et. al. (ed.) 2012(a): 38). However, the halting of these reforms began in 1996/97, according to Mesa-Lago (in Ritter (Ed.) 2004), so the duration of this period for this thesis’s purposes is 1991-96.

socialism could be reconciled.¹⁷ Hence, the Special Period was to be characterized by a confused, ambivalent stance by the Cuban government regarding the relationship between Cuban socialism and market mechanisms. As is explained in the chapter devoted to the Special Period, even analysts of Cuban economics and politics seemed to be confused as to whether Cuban officials were adhering to socialist rhetoric, or shifting away from such rhetoric, towards more nationalistic justifications of reforms on the island. Special Period reforms, which lacked a cohesive long-run plan and were implemented in an ad-hoc fashion, were decelerated in 1996, according to Mesa-Lago, though many analysts still refer to Cuba as currently experiencing the Special Period (in Ritter, 2004: 36).

Decelerating Special Period Reforms (1996-2001)

According to Mesa-Lago, the pragmatic reforms of the Special Period halted Cuba's economic decline, saving the regime from the crisis it was experiencing in 1993. At the same time, the enactment of the Helms-Burton Act in 1996 led to renewed fears of US intervention on the island. Hence, because Fidel and the Old Guard felt sufficiently secure that the economic recovery would allow them to slow down reforms that had cost them economic power, and because fears of US intervention reemerged, the reforms of the Special Period began to be decelerated in the mid-1990s (in Ritter, 2004: 38). Perez-Lopez concurs with Mesa-Lago's assessment: "in the second half of the 1990s, the economy's relative recovery strengthened the hand of hard liners within the ruling elite who favored the status quo. Consequently, the reform process ground to a halt as the government postponed essential but politically sensitive changes" (in Perez-Stable (Ed.) 2007: 171).

¹⁷ Once again, the coexistence of market mechanisms and socialism, in terms of synonymy between producers, appropriator, and distributors of economic surplus, is not an oxymoron. However, the existence of market mechanisms with traditional Cuban socialism seems to be, and is, a contradiction.

Mesa-Lago proffers a speech by Raul Castro in March of 1996 as an indication of the shift that would characterize the following years. In that speech, Raul Castro:

Criticized the negative effects of all the market policies introduced since 1993; denounced some Cuban academic institutions and scholars favorable to stronger economic reforms as being ideologically penetrated by the enemy; threatened more state regulations, higher taxes, and tougher sanctions on the emerging nonstate sector; and called for an ideological campaign to strengthen the revolutionary spirit (Mesa-Lago in Ritter, 2004: 38).

It is important to note, though, that the period of 1996-2001 is not characterized as an *idealist* cycle by Mesa-Lago, because Special Period reforms (except self-employment) were not scaled back or reversed – their implementation was simply decelerated or halted. For example, the dismissal of 500,000-800,000 redundant workers in the state sector was postponed, and advances in agricultural markets and decentralization were halted (Mesa-Lago in Ritter, 2004: 38). However, Mesa-Lago notes that Fidel Castro was “forced” to accept the reality that while the growth of agricultural markets could be slowed, their presence was not going to recede on the island (Mesa-Lago in Ritter, 2004: 39).

The only area of policy that experienced a retrenchment of reforms was self-employment, but even in that area, retrenchment was achieved by imposing restrictions and taxes on self-employment; “there [was not] a virtual banning of self-employment as happened in the two idealist cycles” (Mesa-Lago in Ritter, 2004: 39). This is not to say that Cuban authorities were not able to significantly curtail private employment through such a strategy. Indeed, regulations and taxes were able to reduce the number of self-employed significantly beginning in the mid-1990s. The 1990s reforms promoting greater liberalization of *paladares* (restaurants run out of Cuban homes) were met with restraints on their size, as well as prohibitive fees. As a result, the number of these establishments fell from 600 in 1995 to 150 in 2003 (Perez-Lopez in Perez-Stable (Ed.) 2007: 176-7). Similar constraints were simultaneously placed on other forms of formally legalized self-employment, causing the number of self-employed workers to fall “from

a peak of about 208,500 in 1995 to 152,900 in 2002 and to an estimated 150,000 in 2004” (Perez-Lopez in Perez-Stable (Ed.) 2007: 177).

Mesa-Lago argues that during this period, retrenchment of pragmatist reforms became much more difficult, for two main reasons. First, the disappearance of the USSR from the scene meant that Cuba had no partner that was willing to subsidize its socialist policies. Second, Mesa-Lago argues that the Cuban people have simply become “exhausted with more than four decades of experimentations and promises” (in Ritter, 2004: 39-40). Hence, according to this author, Fidel Castro and the Old Guard had to content themselves with slowing, rather than reversing, pragmatist cycle reforms of the Special Period.

Regarding the effects that the deceleration of these reforms had on the Cuban economy, Mesa-Lago argues that the data “mostly show deterioration” (Mesa-Lago in Ritter, 2004: 38). Growth slowed in 1997-98, increased in 1999-2000, and slowed in 2001 (Mesa-Lago in Ritter, 2004: 38). Liquidity on the island rose significantly between 1998-2001 and the trade deficit steadily increased. Open unemployment did decrease, but there were indicators of a growing labor surplus on the island (Mesa-Lago in Ritter, 2004: 39).

In sum, the period that spanned from approximately 1996 to the early 2000s can be characterized as a *Deceleration*, but not a *reversal*, of previous market-oriented policies of the Special Period. Cuban authorities seemed satisfied with the economic improvements that Special Period policies produced on the island, but were cognizant of the change in international condition that had actuated since the late 1980s. Specifically, Cuban authorities recognized that the absence of the Soviet Union meant that the island was much less capable of introducing idealist cycles in earnest. Hence, the Cuban government had to content itself with the

deceleration of reforms, but large-scale abrogation of pragmatist policies would be ill advised, without the benefits of a trading partner such as the USSR.

The Island, Approximately 2001-2007 (Cuba's Holding Pattern)

Writing in 2004, Mesa-Lago speculated that another idealist cycle was unlikely, given the absence of any international patron that could provide economic support to the island. Moreover, he argued that economic conditions were not likely to improve enough on the island to allow for a further retrenchment of pragmatic reforms (Mesa-Lago in Ritter, 2004: 40). Mesa-Lago's predictions seem to have been confirmed. Until reforms that would be introduced in the late 2000s, there were no notable economic developments in Cuba. Writing in 2007, Perez-Lopez stated, "No significant reforms have been adopted since 1997" (in Perez-Stable (Ed.) 2007: 171).¹⁸ In other words, until further market reforms were introduced in the late 2000s, no notable reforms or retrenchments occurred in Cuba.

The absence of significant market reforms until the late 2000s can be attributed, in part, to the emergence of an outside player that was willing and able to provide resources to the Cuban government: Hugo Chavez. Dominguez argues that Cuban leadership shifted their policies in response to this "external shock," the shock being Hugo Chavez's willingness to supply Cuba with substantial oil resources, below market prices, in exchange for Cuban health care and other services (in Dominguez et. al., 2012(a): 2). Hence, Cuban officials were able to continue their postponement, and halting, of needed reforms, since economic pressures were sufficiently alleviated to obviate needed policy amendments. Thus, Dominguez states, "The government could seemingly afford to misallocate resources, subsidize bankrupt enterprises, and turn its back

¹⁸ This assessment depends on what one deems as "significant" reforms. Beginning in 2007, reforms were introduced that increased prices paid to agricultural producers, among other things (Dominguez in Dominguez et. al. (ed.) 2012(a): 4-5), but it was not until the financial crisis of 2008 that the Cuban government had to engage in substantial reevaluation of its policies.

on efficiency and markets. Even well-recognized problems, unrelated to the choice of an economic model, remained unaddressed...Venezuela's money freed Cuban leaders from having to think about changes that should have been adopted long ago" (in Dominguez et. al., 2012(a): 2-3).

The question arises, regarding Cuba's trade relationship with Hugo Chavez, why another idealist cycle was not launched, since it would seem that Venezuela's beneficial terms of trade with the island would have allowed for such a policy cycle. The likely answer to this question is manifold. First, while Venezuela has provided favorable terms of trade to Cuba, it did so in an international landscape in which socialism was not nearly as tenable as it was during the idealist cycle of the Rectification Period (1970-1985). Hence, the viability of Venezuela's socialist regime has likely always been seen as dubious in Cuba. Second, similar to the first explanation, the favorable nature of Venezuela's trade with Cuba was often viewed as being contingent on Hugo Chavez's personal position in Venezuela; the precarious nature of this relationship has come into sharp relief since Chavez's death in 2013, as the stability of his successor's – Nicolas Maduro's – government in Venezuela has increasingly come under attack from public pressure (Silme, *The Guardian*, 04/08/2014). Hence, cognizant of the repercussions of the collapse of the USSR, Cuban officials are preparing for a "Plan B" scenario, in which Venezuela is not politically capable or willing to provide favorable terms of trade on oil to Cuba. Such a plan has entailed the fostering of relationships with other countries, particularly in Latin America (Chambraud, *The Guardian*, 5/27/2014). Third, while Venezuela has been able to provide oil to Cuba at favorable rates, it simply cannot provide the scale of inputs that a partner the size of the USSR was able to provide. Finally, as Mesa-Lago argues, the Cuban people are simply exhausted with cycles of reform and retrenchment. Cuban authorities are attuned to the needs

and sentiments of the Cuban population, and are likely aware that they must tread carefully, regarding the scaling back of market-oriented measures.

In sum, the period that spanned approximately 2001 to the late 2000s can be characterized as one in which Cuban authorities engaged in a political and economic holding pattern. Favorable trade relations with Venezuela allowed Cuban authorities to delay much needed market reforms, but the precarious status of Venezuela's socialist regime also precluded the introduction of another idealist cycle on the island.

This holding pattern lasted until approximately 2009, when Cuba would confront a crisis that would engender a new pragmatist cycle. The ultimate cause of this crisis was the global financial crisis that began in 2008. The crisis had a sizable negative impact on Venezuela's resources, and as a result, Venezuela's aid to Cuba "seemingly vanished" (in Dominguez et. al., 2012(a): 3). Dominguez argues that the global crisis forced Cuba to confront "the accumulated legacies of a malfunctioning economy whose structural problems had gone unaddressed for the bulk of a decade" (in Dominguez et. al., 2012(a): 3). As a result, the Communist Party held its Sixth Party Congress in April of 2011 – its first since 1997 – in which the agenda was limited to the discussion of economic reforms and the selection of new leadership (in Dominguez et. al., 2012(a): 1).

Before analyzing current reforms, though, it is important to engage in a more thorough overview of the Special Period, since it was this reform cycle that largely set the stage for the form of future reforms. Thus, we now turn to our chapter on Special Period Reforms.

Chapter Three: The Special Period (1990-1996)¹⁹

Introduction

The “Special Period in Time of Peace,” as the period of time associated with 1990s market reforms and austerity measures came to be known, has largely set the stage for Cuba’s current economy, in terms of its structure and its social implications. In the period leading up to 1990, external and internal developments converged, leaving Cuba with no other option than to “integrate into the world capitalist market”; hence, “a new, pragmatist cycle was launched and labeled the Special Period in Time of Peace, a euphemism for an emergency structural adjustment program to save the economy and the regime” (Mesa-Lago in Ritter, 2004: 36). This period formally began on June 23rd, 1990, when the Cuban Communist Party announced: “The solid stability of the country, together with intelligent policies, attract the confidence of foreign investors and open the way for cooperation in the form of joint ventures. This does not clash with our socialist system; rather it means speedier use of potential resources” (Dominguez in Dominguez et al., 2004: 17). This statement illustrates the shift towards marketization and attraction of foreign capital that was to characterize the Special Period. Moreover, the statement that such reforms do not contravene Cuban socialism illustrates the Cuban government’s insistence during the Special Period that market reforms and socialism could be reconciled. Hence, the Special Period was to be characterized by a confused, ambivalent stance by the Cuban government regarding the relationship between Cuban socialism and market mechanisms. As will be explained below, even analysts of Cuban economics and politics seemed to be

¹⁹ The Special Period is often considered to be ongoing on the island (Perez Villanueva in Dominguez et. al. (ed.) 2012(a): 38). However, the halting of these reforms began in 1996/97, according to Mesa-Lago (in Ritter (Ed.) 2004), so the duration of this period for this thesis’s purposes is 1991-96.

confused as to whether Cuban officials were adhering to socialist rhetoric, or shifting away from such rhetoric, and towards more nationalistic justifications of reforms on the island.

The Crisis and its Impact

Substantial problems were apparent in the economies of the Soviet bloc, as well as within the Cuban economy, beginning in the mid 1980s. Dominguez notes that the Cuban economy was stagnant in the second half of the 1980s, as GDP, imports, and exports all failed to grow (Dominguez in Dominguez et al., 2004: 18-9). However, Cuban authorities chose to maintain their course, at least regarding the internally oriented economy, until 1993. At the earliest, “Special Period” reforms began, as mentioned above, on June 23rd, 1990. It is important to understand two facts that allowed the Cuban government to postpone reforms. First, Soviet subsidies to the island were not discontinued until 1991; hence, “the Cuban economy of 1989-1990 did not look very different from that of 1986 or before” (Centeno in Centeno and Font, 1998: 117). Second, and partly as a corollary of Soviet subsidies, Cuba was able to preserve through 1990 its main achievements, particularly health care and education (Centeno in Centeno and Font, 1998: 117). Hence, Cuba’s crisis was partially kept in check until 1991.

Although economic contraction began in 1990 (3.1%), it was in 1991 that the Cuban economy began to experience a recession in earnest. The economy shrank in 1991 by 25%, in 1992 by 14%, and in 1993 by 10%. In all, the Cuban economy shrank 35-50% between 1989 and 1993 (with most of the contraction occurring between 1991-1993) (Centeno in Centeno and Font, 1998: 118). Moreover, Cuba’s imports and exports between 1993-5 were, respectively, 25% and 33% of 1989 levels (Centeno in Centeno and Font, 1998: 118). The island’s main industry, sugar, experienced a substantial contraction, with the harvests between 1993-1996 being less than half of the average of 7.927 million tons for the period 1987-1990 (Centeno in Centeno and Font,

1998: 118). The decline in the sugar industry can be explained by the fact that the market price of sugar that Cuban producers received was only 1/3 the price that the USSR had been providing for sugar (Eckstein in Centeno and Font, 1998: 140).

Arguing that the role of the U.S. trade embargo, particularly the Toricelli Act of 1992, has very minimal explanatory power when analyzing Cuba's recession between 1989-1993, Font argues that "the collapse of the Cuban economy after 1989 is traceable to Cuba's loss of trading and economic partners with the coming apart of the Eastern European socialist camp" (Font in Centeno and Font, 1998: 119; Mesa-Lago concurs with the minimal effect of the Toricelli Act during this time (in Ritter, 2004: 36)). In 1989, trade accounted for approximately half of Cuba's national product, and the Soviet bloc accounted for approximately 85% of Cuba's foreign trade.

A more detailed, but not exhaustive, list of Soviet aid to Cuba is as follows:

The Soviet Union had subsidized the price it paid for Cuban sugar by several multiples of the prevailing international sugar price and the price that Cuba paid for Soviet sales of petroleum. These subsidies amounted to outright grants to the Cuban economy. The Soviet Union supplied all weapons free of charge to the Cuban Armed forces. It provided loans at low interest rates to cover the bilateral trade deficits that emerged notwithstanding those very high trade subsidies. The Soviets awarded low-interest-bearing loans for major economic development projects, such as the construction of a nickel ore processing plant and a nuclear power plant, among others, as well as many scholarships to train Cubans in the USSR in various professional endeavors. Most of these assistance programs were ending late in the Soviet period; they all ended with the dissolution of the Soviet Union (Dominguez in Dominguez et al., 2004: 20).

Hence, the collapse of the Soviet bloc, combined with significant deficiencies in Cuban labor productivity, presented Cuba with a substantial collapse in national product that it was unable to quickly correct (Eckstein in Centeno and Font, 1998: 136). The severe contraction of the Cuban economy began immediately following the end of Soviet subsidies in 1991 (Centeno in Centeno and Font, 1998: 119). However, Cuba's economic crisis had its ultimate beginning before 1989. Eckstein explains that Cuba was experiencing a financial crisis before 1989, a result of the particular socialist economic model that Cuba maintained, in which inefficiencies, cradle-to-grave healthcare and employment, and soft-budgetary constraints obtained (in Centeno and

Font, 1998: 135). Ritter notes that “the impact of the Soviet Union’s collapse and the end of the special relationship with the Soviet bloc actually followed a five-year period of worsening economic difficulties from about 1985 to 1990” (Ritter, 2004: 4). Thus, it should be understood that Cuba’s economic crisis has its roots in the pre-1989 economy, but was substantially exacerbated (or “detonated,” to use Dominguez’s term) by the collapse of the USSR.

The extent of Cuba’s economic crisis was substantial. Between 1990 and 1996, caloric intake decreased by 27% (Dominguez in Dominguez et al., 2004: 21). Access to food and medical care suffered declines. By 2002, the caloric intake of the working age population was 57% below recommended levels, and its protein intake was 68% below recommended levels (Dominguez in Dominguez et al., 2004: 21). Enrollments in higher education were cut by the government by 45% between 1991-1995, while access to books and other educational materials diminished in elementary schools (Dominguez in Dominguez et al., 2004: 21). In terms of macro conditions, by 2000, Cuba’s GDP still remained 26% below its 1985 level (Dominguez in Dominguez et al., 2004: 21).

However, it should be stressed that Cuban authorities realized that, politically, all resources and energy had to be allocated towards preserving some key Revolutionary achievements and principles. Fidel Castro, in particular, was dedicated to maintaining the island’s main achievements. Hence, Castro “took pride in not closing a single school, day-care center, or hospital, and in not leaving a single person destitute, despite dire Special Period circumstances” (Eckstein in Centeno and Font, 1998: 138). According to Dominguez, the Cuban government, all things considered, did an exemplary job of maintaining social indicators on the island throughout the crisis: the infant mortality rate in 2002 was 6.5 (better than in Washington, D.C.); the ratio of citizens to doctors was at 168; upwards of 97% of children ages six to fourteen

were enrolled in school; low levels of illiteracy were maintained; and the quality of education on the island, relative to other Latin American countries, was maintained (in Dominguez et al., 2004: 21).

Response to the Crisis

Cuban authorities responded to the crisis by first promulgating reforms aimed at restructuring Cuba's externally oriented economy. They avoided, until 1993, reforms that would stabilize Cuba's internally oriented economy. Cuban authorities also addressed the crisis using both market-based and socialist strategies (Eckstein in Centeno and Font, 1998: 137).

Notwithstanding a pragmatic emphasis on survival, socialist principles were not completely abandoned during the Special Period. In fact, Cuban officials implemented strategies that comported with socialist ideology, where practical. Moreover, Cuban officials continued in their renunciations of the market, stressing that the role of the state in the Cuban economy would not recede (Eckstein in Centeno and Font, 1998: 128). Such renunciations of the market would prove to be largely a maquillage, as the state increasingly relied on the market during the Special Period, but such rhetoric showed that Cuban officials were still devoted to socialism on an ideological, if not practical, level.

Attempts at Modifications that were Compatible with Socialism

Cuban officials tackled Special Period exigencies with a combination of socialist and market-based strategies. Initially implemented were the former. Eckstein explains that the original tactics implemented to combat the crisis were initiatives that "might be expected of a regime committed to socialist principles" (Eckstein in Centeno and Font, 1998: 137). First, a Food Program was initiated, in which the government attempted to become agriculturally self-

sufficient. Second, the government rationed both durable and nondurable consumer goods, which allowed for “equality of sacrifice,” which comported with socialist ideology.

Third, Cuban officials initiated labor mobilizations, in which workers labored very long hours, and were compensated with above-average wages (a necessary incentive) (Eckstein in Centeno and Font, 1998: 137). Under such mobilization, urban workers were diverted to rural labor, to aid in agricultural production. Lastly, the military began to play a substantial role in the Cuban economy. Eckstein notes that this is not an inherent facet of socialism, but “it reflects a government effort to rely on administrative rather than market mechanisms that is characteristic of socialism in its ‘statist’ form” (Eckstein in Centeno and Font, 1998: 137). During this time, 25% of the defense industry was diverted to civilian production, becoming particularly active in agriculture (Eckstein in Centeno and Font, 1998: 137-8). New recruits to this military during this period were even allowed to choose whether to enlist in defense or agricultural units (Eckstein in Centeno and Font, 1998: 138).

While introducing these socialist-based initiatives, Cuban authorities also engaged in fiscal practices that were deliberately meant to avoid internal stabilization, since, “In the Cuban leadership’s estimation, success at political stabilization required deferring economic stabilization” (Dominguez in Dominguez et al., 2004: 22). Hence, while fiscal revenues shrank by 22%, expenditures increased by 2.5% between 1990-1993 (Dominguez in Dominguez et al., 2004: 23). During this time, outlays for subsidies to cover losses in state enterprises increased by 83% (Dominguez in Dominguez et al., 2004: 23). Public health expenditures rose by 15% during the same period. By 1990, the budget deficit had reached 10% of GDP, and 33% by 1993 (Dominguez in Dominguez et al., 2004: 23). The implications of budget deficits for Cuba were particularly severe, since the island had been shut out of international credit markets for failure to

service its debt (Dominguez in Dominguez et al., 2004: 8, 19). Hence, to finance its deficits, Cuban officials had no option but to print money, thus contributing to significant inflation in the economy (Dominguez in Dominguez et al., 2004: 24). Dominguez notes that, although economically unsound, these principles achieved their goal, in terms of buying Cuban authorities “political time and helping to keep the communist party in power” (Dominguez in Dominguez et al., 2004: 23).

Externally-Oriented Reforms

When original market-based reforms were introduced, they were externally oriented (until 1993, which will be explained below), aimed at promoting joint ventures with foreign capital in the tourist and biomedical sector (Font in Centeno and Font, 1998: 120). In particular, Cuba introduced a new investment law – “Law 77” – which replaced its original “Investment Law 50,” which had only had modest success in attracting foreign capital (Font in Centeno and Font, 1998: 122-3). Law 50 offered some incentives to foreign investors, such as tax exemption, labor market liberalizations (ability to hire and fire), and full repatriation of profits (Font in Centeno and Font, 1998: 122-3), but the law fell short of garnering sufficient FDI. In 1995, Cuba introduced Investment Law 77, which introduced stronger guarantees to private investors, and introduced a framework for a more robust market economy (Font in Centeno and Font, 1998: 123). Law 77²⁰ introduced a few main amendments to Cuba’s foreign-invested sector. First, it legalized full foreign ownership in invested sectors, whereas Law 50 had only allowed for joint ventures under “operating rights,” rather than legal title (Font in Centeno and Font, 1998: 123). Secondly, Law 77 granted control over firm-level operations to foreign capital (Eckstein in Centeno and Font, 1998: 139). Third, it expanded the scope of foreign operation and ownership

²⁰ Investment Law 77 is discussed more thoroughly in the chapter of this thesis pertaining to Cuba’s insertion into the world economy.

to real estate, free trade, and export-processing zones (Font in Centeno and Font, 1998: 123).

Although legalizing full foreign ownership, Cuban authorities argued that such ownership would remain the exception to the rule of joint ventures (Font in Centeno and Font, 1998: 123).

Font notes that the official rationale for Law 77 was a pressing need to attract hard currency to the island, as foreign investment was “the only possible source of large amounts of capital, modern technology, and trading opportunities” (Font in Centeno and Font, 1998: 123). Importantly, while Law 77 was a significant step towards liberalization, Cuban authorities continued to stress that the purpose of the law was to “aid the development of state socialism” (Font in Centeno and Font, 1998: 123). Hence, even in situations in which marketization was clearly transpiring, Cuban authorities were likely to frame occurrences as promoting socialism.

Internally-Oriented Reforms

While externally-oriented reforms allowed infusion of capital into the tourist sector, and prevented Cuba’s recession from transforming into a general collapse, it became clear by 1993 that internally oriented reforms had become necessary (Font in Centeno and Font, 1998: 120). As Mesa-Lago states, “The Cuban leadership first unsuccessfully tried to cope with the unexpected catastrophe and urgent need of hard currency relying on external policies only...but these did not stop the economic decline. The desperate situation in the summer of 1993 forced the introduction of domestic market reforms” (Mesa-Lago in Ritter, 2004: 36). Mesa-Lago explains that from 1991-93, economic indicators declined substantially, the economy shrank by 35%; liquidity, inflation, and the fiscal deficit increased. The only indicator to improve during this period was the trade deficit, which declined; the reduction in the trade deficit occurred despite a drop in exports, since imports sank even more (in Ritter, 2004: 37). Hence, the decline in the trade deficit was simply a corollary of decreased overall economic activity.

At this juncture, fiscal and monetary imbalances in the Cuban economy compelled Cuban authorities to introduce marketization and stabilization measures into the domestic economy. Just before 1993 reforms were introduced, the operational deficit of the government's budget had risen to 40 percent of GDP, and this deficit was largely financed by monetary expansion (Font in Centeno and Font 1998: 127). Such monetary expansion caused liquidity on the island to jump 121% between 1990-1993, causing prices in informal markets (where many necessities were procured) to skyrocket (Dominguez in Dominguez et al., 2004: 24).

In an effort to reign in deficits by decreasing payrolls, the Cuban government implemented a number of institutional reforms: it transformed collectivized state farms into cooperatives, legalized self-employment in a number of occupations, legalized dollar holdings and transactions, and once again legalized farmers' markets, along with industrial goods markets (in 1994) (Font in Centeno and Font 1998: 125). The government also introduced incentive pay in prioritized sectors of the economy, introduced yield-related wages in the agricultural sector, and gave autonomy to firms to freely negotiate trade deals, transforming many stage agencies into semiautonomous units (Eckstein in Centeno and Font, 1998: 140).

The reintroduction of farmers' markets was meant to address what Raul Castro identified as one of the island's most pressing issues: food (Eckstein in Centeno and Font, 1998: 146). Farmers' markets were meant to address more than just the island's food crisis, though – it was hoped that the introduction of such markets had the potential to ameliorate problems related to liquidity, production, and fiscal shortfalls (Eckstein in Centeno and Font, 1998: 146). According to reforms introduced in 1994, farmers were allowed to sell, on the market, “any surplus they produced beyond their commitment to the state” (Eckstein in Centeno and Font, 1998: 146). Importantly, farmers' sales were taxed, so increased production and sales, achieved through

incentivization, would bring more cash into the government's coffers, thus addressing fiscal problems (Eckstein in Centeno and Font, 1998: 146). While recognizing, and being upset with, the high prices that farmers were charging at farmers' markets, Cuban officials argued that such prices were still lower than black market prices; indeed, Cuban officials hoped that farmers' markets would drive the black market, which contributed to continuing declines in state revenue, out of operation (Eckstein in Centeno and Font, 1998: 146).

The legalization of dollar holdings and transactions was also meant to address fiscal shortfalls. An increasing amount of Cuban activity was being conducted in dollars, on the black market. Hence, Cuban officials decided to legalize dollar transactions, so that such transactions could be regulated by the state, and conducted through state-owned dollar stores, thus allowing the state to procure much-needed hard currency (Eckstein in Centeno and Font, 1998: 148). As Alejandro argues, dollarization should also be understood as a corollary of Cuba's fiscal policy during the early Special Period years (in Dominguez et. al. (ed.) 2012(a): 40-1). Essentially, budget deficits between 1990-93 had to be financed through the printing of money, since Cuba did not have access to credit markets. The printing of money caused substantial inflation on the island. To avoid such volatility in its emerging, externally-oriented sectors (tourism, etc.), the government chose to use dollars in those sectors. Hence, the monetary policy of dollarization was a corollary of the earlier fiscal policy of not reducing spending when state revenues decreased (budget deficits). Hence why Rowe and Faya characterize monetary policy in Cuba as being subordinate to fiscal policy (in Ritter, 2004: 45-58).

In addition to marketization measures, the government introduced significant austerity measures into the internal economy, so as to address the island's fiscal and monetary (liquidity) problems. Cuba had experienced significant fiscal deficits since 1989, due largely to

expenditures increasing faster than revenues (Eckstein in Centeno and Font, 1998: 143). Officials met these shortfalls by increasing the money supply, thus exacerbating the island's excess liquidity (Eckstein in Centeno and Font, 1998: 143). Excess liquidity on the island was partly a corollary of the dollarization of the Cuban economy, which led to a decrease in the purchasing power of the peso (Eckstein in Centeno and Font, 1998: 143).²¹ As a result in price increases, Cubans were unable to cover basic needs with money they earned, so incentives to work declined, thus contributing to a further decline in production, exacerbating inflation even further (Eckstein in Centeno and Font, 1998: 143).

To reduce liquidity (and fiscal deficits), the Cuban government introduced measures that were meant to decrease state expenditures while increasing revenue. First, the government raised prices at state retail outlets (though seemingly paradoxical in light of inflation, the goal of this policy was to remove money from the economy, thus combating inflation) (Eckstein in Centeno and Font, 1998: 143). In particular, the government increased prices for nonessential goods (tobacco and alcohol, mainly) (Eckstein in Centeno and Font, 1998: 143). Second, the government began to charge for erstwhile free services, and increase the cost of select services. For instance, the government began to charge for meals at work centers and schools, which it had previously provided free of charge (Eckstein in Centeno and Font, 1998: 143). Also, the government pegged electricity charges to use, which it was able to justify as a progressive measure, since the poor used less electricity (Eckstein in Centeno and Font, 1998: 143). The

²¹ This statement may seem counterintuitive, since, in the previous paragraph, I stated that dollarization was an attempt to prevent already extant inflation on the island, and prevent such inflation from reaching the foreign-invested sectors of the economy. In this sense, dollarization can be seen as a result *and* a cause of inflation: increased fiscal deficits on the island led to higher inflation, which caused Cuban authorities to dollarize the economy, in an attempt to insulate the external sectors from inflation-addled internal sectors. Once the dollar was legalized, though, it presumably cause a further increase in peso-inflation, as Cubans desired dollars over Pesos.

government also terminated student stipends, requiring students to obtain financing through loans, which would have to be repaid (Eckstein in Centeno and Font, 1998: 143).²²

The government also flirted with amendments to its employment/unemployment policy. The government attempted to end all but short-term unemployment compensation, but did not follow through because such a reform was politically impossible (Eckstein in Centeno and Font, 1998: 144). The government also contemplated firing redundant laborers, but this reform was also determined to be politically infeasible, and the government chose instead to keep “excess labor” on the state’s payroll (Eckstein in Centeno and Font, 1998: 144). Such rationalization would have substantially lessened state expenditures, as approximately one-third of the Cuban workforce was underemployed by 1993 (Eckstein in Centeno and Font, 1998: 144).

Cuban officials also discussed scaling back of outlays for Cuban enterprises and the military, but decided that such action was both economically and politically infeasible. Cutting allocations to these entities would have required importation of many products, which would have exacerbated Cuba’s external debt problems, which were considered to be much more severe than Cuba’s domestic budget deficit problems (Eckstein in Centeno and Font, 1998: 145).

It was also suggested that Cuba should institute a formal direct tax system, which was a foreign concept for Cuban officials and citizens. Contemplated were both income and payroll taxes. However, Cuban officials recognized that the administrative difficulties involved in collecting taxes from a populace that had not paid direct taxes since the Revolution would be prohibitive, and thus decided to increase revenues through increased prices, rather than through a more formalized tax base (Eckstein in Centeno and Font, 1998: 145).

²² Cuba was experiencing a substantial problem in its education system, as teachers were leaving their jobs to procure jobs in the hard currency sector, so as to obtain U.S. dollars, which had much higher purchasing power than the Cuban peso. Teachers were also retiring from their jobs early to start businesses (Eckstein in Centeno and Font (Ed.) 1998: 144).

In sum, Special Period reforms were introduced as a response to material exigencies on the island, specifically, the collapse of the USSR, which catalyzed the economic crisis of the 1990s. Cuban officials implemented a combination of socialist and market-based policies to combat the crisis, choosing initially to implement externally-oriented policies, followed by policies that targeted internal adjustments. Importantly, Cuban authorities ambiguity towards the market was cast in stark relief during this period, and market-based policies were often framed as being measures that were necessary for Cuba's socialist project

Effects of Reforms

The reforms that were implemented on the island were rather successful, in terms of achieving their intended goals of increased productivity and decreased budget deficits. Font notes that Special Period reforms allowed for increased agricultural production and lowered prices (Font in Centeno and Font, 1998: 126). According to Dominguez, these reforms caused government revenues to increase by 34%, while expenditures fell by 3%. The island's deficit as a percentage of GDP fell below 8%, while monetary liquidity fell by 10%. Moreover, the peso-dollar exchange rate fell from 120:1 in 1993 to 80:1 in 1994, and 25:1 in 1995. By 2002, Cuba's budget deficit, as a percentage of GDP had fallen to 3.2% (Dominguez in Dominguez et al., 2004: 25).

Cuba's externally-oriented reforms were "the most successful of all," according to one analyst (Dominguez in Dominguez et al., 2004: 27). Revenues in tourism doubled between 1994 and 2000, when such revenue reached \$1.7 billion (Dominguez in Dominguez et al., 2004: 27). Moreover, increases in foreign direct investment (FDI) boosted Cuba's exports: mining exports almost tripled between 1994 and 2000, to \$599 million (Dominguez in Dominguez et al., 2004: 28). FDI also allowed for substantial increases in petroleum and natural gas production on the

island: petroleum production increased from 671,000 tons in 1990 to 3.6 million tons in 2002; natural gas production increased from 20 million cubic meters of natural gas in 1996 to 585 million cubic meters in 2002 (Dominguez in Dominguez et al., 2004: 28). Such increases allowed Cuba to advance toward “energy self-sufficiency” (Dominguez in Dominguez et al., 2004: 28).

The effects of Special Period reforms were not all salutary. Dominguez argues that these reforms had several adverse consequences; in particular, there were problems related to partial dollarization, including multiple exchange rates (Dominguez in Dominguez et al., 2004: 30). Multiple exchange rates on the island stem from the partial dollarization that Cuban authorities introduced between 1990 and 1993 to attract hard currency (and legalize already prevalent illegal use of American dollars). Such partial dollarization led to a few main problems: market segmentation and resultant price distortions, industry failure, and inequality and devaluation of education (Dominguez in Dominguez et al., 2004: 30-32). Regarding market segmentation and price distortions, partial dollarization resulted in “structurally semi-independent coexisting economies,” in which product markets operating in dollars operate separately from product markets operating in Cuban pesos (Dominguez in Dominguez et al., 2004: 31). For instance, the international tourism sector, which operates in dollars, does not come into financial contact with the sugar industry, which operates in pesos (Dominguez in Dominguez et al., 2004: 31). Such segmentation results in relative price distortions, as pesos are able to purchase less and dollars are able to purchase more. This problem is exacerbated by those with access to dollars purchasing products at state-sanctioned dollar stores, and then reselling those items in illegal markets, where goods are scarcer, for a profit (Dominguez in Dominguez et al., 2004: 32).

There were also particular areas of the Cuban economy that experienced significant disadvantages due to the dual exchange rate that obtained on the island. For instance, the sugar industry had become riddled with distortions, as a result of the dual exchange rate. By 2002, the government had decided to shutter 45% of Cuba's 155 sugar mills (Dominguez in Dominguez et al., 2004: 31). This occurred because, while sugar exports are paid for in dollars, the Cuban government required that state enterprises, including those in the sugar industry, be paid in pesos, at a *parity exchange rate*. To explain more fully:

In 2000 the international price that Cuba received for a pound of sugar was approximately US\$0.10. At the prevailing exchange rate available to those Cubans who received remittances, the producer would receive two pesos but, at the official exchange rate, that producer received only 0.10 pesos or one-twentieth of the real worth of the products. On the other hand, the sugar industry had to purchase some imported supplies in dollars. No wonder state industrial and agricultural enterprises in the sugar sector performed poorly, given that its revenues remained in pesos while some of its inputs switched to dollars (Dominguez in Dominguez et al., 2004: 31-2).

Partial dollarization also led to problems related to inequality and devaluation of education. More specifically, the introduction of partial dollarization and multiple exchange rates has led to a situation in which those who are able to obtain dollars enjoyed a decided advantage over those without such access. Such access to dollars ensures a higher standard of living, as state-sanctioned dollar stores are well-stocked with consumer goods, while peso stores' shelves are "nearly bare" (Dominguez in Dominguez et al., 2004: 32). The corollary of this situation is that Cubans are incentivized to obtain dollars, which leads to behavior that effectively devalues education, as it is not uncommon for people with college degrees to perform menial work in the dollar sector, so as to procure U.S. dollars (Dominguez in Dominguez et al., 2004: 32). Most importantly, maybe, is that those who receive remittances from abroad are able to live comfortably, while performing little to no work (Dominguez in Dominguez et al., 2004: 32-3).²³

²³ This phenomenon of living comfortably without doing work will also be discussed more thoroughly in the chapter on inequality and education.

Despite the relative success of, and as a result of some of the adverse consequences of, Special Period reforms, Cuban authorities continued to maintain a perception of private employment and marketization measures that can euphemistically be described as “ambivalent.” Cuban officials simultaneously legalized self-employment, while still characterizing private entrepreneurship as an act of deviance (Font in Centeno and Font, 1998: 126). Moreover, to ensure that private enterprise did not pose potential threats to state-owned industries, a significant impediment to business success was promulgated, in which private entrepreneurs were legally prohibited from hiring employees (Font in Centeno and Font, 1998: 126). Also, even though newly-introduced agricultural cooperatives were rather successful, particularly when compared to state farms, Cuban authorities “did not enact new reforms to grant greater autonomy to the cooperatives and shift more productive activities from the state to the cooperative sector” (Dominguez in Dominguez et al., 2004: 26). Dominguez attributes such reluctance to Fidel Castro’s publicly-stated aversion to market mechanisms in agriculture (Dominguez in Dominguez et al., 2004: 26). Such illustrations are simply a microcosm of Cuban authorities’ schizophrenic attitude towards markets versus planning.

Conclusion

Paradoxically, as the Cuban economy was increasingly marketized during the 1990s, the state’s renunciations of capitalism actually became more vehement, as authorities stressed “the rejection of capitalism and adherence to socialism” (Font in Centeno and Font, 1998: 130). Hence, Font notes, “It is a major contradiction that, just as the country is compelled to find a place in the capitalist world economy, and in fact makes increasing use of private capital and entrepreneurship, those at the helm insist on a highly centralized moral economy and condemn the market” (Font in Centeno and Font, 1998; 132). The major lesson to be taken away from the

Special Period reforms is that rhetoric cannot be taken at face value on the island. Marketization measures may very likely be accompanied by anti-market rhetoric on the part of Cuban officials, but this is very often a patina that seems intended to convince Cubans that liberalization measures are not indeed liberalization measures.

Interestingly, a rhetorical shift occurred during the 1990s: writing in 1998, Font explains, “The theme of building socialism has given way to that of survival of the homeland” (Font in Centeno and Font, 1998: 128). Hence, Cuban authorities may have realized at this juncture that the reforms they were implementing could not be reconciled with socialist ideology, and hence opted for a pragmatic stance, based on nationalistic and revolutionary notions of survival. Eckstein, regarding Cuban officials’ strategy for remedying fiscal and monetary problems, concurs with this assessment: “The reforms, like preceding Special Period measures, were not justified in the name of Marxist-Leninist and Guevarist principles or the continued construction of socialism. Instead, they were justified on the basis of leadership wisdom and concern for the common good” (Eckstein in Centeno and Font, 1998: 142).

The Special Period reforms evince the ambivalent, often confused (and confusing), nature of Cuban officials’ rhetoric. At once shifting away from socialist ideology, shifting towards nationalist rhetoric, and renouncing the market while adopting marketization measures, Cuban officials seemed particularly confused as to how Special Period reforms should be justified. Eckstein explains that the shift away from socialist rhetoric during the Special Period can be attributed to the fact that “in the context of the 1990s, (statist and collectivist strategies) no longer worked” (in Centeno and Font, 1998: 147). Hence, the state had to adjust its rhetoric to economic conditions that were not amenable to Cuba’s previous economic model. Thus, a shift towards rhetorical emphasis on nationalism and survival can largely be seen as a corollary of

material exigencies, as market-based mechanisms became increasingly necessary. In general terms, though, the Special Period did seem to exhibit a shift towards nationalistic, rather than socialist, justification of reforms.

Just as important as Cuban *officials'* ambivalence towards socialism and the market, is the ostensible confusion *amongst* analysts regarding official rhetoric during this time. For instance, Font argues that there was a shift away from socialist rhetoric during this time, and a shift towards nationalist rhetoric (in Centeno and Font, 1998: 128). Eckstein agrees with this assessment, explaining that there was a shift away from socialist rhetoric during the Special Period, and that the exigencies of this period were so severe that Cuban authorities eschewed adherence to Marxist ideology, instead justifying reforms on pragmatic grounds: “Noted Castro, ‘This is no time for theorizing but instead for advancing, resisting, and overcoming’” (in Centeno and Font, 1998: 137). However, Fidel continued to argue that such measures were necessary to “save the Revolution” (in Centeno and Font, 1998: 137, 147) However, in the same text, Font argues that adherence to socialism in Cuba remained a leitmotiv during the Special Period (in Centeno and Font, 1998: 130), while Eckstein notes that the government “remained publicly committed to socialism” (in Centeno and Font, 1998: 149).

Such confusion is understandable, since the Special Period seems to be a period during which Cuban officials evinced exceptional ambivalence regarding the market and socialist ideology. Indeed, Cuban citizens themselves seemed to be rather ambivalent regarding the role of the market in the Cuban economy during the Special Period: Eckstein explains that Cubans who were engaging in black market, illegal activity, were not particularly pro-market, nor were they antisocialist. Rather, they were simply “trying to make the best of a bad situation... They were not calling for a capitalist transformation. Indicative of their support of market measures,

they opposed government efforts to terminate guaranteed employment, and government efforts to impose an income tax” (in Centeno and Font, 1998: 148). All of the above can be taken to illustrate the confused, ambivalent nature of the Special Period. Cuban officials, Cuban citizens, and analysts of Cuban politics and economics, all evince a rather inconclusive attitude towards the role of socialism, and socialist rhetoric, in the Cuban economy during the Special Period.

In sum, 1990s reforms can be characterized as further promoting foreign investment, while making modest inroads towards liberalization of the internal economy: As of 1998, Font noted, “The measures adopted thus far have compartmentalized the economy into a dysfunctional pattern. Tourism and the external sector rely on market-driven entrepreneurship, while the internal economy, where by far most Cubans operate, remains largely collectivized and regulated” (in Centeno and Font, 1998: 129). The Special Period was the cycle during which Cuba’s schizophrenic approach to capitalism and socialism was most clearly illustrated, the result being that analysts, and Cuban officials themselves, often seemed unsure as to whether the period should be characterized as one that relied more on socialist or market-based measures.

In terms of policy results, Special Period reforms, in terms of remedying fiscal and liquidity problems, can be characterized as relatively successful:

By the end of 1994 the money in circulation declined by about 16 percent, the budget deficit was reduced by some 72 percent, the black market peso/dollar exchange rate declined from about 120:1 to 25:1, food sales through legal channels improved, and the economy grew (modestly) for the first time since the collapse of Soviet aid and trade (Eckstein in Centeno and Font, 1998: 149).

Special Period reforms, which lacked a cohesive long-run plan and were implemented in a piecemeal fashion, were halted in 1996 (Mesa-Lago in Ritter, 2004: 36). While we would intuitively be inclined to say that such reforms were halted “despite” their success, it should be clear at this point that, in a Cuban context, Special Period reforms were halted “because of” their success, as Cuban authorities viewed material exigencies as being sufficiently blunted to allow

for a halting of such reforms. It can also be presumed that these reforms were halted due to political and ideological concerns, as Cuban officials had to cede operational control to foreign capital to attract investment, the cradle-to-grave welfare state was scaled back significantly, and new inequality was introduced, largely as a result of the use of U.S. dollars in the Cuban economy (Eckstein in Centeno and Font, 1998: 149). Hence, material conditions, vis-à-vis fiscal shortfalls and inflation, were mitigated enough by Special Period policies to allow for ideological and political concerns to be addressed, through the halting of Special Period reforms. However, it should be stressed that Special Period policies, while being halted, in terms of further measures, were not substantially scaled back. Conditions had changed on the island, and Cuban authorities likely realized that an increased level of market behavior would have to be brooked on the island for the foreseeable future.

This chapter brings to an end our overview of reform periods in Cuba, until we return to the issue of recent reforms, later in this thesis. Before proceeding to the analysis of recent reforms and their implications for Cuba's insertion in the global economy, however, it is important to understand some facets of the Cuban economy that are peculiarly Cuban in nature. Thus, in our next chapter, we turn to the issue of monetary duality on the island.

Chapter Four: Reforming Monetary Duality in Cuba

Introduction

If presented with the question, “what is your currency worth?”, a Cuban would be in the peculiar (and undesirable) position of being inclined to give an answer to extent of, “to which currency do you prefer, and for whom?” In addition to the already convoluted economic situation on the island, there are three different currencies in use in Cuba: the Cuban Peso, the Cuban Convertible Peso (CUC), and the US Dollar. Further complicating things, there are multiple exchange rates, depending on whether you are a Cuban citizen, a Cuban enterprise, or a foreign enterprise. Add to this the differential in purchasing power that obtains between those who have access to dollars and those who don’t, and you have what may be described, without hyperbole, as an economic and monetary nightmare. This chapter provides an overview of the role of the dollar in Cuba, including the inequalities that have emerged as a corollary of the dollar’s use on the island. Also included in this chapter is an overview and analysis of the problems engendered by monetary duality, as well as a brief proposal regarding how the issue of monetary duality can be resolved in Cuba.

The Dollar in Cuba

As Rowe and Faya explain, the use of the US dollar has a long history in Cuba (in Ritter, 2004: 45-6). As early as 1898, the US government was paying Cuban tariffs and taxes in US dollars. The Cuban government attempted to move away from use of the dollar in 1914, when it passed a law that made the peso equivalent to the dollar, in gold terms. However, Cubans continued to use the dollar in common transactions, since paper dollars were more convenient than Cuban coins (in Ritter, 2004: 45-6). In 1933, the Cuban government printed paper currency, and the dollar and peso were both legal tender until 1948, though Cubans still preferred the

dollar as a store of value (in Ritter, 2004: 46). After 1948, the Cuban government phased out use of the dollar, and after the Cuban Revolution of 1959, use of the US dollar was prohibited (in Ritter, 2004: 46). However, use of the dollar would reemerge during the Special Period in the 1990s.

During the initial years of the Special Period of Reform (1990-93), the Cuban government was presented with a substantial budgetary crisis. As the economy shrank by approximately 35%, state revenues also contracted sharply. However, recognizing that reduction in state spending would have caused a spike in unemployment, along with the suffering of thousands of Cubans, Cuban authorities chose not to meet decreased revenue with similar decreases in spending. As a result, the budget deficit on the island averaged 24.9% of GDP between 1990-93 (Alejandro in Dominguez et al., 2012(a): 40). And because Cuba had been shut out of international credit markets for its nonpayment of loans, it had to rely largely on the printing of money to fund its deficits. Hence, monetary policy was used to accommodate fiscal policy. Accordingly, as Rowe and Faya explain, “a simple model of monetary policy in Cuba would...assume that the central bank passively monetizes government deficits” (in Ritter, 2004: 50).²⁴ Use of the printing press caused liquidity to increase during this period, and inflation increased as prices in the informal market²⁵ jumped 150% in 1991 and 200% in 1993, while the black market peso/dollar exchange rate exceeded 100:1 (it had originally been approximately 5:1)

²⁴ Importantly, the subordination of monetary policy to fiscal policy was a characteristic of Cuban policy during the early years of the Special Period, but one of the main developments in Cuban policy since those years has been the development of an independent monetary policy that has kept inflation below double-digits since the early 1990s (Alejandro in Dominguez et. al. (ed.) 2012(a): 117). See this thesis’s chapter, *Recent Reforms*.

²⁵ It should be noted that inflation in Cuba during these years was recorded in informal markets. This is because, prior to market reforms of the Special Period, increases in the Cuban money supply led to excess liquidity, rather than inflation, because most consumption was conducted through state retail stores, and prices in these stores were controlled. Hence, excess money supply simply meant that Cubans had to engage in “forced saving” as they had more money, but no goods to purchase. As Alejandro explains, “Until the early 1990s, the Cuban family’s basic market basket was obtained almost entirely from state retail markets. In this environment, monetary disequilibrium was reflected not in prices, but in the accumulation of excess liquidity. Thus, the process of monetary instability did not result in price increases, but rather in repressed inflation or forced savings. The economic authorities, as their fundamental monetary strategy, monitored this variable – the amount of liquidity held by the population – and undertook actions to control it. The policy was to maintain monetary liquidity within certain limits or ratios relative to the value of production” (in Dominguez et al., 2012(a): 17).

(Alejandro in Dominguez et al., 2012(a): 40). Alejandro explains that these deficits were largely financed through an inflation tax, as “nominal salaries in Cuban pesos were frozen and real salaries dropped by more than 70% due to inflation (in informal markets)” (Alejandro in Dominguez et al., 2012(a): 41). In sum, the deficit during the early years of the Special Period was financed by drastically increasing liquidity on the island, which led to substantial inflation in informal markets.

In an attempt to obtain hard currency, obviate the volatility and inflation that was now associated with use of the peso, and legalize already ubiquitous use of the dollar, the Cuban government legalized dollar holdings and transactions in 1993 (Alejandro in Dominguez et al., 2012(a): 41; Rowe and Faya in Ritter, 2004: 46). Regarding the attempt to obtain hard currency, Togoeres and Garcia argue that “One of the principal objectives of the institution of the de-penalization of foreign exchange holding was to guarantee the capturing of a significant share of U.S. dollars in the hands of the population by the state” (in Dominguez et al., 2004: 280). Obtaining such currency was necessary for funding the increasing trade deficit that the state was experiencing in the early years of the Special Period (once again, it must be kept in mind that Cuba did not have access to credit markets) (in Dominguez et al., 2004: 280). As a necessary concomitant, Cuban dollar stores were expanded that accepted US dollars for the purchase of consumer goods (in Dominguez et al., 2004: 280).

Regarding the attempt by Cuban officials to avoid the volatilities that were associated with the peso during the early 1990s, Alejandro explains that dollarization was a policy that was meant to isolate foreign-invested sectors from the “disequilibria and instabilities that dominated the rest of the economy” (Alejandro in Dominguez et al., 2012(a): 41). In other words, the increased liquidity and inflation that the island was experiencing, due to monetized budget

deficits, made legalization of the dollar necessary, so as to isolate Cuba's emerging foreign-invested sector from the volatilities that had emerged in its peso economy.

Moreover, dollarization was a pragmatic policy move on the part of Cuban officials, who recognized that illegal use of the dollar was already ubiquitous on the island. As Togoeres and Garcia explain, the legalization of dollar holdings and transactions was a response to already extant use of the dollar in the Cuban economy, due to the opening of the Cuban economy, increased tourist activity, and increased remittances from abroad (in Dominguez et al., 2004: 279).

In sum, the decision to dollarize the Cuban economy should be understood as being impelled by three main exigencies. First, dollarization was a response to a need to attract hard currency. Second, dollarization was a pragmatic response to already ubiquitous illegal use of the dollar. Lastly, dollarization was a necessary corollary of Cuba's fiscal policy (budget deficits) in the early Special Period years, as it tried to isolate its foreign-invested sector from the volatilities associated with the peso (Ibid: 41). This last analysis is interesting because dollarization is often characterized in terms of the first two exigencies (legalizing ubiquitous behavior and obtaining hard currency (Eckstein in Centeno and Font (Ed.) 1998: 148), but such dollarization is not often linked to Cuba's fiscal policy during the Special Period. Hence, Alejandro's assessment that dollarization was a necessary monetary response to Cuba's fiscal deficits, is a novel and insightful analysis. Both the funding of budget deficits through the printing press, and the dollarization of the Cuban economy, therefore, are illustrations of Rowe and Faya's characterization of Cuban monetary policy as being subordinate to fiscal policy in the early years of the Special Period (in Ritter, 2004: 50-1).²⁶

²⁶ While Alejandro's analysis is similar to Rowe and Faya's, it is novel insofar as it links *dollarization* to Cuba's fiscal policy, while the analysis of the latter authors simply linked *general monetary policy* to fiscal policy.

Dollarization served the function of maintaining stability in the foreign-invested sector, and provided the Cuban government a means through which to regulate economic functions (through allocation of dollars to targeted enterprises and sectors, for example) (Alejandro in Dominguez et al., 2012(a): 42). Moreover, dollarization yielded some very beneficial social results. For instance, hard currency acquired through dollar stores has primarily been used to finance redistributive consumption for the rest of the population that only has access to pesos (Togores and Garcia in Dominguez et al., 2004: 281). Consumption through the dollar market has also allowed for import substitution and resuscitated manufacturing on the island, thus precluding further unemployment in the manufacturing sector (Togores and Garcia in Dominguez et al., 2004: 281). Lastly, Togores and Garcia argue that access to foreign exchange in the dollarized sector has provided incentives to workers to increase productivity in such sectors (Togores and Garcia in Dominguez et al., 2004: 281).

However, there were also adverse effects that followed dollarization. For instance, the legalization of the dollar spurred increased devaluation of the peso in the black market. Relatedly, inflation increased as the value of the peso decreased (Rowe and Faya in Dominguez et al., 2004: 41). Inequality on the island is also related to dollarization and monetary duality on the island, as is discussed below (see section on “Current State of Monetary Duality”).

De-Dollarization

Beginning in the early 2000s, the Cuban government attempted to scale back use of the US dollar. In 2003, Resolution 65 was promulgated, which made the convertible Cuban peso (CUC), which had been introduced in 1994, the dominant form of transaction between Cuban state entities. The dollar accounts of these entities were converted into CUCs, at the official

exchange rate of 1:1. Purchase of dollars by these entities had to be approved by the newly created Hard Currency Approval Committee (Rowe and Faya in Dominguez et al., 2004: 43).

Starting in 2004, the Cuban government began the implementation of policies meant to more decisively shift domestic transactions away from the dollar and towards the CUC. This shift was partly a response to US policy, which targeted and punished entities that accepted US dollar deposits from Cuba. For instance, UBS, earlier in 2004, had been fined \$100 million by the US Treasury Department for accepting Cuban deposits of US currency (Rowe and Faya in Dominguez et al., 2004: 42). In March of 2005, Agreement 13 was promulgated, which revalued the peso's exchange rate with the dollar by 7.5% (from 26:1 to 24:1) (Rowe and Faya in Dominguez et al., 2004: 41). In April of that same year, Agreement 15 was introduced, which revalued the exchange rate of the CUC in relation to the dollar by 8%.²⁷ Agreement 13 and 15 were both announced ahead of time, and Cubans were given a grace period to adjust their currency holdings. Moreover, these policies did not affect the value of bank account deposits held in US dollars, nor did Cuban authorities seize bank account assets to achieve their desired shift towards the use of Cuban currency. Hence, these policies should be viewed not primarily as an attempt to tax the Cuban populace through currency revaluation and asset seizure, but rather as an attempt to further convert "the population's wealth toward domestic currencies" (Rowe and Faya in Dominguez et al., 2004: 44).

These policies succeeded in achieving their purpose: within a year of Agreement 13 and 15's passage, dollar-denominated bank accounts decreased by 35%, while CUC-denominated accounts increased by 300% (Rowe and Faya in Dominguez et al., 2004: 44). Alejandro notes that these policies yielded additional benefits: "the level of international reserves in Cuba's

²⁷ The CUC-US Dollar exchange rate, pursuant to Agreement 30 of 2011, was once again devalued to 1 CUC: 1 US Dollars, from 1 CUC: 1.08 US Dollars (Lavery 2011: 82, note 9).

Central Bank grew, the measurement and control of the money supply improved, and the autonomy of monetary policy was generally enhanced” (in Dominguez et al., 2012(a): 45).

Alejandro stresses that the success of Cuba’s shift towards use of domestic currencies “cannot be understood without analyzing the evolution of monetary stability” (in Dominguez et al., 2012(a): 45). Such stability was achieved through the use of a currency board regime, under which every CUC in circulation was supported by an equivalent US dollar in Cuba’s central bank (Alejandro in Dominguez et al., 2012(a): 45). The success of this currency board can be taken as evidence that Rowe and Faya were wrong in their 2004 speculation that the Cuban government could not credibly maintain a currency board (in Ritter, 2004: 43-58). Monetary stability was also engendered by the promotion of a relatively healthy financial system on the island, with the Cuban government respecting Cuban bank accounts (Alejandro, in Dominguez et al., 2012(a): 45). However, as explained below, de-dollarization did not remove monetary duality from the island (Alejandro, in Dominguez et al., 2012(a): 46).

Current State of Monetary Duality

As Alejandro explains, despite efforts of the Cuban government during the early years of the Special Period, monetary duality still obtains on the island (in Dominguez et al., 2012(a): 48). By monetary duality, we mean the use of two currencies and multiple exchange rates. A thorough and concise description of the current state of Cuban currency markets is as follows.

Table 4.1

Cuban Population	- 24 Pesos = 1 CUC = \$1 USD - Currency transactions conducted through CADECA
Cuban Enterprises	- 1 Peso = 1 CUC = \$1 USD - Peso effectively unconvertible - Currency transactions conducted through Hard Currency Approval Committee
Foreign Enterprises	- Transactions conducted in foreign currency

First, there is an exchange rate that applies to the general population. For the general population, 24 pesos can be exchanged for one CUC, and one CUC can be exchanged for \$1USD (Alejandro, in Dominguez et al., 2012(a): 47).²⁸ Such transactions are conducted at CADECA, which is Cuba's official currency exchange agency. Cubans and tourists are charged a 10% tax when selling dollars at CADECA, while Cuban enterprises are prohibited from converting currency at CADECA (Alejandro, in Dominguez et al., 2012(a): 43, 47).

Second, there is an exchange rate that applies to Cuban enterprises and institutions. For Cuban enterprises, one peso is equivalent to one CUC, and one CUC is equivalent to \$1USD, which overvalues both the Peso and the CUC, relative to the US dollar. However, Cuban enterprises are not allowed to purchase CUCs or foreign currency with pesos, so the peso is effectively unconvertible. Enterprises operating in pesos must purchase imports with hard currency, but because they are unable to convert pesos to CUCs or foreign exchange, they must rely on Cuba's centralized Hard Currency Approval Committee (established by Resolution no. 92 of December 29, 2004 (Rowe and Faya in Dominguez et al., 2004: 43)), through which funds are allocated by the Ministry of the Economy and Planning, as well as by the Central Bank (Alejandro, in Dominguez et al., 2012(a): 47).²⁹ If an enterprise has an account in CUCs, it can

²⁸ On March 12, 2011, pursuant to Accord 30, the official CUC-Dollar exchange rate was devalued to 1:1. Prior to this Accord, the official exchange rate was 1 CUC : \$1.08 US Dollars (Lavery 2011: 82, note 9).

²⁹ As explained in this thesis's chapter, *Recent Reforms*, there is a reason, historically, that input purchases have been highly regulated, and private wholesale markets have not been further liberalized (until recently). As Jose Luis Rodriguez explains, During the 1990s and early 2000s, while Cuban officials were experimenting with dollarization of certain sectors of the economy, in order to garner foreign exchange, they found that the intended goals of their experiment fell short, due to financial mismanagement of many entities that were attracting foreign exchange. "Many enterprises whose products were generating sufficient foreign currency for their own needs were failing to act with the financial discipline necessary to ease Cuba's binding foreign-exchange constraint and contribute to its domestic production and social programs" (Campbell (ed.) 2013: 46-7). Hence, while many enterprises during this period were attracting foreign exchange, they were failing to properly allocate these resources to the government's desired economic and social sectors. To respond to this issue, the Cuban government, in 2003, converted from \$USD to CUCs all bank accounts held by enterprises that did business abroad, and then required these enterprises to receive approval for foreign-input purchases, which required their CUCs to be converted back to foreign currency (Ibid: 47). By doing so, the efficiency of Cuban enterprises was likely diminished, but the ability of the Cuban government and Central Bank to reduce the island's foreign-exchange tensions was greatly increased (Rodrigues in Campbell (ed.) 2013: 47).

purchase dollars at an exchange rate of 1 CUC to \$1 US dollar (Alejandro, in Dominguez et al., 2012(a): 47).

Finally, foreign entities conduct their transactions and hold their accounts in foreign currency (Alejandro, in Dominguez et al., 2012(a): 47).

There are some significant distortions that have emerged as a result of Cuba's exchange rate regime. First, the official exchange rate for Cuban enterprises and institutions (1 peso = 1 CUC) is greatly overvalued (Alejandro, in Dominguez et al., 2012(a): 48). Because of this overvaluation, accurate accounting is made very difficult, as enterprises operating in pesos appear to be more profitable than they actually are, while enterprises operating in CUCs appear to be less profitable than they actually are (Alejandro, in Dominguez et al., 2012(a): 48).

Second, multiple exchange rates serve as a subsidy to imports, and a tax on exports. This is because, according to official exchange rates under Cuba's enterprise exchange rate regime, when a Cuban exporter brings in \$1USD, it only registers as one Cuban peso for accounting purposes, since \$1USD = 1 CUC, and 1 CUC = 1 Peso. In contrast, Cuban imports appear overly cheap for the same reason, even though, in terms of actual market exchange rates, $1 \text{ Peso} < 1 \text{ CUC} < \1USD . The upshot is that allocation of state resources through Cuba's centralized hard currency account is suboptimal, since revenues and expenditures are not recorded in market values (Alejandro, in Dominguez et al., 2012(a): 48).

Third, as may be implied by the first and second distortions listed above, significant issues pertaining to efficiency have emerged in the Cuban economy, due to monetary duality on the island. This is because the total value produced within the economy, and within particular sectors and enterprises, can be difficult to accurately measure, since multiple currencies are often used, which leads to some sectors and enterprises appearing to be more profitable or costly than

they actually are. Hence, “the corollary,” as Rodriguez explains, “is an inability to determine the efficacy of policies designed to improve efficiency, and hence an inability to effectively plan for further improvements” (in Campbell, 2013: 53-4).

Fourth, market segmentation has occurred in Cuba, since state enterprises cannot convert pesos for CUCs, which are required for transactions between state enterprises and institutions (Rodriguez in Dominguez et al., 2012(a): 48).

Fifth, because certain economic activities/sectors were never dollarized, and continue to be designated in Cuban pesos, investment and economic activity in these sectors has been neglected (Rodriguez in Dominguez et al., 2012(a): 49). Hence, even if a particular activity is socially desirable, it may be avoided because it does not bring in foreign exchange or CUCs. Such has been the case in recent years, as Cubans with PhDs have worked as prostitutes, waiters, and taxi drivers, since these jobs afford them access to hard currency (Karsseboom 2003). This problem is summarized by Mesa-Lago and Vidal-Alejandro:

In 1989, university professors and physicians were at the top of the salary scale and teachers earned adequate salaries; thereafter, small private farmers, self-employed workers and traders in the free agricultural and black markets became the highest earners. Many professionals shifted their state occupations to jobs in enterprises with foreign capital or in tourism, where they earned part of their wages or tips in hard currency; they also moved to small private sector, informal and black-market jobs, where remuneration was higher (2010: 700).

Moreover, a black market for health services has emerged in Cuba, in which healthcare professionals offer services under the table, in exchange for hard currency and other favors (Kath, 2009). Such an arrangement, while supplementing lacunae in the official system, also poses risks to equality and fairness, since those without marketable resources, and those who wait in official queues, are at a disadvantage when attempting to obtain health services.

Thus, dollarization, as part of a larger movement towards marketization, has caused an effectual devaluation of education in Cuba, as well as introduced distortions in the Cuban economy, as Cuban doctors offer services through unofficial channels. These are issues that

Cuban authorities will need to address, since education and health care are pillars of the Revolution, and lower pay in those sectors threatens to have a deleterious effect on the quality of services offered in those sectors. Cuban authorities seem to have partially addressed these concerns by increasing educators' pay in 2009 (Mesa-Lago and Vidal-Alejandro 2010). Similar increases in pay for doctors have thus far not been forthcoming.

Finally, the most salient result of monetary duality has been drastically increased inequality on the island, and the concomitant emergence of a dual economy. As Prieto states, "In contemporary Cuban society the main source of inequality is determined by those having a source of income in foreign exchange. That reflects the appreciated exchange rate (\$1US: \$26Cuban) in effect along with the fact that meeting some essential household needs requires foreign exchange" (in Dominguez et al., 2004: 223). Essentially, the dollar (and thus CUC) has much more purchasing power than the peso, and is able to purchase many goods that are not available in state stores that accept pesos. As Togores and Garcia explain, this problem is even more pronounced, since many of the goods that are available through dollar purchases, but not through peso purchases, are essential goods (in Dominguez et al., 2004: 286).

In contrast to the above arguments, Alejandro argues that inequality in Cuba is not caused by dollarization/monetary duality, but rather by structural factors (in Dominguez et al., 2012(a): 39-40). He argues that the monetary duality-inequality link is an "inaccurate perception," and that "inequality primarily stems from low state salaries," and that "these are the result of low productivity" (in Dominguez et al., 2012(a): 49). This may be true if Alejandro means that monetary duality is not the *sole* cause of increased inequality in Cuba, but it can hardly be denied that monetary duality – particularly the asymmetric access to dollars/hard currency that currently

obtains on the island – provides a mechanism through which inequality is engendered and exacerbated much more quickly than would be the case without monetary duality.

Moreover, even if inequality on the island is more a result of low pay in state salaried sectors than of monetary duality, it could still be argued that low productivity in these sectors is a *result*, rather than a *cause*, of low pay in these sectors. In other words, when state workers are paid in pesos that have lower purchasing power than CUCs, they have lower incentives to produce. Moreover, since sectors of the economy that are not dollarized likely receive less capital than dollarized sectors, these sectors are likely less productive as a result. Alejandro seems to admit as such when he states, “a number of important domestic economic activities were never dollarized and have continued to be designated in Cuban pesos. The current exchange regime does not stimulate investment in these Cuban and foreign enterprises” (in Dominguez et al., 2012(a): 48). Lower investment in these sectors presumably causes lower productivity, since there is less capital per worker in non-dollarized sectors. This would be the implicit argument of Togores and Garcia, who proffer that access to foreign exchange in the dollarized sector has provided incentives to workers to increase productivity in such sectors (Togores and Garcia in Dominguez et al., 2004: 281). If increased access to dollars has *increased* productivity, then it can be reasoned that lack of access to dollars presumably *decreases* productivity.

In sum, lower productivity is likely a result of lower pay in non-dollarized sectors, rather than low pay in these sectors being a result of lower productivity. Moreover, even if lower productivity was the cause of lower pay, it is, arguably, ultimately monetary duality on the island that is partially causing this lower productivity, since lower investment in non-dollarized sectors leads to less capital per worker, and thus causes lower productivity in these sectors.

An additional flaw in Alejandro's argument is that it completely neglects the role of remittances in the Cuban economy. The receipt of remittances allows Cubans to enjoy relative prosperity over those without access to hard currency, and this can in no way be attributed to the "higher productivity" of those who simply receive remittances. As Laverly explains, in Cuba, "the people who don't work and are the least educated can sometimes have the highest incomes, if they have access to remittances... Highly educated people and workers in strategic sectors that have no access to hard currency remittances are some of the most underpaid and vulnerable" (2011: 52). When viewed this way, it seems that Alejandro's insistence that inequality on the island is a structural/productivity problem, rather than a corollary of monetary policy, is unsound. However, as will be explained below, steps that should be taken for monetary unity will not necessarily eliminate the inequalities that have been engendered by the introduction of the dollar into the Cuban economy. As such, inequalities related to Cuba's monetary policy are more a result of dollarization than they are of the use of multiple exchange rates for different sectors.

Fixing the Problem of Monetary Duality

Alejandro argues that there are four main steps that must be taken to eliminate monetary duality on the island (in Dominguez et al., 2012(a): 50-2):

1. Devalue Peso in state enterprise sector (currently $1P = 1CUC = \$1$);
2. Unify exchange regimes for enterprise sector and general population;
3. Convert prices at CADECA from CUC to Peso prices, thus eliminating CUC from circulation amongst general population;
4. Convert institutional bank accounts held in CUCs to Pesos, and allow institutions to directly purchase imports.

The first step to be taken is the devaluation of the peso's exchange rate in the state enterprise sector. The devalued exchange rate is yet to be determined, as is explained below. This step must be taken before opening the exchange market for the Cuban peso to institutions; if the exchange market for pesos were opened to Cuban institutions without first devaluing the peso, there would

be excess demand for hard currency, since these institutions retain large amounts of Cuban pesos, and the Peso/CUC (and Peso/\$USD) exchange rate is currently exorbitantly overvalued (Alejandro in Dominguez et al., 2012(a): 50). Alejandro cautions that this first step has the potential to cause significant problems, since capital expenditures and inputs purchased with CUCs and dollars (all imports, in other words) would increase, in terms of pesos. Hence, since these prices would be passed on in the form of increased input costs for other Cuban entities, this step has the potential to introduce severe inflation in the Cuban economy (Alejandro in Dominguez et al., 2012(a): 50).

To mitigate the inflationary impact of this first step, and ensure that the devaluation of the nominal exchange rate actually translates into a devaluation of the real exchange rate (by avoiding price increases, which cause the real exchange rate to appreciate)³⁰, Alejandro argues that the Cuban government must “identify enterprises that are most negatively affected and those that are beginning to suffer losses, and take appropriate action” (Alejandro in Dominguez et al., 2012(a): 50). It is unclear what he means by “appropriate action,” but one option may be to implement temporary price controls in sectors that are most affected by the peso devaluation. If price controls were implemented at the beginning of the production chain with enterprises that purchase inputs from abroad, using foreign exchange, then losses as a result of devaluation could be limited to those entities, and inflation could be prevented from spreading throughout the rest of the economy. The government could provide increased support, such as subsidized foreign exchange, for these entities while they adjust. Providing such support, while implementing price

³⁰ The equation for the real exchange rate is $Q_t = e_t(P_f/P_h)$, where Q_t is the real exchange rate at time t , e_t is the nominal exchange rate at time t , P_f is the foreign price level, and P_h is the home price level. If a devaluation of the nominal exchange rate, e , is simply met by increased prices in Cuba, then the real exchange rate is unaffected, and the distortion in the Cuban economy is not ameliorated, since Cuban enterprises will simply pass on higher prices throughout the economy. Moreover, failing to achieve a real devaluation of the currency would preclude Cuba from making advances towards increased exports.

controls throughout affected sectors, would allow importing firms to sufficiently sustain losses, while avoiding the larger problem of economy-wide inflation.

It is important to stress that such price controls and subsidies would be *temporary*. Ultimately, structural change must be effected in the import and export sectors, with price incentives being the mechanism through which change, vis-à-vis efficiency, is accomplished (in essence, Cuban enterprises must eventually become competitive, though there is probably a case to be made for state industrial policy for a certain period of time). The precise pace and depth of future measures to needed to improve efficiency amongst Cuban enterprises remains uncertain at this point, since improving efficiency will require a tradeoff in political power/control for Cuban authorities. As Sanguinety argues, “Efficiency requires workers’ and citizens’ freedom to choose as an incentive to work hard and be efficient, while political control to avoid political instability requires constraining workers’ and consumers’ behavior” (2011: 20). Hence, achieving competitiveness through price and profit incentives is *economically*, though not necessarily *politically*, possible for Cuban enterprises at this point.³¹

Regarding inflation that could occur once sufficient currency devaluation has transpired, Rodrik argues that such risks are often overstated, since inflation under an overvalued currency is often extant, but hidden, since black market prices often far exceed official prices, due to the official overvaluation of the currency (in Dominguez et al., 2012(a): 57).

Importantly, while wealth redistribution, vis-à-vis profitability and costs of state enterprises, is a logical corollary of peso devaluation, Alejandro stresses that such alterations are necessary, since it is artificial overvaluation of the peso that is currently causing such substantial

³¹ The question of how to prevent inflation in the Cuban economy while devaluing the Peso should be an area of further study. Particularly, the question of how price controls can eventually be phased out, and how price mechanisms can take their place, without risking political instability, should be studied.

distortions in the Cuban economy (in Dominguez et al., 2012(a): 51). Rodrik argues that Cuban authorities could mitigate the severity of redistribution caused by devaluation of the peso, by making the peso convertible at the margin (in Dominguez et al., 2012(a): 57). Essentially:

Exporters, for example, could get the devalued, higher rate only for export earnings above what they earned, say, in the previous year. Similarly, importers would pay the higher rate for dollars only for allocations that exceeded their previous quota. This provides the appropriate incentives at the margin, but without eliminating the streams of rents and transfers implicit in the previous regime (in Dominguez et al., 2012(a): 57).

Such an approach is taken directly out of China's marketization strategy, under which it very successfully provided incentives at the margin, which allowed the market to grow alongside the state (in Dominguez et al., 2012(a): 56-7). Such an approach allows for gradual adjustment, while also allowing for efficiency gains in productive sectors.

Secondly, after the peso exchange rate in the state enterprise sector has been devalued, the exchange regime of the enterprise sector can be unified with the exchange regime of the general population. The official exchange rate that should be arrived at cannot yet be determined, since unifying the state enterprise and population exchange currency markets is going to alter the supply and demand of pesos and hard currency (Alejandro in Dominguez et al., 2012(a): 51). Hence, while the current exchange rate for the general population in Cuba is 24 Pesos/1CUC/\$1USD, the new exchange rate for a unified currency market may be much more devalued, since Cuban enterprises hold large amounts of Pesos.

Third, once the exchange regimes have been unified, CUC prices, in terms of dollars, should be converted to peso prices, at CADECA (the population's exchange agency). Through this step, monetary dualism amongst Cuban households would be removed, as only the peso, rather than the CUC, would be used (Alejandro in Dominguez et al., 2012(a): 51).

Finally, Alejandro argues that institutional bank accounts held in CUCs should be converted to pesos, and for the enterprise sector operating in pesos, the peso should be made

convertible, so that these enterprises can purchase imports (Alejandro in Dominguez et al., 2012(a): 51-2). Alejandro notes that enterprises that currently have to wait for centrally assigned hard currency would greatly benefit, as they could autonomously purchase their own foreign exchange for import purchases (Alejandro in Dominguez et al., 2012(a): 52). Hence, the unification of exchange markets would engender greater efficiency amongst Cuban enterprises, since their access to foreign currency would be tied to their productivity and profitability, rather than being independent of performance, as is the current case under centralized allocation of hard currency (Alejandro in Dominguez et al., 2012(a): 52).

This last step is of great importance, because, as is proposed below, the increased efficiency and profitability in these enterprises could hopefully be redistributed towards sectors of the economy that do not have access to foreign exchange. However, the likelihood that the Cuban government will introduce this necessary step depends on how amenable Cuban officials are to the decentralization and loss of economic power that this step will require. The current system requires centralized decisions regarding which enterprises are allocated hard currency, and are thus capable of purchasing imports. Such a system was introduced to mitigate the financially irresponsible behavior of Cuban enterprises, and to more strategically target specific sectors of the economy that officials want to give preferential treatment. Introducing a reform that allows Cuban enterprises to purchase their own foreign exchange will require that Cuban authorities substantially loosen the reins and brook a significant degree of decision-making decentralization, which will dilute the political and economic power of those who are currently in charge of allocating hard currency. The willingness of Cuban authorities to make such changes is difficult to assess, but it can tentatively be predicted that Cuban authorities will opt for a policy that allows them to maintain some degree of control over access to foreign exchange

markets, but will introduce some degree of liberalization, so as to introduce some economic discipline into the state enterprise sector. Such a policy would comport with recent rhetoric and actions of Cuban authorities, which indicate that they are attempting to introduce a more rationalized industrial policy (see the shuttering of some Cuban sugar mills, for instance).

As was alluded to above, taking these steps will not necessarily eliminate the inequalities that have been engendered by the dollarization of the Cuban economy. Under the proposed reforms, Cubans – enterprises and individuals alike – will still enjoy full convertibility of currencies. As a result, those with access to dollars will still enjoy a relative advantage over those who do not have such access. Such inequality may simply be a necessary inconvenience if Cuba wishes to continue attracting hard currency from abroad. The key for Cuban officials will be to find a way to identify and mitigate such inequalities, lest they begin to approach socially unacceptable levels.

However, by unifying the currency/exchange regime, and allowing Cuban enterprises greater autonomy in purchasing foreign exchange, distortions will be removed that afford some Cuban entities artificial advantages and cause other entities unnecessary burdens. Entities in the economy that are granted greater autonomy in procuring hard currency and purchasing their own imports are likely to experience substantial efficiency gains.³² Prior experiments with such projects have yielded favorable results. For instance, subsequent to the collapse of the USSR, Cuba introduced a policy of “foreign currency self-financing,” which essentially granted Cuban enterprises greater autonomy in procuring and spending foreign exchange (Alvarez in Dominguez et al., 2012(a): 157). Enterprises that were granted such autonomy experienced

³² Efficiency would increase because, as part of a more general shift towards the price mechanism and profit seeking, Cuban enterprises will seek to produce goods that are being demanded by Cuban citizens (allocative efficiency), while also seeking to do so at the lowest cost possible (productive efficiency).

substantial gains, with both the volume and the value of production increasing substantially (Alvarez in Dominguez et al., 2012(a): 160).

If similar access to hard currency procurement were introduced today, thus allowing Cuban enterprises to exchange their pesos for hard currency, then efficiency gains in these enterprises could potentially be redistributed towards sectors of the economy that do not necessarily have access to hard currency. For instance, increased profits from state firms that experience increased productivity (and incentives at the margin) would translate to higher revenue for the state, and could be redistributed towards the educational and health care sectors, offering higher pay to teachers and doctors, so as to obviate the incentives that currently divert professionals in these sectors to sectors that attract foreign currency, such as taxi driving and prostitution.³³ To maintain incentives in these sectors that experience efficiency gains, retained profits could be introduced that would allow managers of these corporations to retain profits above a certain level. Hence, Cuban authorities could determine what level of revenue is needed from these sectors to achieve higher pay in the education and health care sectors. Once these levels of revenue have been collected from relevant enterprises, managers would be allowed to retain profits, preferably distributing them in part to workers or shareholders, though this latter option would require that a stock market is developed for Cuban enterprises. This would be just one possible path that serves as an example of what Dani Rodrik refers to as “providing market-based incentives at the margin” (in Dominguez et al., 2012(a): 56). This arrangement is very similar to a progressive income tax arrangement. The reason this path is chosen, rather than a progressive income tax arrangement, is that Cuba currently does not have a well-developed

³³ A natural question that one asks when viewing this proposal is, “why not just liberalize the health care and education sectors, so that doctors and academics make more money?” This is a logical question, but it neglects the political reality that the Cuban government is simply just not ready to take that step. Cuba takes great pride in its healthcare sector as one of the shining achievements of the Cuban Revolution; hence, it is unwilling to relegate the operation of this sector to the market. Similarly, the Cuban government takes great pride in its educational system, and is unwilling to marketize employment in this sector.

income tax system. The island's tax system is currently under construction, and when it is established, it may be preferable to switch to a tax-based redistribution system.

Hence, while those in sectors that attract hard currency would still maintain an advantage over more internally-oriented sectors of the economy, the gains made in terms of efficiency and profitability could hopefully be redistributed so as to at least mitigate the inequalities that currently obtain in the economy. And market-based incentives at the margin could be introduced so that enterprises that experience efficiency gains could retain profits after their obligations to the state are met, such obligations being necessary for increased redistributive pay in areas such as education and health care. Simply put, completely removing inequalities on the island that are related to Cuba's monetary policy would require the Cuban government to prohibit dollar holdings, which is both impractical (because it would simply reintroduce black market dollar transactions) and undesirable, as some degree of inequality is necessary for an economy that is shifting towards the market and privatization. But policies can be introduced that unify the exchange rate, allow for efficiency gains, provide productivity incentives, and allow for an amelioration of monetary policy-based inequalities.

Conclusion

By removing monetary duality on the island, Cuban authorities can much more effectively mitigate the inefficiencies and inequalities that have emerged as a result of monetary duality and dollarization. While such steps would not correct *all* inequalities and distortions, it would put the Cuban government in a much better spot to start tackling problems in Cuba's internal economy, and allow them to more smoothly transition towards a mixed-market economy. Correcting monetary duality would also mitigate much of the uncertainty that currently obtains internationally, regarding Cuba's economic situation. Further steps to address the question of

Cuba's place in the world economy are addressed in the following chapter, which aims to answer the question, "What is Cuba's comparative advantage?"

Chapter Five: Inserting Cuba Into the World Economy

Introduction

A dynamic economy necessitates engagement with the world economy, and Cuba's case is no exception. Indeed, international insertion is much more important for a small island nation such as Cuba than it would be for a larger country at a similar level of development, because the potential for import substitution is much more limited in the former case. As Quinones Chang states regarding Cuba, "One must bear in mind that the expansion of exports is an unavoidable necessity for financing imports and as a source of economic growth, given that the potential for import substitution is limited by the size of the national market" (in Campbell (ed.) 2013: 109). Emphasizing the importance of international insertion for the Cuban economy, Silva-Castaneda states, "It is not impossible for Cuba to be developed in 25 years, but it is hard to imagine that scenario without a deeper and successful integration into global markets" (in Dominguez et al. (ed.) 2012(a): 244-5). Similarly, Monreal Gonzales also argues that Cuba's embrace of globalization is much less of a choice than it is an economic imperative, since, as a small island, Cuba's only potential for true development lies in its embrace of specialization in the international economy (in Dominguez et al. (ed.) 2012(a): 229).

Cuba's insertion into international markets should be viewed not only as a necessity, but also as an advantageous opportunity. For instance, Monreal Gonzales, speculating on Cuba's potential in the global economy, argues that globalization should be greeted as a potential boon, rather than as a threat, to Cuba's economy:

[Globalization] should be seen as a mechanism that creates opportunities for development. Making use of these opportunities could lead to extremely positive economic accomplishments characterized by a high level of value-creation based on increasingly complex technology, conditions that globalization imposes on contemporary development processes (in Dominguez et al. (ed.) 2012(a): 227).

If Cuba is able to harness the potentials – and overcome the obstacles – of globalization, and the island’s insertion into the world economy, Monreal Gonzales argues, “Cuba could emerge as a developed economy within twenty-five years” (in Dominguez et al. (ed.) 2012(a): 227).

However, the foregoing statements should not be construed as a categorical endorsement of globalization. Not all experts agree that globalization necessarily yields economic benefits to countries that open up their current and capital accounts. In particular, the dangers of unregulated financial liberalization can be particularly pronounced for developing economies, since they are often left susceptible to capital flight. This susceptibility to capital flight is especially problematic for developing countries, since they are required to borrow in foreign currencies (“original sin”) – mainly the US Dollar and/or Pound – and capital flight causes drastic depreciation of their domestic currencies, which increases the real value of their debt, in terms of foreign currency (For “original sin,” see Eichengreen and Hausmann (ed.) 2005; for dangers of capital account liberalization, see Grabel 2004). Moreover, Dani Rodrik (2011) argues that globalization has the potential to pose threats to national determination and sovereignty, since domestic adjustments that are necessary for the receipt of foreign capital and trade agreements may contravene economic and political desires of developing states. In this sense, the threats that globalization poses are as political as they are economic.

Regarding the political aspect of globalization, Monreal Gonzales argues that it is not necessarily the Cuban *economy*, but rather the Cuban *state*, that faces the most challenges from globalization (in Dominguez et al. (ed.) 2012(a): 227). This is because it is the state that must define/redefine economic institutions on the island, including property rights and other institutions that are currently underdeveloped on the island. However, Monreal Gonzales argues that international insertion is absolutely necessary, and that the state must thus make necessary

adjustments in its institutions. This does not mean that the state must abandon, wholesale, its role in economic development; rather, it simply means that the island must accept that its developmental fate is dependent on its insertion into international markets (in Dominguez et al. (ed.) 2012(a): 230).

As to particular development models, it should be emphasized that the model of import substitution industrialization (ISI) that reigned as the development paradigm in Cuba until recently is infelicitous for Cuba's international position.³⁴ This is due to Cuba's position as a small island economy, which prevents it from achieving a complete internal production cycle. Because Cuba is unable to establish a complete internal production cycle, full ISI is an inappropriate development model, since ISI requires that countries be able to produce their own capital goods as inputs (Hence why ISI is actually more appropriate for countries with large-scale economies and fully developed markets). Thus, because Cuba's internal production cycle (including production of capital goods) is incomplete, savings do not automatically translate to investment in capital. As a result, in order to drive aggregate demand growth, Cuba must rely on exports, so as to fill in the lacuna that is left by insufficient investment. Moreover, because Cuba is a small economy, and ill suited for production of its own capital goods, its export specialization must inherently be narrowly defined (because more diversified exports require a more complete production cycle, for which the island does not have the capacity) (in Dominguez et al. (ed.) 2012(a): 231).

In short, although globalization has its drawbacks, in terms of political compromises and increased susceptibility to financial instability, most analysts agree that the benefits outweigh the

³⁴ Cuba's main emphasis of ISI was from the mid-1970s through the early 1990s. Although Cuba did focus on an export sector, this sector was viewed not as an end in itself, but rather as a means to achieve resources to finance the island's ISI. The potential of commodity exports to finance ISI was drastically vitiating after the fall of the USSR, as Cuba stopped receiving beneficial prices for its exports from Soviet Bloc countries (Monreal Gonzales in Dominguez et. al. (Ed.) 2004: 100-1).

costs, and that Cuba has no choice but to insert itself more fully into the world economy. The question then becomes not *if*, but *how*, the island can integrate internationally, in a way that minimizes globalizations risks, and allows the island to retain its national sovereignty and continue to advance its social goals through economic development. This chapter gives an overview of Cuba's current position in the world economy, its most promising sectors, and how globalization is being managed on the island, so as to minimize social, economic, and political risks. It should be noted that not all aspects and sectors of the Cuban economy are covered in this chapter. For instance, Cuba continues to devote a significant share of resources to mining and exporting nickel, but that sector is not extensively covered in this chapter, because mining has historically been exploited much more extensively by foreign companies than by domestic entities. Moreover, nickel is a primary resource, and thus is supplied as a commodity on world markets by many actors, and its price is thus susceptible to substantial demand and supply shocks. Hence, a drop in the price of nickel was one of the main mechanisms through which the global recession was transmitted to Cuba's economy (Perez, 2009: 17-18). This means that Cuba's economy will be best served by moving away from primary exports, and towards high-tech exports, which are less susceptible to demand/supply swings in world markets. This is not to say that resource mining is not important; rather, for my purposes, it is simply beyond the scope of this chapter. The focus is on areas in which Cuba truly has a comparative advantage: tourism and the knowledge-based economy, especially the biotech sector. Agriculture is also analyzed, because the island has the potential to domestically produce a very large percentage of what it currently imports, which would substantially reduce its current account deficit. Foreign direct investment (FDI) is also discussed, since Cuba's fraught relationship with, and minimal access to, foreign capital, has served as an impediment to its development.

The Current State of Cuba's International Trade³⁵

The overall characteristics of Cuba's trade regime, like the rest of its economy, have undergone substantial changes since the beginning of the Special Period in 1990. From 1990-2003, Cuba's trade regime could be characterized as one of relative decentralization, combined with a policy that aimed to develop sectors of the economy that could garner foreign exchange: "tourism, medicines and pharmaceuticals, biotechnology, the agro-food industry, and national crude oil" (Quinones Chang in Campbell (ed.) 2013: 100).

With decentralization of trade activity during this period, the number of entities engaging in trade on the island burgeoned, along with the Cuban government's administrative costs pertaining to the regulation of such entities. Hence, in 2003, in an effort to reign in administrative costs, and ensure that Cuban entities were acting in a financially responsible manner, Cuban officials shifted back toward a centralized trade regime. To achieve this goal, the Cuban government first, in 2003, replaced US dollars in domestic circulation with CUCs, and required all Cuban entities to convert CUCs to US dollars before purchasing imports (Quinones Chang in Campbell (ed.) 2013: 101). Cuban authorities then, in 2005, established a unified bank account at the Central Bank for all hard currency; this was the account that entities wishing to make foreign purchases were required to draw dollars from. By doing so, the Cuban government took a step towards ensuring that any international transactions would be in accordance with the government's priorities, in terms of sectors that it wished to support, and the international inputs that those sectors need to operate (Quinones Chang in Campbell (ed.) 2013: 101). Finally, in 2006, the Plan of Imports was drafted, which required "frameworks and guidelines for all foreign trade activities, in particular for Hard Currency Approval Committee authorization of any hard-

³⁵ This section draws mainly from Quinones Chang's very concise treatment of the topic in Campbell (ed.) 2013: 89-113).

currency transactions” (Quinones Chang in Campbell (ed.) 2013: 101). Quinones Chang summarizes the current state of Cuba’s trade regime very concisely:

[C]entralized planning mechanisms determine the structure and volumes of imports and even, to a large extent, the geographic distribution of purchases. Prices, although they are an important consideration in the analysis, do not by themselves determine the approval of imports. The determining factor is rather the availability of hard currency, which is allocated according to the priorities of the national economic plan. Individual enterprises can only make purchases that accord with this national plan (Quinones Chang in Campbell (ed.) 2013: 101).

In addition to regulatory changes in Cuba’s trade regime, there have also been substantial changes in terms of whom Cuba trades with, the goods Cuba exports, and the goods it imports. Regarding Cuba’s trading partners, there has been both a regional shift and a diversification in Cuba’s trade activity. As of 2009, Cuba divided 60% of its trade between Venezuela, China, Spain, Canada, the US, Brazil, and the Netherlands, whereas in 1990, that same percentage of trade was with the Soviet Union alone (Quinones Chang in Campbell (ed.) 2013: 101-2). Notably, as will be discussed in this thesis’s chapter on US-Cuban relations, the United States, by 2009, was Cuba’s 4th largest trading partner.

Regarding exports, the most salient trend has been a shift away from the exportation of goods, mainly sugar (73% of exports in 1990), towards an export regime that is based on services (72.8% of exports in 2009) (Quinones Chang in Campbell (ed.) 2013: 102). In 1990, about 90% of Cuba’s exports were goods, while only 10% were services. By 2000, Cuba had begun its shift towards service exports, with services accounting for a about 62% of exports. During that time, the main service Cuba exported was tourism, which accounted for about 45% of Cuba’s total exports, while other services accounted for about 17% of Cuba’s exports. By 2009, services accounted for more than 70% of Cuba’s exports, and goods accounted for a little less than 30%. Importantly, by 2009, the share of tourism in Cuba’s service exports had decreased to about 10% of total exports, while high value services had garnered more importance, especially in the areas

of “health care, telecommunications, sports, education, agriculture, industry, construction, culture, and informatics” (Quinones Chang in Campbell (ed.) 2013: 103-4, esp. figure 3.3).

Regarding the structure of Cuba’s export of goods, an important development has been the continued increase in the export of human-capital-intensive, health-related products, which include vaccines (e.g. hepatitis B, meningitis B), medicines, and other medical goods, such as “diagnostic systems, kits, and equipment; gene therapy; and neuroscience equipment” (Quinones Chang in Campbell (ed.) 2013: 104).³⁶

In sum, Cuba’s export regime has shifted away from one based on the export of sugar, and towards a regime that exploits its comparative advantages, vis-à-vis human capital and its concentration on health care and medical services. This shift will be invaluable in the future, as demand for such products will be less deleteriously affected by external shocks, since they are less susceptible to world market price swings than are primary goods, such as sugar. Cuba’s balance of trade in recent years is illustrative of the importance of Cuba’s export of services: in 2004, 2005, and 2007, Cuba actually ran trade surpluses (Quinones Chang in Campbell (ed.) 2013: 106). These surpluses are explained by Cuba’s service exports, since the island runs a deficit in its balance of trade in goods (Luis Rodriguez in Campbell (ed.) 2013: 48).

Regarding Cuba’s imports, Cuba sustained a drastic decrease in its ability to import during the 1990s, due to the collapse of the Soviet Union. As of 2009, the itemization of Cuba’s imports was as follows: foodstuffs and oils (17.7%); fuels and lubricants (29.1%); chemicals and related items (9.2%); manufactured products (11.8%); machinery and transportation equipment (20%); and assorted manufactures (8.3%) (Quinones Chang in Campbell (ed.) 2013: 105). One troubling figure is the 17.7% of Cuba’s imports that is constituted by food imports, since many of Cuba’s

³⁶ This development is further discussed below, in the section, “Cuba’s Comparative Advantage.”

imported foods could be produced domestically, with the right incentives and infrastructure properly put in place. This is the issue to which we now turn.

The Role of Agriculture in Cuba's Insertion

For Cuba to improve the external sector of its economy, one of its primary focuses must be the continued promotion of agricultural productivity. One of the curious facts about Cuba is that it imports a large proportion of its food, while simultaneously a large proportion of its land remains idle. Since 2007, Cuban officials have been in the process of transferring idle lands to individuals for usufruct use, hoping to thus increase agricultural production. If Cuban authorities are able to increase agricultural production, and thus improve their balance of payments, then the island will likely be able to obtain much-needed hard currency.

According to Johnston and Mellor, agricultural development plays a crucial role in the more general economic development of any country (1961; Alvarez in Dominguez et al. (ed.) 2012(a): 137-91). Particularly, agricultural development serves five main functions: increasing food for domestic consumption; releasing some agricultural labor to the manufacturing and service sector³⁷; increasing demand for industrial products and services; increasing domestic savings to finance investments; and earning foreign exchange by selling to foreign markets. In Cuba's case, the fifth function – attracting foreign exchange – should not necessarily be seen in terms of *attracting* foreign exchange, but rather in terms of *stemming* the outflow of foreign reserves that the island currently spends on imported food. In other words, Cuba, agriculturally, must learn to crawl before it can walk, by reducing its imports before it can export.

³⁷ This is one aspect of the classic role of agricultural development in general economic development that may not comport with Cuba's situation, since, as Dominguez states, "Cuban agricultural regions require repopulation. Without an agricultural population, there is no guarantee for stable or sustained agricultural production" (in Dominguez et. al. (Ed.) 2012(a): 82-3). Hence, Cuba, with its well-developed service sector, actually needs to draw laborers *away* from the service sector and *towards* the agricultural sector.

To understand the potential of agricultural development, vis-à-vis improving Cuba's balance of payments, it is necessary to first understand the situation as it currently stands in Cuba: in the most simple terms, Cuba imports a substantial portion of its food, while at the same time allowing a large portion of its productive land to remain idle. Cuba's balance of payments deficits related to food imports date back – as do so many of its contemporary problems – to the collapse of the Soviet Union. Cuba imported a significant amount of food, as well as agricultural inputs, from the Soviet Union, so when the USSR collapsed, the island lost both a cheap source of food and a source of inputs for domestic agricultural production (Alvarez in Dominguez et al. (ed.) 2012(a): 143). As a result, caloric intake dropped substantially on the island. This situation began to improve in 1994, and per capita daily calories surpassed FAO (Food and Agriculture Organization of the United Nations) recommendations by 2004. However, as Alvarez explains, this increase in caloric intake was achieved not through increased domestic production, but rather mainly through food imports (Alvarez in Dominguez et al. (ed.) 2012(a): 143).

Currently, the exact proportion of Cuba's food that is imported is debated. Alvarez argues that in 2006, a little over 50% of Cuba's food was imported (in Dominguez et al. (ed.) 2012(a): 145). The World Food Program (WFP) estimated this proportion, as of 2013, to be even higher: "Cuba, with a population of a little over 11 million people, imports about 80% of its domestic food requirements" (World Food Program). Avery and Avery give a similar figure, citing the Center for Global Food Issues (CFGF) attaché in Havana, who says approximately 84% of Cuban food is imported (Avery and Avery, cfgi.org). Altieri and Funes-Monzote dispute these figures, arguing that Cuba's actual food imports, when taking into account all food consumed on the island, rather than just food sold in state stores, is closer to 14% of total food needs (Altieri and Funes-Monzote 2009: 212). However, even these two authors recognize the very high proportion

of Cuban food that has been imported in recent years, and seem to implicitly recognize that their figure of 14% may be dubious:

There is considerable debate concerning current food dependency in Cuba. Dependency rose in the 2000s as imports from the United States grew and hurricanes devastated its agriculture. After being hit by three especially destructive hurricanes in 2008, Cuba satisfied national needs by importing 55 percent of its total food, equivalent to approximately \$2.8 billion. However, as the world food price crisis drives prices higher, the government has reemphasized food self-sufficiency. *Regardless of whether food has been imported or produced within the country*, it is important to recognize that Cuba has been generally able to adequately feed its people. According to the UN's Food and Agriculture Organization (FAO), Cuba's average daily per capita dietary energy supply in 2007 (the last year available) was over 3,200 kcal, the highest of all Latin American and Caribbean nations (Altieri and Funes-Monzote 2009: 212).

Rather than focusing on the proportion of calories that are domestically produced, Altieri and Funes-Monzote are more concerned with caloric intake per person, regardless of source, and indicate as much when they state, "Regardless of whether food has been imported or produced within the country..." However, the question of whence Cuba obtains its food from *is* a very important one, as it has substantial implications for its balance of payments.

More important than, but tragically related to, the current amount of food that Cuba imports, is the fact that Cuba has the potential to drastically increase domestic food production. If Cuba were unable to produce food domestically, then all of the foregoing discussion about how much food Cuba imports would be incidental to our debate; however, Cuba *does* have such capacity, and with the proper amendments to agricultural policy, could potentially produce a trade surplus in the agricultural sector (Alvarez in Dominguez et al. (ed.) 2012(a): 138). Thus, the question becomes, *how does Cuba increase domestic production?* This is the question Cuban authorities have been addressing, in earnest, since 2007.

Cuba has introduced multiple reforms to combat low agricultural productivity. Pertinent to Cuba's external sector, there are two main agricultural problems, and two corresponding agricultural reforms that Cuba has introduced since 2007 to combat its agricultural shortcomings; these problems are low productivity and idle land.

First, regarding low productivity, prices paid by the state for agricultural products have historically been too low, and have thus acted as a disincentive to producers to sell their product to the state. In response, Cuban officials have increased the prices paid to agricultural producers, and also have begun paying some producers with CUCs, so that their ability to purchase inputs would increase (Monreal Gonzales in Dominguez et al. (ed.) 2012(a): 80). Cuban officials have recognized that price incentives do indeed matter, as production results have been greatest for foods that are allowed to be sold in farmers' markets, where prices are higher (Alvarez in Dominguez et al. (ed.) 2012(a): 147). Hence, Cuban officials have offered higher prices, so as to offer incentives to food producers to increase productivity. Such increase in state purchase prices is important, as "commitments to sell [food] to the state reach and surpass 70% of total production" (Monreal Gonzales in Dominguez et al. (ed.) 2012(a): 83).

So far, this strategy has yielded relatively beneficial results. Increased prices paid for milk has provided incentives for milk producers to sell their products to the state. However, similar price increases have not stimulated significant production for meat producers (Monreal Gonzales in Dominguez et al. (ed.) 2012(a): 80). Though, payment to meat producers in CUCs has afforded such producers increased purchasing power for inputs; thus, increased productivity may be experienced as the efficiency in input-purchases becomes more forthcoming in the longer term.

Importantly, it is very likely that Cuban officials simply haven't gone far enough in terms of offering higher prices to agricultural producers. When prices for agricultural goods in free agricultural markets are compared with prices paid by *Acopio* (the state agency in charge of purchasing, storing, and distributing agricultural products), free market prices are consistently higher than *Acopio* prices. Given that 70% of total agricultural product is required to be sold to

the state, it is not surprising that productivity is lacking. Hence, productivity may not increase sufficiently until market prices are offered for agricultural products. To sum up the argument regarding market prices and incentives for agricultural products, Monreal Gonzales states,

Prices determined by markets where supply and demand are allowed to operate provide a greater stimulus to producers, while the official price stimulus remains insufficient. The state *Acopio* should pay a stimulus price that is equivalent to the prices obtained in unregulated agricultural markets and international market prices, *especially for those products that substitute imports* (in Dominguez et al. (ed.) 2012(a): 82, italics mine).

As stressed in the quotation above, offering higher prices for frequently imported foods will be particularly important in combating Cuba's balance of payments deficit.

One obvious question that presents itself on this issue is how, and whether, *Acopio* can obtain enough cash to pay market rates for agricultural products. The revenue for such purchases could potentially be obtained if Cuba would further liberalize self-employment on the island, which would allow subsequently legal forms of employment to be taxed. Many forms of self-employment already obtain in the island's black market, so there is really little reason, economically, for Cuban authorities to retain proscriptions on relevant forms of employment. Cuban authorities have already signaled their desire to progressively legalize further forms of entrepreneurship, so revenue should continue to increase in this regard, which could then be redirected towards purchases of agricultural products at market prices.

The second, and probably most important impediment to increased agricultural production on the island has been the large amount of land that has been allowed to lie idle. As Monreal Gonzales states, "It is paradoxical that the Cuban economy requires the importation of a significant volume of food products, many of which could be produced competitively on the island, given that Cuba has a significant quantity of idle land (equivalent to 27% of total land available for cultivation)" (Monreal Gonzales in Dominguez et al. (ed.) 2012(a): 82).

To address the issue of idle land, the government promulgated two measures, Decree-Law 259 and Regulatory Legal Decree 282, in July and August 2008, respectively.³⁸ Decree-Law 259 grants individuals the right to usufruct use of land, and establishes “economic property” and “legal property,” as well as introducing taxes for the use of such land. Decree-Law 282 establishes the operating procedures of Decree-Law 259 (Monreal Gonzales in Dominguez et al. (ed.) 2012(a): 82).

By the end of 2009, these measures had resulted in 52% of erstwhile idle land being allocated for production (Monreal Gonzales in Dominguez et al. (ed.) 2012(a): 84). Perkins notes that, while this is a step in the right direction, “less impressive is that most of this land is apparently still cultivated by state or collective entities that have very limited decision-making authority at the production level unit” (in Dominguez et al. (ed.) 2012(a): 108). The proportion of land cultivated by individuals, as opposed to state or collective entities, is important because Cuba, as well as other developing countries, has been able to impel much higher agricultural yields when agricultural production was privatized.

Regarding Cuba, during the early years of the Special Period, liberalizations that allowed for private cooperatives, as well as private agricultural markets, engendered increased productivity; as a result, farmers in private cooperatives saw their incomes jump 50%, and workers who owned and tilled their own land experienced a 423% increase in income (Burki and Erikson 2005: 19). Burki and Erikson conclude, “private farmer cooperatives were typically better and more profitable performers than state farms in comparable lines of production” (Burki and Erikson 2005: 19). However, such reforms failed to achieve more widespread implementation, largely due to Fidel Castro’s aversion to market-oriented policies in agriculture (Burki and Erikson 2005:

³⁸ For a more thorough overview and analysis of Decree-Law 259 and Regulatory Legal Decree 282, see chapter on Recent Reforms.

18). Current figures on Cuban agricultural production are illustrative of the productive potential of the private sector in agriculture: while the state owns 70% of arable land in Cuba, the private sector produces 70% of agricultural yields (Frank 2013: 117).

Regarding other countries' experience with agricultural liberalization, Vietnam began to experience higher yields when it shifted to individual agricultural production, and currently exports three times the food it imports (Perkins in Dominguez et al. (ed.) 2012(a): 108). To put things in perspective, Vietnam has a population of 80 million people, which it is able to feed with about 9.4 million hectares of land (~.1175 hectares per capita). Cuba, which imports a much larger portion of its food, had 6.6 million cultivatable hectares in 2005, and has a population of approximately 11 million people (~.5455 hectares per capita). However, as of 2005, only 3.2 million hectares of this land were under cultivation, and only 7.8% of that land was being cultivated by private individuals (Perkins in Dominguez et al. (ed.) 2012(a): 108).

Similarly, China experienced substantial productivity gains after 1978, when it introduced a dual strategy of privatization and increased agricultural prices. McMillan et al. estimate that agricultural productivity between 1978 and 1984 increased by 61% (1989: 781). These authors argue that such productivity gains can be attributed to two factors: privatization of the agricultural sector (increased private responsibility); and increased prices offered by the state for agricultural products. They estimate that 78% of increased productivity during this period is attributable to privatization, while 22% of increased productivity is attributable to increased prices (Perkins in Dominguez et al. (ed.) 2012(a): 782).

Hence, there are sizable gains that could be made if Cuba continues to cultivate more of its idle land, shifts more of its land towards individual use, and offers market prices for agricultural products. Such gains would go far in allowing Cuba to shift towards a positive balance of trade

in its agricultural sector, given the large amount of food that the island currently imports. Raul Castro is not unaware of the potential of Agriculture to mitigate Cuba's balance of trade deficit. As Damien Cave of *The New York Times* explains, "No other industry has seen as much liberalization, with a steady rollout of incentives for farmers. And Mr. Castro has been explicit about his reasoning: increasing efficiency and food production to replace imports that cost Cuba hundreds of millions of dollars a year is a matter 'of national security'" (12-08-12).

However, as is explained in this thesis's chapter on "Recent Reforms," there is still much that needs to be done in the agricultural sector. Despite recent reforms that increased prices paid to farmers, decentralized some production and procurement decisions, and increased access to agricultural inputs, agricultural yields of many agricultural products have actually dropped in recent years (Cave/ *New York Times*, 12-08-12; Lavery 2011: 18-21). These disappointing results are largely a result of poor infrastructure (roads), inadequate access to inputs, bureaucratic interference in the production decisions and pricing, and limited access to financing, among other problems (Cave/ *New York Times*, 12-08-12; Lavery 2011: 18-21). Hence, productivity gains in the agricultural sector are not likely to present themselves unless the Cuban government is willing to go even further in the area of agricultural reform, by extricating bureaucratic impediments from the process, increasing access for farmers to inputs, and building better infrastructure, and introducing a more expansive role for wholesale markets of agricultural inputs, for starters.

Agricultural Trade: Food that Cuba Imports, and the Potential for Domestic Production

While Cuban food imports as a share of total merchandise imports has dropped in recent years, the proportion of food that the island imports is still undesirable. Such food imports left Cuba vulnerable to increased international food prices in recent years; hence, Cuba's food

imports, as a share of total imports, jumped from approximately 17% in 2007, to 26% in 2008, and back down to approximately 17% by 2009 (Alvarez in Dominguez et al. (ed.) 2012(a): 166). Cuban officials presumably wish to avoid similar import volatility in the future; hence, they should look to substitute a substantial portion of their food imports in coming years (more importantly, the island *has the potential* to make such substitutions).

A large portion of Cuba's food imports – more than 50% - has been composed of items such as “rice, milk products, eggs, fish and fish-based products, meat and meat-based products, and even coffee” (Alvarez in Dominguez et al. (ed.) 2012(a): 166).³⁹ This list of items is important, because they are all items for which Cuba has productive potential (Alvarez in Dominguez et al. (ed.) 2012(a): 166). Alvarez focuses particularly on rice, beans, and milk – three items that compose a large percentage of Cuba's total food imports – and concludes that the potential for domestic production below import price is feasible (Alvarez in Dominguez et al. (ed.) 2012(a): 169-73). Taken together, these three categories compose more than 32% of Cuba's total food imports. Both milk (12.8% of food imports) and beans (4.9% of food imports) have a domestic production cost below their import costs. Hence, they could be produced domestically for less than it costs to import them. Rice (13.6% of food imports) currently has a domestic production cost slightly above import price, but Alvarez notes that “improvement of yields to potentially achievable levels would reduce costs to the point where domestic rice could compete with imports” (Alvarez in Dominguez et al. (ed.) 2012(a): 173).

Rice, beans, and milk products are illustrative of the more general potential Cuba has in agricultural production of currently imported food products. Cuba has such potential in a large number of food products; the further Cuba goes in granting use rights for idle land, and shifting agricultural production towards in a private direction, the further the island can progress in

³⁹ For a full product structure of Cuban food imports, 1958-2009, see (Alvarez in Dominguez et al. (ed.) 2012(a): 170-1).

obtaining its domestic production potential, and thus mitigating its balance of payments deficit related to food imports.

Any current analysis of Cuban food imports would be incomplete without at least a brief mention of Cuba's food imports from the United States. In 2000, the United States passed the U.S. Trade Sanctions Reform and Export Enhancement Act, which legalized the sale of pharmaceuticals and food to Cuba, so long as the accounts were settled at the time of sale, in hard currency (Dominguez et al. (ed.) 2012(b): 39). In 2001, following Hurricane Michelle, Cuba proposed that it be allowed to buy food under this Act, which had not yet been implemented. Subsequently, Cuba began to import a significant portion of its food from the United States. By 2004, Cuba imported 44% of its agricultural products from the US; currently the US is Cuba's top agricultural import market (Dominguez et al. (ed.) 2012(b): 39, 2). Moreover, Between 2001 and 2009, Cuba moved from the United States' 114th most important export market, to its 36th most important export market (Alvarez in Dominguez et al. (ed.) 2012(a): 179). Overall, the US is Cuba's fourth-largest trading partner (Egozcue in Dominguez et. al. (Ed.) 2012(b): 161).

As of 2012, The ten foods that Cuba imported most from the United States were: chicken, corn, wheat, soybeans, soybean oil cake, brewing/distilling beverages, soybean oil, pork, and beans. Six of these foods consistently appear in yearly lists of top imports into Cuba from the United States: corn, chicken, wheat, soybeans, soybean oil cake, soy oil, and pork, all of which – except wheat – could be produced domestically (Egozcue in Dominguez et. al. (Ed.) 2012(b): 179-80).

Cuba's high volume of imports from the United States is important for two particular reasons. First, per US law (the U.S. Trade Sanctions Reform and Export Enhancement Act of 2000), Cuba is not allowed to finance its food imports from the US – all imports must be paid for

on the spot, with hard currency (Egozcue in Dominguez et. al. (Ed.) 2012(b): 181). Hence, imports from the United States potentially contribute even more significantly to foreign exchange losses than imports from other countries. Second, there is the simple political fact that, as relations currently stand, Cuba would prefer to not be so highly dependent on its adversarial neighbor. For both these reasons, increasing domestic production of currently imported foods would be beneficial to Cuban interests.

Human Capital and Biotechnology/Pharmaceuticals: Cuba's Comparative Advantage⁴⁰

The necessity of Cuba's insertion into the international economy being understood, the question must be asked, *what* is Cuba's comparative advantage in the world economy? Monreal Gonzales argues that Cuba should pursue a policy mix of ISI and export substitution (not full ISI, but partial ISI, as this is will be necessary so as to domestically produce some inputs for Cuba's new economy).⁴¹ The issue of export substitution is directly related to the above question, regarding Cuba's comparative advantage, and Monreal Gonzales stresses that "export substitution" should not be conflated with "export diversification":

Cuba's route to development must involve export growth, but not just quantity. The issue is not simply to increase traditional exports and 'diversify' the export bundle through the widening of export activities. The truly important achievement would be to increase (both absolutely and relatively) export lines based on technological inputs and intensive utilization of a trained workforce. That is, the key measure of diversification must be the degree to which such new *technologically intensive* exports constitute a growing share (and eventually the majority) of the total (in Dominguez et al. (ed.) 2012(a): 232-3, emphasis mine).

In short, Cuba should not simply pursue aggregate growth in its exports, but rather should seek to take advantage of its highly educated workforce so as to produce high tech, high value exports

⁴⁰ The scope of this section is mainly restricted to Cuba's biotech sector. However, as Quevedo Rodriguez explains, there are other dynamic sectors of Cuba's knowledge-based economy, including informational technology and energy (2013: 292-317).

⁴¹ Monreal Gonzales notes that partial ISI need not be inconsistent with export substitution: "A strategy based on the export of technology-intensive manufacturing does not exclude, by necessity, the existence of processes of import substitution" (in Dominguez et. al. (Ed.) 2004: 94).

that exploit Cuba's comparative advantage, vis-à-vis human capital (in Dominguez et. al. (Ed.) 2004: 97).

Such a development model represents a substantial break from Cuba's previous export economy. In the past, Cuba's exports have been narrowly defined (as they would continue to be in Monreal Gonzales's proposal), but they were also low-value commodities, or commodity equivalents, such as beach tourism (in Dominguez et al. (ed.) 2012(a): 231). To engage in sufficient export substitution (moving up the value chain), Cuba must exploit the substantial investment it has made in human capital in the last six decades. As Dominguez explains,

Cuba's economy...has long emphasized labor-intensive relatively low value-added economic activities depending on the exploitation of natural resources. The sugar economy and nickel mine exploitation are examples. The way the new tourism industry developed since the 1990s is another, for its emphasis on beach tourism channels most Cuban workers to jobs as maids, waiters, and chauffeurs. *And yet, an important Cuban accomplishment during the last four decades of the twentieth century had been a massive and successful investment in education.* For example, UNESCO's first international comparative study of school achievement standardized country median scores to a regional Latin American mean of 250. The median score in mathematics for Cuban fourth graders was 353; the next highest scoring Latin American country was Argentina at 269 (in Dominguez et. al. (Ed.) 2004: 5-6, emphasis mine).

Hence, Dominguez concludes, "Cuba's human capital is potentially its single most important resource" (in Dominguez et al. (ed.) 2012(a): 6). Monreal Gonzales concurs with this assessment, stating, "A workforce with a relatively high skill level and with a high capacity for learning is the principal asset on which the country can count to develop itself. The greatest potential for development of Cuba is based, without a doubt, on its people" (in Dominguez et. al. (Ed.) 2004: 96). Although there are sectors in which Cubans do not have particular education or skills, this apparent shortcoming is overcome by the general education level and basic technical skills of Cubans, as well as "a tradition of technical inventiveness [that] has established a general profile of very fast assimilation of new techniques by the Cuban labor force, as recognized by foreign investors" (in Dominguez et. al. (Ed.) 2004: 112). Such a strategy of employing human capital as a form of comparative advantage is particularly appropriate for Cuba, argues Monreal

Gonzales, because it accommodates a world economy that rewards learning and adaptation (which Cuba's workforce is well suited for), and because such a strategy focuses on the Cuban workforce, rather than physical capital, which comports with Cuban ideology (in Dominguez et. al. (Ed.) 2004: 96).

Monreal Gonzales argued in 2004 that Cuba's highly educated workforce made the island felicitously suited for export of high tech goods, including biotechnological goods (in Dominguez et. al. (Ed.) 2004: 97). "Biotechnology" is defined by Cuban economist Quinones Chang as a subsector of the pharmaceutical industry, "based on knowledge, rooted in scientific research, and characterized by products with a high density of value added from knowledge and technology" (in Campbell (ed.) 2013: 306). Comporting with Monreal Gonzales's assessment, Cuba had already begun to develop its exports of medical services and biotechnology products as of 2004 (in Dominguez et. al. (Ed.) 2004: 91-118). Regarding this development, Quinones Chang states, "the most promising new export lines of goods are biotechnological and pharmaceutical goods. All of these products are the fruits of Cuba's emphasis on education and human development" (in Campbell (ed.) 2013: 109). Cuban officials' emphasis on pharmaceuticals, biotechnology, and medical equipment began in the 1990s⁴², as Cuba sought to develop particular export sectors that could supply resources to continue its model of ISI and attract foreign exchange (in Dominguez et. al. (Ed.) 2004: 102). Since then, Cuba has developed "superior biotech capacity, which it shares with other countries," acting as a "global leader in the South-South transfer of technology, helping low-income countries develop their own domestic biotech capabilities, providing technical training, and facilitating access to low-cost lifesaving drugs" (Jimenez, July/August 2011: 26).

⁴² Though, Jimenez notes that Fidel Castro, as early as the 1980s, was convinced that biotechnology was to be the future of the Cuban economy (July/August 2011: 27). As early as 1985, Cuba had developed the world's first vaccine for Meningitis B (Jimenez, July/August 2011: 28).

Jimenez argues that the biotech and pharmaceutical industries have played a significant role in Cuba's high-tech export economy: "Today [as of 2011], biotechnology has filled that role [of high tech export substitution] after the government invested more than \$1 billion⁴³ in the industry" (Jimenez, July/August 2011: 27). As a result of this investment, "in 2007 pharmaceutical exports earned an estimated \$350 million, surpassing the traditional Cuban exports of sugar, rum, and tobacco, and ranking second only to nickel as the country's leading export earner" (Jimenez, July/August 2011: 27). As of 2007, "nontraditional exports such as pharmaceutical and biotechnical products and medical equipment...accounted for some 29% of exports" (Perez 2009: 7). Medicines and pharmaceuticals alone grew from two percent of exports in 2000 to 18.1% in 2009. Moreover, by 2009, services accounted for 72.8% of Cuba's exports, more than 65% of which was accounted for by nontraditional exports, including medicine and pharmaceuticals (Quinones Chang in Campbell (ed.) 2013: 103-4). Not only has Cuba shifted towards the export of high-value services; the composition of its goods exports also shifted towards higher value items, including goods such as vaccines (e.g. hepatitis B, meningitis B) and medicines, and other medical goods, such as "diagnostic systems, kits, and equipment; gene therapy; and neuroscience equipment" (Quinones Chang in Campbell (ed.) 2013: 104).

Moreover, BioCubaFarma, the state biotech and pharmaceutical holding that was established in November of 2012, plans on doubling its pharmaceutical exports to \$1 billion within five years (Cuba Standard, 04/13/13). According to *Cuba Standard*, BioCubaFarma is composed of 38 companies, and "is one of a new generation of state companies supposed to run on 'entrepreneurial principles,' with more budget autonomy" (Cuba Standard, 04/13/13). Hence, BioCubaFarma is illustrative of the most intriguing facets of the new Cuban economy: market-

⁴³ This \$1 billion investment has been referred to as Fidel Castro's "billion dollar gamble," which Jimenez concludes has paid off, as of 2011 (July/August 2011: 29).

disciplined enterprise, dynamic pharmaceutical and biotech capabilities, and an eye directed towards international markets. Indeed, the holding entity was created so as to be expressly guided “by business principles,” with the ultimate goal of “generating exportable goods and services” (Fox News Latino, 11-28-12).

As to how Cuba’s pharmaceutical industry has been so successful, Dr. Augustin Lage Davila, director of Cuba’s Center for Molecular Immunology, attributes such success to a “complete cycle model⁴⁴, whereby research, development, production, marketing, and follow-up evaluations for a given product are carried out within the same administrative unit” (Jimenez, July/August 2011: 27). In other words, while other pharmaceutical producers often outsource some stages of their development, all stages of Cuban pharmaceutical development are conducted within Cuba, by the same administrative unit.

In addition to being a dynamic economic industry, Cuban medicine and pharmaceuticals have always been directed towards domestic social goals: “The health needs of the population drive industry priorities” (Jimenez, July/August 2011: 28). Quinones Chang concurs with, stating, “the original reason for the development of biotechnology in Cuba was...its social impact;” moreover, she explains that this emphasis on social goals and equity in the island’s biotech sector comports with Cuba’s larger economic paradigm, which has always sought to address the needs of the general population (Quinones Chang in Campbell (ed.) 2013: 293). Accordingly, the service of domestic health needs has been the impetus behind some of the industry’s most innovative breakthroughs. For instance, Cuba’s groundbreaking development of vaccines for

⁴⁴ The success of the complete cycle model within the pharmaceutical industry should not be interpreted as being contradictory of the above statements by Monreal Gonzales, that small island economies are not capable of achieving a complete internal production cycle. Monreal Gonzales is referring to a macroeconomic internal production cycle, not a complete cycle within a particular sector or industry, which is feasible, as Cuba’s biotech industry demonstrates.

Meningitis B (1985), *Haemophilus influenza* type B (Hib) (1999), and diabetic foot ulcers (2011), were all impelled as responses to domestic exigencies (Jimenez, July/August 2011: 28).⁴⁵

Despite Cuba's success in attracting hard currency, and addressing domestic exigencies, through its biotech/pharmaceutical industry, it has had to "wage a constant battle" for market share and credibility, since it is neighbor to the world's leading pharmaceutical giant: the United States, which uses its extraterritorial trade policies to discourage other countries and firms from trading with Cuba (Jimenez, July/August 2011: 28). As *The Economist* noted in 2003, "Many [foreign firms] are... put off by America's Helms-Burton act, which could shut them out of American markets for doing business in Cuba" (*The Economist*, 11/27/03). Even when companies in the United States have been granted permission by Congress to engage in joint research with the Cuban pharmaceutical industry, Helms-Burton has hampered the process with burdensome technicalities. For instance, in 2004, CancerVax, a biotech company based out of California, requested permission to engage in cancer drug research with the Cuban government. CancerVax was eventually granted permission, but the contract between CancerVax and the Cuban government required that the Cuban government be compensated by CancerVax via barter, rather than through hard currency payments, which would have been illegal according to US law (Jimenez, July/August 2011: 29).

The degree to which the United States' continued embargo vitiates Cuba's biotech potential is cast in sharp relief when a few statistics are taken into account. First, annual

⁴⁵ A list of biotech products developed in Cuba between 2001-2006: "vaccine against *Haemophilus influenza* B; combined vaccines (HB-Hib, DPT-HBb-Hib); vaccine against meningitis B; vaccine against hepatitis B; vaccines and AcM for anti-cancer therapy; vaccine against meningococcal meningitis ACYW135; vaccine against hepatitis B in Uninject; vaccine against salmonella; EPO Erythropoietin (CIM, CIGB); products and equipment for neurophysiology and neuroinformatics; new diagnostic systems; Streptokinase (w/o HAS); neurological restoration; rehabilitation services; tetanic toxoid; granulocyte colony stimulating factor (GCSF); anti-allergenic; regenerant trofin; interferon (liquid, w/o HAS); interferon (lyophilized, w/o HAS); interferon + riboflavin; recombinant gamma interferon; Interleukin-2; PPg-plus anti-thrombolytic; humanized recipient antibody (anti EGF); SUMA diagnostic system; agricultural biotech products (GAVAC, bionematicide); EGF (parenteral); human transfer factor; culture of cells; new advanced generics; cytotoxic drugs; technology transfer; placenta-derived products" (Quevedo Rodriguez in Campbell (ed.) 2013: 308, Table 12.1).

pharmaceutical sales in the United States, at \$235 billion, constitute almost 35% of annual international sales (Quinones Chang in Campbell (ed.) 2013: 306). As an economic subcomponent of the pharmaceutical industry, the biotech industry accounts for about \$70 billion in international sales annually, with 60% of those sales being concentrated in the United States (Quinones Chang in Campbell (ed.) 2013: 306). Because of Cuba's proximity to the United States, the island would have a very lucrative market for many of its biotech products, were the embargo to be lifted. In terms of biotech production, about 80% of the biotech sector is located within the United States (Quinones Chang in Campbell (ed.) 2013: 306). Once again, because of Cuba's proximity to the United States, there are many advantageous, and potentially lucrative, partnerships that could be established between Cuban and US entities, were the embargo to be lifted. The total losses in this sector due to the embargo would be difficult to quantify, but it can easily be presumed that there is a substantial amount of money being left on the table, solely because of political machinations.

In addition to problems pertaining to US coercion, Cuba's biotech industry also experienced problems that have been endemic to Cuba's socialist economy. For instance, Fidel Castro was vehemently opposed to seeking patents for Cuban pharmaceuticals, viewing them as a manifestation of capitalist greed. At one point, responding to a Cuban official who expressed the need to obtain patents, so as to protect Cuba's expanding market for pharmaceuticals, Fidel Castro replied, "What's all this talk about patents? You're sounding crazy! We don't like patents, remember?" (Starr 2004). This is an issue that Cuban economist Nancy Quinones Chang seems to allude to when she states, "socialism's goals of equity, sustainable development, and a better quality of life for its citizens will always complicate the necessary interaction of Cuba's

knowledge-based sectors with the capitalist-dominated world economy” (in Campbell (ed.) 2013: 295).

Potential for profits in Cuba’s pharmaceutical industry have also been vitiated by the fact that Cuba has intentionally directed its energy towards producing medicines that are meant to fight diseases, which are not as lucrative as some other kinds of pharmaceuticals that are meant for more elective uses. Writing in 2004, Douglas Starr of *Wired* wrote, “Cuba’s drug pipeline is most interesting for what it lacks: grand-slam moneymakers, cures for baldness or impotence or wrinkles. It’s all cancer therapies, AIDS medications, and vaccines against tropical diseases” (Starr 2004).

Despite the influence of US pharmaceutical corporations, Helms-Burton, and aversion to profits, the Cuban pharmaceutical industry has slowly gained international recognition. In 1995, Cuba signed the WTO’s Agreement on Trade-Related Aspects of Intellectual Property (TRIPS), “marking its official entry into the global pharmaceutical market” (Jimenez, July/August 2011: 28). According to Jimenez, becoming compliant with TRIPS sent signals that galvanized investor and consumer confidence in Cuban products (Jimenez, July/August 2011: 28). Pharmaceutical innovation and participation in TRIPS have afforded Cuba mutually beneficial agreements with multiple countries: as of 2011, Cuba had signed biotech and pharmaceutical cooperative agreements with more than 50 countries, and Cuba exports its products to 50 of those countries (Jimenez, July/August 2011: 28). Moreover, the explicit intent of BioCubaFarma, explained above, to pursue generation of export revenue, would seem to indicate that Cuban authorities have overcome their aversion to profits (most likely this can be attributed to Fidel Castro’s absence in recent years).

In sum, Cuba has been one of the few developing countries to build a successful biotechnology sector. Moreover, the island's biotech industry, as part of its larger pharmaceutical industry, has always been engineered towards addressing the needs of its domestic population. As such, Cuba's biotech industry is illustrative of the island's success "over the last five decades in harmonizing its economic development with the construction of an equitable society" (Quevedo Rodriguez in Campbell (ed.) 2013: 293). There are still substantial impediments to be overcome, though: the United States, the world's largest single market, in terms of biotech production and consumption, maintains its embargo against the island, which drastically vitiates the potential of Cuba's biotech sector, both in terms of a market to sell its biotech goods, and in terms of productive partnerships that could be developed with US biotech firms.

Tourism

Although he argues that Cuba should exploit its advantage, vis-à-vis its educated workforce, to move up the value chain, Monreal Gonzales also argues that the island should continue to promote its tourism sector. Cuba's most exigent deficiency has always pertained to its current account deficits, since it always runs a deficit in its balance of trade in goods; and tourism offers the "ability to earn very rapid foreign-exchange profits on investment" (Garcia Jimenez in Campbell (ed.) 2013: 253). Cuba has a competitive advantage in its tourism sector, and this sector has the ability to act as a leading sector for development (in Dominguez et. al. (Ed.) 2004: 102). By "leading sector," the Monreal Gonzales means that tourism meets three criteria: 1) High, and insufficiently-met, demand; 2) a high degree of intersectoral ties, which have the potential to impel technology transfer throughout other sectors of the economy; and 3) an exogenous growth rate (a growth rate independent of the general economy's growth rate) (Monreal Gonzales in Dominguez et. al. (Ed.) 2004: 105-6). Each of these factors reinforces the

others, but Monreal Gonzales singles out the second factor – intersectoral ties – as the one that holds the most potential benefit for the Cuban economy:

Tourism offers potential links – particularly with respect to industry and other services of greater technological complexity including air transport, telecommunications, information technology and engineering projects – that would facilitate advances in the structure of the economy and the workforce towards international trajectories of technological learning. In that way, tourism – a service of little technological complexity in some of its predominant activities...and based on the intensive use of natural resources – could act as a gateway for the development of industrial activities and of more technologically advanced services, both with much greater income earning potential (Monreal Gonzales in Dominguez et. al. (Ed.) 2004: 106).

There is another benefit, conceptually linked to intersectoral ties, that tourism has presented to the Cuban economy: increased productivity and efficiency. This facet of tourism's benefits is best understood when the original purpose of Cuban tourism, beginning in the 1990s, is understood. With the collapse of the USSR and Soviet Bloc in the early 1990s, which introduced the Special Period, Cuba lost its main source of hard currency, along with its ability to acquire foreign goods at favorable rates. Hence, Cuban officials recognized the exigency to develop sectors of their economy that could attract foreign exchange, and tourism was the most obvious, and most promising, sector. Cuban officials recognized that developing the island's tourist industry would require substantial investment: the island lacked much of the support infrastructure and intersectoral productive capacity needed for a healthy tourist sector; and most of Cuba's extant tourism in 1990 was based in Havana, since that was where the American mob and the Batista regime had built out Cuba's tourist/gambling attractions (Figueras in Campbell (ed.) 2013: 236; English 2007).⁴⁶ In response to these insufficiencies, the Cuban government allocated \$6.8 billion to its tourist industry between 1990-2007, which amounted to about one-seventh of total investment during that period (Figueras in Campbell (ed.) 2013: 242). Moreover,

⁴⁶ As Figueras explains, in 1950-51, members of the National Crime Syndicate in the United States were brought before the Senate Committee to Investigate Organized Crime in Interstate Commerce. Members of the Syndicate feared that their interests, including those in Las Vegas, would come under increasing pressure by US authorities. Hence, they chose Havana as the location to build out their "business" infrastructure outside the United States. As a result, by "1958 two-thirds of the tourist rooms in Cuba were in Havana" (in Campbell (ed.) 2013: 236). The second citation above (English 2007) refers to the book "Havana Nocturne," which is a thorough and entertaining account of the mob's role in building out Cuban gambling attractions.

“a third of the amount spent on tourism development was allocated to the creation of airports and other necessary infrastructure and to the expansion of capacity and development of new technologies in branches of the economy that supply items for tourism and communication” (Figueras in Campbell (ed.) 2013: 243). Investment was also spread out regionally, so that Havana currently only accounts for one-fifth of the tourist rooms on the island, whereas, prior to Special Period investments, Havana accounted for two-thirds of tourist rooms (Figueras in Campbell (ed.) 2013: 243).

How does this relate to increased efficiency and productivity non-tourist sectors of the Cuban economy? To reiterate, Cuban tourism was fostered so as to attract foreign exchange, a goal which it has been very successful in achieving: between 1990 and 2010, approximately one-third of all export dollars has been garnered through tourist activities, bringing in an approximate total of \$34 billion (Figueras in Campbell (ed.) 2013: 242). However, the operation of the tourist industry also requires massive amounts of inputs, and most of these inputs were originally purchased as imports: “in the early 1990s only 12 percent of the purchases by tourist entities were met by local producers” (Figueras in Campbell (ed.) 2013: 244). Hence, 88% of all foreign exchange acquired through tourism simply leaked out of the Cuban economy through import purchases. In response, Cuban producers were asked to become much more productive and efficient, and they succeeded: since the early 2000s, domestic producers supply approximately 68% of the inputs for the tourist industry (Figueras in Campbell (ed.) 2013: 244). Such gains were achieved through procedural and technological changes in Cuban enterprises, which improved the quality of Cuban products, making them acceptable for use in Cuban resorts (Figueras in Campbell (ed.) 2013: 244). These changes included, among many others, packaging systems for foods and beverages, higher-quality slaughter houses and factories, high-speed

communications technology for the processing of payments; and new “organizational and technical measures” in the construction sector (Figueras in Campbell (ed.) 2013: 244-6).

Hence, the relationship of tourism and increased productivity followed this stylized logic:

1. The soviet bloc and Soviet Union collapsed in the early 1990s, leaving Cuba without its main source of goods and foreign exchange.
2. In response, Cuban authorities identified sectors of the economy that can garner foreign exchange, with tourism being the most promising candidate.
3. Large amounts of investment were poured into the tourist sector itself, and related infrastructure that can support that sector.
4. The tourist sector was very successful in attracting foreign exchange, but almost 90% of that foreign exchange leaked out of the Cuban economy, since most inputs for the industry were purchased as imports.
5. In response, Cuban authorities and enterprises further invest in areas of the economy that support the tourist sector, which engendered a substantial increase in productivity and efficiency in sectors of the economy outside of, but supportive of, the tourist industry.

Regarding the current state of Cuban tourism, and its role in Cuba’s general economy, it should be emphasized that, despite Cuba’s shift towards high-value services and goods, tourism continues to play a very prominent role in the Cuban economy. As Garcia Jimenez states, tourism “has remained a central pillar of the Cuban economy into the twenty first century” (in Campbell (ed.) 2013: 260), and still accounted for 17.7% of Cuba’s export earnings as of 2009 (Garcia Jimenez in Campbell (ed.) 2013: 261). As noted above, tourism garnered one in every three of Cuba’s export dollars between 1990-2010 (Figueras in Campbell (ed.) 2013: 242). To put this into perspective, as Cuban economist Alfredo Garcia Jimenez notes, Cuba’s tourism sector funded approximately one-third of its necessary imports (in Campbell (ed.) 2013: 253). Moreover, if the intersectoral efficiency and productivity gains that were impelled by the tourism sector are taken into account, which significantly reduced the amount of foreign exchange Cuba had to allocate towards imports, then the tonic effects of the tourist sector on Cuba’s current account cannot be understated.

Notwithstanding the above beneficial facets of the industry, some concerns have been raised amongst Cuban officials and citizens, vis-à-vis the dissonance between international tourism and Cuba's socialist ideology. Garcia Jimenez notes that Cuban authorities have strived to take sufficient measures to ensure that tourism on the island advances Cuba's social goals (or at least does not impede them) (Garcia Jimenez in Campbell (ed.) 2013: 265-6). However, there has been one development, in particular, that contravenes Cuban socialism, and that is the continued growth in inequality that has been associated with sectors of the economy that have access to foreign exchange. Those who work in hard currency sectors, including tourism, have access to foreign exchange, and thus have much more purchasing power on the island than their peers outside of such sectors. This has led to a situation in which waiters and maids in hotels can make much more than doctors and university professors.

There are three main points that should be taken into consideration when assessing the tourism-inequality dynamic, though. First, Cubans are aware of the issue, and many have taken it upon themselves to make sure their increased earnings are, at least partially, being allocated towards social goals of the general Cuban population. For instance, many employees in the tourist industry have "voluntarily donated a portion of their gratuities to the public-health sector, mainly to children's hospitals," through a program called "My Contribution to Life" (Garcia Jimenez in Campbell (ed.) 2013: 266).

Second, the employees of the tourist sector that make higher wages than their peers in the general economy, are also the members of society that the Cuban Revolution has historically aimed to help: women, young people, and recent graduates. As Figueras explains, "half the workers in tourism are younger than thirty-five. Women make up 41 percent of the labor force. (And) seventy-two percent of the workforce in tourism completed the twelfth grade or higher"

(Figueras in Campbell (ed.) 2013: 246). Hence, while inequity is anathema to the Cuban Revolution, at least those who are benefiting from such inequality are those that the Cuban Revolution was meant to assist.

Lastly, despite the effect on inequality that tourism has had on the island, the Cuban population actually has a rather favorable perception of the industry. For instance, 72% of Cubans polled believe “that most of the population benefits from the industry and that it promotes the nation’s socioeconomic development”; and a majority of Cubans associate the word “tourism” with “concepts of development, economy, exports, and foreign exchange” (Garcia Jimenez in Campbell (ed.) 2013: 266-7). This is a very positive sign for Cuban officials, since tourism is a very necessary source of foreign exchange. By involving the Cuban population in the discussion, and by increasing the living standards of those within, and without, the tourist sector, Cuban officials seem to have taken the necessary measures to ensure that the Cuban populace is not prohibitively opposed to the sector. This should be interpreted as a sign that Cubans, along with Cuban officials, are approaching Cuban economic policies in a pragmatic manner. More importantly, the fact that workers within the tourist sector have volunteered portions of their income for Cuban social goals should serve as evidence that socialist ideology is alive and well in Cuban society, living alongside capitalist measures that have been necessary for the island’s survival.

As one would expect, the one development that could cause another drastic increase in Cuba’s tourist sector would be a liberalization of the United States’ travel policy with Cuba. The issue of the United States’ general travel policy with Cuba is covered more thoroughly in this thesis’s chapter on US-Cuba relations, but a few figures illustrate the deleterious effects of the travel restrictions the US maintains with Cuba. First, half of all tourists in the Caribbean,

annually, are from the United States, and this figure reaches 70% in some of the more popular tourist spots (Figueras in Campbell (ed.) 2013: 248). Moreover, Americans spend more than any group of tourists, and they spread out their travels more evenly across the calendar, whereas Europeans and other groups tend to travel mainly between December and March (Figueras in Campbell (ed.) 2013: 248). Taken together, this means that Cuba is excluded from enjoying the benefits of 1) a higher volume of tourists, in Americans; 2) the higher spending that those Americans represent; and 3) the seasonal smoothing that American tourism brings to other Caribbean countries.

In short, tourism continues to play a very integral role in Cuba's economy, even though it is no longer Cuba's most dynamic industry, in terms of growth. Tourism's growth leveled off after the 1990s, and other service sectors, such as biotech services, have surpassed tourism in terms of annual growth (Garcia Jimenez in Campbell (ed.) 2013: 260-1). However, tourism still accounts for 17.7% of Cuba's total exports, and will continue to play a major role in garnering foreign exchange and intersectoral innovation. Moreover, although tourism, as well as the broader foreign-exchange-garnering sector of the Cuban economy, has been associated with increased inequity on the island, it has also allowed many of Cuba's vulnerable citizens – its women and youth – to experience increased purchasing power. Moreover, the general population, when polled, is not particularly averse to the tourist sector. The benefits that Cuba has experienced, vis-à-vis increased foreign exchange, would increase substantially if the United States were to lift its travel ban with the island, though no sensible analysts on either side of the Florida Straits is holding their breath.

Foreign Direct Investment in Cuba

Attracting FDI to the island has been integral to Cuba's economic transition, insofar as FDI proffers the opportunity for technology transfer, hard currency obtainment, and increased economic growth. As to the role that FDI has historically played in Cuba, Perez Villanueva notes that "In the early 1990s, Cuba faced a serious economic crisis that gave rise to a reform period characterized as a process of adjustment, management of the crisis, and opening to the international economy," and that "the most important aspects of the economic opening to the outside world were the promotion and acceptance of foreign capital investment, the restructuring of foreign trade, and the accelerated development of international tourism" (in Dominguez et al (ed.) (2012): 213-4). To attract FDI during that time, Cuba enacted Law 77 of 1995 and Resolution 5290, the goals of which were to complement domestic efforts to develop, technologically and economically, in strategic sectors; find new export markets, technologies, and financing; and substitute imports, stimulate exports, and stimulate domestic production (Perez Villanueva in Dominguez et al (ed.) (2012): 214). These measures introduced the following measures to attract foreign capital: tax-free repatriation of dividends; taxes capped at 30% on profits and 25% on payroll; and other incentives that depend on the individual investor and the sector in which an investment occurs (Perez Villanueva in Dominguez et al (ed.) (2012): 215).

In March of 2014, Cuban officials approved a law that further incentivizes foreign investment by allowing for 100% foreign ownership of ventures (rather than 49%), reduces to 15% the tax on companies that invest in joint ventures, and allows a grace period for this tax of at least eight years for investors (Gomez, USA Today, 3/29/14). Moreover, the law streamlines the application process for investing in Cuban businesses, reducing the application from more than a year in some cases, to no more than two months (Gomez, USA Today, 3/29/14). While Cuban

authorities are ostensibly trying to send a positive signal to foreign investors, Carmelo Mesa-Lago argues that convincing foreign investors of the legitimacy of these recent measures will be difficult, given Cuban officials' history of saying one thing and doing another. For instance, as Mesa-Lago notes, 100% foreign ownership was legally approved back in 1995, but Cuban bureaucrats ensured that the law would never effectively be applied (Gomez, USA Today, 3/29/14). Thus, foreign investors may need further signals that current reforms are permanent rather than ephemeral. "Still," as Alan Gomez states, "some say it's impossible to simply dismiss what has now been six years of economic changes in Cuba" (Gomez, USA Today, 3/29/14).

In addition to investors' fears that reforms may be simply be repealed in the future, the amount of FDI that the island has been able to attract has also been limited by the US embargo: "As a result of the U.S. embargo, Cuba is subject to the impediments posed by a foreign law that restricts its access to FDI resources. Consequently, Cuba is rated a 'risk country'" (Dominguez et al (ed.) 2012: 218). According to Perez Villanueva, the incentives Cuba offers foreign capital could be expanded if the U.S. embargo were loosened, but because of the embargo, "many foreign businesses have left Cuba after merging with companies based in the United States" (Dominguez et al (ed.) 2012: 215). Providing anecdotal evidence of this problem, Ismael Clark, president of the Cuban Academy of Sciences, explains, "You'd have a supplier for several years, and suddenly you'd get a letter from the company saying, 'We can't supply you anymore because our firm was bought by an American transnational'" (Starr 2004). Hence, the embargo has acted as a considerable impediment to increasing FDI in Cuba.⁴⁷

⁴⁷ The degree to which the Embargo actually dissuades foreign actors from cooperating with Cuba is contestable, though, because the Helms-burton Act has not been fully enforced by US presidents since 1996. Among other provisions, the Helms-Burton Act, passed in 1996, allows US citizens to sue persons or corporations that "traffic" in property that has been confiscated by the Cuban government; however, Bill Clinton, per a provision of Helms-Burton, chose to suspend suits and sanctions related to "trafficking" every six months, and every US president has followed suit since (Mesa-Lago and Perez-Lopez 2013: 13). Hence, while the deleterious effects of the Embargo on the Cuban economy have been substantial, it may be the case that they have not been as significant in practice as they seem to be on paper (though this presumes

In addition to the embargo, Cuba has also experienced some difficulty in attracting FDI, due to two factors in particular. First, Cuba began seeking FDI five or ten years later than other countries in the region, as these countries transitioned to neoliberal development policies (Quinones Chang in Campbell (ed.) 2013: 93). This meant that many investors that were looking for politically friendly investment locations had already found what they were looking for in other countries in the region. Second, Cuba, even when it decided to attract FDI, refused to introduce the full complement of neoliberal policies that many investors see as a prerequisite for investment. Rather, “Cuba sought to guarantee significant gains for its national economy at the possible cost of lower profits for the foreign investors” (Quinones Chang in Campbell (ed.) 2013: 93). As regards this second point, for instance, Cuban authorities excluded the health and education sectors from FDI, lest the labor rights of Cubans within those sectors be compromised (Quinones Chang in Campbell (ed.) 2013: 94) (the irony of this being that it is Cubans within foreign-invested sectors that have experienced significantly higher wages than their peers in the health and education sectors). Also, Cuba maintains a thorough regulatory framework, which not only approves FDI on a case-by-case basis, but also monitors foreign-invested entities to ensure that agreements are being sufficiently abided by (Quinones Chang in Campbell (ed.) 2013: 94).

Cuba’s recalcitrance, vis-à-vis implementation of neoliberal policies, is illustrative of the general attempt of Cuban authorities to alloy necessary capitalist policies with policies advance Cuba’s social goals. Hence, Quinones Chang emphasizes that capitalist policies, such as those meant to attract FDI, are subordinate to Cuban socialist goals, rather than the other way around, which makes Cuba’s policy rather unique in the region. “The Cuban policy differs from the neoliberal policies of its neighbors in viewing these inflows as complementing national

that foreign entities have full knowledge of the US government’s non-enforcement of Helms-Burton, and their expectation that such non-enforcement will continue indefinitely, which may not be an accurate assessment of these entities’ economic behavior).

investment efforts, rather than as taking precedence over national economic development” (Quinones Chang in Campbell (ed.) 2013: 94).

Despite the embargo, and despite Cuba’s refusal to fully implement neoliberal policies, the island’s foreign investment laws have allowed foreign capital to play an important, and successful, role in the Cuban economy in the last two decades. As Perez Villanueva explains, joint ventures, while declining in number over the last decade, have continued to increase in efficiency and productivity, increasing their total sales of goods and services. As of 2008, such ventures reached nearly \$5.3 billion in total sales, their exports reached \$1.9 billion, and direct income to Cuba from such ventures totaled \$1.07 billion. Hence, this author states, “In almost all the productive areas in which Cuba has shown its best production or export results, foreign capital is present in one form or another. This should point toward the potential for further developing such businesses” (Perez Villanueva in Dominguez et al (ed.) (2012): 218-9). Some of the sectors in which Cuba has actively attracted FDI include tourism, mining and petroleum, geological surveys, infrastructure, agriculture, packaging, and renewable energy (Perez Villanueva in Dominguez et al (ed.) (2012): 219-220).

Notwithstanding the benefits that have accrued to Cuba as a result of FDI, Perez Villanueva argues that more substantial levels of FDI will not occur without an active effort on the part of the Cuban government to 1) increase domestic investment, and 2) stimulate domestic economic growth. In other words, FDI growth must be achieved as a result of, and as a part of more general, strategy of economic reform (Perez Villanueva in Dominguez et al (ed.) (2012): 224).

Recent reforms have substantial potential, insofar as they are meant to increase investment and economic growth. In 2013, the Cuban government has continued its reform

campaign, one facet of which allows Cuban state-owned enterprises (SOEs) to retain 50% of their profits for reinvestment (Rodriguez, *BusinessWeek*, 07/09/13). Such a policy, combined with other facets of recent reforms, which “aim to resuscitate a flagging economy with a smattering of free-market principles” (Rodriguez, *BusinessWeek*, 07/09/13), have the potential to attract substantial FDI, as investors anticipate the growth effects of Cuba’s shift towards market principles.

Regarding the importance of FDI attraction, analysts argue that there is much China can teach the developing world, including Cuba. For instance, Perez Villanueva notes that prior to 1979 when Deng Xiaoping decided to open the Chinese economy, there was virtually no FDI to speak of in China (Perez Villanueva in Dominguez et al. (ed.) 2012(a): 198). However, after implementing an FDI-attraction strategy that includes allowances for equity joint ventures, cooperative businesses, wholly foreign-owned companies, and joint exploration contracts, among other forms of FDI, China, in 2008, received more FDI than any other developing country (\$108 billion) (Perez Villanueva in Dominguez et al. (ed.) 2012(a): 195, 198). Hence, China has been able to enjoy the benefits of such large amounts of FDI, which include “technology transfer, economic and job growth, and acceleration of both economic development and integration into world markets” (Perez Villanueva in Dominguez et al. (ed.) 2012(a): 193), all of which Cuba is currently pursuing.

Cuba should, in an expanded effort to further attract FDI, take some lessons from China. Cuban officials should note two key facets of China’s Joint Venture Law (the legislation that allowed for FDI into China – see Perez Villanueva in Dominguez et al. (ed.) 2012(a): 198). First, policies for attraction of FDI were adopted in a gradual, experimental fashion, both in terms of kinds of investment allowed, and in terms of geographic regions that allowed for FDI (Perez

Villanueva in Dominguez et al. (ed.) 2012(a): 198; Naughton 2007). Second, China adopted policies to attract FDI in a purely pragmatic fashion, regardless of “whether or not these policies were consistent with Communist ideology” (Perez Villanueva in Dominguez et al. (ed.) 2012(a): 206). Hence, an important question in Cuba will be how such policies can be made to comport with Cuban socialism, particularly since, “as a historical fact, in the socialist economies that have existed up until now, foreign investments were long identified as bearers of bourgeois penetration during the imperialist phase of the capitalist system. For years this was the reigning view of the presence of foreign capital within such economies” (Perez Villanueva in Dominguez et al. (ed.) 2012(a): 193).

This issue - of whether or not FDI attraction comports with Cuban socialism – is more apparent than real, for two reasons. First of all, the island has already created a significant foreign-invested sector, particularly in tourism. Hence, Cubans have grown used to a foreign-invested sector, and have grown to value the wages it affords in the form of hard currency. Presumably, Cubans would be eager to see other sectors of the economy attract foreign investment (and dollars). Secondly, insofar as foreign investment may run counter to Cuban socialism, Cuban officials have simply chosen to skirt the issue: “officials insist that a wholesale embrace of capitalism is not planned” (Rodriguez, *Business Week*, 07/09/13).

Hence, ostensibly, Cuban officials are approaching the issue of FDI in a pragmatic fashion, similar to the approach taken by Chinese officials during China’s transition. Indeed, in 2013, Cuban officials have introduced new reforms that are intended to attract FDI. Even more interestingly, the reforms are meant to attract FDI from a very specific source - Cuban ex pats. As explained by Patricia Mallen of *The International Business Times*, “There is one particular group of investors the government is hoping to attract: Cubans abroad. Llanio Gonzalez, consul

in the Cuban Interests Section in Washington, said that the reforms will make it easier for Cuban families who emigrated to the U.S. to move back or invest in the country from afar” (07/11/13). Hence, Cuba is hoping to attract FDI from its diaspora, similar to China’s approach of attracting investment from Chinese international citizens during its transition. If Cuban officials wish to draw more lessons from China’s transition, they would be well advised to introduce future FDI schemes in a geographically piecemeal fashion, as China did. This would allow for prudent experimentation as Cuba further marketizes its economy.

In sum, Cuba’s approach to FDI, similar to its approach to tourism, is illustrative of the broader strategy that Cuban officials have followed during the island’s transition. First, FDI was recognized as an economic necessity, both for attracting capital, and for learning through technology transfer. Recognizing this necessity, Cuban authorities sought to attract FDI in such a way as to obviate the more deleterious effects of neoliberal development policies. More importantly, they sought to ensure that policies attracting FDI would positively complement Cuba’s social goals, for instance, by excluding health and education from FDI (though, once again, the results of this policy may be counterintuitive, since doctors and professors have been unable to garner the increase in wages that their peers in the foreign-invested sectors have obtained). Lastly, Cuban authorities, by maintaining a state regulatory framework, have taken necessary measures to ensure that approved FDI ventures complement social policy on the island. Hence, as is the case with Cuba’s biotech industry, Cuba’s FDI strategy is illustrative of Cuba’s continuing attempt to reconcile “its economic development with the construction of an equitable society” (Quevido Rodriguez in Campbell (ed.) 2013: 293).

Conclusion

The Cuban economy, as a relatively open, island economy, has much to gain by further inserting itself into the world economy. Because there are limits to the degree to which Cuba can develop complete internal production cycles in sundry sectors of its internal economy, the island would be best-served by developing its exports, particularly in the area of human capital-intensive biotech goods. Moreover, Cuba could ameliorate its current annual current account deficits by continuing its transfer of idle agricultural lands to private and cooperative producers. This would also proffer political benefits, since one of the countries relies on for food imports is the United States.

We now turn to recent and current economic and political reforms in Cuba, covering the periods between 2007-2010, and 2010-present. What will become clear when analyzing current reforms is that, while the island is still exhibiting a rather schizophrenic attitude towards market reforms, it is still moving slowly but surely towards the market.

Chapter Six: Reforms Between 2007-2010

Introduction

On July 31st, 2006, Raul Castro, due to Fidel's quickly-escalating intestinal health issues, provisionally assumed control of his brother's three titles: First Secretary of the Communist Party, President of the Council of State and Ministers, and Commander in Chief of the Armed Forces. Explaining the issue, Fidel explained, "the 'extreme stress' of recent work had 'brought about an acute intestinal crisis with persistent bleeding which made it necessary for me to undergo complicated surgery'" (Frank, 2013: 46). Although Fidel would not officially, but only provisionally, relinquish control of the presidency for another eighteen months (on February 24th, 2008), and although five years would pass before it was finally clear that Raul was truly the one calling the shots, July 31st, 2006 nevertheless "marked the start of one of the most remarkable chapters in Cuba's history" (Frank, 2013: 46-7).

This chapter covers the reforms that took place between 2007-2010, while the next chapter focuses on reforms that have occurred since 2010, subsequent to the Communist Party's 6th Party Congress, and publication of a document entitled *Project of Economic and Social Policy Guidelines for the Party and the Revolution*, which was meant to correct and formalize previous reforms, and guide the Party in deeper reforms in forthcoming years.

There are Four main conclusions that should be taken away from this chapter. First, the agenda of Cuban reforms between 2007-2010 was conducted in a deliberate, incremental manner. Cuban authorities are wary of the destabilizing effects of "shock therapy capitalism," and are thus introducing all reforms in a gradual manner.

Second, reforms between 2007-2010 represented a substantially pragmatic shift towards the market. Carmelo Mesa-Lago characterizes the period of reforms between 2007 as "the third

and most powerful pragmatist cycle of the Revolution” (Mesa-Lago and Perez-Lopez, 2013: 3). However, this does not mean that Cuba is going to become a categorically free market economy. The recent financial crisis has confirmed many Cubans’ fears regarding the volatility of unfettered capitalism.

Third, reforms between 2007-2010 were at least semi-democratic, particularly in the area of agricultural reforms, in the sense that reforms were developed and implemented according to demands and feedback from the Cuban population.

Finally, the effects of the reforms have been mixed, as there were still significant distortions in the Cuban economy that were vitiating the efficacy of the reforms. Deeper reforms after 2010, as will be discussed in the next chapter, were meant to correct some of these distortions.

Reforms: 2007-2010

Monetary Policy Reform

One of the most significant developments in Cuba in recent years has been the introduction of an independent monetary policy that has explicitly sought to control inflation. This is important because current Cuban monetary policy contrasts vividly with monetary policy during the early years of the Special Period, which was subordinated to fiscal policy, and passively monetized fiscal deficits (Rowe and Faya in Ritter, 2004: 50). A brief contrast of the crisis of 1990-93 with the recent global economic crisis of 2008 will clearly illustrate the difference between the two forms of monetary policy. This section on monetary reform is included because it is illustrative of the decision of Cuban authorities to conduct policy in a pragmatic, responsible manner, thus comports with the general nature of recent reforms.

Confronting the Special Period crisis after the collapse of the Soviet Union in the early 1990s, the Cuban economy experienced a substantial contraction, with GDP shrinking by approximately 35% between 1990 and 1993. The resultant drop in government revenue led the Cuban government to run budget deficits that averaged 24.9% of GDP during those same years. Because Cuba did not have access to international credit markets, it resorted to printing money to finance its budget deficits (Alejandro in Dominguez et al., 2012: 117). Hence why Rowe and Faya characterize monetary policy during that period as being passively accommodative to fiscal policy (in Ritter, 2004: 50). As a result of deficit monetization, the annual growth rate of the money supply reached 27.6%, inflation peaked in the informal market at 200% in 1993, and the peso exchange rate for the dollar reached 150:1 (Alejandro in Dominguez et al., 2012: 117). It should be noted that inflation in Cuba during these years was recorded in informal markets. This is because, prior to market reforms of the Special Period, increases in the Cuban money supply led to excess liquidity, rather than inflation, because most consumption was conducted through state retail stores, and prices in these stores were controlled. Hence, excess money supply simply meant that Cubans had to engage in “forced saving” as they had more money to hold, but no goods to purchase. As Alejandro explains,

Until the early 1990s, the Cuban family’s basic market basket was obtained almost entirely from state retail markets. In this environment, monetary disequilibrium was reflected not in prices, but in the accumulation of excess liquidity. Thus, the process of monetary instability did not result in price increases, but rather in repressed inflation or forced savings. The economic authorities, as their fundamental monetary strategy, monitored this variable – the amount of liquidity held by the population – and undertook actions to control it. The policy was to maintain monetary liquidity within certain limits or ratios relative to the value of production (in Dominguez et al., 2012: 17).

Hence, during the early years of the Special Period, fiscal deficits were passively monetized, but such monetization was only reflected, vis-à-vis inflation, in informal markets, since formal retail prices were controlled, and thus did not reflect price changes. Thus, Cuban authorities paid attention to excess liquidity, but not inflation, during this period.

Since the early 1990s, monetary policy on the island has detached itself from fiscal policy, and has managed to keep inflation in single-digits (Alejandro in Dominguez et al., 2012: 117). Cuban monetary authorities now track a Consumer Price Index that monitors inflation in three different markets: state retail (both rationed and non-rationed) markets, which make up 40% of the index; agricultural markets, which account for 30% of the index; and informal markets, which account for 30% of the index.

The amended form of monetary policy is best illustrated by contrasting the monetary response of the Special Period crisis to the monetary response of the recent global economic crisis. During the Special Period, the Cuban government ran substantial deficits, and monetized those deficits by increasing the money supply. During the recent crisis, Cuban authorities followed a more cautious path. As Alejandro explains, Cuba lacked the necessary foreign exchange reserves to engage in sustained expansionary fiscal policies. The government responded in 2008 by increasing the money supply by 16.8% to finance a budget deficit. As a result, inflation increased in unregulated markets (where prices are not fixed), though Alejandro notes that exact numbers on this inflation are difficult to obtain, because official data are not available (Alejandro in Dominguez et al., 2012: 125-6). Cuba was able to keep inflation in check by instituting price freezes in sectors that experienced cost increases, such as agricultural markets (Alejandro in Dominguez et al., 2012: 126). Unlike the sustained budget deficits (and necessary monetization) of the Special Period, the budget deficit of 2008 was quickly reduced in 2009, and the money supply only grew by 2.1%, as the government chose to reduce spending, thus allowing for a trade surplus in 2009, and alleviating inflationary pressures in unregulated prices (Alejandro in Dominguez et al., 2012: 115). Such a response indicates that Cuban authorities have developed a better understanding of how money supply, retail mercantile circulation, and

regulated prices ultimately impact inflation in unregulated prices⁴⁸, and more importantly, that they are willing to take the necessary steps to limit such inflation.⁴⁹

The efforts on the part of Cuban officials to detach monetary policy from fiscal policy and rein in inflation should be understood as part of a more general strategy of economic reform. By focusing on inflation rather than liquidity, Cuban authorities are sending a signal that private markets will continue to play an increasingly salient role in the Cuban economy, since private markets are where inflation manifests most clearly. Moreover, by minimizing inflation, the Cuban government is furthering its efforts to unify its currency, since the closer the peso moves to parity with the US dollar and the CUC, the more capable Cuban authorities will be of unifying the CUC and Peso.

Agricultural Reforms, 2007-2010

⁴⁸ Although extensive attention is not here paid to how inflation is transmitted in the Cuban economy, a brief overview should be noted. A stylized account is taken from Alejandro in Dominguez et al., 2012: 115-35). The endogenous variable in this account is “inflation in unregulated prices.” Inflation is measured in some official outlets, such as state gas stations. However, inflation is much more substantial in unregulated prices because state retail prices are usually fixed. The exogenous variables that affect inflation are: US dollars possessed by the Ministry of Internal Commerce (MINCIN); money supply; regulated prices; retail mercantile circulation (amount of goods for sale at state retail outlets); input costs (particularly fuel costs); and internal demand. It is these latter two variables that affect inflation; the other exogenous variables affect inflation (in unregulated prices) indirectly through internal demand and costs.

The inflation transmission process is as follows: the supply of US dollars possessed by MINCIN is positively related to retail mercantile circulation, since increased dollar possession by MINCIN leads to increased purchases of good for sale at state retail outlets. Regulated prices are also positively related to retail mercantile circulation, as increased prices cause mercantile circulation to increase. Regulated prices also affect input costs, since regulated prices in one sector are often input costs for another, purchasing sector. Money supply and retail mercantile circulation affect internal demand, as increased money supply, or decreased retail mercantile circulation, will cause internal demand to increase in non-state markets. Finally, costs and internal demand both have a positive relation to inflation in unregulated prices.

The above explanation makes it clear why Cuban authorities act through price controls (regulated prices) and sale of dollars to MINCIN. By controlling prices in state markets, the state can limit inflation to particular sectors at the beginning of the production chain. For instance, when fuel prices rose in 2008, and drove up costs for agricultural inputs (fuel, tools), price controls were imposed in agricultural markets, thus isolating inflation to agricultural inputs (Alejandro in Dominguez et al., 2012: 126, 128). Through sales of dollars to MINCIN, the Central Bank can also control inflation. If dollars are sold to MINCIN, then MINCIN can purchase goods for resale at state retail outlets, thus increasing retail mercantile circulation, driving down internal demand in non-state markets, and driving down inflation in unregulated prices.

⁴⁹ It is important to understand that Cuban monetary policy does not entail open market operations. There is no market for Cuban government debt, and fiscal deficits have a direct impact on monetary stability (Alejandro in Dominguez et al., 2012: 119). Rather than using open market operations, Cuban authorities use a combination of fiscal restraint, as well as control of exchange and interest rates. The central bank also attempts to affect supply and demand of consumer goods by selling dollars to the Ministry of Internal Commerce, so that it can purchase goods for subsequent sale at state retail outlets (Alejandro in Dominguez et al., 2012: 119).

The area of agriculture has been addressed in a particularly earnest manner by Cuban officials since Raul Castro assumed office on the island. As explained in this thesis's chapter on "Inserting Cuba Into the World Economy," the Cuban authorities have been compelled to promulgate reforms that will galvanize agricultural production, so as to mitigate Cuba's current account deficit in agricultural goods. As Lavery states,

In 2008, Cuba spent \$2.2 billion USD importing food while vast plots of land remained idle or unproductive. Cuban government officials told visiting CDA (Center for Democracy in the Americas) delegations that the country was importing over 80% of its daily food requirements. Increased international prices for food, including such staples as rice and beans, animal feed, and powdered milk forced Cuba to spend hundreds of millions of dollars more on imports in 2008 than 2007 (2011: 18).

Raul Castro, since taking office in 2006, has recognized these shortcomings, and has identified agricultural productivity as one of the most – if not *the* most – urgent exigencies in the Cuban economy. As a result, it is agriculture that has undergone the most substantial reforms since Raul took office. As Damien Cave of *The New York Times* explains, "No other industry has seen as much liberalization, with a steady rollout of incentives for farmers. And Mr. Castro has been explicit about his reasoning: increasing efficiency and food production to replace imports that cost Cuba hundreds of millions of dollars a year is a matter 'of national security'" (12-08-12).

Importantly, agricultural reforms since 2007 have been developed and implemented in what could arguably be deemed a "semi-democratic" fashion. As Lavery states, regarding agricultural reforms since 2007, "After consultations with farmers – from state, private, and cooperative farms – the government took concrete steps aimed at increasing incentives for producing food" (2011: 18). Lavery emphasizes that Raul has distinguished himself from Fidel in this respect:

Fidel Castro no longer commands public opinion, and his successor has a very different style of leadership. President Raul Castro, by working to cultivate a debate in Cuba about the reforms,

appears to be trying to bring along the general public and counterbalance resistance to change in the bureaucracy and among orthodox economic socialists (2011: 45).

Moreover, in a rather significant development, the state has allowed criticism of these reforms to be published in *Granma*, the Communist Party's newspaper; the newspaper "was also used to criticize recalcitrant bureaucrats and encourage the process to move forward" (Lavery, 2011: 20). This means that individual Cubans are being allowed to voice their concerns, whether pro- or anti-reform, in the state's newspaper – a phenomenon that would have been unthinkable in previous years.

Hence, agricultural reforms during this period are illustrative of first, the Cuban government's pragmatism in addressing economic exigencies; and second, the Cuban government's attempts to include the welfare and concerns of those affected by its policies when developing such policies. Including the Cuban population in the policy formation process should go far in endowing current and future reforms with a degree of legitimacy.

Regarding the particular substance of agricultural reforms, there were four main reforms that were promulgated between 2007-2010, which were meant to increase productivity and efficiency. The list is as follows:

1. Legalizing the purchase of some inputs by farmers;
2. Granting usufruct tenure of idle land to private farmers and cooperatives;
3. Increasing prices offered to farmers for agricultural products;
4. And decentralizing government functions and organizational structures, as they pertain to agriculture (Gonzales in Dominguez et al., 2012(a): 75-91; Marc Frank, Reuters, 03-17-08, 06-01-2014).

First, there was the legalization of supply purchases by farmers in 2008. The Cuban government opened *state*⁵⁰ stores through which such supplies could be purchased. As prominent Cuba expert Marc Frank explains, this reform was meant to address complaints of farmers

⁵⁰ Not to be confused with *private wholesale* agricultural markets, which are discussed as the second agricultural reform in the next chapter.

regarding the nonproductive use of land: “Cuban farmers complain the cumbersome state-run system does not work, leaving crops to rot and farmers without timely supplies such as animal feed, resulting in poor land use” (3/17/08). Prior to this reform, which started with dairy farmers, and was subsequently extended to include other farmers, all allocation of supplies to farmers was conducted through the central government. Such an arrangement was one instrument through which the state ensured a legally stipulated amount of agricultural output: “In exchange for state-assigned supplies, they must grow certain crops or raise certain livestock to sell back to the government at fixed prices” (Frank, 3/17/08). Hence, by deciding who gets how much of certain inputs, the state has been able to determine which agricultural products are produced, as well as how much output of each product farmers are obligated to sell to the state. By allowing farmers more latitude in purchase of inputs, the state signaled a broader move towards more liberalized and decentralized production and sale decisions.

This move towards less agricultural control was made by Raul Castro as an attempt to mitigate shortfalls in production, as well as mollify the concerns of farmers regarding such shortfalls (Frank, 03/17/08). Moreover, the decision to allow farmers to purchase their own inputs indicates that Raul Castro is listening to pragmatic concerns of economists on the island, who have voiced their concerns regarding the state’s monopoly over agricultural inputs and output, and the lack of incentives that obtain in such a situation, since productive farmers are not rewarded, and unproductive farmers do not suffer any consequences (Frank, 3/17/08). These economists argue that allowing more productive farmers to retain their earnings and purchase inputs would act as a substantial incentive, which would galvanize production (Frank, 3/17/08).

This reform, while relatively substantial by Cuban standards, still falls short of meeting the demands of Cuban farmers. Being able to purchase inputs from state stores is a step in the

right direction, but these stores, since this reform was introduced in 2008, have exhibited shortages of goods that farmers must purchase as inputs. Hence, farmers often have no choice but to turn to black market sellers for such inputs as fertilizer (The Economist, 06/29/13: 35). The most practical option that Cuban officials have in meeting this shortfall in demand is the introduction of private, wholesale markets that sell agricultural inputs, with which it is currently experimenting (Frank, 3/17/08: 35; Frank, 6/1/2014). The state most likely avoided introducing private wholesale markets in 2008 because it wanted to experiment with direct purchases by farmers; it can also be presumed that the state did not want to completely forfeit the political and economic power that it retains through the control of agricultural inputs. Such control will possibly wane if the state legalizes private wholesale markets in agricultural inputs.

The upshot that should be taken away regarding the legalization of direct agricultural input purchases from the state, is that Cuban authorities implemented such a reform to 1) mitigate output shortfalls; 2) address the concerns and desires of Cuban farmers; and 3) implement reforms in a piecemeal fashion that allowed for experimentation, while also avoiding the complete loss of political and economic power that the state retains by controlling input allocation. Importantly, the tonic effects of semi-liberalization of input purchases by Cuban farmers will be vitiated until more extensive wholesale markets for such inputs are introduced on the island, a topic that is discussed in the next chapter.

The second agricultural reform between 2007-2010 was the granting of usufruct use of idle agricultural lands to private farmers and co-ops. In terms of attempts at increasing productivity, Gonzales identifies this reform as the single most important agricultural reform, since the non-use of potentially productive lands is one of the most salient factors contributing to the island's balance of payments deficit in agricultural products (Gonzales in Dominguez et al.,

2012(a): 75). According to Gonzales, this is a step that should have been prioritized and advanced much earlier, since, as of 2008, 27% of Cuba's potentially productive land remained idle (in Dominguez et al., 2012(a): 82). Such an arrangement is unacceptable, given that Cuba runs substantial trade deficits in agriculture.

The importance and potential of transferring agricultural production to the private sector cannot be understated. As the examples of China and Vietnam⁵¹ have illustrated, the shifting of agricultural production from the state to the private sector led to substantial increases in yields. In Cuba after the Revolution, all private landholdings over 6.5 hectares were banned, with the state coming to own 70% of all land, "making it the largest unproductive landowner in Latin America when Raul took over," neglecting the land, and allowing marabou and other weeds to overrun approximately one-third of Cuba's 3.6 million hectares of productive land (Frank, 2013: 116). And while Cuba should look to Vietnam and China as examples of the potentialities of private land production, officials really need look no further than their own island: as an agricultural expert informed Marc Frank, while the state retains 70% of land, "the private sector, with just a fraction of the land, produces 70 percent of (Cuba's) produce" (Frank, 2013: 117). Thus, Cuba's agricultural production has the potential to increase substantially if Cuban officials continue to transfer arable land to private hands.

To address the issue of idle land, the government promulgated two measures, Decree-Law 259 and Regulatory Legal Decree 282 in July and August 2008, respectively. Decree-Law 259 clarifies and codifies the period for usufruct use of land by individuals; clarifies the meanings of the terms "economic property" and "legal property"⁵²; and introduces taxes/rents on those who engage in usufruct use of land (Gonzales in Dominguez et al., 2012(a): 82). Decree-

⁵¹ See chapter "Inserting Cuba Into the World Economy."

⁵² Essentially, the land in usufruct use is still owned by the state. Those using it for agricultural purposes are renting, rather than owning, the land (Gonzales in Dominguez et. al. (Ed.) 2012(a): 104).

Law 282 establishes the operating procedures of Decree-Law 259, regarding how a usufruct license/contract is obtained (Gonzales in Dominguez et al., 2012(a): 82).

While these laws are indicative of progress being made on the part of Cuban authorities to increase agricultural productivity, both Decree-Law 259 and Legal Decree 282, as they were originally introduced in 2008, had significant flaws that vitiated their efficacy. Regarding Decree-Law 259, there are four main problems.

First, 259 did not take into account variance in the amount of time that different agricultural endeavors require – all usufruct contracts were set for ten years, at which point they can be renewed (Gonzales in Dominguez et al., 2012(a): 82). Gonzales-Corzo identifies this aspect of 259 as one of the most saliently flawed of its provisions, since it instills in Cubans a sense that the land is not indeed theirs, and thus acts as a disincentive to “engage in the rational and optimal use of resources” (2009).

Second, 259 did not account for variance in the amount of monetary investment that is required for different agricultural endeavors – payments for improvements made to property are only paid at the end of the usufruct period. Moreover, the building of “permanent structures” (e.g. homes) on agricultural land granted in usufruct was initially⁵³ prohibited (Frank, 2013: 262). This facet of 259 acts as a disincentive to those using the land, since they are unlikely to make more than minimal improvements/investments, because 1) they will not be compensated until at least a decade into the future; 2) because this facet of 259 reinforces the perception by land users that their time on the land is strictly transitory; and 3) because developing agricultural land is simply not practical when farmers are not allowed to build homes, and thus live on, their land. As one farmer put it, “It’s ridiculous to try to work on a plot of land during the day and, when

⁵³ The phrasing “initially” is used here because subsequent reforms have amended agricultural measures so as to address this issue. See heading “Further Agricultural Reforms.”

night falls, to have to go away and leave it until the following day” (Frank, 2013: 263). And, as another farmer put it, “Only someone sitting in an office in Havana with no idea what goes on in the countryside would lease land for just ten years and prohibit building permanent structures on it” (Frank, 2013: 263). Such policies prevent the repopulation of agricultural land in Cuba; Gonzales stresses the significance of this point, since “Cuban agricultural regions require repopulation. Without an agricultural population, there is no guarantee for stable or sustained agricultural production” (in Dominguez et al., 2012(a): 82-3). As is explained in the next chapter, however, these shortcomings have largely been addressed since 2012.

Third, the state only granted 13.42 hectares (33 acres) of land per farmer for usufruct use, which, according to many Cubans, is simply insufficient (Frank, 2013: 262).

Finally, Decree-Law 259 allowed for termination of the usufruct contract by the state if “contractually agreed production” is not satisfied. Since commitments to the state meet and exceed 70% of total production, farmers are disincentivized from producing, since the state procurement agency, *Acopio*, continues to pay below market prices for many agricultural products (in Dominguez et al., 2012(a): 83).

Regarding Legal Decree 282, the main flaws pertained to the amount of paperwork required to obtain a usufruct permit, as well as the amount of time that is required to obtain the permit, as the law was worded in its initial promulgation in 2008. At the low end, obtaining a usufruct permit required nine documents to be filed, which takes 63 days. At the high end, obtaining a license required thirteen documents, plus an additional appeals document, the processing of which can take up to 128 days (in Dominguez et al., 2012(a): 83-4). In other words, the process for gaining a usufruct license was convoluted by excessive bureaucratic hurdles.

According to Gonzales, by the end of 2009, permits for approximately 52% of all idle land had been granted, and 35% of the permitted land had been planted. While a step in the right direction, Perkins notes that a majority of usufruct land is “still cultivated by state or collective entities that have very limited decision-making authority at the production unit level” (Gonzales in Dominguez et al., 2012(a): 108). As discussed in this thesis’s chapter on “Inserting Cuba Into the World Economy,” much better use of this land would be made in private hands, as has occurred in other developing states, such as China and Vietnam.

In sum, the usufruct permit process is illustrative of the nature of the general pattern of recent reforms in Cuba: piecemeal advances towards the market, punctuated and hampered by centralized bureaucracy. There are significant flaws that obtain in the system, including problems pertaining to Decree-Law 259 that disincentivize production; bureaucratic impediments in Legal Decree 282; and the small proportion of usufruct land that has been allocated to private, as opposed to state or collective, entities. However, it is not surprising that such “flaws” obtain in Cuba’s usufruct system. Such “inefficient” arrangements, such as those that allow for contract abrogation if production quotas are not met, allow for Cuban authorities to maintain a certain level of control over agricultural processes. In this sense, insofar as bureaucratic impediments allow Cuban officials to monitor and manage the pace and nature of privatization and marketization measures, such inefficiencies are not only predictable, but also desirable, as long as they are temporary.

As time passes, it should be expected that there will be more significant moves towards marketization and privatization, but such moves will be conducted in an incremental, deliberate manner. Such has been the case in wholesale markets and other input procurement arrangements – the state has started off with experimentation with particular sectors and products (and even in

particular regions, as has been the case with wholesale markets recently – see *The Economist*, 06/29/13: 35), and has slowly indicated that further marketization is being contemplated. Indeed, Perkins’s concern that the process of usufruct reform “has been slow” (In Dominguez et al., 2012(a): 108) seems strange, since a deliberate pace seems to be an intended objective of Cuban officials. Reforms are supposed to be “slow.”

Moreover, a fully privatized and marketized agricultural sector is not what Cuban authorities are aiming for, nor is it likely to eventuate. Rather, as Gonzales-Corzo explains, the island is moving towards a form of market socialist, rather than fully privatized, agricultural sector (2009). And in this regard, Cuba’s reforms are typical of an economy moving away from a fully centrally planned economy, with the state continuing to retain a large role in the economy, and playing a large regulatory role in the areas that it has privatized and marketized (Gonzales-Corzo, 2009).

The third agricultural reform between 2007-2010 was an increase in prices paid for agricultural products. This reform was sufficiently analyzed elsewhere⁵⁴, so it will not be extensively covered here. Suffice it to say that the Cuban government, attempting to increase agricultural productivity, offered higher procurement prices for some goods. Effects have been mixed, with productivity of some products, such as milk, increasing, while some products, such as meat, were unaffected. Importantly, Cuban agricultural producers who were offered higher prices were also paid in CUCs. Payment in CUCs, along with the legalization of input purchases at state stores (which take CUCs), suggest that increased productivity may yet appear in higher-priced products that have yet to be affected by price increases, such as meat (Gonzales in Dominguez et al., 2012(a): 80). However, it should be noted that, despite increased procurement prices, *Acopio* continues to offer prices for many goods below the market price (Gonzales in

⁵⁴ See Chapter on “Inserting Cuba Into the World Economy.”

Dominguez et al., 2012(a): 81-2). As a result, productivity gains may not be as substantial as Cuban authorities had anticipated. Such is likely to be the case until *Acopio* offers near-market prices for agricultural goods, since producers are often required to sell 70% of their output to the state.

The fourth agricultural reform between 2007-2010 pertained to the decentralization of government functions and organizational structures, and the simplification of state bureaucracy, as they pertain to agriculture (Gonzales in Dominguez et al., 2012(a): 75-91; Frank, Reuters, 3/17/08). Decision-making authority has been devolved to the municipal level, and 17 municipalities have been selected by the Ministry of Agriculture to serve as experimentation sites for decentralized agricultural production. Moreover, the “Ministry of Economy and Planning (MEP) has selected five additional municipalities to which it provides economic resources and assists with decentralized forms of economic management to foster import substitution, increase food production and employment, and generate export income” (Gonzales in Dominguez et al., 2012(a): 90). In terms of simplifying agricultural bureaucracy, the Food Industry Ministry has been merged with the Ministry of Fishing, and steps are being taken to merge the Ministry of Agriculture with the Ministry of Sugar. As Gonzales explains, “the final goal is to constitute a single Ministry of Food to oversee agriculture, fishing, and the food industry” (Gonzales in Dominguez et al., 2012(a): 90).

Decentralization and bureaucratic simplification are definitely steps in the right direction. However, supply and demand disequilibria are likely to remain until the state allows individual farmers more latitude in making their own production decisions. As stated before, allowing a larger role for the market in determining agricultural production decisions has had much success in countries such as Vietnam and China.

As of 2012, the results of these agricultural reforms had seemingly fallen short of expectations. According to Lavery, farm sector output decreased by 2.8% in 2010. Also, while 20% of Cuba's population works in agriculture, this sector only accounts for 4% of GDP (Lavery, 2011: 20). Further, the Cuban National Statistics Office reported in 2011 that many key crops exhibited lower yields in 2010 than they had in 2005, and that imports of food were set to increase once again in 2011 (Lavery, 2011: 20). Damien Cave of *The New York Times* reiterates this finding when he states, "At this point, by most measures, the project has failed... Many Cubans are actually seeing less food at private markets" (12-08-12). Hagelberg attributes these shortcomings to a lack of investment in the agricultural sector: capital investment in agriculture (crop and livestock) fell from 428.7 million pesos in 2009 to 327.9 million in 2009 and to 101.6 million in the first six months of 2010 (2009). Moreover, agriculture's share of total investment fell in 2009 and 2010, which does not indicate that authorities are prioritizing the sector as they say they are (Hagelberg, 2009).

Notwithstanding official figures and the critiques of experts, it should be noted that positive perceptions of the reforms do in fact obtain on the island, and that reforms may have been more effective than official figures indicate. Regarding the 2.8% decrease in agricultural productivity, a group of Cuban ranchers explained to Marc Frank that "the data was based on old reporting that did not accurately take into account the growing amount of food being sold directly to consumers, bypassing the state and sometimes its antiquated reporting system" (Frank, 2013: 271). Regarding a 20% increase in food prices in 2011, these same ranchers explained to Frank that "market economics and the end of subsidies" (Frank, 2013: 271) were responsible, implying that inflation is to be expected when state support is reduced. An additional salutary indicator for the Cuban economy pertains to the structural change that has occurred, vis-à-vis the

agricultural sector: according to Marino Murillo, “in July 2012...just 53 percent of farm output was contracted by the state that year and the other 47 percent sold on the market or consumed by farmers, compared with more than 80 percent sold to the state just a few years earlier” (Frank, 2013: 270). Related to this last point, and pertaining to the general nature of Cuban economic reforms, Campbell states,

The reforms target medium- and long-term structural changes. It will be several years before one can even begin to meaningfully evaluate from the data whether the reforms are starting to yield the desired results. In fact, given the immediate disruptions in ‘business as usual’ entailed by the large structural changes being proposed, one would expect many empirical measures to worsen...before beginning to improve, even if they are eventually successful (in Campbell, 2013: 7-8).

Moreover, to the extent that agricultural reforms have thus far yielded disappointing results, Damien Cave of the *New York Time* argues that this is not because the reforms don’t have the potential to be effective; rather, it’s mainly due to infrastructural shortcomings on the island, since poor roads prevent much produce from arriving at its destination without rotting. There is also a lack of inputs – fertilizer for instance – that prevents productivity gains: “Government economists are aware of the problem. If you give people land and no resources, it doesn’t matter what happens on the land,” said Joaquin Infante of the Havana-based Cuban National Association of Economists” (Cave, New York Times 12-08-12).

Hence, in response to disparaging critiques of these agricultural reforms, it should be stressed that 1) official figures may be flawed; 2) inflation is a natural corollary when the state reduces agricultural subsidies; 3) the structure of the agricultural market is moving towards the market and away from the state, which is one of the main goals of recent agricultural reforms; 4) infrastructural issues and lack of access to inputs are also to blame, which are unrelated to the potential of agricultural reforms themselves; and 5) the long-term and structural nature of Cuba’s reforms precludes any meaningful assessment of their efficacy thus far.

Notwithstanding the above explanations for, and responses to, shortcomings in agricultural reforms, Cuban authorities would be well advised to err on the side of caution, and presume that official figures are accurate indicators of the efficacy of agricultural reforms. The fact is, economic policy is based on economic indicators, and reformers have to do the best with the figures they have. Hence, until better data comes along, official figures should be relied upon. If such a presumption is made, then agricultural reforms between 2007-2010 fell short, at least according to some metrics, and there are multiple reasons why agricultural output was so low.

First, while the government has granted farmers the right to buy inputs, the supply of many of these inputs in state outlets still falls short of demand. As *The Economist* states, the “ability to sell a broader selection of crops remains stymied by a shortage of seeds and fertilizers,” which are not yet available for sale in private wholesale markets (06-29-13). Government economists are aware of this problem – as Joaquin Infante of the Cuban National Association of Economists states, “If you give people land and no resources, it doesn’t matter what happens on the land,” (Cave, New York Times 12-08-12). This shortfall in supply could be addressed by legalizing private wholesale markets for agricultural inputs, which the state has not yet done, but with which it is experimenting on The Isle of Youth, as of June 1st, 2014. The shortfall could also be addressed by allowing farmers to purchase their own imports, (Cave, New York Times 12-08-12), though this measure would necessitate a multitude of other reforms, pertaining to farmers’ access to hard currency, among others (the direct purchase of imports would also vitiate the efforts of the government to monitor and reduce its balance of payments deficit).

Second, while usufruct contracts have done much to shift idle land into production, there are flaws in the laws that grant farmers usufruct use. Decree-Law 259 fails to grant farmers a sense of ownership in the land they use, and thus acts as a disincentive to investment in that land.

Legal Decree 282 simply presents too many bureaucratic hurdles, and requires too much time, in the usufruct contract process. Moreover, despite the shift towards productive use of idle land, too much of this land remains in state and collective, rather than private, hands.

Third, while the state raised procurement prices for many agricultural goods, which yielded mixed results, the prices offered still usually fall short of market prices. As Gonzales argues, offering procurement prices that are aligned with market prices would go far to increase productivity (in Dominguez et al., 2012(a): 82).

Fourth, while the state has engaged in a process of decentralization of agricultural production decisions, it still has not granted enough autonomy to individual farmers to determine, on their own, what crops to grow. Allowing the market to play a larger role in this regard would likely go far in approximating equilibrium in agricultural supply and demand. The state could still require a certain quota of particular necessities, so as to fulfill its obligation to provide rationed goods, but these obligations are likely to continue to fall, as the state continues to reduce the number of goods that are available through the ration card (Haven, 11/07/09). Indeed, as Lavery explains, the state is shifting towards a system of targeted benefits, which is “being sold to the population as a work incentive” (2011: 61). Raul Castro has made this clear when stating, “The social welfare system is being reorganized to ensure a rational and deferential support to those who really need it. Instead of massively subsidizing products as we do now, we shall gradually provide for those people lacking other support” (Granma, 04/16/11). This shift towards targeted benefits is significant because it represents a shift towards material, rather than moral, incentives in the Cuban economy, which is characteristic of a more general pragmatic shift taking place. As this targeted benefit system develops, and farmers are required to provide less of

their produce to the state, they should garner more latitude in determining their own production decisions.

Finally, a major contributor to supply shortfalls has been an inadequate supply of state-owned trucks, which are necessary to get harvests from their point of production to the point of sale. Because of the shortage of necessary transportation, there is a substantial amount of wasted produce on the island: “In 2009, hundreds of tons of tomatoes, part of a bumper crop that year, rotted because of a lack of transportation by the government agency charged with bringing food to processing centers” (Cave, New York Times, 12-08-12). Thus, investing in more delivery trucks – a step that would be relatively easy compared to the form and scale of other reforms – would go far in addressing shortfalls in food supply in Cuban markets. The state also has the option of simply allowing agricultural producers to directly deliver their produce to retailers themselves.

Conclusion

Cuban agricultural reforms between 2007-2010 were representative of the Cuban government’s desire, and more importantly *willingness*, to engage in marketization and privatization reforms. Such reforms were developed in a semi-democratic manner, through consultation with the Cuban populace, and were implemented in a deliberate, gradual manner. Complaints emerged subsequent to these reforms that the state had not gone far enough in liberalizing the agricultural sector. These complaints are reasonable and well-founded, but they failed to recognize that the tentative pace of Cuban reforms is deliberate, not accidental – Cuban officials have been implementing reforms on an experimental basis, and are not willing to completely relinquish political and economic control of the agricultural sector, nor are they willing to completely abandon their obligation to providing basic agricultural necessities to the

Cuban people. In 2010 the years following, Cuban officials exhibited their determination to continue liberalization in a deliberate fashion when they introduced a number of measures that corrected and deepened the reforms of 2007-2010. The next chapter provides an overview and analysis of reforms since 2010.

Chapter Seven: The 2010 Project Document and the 6th Party Congress: Reforms since 2010

Introduction

In the second half of 2010, two important and related events occurred. First, the Communist Party issued a document titled *Project of Economic and Social Policy Guidelines for the Party and the Revolution* (hereafter referred to as the *2010 Project Document*), in which future reform plans were laid out. Second, the Communist Party announced that it would hold the first party congress since 1997. This would be the 6th Party Congress, and it took place in April of 2011. During this Congress, feedback and suggestions pertaining to the *2010 Project Document* were discussed by the Party. Subsequently, a series of substantial economic reforms were announced and introduced on the island. This chapter provides an overview and analysis of these reforms. The main conclusions regarding these reforms are: 1) These reforms have moved the Cuban economy further towards the market than it has ever been since 1959; 2) the reforms of the 6th Party Congress are likely here to stay; and 3) the process of reforms has included feedback from, and debate with, Cuban experts, academics, and citizens, thus allowing the process to be characterized as semi-democratic.

Project of Economic and Social Policy Guidelines for the Party and the Revolution (“2010 Project Document”)

In the latter half of 2010, the Cuban Communist Party released a document titled, *Project of Economic and Social Policy Guidelines for the Party and the Revolution (2010 Project Document)*. This document gave an assessment of recent economic developments, both within and without Cuba, and listed economic and social guidelines that were being considered for reform in 2011. The purpose of the document, and its nature as mainly a set of economic proposals, is explained in the introduction of the document:

In proposing economic policy guidelines, in the framework of the 6th Congress of the Cuban Communist Party, it is necessary to make an evaluation of the state of the economy and the problems to resolve, taking into account the principal events and circumstances, both external and internal, since the last Congress [in 1997] (Cuba, Communist Party, 2010).

As to external problems pertaining to the Cuban economy, the document very specifically refers to the recent turmoil of the international economy: “the international context is characterized by the existence of a systemic structural crisis that is simultaneously an economic, financial, energy, food and ecological crisis, with a greater impact in the underdeveloped countries” (Cuba, Communist Party, 2010). “Cuba,” the document continues, “with an open economy and dependent on its external relations, has not been exempt from the impact of this crisis, which is expressed in price instability of the products it exchanges, in the demand for its export products and services, as well as greater restrictions on the possibilities of obtaining external financing” (Cuba, Communist Party, 2010). This sentiment is echoed by Perez, who explains that the main impacts of the global crisis on the Cuban economy have been through: a fall in the prices of Cuba’s exports, mainly nickel; a rise in international food prices, which constitute a significant proportion of Cuba’s imports; and future decreases in access to capital, since Cuba implemented capital outflow controls⁵⁵, and stopped servicing some of its external debts, since the crisis started (2009: 17-18).⁵⁶ Luckily, at least in this case, Cuba does not have equity markets, so it has not experienced capital outflows in that regard (Perez, 2009: 7).

⁵⁵ The implementation of capital controls should not be interpreted as a definite sign that future FDI and capital access will be reduced for the island. Chile was able to maintain substantial capital controls during its key development period of 1991-98. However, such controls were implemented on the *inflow* side (Gabel 2001). What may be more important for whether or not Cuba can maintain capital controls is whether or not global demand for Cuban exports, including biotech, nickel, and tourism, continue to increase. In such cases, foreign investors may consider the costs of capital controls to be less than the benefit of access to Cuban commodities and tourism. Forbes (2006), responding to Gabel’s (2001) arguments in favor of capital controls, argues that capital controls during Chile’s development had negative macroeconomic effects, which could not be detected in macroeconomic analyses. Forbes argues that the ability of smaller firms to compete was deleteriously affected by Chile’s capital controls.

⁵⁶ For an explanation of the mechanisms through which the current global crisis has been transmitted from developed to developing countries, see Perez 2009. The main mechanisms through which the crisis has spread to developing countries have been 1) decreased demand in developed countries for exports of developing countries; and 2) capital flight and decreased FDI.

Surprisingly, as of November 2009, Cuba's exports of tourism had not been negatively affected by the crisis that began, in earnest, in September of 2008 (Perez, 2009: 10).

Regarding external debt and future access to capital, Cuba may be in a particularly precarious position. Nailing down a concrete figure regarding Cuba's external debt is difficult, and estimates vary between analysts. The official figure for *active* (currently serviced) external debt reported by the Cuban Central Bank in 2007 was US\$8.9 billion, with another US\$7.6 billion owed to Western countries, which is not being serviced, for an aggregate of US\$16.5 billion (Perez, 2009: 13). In contrast, the Cuban Transition Project of the University of Miami estimates Cuba's external debt to be US\$23.8 billion at the end of 2007 (Perez, 2009: 13). Analyses show that bank credits flowing to Cuba were already beginning to decrease substantially by the last quarter of 2008, indicating that Cuba's access to credit from private banks was beginning to wane (Perez, 2009: 13). What makes Cuba's situation so precarious is that much of its credit was through governments, rather than private banks or suppliers, and that much of that credit was provided by a small number of governments, particularly Venezuela and China, mainly for political reasons (Perez, 2009: 13, 18). The upshot: Cuba's inability to service a large portion of its debt to many Western countries, along with the island's reliance on politically-motivated credit, means that Cuba will have a more difficult time accessing credit from Western countries, and could lose access to capital from its political allies, if political conditions change in those countries (though, this is much more likely in Venezuela than in China)

Perez explains that developing countries are more capable of absorbing crisis-related shocks if they have balance of payment surpluses, large amounts of foreign exchange reserves, and/or budget surpluses or small deficits. In all of these categories, Cuba shows signs of trouble,

as it runs sizable deficits in its balance of payments and budget, and lacks substantial foreign exchange reserves (Perez, 2009). Thus, the Cuban economy and government exhibit conditions that make the island particularly vulnerable to external shocks.⁵⁷ Mesa-Lago and Vidal-Alejandro concur with this assessment, and explain that Cuba's open economy has most negatively been affected by decreased demand for its exports, increased deficits in its balance of payments, and a decrease in access to capital markets, which has exacerbated its inability to fight its recession with fiscal or monetary policy (2010: 715).

However, the effect that international markets have had on Cuba is complicated, for the following reason. The IMF's World Economic Outlook has found a very strong connection between the onset of crises in developed and developing countries (Perez, 2009: 4).⁵⁸ Moreover, "transmission (of crises) is stronger to emerging countries with tighter financial links to advanced economies" (Perez, 2009: 4). Hence, because Cuba already had limited access to capital markets, particularly private bank credit, the effect of the financial crisis may have been less pronounced than in other developing countries. Also, China is one country that continued to provide credit to Cuba during the financial crisis, and China was able to sustain the crisis much better than most countries, developed or developing.

Cuban officials, in the *2010 Project Document*, also drew attention to economic problems internal to the economy that must be addressed: "Internally, there have been factors such as low

⁵⁷ This is not to say that Cuba's situation has its genesis exclusively in domestic policy and economics. All of the above problems are exacerbated by the US' economic blockade on the island, and Cuban authorities, while recognizing their own shortcomings, also continue to emphasize the role that the US has played in their crisis: the *Project of Economic and Social Policy Guidelines for the Party and the Revolution* states, "the country experienced the tightening of the economic, commercial and financial blockade that has been imposed uninterruptedly by the US for half a century, a situation that has not been changed by the present administration of that country, and that has resulted in great losses" (Cuba, Communist Party, 2010). In other words, Cuban authorities still identify the US as one of the major economic problems external to the country; however, on the internal side, they are recognizing the exigent need for reform.

⁵⁸ The link between crises in developed states and developing states is well established, and not surprising, given the highly integrated nature of the international economy. Equity and debt markets were one of the main conduits through which the recent financial crisis spread from developed to developing countries, "as investment from mature markets retracted to consolidate positions at home to face increasing financial losses" (Perez 2009: 3).

efficiency, de-capitalization of the productive base and of infrastructure, the aging of the population and stagnation in population growth” (Cuba, Communist Party, 2010). Significantly, the Cuban Communist Party, in this document, is no longer blaming the United States as the sole contributor to its economic problems. Rather, the Party is recognizing that the Cuban economy is suffering from flaws that are of the island’s own making, and making known its desire to address them in earnest (Lavery, 2011: 3).

To address internal and external deficiencies in the Cuban economy, the *2010 Project Document* proposes 291 specific measures. Not all of these will be covered, but the document evinces a clear, pragmatic, market-oriented reform strategy. For instance, the document, in guideline #158, emphasizes the need to introduce additional forms of non-state, private- and self-employment (During the same time period, the Cuban government issued new licenses for 178 new forms of self-employment (Lavery, 2011: 24)). Guideline #158 also recognizes the need to develop an adequate tax system for Cuban entrepreneurs. In guideline #6, the document indicates that a more clear separation between the state sector and the private enterprise sector must emerge in the Cuban economy. Guideline #14 gives a very clear indication of the market-oriented nature of the reforms when it states, “Control over enterprise management will be based principally on economic-financial mechanisms, in place of administrative mechanisms, removing the existing burden of controls on enterprise activity” (Cuba, Communist Party, 2010). The *2010 Project Document*, in guideline #19, indicates that loss-sustaining state enterprises will no longer be subsidized. Guideline #19 also indicates that wages will be based on productivity. Illustrating the truly radical nature of this document, guideline #162 even called for the “orderly elimination of the ration book system as a form of distribution that is regulated, egalitarian and subsidised, and which favours both those citizens who need it and those who do not, therefore encouraging

people to exchange and resell these products, [thus] stimulating a black market” (Cuba, Communist Party, 2010). Hence, even the ration book, an item that is considered to symbolize Cuban socialism, was on the table for elimination⁵⁹.

Importantly, many of the proposals in the *2010 Project Document* are phrased in a rather vague manner, which affords Cuban officials latitude in the scope and pace of their implementation. Lavery draws attention to this issue when he states, “In some areas, the guidelines and government intentions are extremely vague or undeveloped, making it difficult to predict how fast and far the government is willing to go in reforming the economy.” Moreover, he explains, “The proposed changes lack timetables and clear action steps of how they will be executed” (Lavery, 2011: 28). As an illustration of this issue, guideline #19, which links’ employee pay to productivity, simply states, “The incomes of the workers of an enterprise will be linked to the final results obtained” (Cuba, Communist Party, 2010). The vague and ambiguous nature of this guideline is evident in its phrasing. However, to perceive this as a “flaw” would evince a misunderstanding of these reforms, insofar as one of their inherent *benefits* is their vagueness. An absence of timetables and of unequivocal wording may be undesirable for investors and Cuban citizens, but would constrain Cuban officials in implementing these reforms. Using ambiguous language allows Cuban authorities latitude in both the substance, and timetable, of these reforms. Cuban authorities have shown that they are genuinely dedicated to implementing current reforms, but such implementation will be conducted on their own terms, according to their own interpretations, and on their own timetable.

After the publication of the *2010 Project Document*, thousands of meetings were held across the island, with the document being the central topic of debate. More than eight million of

⁵⁹ The ration book has not yet been eliminated, but items available through the card have been substantially scaled back (Haven, Boston Globe, 11/07/09; Center for Democracy in the Americas, 09/03/10).

Cuba's 11.2 million citizens partook in such debates, according to government figures (Lavery, 2011: 25). Criticism and praise for proposed reforms were both fielded during these meetings, with the result being that, according to *Granma*, "619,387 proposals for deletions, additions and modifications, and expressions of doubts and concerns" were put forward through the meetings (Lavery, 2011: 25). Raul Castro used the meetings both to gauge public opinion regarding proposed reforms, as well as to garner support for such reforms (Lavery, 2011: 25). The inclusion of such a large portion of the Cuban populace in the debate process led one Cuban official to remark on the "democratic" nature of the process, "[there] has never been a process so thorough and well-rounded that included so many members of the population, as well as an exhaustive effort by the government to take their feedback into account" (Lavery, 2011: 26).

Lavery notes that some critics of the process have argued that the debates were simply a "façade," and some Cuban economists have argued that the proposed reforms do not go far enough in the direction of marketization (Lavery, 2011: 26). However, Lavery argues that the government was genuinely listening to citizens' concerns, and that modifications to the *2010 Project Document* guidelines were based on citizens' feedback (Lavery, 2011: 26). Lopez-Levy's analysis comports with Lavery's analysis, as he states,

For the first time, nonpartisan organizations of Cuban civil society, like the religious communities, debated the document in their publications and published articles and editorials about the proposed reforms. In the end, the organizing commission rewrote the document, which was discussed again by the different provincial delegations to the congress and then on the floor of the Sixth Congress itself (2011: 218).

Indeed, the Communist Party characterized the *2010 Project Document* as a popular referendum, and stated, "In a truly extensive democratic exercise, the people freely stated their views, clarified their doubts, proposed amendments, expressed their dissatisfactions and discrepancies, and suggested that we work toward the solution of other problems not included in the document" (Granma 04/16/11). The Party, in this statement, ostensibly showed its willingness to brook

partially democratic processes, as well as to allow for dissenting opinions in the policy process. Hence, the debate process that followed the publication of the *2010 Project Document* should be seen as at least a semi-democratic process.

The 6th Party Congress and Subsequent Reforms

In April of 2011, the Cuban Communist Party convened for its 6th Party Congress, the first since 1997. As Lopez-Levy notes, the 6th Party Congress should be seen as a continuation of the *2010 Project Document* (2011: 218). The Cuban Communist Party expressed as much when it stated, during the 6th Party Congress, “this Congress really started on November 9 last year, with the release of the Draft Guidelines of the Economic and Social Policy of the Party and the Revolution” (Granma, 04/16/11). Hence, in the future, when analysts are discussing Cuba’s “transition,” a proper starting point, if only for pedagogical reasons, should be with the publication of the *Project of Economic and Social Policy Guidelines for the Party and the Revolution* in 2010.

The 6th Party Congress essentially amended, formalized, and expanded, the guidelines of the *2010 Project Document*. As the Communist Party stated during the Congress, “The original document [*2010 Project Document*] contained 291 guidelines; 16 of them were moved to others; 94 preserved their phrasing; 181 had their content modified; and, 36 new guidelines were incorporated for a grand total of 311 guidelines in the current draft” (Granma, 04/16/11).

The 6th Party Congress, and subsequent reforms, have confirmed that the Cuban economy is moving in a pragmatic manner towards the market. This section provides an overview of Raul Castro’s address to the 6th Party Congress, since this address provides a good illustration of Raul’s vision for Cuban politics and economics. This section also provides an overview and analysis of the economic reforms that have transpired since the Congress.

Raul's address to the 6th Party Congress

During the 6th Party Congress, Raul Castro gave Cubans an idea of the path the island would be following in the following years. At the same time, and just as importantly, he intimated to Cubans the change in ideology amongst Cuban officials that was transpiring on the island. There were five main themes that could be discerned in Raul's address: general rationalization of the economy; decentralization; privatization; the fostering of democratic processes; separation of party and state; and the introduction of term limits.

General Rationalization

First, Raul emphasized that Cuban institutions must undergo a dramatic process of rationalization. Raul explained that for the benchmarks of the Cuban Revolution to be maintained, revisions of some state institutions would be necessary. Raul stated, "without renouncing their quality and scope, the social programs should be characterized by greater rationality so that better and sustainable results can be obtained in the future with lower spending and keeping the balance with the general economic situation of [Cuba]" (Granma, 04/16/11). The Communist Party first enunciated its plans to rationalize the economy with the *2010 Project Document*, in which it stated its plans to reduce "inflated payrolls," and gradually eliminate the ration book (Cuba, Communist Party, 2010). In his address, Raul expressed his discontent with the perverse incentives and distortions that the ration book had introduced into the Cuban economy. By reiterating its plan to discontinue the ration book, the resolve of the Cuban government to pursue a pragmatic course moving forward was confirmed.

A perusal of the discussion of the ration book is informative, as it is illustrative of the pragmatic agenda that was to be introduced by the 6th Party Congress. In this section of the address, Raul's speech evinces a practical approach to Cuban economics, stressing the need to

reform antiquated Cuban institutions. Notably, when discussing the history of the ration book, Raul refers to the “harmful egalitarian quality” of the ration book (Cuba, Communist Party, 2010). Raul argues that the ration book had introduced and preserved perverse incentives in the Cuban economy, since Cubans, for decades, have been granted equal access to certain goods, regardless of need (Cuba, Communist Party, 2010). As a result, Raul argues that Cubans lack incentives to work, and that the ration book causes those who do not actually need ration card items to hoard them (Cuba, Communist Party, 2010). Characterizing the ration book, and its attendant distortions, as anathema to the true nature of Cuban socialism, Raul states,

Certainly, the use of the ration book to distribute the basic foods, which was justified under concrete historic circumstances, has remained with us for too long even when it contradicts the substance of the distribution principle that should characterize Socialism, that is, ‘*From each in accordance with his ability and to each in accordance with his labor,*’ and this situation should be resolved (Cuba, Communist Party, 2010 – italics mine).

Importantly, the above statement from Raul illustrates an important facet of Cuban reforms: even if they move the Cuban economy closer to the market, they are presented as being pragmatic measures that preserve, rather than contravene, Cuban socialism. Indeed, there may be no phrase that more accurately and concisely characterizes the pragmatic nature of Cuban socialism than the rephrasing of the classic Marxian “...to each according to his *need*,” to the updated, incentive-based, “to each *in accordance with his labor*” (Cuba, Communist Party, 2010), which evinces the desire of Cuban officials to move away from a categorically egalitarian, and towards a more meritocratic/pragmatic, society, while still formally adhering to the tenets of Cuban socialism.

Moreover, Raul emphasizes that such a reform must be conducted on an incremental basis,” and that ration book reform must be conducted as part of a broader reform agenda:

No member of the leadership of this country in their right mind would think of removing that system by decree, all at once, before creating the proper conditions to do so, which means undertaking other transformations of the Economic Model with a view to increasing labor efficiency and productivity in order

to guarantee stable levels of production and supplies of basic goods and services accessible to all citizens but no longer subsidized (Cuba, Communist Party, 2010).

Hence, the approach to ration book reform can be considered as representative of the general nature of other 6th Party Congress reforms: pragmatic and market-oriented, incentive-based, incremental, and systemic, while still formally adhering to the principles of Cuban socialism. As the above statement by Raul emphasizes, each measure that occurs during the current reform process must be assessed as part of a broader, systemic reform agenda. Thus why Laverty characterizes the current reform agenda as “a dramatic shift away from collectivism...toward a mixed economy where individual incentives are more prominent” (2011: 28). Further emphasizing the systemic, dramatic nature of current reforms, Laverty explains, “In fact, this is the first major overhaul of economic policy adopted with such a document since the Economic Resolution adopted at the First Party Congress in 1976” (2011: 86, note 68).

Decentralization

Second, Raul emphasized that, in an attempt to increase efficiency in Cuban government and economics, a certain degree of decentralization would be necessary. Raul characterized the current model of the Cuban political economy as “excessively centralized,” and argued that “excessive centralization inhibits the development of initiatives in the society and in the entire production line, where the cadres got used to having everything decided ‘at the top’ and thus ceased feeling responsible for the outcome of the entities they headed” (Granma, 04/16/11). In other words, the Cuban government will be engaging in its project of decentralization as an attempt to cultivate initiative at the individual level amongst Cubans. Notably, this decentralization shall not only be introduced in traditional areas of government, but also in Cuban state-owned companies: “these concepts will permit a solid advance while avoiding backward steps in the gradual decentralization of powers from the Central to the local

governments, and from the ministries and other national agencies in favor of the increasing autonomy of the socialist State-funded companies” (Granma, 04/16/11). The anticipated model of the Cuban economy will be one in which the central government plays more of a regulatory role, as opposed to its current administrative role (Granma, 04/16/11).

Raul also stressed, however, that decentralization will not occur abruptly, since there are certain requisite institutions that must be fostered on the island first. For instance, he explained that a proper regime of regulations would first have to be developed, “defining the powers of and functions at every level, from the national to the local, invariably accompanied by the corresponding accounting, financial and management oversight” (Granma, 04/16/11). In other words, notwithstanding a move towards autonomy and the market, Cuban officials understand that the state will still need to perform a strong oversight role, for which the state’s capacity must first be improved.

In addition to regulatory institutions, Raul also emphasized that contracts must assume a more prominent role in Cuban affairs. The role of contracts was initially proposed in the *2010 Project Document’s* guideline #10, which stated, “The fulfilment (sic) of contracts between economic entities, with regard to the quality of the negotiation process and their drafting and signing, will be required as a key performance indicator” (Cuba, Communist Party, 2010). The use of contracts is intended to replace the current habit of “reunionism” amongst Cuban entities, which essentially means that rather than acting according to contract-based agreements, meetings are frequently called on an ad-hoc basis, so that parties can discuss and negotiate new details to any particular agreement (Cuba, Communist Party, 2010).

Raul argued all of the above facets of the government’s decentralization agenda would be implemented in a manner that allowed for the continued use of planning in the economy, albeit at

a more local level. Evincing the pragmatic nature of this agenda, Raul argued that economic planning must occur “without ignoring the current market trends” (Cuba, Communist Party, 2010). Hence, the Cuban government is trying to find a way to reconcile its inclination towards economic planning with current economic trends that are favoring a larger role for the market.

Recognition of Role of Private Businesses

Third, Raul gave formal recognition of the role that private enterprise currently plays, and should play, in the Cuban economy. As Lavery states, “in a repudiation of his brother’s earlier branding of entrepreneurs as ‘parasites,’ he reiterated that increased self-employment has become ‘an active element facilitating the construction of socialism in Cuba” (2011: 27). Furthermore, Raul declared, “the growth of the private economy should enlist the ‘support, assistance and protection of all officials at all levels”” (Lavery, 2011: 27).

This embrace of private enterprise should mainly be seen as a complement to the island’s general shift towards economic rationalization. As the state attempts to decrease its budget deficits by reducing spending, it has expressed the need to lay off many redundant workers in the Cuban economy. It made this agenda clear in the *2010 Project Document*, which expressed the need to “eliminate ‘inflated payrolls’ in all economic sectors and restructure employment, including through non-state formulas, applying a labour and salary policy for surplus workers that eliminates paternalistic procedures” (Cuba, Communist Party, 2010). To absorb many workers who will not have jobs as a result of these rationalization measures, Cuban officials have recognized the integral role of the private sector to offer gainful employment. Moreover, Raul argued that, as the private sector absorbs employees in non-critical sectors of the economy, the Cuban government will be more capable of fulfilling its role in critical sectors. For instance, Raul argued that allowing the private sector to play a role in nonessential sectors “will

make it easier for the State to continue ensuring healthcare and education services free of charge and on equal footing to all of the people and their adequate protection through the Social Welfare System” (Granma, 04/16/11). Hence, the necessarily increased role of the private sector in coming years was justified in terms of social justice and equity – terms that Cuban citizens would find palatable.

The justifications Cuban authorities have proffered for privatization measures are interesting because, rather than attempting to reconceptualize Cuban socialism, they have chosen to characterize clearly capitalist measures as necessary for the support and continuation of traditional socialist programs. By explaining that privatization “facilitates” healthcare and education, Cuban authorities have intimated the necessity of capitalist reforms, in terms of being *ancillary* to Cuban socialism, rather than a component of it. It would not be surprising to see Cuban officials continue to implement this approach moving forward, as further privatization and marketization measures are introduced on the island.

Democracy and Legitimacy

Third, Raul acknowledged the positive role that democratic processes have played, and should continue to play, in Cuba’s development process. Raul noted that nationwide debates and meetings had transpired since the publication of the *2010 Project Document*, and that in these meetings, more than eight million of Cuba’s approximately eleven million citizens had been involved, with more than three million citizens offering contributions/proposals (Cuba, Communist Party, 2010). Raul Castro referred to the *2010 Project Document* as a referendum, which allowed the government to collect feedback from the people, thus allowing the government to gauge the population’s desires moving forward. Raul Castro thus characterized the process following the *2010 Project Document* as “a truly extensive democratic exercise,” in

which “the people freely stated their views, clarified their doubts, proposed amendments, [and] expressed their dissatisfactions” (Cuba, Communist Party, 2010).

Such democratic rhetoric is presumably an attempt on the part of Cuban officials to increase the legitimacy of the island’s economic reforms. The Cuban government realizes that moving forward, economic reforms are likely to engender substantial dislocations, and as such, it is in the best interest of the Communist Party to take any steps possible to increase the legitimacy of potential reforms. As Underhill and Zhang argue, there are three main components of legitimacy: input legitimacy, output legitimacy, and accountability. Regarding the input legitimacy, these authors explain, “the input side refers to the decision-making process and the extent to which the interests of the broader community are included” (2008: 538). Similarly, Scholte argues that legitimacy is increased when there is congruence between “decision makers” and “decision takers”; such congruence entails that “those whose life expectancy and life chances are significantly affected by social forces and processes ought to have a stake in the determination of the conditions and regulation of these” (2008: 309). Hence, by including the Cuban people (even if just ostensibly) in the formation of reforms, Cuba’s government is attempting to increase the input legitimacy of its reforms.

As to output legitimacy, Underhill and Zhang explain that output legitimacy concerns results: “the capacity of rule-makers to produce outcomes which resolve problems and achieve collective goals in line with accepted and shared preferences or norms of the community” (2008: 538). Input and out legitimacy are two sides of the same coin, and Cuban officials hope to increase output legitimacy by including Cubans in the development of reforms. Cuban authorities believe that by garnering the feedback of the Cuban people, they will be more capable of implementing reforms that comport with the will of the general population. As Raul states,

“we should cultivate and preserve a fluid relationship with the masses, devoid of formality, that would allow for an efficient feed-back of their concerns and dissatisfactions so that the masses can indicate the pace of the changes to be introduced” (Cuba, Communist Party, 2010). Thus, by listening to Cubans, authorities will be able to introduce reforms at a socially beneficial pace, thus reflecting the “shared preferences” of the Cuban populace.

Regarding the third component of legitimacy, accountability, Underhill and Zhang explain that governments must be “responsible to broad publics upon whose lives their decisions have an impact,” and that “those in authority must to some degree *represent* the interests of the ruled, or an accountability gap emerges” (2008: 538). Essentially, accountability is the third facet of democracy and supports input and output legitimacy: without accountability, the other two lose much of their relevance. This aspect of legitimacy is the one in which Cuban authorities have the most progress to make, since accountability requires that 1) the population is free and willing to express its opinion regarding policies; and 2) the government is willing to respond in a way that addresses the people’s demands. Hence, while the Cuban government has evinced a willingness to take the population’s desires into account when developing and implementing policies, it will need to show a willingness to extend such collaborative efforts to the post policy-implementation stage, so that policies can be reformulated if need be, and Cuban officials who don’t respond to popular demand can be removed from office. Thus far, accountability has obtained in the Cuban government in a distinctly Cuban manner: Cuban officials have been removed from office when they have engaged in corrupt practices, but their removal has been impelled by high-ranking Cuban officials, rather than by the Cuban population. Thus, accountability exists in the Cuban government, but not in a distinctly “democratic” manner, since competitive elections do not occur on the island.

Although Cuba surely has a long way to go in this regard, Raul Castro has expressed his opinion that the Cuban media should engage in “continuous and critical reports on the progress of the updating of the Economic Model so that with profound and shrewd articles and reports written in terms accessible to all they can help building in our country a culture about these topics” (Granma, 04/16/11). Cuban officials hope that by encouraging the media to report on Cuba’s reforms, the government will better be able to gauge the people’s assessment of reforms, and respond accordingly. Raul Castro explicitly states his hope that such measures will create greater legitimacy in Cuba’s reforms when he states, “When the Party and the Government...act promptly and harmoniously on the concerns of the people providing (sic) clear and simple explanations, the people support the measure and their confidence in their leaders grows” (Granma, 04/16/11).

In sum, the Cuban government, by introducing a more democratic form of policy process, is hoping to increase input legitimacy, output legitimacy, and, potentially, even accountability, all of which comprise the general legitimacy that is accorded to any particular policy by a population.

Separation of Party and Government

Fourth, during the 6th Party Congress, Cuban officials “approved a separation between the government’s functions of running the country and the party’s role as the political custodian of socialism and order” (Abrahams and Lopez-Levy, 2011: 219). Explicating the distinction between the Party and the state, Raul Castro stated that the authority of the Party is mainly moral, while the authority of the state is mainly material. As such, the Party must rely on its ability to gain the trust of the people, while the state can rely on more traditional political institutions (Granma, 04/16/11). In essence, Raul was arguing that the state, not the Party, should be the

entity that exercises control over governmental institutions. According to Raul, the failure to distinguish between the Party and the state has engendered a situation in which positions in state and government can only be obtained by those who are members of the Communist Party. Speaking rather candidly, Raul stated, “It’s really embarrassing that we have not solved this problem in more than half a century” (Granma, 04/16/11).

Term Limits

Lastly, in what Lopez-Levy refers to as “the most important development” of the 6th Party Congress, Raul drew attention to the need for term limits amongst Cuban politicians (Lopez-Levy, 2011: 219). Raul stated, “we have reached the conclusion that it is advisable to recommend limiting the time of service in high political and state positions to a maximum of two five-year terms” (Granma, 04/16/11). Lopez-Levy explains the implications and purpose of term limits:

The adoption of term limits for the party and all top positions of the state would be welcomed by many younger party and FAR (Revolutionary Armed Forces) members because: 1) it would create a promotion system based more on merit and education; 2) it would create space for a more predictable upward mobility and intergenerational transition; and 3) it would soften the transition to a leadership with a more pragmatic and market-oriented approach (2011: 219).

Significantly, these term limits will also apply to the presidency (“Cuba's President Raul Castro Term Limit to Mark End of Castro Era”). In compliance with the new limits, Raul Castro recently announced that he would leave office when his term is expired in 2018 (Cave, New York Times, 02/24/13). Hence, Raul Castro has put into motion a “shift away from a leadership based on personality toward a leadership based on periodic elections” (Lopez-Levy, 2011: 219).

Reforms Since the 6th Party Congress

Following the 6th Party Congress, the island has introduced a number of reforms, pursuant to the guidelines that were introduced in the *2010 Project Document*, and formalized in the 6th Party Congress. This section will provide an overview and analysis of these reforms. The

major upshot to be taken away from this section is that Cuba, in contrast to the complaints of Cuban-American senators and radical Cuban expats, is implementing substantial reforms that are transforming the island. These reforms are being introduced at a cautious, incremental pace, which is allowing the island to adopt a model that is peculiarly Cuban. Characterizing Raul's recent reforms as "gradual but... ultimately radical," Sweig and Bustamante provide a succinct analysis of Cuba's current reforms:

Predictions that the island would undergo a rapid transformation in the manner of China or Vietnam, let alone the former Soviet bloc, have routinely proved to be bunk. But Cuba does look much different today than it did ten or 20 years ago, or even as recently as 2006, when severe illness compelled Fidel Castro, the country's longtime president, to step aside. Far from treading water, Cuba has entered a new era, the features of which defy easy classification or comparison to transitions elsewhere (2013).

Moreover, regarding where the island is headed, these authors state,

Cuba might best be characterized as a public-private hybrid in which multiple forms of production, property ownership, and investment, in addition to a slimmer welfare state and greater personal freedom, will co-exist with military-run state companies in strategic sectors of the economy and continued one-party rule (2013).

Self-Employment and Wholesale Market Liberalization

Since the 6th Party Congress in 2011, the Cuban government has continued its legalization, which began in 2010, of self-employment. As of 2013, there were 181 categories of legal self-employment. Cuban authorities have even gone as far as to state that they want 50% of the island's GDP to be in the private sector within five years (Sweig and Bustamante, 2013). As explained above, the agenda of self-employment legalization has largely been a strategy of the state to reduce its inflated payrolls. As *The Havana Times* states, "The government wants to eliminate a million and a half state jobs within five years, assuming the gradual transition to private work forms for those laid off" (06/25/13). By further legalizing self-employment in non-essential sectors, the state is hoping that it will be able to provide better and more efficient services in Cuba's core areas, such as education and health care. Sweig and Bustamante give an illustration of the degree to which private enterprise has become accepted in Cuba: "Already, the

representation of Cuban small-business owners in the country's National Assembly and their participation in the annual May Day parade offer evidence of changes under way" (*Havana Times*, 06/25/13). These authors assert that such developments "would have been considered sacrilege less than ten years ago" (*Havana Times*, 06/25/13).

Despite the fact that Cuban authorities have launched an earnest effort to widen the private sector, there are still substantial impediments that are precluding private growth. First, legalization of self-employment has occurred almost exclusively in the service sector, in areas such as restaurants and bed & breakfasts (*Havana Times*, 06/25/13). While this comports with Cuban authorities' desire to maintain control of strategic sectors of the economy, it also precludes the development and growth that could be offered by private initiative in those very same strategic sectors.

Second, the categories of self-employment are very narrow, thus precluding many areas of self-employment that one would intuitively expect to be legal, but remain illegal, because they have not been specifically allowed. Sweig and Bustamante state that many of the new categories are "senselessly specific" (2013).⁶⁰ For instance, the Cuban state has legalized such particular employment as "clowns for kids parties" (Caruso-Cabrera, 03/26/12). As a result, many potential entrepreneurs are likely remaining idle, or are continuing to ply their trade in the black market, thus preventing the state from collecting much-needed revenue that could be collected as taxes from these entrepreneurs. As Philip Peters states, "the need to choose from 181 licensed lines of work is a limiting factor, preventing would-be entrepreneurs from choosing the activities that appeal to them and in which they believe they can succeed" (2012: 17).

⁶⁰ In this case, rather than officials introducing reforms in a vague manner, they are introduced in a specific manner, so as to maintain control of the process. This is fairly common sensical.

Third, there have been complaints amongst Cuban entrepreneurs that the new tax system that has been established on the island is excessively onerous for private businesses. It should be made clear that many Cubans do not share this sentiment – as Lavery witnessed by interviewing Cuban entrepreneurs, many Cuban business owners do not see the current tax system as being detrimental to growth, and praise the licensing process for Cuban businesses as quick and easy (2011: 49). Notwithstanding these individuals, there are also many Cubans who believe that taxes are too high, and act as a disincentive. For instance, some businesses are required to pay fixed taxes, regardless of revenue, and Lavery encountered multiple Cubans who said that such taxes made businesses ventures unfeasible (Lavery, 2011: 51). Lavery (2011) and Peters (2012) both explain that the Cuban tax regime will gradually evolve, as the state continues to search for a proper balance between high taxes, which bring in revenue, and low taxes, which incentivize business initiative.

Finally, Cubans working in the private sector have had difficulty accessing inputs. This is largely because, while the state has liberalized many areas of employment, it has been rather tentative about liberalizing private wholesalers, which often precludes Cuban entrepreneurs from accessing inputs (Sweig and Bustamante, 2013). As the Huffington Post states, “Analysts and small business owners themselves have called the lack of wholesale goods a major obstacle to the development of the island's budding entrepreneurial class” (*Cuba Moves Towards Wholesale for Small Business*, Huffington Post, 3-8-13). Because entrepreneurs have not been able to purchase inputs in private wholesale markets, they have often had to purchase supplies at very high retail prices (due to supply shortfalls), or rely on “mules,” who purchase inputs in other countries and then sell them on the island (*Cuba Moves Towards Wholesale for Small Business*, Huffington Post, 3-8-13).

There is a reason, historically, that input purchases have been highly regulated, and private wholesale markets have not been further liberalized (until recently). As Jose Luis Rodriguez explains, during the 1990s and early 2000s, while Cuban officials were experimenting with dollarization of certain sectors of the economy, in order to garner foreign exchange, they found that the intended goals of their experiment fell short, due to financial mismanagement of many entities that were attracting foreign exchange. “Many enterprises whose products were generating sufficient foreign currency for their own needs were failing to act with the financial discipline necessary to ease Cuba’s binding foreign-exchange constraint and contribute to its domestic production and social programs” (Campbell, 2013: 46-7). Hence, while many enterprises during this period were attracting foreign exchange, they were failing to properly allocate these resources to the government’s desired economic and social sectors. To respond to this issue, the Cuban government, in 2003, converted from \$USD to CUCs all bank accounts held by enterprises that did business abroad, and then required these enterprises to receive approval for foreign-input purchases, which required their CUCs to be converted back to foreign currency (Campbell, 2013: 47). By doing so, the efficiency of Cuban enterprises was likely diminished, but the ability of the Cuban government and Central Bank to reduce the island’s foreign-exchange tensions was greatly increased (Campbell, 2013: 47). All of these changes were promulgated under Resolution no.92 of December 29, 2004 (Campbell, 2013: 47).

The above analysis of the shortcomings in Cuba’s self-employment arrangement should not be misinterpreted as an unalloyed indictment of the state’s efforts in this regard. As Sweig and Bustamante explain, “the reforms are making a serious impact. Small businesses currently employ some 400,000 citizens, an increase of 154 percent since the liberalization of self-employment began in October 2010” (2013). Regarding the societal impact of self-employment

liberalization, Peters explains, “the expansion of entrepreneurship has improved family welfare, boosted government revenues, and begun to provide a destination for workers laid off from the government’s ‘inflated payrolls’” (2012: 17). Peters continues to explain that, while “current regulations do not amount to an open grant of economic freedom to all who wish to start the business of their choice...the 2010 liberalization greatly expanded space for private economic initiative and is a positive human rights step” (Peters, 2012: 17).

In early 2013, signaling its dedication to obtaining further results, the Cuban government decided to shutter a state-run company that exclusively supplied government institutions on a wholesale basis, and announced that this entity would be replaced by a new government entity that would also supply wholesale goods to the private sector (*Cuba Moves Towards Wholesale for Small Business*, Huffington Post, 3-8-13). In an even more significant step, the government recently unveiled “Cuba’s first privately run wholesale market in half a century” (Economist, 06/29/13: 35). This wholesale market will deal in produce, thus allowing farmers to sell, and restaurateurs to purchase, large amounts of produce (this market allows farmers to *sell output*; the market experiment that allows them to *purchase inputs* at private markets is discussed below). Such a measure should go a long way in addressing entrepreneurs’ complaints regarding lack of access to inputs. However, not surprisingly, the government is liberalizing wholesale markets in a manner that the Economist describes as “gingerly” (Economist, 06/29/13: 35). Hence, entrepreneurs are still unable to purchase some inputs, such as flour, cooking oil, and soft drinks, in bulk. It is likely that even these goods will be purchasable at wholesale markets in the near future, though. According to *The Economist*, “the government announced in early June that it would gradually permit a variety of wholesale goods to be sold to state-run and privately run businesses” (Economist, 06/29/13: 35).

Hence, notwithstanding some salient lacunas regarding what forms of self-employment are legal (real estate brokers continue to be prohibited, for instance), flaws that obtain in Cuba's tax system, and shortcomings in Cuban entrepreneurs' access to inputs, the self-employment campaign has had some substantial successes, and further reforms in the near future should be expected. Importantly, Philip Peters argues that recent reforms are here to stay. Responding to concerns that past reforms had been scaled back, Peters explains that current reforms cannot be similarly scaled back, since doing so would substantially disrupt the state's attempts to reduce its budget deficits by shifting employment from the public to the private sector. Essentially, the state has realized that it can no longer maintain its inflated payrolls, and it has also realized that a burgeoning private sector is necessary to absorb those who lose their jobs in the state sector; thus, "a reduction (in private employment) would disrupt other parts of the reform program and be politically problematic" (Peters, 2012: 17). As such, current self-employment reforms are unlikely to be scaled back, and the state will likely continue to reform this sector, introducing more categories of legal self-employment, as well as making amendments to the tax system, so as to find a proper balance between revenue and incentives.

Further Agricultural Reforms, including Wholesale Market Experiment

As noted above, agricultural reforms have been riddled with substantial shortcomings. One particular shortcoming pertained to Decree-Law 259. Specifically, 259 did not grant sufficient amounts of land to farmers (no more than 13.42 hectares, or 33 acres). Moreover, 259 did not allow for the building of "permanent structures" (e.g. homes) on usufruct land. Responding to complaints from Cuban farmers, and hoping to galvanize production, the state responded to, and corrected these issues. First, the state allowed farmers who "demonstrated the ability to produce" (Frank, 2013: 263) to lease up to 67 hectares of land. Moreover, Cubans are

now allowed to pass their leases along to family members. The state also allowed farmers to build homes on their land, and even introduced provisions that guaranteed reimbursement for improvements made on usufruct land, in the event that a lease is terminated. The state, in 2011, even took steps to make it easier for farmers to obtain bank loans (Frank, 2013: 263).

Such measures should go far, vis-à-vis conveying the message that farmers have a permanent, or, at least, *more* permanent, stake in their land than was the case under the original form of Decree-Law 259 in 2008. By allowing farmers to build houses on their land, and by allowing them to pass their leases to family members, Cuban authorities should be able to instill amongst Cuban farmers a sense of ownership in their land, which should encourage increased production. Similarly, by guaranteeing compensation for improvements in the case of lease-termination, Cuban authorities are sending the message to farmers that they should feel secure in taking the risk of investing in their land. By simplifying access to agricultural bank loans, and by increasing usufruct lots to 67 hectares, productivity should also increase. The efficacy of these measures notwithstanding, the state should increase the length of tenure leases beyond ten years, since this would go even further in convincing farmers that they have a personal stake in their land, which would encourage them to make improvements to their land. Moreover, as Linde argues, the state should go further in terms of leveling the playing field for individuals and enterprises, since, as matters currently stand, “individuals but not corporations can lose their land if they do not meet production contracts with the government” (2012).

Another significant agricultural reform was the introduction of experimental wholesale agricultural markets, at which farmers can purchase inputs from private sellers. On June 1st of 2014, Cuban authorities launched the program, which legalized wholesale agricultural market purchases for agricultural inputs (Frank, Reuters, 06-01-2014). The experimental program was

introduced on The Isle of Youth, off the Southwest coast of Cuba, where farmers there can now purchase selected agricultural inputs at unsubsidized prices. There were immediate concerns among farmers on the island, however. For instance, one farmer enunciated his doubts about the efficacy of the program, given that diesel fuel, one of the most important inputs for agricultural work, cannot be purchased wholesale yet (Frank, Reuters, 06-01-2014). The legitimacy of these concerns notwithstanding, wholesale agriculture markets are a step in the right direction, and it should be expected that, as authorities are able to monitor and anticipate the effects of such markets, further liberalization will occur in this area, and wholesale markets will likely be introduced to the Cuban mainland.

As it currently stands, the state of Cuba's wholesale markets can be characterized as one in which there is significant latitude for farmers to *sell output* at private markets, while their ability to *purchase inputs* at private markets is being experimented with on The Isle of Youth. Further advances in both forms of markets should be expected in the near future, as Cuban authorities are able to assess the efficacy of their programs, and make proper revisions.

In sum, although the state could go much further, and is likely to go further, in terms of agricultural reforms, the potential of reforms since 2011 should not be gainsaid. By injecting a sense of permanence in the land lease program, and by introducing measures that allow easier access to loans, and increased access to land, the Cuban government has sent the message that farmers hold a personal stake in their land. Moreover, by experimenting with wholesale markets where farmers can sell output and purchase inputs, the Cuban government should be able to substantially increase efficiency and productivity. This should spur repopulation of agricultural areas, and galvanize agricultural production. As one farmer stated, "Now producers will feel much more motivated and secure that the fruit of their labor will be theirs... These measures

bring farmers and their families closer to the land they work, and make them feel the land is really theirs” (Frank, 2013: 263). These measures, in short, according to another Cuban, are “of enormous importance” (Frank, 2013: 263).

Legalization of Automobile and Home Ownership and Sales

In September of 2011, the Cuban government legalized the ownership and sale of automobiles, and in November of that year, the ownership and sale of residential real estate was legalized. These liberalizations were introduced in response to popular complaints that had been raised amongst the Cuban population during ongoing dialogues in preceding months between Cuban officials and the Cuban people (Frank, 2013: 255). Prior to such legalization, Cubans often just circumvented proscriptions on real estate and auto sales by “loaning” such property to others for indefinite periods of time; hence, “the reforms covering cars and homes tended to bring above ground the massive black-market sales of property” that were already extant in the Cuban economy (Frank, 2013: 255). These measures were introduced not only to foster the rule of law in Cuba, but also to introduce incentives for Cuban workers; because cars and homes are important items that many Cubans would like to purchase, it can be presumed that the use of these items as carrots could galvanize productivity amongst the Cuban workforce (Frank, 2013: 256). The two measures were also introduced as an attempt to further convert Cuba’s currency duality, since all auto and home transactions have to be conducted in Pesos, rather than convertible Pesos.

Since these measures were introduced, there has been significant interest in buying residential real estate. One Cuban real estate expert explained to Marc Frank that he has been receiving many calls regarding how to legally purchase residential real estate in Cuba (Frank, 2013: 256). Cubans have praised the measures, particularly the real estate measures. Prior to real

estate liberalization in 2011, Cubans who wanted to leave the island were required to forfeit their property to the state; under current laws, they are allowed to sell their property or give it to family members (Frank, 2013: 256). The auto ownership law has the potential to drastically modernize the Cuban economy, since, prior to the measure, only 600,000 cars existed on the island, 300,000 of which were owned by the state (and 79,000 of which dated to before 1959), and only one in thirty-seven inhabitants owned a car (Frank, 2013: 256).

The social and economic benefits of these measures notwithstanding, the reforms, particularly the home sale measures, have the potential to exacerbate inequalities on the island. According to Marc Frank, most home purchases are conducted with the assistance of families abroad; hence, the measures “benefit better-off Cubans and those with family abroad” (Frank, 2013: 256). It is not unlikely that real estate prices will increase as demand for homes increases on the island. Increased demand, combined with the fact that Cubans without access to remittances from abroad are unlikely to be able to purchase homes, mean that inequalities related to remittance-access are likely to be exacerbated in the future.

New Taxes

One of the most significant indicators that recent reforms are permanent is the development of a legitimate tax system on the island. Cuban officials had contemplated the introduction of a formal tax system during the Special Period, as a strategy for bringing in revenue in a more structured manner. However, Cuban officials recognized that the administrative difficulties involved in collecting taxes from a populace that had not paid direct taxes since the Revolution would be prohibitive, and thus decided to increase revenues through increased prices, rather than through a more formalized tax base (Eckstein in Centeno and Font, 1998: 145). Hence, the fact that Cuban officials have decided, at this point in time, to finally

introduce a formal tax system, should not be taken lightly: this is a very substantial step, indicative of large-scale change.

The reason this development is so significant is that it is illustrative of the Cuban government's determination to continue shifting their economy towards the private sector. "Under the old system," as Mark Frank states, "large and small state-run companies, which accounted for more than 90 percent of economic activity, simply handed over all their revenues to the government, which then allocated resources to them" (Reuters, 11-28-2012). As the government continues to rationalize its economy by laying off workers in stagnant state enterprises ("Cuba Explains New Tax System, VOA News, 10-21-2010), it is realizing that it must establish a proper tax system, so as to garner portions of revenue through taxation that used to be automatically transferred to government coffers from state run enterprises. Under the new tax system, Cuban enterprises, whether cooperatives or privately-owned, will be required to pay a tax of 35% on profits ("Cuba Explains New Tax System, VOA News, 10-21-2010).

In addition to, and as part of, the new tax system's goal of garnering revenue, it also aims to incentivize self-employment and small business through a number of deductions. "For example," as Mark Frank notes, "farmers may deduct up to 70 percent of income as costs, and small businessmen, who are taxed by income not profit, up to 40 percent, plus various fees and secondary taxes they pay" (Reuters, 11-28-2012). Moreover, the government plans to reduce labor taxes from 20% to 5% by 2017 (Reuters, 11-28-2012). The government is also implementing its new tax system in a piecemeal, pragmatic manner, recognizing that conditions do not yet permit the implementation of certain measures, such as the goal of the government to tax *all* workers' incomes by at least 2%: as it currently stands, many Cuban workers simply do not make enough to pay taxes (Reuters, 11-28-2012).

In sum, the new tax system on the island is meant to advance Cuba's efforts to shift towards a semi-privatized, semi-marketized economy, and to do so in a manner that both garners revenue for the government and incentivizes self-employment and small businesses through a series of deductions. This new tax system is one of the most clear indicators that Cuban authorities are making an earnest effort to implement permanent economic reforms on the island.

Healthcare, Education, and Recent Reforms

Importantly, at no point in time have universal health care and education been on the table for abrogation. As Lavery explains, Cuban authorities have been shaping every policy with the understanding that the pillars of the Cuban Revolution – healthcare and education – must be retained (2011: 5). And the government has justified recent reforms by emphasizing that they will *support*, rather than *subordinate*, health care and education. It is likely that Cuban officials recognize that, given their rhetoric, the legitimacy of reforms rests, in large part, on the ability of the government to retain exceptional health care and education on the island. Recent outcomes, as they pertain to the fate of workers that have been laid off from shuttered or rationalized state enterprises, are illustrative of the government's dedication to maintaining its social services: "Cuba's new unemployed would not be left totally out in the cold. All citizens still received free health care and education, subsidized utilities, subsidized food rations, and an automatic adjustment of mortgages to no more than 10 percent of the top breadwinner's income" (Frank, 2013: 219). It would thus appear that the state is backing up its words with actions in this regard.

However, the dedication of Cuban authorities to retaining universal healthcare and education has not precluded reductions in budget allocations in these sectors. As a response to the recent (current) international financial crisis, Cuban authorities took substantial steps to reduce costs in these areas. First, "schools in the countryside, one of the revolution's most

esteemed programmes (sic), was shut down” (Mesa-Lago and Vidal-Alejandro, 2010: 701). Moreover, enrollments in secondary and tertiary education were reduced (Mesa-Lago and Vidal-Alejandro, 2010: 701). Lastly, higher standards, vis-à-vis entrance exams, were instituted for municipal universities and colleges (Mesa-Lago and Vidal-Alejandro, 2010: 701-3).

However, these figures may not be as ominous or significant as they appear at first glance. The “schools in the countryside program” was shut down, and school enrollments were reduced, but, as Mesa-Lago and Vidal-Alejandro state, “this was partly due to population decline” (Mesa-Lago and Vidal-Alejandro, 2010: 701). Moreover, higher test requirements can be interpreted as an attempt to increase the quality of students entering many college programs. This interpretation garners more credibility when it is taken into account that “data on the budget at the end of 2009 show a 20 per cent (sic) increase in education expenditures, as a result of the rise in teachers’ salaries in that year” (Mesa-Lago and Vidal-Alejandro, 2010: 703). Hence, while expenditures have been reduced, it does seem that the government is attempting to increase the quality of both its educators and students, by implementing test standards and introducing higher pay for teachers.

The healthcare sector has also sustained some negative effects of the financial crisis. In response to the crisis, the state reduced the 2009 healthcare budget by 8 percent (Mesa-Lago and Vidal-Alejandro, 2010: 705). However, it does not appear that access to healthcare has been significantly affected by the crisis. The most notable issues pertaining to healthcare have not been a result of calculated policies of the government; rather, they have been indirect effects of 1) the international financial crisis, and 2) the government’s dollarization of other sectors of the Cuban economy. Regarding the financial crisis, the current recession has caused a decrease in Cuba’s ability to procure medicines and inputs from abroad, since they do not have access to

capital markets to fund short term deficits; hence, access to some medicines has decreased for many Cubans⁶¹ (Mesa-Lago and Vidal-Alejandro, 2010: 704). Regarding dollarization of the Cuban economy, many doctors have quit, and shifted their employment to dollarized sectors of the Cuban economy, in an attempt to obtain hard currency (Mesa-Lago and Vidal-Alejandro, 2010: 704). Moreover, a second economy has emerged in Cuba, in which Cuban doctors supplement their low state wages by providing services in a black market economy, in exchange for cash and favors (Kath, 2009). This arrangement, while filling certain lacunas that the state sector has failed to provide services for, has also led to increased concerns regarding inequality and unfairness in access to health care, since those who seek services through official channels, and those who do not have resources to exchange for services in the black market, are both at a disadvantage when attempting to obtain medical services (Kath, 2009).

Healthcare problems that have directly resulted from the financial crisis should correct themselves – to some degree – as the global recession eventually improves; but issues pertaining to insufficient pay in the healthcare sector – doctors shifting to other employment and providing services in the black market – must be addressed through an increase in pay for doctors and other health workers (similar to what Cuban authorities have done in the educational sector by increasing educators’ remuneration). If the government fails to provide higher wages for healthcare professionals, then the island is likely to witness a substantial diminution in the number of quality doctors the population has access to.

None of the above reductions in allocations should be misconstrued as being indicative of a long term abrogation of Cuban healthcare and education. Similar measures during the Special Period were implemented temporarily to reduce costs in education, as enrollments in higher

⁶¹ Given recent developments (December 2014) in US-Cuban relations, it could be predicted that Cuba may, in the near future, regain access to international credit markets.

education were cut by the government by 45% between 1991-1995, while access to books and other educational materials diminished in elementary schools (Dominguez in Dominguez et al., 2004: 21). Hence, it should be expected that similar measures will be modified, and educational funding will return to its normal level, once the current crisis has been ameliorated. The financial crisis has affected these sectors, as well as all others in the Cuban economy, but Cuban officials are taking all possible steps to ensure that the quality of professionals in these sectors is restored. However, they have faced difficulty in this area because, as an attempt to protect these sectors from the potential negative effects of foreign involvement, they have restricted foreign investment in education and healthcare. However, because of this restriction, these two sectors have not experienced increased wages, as other foreign-invested sectors have. Hence, many professionals in these sectors have packed up shop and shifted their employment to hard currency service sectors. To remedy this issue, the Cuban government will need to offer increased wages in these sectors, possibly by redirecting profits from its tourist and other service sectors that attract hard currency. Given the status that healthcare and education hold in Cuba, it can be presumed that all available resources will be directed towards these sectors, once the financial crisis eases, and once Cuban authorities have figured out a way to direct capital to these sectors without making them available to foreign investment.

Conclusion

In sum, recent economic reforms on the island, in general, can be characterized as pragmatic (marketization and privatization oriented), incremental, semi-democratic, and permanent. They are pragmatic insofar as they have moved the island further toward marketization and privatization than it has been since The Revolution in 1959. Recent reforms on

the island are also only being implemented insofar as they do not pose a serious threat to health care and education in Cuba.

Recent reforms have also been incremental, with Cuban authorities choosing to experiment with measures, such as wholesale market liberalization, before they introduce such measures on a larger scale. The incremental nature of these reforms should not be misconstrued as a lack of conviction on the part of Cuban authorities; in fact, the piecemeal manner of reforms is a result of Cuban officials taking into account the concerns of the population when implementing policy: “Cubans are now nervous that, as has occurred in other transitioning societies, suddenly empowered or re-empowered economic groups will seek to increase their influence in political and economic decision-making” (Lavery, 2011: 54). Hence, economic reforms are being implemented in a fashion that will mollify Cubans’ concerns, and obviate political capture of Cuba’s nascent institutions by recently advantaged groups. It should always be kept in mind that when Cuban entrepreneurs complain about the incomplete nature of reforms, there is another side of the population that has opposite, and equally valid, concerns, and that the Cuban government must balance the two when introducing reform measures.

The reforms have also been (at least) semi-democratic, to the extent that Cuban authorities have made an honest effort to collect feedback from the Cuban population, and amend reforms accordingly.

Reforms are also only being implemented to the extent that they do not require unreasonable reductions in medical and educational services. While there have been reductions in funding in these areas, such reductions have largely been a result of budget constraints, due to the global recession. Once conditions improve internationally, and on the island, it should be expected that the Cuban government will allocate all necessary resources to these sectors.

Finally, recent reforms on the island are likely here to stay. The nature of the reforms require that they be implemented with longrun objectives in mind, and the government has introduced measures, such as a legitimate tax system, that are indicative of their desire to make sure these measures are successful. Moreover, as Marc Frank explains, Cuba's recent reform plan "is not just a piece of paper. It is a life-or-death blueprint to save their revolution and it will be carried out with military precision" (2013: 275). Furthermore, international conditions have changed, thus *requiring* Cuba to change. Cuba no longer has the USSR to rely upon for favorable terms of trade and political support, and Cuba's closest current ally, Venezuela, has a socialist regime whose stability is increasingly tenuous. Also, Fidel is no longer calling the shots, which means Raul, who is the much more pragmatic of the two, has been able to implement market-oriented reforms of a permanent, rather than ephemeral, nature. Lavery gives an indication of how recent reforms are viewed by experts: "Almost everyone involved in the process agrees that the changes will be permanent. 'There's no turning back,' said another" (2011: 56).

Hence, I argue that Cuba has entered a permanent pragmatist cycle. Carmelo Mesa-Lago has characterized past periods of economic reforms as either "idealist" (egalitarian, marked by unrealistic targets) or "pragmatist" (market-oriented, generating some adverse effects, such as inequality or unemployment) (in Ritter, 2005: 25-42). The current agenda of reforms fits this definition, and since current reforms are unlikely to be abrogated, they can safely be characterized as both "pragmatist" and "permanent."

Of course, there are analysts who question both the extent, and by extension, the permanence, of Cuban reforms. Linde (2012) argues that recent reforms are largely a *maquillage*, meant to give the impression of reform, without actually engendering real change in the Cuban system. One of his main arguments is that many sectors of the Cuban economy continue to be

controlled by the state, and that the sectors that have been reformed have not been liberalized enough to truly make a difference. He bases his argument largely on the shortcomings observed in Cuba's agricultural sector: flaws pertaining to Decree Law 259, as outlined above, along with flaws in agricultural wholesale markets.

Similarly, Jose Azel (2013) argues that reforms in Cuba have not been extensive enough, and that purported reforms are only acting as a patina that covers a more dysfunctional political economy. Azel submits that cosmetic changes are only being engaged in by Cuban authorities so that they can convince the international community of the political and economic legitimacy of Raul's regime. By doing so, Azel believes, Cuban military authorities are seeking to ensure that international financial institutions will be allowed to channel capital to the island when the generals begin their yard sale of state enterprises (2013).

These critics' concerns should not be taken lightly. The military *will* continue to play a predominant role in the Cuban economy, and the international community should thus rightly keep an eye on Cuba's generals, to obviate a soviet-style privatization of Cuban enterprises that seeks to enrich Cuba's military elites. Moreover, there *are* shortcomings in Cuba's reforms, even in the agricultural sector, where reforms have been most extensive. However, these critiques miss the mark, in two respects, one regarding the nature and pace of reforms, and the other pertaining to what has transpired since initial reforms were introduced in 2010.

First, analysts such as Azel and Linde seem to be asking for too much, too quickly. Cuban authorities are engaging in legitimate reforms, but they are not willing to risk political power when doing so, nor are they willing to risk the socioeconomic disaster that is almost guaranteed if they categorically liberalize the Cuban economy. Reforms will continue in a

deliberate, piecemeal fashion, and critics such as Azel would do well to keep a long run view towards the island.

Second, reforms that have transpired since the introduction of initial reforms in 2010 would seem to indicate that Cuban authorities are indeed taking steps to ensure that reforms have the effect they are intended to, rather than simply acting as a cosmetic patina. For instance, since Linde disparaged Cuban reforms as being purely cosmetic in 2012, Cuban authorities have addressed shortcomings in Decree Law 259 (reimbursement for improvements and structures built on land, for instance) and have begun an experimental process with wholesale markets for the purchase of agricultural inputs from private sellers. Hence, Cuban authorities are addressing the shortcomings that critics have pointed to as evidence that reforms are cosmetic, rather than real.

There are many recent reforms that have not been included in this chapter. For instance, the Cuban government has taken many steps to liberalization its migration policy, and there have been significant steps towards religious tolerance on the island. However, these are not within the scope of this thesis, and should thus be the topic of further study. Many potential reforms on the island will be contingent on Cuba's position in the larger global political economy, and such a position is largely contingent on Cuba's relation with the United States, which brings us to our final chapter on US-Cuban relations.

Chapter Eight: Ending the Cold War: US-Cuba Relations

Introduction

William Doyle, in his authoritative account of the French Revolution, stated, “I have not wavered from my judgment that the Revolution was a tragedy. Some readers have interpreted this as a hostile verdict. But to call something tragic is not necessarily to condemn it. It is to lament wasted promise” (2002: vii). There may be no other historical relationship that this quote applies to more felicitously than the strained relations between the United States and Cuba. The two countries, separated by only 92 miles of ocean, have been separated by politically synthesized barriers that have precluded the two nations from engaging in the economic and cultural interactions that would be mutually beneficial to citizens of both states.

Because of the tragic nature of this relationship, and the foregone benefits that both parties have experienced as a result of the Embargo, any academic work on Cuba would be unacceptably incomplete without a section on Cuba-US relations. The economic and political fate of the Caribbean island is inalterably affected by, and somewhat dependent upon, its relations with its neighbor. And the United States is affected, both economically and politically (particularly in international terms), by its relationship with Cuba. One of the most interesting aspects of the relationship between the two states is that there is very little debate amongst scholars and analysts of Cuban affairs – it is very well understood that the United States maintains a policy that is a relic of the Cold War, to the detriment of citizens of both states.

Because there is so little debate as to the (in)appropriateness of the United States’ continued embargo with Cuba, a thesis such as this would usually have little to offer regarding the relationship between the two states. However, while this chapter was being written, Cuba and the U.S. took a laudable, and surprising, step, by exchanging three Cuban intelligence officers

for an American prisoner, and by making the announcement that both states would attempt to fully normalize diplomatic relations. All of this constituted what Jorge Castaneda (2014) characterized as “the most important moment in the countries’ bilateral relationship in decades.”

Thus, I was granted the opportunity to overview and analyze the nature of this step, and its implications. This chapter opens with an overview and analysis of the history of the relationship between the two states, and ends with an overview and analysis of recent developments under the Obama administration. It should be emphasized that the Obama administration *did not* end the embargo – only Congress has the authority to do so. However, the announcement of the move towards diplomatic normalization does portend many important developments, including easier travel for non-Cuban Americans to Cuba, along with improvements in financial and commercial relations between the two states. The importance of these recent developments cannot be overstated.

The move by Cuban officials towards normalized relations with the United States should be understood as part of Cuba’s more general pragmatic shift since Raul Castro became president on the island. As has been argued throughout this thesis, Raul is the more pragmatic of the Castro brothers, and, as such, he has been attempting to take a more pragmatic (market-oriented) approach to economic policy in Cuba. But such pragmatism has not been restricted to Raul’s policies within Cuba; the island’s pragmatic shift has been externally-oriented as well, as Cuban officials attempt to integrate Cuba more completely into the world economy. And such integration cannot be sufficiently accomplished unless Cuba normalizes its relations with the United States, since not only is the U.S. Cuba’s most important single trade partner, but the United States’ embargo also affects Cuba’s relations with third countries as well. Hence, as part of Cuba’s shift towards external, market-oriented policies, Raul, for years, has exhibited his

desire and willingness to normalize relations with the United States. It was thus the United States, not Cuba, who was lagging behind in this regard, until December of 2015, when the U.S. decided that it was willing to play ball.

Cuba-US relations since The Revolution: The Embargo

Relations between the United States and Cuba disintegrated rather quickly after the Revolution of 1959. The speed with which the relationship became so fraught is interesting, since the degree to which Fidel's 1959 regime could be characterized as socialist or communist was contested at the time, and continues to be debated. On one side, many analysts and scholars argue that the United States, through actions that ostracized Cuba from the Western economy, pushed Fidel towards socialism. Prior to that, the Castro regime could not be categorically labeled as socialist or communist. As Lamrani explains, in 1959, "...it was impossible to build anything resembling a strong link between Fidel Castro and the communists of the Popular Socialist Party" (2013: 18). Lamrani continues, "The first provisional government was composed of rather conservative members of civil society" (2013: 18). Blackburn concurs with this opinion, arguing that the Cuban Revolution was largely a "bourgeois" or "middle class" revolution (1963: 52). These arguments are in accord with Che Guevara's opinion during the time, that all economic reforms on the island, aside from land reform, were direct responses to US aggression (Lamrani, 2013: 18).

In contrast, it is argued by some that Fidel Castro was a communist long before the United States compelled him to be. For instance, Salvador Díaz-Versón, who was a Cuban journalist during the time, claimed he had files that documented Fidel Castro's communism and communist ties prior to the 1959 Revolution, but that they were destroyed on July 26th, 1959 (Communist Threat to the United States, 1960). Díaz-Versón was an ardent anti-communist, and

the veracity of his claims is dubious. Anyhow, he represented one side of this debate, which claimed that Fidel Castro had a long history of ideological devotion to communism.

Regardless of whether Fidel Castro was a communist prior to the Revolution of 1959, substantial changes to Cuba's political economy were a foregone conclusion once Fidel's forces assumed control. And because beneficial treatment of US business interests by the Batista regime⁶² had allowed US multinationals to garner substantial control of Cuban economic resources, it was unavoidable that *any* changes to the political and economic landscape, in the direction toward more equitable distribution of resources on the island, would be unpalatable to US business interests, which had very close ties with the United States government. As John F. Kennedy stated during a speech in 1960:

In a manner certain to antagonize the Cuban people, we used the influence of our Government to advance the interests of and increase the profits of the private American companies, which dominated the island's economy. At the beginning of 1959 U.S. companies owned about 40 percent of the Cuban sugar lands - almost all the cattle ranches - 90 percent of the mines and mineral concessions - 80 percent of the utilities - and practically all the oil industry - and supplied two-thirds of Cuba's imports.

Of course, our private investment did much to help Cuba. But our action too often gave the impression that this country was more interested in taking money from the Cuban people than in helping them build a strong and diversified economy of their own (Kennedy, 1960).

Hence, as Lamrani states, "The stranglehold that U.S. multinationals held over the Cuban economy was so strong that it became impossible to undertake any reforms without affecting their interests" (2013: 18).

Julia Sweig, one of the foremost authorities on Cuba, concurs with the argument that the communism or lack of communism in Fidel's ideology was incidental to the much more important agenda of US control of the island's affairs. In fact, the United States had imposed an

⁶² As Lamrani (2013: 19) explains, "U.S. investments in Cuba were carried out under conditions often favorable to the multinationals. Thus, for the exploitation of nickel, the Batista regime had granted a concession to the Moa Bay Mining Company. This contract was so profitable that in just five years Moa Bay was able to obtain a return of \$120 million on its initial investment. These enterprises were often exempted from paying taxes and were allowed to repatriate their profits. They therefore contributed little to the development of the Cuban economy. Between 1950 and 1960, the balance of payments was favorable to the United States to the tune of one billion dollars."

arms embargo on the Batista regime in March of 1958 (Sweig, 2009: 75), evincing more of a concern for stability and protection of US economic interests on the island than any concern about communism or capitalist ideology of the respective factions in The Revolution (though, one could also argue that the arms embargo imposed on the Batista regime serves as further evidence that the United States government was not convinced of the communist credentials of Fidel Castro's movement). More importantly, Sweig makes the more relevant point that, regardless of which side emerged victorious from the Cuban Revolution, the US was taking necessary precautions to ensure that its assets were protected; thus, the revolution, with its emphasis on nationalism, would ineluctably run afoul of US economic interests. As she states, "on a much more fundamental level, the revolution's quest for independence and its strong grain of nationalism cut directly into the traditional patronage of Cuba's economy and domestic politics;" and, "given the degree of influence that the United States exerted over Cuba's domestic politics and culture, once Fidel triumphed, a clash with Washington on some level was perhaps a foregone conclusion" (2009: 75-6). Hence, in Sweig's opinion, it was not so much the communism, but rather the nationalism, of the Revolution, that was anathema to the United States.

Once Fidel's forces took control, the most significant of reforms occurred on May 17, 1959, with the initiation of agrarian land reform, which aimed to allocate land to Cuban farmers, thus ending the latifundia system that had obtained on the island, and allowing Cuban farmers to provide for their own subsistence (Lamrani, 2013: 19). It is very important to note, as Lamrani explains, that these nationalizations were based on Cuba's 1940 constitution, and were in accord with international law, which "grants any nation the sovereign right to nationalize companies operating on its territory in exchange for compensation," and that, "in case of nationalization,

compensation will be paid in accordance with the norms in force in the country that proceeds with the nationalizations” (2013: 20-1). The unfortunate fact of the matter for U.S. multinationals during agrarian reform was that compensation was based on the most recent tax returns for nationalized entities, and due to creative bookkeeping by the Batista regime, these companies’ returns were, “for obvious reasons, often less than the real value of the assets” (Lamrani, 2013: 20). In other words, U.S. multinationals were more than happy to benefit from unreasonably low taxes on their assets while they were operating on the island, but cried foul when those low taxes were used against them during the compensation process, following nationalization. Regarding the compensation that was offered by the new Cuban regime, Sweig notes, “some companies accepted, others did not, but most received insurance payments to cover their losses” (2009: 77).

Regardless of such insurance coverage for these losses, the U.S. was inclined to respond adversely to these reforms. The first signs of such a response came in June of 1959, shortly after Cuba’s agrarian reform was initiated, when the Eisenhower administration suggested that the United States should end the sugar quota that it had maintained with Cuba since 1948. The United States has maintained tariffs on sugar since 1789, with the goal of garnering governmental revenue, and since 1842, with the goal of fostering and protecting domestic production and refinement of sugar (Alvarez and Polopolus, 2012). The First Sugar Act was legislated in 1934, with the goal of protecting domestic producers from cheap foreign competitors. In 1948, the Act was amended, and Cuba was granted preferential treatment⁶³, “because of its response in increasing output during World War II to supply sugar to the U.S. at

⁶³ The nature and significance of this preferential treatment is detailed by Alvarez (2004): “As shown above, sugar was the main Cuban export to the United States. Until 1960, Cuba provided over one-third of the total U.S. sugar requirements, playing the role of an “ever-normal granary” for U.S. sugar needs. One aspect of the preferential treatment it received in return is contained in the Sugar Act of 1948, which allocated to Cuba an import quota equivalent to 98.64% of the difference between U.S. consumption requirements and the sum of the fixed tonnage quotas for the domestic areas and the Philippines, with the remaining 1.36% going to other foreign countries. Thus, this arrangement allocated nearly all of the increases in U.S. consumption requirements to Cuba.”

prices far below those that would have prevailed in a free market” (Alvarez and Polopolus, 2012). Cuba’s economy, following this amendment in 1948, grew increasingly reliant on sugar exports, particularly to the United States; as Alvarez states, “Not only was Cuba's foreign trade (prior to 1959) dominated by exports, and exports dominated by sugar, but the predominant buyer and seller was the United States” (2004). Moreover, “sugar accounted for 80 percent of all exports to the United States, Cuba’s natural and historical market, and employed almost 25 percent of Cuba’s population” (Lamrani, 2013: 24). Thus, eliminating the sugar quota was certain to prove drastically problematic for the Cuban economy, which the State Department readily acknowledged when it stated, “The sugar industry will suffer a rapid and abrupt decline that will entail general unemployment. Many persons will be without work and go hungry” (quoted in Lamrani, 2013: 19). The United States, in such a statement, illustrated the alacrity with which it would employ economic warfare to foster political discontent on the island.

In 1960 Cuba asked U.S.-owned oil refineries to process Soviet oil, thus antagonizing the U.S. State Department, which refused to give these refineries such permission. In response to this refusal, Cuban authorities nationalized refineries owned by Standard Oil, Texaco, and Shell on the island. It should be emphasized that these private entities were amenable to the processing of soviet oil, but could not garner the State Department’s approval (Sweig, 2009: 77). In response to these nationalizations, and to agrarian reforms, the sugar quota for 1960 was officially abolished by the Eisenhower administration on July 5, 1960, thus antagonizing Cuba, on July 6, 1960, into legalizing the nationalization of *all* United States properties⁶⁴ (in addition to land that had been nationalized during agrarian reform) (Lamrani, 2013: 24). When all nationalizations had been completed, “Cuba had expropriated over 300,000 acres of U.S. property, all U.S.-owned tobacco enterprises, all U.S. banks, and all other U.S. business interests” (Sweig, 2009: 77).

⁶⁴ Through Act 861.

Subsequently, in December of 1960, Eisenhower abolished the sugar quota for 1961, and on January 3, 1961, the United States broke off diplomatic relations with Cuba, and prohibited American citizens from traveling to Cuba (Lamrani 2013, 24). Relations between the two nations have not been normalized since.

It was also during the Eisenhower administration – which placed anticommunism at the center of its agenda – that the Bay of Pigs Invasion was conceived (Haney and Vanderbush, 2005: 15-6). Haney and Vanderbush proffer that Eisenhower was not particularly concerned that Fidel Castro’s regime posed an immediate threat to U.S. security interests in the region, but that such threat would eventuate if Castro were left unchecked. In this regard, these two authors stress that experts on Cuba were saliently absent when Eisenhower was being advised on the Bay of Pigs invasion – in their place were military and intelligence experts (2005: 16-7).

Upon taking office, Kennedy inherited Eisenhower’s policy towards Cuba, including plans for the forthcoming Bay of Pigs Invasion, and the failed invasion took place in April of 1961. Following the Bay of Pigs Invasion, Congress sought to pass a trade embargo bill against Cuba, and on September 4, 1961, passed the Foreign Assistance Act, which “prohibited foreign aid to the government of Cuba and authorized the president to impose a total embargo on trade with the island” (Lamrani, 2013: 24). On February 3, 1962, Kennedy used Executive Order 3447 to impose a total embargo on the island (Lamrani, 2013: 24).

One of the most notable aspects of Kennedy’s institution of the Embargo was the extent to which Congress had become involved in foreign policy. Haney and Vanderbush explain that, during the Eisenhower administration, as would be expected in the area of foreign policy, “The initiative behind U.S.-Cuba policy clearly rested in the White House” (2005: 15). But a shift towards congressional power in U.S.-Cuba policy began during the Kennedy administration, as it

was largely due to Congressional pressure that Kennedy gave the executive order that introduced the Cuban Embargo. For instance, when White House officials argued that an embargo bill would impede the president's ability to conduct foreign policy, James Eastland, chairman of the Senate Judiciary Committee, warned that he "was prepared to use his subcommittee as a rival foreign office to the State Department" (Haney and Vanderbush, 2005: 17-8). Thus, although Haney and Vanderbush argue that "important decisions were...still in the hands of Kennedy and his advisers," (Haney and Vanderbush, 2005: 18), it was during this administration that U.S.-Cuban relations began their shift towards becoming the most congressionally dominated area of bilateral U.S. foreign policy. This shift would culminate with the emergence of the Cuban American voting bloc as a formidable lobbying force, the Torricelli Act of 1992, and the Helms-Burton Act of 1996.

The Nature of the Embargo Since Kennedy

By 1962, the Kennedy administration had succeeded in imposing a "total embargo" on all trade with Cuba. Sweig notes that a single exception was made for "licensed sales of food and medicine," but that this exception was abandoned by the mid-1960s (2009: 88). Lamrani argues that, once the food and medicine exceptions were removed, the Embargo became notable for its neglect of international humanitarian law, since according to Article 23 of the Geneva Convention,

Each High Contracting Party shall allow for the free passage of all consignments of medical and hospital stores and objects necessary for religious worship intended only for civilians or another High Contracting Party, even if the latter is its adversary. It shall likewise permit the free passage of all consignments of essential foodstuffs, clothing and tonics intended for children under fifteen, expectant mothers and maternity cases (Lamrani, 2013: 25).

Under the Embargo, American companies could not invest on the island or purchase Cuban goods (Sweig, 2009: 88). Moreover, in March of 1962, the Embargo was expanded to include "all products that contain Cuban materials, including those manufactured in other countries Also,

Cuba was prohibited from purchasing American products (or any products containing more than 5% U.S. content (Sweig, 2009: 89)), Cuban citizens could not invest in the United States, and Cuban holdings in United States banks were frozen (Sweig, 2009: 88). Moreover, as Haney and Vanderbush explain, Kennedy tightened the Embargo in 1963 by “prohibiting travel to or financial transactions with Cuba by U.S. citizens” (2005: 18). Thus, the embargo was categorical in its prohibition of commercial and financial transactions between citizens and entities of the two states.

Moreover, the Embargo, beginning with the Kennedy administration, was exceptional in one very important facet: its extraterritoriality. Beginning in August 1962, “every nation providing assistance to Cuba was automatically excluded from the USAID program” (Lamrani, 2013: 25). Also, beginning in September 1962, Kennedy banned ships from entering U.S. ports that had commercial relations with Cuba, “regardless of their country of origin” (Lamrani, 2013: 25). The extraterritoriality of the Embargo was further illustrated as U.S. companies merged with international companies, thus expanding the number of goods that qualified as containing more than 5% U.S. content, as companies that were now subsidiaries of U.S. companies were banned from doing business with Cuba (Sweig, 2009: 89). The effect (and goal) of such extraterritoriality was to prevent as many parties as possible from engaging in trade with Cuba. The irony was that this policy pushed Cuba further towards the USSR to obtain commercial goods and inputs, since “it became harder and harder to find parts for Cuba’s pre-1959 infrastructure that were free of U.S. content” (Sweig, 2009: 89).

Lamrani (2013) and Sweig (2009) both stress that the effects of the Embargo, almost immediately, can not be understated, as every sector of the Cuban economy was dependent on

inputs that were now banned by the Embargo, and Soviet parts were almost never adequate surrogates (Sweig, 2009: 89).

In sum, the Embargo during the Kennedy administration was characterized by its extraterritoriality and its status as a policy controlled by the executive branch, but significantly influenced by threats within Congress, should executive orders fail to sufficiently isolate the island⁶⁵.

The Johnson administration largely continued the policies of the Kennedy administration, as Johnson retained Kennedy's foreign policy advisers upon taking office (Haney and Vanderbush, 2005: 19). There were two main developments during the Johnson administration. First, in 1964, Johnson "registered a notable success" (Haney and Vanderbush, 2005: 19) by compelling OAS member states to vote to break all diplomatic and commercial relations with Cuba. All voted in favor, with only one abstention, Mexico (Sweig, 2009: 90). Cuba was thus further isolated from commercial relations with the West, and pushed further towards the USSR.

Second, Johnson signed the Cuban Adjustment Act in 1966, a "landmark law that granted all Cuban migrants the right to 'adjust' their status to that of U.S. permanent resident after residing one year within the United States" (Sweig, 2009: 89). Haney and Vanderbush note that Johnson actually chose to enact this policy through "the attorney general's authority on immigration matters," which allowed him to keep control of U.S.-Cuban policy in the Executive Branch (though, similar to the Embargo, it should be understood that the initial impetus for this policy originated in Congress, with the Cuban Adjustment Act). The Cuban Adjustment Act has been one of the most contentious facets of U.S.-Cuban relations since its inception, as Cuban

⁶⁵ I make no mention of the Cuban Missile Crisis during the Kennedy administration because the scope of this section is to provide a background and analysis of the Embargo, not of general relations between the United States and Cuba.

authorities have identified it as one of the major factors responsible for Cuba's brain drain problem.

Following Johnson, the Embargo under the Nixon administration was notable only for the absence of any remarkable developments. Nixon and Kissinger both exhibited little interest in the island, and in Latin America in general. As Haney and Vanderbush explain, "Kissinger was brutally honest in conceding that he neither knew very much about Latin America nor worried about that lack of information" (2005: 21).

Although the Nixon administration was somewhat unremarkable regarding the Embargo, developments in the international and regional climate during the 1970s were anything but negligible. The international environment became much more favorable towards Cuba, and many countries, including Chile, Argentina, and Peru restored, to varying degrees, their diplomatic and commercial ties with Cuba (Sweig, 2009: 90). Also, Canada pushed back against some of the extraterritorial aspects of the Embargo, regarding restrictions that affected "U.S. subsidiaries in third countries" (Sweig, 2009: 90). Perhaps most importantly, the OAS, in 1975, voted to retract all sanctions against Cuba, thus allowing each state to "maintain diplomatic and trade ties with Havana" (Lamrani, 2013: 28).

There was also a shift in domestic sentiments during the 1970s, in favor of a more liberal approach to the Embargo. As Sweig states, "the U.S. Congress and business communities began to express a disposition toward improving the bilateral relationship with Havana" (2009: 90). In response, in 1975, Gerald Ford relaxed some aspects of the Embargo. He allowed businessmen to travel to Cuba if they obtained special licenses; allowed payment of fees to Cuba for planes landing on its territory; and allowed "certain commercial transactions" (Lamrani, 2013: 28). Moreover, in 1975, in response to domestic and international pressure, the U.S. ended its ban on

subsidiary trade with Cuba (Sweig, 2009: 91). The significance of these steps is explained by

Sweig:

As a result, after an effective dry spell of 10 years, Cuba was able not only to resume trade and economic ties throughout the hemisphere but also to purchase goods produced by third-country subsidiaries of American companies. American enterprise quickly took advantage. Indeed, by the beginning of the 1990s, American companies primarily in the pharmaceutical and agricultural sectors were selling about \$700 million a year in U.S. products to Cuba (2009: 91).

It is very important to note that, although responding to Congressional pressure, control in U.S.-Cuban relations still resided in the executive branch during the Ford administration, as Henry Kissinger took strategic initiative to ensure that decision-making authority did not shift to Congress. For instance, anticipating the OAS vote to remove the trade ban on Cuba, Kissinger “signaled that the United states would stand back were the OAS to lift its collective diplomatic and commercial embargo of the island,” a move that Sweig characterizes as an attempt to “maintain executive privilege over foreign policy” (2009: 91-2). Kissinger also intimated that he would be willing to abrogate the ban on U.S. subsidiary trade with Cuba (Sweig, 2009: 91). Sweig stresses that these steps, which retained effective control of U.S.-Cuba policy within the executive branch, should be understood as part of Kissinger’s more general geopolitical strategy, since he understood individual countries within the region were already in the process of breaking their sanction agreements with Cuba anyway. Thus, by entertaining a more liberalized approach to the island, Kissinger hoped to improve the United States’ position in Latin America. Such tactics by Kissinger suggest that his ostensible lack of interest in Latin America, alluded to above, may have been more of a tongue-in-cheek patina than a genuine misunderstanding of the region’s geopolitics.

In short, the Ford administration can be characterized by its retrenchment on the Embargo, largely impelled by a shift in the international political climate, as well as a domestic shift in business sentiment towards the island, which was relayed as Congressional pressure.

The international environment remained favorable to Cuba in 1977-8, and the Carter administration continued the Ford administration's policy of rapprochement with the island. Under Carter, food and medicine sales to Cuba were authorized, and U.S. citizens were allowed to make trips to Cuba, beginning in 1977 (Lamrani, 2013: 29). Also, the policy of blacklisting ships that had trade relations with Cuba was discontinued (Lamrani, 2013: 29). Perhaps most notably, it was under Carter that the two nations opened interests sections in each other's capitals (Sweig, 2009: 94). According to Haney and Vanderbush, "these moves were significant enough that Wayne Smith, director of the Office of Cuban Affairs in the State Department, assumed that the president would shortly proceed in the near future to end the embargo entirely" (2005: 27).

According to Sweig, this policy of rapprochement was part of Carter's broader agenda, which placed human rights, rather than anticommunism, at the center of his foreign policy agenda. In this sense, seeking rapprochement with Cuba's leadership, and shifting away from some of the right wing military dictatorships that had previously garnered U.S. support, made strategic and political sense (Sweig, 2009: 93). Pursuant to the Carter administration's main demand, the Cuban government released 3,000 political prisoners, which Sweig characterizes as "the biggest single gesture of this sort since the revolution had taken power" (2009: 94).

Despite these positive steps, the international environment became less favorable to further rapprochement in 1979, as Carter dealt with the Soviet invasion of Afghanistan, the Iranian hostage crisis, and the deployment of an increasing number of Cuban troops into Angola (Sweig, 2009: 95). This led to a recrudescence in anticommunist fervor amongst Republicans and some Democrats, and Carter's advisors, including Zbigniew Brzezinski, cautioned against further rapprochement in relations with Cuba (Sweig, 2009: 95). Indeed, it was during the Carter administration that two very substantial and related shifts reached their critical stage: the

increased aggressiveness of Congress on foreign policy towards Cuba, and the emergence of a nascent Cuban exile community as a lobbying force. These two factors would completely alter the bilateral foreign policy landscape between the two countries; as Haney and Vanderbush explain, “a number of trends in the way U.S-Cuba policy was made were becoming apparent. Members of Congress were becoming more assertive on issues of foreign policy,” and “the Cuban exile community...began to emerge as a political force as its exile community recognized that they needed to rethink their strategy from covert forceful acts against Castro (and each other) toward Washington lobbying” (2005: 29). Regarding the latter development, it was during this period that the group that would come to be known as the Cuban American National Foundation (CANF) became closely associated with Ronald Reagan’s forthcoming presidency (Haney and Vanderbush, 2005: 30).

If the Carter administration can be characterized by its rapprochement with Cuba, and shift away from anticommunism in the region, then the Reagan administration can be characterized in diametrically opposite terms. The Reagan administration, concerned about security threats in the region (e.g. El Salvador and Nicaragua), once again placed anticommunism at the center of the U.S.’ foreign policy agenda. Problematically, though, Congress had become much more involved in foreign policy since Vietnam, and was Democratically dominated. Hence, to achieve his more bellicose foreign policy objectives in the region, and against Cuba in particular, Reagan had to garner the support of a like-minded, domestically powerful interest group. Hence the emergence of the Cuban American National Foundation (CANF) in American politics and foreign policy, a group Sweig characterizes as “the most effective and formidable Cuban American lobbying organization in the United States, from its founding in 1981 until the end of the 20th century” (2009: 101).

The degree to which the Reagan administration helped foster the incipient CANF has been debated. Jorge Mas Canosa, CANF's most prominent founding member, claims that the foundation was an organic movement, the creation of himself and "a few Cuban Americans" (Haney and Vanderbush, 2005: 35). However, Sweig argues that the Reagan administration played a crucial role in supporting and steering CANF at its early stages, and advised CANF to study and model itself after the American-Israel Political Action Committee (AIPAC) (2009: 101). Raul Masvidal, one of CANF's founding members, gives an account that concurs with this argument, claiming that the Reagan administration advised it to lobby both branches of government, thus putting pressure on a Democratically dominated congress and garnering political popularity for Reagan's foreign policy agenda (Haney and Vanderbush, 2005: 35).

The role that CANF played during Reagan's administration, and the role it has continued to play in U.S.-Cuba policy, cannot be understated. As Sweig explains,

Very quickly, and with a wide open door from the administration, CANF became a membership organization with a donor base drawing on contributions of as little as \$5 from pensioners in Hialeah to hundreds of thousands of dollars from wealthy scions of the exile community in South Florida, New Jersey, and elsewhere around the country. Under Mas Canosa's charismatic and often intimidating leadership, CANF lobbied Democrats and Republicans alike while launching aggressive public and media advocacy campaigns on behalf of the cause of liberating Cuba from Castro's clutches. A public action committee, or PAC, was also formed to reinforce CANF's lobbying activities with campaign finance contributions on both sides of the aisle. By the end of Reagan's second term, CANF could claim responsibility for making the views of the Cuban American anti-Castro hard line, then the majority of the community, strongly felt in Congress and in the executive branch. Legislative victories – such as Radio Marti and the new funds for advancing the cause of human rights and democracy in Cuba – would not have been approved were it not for the new political, financial, ideological, and media space that CANF came to occupy over the course of the 1980s (2009: 101-2).

With CANF's political partnership, the Reagan administration was able to scale back most of the advances the Carter administration had made. U.S. citizens were once again prohibited from traveling to Cuba (Lamrani, 2013: 30), and the Reagan administration renewed the emphasis on sanctions on third-country entities that traded with Cuba (Sweig, 2009: 99; Lamrani, 2013:30-1).

What is so fascinating about the emergence of CANF is the perverse and ironic manner in which CANF came to operate after its inception, and the manner in which policy and politics in the area of U.S.-Cuban relations became fused (Haney and Vanderbush, 2005: 50). The goal of the Reagan administration's alliance with CANF was to retain control of Cuba policy in the White House by applying pressure to a Democratically controlled Congress. In this regard, and as evidence by such achievements as Radio Marti (the propaganda broadcaster that began receiving federal funding in 1983), Reagan and CANF were highly successful. "But," as Haney and Vanderbush state, "this would end up to be a short-term win for President Reagan, and perhaps a longer-term loss for the presidency, in terms of being able to exercise control over Cuba policy" (2005: 51). The political convenience of CANF for the presidency was contingent on a continued alignment of CANF's and the executive branch's interests. But CANF was very quickly able to garner sufficient resources to operate independently of the executive branch (Haney and Vanderbush, 2005: 51). Moreover, with the election of Cuban Americans to Congress in 1989 (Ileana Ros-Lehtinen) and 1992 (Bob Menendez), U.S.-Cuba policy became deeply tied to domestic politics, as Cuban Americans constituted a powerful voting bloc that could sway elections (Haney and Vanderbush, 2005: 51-2). Thus, a strategy and alliance that began with the intention of securing Cuba policy in the White House ended with Cuba policy being captured by CANF and Congress.

With the collapse of the Soviet Union in 1991, the United States was presented with an opportunity to perhaps seek rapprochement with Cuba, since its traditional justification of Cold War geopolitical strategy could no longer be employed. However, with the CANF sufficiently ensconced as a lobbying force, the US instead chose to implement "another argument designed to justify the intensification of sanctions: the violations of human rights in Cuba" (Lamrani, 2013:

31). This continued policy of aggression towards Cuba was manifested in The Cuban Democracy Act of 1992, also known as the Torricelli Act.

George H.W. Bush signed the Torricelli Act in 1992, thus renewing many sanctions against Cuba that had remained relatively dormant in previous years. In most basic terms, the Torricelli Act “banned subsidiaries of US corporations (based in third countries) from trading or investing in Cuba and banned foreign ships used in Cuban trade from entering US ports” (Mesa Lago and Perez-Lopez, 2013: 13). Regarding the former provision, Sweig notes that the ban against third-country subsidiaries had, in effect, been lifted since 1975. Regarding the latter provision, ships were prohibited from entering US ports if they had entered Cuban ports within the six preceding months (Sweig, 2009: 163). The measure against third-country trading was “quite effective,” Lamrani argues, as “after a year, all of these companies had severed their business transactions with the island” (2013: 32).

Sweig emphasizes that, although signed as legislation, the “bill retained nearly full executive privilege over the embargo; if he saw fit, the president could still do away with most sanctions with the stroke of a pen” (2009: 165). Hence, as represented by the Torricelli Act, the George H.W. Bush administration’s Cuba policy can be characterized by its renewed emphasis on extraterritoriality and its effective retention of Cuba policy within the White House, though substantially influenced by CANF and Congress.

With the Clinton administration came the passing of the most important piece of legislation pertaining to Cuba since the Revolution: The Helms-Burton Act of 1996. The legislation was drafted in 1995, and, according to Lamrani, “Washington waited for the most opportune moment to put it to a vote” (2013: 33-4). That moment came on February 24th, 1996, when a plane operated by the anti-Castro group, Brothers to the Rescue, was shot down by the

Cuban military, “after repeatedly violating Cuban airspace to drop leaflets urging the population to insurrection” (Lamrani, 2013: 33). According to Sweig, enough Brothers to the Rescue flights had impinged on Cuban airspace that “Cuba was on solid ground” when claiming that the organization’s flights represented “a clear provocation, (and) an encroachment upon its sovereignty” (2009: 170).

Despite the legitimacy of these claims, Congress chose to exploit the opportunity, and very shortly afterwards, on March 12th, 1996, passed the Helms-Burton Act. In basic terms, Helms-Burton codified “all standards, regulations, and presidential orders passed since 1962, thereby elevating to the rank of law the whole arsenal of measures against Cuba that had been approved in the past” (Lamrani, 2013: 34). As Lopez-Levy explains, the Embargo, prior to Helms-Burton, had been “a wall built of differently shaped bricks stacked loosely together. There were statutes and executive orders and administrative regulations and guidelines,” but “under Helms-Burton, the president would need a jackhammer for the mortar” (Abrahams and Lopez-Levy, 2011: 600).

In addition to codifying previous sanctions, Helms-Burton also expanded the extraterritorial aspects of the Embargo, and had three main provisions of note. First, Title III introduced a right of action for individuals and entities that had lost property in Cuba during the 1960s to sue any foreign investors or entities who “trafficked in that property,” including the Cuban government itself (Sweig, 2009: 172).

Second, in a similar effort to discourage investment, Title IV required the US government to deny entry visas to foreign businessmen, particularly executives and board members, whose companies are responsible for trafficking in such confiscated properties (Sweig, 2009: 172).

Third, Helms-Burton outlined certain conditions that must be met before U.S. sanctions against Cuba could legally be abrogated. Sweig characterizes these conditions, because of their unlikelihood, as “fantastical” (2009: 172). These conditions included Fidel and Raul’s absence from office; the elimination of multiple government institutions, and “movement toward free elections, a free press, free labor unions, and the release of all political prisoners” (Sweig, 2009: 172). Such measures clearly expanded the extraterritoriality of the Embargo, thus why Lamrani characterizes Helms-Burton as “a legal aberration because of its retroactive and extraterritorial reach” (2013: 33).

Given the draconian and extraterritorial nature of all these provisions of Helms-Burton, particularly Title III, the Clinton administration sought, and obtained, a waiver authority that allowed the president to, every six months, suspend enforcement of Title III (Sweig, 2009: 172). Clinton chose to suspend Title III’s suits and sanctions throughout the entire rest of his presidency, “a practice that subsequently has been continued by all US presidents through the end of 2012” (Mesa Lago and Perez-Lopez, 2013: 13). Such a course of action is practical, to say the least, since, as Sweig argues, legal claims under Title III would expose the US to international ridicule and “clog” the court system (2009: 173).

It should be noted that Clinton exploited what little executive latitude remained to gain some minor openings with the island. For instance, under the Torricelli Act of 1992, the US is allowed to provide assistance “to individuals and organizations working for nonviolent change on the island through relevant NGOs and external partners” (Sweig, 2009: 164). Clinton chose to interpret this provision in a manner that allowed him to introduce 13 licenses⁶⁶ that Americans

⁶⁶ The 13 categories introduced under Clinton were: family visits; free-lance journalism; professional research and professional meetings; academic educational activities; people-to-people exchanges; academic seminars, conferences, and workshops; religious activities; public performances, clinics, workshops, athletic and other competitions and exhibitions, support for the Cuban people, humanitarian projects, activities of private foundations or research or educational

could use to travel to Cuba for “people-to-people” exchange (Sweig, 2009: 175). The Clinton administration also lifted the ban on family travel, though only one visit was allowed annually (Sweig, 2009: 175). One other achievement of note during the Clinton administration was the Trade Sanctions Reform and Export Enhancement Act, passed in October of 2000, after Cuba had been ravaged by several hurricanes. The act allowed US entities to sell food to Cuba for humanitarian reasons, as long as such food is paid for in advance with a non-dollar currency, and through a third-country financial institution (Lamrani, 2013: 37). This legislation has allowed the U.S. to become Cuba’s main supplier of agricultural products (Lamrani, 2013: 36).

Despite the Clinton administration’s success in obtaining a waiver for Title III, and although the president still has some latitude to act independently of Congress (for instance, when engaging in direct diplomacy or licensing travel categories (Abrahams and Lopez-Levy, 2011: 60)), Helms-Burton should still be considered a substantial defeat for the executive branch in the area of foreign policy. In fact, Sweig states that not even Jesse Helms, the bill’s main author, anticipated the success of the legislation in vitiating presidential authority, vis-à-vis the Embargo (2009: 173). After Helms-Burton, the president’s hands were, for the most part, tied, leaving the Executive Branch impotent to lift sanctions (Sweig, 2009: 173).

In sum, the Clinton administration should be characterized by its increased extraterritoriality in the Embargo, as well as the diminution it experienced in Cuba policy, relative to Congress. However, the Clinton administration should also be remembered for taking advantage of what latitude was left in the executive branch to increase the number of legally acceptable travel categories between the U.S. and Cuba.

institutes; exportation, importation, or transmission of information or informational materials; and exportation of licensable products (Sullivan, 2014).

The George W. Bush administration set out to undo the meager openings that had been achieved by the Clinton administration. Bush had campaigned, in part, on an anti-Castro platform, in an attempt to please George W. Bush's and Jeb Bush's business associates in the Cuban exile community (Sweig, 2009: 183). The Bush administration, following the attacks of September 11, 2001, attempted to construct a case that Cuba was developing biological weapons, with the capability of exporting them (Sweig, 2009: 182). Such allegations were curious, given the support Fidel Castro personally voiced for the United States following September 11, offering the U.S. use of its airspace, and medical support for victims of the attacks (Sweig, 2009: 181). Fortunately, as Sweig states, "cooler heads prevailed," and the Bush administration dropped the allegations (2009: 182).

However, the decision to invade Iraq drew a backlash against dissidents in Cuba from Cuban officials. The Cuban government had previously brooked activities of a number of dissident groups, in an attempt to appease Washington (Sweig, 2009: 189). But when the U.S. invaded Iraq in 2003, Cuba became suspicious that dissident groups may provide an entry point for a US government that was becoming increasingly belligerent (Sweig, 2009: 189). Hence, 75 dissidents were arrested by Cuban authorities in March 2003, "the day before Bush formally declared war on Iraq" (Sweig, 2009: 189).

Although abandoning its allegations of biological weapon development on the island, the Bush administration did not abandon its goal of scaling back the openings of the Clinton administration. Beginning in 2003, obtaining a people-to-people exchange travel visa became prohibitively difficult, effectively closing all travel categories (Sweig, 2009: 188). Bush also launched the Commission for Assistance to a Free Cuba (CFAC) in 2003. The Commission was responsible for finding a way to return nationalized properties worth more than \$50,000 to their

original owners on the island (Lamrani, 2013: 39). Pursuant to a 2004 report by the Commission, the Bush administration drastically reduced family travel and remittance allowances, only allowing family travel to Cuba once every three years, and reducing the amount of money that could be sent daily from \$164 to \$50, and money could only be sent to “family” who are not members of the Communist Party (Lamrani, 2013: 39; Sweig, 2009: 190).⁶⁷ Moreover, the definition of “family” was narrowed to only include immediate family, but not “uncles, nephews, (or) cousins” (Lamrani, 2013: 39).

In an attempt to tighten already extant sanctions against Cuba, the Working Group for the Implementation of Sanctions Against Cuba was created in October of 2006 (Lamrani, 2013: 43). Pursuant to the group’s suggestion, those who were proven guilty of violating embargo sanctions “would risk penalties of up to ten years in prison and a million dollars in fines” (Lamrani, 2013: 43). Hence, as Lamrani explains,

Any Cuban residing in the United States who visited his sick mother in Cuba without first having obtained Treasury Department permission to leave the country, or who might stay on the island for more than the fourteen days allowed every three years, or who might spend over \$50 a day during his stay of fourteen days, or send financial assistance to his cousin or aunt, or his father if he is a member of the Communist Party, could receive a penalty of ten years in prison and a million dollars in fines. Similarly, any American tourist who spends a weekend in Havana could receive the same punishment (2013: 43).

In sum, although Helms-Burton had substantially vitiated executive authority in the area of Cuba policy, the Bush administration exploited what prerogatives still remained for the executive to scale back travel and remittance allowances, thus reversing the meager advances that had been made during the Clinton administration in these areas.

The Obama Administration, and Cuba’s Pragmatic Approach to Policy with the United States

⁶⁷ As to how remissions are sent, cubacurrency.com suggests that money be sent through cash transfer agencies such as Western Union or Cash2Cuba. Dollar transfers are taxed at 10%, so some people choose to send Canadian dollars or Euros instead, which avoids this tax (Cuba Currency & Money Guide).

The Obama administration is allotted its own section in this chapter because, although it seemed that only minor openings, particularly in travel and remittances, would be achieved during his administration, events in late 2014 and early 2015 would prove to be the most momentous since the Embargo was implemented in 1962.

Hopes were high for a thawing of relations between the United States and Cuba when Barack Obama won the 2008 presidential election, and such hopes were not without base. During a primary debate in 2007, Barack Obama said that he would be willing to, without preconditions, meet with Cuba's leaders (Sweig, 2009: 239). And during his presidential campaign, he renounced the Embargo, recognizing it as a policy that does little but harm the Cuban people (Lamrani, 2013: 43).

Hence, it was not surprising that the Obama administration moved quickly, in April of 2009, to scale back travel and remittance restrictions that had been imposed by the Bush administration in 2004. Cuban Americans were allowed unlimited travel to the island, and the cap on remittances to family members was removed, thus allowing Cuban Americans to send an unlimited amount of cash to family on the island (Lamrani, 2013: 44). Obama also widened the categories of products that could be sent to Cuba, allowing "clothing, hygiene products, and fishing equipment" (Lamrani, 2013: 44). Such steps were not groundbreaking, as they simply exploited the same loopholes that the Clinton and Bush administrations had exploited in their travel and remittance modifications. However, they were indicative of the intent of the Obama administration to open relations with the island.

But developments seemed to stall after those initial moves. In September of 2009, Obama even extended the Trading with the Enemy Act of 1917, an action taken by all presidents since 1962 to legally extend the Embargo (Lamrani, 2013: 44). As Lamrani explains, the move was

only symbolic, since Helms-Burton removed the necessity of annual extension of the Embargo, but it was still a missed opportunity for the Obama administration to send a symbolic message that it was willing to open up with the island. By extending the Trading with the Enemy Act, the Obama administration sent a message that, perhaps, analysts such as Sweig were getting ahead of themselves, vis-à-vis their predictions regarding Obama's rapprochement with Cuba. Hence, Cuba analysts returned to their skeptical views towards relations between the two states, until December of 2014, when Cuba and the U.S. would make announcements, and engage in talks, that signified, for the first time in decades, a genuine intent on both parties' part to restore commercial and diplomatic relations.

Major amendments to U.S. policy towards Cuba were announced by Barack Obama on December 17th, 2014. Obama announced, "In the most significant changes in our policy in more than fifty years, we will end an outdated approach that, for decades, has failed to advance our interests, and instead we will begin to normalize relations between our two countries" (White House, 2014). Such a move was long overdue, and comports with democratic sentiments in the United States, with 60% of Americans supporting Obama's policy shift towards normalization with Cuba (Dann, 1/19/15), and 55% of *Cuban Americans* in Miami-Dade County, as of December 2008, supporting an end to the Embargo (Lopez-Levy, 2010).

Towards this end, Obama ordered three main policy changes towards the island: first, he ordered Secretary of State John Kerry to begin discussions with Cuba to reestablish diplomatic relations with the island. He also ordered an embassy to be re-established in Cuba, along with visits by high-ranging U.S. officials (White House, 2014). Second, he ordered Kerry to review Cuba's designation as a state sponsor of terrorism. Lastly, Obama ordered that steps be taken to increase "travel, commerce, and the flow of information to and from Cuba" (White House, 2014).

Obama stressed that the above actions are his prerogative as President, but that further actions in the direction of repealing the Embargo must be taken by Congress, since the Embargo was codified by Helms-Burton in 1996 (White House, 2014).

The first step towards rapprochement came with the successful release and exchange of prisoners between the two states. Cuba released Alan Gross, along with a U.S. intelligence agent who had been jailed in Cuba for twenty years, while the U.S. released three Cuban intelligence agents. This initial step was followed by Cuba's release of 53 political prisoners that it had promised to release in exchange for the U.S.' movement towards diplomatic normalization (Ford, 2015).

These steps were followed by a meeting between diplomats of the two countries on January 21 and 22 of 2015. Assistant Secretary of State for the Western Hemisphere, Roberta Jacobson, led the U.S. delegation. Reuters notes that this was the first time in 38 years that an official of her rank from the U.S. had visited the island for talks (Wroughton, 2015). Josefina Vidal, director of U.S. affairs at the Cuban foreign ministry, led the Cuban delegation.

The meeting mainly served as a platform for both states to enunciate what conditions must be met for further diplomatic normalization to occur. The U.S. delegation mainly raised concerns about Cuba's human rights record, while Cuba raised concerns about the U.S.' own human rights problems and race relations; demanded that it be removed from the United States list of state sponsors of terrorism, and requested that the U.S. "wet foot, dry foot" policy (The Cuban Adjustment Act) be ended (Wroughton, 2015).

There are some positive portents for the latter two of Cuba's demands. Regarding the first, the U.S. has launched a review of Cuba's status as a state sponsor of terrorism, which will be completed within five months (*Cuba Central News Blast*, 1/23/2015). Regarding the second,

“wet foot, dry foot” is indeed an immigration policy, which means the Executive Branch has the prerogative to decide how, and if, to administer it. Robert Muse, a D.C. attorney with experience on U.S.-Cuba relations, argues that “wet foot, dry foot” can be ended with a directive from the President to the Attorney General “ordering him or her to cease granting permanent residence to Cubans who enter the U.S. without visas” (*Cuba Central News Blast*, 1/23/2015).

The momentous nature of these developments notwithstanding, *The Miami Herald* notes that anti-Castro Republicans are already assessing their options to block Obama’s new policies towards the island, and states, “The most likely targets are funding for new diplomatic operations in Havana, as well as the requirement for Senate confirmation of the ambassador” (Kane, 2014). However, there is also a substantial degree of division amongst Congressional Republicans, with Republicans such as Rand Paul arguing that the Embargo has been a fiasco (Kane, 2014). Congressional hearings were held for three days in early February, and despite expected complaints by hardliners such as Ileana Ros-Lehtinen and Marco Rubio, Obama’s policy emerged “largely unscathed” (Padgett, 2/5/15). Moreover, a bill was introduced by Republican Jeff Flake of Arizona and Democrat Patrick Leahy of Vermont, which would categorically abrogate all restrictions on travel to Cuba (*Lift the Cuba Travel Ban Already*, 2015). Hence, it seems that even a Republican Congress will not be enough to reverse Obama’s recent actions.

Perhaps even more significant than the above bill that was introduced to end travel restrictions, was a bill introduced by a bipartisan group of senators on January 12, 2015, which would effectively end the Embargo. The bill would end the categorical ban on trade with Cuba, as well as roll back Helms-Burton, thus ending the Embargo’s status as codified law (Itkowitz, 1/12/15). While the potential of these two bills passing is dubious, they do represent an attitude

towards the island that obtains in Congress, which is likely to become more salient as a growing number of interests in the United States demand normalization with Cuba.

The recent meeting between officials from the two countries is only the very beginning of a very long discussion that will involve different degrees of give and take over the forthcoming years. The U.S. could do much to help the process along by removing Cuba from its list of state sponsors of terrorism, while Cuba could facilitate the process of rapprochement by continuing and expanding its recent economic openings. Given the divide amongst Congressional Republicans, and given the pressure coming from US business interests to commercially engage with the island, it is unlikely that a reversal will occur in the United States' new policy turn towards the island, barring any catastrophic, unforeseen event.

It would seem that the Obama administration might have begun a shift towards regaining initiative on foreign policy with Cuba for the first time since Kennedy was in office. Obama requested, during his State of the Union Address, that Congress end the Embargo. If they do so, and repeal Helms-Burton, then prerogative on Cuba policy would once again reside in the Executive Branch, though that is a very big "if." As is explained below, though, Congressional moves are being made in that direction.

What explains the recent thawing in relations between the two states? On the Cuban side, the explanation lies in Raul Castro's strategy of shifting the island in a more pragmatic, market-oriented approach, regarding economic policy. As has been argued elsewhere in this thesis, the island has entered a permanent pragmatist shift. As part of this shift, Cuban officials, including Raul, are making a concerted effort to more deeply insert Cuba into the world economy. As part of this insertion, they have recognized the necessity of normalizing relations with the United States, since 1) the United States is the island's most important trade partner, and a normalization

of relations would mean much easier and more efficient commercial relations; and 2) because the U.S. embargo, as an extraterritorial policy/law, deleteriously affects Cuba's economic relations with third countries and U.S. subsidiaries in third countries. Hence, in 2012, Raul Castro, of his own volition, said that he was willing to hold talks with the United States, and that "no topic was off limits, including US concerns about democracy, freedom of the press and human rights on the island, as long as it was a conversation between equals" ("Cuban President Raúl Castro Willing to Hold No-limits Talks with America," *The Guardian*, 1/26/12). It should thus be understood that the United States was lagging behind Cuba since 2012, vis-à-vis willingness to come to the table and make an earnest attempt to mend the fence between the two states.

On the U.S. side, a number of factors explain the move towards normalization. The single most important factor was likely the pragmatic shift by Cuban officials in recent years. One of the major demands amongst right wing Cuban Americans has always been that the Cuban government liberalize its economy. While they have also demanded that the Castros be removed from power, economic liberalization has likely been a sufficient condition for many Cuban Americans to relax their attitudes towards the Embargo. In 2008, shortly after Raul Castor engaged in his program of economic reforms, Cuban Americans in Miami Dade County were 55% in favor of ending the Embargo; this was the first time a majority had been in such favor since this poll began in 1991 (Lopez-Levy, 2010). In 2007, only 42.5% of Cuban Americans were in favor of ending the Embargo ("Cuba Policy Enters the Presidential Race," Latin American Working Group, 2009).

This shift in sentiment is also explained by the changing demographic that composes Cuban Americans. As Lopez-Levy (2010) explains, a majority of Cuban Americans arrived in the United States in the last twenty years. Thus, their most salient memory and experience was

the Special Period, and the aggressive and harmful role Cuban American ex pats played during the Special Period, particularly in their attempts to block remittances to the island during a time when such material assistance was direly needed (Lopez-Levy, 2010). As a result, the current majority of Cuban Americans favor a different approach to Cuba, one that emphasizes economic opening and assistance, rather than hardline aggression and demands for political change (Lopez-Levy, 2010).

Finally, there seems to be growing division amongst Congressional Republicans regarding the Embargo. Recent bipartisan bills to end travel restrictions and de-codify the Embargo are evidence of Republican dissatisfaction with the Embargo. Given these sentiments amongst Cuban Americans and Congressional Republicans, the Obama administration likely saw a change to finally normalize relations with Cuba, and seized the opportunity.

Purpose and Substance of Forthcoming Changes

The purpose of the forthcoming changes, according to the U.S. Treasury, is to “chart a new course in U.S. relations with Cuba and to further engage and empower the Cuban people” (Press Center. *FACT SHEET: Treasury and Commerce Announce Regulatory Amendments to the Cuba Sanctions*. 1/15/15). The changes will be implemented through revisions to the Treasury’s Cuban Assets Control Regulations (CACR) and the Commerce Department’s Export Administration Regulations (EAR). The former is administered through the Treasury’s Office of Foreign Assets Control (OFAC); the latter is administered through the Commerce Department’s Bureau of Industry and Security (BIS) (Press Center. *FACT SHEET: Treasury and Commerce Announce Regulatory Amendments to the Cuba Sanctions*. 1/15/15). These changes took affect on January 16th, 2015.

The changes to CACR, according to the *Federal Register*,

Facilitate travel to Cuba for authorized purposes, facilitate the provision by travel agents and airlines of authorized travel services and the forwarding by certain entities of authorized remittances, raise the limit on certain categories of remittances to Cuba, allow U.S. financial institutions to open correspondent accounts at Cuban financial institutions to facilitate the processing of authorized transactions, authorize certain transactions with Cuban nationals located outside of Cuba, and allow a number of other activities related to, among other areas, telecommunications, financial services, trade, and shipping. These amendments also implement certain technical and conforming changes (*Cuban Assets Control Regulations: A Rule by the Foreign Assets Control Office*).

The changes to the EAR, according to the *Federal Register*, are meant to

Create License Exception Support for the Cuban People (SCP) to authorize the export and reexport of certain items to Cuba that are intended to improve the living conditions of the Cuban people; support independent economic activity and strengthen civil society in Cuba; and improve the free flow of information to, from, and among the Cuban people. It also amends existing License Exception Consumer Communications Devices (CCD) by eliminating the donation requirement, thereby authorizing sales of certain communications items to eligible end users in Cuba. Additionally, it amends License Exception Gift Parcels and Humanitarian Donations (GFT) to authorize exports of multiple gift parcels in a single shipment. Lastly, this rule establishes a general policy of approval for exports and reexports to Cuba of items for the environmental protection of U.S. and international air quality, and waters, and coastlines (*Cuba: Providing Support for the Cuban People A Rule by the Industry and Security Bureau*).

Regarding travel to Cuba for authorized persons, it is important to note that “ordinary” tourism is still illegal (Baker and Randall, 2015). There are still 12 categories⁶⁸ of travelers that are legally allowed to travel to Cuba, and these categories will remain in effect (Sherman, 2015). Only Congress has the authority to categorically end restrictions on travel to Cuba. In this regard, the “Freedom to Travel to Cuba Act,” primarily sponsored by Senator Jeff Flake, a Republican from Arizona, would remove all travel restrictions that currently impede travel to the island. Senator Flake believes that free travel to Cuba could be a reality “within the year” (Levy, Gabrielle, 1/29/15).

⁶⁸ These categories are: “family visits; official business of the U.S. government, foreign governments, and certain intergovernmental organizations; journalistic activity; professional research and professional meetings; educational activities; religious activities; public performances, clinics, workshops, athletic and other competitions, and exhibitions; support for the Cuban people; humanitarian projects; activities of private foundations or research or educational institutes; exportation, importation, or transmission of information or information materials; and certain authorized export transactions” (Press Center. *FACT SHEET: Treasury and Commerce Announce Regulatory Amendments to the Cuba Sanctions*. 1/15/15). Under the Clinton administration, there were 13 categories of legal travel. The language of the categories under Clinton and Obama is different, though, so it is most likely that the difference in number of categories is due to a merging of categories, rather than the removal of a particular category.

Regardless of whether Flake's bill passes, the recent changes by the Obama administration allow travelers within the 12 legal categories to Travel to Cuba with a "general" license, rather than a "specific" license, which means they will not need to seek approval and apply for a license prior to traveling to the island (Press Center. *FACT SHEET: Treasury and Commerce Announce Regulatory Amendments to the Cuba Sanctions*. 1/15/15). Moreover, travel agents and airlines will no longer be required to seek specific licenses before providing services for such travel (Sherman, 2015). The implications for ease of travel cannot be overstated, as the *New York Times* states that "If airlines begin regular service between the United States and Cuba, as they quickly moved to do, it could soon be as simple as logging on to a computer to order a ticket and checking a box to say the trip serves a legitimate purpose" (Baker and Randall, 2015). Commercial airline flights may not be abundant initially, since airlines have to determine if there is enough commercial demand for travel to the island, but the ease with which travelers will be able to travel to and from Cuba will be substantially increased by these new rules. Likely representative of more general interest, United Airlines has already announced that they plan to seek approval for running flights to Cuba from Newark and Houston (Baker and Randall, 2015).

In addition to removing license requirements for airlines and individuals, the new rules also remove the cap on per diem expenditures for travelers to Cuba, and also allow travelers to Cuba to use credit and debit cards (*FACT SHEET: Treasury and Commerce Announce Regulatory Amendments to the Cuba Sanctions*. 1/15/15), thus introducing conditions that should allow Cuban businesses to experience a substantial increase in revenue from tourism. However, there is still a cap on the value of products that travelers are allowed to bring back with them from Cuba. Travelers are only allowed to bring back \$400 worth of goods purchased in Cuba,

which includes no more than \$100 worth of alcohol or tobacco (*FACT SHEET: Treasury and Commerce Announce Regulatory Amendments to the Cuba Sanctions*. 1/15/15).

Regarding remittances, travelers to Cuba will now be allowed to bring \$10,000 in remittances for “family remittances, periodic remittances, remittances to religious organizations in Cuba, and remittances to students in Cuba pursuant to an educational license” (*FACT SHEET: Treasury and Commerce Announce Regulatory Amendments to the Cuba Sanctions*. 1/15/15). General remittance allowances for Cuban nationals were raised from \$500 to \$2,000 per quarter. However, such remittances are still prohibited from being sent to Cuban government officials or members of the Communist Party (*FACT SHEET: Treasury and Commerce Announce Regulatory Amendments to the Cuba Sanctions*. 1/15/15).

Regarding the allowance for U.S. financial institutions to open accounts in Cuba, it’s important to note that this does not apply to individuals. Accounts can be opened at Cuban financial institutions, but they “are in the name of the U.S. depository institution, not in the name of a specific U.S. individual” (Sherman, 2015).

Some of the most impressive changes pertain to support for Cuban businesses. A new commerce license exception was created, “Support for the Cuban People,” (SCP). The SCP, in an effort to “improve living conditions and support independent economic activity,” authorizes the sale of:

(1) building materials, equipment, and tools for use by the private sector to construct or renovate privately-owned buildings, including privately-owned residences, businesses, places of worship, and building for private sector social or recreational use; (2) tools and equipment for private agricultural activity; and (3) tools, equipment, supplies, and instruments for use by private sector entrepreneurs (*FACT SHEET: Treasury and Commerce Announce Regulatory Amendments to the Cuba Sanctions*. 1/15/15).

The implications of this change for the private sector in Cuba cannot be understated. The language is very vague, and thus seems to legalize a breadth of economic activity that not even the most optimistic of Cuba watchers were anticipating. Moreover, the vague language was no

mistake; as one lawyer who deals with trade regulation stated, “These are fairly careful people who drafted these (rules), so they didn't do it blindly. They did it with an eye to leaving them vague” (Gomez, 2015). Hence, Cuban businesses will have access to a wide variety of American goods, though it should be kept in mind that the significance of this development will be contingent on the degree to which the Cuban government allows input purchases from American companies by Cuban entrepreneurs.

In another move to ease commercial relations between the two islands, the Obama administration also changed the “cash in advance” requirement for transactions between Cuban and American entities. Before, Cuban entities could purchase a number of goods, including agricultural goods, from the United States, but had to pay for all goods with cash in advance. But with the new changes, “the regulatory interpretation of ‘cash in advance’ is being redefined from ‘cash before shipment’ to ‘cash before transfer of title to, and control of,’ the exported items to allow expanded financing of authorized trade with Cuba” (*FACT SHEET: Treasury and Commerce Announce Regulatory Amendments to the Cuba Sanctions*. 1/15/15). This move allows Cubans to pay for products upon their receipt, thus avoiding the financial hassle of having to pay for goods before they are shipped.

The significance of these changes notwithstanding, it must again be emphasized that recent developments have not put an end to the Embargo. Helms-Burton codified the Embargo, and only Congress has the authority to repeal it. Hence, many facets of the Embargo remain in full effect, along with the punishments that they entail. Moreover, the extraterritoriality of the Embargo still obtains, to the extent that subsidiaries of US companies in third countries are still prohibited from doing business with Cuba. However, the new changes do allow U.S. subsidiaries to provide goods or services to Cuban nationals *outside* of Cuba (*FACT SHEET: Treasury and*

Commerce Announce Regulatory Amendments to the Cuba Sanctions. 1/15/15). Also, language was included that will allow ships from other countries to enter U.S. ports, regardless of whether they entered Cuban ports in the preceding six months, which had been prohibited by the Torricelli Act in 1992 (*FACT SHEET: Treasury and Commerce Announce Regulatory Amendments to the Cuba Sanctions*. 1/15/15).

Effects of the Embargo

The effects of the Embargo are difficult to assess, because it is a policy that has very often not been actively enforced. Rather, because foreign entities understand the extraterritorial nature of the Embargo, it has served as a general deterrent. Hence, assessing the effects of the Embargo would require a counterfactual analysis of what level of trade and investment would have occurred if the Embargo were not in place, and such an analysis is not within the scope of this thesis. However, for context, and for a general grasp of the Embargo's effects, this section will provide estimates that varying sources have arrived at regarding the Embargo's effects.

It should be emphasized right away that, although the Embargo serves as a general deterrent, and thus need not always be actively enforced, it is still a policy that the US government has actively enforced when the opportunity has arisen, and an example was needed to be set. For instance, Siegalbaum recounts in instance in 2010 when the US government fined the Dutch Bank ABN Amro \$500 million for "having carried out unauthorized financial transactions in which Cuba or Cuban Nationals had interests" (2011). In another case, UBS was fined \$100 million in 2004 for receiving remittances from Cuba in US dollars ("UBS Fined \$100 Million," 2004). Such cases illustrate the extraterritorial nature of the Embargo.

Enforcement of the Embargo has not always been focused on large financial institutions, though; the Embargo has also been enforced in what can only be described as a petty, cynical

nature, with effects that are indisputably detrimental to human well-being. In one instance, \$4.2 million was seized from the Global Fund to Fight AIDS, simply because some funds were earmarked for projects in Cuba (Siegelbaum, 2011). Lamrani gives an even more cynical account:

In April 1996, Kip Taylor, 73, and Patrick Taylor, 58, a couple from Traverse City, Michigan, went to Cuba aboard a sailboat. Aware that U.S. law forbids any expenditure on the island (without specific authorization), they took with them the necessary provisions for a three-month stay. When they returned they were caught by a storm and the mast of their boat was badly damaged. Rescued by the Cuban Coast Guard in international waters, they were returned to Cuba. When they approached the Treasury Department to ask permission to repair their sailboat, they found themselves up against a refusal. The U.S. authorities ordered them to abandon their boat and their two dogs and return to the United States by air, something that the couple refused to do. With the help of foreign sailors, the Taylors were finally able to repair their boat and return safely without violating the regulations on travel to Cuba. Upon their return, they were interrogated by U.S. authorities to whom they revealed having provided gauze and tape to a Cuban cook who had burned his hand. The Treasury Department then accused them of having 'provided medical services to a Cuba national' and ordered the couple to pay a fine that amounted to tens of thousands of dollars" (2013: 51-2).

These are just a few examples of the enforcement of the Embargo, which serve to illustrate a more general point: the US government has, historically, implemented the Embargo in a manner that is both extraterritorial and petty.

The caveat of how difficult it is to assess the material effects of the Embargo notwithstanding, different sources have proffered estimates, which span a very wide range, in monetary terms. At the low end, in its report to the UN in 2006, the Cuban government submitted that the Embargo, since its promulgation, had caused, at its most conservative estimate, \$86 billion in damage to the Cuban economy (United Nations General Assembly, 2006: 17). The Cuban government itemized the damages as follows: \$29.427 billion due to lost income from exports and services; \$9.592 billion due to losses from geographical relocation of trade; \$2.866 billion due to impact on production and services; \$8.483 billion due to technological embargo; \$1.565 billion due to impact on service to the population; \$8.640 billion due to financial and monetary impact; and \$5.533 billion due to impact of brain drain (United Nations General Assembly, 2006: 17). Cuban officials stress that this 2006 report "does not include the more than

\$54 billion in direct damage caused...by the acts of the sabotage and terrorist activities encouraged, organized and financed from the United States, nor the value of the products whose production ceased or the damage resulting from the onerous conditions imposed on Cuba for obtaining credit” (United Nations General Assembly, 2006: 17).

At the high end, estimates put the cost of the Embargo on the Cuban economy anywhere between \$750 billion and \$1 trillion. In 2010, Cuban Foreign Minister, Bruno Rodriguez estimated the damage of the embargo to be \$750 million (Acosta, 2010), and Vice Foreign Minister, Abelardo Moreno estimated the cost of the Embargo to be close to \$1 trillion (Siegelbaum, 2011). The major reason for the disparity in these estimates and the lower end estimates pertains to adjustments “for inflation and the changing value of the dollar” (Acosta, 2010). When not adjusting for inflation and dollar value, the above \$1 trillion estimate by Moreno falls to \$104 billion (Siegelbaum, 2011).

Another reason for the disparity in estimates likely pertains to what factors are taken into account when assessing the damage of the Embargo. For instance, one of the major effects of the Embargo has been to limit Cuba’s access to long-term, and thus relatively inexpensive financing. As a result, Cuba has been forced to rely on expensive, short-term capital to finance any government deficits (Vallejo in Campbell, 2013: 75). This reliance on short-term capital is relevant for two reasons. First, there is the direct cost of the higher cost of short-term, rather than long-term, capital, which should be accounted for in an estimate of the cost of the Embargo. Secondly, there are the indirect, and probably more substantial, costs related to investment and deficits that have probably been avoided due to lack of access to long-term capital. In other words, because Cuba has lacked access to traditional avenues of capital to fund government deficits, there have probably been cases in which investments were needed, and government

deficits would have been necessary and beneficial, but such investments were foregone, since access to necessary capital was unavailable. Hence, if such deficit-funded investment would have led to economic growth in the longrun, the longrun costs of not having access to capital, in terms of foregone economic growth, must be taken into account.

It should also be noted that the costs of the Embargo are not limited to Cuba; entities within the United States are also deleteriously affected. In monetary terms, the US International Trade Commission “estimates American losses alone from the embargo as much as \$1.2 billion annually” (Bandow, 2012). Such estimation explains why business interests in the United States have been pushing for an end to the Embargo for decades. In addition to the monetary costs associated with the Embargo, there are obviously opportunities for political and cultural exchanges that have been foregone as a result of the Embargo.

Regarding the *efficacy* of the Embargo, in terms of whether it has been able to achieve its goal of isolating and dismantling Cuba’s government, the policy has been a categorical fiasco. The Embargo has economically isolated the island’s population, but it has most likely actually been *counterproductive*, in terms of destabilizing the Cuban government, for two reasons. First, the Embargo has not affected the island deeply enough to destabilize the government, because the Embargo is a unilateral policy by the United States, and has not been supported internationally. Thus, the Embargo has not sufficiently isolated the regime for it to topple. Second, because Cubans understand that the United States has acted alone to impose its policies on the island, and because the Embargo has had deleterious effects on the general Cuban population, the Cuban government has been able to impute much of the island’s economic hardship to the Embargo and the United States. This has allowed to the Cuban government to

justify many of its economic and political rigidity as attempts to protect the island against impositions by the United States.

Given the utter failures of the Embargo, it is a piece of legislation that should, though not necessarily will, be repealed. If it were to be repealed, there are two main benefits that would accrue to both states. First of all, the amount of economic gain for individual Cubans and Americans would be substantial. 400,000 Americans already travel to Cuba each year, and if the Embargo were lifted, this number would likely increase to approximately one million Americans (*Lift the Cuba Travel Ban Already*, 2015). If travel restrictions were ended, along with caps on how much is allowed to be spent while on the island, Cuban entrepreneurs would acquire many more dollars, and thus experience an improved standard of living. As one trade specialist explains, “American tourists would boost the earnings of Cubans who rent rooms, drive taxis, sell art, and operate restaurants in their homes. Those dollars would then find their way to the hundreds of freely priced farmers markets, to carpenters, repairmen, tutors, food vendors, and other entrepreneurs” (in Bandow, 2012).

Americans would also gain, as the Embargo currently costs American businesses \$1.2 billion annually (Tymins, 2014). Hence why American business interests, mainly in agriculture and telecommunication, have been requesting an end to the Embargo for years (Tymins, 2014).

Second, lifting the Embargo could compel the Cuban government to engage in further economic reforms. As explained above, the Cuban government has attributed many of the island’s economic shortcomings to the Embargo, and if it were to be lifted, Cuban authorities would be compelled to recognize the internal distortions that are responsible for a large portion of the island’s economic woes. Former Secretary of State Hillary Clinton recognized as much when she stated, “It is my personal belief that the Castros do not want to see an end to the

embargo and do not want to see normalization with the United States, because they would lose all of their excuses for what hasn't happened in Cuba in the last 50 years" (in Bandow, 2012). Such a quote clearly goes too far, in terms of exculpating the U.S. Embargo for any blame in Cuba's economic problems, but it is an accurate assessment, insofar as it recognizes that the Cuban government would no longer have the Embargo to blame for economic problems that remain on the island after the Embargo were lifted.

This list of benefits is clearly not exhaustive. There are myriad cultural, political, social, and economic benefits that are not listed here, because they are not within the scope of this thesis. Further work should focus on the gains that could be made in health care research between the two parties, for instance. For the purposes of this thesis, though, it should be understood that immediate gains, vis-à-vis travel and further economic opening, compose two of the potential benefits of lifting the Embargo.

Conclusion

The Cuban Embargo has undergone varying degrees of intensification and retrenchment since its promulgation under Kennedy in 1962. From its initial stages, it has always been exceptional in its extraterritoriality, vis-à-vis its imposition of sanctions on foreign vessels and subsidiaries of U.S. companies that engage in commercial relations with the island. Relations between the U.S. and Cuba have also been exceptional in the extent to which Congress has influenced foreign policy towards the island. Foreign policy is traditionally under the purview of the Executive Branch, but beginning with Congressional pressure for the Embargo after the Bay of Pigs, continuing with the Cuban American National Foundation's pressure of the Executive Branch and Congress during the Reagan administration, and culminating with the passage of

Helms-Burton in 1996, U.S. foreign policy towards Cuba has been, increasingly over the years, the most Congressionally dominated area of bilateral U.S. foreign policy.

The Obama administration's move towards diplomatic and commercial normalization with the island signifies the most substantial move towards ending Cold War policies since the institution of the Embargo in 1962. The administration has acted within legal boundaries, only adjusting areas of policy that it has legal authority to modify, according to Helms-Burton. Notably, the U.S., until this recent action by the Obama administration, has been the party that was lagging behind, vis-à-vis a willingness to act pragmatically and put an end to Cold War sentiments. Raul Castro has, for years, expressed a desire to normalize relations with the United States, as part of his more general shift towards pragmatic economic policy, both internally and externally. Such sentiment on Raul Castro's part should be representative of his generally pragmatic approach, as he has transitioned the island into a permanent pragmatist period.

The move by the Obama administration to normalize relations portends well for further positive developments between the two states. The potential for further and deeper normalization with the island is illustrated by the sponsorship by Senator Jeff Flake of a bill that would categorically lift travel restrictions for American citizens wishing to visit the island. Even more significantly, a bipartisan bill has been introduced in Congress that would end Helms-Burton's codification of The Embargo and end the categorical ban on trade with the island (Itkowitz, 1/12/15).

In addition to – or perhaps more appropriately, as a prerequisite to – ending the Embargo, further steps by both states could be taken towards rapprochement. For starters, the United States should remove Cuba from its list of state sponsors of terrorism, a list whose only other entries are Iran, Sudan, and Syria. Not only has Cuba not sponsored acts of terrorism, but the island nation

actually went out of its way to voice its support for the United States after the terrorist attacks of September 11, 2001.

The U.S. should also end its “wet foot, dry foot” policy, which was introduced with the Cuban Adjustment Act in 1966. This law allows Cubans who arrive on U.S. soil to apply for permanent U.S. residency one year and one day after their arrival. This policy (it is a policy, and can be ended by Executive order – see *Cuba Central News Blast*, 1/23/2015) has contributed to Cuba’s problem of brain drain, and is a perpetual target of Cuban officials’ umbrage. Ending the policy would go far in helping to improve relations between the two countries.

The United States should also recognize that the desire of Cuban Americans to regain property lost during the Cuban Revolution is simply a pipe dream. Such property was nationalized in accord with international law, and the U.S. government should abandon any future plans to pursue legal action to regain such property.

On the Cuban side, the Cuban government should abstain from jailing political prisoners, and continue its campaign of economic opening. This should, of course, be done at the island’s own pace, and should not be done in such a way that would compromise political stability in Cuba.

It seems that, at this point, the repealing of the Embargo is just a matter of time. There is no longer support for the Embargo amongst a majority of Cuban Americans (Lopez-Levy, 2010), and there is a substantial division amongst Republicans in Congress as to the desirability and efficacy of the Embargo, with Republicans such as Senator Rand Paul voicing their dissent against the Embargo. The bipartisan nature of recent bills in the U.S. Congress to repeal travel restrictions and end the Embargo is evidence that Congress is moving in the direction of ending the United States Cold War policies against the island. On Cuba’s side, the island has entered a

permanent pragmatist period, and it is very unlikely that officials on the island will see any benefit in scaling back recent moves towards rapprochement with the United States.

Chapter Nine: Conclusion

This thesis covered a wide range of topics pertaining to the Cuban political economy. My goal at the outset of writing was to provide a concise yet thorough account of recent economic reforms on the island. Hence, this entire thesis was originally supposed to be contained within Chapters Six and Seven, pertaining to reforms since 2007. However, upon writing, I soon realized that, since Cuba had undergone similar periods of reform in the past, current developments in Cuba could not be understood without providing a sufficient historical background on those periods. As such, it became necessary to write Chapter Two as an overview of periods of reform.

Then, when writing Chapter Two, the singular significance of The Special Period, as the deepest and most market-oriented period of reforms until the recent reforms of 2007, became readily apparent, so it was necessary to write Chapter Three. And because a constant theme throughout Cuba's varying reform periods, including the Special Period, was a dynamic, ambivalent, yet surprisingly integrated relationship with the international economy, I was inclined to write Chapter Five, which covered Cuba's insertion into the world economy.

Moreover, when researching different aspects of the Cuban economy, a recurring theme in various sources was the peculiarly Cuban issue of monetary duality, which necessitated Chapter Four.

Finally, as Dr. Velasco pointed out, a thesis on the Cuban political economy would be unforgivably incomplete without a chapter pertaining to U.S.-Cuba relations, as the United States has such a salient effect on the Cuban economy, specifically through the Embargo. Hence, it was necessary to include Chapter Eight, on U.S.-Cuba relations.

As the above account suggests, this thesis snowballed, and became a somewhat more ambitious endeavor than I had originally anticipated. Given the myriad and complex topics covered, I will provide a brief recap in this conclusion, in an attempt to both summarize, and to some extent synthesize, the various concepts and findings that were covered.

The main purpose of Chapter One was to provide the theoretical framework through which previous periods of reform in Cuba should be viewed. This chapter implemented Carmelo Mesa-Lago's theory of pragmatist (market-oriented) and idealist (anti-market) policies. According to this framework, reform cycles in Cuba, between 1959 and 2007, proceeded along the following lines. Material exigencies, whether budget deficits or foreign exchange shortcomings, compelled Cuban authorities to engage in a pragmatist cycle of economic reforms. Such reforms can be characterized in their most general terms by a general shift towards marketization and privatization. Often, such reforms necessitated what I refer to as a "reconceptualization of socialist ideology," to avoid the cognitive dissonance that obtains when formal policy does not comport with socialist rhetoric. This reconceptualization often entails the re-definition of what "socialism" actually means in the context of Cuba's economy.

Market-oriented policies of pragmatist cycles were implemented for as long as was necessary for the material exigencies that necessitated such policies to become ameliorated. Once this occurred, pragmatist policies were halted or scaled back, and a new idealist cycle was initiated, which entailed a shift towards centralized economic planning and collectivization of ownership. The economic outcomes of such idealist cycles were, on balance, negative, and thus caused another round of material exigencies to emerge on the island.

As Chapter One emphasized, this theoretical framework only applies to reforms prior to Raul's campaign of reforms that was launched in 2007. A number of factors have changed in recent years that make this theoretical framework inapplicable to Cuba's recent round of reforms.

Chapter two provided an overview and analysis of previous periods of reform in Cuba. By implementing Mesa-Lago's theory of "pragmatist" (market-oriented) and "idealist" (anti-market) cycles, this chapter identified six major periods of reform prior to the island's most recent round of economic reforms. First, there was the idealist cycle of reforms between 1959 - 1971, which included a large-scale campaign of agricultural collectivization, along with an emphasis on moral, rather than material, incentives in the Cuban economy.

The results of this of this idealist cycle, as far as can be deduced from what little economic data is available, were negative, and in response, the Cuban government launched a pragmatist cycle in 1971, which lasted until 1985. The policies of this pragmatist cycle were highly successful, with economic indicators improving across the board, but with inequality rising.

This cycle was followed by the "Period of Rectification of Errors and Negative Tendencies," an idealist cycle that lasted from 1986-1990. The Cuban government engaged in a campaign of significant anti-market reforms, mainly targeted at the agricultural sector, shutting down farmers markets and requiring farmers to shift their efforts to state farms. Rectification policies resulted in economic disaster, with every single economic indicator declining (Mesa-Lago in Ritter, 2004: 35).

The economic crisis that ensued in the late 1980s compelled Cuban officials to launch the island's most deeply market-oriented and austere pragmatist cycle since the Revolution: the Special Period, which lasted from 1990-1996. This cycle, which was impelled by domestic

economic decline, and accelerated/deepened by the collapse of the USSR, was characterized by extreme marketization and policies that were meant to attract foreign investment. This cycle was singularly important because it played a very large role in shaping the conditions in Cuba's current economy, since it was during this time that U.S. dollar transactions were legalized, and attraction of foreign investment became a major focus of the Cuban government. The legalization of dollar holdings has caused lasting distortions in the Cuban economy, since low-skilled but dollarized sectors (e.g. waiting tables, prostitution) of the economy garner higher earnings than highly-skilled, but non-dollarized sectors (medical doctors, PhDs). This has caused a serious devaluation of traditionally esteemed areas of the Cuban economy, particularly medical careers and academia.

According to Mesa-Lago, Special Period policies halted Cuba's economic decline (Mesa-Lago in Ritter, 2004: 38) (though, at the cost of extreme austerity imposed on the Cuban population). Improved economic conditions, along with renewed fears of U.S. intervention, which were catalyzed by the Helms-Burton Act of 1996, led Cuban authorities to decelerate Special Period reforms during the period from 1996 to 2001. This period was not an *idealist* cycle, because Special Period reforms were not scaled back; rather, they were simply halted or decelerated.

Then, from 2001-2007, the island was in a holding pattern, with no reforms of note, whether idealist or pragmatist, occurring. Patronage from Venezuela, particularly Hugo Chavez, allowed Cuba to avoid much-needed market reforms during this period. However, because of the tenuous nature of Venezuela's socialist regime, Cuban authorities were unwilling to engage in another idealist cycle, choosing rather to opt for a Plan B, which straddled the line between

market and planning, thus allowing them to be prepared, should their favorable terms of trade with Venezuela cease to be a reality.

The details of these reform cycles have been covered in previous chapters, so they are not extensively covered here. The important point to take away is that all of the reform cycles between 1959-2007 exhibited the traits laid out in this thesis's theoretical framework. Pragmatist cycles were initiated to ameliorate the material exigencies that were the result of idealist cycle policies, and socialist ideology was usually reconceptualized, so as to comport with necessary reforms. Once economic conditions had improved to a level that Cuban officials deemed adequate, pragmatist policies were halted, decelerated, or scaled back.

However, as is detailed in Chapters Six and Seven, Cuba entered a phase of reforms beginning in 2007 that broke away from the above theoretical model. As Chapter Six detailed, Raul Castro, who assumed control in 2006, initiated a campaign of economic reforms between 2007 and 2010 that were geared towards marketization and privatization. These reforms were most substantial in the agricultural sector. Reforms in this sector included: the legalization of some input purchases by farmers, the granting of usufruct use of idle land to private farmers and cooperatives (through Decree-Law 259 and Regulatory Legal Decree 282), and increases in prices offered by the state for farmers' agricultural products. Reforms that privatize and marketize the agricultural sector are significant because privatization measures have, in the past, catalyzed output in countries such as China and Vietnam, as well as within Cuba itself. Moreover, the agricultural sector is one area where Cuba could be producing domestically a large portion of what it currently imports, particularly from the United States. Notably, these agricultural reforms were shaped according to concerns that had been voiced by farmers in discussions between the

Cuban government and the island's population, thus allowing these reforms to be characterized as semi-democratic.

Another major reform during this period was the shift towards a monetary policy that operates independently of Cuba's fiscal policy. In the past, Cuba's monetary policy was subordinated to its fiscal policy, and fiscal deficits were thus passively monetized, resulting in excess liquidity and inflation on the island. The specific goal of Cuba's new monetary policy is to reign in inflation in private markets, where inflation is most pronounced and most visible (since prices in state outlets are controlled). This shift is significant because it indicates that Cuban authorities are acknowledging the importance of private markets, and the increasingly prevalent role that they will continue to play in Cuba's economy.

Chapter Four covered an area of monetary policy in Cuba that still needs to be addressed: monetary duality. The island continues to effectively use three different currencies: the Peso, the Convertible Peso (CUC), and the U.S. Dollar. This has led to multiple distortions in the Cuban economy, including the underestimation of how much imports cost, and the underestimation of the value of exports. To correct this issue, the Cuban government should: devalue the Peso; unify enterprise and general population exchange regimes; convert CADECA prices, currently in CUC prices, to Peso prices, thus eliminating the CUC; and then convert institutional bank accounts held in CUCs to Pesos, in that order.

The reforms between 2007 and 2010 were illustrative of the general shift that Raul Castro has launched towards a pragmatist economic model on the island. Importantly, the reforms occurred, and continue to occur, at a gradual, deliberate pace, so as to obviate political and economic instability that would be likely to occur under an alternative campaign of shock therapy capitalism. The effects of the reforms, as of about 2010, were mixed, as there were still

many distortions in the Cuban economy that needed to be addresses, such as flaws in the process by which idle land was granted for usufruct use for agricultural uses. To address these flaws, the Cuban government introduced deeper reforms beginning in 2010.

Chapter Seven covered the reforms that have occurred since 2010. These reforms were introduced with the Communist Party's release of the *Project of Economic and Social Policy Guidelines for the Party and the Revolution* in November of 2010. The document clearly lays out a plan for moving the island more deeply in the direction of a pragmatist economy that relies more on privatized and marketized factors, in an attempt to ameliorate deficiencies in the Cuban economy related to past and present inefficiencies. Many of the reforms were stated in a rather vague, ambiguous manner, which is clearly a deliberate attempt on Cuban officials' part to ensure they have plenty of legal latitude in implementing reform measures.

Once the 2010 Project Document was released, Cuban officials held a number of meetings with the general population, fielding comments and criticism throughout the process. This feedback was addressed by the Cuban government in 2011 when the Communist Party convened for the 6th Party Congress, the first such meeting since 1997. This meeting was meant to formalize and amend reforms of the 2010 Project Document, largely in response to feedback that was proffered by the Cuban population subsequent to the Document's release. In this sense, the recent program of reforms on the island can be characterized as semi-democratic, as the Cuban government has sought out feedback from the Cuban population, and implemented such feedback when amending its reform policies.

Illustrating the pragmatist nature of recent reforms, Raul Castro, during the 6th Party Congress, went so far as to indict the egalitarian nature of Cuba's ration book, one of the major symbols of Cuban socialism (Cuba, Communist Party, 2010). Speaking in what has become a

characteristically pragmatic fashion, Raul castigated the ration book for its benefits that have been distributed categorically to all Cubans, regardless of need, thus causing the hoarding of items by Cubans who do not need the benefits. Raul emphasized that categorical benefits contravene Cuban socialism, since socialist policies should actually benefit those who need them, as well as those who have *earned* them. Regarding this latter point, Raul reiterated that the distributional tenet of socialism should be, “from each in accordance with his ability and to each in accordance with his *labor*” (Cuba, Communist Party, 2010 – italics mine), which contrasts with the traditional Marxist tenet of, “...to each according to his *need*.” This shift in rhetoric perhaps sums up, better than any piece of policy could, the rationalized, pragmatist direction towards which the island is moving under current reforms on the island. Moreover, this statement by Raul also illustrates the fact that, regardless of the nature and implication of current and future reforms, homage will continue to be paid to Cuban socialism, even if that means redefining Cuban socialism so as to comport with necessary reform measures. Hence, this aspect of the Cuban reform process is similar to reforms of the past, under which Cuban socialism was often reconceptualized to avoid incongruities with contemporary reforms.

While socialism on the island has been reconceptualized to be more agreeable with pragmatist policies, it should be noted that the benchmarks of the Revolution, universal healthcare and education, are not on the table for complete removal. In fact, current reforms are being endorsed by Cuban officials as measures that support, rather than damage, health care and education.

Where current reforms and past reforms differ is in the permanent nature of current reforms, whereas previous reforms were ephemeral. In the past, as has been reiterated throughout this thesis, pragmatist policies were halted, scaled back, or decelerated once material conditions

had been sufficiently improved by such policies. Cuban authorities could, and did, engage in this pattern of reform (pragmatist cycles) and retrenchment (idealist cycles) for multiple reasons.

First, historically the island had an international patron in the USSR. The economic support of the USSR ensured that the island had a safety net, and could engage in idealistic reforms when it had made certain adjustments to improve deteriorating material conditions, where were often the result of previous idealist cycles. The necessity of such a patron for the initiation of idealist cycles is illustrated by the fact that Special Period reforms were *halted*, rather than *scaled back*, in 1996, likely because Cuban officials were unsure as to the viability of further idealist cycles without the support of the recently collapsed Soviet Union. While Cuba still has Venezuela as an ally and patron, the viability of Venezuela's socialist regime under Nicolas Maduro has grown increasingly tenuous. Hence, Cuba's leaders have been reluctant to engage in idealist policies.

Another reason Cuba engaged in this cycle of reform and retrenchment was that Fidel was simply more doctrinaire in his socialist convictions than his brother Raul, and thus choose to return to idealist policies when the opportunity presented itself. In contrast, Raul has exhibited his desire and willingness to engage in long run pragmatist reforms since he assumed control in 2006. He has moved the island further towards the market and towards privatization than its economy has been at any point since 1959.

There are a few factors that suggest current reforms are permanent in nature. First of all, as was explained above, the absence of an international patron means that current reforms are unlikely to be scaled back. There may be times that current reforms are temporarily halted in the future, similar to the halting of Special Period reforms in 1996, but another idealist cycle is very

unlikely, simply because Cuba no longer has an ally that could subsidize potential idealist cycle policies through favorable terms of trade.

Second, the pragmatist nature of Raul Castro means that reforms are unlikely to be scaled back. Since Raul has introduced term limits, there may be concerns that a future president may choose to scale back reforms and initiate another idealist cycle. But any successor is unlikely to scale back his reforms, since such a successor will be hand-picked and groomed by Raul and his cadre.

Lastly, recent reforms are engineered to require longterm adjustments in the Cuban economy. Such is the case with Cuba's nascent income tax system, which has been designed and introduced to allow a much more substantial role for private actors in the Cuban economy. Such a system will take years to implement, and even longer to be amended as Cuban officials and citizens familiarize themselves with how an income tax system works in practice.

Raul Castro's pragmatist approach has not been restricted to the domestic political economy. Raul Castro has recognized the necessity of inserting the island more completely into the international economy, and Chapter Five covered Cuba's continued campaign of international insertion. The main findings of this chapter were that Cuba's comparative advantage lies in its highly educated population, and that such an advantage should be exploited by continuing to develop the island's biotech/biomedical industry.

While Chapter Five analyzed Cuba's most lucrative industries that should be exploited as it continues to integrate into the world economy, Chapter Eight covered a particular facet of its diplomatic approach to such integration: rapprochement with the United States. As Cuba's most important economic partner, Raul Castro has recognized the importance of reconciling with the United States. He has thus voiced his willingness to come to the table and discuss matters,

without precondition. To the extent that this recent move subordinates politically and historically motivated animosity towards the United States to more immediate economic necessity, such a move should be understood as part of Raul's larger campaign of shifting the island towards a pragmatist economic model.

The United States seemed unwilling to come to the negotiating table until late in 2014, when the Obama administration announced that diplomatic relations with Cuba would be restored. This move by the U.S. can likely be explained by three main factors: the latitude the Obama administration has been afforded by the market-oriented shift of the Cuban government; the similar latitude it has been afforded by the changing demographics amongst Cuban Americans, a majority of which is now in favor of diplomatic rapprochement with Cuba; and by the divide amongst Congressional Republicans, vis-à-vis the desirability of the Embargo.

In short, the main conclusion that should be drawn from this thesis is that Cuba has most likely entered a permanent pragmatist period in its political economy. This is not a shift that is happening overnight, though. Analysts who criticize the pace of Cuban reforms are failing to understand that these reforms are *supposed* to be gradual and deliberate. Cubans, both officials and citizens alike, are wary of the destabilizing effects of shock therapy capitalism, and are thus engaging in reforms in an experimental, tentative manner. Moreover, reforms have to be implemented in a manner that does not compromise universal healthcare and education on the island. As such, current reforms will continue in a steady but deliberate manner, or, in the words of Raul Castro, *without pause, but without haste*.

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