**The Cuban Economy: Revolution, 1959-1990**

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| ***Through revolutionary transformation and experimentation followed by Soviet orthodoxy and subsidization, then into the real international economy, all with surprisingly good social results despite intractable economic difficulties*** |

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| In the first three years of the Revolution, profound institutional and policy changes were implemented, transforming the Cuban economy from a mixed market system to a centrally planned socialist system. The new system generated beneficial results for lower income groups albeit with major economic dislocations. The first development strategy from 1961to1963 aimed at instant industrialization but proved unrealistic and was aborted. A second strategy was adopted in 1964 aimed at 10 million ton sugar harvest by 1970. This approach led to the sacrifice of much of the rest of the economy and was terminated in 1970. A more balanced approach was then adopted following Soviet lines and produced strong results facilitated by generous Soviet economic assistance. But by 1986, this approach also was “running out of steam” and stagnation set in. In response, a “Rectification Program” was adopted from 1986 to 1990, calling for organizational recentralization, reduced use of market mechanisms and a reemphasis on moral incentives, again with unsatisfactory results. By 1990, the economic “melt-down” of the first half of the 1990s had begun.  Despite weak economic performance, Cuba’s socio-economic improvement was significant. Indeed, the 1970 to 1986 period perhaps could be called the “golden age” of Cuban socialism. |

**The Cuban Economy on the Eve of the Revolution**

By 1958, Cuba’s economy appeared to be reasonably sophisticated relative to other countries in Latin America and the Caribbean. Impressionistic indicators of this are the quality and quantity of Cuba’s professional and artistic groups, the quality of the educational and health systems, the physical infrastructure especially around Havana, and the urban architectural endowment of the time. Although most quantitative data for this period are lacking, available information for 1960 place Cuba as third best in Latin America and the Caribbean for child mortality and fourth best for life expectancy a reflection of strong nutrition levels, a reasonable health system, and relative prosperity. (HDR, 1990, 135)

However, Cuba faced a number of economic problems of which income mal-distribution and poverty were the most serious. Again, though data are limited, the contrast between Havana most opulent neighborhoods and the urban shanty-towns and the earth-floor rural “*bohios”* was eloquent testimony to inequalities of income and wealth. Unemployment compounded the poverty problem. During the sugar harvest and the tourist high season of January to April, unemployment normally fell to 9-11% of the labor force. In the off-season, however, the level rose to 20-21% since only as small proportion of the 400,000 to 500,000 sugar harvest workers found work for the rest of the year.

Cuba’s growth record in the 1950s was mixed but unsatisfactory and insufficient to absorb the yearly increases in the labor force. Real income per capita declined from 1951 to 1954 due to lower sugar production volumes and prices, but recovered from 1955 to 1958. On the positive side, economic diversification away from sugar in both industry and agriculture proceeded rapidly from 1949 to 1958at 5.5% per year. (Ritter, 1974, 45-47)

Finally Cuba’s economic interactions with the United States were intense. From 1955 to 1958, about 74% of Cuba’s exports were destined for the US, while 73% of its imports came from the US. (Ritter, 1974, 51) Moreover, the all-important Cuban US sugar export market and price were controlled in Washington. US enterprises were prominent in Cuba with just over $1 billion in assets. While there were important benefits from the US business presence, there were also costs such as profit repatriation, decision-making in the US rather than in Cuba and cultural impacts. Cuban nationalists viewed the asymmetric relationship with concern.

**The Economy in Transition**

***Socio-economic Grand Designs for Cuba’s Future in Early 1959***

When Fidel Castro came to power in January 1959, his program for the economy was revolutionary and ambitious – if somewhat ambiguous. In his1953 “History Will Absolve Me” statement, Castro made a critique of Cuba’s socio-economic failings and put forth a program to deal with income inequities, dependence on the USA, slow economic growth and unemployment. The program included land reform, nationalization of utilities, improved tax collection, improved health and education, economic diversification and housing. Later, in December 1956 he stated that “foreign investments will always be welcome here” and he advocated a cure for unemployment “lest it fester and become a breeding ground for Communism” (Ritter, 1974, 66, citing Coronet). The “Economic Manifesto of the 26th of July Movement”, the official blueprint for the redesign of the economy drawn up by Felipe Pzos and Regino Bti focused on income distribution, unemployment, “Cubanization” of ownership patterns and higher growth rates, but did not emphasize institutional changes nor did it discuss the scope of “Cubanization” or nationalization. The original platform of the *Partido Socialista Popular*, the Communist Party, also appeared to be moderate, though the PSP undoubtedly was well aware of the Soviet 1950s-vintage economic model. Finally, many who supported Castro in the battle against Batista had what might be called a “business as usual” blueprint, envisaging a return to pre-Batista normalcy with a mixed market economy and a reestablishment of democracy as defined in the 1940 Constitution.

**Institutional Restructuring:**

Change began slowly in 1959 under the first post-Revolutionary government headed by President Manuel Urrutia but accelerated after Fidel Castro took over the Presidency in July. The main reforms are listed below in Table 1. Of greatest significance in this period was the first agrarian reform law, the key parts of which, among other things, authorized the expropriation and redistribution landholdings in excess of 996 acres. The land confiscated included some 480,000 acres owned by U.S. corporations. (Kellner, 58) A provision was made for compensation – 30 year bonds, 4% interest, with the amount to be based on future tax-assessed value of land – but the compensation was not paid. To administer this law, the National Institute of Agrarian Reform (INRA) was established, and became the central activist organization in the Revolution, with its own militia to enforce expropriation. It also had its own Industries section with Ernesto Guevara as chief which in time became the Ministry of Industries.

**Table 1: Major Economic Reforms, 1959-1961**

|  |  |  |
| --- | --- | --- |
| **Date** | **Reform Measure** | **Specific Objectives** |
| **1959** |  |  |
| January | Creation of the “Ministry for the Recovery of Misappropriated Assets” | Confiscation of properties of Batista supporters, including 236 businesses |
| January-May | Elimination of foreign crime syndicates and prohibition of gambling | The Mafia departs; its properties seized by the state |
| March | Urban Reform Law | Reduction of urban rents, to be based on renters’ income levels |
| April | “Vacant Lot Law” | Confiscation of unused urban lands |
| April | Establishment of INAV,the “*Instituto de Ahoro y Vivienda’* | Promotion of housing construction |
| May | Establishment of the *Instituto Nacional de la Industria Turistica* | Promote tourism |
| May 17 | First Agrarian Reform Law | Expropriation and redistribution of large estates (30% of cultivated farmland) including 480,000 acres owned by U.S. interests.  Numerous other components |
| June | Establishment of the National Institute of Agrarian reform (INRA) | Implementation of the agrarian reform; preliminary management of the state sector |
| July | Tax Reforn Law | Rationalize tax structure and raise revenues |
| November | Law permitting Ministry of Labor to expropriate firms involved in labor disputes | Takeover of 50 enterprises by March 1960 |
| November | “Oil Law”, establishment of *Instituto Petrolera de Cuba* | Institution for managing the oil sector |
| **1960** |  |  |
| March | Establishment of the *Junta Central de Planificacin* (JUCEPLAN ) | Institution preparatory for more centralized planning |
| June 29 | Nationalization of oil companies |  |
| July 6, | Law 851, “Nationalization of US Properties” law   * July 21 * August 6 * Sept. 17 | Authorizing nationalization of all assets owned by US citizens   * Nationalization of three US sugar mills * Nationalization of all US sugar mills plus telephone and electricity companies * Nationalization of US-owned banks |
| July-Sept. |  | Nationalization of foreign owned enterprises |
| October 13 | Law 890 | Nationalization of many Cuban owned enterprises |
| October 15 | Urban Reform law | Nationalization of non-owner occupied housing and allocation to former renters under favorable terms |
| **1961** | **“The Year of Education”** |  |
| January | Launch of Literacy Campaign | Objective: universal literacy by Dec., 1961 |
|  | Expansion and Structural change in education | Establishment of universal coverage for primary school; expansion of secondary and university education |
| June | Law for the Nationalization of Education | Take-over of all education by the state |

In mid-1960, a whirlwind of Revolutionary nationalizations took place, linked closely to the worsening relations with the United States and the trade embargo. By the end of 1960, the Cuban economy had been transformed into a state- owned economy in which central planning rather than the market mechanism was supposed to be the organizing force (see Table 2).

Meanwhile, effective reforms and expansions in education and health had been taking place. Of special note is the literacy campaign of 1961that provided functional literacy to about 700,000 adults.

**Table 2, State Ownership Shares in the Cuban Economy, 1959-1988**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Sector** | 1959 | 1961 | 1968 | 1988 |
| Agriculture  Industry  Construction  Transportation  Retail trade  Wholesale trade  Banking  Education | 0  0  10-20  15-29  0  5-10  5-10  80 | 37  85  80  92  52  100  100  100 | 74  100  100  98  100  100  100  100 | 97  100  100  99  100  100  100  100 |

Source: Mesa-Lago, 2000

***Economic Consequences of the Rupture with the United States and the Embargo***

The embargo led to a rapid reorientation of Cuba’s international trading relations. As can be seen in Table 3, the Soviet Union quickly replaced the United States as Cuba’s chief trading partner and the Socialist countries dominated Cuba’s export and import patterns.

Initially the Revolutionary leadership welcomed the US embargo and down-played its potential negative impacts, arguing that it would hurt the United States more than Cuba (Draper, 144, citing E. Guevara, F. Castro, and Blas Roca). Indeed, the socialist countries did provide a larger market for Cuban sugar than had the United States and also began a development assistance program so that the worst effects of the embargo were averted.

**Table 3 Cuba’s Main Trade Partners, 1955-1990**

**(Total Value in Current $US and Percentages of Total)**

|  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **Major Sources of Cuba’s Merchandise Imports** | | | | | | | |  |
| Year | **1955-58** | **1960** | **1965** | **1970** | **1975** | **1980** | **1985** | **1990** |
| TOTAL $US, Millions | 692.0 | 638.0 | 866.2 | 1300,5 | 3113.1 | 4627.0 | 7983.2 | 7416.5 |
| Socialist Countries **(%)**  Of which  China  USSR | 0.3  0.0  0.0 | 18.7  0.2  13.8 | 76.0  14.2  49.5 | 69.4  5.5  52.8 | 51.4  2.8  40.2 | 78.0  2.3  62.8 | 83.7  2.9  71.8 | --  4.5  69.0 |
| Rest of the World **(%)**  of which:  Japan  Spain  United Kingdom  United States | 99.3  0.6  1.7  2.7  73.3 | 81.3  1.6  2.1  3.6  48.5 | 24.0  0.5  5.4  5.8  0 | 30.6  2.4  2.0  4.5  0 | 48.5  11.6  4.9  4.1  0 | 22.0  3.9  3.0  1.7  0 | 16.3  2.7  2.2  1.3  0 | --  0.6  2.4  1.0  0 |
|  | | | | | | | | |
| **Major Destinations of Cuba’s Merchandise Ex ports** | | | | | | | | |
| **Year** | **1955-58** | **1960** | **1965** | **1970** | **1975** | **1980** | **1985** | **1990** |
| TOTAL $US, Millions | 700.4 | 618.0 | 690.6 | 1043.4 | 2952.2 | 3966.7 | 5983.0 | 5414.9 |
| Socialist Countries **(%)**  Of which  USSR  China | 4.1  3.8  0.0 | 24.2  16.7  5.2 | 77.7  46.7  14.6 | 74.5  50.7  7.8 | 67.2  56.3  2.7 | 70.1  56.8  2.9 | 88.9  74.9  2.7 | --  66.4  4.9 |
| Rest of the World  **(%)**  Of which  Japan  Spain  United Kingdom  United States | 95.9  6.1  1.7  4.1  63.8 | 75.8  1.4  1.2  1.4  52.8 | 22.3  3.1  4.9  1.9  0 | 26.3  10.2  3.9  3.9  0 | 32.8  7.5  7.7  0.4  0 | 29.9  2.9  1.2  0.4  0 | 11.1  1.3  0.8  0.5  0 | --  1.6  1.7  0.8  0 |

Sources: *Oficina Nacional de Estadisticas, Anuario Estadistico de Cuba, La Habana*, 1985, pp. 384-391 and *Naciones Unidas, CEPAL, La Economia Cubana,* 2000 *Cuadro* A33 and A34

` In reality, the embargo had serious consequences despite the Socialist countries coming to the rescue. Among the harmful impacts of the embargo were the following:

* The US market for traditional Cuban exports (tobacco, citrus fruit, and coffee) and for new and potential exports was closed.
* Because the Cuban economy was based on machinery, equipment and inputs that were mainly of US origin, the lack of US replacement parts and inputs was damaging.
* The port system, storage facilities and internal transportation systems were based on the short-haul shipping from the United States rather than long-haul ocean freighters, so that major disruptions and problems occurred in these areas immediately.
* While Cuba could find substitutes for virtually all products previously imported from the United States, these often were higher cost and/or of lower quality and transportation was usually more costly and time-consuming.
* The termination of US tourism to Cuba was an immediate loss and one that became severe after 1980 when Cuba opened further to tourism.
* The cut-off of financial relations and trade credits with the United States and the eviction from the international financial institutions also hurt Cuba in terms of access to low cost development loans (from the Interamerican Development Bank and the World Bank) and balance of payments support (from the International Monetary Fund.)
* Finally, by its own choice initially Cuba cut itself off from US direct foreign investment (DFI) and the benefits that accompany this. But when Cuba changed its policy towards DFI in 1982, the embargo prohibited any such inflow from the United States.

**The First Development Strategy, 1961-1963: Instant Industrialization**

When the transition to central planning was well advanced and the Revolutionary leadership began to think of how to promote the development of the economy, they were influenced by four strains of thought. They were inspired first by traditional criticism of the dependence on sugar production and the economic and social structures it engendered. In the words of Fernando Ortiz:

“Cuba will never be really independent until it can free itself from the coils of colonial economy that ….. winds itself around the palm tree of our republican coat of arms converting it into the sign of the Yankee dollar.” (Ortiz, 65)

The implication of this view was to diversify out of sugar. Second, the conventional wisdom in Latin America at the time, coming especially from the United Nations Economic Commission for Latin America, was that there was no future for developing countries in primary commodity production due to declining prices vis-à-vis manufactures implying that they should industrialize behind protectionist barriers. Third, the Soviet and East European development approaches emphasized not agriculture but industry along with relative economic autarchy. Fourth, the strategic bias against sugar was strengthened by low sugar prices and some uncertainties regarding future markets, notwithstanding the Socialist countries pledge to purchase 4.86 million tons per year from 1962-1965. Finally, economic inexperience on the part of the revolutionary leadership was an important factor behind the decision to promote rapid industrialization. Ernesto Guevara’s economic naïveté was illustrated by his euphoric projection of a 12% growth rate from 1962 to 1065 and prediction that Cuba would be the most industrialized country in Latin America by 1965. (Guevara in Gerassi,172)

Though aimed at rapid industrialization, the first directive of the strategy was to assure a high level of sugar production. Elimination of food supply problems and queuing – aiming at ultimate food self-sufficiency – was a second priority. Most important was industrial transformation, with the installation of a wide range of import-substituting industries, such as metallurgy, heavy engineering and machinery, chemical products, transport equipment and even automobile assembly. This was to be achieved not by reduced consumption but by a major investment effort financed by profits no longer being expatriated, foreign exchange earnings from sugar and Eastern European credits of 357 million pesos. Human efforts were to be mobilized through some participation in planning processes and through socialist “emulation.”

The strategy failed. The sugar harvest fell from 6.7 million tons in 1961 to 3.8 in 1963, reducing foreign exchange earnings and generating a balance of payments crisis. At the same time, the industrialization program proved unviable as it was import-intensive, requiring imported machinery and equipment, raw materials, intermediate goods, managerial personnel, and repair and maintenance equipment. The record on agricultural diversification is unclear, but by no means robust. The end result was that Cuba became more dependent than ever on sugar exports, on imported inputs of many kinds and on a new hegemonic partner, the Soviet Union.

**The Ten Million Ton Sugar Strategy: 1964-1970**

The failure of the “Instant Industrialization” strategy led to a reassessment of Cuba’s economic realities and strategic direction. The scarcity of foreign exchange was seen as the fundamental obstacle to economic improvement, in view of Cuba’s need for many types of imports for investment purposes. If a central cause of the balance of payments crisis was the low sugar harvests of 1962-1963, the obvious solution was to increase sugar production for export. Reinforcing the decision to emphasize sugar were: the high domestic value-added and relative cost advantages for Cuban sugar, the higher prices in the international sugar market in 1962-1963, and a guaranteed Socialist Bloc market for 5 million tons per year at a price of 6.11 cents per lb. – well above the world price – from 1965 to 1970.

In these circumstances, sugar, with a production target of 10 million tons per year by 1970, became the “leading sector” designed to generate the savings and foreign exchange earnings that would fuel the economic diversification. Ambitious goals were established for other agricultural export crops including coffee, tobacco, and citrus fruit as well as for domestic food crops. But the over-riding preoccupation became the 10 million ton goal, which was characterized by President Castro as necessary for “defending the honor, the prestige, the safety and self-confidence of the country” (February 9, 1970.)

Source: *Oficina Nacional de Estadisticas, Anuario*, various issues.

In order to mobilize human energies for the tasks of the economy – especially for the 10 million ton harvest – the earlier system based on material incentives, socialist emulation and voluntary labor was superseded by a more radical “Guevaraist” approach involving the construction of what was called the “New Man.” The idea behind this was the vision of the Cuban Nation as a guerrilla column single-mindedly pursuing a common objective, willingly sacrificing individual interests for the common good and with the esprit de corps, discipline and dedication of an idealized guerrilla band. To promote this revolutionary altruism, the government used public exhortation and political education, “moral incentives” instead of material incentives and proselytizing and enforcement by the Party, the Committees for the Defense of the Revolution and other “mass organs” of society.

The “Revolutionary Offensive” of 1968 constituted a further radicalization of economic policy. First, economic institutions were reshaped with the elimination of virtually all of what was left of the private sector (See Table 2). The “New Man” mobilization strategy went into high gear and the “budgetary system of finance” terminated enterprise financial responsibility. Despite the close alliance with the Soviet Union and Eastern Europe, reflected in the support given to the Soviet invasion of Czechoslovakia that year, Cuba appeared to be launched on a Maoist type of trajectory.

In a second simultaneous experiment, a so-called “budgetary system of finance” was installed under which enterprises were to operate without financial responsibility or autonomy or indeed accounting, neither receiving the revenues from sales of their output nor paying for their inputs with such revenues. Without a rational structure of prices, and without knowledge of their true costs or the value of their output, neither enterprises nor the planning authorities had any idea of the genuine efficiencies of enterprises, of sectors of the economy, or of resource-use anywhere. This situation exacerbated the general problems of running a planned economy, leading to problems of “bureaucratization” and politicization of the economic administration, as firm managers jostled for resource allotments from the planning authorities. The result of this was pervasive irrationalities and inefficiencies, Again in President Castro’s words:

“..What is this bottomless pit that swallows up this country’s human resources, the country’s wealth, the material goods that we need so badly? It’s nothing but inefficiency, non-productivity and low productivity.” (Castro, December 7, 1970)

If it had been implemented in a measured way, a strategy to increase sugar production and export earnings would have been reasonable. However, as 1970 approached, implementation of the 10 million ton target became increasingly forced. Other sectors of the economy were sacrificed as labor, transport capacity, industrial inputs, energy, raw materials and national attention all focused on sugar. Moreover, a variety of difficulties unique to sugar cultivation and milling also obstructed the achievement of the 10 million ton target, although a respectable harvest of 8.5 million tons was reached in 1970 following the uneven trajectory in the earlier in the decade. (See Chart 1)

The production record in other areas of agriculture was mixed from 1964 to 1970, with many crops, (notably vegetables and tropical fruit, milk, coffee, cotton) declining to below the 1958 levels, and only a few (rice and eggs) surpassing the earlier levels. The picture was also mixed in industry. In aggregate, the volume of output in per capita terms probably declined in 1970– as indicated in Chart 2– despite the record high sugar harvest of 1970.

**Chart 2 Cuba’s Gross Domestic Product per capita, 1955 to 1995**

### Source: Maddison

Perhaps the best summation of the 1964-1970 experience came from President Castro himself who stated:

“We have cost the people too much in our process of learning. …The learning process of Revolutionaries in the field of economic construction is more difficult than we had imagined.” (Castro, July 26, 1970)

**The “Golden Age” of Cuban Socialism: Soviet Orthodoxy and Subsidization**

The problems encountered with the radical economic experimentation of the 1960s led to renewed analysis of Cuba’s geo-economic realities and development alternatives. The obvious course of action was to copy the approaches of the Soviet Union and its East European satellites, rejecting the Chinese “Cultural Revolution” alternative or West European possibilities. The approach actually adopted was modest and balanced, cautious and deliberative, calling for an emphasis but not an overemphasis on sugar and an expansion of other traditional and new export products.

The central feature of Cuba’s economic destiny after 1970 became the relationship with the Soviet Union. Cuba joined the Council for Mutual Economic Assistance (CMEA) in 1972 and its pattern and financing of development became deeply intertwined with the Soviet Bloc economies. A variety of trade, finance and development aid agreements covered the 1970 to 1990 period, as summarized in Table 4. The generosity of these agreements towards Cuba was impressive, the pay-off being Cuba’s support in Soviet international relations including military interventions in Africa and in the Soviet vision of the future.

Integrated into the economic cooperation agreements with the Soviet Union was a Soviet style planning system harmonized with the Soviet system and planning cycle. The “System of Economic Direction and Planning” (SPDE), was introduced in 1976, but by 1980 had only been partly established. Included in the SPDE was an aspiration for self-financing by enterprises and a rational structure of prices for inputs and outputs. However, the new system was subject to a variety of problems, not least its voracious appetite for administrative personnel that increased from 90.000 to 250.000 from 1973 to 1985 (Mesa-Lago, 2000, 232.)

**Table 4 Major Soviet Union – Cuba Economic Agreements, 1970-1985**

|  |  |  |  |
| --- | --- | --- | --- |
| Date of Agreement | Period Covered | General Area of Agreement | Main Provisions or Purposes |
| 1972 | 1972 Onwards | Establishment of Intergovernmental Commission for Economic and Scientific-Technical Cooperation | Economic coordination |
| 1972 | 1972 Onwards | Membership in Council for Mutual Economic Assistance | Coordinate trade, financial and technical relations with Soviet Bloc |
| December 1972 | 1973-75 | Five Soviet-Cuban Accords:   1. Debt postponement (from trade deficits) 2. 1973-1975 Trade credits 3. Development Loan 4. Export subsidies | 1. 1960-1972 debt payments postponed interest free, grace period to 1986, 25 year repayment period 2. Same terms as above 3. $362 million, for sugar, nickel, textiles … 4. Subsidized Prices for Cuban sugar and nickel exports to the USSR |
| 1976 | 1976-80 | First Soviet-Cuba Five Year Plan   1. Continuation of subsidized export prices 2. Development Assistance of $US 1.5 billion | 1. Sugar and Nickel exports favored 2. For nuclear power plant and steel mill |
| 1981 | 1981-90 | Ten Year CMEA Program   1. Economic development loans of $US 870 million 2. Further development credits of $US 1.8 billion | 1. Low-interest loans for sugar, nickel, nuclear and thermal power generation 2. For four new sugar mills and other export sectors |
| 1981 | 1981-85 | Second Five Year Agreement   1. Fixed export prices 2. Credits to cover trade deficits |  |
| 1984 | 1985-90 | Long-Term Cooperation Agreement   1. Strengthen Cuba’s integration into CMEA | 1. Establishing CMEA joint ventures, promotion of exports to CMEA countries, |

Source: Mesa-Lago, 2000, pp.241-244

**Soviet Subsidization**

In the 1970s and 1980s, the Soviet Union provided most generous if partly obscured development assistance to Cuba (See Chart 3). This subsidization of the Cuban economy occurred mainly through the pricing of merchandise trade products. The USSR paid a ruble price for its sugar imports from Cuban that was a multiple of the prevailing world price at official exchange rates for many years. At the same time, Cuba paid a price that was below the prevailing market price for its petroleum imports from the USSR. Furthermore, Cuba engaged in the re-export of both sugar and petroleum in its trade with the USSR capturing significant “middle-man” profits for some years. Quantitative estimates place the value of this subsidization at around 23% to over 36% of National Income in the 1980 to 1987 period, or somewhat less if the overpricing and lower quality of enforced bilateral trade with the USSR is taken into account. (Ritter 1990, 126-127)



Soviet “Communications” ship, Havana harbor, 1979

Photograph by A, Ritter

Over and above the subsidization through the pricing of traded goods was the build-up of Cuba’s bilateral debt to the USSR, amounting to about $US 23.5 billion by 1990. This debt which will never be repaid, reflected the recurring trade deficits of Cuba with the USSR as well as the capital account credits provided by the USSR. There were also additional bilateral debts, representing recurrent trade deficits with some of Cuba’s East European trading partners. Furthermore, there were military credits of an indeterminate magnitude as well as the rental payments for military facilities such as the Lourdes radar base and all of the expenditures of USSR military procurement and personnel in Cuba. The dramatic escalation of Soviet assistance to Cuba – excluding military assistance – is illustrated in Chart 3. Cuba’s development was also financed by borrowing from western countries in this period. Cuba’s convertible currency debt increased from $US 291 million in 1969 to 6,450 million in 1988, with interest on the debt exceeding 29% of convertible currency export earnings. (Ritter, 1990 138)

**Chart 3, Economic Assistance from the Soviet Union to Cuba 1960-1990**

**(Millions of US Dollars)**

Source: W. M. Leogrande and J. M. Thomas, 340-341

**The “Rectification Process,” 1986-1990**

In April 1986 at the Third Party Congress of the Communist Party, Presiden Castro initiated a “Rectification Process” (RP) that was intended to correct mistakes he perceived had occurred over the previous 15 years. While the real motivation for the RP is not clear, it is perhaps the case that after a decade of improvement, Castro felt that a return to a purer socialism would be possible. Or perhaps he felt that Soviet style approach had led to worsening corruption, economic inequalities, and a regression from the ultimate objectives he envisaged for Cuban society.

The RP policies included a shut-down of the farmer’s markets and a tightening of restrictions on self-employment which declined from 1.2% of total employment to 0.7% by 1990. Further restrictions were placed on private agriculture. (See Table 5)

**Table 5 Distribution of Labor Force by Institutional Forms**

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
|  | 1970 | 1979 | 1981 | 1985 | 1989 |
| State Sector | 86.3 | 93.6 | 93.4 | 93.1 | 94.1 |
| Non-State   * Agri. Coops * Private Farmers * Private Salaried * Self-Employed and Family Workers | 13.7  0  11.0  1.5  1.2 | 6.4  0  4.9  0.4  1.1 | 6.6  0  3.5  0.7  1.5 | 6.9  2.1  3.3  0.4  1.2 | 5.9  1.6  3.2  0.4  0.7 |
| Total | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 |

Source: C. Mesa-Lago et. al. 2000,.382

Attempts were made to modify the Soviet type planning system – the “SPDE” – but were in varying stages of implementation by 1990. The basic development strategy continued to emphasize sugar as the main source of foreign exchange and good harvests continued to be achieved throughout the period (Chart 1). A major push was made into biotechnology and pharmaceuticals for domestic consumption and export with a massive investment in state-of-the-art research facilities. Priority was given to tourism and to nickel for expanded foreign exchange earnings. A “Food Program” was begun in 1986, aiming at sugar harvests of 11 million tons plus increased citrus fruit for export and increased production of foodstuffs for domestic use, and with grandiose but unrealistic targets for irrigated acreage for rice and sugar, new cattle development centers, new dairies etc – all objectives that remained unfulfilled (Mesa-Lago, 272-274). Work-place corruption and theft were also targeted by the government with limited success, as the economic stagnation after 1985 operated against such an attempt.

The labor sector continued to be problematic during the RP. Castro again emphasized the importance of moral incentives and criticized material incentives. Military-style brigades were established for the construction sector – yet given special material compensation – as a means of absorbing the surplus labor in enterprises. Part of the problem here was that to avoid rising unemployment, large numbers of low-productivity jobs had been created to absorb the huge cohorts of young people from the baby boom years of 1960-1968 entering the job-market for the first time   
 It is hard to judge the economic success of the RP because the development assistance from the USSR began to diminish in 1985, and this had an overwhelming effect on the overall growth rate which also stagnated after 1985. (See Chart 2)

**Socio-Economic Performance**

In general, the performance of the Cuban economy in the 1959 to 1990 period was problematic and mixed, though income levels by 1990 exceeded the pre-Revolutionary levels. Major improvements had been made in terms of socio-economic well-being, and most social indicators had improved. The summary of changes in a few key socio-economic indicators in Table 6 illustrates the absolute and relative improvements achieved in human well-being. Life expectancy and infant and child mortality are summary indications of nutrition, income distribution and poverty and the quality of a nation’s health care system. Literacy and educational attainment are key factors in the investment in human capital and in citizen empowerment in a modern economy.

**Table 6 Cuban Socio-Economic Indicators in Comparative Perspective**

|  |  |  |
| --- | --- | --- |
| **Indicator** | **1960** | **1990** |
| Life Expectancy at Birth (Years)  Rank in Latin America | 63.8  #4 | 75.4  #1 |
| Under Five Child Mortality, per 1000 live births  Rank in Latin America | 87  #3 | 17  #2 |
| Infant Mortality (Under One Year), per 1000 live births  Rank in Latin America | 65  #3 | 14  #1 |
| Adult Literacy  Rank in Latin America | (1970) 87  #5 | 95  #2 |
| Combined Primary and Secondary School Enrolments  Rank in Latin America | (1970) 76  #5 | 95  #2 |
| Real GDP per capita (purchasing power parity terms)  Rank in Latin America | n.a.  n.a. | $2,200  #14 |
| Human Development Index  Rank in Latin America  Rank in the World | n.a.  n.a.  n.a. | 0.711  #10  #75 |

Source: UNDP Human development Reports 1990, 133; and 1992, 135-136

While Cuba’s ranking for these indicators was strong in 1960, and despite improvements in these in the rest of Latin America, Cuba raised its ranking for all five of the socio-economic indicators vis-à-vis the rest of Latin America (excluding the English-speaking Caribbean.) However Cuba’s economic ranking – in terms of the purchasing power of GDP per person – fell well down the list in 1990 placing Cuba at the 14th rank. A result, Cuba placed at #!0 in the UNDP Human Development Index.

By 1990, the break-up of the Soviet Union and the collapse of Communism in Eastern Europe terminated Cuba’s special relationship with the USSR and the accompanying subsidization. Cuba’s economic melt-down of the early 1990s had begun.

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