***CUBA’S ECONOMIC PERSPECTIVES IN THE AFTERMATH OF THE VII PARTY CONGRESS: A FEW TENTATIVE REMARKS***

1. ***Introduction***

This article proposes a synthetic and tentative interpretation of Cuba’s present economic perspectives. Its approach is meant to be an intrinsically dialectic one. As such, it emphasizes the diverse roles played by exogenous and endogenous, domestic and external, economic and political factors, and by their reciprocal interactions. In my view, such a methodological approach can be fruitful to analyze the development of any distinct socioeconomic formation unfolding in a unique moment in time, but particularly so in the case of Cuba, a small island whose history has been and is still shaped very strongly by its uneven relation with the US and by the weight of ideology in economic policy.

Every country’s economic trajectory is the product of the dialectical interaction of several sets of endogenous and exogenous, domestic and external factors. From the subjective viewpoint of economic policy-makers, endogenous factors are to be interpreted as those that can be shaped by their own present and future actions. Obviously, policy-makers constitute a small but very influential group of technicians-politicians. Yet, they are endowed with limited degrees of freedom, due to a host of constraints stemming not only from the external world, but also from their cooperative/conflicting relations with other branches of the government, from the contradictions and tensions internal to their own group, and from the impact of non-governmental societal forces and movements.

The latter forces and movements (whose composition and relative strength differs  markedly from  one country to another)  can condition and affect the economic policy-making process through a number of formal and informal channels, only some of which clearly manifest themselves as belonging to the political sphere. This phenomenon can be interpreted as the endogenization of societal factors into the policy-making machine. In the case of Cuba, where no formal multiparty democracy exists but the social and cultural fabric is not monolithic, the main channel through which endogenization works is the interaction between the Party and the rest of the population.

Exogenous factors are both domestic and external. Domestic exogenous factors are shaped mainly by the natural environment and from history. At any given point in time, each country’s climate and its endowment of physical and human capital are partly due to its geographic, geological, climatic and other structural characteristics, and partly to the cumulative results of human actions carried out by domestic and external agents. For instance, the availability and fertility of arable land depends at least in part from past agricultural and urbanization policies. Human capital is the product of past and present education policies. The balance of payments is the result of the interaction of many domestic and foreign economic forces and of the policy decisions taken in the past to cope with them.

Economic, financial and political external factors, for most countries, are largely but not exclusively the product of forces beyond the control of their own government and policy-makers. In the case of Cuba, the present reality of the embargo and – more broadly – the more or less aggressive  stance of the US and their allies are, from the latter’s vantage point, the result  of Cuba’s resilience and foreign policy actions since the Revolution. Therefore, notwithstanding its traditional David vs Goliath relation with her powerful neighbor, the island’s ability to influence US Cuban policy stance should not be underestimated.

***2. The exogenous framework***

The exogenous framework affecting Cuba’s economic perspectives at mid-2016 is (by historical standards) extremely favorable.

In the realm of geopolitics and international economic, trade and financial relations two positive factors are at work:

1. The worldwide trend towards a decline of US hegemony (and, more generally, of the countries constituting the center of the international economic system) and the emergence of a multi-polar global (dis) order, in which China’s role is prominent, is probably irreversible in the long run. One often underestimated component of this global tendency, whose potential impact   on Cuba is often overlooked by many observers,   is the breakup of the West’s monopolistic control on world finance, epitomized by the establishment of new China-led international development banks such as the New Development Bank and the AIIB[[1]](#footnote-1).
2. The US-Cuba relationship is already much better than in the recent past and keeps improving - notwithstanding the fact that the bulk of the embargo is still there and it cannot be predicted when (if ever) it will be fully dismantled.

The photography of Cuba’s economic and social fabric by mid-2016 is good, although not brilliant. In spite of enormous obstacles, Cuba has managed to keep improving its already-exceptional degree of human development (albeit not the ability on the part of most of the population to freely purchase non-essential goods and services), and to maintain social and political stability while recurring to amazingly low levels of violent dissent repression. Cuba has pragmatically overcome the fearsome monetary and bank crisis that manifested itself in 2008[[2]](#footnote-2), and it has even managed to improve significantly the state of its balance of payments. Thereby, Cuba has re-acquired in part the ability to honor its debt servicing obligations, and is therefore in a much better position to borrow again from private and public financial institutions (see Rodriguez 2016).

Other features of Cuba's present landscape are more ambiguous and contradictory. The controlled and selective opening to *cuentapropistas*[[3]](#footnote-3) has prompted the emergence of a new small-scale private sector. The birth and growth of this sector constitutes the only big news in Cuba’s economy since the 2011 VI Congress so far. Originally conceived  as limited strictly to self-employed individuals (in order to avoid  classical workforce  exploitation, private capture of surplus value, and the proliferation of non-labor incomes), it has rapidly evolved into a full-fledged private sector, albeit limited to only one portion  of the national economy, where self-employed workers operate  aside small and medium-sized capitalists.

Fully market-oriented c*uentapropistas* operate virtually independently from the circuits of the planned economy[[4]](#footnote-4). They even conveniently (and consistently) utilize a different currency, the Convertible Peso *(*CUC*,* in Spanish), while the Cuban peso (CUP) is still prevailing in most State-Owned activities - and, correspondingly, in SOEs’accounting exercises. The latter are still largely predicated on their (managed) trade interactions with other public organizations and institutions working on a CUP-based framework. Yet, even SOEs’ accounting is being increasingly contaminated by CUC-based domestic and (in some cases) international trade transactions. Taking into account the extreme divergence between official CUP and CUC official exchange rates, the result is often a mess, as firm-based accounting cannot adequately perform its natural role. This contradiction deprives managers of an objective basis to inform properly each SOE’s strategy. Moreover, it weakens severely the State’s ability to properly plan the functioning and development of its own large array of non-strategic productive[[5]](#footnote-5) enterprises.

The cuentapropista boom has created a new form of (partly) legal employment for hundreds of thousands of Cubans, allowing the State apparatus to shed a large chunk of its bloated workforce and, to some extent, to improve its efficiency. It has also enormously improved the market supply of many mid- and even up-grade services, helping to enhance the attractiveness of Cuba as a tourist destination and also enhancing consumer satisfaction among a growing minority of Cubans. It has also attracted a lot of foreign currency, contributing directly and indirectly to the encouraging trend exhibited by Cuba’s balance of payments.

However, the other side of this coin is also evident, and it would be futile to attempt to brush it aside in an ostrich-like fashion. The emergence of the cuentapropistas shows that the oddest character acting in the human comedy of Cuba’s economy– namely, monetary duality- is far from dying by the end of the first act under the weight of its own contradictions. Much to the contrary, she is alive and kicking. Having safely reached the age of reproduction, she has given birth to a very dynamic child, a new semi-formal sector of the economy composed by *cuentapropistas*, small traders, peddlers, and the like.

The result, from a general socioeconomic viewpoint, has been the creation of a dual economy and the re-emergence in Cuba of significant - if relatively minor by international standards - class stratification,   for the first time after the Revolution. In my view, this phenomenon was to a large extent inevitable by itself, and constitutes a necessary component of the labor needed for the birth of a more advanced and sustainable form of socialism in Cuba. However, it is also likely that such an extreme real dualization of the domestic economy, that magnifies the negative social impact of monetary dualization, could have been at least moderated and better handled if progress in reforming the bulk of the State sector had not been so imperceptible and contradictory.

***3. Raul’s judicious approach to tackle the intrinsic contradictions of Cuba’s economic model***

As a matter of fact, there still another paramount exogenous[[6]](#footnote-6) factor shaping the scenario where post-VII Congress Cuban policy-makers have to operate: the legacy of five years of substantial inaction and lack of political willingness (in turn, due to a lack of true political and social consensus) in tackling the intrinsic contradictions of the still very large and hegemonic State sector of the economy.

In fact, it has been officially acknowledged that no substantial action has been taken to implement the vast majority (79%) of the Lineamientos approved by the VI Party Congress in 2011.[[7]](#footnote-7)   No breakthrough has been achieved in the decisive area of overcoming monetary duality and rearranging the whole structure of domestic prices (including wages) in the CUP circuit, especially so in goods-producing sectors. Many key markets are too weak or - as in the case of agricultural inputs - simply non-existing (at least as formal and legal institutions). There have been several attempts to side-step deep-seated problems with a renewed emphasis on cooperatives[[8]](#footnote-8), the strengthening of working and managing discipline and of SOEs administrative and operational reorganization, and piecemeal experiments to liberalize some segments of the food value-chain. However, they have failed so far to deliver significant production gains.[[9]](#footnote-9)

More broadly, Cuba must profoundly rearrange the terms of trade among domestic actors (via domestic prices and wages) and between them and the external world (via the foreign exchange rate). This is the only truly effective and sustainable way to render legal and reasonably efficient the operations of most of the country’s production and distribution activities. To a large extent, this major price re-arrangement exercise will necessarily be market-oriented, to make Cuba’s very open economy’s internal and external terms of exchange intrinsically consistent and compatible with those of the external world. It is also is a necessary condition to enhance working incentives, in order to apply in practice the socialist principle of distribution “to each according to her/his work”.

If achieved, this objective would allow Cuba to approximate its production frontier, advancing decisively in the areas of economic growth, import substitution, food security, and popular consumption. In this respect, it is important to point out that, by itself, such a major monetary and price reform would not necessarily imply any large scale privatization process and a further worsening of economic and social inequality. Actually,  if properly implemented, the reform would allow Cuba to advance noticeably towards the socialist goal of establishing a proper structure of income distribution - as mentioned before, one axed on the principle “to each according to her/his work”.  Re-affirming in theory and in practice this goal is particularly important in this historical period, as the private sector boom and the separation between the CUP and CUC circuits has already created extreme, inefficient and morally and ideologically unjustifiable inequalities in the realm of access to non-basic goods and  services.

During the VII Congress, the CAP leadership has shown again its awareness of these challenges, and of the urgency of switching from words, general statements and timeless declaration of intents to reasonably detailed planning, clear deadlines, and action. Raul’s half-joke on the need to overcome monetary duality before the Greek Calends is very telling. However, the leadership appears to be also aware that the degree of political, ideological and cultural evolution of the Party and of the population at large would not have allowed a re-acting of the wide and open debate that took place in 2010-2011, nor the elaboration and approval of a full-fledged economic reforms blueprint on the part of the Congress.

However, Raul said in his concluding speech that “due to the complexity” of the updating of the economic model “it is essential to obtain the conscious support of a large majority”. For this purpose, the Government has to listen to Party militants and to the population at large, discussing with them and taking their opinions into account: “the path is laid down…the pace will depend on the consensus”.[[10]](#footnote-10)

Such political sensitivities explain two less-than-obvious and apparently contradictory outcomes of the VII Party Congress. The first one is the confirmation of some of the oldest and most experienced militants in the top echelon of the organization, while firmly establishing rules that will lead to a vigorous leadership rejuvenation in the near future. The second outcome is the tactical choice of not announcing any specific economic policy decision or blueprint, while delegating to the newly-elected Congress the major tasks of finalizing the elaboration of the Conceptualization of the Economic and Social Model and the bases of the 15-year Economic and Social National Development Plan.

In a final fine-tuning, balancing terminological and political exercise, Raul shrewdly stated (referring to himself and to the rest of the leadership and of the Party as a whole) that “we hope to conclude this process before the end of the present year, so that the Central Committee… approves it in a definitive way”. The path is truly laid down. Cuba appears to be set about to tackle its own major contradictions, and to move decisively towards approaching the full realization of its remarkable productive potential.

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1. ### See NDB 2016, AIIB 2016.

   [↑](#footnote-ref-1)
2. Cuba’s crisis was broadly concomitant with the global financial crisis, but it was essentially home-grown (see Vidal Alejandro and González-Corzo 2010). [↑](#footnote-ref-2)
3. Literally, self-employed workers. [↑](#footnote-ref-3)
4. Other socioeconomic actors, such as some state workers who direct deal with tourist, act as borderline agents arbitrating between the CUP and CUC circuits (see Romano’ 2012). [↑](#footnote-ref-4)
5. Here, the term “productive” (for the sake of simplicity) is not by itself consistent with the meaning attached to it by Marx. Here, it refers to those public organizations which - contrary to other ones which provide essential services to the population (such as defense, security, health) according to a non-market, needs-based approach – produce goods and (less) commercial services in areas that would be mostly market-regulated and privately-run in most other countries. In capitalist countries, these firms generate privately-captured surpluses (i.e. profits), and are therefore productive in a Marxian sense. In my view, in a modern socialist context many of these firms could maintain their publicly-owned status, but they should also produce a clearly-identified surplus. Public ownership agencies, in turn, would allow these SOEs to retain part of their surplus to finance their own development, and capture the rest to earmark it to social and strategic investments in other sectors. The correct functioning of such a potentially virtuous mechanism is severely impaired in Cuba by the irrationality of the domestic price structure that is magnified by monetary duality. [↑](#footnote-ref-5)
6. This factors is attributable to the past behavior of Cuban policy makers, yet it is presently exogenous because the past has to be taken as a given. [↑](#footnote-ref-6)
7. See Castro 2016a. [↑](#footnote-ref-7)
8. In my view, to place too much faith in cooperativization per se would be illusory. [↑](#footnote-ref-8)
9. See Frank 2016, Cubadebate 2016. [↑](#footnote-ref-9)
10. See Castro 2016b. [↑](#footnote-ref-10)