

## Is Cuba's Vision of Market Socialism Sustainable?

William M. LeoGrande | Tuesday, July 31, 2018

Just three months after Miguel Diaz-Canel took over the presidency of Cuba from Raul Castro, his government has unveiled a new Council of Ministers—essentially, Cuba's Cabinet—along with the draft of a new constitution and sweeping new regulations on the island's emergent private sector. While the changes announced represent continuity with the basic reform program Raul Castro laid out during his tenure, they are nevertheless significant milestones along the road to a more market-oriented socialist system.



*A waiter serves customers at a private restaurant in Havana, Cuba, Jan. 31, 2018 (AP photo by Ramon Espinosa).*

The discussion and approval of the draft constitution was the main event of last week's National Assembly meeting. The revised charter will now be circulated for public debate, revised, reconsidered by the National Assembly, and then submitted to voters in a referendum early next year. The avowed reason for revamping the constitution is to align it with the economic reforms spelled out in 2011 (<http://www.cuba.cu/gobierno/documentos/2011/ing/116071i.html>) and 2016 (<http://www.granma.cu/file/pdf/gaceta/Conceptualizaci%C3%B3n%20del%20modelo%20economico%20social%20Version%20Final.pdf>) that constitute the blueprint for Cuba's transition to market socialism. Cuba's 1976 constitution, adopted at the height of its adherence to a Soviet model of central planning, reflected "historical circumstances, and social and economic conditions, which have changed with the passing of time," as Raul Castro (<http://en.granma.cu/cuba/2016-04-18/the-development-of-the-national-economy-along-with-the-struggle-for-peace-and-our-ideological-resolve-constitute-the-partys-principal-missions>) explained two years ago.

Nevertheless, two key tenets of the old charter remain unchanged (<https://www.reuters.com/article/us-cuba-assembly/cuba-aims-to-build-socialism-not-communism-in-draft-constitution-idUSKBN1KB0ML>). First, the new constitution reaffirms the commitment to a socialist system in which state property predominates and Cubans are guaranteed free, universal social services like health care and education. Second, the Communist Party retains its leading role as sole political representative of the Cuban nation. Notably, however, the new document omits the 1976 goal of "building a communist society"—a recognition that such a utopian project is simply not feasible.

For the economy, the most important constitutional changes ([https://www.washingtonpost.com/world/the\\_americas/cuba-moves-toward-striking-changes-to-officially-recognize-private-property-foreign-investment/2018/07/21/cd5c230a-8c69-11e8-9d59-dccc2c0cabcf\\_story.html](https://www.washingtonpost.com/world/the_americas/cuba-moves-toward-striking-changes-to-officially-recognize-private-property-foreign-investment/2018/07/21/cd5c230a-8c69-11e8-9d59-dccc2c0cabcf_story.html)) are the legalization of private enterprise and employment, a prohibition on expropriating private property except for public purposes with compensation, and a guarantee for foreign direct investment. Although private business has been allowed in Cuba since 1992 under "self-employment" licenses, the private sector has been on shaky legal ground. Cuba's old constitution did not explicitly recognize private property other than land owned by small farmers, and it

prohibited private businesses from hiring wage labor. Over the years, the fortunes of Cuba's small businesses have waxed and waned with shifting political winds (<https://www.worldpoliticsreview.com/articles/18723/between-reforms-and-repression-can-cuba-s-new-forces-of-change-succeed>), creating tremendous uncertainty and driving many enterprises out of business or underground. Having a firm legal foundation in the constitution is a major step forward for the private sector, but the new regulations, unveiled a week before the National Assembly convened, present problems of their own.

More than 100 pages of new regulations (<https://www.reuters.com/article/us-cuba-economy/cuba-imposes-tighter-controls-on-nascent-private-sector-idUSKBN1K00XF>) will go into effect in December. They have two broad purposes: to enable the state to capture a greater share of the revenue that private businesses generate, while also minimizing illegal behavior and protecting public safety; and to limit the growth of individual businesses in order to prevent the accumulation of wealth and property. They follow up on Raul Castro's public excoriation of private businesses last year for tax evasion, black marketeering, and operating beyond the scope of their licenses. Last August, the government suspended (<https://www.reuters.com/article/us-cuba-economy/cuba-tightens-regulations-on-nascent-private-sector-idUSKBN1EF318>) issuing new licenses in 27 of the most significant business categories, including private restaurants and room rentals for tourists.

***The balance Cuban leaders have struck between accepting and controlling the private sector seems inherently unstable.***

For example, under the new regulations, taxi drivers will be required to buy gasoline from state service stations and retain receipts to prove they are not getting fuel illegally. In the past, as much as half (<https://www.theguardian.com/commentisfree/2006/apr/18/comment.cuba>) the fuel supply in Cuba was siphoned off into the black market. To get a new license, prospective entrepreneurs will have to prove that they have legally obtained the investment capital for their start-up. Businesses will have to keep their accounts in state banks to prevent tax evasion.

Some of these new rules provide consumer and worker protection, such as those governing food preparation in private restaurants and the requisite facilities for private daycare. Businesses will need to have a labor contract with employees to safeguard their rights, and discrimination on the basis of race, gender or sexual orientation is explicitly prohibited.

But other regulations limit the ability of private businesses to compete with the state sector. Tourist taxis will have to work through state tourism agencies rather than operate independently. Artists, musicians and performers will have to register with the state and pay a 24 percent commission on their earnings from private engagements. Private businesses will not be allowed to work for foreign clients—a hard blow for Cuban computer programmers who have already developed (<https://www.miamiherald.com/news/nation-world/world/americas/cuba/article135249259.html>) a market abroad.

The most onerous new rules are those designed to limit the growth of individual businesses. The 201 categories of permitted enterprises are being consolidated into 123 that are more broadly defined, which is positive, but an individual will only be allowed to hold one license. Although only 9,657 of the 591,496 private businesses in Cuba today hold multiple licenses, they are among the most successful, such as private restaurants, which are technically

limited to 50 seats. Some of Cuba's most famous spots have gotten around that limit by obtaining additional licenses. No longer. Minimum taxes will also go up and tax rates will increase as a business hires more employees—a disincentive to growth. Real estate agencies, language schools and tutoring operations will not be allowed to hire any employees.

The tougher regulatory environment will not halt the growth of Cuba's private sector, though it may slow it down. Entrepreneurs have faced harsher conditions in the past and managed to *resolver*—find ways to make things work. Moreover, the state needs a growing private sector to absorb the surplus labor being laid off from inefficient state enterprises.

The constitutional reforms recognizing private property and the new regulations constraining it represent a political compromise between Cuban leaders who recognize that a robust private sector is necessary for economic development and those who worry it will aggravate inequality and threaten the socialist character of the system. Yet the balance struck between acceptance and control seems inherently unstable. If the private sector is to contribute significantly to Cuba's economy, as in the model of market socialism the government envisions, it will need a more favorable environment than it has now.

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