

Public and Private, Market and Plan:

Some Lessons from Cuba and the United States.



Kennesaw University,

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Arch Ritter,

**Economics and International Affairs,
Carleton University, Ottawa, Canada**

Agenda:

1. Overview of the Market Mechanism

Functioning, History, Strengths ,Weaknesses

2. Overview on Public Planning and the State Sector.

Functioning, History, Strengths ,Weaknesses

3. Development Roles of NGOs and the Broader Citizen Sector

4. Success and Failure in the US Mixed Market Economy

5. Failure and a Success in the Cuba's State Control/Central Planning/Minimum Market System

6. Conclusions

The Argument:

Markets and planning; private and public all have advantages and disadvantages; But both are absolutely essential.

Revolutionary Cuba: massive mistakes; but a success in health.

United States: fine achievements but major problems in health and income distribution

One of our eternal tasks is to find the optimum combination for human wellbeing.

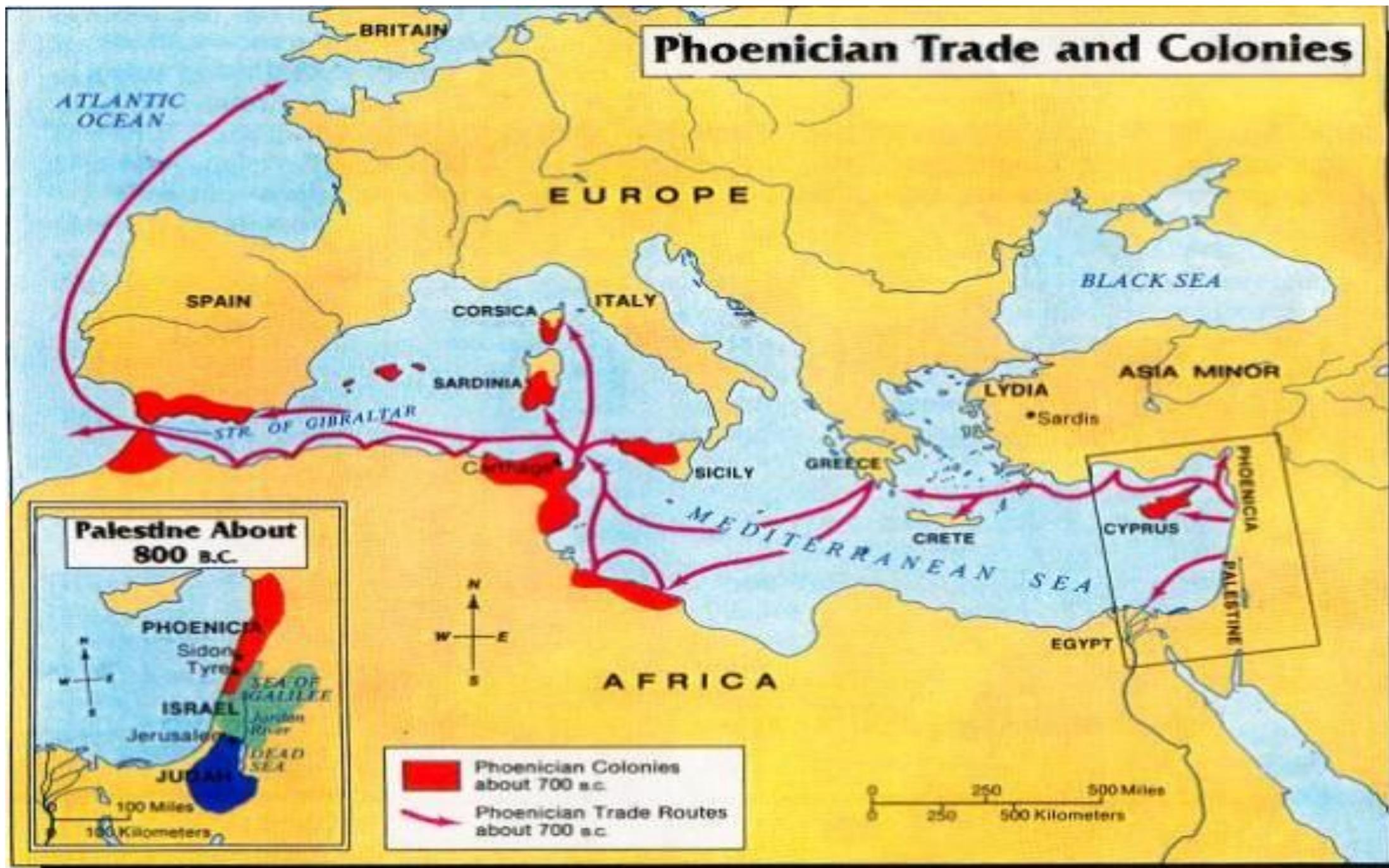
I. The Market Mechanism: Role, Advantages and Disadvantages

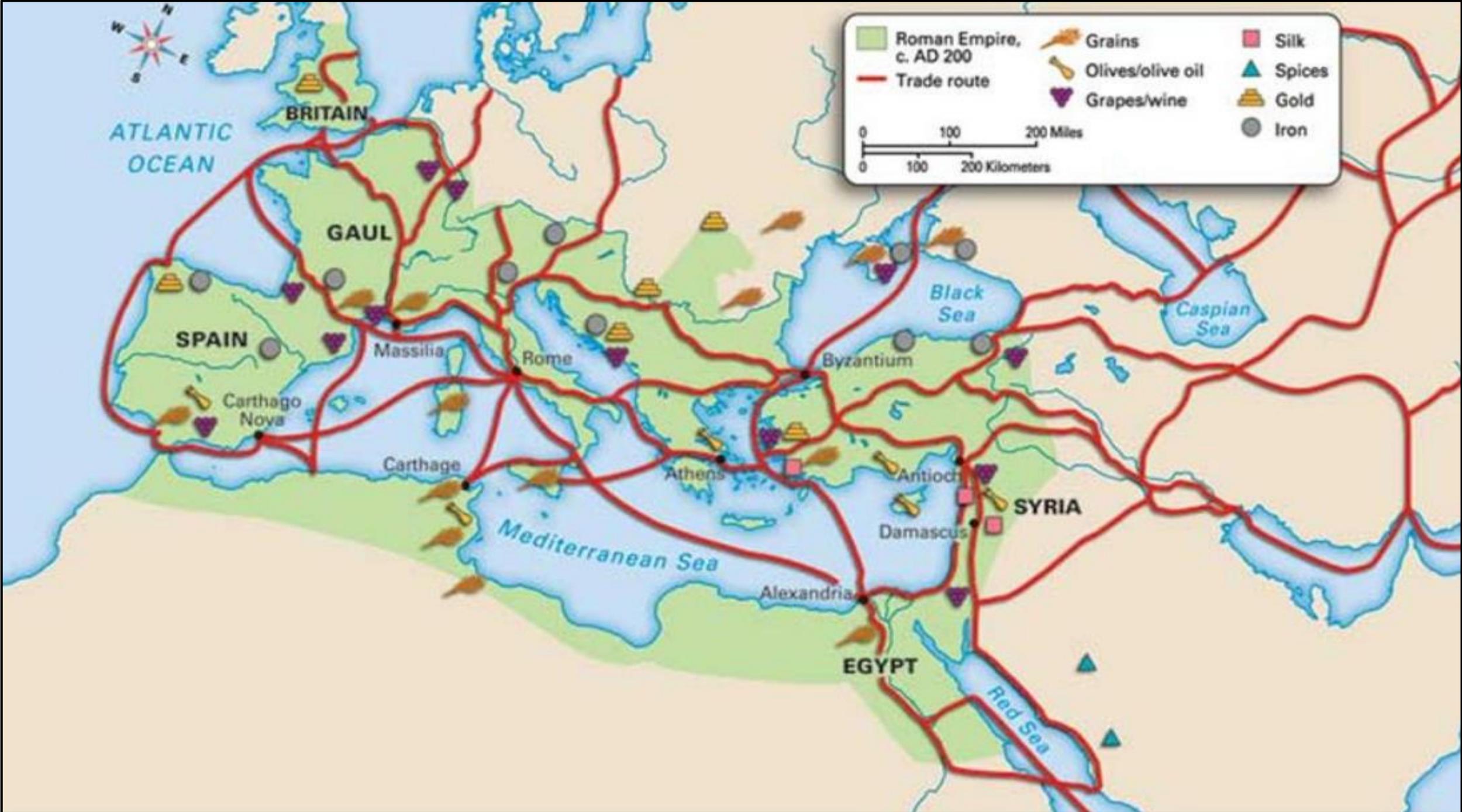
Historical Background

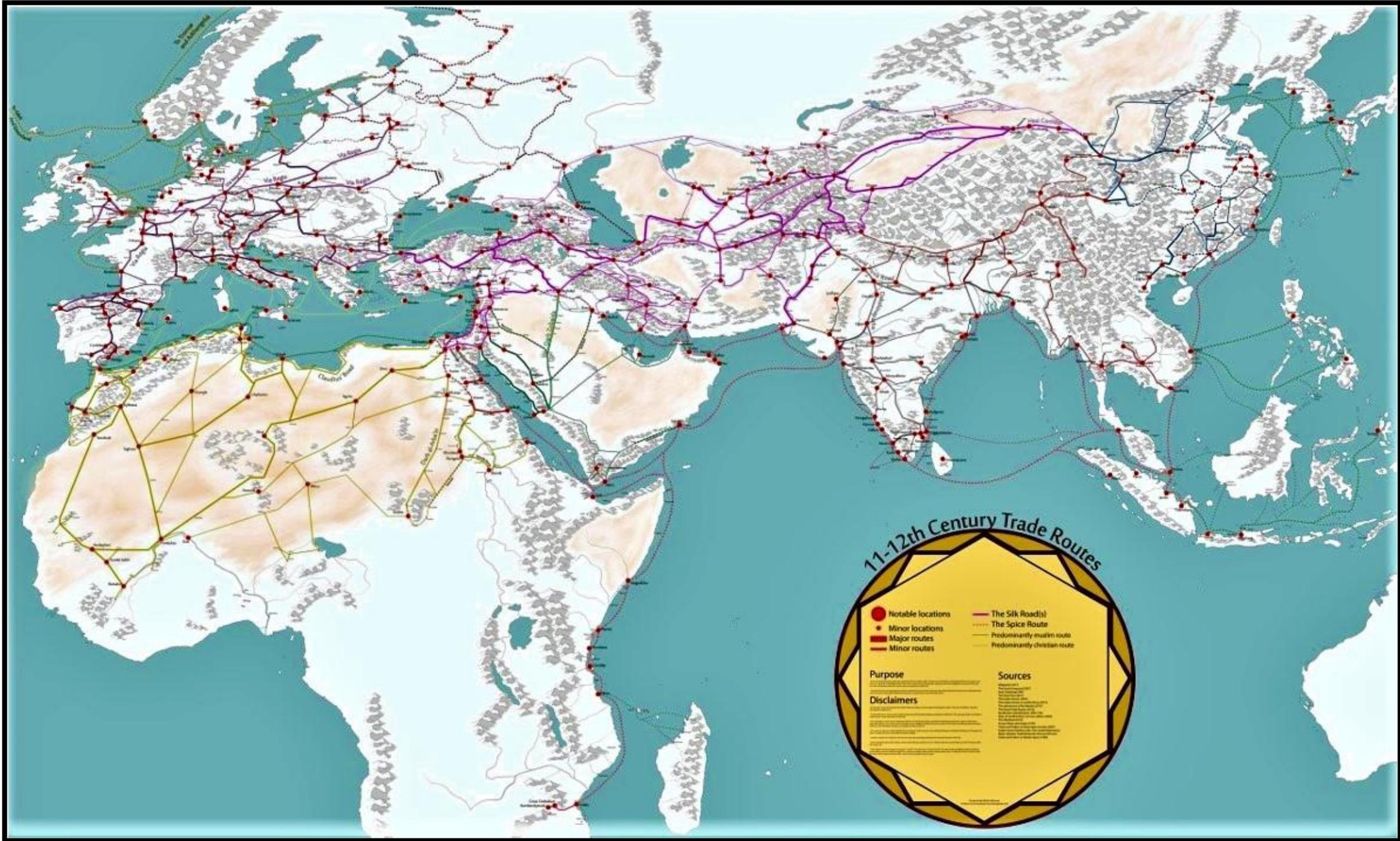
- Ubiquity of markets,**
- Independently invented in all parts of the world;**
- Within older civilizations, long predating contact with “the west;”;**
- Within centrally planned economies;**

Emergence of market-oriented societies in recent decades or the last few centuries

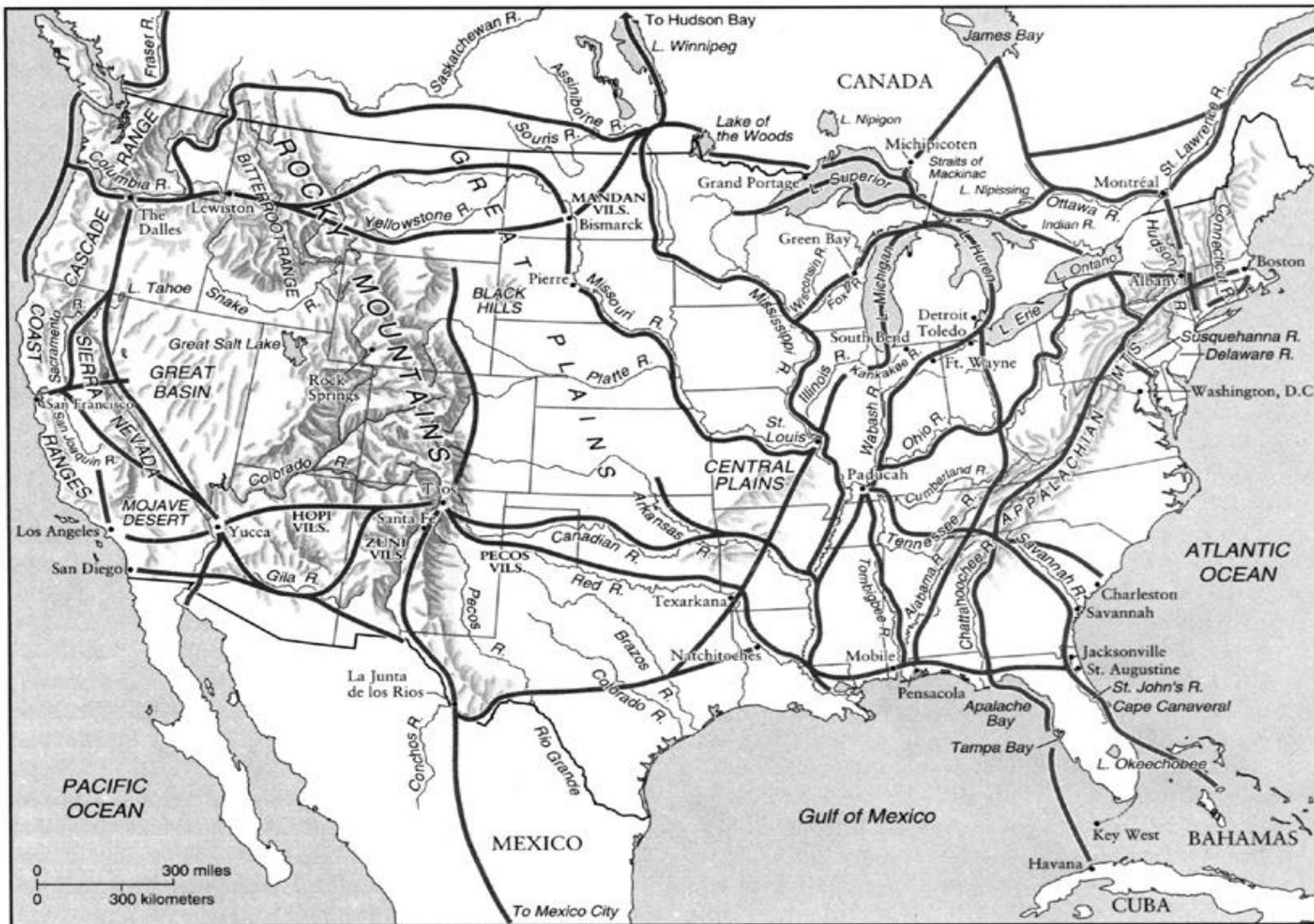
Phoenician Trade and Colonies







MAJOR INDIAN TRADE ROUTES, NORTH AMERICA



Sanderson Associates

(From the [Encyclopedia of North American Indians](#))

William E. Meyer, *Indian Trails of the Southeast* Bureau of American Ethnology, Forty-second Annual Report (Washington: Government Printing Office, 1928); William R. Swagerty, *Handbook of North American Indians* "Indian Trade in the Trans-Mississippi West to 1870," ed. William C. Sturtevant, vol. 4, *History of Indian-White Relations*, ed. Wilcomb E. Washburn (Washington: Smithsonian Institution, 1988); Helen Hornbeck Tanner, *Powhatan's Mantle: Indians in the Colonial Southeast* "The Land and Water Communications Systems of the Southeastern Indians," ed. Peter H. Wood, Gregory A. Waselkov, and M. Thomas Hatley (Lincoln and London: University of Nebraska Press, 1989).



**Tenochtitlan (Aztec Mexico: Main Market,
Painting by Diego Rivera**



**Malinche in the Market,
Painting by Diego Rivera**



Otavalo, Ecuador: Market Scene

Kenya: Rural Market



What Markets Do:

- **Resource Allocation:** determination of what is produced, how, and for whom;
- Market prices as **“communications systems”** communicating demands of consumers/users to producers/suppliers of goods and services;
- As **“incentive systems”** providing suppliers or producers with the incentives and means to fulfill the demands of purchasers
- As **“orchestration systems”** coordinating innumerable economic actors and actions
- Can serve as **“Mechanisms For The Social Control Of Economic Activity.”** (*Adam Smith’s “Invisible Hand”*)

Or: Markets Can Be Mechanisms of Exploitation.

Advantages or Strengths of the “Market Mechanism”

- **Spontaneity** and **automaticity** of functioning;;
- Makes possible **“consumer sovereignty;”**
- **Decentralization of economic decision-making;** May permit immense varieties of goods and services;
- Incentive structures **permit** and **encourage self-activation** by all economic actors;
- Enforces **“economic discipline”** on market actors: the **“hard budget constraint”**;
- **Permits private, co-op, & state (all levels) enterprise , micro, medium and large to co-exist.**
- **Makes possible socio-cultural pluralism;**
 - Permits genuine multi-culturalism

Weaknesses or Disadvantages: “Market Failures”

- **Public goods** are not provided acceptably (free rider problem) ;
The **environment** as a public good is not managed acceptably through markets.
- **External costs and benefits** from individual actions generate socially and economically inappropriate results;
- **Undesirable results as measured by social objectives** (e.g. public health)
- **Income distribution** and equity are not generated in socially acceptable ways;

Weaknesses or Disadvantages: “Market Failures” continued:

- **Producers** and not consumers may (try to) exercise “sovereignty”
- Tendencies towards **monopoly, oligopoly or collusion** may weaken the social control of economic activity exercised through markets (Note FAANG)
- Can be **perverted by cheating, fraud, market manipulation** (Note Opioid Crisis)

Legal, Institutional, Cultural and Social Factors Relevant for the Effective Functioning of Markets

Strong and Effective Government is Required

- Maintenance of Law and Order;
- Personal security;
- **Diffusion of Power**, especially an **Independent Judiciary**
- Enforcement of contracts
- Provision of **public goods including infrastructure**
- **Social policies** and social safety net
- **Maintain Competition**, (not Monopoly, Oligopoly, Collusion)

Legal, Institutional, Cultural and Social Factors Relevant for the Effective Functioning of Markets, continued

- **Altruistic or Public Action** to Maintain the Relevant Communities
- Free Flows of **Information**
- Maintenance of a Level of **Trust**
- **Honesty and Non-Corruption in Public and Private Enterprises and Government.**

Conclusion:

Market orchestration of economic activity is vital and necessary, with major social and economic advantages but also some major disadvantages.

II. The State and Development Processes: Role, Advantages and Disadvantages

Historical Background:

- **Ubiquity of “Planning “** since time immemorial;
- Provision of **public goods** and in all complex civilizations as well as simpler societies;
- Effective Government indispensable for well-functioning markets;
- **Post-War development planning**; very high and perhaps excessive expectations followed by disenchantment.



Stonehenge UK



Tenochtitlan, Mexico



MARAVILLAS **Teotihuacan, Mexico**







Amiens Cathedral, France

The Role of the State and Public Planning:

Central Tasks

- **Maintenance of a basic civilized order** for the functioning of society and economy;
- **Law and order and personal security;**
- Provision of **Public Goods and Services**, including those necessary for basic human development;
- **Adjust for external costs and benefits;**
- **Environmental Protection**; and now combatting climate change
- Achieve a more socially and politically acceptable **distribution of income;**
- A **regulatory framework** for economic activities.

Strengths of the Public Sector

- 1. *May* represent the Common Well-Being;**
- 2. No reasonable alternatives often for the provision of public goods and regulatory framework;**
- 3. Capacity to improve equity and social justice in ways markets can not achieve;**
- 4. Macro-flexibility:” the capacity to mobilize resources rapidly and in large magnitude for collective action.**

Weaknesses of the Public Sector: “Public Sector Failure”

1. Weaknesses of “public purpose:”

- Is Government in fact altruistic, benevolent and public-spirited? Or is it corrupt, fraudulent, predatory, kleptocratic?
- Is it privilege-protecting, class-based, regionally, tribally or ethnically based?

2. **Susceptibility to capture** by pressure groups, the hyper-rich, vested interests, especially the economically and politically powerful?

3. General Problems Intrinsic to Bureaucracy:

(Note: these also apply to large private and public enterprise.)

- Deformation of incentive structures;
- Inexorable tendencies to expansion;
- Absence of “Hard Budget Constraints” or clear financial discipline;
- Tendencies towards rigidity, inflexibility and sclerosis over time.

4. Promotion of “Rent-Seeking Behavior” and “Lobbying”:

shaping rules, policies, taxes and expenditures for private gain;

5. Possible Imposition of Centrally-Determined preferences on people; i.e.

(Individuals know more about their preferences, circumstances)

6. Government may increase risks by moving in same direction on a large scale rather than via trial and error; i.e. **macro-flexibility can produce macro-errors and macro stupidities**

7. Government may be more rigid and **inflexible in decision making**;

8. Governments may **lack capabilities** to administer detailed plans; Different parts of government may be poorly coordinated

CONCLUSION?

We absolutely need a public sector

But there are major problems in public sector planning;

The challenge: overcome the problems. How?

How? A multi-faceted approach:

Deal with each variety of problem

3. Roles of NGOs, the “Not for Profit” Sector and Cooperative Sector

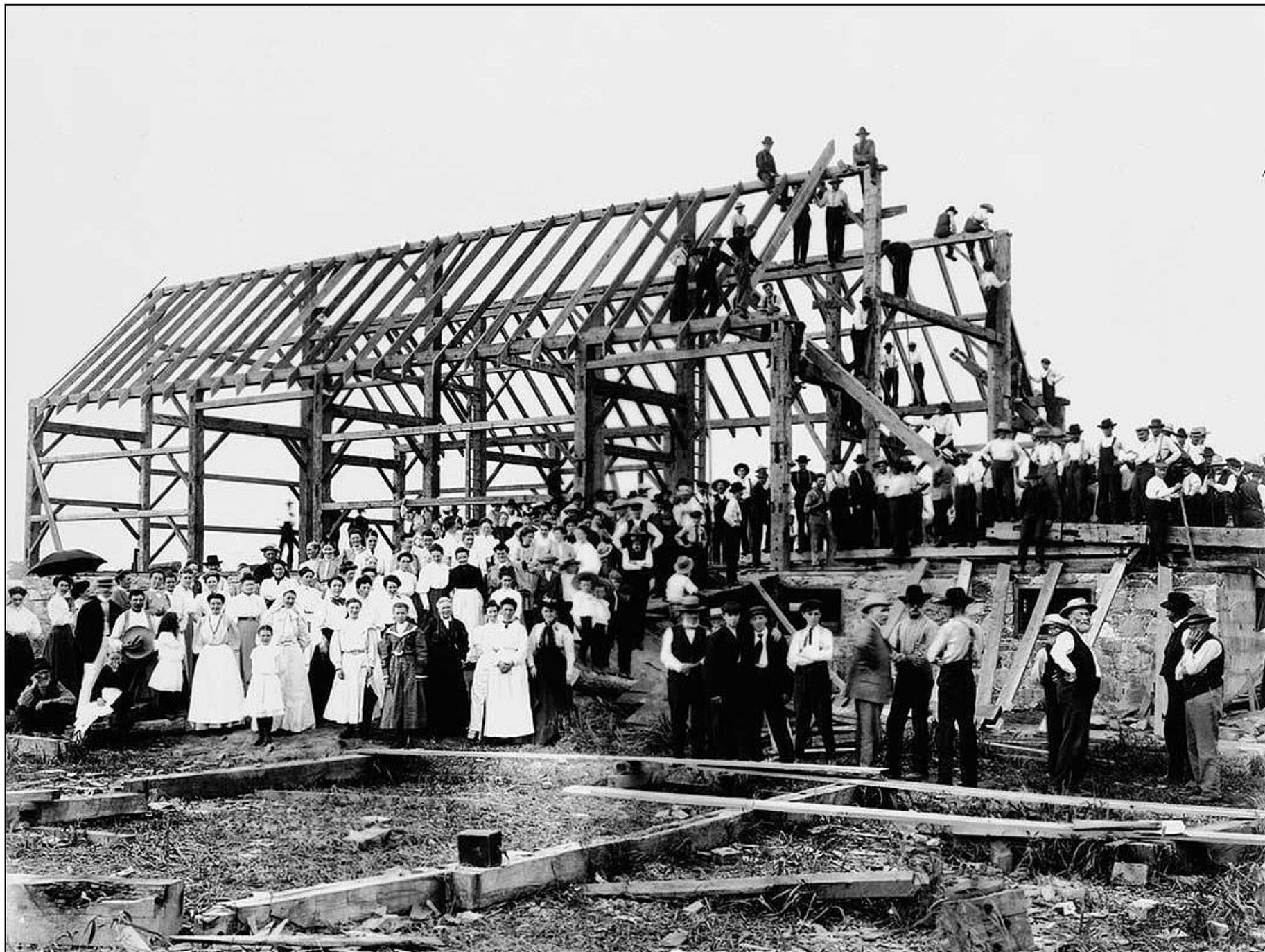
Definitions:

“Not-for-profit” activities:

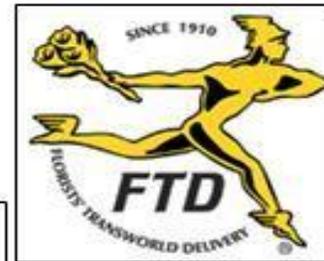
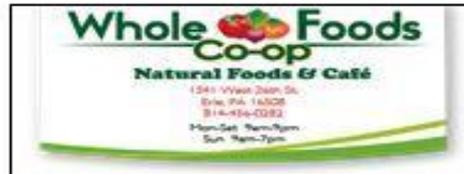
voluntary citizens groups at local, regional, national, or international level aimed at providing goods, services, analysis, advocacy, or humanitarian functions.

“Cooperatives” definition of the International Cooperative Alliance (ICA)

- “A co-operative is an autonomous association of persons united voluntarily to meet their common economic, social, and cultural needs and aspirations through a jointly-owned and democratically-controlled enterprise.”
- Co-operatives are based on the values of **self-help, self-responsibility, democracy, equality, equity** and **solidarity**



Some American Coops



Roles of NGOs and the Broader Citizen Sector: Potential comparative advantages of NGOs

- Harness a range of motives and incentives**
- Innovative design and implementation**
- Program flexibility**
- Specialized technical knowledge**
- Provision of targeted local public goods**
- Common-property resource management design and implementation**
- Trust and credibility**
- Representation and advocacy**

Limitations: NGO or “voluntary failure”

- 1. Have their own self-interest and agendas to push regardless of need or results; Captured by goals of funders rather than intended beneficiaries;**
- 2. May be less significant, owing to small scale and reach.**
- 3. Lacking necessary local knowledge to develop and implement an appropriate mix of programs to address relevant problems**
- 4. May be selective and exclusionary, elitist, and or ineffective**
- 5. May lack adequate incentives to ensure effectiveness**

Limitations: NGO or “voluntary failure”

- 7. Fund-raising may become an end in itself, providing salaries with less regard for results.**
- 9. Lacking immediate feedback (as private firms get in markets, or elected governments receive at the polls); this may let the weaknesses go on for some time before being corrected**
- 10. Single-purpose organizations may not see the bigger picture**
- 11. May substitute for domestic government or NGO action**
- 12 May be perverted for personal gain, e.g. tax avoidance, evasion,**

IV. United States:

Success and Two Problem Areas

Successes need little emphasis:

Dynamic leading economy over much of the last two centuries;

Center for technical, economic, and social innovation;

Key architect and defender of international economic and political system generating unparalleled international peace and prosperity, , 1946 to 2016.

(But, no longer under the Trump Administration.)

And more: cultural impacts

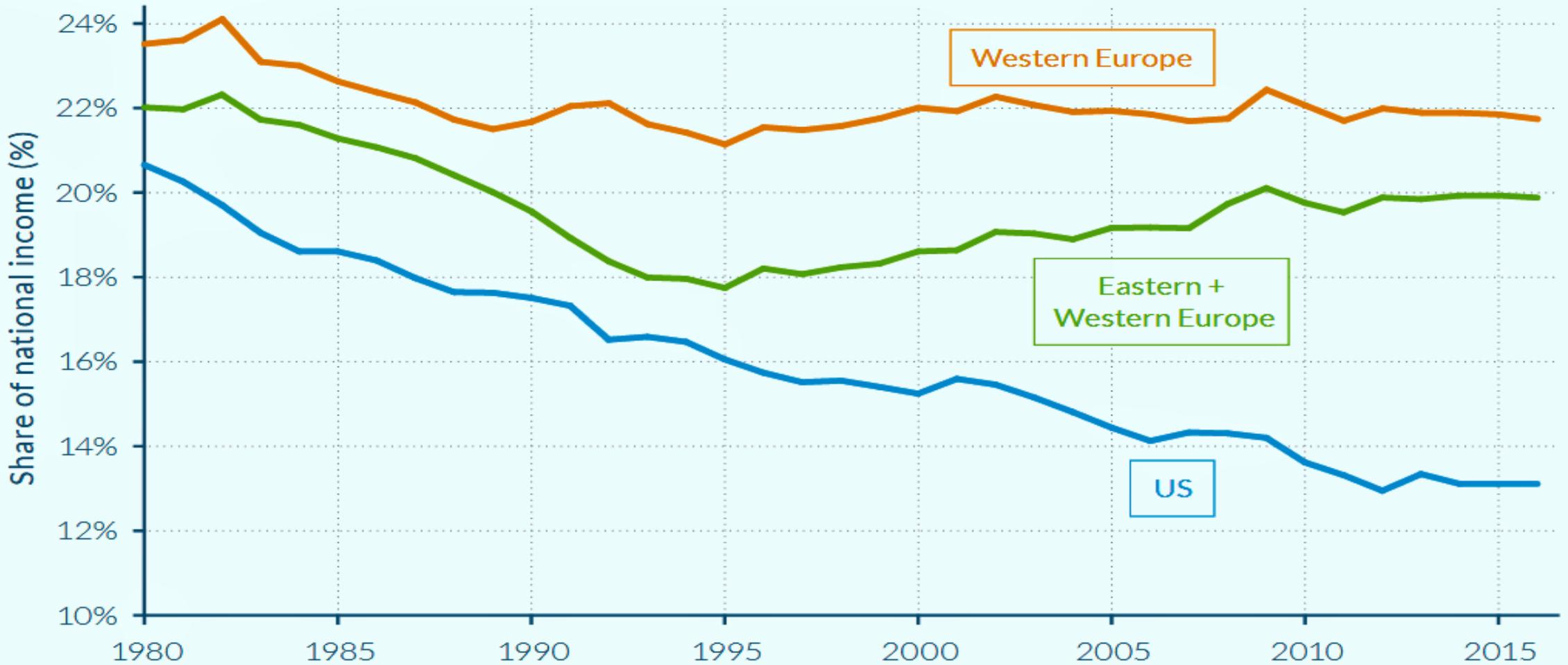
Current Major Problem Areas: where markets do not work and public action is stalled and thwarted:

1. Income Distribution;

2. The Medical System.

1. Income Distribution in the United States

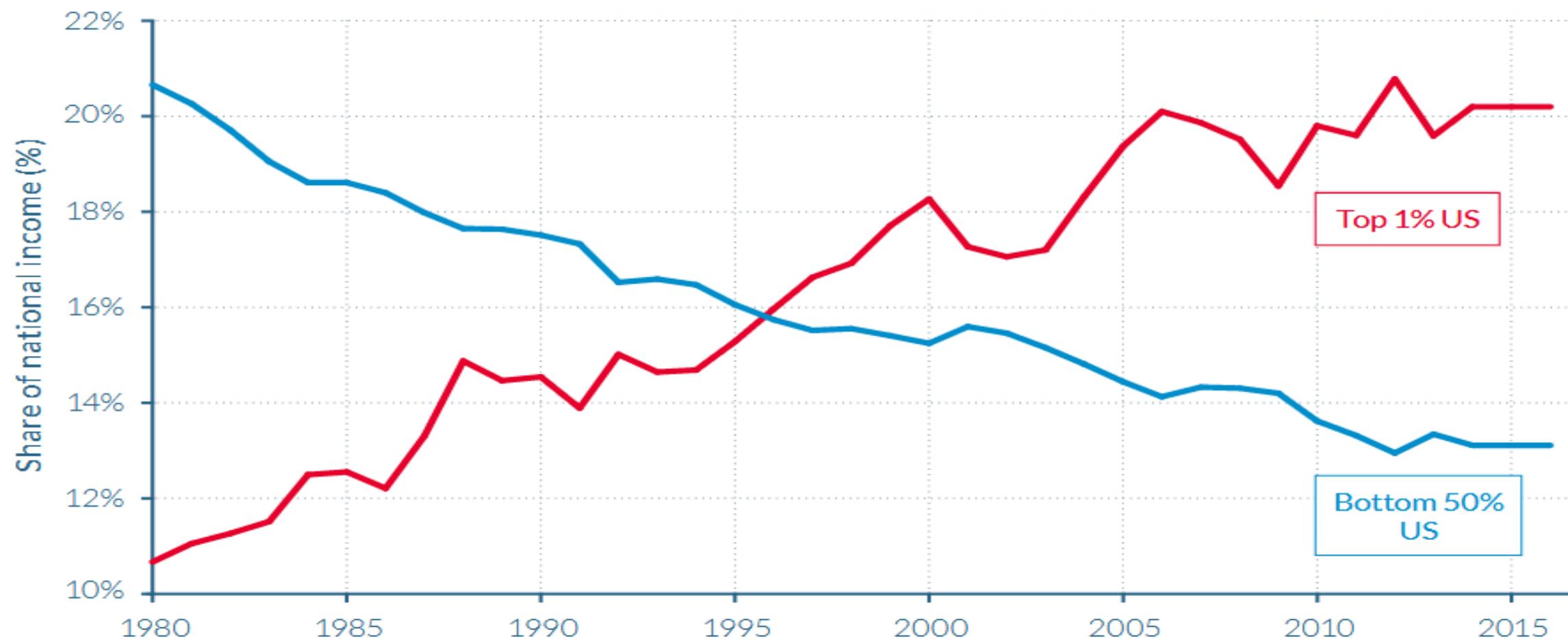
Bottom 50% national income share in Europe and the US, 1980-2016



Source: WID.world (2017). See [wir2018.wid.world](#) for data series and notes.

In 2016, 13% of national income was received by the Bottom 50% in the US.

Income Shares in the United States, 1980-2016, Top 1% and Bottom 50%



Source: WID.world (2017). See [wir2018.wid.world](#) for data series and notes.

In 2016, 12% of national income was received by the top 1% in Western Europe, compared to 20% in the United States. In 1980, 10% of national income was received by the top 1% in Western Europe, compared to 11% in the United States.

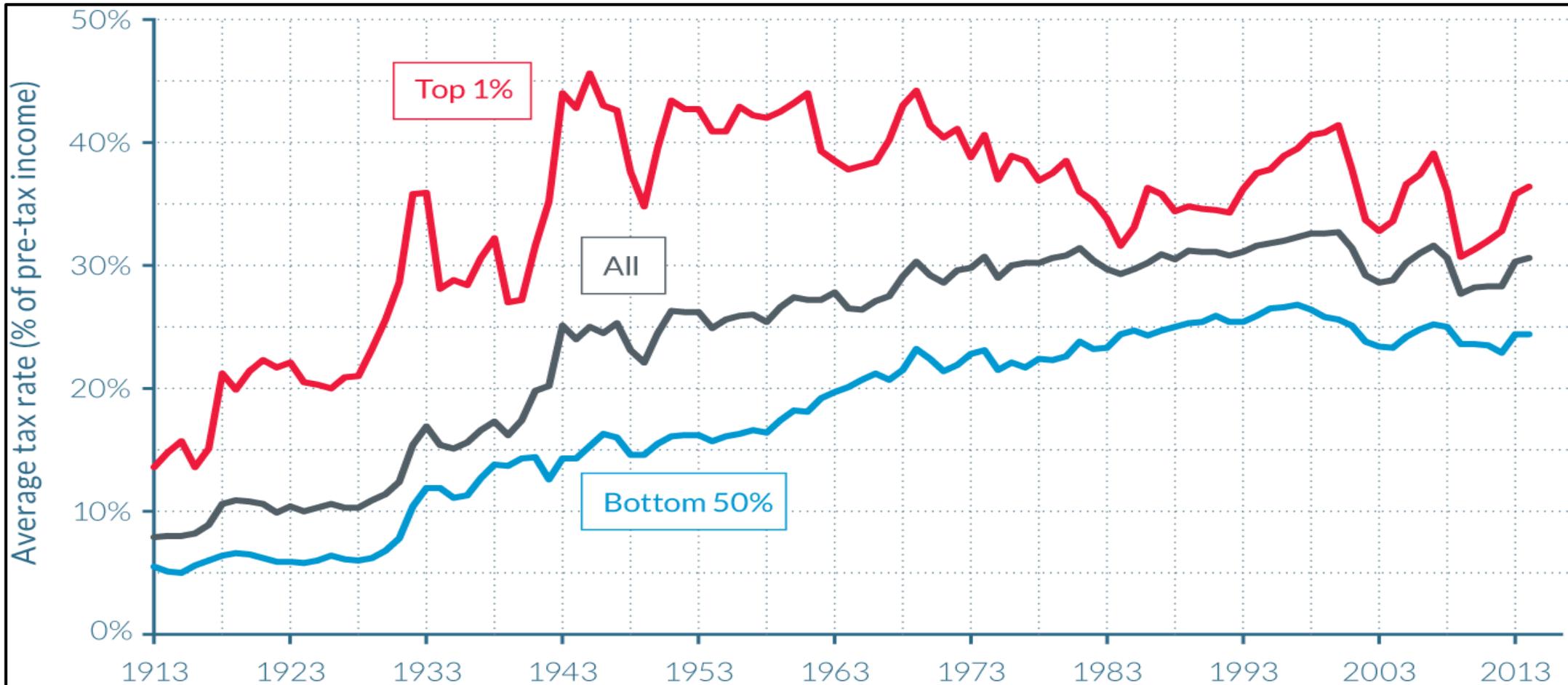
USA: The growth of national income by income group 1946–2014

Income group	Pre-tax income growth		Post-tax income growth	
	1946–1980	1980–2014	1946–1980	1980–2014
Full Population	95%	61%	95%	61%
Bottom 50%	102%	1%	129%	21%
Bottom 20%	109%	-25%	179%	4%
Next 30%	101%	7%	117%	26%
Middle 40%	105%	42%	98%	49%
Top 10%	79%	121%	69%	113%
Top 1%	47%	204%	58%	194%
Top 0.1%	54%	320%	104%	298%
Top 0.01%	76%	453%	201%	423%
Top 0.001%	57%	636%	163%	616%

Source: Piketty, Saez and Zucman (2018), available from WID.world

Between 1980 and 2014, the average pre-tax income of the Top 10% grew by 113%. Pre-tax national income is measured after the operation of pension and unemployment insurance systems (which cover the majority of cash transfers), but before direct income and wealth taxes. Post-tax national income is measured after all taxes, transfers, and government spending.

Average tax rate by pre-tax income group in the US, 1913–2014

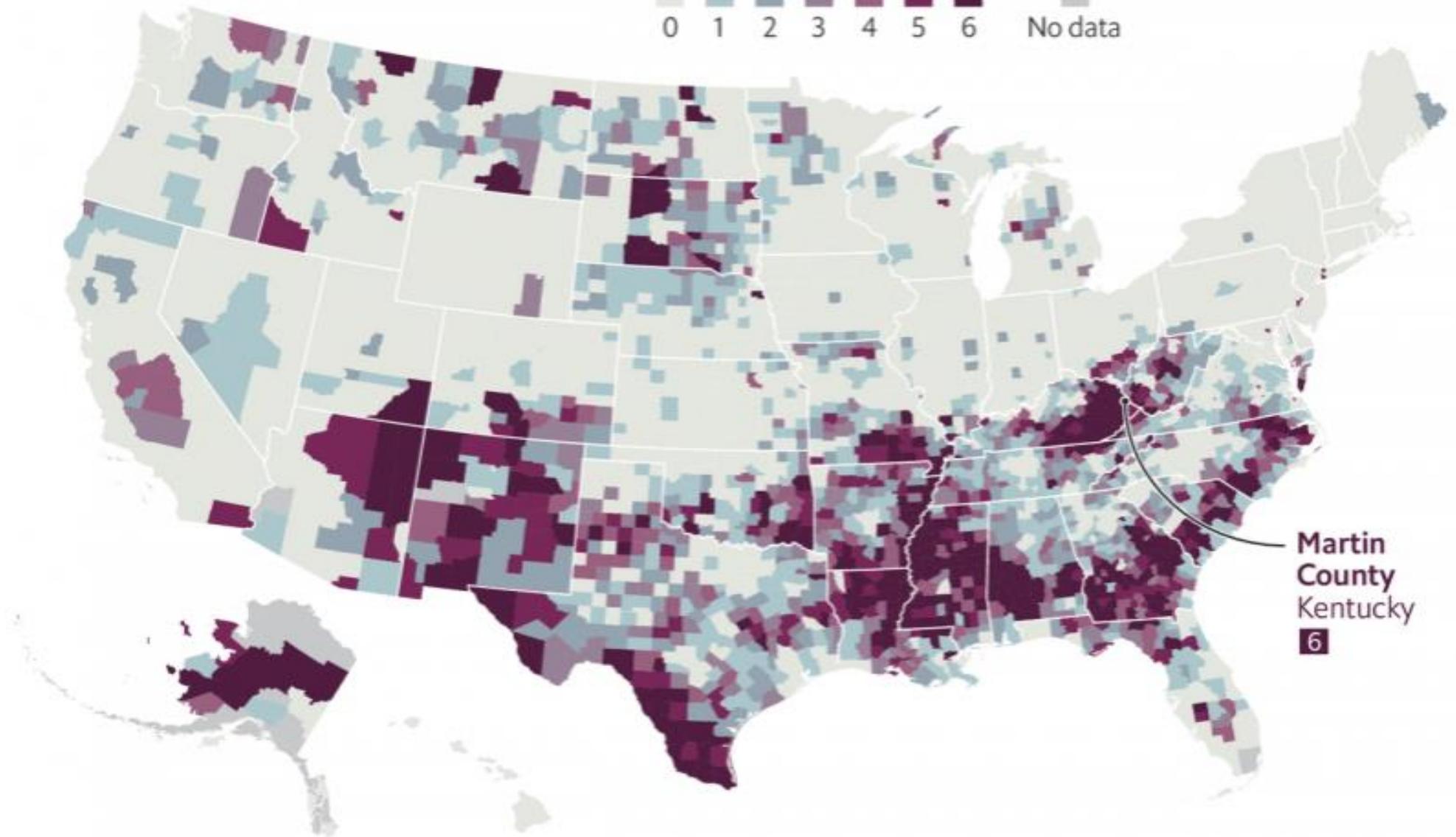


Source: Piketty, Saez and Zucman (2018). See wir2018.wid.world/methodology.html for data series and notes.

In 2014, the average tax rate on the incomes of the Top 1% was 36%. Pre-tax national income is measured after the operation of pension and unemployment insurance systems (which cover the majority of cash transfers), but before direct income and wealth taxes. Taxes include all forms of taxes at the federal, state, and local level. Tax rates are expressed as a fraction of pre-tax income.

United States, persistence of poverty

Decades since 1960 a county has been classified as poor*



Sources: US Census Bureau; IPUMS; *The Economist*

*20% or more of the population below the official poverty line. Sixth decade to 2017

Is Serious and Worsening Income Distribution a Significant Problem in the United States?

What can be done about it?

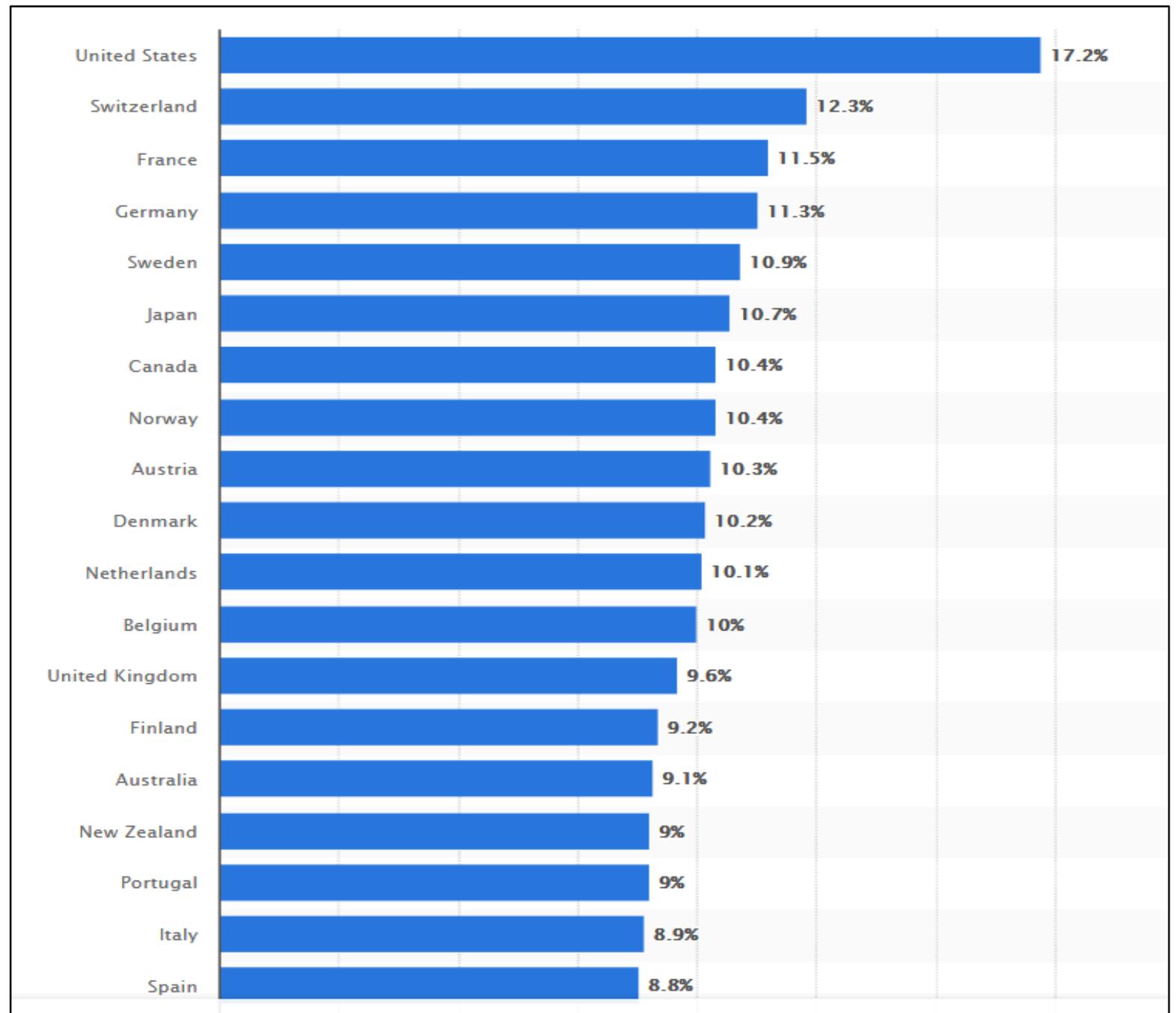
A broad and complex range of public policies and programs;

A central focus of the political system;

Second Problem Area: The Medical System

Health expenditure as a % of GDP in selected countries, 2017

Source: Statista.com



Health expenditure per capita, 2014 (OECD stat)

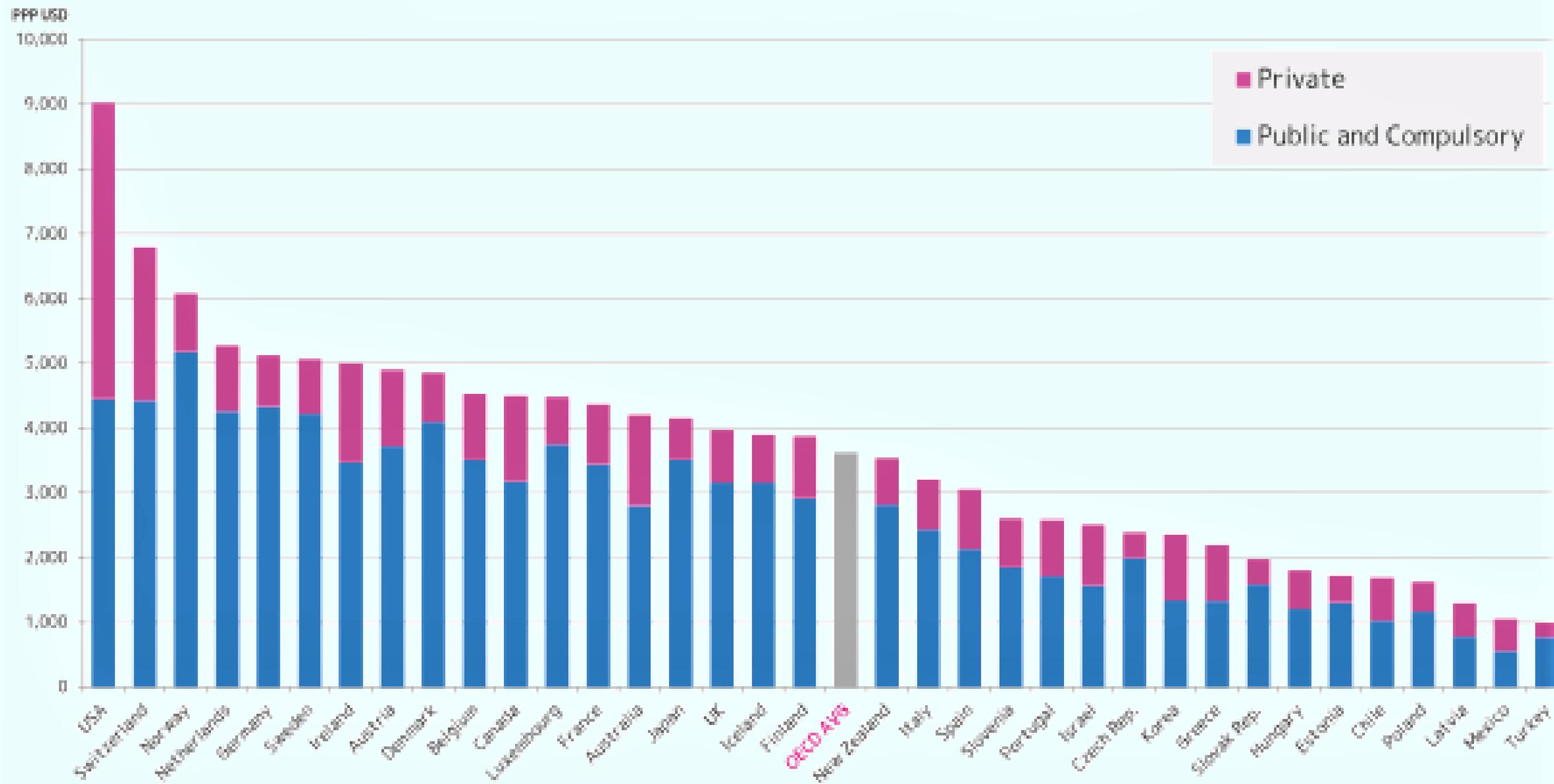
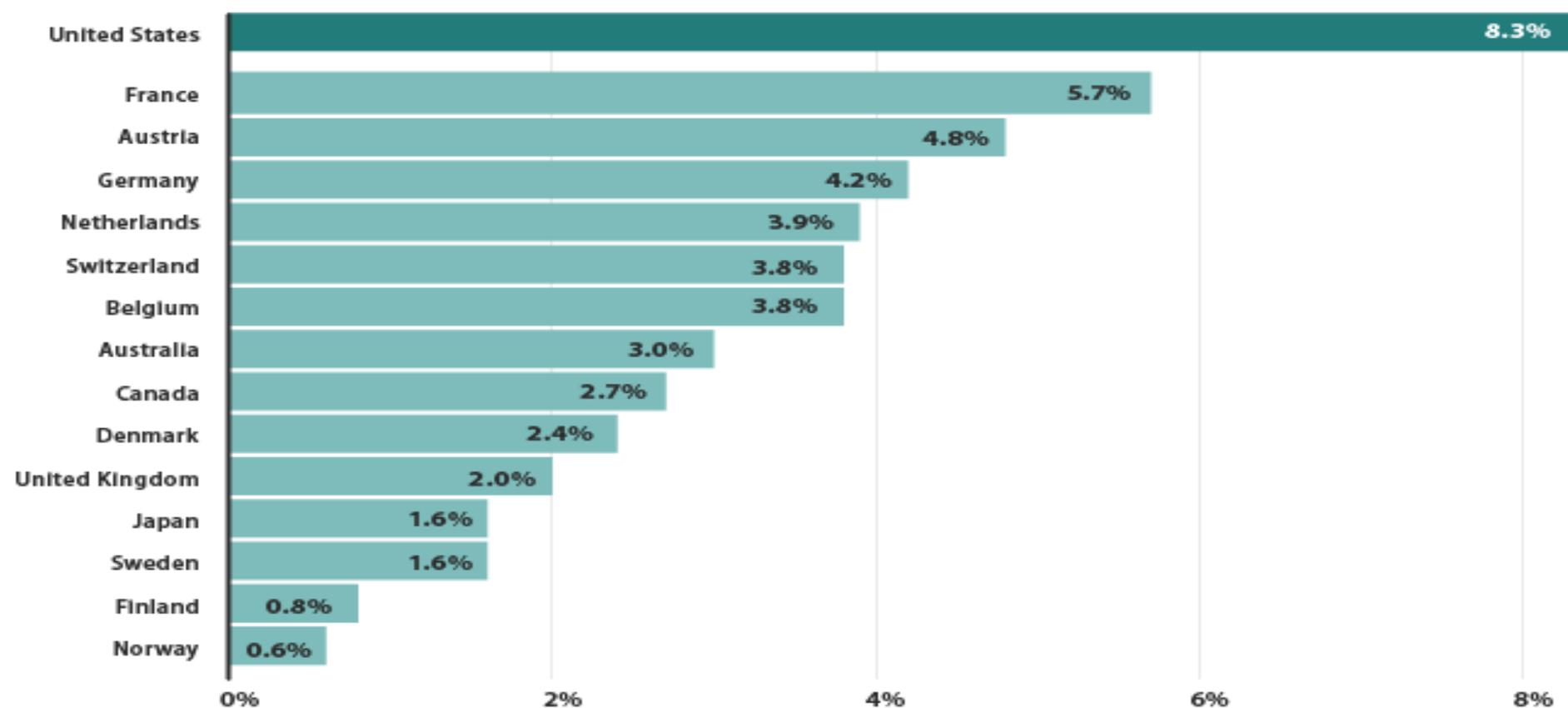


FIGURE 1

Administrative costs comprise a larger share of health care spending in the United States than in other high-income countries

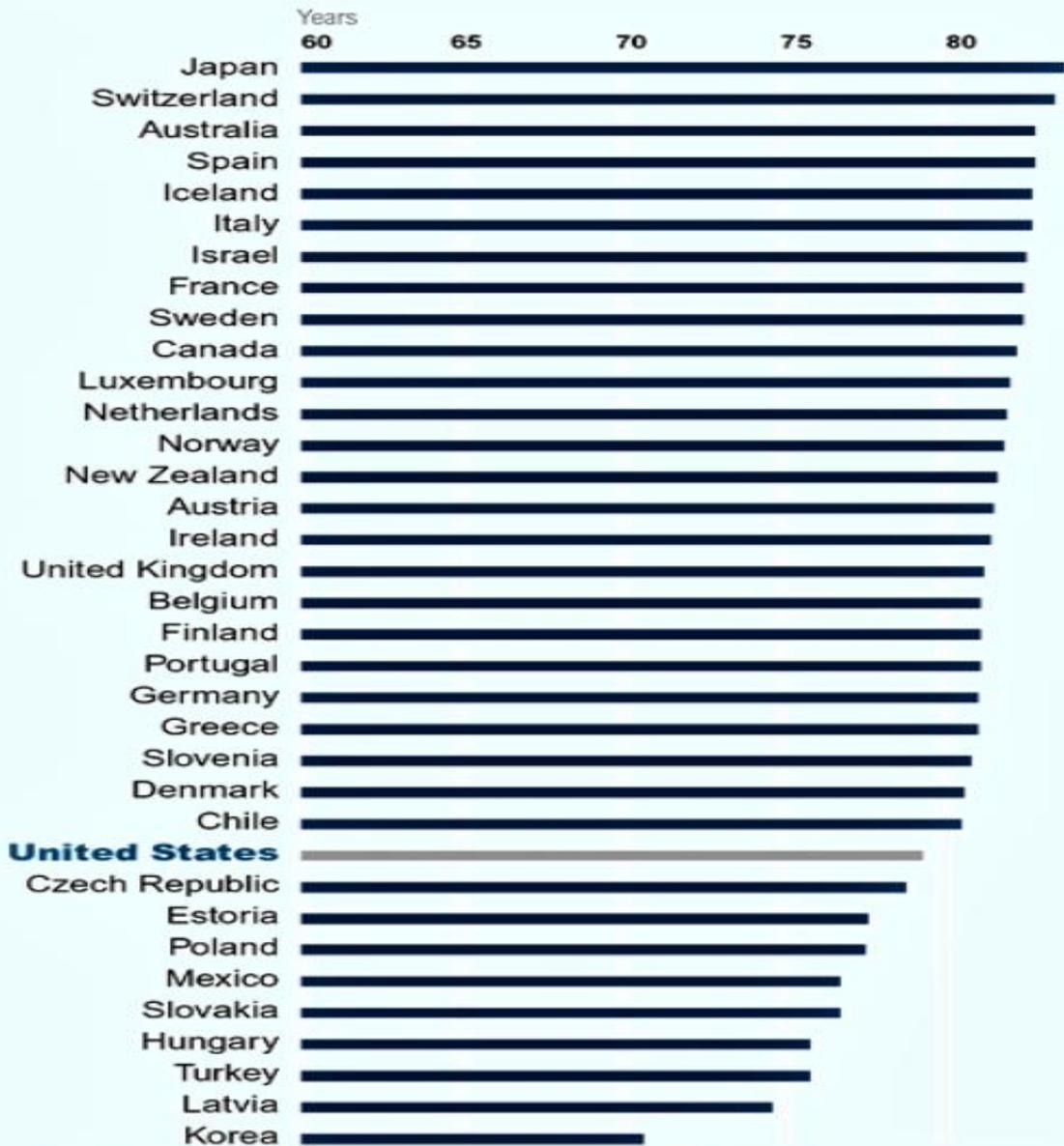
Administrative spending as a percentage of total health expenditures, 2016*



*Note: Data for Australia and Japan are for 2015; data for all other countries are for 2016.

Source: Organisation for Economic Co-operation and Development, "Health expenditure and financing," available at <https://stats.oecd.org/index.aspx?DataSetCode=SHA> (last accessed January 2019).

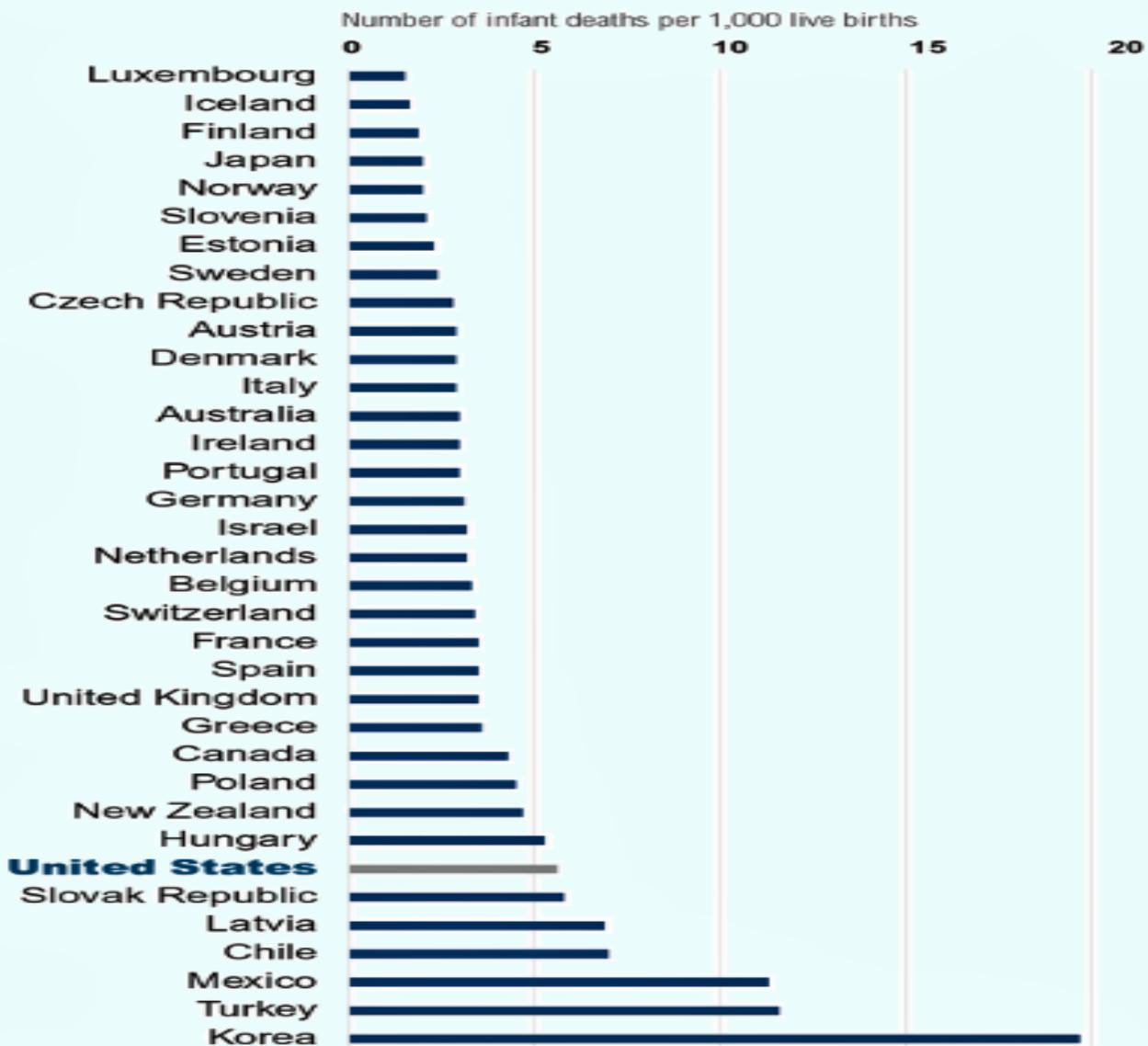
Life Expectancy at Birth (Years) Among OECD Countries, 2015



Data Source: WHO. Life expectancy at birth (years) Mortality and global health estimates. 2015. <http://apps.who.int/gho/data/node.main.688>

Updated: September 11, 2015. Accessed: November 10, 2016.

Infant Mortality Rate Among OECD Countries, 2015



Data Source: WHO. Infant mortality rate (probability of dying in the first year after birth per 1,000 live births) Mortality and global health estimates. 2015. <http://apps.who.int/gho/data/view.main.182> Updated: September 11, 2015.

Accessed: October 25, 2016

Can the Effectiveness, Efficiency and Equity of the US Health System Be Improved?

A central issue of the next few elections in the US.

Incredibly difficult given the size of the country, the vested interests opposing any change, and current political dysfunction.

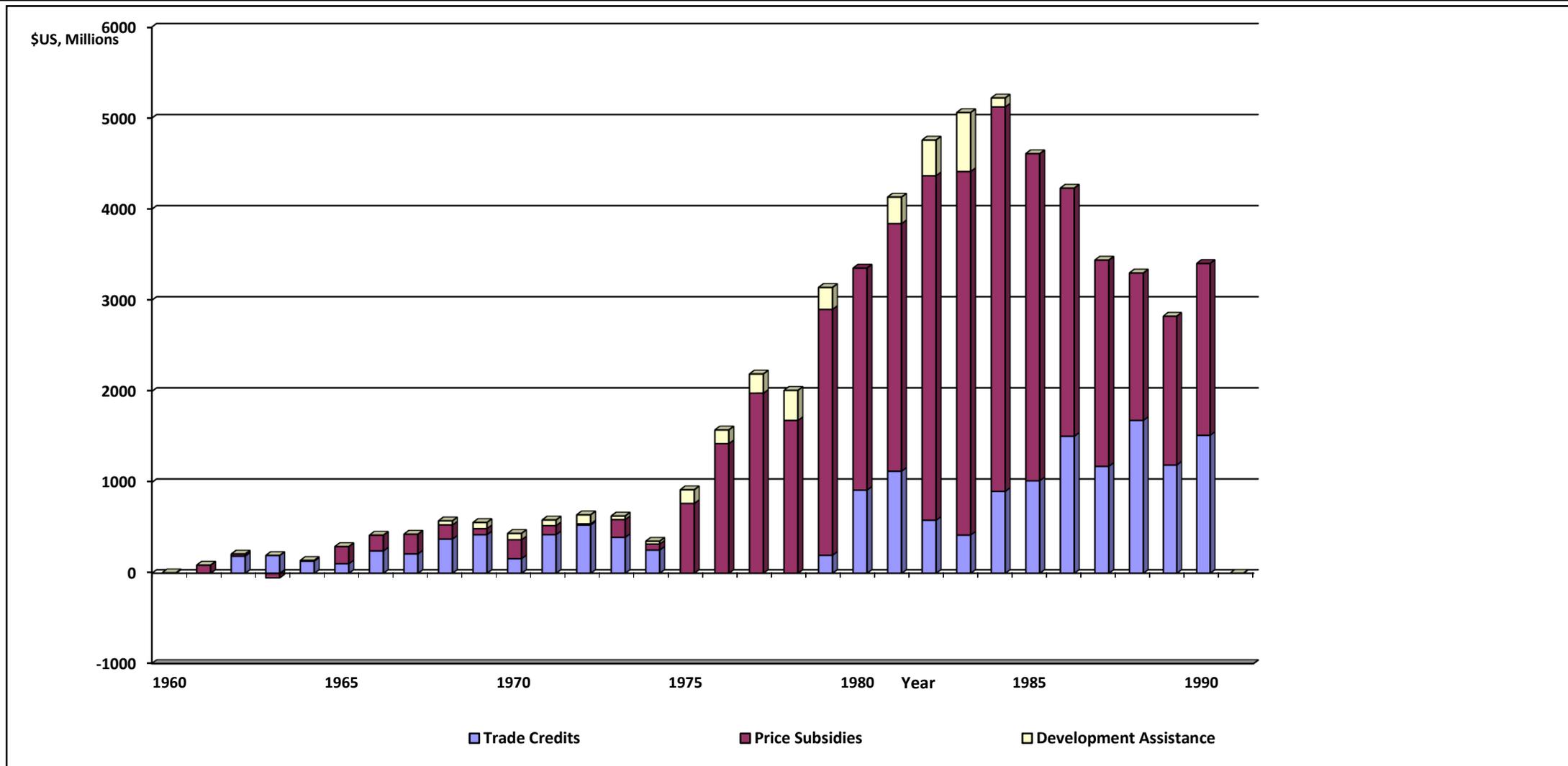
Must involve a rethinking of the Public-Private, Marketized and Plan-Oriented Mix.

Two Lessons from Cuba:

- 1. How to produce a Highly Dysfunctional Economy**
- 2. How to build a Surprisingly Good Health System despite shortcomings**

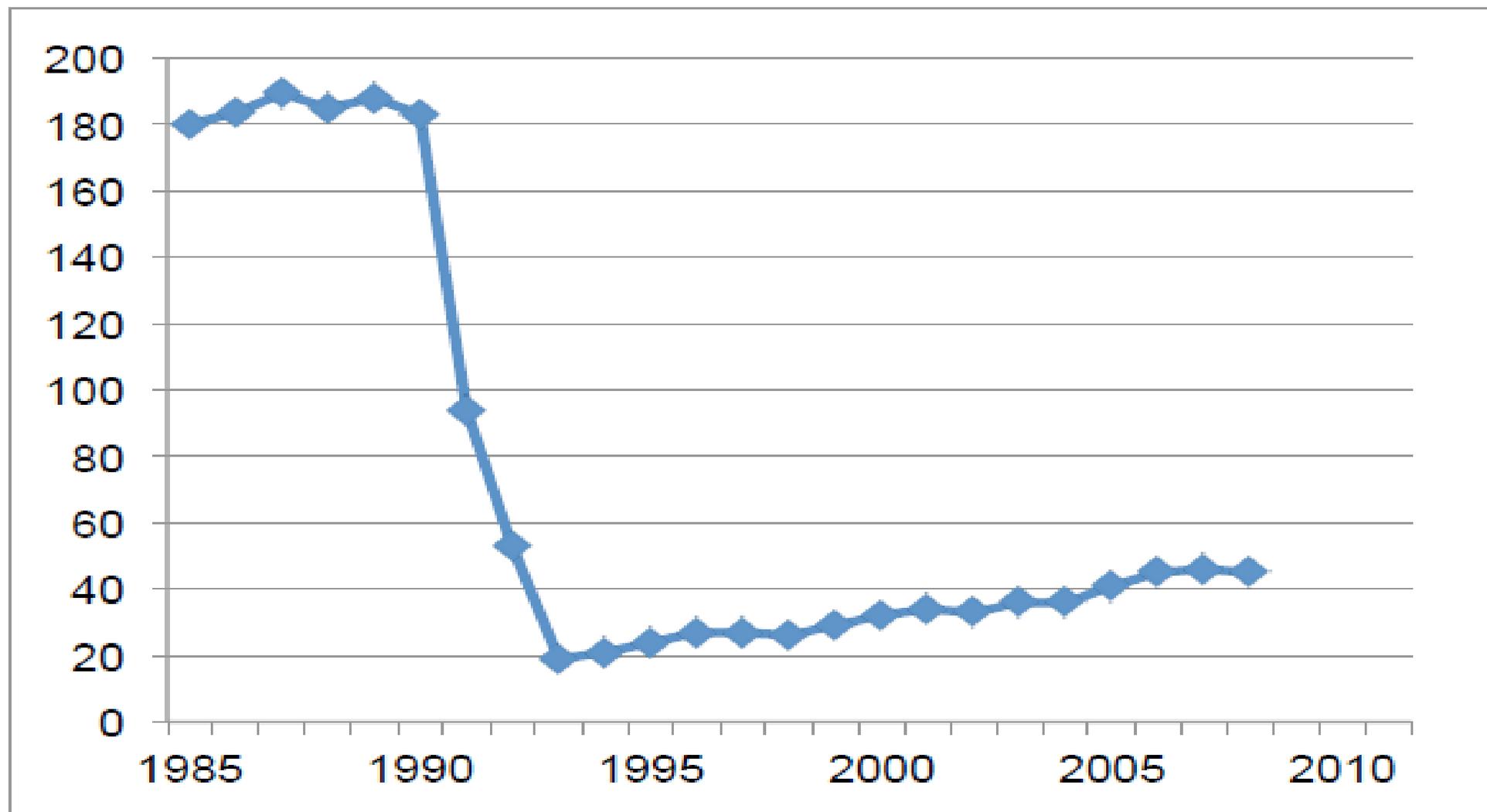
Economic Assistance from the Soviet Union to Cuba, 1960-1990

(Millions of US Dollars)



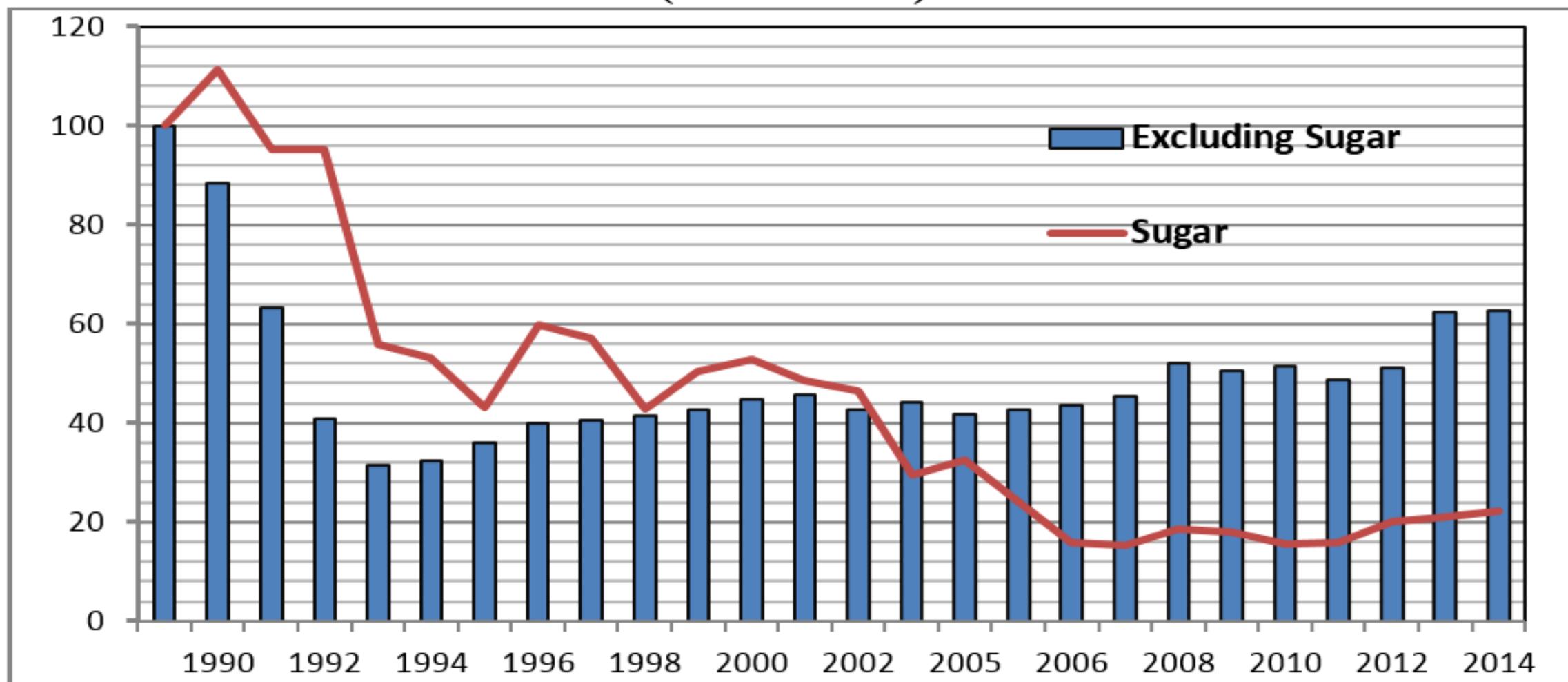
Source: Based on LeoGrande and Thomas 2002: 340-341.

Figure 5.2 Cuba: Real Inflation-Adjusted Wages, 1989-2009 (CUPs)



Source: Vidal Alejandro, Pavel, "Política Monetaria y Doble Moneda," in Omar Everleny Pérez et. al., Miradas a la Economía Cubana, La Habana:

**Figure 1: Indices of Manufacturing Output in Physical Term 1989-2014
(1989 = 100.0)**



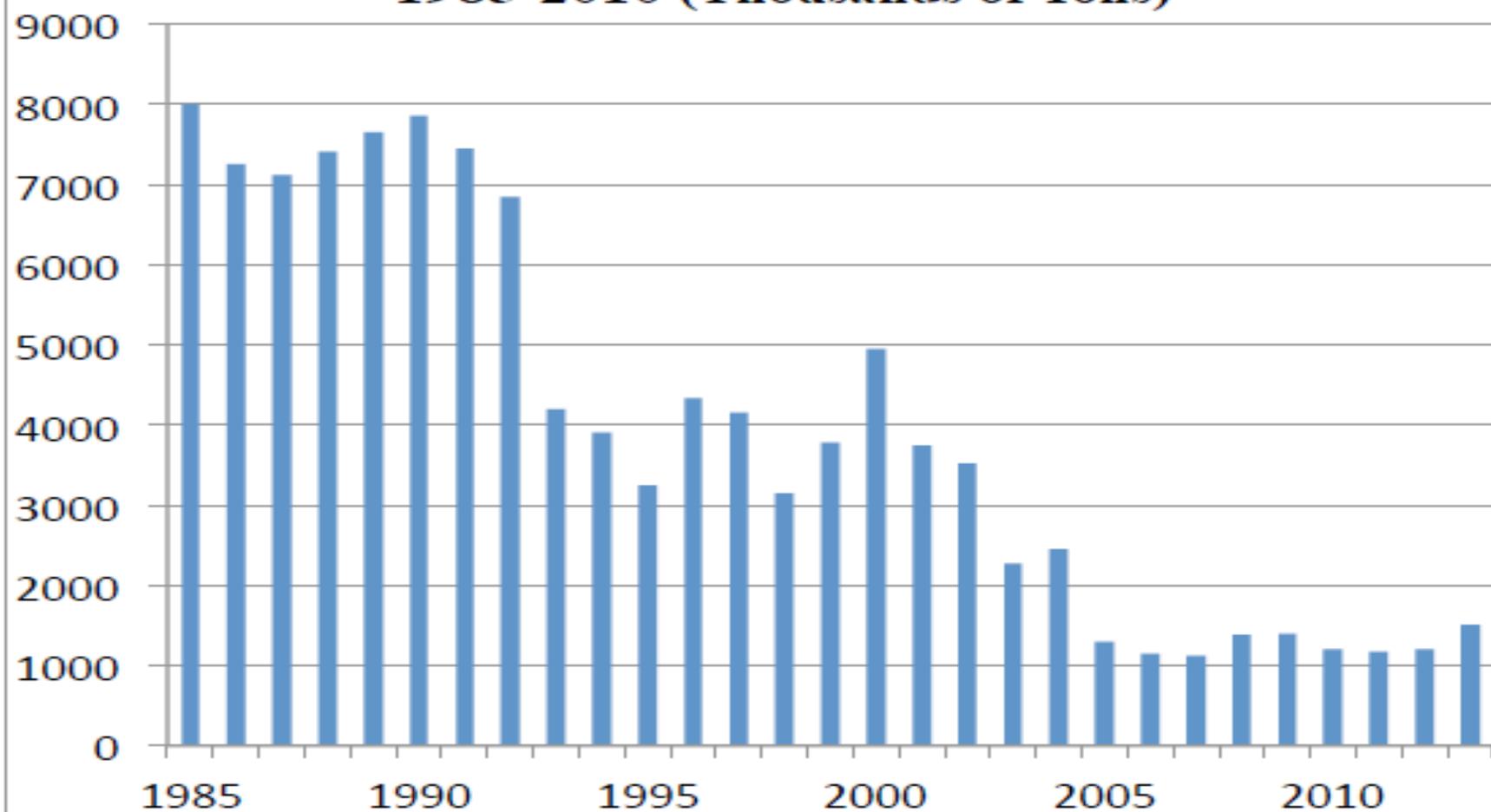
Source: ONE, AEC 2004, Table 1X.1, AEC 2012, AEC 2014, and Cuadro A.90, CEPAL, *La Economía Cubana*, Santiago de Chile, 2000

Table 1. The Manufacturing Sector in the Cuban Economy, 1989 and 2014

Goods-Producing Components of GDP	1989	2014
Manufacturing Value Added as Percentage of GDP (excluding sugar, mining and construction)	24.7%	13.4%
Agricultural Value Added as Percentage of GDP (excluding sugar)	11.2%	3.7%
Index of Manufacturing Output in Physical Terms (excluding sugar, mining and construction) [1989 = 100.0]	100.0	54.3
Labor Force	1989	2014
Manufacturing as Percentage of Total	19.4%	9.3%
Agriculture as Percentage of Total	20.9%	18.9%

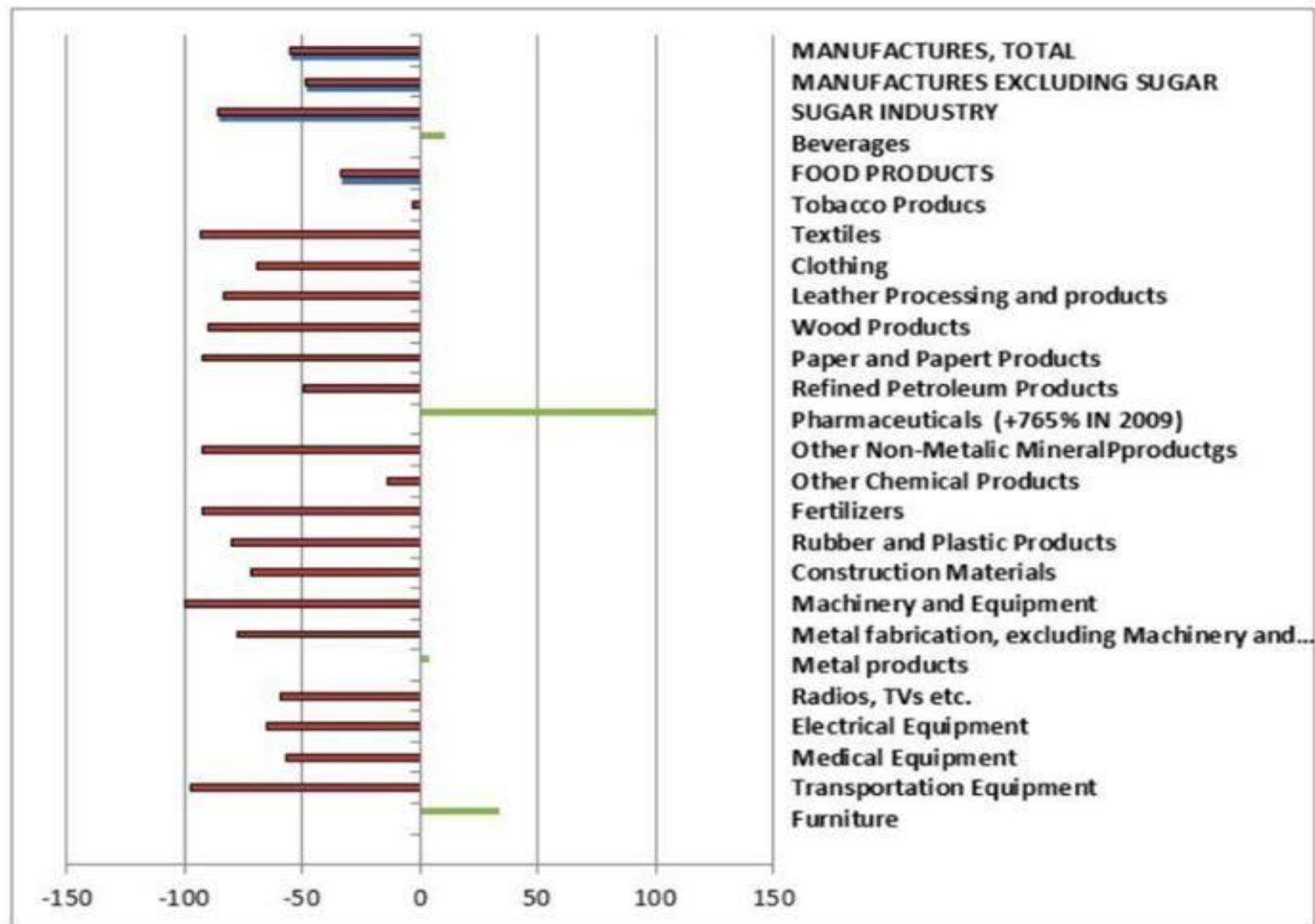
Source: ONE, *Anuario Estadístico de Cuba (AEC)*, 2008, 2011 (Table 5.5) and 2014 (Table 7.3); and CEPAL, *La Economía de Cuba*, Santiago de Chile, 2000.

**Figure 5.3: Cuban Sugar Production,
1985-2010 (Thousands of Tons)**



Source: Naciones Unidas, CEPAL 2000, Table A.86; ONE 2012, Table 11.3.

Figure 3 Changes in Output Volumes in Cuba's Manufacturing Sub-sectors, 1989-2012



Source: ONE, AEC 2012, Table 11.1

Figure 4 Labor Productivity in Manufacturing (excluding Sugar), 1989 – 2011
(1989 = 100)

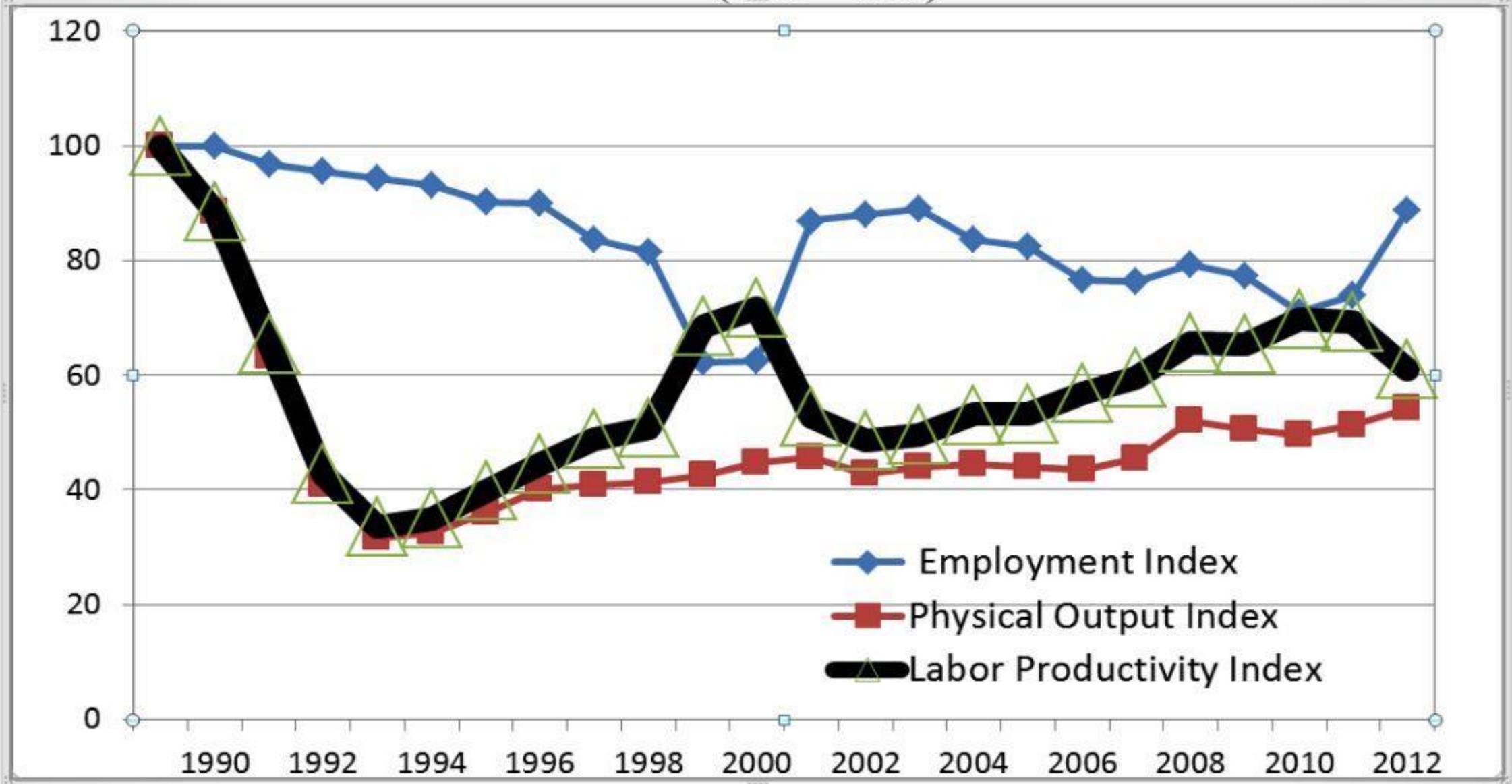
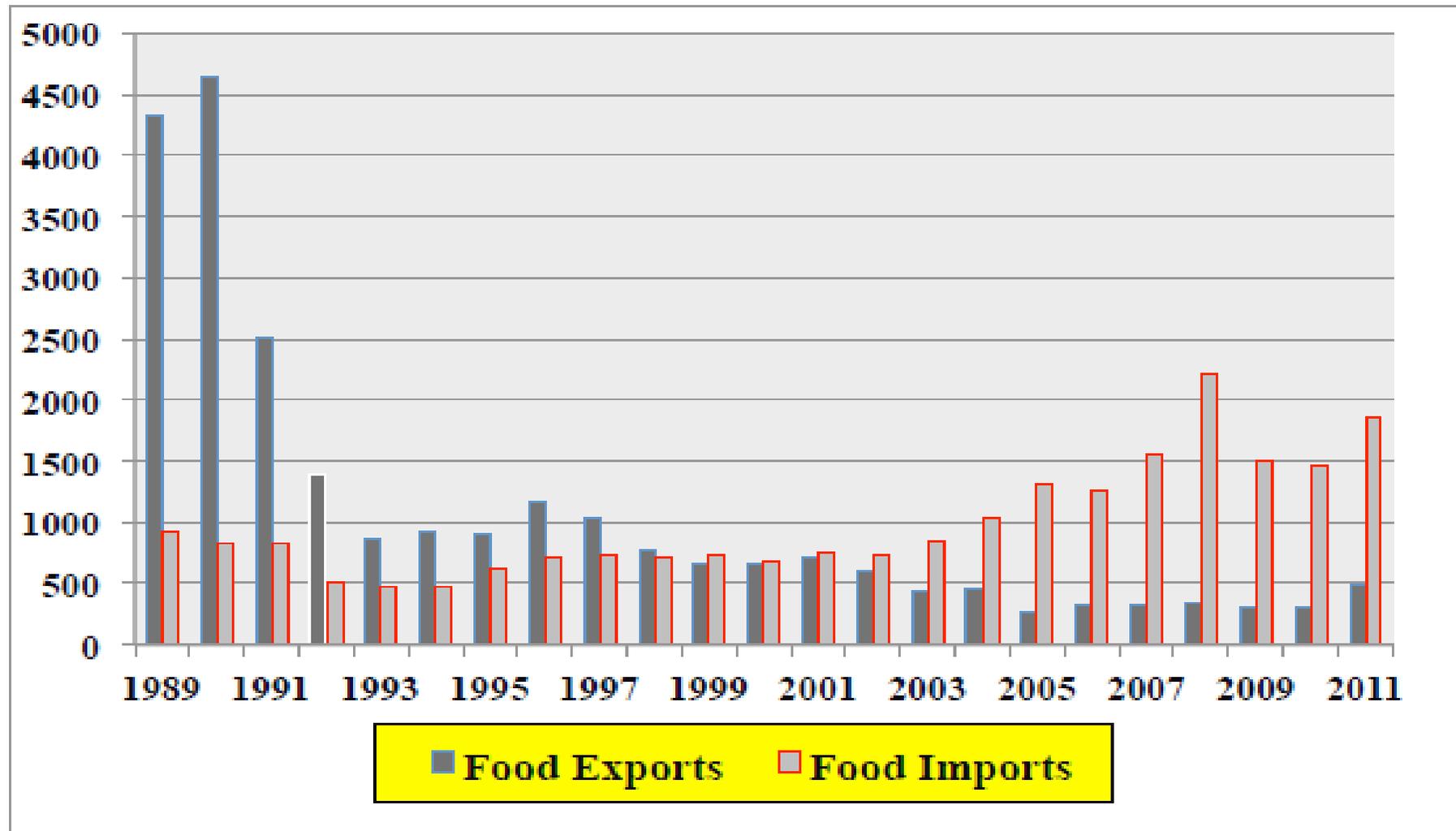


Figure 5.4: Cuban Exports and Imports of Foodstuffs, 1989-2010 (excluding tobacco and alcoholic beverages) (Millions CUP)



Source: Oficina Nacional de Estadísticas (ONE). Anuario Estadístico de Cuba (AEC), various years.

Causal factors

A Conjuncture of Circumstances - a perfect storm

1. Central Planning, elimination of markets and elimination of private enterprise did not work effectively for most of the economy.

- **Suppression of individual initiative; “Moral Incentives” insufficient for mobilizing human energies;**
- **Inefficiencies of bureaucracy;**
- **Weak and deformed information flows up the planning hierarchy**
- **Castro’s ubiquitous interference and micro-management;**
- **Massive policy errors made by Castro, implemented by central planning**

2. Termination of the special relationship with USSR;

- The end of subsidization;
- USSR Break-up and E. European recession reduced Cuba's export earnings

Result? Economic melt-down: deep recession;

Collapse of investment and savings

Cannibalization of existing equipment

Severe in-capacitaion of manufacturing sector.

3. Soviet technological inheritance:

antiquated and uncompetitive

4. Before 1989, inadequate maintenance;

After 1989, maintenance and re-investment collapsed.

(Note: “*derrumbes*”)

“Cannibalization” of industrial plant.

5. Since 1989, low levels of investment.

10.5% of GDP in 2008

vis-à-vis **20.6%** for Latin America,

(UN ECLA, 2011, Table A-4.)

6. Dual monetary and exchange rate system penalizes traditional and potential new exporters

[receive one old (*Moneda Nacional*) peso for each US \$ from exports

7. Collapse of Second Sugar Daddy: Venezuela

8. China has helped to de-industrialize Cuba (like the USA)

China's advantages in its manufacturing:

- Low-cost and industrious labor force;
 - Past and current emphases on human development and higher education;
 - A relatively new industrial capital stock;
 - Massive economies of scale;
 - Massive “agglomeration economies”;
 - **Undervalued exchange rate, co-existing with Cuba's grossly overvalued exchange rate.**
-
- Result: Cuba is flooded with cheap Chinese products that have replaced consumer products, many of which Cuba once produced – in the 1950s as well as the 1980s

8. Further reduction of the potential for diversified manufacturing in Cuba (e.g. due to the Walmart/China mass-purchaser/mass-supplier symbiosis).

9. Probably blocks export diversification;

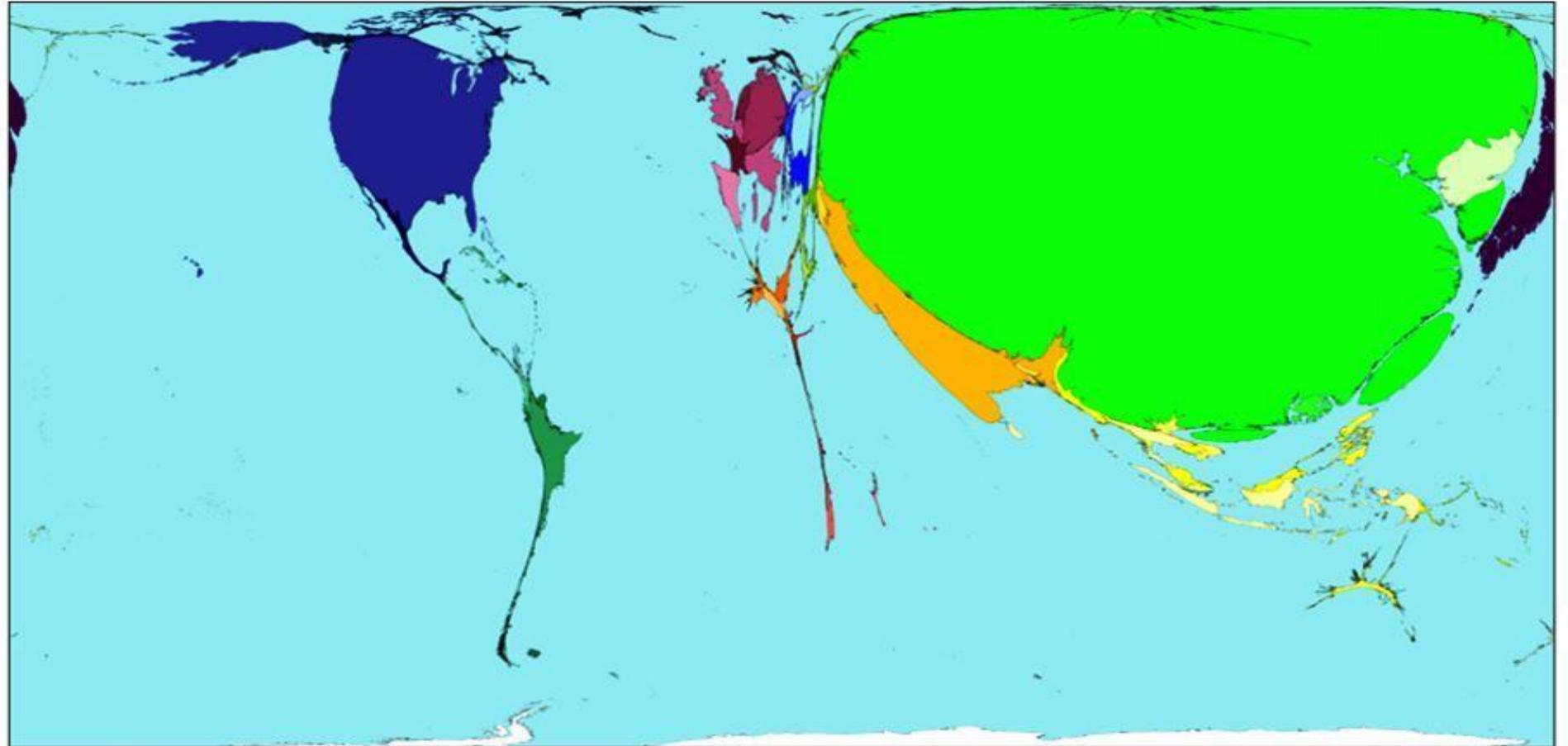


Figure 5 The World According to Walmart's Procurement Purchases.
Would CIMEX procurement pattern be similar?

So, does Cuba have a reasonable economic future?

General Comparative Disadvantages:

- Manufacturing **base has collapsed** significantly;
- **Obsolete** run-down manufacturing capital stock;
- **Low investment levels** impede up-dating capital stock;
- Decayed and **mis-fitted skills**;
- **Decayed infrastructure**;
- Small domestic market size: **agglomerative and scale economies are minimal**;
- At present, **US embargo** blocks potential exports

Does Cuba have a reasonable economic future?

Answer: Yes, to some degree.

BUT, only if policy reforms are significant and expeditious regarding

- **Major economic liberalization: EFFECTIVE MARKETS and private enterprise**
- **Increasing Investment to at least 20% of GDP per year.**
- **Monetary system and exchange rate**
- **Reintegration with natural geo-economic partner: USA**

Broader-based economic revival for Cuba is possible but will be most difficult.

One Success Area for Cuba: Health

Strong Health Indicators (see chart on next slide)

Very low cost system (see chart)

i.e. big bang for the buck.

How?

- **Strong pre-revolutionary medical system**
- **Universal and automatic coverage**
- **High policy priority**

Health expenditures: low per person but a high proportion of GDP

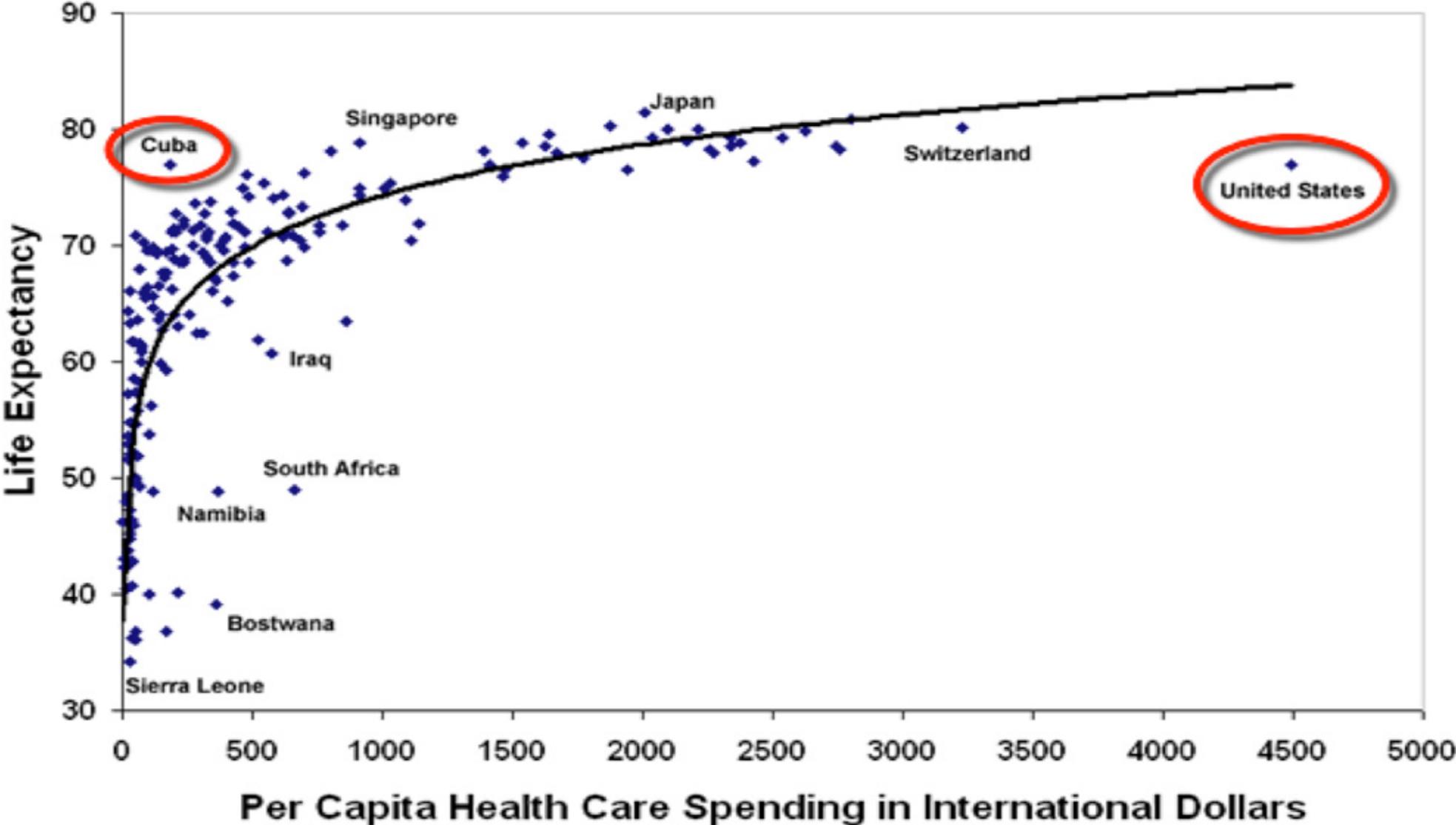
- **Low pay for medical personnel**

Basic Human Well-Being Indicators: United States and Cuba

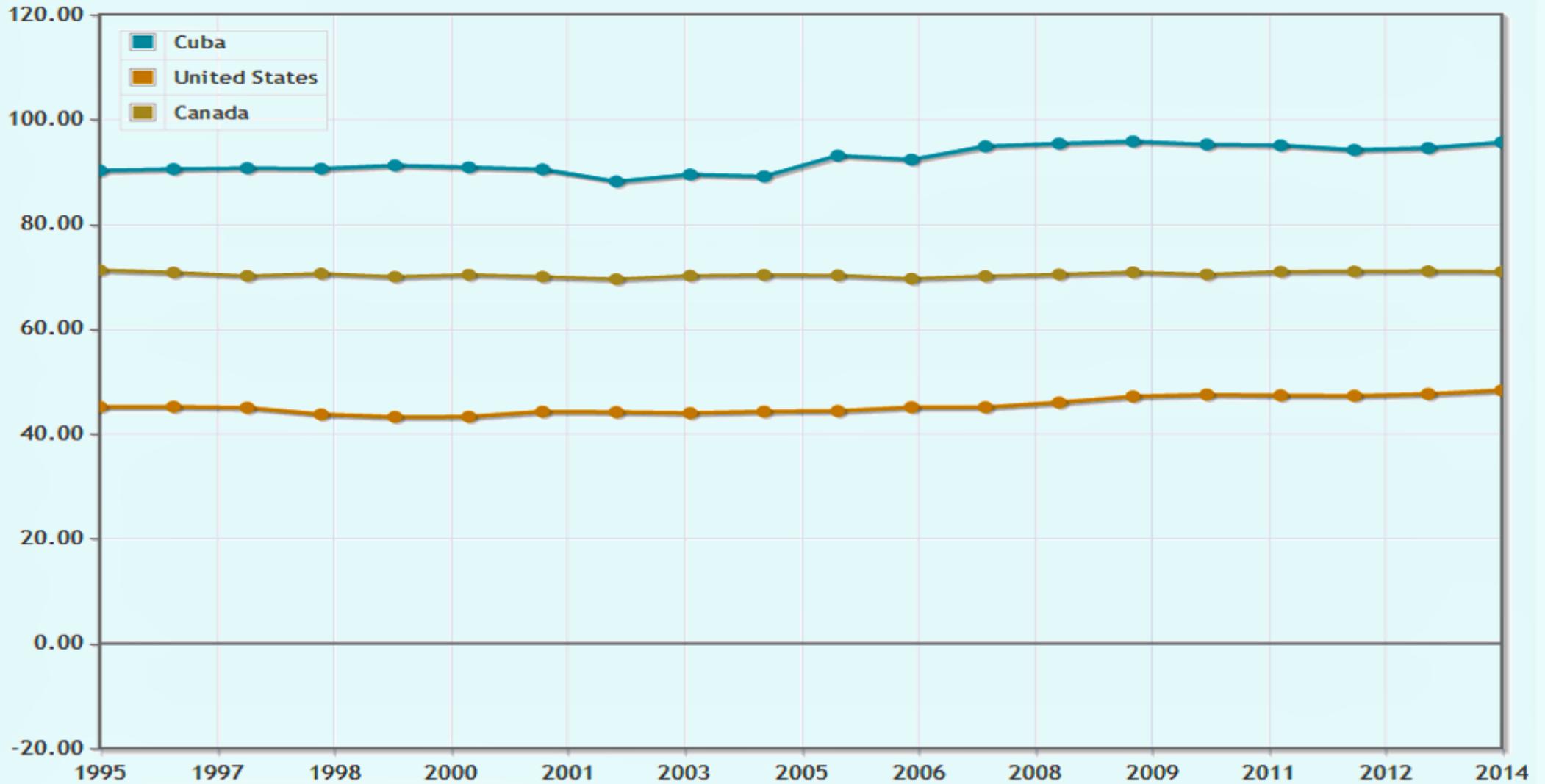
INDICATOR	UNITED STATES		CUBA	
Human Development Index	#13	0.934	#73	0.777
Health Indicators				
Life Expectancy, M & F		79.5		79.9
Infant Mortality (%)		5.6		4.2
Under 5 Mortality (%)		6.6		5.5
GDP per capita (\$us)		\$39,116.		\$7,524
EDUCATION				
Expected years of Schooling		16.5 years		14 years
HUMAN SECURITY INDICATORS				
Homicide Rate				
		5.4 per 100,000 persons		5 per 100,000 persons
Suicide Rate: Male		19.5		17.0
Female		5.8		4,2
Prison Population		698 per 100,000 Persons		510 Per 100,000 Persons

Life Expectancy vs. Spending

Circa 2013



Health expenditure, public (% of total health expenditure)



Data source: [World Bank, World Development Indicators](#) - Last updated June 30, 2016
See also: [Thematic map](#), [Health Indicators](#), [Health systems](#)

Main Conclusions:

Markets and planning; private and public sectors all have advantages and disadvantages; Both are absolutely vital and necessary.

USA: fine achievements in many areas, but serious problems in health and income distribution;

Revolutionary Cuba: massive central economic mistakes and problems, but a success in health.

Resolving the central problems in both countries is immensely difficult for ideological reasons and due to the power of vested interests;

One of our eternal tasks is to find the optimum combination for human wellbeing.

Ritter's recommendation for US and Cuba: drop the terms "socialism" and "capitalism" and all the ideological baggage around them;

Solve problems pragmatically.

Easier said than done.

THANK YOU VERY MUCH !!