

Preface

On January 1, 2005, Maximum Leader Fidel Castro started his 47th year in power. Now more than 78 years of age, Castro remains fully in control of the island's polity and military, despite rumors about his health and a fall in mid-October 2004 at a public event that resulted in a broken arm and badly shattered knee.

Fifteen years after the breakup of the socialist economic community and thirteen since the dissolution of the Soviet Union, the Cuban economy continues to struggle in an unending economic crisis, euphemistically referred to as the Special Period in Time of Peace (El Período Especial en Tiempo de Paz). Modest economic growth since the mid-1990s has not been sufficient to offset the sharp drop in gross domestic product (GDP) and in standard of living that the population endured from 1989 to 1993.

With the economy in a free fall, between 1993 and 1996 the Cuban government put in place a number of measures that strengthened the role of the private sector in the economy. Among these pro-market reforms were the legalization of the use of foreign currencies, the promotion of foreign direct investment, the expansion of self-employment, the breakup of state farms and their conversion into cooperatives, and the establishment of private agricultural markets. These measures, undertaken reluctantly by the Cuban leadership, were sufficient to stop the contraction of GDP and bring about modest economic growth. Only two significant policy initiatives were taken in 1997–98, both of an administrative nature, a revamping of the banking system and promotion of a new enterprise management system, the *sistema de perfeccionamiento empresarial*.

Concerned that reforms that strengthened the private sector weakened their political control, the Cuban leadership not only aborted the modest market-oriented reforms of 1993–96, which had led to a partial socioeconomic recovery, but in 2003–4 took steps to reverse them, recentralizing the economy, eliminating the limited spaces opened to private economic activity, exerting increased control over hard currency transactions, and stepping up repressive measures on peaceful dissidents, civil rights activists, and other groups of citizens. As of 2005, Cuba has yet to return to the economic levels of the late 1980s.

While the economy remains in crisis, social inequities expand. The vaunted education and public health systems have been weakened by reductions in expenditures and an inability to import necessary products and services. Many social services have not recovered the level of access and quality that they had achieved prior to the economic crisis triggered by the collapse of the socialist camp. The unequal access of the population to foreign remittances has exacerbated social differences and widened the consumption gap between those who have access to foreign currencies and those who do not.

This book focuses on Cuban socioeconomic policies and performance since the collapse of the Soviet Union and the socialist countries. To put the recent period in context, we present an overview of socioeconomic policies and performance in the revolutionary period, and then analyze in detail the economic and social deterioration and incomplete recovery since 1990, compare Cuba's socioeconomic performance with that of other countries in Latin America and in the former Soviet camp, summarize the views of noted Cuban economists living on the island regarding the economic situation and policies necessary to break out of the crisis, and propose some socioeconomic policies that Cuban leaders might wish to put in place under two scenarios: a continuation of the socialist system or a change in political system.

In chapter 1 we examine Cuba's economic and social policies during the revolutionary period, 1959 to the present, focusing on ideological-economic cycles that have dominated Cuban policymaking. These cycles, driven by ideological tendencies of the leadership, alternatively shifted economic policies toward the market (pragmatist) or away from the market (idealist). Economic outcomes diverged significantly, deteriorating during idealist cycles and improving during pragmatist ones. We believe that the core reason why the leadership limited, slowed down, and eventually reversed pro-market policies and launched anti-market cycles—actions certain to bring about adverse economic performance—is the fear of losing political control as a result of decentralization of economic policymaking, expansion of the market and the private sector, and the subsequent surge in economic behavior independent of the state. Political logic, therefore, has trumped economic

logic, even though the result has been the deterioration of economic conditions and standard of living. That Cuba aborted incipient economic reforms and has been entrenched in an idealist cycle since 1997—strengthened in 2003–4—does not augur well for the economic and social well-being of the Cuban population in the new century.

The disruption and eventual breaking of trade and economic relations with the former socialist community in the early 1990s propelled Cuba into a severe economic crisis, the Special Period in Time of Peace. In chapter 2 we examine Cuba's economic and social performance from 1990 through 2004, comparing the overall period with 1989 (the year before the crisis) and 1993 (the trough of the crisis). We examine the performance of selected macroeconomic, external-sector, physical output, and labor market and social security indicators. In addition, we compare the government's economic and social goals for 1998–2003 with actual performance, discuss the feasibility of 2004 goals, and summarize prominent Cuban economists' views on the current economic situation. Finally, we analyze in considerable detail the slowdown in economic growth that has occurred since 2001 and conclude that, although external factors contributed to it, its root cause has been politically motivated paralysis of essential structural reforms.

In chapter 3 we turn to social welfare, with an emphasis on how Cuba has performed in terms of delivery of social services and equality during the Special Period. This task is made particularly challenging by the dearth of statistical information on key variables such as income and wealth distribution, real wages, racial discrimination, distribution of remittances, and so on. We rely on the scarce figures available; proxy variables; and qualitative evaluations based on public documents, surveys, articles by experts published in Cuba and abroad, and interviews conducted by Mesa-Lago of recent émigrés and visitors from the island to document the deterioration in social welfare and growing socioeconomic disparities in Cuba from 1993 to 2004.

Chapters 4 and 5 provide an international comparative dimension to our analysis. In chapter 4, we analyze how Cuba's socioeconomic performance has been measured by a very prominent international comparative economic development yardstick, the Human Development Index (HDI), compiled and published annually by the United Nations Development Programme. We conclude that Cuba's relatively strong performance with respect to the HDI is the result of faulty data and methodological quirks that tend to prop up Cuba's HDI index rankings in spite of strong evidence from other sources—including official Cuban data—that contradicts such high rankings.

In chapter 5 we take a closer look at Cuba's economic and social development model, and its performance. We compare these with the models and performance of Chile and Costa Rica over the last 50 years. The choice of

these countries is deliberate, in order to contrast Cuba's socialist development model and authoritarian, single-party political system with the situations of two other countries in the region that have followed different paths: for Chile, a neoliberal economic model and authoritarian military regime that turned to democratic pluralism in 1990, and for Costa Rica, a mixed economic model and pluralist political system.

The comparisons indicate that through 2000, Chile was the best performer with respect to economic growth. It was the worst with respect to social development during the military dictatorship, but rose to second and even tied Costa Rica for first place at certain times during democratic governments. Costa Rica was first with respect to social development and second with respect to economic growth. Meanwhile, Cuba ranked at the bottom in terms of economic growth and fell from first to middle or last place in social development after 1990. Both the Chilean and Costa Rican models are highly viable in the mid-term, although their future success could be enhanced by a variety of policy actions. The Cuban model is the least viable of the three; improving it would require a broad program of reforms, discussed in the concluding chapter.

Finally, in chapter 6 we discuss conceptually the set of reforms that Cuba must tackle to improve the challenging socioeconomic situation it currently faces. First, we review some of the reform experiences of countries of central and eastern Europe, the Baltic States, and the Commonwealth of Independent States (CIS, an association of former Soviet Union countries), identifying transition strategies, results, and key variables that influenced these transition processes. We then examine Cuban economists' suggestions regarding necessary changes *within* Cuba's socialist system and conclude that deeper and more comprehensive measures that move Cuba faster toward a market economy are necessary. We end this chapter with a discussion of reform measures that Cuba should take in order to overcome the ongoing economic crisis under two transition scenarios: (1) under the continuation of the current political system, although presuming a willingness to return to the moderate reform path followed from 1993 to 1996; and (2) assuming a change in political system and faster transition toward a market economy.

To the maximum extent possible, we have based our analysis on quantitative, objective information in order to avoid the controversies that usually accompany studies of Cuba. Working with official economic and social statistics is a hazardous task, however. Information on the methods that Cuban statistical agencies use in compiling data is very sparse or lacking altogether; definitions of statistical series are not always clear and change often; at certain times Cuba has used statistical methodologies that differ from those used by most of the rest of the world; and there is always a concern that the

statistics could be manipulated or distorted to serve political ends. Our documented opinion based on many years of work with Cuban statistics is that the quantity and quality of Cuban economic and social statistics improved during the 1980s and again in the second half of the 1990s, when Cuba shifted the methodology for computing its national accounts from the system used by the socialist nations to the one used by nearly all other nations in the world. This step made it technically possible to compare Cuban measures of aggregate output (such as gross domestic product, GDP) with those of other countries.

We are however concerned about recent developments suggesting that some manipulation of key statistical series may be occurring. First, as we discuss in chapter 2, in 2001 Cuba changed its price basis for calculating macroeconomic indicators, particularly GDP, to a 1997 base. This is a routine procedure. Statistical offices periodically rebase their statistical series, and Cuba had been relying on statistics based on 1981 prices for more than 20 years. Normally, the current-price data should not be affected, but in 2001 Cuban officials published a new GDP series at constant prices going back to 1996 that differs by an average of 60% from the previous current price series for the years 1996–2001. As this discrepancy cannot be attributed to the change in price basis, some underlying methodological changes must have been made. Cuba's statistical yearbook for 2001 (ONE 2002) mentions in passing that the new GDP series provides better coverage of sectors such as financial services and insurance, housing services, tourism, and self-employment, but there is no precise information on the changes or on adjustments made to earlier data.

Second, it is clear that Cuban statisticians, perhaps pressured by government leaders, are manipulating macroeconomic statistics to make Cuba's dire economic situation seem less so in comparison with other nations. Thus, in 2002 and 2003 Fidel Castro criticized the conventional methodology used to estimate GDP by the United Nations and virtually all countries in the world. In his report to the National Assembly at the close of 2003, Minister of Economics and Planning José Luis Rodríguez not only reported a very high growth rate (2.6% compared to the planned rate of growth of 1.5%) based on the "conventional" GDP methodology, but also disclosed an even higher rate of growth (3.8%) based on a "new methodology" that adjusts the GDP data to account for the free services that the Cuban population receives. The methodology for this calculation has not been made public. More ominously, Rodríguez stated that Cuban statisticians are undertaking further adjustments to GDP statistics to take into account the purchasing power parity of the peso and that upward adjustments in growth rates can be anticipated. If analyzing Cuban economic performance was challenging with GDP com-

puted following the conventional method, it will be more so in the future when and if these additional methodological changes are implemented.

Third, the obvious manipulation of unemployment statistics renders them useless as an indicator of labor market tightness. A lingering concern about Cuban unemployment statistics has been that they paint an erroneous picture of the labor market because they fail to account for the severe underemployment in the state sector. As we discuss in chapter 2, independent estimates suggest that underemployment may have been in the range of one-third of the labor force in the mid-1990s. But the more recent sharp declines in open unemployment rates—to 2.3% in 2003—are inconsistent with the overall economic situation and result from counting as employed persons who are working part-time in urban agriculture and former sugar industry workers who are undergoing reeducation and retraining, as well as keeping out of the labor force school dropouts who are enrolled in remedial programs.

Fourth, as we discuss in chapter 3, the behavior of higher education enrollment statistics in the 2002 statistical yearbook suggests statistical manipulation. Without explanation, higher education enrollment series for the academic years 1996/97 to 2000/1 reported in that source were changed, increasing in some disciplines by as much as three times and raising the overall higher education enrollment figures from 10% to 14% over the same period.

And fifth, official morbidity data are suspect because of the sudden disappearance in 2002 of contagious diseases that had peaked in the midst of the crisis, such as hepatitis, despite the persistence and aggravation of the deterioration in the nation's water and sewage infrastructure. In addition, venereal diseases (gonorrhea and syphilis) significantly decreased in the early 2000s according to official data, despite growing prostitution and scarcity of prophylactics and antibiotics. Furthermore, the series on maternal mortality published since 1959 was changed in 2000, with the new series excluding certain causes of mortality, thus resulting in figures 8 to 11 percentage points lower than the old series.