Cuba Transition Project

PRIVATIZATION, RECONSTRUCTION AND SOCIO-ECONOMIC DEVELOPMENT IN POST-CASTRO CUBA

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Cuba Transition Project – CTP

The Cuba Transition Project, at the Institute for Cuban and Cuban-American Studies (ICCAS), University of Miami, is an important and timely project to study and make recommendations for the reconstruction of Cuba once the post-Castro transition begins in earnest. The transitions in Central and Eastern Europe, Nicaragua, and Spain are being analyzed and lessons drawn for the future of Cuba. The project began in January 2002 and is funded by a grant from the U.S. Agency for International Development.

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Executive Summary

This essay focuses on several key themes and their mutual interrelation in the societal process known as transition. Its main intent is to apply the generalizations gathered from the lessons of Central and Eastern European and Baltic countries and the Commonwealth of Independent States (CIS) to the specific conditions most likely to obtain in Cuba in the post-Castro period.

Emphasis is made on the importance of the initial conditions existing in a country at the inception of the transition as well as on the terminal state sought by policymakers. The peculiarities of each case are decisive in the selection, mix, and even sequencing of the measures to be adopted in the prosecution of given ends. Once again, Cuba's singular characteristics are given special notice. The extreme impoverishment of the country, its status as an underdeveloped economy, its unique geoeconomic parameters, and the dissociation and rending of its social fabric as a result of a disruptive and failed revolution require the formulation of a well thought-out blueprint for its transition to democracy and market.

As a result of these preconditions and of the fragility of the society itself, the Cuban case presents very difficult challenges. At the same time, other factors — mainly geoeconomic and political in nature — may facilitate the transition to a greater degree than has been possible in most formerly socialist nations.

The kind of obstacles that Cuba will face in the post-Castro period will be complex indeed. Elements such as laying the basis for fundamental political and social institution building and modernization will occupy the attention of statesmen for years to come. Designing an appropriate blueprint for economic recovery, development, and global competitiveness will require an intimate knowledge of Cuba as well as the ability and willingness to devise innovative solutions.

It will be necessary to articulate a feasible and integrated strategy of nation building, social reconstitution, and economic reconstruction and development, with its various elements advancing in a parallel, mutually supportive fashion, to be carried out within a reasonable timeframe. Balance, sequencing, and a delicate dynamic or moving equilibrium

would be necessary traits of the pathway for such a multiplex kind of transition process.

Privatization will be, in more than one sense, the centerpiece of the transition process. The particulars it will exhibit will be decisive in stimulating the reconstruction of the economy and energizing its development. Indeed, privatization is inseparably connected to the emergence of a new entrepreneurial class in Cuba and, thus, the social stratification of a new Republic.

The Sequencing, Tempo, and Variety of Institutional and Policy Reforms

The purpose of this paper is to introduce in a summary and purely preliminary fashion the overall views of the author on the topic indicated by its title. The privatization of state properties in formerly socialist countries is an extremely complex political and socioeconomic issue about which it is very difficult, if not impossible, to make valid generalizations. Simply, there are too many particular factors conditioning each case to make possible a relevant synthesis of the various experiences and the offering of a universal policy approach or single method of privatization.

Notwithstanding the above, it is possible to extract partial but still useful lessons from the desocialization programs and policies of countries attempting to traverse the treacherous road of plan to market. Many of the most important issues surrounding the debate over the correct course or method to follow in privatizing productive assets can be addressed in terms of the reply we choose to give to the following three crucial questions:

1. What should be the optimum sequence of the changes and reforms that are to take place in a particular country? In other words, should privatization precede or follow the adoption of policies and the creation of market institutions such as a commercial and investment banking system; financial capital and money markets; stock exchanges; liberalizing pricing and trade systems; creation of an appropriate commercial, administrative, and legal framework; stimulation of a competitive entrepreneurial climate in the economy; and the like.
2. Should privatization precede or follow the implementation of structural macroeconomic adjustment measures and policies as well as other measures concerning austerity and stabilization processes?

Several examples of the above would be: internal monetary reform; simplification and stabilization of foreign exchange mechanisms (with or without free convertibility of the national currency); elimination or reduction of the fiscal deficit in the public sector and control of inflation; reform of import duties and tariffs; adjustment in the regulated rates of public services; administrative decentralization; and other related initiatives.

3. Should privatization precede or follow structural microeconomic reforms such as the demonopolization of the large state-owned enterprises (SOEs); the removal of preferential and concessionary bank credit to these companies; the elimination of hard budgetary constraints and subsidies; the elimination of supernumerary labor and other related matters; enterprise reform: commercialization, marketization, and governance methods; redefinition of the lines of authority and decisionmaking patterns in SOEs, addressing issues such as managerial coordination; accountability; transparency; and similar matters.

Recent partial renationalization of heavily indebted firms in the Czech Republic, the Russian experience with privatized monopolies and oligopolies, the Polish reluctance to adopt an all-out approach to the privatization of non-restructured firms, and the Hungarian newly found misgivings concerning an overly rapid transfer of ownership rights are eloquent instances that absolute principles and unbreakable rules are not to be entertained in the formulation of holistic packages. Policies are to be applied to various countries under their specific conditions and circumstances. Initial conditions and contemplated terminal states are decisively important in making the relevant choices.

As is well known, the sequencing of reforms as well as their tempo have been subjected to much theoretical debate and actual empirical testing in Central, Baltic, and Southern European (CBS) and CIS countries. In reference to the latter, there is no doubt that early hopes for a Big Bang type of transformation came to naught as the difficulties and complexities of the process became apparent. Most experts would agree that former socialist countries are still undergoing change and have not reached their self-appointed terminal state, while they also understand that a protracted, too slow a pace of change, may lead to stagnation or arrested progress.

As to the sequencing of reform policies, the meandering course of the transition programs in various countries as they have gradually unfolded has made it increasingly clear that the so-called Washington Consensus, as originally formulated, is no longer acceptable even to institutions like the International Monetary Fund (IMF) and the International Bank for Reconstruction and Development (World Bank), which were instrumental to its creation.

There are too many variables involved, besides a large number of unpredictable events, outcomes, and by-products — both exogenous and endogenous — such that no mechanical or inflexible planning is going to pan out. In addition, one must factor in the political volatility and inflated expectations that oftentimes provoke policy reversals. These eventuate in unexpected detours from and revisions of anticipated paths and declared goals.

At this point, excepting the avowed need to prioritize macroeconomic stability at the inception of the transition program, there is no true consensus on much else. Initial conditions and postulated terminal states are now acknowledged as of paramount importance in designing a suitable transformation path.

However, it should be understood that the alluded indeterminacy applies to the holistic design of the transformation program, blueprint, or roadmap contemplated by the decision makers in charge of the process. However, discrete or separate components within the whole have to cohere and be mutually consistent and supportive. A few examples will suffice to illustrate this: monetary policy, interest rate structure, and credit availability have to jibe; fiscal policy and macroeconomic stability have to mesh; the exchange rate, commercial policy, and the external balance equilibrium must blend; wage policy, productivity increases, the rate of inflation, and the standard of living must come together.

The foregoing should be given uppermost importance in any attempt at visualizing a future Cuban transition. Cuba will exhibit highly peculiar and distinct initial characteristics of its own at the start of the process, requiring much detailed knowledge and familiarity with the case on the part of prospective policymakers.

Let us now introduce a touch of reality and concreteness to the previous comments by pointing at policy changes and outcomes in the economic and social spheres in CBS countries.

The Economic Sphere

The sequence and rhythm or speed of the transformation from a socialist to a market economy is of decisive importance to the success or failure of the endeavor. An erroneous or too rapid sequencing could lead to the reemergence of an accelerated inflationary rate, excessive speculation in the consumer goods markets, a drastic increase in unemployment, and a sharp fall of production.

The case of Poland in the initial phase of reforms clearly points to the dangers cited. In effect, Poland's policies of austerity, stabilization, and liberalization contributed at the time to the creation of a social climate of popular discontent and an unstable and fragmented political panorama, without, on the contrary, resulting in the rapid and substantial privatization of the economy that had been anticipated by the government and its foreign advisers. At present, the authorities in that country have reoriented their economic policy program toward a strategy of gradual and slower change with a view to a much longer process than originally planned.

The case of the Czech Republic is, in some important aspects, contrary to that of Poland. In the former, the structural changes to or modifications of all kinds of institutions have proceeded too slowly, thus evidencing political problems motivated by different causal factors. While in Poland the people's discontent stemmed from economic conditions created by excessively rigorous stabilization and austerity measures, in the Czech Republic, it is widely believed that the former communist bureaucracy sabotaged transformation efforts and paralyzed reforms. Thus, the Czech parliament specifically designed a piece of legislation to disfranchise those bureaucrats, excluding them from the decisionmaking process. In the meantime, until very recently, the Czech Republic only succeeded in the promulgation of considerably less severe austerity and stabilization measures than those of Poland.

A completely different situation obtained in the cases of Hungary and Germany. In Hungary, the processes of administrative decentralization as well as dispersal of authority and decisionmaking patterns go back to the period immediately before the Nationalist and Anticommunist Revolution of 1956. At that time, the development of the private sector in the areas of small enterprise, commerce, distribution, and services was permitted. This means that Hungary's economy and society, while stuck in an intermediate, semi-reformist position (a variety of O. Lange's model of market socialism), have more easily proceeded in a gradual sequence of structural change than is the case in Poland or the Czech Republic.

Even though the privatization process of large enterprises and heavy industry in Hungary like everywhere else inevitably will be accidental and difficult, it will not be as traumatic as that of Poland and the Czech Republic. The political, administrative, and judicial framework within which Hungary's state enterprises operate is much more rational from the perspective of a market economy than the one in which Poland's and the

Czech Republic's economic enterprises have functioned.

Germany presents a *sui generis* situation. The instantaneous integration of former East Germany into the political-judicial institutional system of its Western counterpart, in conjunction with a similarly radical and instantaneous monetary reform and the decision to maintain or freeze the status quo of the eastern workers through a massive subsidy on the part of the Federal Government, made it possible for a highly rational and deliberate privatization process to take place without the experimental characteristics present in the models of other former socialist countries.

Germany possesses the financial and, also very importantly, the human resources, along with the preexisting institutional mechanisms, to obviate the need to implement policies of austerity and stabilization or to adopt macro-reforms of an institutional nature. Germany does not need to deal with the so hotly debated issue of whether privatization should precede the institutionalization of a market society and economy or, whether, on the contrary, it should follow the institutionalization process. The preexistence of a market society and economy in West Germany made it unnecessary to choose between paths so full of risk and uncertainty. As a result, in Germany it has been possible to proceed directly to an economically rational an efficient privatization.

The Social Sphere

The social change processes and their method of implementation profoundly influence the stability of the political and social order of a country. This is obvious if we consider that in a society, the constitution of economic groups, associations, and functions — and the relationships among them — results in great measure from the way economic life itself is institutionalized. In other words, the institutionalization of the economic life of a country may vary greatly even within the parameters of a generic market economy-type of society.

By way of an example, just consider how the economic institutions of the United States vary from those of other Western countries. The way in which economic institutionalization takes place makes for free market societies that are very different from each other. These differences become more acute in periods of institutional transition, as in the case in Central and Eastern Europe and the former republics of the Soviet Union. In those societies, the methods, manner, and means of creating a market economy have deeply affected the very nature of the society in which the economic changes or alterations are taking place.

Privatization Plans of the Former Socialist Countries

The Czech plan has consisted of widely distributing coupons to citizens who paid a nominal fee or quota for their acquisition and who participated in the auction of certain portions of the assets of those selected enterprises subjected to public bidding. This plan has as its final social objective the creation of a populist capitalistic system based on the wide dissemination of the ownership rights of the productive assets of the society among a great number of its members. The plan also aimed, in a second stage, at the creation of financial and capital markets that would contribute, according to the logic of this model, to the establishment of an active and dynamic society of individual proprietors.

Unfortunately, as we have learned from experience, there are countless practical difficulties for the success of the model. Issues such as the estimation of the worth of enterprises on the part of the bidders in the absence of free markets for inputs and products; the creation of a market pricing system without the preexistence of competitive enterprises and markets; the absence of a market-oriented commercial and investment banking network; the lack of legitimate entrepreneurs and the continuing presence of former communist bureaucrats with their peculiar mindset and work habits; unreformed enterprises and corporate governance methods; inexperience relative to the functioning of capital, monetary, and stock markets on the part of the population; as well as the serious danger posed by the tendency of large mutual funds and investment groups to collude with banking institutions, leading to an unhealthy control of the economy, all represent obstacles — perhaps insuperable — to the development of the Czech initiative. In contrast, to the extent to which that paradigm proves successful, the society's structure and functioning will reflect the characteristics of individualism, private and extensive participation, and generalized civic responsibility that its authors wished from the very beginning to imprint on it.

A second example with notable variants is the Polish privatization plan, which is also partially based on the use of coupons. An essential difference from the Czech initiative rests on the obligatory mediating function undertaken by the mutual investment and management funds to which individual recipients must deliver the coupons that are to be used at the discretion of these semi-public organizations. Only in the future will citizens be able to negotiate their own coupons or transfer them from one fund to another, thus supposedly creating more competitive pressure to increase the fund's efficiency in response to the interests of its shareholders.

There is no doubt that the Polish model is much less individualistic than the Czech plan, and that, in fact, it could be described without exaggeration as the prototype of a semi-decentralized and highly regulated system of private property. It is not, however, primarily based on an individualistic concept. Instead, it is actually controlled by powerful intermediary organizations of an oligopolistic and oligopsonistic type.

The great risk of the Polish experiment, so enthusiastically presented as the archetype of a systemic capitalist approach, is that large segments of the economy would remain in the hands of a semi-public bureaucracy, which would administer the privatized companies as well as those others that would permanently stay under state control.

One last model that needs a brief commentary is the German one. The German paragon, as we have already noted, is singular and atypical because of the preexisting institutional framework in former West Germany and also on account of the presence of abundant financial and human resources ideally suited to the decollectivization and the development of the former East Germany. These conditions made it possible for the famous privatization agency, *Treuhandanstalt*, to individually evaluate each privatization case, calculating the social accounting value of each project rather than its present market value, and to negotiate with concentrated potential entrepreneurs the specific conditions of corporate governance, plant modernization, investment, and employment to be observed in the privatization agreements. In that fashion, consideration was given to all factors and elements that affect the Common Good of the society. The German modality also permitted taking into account the interests of the entrepreneurs, who are a very important part of the social good and whose participation is essential to the stimulation of the general well-being of the society.

Moving beyond the topic of privatization in the former socialist countries of Central and Eastern Europe, let us now discuss the application that these experiences could have for the future reconstruction efforts in Cuba and the development of its economy.

Lessons to be Learned from Hungary and East Germany

The experiences of Hungary and the former East Germany are the most pertinent models for Cuba. The gradual process of Hungary, properly sustained to prevent stagnation, and the rational and pragmatic German model, which emphasizes the decisive importance of the entrepreneurial function as the driving force behind the country's economic activity, hold the keys for a successful strategy for tomorrow's Cuba.

In Cuba, adverse specific factors point to the need to implement an intelligent strategy that will satisfy, on a priority basis, the subsistence needs of the Cuban people while reducing the actual and costly risks involved in the execution of reform policies. Those policies should also exploit all available opportunities for the country to benefit from activities marked by comparative advantage. The specific risk factors Cuba will face are, among others: the relatively underdeveloped state of Cuba's present economy; its acute structural imbalance in the composition of national production as well as in international commercial activity; the exhaustion of social capital and human expectations, and also the dearth of required non-human elements in the society; the fragile and even catastrophic state of the economic system; and the increasing level of poverty that now penetrates practically all social strata of the nation.

Finally, a peculiarity of the Cuban case is the profound inbreeding of the political system and the military apparatus. This compact stems from the very nature of a regime that exhibits *caudillo* and fascist traits alike. A mix not unknown in Latin America.

The privatization plan, based in part on the above-mentioned considerations, should be two-pronged. From one perspective, it should bring about a rapid identification and quick involvement of the entrepreneurial, administrative, and technical talent so abundant inside Cuba and in exile circles around the world, and from another, it should utilize credit resources from public, private, and international organizations and institutions to rapidly stimulate domestic entrepreneurial activity through the agency of public developmental institutions.

Economic Development and the Growth of Entrepreneurial Activity in the Pre-Revolutionary Period

From the early decades of the last century, Cuba was one of the countries outside the First World orbit that had experienced the most vigorous and sustained development. Noteworthy advances had been made on all fronts, including achievements in diverse areas such as: a rapid increase in social and geographical mobility and in growth of the nation's urban population; sharp decline of mortality rates and significant expansion of life expectancy averages; reduction of illiteracy rates; emergence of a rapidly increasing and flourishing middle class; and still many others.

Equally substantial progress had been made in the development of the country's social and economic infrastructure. In this regard, we can note the vigorous growth of all means of communications, ranging from highly efficient highway systems to the well-established networks of mass communication media. In addition, we can point to the emergence of a large and very active contingent of small and medium-sized proprietors, urban and agricultural property owners, and self-employed individuals.

Prior to the establishment of the communist regime, urban and rural small enterprise achieved an extraordinary growth rate in Cuba, especially in the last 30 years of the Republican period. The fast growth of the agricultural free market until 1986 — when the communist regime abolished it — and the economic importance of the country's black market bear witness to the strength of the individual entrepreneurial spirit and tendencies of Cuba's population, even after experiencing a harsh and repressive collectivistic regime for more than four decades. The same can be said of self-employment in a large number of occupations after 1993-94.

In exile, the success of Cuban entrepreneurs has been replicated in many countries and locations where large Cuban communities reside. This can be seen clearly in the United States, especially in Miami, New York and New Jersey; also in Puerto Rico; Venezuela; the Dominican Republic; and Spain, among other countries and locations.

The strength of Cuba's human resources can be traced in historical terms through the Republican period to the present time. Even during the current totalitarian era, one of the important and consistent sources of income for the country has been the export of human talent, including the services of professionals, technicians, and skilled laborers. The educational standard of the more recently arrived waves of exiles, such as represented by the massive Mariel exodus of 1980 and present day refugees and defectors is, in relative terms, high and comparable to those of refugees arriving in the mid-1960s through the mid-1970s.

In general terms, an analysis of the Cuban reality measured by the quantity and quality of the level of personal initiative of Cubans inside and outside the island, as well as by the current extent of informal (private and underground) economic activity presently taking place in Cuba, is clearly favorable. Cuban society continues to be dynamic, with a great potential for progress and a marked tendency towards private and individual initiative. The individual continues to be superimposed onto the collective; individual objectives, goals, and preferences remain the basis for personal actions and decisions. The members of society have not lost their personal identities; nor have their differentiated personalities been diminished. They have not blended into a standardized, socially homogeneous, collective personality. This, in conjunction with Cuba's geographic situation, in large measure the source of its greatest achievements and its worst calamities, clearly point to the course which must be followed by the reconstruction and privatization programs.

The Success of Reconstruction and Development will Hinge on the Rebirth of Private Initiative and Activity

Analyzed from the social, economic, and cultural perspectives, Cuba must organize its future reconstruction and development strategy relying on the individualistic tendencies and the private, free enterprise talent and ability of its citizens, although supplemented in the very early stages by some blueprinting and framing of a structural sort by the public authorities. Private initiative must be displayed in a wide range of organizational and production formats, according to individual preferences and to the concrete possibilities of the various projects, sectors, and businesses to be started. Only the talent and effort of the free individuals will enable Cuba to redesign its economy and meet the challenges of joining the Latin American Free Trade Area (FTAA or ALCA) and the world economy (W.T.O.).

As was the case in the past, the private sector, for the most part composed of small and medium-sized enterprises, will be largely responsible for the reconstruction of Cuba — by its own efforts and with the application of its energy and genius. Of course, the private sector must be supported by a state that will provide the means, through its programs and policies, for the general developmental guidelines and the implementation of indirect controls necessary to jumpstart a free market economy process. Likewise, the public sector will also be involved in the creation of the institutional framework responsible for the stability and continuity which are essential to an ordered social, civic, and economic national life.

In the same vein, it is essential for a variety of social and economic reasons that the Cuban entrepreneurs have the broadest opportunity to participate in the reconstruction process and in the nation's economic development. The long-term stability, strength, and dynamics of any society depend principally on its own institutions and human resources. It is critical that these domestic factors receive the support and are engaged responsibly and efficiently in shaping the future of the country. Only then will Cuba be able to defend its own true interests, safeguard its own identity and national spirit, and simultaneously satisfy the needs of its own population, while playing a productive role in the international community.

The creation of a market economy presupposes the synergetic conjunction of institutional and structural factors on the one hand, and of behavioral elements on the other. Given the extremely inimical effect on the society and economy of Cuba's *caudillo-fascistic* totalitarian regime, special attention must be devoted to the conformation to a native economic system. It is in this context that the existence of important monopolies or oligopolies administratively run as fiefs by the military within the central planning structure, may pose a serious obstacle to the development of a legitimate, individualistically oriented type of market economy. Obviously, this military *cum* mafia situation has a serious spillover effect into the political area proper, and must be analyzed as a complex phenomenon interfacing the political and economic spheres. It requires an economic, as well as a political solution.

In line with the requirements of a market economy, it is of the utmost importance that at the beginning of the reconstruction period and until domestic and foreign private banking and financial institutions can take hold in the free market economic environment, state banking institutions such as The Cuban Bank for the Development of Industry and Agriculture (Banco de Fomento Agrícola e Industrial de Cuba — BANFAIC) and The Cuban Bank for Social and Economic Development (Banco de Desarrollo Económico y Social de Cuba — BANDES) start operations immediately in order to perform essential credit granting and investment functions.

The Role of Foreign Investment

Let us now briefly point out in a most general manner the role that foreign investment could play in the future reconstruction process of Cuba. Foreign investment will be, of course, an important component of the privatization program. To begin with, it is fundamental to understand that in the present day world, the movement of capital is an integral part of the global economy. The economic order that has emerged since the end of World War II is now an indisputable reality. Today, seen from a financial perspective, the United States is a net debtor country. China openly strives to attract foreign investment, as is also the case with the former Central and Eastern European countries, the republics of the former Soviet Union, Latin America, and the Third World in general. At present, the developed countries as well as developing countries are recipients of foreign capital. Simplistic statements that in the past equated foreign investment with the loss of national sovereignty and autonomy and chauvinistic ideologies supporting them have been totally discredited in an increasingly globalized world economy.

Naturally, capital flows toward the most attractive investment places and the most lucrative projects. Unfortunately, capital does not necessarily flow to the poorest countries, which are those that need it the most. Obviously, the rabid and violent type of nationalism that has been so prevalent in many less-developed countries no longer has a place in the modern world. Worldwide interdependence among nations and regional economic blocs has increasingly assumed an extremely important function in the international economic order notwithstanding that, historically, almost 80 percent of the creation of domestic economic capital (gross capital formation) takes place with national funds. Therefore, foreign investment is generally only a supplement to internal savings and investment efforts. However, in the last two decades or so, that relationship has been changing in tandem with the liberalization of international capital markets and with the increasing fluidity and unpredictability of capital flows, especially short-term capital and portfolio investment. Not only has the availability of international financing greatly increased, but, unfortunately, its instability as well. These developments pose new opportunities as well as new risks to recipient and/or host countries.

Having said this, it is still true that the issue of foreign investment continues to be a delicate and complex matter. Nonetheless, foreign investment should in any case be seen only as a complement to the domestic investment that must represent a much larger share of the total investment effort of the nation. However, the contribution of foreign investment must be accessed in conjunction with the gains associated with technological transfer, expertise, and managerial training.

It should be mentioned in passing that the experiences of countries and regions exhibiting a low domestic savings rate and a consequent overdependence on foreign funds clearly show the grave dangers to the stability of the local, regional, and even world economy of that kind of socioeconomic scenario. This type of situation is a salient characteristic of the structural conditions associated with Latin America's fitful record with regard to economic development policy and growth performance. The Cuban situation in this regard is frankly desperate. In real terms, Cuba has in all probability been engaged in a prolonged period of decapitalization and technological regression. From all indications, the net savings rate, rate of domestic productive capital formation, and efficiency of same are practically nonexistent. Thus, there is a dire need for capital and expertise.

A variety of policy packages will have to be devised to foster mutual cooperation between national and foreign entities required for a rapid, stable, and diversified economic development process to take place. Along those lines, we can foresee the establishment of many joint ventures as well as an important flow of indirect foreign investment to Cuban-owned companies. A solid, well-conceived code of foreign investment, in conjunction with an intelligent and mutually beneficial negotiation process, will produce the type of complementary contribution between foreign and national entities that should ideally prevail between the two parties.

Reprivatizing Confiscated Properties

We must now, if only momentarily, turn our attention towards the controversial topic of the future reprivatization of properties confiscated by the Castro regime.

As a matter of principle, there can be no doubt that former owners have a legitimate right to claim their confiscated property. In some instances, the claimants will present their case before duly established courts of law or public agencies or boards, which will determine the value and figure and alternative modes of compensation open to them in keeping with the actual economic conditions and possibilities of the nation. In those other cases where legitimate claimants possess the financial, technical, and managerial capabilities to recapitalize, restructure, and introduce efficient corporate governance methods to an enterprise, project, or productive asset at large, the property should be directly and expeditiously returned to the claimant.

The validity of the philosophical, moral, and judicial principle of the right to own private property and the flagrant violation of this fundamental right by the communist regime must be explicitly recognized in a new society constituted under the rule of law. There can be no true respect for private property, which is itself the cornerstone of the market system of economy, if the confiscations effected by the communist regime are not annulled. We have all become increasingly aware of the imperative need of fully recognizing and precisely ascribing property rights to the efficient functioning of a market system.

However, the application of this cardinal principle in the context of the critical situation in which Cuba will find itself after the fall of the current regime requires that reprivatization activities respond to the imperative need to initiate the economic reconstruction of the country with maximum urgency and diligence. The Common Good of the society, which is more important than any other consideration of an individual or private kind, so demands it.

That social necessity dictates that the return to previous owners — reprivatization of confiscated property — should be prioritized according to a series of practical criteria. Their application will permit a determination of the speed and effectiveness with which former owners can activate the corresponding economic undertaking in each particular case. To illustrate, we can point to four such criteria:

1. As mentioned immediately above, the capability and willingness of former owners to assume direct responsibility for the efficiency and competitiveness of an enterprise or to effectively supervise the delegation of authority for others to capably discharge the corresponding activities and decisions of economic policy and administration;

2. Willingness of entrepreneurs to cooperate with the efforts and requirements of national reconstruction policy and capability to mobilize the resources needed for their particular industry as well as for reconstruction efforts generally;

3. Specific know-how in areas such as policy/management, techni-

cal and financial skills, or marketing ability, which are useful in terms of the overall reconstruction and development program of the economy of the nation;

4. Flexibility in negotiating with the state and other public institutions to devise problem-solving formulas in the resolution of conflictive issues involving rights and claims by a variety of private and public interests and groups.

Practically, the range of matters to resolve will vary greatly according to the particular conditions of each case. Issues such as the appraisal or assessment of improvements made to a particular plant; estimation of the net value of machinery and equipment exchanges resulting from the amalgamation or the splitting of companies; cannibalization of capital goods or re-structuring of enterprises; modernization of production units and the transfer of assets from one center of production to another; property rights acquired by cooperationists or workers and managers in conflict with the rights of original owners; radical changes in the identity, design, or quality of the goods produced by an enterprise; and still many other difficult situations will surely come up for consideration and appropriate resolution, requiring flexibility and a broad understanding of conditions on the part of all involved.

In so far as possible within the framework of priorities dictated by the highest national interests, former owners meeting the necessary conditions who are willing and able to assume the difficult responsibilities of reconstruction, should receive the state's preferential support and assistance in order to rapidly reincorporate themselves into the productive process. In those other cases in which this will not prove possible, adequate compensation, as already indicated, should be offered to former owners as determined by the corresponding claims courts or administrative agencies in keeping with national economic possibilities.

The congress, parliament, or national assembly of the nation should directly legislate or earmark the amount to be set aside as a compensation fund and/or designate the corresponding fundraising sources, should it choose to adopt a flexible schematic structure for the calculation of revenues. Compensation modalities and formulas may vary greatly. Some examples, among others, are: fixed, variable, and/or cumulative interest rate paid on bond issues with varied guarantees and different maturity dates; adjustment of claims by means of exchanges involving other productive properties or various kinds of assets; participation in mutual investment funds or semi-public or para-governmental banks, corporations, or funds; personal, family, or other type of pension payments of fixed duration or for life, transferable or not to third parties; direct cash payments in national or foreign currency; option rights in future investment projects, private or mixed, with national or foreign participation; and the like.

One point of extraordinary importance must be clearly noted. Although former owners must be able to freely negotiate the exchange or transfer of their property rights to others who may wish to acquire them, either for the purpose of directly participating in the production process or with the intent of presenting the corresponding claims before the courts, rights to the recovery of specific assets must be exercised prior to an established deadline, in order not to prejudice the state's right to negotiate with interested parties the timely economic reactivation of the productive assets in question. Primary or secondary owners shall not in any event forfeit their inalienable right to an appropriate compensation to be determined, as already stated, by the judicial or administrative courts or agencies charged with that function.

Privatization should be as speedy and as equitable as possible. Moreover, even moral claims going beyond strictly legal limits should be satisfied to the extent possible within the context of the society's Common Good. In the area of judicial or administrative decisions made by the courts or appropriate agencies, these should be based on the professional judgment of recognized experts and technical specialists regarding the calculation of the compensable valuation and estimation of the properties to be privatized.

There is no universally agreed upon method of doing this. All relevant criteria have particular advantages and drawbacks of their own and will be perceived variously as to their fairness by different observers. This is an extremely complex problem not amenable to an ideal solution. Perhaps some kind of moral, relative, or partial compensation, *ex ante* of the revolutionary process, with explicit renouncement of any *lucrum cessans* pretensions, would come the closest to a justness criterion for all Cubans.

The right of permanent occupancy for urban residential properties should be recognized in favor of the current occupants or residents. The rationale for this position are obvious in terms of social need as well as political expediency, and also because over the years the current occupants have acquired what may be referred to as a sort of adverse possession right, not dissimilar to so-called "squatters' rights." However, former owners, as in the case of all other forms of property, should be compensated. Compensation in these cases should be guided by the same moral and legal principles and by the application of the appropriate economic criteria for such durable, income bearing assets. In the case of rural property, adversarial situations would rarely exist, if at all. Rural property in Cuba has been collectivized or turned into pseudo-cooperatives. Whatever little private property remains, precariously survives from a pre-revolutionary period.

Finally, let us offer some comments regarding the importance of the auction methods for disposing of assets and properties in the economic process of reconstruction. It is important to emphasize this point given the prominence given to these methods in their reconstruction plans by some Eastern European countries and the vigorous debate which they have unleashed in various quarters.

Privatization and the Big Push

As is well known, many political reformists and academic economists have in the past deposited great faith in the Big Push (simultaneous and rapid change in the economic structures and functions of society) approach and in the public auction or bidding process as the most expeditious means for privatizing state properties. I have consistently held that there are inherent dangers in the utilization of unqualified privatization procedures such as those mentioned above, which could easily lead to political and electoral volatility, social discontent, and economic stagnation. Unfortunately, the resulting and serious economic consequences, social dissension, and political factiousness, in conjunction with the erosion of the consensus initially enjoyed by the reforms, have amply confirmed the fears of many regarding the unfeasibility of the Big Push and the disadvantages of the public auction approaches.

The implementation of their respective strategies, both in the case of the Czech Republic's use of vouchers as a primary method of privatization and in Poland's management-employee buyout approach, have led to lingering inefficiency and the perpetuation of some of the worse traits of the socialist past, such as preferential credit allocation, imperfect commercialization, and general uncompetitiveness of enterprises. To boot, consider the nature of prevalent results in most CIS countries, namely: stagnant transitions, political corruption, and cronyism, all of which corroborate the need for legitimate entrepreneurship in laying down the foundations of a market-type economy.

In sum, voucher distribution methods and selective auctioning for the benefit of the population at large or for the advantage of direct group of producers such as firms' workers and managers, or else for politically powerful individuals and consortia, inevitably bring in their wake a host of structural and functional problems in the general area of corporate governance and decision making (asset stripping, tunneling, violation of minority stockholders' rights, and the like), which grievously impair the efficiency and competitiveness of privatized enterprises. If this condition is extended throughout, the viability of a full and sustained recovery of the economy is itself at risk.

In the particular case of privatization through the distribution of vouchers to the population at large, the dispersion and weakness of the initial owners will most likely eventuate in control by the colluded interests of financial intermediaries such as investment funds and the banking system. In any event, that outcome is, if anything, less desirable than is the concentration of enterprises in oligopolistic-like holding companies in charge of the management of privatized assets.

Clearly then, there are manifold disadvantages to the public auctions and voucher procedures as privatization means. In Cuba's case, given the country's distinct traits, it is incumbent upon the reformers to rely on other methods of privatizing economic activity. With that caveat in mind, let us now briefly discuss the principal disadvantages of utilizing the voucher auction methods for the disposal of state property under the given initial conditions of the Cuban society at the outset and some of the most likely objectives of its transition process.

Impoverishment, Nationalism, and Foreign Investment

Taking into account the extreme deterioration of the Cuban economy and the enormous further depreciation that the Cuban peso will experience after the fall of the regime and the opening of the economy, it would be possible for foreign interests to acquire the national patrimony at frankly ridiculous prices, be they denominated in domestic or convertible currency. This outcome would recall the days of the banking "crack" and the "lean cows" decades of the 1920s and 1930s, which, as we know, resulted in the liquidation of productive wealth under highly disadvantageous conditions for the country's nationals and a good deal of accompanying political resentment.

This harking back to the Pandora's box of nationalist feelings, unleashed by the *Generación del Treinta* (Generation of the Thirties) and, lately, the occasion for Castro's ranting and raving on the issue of national sovereignty and self-determination, evidently seems to have made a forceful comeback in present day Latin America. How exactly these feelings are to play in the politics of post-Castro Cuba cannot be clearly surmised at this moment. However, if we are to judge by the experience of CBS and, particularly, CIS countries, this matter is certainly not one to be lightly dismissed. Arguably, renationalization policies in the Czech Republic, the notable slowdown of the privatization program in Poland and even, to an extent, in Hungary itself, as well as public sentiment in these and other societies, such as Romania and Bulgaria, especially in relation to the question of direct investment, ownership, and management of productive assets by foreigners, are problems that are not going to fade away some time soon. On the contrary, they promise to carry considerable weight in the electoral campaigns of former socialist nations and the policies of their governments.

In the Cuban case all of the above considerations are to be contraposed to the dire need for foreign resources in a desperately impoverished and underdeveloped nation, which, for good measure, is largely uncompetitive in the world economy outside of a few primary commodities and well-known consumer goods.

Even so, in all probability it will not be difficult to attract foreign investment to the export sectors. Quite the contrary will surely be the case. The expectation of foreign exchange earnings in some well-established fields will suffice to obtain the required capital resources. On the other hand, the extreme limitation of the domestic market will certainly militate against firms receiving adequate capital funds for their modernization, increased efficiency and expansion. In any case, the most beneficial allocation of foreign resources would be in the export and/or capital and technology intensive sectors, especially if they contribute to the earning of convertible currency or to cost effective import substitution.

Second, privatization policies are not only essential, but must also be rapidly implemented for the sake of nation building in small, open, and individualistic societies such as Cuba, where a new class structure and a novel social contract or agreement has to be engineered immediately in a highly competitive and regionalized economy.

As already stated, property rights have to be established firmly and the rule of law must be followed rigorously in laying the foundations of the new society. In an historical juncture such as that, the moral, philosophical, and legal dimensions of the market economy and its mechanisms must be given special emphasis.

It is in keeping with that rationale, that return or adequate compensation to legitimate owners for confiscated property, and also the privatization of other socially owned enterprises in an expeditious and efficient fashion, should be addressed in earnest. Privatization such as that envisioned here must not be undertaken simply as a means to raise revenue for a cash-strapped state or to best political opponents of a free market in any way possible, particularly by the sale of assets at nominal prices to politically connected oligopolists and assorted influence peddlers.

Cuban Exiles and Property Claims

It should be noted that return or compensation for properties confiscated by the Castro regime assumes a different character than it has exhibited in CBS countries. To begin with, Cuban former owners or their legal heirs constitute a larger, more politically active and vocal, and geographically better-positioned group than their counterparts everywhere else.

Their nearness to Cuba, the continuous influx of refugees and deserters to Miami, and the surprising and longstanding cohesiveness of exiles all contribute to the latter's resolve to eventually claim back what was once theirs. This reality cannot be ignored in the Cuban case and will certainly draw preferential attention once the Castro regime is gone. In fact, much pressure will be brought to bear on any successor government to settle the claims in question in full compliance with the philosophical, moral, and legal principles involved in the matter.

By contrast, Poland, the Czech Republic, Hungary, and even the former East Germany (facing perhaps a more dispersed and heterogeneous constituency) have adopted relatively stringent rules for devolution and compensation, although it seems that legal responses in the form of class action suits may bring about changes in their stance.

The Emergence and Financing of the New Private Sector

In this context, we have to take stock of the great importance that the new private sector— the one composed by freshly established firms and not by privatizing old and inefficient enterprises — has had in contributing to the creation of a vibrant, efficient, and entrepreneurally driven market economy in the most advanced of the CBS countries, such as the Czech Republic, Slovenia, Hungary, and Poland, and to a lesser but still considerable extent in relatively undeveloped nations such as Romania and Bulgaria.

In Cuba, this new sector will not only be decisively important for the emergence of a renovated national identity and the formation of a civic society, serving as training ground for a newly minted social structure (entrepreneurs, qualified laborers, and farmers), but it will also play an equally generating role in creating the production matrix of a new and efficient economy built on the principles of rational domestic market policies, international comparative advantage, macroeconomic stability, and sustained growth.

It is highly likely that the gross inefficiency of Cuba's production plant will dictate its eventual disappearance once socioeconomic conditions make this feasible. There is ample direct and indirect evidence, including telling statements by Cuban functionaries, that Cuba used to receive from the Soviet Union and the Council for Mutual Economic Assistance (COMECON) the worst in quality and technology of those countries' exports of capital goods. This has been well known for many years, and the object of public complaints by Castro himself and other members of the regime. The recent closure of 70 sugar mills, almost half of the total number of units in existence, is a sad confirmation of the negative value added or net loss generated by Cuban industry. It is also common knowledge that more than two-thirds of the *Unidades Básicas de Producción Cooperativa* (Basic Units of Cooperative Production) face a similar situation.

In view of the need to restructure the Cuban society and economy rapidly, and given the said smallness and unattractiveness of the Cuban domestic market, in tandem with the foreseeable dearth of private and even international and foreign governmental capital for its creation, the best immediate course of action would seem to rely on pre-Castro institutions such as the BANFAIC and BANDES, which would act as contracting agents, financial intermediaries, and technical advisors to this crucial task.

There is probably no alternative in a country where, more so than in other socialist countries, the state banking system is only a financial disbursement conduit for an ossified and thoroughly irrational physical planning system. As the experience of formerly socialist countries clearly points out, it takes many years before the reforms of the state banking system take hold. The inception and development of an economically operational financial system, including commercial investment and development banks, as well as other financial institutions and instruments necessary for the rational valuation and allocation of economic resources in a market economy, is a long and arduous task. Evidently, Cuba cannot await the conclusion of that process in order to undertake the creation of the new, market-based, private economic sector. Once more, it is most essential in tackling the transition in Cuba to understand fully and realize clearly the state of extreme impoverishment of the economy and the condition of utter disrepair and obsolescence in which the stock of social overhead and directly productive capital are now.

The lessons to be drawn from the CBS countries and the CIS ones — not to speak of China — leave no doubt as to how difficult it is to wean state enterprises from preferential and concessionary loans and banking practices under the soft budgetary constraints policies typical of all socialist regimes. It would be extremely difficult to even conjecture as to the volume of nonperforming loans in the books of the Cuban banking system originating in subsidized, negative value added type of enterprises and the quantum of financial resources required to recapitalize — or perhaps better, simply capitalize — those institutions and to retrain their personnel so as to make them apt to work in a market economy. The latter will also take considerable time and effort to be accomplished.

In light of the preceding, one bold conclusion is to recommend that the new Cuban government assume responsibility for a sovereign loan to be disbursed through the previously mentioned public banking agencies, counting on the technical assistance and advice of personnel from international and private financial and developmental institutions as well as experts from friendly governments.

Third, the overall sense of the foregoing considerations, unmistakably points the direction in which the privatization process should move in the case of Cuba. Privatization of SOEs should take place through individually negotiated sales to concentrated, experienced, and reliable owners possessing the resources and know-how to restructure the firms successfully, to implant efficient corporate governance methods, and to turn them into economically viable concerns. Germany is the best example of this method, perhaps having Hungary as a distant second-best. Slovenia and Estonia are also examples that deserve the scrutiny of Cuba's post-Castro economic policy makers.

Of course, the German model has unique traits of its own, which are not reproducible by other nations. Perhaps this will explain why the German case does not practically appear in the literature as a prototypical example to be imitated by others. First, the Federal Republic has so far invested around $700b in the endowment, equipment, renovation and general modernization of the social overhead capital and the directly productive activities of the former Democratic Republic. Second, the instantaneous re-incorporation of the eastern territories, brought with it the simultaneous adoption of the Federal Republic's laws, norms, institutions and organizations. So much so that the population immediately experienced a reevaluation of its liquid assets and income (wages and salaries), as the German mark became the official currency of a unified Germany. Third, these policies amounted to a huge subsidization of the Eastern economy, which lasts to this day and promises to go on for still several years. Fourth, the abundance of resources, modern technology plus entrepreneurial and managerial skills from the West, made possible the search for concentrated and suitable investors with whom detailed negotiations regarding specific conditions and future corporate policies could be held. Accordingly, agreements were crafted in a one by one, highly singular manner. Finally, the old popular Republic had now at its disposal, as if by magic, all of the financial, banking, commercial and marketing, domestic and external trade relations of the Federal Republic.

In the case of Cuba, as already pointed out, the great lesson to be learned, given the initial and hoped for terminal conditions of the country, is that of selecting concentrated, experienced and capable owners and managers of industries and activities.

Valuation of State Enterprises and Corporate Reform

In this connection, it must be realized that the potential private and social value of any enterprise will not be at all apparent at the time of profound crisis that will follow upon the disappearance of a totalitarian regime. Cuba would be well advised in this respect to follow the example of *Treuhandanstalt*, the German privatization agency. It employed a highly skilled team of professionals and technicians, who assessed the enterprises' value and specific conditions and potential, negotiating mutually satisfying agreements on that basis with interested and capable investors. The appraisal must take into consideration the viability and potential value of the particular concern under reasonably anticipated future conditions and not the atypical circumstances of an economy in a state of utter destruction.

Naturally, the potential itself will partly result from the success of the restructuring effort, the improvement in corporate governance, and the general efficiency introduced by the new owners, who, in the first place, were selected because of their assumed capacity to undertake those tasks and achieve those ends. Obviously, they should not be charged (penalized) for their own success. On the other hand, the firm's valuation should take into consideration its earning capacity under reasonable conditions of macroeconomic improvement and stability foreseen as obtaining in the near future. As confirmed by the experience of formerly socialist countries, it is important to avoid the impression of a biased or illegitimate process of privatization. That kind of effect is highly detrimental to public trust and to the acceptance of the political system, the rule of law, and the market system itself. It will inevitably end up seriously damaging the prospects for a successful process of decollectivization and reconstruction of the polity, society, and economy.

It is also of the utmost importance not to be led in the commendable quest for social justice by false notions of equity that are opposed to the norms of good corporate governance and economic efficiency in general. The Czech Republic and Poland are good examples of countries that have paid a high price in that respect, albeit in different ways, as a result of their ideological and/or political preferences.

It is understandable that reformers may be inclined to favor a diffuse pattern of asset ownership in formerly socialist societies that nominally claimed the assets' social appropriation by the population at large. Besides, it is oftentimes politically advantageous to do so. However, there is conclusive evidence that the policy leads to one or more of the following outcomes: 1) abuse of power by incumbent managers; 2) excessive meddling and interference by workers in microeconomic decision making and corporate governance generally; 3) deprivation of minority stockholders' rights; 4) assets stripping and tunneling; and 5) speculation by financial intermediaries and interlocking of investment funds and banks' directorates.

Our reasoning is not meant to preclude workers' participation in corporate boards where their interests are properly represented by their delegates, as is the case of Germany and other countries. Rather, it is to warn about the populist and demagogic forms of participation such as that of the Yugoslavian workers' councils, early Soviets, and the like.

Our suggestions should not be constructed as a lack of concern for the beliefs and sentiments of the public at large, and workers in particular, in the area of equity and social justice. These are important elements in the process of reconstructing society and nationhood. It should be understood, however, that in all probability the simplest manner of satisfying those concerns — beyond providing an appropriate social safety net for the population at large — is to reward everyone in accordance with their deserts, that is, their marginal productivity. In keeping with the doctrine of consumer sovereignty, free agents will then dispose of their income as they see fit. Besides, there is no need to tie the well being of workers to the changing fortune of particular enterprises.

Fourth, all of the above recommendations and caveats in resolving the issue of privatization are subjected, once again, to the premise that established firms are salvageable. It is important to insist that in the Cuban case, quite the opposite may be the reality. As we are well aware, the privatization of a good number of medium and large firms in many CBS and most CIS countries, whose initial socioeconomic conditions were far better than those now prevailing in Cuba, has been thwarted by the gross inefficiency and incorrigible problems of these concerns. By and large, they are capital intensive, energy guzzling, technologically outmoded, and obsolete firms. In addition, they are loosely managed and operate with a supernumerary payroll, tend to be characterized by deep set corruption, and work under soft budgetary constraints. Oftentimes, from a purely rational economic standpoint, they should be promptly liquidated to avoid the continuation of social losses. However, in a great many instances that course of action has not proven to be possible due to political and social impediments. China, Poland, the Czech Republic, not to mention CIS countries, are good examples of this conundrum.

Cuba probably represents an unparalleled and extreme instance of a country saddled with an uneconomic production matrix. Information on the state of Cuba's manufacturing and agricultural plants, as well as its economic infrastructure and a host of indirect but firm evidence on low factor productivity, would unquestionably lead to that conclusion.

Widespread and economically ineradicable systemic inefficiency pose a major hindrance to Cuba's reconstruction and developmental possibilities, not to speak of attempts at privatizing and successfully restructuring most of its medium and large firms — mostly processing, light, and light-heavy manufacturing concerns.

The practical implications of that situation in the near and medium-term future of the Cuban people are indeed dire. Once a market-type of economy begins to operate, the highly cross-subsidized and artificially propped existing production structure will collapse of its own weight unless prevented to do so by a gradual program of closure and partial replacement. That, in turn, will require large amounts of financial investment capital and the appropriate experience in numerous fields.

The External Sector in the Reconstruction and Development of the Economy

It is obvious that the existence of these conditions will create severe external sector problems. Chronic disequilibria in the trade and commercial balances, which could only be countervailed by a large and sustained influx of long-term capital in the balance of payments, will pose difficult challenges to statesmen and policymakers alike.

Cuba will find it also extremely difficult to reestablish a rational foreign trade policy based on static and dynamic comparative advantage, given the prevalent distortions of the economic system and the country's desperate need to reinsert itself in a highly competitive and globalized (and regionalized) economy. For a small, open, and radically impoverished nation, these will prove to be nearly insurmountable obstacles in the short and medium terms.

Even traditional export sectors have been gravely affected by the catastrophe that envelops the Cuban economy. It can be confidently assumed that unit costs of production for various export commodities in peso terms, when compared with dollar revenues accruing from their export, will yield a real exchange rate highly unfavorable to the peso. That would be tantamount to a monetary devaluation of the peso for international transactions, were Cuban export commodities to be denominated in that currency. This means, in fact, that the Cuban people are paying for the country's imports in (classical) real terms more than the trade statistics would show. The gross and net barter terms of trade figures would not reveal the true cost to the Cuban people, and thus the actual social cost of exports, because they rely on arbitrary monetary price indexes for exports and imports, which are meaningless in the absence of an exchange rate based on convertible currencies freely valued in the world monetary market.

A prime example of the socially and economically disastrous situation of the export sector is apparent in the case of the sugar industry. As mentioned above, about 70 sugar mills, almost half of the total, had to be closed down permanently. The main factor leading to that extreme decision was not new at all. It was only that the situation was brought to a head by Cuba's acute international financial crisis, which prevented the continued subsidization of the industry, in dollar terms, at the rate it had been taking place for many years. In effect, according to the author's calculations, which by now seem to be widely shared by others, unitary production cost (per pound) is on average about triple the world market price for the commodity. The sugar cane industry has been so devastated by the regime, and its state of dilapidation is so extreme, that its prospects in a highly competitive world market populated by much more technologically advanced, well-capitalized and efficient producers, as well as the presence of an abundance of natural and artificial substitutes, are not clearly favorable indeed.

Another interesting and apparently successful export sector is tourist services. Tourism would seem to be the only brilliant spot in an otherwise bleak economic panorama. It may be judged to be so by the sustained annual rate of growth shown by the industry — although in absolute terms — when compared to number of tourists visiting and gross revenue generated by them in smaller societies located in the same geographic area, the performance of the activity is not particularly exceptional.

The drawback of the sector, which is the lodestar of the Cuban economy, lies elsewhere and is twofold. First, the high average and marginal propensity to import exhibited by the industry makes for net revenues constituting a small percentage of the total accruing to the economy. Second, like the sugar industry, tourism is a highly subsidized sector in real (classical) cost terms. Packages offered to modest income tourists are extremely attractive in dollar or euro terms, which implies an implicit devaluation of the peso relative to those convertible currencies. In other words, the true, social accounting price of tourism is higher than the gross monetary revenues produced by the sector would lead the observer to think. In fact, the Cuban people pay dearly for the foreign income accruing to the government, both in terms of meager salaries denominated in low purchasing power domestic currency, and also in the form of abstention or non-consumption of local goods and services destined to tourists' use.

In light of these considerations, it is of the utmost importance to reiterate the decisive role that the private sector will play in the recovery of the Cuban economy. This will especially be the case as it pertains to the creation of new small and medium-sized enterprises geared to supplying the needs of the local market, creating positive value added in the process.

Resource Allocation, Balanced Growth, and Capital Requirements

The resource allocation pattern best suited to Cuba's conditions and economic potential should primarily focus on policies of agricultural diversification and rational economic self sufficiency, applied as much to the production of basic goods for general consumption as to the development of primary activities in general. A similar approach should be followed in stimulating agribusiness and cattle ranching.

A second but close priority should be given to light industry for the production of consumer goods and intermediate manufacturing. Processing industries are to be especially emphasized here on account of their linkages and connections with other projects. The same applies to the supplying of industrial raw materials that could be integrated in the production matrix of manufacturing. Naturally, personal, professional, and business services, along with a network of commercial and other distributive kind of activities, in conjunction with the gradual and diversified growth of private financial institutions and instruments, will be necessary complements of the directly productive undertakings in the laborious process of building a modern and efficient economy.

This blueprint, similar in conception and implementation to the market-oriented, mutually supportive or balanced growth strategy implicitly guiding Cuban development efforts from the late 1920s to the beginning of the Revolution, would accomplish several objectives. Among them: a) It would serve to re-establish relatively quickly and massively personal and private initiative as well as free enterprise in society; b) It would contribute decisively over the short term to the diversification and stability of the economy and to a greater degree of self-determination over the future of the nation and over economic policymaking itself; c) It would be of great value as well in the promotion of the country's domestic and external financial stability; and d) It would facilitate the implementation of macroeconomic stabilization policies and the equilibrium of price levels.

In sum, growth of the market system economy would result from the flourishing of private and personal initiative, following upon the establishment of the rule of law and the appropriate set of political, social, and economic institutions. All of this requires, as already stated, the cessation of the present totalitarian regime now in power.

An overview of privatization and reconstruction strategies would be wanting unless we were to repeat and underline once again that while foreign investment certainly will play a most important if not decisive role in the reconstruction process, it still must not substitute for the savings, entrepreneurial capabilities, and personal efforts of the Cuban nationals themselves. Rather, as stated before, foreign investment should be seen as playing a complementary role to national efforts. Indeed, that has been the case throughout the history of economic development. The social reconstruction process in Cuba will certainly require that the energy and enthusiasm of the native members of the society be stimulated, not subordinated or relegated to a secondary role.

As mentioned above, pursuant to that, Cuba must enact a code of foreign investment establishing the priority areas for such investments to take place, and define the specific terms and conditions under which it must operate. Foreign investment in Cuba will be far more determinant of the outcome of the reconstruction and development process than has been the case in the CBS countries. Nations such as Hungary, the Czech Republic, and Poland have benefited from strategic direct investments and the transfer of modern technology in capital intensive, modern, and competitive sectors, especially in those associated with infrastructure building and the external sector of the economy. Nonetheless, in absolute amount, in per capita terms, relative to the volume of domestic savings, and even compared to the influx of capital to other areas of the world, foreign investment has proven to be more modest than had been originally anticipated by advisors and business interests alike. Cuba's abysmal decapitalization and/or incorrect capitalization of its infrastructure and productive structure or matrix, its corresponding near absence of competitiveness and economic efficiency even when compared to countries of a roughly similar socioeconomic standing, and, finally, its highly disadvantageous position as an export-oriented economy in world markets, unmistakably point towards the crucial role of foreign investment in Cuba's future.

In light of this reality and of the equally pressing need to stimulate private participation and entrepreneurial activity in the country, the creation of joint ventures between Cuban nationals and foreign investors and, initially, perhaps even joint private-public ventures, should be encouraged as a desirable, nay, necessary objective. This particularly applies to the export sector enclaves whose convertible earnings will be essential to the success of the reconstruction and development endeavors. Along the same lines, negotiations with foreign interests should take place in relation to matters such as: participation and training of Cuban nationals in foreign owned enterprises, employment and reinvestment plans, plant modernization, development of technology or product innovations, access to new markets, repatriation of profits, and other such topics. In this context, it is also necessary to avoid some of the harmful practices sometimes attributed to foreign interests, especially multinational corporations. These include, among others: sale of products below established market prices in order to reduce or eliminate profits, ceding markets to the parent company or its subsidiaries, transferring patents to the company headquarters, and the like.

A New Nation and the Construction of the Common Good

We should keep in mind in visualizing the reconstruction process of the Cuban economy that Cuba has lost its historical course and orientation over the last four decades. The country has been removed from its natural environment, and it has been derailed from its normal development path. Therefore, in the immediate term, Cuba needs to reestablish a very close and ample collaboration between the public and private sectors in order to create a solid and durable economic foundation on which to build its future, as well as to define the nature of the institutional framework in which the economy will work. Cuba cannot afford to engage in new and costly experiments following upon the disastrous situation in which it will find itself at the unique moment of reinitiating its social life under a new regime. It will not be possible to reconstruct Cuban society in an environment characterized by chaos and anarchy. On the contrary, it will be a time to unite efforts in order to utilize the nation's human and economic resources with intelligence and deliberation. In the context of the great work of reconstruction and development that lies ahead, the importance of foreign investment should not be underestimated. These resources will be of extreme importance in rebuilding Cuba, but they must be integrated along with other strategic elements, according to the requirements of the national interest.

The Common Good as defined in social and economic terms, achieved through the engine of private initiative, in concert with the coordinating but supplementary and subsidiary function of the state, will be the cornerstone of the national reconstruction and development effort. The strategy to follow, the objectives to be achieved and the criteria, methods, and procedures to be implemented, must all internally cohere and be consistent with our fundamental concept: The Common Economic and Social Good of the Cuban people in the ambit of a free society. To that effect, it probably will prove necessary for all basic functional groups and ideological positions to convoke a constitutional convention that would reflect the basic consensus of the Cuban people on fundamental principles of socio-economic philosophy and policy making.

Conclusions and Recommendations

I. The sequencing tempo and variety of institutional and policy reform programs depend on the initial conditions and contemplated terminal state of individual countries. In the case of Cuba, given the totalitarian nature of the political system, the degree of social dissociation, and extreme level of economic irrationality, institutional revamping will have to be more extensive and precede policy reform programs to a larger degree than in other instances (Central and Eastern European countries).

II. Political, social, and not purely economic considerations dictate privatization, stabilization, and adjustment policies in individual nations. This particularly will be the case of Cuba, where processes of nation building and societal and economic reconstruction will have to run concurrently in post-Castro Cuba.

III. Lessons to be learned from privatization processes principally in East Germany and Hungary, and secondarily in Slovenia and Estonia, will be the most pertinent for Cuba's specific domestic, geoeconomic, and geopolitical conditions. The reconstruction of the Cuban society and economy requires an ensemble of functional groups or classes capable of operating an individualistic oriented type of market economy.

Privatization by voucher schemes of diverse kinds and/or auction methods are neither conducive to concentrated patterns of ownership, nor to the kind of one-on-one negotiations about future corporate policy and governance.

Another lesson has to do with the consistency of the process and its speed. Stop and go policies, like at times has been the case in the Czech Republic and Poland are confusing and send the wrong message to economic agents with regard to the intentions of policy makers and the completeness of the transformation process to a full market economy. Likewise, slow progress may result in an arrested process of privatization and the appearance of highly imperfect and inefficient markets.

Consensus on the dividing line between the public and private sector probably is impossible to establish in new, multiparty democracies characterized by a wide spectrum of ideological beliefs. Perhaps at the risk of ending up, like it was the case in Cuba in 1940 with an over elaborate or over specified constitutional document, it would be worthwhile for political parties to try to settle on some fundamental economic issues in order to ensure the continuity and consistency of the reconstruction and development processes.

IV. The success of reconstruction and development programs will largely depend on small and medium-sized firms in the new private sector, energized by the rebirth of private initiative and activity. The export sector will also be a mainstay of a successful strategy to further domestic investment, globalization, and modernization.

V. The success of Cuba's transition to an open, free society and a market type of economy, substantially depends on the development of a functional system of social stratification that will respond to those objectives. A qualified entrepreneurial class is a key element to the working of that strategy. Cuba's modernized population will profit from educational and training programs designed to identify, motivate and enable candidates willing to perform as businesspeople, managers, and administrators in the new market economy. Governmental development banks in charge of credit activities and the diffusion of know-how, must also be heavily involved in educational and training activities.

VI. Given the state of disrepair of the banking and financial systems of the country, their aberrant policies, and the time-consuming and laborious task of creating private financial institutions and markets, as witnessed by formerly socialist countries, in conjunction with the urgent need to facilitate the take-off of the private sector, it will be necessary for the post-Castro government to assume a sovereign loan in order to directly provide credit to native producers through public developmental agencies, such as the BANFAIC (Industrial and Agricultural Development Bank) and the BANDES (Development Bank).

VII. Foreign investment will play a very important role in the reconstruction and development process in a capital-starved society that has undergone a prolonged period of decapitalization and technological regression, lacking all of the training and skills required to operate a modern economy. Public loans will also be necessary to address the dilapidation of the economic infrastructure of the nation and the urgency for new social overhead capital.

VIII. Cooperation between foreign and domestic firms and investors should be strongly fostered. The transfer of technology, know-how, managerial training, corporate governance in general, and marketing networking should be vigorously pursued in the negotiation of accords.

IX. Direct and indirect investment will probably mostly flow to the external sector first and to the other capital and technologically intensive sectors second. In any case, this resource allocation pattern would be the most economically rational, given the reigning circumstances in the country. All the more, it would allow for the germination of the crucially important domestic economic sector, mainly composed of small and medium-sized firms, and largely manned by native entrepreneurs.

X. Selective partnership agreements between foreign and national interests in larger, capital and/or technologically intensive and export sectors, with predominance of natives in the small and medium-sized enterprises in the domestic sector, will largely assuage nationalist feelings that otherwise, as we have learned from CBS and CIS countries, have interfered with economically rational policies and decisions. It is in this spirit, and for the purpose of stimulating domestic entrepreneurship, that joint ventures between foreign interests and the Cuban government, should be superseded by private partnerships between foreigners and nationals, after their strict renegotiation under newly enacted laws.

XI. Reprivatizing confiscated properties is essential to the full recognition and restoration of property rights. These, in turn, constitute the cornerstone of the market system. Philosophically, morally, politically, and economically speaking, this fundamental principle must be given the importance it merits. In the end, as the transition period comes to a close, a very large portion of the productive assets of the society, should be privately owned in different forms of association. Realistically, in every society some resources remain publicly owned for a variety of economic and non-economic reasons and interests.

XII. Reprivatization and compensation modalities must take into account as an objective of the highest priority the crucial necessity to restart the economic process rapidly through the agency of private initiative, entrepreneurial talent, and managerial know-how. Both principles (compensation and reconstruction) must be accommodated in the actual decision making process by the corresponding courts of law and appropriate administrative agencies.

XIII. As a general rule assets should be assessed at their replacement value at the inception of the revolutionary process, excluding the discounted probable value of their future yield or expected returns over the lifetime of the assets, under the projected market conditions then prevailing.

XIV. The right of permanent occupancy for urban (residential real estate), as well as privately settled rural properties (the latter a non-existent category), should be recognized in favor of the current occupants or residents. Appropriate redress through a variety of accepted procedures should be applied to compensate former owners of both urban and rural property.

XV. The use of the voucher and auction method(s) as a primary policy of privatization has led to lingering inefficiency and collusive behavior, perpetuating some of the worst traits of the socialist past and should not be used in Cuba.

XVI. Concentrated ownership and rational corporate governance by qualified and accountable managers are necessary for the sake of efficiency. Economic justice does not require generalized (workers) ownership and/or managerial participation in enterprises.

XVII. It is highly probable that SOEs in Cuba, to an even higher degree than in other formerly socialist countries, yield negative value-added or, simply, are not cost effective by international standards. Over the short run, this condition poses a major problem due to resource scarcity and the inability of liquidating and/or replacing SOEs. In the medium and long term, this fundamental issue must be addressed if Cuba is ever to have an efficient production matrix capable of providing an acceptable standard of living to its population.

XVIII. The valuation of SOEs in post-Castro Cuba will be a most difficult exercise. Their earning capacity under existing conditions is negative or nil. Their likely value in a potentially more conducive economic environment should not lead to an overvalued present estimate, which by penalizing prospective buyers, would deprive them of the incentive needed to undertake the laborious task of restructuring the concerns in question. On the other hand, the impression of favoritism or giveaway deals must be avoided for obvious political and social, even if not purely economic reasons.

XIX. Heavy subsidization of most Cuban export activities once discontinued will prove to be a major hurdle to privatization and the need to maintain foreign exchange earnings. It will be most difficult to implement a policy of hard budgetary constraints in those circumstances. A gradualist approach will prove necessary in the restructuring of the external sector.

XX. The resource allocation pattern best suited to Cuba would call for policies of agricultural diversification and rational economic self-sufficiency in light and light-heavy industries, intermediate and processing activities, and appropriate industrial raw materials. Naturally, the development of professional and business services, along with a network of commercial and other distributive kind of activities, in conjunction with the gradual and diversified growth of private financial institutions and instruments, will constitute a required complement to directly productive undertakings.

XXI. The desocialization and reconstruction phase of the transition process and the subsequent developmental stage should be guided by the type of balanced growth strategy implicitly contained in Cuban economic policy making from the late 1920s to the beginning of the Revolution. That strategy eventuated in one of the highest rates of real economic growth and industrialization in Latin America and elsewhere for the period 1940 to 1958.

XXII. The Common Good, as normally defined in social and economic terms, achieved through the engine of private initiative, in concert with the coordinating but supplementary and subsidiary function of the state, will be the cornerstone of a successful transition and a fair and equitable market economy for the benefit of all.

About the Author

Antonio Jorge is Professor of Political Economy at Florida International University. He holds appointments in the Departments of International Relations, Economics, Political Science, and Sociology/ Anthropology. He is also Senior Research Scholar at the Institute for Cuban and Cuban-American Studies and Senior Academic Advisor to the Cuba Transition Project at the University of Miami. Dr. Jorge has published extensively. He is the author or editor of twenty books and numerous academic articles, essays, and monographs in areas including The External Debt and The Economic Development of Latin America, Foreign Investment and International Trade, Modernization and Social Change, Ethics and Economics, The Cuban Economy, and Hispanics in the United States. He is also a frequent contributor to the local and international press and the media in general.

Dr. Jorge has been a Professor at the Universities of Villanova and Havana in Cuba, as well as at Merrimack College in Massachusetts. He has taught at the University of Miami and at St. Thomas University, where he was Vice-President and Provost. At one time, he was also Associate Executive Vice President of Florida International University. Among other non-academic posts held by Dr. Jorge were those of Chief Economist of the Cuban National Association of Manufacturers and Chief Economist and Vice-Minister of Finance of the Cuban government. Professor Jorge has also been very active in local, academic and community affairs. He was the first chairman of the Governor's Commission on the Hispanic Population of Florida and, among other appointments, was a member of the Post Secondary Education Commission of the State of Florida, Vice-Chairman of the Community Relations Board of Dade County, the Mental Health Board of Dade and Broward Counties; the Long Range Economic Planning Committee of Dade County, Organized Migrants in Community Action, the United Way Board of Trustees, founding member of S.A.L.A.D. and at present, Chairman of the Socio-Economic Development Council of Miami-Dade. Dr. Jorge was the President of the Collegium of Cuban Economist in Cuba in 1960-1961. At present he is again the President of that Institution. Finally, Dr. Jorge has always maintained an abiding interest and has actively participated in matters concerning the political and social future of his native country: Cuba.

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