




**Cuba Transition  
Project**

A stylized graphic of the Cuban flag, showing the top portion with a white star on a blue field and the bottom portion with a red field, is positioned on the left side of the title banner. The banner itself is split vertically, with the left half being a lighter shade of green and the right half being a darker shade of green.

**SOCIO-ECONOMIC  
RECONSTRUCTION: SUGGESTIONS  
AND RECOMMENDATIONS FOR  
POST-CASTRO CUBA**

**By**

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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.

## Programs and Activities

- The CTP is publishing original research, with practical alternative recommendations on various specific aspects of the transition process, commissioned and written for the CTP by ICCAS Staff and U.S. and foreign scholars with expertise on Cuba.
- The CTP is developing four key databases:
  1. A full-text database of published and unpublished articles written on topics of transition in Cuba, as well as articles on transition in Central and Eastern Europe, Nicaragua, and Spain. It also includes an extensive bibliography of published and unpublished books, theses, and dissertations on the topic.
  2. A full-text database of Cuba's principal laws, in Spanish, its legal system, including the current Cuban Constitution (in English and Spanish), and other legislation relating to the structure of the existing government. Also included are the full-text of law review articles on a variety of topics
  3. A database on joint ventures and foreign investments in Cuba.
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# **SOCIO-ECONOMIC RECONSTRUCTION: SUGGESTIONS AND RECOMMENDATIONS FOR POST-CASTRO CUBA**

Prepared for the Cuba Transition Project (CTP)  
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# I. Introduction

The process of transforming a totalitarian and collectivistic society into a democratic and market-oriented one is long and complicated. The conversion from one into the other involves manifold political, social, and economic aspects that interact in diverse and changing patterns, often in unpredictable ways. It is impossible to lay out in detail prospective paths and policymaking packages, especially those of a concrete and immediate nature. Experience teaches that they must be formulated on the strength of empirical and casuistic information.

Each nation undergoing the profound systemic changes in question is a singular case. Not two experiences have proved to be or can be identical. Beyond the adoption of an initial macroeconomic program of austerity and stabilization policies, subsequent steps have varied considerably from one socialist nation to another. The reasons for the variance are twofold. First, conditions in each society are greatly divergent. These would include, but are not limited to, levels of economic and social development, degree of modernization, cultural particularities, nature of people's expectations, and the like. Second is the balance between the political philosophy and operational ideology of those holding political power and their preferences regarding the socioeconomic model to be pursued, the perceived aspirations of the population, and the population's tolerance for diverse kinds of policy measures. International institutions like the International Monetary Fund (IMF) and the World Bank have become conscious of these realities. They now emphasize, to a much greater degree than in the early 1990s, the need for considering the social factor when formulating economic policy decisions.

The experience of the past decade has made it apparent that the process of change is characterized by sharp ups and downs in the indexes of economic growth and social well-being and by frequent policy reversals on the part of the governing authorities. No instantaneous, smooth, or continuous transit from the socialist to the market paradigm has occurred. The initial illusion of a Big Bang-like simultaneous transmutation of a society into its opposite proved to be a simplistic and

ill-conceived one.

Defining the objectives to be achieved as intermediate and final ends of the transition process is still indispensable. Clearly stating the criteria that will indicate progress and signaling when the transition is finally over are of utmost importance. Failure to do so will cause confusion, inner contradictions, high economic and social costs, and potential failure resulting from an arrested process of change.

Following the choice of intermediate and final ends or objectives, the delineation of a general theoretical strategy of action must take place. Scholars and practitioners have identified several overarching strategic options and the numerous alternative policy transpositions available for their implementation. Different combinations of policy sets and measures and the relative order of their temporal and sequential application are available for each general strategy. Tactical flexibility is decisive from the standpoint of both political expediency and socioeconomic success.

However, the overall consistency and logical coherence of the entire process of change and of its various stages must be preserved. The degrees of flexibility or freedom that the mechanics of the process will accept are not unlimited. If they were, stagnation or overly laborious and costly outcomes would take place. Tactics should not supersede general strategy or social philosophy to avoid the adulteration or frustration of the whole enterprise and its *raison d'être*. Expediency must be prevented from resulting in synchronizing attempts among opposite value or policy systems.

Magical formulas do not exist in this field. Societies are too complex and social subsystems are too interdependent to allow for one-dimensional policies aimed at single objectives under the assumption that external spillover effects will not occur. Besides, exogenous stochastic events are bound to confound even the most carefully planned blueprints.

Wisdom has no substitute; nor do common sense and detailed knowledge of the initial conditions subsisting in a society and of the most likely paths to bring about desired changes.

Successful policymaking is an admixture of much art and a little science. Although flexibility is important, focus on the criteria at hand is indispensable to determine either progress or the end of transition. We also need to be aware of the various strategic and tactical routes available to reach our terminus, along with the costs and benefits involved in traversing each of the available paths.

## The Cuban Case

The Cuban case is a peculiar one involving great disadvantages and obstacles as well as very favorable elements in the initial stages of transition. Given the indisputable fact of the marked success of the Cuban developmental practice that was pursued during the pre-Castro era in the period 1940-1958, the strategy herein recommended conforms in principle to its spirit and purposes:

- a resurgent nationalist spirit,
- economic diversification,
- enhanced efforts at the modernization of the economy and the polity,
- growing technicalization in the productive and administrative spheres,
- an accelerated movement toward social integration,
- socially progressive legislative programs,
- an institutional order oriented toward creating a more humane and close-knit society in greater control of its own destiny,
- a more active mode of political management,
- the organization of the labor movement, and
- vigorous entrepreneurial activity.

These elements in a synergetic fashion constituted some of the most salient characteristics of the period that ended in Cuba at the close of the 1950s. The ideological thrust of the epoch did not simply consist of accelerating the rate of economic growth; rather, it aspired to engage in a nation building and social reconstruction type of endeavor in the revolutionary spirit of "*La Generación del Treinta.*" The institutions created and legislation enacted during that period called for a new kind of social contract among society's classes and functional groups.

The future cannot and should not seek to mimic the past mechanically. The program that is most feasible and desirable in a case of arrested development in a semi-modernized country, such as that of Cuba at the time of the Revolution, consists of a creative reinterpretation of the insti-



tutions, cultural essence, and national character of the people so that the latter may evolve freely but consistent with their ethos and without losing the sense of their own identity. Anything else would risk embarking on a costly, laborious, and probably unsuccessful program.

At present, Cuba is a small nation with a lop-sided, open economy still marked by high levels of sectoral concentration. However, it has great potential for socioeconomic progress, made possible by a vivacious and well-educated people who are independent, intelligent, and alert. It is located on a strategically situated island with an abundant and productive natural environment. Faced with a disastrous situation, Cubans will shortly be in search of a social market type of system that will agree with their particular history, cultural traits, and economic possibilities. That system should be able to maintain a dynamic balance in the macroeconomic sphere in order to pass safely over the hurdles of a competitive international panorama in constant flux while promoting the sound and balanced internal development of the economy in a climate of social justice, economic efficiency, and rationality. The difficult art of promoting and channeling individual and private activity in an atmosphere of constructive freedom while avoiding the extremes of excessive intervention and chaotic *laissez faire* is the challenge posed by the task of creating a new political, social, and economic order in Cuba at the beginning of the twenty-first century.

## ***Strategy***

With that in mind, let us move on to detail some of the principal premises and principles which serve as a basis and frame for recommendations. These emanate both from a gradualist, balanced growth type of strategy for reconstruction and development (see appendix) and also the particular *modus operandi* of the processes of decollectivization and desocialization that the Cuban society will encounter.

Of extraordinary importance is the need for the adequate coordination in time and the appropriate sequencing of the means of macro and micro structural change (organizations and institutions), with the liberalization, austerity, and stabilization measures to be adopted — such as monetary and fiscal policies in general and also those specifically related to prices and subsidies — with adjustment policies. These would be geared toward

increasing market competitiveness and efficiency and might include freer trade, exchange rate simplification, corporate governance reform and profit maximizing behavior, labor market mobility, economically rational banking system, and the like. At the end of the restructuring stage of the economy, the basic structural changes and the policies of liberalization, stabilization, and adjustment will be fully coordinated and harmonized with each other. It would be practically impossible to try to orchestrate instantaneous achievement of all types of changes — consider the danger and proven costs of trying overambitious solutions contained in the model known as the big bang approach to transition.

Not opting for the solution of the immediate and total transformation of a socialist to a market economy (Big Bang), does not mean that the alternate form, excessive gradualism, is exempt from dangers of its own. Lacking coherence and balance, slow and desultory change does not constitute a feasible option. Gradualism should not be confused with inertia nor with the search for halfway solutions that are not really such. An inescapable condition of a sound gradualist strategy is to effect structural transformations according to a preconceived blueprint that clearly outlines the path to a social market economy that will replace the socialist model.

Collectivist systems and, in general, highly planned systems, inevitably engender a technical-bureaucratic apparatus of enormous proportions and are usually endowed with low productivity and efficiency. The opposite tends to be the case in advanced market economies. The transformation and adaptation of the technical-bureaucratic mechanism in going from the first to the second model should take place gradually, together with the progress of the real processes of socioeconomic reconstruction and development. As the social market economy begins to emerge and spread throughout the economic expanse of the nation, the state apparatus will be gradually modified in a parallel fashion. In any case, the requirements of the socioeconomic development process, the need for public orientation and involvement, and the coordination between the state and private activities dictate the permanent presence of professional and technical teams to design and implement frameworks and contexts of policies and regulative controls of the economy, which themselves should be of a mainly indirect nature. These professional and technical teams should also help with programs of cooperation and assis-

tance, which are indispensable in mapping out a general direction for the economy to follow and also in achieving its macroeconomic balance as well as in minimizing the costly collective risks and errors, which, in the case of small economies, imply disastrous consequences for the social welfare of the population.

The processes of reconstruction and development will doubtless also be heavily conditioned by the availability of external finances. In the case of Cuba, international institutions and capital markets as well as governments, banks, and private investors will mostly facilitate the means, which will represent relatively modest sums by present world financial standards.

Another vital element is the formation of areas of economic integration, such as custom unions, areas of free trade, and common markets, which at present are gestated in various geographic areas. These indicate the direction toward which the world and the international economy will be moving at least in the next 20 or 30 years. Cuba must necessarily accommodate its economic future to that transcendent event. Such mega changes will profoundly condition its policies with regard to free trade, foreign direct investment, and the allocation of resources to key sectors, industries, and economic activities. This will impart a more cosmopolitan and open character to the Cuban society and economy. In turn, these movements of economic agglomeration will probably make economic negotiations and corresponding bilateral treaties between Cuba and other countries more difficult to reach and will tend to condition them more forcefully.

The economic experience of collectivist as well as individualistic systems has demonstrated conclusively that the only inducements capable of sustaining the productive effort of a people are the material incentives. The case of Cuba is one of the most eloquent examples of this assertion. Nonetheless, given the extreme poverty of Cuba, it will be necessary to demonstrate the reality of an immediate economic improvement in order to gain commitment to a program of reconstruction and development. Obviously, this will require the availability of corresponding external financial resources. The total resources required for that “demonstration effect” — together with the emergency aid that the extreme economic deterioration of the country and the initial dislocation that the inauguration of a new system will provoke — would amount to perhaps between

\$5 and \$10 billion dollars. Although a relatively large figure in absolute terms, it would be completely feasible to negotiate and obtain this sum in international financial markets or from other alternative sources such as official international aid and funds from non-governmental organizations from different nations.

Adequate human resources are needed to obtain those ends. The Cuban workforce possesses the basic knowledge and training necessary for the professional, technical, administrative, and operational tasks that an economy at subpeak development requires. The Achilles' heel in this area would be represented by (a) inappropriate economic motivations and attitudes, and (b) the unavailability of sufficient entrepreneurial talent. Sufficient human talent exists in Cuba, at least in the raw. The general availability of economic-oriented talent would be a reasonable assumption in light of the experience of peasant and black markets, the Mariel exodus, the rapid economic acculturation of that population into the U.S. economy, and the proven skills of the Cuban exile group.

## **Recommendations**

Based on the above, it is possible to suggest the following preliminary recommendations as an illustration of certain objectives to adopt and sequences of movements to be followed in conceptualizing appropriate policies for reconstruction and development.

Policies of agricultural diversification and of rational, partial economic self-sufficiency should enjoy maximum priority in the dual programs of reconstruction and decollectivization. These should be applied as much to the production of basic goods for general consumption as to primary activities in general as well as to agribusiness and cattle ranching.

Priority should also be given to light industry for the production of consumer goods and intermediate manufacturing in general. Here we must include the reconstruction and development of the broad base already existing in the 1950s in the field of semi-durable consumer goods as well as the gradual expansion of the production of industrial raw materials — the latter in close connection to the growth and needs of the national agro-industrial complex. Proximate forward and backward link-

ages among sectors and activities will be established at the lower or close-to-market level of the production matrix, following the logic of a developmental balanced growth type of strategy.

This succinctly formulated program would yield optimum results along a gamut of fronts and would also accomplish several related objectives: (a) it would serve to reestablish personal and private initiative and the free enterprise system relatively quickly and substantially in the society; (b) it would contribute decisively even during the short-term to the diversification and stability of the economy and to a high degree of direct involvement and self-determination regarding national social identity and the proper pale of economic policy; and (c) it would be of great value as well in the promotion of the country's domestic and external financial stability. The stimulation of entrepreneurial activity and the accelerated increase in the production of highly necessary consumer goods would affect the first two objectives. These, in turn, would facilitate the attainment of affordable and stable equilibria in price levels, a high level of employment, and the continued expansion of the gross national product (GNP). A domestic increase in the output of tradeable commodities and a favorable or equilibrated trade balance would promote the third objective, financial stability. Stimulating increased savings of hard foreign exchange with the consequent accumulation of reserves in convertible currency would also be a factor.

The outlined program would facilitate the gradual and orderly transition from a collectivist, centralized economy to a healthy market system economy through systemic, natural growth and spontaneous expansion. Growth of a market system economy under those conditions would result primarily from the energizing of the personal and private initiative of economic agents, who at present are being repressed by the political system. In turn, the program in question would constitute the best vehicle and the easiest, least bureaucratic road toward introducing reasonably free markets for goods, services, and real inputs of all kinds. It would also serve to create, once the process is launched, financial (money and capital) and credit markets in general and at a later date the corresponding institutions for their operation.

This general approach would undoubtedly represent the least complicated path, the one necessitating the least government intervention over the long-term, and also the least upsetting one in relation to the existing

matrix of economic activity. It would thus maximize the organic growth of markets and the corresponding development of the economic institutional order.

The described strategy and policy package would stimulate the process of structural evolution toward an entrepreneurial and individually-oriented market type of economy. At the same time, it would make possible the staggered introduction of highly sensitive stabilization policies, such as the withdrawal or cancellation of existing subsidies for production and consumption activities and the concomitant limitation on salary increases. After an initial period of adjustment this render unnecessary other unpopular measures, such as the freezing of savings and the drastic increases in various taxes and levies and many other restrictions that would otherwise distort the pattern of supply and demand for domestic consumer and investment goods as well as the demand for imported goods.

The solution we are sketching avoids sudden breaks or discontinuities in the economic process with their consequent deflationary aftermath in terms of reduced production and employment. It also precludes the forced policy reversals that inevitably follow in their wake and lead to errors and contradictions in economic and social decisionmaking, such as those that have often taken place in Eastern Europe. We surely must learn from them in order to avoid repeating their mistakes. Finally, the proposed path is the one that most easily adapts to the Cuban situation, to the country's level of underdevelopment and catastrophic impoverishment; its minuscule market, limited productive resources, and available cultivable land; relatively small population; climate; topography; insufficient and dilapidated energy infrastructure, transportation, communications, and distribution networks; and many other economic and sociopsychological factors (anomie and alienation) that are to be taken into consideration to conceptualize the correct or optimal strategic approach to desocialization and development.

As a new social and economic reality gradually emerges, new basic structures will begin to take shape. Organizations and institutions, incentives, motivations and forms of behavior will concretize. Some of these are essential, while others support the conformation of a modern market economy that will prove socially compatible with the historical and cultural characteristics and aspirations of the Cuban nation and its people.

This gradualist, balanced, and organic process is probably the only one that can solve the antinomies and contradictions that a radical change in the socioeconomic system would present to the policymakers. Moreover, this paradigm minimizes the unavoidable economic risks associated with the profound transformation of the production matrix that must take place in Cuba. It will also mitigate the adverse effects of erratic fluctuations, as is the case with the price of tradable commodities in world markets, because of its emphasis on diversification and the preferential production of final consumer goods. Furthermore, a low-level, balanced type of strategy allows for the measured application of the principle of comparative advantage and the exploration of its dynamic, unfolding possibilities.

Finally, and most importantly, the model under consideration calls for and strongly favors the rapid privatization of existing productive assets and the accelerated creation of new ones for use by direct producers, mostly small- and medium-sized domestic entrepreneurs and businessmen. This course, in turn, fits with the overarching and encompassing requirements of nation building and modernization in Cuba under the aegis of a newly formed civil society through the agency of its nascent middle sectors and their role in the society.

The solution of the apparently unsolvable puzzle resides in the growth and expansion of the structural and functional networks that make up the material substratum of a social market economy.

To reiterate, if we proceed according to the norms of a natural economic system, solutions will surface after a relatively short period. Among these are the establishment of quasi-rational price systems; the determination of a rate (or, perhaps provisionally, multiple rates) of foreign exchange, which would ultimately correspond to the parity of the real purchasing power of domestic and foreign currencies and would flexibly adapt to intervening endogenous and exogenous economic fluctuations; the emergence of a pattern in the interweaving of particular businesses, projects, activities, industries and sectors, and in the allotment of resources in the process of implementing investment strategies; the creation of financial, banking, and credit systems in general; and answers to still other problems and issues which, due to their circular character, would seem to frustrate any attempts at a simultaneous solution.

The above strategy does not exclude, but instead is complemented by,

the fostering and stimulation of certain key projects for economic maintenance and development in areas where Cuba enjoys a clear comparative economic advantage, either presently or potentially. These projects can contribute to the stability and acceleration of the economic growth of the nation, providing substantial income in convertible currency. Among these are the sugar industry, tourism, fishing, oil refining, biotechnology and, to a lesser extent, mining. Other products for export, such as liquors and rum, tobacco, citrus fruits, and other lesser fruits and vegetables were included in the preceding considerations under the agricultural sector, but they should also receive special attention in the designing of a development strategy because of their present or future importance in the area of foreign trade. They can contribute much during the reconstruction phase and over the long term to the general development and expansion of the national economy.

The economic future and welfare of Cuba and the Cuban people make special development projects not simply important but imperative. Therefore, the creation of specific development activities should be facilitated in every way possible without delay. The mechanics of the decollectivization and desocialization of the projects and activities just mentioned — which constitute, by virtue of their magnitude, entire industries and even whole economic sectors — are to operate, in effect, as relatively autonomous centers that will not initially be totally integrated into the general strategy of investment and reconstruction. The disruption of their normal functioning would endanger their economic viability, marginal as it is in most cases. The pace and mode of expansion of the development projects; their links and connections with other sectors, industries, and activities; the need for resources and, by extension, their accounting price systems; related technologies; and use of economic factors will not be governed at first by the discipline and norms of an inchoate general social market system. If that were to be the case, many of the special activities would prove to be uneconomical in nature, perhaps in some instances even producing a negative value-added. The market, of course, will consistently expand in a measured, consistent fashion until it eventually comes to occupy the total extent of the national economy, absorbing the initially autonomous key development projects.

How can this apparent conflict between the needs and individual mechanics of the development process and the desocialization and recon-



struction policies of the national economy be solved?

The only formula for the reconciliation of the two processes and sets of policies is a gradual integration of the initially autonomous projects, industries, and special development sectors into the general organism of the social market economy. This should be done sensibly, through a process of successive approaches, rather than trying to force the pace and courting the collapse of a bankrupt and rickety economy.

### ***Pending Issues During Transition***

We cannot consider in this preliminary outline the full impact and implications of a whole series of diverse political and economic decisions and policies and their effect on the processes of reconstruction and development. Solutions to some of those issues will become apparent once these processes begin to unfold. Other questions will require explicit political treatment for their settlement, perhaps in some cases through a mechanism involving popular consultation. Let us briefly cite the following items as examples of the kinds of issues in need of resolution:

- I. The role of foreign resources in the reconstruction and development of the national economy.
  - a. Public Loans
    - i. From international institutions
    - ii. From foreign governments
    - iii. From private institutions
      1. for public use
      2. for private use
      3. payment conditions
  - b. Private Loans (provision of foreign capital to private companies with out foreign participation in ownership)
    - i. Limits imposed by these loans on domestic entrepreneurial autonomy
    - ii. Payment conditions
  - c. Direct or Indirect investments: Conditions for acceptance
    - i. by types of industries or activities
    - ii. by amount of investments
    - iii. by magnitude and means of foreign participation in domestic

companies' property

- iv. regarding conversion and repatriation of profits
- v. regarding transfer of technology

Conditions and restrictions on:

- vi. Labor policy and training of native personnel
- vii. Administrative participation by nationals
- viii. Manipulation of costs and prices to the detriment of the national economy, especially in the case of some practices by multinational firms
- ix. Collusive production policies, especially on the part of some multinational and transnational firms
- x. Contracting of foreign loans and their conditions by firms
- xi. Tax policy (often conditioned by international fiscal treaties) and other levies.
- xii. Economic and accounting methods to be used in the evaluation of productive assets and the currency exchange rate to be applied in calculating the evaluation

II. Commercial treaties and agreements:

- a. Negotiated with international institutions. For example, with the World Trade Organization (WTO) or other agreements with groups and blocs of nations (areas of free trade, custom unions, groups or blocs of producers and/or consumers of certain products, common markets and other arrangements).
- b. Negotiated bilaterally, whether instruments and protocols are of a general nature or related to specific products

III. International fiscal treaties

IV Reception of economic and technological aid from foreign countries

V. Agreements with international institutions such as the IMF and the World Bank, which commit the state to adopt certain economic and political programs as a counterpart to the provision of financial aid or assistance on the part of those bodies

VI. The return of confiscated property to former owners or some form of equivalent compensation

One may conclude from the above that both the processes of decollectivization and desocialization and the strategies for reconstruction and development will be heavily impacted by the preceding six points,

although each of them will bear unequally on individual sectors, industries, activities, and particular projects, and on their manifold operations. These operations may relate to the volume of production or exportation, investments and prices, credits and loans, fiscal obligations and other tax measures, quality controls and production specifications, policies for sales and market penetration, the adoption of acceptable competitive practices, and innumerable other issues. In a general way that the projects, industries or special activities, particularly in their international projections, may be substantially affected by the policymakers' detailed outlook on the previous set of provisos.

The foregoing considerations reinforce the conclusion that not only is each process of desocialization unique but, further, these processes cannot be precisely planned or minutely anticipated. Given the large quantity of individual changes taking place, the nature of the relationship among them, and the patterning and timing of those interactions, policymakers will inevitably be forced to exercise their judgment in steering the course between antithetical values and preferences. Obviously, all of these parametric limitations and caveats do not detract from the validity of the overall direction and objectives of the process of decollectivization. They only serve to warn us about the many perils and obstacles lying in the path to the ultimate end.

The eventual application to the Cuban case of all the mentioned factors will, in some respects, be much easier than in the case of other socialist societies, while it promises to be more arduous in other areas. The magnitude of the misfit provoked by the Revolution between its originally postulated political and socioeconomic model for the nation, as well as its much touted developmental and investment strategies on the one hand, and the actual objective needs and capacities of the society and the desires and expectations of the people on the other, is so abysmal that much improvement and alleviation will occur from the mere cessation of the regime now in place. Cuba's socioeconomic condition will be in a position to start improving only if the yoke of its present political and social system is lifted. It is essential to realize that this is a necessary condition if the adoption of systemic policies and measures that would turn the society around is to take place at all.

Desperately needed competitiveness, efficiency, and productivity gains; the exploitation of economic dynamic comparative advantage; the

introduction of appropriate technologies and recapitalization of the production plant and infrastructure; the rebuilding of advantageous market ties; the introduction of a rational incentive system and effective managerial methods; the redressing of structural imbalances and sectoral disequilibria; and still many other fundamental improvements will be made possible only by the termination of the present regime's institutional order.

### ***Cuba's Advantages in the Transition Process***

Paradoxically, Cuba, in some regards, is in a better position to show rapid and sustained advance than perhaps all Eastern European countries, with the possible exception of former East Germany. The distortions imposed by the socialist system have been greater in Cuba than anywhere else. Also, the unrelenting attempt to remake the nation's cultural past in order to reshape it to the specifications of the regime may end up facilitating a return to fundamental aspects of that past. As the experiences of Eastern Europe show, once the repressive policies are discontinued, those societies reacting in a reflex-like fashion go in search of their roots and seek to establish continuity and coherence with their traditions and historical antecedents. In the end, as historical experiences demonstrate, cultures are not as malleable as totalitarian regimes would like them to be.

Cuba is a society that was essentially Westernized long ago and which is located at the junction between the two hemispheres of the Americas. Cuba's path to modernization in the past, as will surely be the case again in the future, is squarely within the tradition of the Western world. There are direct consequences stemming from that condition, which are relevant to Cuba's future politicoideological and socioeconomic model for desocialization and development and its concomitant strategy and policies. Among other things, these elements will strongly contribute to the appearance of an individually oriented and entrepreneurial driven type of market economy, albeit functioning within the socially responsive framework and kind of social contract characterizing the pre-revolutionary period. The implications of private ownership and personal initiative in Cuba are obvious and manifold. The ramifications range from a rapid and effective privatization mode, which would clearly devolve control and responsibility of economic decisionmaking to actual

producers, to labor and social legislation compatible with a politicized population and an organized labor movement. Let us hope that the necessary pluralistic and democratic political structures required by the inner logic of these socioeconomic arrangements will come to pass.

### ***Cuba's Disadvantages in the Transition Process***

Amidst our hopes for a successful institutionalization of the Cuban transition, it should not be forgotten that there are peculiarities to the Cuban case that adversely condition at the macroeconomic level the intent to reorient the economy and society towards the market. Among other effects, these characteristics hinder the efforts to reestablish advantageous economic and financial relations in the international area. At present, Cuba does not even fit the economic mold of a backward European economy with all of its attendant disadvantages. Cuba's openness, extreme poverty, underdeveloped production structure, foreign indebtedness, and need for short- and long-term financial requirements all pose an array of difficulties whose solution resides more in the bailiwick of political policymaking and political economy than technical economics. In essence, Cuba needs to negotiate the concession of favorable commercial and financial relations while it buys time to address the fundamental agenda of introducing basic domestic structural and functional changes.

### ***The Future: Back to the Spirit of the Past***

The future program for action will require the skills of the statesman far more than those of the technician. In reality, there are no hermetic or arcane secrets to be discovered, no magic formula to be devised for the transition to political and economic freedom. Cuba will shortly be back to step one, namely, the period after the Second World War. The period 1945-1958 has to be revisited and scrutinized with great care in order to resume the socioeconomic and intellectual trends that, extending back to the unfinished revolution of the 1930s, instilled meaning and continuity to Cuba's public policy, despite the profound upheavals that disrupted the political life of the nation. The long delirious period of the Castro Revolution will appear in historical perspective as a costly and painful

detour but not one that threw Cuba off its course permanently.

It is clear that the only way back for Cuba is total systemic change. The existing maze of irrational values, organizations, institutions, functions, and norms, must be disassembled in order to make room for a new nation and society.

After more than four decades of unspeakable despotism than half-hearted “solutions,” “changes,” or “reforms,” whose end points are unknown and whose prospects are uncertain and problematic, the Cuban people deserve better.

The probably unattainable ideal to be pursued by the transition program would be to harmonize politics and economics optimally, in order to create a maximally efficient and stable politicoeconomic system endowed with rapid growth that would also share its benefits equitably among all Cubans. This vision would require conjoining our intellectual position in the philosophical, social, and ideological areas with decisions of a political nature, and even those with others, which are strictly technical and economic in nature. Furthermore, that symmetry would have to be maintained at an equilibrium that was at the same time both dynamic and stable. That theoretical ideal, of course, would clearly be utopian and unachievable. Social engineering is a non-existent subject. All material systems — whether organic, mechanical, or social — are subject to changes and entropy. Nevertheless, Cuba must strive for the creation of a society that will fully respect all individuals, their dignity, and their rights: a free, socially solid, participative, and progressive society. No better way exists of fulfilling the frustrated expectations of the Cuban people in the last half-century and affecting the transition from totalitarianism to political and economic freedom.

## **Appendix A: Balanced Growth, Planning and the Economy - Some General Considerations**

It is almost impossible to define in a general fashion the economical-ly optimal degree of state intervention and planning for various socio-economic situations. Governments, however, usually have a bearing on the types of developmental strategies and patterns a society selects and on the short- and long-term policies of economic growth. The problems of governmental action and the resulting economic organizations and policies operating in the society are, therefore, inexorably connected. In addition, the manifold interdependencies between economic factors and prevailing political structures and policies should be carefully noted. Not only do the former need for their implementation, an appropriate vehicle in the latter, but also purely political factors can, and often do, act as an independent variable in shaping the economy's means and institutions.

In the case of Cuba, it seems clear that political and ideological preconceptions and preferences dictated the choice of development models and tactics during the revolutionary period and predetermined the actual course of the economy. While in the pre-Castro era, a developmental strategy of balanced growth was followed in practice from 1927 to 1940 and onwards to 1958, after 1959, the revolutionary government emphasized heavily unbalanced growth until the advent of the Soviet-like quinquennial plans in the 1970s, albeit under the direct command of a Stalinist-type caudillo.

In its logical antecedents, balanced growth is a derivative of the Walras-Marshall-Young theoretical developments in the fields of general and partial economic equilibrium. By contrast, the unbalanced approach relies on the notion of individualized investment sequences not aimed at the creation either of an overall horizontal (market-oriented) or vertical (production-oriented) integration and balance among sectors and activities.<sup>1</sup> More restricted in scope are the investment concepts of the big push and critical minimum effort. In essence, they are subsidiary notions to that of balanced growth, although the latter is also applicable of judging the self-sustaining capability of an unbalanced developmental strategy.

Their use relates to the quantum of investment resources to be utilized over time in a given effort (big push) and with the minimal needs of a takeoff into automatic growth (critical minimum effort).<sup>ii</sup>

Balanced and unbalanced or sequential strategies exhibit profound operational differences when the selected variants are allowed to display the extreme characteristics of their respective modalities. This is obvious in a polar case of unbalanced growth where remote series, especially in the high stages of production, are chosen for investment purposes. In such an instance, the completion of the sequences involves a series of projects exhibiting low linkage coefficients and little balance with the rest of the economy, tending to create isolated enclaves and investment or development blocks.<sup>iii</sup> Eventually, if government supported imbalances grow beyond a certain point, even in market-type economies, policies will turn in the direction of *dirigismo*, and political institutions will concomitantly gain in authoritarianism.<sup>iv</sup>

Nonetheless, it is possible that unbalanced development may make for relatively faster growth in key or basic sectors of the economy due to the greater concentration of investment resources in preference to the more dispersed approach of the balanced strategy.<sup>v</sup> Conversely, no evidence indicates that balanced growth would be slower over the long run.<sup>vi</sup> Quite the opposite would actually seem to be the case.

Balanced growth is both in theory and in historical practice endowed with greater dynamic efficiency than its opposite.<sup>vii</sup> It makes for both a more economically valuable and a more efficient use of resources than central planning or other direct forms of intervention in the economy are capable of doing. The Schumpeterian entrepreneur bringing about growth through the process of innovation is more dynamically efficient, lapses into fewer mistakes and errors, and generates less waste over the long-run and during most short-run situations, than the central planners and other advocates of *dirigismo*. The economic performance of the latter, when discounted by the heavy social and real economic costs accompanying it, is no historical match for the secular record of the old market economies. Even today's Third World countries attest to the dismal record of these ill-fated social experiments. Cuba and a host of Latin-American, African, and Asian less-developed countries during the decades of the 1950s and 1960s, are glaring examples of the follies of planners following a big government leadership policy in the pursuit of unbalanced growth.



If the prerequisites for a market economy were not to exist, in extreme cases of underdevelopment and in the absence of the appropriate institutions, a policy of “planning not to eventually plan” may become necessary. W. A. Lewis’s allusion to situations where the chief knows best, and even F. Hayek’s statement that “where it is impossible to create the conditions necessary to make competition effective, we must resort to other methods of guiding economic activity,”<sup>viii</sup> concur with this assessment. Hence, it may be necessary in Cuba during the early stages of the transition to guide the process in a big-leadership kind of way, as in the case of the “Asian Dragons” in the 1970s and 1980s, in order to create the social framework and help lay the foundations of a production matrix that would allow for the operation of an efficient market mechanism.

Exercising freedom and participation requires practice.<sup>ix</sup> Practice entails mistakes and errors, that is, waste. It may well be the case, however, that a gradual, balanced strategy, implemented in tandem by the public and private sectors, will be the least wasteful method in the long-term. Long-term governmental planning wisdom is not better but rather infinitely worse than long-term general entrepreneurial wisdom and its more efficient information and decisionmaking system.<sup>x</sup>

A markedly imbalanced approach is a substantially inferior, second-best policy not to be adopted as the guiding strategy of a transition developmental process. Moreover, for those planners who fall under the obsessive delusion of expanding the capital goods sector at an exponential rate, a mesmerizing illusion of accelerated growth and of an expeditious forthcoming superabundance of consumer goods is falsely created. Developments in the former Soviet Union and similar ones in Eastern Europe after the Second World War have exploded the myth of the centrally planned and unbalanced big push approach.<sup>xi</sup>

All of this is especially applicable to Cuba. Historically speaking, the country followed a gradual, balanced growth strategy during the eighteenth century, which was replaced by an increasing bias towards monoculture after the early decades of the nineteenth century. This latter tendency was reverted with increasing force from the second decade of the twentieth century to 1958. The revolution regressed the Cuban economy to its former unbalanced status in the latter part of the twenty-first century.

## NOTES

<sup>i</sup> On balanced growth see Gottfried Haberler and Robert Steran, eds., *Equilibrium and Growth in the World Economy: Economic Essays by Ragnar Nurkse*, Cambridge, Mass.: Harvard University Press, 1962. The original presentation and defense of unbalanced growth appears in Albert O. Hirschman, *The Strategy of Economic Development*, New Haven, Conn.: Yale University Press, 1959. chs. 3 and 4 are the most relevant. See also Paul Streeten, "Balanced and Unbalanced Growth," *Economic Integration: Aspects and Problems*, Leyden, A.W. Sythoff, 1964, chs. 6 and 7. In Gerald M. Meier, *Leading Issues in Development Economics*, New York: Oxford University Press, 1964, see selections by Nurkse, Hirschman, Streeten and Singer in Part 5, Sec. 2. Also refer to Benjamin Higgins, *Economic Development*, New York: W.W. Norton and Co., Inc., 1959, Part 4, ch. 15.

<sup>ii</sup> See P.N. Rosenstein-Rodan, "Notes on the Theory of the 'Big Push,'" and comments by Celso Furtado and Ragnar Nurkse, in *Economic Development for Latin America*, Howard S. Ellis and Henry C. Wallach, eds., London: MacMillan and Co., Ltd., 1963, 57-81. Also, G. Meier, *Leading Issues in Development Economics*, 431-440. On the Critical Minimum Effort Thesis, refer to Harvey Leibenstein, *Backwardness and Economic Growth*, New York: John Wiley and Sons, Inc., 1963, ch. 8.

<sup>iii</sup> On the nature of interdependence in production see, Hollis B. Chenery and Paul G. Clark, *Interindustry Economics*, New York: John Wiley and Sons, Inc., 1959, chs. 2 and 8. Also, Preface by Wassily Leontief, Introduction by Tibor Barna and Hollis B. Chenery, "The Use of Inter-Industry Analysis in Development Programming," in *Structures/Inter-Dependence and Economic Development*, Tibor Barna, ed., London: MacMillan and Co., Ltd., 1963.

<sup>iv</sup> On the role of the state under various development strategies and growth models see Edward S. Mason, *Economic Planning in Underdeveloped Areas: Government and Business*, New York: Social Science Research Council, 1959, especially foreword by Simon Kuznets and Joseph J. Spengler, "The State and Economic Growth: Summary and Interpretation," 353 to 382. Two important studies in connection with this topic are Alexander Eckstein, "Individualism and the Role of the State in Economic Growth" in *Development and Society*, eds. David Novack and Robert Lekachman, New York: St. Martin's Press, 1964, 422-429; and Alexander Gerschenkron, "Economic Backwardness in Historical Perspective" in his collection of essays by the same title, Cambridge, Mass.: Harvard University Press, 1966, 5-30.

<sup>v</sup> That is, assuming the same initial amount or stock of investment resources with an equal average rate of turnover to them. Actually, if imbalances were to be too marked, it is quite possible for a more balanced strategy to eventuate in a faster average long-run rate of growth. Comparative measurements of Soviet growth performance and economic strategy vis-à-vis those in Western countries is the procedure normally used to empirically illustrate the topic at hand. The following works are selected pieces intended as general references. Abram Bergson, *Productivity in the Social System-The USSR and the West*, Cambridge: Harvard University Press, 1978, chs. 9 and 10. In this same connection see Abram Bergson, "Comparative Productivity and Efficiency in the Soviet Union and the United States" and Evsey Domar, "On the

Measurement of Comparative Efficiency” in *Comparison of Economic Systems*, Alexander Eckstein, ed., Berkeley, Calif.: University of California Press, 1973, 161-240. Also refer to Robert W. Campbell, *Soviet Economic Power*, Boston: Houghton Mifflin Co., 1966, ch. 6; G. Warren Nutter, *Growth of Industrial Production in the Soviet Union*, Princeton: Princeton University Press, 1962, and Alexander Gerschenkron, “Notes on the Rate of Industrial Growth in Soviet Russia,” *Economic Backwardness in Historical Perspective*, 254-269. These publications offer comparative data from the best known research in the field. Alternative calculations from Bornstein, Hodgman, Jasny and others, are included. Finally, Joseph Berliner’s article, “The Economics of Overtaking and Surpassing” contains an excellent appendix on “The Approach to Balanced Growth” in *Industrialization in Two Systems: Essays in Honor of Alexander Gerschenkron*, Henry Rosovsky, ed., New York: John Wiley and Sons, Inc., 1966, 159-185. The appendix’s panoramic view of movements in the capital stock of the Soviet Union from 1933 to 1955 and their lack of suggestion of “any general movement toward balanced growth” (185), is extremely important.

<sup>vi</sup> In order for that to be possible, a big push of monumental proportions would have to be responsible for the simultaneous occurrence of the total desired volumes of investment in all relevant sectors and activities. This condition, by definition, is not only opposed to our understanding of the term underdevelopment but, in its extreme form, is clearly unrealizable. On this point, see Gerald Meier’s criticism of Tibor Scitovsky’s arguments in *Leading Issues in Development Economics*, 256-257.

<sup>vii</sup> On the specific topic of static vs. dynamic efficiency in alternative systems and their relationship to other socioeconomic and political variables that influence them, see Bela Balassa, *The Hungarian Experience in Economic Planning*, New Haven, Conn.: Yale University Press, 1959, 5-24. Also Alec Nove, “The Pace of Soviet Economic Development” in *Readings on the Soviet Economy*, Franklyn Holzman, ed., Chicago: Rand McNally and Company, 1963, 143-165. Another selection in the same book, Alexander Erlich’s “Stalin’s Views on Economic Development,” 103-121, would serve as appropriate background for discussing the nature of extreme policies and their impact on static and dynamic efficiency. Another important reference is P.J.D. Wiles, *The Political Economy of Communism*, Cambridge, Mass.: Harvard University Press, 1962, Part III, especially chs. 11 and 13. A classic book dealing with the complexity of antecedent cultural, sociopolitical, and economic factors conditioning the performance over time of socialism and capitalism is Joseph Schumpeter, *Capitalism, Socialism and Democracy*, New York: Harper and Row, 1949.

<sup>viii</sup> Friedrich A. Hayek, *The Road to Serfdom*, Chicago: The University of Chicago Press, 1965, 36.

<sup>ix</sup> On the vast literature concerning the much discussed question of the relationship between economic institutions and policies and political freedom, it would be wise to beware of the simplistic approach that sees none. By way of a few, general references to the arguments of those who see a clear relation, include: Kenneth Boulding, *The Organizational Revolution*, New York: Harper and Brothers, 1953, ch. 13. Idem, *Economics as a Science*, New York: McGraw-Hill, 1970, ch. 6; J.M. Clark, *Economic Institutions and Human Welfare*, New York: Alfred A. Knopf, 1961, especially ch. 8;

Milton Friedman, *Capitalism and Freedom*, Chicago: The University of Chicago Press, 1965, chs. 1 and 2; Lord Robbins, *Political Economy: Past and Present*, New York: Columbia University Press, 1976, especially chs. 9 and 11; P.J.D. Wiles, *Economic Institutions Compared*, New York: John Wiley and Sons, 1977, ch. 17; Sidney Hook, *Political Power and Personal Freedom*, New York: Collier Books, 1965, especially parts 3 and 4.

<sup>x</sup>See the well known article by F. A. Hayek, “The Price System as a Mechanism for Using Knowledge” (Originally published under the title “The Use of Knowledge in Society”) in *Comparative Economic Systems*, ed. Morris Bornstein, Homewood: Richard D. Irwin, Inc., 1979, 49-60. On the role of knowledge in economics and the social system, see Idem, *Individualism and Economic Order*, Chicago: Henry Regnery Company, 1972, especially chs. 2 and 4.

<sup>xi</sup> See comparative figures on the average annual growth rate of GDP for market and non-market economies for the decade 1970-1980, The World Bank, *World Development Report 1982*, New York: Oxford University Press, 1982, Table 2, 112-113. Also refer to no. 5 and 7.

## 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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