Cuba: On the Way to Market Socialism?

Bert Hoffmann

Cuba’s government has initiated plans to lay off half a million state employees by March 2011; an additional 500,000 employees are to follow. An expansion of the private sector will supposedly absorb the newly unemployed personnel.

Analysis

The acute state finance crisis has forced the Cuban government to undertake the most dramatic reform measure since Raúl Castro took office in July 2006. Nevertheless, the leadership continues to argue internally about how much market economy Cuba’s socialism will permit.

- The laid-off state employees are to transition to occupations in the “non-state sector.” This will entail the greatest opening up to private-sector economic activities since the 1959 revolution. With this opening, the question of new social disparities will become an acute one.

- There is still no consensus among Cuba’s leadership regarding the future role of the private sector: For the reformers, the state should actively promote the new self-employed as an important part of a market socialism modeled after the Vietnamese or Chinese example. However, still-powerful forces in the party and the bureaucracy see the private sector rather as a necessary evil which is politically dangerous and thus needs to be kept limited.

- In many ways the reform will initially mean the “whitening” of already existing black-market activities. Nevertheless, there are many indications that the opening up to the private sector will take place, also in the future, largely without strong legal foundations. While a lack of legal certainty provides the state with control and sanctioning power, it is also a hindrance to the economic dynamic which these reforms could generate for the economy as a whole.

- With its awarding of the Sakharov Prize to Cuban dissident Guillermo Fariñas, the EU Parliament has demonstrated its solidarity with Cuba’s opposition. Although the EU has decided to maintain its “Common Position” on Cuba, it will nevertheless strengthen its efforts to make bilateral relations more flexible—not least because if it does not, increased solo action at the national level is to be expected.

- Fidel Castro’s public appearances of recent weeks do not herald his political comeback. To the contrary: Raúl Castro has consolidated his power; Fidel’s presence has served primarily to legitimate his brother’s government.

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The Economic Squeeze

It is often not so much an ailing model’s phase of agony that is most tricky, but rather the moment in which, after a long period of time, its repair is finally begun. This is why it has taken so long for Cuban head of state Raúl Castro to actually initiate the reforms that he has been describing as unavoidable for the past four years. However, his mid-September 2010 announcement that half a million state employees would be laid off within six months has signaled that, even for the conservative forces in Havana’s leadership, the adherence to an ever more precarious “carry-on” approach is no longer viable.

Since Raúl Castro took over office from his brother Fidel in July 2006, he has preached to the country about economic necessities in speeches and interviews: Cuba can only consume as much as it produces. State-owned enterprises must become more efficient, so that the value of wages can increase again. The comprehensive subsidies and the paternalist state that takes care of everything are no longer financially viable (Hoffmann 2008). In sum, Raúl Castro has outlined an extensive reform agenda as being necessary for survival—but without implementing it.

Living conditions have indeed deteriorated during Raúl Castro’s tenure; the state’s financial crisis has intensified dramatically. The international financial crisis has negatively impacted tourism and remittances from emigrants. More serious still is the fact that support from Venezuela is no longer flowing as generously as before. As a result, in 2009 Cuba reduced its import volume over the previous year from 8.84 million freight tons to 3.27 million, a decrease of no less than 60 percent, according to the National Statistics Bureau. In addition, domestic production continued to decline. Bottlenecks and savings measures in providing for the needs of the population, as well as in the supply of the necessary investment goods and primary products for state-owned enterprises, were the consequence.

In the agriculture sector, originally the poster child for Raúl Castro’s reform efforts, the results to date have been disastrous. Although 920,000 hectares of idle state land has been leased to private farmers, a revival of production has not occurred. Nowhere have there been enough machetes, machines, seeds or fertilizer for the prospective farmers to purchase. An additional problem has been the inadequate access to transport and marketing. Half of the newly allocated farmland, according to a recent statement by Economy Minister Murillo, continues to be unused.

Thus, instead of improving the supply situation, agricultural production has fallen further. In the first half of 2010 food production dropped by 7.5 percent. Staple foods such as potatoes, milk and eggs were as much affected by the decline as the export products so important for the acquisition of foreign currency: a decrease of 14 percent over the previous year was recorded for tobacco, and the party newspaper has conceded that this year’s sugarcane harvest is the lowest in 100 years.

Facing an acute liquidity crisis, the state leadership decided at the beginning of 2009 to freeze the foreign currency accounts, valued at approximately 1 billion US dollars, of foreign trading partners and businesses operating in the country. Today Cuba’s business partners still have only partial access to their funds, and long payment delays are the rule in several areas. With a few exceptions, Western investors’ thus remain reluctant to make new investments on the island.

The state financial crisis has also resulted in increasing inflationary pressure on the Cuban currency. The memory of the first half of the 1990s, when the Cuban peso (CUP) went into freefall and a monthly wage was equivalent to little more than 2 or 3 US dollars, is still present. One of the greatest crisis management successes was the achievement of stabilization—although still at a low level. For years the exchange rate between the peso and the “convertible peso” (CUC), which is pegged to the US dollar, has oscillated around 1:25. In order to prevent a new inflationary spiral in the current crisis, cuts to state expenditures have now become unavoidable. The state has cut workplace canteens and eliminated the quota of cigarettes older people have received as part of their food cards (and which they often resold to support their meager pensions). But ultimately the government could not avoid addressing the fundamental problem: the hidden unemployment, which has for years been “parked” in the hopelessly inflated staffing plans of the administration and the state-owned enterprises.

As early as April 2010, Raúl Castro spoke publicly of a million excess employees who did not account for any productive achievement. Though his

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2 S. Oficina Nacional de Estadísticas, online: <www.one.cu>.
term to date had been characterized more by proclamations than by implementation, this time he was serious. Thousands of workers have already received their pink slips, and leaked papers and Power Point slides detailing concrete numbers for the first 500,000 lay-offs for every province and municipality are circulating on the Internet. Even if only half of those laid off find work in the “non-state sector” — as it is officially termed — this is the most far-reaching opening up to private economic activities since the nationalization of all urban small business in 1968.

Farewell to Überfather State—But What Will Take His Place?

“A crisis exists when the old dies and the new can’t be born,” wrote Italian Marxist Gramsci. Applied to Cuba, this means the following: the recently announced lay-offs are the last rites of a socialist model based on an omnipresent state. This was most probably what Fidel meant with his much-cited remark to American journalist Jeffrey Goldberg that “the Cuban model doesn’t even work for us anymore.”

Too much has no doubt been interpreted into Fidel’s statement when it has been read as a confession that the revolution or socialism as a whole have failed. Nevertheless, the comment was important in that it showed that even the revolution’s historical leader no longer has an ace up his sleeve that could prolong yesterday into tomorrow. It is also symptomatic of a serious problem: as resolutely as Cuba’s leadership is now declaring the end of the old statist economy, it is remaining equally vague in drawing the contours of the new model that is to take the former’s place. This reflects the lack of consensus on the issue within the political elite.

Cubans must thus glean a sense of their country’s future economic model from bite-sized statements and many rumors. The communiqué published in the party newspaper spoke of a “reduction of 500,000 workers in the state sector and a corresponding increase in the non-state sector,” without developing further. Meanwhile it leaked out that approximately 250,000 licenses for “self-employment” (trabajo por cuenta propia) were to be given out. In addition, a list with 178 occupations selected for such work circulated, most of which, however, were within the low-skill service sector. In many respects the reform may simply result in the authorization of black-market activities that have to date been forbidden. For instance, farmers who have sold their products at the sides of rural roads have until now had to hide from inspectors (or bribe them); now they are allowed to build small sales stands.

Lease models and the authorization of cooperatives for small enterprise and service provision are supposed to accompany the above changes. As part of a pilot model, employees of state hair salons have been offered the possibility of self-employment as the lessees of their respective establishments. Even after rent and taxes are deducted, this promises most of them significantly more earnings than the state wage. But when such changes are intended to occur on a large scale, subsequent reforms are unavoidable: the structures within which market actors operate—from sales venues for the inputs and tools required by the new self-employed workers to a differentiated tax system and transparent rules in the case of insolvency—need to be established. An internal party document leaked to the AP news agency warns already that a substantial proportion of the newly self-employed could give up within the first year. It does not reveal which social safety net they then will be able to rely upon.

“Self-employment”—A Magic Formula?

After the 1968 “Revolutionary Offensive” campaign nationalized approximately 50,000 small stores and enterprises, from cobblers to lemonade vendors, agriculture was the only economic sector where the possession of private property was maintained: roughly 450,000 small farmers, all bound within a tight corset of planning and price provisions and the organizational structures of the official small farmers association (ANAP).

In the crisis following the collapse of the Soviet Union, a new modality of self-employment was initiated in 1993: the so-called trabajo por cuenta propia.

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5 As Power Point document at: <www.penultimosdias.com/2010/09/14/la-reforma-que-viene/>.
The granting of licenses, however, remained subject to a multitude of restrictions. Although this type of employment was initially envisioned for 157 professions in the service-provision and small-enterprise sectors, almost 80 of these—including those most requested and most economically relevant, such as taxi-driving or the operation of small-scale restaurants—were put on hold; while they weren’t actually forbidden, new licenses were not granted and expired licenses were not renewed. Furthermore, countless licenses were revoked because of alleged violations of hygiene rules, the procurement of supplies on the black market, or tax violations. As a result, only approximately 140,000 Cubans are today registered as trabajadores por cuenta propia, less than 4 percent of the island’s workforce.

Compared to the experiences of the 1990s some regulations are now less restrictive: the self-employed are now allowed to employ personnel from outside of their family circle—an important step in actually moving from “self-employment” to a small-enterprise dynamic. They will also be allowed to sell to state enterprises and institutions. In the past the latter organizations were not permitted to purchase from such ideologically objectionable entities. However, a look at the country’s past experiences cautions against excessive expectations. Above all, it illustrates how much depends on the “small print”—on the design of the accompanying rules and on the actual implementation in practice. Just because licenses are to be granted does not mean there has been an indication of who, and under what conditions, can get one.

Official information on this point has so far been scant. One of the reform-minded economists, Pavel Vidal of Havana’s Centro de Estudios de la Economía Cubana (CEEC), thus demanded on Cuban radio, “There must be a commitment that this is not a short-term adjustment but rather a structural change, and to accept that the Cuban economic model needs this non-state sector.” In other words: self-employment should not just be an emergency solution in the context of crisis, but rather part of a dynamic market socialism, such as that which the Vietnamese or Chinese models have implemented with noteworthy success.

Together with his colleague Omar Everleny, Vidal has written the first available analysis of the reform process produced by academics working within Cuba’s official institutions. It is part of the government’s bizarre information policy that this analysis was published in the least formal way possible, so as not to compromise the government in any way: as an online document in the Havana Catholic Church’s magazine Espacio Laical.6 The authors stress the enormous challenges the reform process faces due to the fact that the necessary adjustments have been postponed far too long over recent years. The problems are aggravated by the “absence of an alternative theoretical model that has been agreed upon by consensus, both politically and socially.”7

The adequate forum for formulating such a strategic consensus could be the long-overdue sixth Congress of Cuba’s Communist Party; however, this continues to be postponed and there has been no hint as to when it will be called to order.

One aspect of the newest measures that has so far scarcely received attention, either domestically or among foreign observers, is their impact on gender equality within the labor force. Seen from an international perspective, women make up a very high percentage of the workforce in general, and the highly qualified professions in particular. In the private sector, however, this is quite different. Here, according to official data, only one of every seven workers is a woman. Three-quarters of Cubans working in the private sector are small farmers, and in rural areas—and not just in Cuba—traditional gender relationships have held on longer than in urban areas. But even among those currently registered as self-employed in urban areas the situation is no better: of the approximately 140,000 registered trabajadores por cuenta propia, only 32,000 are women—less than a quarter.8 The question is thus to what extent the imminent cuts to the state sector will accelerate the gender-specific division of the labor market—together with unequal earning potential—to the disadvantage of women.

Another driver of new social inequalities is the question of access to capital in order to successfully start up a small enterprise. Here the emigrants come into the picture. The millions of dollars in remittances that they have sent to date have gone almost exclusively to consumption. Now these dollars could in principle also be invested—for instance, in proper kitchen equipment to bake pizza more efficiently than one’s competing neighbor. This means that all those without family members

7 Ibid., p. 2.
8 S. Oficina Nacional de Estadisticas, online: <www.one.cu>.
abroad do not have access to a level playing field for their economic activities. And having family abroad is largely related to social and ethnic status: the majority of emigrants are identified as “white” Cubans, as are the recipients of their monetary support. The government is aware of this problem and has already stated that it will provide credit for the newly self-employed. Yet scarcely any Cuban will have grand illusions about how extensive this credit will be given the state’s empty coffers.

Elite Cohesion and Reform Inertia

Since taking over office from his brother Fidel four years ago, Cuban leader Raúl Castro has consolidated his power. Almost all the important positions within the state apparatus have been replaced, and the parallel structures that Fidel had outfitted with significant power—such as the so-called “office for the battle of ideas”—have been completely demolished. At the top of the political elite remain only a few who do not owe their current position to an ascent under Raúl. The military, which Raúl led for half a century as defense minister, has obtained noticeably more power within the state apparatus. Raúl has promoted his son Alejandro Castro to a key position within the state security apparatus. Simultaneously, Fidel is complying, despite improved health, with his role as an honorary pensioner who does not interfere directly in domestic politics.

Despite the resultant security of his position, Raúl’s overarching political logic remains elite cohesion. This is the central lesson that Cuba’s leadership took from the breakdown of the regimes in Eastern Europe: fractures within the elite are to be avoided at any cost. Carlos Lage, long the third man behind the Castro brothers, and Foreign Minister Pérez Roque were ousted a year ago, not least because, according to Castro, “the external enemy held illusions about them.” On the other hand, Raúl, in order to secure the unanimity of the apparatus, positioned several long-serving veterans of the revolution in central positions of power. The most prominent example is the 79-year-old hardliner Machado Ventura, who was appointed vice president. In the past Machado Ventura was in charge of the cadre movements within the Communist Party; therefore, the calculation will have been that no one could better provide for party discipline. The comeback of the 78-year-old Co-
Politics in Negotiation Mode

Cuba’s political leadership has shown little readiness to allow the increased participation of the Cuban population in the re-design of the socialist economic model. However, it has demonstrated a new political pragmatism in its relations with the opposition. At the beginning of July 2010 the gradual release of the 52 regime opponents who were still imprisoned as a result of the arrests of the “black spring” of 2003 began—the largest release of political prisoners for decades. Even more notable than the number was the way in which this release came to be. It was not a gesture of grace from above; it was much more the case that the state was reacting to growing pressure from the opposition, due on the one hand to the hunger strikes by Orlando Zapata, who died on February 23, 2010, and Guillermo Farías, and on the other to the protest marches by the Damas de Blanco, the relatives of the imprisoned dissidents.

The prisoners’ release was the result of a complex negotiation process mediated by the Catholic Church and the Spanish government. The opposition was not directly involved, a fact that it criticized sharply; however, the process gave it an implicit recognition such as it had never before received. Eventually, opposition members did do their part for a constructive outcome to the negotiations: directly after the Church announced the negotiated release of the prisoners over the coming months, one of the opposition’s most prominent voices, Cuba’s much acclaimed blogger Yoani Sánchez, went to the hospital bed of Guillermo Farías, who was hovering between life and death, to persuade him—with success—to break off his hunger strike.

Part of the deal was that the dissidents would receive political asylum in Spain. This resulted in at times heavy criticism that the amnesty was accompanied by de facto expatriation. Both the Church and the Spanish foreign minister denied this, stating that leaving the country was not a condition of release; however, in all cases so far the released prisoners have left the island.

The release of the prisoners has been interpreted abroad mostly as a gesture directed at the EU. This resulted in at times heavy criticism that the amnesty was accompanied by de facto expatriation. Both the Church and the Spanish foreign minister denied this, stating that leaving the country was not a condition of release; however, in all cases so far the released prisoners have left the island.

The negotiated release of the prisoners represents an unparalleled precedent in terms of all three of these points.

EU Policy: No Farewell to the “Common Position”

Spain has used its successful mediation in the release of the prisoners to renew its demands for a revision of Europe’s Cuba policy. Since 1996 the EU has stuck to the “Common Position,” which makes its relations with Havana dependent on an improvement of the human rights situation there. The Cuban government views this as a hostile approach intended to force regime change from the outside and has in turn made improved relations with the EU dependent on the latter’s abandonment of the Common Position.

The EU member states remain divided in their assessments of whether human rights in Cuba should be promoted through a hard position or through dialogue. The German government has adopted a noticeably tougher stance since Guido Westerwelle took office as foreign minister. Most recently, the EU Parliament has added to a hardening of positions by awarding the Sakharov Prize for Freedom of Thought to Cuban dissident Guillermo Farías on October 21, 2010; it was his hunger strike that led to the negotiations for the release of the political prisoners. This is the third time within nine years that the European Union’s highest human rights award has been given to a Cuban dissident, giving the island a truly disproportionate role in the EU’s global human rights concerns.

It thus came as no surprise that the October 25 meeting of the European foreign ministers did not follow Spain’s quest to abandon the Common Position. At the same time, there is broad discontent within the EU, among a wide spectrum of ideological positions, with a political line which has been
fixed for 14 years, which allows limited flexibility, and which is no longer completely supported by important actors in Europe’s Cuba policy. This has in the past led repeatedly to national solo actions that have thwarted the EU’s intended joint-foreign-policy approach. As a consequence, while not dropping the Common Position the foreign ministers’ meeting did open a door to a new level of dialogue by mandating EU High Representative Catherine Ashton to explore the possibilities for a bilateral agreement. However, it takes two to tango, and it remains uncertain whether the Cuban government will find these terms acceptable.

The Common Position states that European policy aims for “a process of transition to a pluralist democracy and respect for human rights and fundamental freedoms.” That this goal has not been achieved is evident. Nevertheless, the EU demonstrates daily in its relations with many of the world’s states that improvements far below the level of full democratization can be valid foreign policy goals.

A change in perspective of this sort has become evident in the USA since Obama took office. It has manifested as a series of moves towards a gradual détente policy, be it the legalization of remittances from emigrants or a whole array of easy-to-implement normalization efforts, from the resumption of postal services to joint efforts to protect the sharks in the Gulf of Mexico. The old boogyman image of the empire in the north, which had such a high legitimating value for the Cuban revolution over five decades, has not entirely disappeared as a result, but it has paled considerably. Thus when Cuban foreign minister Bruno Rodríguez declares, as he did recently, that the “blockade” of Cuba has been strengthened under Obama (Reuters, 15.09.2010), this is a thesis with very limited persuasive power, not only abroad but also on the island.

At the political as well as the economic level, Cuba has for now left the phase of immobilism. Politically, the negotiated release of imprisoned opponents has marked an increase in the civility of the government’s relations with the opposition—only half a year after the former sent organized mobs to harass dissidents. Economically, the announced expansion of the private sector has, despite the remaining scepticism regarding its implementation, fundamentally shifted the coordinates of the economic policy debate. The result is still far removed from a coherent policy of economic reform or political liberalization, but in both areas there have been steps that seemed entirely unimaginable under the aegis of Fidel Castro.

Foreign policy that cannot react in a differentiated manner to such changes threatens to become a mere expression of a political credo, and to fail to offer incentives to induce political change. For this reason, the current developments should also provide the sceptics within the EU with cause to identify ways to a more flexible policy. The “Vietnamese model” is not just something that’s being discussed by Cuba’s economists; for the European Union it could also be helpful to reconsider how and why it came to adopt a pragmatic policy of constructive engagement with Communist Party-ruled Vietnam, as well as why a similar logic couldn’t also apply in the case of Cuba.
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Related GIGA Research

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Related GIGA Publications

Hoffmann, Bert (2008), Kuba: Wohin führt die Ära Raúl?, GIGA Focus Lateinamerika, 2, online: <www.giga-hamburg.de/giga-focus/lateinamerika>.

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