El Desarrollo de una Economia de Mercado: El Caso de Cuba" by *Jorge Sanguinetty*

The central topic of this paper is that the implementation of a free-market-oriented economic policy in Cuba should be preceded by finely tuned institutional and legal changes. A careless or dogmatic application of general economic policy principles could generate immediate imbalances that would complicate further implementation of a transition towards a free-market system.

The transition towards a market economy is expected to be very difficult since the Cuban government created an extreme case of state ownership, and has practically eliminated all free markets and the correlative institutional and legal infrastructure. Consistent with its Stalinist orthodoxy, the government also controls all output and factor prices, and keeps a high level of centralization of the flow of funds of its enterprises. Price and cost determination do not respond to any profit motive since state enterprises are managed to fulfill production quotas or targets. State enterprises will not be able to respond effectively to a new system of price flexibility, unless they are allowed to operate under a different set of rules.

Any transition government wanting to introduce a measure of liberalization will inherit a Stalinist system that cannot be changed overnight and, therefore, will have to be well managed to avoid further imbalances while it rapidly creates conditions for a successful transition. The first economic priority of a transition government will be to avoid any further deterioration of the already precarious agricultural production and distribution systems. Although highly inefficient, the current productive system could easily breakdown with the loosening of the discipline exercised by the Cuban Communist Party. Failure to manage this system before it can be changed could lead to a food emergency situation of unknown magnitude, political consequences and would inflict additional pain to the beleagured Cuban population.

All enterprises must have the opportunity to become financially self-sufficient as soon as possible, so they can respond to free maket signals, or else, declare bankruptcy. Privatization of such enterprises through rapid inflows of capital may not be feasible nor desirable until those enterprises reach a certain level of efficiency. Otherwise, the national stock of capital may be sold out for an unacceptably low amount. Therefore, state enterprises could be partially privatized by selling a proportion of its ownership (through newly issued shares) to their workers.

Simultaneously, legal measures must be enacted to enable enterprises operate autonomously while they develop a new profit-maximizing managerial style in a competitive environment. Emergency credit facilities may have to be created by the transition government before private capitals can build a competitive financial system. Then, a gradual, but swift process of price liberalization could be implemented in output and factor markets. Especially, labor markets must be liberalized as soon as possible to allow enterprises reduce costs, increase productivity and improve competitiveness. Also, emergency measures may be necessary to compensate the displaced workers until more jobs are created by new investments.