COVETING BEIJING, BUT IMITATING MOSCOW: CUBA'S ECONOMIC REFORMS IN A COMPARATIVE PERSPECTIVE

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In mid-1995, in the throes of an economic depression and with no generous allies to turn to after the dissolution of the Soviet Bloc, it is incontrovertible that Cuba has to make substantive changes in order to find a niche in the international economic system. The question, then, is not whether Cuba should reform its economy and polity, but rather how does Cuba do it? What model does it adopt? What path does it follow?

It can be argued that the current Cuban government seeks a reform model that will bring about rapid economic growth while maintaining the Cuban Communist Party and its current leadership in political control. That is, the Cuban government seeks the best of two worlds: vigorous economic growth—with its attendant potential to improve income levels and standards of living of its population and strengthen national security—under a socialist system controlled by the current *nomenklatura*.

China's record of rapid economic growth under a communist regime is, of course, appealing to Cuba. In the 1980s, the Chinese economy grew at an average annual rate of over 10 percent; double-digit growth rates have continued into the 1990s, with the economy reportedly growing at a rate of about 13 percent in 1992 and 1993 ("China" 1994, p. 96) and 11.8 percent in 1994 (Tyler 1995, p. A9), one of the fastest growth rates in the world. At the same time, the ruling Chinese government—one and the same with the Chinese Communist Party—has managed to hold on to power. When challenged by those seeking political pluralism in 1989, the Chinese government confronted them squarely, and brutally, at Tiananmen Square. The Chinese government continues to exercise political control and suppress dissent.

Cuba covets Beijing's ability to achieve economic growth while the Communist Party remains in power. Relations between Cuba and China have become closer in the 1990s (Fernández 1993 and 1994). In 1994, China became Cuba's third largest trading partner, with two-way bilateral trade of about $250 million, and further expansion of economic relations are contemplated ("China estudia" 1995). Cuba has sent official missions to China to study the Chinese model and to explore how some of the policies the Chinese have implemented might be applied in Cuba (Benjamin 1994, p. 51).

Despite the appeal that the Chinese model might have for the Cuban leadership, in practice, policies implemented by Cuba since 1990 differ significantly from Beijing's model. As I argue in this paper, Cuba's economic policies are closer to those associated with *perestroika* in the former Soviet Union during

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the government of Mikhail Gorbachev. The upshot of those policies, as has been amply documented, was not to bring about economic growth and stability to the Soviet Union, but rather to promote a series of economic imbalances that resulted in a veritable economic crisis. So far, the outcome of the implementation of similar policies in Cuba has also been chaotic. Moreover, there is no basis for assuming a different—and more positive—outcome in Cuba in the longer term as a result of implementation of *perestroika*-like reforms.

CHINA—ECONOMIC LIBERALIZATION AND POLITICAL CONTROL

Generally speaking, China has pursued partial and more gradual reforms than has been the case in Eastern European countries in transition to market economies. Since 1978, China has introduced market-oriented behavior in certain sectors of the economy while preserving, in principle, a socialist, centrally planned system. China's reform strategy was based on the judgement that "by opening the door to the outside world, China could absorb foreign investment, trade, and technology while spurning the cultural and political influences, or bourgeois liberalization, that would challenge Communist Party rule" ("China: Is Prosperity" 1994, p. 96).

China's efforts at economic reform began with the Great Leap Forward (1958), which, among other actions, decentralized some economic decision-making by increasing the authority of local governments over the supply of raw materials and over certain types of investment. It also gave local governments responsibility for the great majority of enterprises formerly managed by central government ministries, and reduced the role of the central planning apparatus. Another series of modest decentralization measures were adopted in 1979 in accord with the slogan "delegating power to lower levels is a revolution" (Burki 1988, p. 46).

In the aftermath of the Cultural Revolution, a more far reaching set of reforms was introduced in 1978 and implemented in earnest in 1979 under the shorthand name of the "Four Modernizations," a reference to the four areas (agriculture, industry, science and technology, and national defense) that were targeted for extensive reforms (Perkins 1989; Prybyla 1990). One of the basic tenets of the Chinese approach to reform has been an emphasis on competition rather than ownership as the key factor in stimulating production and economic efficiency.

Agriculture: In the agricultural sector, the reforms began a process of recreating markets for agricultural output, reestablishing agricultural research activities, importing modern technologies, raising prices for agricultural output procured by the state, and dismantling the system of communes (Burki 1988, p. 47). Communes gave way to a "contract responsibility system," whereby land and other inputs were allocated to workers; the obligations of these workers was the payment of taxes, the fulfillment of production quotas, and contributions to social welfare funds.

Through the "contract responsibility system," the beneficial impacts of privatization on efficiency and output in the agricultural sector have been obtained without an actual legal transfer of property. Agricultural communes were broken up and land turned over to individuals on a long (15 to 25 year) lease basis, provided farmers sold a share of output to the state and, in some instances, agreed to plant specific commodities. The contract responsibility system has been largely responsible for the phenomenal growth in Chinese agricultural output since the beginning of the reforms. One study suggests that three quarters of the increase in agricultural productivity in China between 1978 and 1984 can be attributed to the incentive effects of the responsibility system and one quarter to higher procurement prices (McMillan et.al. 1987).

Industry: In industry, state enterprises have been granted greater decision-making autonomy, the scope of compulsory deliveries has been reduced, and a two-tier system of sales and prices has been introduced (Balassa 1991, pp. 411-415). Since the 1980s, enterprises have been allowed to retain a share of their profits; enterprises have also been allowed some latitude in procuring inputs and in producing and selling goods outside of the plan (Rawski 1994, p. 272). In the mid-1980s, the contract responsibility system was extended to medium and large industrial enterprises (Koo 1990), allowing them to retain any surplus after meeting "contract responsibility" production and financial obligations. China also initiated a "two-track" or "dual-price" system under which output produced outside of the plan could be sold without government control (Rawski 1994, p. 272).

To compete with state-owned enterprises, China stimulated the establishment of rural industries in the form of locally-managed township and village enterprises (TVEs) (Singh 1992; "When China" 1991). Although technically "collectives," TVEs are controlled by township and village leaders; these leaders designate the managers of TVEs, with local residents not possessing a "right of ownership" or workers any rights to participate in TVE management (Naughton 1994, p. 267). Several studies (Naughton 1994, p. 267) show that township and village officials, in their official capacity, possess all of the key components of property rights: control of residual income, the right to dispose of assets, and the right to appoint and dismiss managers and assume control.

Foreign Investment: Another important element of China's economic reform was the passage of a joint venture law in 1979 and the opening of the first four Special Economic Zones in 1980. Pursuant to the joint venture law, foreign direct investment poured into China, financing economic development and bringing with it foreign technologies and management practices. China also decentralized foreign trade activities, allowing the creation of foreign trade corporations (Harrold 1992, pp. 15-17). Formation of joint ventures with foreign investors, especially in the so-called special economic zones (Sklair 1991), has been another form of *de facto* privatization in China.

The effect of these policies on the structure of the Chinese economy are quite remarkable. It is estimated that in 1994, about half of China's industrial output and as much as 75 percent of its total output were produced by private or "collective" firms; at least 30 million Chinese were working in privately-owned businesses; TVEs employed another 90 million persons and accounted for over one-third of industrial output ("China's Communists" 1994, pp. 19-20).

China's impressive economic reforms have not been accompanied by political change. According to the U.S. Department of State (1995, p. 555), China is an authoritarian state in which the Chinese Communist Party monopolizes decisionmaking authority, with almost all top civilian, police, and military positions at the national and regional levels held by party members.

SOVIET UNION—PERESTROIKA'S FAILED PARTIAL REFORMS

Mikhail Gorbachev ascended to the post of General Secretary of the Communist Party of the Soviet Union in March 1985. He inherited a troubled economy: growth rates had slowed down considerably and commodity shortages were rampant. The diagnosis of experts was that the economic malaise resulted from overplanning and overadministration of the economy (Desai 1989, p. 27). Under the very structured Soviet system, firms and farms had very little autonomy, and there were very few incentives to increase production and efficiency.

Perestroika (restructuring) was Gorbachev's strategy to reform the Soviet economy within the framework of a socialist economic system. Adoption of certain elements of *perestroika* began in 1986, and the full program came into effect in 1988. By 1990, in the midst of a chaotic economic and political situation, *perestroika* was abandoned and replaced with a more radical set of policies aimed at transforming the Soviet Union into a market economy (Aslund 1991, p. 2). The main elements of *perestroika* included:

Agriculture: One of the earliest policy changes associated with *perestroika* was the Decree on Agricultural Management of March 1986, also known as the Law on Collective Farms. The decree allowed collective farms some management autonomy and established a system of production incentives. Collective farms were given the ability to sell a certain amount of their above-quota surpluses in cooperative and private outlets where prices were generally higher than official prices. The decree also allowed households on the collective farm to band together and undertake various activities, a mild version of the contract responsibility system used in China, intimating that collective farms would be eventually dissolved as private contracts took over (Desai 1989, pp. 34-38). The 1988 Law on Cooperatives (see below) formally abolished plan targets for collective farms, while the Law on Leasehold (1989) allowed long-term leases (for up to 50 years) of land to farmers (Aslund 1991, p. 104).

Self-Employment: Unlike in Hungary, Poland, East Germany, and even China, where self-employment was common and the hiring of labor by private entities was allowed, these activities were severely restricted in the former Soviet Union.

The Law on Individual Labor Activity, passed in 1987, was intended to liberalize self-employment and stimulate private sector activity. The Law set out lists of professions that henceforth could be performed by individuals, identified branches of the economy in which private enterprise could operate, and established criteria for licensing entrepreneurial activities. However, the application process for self-employment was long and difficult, with local authorities having numerous opportunities to turn down applications. Special taxes (both a lump sum tax and a progressive income tax) were imposed on the self-employed.

Aslund (1991, p. 167) described the significance and results of the Law on Individual Labor Activity as follows:

> Although many principles of the Law on Individual Labour Activity were quite liberal, and the official attitude positive, the ideological perception of individual enterprise had not been revised. Private enterprise was only allowed as a part-time family business. It was both difficult and expensive to enter the legal private sector. Licensing and high taxes rendered private enterprise exclusive. The law impresses with the insight that many conditions cannot possibly be regulated in the disorderly Soviet shortage economy. The limitation of enterprise size was at least one guarantee that the earnings of private monopolists would not be limited. Individual labour activity remained very limited, only involving 300,000 people in 1989.

Enterprise Management: The Law on State Enterprises, adopted in June 1987, granted state-owned enterprises—all units in the state sector engaged in production, processing, financing, distribution, and trade—some freedom from the straitjacket of the central plan. The Law called for self-management of state enterprises, with enterprise managers and directors to be elected by their workers; a work council, also elected by workers, would have some say over each enterprise's plans.

Perhaps the most significant contribution of the Law on State Enterprises was the changes it made to the working arrangements among state production units. It relaxed the very strict system that obliged state enterprises to produce specific outputs and sell them to other state enterprises at pre-determined prices. Under the new Law, state enterprises were given the flexibility to develop their own production plans based on contracts with other economic actors, except for important products for which enterprises were given "state orders." In practice, "state orders turned out to be old commands under a new name and tended to cover 100 percent of the production capacity of most enterprises" (Aslund 1991, p. 108), undermining the enterprise autonomy intended by the Law.

The Law on Cooperatives, adopted in 1988, was perhaps the most liberal of the *perestroika* policies. It allowed the formation of cooperatives in any sector of the economy, including areas such as banking and foreign trade. Cooperatives would be owned by members and be self-managed, self-financed, and profit-oriented. Forming a cooperative required a minimum of three members; cooperatives could not hire paid workers, but could get around this limitation by employing an unlimited number of non-members on a contract basis. Technically, cooperatives did not require special permission from local authorities although in some places, compulsory registration was required. The new cooperatives also benefitted from low tax rates on revenue and members paid lower income tax than self-employed individuals (Aslund 1991, pp. 167-170).

External Sector: The main policy changes that affected the foreign sector were those that allowed some enterprises to engage in foreign trade and provided guidelines for foreign investment in the Soviet Union. Prior to *perestroika*, the central government of the Soviet Union maintained a monopoly on foreign trade, with a central foreign trade organization (the Ministry of Foreign Trade) responsible for conducting all exports and import transactions. The new policy granted direct trading rights to 20 ministries and to 70 production associations and enterprises. As an incentive to increase exports, enterprises were allowed to retain a certain percentage of their foreign exchange earnings to buy machinery and inputs abroad (Desai 1989, p. 40).

A law authorizing foreign investment in the Soviet Union in the form of joint ventures went into effect in 1987. This was a significant step for the Soviet Union, as most other socialist countries—including China—had passed such legislation much earlier on. The creation of free economic zones, enclaves where foreign investors could operate in Soviet soil but outside of the Soviet system, were considered as part of the overall reforms of the foreign sector, but were too controversial and were not implemented during the *perestroika* period (Aslund 1991, pp. 144-145).

Implementation of *perestroika* failed to jump start the stagnant Soviet economy. In 1989, the economy ground to a halt and, in 1990, the economy underwent further deterioration so that the question was whether a breakdown of the economy was imminent. Aslund (1991, p. 182-201) argues that the *perestroika* policies were responsible for the Soviet economic crisis of 1990 because they aggravated the worst features of a centrally planned economic system: shortages of goods, fiscal and monetary imbalances, tensions in enterprise management, foreign trade imbalances. That is, the imposition of the *perestroika* reforms on a centrally planned economy were a recipe for disaster. As Aslund (1991, p. 182) succinctly puts it, "although the economic system was not the immediate cause of the economic crisis, the features of the malaise were specific for a command economy out of gear."

Campbell (1991) has examined the experiences of centrally planned economies that attempted to reform while maintaining a socialist system. He refers to countries such as Yugoslavia, Poland, China, and Hungary in the late 1980s as "semi-reformed economies," a sort of "half-way house" between the old "administrative-command" system and a market-driven, price-regulated, private property system. Semi-reformed economies are unstable; in addition to the well known problems that plague centrally planned economies, market reforms superimposed on a centrally planned economy create a hybrid system that has distinctive new problems of its own. As Campbell (1991, pp. 165-166) puts it:

> It is clear that the semi-reformed economy is still burdened with much of the allocative ineffectiveness and incentive defects of the old system, along with some special problems all of its own. These problems can be solved only by moving farther in the direction of reform. ... On a reform thermometer calibrated by the experience of the other socialist countries, economic *perestroika* in the USSR by the end of the eighties had brought the system barely above the freezing point. It is not yet to the half-way house. It is sometimes thought that the USSR could learn from the experience of the smaller socialist countries and telescope the two stages, going much more directly to a fully reformed, marketized economy.

CUBA—LATE AND MODEST REFORMS

In the first half of the 1990s, Cuba has been experiencing an economic depression. Cut off from its normal sources of foreign trade and financing by the demise of communism in the former Soviet Union and Eastern Europe, the Cuban economy went into a tailspin after 1989 from which it has not yet fully recovered. The island's national product reportedly shrank by about one-half, and foreign trade turnover by about three-fourths, between 1989 to 1993 (Terrero 1994). There is no compelling evidence that the economic situation improved markedly in 1994; Cuban official Carlos Lage has announced that economic growth in 1994 was about 1 percent ("Lage Announces" 1995), suggesting that the economic slide may have reached bottom, but detailed data to support such conclusion have not been made available.

In the 1990s, during the so-called "special period" (*período especial en tiempo de paz*), Cuba has experimented with a set of policy initiatives aimed at breathing life into the economy. Adoption of new measures picked up speed in the summer of 1993, when several initiatives were announced, and slowed again in 1994. Another bundle of measures was implemented in the second half of 1994. Relatively little activity regarding economic policy changes has occurred in the first half of 1995.

Looking through the lens of reforms of other socialist countries, Cuba's economic policy initiatives of the 1990s are late in their adoption and quite modest in terms of breadth and depth of implementation. As will be discussed below, Cuba's recent economic policy initiatives resemble the *perestroika* economic program implemented in the former Soviet Union during 1988-90 and fall short of reform measures in other Eastern European socialist countries and China.

Timing: In the mid-1980s, as Poland and Hungary were gradually transforming their socialist systems by introducing market-oriented reforms, the Soviet Union was setting the foundation for *perestroika*, and China was *de facto* privatizing its economy, Cuba was also making important economic policy changes. However, unlike the other socialist countries, where changes were aimed at increasing flexibility and promoting decentralization in economic decisionmaking, Cuba moved in the opposite direction.

The so-called "rectification process," which began to be implemented formally in 1986, has been characterized by Mesa-Lago (1989, p. 98) as economic counter-reform, "a reversal of the previous direction, away from decentralization and the use of market mechanisms." Among the victims of rectification were the farmers' free markets and artisan markets that had been authorized in the early 1980s as a way to stimulate production and serve consumption needs of the population.

The objectives, methods, and outcomes of rectification have been discussed elsewhere (e.g., Mesa-Lago 1989 and 1993; Pérez-López 1990) and need not be revisited here. For purposes of this paper, the important point is that rectification at best froze the introduction of, and experimentation with, further market-oriented economic techniques in Cuba for a period of at least five years, and at worst brought the economy closer to the orthodox centrally planned system that operated in Cuba in the early 1970s. Because of the policy paralysis or regression associated with rectification, when Cuba began to implement its current reforms in the early 1990s, the country was less well prepared institutionally to assimilate the changes than other socialist economies at the same stage of reform.

Breadth and Depth: In comparison with the policy retrenchment or retrogression associated with rectification, the economic reforms that Cuba has implemented in the 1990s appear quite significant. They are modest, however, in comparison with reform programs put in place by other countries in transition. Cuba's reforms—legalization and liberalization of self-employment, changes in the agricultural sector that converted state farms into cooperatives, reauthorization of farmers' free markets and artisan markets, some managerial reforms, encouragement of incoming foreign investment—bear a strong resemblance to the *perestroika* program, although the Cuban reforms fail to include measures that stimulate a domestic private sector, such as those embodied in the Soviet Law on Cooperatives, and grant state enterprises freedom to manage their own affairs. Like *perestroika* in the Soviet Union, but unlike the Chinese reforms, Cuba has not undertaken meaningful price reforms and has not created free economic zones to attract investors.

Cuban reforms lack depth, and their implementation often negates the positive contribution they are intended to make. The decree legalizing and liberalizing self-employment, for example, establishes onerous registration requirements (including having to prove "honorable social behavior") and forbids physicians, teachers, and most professionals with a university-level degree from legally practicing their trade. Cuba still does not allow self-employed workers to hire helpers and form small, private businesses. Agricultural cooperatives created in the former state farms clearly have more autonomy in managing their activities than was the case before, but still have to follow instructions from the state on which crops to plant and where to sell their output.

Cuba has also back-tracked on reforms. Shortly after the enactment in September 1993 of the decree legalizing and liberalizing self-employment, private restaurants known as *paladares* sprung up in private homes throughout the island. In December 1993, the government ordered the shutdown of the *paladares* on the basis of a legal interpretation that the decree did not foresee the creation of private restaurants. In reality, the *paladares* were shut down because some of them were too successful. President Castro decried the "excesses" that had occurred as a result of the implementation of the legalization and liberalization of self-employment in several interventions before the December 1993 session of the National Assembly. For example, he said ("Castro Addresses" 1993, pp. 5-6):

> This happened in a Havana neighborhood. A restaurant was opened with 25 tables and 100 chairs and a cabaret. Some guy found himself a spot and charged 15 pesos to let people in. ... He charged in dollars, pesos, and what not. He had all the clients he needed. People from abroad would come in and bring friends and even family. I have already calculated how much the happy owner was making. He was making no less than 1000 pesos a day. And this is a conservative estimate. At least 1000 pesos a day. And all this because things had opened up a bit.

Concerned about the possibility that liberalization associated with the economic reforms would bring about the enrichment of some individuals, effective in May 1994 the penal code was amended to facilitate the prosecution of "profiteers." The law granted the government sweeping powers to confiscate all cash, goods, and assets of individuals found guilty of profiteering and provided for retroactive application of sanctions for this offense. Decisions of the Ministry of Finance to confiscate cash, goods, or assets are not subject to judicial review.

Grudgingly, the government authorized *paladares* in mid-June 1995, placing very severe limitations on their operation to prevent the successes that Castro had so vehemently criticized. A government decree authorized self-employment related to the production and sale of foods and beverages in an individual's home provided: 1)tables and chairs were limited to no more than 12 persons; and 2) subject to the payment of a stiff monthly fee of 400 pesos in national currency or 300 pesos in convertible currency. The decree restated that those self-employed in this line of work would have to meet all requirements under existing law (including demonstrating "honorable social behavior") and be properly licensed. Moreover, according to the decree, self-employed workers engaged in the preparation and sale of foods and beverages in their own homes could only be aided by family members and could not hire others. Finally, when required by authorities, operators of eating establishments in their own homes would have to justify "the origin of the products used to perform the activity" ("Joint Resolution" 1995, p. 5).

Writings by Cuban economists suggest that additional economic reform measures within a socialist system are under consideration (Carranza 1995; Carranza and Alonso 1994; Monreal and Rúa del Llano 1994). However, the nature and timing of such reform measures are not known to the general public or to researchers.

CONCLUDING REMARKS

The current Cuban government seeks a reform model that will bring about vigorous economic growth while maintaining the Cuban Communist Party and its current leadership in political control. Simultaneous achievement of these two goals is extremely difficult, with China being perhaps the only example where it has been accomplished to date. Rather than replicating the Chinese reform model, however, Cuba's policymakers have steered closer to the *perestroika* model implemented in the former Soviet Union under Gorbachev which resulted in a chaotic economic situation. Cuban economic reforms to date are modest and have been implemented half-heartedly. As with other partial reforms, economic recovery is unlikely.

The Cuban people have paid a heavy price in the 1990s in terms of their standards of living, consumption levels, and quality of services they receive. Between 1989 and 1993, per capita gross domestic product shrank by about one-half; merchandise exports fell by 69 percent; and merchandise imports declined by 75 percent. Consumption of food and both durable and nondurable goods was sharply reduced, with rationing reinstated for a wide range of staple foods and personal hygiene and clothing items, and monthly allowances scaled back. Electricity shortages and blackouts became commonplace, and transportation services were sharply curtailed. Public health and education, two of the sacred cows of the Cuban regime, were also scaled back, and the quality of services deteriorated (Pérez-López 1995, p. 11).

In the 1990s, Cuba faces its worst economic crisis since independence (Ritter 1994, p. 67). The roughly 50 percent reduction in national product per capita is unprecedented in the nation's post-World War II history and extremely high by international standards. An examination of national statistics collated by international organizations does not show contractions in national product over a five-year period of the magnitude of Cuba's. It is tempting to set out the proposition that the island's drop in economic activity over 1989-93 represents a contemporary (negative) world record of sorts. Such a categorical statement cannot be made, however, since the appropriate data are not available for Cambodia (Kampuchea) and Laos, two economies that are known to have shrunk sharply in the 1970s because of wars and the pursuit by their leaders of radical economic policies.

To conclude, a case could be made that the Cuban economy, and the Cuban people, have paid the price of the most severe type of "shock therapy"—arguably a recipe worst than that prescribed by the International Monetary Fund—without attaining the potential benefits associated with systemic transformation. Cuba's *perestroika*-like reforms of the 1990s seem to have been successful only on one count: prolonging the rule of Fidel Castro and the communist party *nomenklatura*. Fidel Castro has now overtaken General Alfredo Stroessner of Paraguay as the longest-lasting head of state in contemporary Latin America, a (dubious) achievement in terms of longevity, but one that does not put food on the table or improves the material situation of the overwhelming majority of the Cuban people.

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