COMMENTS ON

"Economic Reform in Latin America and the Caribbean and Possible Implications for Cuba" by Loser

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It is a privilege to be invited to discuss a paper written by Claudio Loser. I must say that Dr. Loser has written a short but excellent paper that carries a very important lesson for the future of the Cuban economy. That lesson is, in Dr. Loser's own words, "Cuba can draw important lessons from the experience of other countries in the region." There are many who believe that Cuba is so special that it has to find its own solutions. That is true, but does not invalidate the fact worth repeating that "Cuba can draw important lessons from the experience of other countries in the region." As a matter of fact, I would add, that Cuba would also have to take into account the experience of other ex-socialist economies in their road towards a market economy or in their reluctance to do so.

As I agree with practically everything Dr. Loser submits in this paper, I would address my comments to discuss, very briefly, how the differences between the countries of the region and Cuba will influence, not the general principles that Dr. Loser proposes, but the specific ways in which those same principles will have to be implemented in Cuba when the opportunity arises. In this discussion I will follow the same order of the "four basic areas of action" that Dr. Loser uses.

FISCAL REFORM

We will divide the discussion of this area into the two traditional areas: (a) taxation; and (b) expenditures.

On taxation. Until recently, the payment of taxes in Cuba was virtually non-existent. More recently, some Cubans working as self-employed have been forced to pay taxes. In the future, an entirely new tax structure and administration system will have to be built almost from scratch, and Cubans will have to be educated on paying their corresponding taxes, a challenge that can be expected to be greater than in any other Latin American country given Cuba's recent past.

On expenditures. Cubans have been made to believe that the state can afford to pay for services in the so-called social sector (education, health and retirement pensions) without regard for the economy's capacity to generate the corresponding revenues. Even today, there is little understanding that the past extravagant behavior of the Cuban government regarding education and health was only made possible by significant Soviet subsidies. Even though the current crisis in Cuban education and health systems will help understand the imbalances created in the past and the need to adjust social expenditures to a "hard budget constraint," a transition government committed to fiscal reform is bound to find considerable opposition to any austerity program, unless it prepares the ground for fiscal reform with a public education and information campaign explaining the need to have a stable fiscal system. The same applies for the reforms necessary on the taxation side of the fiscal reform. Increasing public understanding on these matters will not do the work by itself, of course. But the transition government and, especially, its fiscal authorities must avoid the traditional approach of formulating and implementing a reform program without consideration for the public, an unacceptable strategy in a country that will be struggling to reestablish a democratic system as it endeavors for the establishment of a market economy.

MONETARY REFORM

Monetary discipline will be indispensable for the economic reconstruction of Cuba. In fact, it will be an important complement of fiscal stabilization. A rapid economic reconstruction of Cuba requires the injection of massive volumes of foreign direct resources to create new productive capacities, increase levels of output and generate sufficient employment. Inflation, uncertainties in exchange and interest rates, and in general, incoherent monetary and fiscal policies will discourage foreign investments in Cuba. At the same time, the adequacy of discretionary monetary policies, whether we like it or not, will depend on the quality and integrity of the individuals in charge of monetary policy. We do not know if the "right" type of individuals will be available in Cuba to be in charge of discretionary policies. A system of "rules" versus "discretion" might be more advisable for Cuba during the first few years of a transition to a market economy. This is why Cuba, unlike its Latin American counterparts, might prefer to continue for a while with the current system of monetary dualism in which the U.S. dollar is already playing the role of a stabilizing instrument, while the devaluated peso represents the obsolete economic system inherited from socialism. This system, of course, depends on the stability of the U.S. dollar, but we have no reasons to believe that the current U.S. policy of almost zero inflation cum low interest rates is about to change.

TRADE LIBERALIZATION

This will require much more than simple "shock therapy" or "big bang" types of approach. In Cuba, full trade liberalization can not be achieved without profound changes in the institutional and organizational structure of the country. For the last four decades, trade—domestic and international, retail and wholesale—has been almost completely dominated by state monopolies. The only private trade that existed was in black markets, heavily persecuted by the government, though at times tolerated de facto as a result of its size and predominance. Today, there is some level of legal private trade at the retail level which will serve as the basis for a trade liberalization policy. Nevertheless, the institutional and organizational changes referred to above require widespread actions to provide new entrepreneurs with the means necessary to freely exercise the commerce function. This means that privatization, in its many forms, will have to take place at the same time that other reforms are implemented.

Liberalization of imports will be easier to achieve as the government allows private entrepreneurs to freely import all kinds of goods and services. But even in this area, things are not going to happen as quickly as desired, since the ability to pay for imports will be severely constrained, as export industries are not similarly liberalized and put to work into full capacity. Also, the limited existence of a commercial banking system (there is something in Cuba already, serving the capitalistic sector of the economy managed directly by Fidel Castro and the foreign business community) may have to develop much further throughout the entire territory before a full expansion of import trade takes place.

Another important point to be made here is the interdependence between the fiscal reform and trade liberalization. For trade liberalization we need a system of low tariffs. The government, on the other hand, will be under heavy pressure to finance expensive social programs with a bankrupt economy and a concomitant narrow tax base. Besides, it may be difficult to collect other taxes from the population, due to lack of tradition, etc. In such a case, the government may be tempted to rely heavily on customs taxation, including export taxes, to cover revenue requirements. This would be devastating for Cuba's prospects of a fast recovery, and represents another important argument why increasing public understanding of these issues is essential in any Cuban economic transition.

PRIVATIZATION

In Cuba, privatization means, essentially, returning confiscated property to their previous owners, but exceptions will have to be made. One exception refers to real estate in the forms of housing that is occupied today by individuals and entire families that do not have alternatives but to stay where they currently live, albeit creating a major social crisis of unacceptable political dimensions. The rights of the corresponding owners will have to be recognized by different means, possibly by compensation.

Returning other properties to their previous owners or their heirs may not be easy, since not all claims can be established as rapidly as it would be desirable. Privatizing by selling to the highest bidder may not be as expedite as returning properties to previous owners from the point of view of a rapid recovery of production levels. Nevertheless, it is not clear whether former owners or their heirs have the wherewithal to put their former enterprises to work at full speed. Many, if not most of such enterprises, will need significant investments to overhaul machinery and equipment that has been subjected to mismanagement, neglect of maintenance, or sheer obsolescence.

Another point that establish a significant difference between Cuba and other Latin American countries with regard to privatization requirements is that the traditional public enterprise in Latin America had to operate in economic systems that had a strong presence of market economics, even if highly imperfect and monopolistic. Latin American public enterprises, even when suffering chronic deficits, never abandoned their accounting systems and the notion of profitability and the need for accounting and a minimum of financial management. Cuban public enterprises will come from a much farther distance to market economics than the Latin American enterprises. Privatization, in its many different ways, will have to take place with restructuring efforts such as: changing the management system and culture, learning to operate under the concept of profit, learning to operate autonomously and not under the direct orders of a planning authority, learning to market and to compete, etc.

In any case, despite these differences, Dr. Loser's remarks are to be taken as the compass by which we should guide Cuba's steps into a modern economy. This is why I recommend to all serious reformers, in Latin America, Cuba and the rest of the world, to read Claudio Loser's paper thoroughly and repeatedly, no matter how we might think each country differs from the rest. The general principles stated in this paper are universally valid, until the contrary is proven.