RESPONSE TO COMMENTS ON MARKET, SOCIALIST AND MIXED ECONOMIES: CHILE, CUBA, AND COSTA RICA

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I do appreciate ASCE's initiative in organizing this panel on my book, as well as all the comments by the four members of the panel, both the praise and the criticism. My response will follow the same order of the commentaries: Chile, Cuba, Costa Rica and Comparisons.

CHILE

León argues that some would have preferred that my book had stuck to a strict institutional approach rather than combining it with a ranking statistical approach. Quite frankly, it would have been much easier for me to exclusively follow an institutional approach. And yet, a simple analysis of policy and description of results *sans* the ordering of performance would have opened the book to the criticism that it failed to reach solid conclusions on which country did better/worse, in which fronts and overall.

Although León does not explicitly deals with the debate on the nature of the Chilean model after the return to democracy in the 1990s, he explains that there have been changes in such model in the direction of more regulatory power of the state, equity and efficiency. I fully agree with him. The question is whether such changes transformed the model or not. Four positions are described in the book concerning this matter (see p. 106). Conservative economists and some of Pinochet's policy makers have taken the position that the model did not change but actually was deepened. At the opposite extreme, leftist academics and politician's coincide with the extreme right in the view that the policies introduced were non-essential and failed to alter the model. However, some economists linked to *Concertación* argued that the significant changes introduced by democracy created a new model. Finally, the most balanced and realistic interpretation is that the democratic approach of "growth and equity" was essential and modified the model. I think that León adheres to the last interpretation, which is also endorsed by the book.

At the end of his commentary, León raises the important issue of whether Cuba can derive useful lessons from the Chilean peaceful transition to democracy and the market. That theme was deliberately avoided in the book because I felt that it would have led to speculation after such a long and hard exercise in reality. Furthermore, I believe that the politico-economic conditions in Cuba towards the end of the 20th Century and beginning of the 20st are dramatically different from those of Chile at the end of the 1980s. Last but not least, no one really knows what is going to happen in Cuba after Castro dies and I assume nothing will drastically change until that event materializes.

CUBA

Having been a friend and colleague of Carlos Díaz-Alejandro, I was touched by the anecdote told by Sanguinetty. I would say, nevertheless, that in 1971 I had the advantage of an academic and statistical vacuum in the field of Cuban economic studies, hence, my early work might have given the impression that there was little else to be said. But the booming foreign literature on Cuban economics in the last three decades, including the works presented at ASCE conferences and published in its proceedings (to which Sanguinetty has been a frequent contributor), as well as the significant development of scholarly work on economics in Cuba in the last decade, testify that there was and is ample space for new contributions in the field.

I do agree with Sanguinetty that Castro's first priority has been to maintain himself in power and that he has subordinated the economy to that aim, a point amply demonstrated in my book. For example, I content that concentration of politico-economic power in Castro's hands has led to "ideological cycles" throughout the four decades of the Revolution with adverse effects for the economy and the Cuban people. In the analysis of the policies of the 1990s I conclude that, since 1996, Castro's political logic (keeping power) has taken precedence over the economic logic (deepening the reforms to consolidate and expand the recovery).

And yet this interpretation does not make irrelevant the discussion of economic efficiency and rationality. In the analysis of the ideological cycles in Cuba I showed that the stages in which a more "rational" or "pragmatist" approach was applied (granted that within the parameters allowed by Castro), following a big disaster provoked by Castro's disastrous idealistic policies, there was *relatively* more efficiency and better economic performance than during the idealistic cycles. For instance, the pro-market policies of the 1990s, particularly 1993-96, were in that sense more "rational" and "efficient" that the policies of 1966-70 (the Revolutionary Offensive) or 1986-90 (the Rectification Process).

I have three points of disagreement with Sanguinetty. First, it was not my assertion that the Soviet Union paid "a fair price" for Cuban sugar while the United States did not; actually that was the rationale used by Castro to postpone the industrialization process and justify the return to sugar in the mid 1960s (p. 200-201). Second, I did not state that the sugar harvest of ten million tons of sugar in 1970 had a series of gradual targets. What I said was: "The Prospective Sugar Plan's *annual* output targets steady increased between 1966 and 1970 to 6.5, 7.5, 8, 9 and 10 million tons" (p. 213). Third, Sanguinetty argues that "the available figures are those that the regime wants to be known and they are neither reliable nor cover all pertinent phenomena." I have devoted more than 30 years to the study and evaluation of Cuban statistics (see for instance Mesa-Lago 1969 and 2001), a work reinforced in the book, that demonstrates: (1) there are different types of Cuban statistics, some fairly reliable (for example, foreign trade, that can be checked with international data) and other highly unreliable (GDP, inflation); (2) Cuba has often published data that show a negative performance, for instance the dramatic decline in output in 1989-93, the problem is that complete series are not available, and the researcher has to put them together (Cuba often manipulates data to show a recovery by starting the series in 1993—the trough—rather than in 1989—the peak year); and (3) the dismissal of all Cuban statistics as unreliable, without discrimination, would have made impossible the advance of the study of the Cuban economy in the last 30 years. I fully agree with Sanguinetty, however, that statistics should be supplemented with other qualititative techniques in the study of the Cuban economy.

COSTA RICA

Belt and I share not only an admiration for Costa Rica's democracy, its civility in political and economic debate and its tolerance for divergent ideas, but also a fair consensus on that country's socioeconomic policies and their results. One important conclusion of the book, stressed in Belt's comments, is that at the end of the 1950s, Costa Rica and Chile were well below Cuba in some social indicators (for example, infant mortality, life expectancy) but now they are very close to Cuba (Costa Rica has surpassed Cuba in life expectancy). The book adds a crucial point, however—differently from Cuba and Chile, Costa Rica was able to achieve that feat with a full democracy and respect for political freedoms and human rights.

Let me refer now to three issues on which either we do not completely agree or Belt has a point that I missed in my book. I do not call the Costa Rican model "socialist," a term reserved for the Cuban model, but "mixed," because it is predominantly a market economy, although with state intervention (more than Chile). In the 1990s, the power of the state was reinforced in Chile, while the power of the market was extended in Costa Rica; therefore, the two countries came closer to one another, albeit Costa Rica's economy was still more "mixed" than Chile's.

The ability of Costa Rica to maximize foreign borrowing and minimize debt service, without adversely affecting socioeconomic performance, is a tribute to the ingenuity of that country's policy makers. Belt shows how Costa Rica did better that Chile in that regard, a point I could have used in the book.

Belt is right on the long run nefarious consequences of rent-seeking and yet, in the medium term, such practice was a price to pay in the process of achieving consensus and maintaining stability in Costa Rica. But when the resources of the country became insufficient to continue that largesse, the leaders (including the PLN) managed to reverse the situation and cut back most of the concessions. For instance, Belt notes that teachers got a privileged pension scheme (as also did some of the civil servants and other powerful groups) but that program was largely dismantled in the 1990s during the process of pension reform.

METHODOLOGY OF COMPARISONS

Due to their length and complexity, Betancourt's comments require more space in my response than the others. Let me first make three general observations.

First, I believe that economics is not a pure science and, hence, that this discipline gives broad space for divergent interpretation on many issues.

Second, the comparative overall measurement of economic performance is the weakest part in the field of comparative economic systems, as demonstrated in the Introduction of my book. The last chapter of the book opens new ground using several indicators (particularly the external economic ones), thus entering into risky terrain, open to constructive criticism as Betancourt's, useful to improve the methodology. He found 7 indicators out of 20 "unacceptable to most economists." Even if Betancourt were 100% correct in his criticism of those seven indicators, my batting average would be above 600, not bad for a beginner.

Third, despite the importance of this subject, the World Bank has not developed a combined index to measure socioeconomic performance among the countries in the world. Such vacuum is particularly important because the Bank has more than 50 years in operation, has thousand of experts in its staff as well as billions of dollars in its budget. The only international organization that has accomplished that task is the United Nations Development Program (UNDP), whose Human Development Index (HDI) was elaborated ten years ago. And yet the HDI suffers from some serious flaws that are noted in the book (p. 569), including the faulty estimation of Cuba's GDP in dollars at purchasing power parity (PPP) exchange rates, that led to the exclusion of Cuba from the Index in its latest edition (UNDP 2001). It is only logical, therefore, that the work done by a single researcher to elaborate an alternative index of socioeconomic performance is susceptible to improvement.

Let me now turn to the discussion of the seven indicators found "unacceptable" by Betancourt:

1. Output Composition. It is conventional wisdom in economics that as development takes place, the agricultural (primary) share of GDP declines, while the share of industry (secondary) rises, eventually falling and being overtaken by the share of services (tertiary). Consequently, I assumed that the lower the share of agriculture in GDP and the higher that of industry, the more advanced the country was (I did not include services because none of the three countries have reached an advanced stage of development). Although Betancourt acknowledges the explained trend, he rejects that a higher industrial share (not referring to agriculture) "implies a higher level of development. It may simply imply a higher level of stupidity among the country's policy makers" who supported an import-substitution-industrialization strategy (ISI). I should point out that, for several decades, ISI was widely applied in Latin America and other countries of the world until the crisis of the 1980s prompted a shift to neoliberal restructuring and export promotion. Betancourt says (footnote 1) that the ISI strategy "has been severely criticized in most settings" but adds that it "has been recently given legitimacy in certain settings by a prominent member of the profession in a mainstream journal." So, after all, my indicator may be acceptable by other prominent colleagues.

2. Export Concentration. As a country develops, it normally exports fewer raw materials while it exports more manufactures, intermediate and capital goods. Furthermore, there is abundant literature in Latin America on the serious handicap of concentrating on a single raw-material export (sugar, coffee, bananas, copper). The ideal is to diversify exports and move from primary products to processed goods, which has been the key to success among the Asian Tigers. To support his argument, Betancourt notes that, in spite of Saudi Arabia's export concentration on oil, the country "is doing fine." But oil is a strategic good in short supply and high price, the opposite of bananas or sugar (think how ineffective a "Banana Cartel" would be). In addition, according to the HDI, Saudi Arabia ranks 42nd in the world in GDP per capita, and considerably lower in social indicators, thus pulling down that country's ranking in the HDI to 68th place, below eight Latin American countries. Finally, Venezuela can be presented as the opposite example of a rich oil country that regressed in development during the last decade: it fell from 46th to 61st place in the HDI in 1998-2001 (UNDP 2001). Another argument used by Betancourt is that in the late 18th century and early 19th century, sugar was called "white gold" while oil was "devil shit." And yet, in the last 25 years, every sugar producer in the world would have sold his soul to the devil to turn gold into shit, as the real price of sugar plummeted while that of oil boomed. One hundred years of Cuban dependency on sugar and the unsuccessful struggle to overcome it, contrasts with the success of Costa Rica and Chile in diversifying their exports and thus becoming less vulnerable to external price fluctuations.

3. Trade Partner Concentration. There are divergent concepts of what development embraces. Some social scientists (including economists) take the view that development should not be limited to growth, stability, social standards, etc., but also include national sovereignty and independence as well. Normally, countries try to diversify trade partners to avoid *excessive* dependence on a single partner, particularly if the relationship is between a small economy and a superpower. Cuba's successive heavy trade dependency on Spain, the United States and the Soviet Union has been pinpointed through history as a key problem faced by the island. Betancourt cites Canada and Mexico as examples of countries with heavy trade dependency on the United States that have profited from such relationship, and he jokingly adds that their leaders would be out of their minds to avoid such dependency. Let me make three points about this: (1) the most developed countries in the world have the most diversified trade partners; (2) Canada and Mexico are not small but relatively large economies which can stand U.S. attempts to control their domestic economic policies; and (3) history shows that Canadian and Mexican leaders have struggled to maintain their independence *vis-à-vis* the United States.

4. Volume and Balance of Trade per Capita. According to Betancourt, this indicator is redundant (it is counted twice) as it is already included in the growth indicator. This is a good point but, if there were such double count, it would equally affect the ranking of performance of the three countries. Furthermore, my book shows the technical impossibility of measuring growth in Cuba throughout the Revolution because of several changes in systems and methodologies of aggregation, resulting in various series that cannot be connected. Because of this serious problem, I included and *excluded* growth in the calculation of the combined index of performance, in order to check the effect of such exclusion in the ranking of the three countries. When excluding growth, therefore, there is no double counting involved when using the volume and balance of trade, and this indicator operates as a surrogate for growth.

5. Gross Domestic Investment (GDI) as Percentage of GDP. The same double counting argument is used by Betancourt to render this indicator as unacceptable and my same counterargument applies. But he adds a very good point: rather that the proportion of GDI, the important thing is its composition—

domestic versus foreign. I fully agree with him but, although that information was available for Chile and Costa Rica, it was not available for Cuba, hence, it was not feasible to include this indicator.

Let me finally discuss the issue of weights. Betancourt properly contends that instead of giving equal weights to all indicators, I should have used different weights for a more balanced index of performance. Actually I gave a lot of thought to this issue and decided, maybe wrongly, that it would partly involve a value judgment and hence generate another type of criticism with political implications: giving more weight to some indicators could have been seen as a manipulation to favor the ranking of one country versus the others. At the end, I gave equal weight to the 20 *individual* indicators but in the combined index of performance, I tried different weights in the four *clusters* of indicators and that exercise did not alter the results.

I truly hope that this important debate continues and that our disagreements are discussed in an academic civil manner, with mutual respect and tolerance from different points of view, as has been done in this panel. This is the test of scholarship and democracy and the example that we should set for a new Cuba.

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