Cuba’s New Economic Turn

written by Samuel Farber | October 18, 2020

A series of recent developments in Cuba have struck the already faltering economy of the island leading the government to adopt a series of economic policies that point towards a greater opening to capital while maintaining the political controls of the one-party state.

First in the list of the latest disasters that have befallen the island is the Covid-19 pandemic. Compared to other Caribbean countries, Cuba did better due to a public health system, which, however much it declined in the last thirty years, is still able to organize an adequate response to collective disasters such as the pandemic. Thus, to stop the contagion, the Cuban government adopted drastic measures such as shutting public transport in its entirety, and in response to a rebound of the infection beginning in late August, it restored similarly drastic measures in many locations, including the Havana metropolitan area, although in early October the government reduced the restrictions in most of these places.

The tourist industry, the third most important earner of foreign exchange after the export of medical personnel and foreign remittances from Cubans abroad, was also shut down, as were many other commercial and industrial establishments. Cuba’s intake of foreign exchange—badly needed to buy essential imports, including 70 percent of the food it consumes—had already been seriously curtailed before the pandemic by the cancellation of its export of medical personnel to countries such as Brazil and Bolivia where hard right governments had recently come into power. In addition, the oil shipments that the island was receiving from Venezuela (in exchange for the export of medical personnel to that country), crucial for the functioning of the island’s economy, were cut down as a result of the political and economic crises under Maduro’s government.

To make matters considerably worse, Donald Trump escalated in a decidedly aggressive fashion the US criminal blockade of Cuba, in part motivated by the latter’s support of the Maduro regime, by reducing, or in some cases cancelling, some of the concessions that Obama had granted to Cuba during his second period at the White House. Among other hostile measures, Trump limited the remittances by Cuban-Americans to their relatives in the island, sharply reduced travel to Cuba by U.S. citizens who are not Cuban-Americans, prohibited U.S. visitors to Cuba from staying in hotels owned by the Cuban government, and engaged in a campaign to discourage foreign investment in the island through his invocation, for the first time ever, of Title III of the 1996 Helms-Burton law (approved by Congress and signed into law by Democratic President Bill Clinton) that punishes foreign firms that utilize American property confiscated by the Cuban government in the early 1960s. The Trump administration also suspended licenses authorizing U.S. economic activities in the island, such as the one granted by the Obama administration to the Marriott Corporation to operate hotels in Cuba.

Will Washington’s policy change under a possible Biden administration? The Democratic presidential

candidate promised to follow in the footsteps of President Barack Obama, moving towards a normalization of political and economic relations with Cuba. The extent to which a Biden administration will do so depends on a variety of factors ranging from the electoral results in Florida to relations with Venezuela. Although the latter was not very important in relation to Cuba policy during the Obama years, it became a major consideration for Trump who, following the advice of Senator Marco Rubio and the then National Security Adviser John Bolton, made Cuba's support for Nicolás Maduro a major issue and used it to justify the tightening of sanctions against the island. The fact that both Biden and congressional Democrats have supported Venezuelan opposition leader Juan Guaidó's claim to be the legitimate president of Venezuela does not augur well in terms of a Democratic administration normalizing relations with the island.

Powerful corporate interests such as major agribusiness firms and the U.S. Chamber of Commerce have for a long time been in favor of full economic relations with Cuba, although it is hard to predict how much political capital they are willing to invest to bring about that objective. In any case, a complete normalization of economic and political relations with the island would require a congressional repeal of the 1996 Helms-Burton law. This is a dubious prospect considering the likely composition of both houses of Congress following next month's election, despite the fact that a significant number of Republican congresspeople have supported, on behalf of agricultural and other business interests, the normalization of relations with Cuba. Nevertheless, the president of the United States has considerable discretion in improving relations with Cuba even if Helms-Burton remains the law of the land.

Meanwhile, all of these events have considerably exacerbated the problems of an already weak Cuban economy suffering low growth for several years (0.5% in 2019), low industrial and agricultural productivity, and a very low ratio of capital replacement needed to maintain an economy at least at its existing level of production and standard of living, let alone any significant economic growth and improved living conditions. To make matters worse, this situation has been developing in the context of an increasingly aging population, a demographic process that began in the late seventies and that will lead to a number of serious problems, such as a shrinking labor force having to support an expanding number of retirees.

In response to the pressures created by the recent deepening of the economic crisis, the Cuban government recently announced a series of economic measures that will bring the country an important step closer to the Sino-Vietnamese model, which combines an authoritarian one-party state with a growing role for private capitalist enterprise. These new measures represent the Cuban government's decision to relinquish a part of its economic control in an effort to acquire hard currency, import capital, and promote greater dynamism and growth of the Cuban economy.

Development of Small and Medium Private Enterprise

One economic proposal that has been brought back to life is the establishment of private "*Pequeñas y Medianas Empresas*" or PYMES (Small and Medium Enterprises in English). For over a decade, the Cuban government under Raúl Castro's rule has allowed the existence of very small private enterprises that by now employ approximately 30 percent of the labor force. This includes about one quarter of a million private farmers who work the land in usufruct, meaning that they rent it from the government for renewable twenty-year periods, as well as some 600,000 people who own or work for small businesses in urban areas. Most of these micro enterprises are primarily concentrated in the areas of food services (restaurants and cafeterias), transportation (taxis and trucks), and the renting of usually renovated rooms and apartments to tourists, probably the most lucrative small enterprise of all. Then, in 2014, in an important official document entitled *Conceptualización del Modelo Económico y Social Cubano de Desarrollo Socialista* (Conceptualization of the Cuban Social and Economic Model of Socialist Development), the Cuban

government announced that it would allow the creation of small and medium private enterprises. This notion has recently been revived and being discussed by, for example, President Díaz-Canel, stating that it is necessary to "unblock" (*destrabar*) the PYMES and cooperatives in Cuba.

Few details have been given on what these enterprises may encompass in terms of size and other characteristics. Most likely that will remain under wraps until the government enacts the new law, which is scheduled for April 2022, regarding both state and private enterprises, although deputies to the official parliament have indicated that regulations concerning PYMES will be formulated as early as this year. Still, one can get an approximate idea of what those medium-size enterprises will comprise by looking at how they have been defined in other Latin American countries. In Costa Rica, for example, where PYMES are widespread and play an important role in the economy, medium enterprises refer to those that employ between 31 and 100 employees; micro enterprises to those that employ less than five workers (the largest group-size in present day Cuba), and small enterprises to those hiring from 6 to 30 workers. Chile approved a law officially defining the size of enterprises along the following numerical criteria: Micro, up to 9 employees; Small, from 10 to 25 employees; Medium, from 25 to 200 employees; and big, more than 200 employees.

Based on those definitions, it is clear that given their size, private medium-size firms are regular capitalist enterprises unlikely to be managed solely by their owners, and will need some kind of hierarchical administration to run the business in terms of its economic planning, administration and production. The establishment of these medium-size firms will likely go along with the official state unions moving in to "organize" the workers in those firms, as they have already done with the much smaller "*cuenta prop*istas" (self-employed people) and their few employees. As in China, the official unions in Cuba will do nothing to truly represent the workers in their relations with the employers.

Cuba's 2014 Labor Code

In this context it is very important to consider the Labor Code (*Código Laboral*) that has been in force since it was approved by the Cuban government in 2014. This Code eliminates the requirement to compensate workers whose place of employment has been closed, and allows private employers, as matter of their right as proprietors, to fire workers without cause. In the case of state employees, the government also fires workers by declaring them unsuitable (*no idóneos*) for their jobs, with little recourse for the affected workers. The new code also relaxes the 8-hour day allowing employers to stretch it to nine hours without extra compensation. As a matter of fact, there are already many workers in the private sector working 10 and even twelve hour shifts per day without overtime pay. (They do it anyway because their base pay is higher than in the state sector.) The Code also permits private employers to only grant a minimum of seven days of annual paid vacation instead of the thirty-day paid annual vacations that state employers are entitled to. It also abolishes release time for the continuing education (superación) of all workers, so currently it has to take place during the workers' earned free time, like accumulated vacation time. This Labor Code is expected to also apply to the PYMES sector of the economy.

Modifying the State's Monopoly of Foreign Trade

Along with widening the door to private enterprise, the Cuban regime has very recently relaxed its monopoly of foreign trade, that is, the exclusive control that, until now, it has had over all business import and export activities in the island. A short time ago, Rodrigo Malmierca, the Minister of Foreign Trade and Foreign Investment (Mincex), announced that thirty-six state enterprises specializing in foreign trade were preparing themselves to offer their helping services to private importers and exporters to process and smooth out their foreign operations. As an added incentive to stimulate these (hard currency) private export activities, the government has offered to apply a discount to the tax on profits of state, cooperative and private enterprises if they show an increase in

sales of products and services compared to the previous year.

In 1959, the first year of the revolution, when most of the economy was still in private hands, the revolutionary government, faced with a sharp decline in its hard currency foreign reserves, required Cuban private firms importing from abroad to get the permission from Cuba's national bank to obtain the hard foreign currency (usually dollars) they needed for their transactions. This was how the government was trying to carry out its plan to use its scarce hard foreign currency on imports that were key to the country's economic development rather than in, for example, luxury goods for personal use. It is not yet known what kind of say the government will now have in the import/export initiatives put forward by the private sector.

Rationalizing the Monetary System

The new rules governing export, and especially import, activities will be closely related and undoubtedly affected by the monetary difficulties currently facing Cuba, particularly those regarding the scarcity of hard currency. That scarcity is also playing a key role in the government's ongoing discussion of monetary unification, an issue over which much ink has been spilled for many years in Cuba and that is increasingly becoming center stage in the new economic policies, and which may finally occur during the next few months. As the Cuban government attempts to increasingly integrate its economy into the international economy, the more it will need to regularize the exchange rate between its domestic currency and foreign currencies used by foreign capital for its transactions. This would allow a more rational arrangement for, among other things, establishing a system of prices and economic incentives, and measuring economic data.

For many years, Cuba has had a simultaneously existing double monetary system operating domestically, one in dollars and another in Cuban pesos. Until recently, that double system took the form of the Cuban peso and the CUC--a non-convertible Cuban currency roughly equivalent to the dollar—which for a long time was pegged at approximately 24 or 25 Cuban pesos to one CUC. But the CUC lost its value and is in the process of disappearing due to the lack of hard currency to support it. Meanwhile, the Cuban economy has become directly dollarized: Cubans now get access to goods in special dollar stores selling a wide variety of goods, including food supplies that have been getting very hard to obtain with Cuban pesos elsewhere. Products in those dollar stores are bought with plastic cards issued by the government in order to prevent informal black-market speculation in dollar bills. They are the only form of currency accepted by those stores and are based on dollar deposits made in Cuban banks, most of these originating from remittances from abroad. However, with the disappearance of the CUC, we can no longer speak about currency unification but rather about the rationalization of Cuban monetary policy, particularly the exchange rate between the peso and the dollar. As the Cuban economist Pedro Monreal has pointed out monetary changes will have to be part of a broader package involving adjustments in prices, subsidies, salaries and pensions.

The monetary regularization of the exchange between the Cuban peso and the dollar now being discussed in the island poses to the government a series of complications that will be very difficult to solve. They primarilystem from the fact that while the general population has been exchanging 24 to 25 pesos for one dollar, state enterprises have enjoyed the economically distorting exchange rate of one peso for one dollar (a rate that has clearly favored the import of foreign goods, but has hurt the export of Cuban goods). The regularization of the currency in this context means that the government will have to square various circles in order to both prevent the closing of many state firms that used to benefit from the import subsidy they enjoyed at the special one-to-one exchange, and block an increase in inflation. Because of internal political pressure and popular expectations, the government might be forced to grant an exchange rate favorable to the peso. If that favorable exchange rate is not matched by increased availability of goods and services, it could lead to

inflation. Compounding problems, a lack of independent trade unions will leave Cuban workers unprotected from their government's monetary policies.

Especially important is the major policy change that the Cuban Minister of Labor and Social Security Marta Elena Feitó first announced on August 6 (and was later confirmed on October 13 by Alejandro Gil, the Minister of Economy and Planning), which will substantially increase the number and kind of urban occupations that Cubans can engage in the private sector. As part of his early economic reforms, Raúl Castro allowed the opening to private self-employment and the hiring of others of a limited number of occupations that eventually increased to over two hundred, which were then reorganized into 123 occupational groups. (It is worth noting that this increase was far from a linear process, and on more than one occasion the government retrenched and diminished the number of permissible occupations in the private sector.) As per Ministers Feitó and Gil, that list of permissible private occupations will be eliminated, and presumably a new one will be prepared listing only those occupations that Cubans will not be allowed to practice on a private basis, such as, for example, the private practice of medicine. Neither minister has yet set a date when these changes will go into effect.

Finally, to facilitate the operations of both the rural and urban private sectors, the government announced that it would increase the number of wholesale markets to allow small and medium private entrepreneurs to purchase food and other goods in bulk at lower prices. The lack of access to wholesale markets has been a big problem that has seriously affected the viability of both rural and urban private ventures. In order to improve matters, the government very recently announced that starting in September wholesale markets will start functioning in growing numbers in the provincial capitals, although the transactions will be exclusively conducted in hard currencies, which has been clearly the principal impulse for this and other announced economic changes.

Should the Cuban government carry out all of its announced changes, the economy of the island will have travelled a long way from the highly nationalized economy of the late eighties— more nationalized than the economies of the USSR and Eastern Europe–to a fundamentally mixed economy thus moving ever closer towards the Sino-Vietnamese model. It remains to be seen to what extent the proposed changes will improve the mediocre performance of the present Cuban economy where low economic growth and low productivity have characterized both the urban and rural economies for a long time. It is worth noting, however, that in spite of a generalized low agricultural productivity, private farms have already surpassed the state farms in the production of several staples, as was the case in Eastern Europe under Communist rule. In only a little after one decade since a substantial amount of land was distributed to private farmers, and in spite of the great difficulties in their obtaining access to credit and wholesale trade, agricultural tools and other implements, private farmers, who still own less arable land than the government, already produce 83.3 percent of fruits, 83.1 percent of corn, and 77.9 percent of beans in the island. This, however, is not so much a testimony to the wonders of private enterprise, but rather to the disaster that bureaucratic state agriculture ran from the top in a centralized fashion has been for Cuba (and for several countries that used to be part of the Soviet bloc). In such bureaucratic systems, the people involved at the point of production lack both material incentives, such as greater purchasing power, and political incentives, such as self-management and democratic control of their workplaces, whose absence has historically led to widespread apathy, negligence, irresponsibility and what Thorstein Veblen called "withdrawal of efficiency." It is this lived experience, and not capitalist propaganda, that has increasingly made the capitalist model attractive to Cubans.

The Political Context

A critical issue arising from this discussion is the nature and composition of the Cuban political leadership that is facing the current crisis and presiding over the above-mentioned proposals fifteen

years after Fidel Castro withdrew, for health reasons, from his direct command of the country and was succeeded by his younger brother Raúl, the head of the Cuban armed forces and heir apparent since the very early days of the revolutionary government. Upon taking power, Raúl introduced a series of economic reforms opening up the system, to a modest degree, to usually very small size private enterprise, and promoted a significant degree of liberalization like, for example, changing in 2012, the rules controlling foreign travel to permit Cubans to travel abroad. But this liberalization was not accompanied by any kind of political democratization. Just the opposite. Thus, the repression of dissidence has continued. So, for example, while liberalizing travel abroad for most Cubans, the government has either placed traveling obstacles to many dissidents either delaying their timely appearances in conferences abroad or making it impossible for them to travel abroad for which purpose it has elaborated a list of "regulados" (regulated people) of some 150 dissident Cubans not allowed to leave the country. It is worth noting that, like in so many other repressive measures adopted by the Cuban government, this continues to be, as in Fidel Castro's times, a political and administrative decision outside of even the regime's own judicial system. The same applies to the thousands of short-term arrests that Raul's government has carried out every year, especially to prevent public demonstrations not controlled by the government.

The one-party system continues to function as under Fidel Castro, with its enormous social, economic and political control implemented through its transmission belts in the mass organizations (e.g., labor unions and women's organizations) and other institutions such as those in the educational system. The mass media (radio, television and newspapers) continues under the control of the Cuban government following in its coverage in its coverage the "orientations" of the Ideology Department of the Central Committee of the Cuban Communist Party. The sole important exception is the internal publications of the Catholic Church, which, however, exercises extreme political caution, and limits the distribution of its publications to its parishes and other Catholic institutions. The Internet, which the government has yet been unable to bring under its complete control, remains the principal vehicle for critical and dissident voices.

Meanwhile, an important generational change has been taking place inside the Cuban leadership that poses questions about the Cuban system's future. The new president of the Cuban republic, Miguel Díaz-Canel Bermudez, was born in 1960, a year after the revolutionary victory. The occupant of the newly created position of prime minister, Manuel Marrero Cruz, a man with long years of experience in the tourist business, was born in 1963. These two men could be seen as being under a sort of probationary apprenticeship under Raúl Castro, who at his 89 years of age, is still the First Secretary of the Cuban Communist Party, although he will officially retire in 2021. There are other "historic" leaders still at the top of the political hierarchy as well. José Ramón Machado Ventura, a medical doctor who for a time was number three after Fidel and Raúl Castro, and is a member of the Political Bureau, will be ninety years old on October 26. Ramiro Valdés, another "*histórico*" who occupied many top positions during more than sixty years of the revolutionary government, including Minister of the Interior, now a member of the Political Bureau, is 88 years old. Several top generals in high positions also belong to the older generation. General Ramón Espinosa Martín, member of the Political Bureau of the CPP, is 81 years old. In comparison, General Álvaro López Miera, also a member of the Political Bureau is a youngster at a mere 76 years of age. General Leopoldo Cintra Frias, the Minister of the FAR (Revolutionary Armed Forces) is 79 years old.

Yet, there are younger people, less visible than Díaz-Canel Bermudez and Marrero Cruz, who now sit in critical governmental positions and whose power will likely increase in the context of a transition after the old "*históricos*" are gone from the scene. One of them is sixty-year old General Luis Alberto Rodríguez López-Calleja, a former son in law of Raúl Castro, who is the head of GAESA, the huge business conglomerate of the Armed Forces, which includes Gaviota, the principal tourist enterprise in Cuba. Various active and retired high Army officers currently hold leading positions in other key

areas of the Cuban economy. The Cuban Army has formed technical and business cadres who, together with a group of civilian technicians and managers, have for some time played a major role in the Cuban economy. Many of them have become international businesspeople acting on behalf of the Cuban state and have developed extensive connections with international banks and other international capitalist institutions. To them we must add the managers of state-owned industry, who have just been granted more autonomy by the government. All of these functionaries may end up benefiting from the announced establishment of PYMES by using their business contacts to obtain the capital necessary to create their own medium size enterprises in the island. They constitute the kernel of a developing Cuban capitalist bourgeoisie that is emerging from within the Communist apparatus itself.

Opposition, Disaffiliation and Discontent

There is political opposition and Cuba, principally but not exclusively on the center and right of the political spectrum. However, it has been politically marginalized by government repression, and by the Plattist (after the Platt Amendment imposed by the U.S. on Cuba at the beginning of the twentieth century curtailing Cuban independence) practice adopted by sections of that opposition, which instead of organizing and raising funds among the close to two million people of Cuban descent in the U.S. and other countries abroad–just as José Martí did among Cuban tobacco workers in Florida to support Cuban independence in the 1890s–has instead relied on U.S. government handouts to survive the Cuban government's persecution.

While the government might have successfully marginalized the active dissidence in the island, it has not been able to stem the considerable political disaffiliation from the regime, particularly among the younger generations that grew up since the collapse of the U.S.S.R. and the Soviet bloc in the late eighties and early nineties. It is worth noting that almost as much time has elapsed between 1990 and the present as it did between the revolutionary victory in 1959 and the collapse of the Soviet bloc. This collapse – and the major withdrawal of economic assistance to Cuba that accompanied it–produced a catastrophic economic crisis and a considerable erosion of the legitimacy of the Cuban regime. Since then, public and private corruption has markedly increased, a phenomenon that was even denounced by Fidel Castro in a famous speech at the University of Havana in November of 2005, when he warned that it could destroy the revolution from within and thus accomplish what US imperialism had failed to bring about for many decades.

The current economic crisis, considerably aggravated by the Covid-19 pandemic, has added to the already widespread discontent stemming from the shortage of consumer goods. Much of this discontent has become focused on the "*coleros*" (from "cola," a queue or line of people waiting), a term currently used for people who regularly monopolize the first places in the now ubiquitous lines forming everywhere to get increasingly scarce basic goods or in order to sell those places to latecomers; and for people who taking advantage of their holding, in one way or another, the first places in the line buy up as much as there is in stock in order to resell it at exorbitant prices. The government has used to its advantage the understandable popular indignation aroused by the "*coleros*" by denouncing and arresting them, but avoids focusing on the economic causes of the "*colero*" phenomenon, namely, the scarcity of basic goods due to insufficient domestic production and/or importation. The fact is, however, that given the shortage of agricultural production due to the existing economic and political regime in the island, there does not seem to be any practical alternative to this problem. Even rationing the hard currency goods bought by the "*coleros*" by incorporating them into the already existing peso-denominated rationing system is not likely to work as there may not be a sufficient amount of them to provide for everybody.

It is difficult to tell whether the circumstances under which the current disaffiliation and discontent may translate into a political alternative, let alone a democratic and progressive one, to the existent

undemocratic one-party state regime. It is true that Obama's shutting off the road of Cuban emigration to the United States in the final days of his administration eliminated an important safety valve for Cuban opposition and discontent. (It is worth noting that Trump did not repeal this particular measure by Obama, proof that his opposition to Communism is far weaker than his xenophobia and racism). Nevertheless, the shutting off of emigration to the United States has not so far appeared sufficient to ignite any major significant political development in the island.

What is clear is that the adoption of the new economic measures discussed above, particularly the legalization of the so-called medium-size enterprises, may considerably extend and deepen Cuba's double exploitation and oppression: the one exercised, for a long time, by the highly authoritarian one-party state, and the other one, exercised by the future medium-size private businesses helped along by the false protection afforded to the workers by the state unions that will in fact function as company unions in the PYMES context. The Labor Code approved in 2014 already offers a glimmer of what is to come.

The new economic distribution of power that sooner or later will develop in Cuba will further demonstrate the urgency of truly free trade unions, and the need to replace the undemocratic one-party state that by its nature makes independent unions impossible, with a truly socialist and democratic republic in Cuba.