—COUNTRY REPORT—

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Cuba in Transition

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Preface

This report is the product of a graduate course in the Gerald R Ford School of Public Policy at the University of Michigan taught by Professor Katherine Terrell. The goal of the class was to produce a report designed to serve two functions. First, we were to evaluate the socio-economic development of Cuba. Second, we were to provide policy recommendations for an economic and political transformation.

The research conducted for this report was extensive. It covered a wide variety of previously published think tank reports on similar issues, articles published in scholarly and peer-reviewed journals, books evaluating the progress of events and policies in Cuba during various historical and recent periods, as well as information from governmental, intergovernmental, and non governmental organizations gleaned from their own publications, videos, and internet sites. In the spring of 2004, Professors Katherine Terrell and Kerwin Charles led a team of 27 masters and doctoral students from the course on a ten-day investigatory trip to the island. The team met with and interviewed representatives from the Cuban government, academe, national industries, and civil society. We were also received by a diplomatic representative from the US Interests Section in Havana. The trip was licensed by the US Department of the Treasury.
**Forward**

**Why Cuba? Why now?**

Cuba cannot compete with some areas of the world for the attention of the international media. Yet its importance to the US – a product of far more than its simple proximity – is undeniable. Conflict involving the US and Cuba has already brought the world to the brink of war. Political clashes over issues of immigration, the revolution’s expropriation of many privately-owned properties, the US trade embargo, and human rights have kept relations between the two countries on edge for the past 45 years.

The most important reason to focus on Cuba, however, is its people. In this report we acknowledge and applaud the tremendous progress of the revolution in addressing the inequities in Cuban society. Indeed, no other Latin American or Caribbean country has done a better job of providing for the health and educational needs of its populace. Yet the suffering of over 11 million Cubans from the broad denial of their basic human, economic, and political rights has cast a deep shadow over the gains of the revolution. Moreover, as the economic and political development of former socialist and Latin American countries have progressed, the disparity between their peoples’ rights and opportunities and those of Cubans grows starker.

Cuba will soon find itself at a crossroads. The biological inevitability of Fidel Castro’s passing will present the Caribbean nation with a new chance for progressive reform. But because windows for change have a tendency to slam shut soon after they open, we believe that Cubans will have to act soon or risk losing what may be this generation’s best chance to secure greater political, economic, and human rights.
Chapter 1: Introduction
Jonathan Shill

1.1 Dawn of the Revolution

Before the 1959 revolution, the national economy of Cuba balanced precariously on two legs. Sugar, constituting 84 percent of Cuban exports, was a major source of financial sustenance. Itself accounting for almost a third of Cuban economic output in the decade before the revolution, the importance of Cuba’s sugar industry cannot be overstated. Exports, however, require another country’s willingness to import. Thus the second dependency was on the willingness of another country – at the time the US – to purchase large quantities of its products. As long as relations with America remained favorable, the modernizing effects of increasing US capital investment and foreign exchange attracted by tourism had the potential to be revitalizing stimuli.

Unfortunately, such was the context in which the two governments, Cuban and American, would experience a falling out. On January 1, 1959, a triumphant Fidel Castro marched his rebel army into Havana. As he would later explain, he was determined to address the tremendous inequities in Cuban society through socialist reforms. The minimal nature of the compensation given by Castro’s regime for its seizure of agriculture and industry, however, would bring him into direct conflict with the national government of many of those who owned and operated substantial portions of Cuba’s productive sectors.

While greater equity may have been the primary motivation behind Castro’s general policy preference for nationalization, that apparent underlying goal would be at best clouded – and in the American media overshadowed – by the timing of many of his decisions for the stages of its implementation. To the outside observer, the two governments, American and Cuban, appeared to have been engaged in a tit-for-tat series of measures which included Cuban nationalization of the American-owned Cuban telephone company, large land holdings, and oil refineries. In mid-1960 President Dwight D Eisenhower cut (and would later eliminate) the Cuban sugar quota. Cuba responded by nationalizing all US-owned land.

The US would not tolerate policies of such a threatening nature to its global economic and political interests, especially in its own backyard. By 1961 the US had broken off relations, and in 1962 President John F. Kennedy instituted a generalized trade embargo against Cuba.
Fidel Castro, determined to institute a leftist and autocratic form of government, now found his island marooned in the Caribbean.

Forced to choose between economic collapse and taking on a new patron, Castro made the predictable decision. To the Soviet Union, Cuba was a left-leaning country in an ideal strategic location. In 1960 the Deputy Premier of the USSR, Anastas Mikoyan, visited Cuba. He agreed to purchase nearly half a million tons of Cuban sugar before the end of that calendar year and more than twice as much during the next. For the next 30 years the USSR would trade Soviet oil for Cuban sugar at a rate of exchange designed to be hugely favorable to the Caribbean state. Moreover, it would supply Castro’s regime with a plethora of weapons and military training.

Overall, Soviet aid may be said to have had three effects on the Cuban revolutionary project. First, it meant that Castro could afford to do much more to realize his aspirations for greater equity in Cuban society, at least insomuch as the USSR considered such changes to be compatible with its interests. Second, it rendered the punitive economic measures taken by the US largely ineffective. Third, it created a unique and quasi-narcotic foreign dependency that was markedly different from that of other poor nations. Cuba’s economy became addicted to what would otherwise have been impossibly expensive imports of technology and capital goods such as agricultural inputs and petroleum. Without Soviet credit, the flow of these items to the island would have slowed to a mere trickle. The withdrawal symptoms of the 1990s and accompanying economic convulsions are a direct result of the end of the cheap and plentiful supply of such products and services.

1.2 The Special Period

No decade has been more difficult for the revolution than the 1990s. The collapse of the European socialist bloc and its accompanying economic difficulties reduced Cuba’s trading partners in both numbers and purchasing power. The USSR ended its decades-old sweetheart deal of oil-for-sugar in 1989. By 1991, Cuba’s primary benefactor had disappeared from the map. The effects of this shock to the Cuban economy are often compared to that of the Great Depression in the United States. Between 1989 and 1993, the Cuban economy is estimated to have shrunk by 40 percent.
Rather than providing for its own broad food needs, Cuba had traditionally relied upon its sugar industry to create a product that could be traded for the varieties of food it needed. At first glance, considering the relative opportunity costs of production, Cuba might have been argued to have made the best possible choice in specializing in sugar. Yet the long term result of such a policy preference was that the country became a near monoculture. Worse, the turn of the century-era equipment utilized in the production process made the sugar industry highly inefficient. A third detractor was that the production of sugar depended upon the very inputs – agricultural and petroleum – that Cuba could no longer afford. Thus even sugar production, the stalwart of the Cuban economy, fell dramatically.

The economy hit rock bottom in 1993. Unemployment, once nearly unknown, reached almost eight percent. Hunger and malnutrition, absent for decades, reemerged as serious national problems. The full details of the decay in the economy and the road to recovery are discussed in chapter 2.

The Cuban state, nearly bankrupt and unable to secure credit from international lending institutions, needed somehow to fund tremendous government services and increase industrial and agricultural production. The situation might have seemed impossible. Certainly most economists would have advocated liberalization. Yet Castro found another way. He sought to attract foreign dollars to fund imports while at the same time minimizing the threat of private enterprise to the socialist system. The first of his policy prescriptions was to place heightened emphasis on attracting tourists (and their accompanying dollars) to bring in foreign capital. He justified these reforms to the Cuban people by declaring the country to have entered into what he called a “Special Period.”

A series of measures were taken, this time to bolster the flagging agricultural sector. Cooperatives were established to allow large tracts of land to be managed by the workers rather than the state. Farmers were now allowed to sell a portion of their production at market prices. In the sector as a whole, natural fertilizer had to be substituted for the imported chemical variety because it had become too dear for Cuba’s capital-starved economy. Non sugar food production increased dramatically.

Third, the US dollar became legal for Cubans to possess. A slew of new and government-run shops that would accept only US dollars was established to collect the currency sent to Cubans by foreign relatives, as well as that of tourists. Fourth, Castro launched a broad
effort to attract foreign direct investment – especially through joint ventures in the tourist sector – while maintaining state control over industrial and most agricultural forms of production.

A fifth measure that was taken was the legalization of self-employment. At first, the number of self-employed Cubans exploded. Then the economy returned to growth. Self-employed Cubans’ reduced dependency on the otherwise socialist state persuaded the regime to regulate most of the private sector to death. Thus today it is deliberately heavy-handed regulation – rather than an outright prohibition – that is impeding the growth of private businesses.

1.3 Achievements of the Revolution: Introduction

Cuba could not be called macroeconomically fortunate in comparison to other Latin American and Caribbean states. Its per capita national wealth slipped from fifth in Latin America and the Caribbean in 1955 to hovering around tenth in the 1960s, 1970s, and 1980s. During the entire Cold War period, however, the average welfare of its people as measured in education, health, and poverty levels was not only good but exceeded those of most of the rest of the people of the region. Because education, health care, and basic foodstuffs are free, the Cuban people, while generally poor, do have most of the bare necessities they need to survive and prosper.

1.4 Achievements of the Revolution: Education

The progress of the revolution in the area of education is discussed in chapter 3. Cuba’s high rates of literacy and secondary school graduation are the envy of the Third World. Indeed, they are even comparable to those seen in many wealthy countries. The socialist government has always placed a high level of importance on education, both for its usual merits and perhaps also because it has proven its worthiness as a tool for political indoctrination.

There have been three waves of educational efforts, or three “revolutions” in education, as the Cuban government calls them. The focus of the first was literacy. It placed a special emphasis on the rural population. In 1961, the Massive Literacy Campaign sent 250,000 well-educated Cubans to teach their compatriots to read. Since schools had always been in the shortest supply in rural Cuba, the second “revolution” increased the numbers of both schools and teachers. The Countryside/Labor program, begun in the 1960s, addressed persisting rural
educational inequities. It was followed by an improvement program in the 1970s. The third and most recent “revolution,” a product of the 1990s, sought to improve the quality of the country’s technical and vocational training. In particular, it was designed to attract students to work in and improve the agricultural sector.

As in many European countries and Japan, the educational performance of primary school students determines their placement into either a technical and vocational track or – if they test well – a teaching and pre-university track. Each track has a corresponding type of secondary school. While it is theoretically possible for a student who graduates from a technical secondary school to attend a university, in reality few are able to pass the higher education entrance exams. As a result, most university students are from the teaching and pre-university track. In all, about 17 percent of Cuban students do some kind of post-secondary school education.

1.5 Achievements of the Revolution: Health

We discuss Cuba’s progress in health care in chapter 4. Without a doubt, the best-known accomplishment of the revolution is its health system. Before 1959, Cuba’s rates of disease, infant mortality, and doctors per capita were similar to those of other poor countries in the hemisphere. As in many especially poor and tropical countries, the major challenges to be addressed in Cuba were inequities and limitations in access to health care on the one hand, and easily preventable diseases on the other.

The efforts of the revolution may be divided into distinct stages. The first period, lasting for a decade, began with efforts to bring health care to those most in need. As such, all graduating medical school students were required to spend a year in rural clinics, many newly established, to attend to the needs of the campesino population. The government nationalized pharmaceutical companies and set lower prices for medicines. Private hospitals and existing health care facilities were nationalized, too, and a new and broad network of medical facilities was founded nation-wide. An additional benefit of making medical attention so readily available was that health concerns were able to be addressed before they became so serious that they had to be dealt with through more expensive emergency medicine or hospitalization. Later periods would see the focus shift to primary care and then to putting doctors and nurses in communities to work as teams.
The Special Period has brought new challenges to the Cuban health care system. Health care-related goods from abroad (especially medicines and medical equipment) were initially consuming an impossibly large portion of available foreign currency. Cuba’s response has been to produce its most essential medical supplies domestically and – when possible – to copy drugs produced abroad, often illegally. While indicators such as percentages of babies born underweight increased in the first few years of the 1990s, Cuba was able to recover by the end of the decade.

Today, not only does Cuban access to health care out-class the rest of the region, it is unequaled by any country in the Third World. While Cubans on the island indicated to us that individuals closer to the government receive better care than the rest, anyone can see a doctor and has access to inexpensive nationally-produced medicines. (Medicines from abroad are rationed due to their higher price.) Nationally, the number of hospital beds and physicians per capita exceed those of any other Latin American or Caribbean country. Moreover, infant mortality is comparable to that in the United States, many major communicable diseases have been eliminated, and even HIV/AIDS is now on the wane. Overall life expectancy is the same as in developed countries. In short, Cuba has achieved what can only be called First World status in the area of health care.

1.6 Achievements of the Revolution: Socio-Economic

The general socio-economic achievements of the revolution are discussed in chapter 5. Cuba’s degree of success in its efforts to combat poverty and inequality can be separated into two periods, the division point being the cutoff of Soviet aid. During the Cold War, Soviet aid helped reduce inequality from typical Latin American and Caribbean levels to the incredibly low levels one would expect in a socialist country – just a fraction of that of capitalist countries such as the US. The exodus of the upper classes in the wake of the success of the revolution and expropriation of so much private property also reduced inequality for the sole reason that there were now so few rich Cubans remaining on the island.

Faced with the competing goals of reducing inequality and providing an incentive for its populace to aspire to more demanding and more highly-skilled professions, the Cuban government opted for a graduated wage scale. First instituted in 1962, it mandated that the best paid workers would earn about three times more than the worst. Most of those at the highest end
of the scale are top medical and government professionals. Street sweepers and other low-skilled professions can be found at the bottom end. The pay scale was revised only slightly downward in 1980. Since jobs were assured for all non political dissident Cubans, unemployment was kept low.

The war on poverty has had many fronts. Government efforts to boost literacy levels and access to education, along with almost universal home ownership, affirmative action, subsidized food and universal health care have promoted equality in both basic services and, most importantly, opportunity.

The Special Period has seen a dramatic increase in inequality. The poorest (who are the most reliant on government handouts) have received less, and those working at jobs in the tourist sector (such as hotel maids, taxi cab drivers, and restaurant workers) have been able to earn much more. Remittances from abroad and joint ventures that sometimes offer cash incentives to workers have helped to revive the economy and allow for continued high levels of social spending. However, they have also increased inequality. Other economic and industrial reforms, while helping promote efficient competition, are also likely to promote inequality.

Recent years have seen important sectoral shifts as well. Signaling a medium stage of development, the number of workers in agriculture has been declining while the level of employment in manufacturing has been on the rise. Since 1993, in addition to the large multinational joint ventures the government has allowed some growth in tiny private home businesses such as backyard restaurants, tourist-oriented artisan goods production, and the use of private automobiles as taxi cabs. Such businesses apparently became a little too successful, however, as they allowed many to depend not on the government but on the market and have thus seen severe regulation imposed upon them. As a result, the number of such private small businesses dropped by almost three-quarters in the decade 1993-2003.

During the Special Period the wealthiest quintile of the population has nearly doubled its share of national wealth. Not only have those of the four poorer fifths of the population dropped, but the percentage degradation of their shares of national wealth is progressively greater the poorer the quintile. Today, while overall inequality still seems to be the lowest in the Americas, it is fairly similar to that of Japan. Thus in general terms Cuba can be said to have gone from a socialist level of inequality to that of a modern welfare state.
1.7 Political Empowerment

The status of Cuban socio-political empowerment is discussed in chapter 6. Many minority groups face discrimination and political disempowerment in the Americas. Revolutionary Cuba has made bold claims of having empowering them. In our analysis, however, while we accept that Castro has achieved the most equal society in Latin America and the Caribbean, there are still readily visible limits to the progress of traditionally disenfranchised groups in Cuba.

All non political forms of discrimination (i.e. racial, sexual, and economic) have been dealt much more than a glancing blow by the policies of the revolutionary regime. The most significant forms of empowerment have come through the revolution’s promotion of a general societal attitude against discrimination, the near equalization of opportunity through improvements in the accessibility of education, and to some degree through policies designed to promote the advancement of minority groups that are similar to North American affirmative action.

Unemployment rates among the Afro-Cuban, mixed-race, and white populations were similar prior to the revolution. Thus the socialist government cannot be credited for the equalization of levels of employment. What it has done for Afro-Cubans, however, is ensure a free education, more equitable wages, and greater vertical mobility in employment.

It would be misleading to characterize the Cuban government’s goal as being the promotion of socio-economic empowerment among Afro-Cubans in particular. Indeed, whereas organizations promoting equality of opportunity, a voice in the media, and improvements in education for Afro-Cubans existed before the revolution, the Castro regime saw socialism as obviating them. Such private associations were seen as counterrevolutionary in a society that stressed uniformity, Cuban nationalism, and maximal allegiance to the government.

Rural Cubans have also benefited greatly from the revolution. Until 1959, many campesinos were landless. Others owned plots of land too small to produce enough food for their daily alimentary needs. With most large plots of farmland in the hands of wealthy landowners and international (especially American) conglomerates, 70 percent of the population was left to farm only 8 percent of the arable land. Technical assistance and credit were largely unavailable to Cuban peasant farmers, and the absence of local schools from much of the countryside meant they had little access to the very education they might have used to move into
new careers. The revolutionary regime established thousands of new schools. Fully 2,000 of them – each with fewer than 10 students – were specifically designed to provide educational opportunities to isolated campesino communities.

At present time, inasmuch as tourist destinations tend to be more populous areas, there is some danger that greater disparities in opportunity could emerge between rural farmers and urban dwellers as investment in the greater Havana and resort-based tourist industry takes precedence over the same in agriculture. To combat this natural tendency, the Cuban government has mandated that a portion of total foreign direct investment (FDI) receipts be channeled to projects in rural areas and small cities.

Women are another group that has traditionally suffered from various forms of discrimination. While female educational achievement was lagging prior to 1959, today 6 in 10 university graduates in Cuba are women. Elective abortion, banned (yet clandestinely available) in the rest of Latin America and the Caribbean is safe, legal, free, and easily accessible to Cuban women. The status of women in Cuba is far closer to equality than that of their counterparts in most other countries of the Americas. However, the nearly all male-led nature of the vast executive branch of the Cuban government, as well as our own experiences in meeting with private, Cuban government, and industry officials suggested to us that men continue to dominate both the social and political spheres.

The empowerment of individuals belonging to traditionally disenfranchised gender, racial, and class groupings is greater in Cuba than in the rest of Latin America and the Caribbean. However, the socialist government’s efforts to promote equality are also designed to promote societal and political homogenization.

Cubans are nearly completely disenfranchised in the areas of free speech and free choice in voting. The only channels for feedback and political participation (such as neighborhood and workers’ committees, and the women’s federation) are run by the government. Cubans can discuss neighborhood and national policy concerns in such groups, but they must be careful not to be too critical of any level of the government lest they draw the ire of local authorities. Because the only avenues available to increase the empowerment of traditionally underrepresented groups are controlled by the state, it is difficult for minorities to make their voices heard. There is no freedom to demonstrate or protest in Cuba. Indeed, the only political speeches, marches, rallies, and even neighborhood block parties that can take place are those that
are organized by the various levels of the government. To the revolutionary regime, the benefit of this system is that it makes participating in and supporting the government the only way to get one’s voice heard.

1.8 Transition: Political

The report details our plan for a political transition in chapter 7. The 1976 Constitution, written with the help of Soviet advisors, established the Communist Party of Cuba as the leading societal and governmental force. It provided for a highly bureaucratic and stratified governmental system with each level in the hierarchy only having the opportunity to ratify the choices made at higher levels.

The national and provincial electoral process follows the same model. Since there is only one candidate per seat in the elections for the national and provincial assemblies, the process is merely a plebiscite. Moreover, candidates must be nominated by organizations linked to the Communist party. Two minor reforms have so far been enacted in the Special Period. First, several candidates may run for the same seat in municipal assemblies. Second, while the Communist Party of Cuba is still the only legal political party, recent reforms make it legal (if unusual) for the Communist party-linked nominating organizations to choose independent candidates for the same process of ratification.

The most powerful body whose members are approved by plebiscite is the National Assembly of the People’s Power, a legislative organ that meets only twice a year. While it can debate bills and ratify certain nominees, it is not known ever to have rejected either. The permanent legislative body, the Council of State, is actually headed by the Chief Executive, Fidel Castro, and consists of a hand-selected group of loyalists beginning with Fidel’s brother Raúl.

The most recent effort to bring political reform to Cuba is the Proyecto Varela, or Varela Project. Drafted and led by a group of political and human rights activists, the Varela Project can claim particular legitimacy because it is an entirely island-based effort of Cubans by Cubans for Cubans. A petition in support of it has so far been signed by over 25,000 Cubans on the island. The Varela Project calls for reforms in the elections to the municipal, provincial, and national assemblies to allow the general populace to play a role in choosing aspirants to those bodies. It seeks to allow more than one candidate to run in the election for each provincial and national assembly seat. The Varela Project also calls for freedoms of expression, association and
the press, amnesty for nonviolent political prisoners, and a more secure right to set up private businesses.

In order for an attempt at a transition to be worthwhile it must meet several criteria. First, it must be designed to produce a significant improvement. Second, it must have a realistic chance of being enacted. Once enacted, it needs to have a good chance of success in its implementation. It must unleash the forces of change but not bring anarchy. This applies in both its initial adoption and implementation stages. For these reasons we believe that the most logical step forward for Cuba is not to eliminate its current government entirely but rather to pass and institute the reforms called for in the Varela Project. The national (as opposed to foreign-state demanded) nature of the proposed reform and its preservation of the current functional government structures should allow it to have a healthfully disruptive effect on political repression and autocracy while keeping disruption in the economy and public order to a minimum.

Detailed plans for a post-revolutionary Cuba have already been drawn up by foreign-based groups which would prefer an Iraq-style total regime change to one of reforming the current governmental system. Notwithstanding the thoroughness of the labor put into these preparations, an immediate dismantling of the highly bureaucratic delivery of foodstuffs, health care, and the public safety and education systems is unlikely to lend itself to easy and speedy replacement. Thus in our analysis it is the implementation of the Varela Project that represents the island’s best chance for both democratic and economic advancement.

For most Cubans the most prominent manifestation of government in their neighborhoods is the Committees for the Defense of the Revolution. These serve as neighborhood watch groups for the social and material needs of the community, and also report any political dissent. Since they are part of the repressive organism of the state, they must be hugely reformed or dismantled.

1.9 Transition: Economic

A plan for an economic transition is discussed in chapter 8. At the macroeconomic level, there are three major areas of concern for Cuba. The first two, an exchange rate policy and capital controls, are of similar concern in other countries. The third, however, price controls, are particular to former socialist countries.
The basic question to be answered when choosing an exchange rate policy is whether to fix or float. Each has advantages and disadvantages, but in our analysis it may be best for Cuba to begin with a fixed rate to manage the tremendous volatility that will occur with economic change and move toward a floating one later. Increasing numbers of Latin American countries have simply adopted the US dollar as their currency. While this is certainly the most credible way to fix the value of one’s currency, it can make changing policies later especially difficult.

Leaving a fixed rate alone for too long carries with it the risk of inflation. This is of special concern for Cuba because in our estimation an economic transition would likely result in large capital inflows in many forms including development aid and foreign direct investment. Of course, some inflation is inevitable – especially once price controls are lifted.

Another potential problem is that the bigger the inflows the larger the potential for sudden and devastating outflows per the whim of international investors. Thus some controls over inflows, perhaps to ensure they go toward less liquid investments, may be in order.

Ending price controls would dramatically increase efficiency in the Cuban market. Doing so quickly, while initially more painful to the Cuban consumer, would mean that domestic firms could adjust their production just once rather than having to do so multiple times – once for each stage in a gradual transition. Since some particularly vulnerable and vital industries may be especially important sources of employment, however, it may be necessary to institute temporary tariffs on certain products. In the case of Cuba the clearest such example is sugar, although many other agricultural products probably merit similar treatment.

Other important economic issues include policies toward private enterprise, increasing access to credit, improving Cuba’s rusty capital stock, and the question of what to do with state-owned enterprises. Perhaps the easiest of these issues to address is the first. Draconian regulation is currently strangling Cuba’s private sector. For example, under current law the total cost of inputs for a product should not exceed one-tenth of the revenue it generates. Worse, those same inputs must be purchased through state sources and at government-mandated prices. Thus while private industry is not technically banned, normal production using any kind of foreign inputs is simply not feasible. These rules must be abolished immediately, especially since the establishment of more private businesses will permit the growth in employment that will be needed for a successful economic transition.
Several steps may be taken to improve access to credit and import the type of machinery that a modern Cuba will need to compete. Independent, that is, non government-linked financial cooperatives should be established. Non governmental organizations may also be willing to help establish lines of credit for private Cuban companies. Well-directed FDI, while likely to be limited in the scope of the sectors in which it will concentrate itself, is a potentially massive source of credit.

The question of what should be done with state-owned businesses and property is complex. Three methods to address this problem are restitution payments to former property owners, the sale of such property, and the issuance of vouchers. Essentially a special form of currency distributed to the citizenry (for free or for a small charge), vouchers would be used to bid for former state property. The selection of the method to be used should depend in part on the nature of the property. In many cases the Cuban government will need to compensate the pre-1959 owners. In others, independent tribunals may have to be established to determine how much restitution is reasonable as compensation to claimants. It may be necessary to tax incoming FDI to help establish a compensation fund for former property owners.

The major industries of oil, nickel, manufacturing and tourism could all benefit dramatically from the same thing: greater investment. A generalized liberalization of the economy (and lifting of the US trade embargo) should make it possible to attract more international funds. All of the aforementioned industries’ productions have the special benefit that they contribute to Cuba either attaining or avoiding having to spend precious foreign capital.

One area in which Cuba has a tremendous advantage is human capital. Especially in biotechnology, the comparatively low wages yet high numbers of workers who have been trained well in the island’s medical schools and universities have the potential to make Cuba a bustling center of pharmaceutical production. For these same reasons Cuba would also make an ideal hub for research and development in agricultural and genetic engineering. Some of the workers displaced by economic change can best be served by encouraging them to transfer to these and other newly established enterprises.

Opening up its economy will mean that Cuba will have to conform to international standards in both the technical aspects of production and intellectual property rights. It will need to encourage the transfer of technology, perhaps offering special concessions to those firms most willing to share it. A new system of taxation must be developed to ensure enough state funds to
preserve as much as possible of the gains of Cuba’s revolution in health care and education while minimizing market distortion and allowing for maximal growth.

Finally, for the individual, personal financial accomplishment is attractive not for its own sake but because it enables one to purchase consumer products, take vacations both domestically and abroad, and drive a car made using something more advanced than 1970s-era Soviet technology. Thus for financial incentives to work, restrictions on travel and on the types of products available to Cubans must be lifted.
2.1 Introduction

When talking about Cuba there often seems to be fixation on the rights of property owners from the Right, on Education and Health Care from the Left, and on political rights from the Center. Our research on the Cuban economy from the pre-revolution period to the present indicates that perhaps too little attention is paid to the seriousness and persistence of Cuban poverty. Cuba’s economic situation is not the result of some temporary shock as has often been the case in Latin American nations. Rather, Soviet economic support tended to mask the fact that Cuba has been fundamentally bankrupt for decades. Not only have cash flows from Russia stopped, but Cuba’s Soviet style capital stock is all but worthless now. The Cuban people still have few incentives to become more productive. Consumer credit does not exist and most forms of domestic entrepreneurship are illegal.

Pre-Revolution

The starting point for understanding the Cuban economy over the last hundred years is clearly the sugar industry. Between 1949 and 1958 sugar accounted for approximately 30% of the Cuban economy and 84% of Cuban exports. This extraordinary dependence on a single agricultural commodity meant that Cuban economic growth was extremely sensitive to changes in sugar prices. The American import quota may have contributed to some subsidization of Cuban sugar exports, but in addition to being highly exposed to price changes in sugar, the economy was also highly exposed to American political whims.

Substantial American investment capital flowed into Cuba in the decade before the Revolution, accounting for a large share of what little economic growth the economy enjoyed over the period. However, even this foreign investment likely did as much harm as good. As a result of American capital, the sugar industry was rapidly becoming more efficient and putting many poor Cubans out of work. At the time, urban social services were apparently rather good
but rural services were not. In a more diverse economy these farm workers may have been able to move into some other low wage work, but not in Cuba.

**Revolutionary Changes**

Castro took power in 1959 amid an outpouring of nationalist fervor and a justifiable resentment of Cuban elites and of American power. Sadly, nationalism could not change the fact that Cuba had grown highly dependent on high sugar prices from the US. After relations with America fell apart, Cuba had to choose between enormous economic hardship or a new economic patron. Obviously, Castro turned to the USSR for support. As relations with the US deteriorated, the Cuban government rapidly nationalized productive assets. After the USSR became Cuba’s prime benefactor, essentially all private property, from farm equipment to real estate, were nationalized.

**The Soviet Years**

The nature of Cuba’s relationship with the USSR was fundamentally the same as its relationship had been with the US. And while Cuba made real progress in terms of equity and in social services over these years, the ability of Cubans to sustain themselves economically grew considerably worse.

As was true in the USSR and every other communist state during the Cold War period, productivity improvements were fairly stagnant across the entire economy. Nobody had an incentive to invent new products or methods and workers had no incentive to excel.

There was some economic growth as the result of large capital investments, but those investments tended to increase Cuban dependence on the USSR. The USSR paid a considerable premium for sugar and other commodities, which encouraged Cuban planners to focus almost exclusively on those exports. The capital used to produce those exports came from Russia, reflecting the Soviet’s comparative advantage in petroleum and chemical resources. These inputs were then purchased from the Soviet Union at virtually no cost to the Cuban Government.

**Collapse**

The predictable result of this relationship was that when the USSR collapsed in 1989, the Cuban economy collapsed with it. Based on our estimates, the Cuban economy lost approximately 40% of its value between 1989 and 1993, when Russia stopped buying Cuban sugar and stopped selling oil to Cuba. Castro’s government scrambled to try and stem the bleeding but with no success. The nation’s credit worthiness was extremely poor and world
sugar prices were very low compared to what it cost the industry to buy the highly distorted basket of inputs left over from the Soviets.

**Reforms**

In 1993, the government finally began to implement some changes aimed at earning foreign exchange. Without access to credit, Cuban planners had no cash to finance the purchase of food and clothing from abroad, and had minimal access to capital. Tourism infrastructure, farm equipment, and new mining capital were desperately needed and were only available through foreign trade.

The government enacted two primary reforms: the legalization (and encouragement) of FDI and the legalization of the US dollar. Foreign businesses were now in a position to invest in Cuba, and could do so without having to expose themselves to the Cuban currency. Remittances from families living abroad could now be used legally and would be harvested by the government to accumulate foreign exchange to finance trade with other countries.

These measures stabilized the Cuban economy and have contributed to partial recovery. The Cuban economy has shifted away from sugar production and towards the tourism sector.

2.2 The First Years of the Revolution (1959-1963)

**The State of the Cuban Economy on the Eve of the Revolution**

The Cuban economy just before the Revolution was not in good shape, and some socioeconomic problems existed, such as dependence on sugar in the generation of exports and GNP, the dependence on the U.S. in regard to investment and trade, and high rates of unemployment and underemployment. The inequality in income and living standards, especially between rural and urban areas, and the slow rate of economic growth were also serious problems.\(^1\) In the period between 1949 and 1958, approximately one-third of GNP was generated by the sugar sector. In this period, sugar and sugar products represented the majority of total exports. Because of the excessive importance of sugar, fluctuations in the price of sugar in the international market and the varying sugar quota policies of the United States had a serious impact on GNP, causing uncertainty and instability.\(^2\)

The geographical proximity of Cuba to the United States resulted in Cuba’s economic dependence on this country. In the period between 1949 and 1958, an average of two-thirds of

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Cuba’s foreign trade was with the United States. Although heavy U.S. investment and transfer of technology to Cuba was seen as an integration with the U.S. economy, these investments accounted for a large portion of economic growth in Cuba during those years. Unemployment became a serious problem in Cuba. The labor force employed in agriculture declined and other sectors, including construction, commerce, and industry, were not able to create more jobs to absorb both the rapidly growing labor force and rural-to-urban migration. Because of the seasonal character of the sugar crop, the work force in this sector had stable work for only four months a year. On the eve of the Revolution, 16 percent of the labor force was totally unemployed, and approximately 14 percent found itself in various forms of underemployment.  

In the 1950s, Cuba was one of the best countries in Latin America in the delivery of social services. But social service facilities were mainly concentrated in the capital and urban areas, and the availability and quality of the social services declined sharply in rural areas. Furthermore, migration from rural areas to urban areas resulted in impoverished urban suburbs lacking social facilities. Economic growth in Cuba was stagnant beginning in 1902 and continuing throughout the republican period. According to the National Bank of Cuba, between 1950-58 the Cuban GNP, estimated at current prices, grew at an average rate of 4.6 percent annually. Taking inflation and population growth into consideration, the increase of real GNP per capita in this period was about 1 percent. Despite the slow growth rate, the high rate of investment, reaching an average of 18 percent in 1950-58, created some hope for a higher growth rate in the 1960s.  

**The Revolution Period: 1959-60**  

Revolutionary leaders aimed at correcting the socioeconomic problems of Cuba, and their most important development goals were to achieve high rates of economic growth, to eliminate the sugar monoculture through rapid industrialization and agricultural diversification, to reduce economic dependence on the U.S. by varying trade and capital markets, to attain full employment, and to improve the standard of living for peasants and unskilled urban workers. In the first two years of the Revolution, the leaders didn’t put forward a clearly defined ideology. But these new leaders showed nationalist, statist, anti-market, anti-bureaucratic, and consumptionist attitudes. Fidel Castro and his close associates had no knowledge of economics,
and the few economists occupying government posts were soon dismissed, their jobs passed to enthusiastic but inexperienced revolutionaries. For example, Ernesto Guevara, a physician, became the president of the National Bank, then Minister of Industry.\(^5\)

The central economic policy during the first and second years of the Revolution was collectivization, which included:

- Confiscation of property and assets belonging to officials of the Batista government
- Expropriation of large farms (exceeding 400 hectares) through the First Agrarian Law
- Expropriation of rental housing
- Intervention in enterprises by the state
- Confiscation of assets of those who failed to pay taxes
- Confiscation of all property belonging to those convicted of counterrevolutionary crimes and those who had become political exiles

Later, the collectivization process was extended to all foreign owned refineries, U.S. owned sugar mills, banks, telephone and electricity corporations, and all remaining U.S. properties. The government also collectivized all major, domestically-owned industries, banks, and transportation businesses. By the end of 1960, all domestic wholesale and foreign trade and banking, and most transportation, industry, construction and retail trade, as well as more than one-third of agriculture, was in state hands. This swift transfer of ownership liquidated the capitalist system and brought about the erosion of the automatic mechanisms of the market. Production and distribution of goods and services partly ceased to be determined by the laws of supply and demand. Several government agencies had been established to direct state domination over the economy. The National Institute of Agrarian Reform (INRA) developed the first experiments with central planning, and gradually grew to become a huge bureaucratic organization controlling one-third of agriculture and some parts of industry. The Central Planning Board (JUCEPLAN) was initially established to coordinate government policies and to guide the private sector through planning. Eventually JUCEPLAN became the agency for state central planning.\(^6\)

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\(^5\) Mesa-Lago, p. 11.
\(^6\) Mesa-Lago, p. 12.
In the 1959-60 period, the attempt to reduce the sugar monoculture wasn’t successful. Unemployment grew worse in spite of government measures to stop it, such as impeding job dismissals, absorbing part of the unemployed in state agriculture, expanding armed forces and social services, and extending education to keep young people from entering the labor market.

Economic dependence on the U.S. was substantially reduced when the U.S. quota to buy Cuban sugar was suspended in July 1960. In October 1960, all U.S. investment in Cuba had been nationalized, and in retaliation the U.S. imposed an economic embargo on Cuba. Cuba started trade relationships with the USSR and China, both of which made commitments to buy most of the sugar that the U.S. didn’t buy. By the end of 1960, Cuba received most of the oil for its domestic consumption from the USSR.

Income distribution was improved, especially in favor of the rural population and low-income urban people by collectivization of most of the production, real estate and banking, raising of wages and determination of a minimum wage, reducing housing rents and electricity rates, subsidizing public housing, and expanding free education and medical care. The redistribution effect of these policies led to an increase in demand among the rural and urban poor for consumer goods, contributing to the economic growth in those years.7

Although there was no clear policy to promote growth, moderate growth was achieved in this great transformation period. This economic growth was accomplished mainly by full utilization of equipment, accumulated stocks and inventories, and foreign exchange reserves. The first two sugar harvests under the Revolution were good and their income also supported the economic growth in this period.

There are no data about economic growth for the years 1959-61. Annual estimates of growth during these three years range between 4 and 6 percent.

First Soviet Influence: 1961-1963

After the defeat of the Bay of Pigs invasion, the Revolutionary leaders explicitly declared the socialist feature of the Revolution and their Marxist ideas. Facing the collapse of the market mechanisms and having established a survival pipeline with the USSR, the Revolutionary leaders attempted to apply a Soviet strategy of development. Although the leaders were influenced by some western Marxist scholars, most technical advice came from the USSR.

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State collectivization continued at a slower rate in this period. The second Agrarian Reform Law expropriated the land of farms larger than 67 hectares. As a result, middle-size farms were eliminated. The Revolutionary leadership tried to convert the economy into a command economy through highly centralized planning. Central ministries and agencies were created to take charge of the economic sectors and state enterprises. But many problems emerged from inexperienced personnel, inaccurate data from Soviet planners, and a lack of coordination between governmental agencies.

Priority in agriculture was given to diversification but there was not a significant increase in non-sugar output, leading to trade deficits and declining growth rates. Open unemployment was significantly cut, but the result was underemployment which was a burden for all people. The emphasis on equality in distribution continued, but the efforts in this process had an adverse effect on growth.

Economic growth continued in 1961 as a result of the good sugar harvest that year, but in 1962 and 1963, sugar harvests fell dramatically. The economic restructuring, lack of spare parts from the U.S., and exodus of Cuban and American industrial managers and technicians, along with declining financial resources from sugar resulted in one of the worst recessions of the Revolution. Both agricultural and industrial output were at their lowest since the Revolution. Cuba’s national account calculation followed the Soviet concepts of ‘global social product’ (GSP) and ‘gross material product’ (GMP). Both GSP and GMP include the production of material goods, but GSP includes the value of ‘material services’ such as transportation, trade, and communication that are directly connected with the production of material goods. Both GSP and GMP exclude the value of ‘nonmaterial services’ such as education and health care. Official data for GSP and GMP were respectively 6,082.1 and 3,698.2 million pesos for 1962, and 6,013.2 and 3,736.7 million pesos for 1963 at constant prices. The foreign planning advisors estimated a decline of between 10 and 20 percent for the growth rate in 1962. The 1962-63 attempt to redesign the economy cost at least 7 percent in economic growth.8

2.3 The Cuban Economy From 1963 – 1989

The success of the Cuban revolution in 1959 had a huge impact on the Cuban economy from 1963 to 1989. We will examine the impacts of United States (US) and Soviet foreign

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8 Mesa-Lago, p. 33.
policy before looking at the performance of the Cuban economy by comparing its economic growth, trade dependence and international debt in this period with that of the other Latin American countries.

**Relationship with US Sours**

The first sign of the strain in ties between the US and Cuba took place shortly after Fidel Castro came to power in 1959. President Eisenhower did not offer Cuba any aid for rebuilding the economy after the civil war, while Castro for his part seemed reluctant to be seen as close to the US, for fear of weakening his nationalist image. In July 1960 the Eisenhower administration suspended Cuba’s sugar quota, and in late 1960 imposed a trade embargo by banning exports to Cuba in retaliation for Cuba’s nationalization of American assets. After the Bay of Pigs failure, the Kennedy administration extended the embargo to include imports from Cuba, and pressured NATO allies to restrict Cuba’s access to their markets and materials.  

Cuba was also affected by multilateral economic sanctions jointly applied by the members of the Organization of American States (OAS) in force between July 1964 and July 1975, under the leadership and pressure from the US. Cuban imports from Latin America declined from $84 million in 1958 to $2.5 million in 1965, hitting a low of barely $1 million in exports and $1 million in imports in 1969. By the early 1970s however a number of Latin American countries resumed trade with Cuba despite the sanctions, raising imports from Latin America to $230 million in 1975.

**Soviet-Cuba Relationship**

It is precisely during the low point of US-Cuba relations that the Soviets stepped in. In reaction to the cancellation of Cuba’s sugar quota, the Soviets and other socialist countries signed a multi-lateral agreement in 1961 to buy 4 million tons of sugar, of which the USSR would be responsible for absorbing 3.5 million tons at 4 cents a pound. The Soviets also agreed to purchase 24 million tons of sugar at 6 cents a pound between 1965 and 1970. This was despite the fact that the Soviets could produce sufficient raw sugar domestically and even produce a surplus if they wanted to. Thus Cuba was able to sell its sugar at higher than market

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prices (apart from 1965 when world sugar prices were higher than 6 cents a pound) despite the loss of its quota and trade embargo by the US.\textsuperscript{11}

Apart from buying sugar from Cuba, the Soviets also purchased nickel while exporting oil, machinery, and other equipment to Cuba at subsidized prices. The Soviets also provided technical assistance and equipment for geological prospecting.\textsuperscript{12} They similarly provided Cuba with military equipment for free\textsuperscript{13}, allowing Cuba to use its resources for economic stimulation. Again, all these actions helped to lessen the impact of the US trade embargo by providing alternative sources for markets and for inputs needed by its economy.

\textit{Economic Growth}

By switching trade partners from the US to the Soviets, Cuba was able to continue economic growth. Cuba’s national product grew 2.5 times from US$5.55 billion in 1955 to US$14.159 billion in 1980, as seen in Table 2.1. While the rest of Latin America averaged –2.8 percent GDP growth for the period of 1981 to 1983, with the best performer achieving 11 percent, Cuba was able to achieve an estimated growth rate of 23 percent for its Gross Social Product (GSP). It is important to note that GSP and Gross Material Product (GMP) do not include services such as health, education and defense, but GMP omits the double counting that is found in GSP.\textsuperscript{14} This leads to the possibility that the 23 percent growth of the Cuban economy as measured by GSP was an exaggeration. At a constant rate of 23 percent a year, the economy would double in 3.0 years, while it would take around 6.4 years for an economy to double if it was growing at 11 percent a year. However, at –2.8 percent, the economy would be half its original size at the end of 25 years.

\textbf{Table 2.1: Cuban Gross Domestic Product and Latin American Ranking}

<table>
<thead>
<tr>
<th>Millions US$</th>
<th>Latin American Ranking</th>
<th>Per Capita</th>
<th>Per Capita Latin American Ranking</th>
</tr>
</thead>
</table>

\textsuperscript{12} Walters, p. 79.
<table>
<thead>
<tr>
<th>Year</th>
<th>Value</th>
<th>Rank</th>
<th>Per Capita</th>
<th>Position</th>
</tr>
</thead>
<tbody>
<tr>
<td>1955</td>
<td>5,555</td>
<td>8</td>
<td>871</td>
<td>5</td>
</tr>
<tr>
<td>1960</td>
<td>6,235</td>
<td>8</td>
<td>887</td>
<td>6</td>
</tr>
<tr>
<td>1965</td>
<td>7,190</td>
<td>8</td>
<td>921</td>
<td>10</td>
</tr>
<tr>
<td>1970</td>
<td>7,414</td>
<td>8</td>
<td>867</td>
<td>12</td>
</tr>
<tr>
<td>1975</td>
<td>10,810</td>
<td>8</td>
<td>1,158</td>
<td>10</td>
</tr>
<tr>
<td>1980</td>
<td>14,159</td>
<td>8</td>
<td>1,455</td>
<td>9</td>
</tr>
</tbody>
</table>


When Cuba’s performance is ranked against the other Latin American countries however, we find that its ranking remains constant at 8th position from 1955 to 1980. So despite its growth in absolute terms, it had not outpaced that of the other Latin American countries and thus its position had not changed throughout the time period indicated.\(^{15}\)

In addition, growth in per capita terms had not been consistent. Cuba’s per capita income, which stood at US$871 in 1955, hit its lowest in 1970 at US$867, ranking it 12th relative to other Latin American countries. Though per capita income grew to US$1,455 in 1980 and ranked 9th in the region, it was still a big drop in rankings compared to its position at number 5 in 1955.\(^{16}\)

Growth through Soviet aid also came at a price. As Soviet aid was given on a barter basis instead of paying hard currency for Cuba’s products, Cuba did not earn much exchange revenue and could not buy imports from the international market. Soviet goods were also of inferior quality and cost more compared to goods from the Western nations, and Cuba’s inability to buy Western goods due to the lack of hard currency prevented it from maximizing its economic options. While the military hardware that the Soviets gave to Cuba meant that it did not have to devote as much resources to defense, Cuba had to participate in “International missions”, sending thousands of Cubans overseas and thus reducing the available labor force. The opportunity cost of labor was one of the factors that caused the stagnation of Cuba’s economy in the 1980s.\(^{17}\)

Cuba’s high dependence on the Soviets was highlighted in 1968 when the Soviets reduced shipments of oil to Cuba to bring Castro in-line with Soviet foreign policy. Faced with

\(^{15}\) Eckstein, p. 507.  
\(^{16}\) Ibid., 507.  
\(^{17}\) Katz, p. 102-104.
the prospect of economic ruin, Cuba was forced to give up its independent foreign and domestic policy for stands that favored the Soviets in order to enjoy the benefits of Soviet aid.\textsuperscript{18}

The close relationship with the Soviets made it unlikely that the US would consider lifting the trade embargo. This meant that Cuba’s imports were now more expensive due to the higher transport costs of trading with countries further away. It also denied the Cuban economy a source of funding from American firms that might have otherwise invested in the country.\textsuperscript{19} All these factors meant that the Cuban economy might have grown even faster had the trade embargo been removed.

\textit{Trade Dependence}

Between 1959 and 1969, Castro managed to reduce the contribution of exports to GMP on average, but these figures started to rise after 1969. This can be seen in Table 2.2 where contribution of exports in percentage terms fell from 32 percent in 1955 to 17 percent in 1965, and rising to high of 34 percent in 1978. Cuba’s vulnerability to trade had been high historically, though Castro tried to address that by promoting import substitution before 1963. The aim was to develop a Cuban socialist economy independent of all other nations, and hence avoid being economically (and politically) dependent on the Soviets.\textsuperscript{20}

The initial emphasis on production for domestic consumption had a negative effect on Cuba’s current account, however. While Cuba enjoyed a small trade surplus with the Soviets of US$65.3 million over the 3 year period of 1959 to 1961, this had reversed to become a trade deficit of US$136.6 million in 1962, and grew to US$235.1 million in 1963. As a result, Cuba postponed its drive to diversify its economy in 1963 in order to emphasize the growth of exports, concentrating in particular on producing sugar.\textsuperscript{21}

\begin{table}[h]
\centering
\begin{tabular}{|c|c|c|c|c|c|c|}
\hline

Main Export as % of Total & Latin American Ranking, Dependence & Exports as % of GMP & Latin American Ranking, Role of & Imports as % of GMP & Latin American Ranking, Role of & Export/Import Ratio & Latin American Export/Import \\
\hline
\end{tabular}
\end{table}

\textsuperscript{18} Katz, p. 103.  
\textsuperscript{19} Eckstein, p. 510.  
\textsuperscript{20} Katz, p. 102.  
\textsuperscript{21} Walters, p. 78.
<table>
<thead>
<tr>
<th>Year</th>
<th>Exports on Single Export</th>
<th>Exports in GDP/GMP</th>
<th>Imports in GDP/GMP</th>
<th>Ratio</th>
<th>Ranking</th>
</tr>
</thead>
<tbody>
<tr>
<td>1950</td>
<td>89.2</td>
<td>32</td>
<td>26</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>1955</td>
<td>79.6</td>
<td>4</td>
<td>27</td>
<td>6</td>
<td>1.05</td>
</tr>
<tr>
<td>1960</td>
<td>79.4</td>
<td>3</td>
<td>23</td>
<td>6</td>
<td>1.05</td>
</tr>
<tr>
<td>1965</td>
<td>86.2</td>
<td>2</td>
<td>17</td>
<td>11</td>
<td>1.05</td>
</tr>
<tr>
<td>1970</td>
<td>76.8</td>
<td>2</td>
<td>25</td>
<td>5</td>
<td>1.05</td>
</tr>
<tr>
<td>1975</td>
<td>89.1</td>
<td>2</td>
<td>33</td>
<td>3</td>
<td>1.05</td>
</tr>
<tr>
<td>1978</td>
<td>86.2</td>
<td>2</td>
<td>34</td>
<td>2</td>
<td>1.05</td>
</tr>
<tr>
<td>1980</td>
<td>89.2</td>
<td>1</td>
<td>28</td>
<td>4</td>
<td>1.05</td>
</tr>
</tbody>
</table>


Coffee and tobacco production fell due to the lack of incentives for farmers, aggravating Cuba’s dependence on sugar for its export earnings. Cuba’s emphasis of quantity over quality also made it hard for its products to compete on the global market, while it did not export goods that the Socialist countries wanted to buy, adding to Cuba’s dependence on sugar.\(^{22}\)

The heavy dependence on sugar made Cuba extremely vulnerable to changes in trade conditions, as reflected in the contribution of export earnings to the national income. The high prices that the Soviets paid for Cuban sugar, often higher than the prevailing world prices, only increased sugar’s contribution to export earnings and the country’s dependence on it. Table 2.2 shows the percentage contributed by sugar to its export earnings, and by 1980 it was the nation most dependent on monoculture in Latin America. Cuba’s method of measure tends to exaggerate the island’s trade vulnerability however, as GMP does not include services. Even taking into account Cuba’s unique measurement problems, however, it is still clear that its dependence on one export good made it vulnerable.

**Debt Levels**

By the end of 1964 the Soviets had extended US$559-609 million of credit on favorable terms (2.5 percent interest over 12 years). This did not include the US$157 million the other socialist countries extended to Cuba under the lead of the Soviets.\(^{23}\) By 1979 Soviet debt had grown to US$5.7 billion, 176 percent of the value of its exports to USSR as seen in Table 2.3.

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22 Eckstein, p. 512.
23 Walters, p. 81.
Most of the debt was used to pay for imports from the Soviets however, so essentially the debt was used to service Cuba’s trade deficit with USSR.\textsuperscript{24}

<table>
<thead>
<tr>
<th>Year</th>
<th>Amount (millions US$)</th>
<th>Latin American Ranking, Size of Debt</th>
<th>Debt as % of Exports</th>
<th>Latin American Ranking, Debt as % of Exports</th>
<th>Debt as % of National Product (GMP)</th>
<th>Latin American Ranking, Debt as % of GMP/GNP</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>(a) Western Debt</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1974</td>
<td>660</td>
<td>11</td>
<td>62</td>
<td>17</td>
<td>7</td>
<td>19</td>
</tr>
<tr>
<td>1975</td>
<td>960</td>
<td>11</td>
<td>59</td>
<td>18</td>
<td>9</td>
<td>18</td>
</tr>
<tr>
<td>1976</td>
<td>1,330</td>
<td>10</td>
<td>159</td>
<td>13</td>
<td>12</td>
<td>19</td>
</tr>
<tr>
<td>1977</td>
<td>2,100</td>
<td>8</td>
<td>268</td>
<td>5</td>
<td>18</td>
<td>16</td>
</tr>
<tr>
<td>1978</td>
<td>2,400</td>
<td>8</td>
<td>299</td>
<td>6</td>
<td>18</td>
<td>18</td>
</tr>
<tr>
<td>1979</td>
<td>2,900</td>
<td>9</td>
<td>306</td>
<td>5</td>
<td>20</td>
<td>16</td>
</tr>
<tr>
<td>1980</td>
<td>2,600</td>
<td>11</td>
<td>156</td>
<td>12</td>
<td>17</td>
<td>19</td>
</tr>
<tr>
<td><strong>(b) Soviet Debt</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1974</td>
<td>4,417</td>
<td>-</td>
<td>450</td>
<td>-</td>
<td>49</td>
<td>-</td>
</tr>
<tr>
<td>1975</td>
<td>4,567</td>
<td>-</td>
<td>227</td>
<td>-</td>
<td>42</td>
<td>-</td>
</tr>
<tr>
<td>1976</td>
<td>4,717</td>
<td>-</td>
<td>236</td>
<td>-</td>
<td>44</td>
<td>-</td>
</tr>
<tr>
<td>1977</td>
<td>4,927</td>
<td>-</td>
<td>189</td>
<td>-</td>
<td>42</td>
<td>-</td>
</tr>
<tr>
<td>1978</td>
<td>5,257</td>
<td>-</td>
<td>158</td>
<td>-</td>
<td>39</td>
<td>-</td>
</tr>
<tr>
<td>1979</td>
<td>5,697</td>
<td>-</td>
<td>176</td>
<td>-</td>
<td>39</td>
<td>-</td>
</tr>
<tr>
<td><strong>(c) Total Debt</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1974</td>
<td>5,077</td>
<td>3</td>
<td>188</td>
<td>6</td>
<td>57</td>
<td>2</td>
</tr>
<tr>
<td>1975</td>
<td>5,527</td>
<td>3</td>
<td>155</td>
<td>12</td>
<td>51</td>
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<tr>
<td>1976</td>
<td>6,047</td>
<td>4</td>
<td>184</td>
<td>9</td>
<td>56</td>
<td>2</td>
</tr>
</tbody>
</table>

\textsuperscript{24} Eckstein, p. 514.
Cuba started drawing on Western loans from countries that saw Cuba as a good credit risk (due to the rising world prices for sugar) when they became available in the 1970s. When the price of sugar fell however, Cuba’s ability to generate hard currency to pay off its debt was reduced. Consequently between 1974 and 1979, Cuba’s Western debt quadrupled, growing faster than its export earnings or national income, dropping in regional rankings in terms of debt as can be seen in Table 2.3.\(^{25}\)

Cuba’s growing Western debt put pressure on the government to produce goods for export rather than for domestic consumption. This increased Cuba’s reliance on trade and worsened its dependence on monoculture. The hard currency that Cuba earned was diverted to paying off its debt instead of generating economic activity. Rising Western debt levels forced Cuba to compete internationally to sell its products in the Western markets to earn hard currency, but it had to service its debts at a higher interest rate compared to neighboring countries that had higher risk profiles.\(^{26}\)

### 2.4 Cuba’s Economy in the Late 1980s and Early 1990s

This section of the paper outlines the most important factors leading to the severe recession in 1989-1993 and the characteristics that this economic recession took.

**Factors leading to the collapse of the Cuban economy in 1989**

During the 1970s and early 1980s, Cuba had achieved important economic growth. This had helped Cuba maintain a relatively high standard of living compared to other Latin American countries. Despite its success, however, economic growth was inherently fragile and unsustainable mainly due to two specific factors.

First, and most importantly, most of the economic growth was sustained by constant transfer of resources from the former USSR creating a heavy dependency. There were several ways in which resources were transferred. The simplest way was providing direct foreign aid. For several years, especially during “hard times,” Cuba had received aid from the USSR for

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\(^{25}\) Eckstein, p. 516.

\(^{26}\) Ibid, p 516.
being a strategic partner against the US. Not only was Cuba extremely close to the US geographically, but it also represented the only officially socialist country in Latin America and was therefore very important in spreading communist ideas to the rest of the continent.

Another way of transferring funds was subsidization of oil and machinery, in which the USSR agreed to receive payment for those commodities by means of sugar exports. The USSR bought sugar, including excess production, at higher prices than the regular cost in world markets.

As a result of this trade agreement, the Cuban economy became extremely dependent on a single trading partner. This one sided dependency affected both the supply and demand side of the economy. On the supply side, Cuba’s exports were being absorbed almost fully by the USSR. This meant that diversification of products did not occur and excess resources were being inefficiently used for the production of sugar. Further, since sugar production is heavily dependent on weather conditions, supply was highly volatile. Finally, technological improvement was significantly hindered by the lack of competition and the consequent disincentives to invest in research and development of new technologies.

On the demand side, Cuba’s economy also suffered from serious dependency. Machinery imported from the USSR was often not the most technologically advanced and was very inefficient and fuel intensive. Although this did not represent a problem while the USSR supplied Cuba with oil, it could well become a problem if it stopped doing so. Furthermore, machinery required spare parts that were only available from the USSR.

Finally, imports of food and several other commodities came mostly from the former Eastern European bloc countries. This and the extensive social security network took up most of the remaining funds, leaving Cuba without a serious underlying structure of the economy that was sustainable in the long term.

In summary, Soviet dependency represented a vicious cycle of transfer of funds by which supply of sugar depended on the import of oil and machinery, which in terms depended on the production of sugar. This vicious cycle was only sustainable as long as the USSR supported it. It is estimated that USSR aid amounted up to 4 to 6 billion dollars.27

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The second reason for the fragility of Cuba’s economy came from within. Under the socialist system, private ownership and markets were prohibited or severely limited. Incentives for innovation therefore were likewise limited. Since the government bought up excess production of agricultural products and paid for inefficient activities that it fostered, the efficiency levels of the production side of the economy were kept low. Further, since Cuba lived under a system of rationing, demand was often not satisfied such that consumers received certain goods they did not want and lacked certain others for which black markets were created.

This and other severe restrictions on the economy did not permit the resources to move the adequate sectors of comparative advantage and serve internal as well as external demands even if dependency would have been lessened. Finally, not only were physical capital and monetary resources being used inefficiently but also human capital. The accumulation of an excess number of doctors and teachers, and the lack of technical careers led to specialization of the economy in certain sectors, and therefore not allowing for human capital to develop in the direction that it was needed for efficient use.

Thus economic growth during the decade was not a consequence of technological improvement but rather of obsolete capital accumulation and wealth transfer from the USSR. When the end of the 1980s approached, the economic problems of the USSR and the potential end of communism were taking Cuba into an uncertain future with few encouraging prospects for the future.

In Preparation for Collapse

Fidel Castro noted a couple of years before Perestroika and Glasnost that the socialist system of the USSR was not sustainable and therefore neither was Cuban’s economic model which was solely dependent on the Soviet Union. In 1986, Fidel Castro, in an effort to fortify his control over the economy, started the so-called “rectification process” by which he intended to intensify the socialist agenda and reversed the previous approach of economic management and planning system SDPE, which was based on the Soviet economic model.

Under the new rectification process all existing market mechanisms were abolished and centralized. Material incentives, personal income, and financial gains previously permitted under the SDPE system were eliminated. One example of this was the eradication of the farmers’ free markets and the handicraft markets. Special bonuses for especially productive workers and permission to sell, rent or construct housing were also prohibited.
implication of the rectification process was the return to more income distribution measures and
an increasing expenditure for the social network system. Finally, the rectification process also
advocated the intensification in the production of exportable goods and substitution of imports
such that these imported goods could be produced locally and Cuba could become more self-
sufficient.

Other measures taken in preparation to lessen dependency on the USSR were new
investment into research and development of less capital and chemical-intensive methods of
agricultural production. Even though the real movement towards new alternative methods of
agricultural production only were implemented in the mid 1990s, it is fair to say that the research
towards the use of these methods was initiated prior to the 1989 Eastern Europe communist
collapse.\textsuperscript{28}

\textit{Collapse of the Economy (1989-1993)}

In 1989 socialism in Europe started to fall apart. Since the USSR was in desperate need
for money it cut off the preferential trade agreements with Cuba and military aid. Cuba had to
resort to borrowing from Western countries and then had trouble paying its debt, which had
ungenerous terms in contrast to its previous lending arrangements with the USSR.

In 1990, in a desperate attempt to stop the huge decline in GDP, the government
introduced the so-called “special period” that began to deepen an austerity plan where civilians
were encouraged and sometimes forced to move to the rural areas to produce agricultural
products for self-sufficiency.\textsuperscript{29} During this period food was scarce and black markets flourished.
Production plummeted despite these efforts and unemployment, which had previously been very
low or nonexistent, became apparent and was estimated at 15\%.\textsuperscript{30} The employment that had been
protected to maintain the socialist cause had brought about a decline in worker productivity due
to the depreciation in capital. Castro was stuck with a huge social security network, a huge
government staff and great military expenses that had no funding from outside and were
deteriorating quickly.

Between 1989 and 1993, GDP fell by 40\% approximately (14\% in 1993 alone) and real
wages declined as rationing of food did not allow people to obtain the necessary provisions and

\textsuperscript{28} Castañeda, Ronaldo H. and George Plinio Montalván, “Cuba 1990-1994: Political Intransigence versus Economic
Reform”, \textit{Cuba in Transition}, Vol.4, Inter American Development Bank
\textsuperscript{29} Zimbalist, Andrew. “Teetering on the Brink: Cuba’s Current Economic and Political Crisis”, Journal of Latin
the black market prices increased dramatically. Consumption declined by 15% during that period and investment plummeted over 40%. The lower real wages also cause severe disincentives on workers who do the minimum work allowed.  

![Figure 2.1](image)

**Figure 2.1**

*GDP in millions of pesos*


The government deficit was very high. The reason for this was the effort by the government to remain in control of the situation by offering the scarce food at artificially low prices. Another major reason was the inefficiencies within the state enterprises that produced for the most part great losses. An estimate of the government deficit indicates that deficit rose from 11% in 1989 to 34% in 1993.

**Table 2.4**

<table>
<thead>
<tr>
<th></th>
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<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Budget deficit as percentage of GSP</td>
<td>2</td>
<td>5</td>
<td>10</td>
<td>11</td>
<td>16</td>
<td>34</td>
</tr>
</tbody>
</table>


Further, in its efforts to maintain the high human development levels that it had achieved, the government increased the share of spending on the social safety net (25%) and military (15%) by 1993.  

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Investment was probably one of the most affected items by the recession. Existing capital stock maintenance, not to mention investment in new capital, had declined and almost nonexistent. New investment projects were stopped and left unfinished. Production in factories was often stopped due to the scarcity of imported raw materials.

On top of the economic problems from within, the US passed the “Cuban Democracy Act of 1992” further tightening the embargo and affecting the health sector especially. This embargo also meant that the government had to deliver more medicines and other equipment, which further increased its already high budget deficit.

On the trade side, Cuba had another problem to face. Sugar and nickel prices, the two main export commodities were experiencing a decline in world prices while oil and other raw materials were suffering an increase in world prices.

### Figure 2.2

<table>
<thead>
<tr>
<th>Import products</th>
<th>1990</th>
<th>1992</th>
</tr>
</thead>
<tbody>
<tr>
<td>Wheat</td>
<td>82</td>
<td>114</td>
</tr>
<tr>
<td>Poultry</td>
<td>1000</td>
<td>1200</td>
</tr>
<tr>
<td>Powder milk</td>
<td>1700</td>
<td>1900</td>
</tr>
<tr>
<td>Oil</td>
<td>112</td>
<td>142</td>
</tr>
<tr>
<td>Export products</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Sugar</td>
<td>200</td>
<td>185</td>
</tr>
<tr>
<td>Nickel</td>
<td>7800</td>
<td>5800</td>
</tr>
</tbody>
</table>

*World prices (dollars/ton)*

*Source: Eugenio Espinosa Martinez, “The Cuban Economy in the 1990’s: From Crisis to Recovery”*

This caused Cuba to diminish its import capacity by 75% from 1989 to 1993. Oil imports alone diminished by over 50% during the same period, forcing many of the fuel intensive industries, including agriculture, to improvise and change their mode of operation.

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32 Castañeda and Montalván.

33 Chatham
In agriculture, and especially for sugar, the situation was further worsened by the fact that chemicals, previously imported from the USSR, were now nowhere to be found and only small quantities were imported. Natural fertilizers had to be discovered and used, which in the beginning diminished the productivity. Consequently and also due to bad weather conditions, sugar production diminished from a high of 8 million tons in 1989 to about half that amount by 1993.\footnote{Pérez-López, Jorge. “Castro Tries Survival Strategy”, The World Bank Group Transition Newsletter, March 1995.}

Probably the only industry that had signs of growth was the tourism sector. Since the late 1980s, when Castro decided to foment tourism, it had received special privileges. For example, it was one of the few industries that did not suffer any electricity shortages during the energy crisis. It was also the only industry that increased hard currency revenues for the government.
Given Cuba’s situation, there were not many options in sight. Either it could move towards a more market-oriented economy and permitted certain investments in the country - especially the tourism sector - or it could grow its foreign debt. Given that worldwide creditors did not want to lend money to Cuba given its default history, the second option was the only one remaining.

2.5 Cuban Economic Development 1993-2000

Government and Economic Reforms

With the fall of the Soviet Union, the Cuban economy was sent into a tailspin and Castro knew he had to act fast to reverse the direction of his country. With a huge decrease in net exports and subsidies from the USSR, along with a major increase in foreign debt, Cuba needed to find ways to fill the void in capital and its loss of access to key markets in oil, machinery, foodstuffs, and raw materials. Consequently, Castro implemented several reforms that were designed to address the country’s macroeconomic woes by boosting GDP, attracting foreign capital to help buy imports and expanding the export base.

Joint Ventures

One of the first changes initiated by Castro was the implementation of Decree Law 77 which permitted three different types of investments that all involved some type of partnership with the Cuban government. They included joint ventures, which are free-standing corporations with share capital; international economic association contracts, which provide for joint activities without the creation of a separate legal entity; and corporations with totally foreign capital, which operate in partnership with the Cuban Government using investment capital provided solely by the foreign company. This new law played a significant role in improving the Cuban economy for two reasons: it attracted foreign direct investment (FDI) and it improved efficiencies in a number of the country’s business sectors.

In the early 1990s, Cuba’s economy was plagued with high amounts of debt. During the 1980s the country had grown accustomed to receiving generous loans and subsidies from the Soviet Union. Naturally, these were no longer an option when the Eastern European Communist

35 Cuba Facts,
http://linked-from-icuban.com@www.cubafacts.com/Economy/econ5.htm#Joint%20Venture%20Operations
(accessed March 5, 2004)
Bloc collapsed at the end of the decade, and Cuba needed to find new ways to acquire foreign capital and maintain its balance of payments. The Decree Law 77 helped Cuba work toward this goal. It contributed to an increase in sales, direct income and exports in Cuba, and provided the country with hard currency to purchase major imports that it previously received from Russia and other Eastern European markets. By 2000 Cuba was attracting FDI from more than 40 different countries, and its total sales and direct income had more than tripled.\textsuperscript{36}

Additionally, by allowing private, multinational companies to partner with the Cuban government, the country was able to gain capabilities and develop new technologies in sectors that had previously been controlled by inefficient state enterprises. During the period of 1993-2000 joint ventures between the Cuban government and private firms developed in several different industries, such as tourism, agricultural, and telecommunications. Because of the influence of FDI in these new ventures, Cuba was able to benefit from the transfer of new skills and improved operations. For example, in the tourism industry, many Spanish companies invested in hotels and resorts, and were able to work with the Cuban government to better develop management skills. This resulted in overall expansion of hotel capacity and integration of other tourism enterprises, enabling the industry to grow by attracting more international visitors (between 1990-2000 the number of visitor increased at an average rate of 18\% a year\textsuperscript{37}), and more FDI for the country. Another example of the transfer of skills was in the telecommunications industry. In 1994, the state-owned telephone company, ESTECSA, created a strategic alliance with the Mexican company CITEL and prevented serious deterioration of telephone service in Cuba. With the FDI from its partnership with CITEL, ESTECSA was able to modernize its telecommunications by constructing new digital plants, installing microwaves throughout the country, and introducing up-to-date technology, such as fiber optics in the local networks. These changes vastly improved telephone service and provided new services to users for the first time in 30 years.\textsuperscript{38}

\textit{Legalization of the Dollar}

A second policy implemented by Castro intended to push economic recovery was the legalization of the dollar. In 1993, the government established a new law that permitted Cuban

\textsuperscript{37} Monreal, p. 56-57.
\textsuperscript{38} Monreal, p. 63.
citizens to legally hold U.S. dollars. This reform was introduced to curb the increase in domestic prices caused by a liquidity excess. The liquidity problem developed from the exchange of U.S. currency into pesos on the black market. The creation of a dual economy not only provided Cuba with much needed hard currency to buy foreign goods and pay off debt, it also curbed the increase in domestic prices caused by excess liquidity of pesos, and quelled the growing black market for the dollar. In the late 1980s and early 90s the black market for U.S. dollars was rapidly expanding. Many Cuban citizens were getting dollars from relatives outside the country and a limited number of people were acquiring them through business transactions. Since they couldn’t legally hold dollars at the time, Cubans would trade them on the black market for pesos, and would receive a significant amount of their native currency in exchange for each dollar. Consequently, there was an excess demand for of pesos in the Cuban market which caused domestic prices to increase and burden the country with inflation. By allowing the Cubans to legally hold dollars, there was no longer a need to trade dollars for pesos and therefore the effects of the black market were diminished. The supply of pesos was contracted and the government was now able to obtain dollars which it needed to pay off debt and to buy foreign goods. Between 1994 and 2001, the Cuban peso appreciated from 120 pesos to 1 dollar to 22 pesos to 1 dollar, indicating that this dual economy had provided some benefits to Cuba’s macroeconomic state.

**Self-Employment**

In September of 1993, Cuba also began legalizing self-employment options in over 160 trades. Prior to this decree, Cubans were prohibited from holding positions not controlled by either the Cuban government or Cuban government selected companies. The policy allowed for restaurants and non-government trained professionals to operate as private businesses. The primary effect of the new policy is that it lessened the cost of some goods, while also strengthening the burgeoning tourist market. It also helped to reduce the unemployment rate. By 1995, it was reported that more than 200,000 Cuban citizens were self-employed and were no longer working for the State.\(^{39}\) After that same year, the unemployment rate began to steadily decline from a decade high of 7.9% in 1995 to 7.6%, 7.0%, and 6.2% in 1996, 1997, and 1998 respectively.\(^{40}\) While it is difficult to pinpoint the exact cause of this decline, it seems plausible

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that the legalization of self employment in certain trades had some impact on this economic improvement. However, the effects were limited since the number of self-employed individuals within the country began to drop off in 1998.

**Agricultural Changes**

Some of the other major reforms that were implemented to boost the economy came in the agricultural sector. Prior to the collapse of Eastern European Communist Bloc, Cuba’s main agricultural product was sugar, and it relied heavily on the Soviet Union for other agricultural goods. Because it lacked diversity in its production and depended so much on imports from Easter Europe, this sector of Cuba’s economy was nearly destroyed between 1990 and 1993. Castro knew that he would have to initiate changes to help the country become self-sufficient with its food production and fill the void left by the fall of the U.S.S.R. As a result, he took steps to decentralize agricultural industry by allowing farmers to own their land and earn profits from the goods they produced.

In September of 1993, the Cuban government implemented Decree 142 which restructured state farms as private cooperatives and led to a decrease in state-owned rural land between 1992 and 1997, from 76%-33%. This new law established Basic Units Cooperative Production (UBPCs) which were small member-owned and member-managed farms designed to decentralize decision making and create incentives for farmers to produce more. With these cooperatives, workers salaries were based on their productivity and not the number of hours or days they worked. As cooperative owners, the members also now had more autonomy to make production decisions. Consequently, these farmers tended to work longer hours and took better care of equipment and farm implements, leading to in increase in production. Between 1994 and 1999, Cuba’s production of tubers and plantains more than tripled, vegetable production more than doubled, and bean and citrus yields increase by 60% and 110% respectively.

In addition to the cooperative farms, the Cuban government also opened up its agricultural markets by allowing farmers to sell directly to consumers without having to go through the state. Farmers still had to turn over a certain amount of their production to the state, but could sell their surpluses to the agricultural market. They were given the autonomy to set competitive prices which helped to curb the black market. This initiative also helped increase:

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42 Oxfam, p. 32.
productivity because they were able to generate a supply that came closer to meeting consumer demand than the state-run markets.

**Overall Impact of Reforms: Benefits**

When one examines the impact of the different reforms implemented by Castro and the Cuban government to help the economy rebound, it appears that the initial effect was positive. For example, between 1994 and 1996, GDP grew at 0.7%, 2.5%, and 7.5% respectively. It slowed a bit between 1997 and 2000, but the growth rate was still higher than what it was between 1990 and 1993. In addition, after ballooning to 7.9% in 1995, the unemployment rate began to steadily decline and had decreased to 5.5% in 2000. With the agricultural reforms, food production increased which contributed both directly and indirectly to increases in GDP. It helped boost Cuba’s exports, (between 1993 and 2000, Cuba’s exports increased by 42%), and increased the daily caloric intake for individuals which in turn created a more healthy and productive workforce. Finally, with the contraction of the money supply, the country experienced sharp declines in inflation from a decade high of 25.7% in 1994 to -11.5% in 1995 and -4.9% in 1996. Looking at these economic indicators, it clearly seemed that Cuba had rebounded from the effects the collapse of the Soviet Union

**Limitations**

However, at the same time the combination of external conditions and other initiatives implemented by Castro limited the effects of these reforms. For example, while Decree Law 77 and the legalization of the dollar helped Cuba to attract FDI, the U.S. embargo made it extremely difficult for Castro to acquire enough FDI to pay off loans and establish good credit with other countries. The United States is the biggest contributor of FDI in the world. With the restrictions it placed on trade with Cuba, the U.S. severely hindered Cuba’s ability to draw U.S. dollars into the country.

Additionally, the legalization of the dollar established a dual economy that created inequities in society that undermined Cuba’s communist system. The legalization of the U.S. currency gave those Cubans who had access to dollars a distinct advantage over those workers

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43 Economic Commission for Latin America and the Caribbean, www.eclac.org
45 Ibid.
46 Economic Commission for Latin America and the Caribbean, www.eclac.org
who were paid in pesos. Furthermore, the dual economy contracted Cuba’s money supply which mitigated the effects of other reforms by slowing the growth of GDP.

With regard to private enterprises, shortly after the Cuban government implemented new laws to allow self-employment in different trades, Castro imposed strict regulations which made it more difficult to break away from working for the State. By 1998, the number of self-employed individuals fell to around 150,000, down from the peak of over 250,000 in 1995.  

Finally, while the agricultural reforms had many positive impacts, at the end of the decade, the country was still very much dependent on a struggling sugar industry. In 1998, the price of Cuban sugar was less than 50% of its 1992 price, yet the country could not afford to abandon this export, as it was responsible for employing 400,000 people, occupied 48% of cultivated land, and generated $600 million in foreign exchange. While these limitations could not take away from the accomplishments of Cuba in rebounding from the horrendous economic conditions at the start of the 1990s, they could serve as indicators of some of the challenges and problems that Castro and the government would have to address at the start of the next century.

2.6 2000 to the Present

In an effort to better understand Cuba’s GDP from 2000 to 2003 and where it is trending it is fitting to focus most of our energies on the biggest revenue generator for the Cuban economy—tourism. Tourism is this cash-starved island's most important source of hard currency, bringing in as much as US$2 billion annually. The growing number of American tourists in Cuba has been merely a fraction of the nearly 2 million visitors who come from countries such as Canada, Spain, France, Germany and the United Kingdom. These tourists inject nearly $2 billion a year into the island's economy, making tourism a bigger industry than sugar, rum, nickel or any of the other commodities that once dominated the nation's foreign trade.

It is somewhat ironic that a socialist country’s main source of income is tourism since dictatorships often connote exclusivity and strong barriers to entry to those who do not share its ideology. One cannot help but feel that this is indeed Cuba’s flirtation with capitalism. The

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47 “The Americas: Red Comedy and Not Very Comic,” p. 35.
48 Oxfam, p. 32
50 Acosta, Delia. 2002. “Economy -Cuba: In Hot Pursuit of European Tourists,” Inter Press Service
Cuban government saw in the development of the tourism industry an opportunity to use an enormous work force that was qualified, but idle.\(^{51}\)

Another form of Cuba’s flirtation with capitalism is remittances sent by Cuban Americans living in Miami and elsewhere in the U.S. to relatives in Cuba. Various estimates say remittances contribute between $400 million and $1 billion to the island’s economy each year, making it the largest source of revenue behind tourism.\(^{52}\) Although many Cuban Americans claim that the money sent to relatives is used to purchase food in Cuba, many worry, including the U.S. Treasury Department, that this form of foreign investment is helping to sustain the Cuban economy. Remittances might not be foreign investment in the traditional sense, but remittances are serving the purpose of foreign investment - i.e., sustaining the local economy.

This is a market-driven philosophy whereby captains of industry respond to demand to develop their economies. It is worth noting that the captain of industry in this particular case is the Cuban government. So this hybrid of a communist and capitalist market economy is sort of like a charioteer with two head strong horses (communism and capitalism) in a one track race, each wanting to go in different directions, to paraphrase Plato. The tourism industry is a metaphor for Cuba’s transition.

But partly implementing Capitalist models should come as no surprise. Since the Revolution’s inception, Castro imposed a Soviet style government on his people more for Soviet support and less for ideological adherence. Even though the Cuban government controls when a new supply of tourism will be accepted, it is worth pointing out that markets do not operate in isolation. One of the dangers of flirting with a capitalist market model is that it is difficult to disassemble the part that one wants to fit into their ideological machines without affecting the whole market engine. For instance, the Cuban government might control the timetable of the new supply of tourists, but it does not control neighboring countries’ desire to increase their market share of the Caribbean tourist market.

Table 2.5

<table>
<thead>
<tr>
<th>Tourism Trends in Cuba</th>
<th>Visitors to Cuba</th>
</tr>
</thead>
<tbody>
<tr>
<td>Visitors to the</td>
<td>Cuba's</td>
</tr>
</tbody>
</table>

\(^{51}\) lainic.utexas.edu/la/cb/cuba/asce/cuba7/crespo.pdf.

\(^{52}\) Grogg, Patricia. (2002). “Economy Cuba: Growth Rate Falls Short of Forecast.” IPS-Inter Press Service.
<table>
<thead>
<tr>
<th>Year</th>
<th>Caribbean (Million)</th>
<th>Cuba (Million)</th>
<th>Market Share(%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1995</td>
<td>14.7</td>
<td>5</td>
<td>5</td>
</tr>
<tr>
<td>1996</td>
<td>15.3</td>
<td>6.6</td>
<td>6.6</td>
</tr>
<tr>
<td>1997</td>
<td>16.1</td>
<td>1.2</td>
<td>7.5</td>
</tr>
<tr>
<td>1998</td>
<td>16.8</td>
<td>1.44</td>
<td>8.6</td>
</tr>
<tr>
<td>1999</td>
<td>17.6</td>
<td>1.73</td>
<td>9.8</td>
</tr>
<tr>
<td>2000</td>
<td>18.4</td>
<td>2</td>
<td>10.9</td>
</tr>
<tr>
<td>2001</td>
<td>19.2</td>
<td>2.32</td>
<td>12.1</td>
</tr>
<tr>
<td>2002</td>
<td>20.1</td>
<td>2.64</td>
<td>13.1</td>
</tr>
<tr>
<td>2003</td>
<td>21.1</td>
<td>2.95</td>
<td>14</td>
</tr>
<tr>
<td>2004</td>
<td>22</td>
<td>3.24</td>
<td>14.7</td>
</tr>
<tr>
<td>2005</td>
<td>23</td>
<td>3.5</td>
<td>15.2</td>
</tr>
<tr>
<td>2006</td>
<td>24.1</td>
<td>3.77</td>
<td>15.6</td>
</tr>
<tr>
<td>2007</td>
<td>25.2</td>
<td>4</td>
<td>15.9</td>
</tr>
</tbody>
</table>

*Source: Based World Tourism Organization, The Miami Herald*

### Table 2.6

<table>
<thead>
<tr>
<th>Year</th>
<th>Number of Rooms</th>
<th>Year to Year Increase</th>
</tr>
</thead>
<tbody>
<tr>
<td>1990</td>
<td>12,866</td>
<td></td>
</tr>
<tr>
<td>1991</td>
<td>16,638</td>
<td>3,772</td>
</tr>
<tr>
<td>1992</td>
<td>18,662</td>
<td>2,024</td>
</tr>
<tr>
<td>1993</td>
<td>22,139</td>
<td>3,477</td>
</tr>
<tr>
<td>1994</td>
<td>23,254</td>
<td>1,115</td>
</tr>
<tr>
<td>1995</td>
<td>24,233</td>
<td>979</td>
</tr>
<tr>
<td>1996</td>
<td>26,878</td>
<td>2,645</td>
</tr>
<tr>
<td>1997</td>
<td>31,878</td>
<td>5,000</td>
</tr>
<tr>
<td>1998</td>
<td>37,778</td>
<td>5,900</td>
</tr>
<tr>
<td>1999</td>
<td>46,678</td>
<td>5,900</td>
</tr>
<tr>
<td>2000</td>
<td>49,556</td>
<td>5,878</td>
</tr>
<tr>
<td>2001</td>
<td>53,000</td>
<td>3,444</td>
</tr>
<tr>
<td>2002</td>
<td>56,000</td>
<td>3,000</td>
</tr>
</tbody>
</table>
Notice that in Table 2.5, between 1998 and 2003 Cuba’s market share of visitors to the Caribbean increased from 8.6% to 14%. During the same time period the percentage increase fell from 18% to 5%. The rate of visitor increase might be going down, but Cuba’s market share has remained constant, which means that it is not losing visitors to competition. Whether the Cuban government will like to admit it or not, it is very likely that the Cuban government is doing something right to circumvent competition. In so doing the government is not only picking up more traits of a free market economy, but also adjusting to competition. In order to maintain market share the Cuban government will have to adjust its strategy to the external environment.

September 11 illustrates how Cuba had to adjust its strategy to the external environment. Right after September 11, the economic crisis was once again taking a turn for the worse not only because the problems were heightened by the impact on tourism of the September 11 terrorist attacks in New York and Washington, but also the drop in remittances sent home by Cubans abroad. The drop in tourism and remittances in turn pushed government exchange houses to devalue the peso in September 2001, from 4.7 U.S. cents to 3.7 cents, its lowest value since the mid-1990s.\(^5\)

In our effort to try to project what the Cuban tourism industry will look like in the future (2010) it is fitting to divide future events or variables into different categories. It goes without saying that all variables cannot be accounted for, but this is an exercise to narrow the variables to likely events.

**Scenario One**

In this scenario we assume that things remain relatively the same in Cuba as it pertains to economic and political policy. We also assume that the macro environment’s effect on Cuba is miniscule. It is then safe to say that the tourism industry’s annual growth rate will be

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approximately 0.09%. This figure was derived by adding the percentage changes based on the number of visitors in Table 2.5 from 1995 to 2003 and taking the average.

**Scenario Two**

Here the Cuban government decides to privatize the tourism industry. In essence Cuba fully embarks on a free market economy, whereby Cubans as well as international investors can invest in the Cuban tourism industry. It is difficult to say how fast the Cuban tourism industry would grow if Cuba opens up to a free market economy, but we speculate that it would be greater than 0.09% since privatization would bring about better goods and services.

In order to better speculate on the trajectory of the Cuban economy in addition to the two scenarios listed above it is reasonable to ask: why are tourists attracted to Cuba in the first place? There is a lot about Cuba that is alluring, from the beaches to the architecture to the music straight out of "Buena Vista Social Club." But the real draw of traveling to Cuba is that it is unique (and in some cases illegal). There is something attractive about doing what our parents (government) have advised against. The Adam and Eve story is a clear illustration. So this raises the final concern: what happens when Castro is out of the picture (assuming it will be legal to go to Cuba after Castro’s death)? Will the allure still be there after Castro? The answer is probably not. This will inevitably lead to Cuba having to surrender the last remnants of its communist ideologies. Ironically, Cuba opening itself to a free market economy in Castro’s absence might bear witness to the decline of its market share of tourism in the Caribbean because the allure no longer exists.

2.7 Conclusions and Impressions from the Trip

The first economic insight that our trip to Cuba afforded was that tourism is the new sugar. Cuba is not the easiest place to travel in and as one of our group members said, “If I’m going to do the whole beach thing, I’d rather not do it in a police state.” Cubans themselves are actually banned from most tourist spots. One side effect of this is that any person of color traveling in Cuba may be harassed by the police. When whites are seen with Blacks, Latinos, or even South Asians, the people of color are assumed to be prostitutes or hustlers trying to extract money from the tourists.

Cuba’s appeal as a tourist destination is at least partially the result of its communist political structure and conflict with the US. Cuba is a curiosity. We felt it was very likely that

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Cuba is receiving a premium for this ‘curiosity’ factor. This premium, coupled with Cuba’s desperate need for immediate inflows of foreign exchange, has led the government to invest heavily in tourism. The tourist sector was the only vibrant sector of the economy that we witnessed.

There is an extraordinary amount of energy and resources directed at the pursuit of hard currency. The Cubans we met who were of comparable age and education tended to be working as waiters, a job requiring two years of apprenticeship and (in at least one case) a master’s degree. Taxi driving is the other quintessential tourist sector job taken by the highly educated. One man threw his girlfriend out of his car to give us a five dollar taxi ride. Possibly the most surprising example of Cuban’s thirst for tourist dollars happened when players for the Havana Industriales, the Cuban equivalent of the New York Yankees, offered to sell us their caps for $20 a piece after a game. At least one of them was probably a major league quality baseball player.

This bias towards tourism appears to be a very dangerous trend. If Castro leaves power and the blockade is lifted, the allure of Cuban tourism seems likely to recede back to something more comparable to Costa Rica, Dominican Republic, and other tourist destinations in the region.

This is pure speculation of course, but the conclusion that follows from it is not particularly shocking or controversial. The Cuban economy now, as has been the case throughout the century, suffers from an acute lack of diversification in its economic activity. While five star hotels are being built to attract dollars, Cubans drive around in surprisingly old American and Soviet cars. The housing stock, the capital stock, and just about every other durable asset we saw, was very much like those old American cars; built before the revolution and running only as the result of enormous energy and ingenuity. There is a lot of investment in tourism, but virtually no investment in any other level of economic activity.

The departure of Castro and communism could well turn out to be a disappointing event for those who want to see capitalism thrive in Cuba. If a transition comes, and living standards tumble as they have in many other transition economies, Cuba does not appear well equipped to adjust. Enormous amounts of capital will be required to make Cuba a serious competitor in international markets, and Castro has done little to start making those investments.

There are, nonetheless, some important assets that Cuba will carry into its transition. One important point that was confirmed for us repeatedly is that there would be large welfare gains
for Cubans if the embargo were to be lifted. A number of independent observers assured us that Cuba suffers from persistent price gouging by international firms whose main competitors are American. There are far more businesses that can subject Cuba to monopoly pricing than would be the case without the embargo. In addition, Cuba has been extremely successful at investing in human capital. From the Cuban expatriates who command high salaries from tech companies abroad, to the mechanics who keep fifty-year-old American cars running, intelligence is clearly Cuba’s greatest economic asset.

We were able to speak with one largely independent, academic economist on our visit. He suggested that Cuba has ample opportunities to encourage economic activity outside of the tourist sector. In particular, he noted export oriented agricultural goods such as soy beans and human capital intensive, such as high technology industries. Though he was very good at avoiding any commentary that sounded politically subversive, he seemed confident that policy makers would be willing to reform if they could simply be convinced that Cuba can open up without changes to the power structure. He advocated a Chinese model of controlled reform, designed to reform the economy while holding political power constant.

It is clearly reasonable to suggest that Cuba should embark on a process of controlled liberalization, but we have seen little evidence to suggest that Castro’s government will adopt that view anytime soon. Cuba’s last round of modest reforms came only after the Cuban economy lost 35% of its value in the early 1990s. There is no other way to understand this extraordinary adherence to communist dogma except as a testament to Castro’s stubbornness. We did not discover any satisfactory explanation for Castro’s intransigence, though we did find a sense of cynicism and resignation on the part Cubans themselves. Cubans imbue their revolution with as much meaning and idealism as Americans do theirs, but among the candid opinions we were able to hear there was a distinct sense that the revolution had simply been subsumed by Castro’s ego.

We are sanguine about Cuba’s future economic prospects, even if the communist regime were to suddenly disappear. However, we should end by reiterating that we have also seen considerable opportunities for growth in the presence of more rational policy making. After a long history of economic dependence on the world’s superpowers, the Cuban people now have the tools to compete with any workforce in the world. The day that they can use those tools for
something other than waiting tables or driving taxi cabs may mark the beginning of a very auspicious period in the history of the Cuban economy.
Chapter 3: Assessment of Education Policy

Gregory Hansen
Alexa Shore
Gregory Siasoco

All revolution is an extraordinary process of education ... Revolution and education are the same thing. - Fidel Castro

3.1 Introduction and Background

Cuba’s educational system is revered as an impressive display of accomplishments: universal, free enrollment, low literacy rates, low grade retention, and parity between male and female students as well as rural and urban students. While Cuba’s economy is still struggling, its education system rivals many OECD countries.

The education structure that has led to these high achievement levels provides an important understanding about the political, economic and social systems of Cuba. To that end, this section will provide background information about education in Cuba—highlighting important indicators, reform movements and current practices. This chapter will then compare Cuba to the U.S. in the area of education. Surprisingly, Cuba and the U.S. have remarkably similar educational indicators, yet there are some striking contrasts in curriculum, community involvement and other areas. This chapter then compares Cuba with Chile, a similar Latin American country, in order to better understand what makes Cuba so unique in the region. Next, this section makes a final comparison of Cuba to another socialist country, Nicaragua, to unpack why Cuba has outperformed other socialist nations in the area of education. The section closes with current and future challenges to the Cuban education system, along with some recommendations and concluding thoughts.

Why Does Education Matter?

Education in Cuba is crucial because it serves three very important purposes:

- A highly educated workforce makes for a highly productive workforce.
- Education indicators establish Cuba as an international force.
- Education is the primary mechanism to promote the sustainability of the revolution and social cohesion.

Cuba has repeatedly relied on its well-educated population to provide innovation in the areas of science and technology, the environment, and medicine. These achievements are only possible
because of the high caliber of the workforce. The education indicators, coupled with health metrics, have always served to elevate Cuba above its “third world” status and have served to legitimize aspects of the revolution in many eyes. The last purpose—education as a mechanism for social cohesion—is perhaps the most important to Cuban society. Education is the primary means by which to indoctrinate young (and older) citizens to socialist values and to stress the tenets of the revolution through Values Education, Labor Education and other curricular or school-based programs.

**Educational Indicators**

As Table 3.1 indicates, Cuba has made huge improvements in school enrollment and literacy rates. In addition, in recent years, Cuba has spent at least 11 percent of its GDP on education. This level well exceeds UNESCO’s recommendation of 6% of GDP on education. Cuba also has a very low grade-repetition rate (under 2%) for primary school, which is often an indicator of strong preparedness for school. These educational data and statistics have been verified by independent UNESCO evaluations, and researchers believe that they represent true levels of attainment. That is, they are not inflated by the government.

**Table 3.1: Education Indicators in Cuba**

<table>
<thead>
<tr>
<th></th>
<th>1959</th>
<th>Today</th>
</tr>
</thead>
<tbody>
<tr>
<td>Primary School Enrollment</td>
<td>50%</td>
<td>100%</td>
</tr>
<tr>
<td>High School Enrollment</td>
<td>14%</td>
<td>94%</td>
</tr>
<tr>
<td>Illiteracy Rate</td>
<td>14.3%</td>
<td>2.1%</td>
</tr>
</tbody>
</table>

Source: UNESCO, CIA World Factbook.

**The Secret of Cuba’s Success**

Cuba’s educational success can be attributed to four over-arching causes:

- Sustained level of support for education, despite hard economic times
- Teacher professional development
- Strong accountability/evaluation
- Education support programs and community involvement
Because the same party has run the country for more than 40 years, there has been an enormous amount of consistency and stability in the educational agenda. The objectives set in 1959 were clear and have remained largely intact. Investment in education, as measured as a percentage of GDP, has only increased over the last four decades. In the 1960s, Cuba invested 4.2% of GDP, while education investment in 2002 reached 11.4%.55

Cuba pays a great deal of attention to its teachers. Teachers are required to participate in lifelong training—the most important aspect of which is the Action Research program. Every two years, each teacher is required to perform research on ways to improve classroom learning. The Action Research findings are presented at national conferences and competitions, and serve as an excellent way to continue to engage teachers, even if they have been in the classroom for many years. Additionally, teachers are expected to interact with parents and community members through parent conferences and through attendance at “Study Homes” after school. Further, teachers are required to spend some nights and weekends acting as school security guards through the “Workers Guard” program to keep costs down and school pride up. All of these mechanisms work to confer high levels of respect and status on teachers in Cuba.

Perhaps the most important step that is strikingly different from many OECD nations is the extent to which the education system is connected to the community. Education is supported strongly by several other education-focused programs such as early childhood learning, health initiatives, literacy programs, and adult education. These programs, along with the Values Education curriculum, effectively integrate school, community life, and socialist ideals. For instance, every morning, Cuban schoolchildren begin their day by singing the patriotic slogan, "Pioneers for communism, we shall be like Che." In addition, there is a strong focus on the value of labor. To this end, students are expected to work at least an hour after school each day, in addition to studying in “Study Homes” several times per week. Most students are also expected to spend at least several months in a rural community, participating in a labor education program.

The importance of the link between school and community is particularly important in the countryside, where the curriculum is specifically tailored to the rural context. For example,

at least 10% of the curriculum is based on knowledge and skills of the particular province.\footnote{56} This is a large concession for a ministry working hard to equalize education in all areas of the country through one, strong national curriculum. This attempt to customize education in rural communities also lead to the creation of industrial and agricultural education centers.

\textit{How Cuba Achieved Its Goals}

In the span of 40 years, Cuba launched several education revolutions to achieve its educational agenda. The first and most important step in this process was the First Educational Revolution in 1961, which began the Massive Literacy Campaign. This effort sent more than 250,000 students into rural communities to achieve basic literacy for all Cubans. This campaign is largely credited with establishing Cuba’s high literacy rate today. The Second Revolution focused on Cuba’s Countryside Study/Labor program. While massive numbers of schools were created and teachers trained and hired in the 1960s, the 1970s “Perfeccionamiento” program ensured high quality school for all. The Third Revolution, carried out in the 1990s, was directed at developing technical and vocational training and hoped to attract students to agricultural careers.

\textit{Higher Education}

Cuba’s higher education system encompasses about 50 public universities, the largest of which is Havana University. About 17\% of students go on to some kind of higher education.\footnote{57} Every student who finishes high school satisfactorily and passes the university entrance exams has access to higher education in theory. However, students are essentially tracked beginning at graduation from primary school. Strong performers proceed to Basic Secondary School and then on to a Pre-university program. Poor primary school performers are channeled to a technical secondary school, where they are given a more vocational training. These students still have access to the university after passing the university entrance exam, but the reality is that few of these students ever pursue post-secondary work. Figure 3.1 details the educational pathways discussed in this section.

\textit{Conclusion}

It is clear that Cuba has prioritized education, and it has done a great deal with limited resources. Despite economic hard times, under-resourced schools and poorly paid teachers,
Cuba has managed to “keep up” with many of its neighbors—even the U.S. The next section outlines some of the similarities and differences between the U.S. and Cuban education systems and the implications for educational attainment.

**Figure 3.1: Educational Pathways**
3.2 Comparison of Education in Cuba and the United States

Cuba’s GDP, political system, and cultural practices are never highlighted for their similarities to the U.S.—this is not surprising, because the U.S. economy is at least 500 times larger than Cuba’s and the political systems are in complete contrast to each other. What is surprising, however, is that Cuba and the U.S. are frequently lined up next to each other when talking about educational indicators. This is, perhaps, because Cuba’s education statistics look remarkably like those of the U.S. Table 3.2 outlines some often-cited indicators for the two nations.

Table 3.2: Cuba-U.S. Comparison of Education Indicators

<table>
<thead>
<tr>
<th></th>
<th>Cuba</th>
<th>United States</th>
</tr>
</thead>
<tbody>
<tr>
<td>General Literacy Rates</td>
<td>96%</td>
<td>97%</td>
</tr>
<tr>
<td>Expected School Years per cohort</td>
<td>11.3</td>
<td>16</td>
</tr>
<tr>
<td>Secondary School Enrollment</td>
<td>81%</td>
<td>97%</td>
</tr>
<tr>
<td>At Least Some Post-secondary Enrollment</td>
<td>17%</td>
<td>81%</td>
</tr>
<tr>
<td>Primary School Student-teacher ratio</td>
<td>12</td>
<td>16</td>
</tr>
<tr>
<td>Education as % of GDP</td>
<td>11.0%</td>
<td>7.6%</td>
</tr>
<tr>
<td>Education as % of Gov. Budget</td>
<td>12.6%</td>
<td>14.4%</td>
</tr>
</tbody>
</table>

Source: UNESCO, CIA World Factbook

Structure/Curriculum

Some of Cuba’s educational excellence can be explained simply by time on task. Cuban students spend more hours in the classroom than do Americans. The typical school year is over 900 hours longer in Cuba. Not only is the Cuban school day and year longer, Cuban students are required to do school work each afternoon. The Cuban curriculum is strikingly different from the American curriculum, covering subjects such as Values Education, Labor Education, Marxism/Leninism Fundamentals and Military Preparation. However, this extended school day and socialist curriculum certainly does not begin to scratch the surface to explain the underlying differences between the two systems.

Special Education

There are a few specialized areas in which the U.S. and Cuba differ greatly in policy. Namely, the U.S. has undergone a trend toward mainstreaming special needs students to whatever extent possible. In practice, this means creating heterogeneous-ability classrooms.
Cuba has focused its attention on these children, but by keeping them separate. The government has built over 400 new special schools since 1959 and sees the idea of mainstreaming special needs children as an “integrationist façade,” that overlooks the value of diversity.58 Cuba’s policies are counter to the growing consensus among educators worldwide that separate schools are not helpful to special education students.

Rural Education

Rural education is a linchpin of the Cuban system. Since the Literacy Campaign in 1960, the government has focused on rural education as one of the most important aspects of its education program. In recent years, there has been an increasing emphasis on agricultural skills and a decision to further support small schools in rural communities—despite shrinking enrollments. To this end, there is a move away from school consolidation in rural communities—there are currently at least 2,000 schools that house fewer than ten students in the countryside. Quite the opposite movement is underway in the U.S. In order to be more cost-effective, states are opting to close down and consolidate rural schools. Cuba’s devotion of resources to the question of rural education has had positive effects. In Cuba, there is virtually no difference between rural, urban, and suburban achievement levels. The same geographic parities do not hold true in the U.S. For example, educational spending and achievement can be very low rural communities, because of the high correlation between poverty and rural living. The National Assessment of Educational Progress (NAEP) exam in the U.S. found that “students in rural and small town schools exhibited negative differences at the national average in all grades tested.59 In addition, the U.S. continually has a very difficult time attracting and retaining high-quality teachers in rural communities.

The University System

The university system presents another major difference between the U.S. and Cuba. While primary and secondary school enrollment rates are relatively similar for the two countries, post-secondary enrollment rates are drastically different. Fewer than 20% of Cuban students enroll in university coursework, while more than 80% of American students do.60 These

58 Gasperini, p. 15.
60 This number can be misleading because this rate only captures enrollment, not degree completion rates. The total percent of students completing at least a bachelor’s degree in the United States is 27%. The Cuban Ministry of
differences can capture real differences in opportunities. While Cuba boasts free education for all, the probability that a student who performs poorly in primary school and is channeled to the non-university “Technical Secondary School” will attend the university is slim. While higher education is not free in the U.S., Pell Grants and low-interest federal student loans make university enrollment affordable. Although many U.S. universities are very competitive, there are thousands of community colleges at the county level that provide many students with easy access to higher education. The US has more college graduates than any other country in the world, and has used this high level of post-secondary achievement as a competitive advantage in international trade around the world.

Community Integration

Cuba has done an excellent job of integrating school into community life. Learning does not stop when students walk out of the school building. Work and study groups in the evening and over the weekends tie classroom learning to broader community goals. Teachers take turns working as security guards to protect school buildings after hours. In this model, community members take a great deal of responsibility for student success. This type of community approach rarely occurs in the U.S., and could be a reason for the large number of students who come to kindergarten unprepared to learn. There are often insufficient early-childhood learning programs, as well as adequate day care and after-school facilities for low-income children.

Because education and teaching is given so much attention in Cuba, there is also a high level of respect for teachers, which is not at all associated with the level of pay, since teachers make only about $4US per week. Teachers are expected to develop relationships with students and parents and visit their students at their homes. This integration with the community, along with the Committees for the Defense of the Revolution and women’s groups help to ensure that flailing students are tended to early and have the supports they need to learn better. Some of the prestige and respect that comes along with the teaching profession in Cuba is due to the high level of accountability and evaluation of teaching practices. Continual improvement is encouraged through bi-annual projects like Action Learning, where teachers perform research on ways to improve student learning and present them at state competitions. In contrast to the high level of respect and prestige enjoyed by Cuban teachers, U.S. educators often feel disrespected.

Education said that only 0.2% of Cubans have a university degree, although this seems low and should be verified with additional sources (Interview on February 23, 2004 in Havana, Cuba.)
and de-professionalized.\textsuperscript{61} This feeling has grown out of a culture that often does not trust or respect primary and secondary teachers.

**Equity Concerns**

The focus on improving quality in Cuba is an important one, because there has often been a perceived trade-off between quality and equity in Cuba. Cuba’s educational system is often held up as a paragon of equity and equality. However, there is some research to show that despite attempts at ultimate equality, the schools educating children of the elite and wealthy families were of better quality.\textsuperscript{62} Some pre-university schools in Cuba, for instance, serve very few, if any, Afro-Cubans or low-income students. Cuba is still grappling with these disparities and their implications for the sustainability of the revolution. American concede that there are problems with the current trade-off between quality and equity in the U.S. and the government is attempting to deal with it through policies and programs that look like some of Cuba’s. For instance, the *No Child Left Behind* Act explicitly increases accountability and evaluation efforts, as well as establishes better connections to the community through early childhood learning centers and after school programs.

**Conclusion**

Despite the similarities in some of the educational indicators, the U.S. and Cuba have very different approaches to education. In spite of the differences, both nations have a great deal to learn from one another. Some may argue, however, that these countries are incredibly different economically, geo-politically, and socially, so perhaps this comparison is inappropriate or less instructive. Therefore, the next section examines a comparison between Cuba and Chile, which will allow for a better analysis of Cuba’s education system.

**3.3 Comparison of Education in Cuba and Chile**

Much has been extolled of the success of the Cuban experiment in education.\textsuperscript{63} When compared to Chile, a Latin American country that has achieved a relatively high degree of success in education, Cuba’s success can be placed in greater context. There are significant differences in the development and implementation of both systems of education. Chile moved

\textsuperscript{62}Gasperini, p. 18.
towards the educational market system approach, while Cuba held to its socialist foundations. However, we may also see that similar strategies with respect to capacity building have been major factors in the success of both systems.

**Table 3.3: Cuba-Chile Comparison of Education Indicators**

<table>
<thead>
<tr>
<th></th>
<th>Cuba</th>
<th>Chile</th>
</tr>
</thead>
<tbody>
<tr>
<td>General Literacy Rates</td>
<td>96%</td>
<td>96%</td>
</tr>
<tr>
<td>Expected School Years</td>
<td>11.3</td>
<td>12</td>
</tr>
<tr>
<td>Secondary School Enrollment</td>
<td>81%</td>
<td>75%</td>
</tr>
</tbody>
</table>

Source: UNESCO, CIA World Fact Book

**Similar Goals of Universal Access to Education**

Cuba’s revolution in the late 1950s sought to install a communist government that established a purely equitable society in terms of income distribution and social services. The Castro regime saw education as key to the success of this endeavor, and committed a significant portion of its resources to high quality education and universal adult literacy.\(^6^5\) An important goal was universal access and the school system expanded through 1980 to encompass universal 10th grade education.\(^6^6\) This goal was accomplished in a short period of time relative to other Latin American countries. For example, disparities between urban and rural education were addressed instantly during the first period of reforms. High levels of sustainable investments in education helped the expansion of basic education to the masses in various programs such as literacy, adult and non-formal education programs.

In Chile, universal primary and secondary education was also the primary objective. However the system developed more slowly and took a divergent path from Cuba’s centralized system. From the 1950s, the democratic government’s policies sought participation by the nation’s poorest children and addressed the constant problem of incomplete matriculation and high drop out rates. The National Council for School Aid and Grants was created to provide scholarships and administer a national school breakfast and lunch program at the public and tuition-free private schools to provide incentives for poor families to send their children to

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\(^{64}\) UNESCO/CIA World Fact Book; World Bank Group, devdata.worldbank.org

\(^{65}\) Gasperini, p. 7.

school. From the mid-1960s primary education became nearly universal. Through the Allende administration, the success of Chile’s educational system was evident in expanding enrollments in all levels of the education program, and ensured uniform quality standards across the nation.

**Contrasting Strategies: Central Planning versus Free Market Approaches**

In Cuba, decisions on education policy were centrally planned and implemented in top-down hierarchical fashion. The creation of schools, curricular reforms, placing dropouts in the military, and reducing class sizes were all created by a top political hierarchy and carried out through an effective structure that comprised of students, teachers, administrators, parents, and neighborhood councils.

Until 1980, Chile’s primary and secondary schools had a similar centralized structure as Cuba, and was administered by the Ministry of Public Education. A three-tiered system of schools then developed at this time: a public sectarian school system, private schools receiving government subsidies (which included schools sponsored by the Catholic Church and Protestant churches), and private schools that charged tuition.

A reevaluation of the school system occurred because Pinochet’s regime’s social and economic planners thought the centralized system stifled freedom of choice among parents and local communities, and encouraged an overly bureaucratic and inefficient system. With the municipalities given control of the educational system, a voucher system was implemented so schools could respond to local demands and needs.

The democratic governments of the 1990s enhanced the reforms of the Pinochet regime by addressing the inequalities produced by the voucher system. The state has tried to support low income primary and secondary schools as well as isolated rural schools. Chile has also implemented a more coherent national curriculum with free textbooks for all, as well as a very extensive program of connecting schools to the Internet.

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68 “The growth of the private sector has helped fuel a doubling in total higher-education enrollment in Chile during each of the last two decades: from 100,000 in 1980 to 250,000 in 1990, and to 480,000 today, according to official figures.”, Burton Bollag, *The Chronicle of Higher Education*, Washington: June 27, 2003. Vol. 49, Iss. 42; p. A.34
Applying Similar Methods to Elicit Sustainability

With market thinking as a dominant factor in Chile’s educational policy making, the government has focused on changing capacity of the system to produce more and better education at each level. Much like Cuba, Chile has reversed an enduring policy since the 1980s of lowering teacher salaries, thus retaining and allowing for a greater quality of teacher candidates entering teacher education facilities. Similar to Cuba, the government of Chile has provided for higher standards in the schools. They have also passed a ruling that all schools move to a longer day (from 4 to 6 hours) to provide more schooling to each pupil, and supply funds to build additional classrooms.

Conclusion

On education, Chile and Cuba lie on opposite ends of a continuum. Cuba has embarked on a successful transformation of its society using a socialist approach. Cuba’s success can be attributed to the consistency of education policies, the significant inputs and investments made by the government to provide social services to all, a centralized and structured system that ensures efficient delivery. However, the sustainability of this project will ultimately depend on whether the government can acquire the financial resources to prevent its educational system from grinding to a halt.

Chile, on the other hand, has employed a market-based system with commensurate decentralization of the education sector. The success of this approach can be seen not only in the expansion of educational opportunities at all levels but in the enrollment and retention rates of its students. Apart from creating one of the highest literacy rates in Latin America, Chile has also deepened inequalities within its society. Chile’s leadership in Latin American education has since declined prompting the government to undertake measures that Cuba had long introduced into its system.

3.4 A Comparison: Cuba and Nicaragua

The quality and effectiveness of education in Cuba is clearly unique in Latin America. Its success far exceeds that of any other Latin American country of any political ideology, including Socialist states. In fact, the success factors of Cuba’s educational system can be better understood by comparing and contrasting its educational policies with those of the Socialist government of Nicaragua in the 1980s.
The Sandinistas (or FSLN) came to power in Nicaragua in 1979, assuming leadership over one of the poorest countries in Latin America. Similar to the Batista regime, the 40-year Somoza regime in Nicaragua had spent little on education; only 65% of school-aged children were enrolled, and only 22% actually completed the first six years of primary education. In power from 1979 until 1990, the FSLN significantly increased spending on education and followed Cuba’s lead in centralizing administration of all educational programs. Although successful initially, these educational policies were eventually reversed in 1990 after the FSLN failed in its goal to extend education universally and equitably. Why did the socialist educational model fail in Nicaragua where it had been so successful in Cuba? To more fully understand this question, it is important to compare the two countries on the following criteria: 1) The government’s interest and investment in education; 2) The political stability needed to support educational policies.

**Government Investment in Education**

The initial efforts of the FSLN to achieve universal literacy closely mirrored those of the Castro regime in the 1960s and were indicative of their interest in and financial commitment to education. Similar to Cuba’s efforts, the Nicaraguan campaign of 1980 was led by nearly 100,000 literacy volunteers (many of them students) who went to the “countryside” to teach the rural population to read and write. The results in Nicaragua were equally impressive, with illiteracy dropping from near 50% to under 23% (while Cuba’s campaign in the early 1960s actually reduced illiteracy to less than 3%). Nicaragua appeared to be poised to closely follow Cuba’s lead in the success of its educational programs.

Castro’s regime in Cuba quickly ramped up educational spending after 1959, and now commits 10-11% of GDP to education. The FSLN also quickly increased its education budget after coming to power, and by 1984 had doubled the proportion of GNP spent on pre-university education. Similarly doubled was the number of students and teachers in the educational system. College enrollment increased from 11,142 students to 38,570 in 1985. Investment in teacher education and support was also similar between the two countries (although much less

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72 Gasperini, p. 5.


74 *Nicaragua*, Library of Congress.
data is available for Sandinista Nicaragua). Cuba’s investment in professional development and support for its teachers is unprecedented and well-documented.\textsuperscript{75} The FSLN also invested in developing its teachers, creating an extensive scholarship program to send students to Germany, Cuba, the Czech Republic, and the Soviet Union to be trained in those countries’ best programs.\textsuperscript{76} Furthermore, Nicaragua followed Cuba’s lead (even bringing in Cuban and Soviet advisors) in setting up a national council to develop detailed curriculum and career development plans.\textsuperscript{77}

Yet differences between the two countries in educational investment were also apparent. Unlike Cuba, the salaries of Nicaraguan teachers were not in line with other professionals (and many actually made less than domestic employees).\textsuperscript{78} Furthermore, rapid expansion led to quality problems in instruction, as many newly literate rural peasants were recruited to teach. These problems might have been solved over time, but the instable political situation exacerbated the problem.

\textbf{Political Stability}

The political stability of the two countries, and their subsequent capacity to support educational advances, affected the outcome of educational initiatives perhaps more than any other factor. Although Castro faced initial opposition in Cuba, he consistently and successfully countered any opposition with oppressive tactics. In spite of the U.S.-led Bay of Pigs attempted invasion, the Castro regime held strong. The FSLN, on the other hand, was plagued by the U.S.-backed Contra opposition effort soon after it came to power. In fact, the Contra effort focused much of its efforts on the most visible symbol of the FSLN government: schools and teachers. Many teachers and volunteer educators were killed and schools were destroyed. Despite the costs of the war against the Contras (nearly 50\% of the national budget), the Sandinistas remained committed to educational spending. However, the progressing war forced a major shift from social to defense expenditures.\textsuperscript{79} University enrollments fluctuated as students were frequently enlisted to fight.\textsuperscript{80} As the 1980s progressed, the educational successes of the early

\begin{footnotesize}
\begin{enumerate}
\item See Gasperini, p. 9.
\item See Ruenther, p. 93, and Arnove, p. 50.
\item Mason, p. 123.
\end{enumerate}
\end{footnotesize}
1980s deteriorated. The 1990 elections brought an end to Sandinista (and Socialist) control of the government, and reforms to decentralize education and decrease educational spending were quickly implemented by the elected leadership.81

Conclusion

Thus as a whole, the efforts to improve education in Nicaragua closely resembled those in Cuba. Cuba’s success, however, was predicated on the stability and continuity of its educational policies as implemented by a consistent leadership body. Nicaragua’s educational system, though no more rigid than that of Cuba, was not flexible enough to accommodate the fluctuations in budgetary allocations and university enrollment due to the constant opposition of the Contras. Questions remain about the transferability of the Cuban model to other countries. The Nicaraguan experience seems to indicate that even when the same model is adopted in another country, the highly centralized top-down management of educational programs lacks flexibility in the face of ideological or political opposition.

These comparisons with the United States, Chile, and Nicaragua seem to indicate that although portions of the Cuban model are ‘exportable,’ the overall success of the Cuban system fundamentally relies on the stability of the state institution and its centralized control of the educational system. Furthermore, a decentralized, ‘free-market’ educational policy inevitably leads to inequalities in the system (as these inequalities have not even been avoided in Cuba’s Socialist system). Nevertheless, the United States and other countries in Latin America can look to Cuba for an example of how to attract, support, and retain teachers with the system. Additionally, Cuba has been able to maintain its high levels of education since the start of the ‘Special Period,’ indicating that even struggling economies can maintain a strong education policy if it is a high enough priority.

3.5 Continued Challenges for the Cuban Education System

Despite all of the successes of the Cuban education system, the government still faces many challenges in maintaining and improving education in Cuba. These challenges can be categorized as tactical - or necessary for ‘continuing operations’ - and ‘strategic’ - or imperative for the long-term viability of the Cuban educational model. Tactical challenges include questions around faculty, facilities, and technology. Strategic questions remain around the

81 Mason, p. 124.
system’s dependence on political and economic stability as it faces inevitable changes in the next few years.

The Castro regime will face some inevitable challenges in the next few years in maintaining the quality of its educational programs. First and foremost, spending to find innovative ways to motivate existing teachers and attract new teachers will be necessary. The shift towards a global economy has made other professions, particularly in the tourist industry, much more profitable. As the Cuban economy has increasingly globalized since the early 1990s, equal pay across professions has become a thing of the past. Furthermore, the continuing economic blockade by the United States has limited access to adequate building materials and funds to renovate and build out school buildings. Similarly, technology in many of the schools is obsolete, with computers running only the most rudimentary software programs. Cuban educational leaders acknowledge that some of the most daunting short-term challenges they face revolve around creating a tech-savvy workforce - particularly with limited access to modern technology. As Cuba’s continues to develop its emphasis on exporting its technological capabilities (such is pharmaceutical research), its lack of a strong technology education program will increasingly slow its progress.

Strategic issues are even more daunting than the tactical challenges. Gasperini, in her analysis paper, “The Cuban Education System: Lessons and Dilemmas,” outlines several of the critical questions facing the Castro regime (and its eventual replacement). Those include: Can Cuba maintain the coherence of its education policies in the absence of historically strong state guidance and control? Will the system maintain its commitment to social cohesion, in a less coercive, more diverse environment? How can the education system move from a system led by the Party and the state to develop a broad consensus around the overall objectives and content of education? And, is the curriculum adequate to educate resilient citizens, capable of managing change, risk, and uncertainty in a globalized and market-driven world? Questions also remain over the quality and equity of existing programs, as children of the elite make up the majority of children in the best schools.

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84 Gasperini, p. 21.
85 Ibid., p. 20.
These and other questions remain to be answered. Much of the uncertainty of the educational system, as in other aspects of Cuba’s government, revolves around two specific transitions the country currently faces: 1) The slow, but seemingly inevitable transition to an open-market economy; 2) The transition (or lack thereof) to a post-Castro government. The educational system has thrived due to political stability and the consistency of educational policies. Yet this success has come at the expense of flexibility and adaptability in the system. If and when one-party rule comes to an end, Cuba’s highly centralized system will clearly be tested and could possibly break. Recommendations on educational policy should focus on addressing these questions.
4.1 Introduction and Background

Throughout the 1970s and 1980s, President Fidel Castro repeatedly voiced his desire to convert Cuba into a “medical superpower.” Although not quite that, the nation has been widely acclaimed for its enviable health and medical care indicators and public health system; it has provided medical access nearly 100 percent of the population; boasts health indicators that are comparable with industrialized nations, has the lowest infant and maternal mortality rates, the highest doctor-to-population ratio and the highest rate of public health service coverage in Latin America (See Appendix 1). In addition to minimizing urban–rural differences in health care, Cuba has created a large pool of health services personnel, many of whom have been sent to other countries to assist foreign governments with their health problems (See Appendix 2). Cuba has also eradicated many diseases, particularly polio, diphtheria, rubella and tetanus and has restricted the transmission of AIDS among its population (See Appendix 3).

In spite of the severe economic setback caused by the collapse of the Soviet Union and the stringent restrictions of a U.S. embargo on agricultural products and medicines, Cuba has not compromised its commitment to its healthcare system.

This section will begin with a survey of how health policy has changed in Cuba since the start of the Revolution. Key goals and special programs of the government help explain what commitments the regime has made to public health. A brief look at the positive and negative aspects of the level of funding allocated to health care is then followed by a comparative review of Cuba’s health care system in relation to the general Latin American health care structure. Understanding the path Cuba has taken as compared to those of its neighbors to the south may help illuminate the level of control the Cuban government exercises in the health sector. Next, a discussion of the successes of Cuba’s biotechnology industry explores the government’s use of alternative means of protecting Cuban health in a resource-scarce environment, which begs the question of why medical materiel is in such short supply. The chapter concludes with one answer to that question in a review of the impact the U.S. economic embargo has had on public health in Cuba and how the health care system has responded.
4.2 Health Care in Cuba (1959 – Present)

Prior to 1959, health indicator levels in Cuba were similar to that of most underdeveloped countries. There was a significant urban-rural divide with significant medical care scarcities in the rural areas and an excess of personnel/facilities in Havana. The Cuban government, post 1959, offered a resolution for the rural-urban divide by combining the urban and rural areas in a single network of services. The post-revolutionary health care system can be divided into five main phases:86

1) Early transformation (1959 - 1969)

The emphasis during this period was on the building rural health centers and re-organization of medical infrastructure. The Rural Health Service program was established on January 23, 1960 which required all medical school graduates to serve for one year in the rural areas upon graduation and provided for the creation of rural health facilities. In 1960, the public health system initiated the process of providing coverage for the total population. In 1961, the government lowered the price of medicines, nationalized pharmaceutical companies, private hospitals, and cooperatives and expanded the network of medical institutions.87


By 1964, most health centers were transformed into primary healthcare centers (polyclinics) as the primary health services units. These polyclinics were organized as the basic Cuban unit of health services, while the larger hospital units continued to be providers of second and third level care.88

3) “Medicine in the Community” (1975 - 1983)

Under the polyclinic program, medical teams consisting of a physician, nurse and social worker were trained to serve all communities through the polyclinics. These healthcare professionals worked in conjunction with neighborhood communities. This “team approach” became the basis of the community and was designed to provide preventive and curative health care through an integrated national health system.

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86 Farag, Essam. “Cuban Community Healthcare, A Model For Developing Countries?” 2002.
4) Family/community doctor care (1984 - 1990)

In 1984, Cuba initiated the Family Doctor Program in which a doctor and a nurse team, was placed in every neighborhood. The objective of this program was to project the health system’s resources further into the community. By 1985, the Family Doctor Program had served 1.3 million people and had reduced healthcare costs by decreasing rates of hospitalization and emergency room use. The use of preventive medicine techniques also sharply reduced the incidence of many diseases.

5) Crisis, deterioration and the promotion of biotechnology and natural medicine (1991 - Present)

The collapse of the Soviet Union in 1991 plunged Cuba into a severe economic crisis, euphemistically called the “Special Period.” The termination of Soviet aid and the drastic reduction of trade reduced availability of medical equipment, spare parts and medicines. The lack of supplies accompanied by a deterioration of basic infrastructure (potable water and sanitation) resulted in a setback of many of the previous accomplishments. The strengthening of the U.S. economic embargo in the second half of the 1990s worsened the situation. The Cuban government responded by implementing austerity measures, investing in alternative or traditional medical therapies and renewing its domestic pharmaceutical manufacturing. These strategies emphasized low cost, doctor-intensive care. Mainstream development and public health practitioners believe that these strategies represent an “anti-model”, one that stands in stark contrast to the high per-capita spending associated with health care in the United States and other advanced industrialized countries.

By 2000, many of the indicators that had deteriorated showed some improvement (the percent of children born underweight, which increased from 7.3 in 1989 to 9.0 in 1993, decreased to 6.1 in 2000. See Appendix 1). In 1996 five strategies and four priority programs were identified in healthcare. The strategies include the reorientation of the health system toward primary care and the family doctor and nurse program, which is considered the pillar of the system; the revitalization of hospital care; the establishment of high-technology programs and research institutions; the development of a program on natural and traditional medicine and

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90 Sixto.
remedies; and an emphasis on system objectives, such as dentistry, optical services, and health transport.\textsuperscript{91}

Under this program, priority was accorded to programs targeted at maternal and child health, chronic non-communicable diseases, communicable diseases, and care of the elderly. Biotechnology is now being used to find cures or vaccines for infectious diseases, chronic illnesses such as heart disease and cancer and to combat the threat of AIDS. Through the process of decentralization, the government welcomed more grassroots involvement. In 1995, health councils were established at the national, provincial, municipal, and popular council levels with representatives from various social sectors and civic organizations. This facilitated greater inter-sectoral collaboration and increased social participation in the identification and solution of health problems in the community.

A "health initiative" project was also established to mobilize national and international resources to support reform and modernization of the health sector. The project lay down a master investment plan that defined the basic problems, outlined strategies and actions for addressing those problems, and recommended a series of investment projects for resolving or mitigating them.

4.3 Comparing Cuba

Table 1: Healthcare Indicators (2001)

<table>
<thead>
<tr>
<th>Country</th>
<th>Life Expectancy (years)</th>
<th>Infant Mortality (Deaths per 1,000 live births)</th>
<th>Physicians per 100,000 Population</th>
</tr>
</thead>
<tbody>
<tr>
<td>LATIN AMERICA</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Regional Average</td>
<td>60</td>
<td>30</td>
<td></td>
</tr>
<tr>
<td>Brazil</td>
<td>67</td>
<td>32</td>
<td>121.3</td>
</tr>
<tr>
<td>Cuba</td>
<td>76.3</td>
<td>7</td>
<td>346.1</td>
</tr>
<tr>
<td>Mexico</td>
<td>72.1</td>
<td>29</td>
<td>160</td>
</tr>
<tr>
<td>WESTERN</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Cuba boasts life expectancy and infant mortality rates that are comparable to those of the developed countries and considerably better than the rest of Latin America (see Table 1). Cuba’s ratio of physicians to population is one of the highest in the world (See Table 1). These doctors are not merely abundant in numbers but are also very highly trained. What makes Cuba’s healthcare performance even more impressive is that basic health indicators in Cuba have continued to improve over the course of the 1990s in spite of the economic crisis and US embargo. The most notable of these basic indicators is the infant mortality rate which declined from 11 deaths per 1,000 live births to just seven (See Table 1). Compare this to Latin America’s average infant mortality rate of 30 deaths per 1,000 live births. In 2000, life expectancy in Cuba was 76.3 compared with 60 in Latin America (See Table 1).


Table 2: Cuba’s Rank in Latin America: 1959, 1980, and 2000

<table>
<thead>
<tr>
<th>Infant Mortality Rate per 1,000 Live Births</th>
<th>Hospital Beds per 1,000 Inhabitants</th>
<th>Doctors per 10,000 Inhabitants</th>
<th>Life Expectancy</th>
<th>Calories Consumed per day</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>2</td>
<td>1</td>
<td>3</td>
<td>1</td>
</tr>
</tbody>
</table>

A comparison of Cuba’s healthcare performance with respect to the other countries in Latin America, clearly demonstrates the commitment of the administration to medical care. Table 2 indicates that Cuba has improved its ranking in three of the five given indicators. The differences in the healthcare indicators in Cuba and the rest of Latin America can be explained by\textsuperscript{92}:

- Cuba allocates 6.8\% of its total GDP to healthcare. In addition the Cuban government closely monitors its health indices and adjusts policies that are not producing desired outcomes. This commitment has not been demonstrated by the governments in other Latin American countries.

- The family doctor system has ensured the provision of medical care to virtually all Cubans. Other Latin American countries have failed to provide such comprehensive medical access to its rural population.

- Unlike Cuba that provides excellent primary healthcare through its extensive network of family GPs, most Latin American countries focus on curative healthcare which is significantly more expensive than primary care and preventive medicine.

- Cuba’s emphasis on medical education has turned out an ever-increasing supply of physicians. Cuba has a doctor-civilian ratio of nearly 1:172, one of the highest in the world.

- Heavily subsidized healthcare system, state ownership of medical schools and low salaries paid to doctors’ salaries has reduced the cost of training high numbers of doctors.

- A centrally planned economy has enabled the Cuban government to allocate resources equally. It has also helped the government to control and monitor quality and bring about positive changes quickly and more effectively.

- While the other Latin American countries spend a substantial amount of resources on importing expensive medical products, the U.S. embargo forced Cuba to develop its domestic medical capabilities. As a result Cuba produces a majority of its essential

medical supplies, equipment and drugs domestically instead of importing more expensive alternatives. Also, Cuba has repeatedly defied international patent protection laws and produces generic, cheaper copies of a range of products.

- Healthcare systems in many Latin American countries’ suffer from severe resource wastages and inefficiencies caused by a lack of regulation and conflicts between the public and private healthcare providers. The centrally-planned Cuban economy on the other hand has a unified healthcare system that ensures an efficient use of resources, even in times of scarcity.
- A majority of Latin American countries suffer from huge administrative inefficiencies and widespread corruption that has resulted in misuse of valuable and scarce resources. Strict government control has helped minimize corruption in Cuba.

4.4 Internationalization of Health Services

Cuba has utilized its advances in healthcare to benefit the international community. In the past decades, Cuba has been providing many different services to other developing countries. It has provided direct medical care to a host country in many circumstances; approximately 20,000 Cuban health personnel work in 50 countries, primarily situated in Africa and Latin America. That care has included medical training and education to health personnel in the host country.

The government also offers treatment and sophisticated medical procedures to foreign patients in Cuba (e.g. many Chernobyl victims were sent to Cuba to undergo radiation/cancer treatment). Health tourism has now become an invaluable source of much-needed foreign exchange. Scholarships are widely available to foreign students to study medicine in Cuba (5,800 students enrolled from 24 countries in Latin America, the Caribbean and Africa). And there are scholarships provided to American medical students from low-income minority groups that are under-represented at U.S. medical schools.

Furthermore, Cuba has provided short-term crisis and disaster relief to neighboring Latin American countries following earthquakes and hurricanes. About 800 Cuban health personnel delivered services in Haiti alone, and over 120 doctors were sent to Honduras in 1998 following Hurricane Mitch. Cuba has donated medical equipment, supplies and complete medical facilities
to countries with weak medical infrastructure. Cuban involvement in South Yemen [now part of Unified Yemen] in the 1970s included providing nearly the entire healthcare delivery system and building the country’s first medical school in the city of Aden.

Finally, Cuba hosts international medical and biotechnological conferences, exports Cuban services through contracts made with international organizations (e.g. WHO and PAHO) to provide specific needs to Third World countries, and frequently sends teams of doctors on missions abroad to work either voluntarily or as part of a barter exchange program. Since October 2001, for example, Cuba has a special agreement with Venezuela under which Cuban supplies medical services in return for oil.  

4.5 Cost of Healthcare

These significant achievements in healthcare can be attributed to the commitment demonstrated by the Cuban government which has continued to allocate a high proportion of the national budget towards healthcare. The government’s national budget allocation for health care rose nearly 35 times, from 51 million pesos in 1960 to 1,857 million pesos in 2000. In the 1990s, health sector expenditures exhibited a rising trend, from 98.56 pesos per capita in 1990 to 166 pesos per capita in 2000, an increase of 69 percent. Even during 1989 -2000, although GDP declined drastically, the share of GDP allocated to healthcare increased from 4.3 to 6.1 percent. (See Appendix 4)

The success however has come at a huge cost. The Cuban economy, struggling to cope with the collapse of most of its former trading partners, falling international commodity prices and the US embargo has had to compromise on its other sectors to sustain its commitment to its medical system. The emergency measures of 1990 introduced to combat the economic adversity caused by the collapse of the Soviet Union led to near-total food-rationing. Lack of access to fuel debilitated the transport, industrial and agricultural sectors. Lack of housing, poor nutrition and worsening sanitary conditions have led to a deterioration of standards of living that in turn are affecting the Cuban healthcare system, thereby diminishing the positive achievements in medical care.

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93 Farag.
94 Sixto.
95 Mesa-Lago.
4.6 Challenges and Proposed Solutions

Cuba’s health care system faces several continuing challenges:

- Limited access to medical equipment and medicine due to continuing U.S. embargo
- High and increasing cost of healthcare in relation to GDP
- Inefficient allocation of resources – excess hospital beds and low occupancy rates
- Deterioration of basic infrastructure and lack of investment in water and sanitation has contributed to the increase of contagious diseases. The access to safe water through “easy access” in the rural sector had been reduced by nearly 55 percent of the population.
- Existence of a dual economy, where those with access to dollars have access to better food and services
- Inadequate payment / compensation to medical professionals. Cuban doctors earn an average monthly salary of $15 - $20 and are prohibited from taking on secondary forms of employment to boost their income. This has reduced the attractiveness of the medical profession and an increasing number of medical personnel are either switching careers or migrating to foreign countries.
- Due to the long life expectancy of the Cuban population, a shift towards an older population will increase the burden of health care leading to greater costs.
- Urban-rural and provincial disparities. In 1997, the rural-urban disparity was 74 percent with respect to potable water and 80.7 percent regarding sanitation. In 2000, 83.7 percent of the urban population had access to water compared to only 40.5 percent of the rural population. (See Appendix 3)

The challenges described above can be partially addressed by:

1. Implementing market oriented reforms
2. Allocating funds to the building and maintenance of infrastructure and sanitation
3. Improving administrative efficiency and resource allocation (e.g. closing down hospitals where bed occupancy rates have fallen below efficient levels)
4. Allowing doctors to take part in the new private sector of the economy

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96 Sixto.
97 Mesa-Lago.
98 CIEM 1997, 55 and 57 as cited by Mesa-Lago 2002
99 Mesa-Lago.
5. Reducing the disparity between the urban and rural sectors and provinces

6. Increasing investment in preventive medicine can provide cost effective alternatives to imported medical equipment and supplies

7. Promoting investment in biotechnology and domestic pharmaceutical companies. Cuba has a large number of highly qualified health care professionals. By investing in biotechnology, the nation can encourage its scientists to explore lucrative biomedical research areas. Increasing investment in domestic pharmaceuticals offers a tremendous potential to export low cost generic drugs to developing countries.

4.7 Impact of the U.S. Embargo on Cuban Healthcare

Cuba’s health care system may be one of the jewels of the Castro regime, but it has also been hampered by the United States’ economic embargo on Cuba. The United States began its policy of unilateral economic sanctions on Cuba in response to Cuban expropriation of U.S.-owned properties and nationalization of U.S. oil refineries. The embargo was established in July of 1960 as an amendment to the Trading with the Enemy Act, was strengthened in 1992 through the Cuban Democracy Act (CDA), and was reinforced most recently under the Cuban Liberty and Democratic Solidarity Act (Helms-Burton Act) in 1996.\(^\text{100}\) The justifications for the embargo represented Cold War thinking; as Fidel Castro supported communism internationally and the Soviet Union supported Cuba militarily and financially, the embargo was seen as a protector of U.S. national security and a moral statement made against a rights-oppressive regime. The goal of the embargo shifted with the CDA, which “encouraged a transition to democracy in Cuba by strengthening trade restrictions and by providing support for Cuba in the event it should begin to make that transition,” and the Helms-Burton Act, which conditioned removal of the embargo on a change from Castro’s authoritarian regime to a stable, democratic government.\(^\text{101}\) Current U.S. rationale for maintaining the embargo revolves around democracy and human rights discourse.

The U.S. embargo prohibits the import of goods or services from Cuba and the export of U.S. goods and services to Cuba through direct and third-party sanctions. It imposes a freeze on

\(^{100}\) House Committee on Ways and Means, Congressional hearing: “U.S. Economic and Trade Policy Toward Cuba,” 105th Congress, Congressional Record, 7 May 1998.

assets of the Cuban government and of Cuban nationals, and prohibits ships which have recently
docked at Cuban ports or which are transporting Cuban goods or citizens from trading at U.S.
ports. The U.S. currently gives some humanitarian aid to Cuba, but it is insubstantial,
meeting less than one percent of Cuba’s needs.

The embargo has placed a strain on Cuba’s health care sector. Cuba is the only country
in the world denied medicine under a U.S. embargo, and some reports indicate that the U.S.
embargo thus bears responsibility for the deaths of hundreds, or perhaps thousands, of Cubans
each year. Some have even called the embargo a “war against public health.” According to
the New England Journal of Medicine, even the mailing of medical journals is prohibited.

Although Castro spends a huge percentage of his budget on health care facilities and
research, certain medicines and technologies are only available at affordable prices from the U.S.
(examples are insulin, some cancer treatments, and mammography film). Ambulances cannot
obtain spare parts, so ambulance access has seriously declined. Breast cancer alone kills over
1,000 women in Cuba each year; the Helms-Burton Act may be specifically responsible for a
large part of this number since it denies Cuba prevention and treatment supplies that can only be
bought from the U.S. And the rise in the cost of medicine and the decline in the availability of
medicine can be directly linked to the embargo. Despite previously mentioned Cuban efforts
at biotechnological innovations and the development of generic versions of pharmaceuticals, the
fact remains that most major new pharmaceuticals are developed by American companies. Some
of these drugs are unavailable on the world market outside of the United States, and it may take
the Cuban system years to develop its own versions or alternative forms of these medications.
Cuba once had more than 1300 medical products available to the nation; by the mid 1990s, less
than 900 were still available, and at least a third of those products are unavailable at any given
time.

But why can Cuba not simply look to other countries for medicine and medical supplies
and equipment? In the late 1990s, the American Journal of Public Health reported:

References:

102 The President’s Export Council, Unilateral Economic Sanctions: A Review of Existing Sanctions and Their
Impacts on U.S. Economic Interests with Recommendations for Policy and Process Improvement, June 1997, in
http://usaengage.org/studies/unilat.1..
105 Garfield, Richard and Sarah Santana. “The Impact of the Economic Crisis and the U.S. Embargo on Health in
106 Garfield and Santana.
“…medical products produced outside the United States cost Cuba an estimated 30% more and require 50% to 400% higher shipping charges . . . the 6-month docking rule alone is estimated to raise average shipping costs by about 10%.”\textsuperscript{107} And although Cuba does have the means to produce some of the pharmaceuticals they are unable to afford importing, the cost of production brings an additional expense.

There do exist U.S. licensing agreements that allow medical suppliers to apply for licenses to sell supplies to Cuba. However, it is so difficult to obtain a license given the constant rejection of requests and the necessity of obtaining a separate license “for each clinic, hospital, or organization,” any medical supplies that actually reach the island are considered to be ultimately inconsequential.\textsuperscript{108} As a result, while hospitals exist in all cities in Cuba and are staffed by both general practitioners and by specialists in major fields, the older facilities lack the medical stock and technology (and bed space, although that in itself is not embargo-related) necessary to “deal capably” with patients.\textsuperscript{109} Newer buildings tend to have lower doctor-to-patient ratios, a wider variety of specializations, better technology, more medicine, and more bed space. This gap between medical facilities, precipitated but not designed by the embargo, reinforces the gap between rich and poor in Cuba exacerbated by the dual dollar-peso economy. The private hospital network in Cuba, fed by tourist dollars and mainly supplied by countries willing to break the embargo for a price, further widens the gap between the health care available to all Cubans and the health care open only to those with dollars.

On the other hand, the Cuban system has thrived under the embargo in certain areas. Its storied biotechnology, funded heavily by the Soviet Union in the 1980s, is developed at the Cuban Biotechnology Center, which has been operating since 1986. All research, development, and production of biotechnology on the island are conducted within one institution. Biotechnology led Cuba to discover an effective new vaccine for meningitis B in the late 1980s, and has more recently led to the development of what some claim to be the most effective hepatitis B vaccine in the world, as well as new cancer therapies that will likely be made available in Europe in the next five years. The Cuban system supports research in cholera and AIDS medicines, and vaccine development is a priority. While vaccination is one of the most

\textsuperscript{107} Garfield and Santana, p. 19.
\textsuperscript{109} Schwab, p. 63.
effective preventative measures against disease, it can be tremendously expensive. Cuba developed the first synthetic vaccine against pneumonia and meningitis; as a human-made vaccine, it costs much less than conventional vaccines.\textsuperscript{110}

But biotechnology, for all its advances, means only so much to the Cuban who must drink contaminated water. American firms have been fined for attempting to sell chemical purification tablets to Cubans, spare parts for pumping stations are unobtainable, and some disease in Cuba is directly caused by poor sanitation. And it is not much comfort to the Cuban who must stand in long lines for monthly food rations.

4.8 Challenges under the Embargo

Due to the U.S. embargo, there are currently medicines that Cubans cannot obtain because they are manufactured only by the United States. A Cuban doctor described one of these medicines as a treatment for prematurely born infants with underdeveloped lungs. Cuba is unable to import such a drug without incurring tremendous expense by importing through a third party who faces U.S. fines and repercussions. It is unrealistic for Cuba to produce all of the pharmaceuticals in this category for itself, especially since many of these medicines will be newer, more expensive treatments, as they are only available in the United States. We do not recommend that Cuba attempt to undertake reverse engineering or other pharmaceutical initiatives at this time, due to the high costs and relatively small outputs, except in critical situations.

However, the embargo does pose two other challenges that the Cuban government can act upon: the state of nutrition and sanitation for Cubans. Cuba has responded to food insecurity by placing a high importance and devoting significant resources to its agricultural sector, and has succeeded in preventing its population from starving. However, the lack of spare parts for farming equipment and of non-organic fertilizers, pesticides, and other farming aids has diminished Cuba’s capacity to produce enough food to fully meet the caloric needs of its population. Similarly, a lack of importable technology has made it more difficult for the Cuban government to provide citizens with adequate sanitation, leading to illnesses that are entirely preventable. With so much money already invested in health care, education, and agriculture, it is difficult to see where the government could obtain the resources necessary to significantly

improve either situation. The best solution in the medium-term may be to pursue contracts with partners in foreign countries. An influx of equipment in both sectors, and a possible foreign presence in these industries, such as the foreign presence in Cuban utilities, might have some impact on improving the lives of Cuban citizens.
Appendix 1: Overall Healthcare Indicators: 1953-2000

<table>
<thead>
<tr>
<th>Years</th>
<th>Maternal Mortality Rate per 100,000</th>
<th>Infant Mortality Rate per 1,000</th>
<th>Under 5 Mortality Rate per 1,000</th>
<th>% of Children Born Under Weight</th>
<th>Mortality 65 Years Above</th>
<th>Life Expectancy at birth</th>
</tr>
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<tbody>
<tr>
<td>1953</td>
<td>...</td>
<td>35.0</td>
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<td>1955</td>
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<td>1956</td>
<td>134.0</td>
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<td>1957</td>
<td>126.5</td>
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<tr>
<td>1958</td>
<td>125.3</td>
<td>33.4</td>
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a. Includes medical technicians and management personnel, but excludes physicians and nurses.
### Appendix 3: Cuban Health-Care System - Finances and General Indicators: 1958-2000

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5.1 Introduction

This chapter is a discussion of the socio-economic policies of Cuba through a cross-sectional review and analysis of labor, inequality and poverty before and after the Revolution of 1959. It explores inequalities and labor policies in Cuba within the framework of economic restructuring and policy reforms in various sectors of the economy such as: tourism, agriculture, and informal labor markets during the period of 1959 - 2003. The chapter ends with an examination of the characteristics of poverty in Cuba and the role of international development aid in fighting poverty in Cuba.

5.2 Inequality in Cuba: An Overview

From 1958 to 1989 the Cuban Revolution reduced inequality to low levels unsurpassed in even the most developed nations. Cuba’s government relied on a centrally planned economy and Russian subsidies to pay for their redistribution policies. These policies included the literacy campaign and universal education, a national healthcare system, almost universal home ownership, subsidized basic goods, and a national pay scale with a very small variance (first set in 1962). Other factors, like the exodus of the upper classes in the early 1960s and strong public support for the Revolution contributed to the success of redistribution policies.

Since the beginning of the “special period” in 1989, Cuba adopted free market and development policies that simultaneously fostered growth and increased inequality.\(^\text{111}\) Gains realized through this economic policy, in addition to the resumption of official development assistance (ODA) from donor countries, were the primary support for Cuba’s tremendous social programs. Unlike most countries that can run a deficit during economic downturns, Cuba cannot float bonds to its population nor can it borrow from foreign lenders. Since 1964 Cuba has had no

\(^{111}\) This tension between capitalism and inequality in Cuba has received significant attention in the mass media including articles in the Economist and a segment on the PBS News Hour (July 17, 2001)
access to capital from the International Monetary Fund, the InterAmerican Development Bank, or the World Bank. Furthermore, the cost of credit for Cuba is very high as a result of the US economic blockade. Consequently, economic growth through market liberalization has been the primary way for Cuba to fund its social programs. However, economic restructuring comes at a high cost, reintroducing inequality into Cuban society. Worse yet, the inequality falls along racial and geographic lines, and creates perverse incentives in the labor market.

**1959-1989: Reducing Inequality**

From 1959 to 1983 Cuba made significant gains in reducing inequality. In 1953 the poorest 40% in Cuba earned only 6.5% of the total income while in 1962 they earned 17.2%. By 1986 the poorest 40% earned 26%. In comparison, in the US in 2001, the lowest quintile earned 3.5% of the aggregate income and the second quintile 8.7%, meaning that the bottom 40% earned 12.2% of total income, compared to 26% in Cuba. Furthermore, the US 2001 ratio of the top quintile to the bottom quintile was 14.34 compared to 3.3 in Cuba in 1986. The gini coefficient, another indicator of inequality, shows a similar comparison. Even in 2000 Cuba’s gini coefficient was significantly more equal than that of the United States. (The numbers for Cuba are not exact. Other sources claim that the gini coefficient ranged between 22 and 25 in the eighties and increased to between 37 and 39 in the late 1990’s- a number approaching that of the US.) Cuban levels of inequality fell as a result of post-revolutionary education, health, and labor policies. However they probably did not fall as much as the statistics suggest.

These numbers underestimate inequality for both countries. In the United States wealth is distributed more unequally than is income, and is a stronger indicator of one’s economic well-being and ability to consume. In Cuba, wealth would not be a better measure. However those with powerful positions are rewarded with various goods not available in the marketplace. Thus both American and Cuban numbers underestimate inequality.

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113 Ibid.
It has been suggested that we might also examine inequality in terms of savings accounts. Today, Cubans’ total savings are shifting from more accounts with smaller holdings to fewer accounts with more holdings, perhaps an indication of assets shifting to the top quartile.\textsuperscript{114} We should be somewhat wary of this indicator of economic inequality, since as the economist Omar Everleny suggested to our student group, there is little incentive for Cubans to save money

\begin{table}
\centering
\caption{Income Distribution}
\begin{tabular}{|l|c|c|c|c|}
\hline
\hline
lower (0-20) & 11.3\% & 8.8\% & 4.8\% & 4.3\% \\
second (21-40) & 14.7\% & 14.5\% & 9.1\% & 8.2\% \\
Third (41-60) & 17.0\% & 18.7\% & 13.2\% & 12.2\% \\
Fourth (61-80) & 23.2\% & 24.1\% & 18.5\% & 17.1\% \\
Upper (81-100) & 33.8\% & 33.9\% & 54.4\% & 58.1\% \\
Upper/Lower & 3.3 & 3.8 & 11.3 & 13.5 \\
Gini & 0.22 & n.a. & 0.399 & 0.407 \\
\hline
\end{tabular}
\end{table}

\textit{Source: Claes Brundenius “Cuba: Retreat from Entitlement?”}

because savings do not accrue significant interest nor are there more expensive consumables to buy with ones’ savings. (Houses, cars, vacations, and other goods are not available on the free market.)

Discussing inequality, we should not only consider “how is the pie divided?” but also “how big is the pie?” This, of course, was the problem in 1989. Cuba was equal, but there wasn’t much to share equally. As explained in the section on the “special period,” there were shortages not only of consumable and luxury goods, but also of basic foodstuffs. The Cuban government has been successfully providing public goods like education and healthcare, but consumable goods (that we would consider “private”) were scarce. Even today it is difficult to find manufactured goods like pens, clothing, and so on.

**Pre-1989: Functionalist Inequality**

Before 1989, Cuba was more equal than it is today, but still did not have perfect equality. After all, under a communist society each man should produce according to his ability and each man should be rewarded according to his need. However, Cuba’s planners did not institute an entirely communist system. Rather they implemented a state-run monopoly. Such a model relies on a strong central state that manages final objectives and runs from the top down. Fidel Castro designed his government following this model, placing the power of the economy in the hands of a complex bureaucracy.\(^{115}\) We can see this most clearly in the Cuban wage structure. Cuba’s planners accepted Davis and Moore’s theory of “functional stratification.”\(^{116}\) This theory suggests that even in the most equal society, a certain level of stratification is necessary to motivate individuals to sort into the appropriate jobs by skill and training. They suggest that if there was not some base level of stratification, individuals would not be motivated to acquire training to fulfill particularly difficult functions such as that of a doctor. In accordance with this ideology, the Cuban government set up the following pay scale in 1962, changing it slightly in 1980.

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This scheme institutionalizes a tolerable level of inequality that Cuban social planners thought was necessary to motivate the worker. Under this scheme the government set wages such that the highest bracket earned approximately three times the lowest bracket. This scheme has practical implications about the level of inequality permitted in Cuba before 1989. In addition it suggests what the Cuban government viewed as a theoretically desirable level of inequality.

**Pre-1989: Bureaucratic Inequality**

In a centrally planned, bureaucratic-based government, even more than in most Democratic governments, there is a strong threat of inequality based on corruption and power. Under any bureaucratic system, bureaucratic power is based not on the individual’s power but on their position. Because of the transient nature of this power, those in bureaucracy try to maintain the privilege of their positions, and the power of those positions in that bureaucracy.\(^{117}\) At the beginning of the Revolution, planners were aware of this threat. According to Richard L. Harris, the Cuban government originally considered several policies to avoid bureaucratic entrenchment. First, they considered designing a system with recall power for bureaucrats.

Second, they suggested that bureaucratic positions pay less than a working man’s position and be filled on a rotating basis. Third, they suggested they replace bureaucrats with locally elected officials. All these proposals failed. As theory would predict, bureaucracy became entrenched and privilege associated with these positions of power became the norm. As such, even today Cuban bureaucrats have the freedom to travel, to own cars, and to live in more attractive homes. As a planned society, the bureaucratic machinery runs deep in the Cuban economy. Even on the local level (as local as the block president of the CDR or Committee in Defense of the Revolution), individuals are rewarded for their participation in the government structure. It is impossible to know the extent of inequality that is related to one’s level within the national bureaucracy, as these rewards are seldom income or wealth, but rather cars, trips, and homes. However it is pervasive enough that on our trip, several people mentioned this problem to us.

Post-1989 Changes in Inequality

Before 1989 there was a national policy of universal employment. As part of achieving this goal, many workers were “placed” in positions through the bureaucratic structure. Traditionally, enterprises in Havana, social service providers, and those employers hiring university graduates were not permitted to recruit workers directly. Furthermore, the entire nation was paid according to the pay scale explained above. Some of these early policies continue till date - for example it is still the case that university graduates are placed in their first jobs.

Since 1989 new labor policies have increased inequality in Cuba. Today many Cubans are “self-employed,” meaning that they work in the regularized and unregularized private enterprises such as the privately owned restaurants (paladares), arts and crafts businesses, the tourism sector, the farmers markets (agropecuario) and so on. In addition there are new wage-incentive schemes offering bonuses in dollars. These bonuses are primarily offered in those industries generating foreign exchange. The government also works with foreign investors in crafting labor policies (i.e., pay scales and recruitment) for joint ventures and furthermore, agricultural producers are allowed to offer some goods on the free market and are allowed to keep profits. In the future, Cuba will move even further towards privatization with

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118 Harris, Richard L. 1987. “Marxism and the Transition to Socialism in Latin America” UCSC.
119 Law of Social Service No. 1254 requires university graduates to work for three years at the position assigned to them in “social service.”
Perfeccionamiento Empresarial (PE,) a new plan instituting incentive-based wages similar to those in China. These new policies will likely create even more inequality.

Some argue that these new labor policies have also increased unemployment\(^{120}\) and decreased underemployment.\(^{121}\) These claims are not quite certain, since the informal sector is growing and difficult to measure. It is certain, however, that under the new economic policy the low-skill, high earning service sector is the greatest source of job growth.

### Table 5.4 Unemployment

<table>
<thead>
<tr>
<th>Year</th>
<th>Economically Active Population/Population in Working Age</th>
<th>Working Population/Population in Working Age</th>
<th>Unemployed/Population in Working Age</th>
</tr>
</thead>
<tbody>
<tr>
<td>1989</td>
<td>0.761</td>
<td>0.701</td>
<td>0.060</td>
</tr>
<tr>
<td>1990</td>
<td>0.741</td>
<td>0.687</td>
<td>0.054</td>
</tr>
<tr>
<td>1991</td>
<td>0.730</td>
<td>0.674</td>
<td>0.056</td>
</tr>
<tr>
<td>1992</td>
<td>0.708</td>
<td>0.665</td>
<td>0.043</td>
</tr>
<tr>
<td>1993</td>
<td>0.692</td>
<td>0.649</td>
<td>0.043</td>
</tr>
<tr>
<td>1994</td>
<td>0.675</td>
<td>0.630</td>
<td>0.045</td>
</tr>
<tr>
<td>1995</td>
<td>0.672</td>
<td>0.619</td>
<td>0.053</td>
</tr>
<tr>
<td>1996</td>
<td>0.680</td>
<td>0.633</td>
<td>0.046</td>
</tr>
</tbody>
</table>

*Source: Anuario Estadistico de Cuba de 1996, ONE y La Economic Cubana 1997, CEPAL*

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Remittances combined with privatization: a source of growing racial inequality?

In 1901 Cuba’s constitution guaranteed all citizens equal status. But before the Revolution, the Cuban blacks earned significantly less than whites and faced substantial discrimination. After the revolution, section five of the socialist constitution guaranteed blacks equal opportunities and outlawed discrimination. However on both occasions, inequality persevered. Due to social expenditures, the flight of the upper middle class, and the socialist wage scheme, the gap between blacks, whites, and mulattos narrowed on all measures following the revolution. By the 1980s blacks were almost at economic parity and were proportionately represented in the professions, although some social inequalities and markers of social deviance

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\(^{120}\) Muruaga

persevered. For example in 1986, 78% of documented socially deviant behavior in Cuba was committed by blacks and 2/3 of the incarcerated are still blacks.\textsuperscript{122}

Since 1989 racial inequality in Cuba has increased. Following agreements with the United States under both the Bill Clinton and the George W. Bush administrations, remittances are an ever-growing part of the Cuban economy. Since most of those who left Cuba were white, remittances disproportionately go to white and mulatto Cubans. Furthermore, those blacks that emigrated to the US earn less than their white counterparts, meaning that remittances from blacks are generally smaller than remittances from whites. Remittances are an important part of investment capital for micro-enterprise in Cuba. Today, whites disproportionately have the capital to invest in paladares, bed and breakfasts, and other small private businesses. Furthermore, blacks tend to live in those areas that provide fewer opportunities for small paladares and bed and breakfasts. This self-employment arena provides significant opportunities where the self-employed are able to earn 18 times their previous salary.\textsuperscript{123} In addition, some claim that blacks are less likely to be hired by the tourism sector. The general perception is that tourists are discriminatory. In sum, all of these factors lead to increasing racial inequality in Cuba.

\textit{Inequality & the Split Labor Market:}

It is important to note that the resulting split labor market falls along racial and geographic lines. Those earning dollars are more likely to be white, to be related to the government bureaucracy, and to live in Havana. Further, access to new opportunities in Havana is limited since Decree 217 limits migration to the capital. And as explained above, blacks are also less likely to have access to the dollar economy. Edna Bonacich argues in \textit{A Theory of Ethnic Antagonism: The Split Labor Market}, that a split labor market enriches the dominant group and creates an incentive to perpetuate that split. If this is the case, inequality will quickly become entrenched, as those in the dollar labor force pursue their advantage. (Their advantage comes not only from earning dollars, but also indirectly at the expense of those not earning dollars.) Further, the racial nature of this split makes it more likely that it will persevere. Today the Cuban government is trying to fight this trend by promoting tourism in other parts of the


\textsuperscript{123} Ibid.
country, imposing heavy taxes on self-employment, and administering wages for personnel employed in joint ventures through the federal government.

**Upcoming Reforms: Perfeccionamiento Empresarial**

The most recent change in Cuba’s shift towards privatization is “Perfeccionamiento Empresarial” (PE), which was enacted by decree law no. 187 in 1998 by the Consejo Estado de la Republica Cubana. Its objective is to establish economic mechanisms creating incentives for efficiency and to increase competition. The plan is similar to earlier liberalizations in China that altered labor market incentives, entirely de-linking the relationship between education and wages.\(^{124}\) One might expect similar consequences from Cuba’s PE plan. We can already see the shift towards this market-based system in Cuba. By 2003 there were 5 different areas of work in Cuba on the continuum from state-run to private market: state enterprise (76% of work), Cooperatives (primarily in agriculture-8% of work), joint venture employment (7%), private enterprise (foreign firms, associations, foundations, also private small farmers) (14.7%), and the unemployed (4%). In addition the black market employs approximately 100,000 workers. The private market will increase dramatically when PE is fully implemented. PE will move Cuba towards a model allowing businesses to keep a portion of their profits and return a portion of their profits to the government. Ultimately these businesses will provide their own operating budgets in lieu of applying to the government for annual budgets. One might anticipate that this effort will both stimulate productivity and at the same time increase inequality, as have similar measures in China.\(^{125}\)

**Macroeconomic Indicators**

While creating inequality, changes since the special period created economic growth. Thus there is more for the government to redistribute, even if it is distributed less equitably. The GDP growth rate in 1993 was \(-14.3\)\(^{126}\) and the percentage decrease in GDP per capita from the previous year in 1993 was \(-15.4\). Official Development Assistance (ODA) to Cuba was restarted in 1994 and was targeted to both humanitarian and development projects. Although Cuba did make many economic policy changes during this time to overcome the meltdown, development

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\(^{125}\) “La Cultura del trabajo en Cuba ante el perfeccionamiento empresarial Jose Luis Martin” Temas No. 30 42-55 julio-sept 2002.

support most definitely played a significant role in assisting the Cuban recovery. In 1994 the GDP growth rate rose into positive territory at 0.7% and the percentage change in GDP per capita was also positive at 0.2 (Table 5.5)\textsuperscript{127}. The GDP growth rate and growth rate per capita contracted from 5.6 in 2000 to 1.1 in 2002 and from 5.8% in 2000 to 0.6% in 2002, respectively. So while inequality has increased and unemployment remained stable, Cuba has experienced a significant (if slowing) recovery that should ideally benefit the average Cuban.

<table>
<thead>
<tr>
<th>Year</th>
<th>GDP growth rate (%)</th>
<th>GDP per capita (pesos)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1989</td>
<td>1.2 0.1</td>
<td>1,852 1,172</td>
</tr>
<tr>
<td>1990</td>
<td>-2.9 -4.0</td>
<td>1,172 1,175</td>
</tr>
<tr>
<td>1991</td>
<td>-10.7 -11.6</td>
<td>1,175 1,201</td>
</tr>
<tr>
<td>1992</td>
<td>-11.5 -12.3</td>
<td>1,201 1,290</td>
</tr>
<tr>
<td>1993</td>
<td>-14.9 -15.4</td>
<td>1,290 1,317</td>
</tr>
<tr>
<td>1994</td>
<td>0.7 0.2</td>
<td>1,317 1,327</td>
</tr>
<tr>
<td>1995</td>
<td>2.5 2.2</td>
<td>1,327 1,405</td>
</tr>
<tr>
<td>1996</td>
<td>7.8 7.4</td>
<td>1,405 1,478</td>
</tr>
<tr>
<td>1997</td>
<td>2.5 2.7 2.1 2.3</td>
<td>1,478 1,518</td>
</tr>
<tr>
<td>1998</td>
<td>1.2 0.2 0.8 -0.3</td>
<td>1,518 1,531\textsuperscript{a}</td>
</tr>
<tr>
<td>1999</td>
<td>6.2 6.3 5.8 5.9</td>
<td></td>
</tr>
<tr>
<td>2000</td>
<td>5.6 6.1 5.2 5.8</td>
<td></td>
</tr>
<tr>
<td>2001</td>
<td>3.0 3.0 2.6 2.7</td>
<td></td>
</tr>
<tr>
<td>2002</td>
<td>1.1 0.6</td>
<td></td>
</tr>
</tbody>
</table>


\begin{table}[h]
\centering
\begin{tabular}{|c|c|c|c|c|c|c|c|c|c|c|c|c|c|}
\hline
\hline
\textit{GDP growth rate}\textsuperscript{a} & 1.2 & -14.9 & 0.7 & 2.5 & 7.8 & 2.5 & 1.2 & 6.2 & 5.6 & 3.0 & 1.1 & -13 \\
\textit{GDP per capita (pesos)}\textsuperscript{b} & 1,852 & 1,172 & 1,175 & 1,201 & 1,290 & 1,317 & 1,327 & 1,405 & 1,478 & 1,518 & 1,531\textsuperscript{a} & -18 \\
\hline
\end{tabular}
\caption{CUBAN MACROECONOMIC INDICATORS: 1989-2002 (in percentages)}
\end{table}

\textsuperscript{a} At constant 1981 prices; in 2001 was shifted to 1997 prices (see text) and the 2002 rate is not comparable. \textsuperscript{b} Annual variation of the CPI

\textit{Inequality and Growth: The Same Causes?}

While remittances, tourism, and privatization all foster inequality, it is important to remember that these changes are the engine behind economic growth in Cuba, and without them, the government would not have the required hard currency to maintain its state social services and subsidies. Without these new sources for revenue, the government would not have the funds to run their universal health coverage, education, or to subsidize the basic foodstuffs people purchase with their ration books. As such, Cuba is conducting a fine balancing act, trying to tap into the benefits of capitalism while avoiding its greatest pitfall: inequality. At the same time, Cuba is implementing new ways of maintaining equality: taxes on private enterprise, paying Cuban employees of joint ventures through the federal government, and subsidizing private consumption of quasi public goods (like electricity) by charging foreign investors in dollars and private homes in pesos. The following sections will explore how Cuba is trying to manage this delicate balance between growth and equality in its labor, agricultural, and development policies as well as in managing the burgeoning informal labor sector.

5.3 Labor and Employment

Before we can begin to discuss the overall conditions in the labor market it is important to consider some of the structural changes that occurred in the early revolutionary period. One of the most striking disparities in the labor market before 1959 was the under-representation of blacks in various professions. The Revolution’s appropriation of property, education and health policies, combined with the exodus of white professionals changed the social structure such that by 1980 blacks were proportionally represented in the professions. In contrast, the lag of employment parity at the professional level was substantial in Brazil and the USA.

Table 5.7: Percentage distribution of occupations, civilian labor force by race: Brazil, Cuba and the United States in 1980.

<table>
<thead>
<tr>
<th>Occupation</th>
<th>Brazil</th>
<th>Cuba</th>
<th>U.S.A</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>White</td>
<td>Black</td>
<td>White</td>
</tr>
<tr>
<td>Professional</td>
<td>09</td>
<td>03</td>
<td>22</td>
</tr>
<tr>
<td>Management</td>
<td>17</td>
<td>04</td>
<td>13</td>
</tr>
<tr>
<td>Sales</td>
<td>09</td>
<td>04</td>
<td>06</td>
</tr>
<tr>
<td>Manual</td>
<td>26</td>
<td>28</td>
<td>23</td>
</tr>
</tbody>
</table>
non-farm
<table>
<thead>
<tr>
<th></th>
<th>11</th>
<th>23</th>
<th>07</th>
<th>09</th>
<th>11</th>
<th>22</th>
</tr>
</thead>
<tbody>
<tr>
<td>Services</td>
<td>11</td>
<td>23</td>
<td>07</td>
<td>09</td>
<td>11</td>
<td>22</td>
</tr>
<tr>
<td>Agriculture</td>
<td>23</td>
<td>32</td>
<td>18</td>
<td>13</td>
<td>03</td>
<td>02</td>
</tr>
<tr>
<td>Other</td>
<td>06</td>
<td>07</td>
<td>10</td>
<td>12</td>
<td>00</td>
<td>00</td>
</tr>
<tr>
<td>Total</td>
<td>100</td>
<td>100</td>
<td>100</td>
<td>100</td>
<td>100</td>
<td>100</td>
</tr>
</tbody>
</table>

Sources: Jacob Meerman, 2001, table 11, pp. 1473.

Between 1989 and 1991, trade relations between Cuba and the COMECON countries collapsed. Cuba lost not only its main trading partners, but also its long-term low interest loans and preferential (non market rate) terms of trade. As articulated in other parts of this document, the Cuban economy suffered a dramatic blow. Between 1989 and 1993, Cuba’s GDP fell by 35 percent, gross investment fell by 80 percent, and exports of goods and services fell from almost US$6 billion in 1990 to less than US$2 billion in 1993. The collapse of the foreign sector caused the importing capacity and domestic supply to fall dramatically, leading to widespread unemployment due to the contraction and breakdown in production of enterprises. At the same time, people’s living standards decreased substantially. Brundenius pointed out that a Cuban’s private consumption level declined by 30 per cent on average. While the Cuban state was dedicated to full employment, during the special period there was low productivity and high unemployment, even when the government claimed otherwise.

**Employment by economic activity**

According to World Bank Report, employment composition in Cuba has changed significantly over time. Compared with other developing countries, Cuba has a lower percentage of population engaging in agriculture, and the proportion has been declining in the past two decades. Only 24 percent of the male and 8 percent of the female labor force worked in the agricultural sector in the mid 1990’s. This is attributed to the large-scaled layoffs in the state-owned farms since the economic crisis. Between 1980 and the mid-1990’s, labor employment in the industrial sector did not change very much. The proportion of the male labor force in the industrial sector had moderately increased from 32 percent in 1980 to 36 percent in the mid-1990s, while female labor force remained roughly 21 percent during this time period. Lack of capital has caused stagnant industrial production. The most striking feature about the

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employment composition is that a higher percentage of the labor force was engaged in the service sectors. This is especially true in the female labor force, where female employment in service sectors has risen to 71 percent in the mid 1990s. This is attributable to two factors. First, new economic development strategies have created significant incentives among the population. The government legalized dollar transactions and self-employment, and allowed the establishments of joint ventures. Second, following the adoption of structural adjustment programs, many people were laid off from the state-owned enterprises and there were low barriers to gain access to informal employment in the service sectors.

Table 5.8: Cuban employment by economic activity

<table>
<thead>
<tr>
<th></th>
<th>Male % of male labour force</th>
<th>Female % of female labour force</th>
</tr>
</thead>
<tbody>
<tr>
<td>1980</td>
<td>1990-97</td>
<td>1980</td>
</tr>
<tr>
<td>Agriculture</td>
<td>30</td>
<td>24</td>
</tr>
<tr>
<td>Industry</td>
<td>32</td>
<td>36</td>
</tr>
<tr>
<td>Service</td>
<td>39</td>
<td>41</td>
</tr>
<tr>
<td></td>
<td>10</td>
<td>8</td>
</tr>
<tr>
<td></td>
<td>22</td>
<td>21</td>
</tr>
<tr>
<td></td>
<td>68</td>
<td>71</td>
</tr>
</tbody>
</table>

Sources: http://www.wto.org/english/news_e/pres00_e/pr167_6_e.htm

Employment in state-owned enterprises

So far, the Cuban government continues to adhere to socialist principles in organizing its state-controlled economy. Most of the means of production are owned and run by the government. Until recently, state employment accounted for 94 percent of total employment. However, lack of capital has made a majority of the industries operate at 20 to 25 percent of total capacity. Many industries were unnecessarily large in relation to their potential domestic and export markets, and the reduction of inflated workforces in state industries was inevitable. Labor force reductions made it necessary for many people to look for new jobs. Therefore, Cuba needed to attract more foreign capital as well as expand self-employment in order to revive its industry. In order to facilitate the free contracting of labor, the government has to remove bureaucratic obstacles.

Employment in joint ventures and private-owned enterprises

129 Definition: agriculture also includes hunting, forestry and fishing. Industry includes mining and quarrying, manufacturing, construction, electricity, gas and water. Services include trade and restaurants and hotels, transport, storage and communications, financing, insurance, real estate, and business services, and community, social, and personal services. (Source: World Bank, 1999 World Development Indicators)

The primary engine behind recent Cuban economic growth is the tourism industry. Cuba developed this new sector primarily through “joint ventures” with foreign companies that provided the capital and the knowledge to build tourist resorts and hotels. Between 1990 and 2000 the number of joint ventures increased from 340,000 to 1,600,000, a growth rate averaging 15% per year. Tourism was the chosen area of development because it is a viable source of hard currency, taps into Cuba’s natural commodities (beaches, sun, etc.) and is attractive to foreign investment. It is hard to underestimate the size of this new industry. During the 1990’s, gross investments in tourism were almost 20 percent of all gross investments in Cuba. This new sector is a significant employer with between 100,000 and 150,000 employees, and approximately 200,000 are estimated to work indirectly in tourism.  

How is this new industry related to inequality, how might it create more total income to distribute across the population, and will it spark other new employment sectors in Cuba? According to Martin de Holan and Phillips, a large proportion of the hard currency earnings are used to import tourist supplies rather than domestic investment. This is largely ascribed to the lack of supporting industries capable of producing infrastructure, products, and services needed to care for international tourists. In other words, tourism does not have a strong linkage effect to many sectors in the Cuban economy. Thus, we do not expect that this will spark new employment opportunities in other areas of Cuba’s economy. Furthermore, low skilled tourism jobs do not provide the most economically efficient type of employment that would tap into one of Cuba’s best resources - a highly educated population.

Cuba should seek to develop industries that would foster those industries that have both more added values and utilization of human capital. Exploring new industries with new job opportunities will increase the standard of living and stabilize Cuba’s economy. One way to increase employment is to expand its export capacity in its traditional exports such as nickel and tobacco, as well as burgeoning exports such as pharmaceutical and other biotechnological products. Cuba enjoys a competitive advantage in these areas. Also, with increased foreign direct investment, joint ventures in telecommunication, construction, petroleum, gas, and consumption goods, employment opportunities increase considerably.

As mentioned, Cuba has expanded its employment opportunities in recent years through small scale and medium enterprises (SME’s). With the implementation of more liberal policies

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in 1989, SME’s became an important source of employment, absorbing the surplus labor laid-off from the downsized state sector.\textsuperscript{132} Between 1989 and 1999, the private sector grew from 165,000 to 496,000 units, or from 4.3 percent to 13 percent of the labor force.\textsuperscript{133} However, recently, stricter regulations were implemented attempting to squeeze more of these private sector entrepreneurs out of business and back to the public sector. These measures have reduced the tax receipts from the self-employed in 2001, which fell 8.1\% due to the decrease in the number of these taxpayers. It is anticipated that the growth of SME will be exponential if the government removes the entry barriers and private-entrepreneurship disincentives.

Job creation and poverty reduction are closely linked to the expansion of industrial sectors. In terms of economic growth and increasing the living standards of its people, it is important that Cuba makes full use of its high-quality workforce and creates competitive advantages rather than the passive exploitation of comparative advantages of natural resources. The country is beginning to move in this direction and developing new industries that will tap into this asset in order to create more equal and higher living standards for its population.

5.4 New Developments: The Informal and Self-employed Labor Sector

For the average Cuban worker, wages are too low to purchase basic necessities. Without the help of remittances, many Cubans rely on income from the informal labor sector and the newly recognized private sector. To maintain political control, the government highly regulates and taxes the private and the self employment sector, and tries to repress the informal sector.\textsuperscript{134} This section explores the emergence of the “dual economy” and a growing informal sector in Cuba and discusses some of the socio-economic impacts of the alternative economic policies of the 1990’s on the Cuban society.

The reforms and adjustment policies of the 1990’s resulted in an expansion of private-sector employment, absorbing some of the displaced workers. Government policy changes expanded the list of approved private-sector occupations, permitted university graduates to be engaged in self-employment, and legalized many small businesses, although under the licensing

\textsuperscript{132} Brundenius, 2002, p. 375. SMEs are defined as those employing fewer than 100 people.
\textsuperscript{133} Ibid, p.376.
\textsuperscript{134} Pumar, Enrique S. 1996. “Labor Effects of Adjustment Policies in Cuba” in \textit{Cuba in Transition}. ASCE.
control of the government.\textsuperscript{135} The exact number of people engaged in informal sector activities in Cuba cannot be stated precisely, but their presence is evident in all sectors of the economy, at least in Havana, the capital city. Perez-Lopez estimates that the informal sector is a significant part of Cuba’s economy.\textsuperscript{136} High paying opportunities in the informal sector draws workers of all types - not only the unemployed, but also the professional, educated and government workers. This creates inefficiencies with highly educated workers performing low skill tasks.\textsuperscript{137}

Many of these informal employment opportunities are the indirect result of government policies promoting tourism and creating a small private market. For example, many workers are employed illegally at private restaurants, beds and breakfasts and some operate illegal taxis, chaffuering tourists.

Table 5.8: Summary of Economic Reforms

<table>
<thead>
<tr>
<th>Policy</th>
<th>Social Effects</th>
</tr>
</thead>
<tbody>
<tr>
<td>Fiscal reforms and currency devaluation</td>
<td>Dollarization of the economy, inflation</td>
</tr>
<tr>
<td>Privatization</td>
<td>Discriminates against nationals, a split-labor market</td>
</tr>
<tr>
<td>Tourism</td>
<td>Exacerbates relative deprivation and discontent</td>
</tr>
<tr>
<td>Self Employment</td>
<td>Controls labor market</td>
</tr>
</tbody>
</table>


\textbf{Cuba’s Private Sector}

Generally, there are two different types of profit-based enterprises in Cuba: \textit{very large and very small}. Gordon states that foreign investors account for the very large enterprises and individual Cubans for the very small. Cubans obtain a license, for which they pay a fee based on the income anticipated for that type of business. For example: ‘a family might turn its living room into a small restaurant; someone with a car might start hiring it out as a taxi; a woman might make traditional Cuban pastries and sell them in her front yard.’\textsuperscript{138} Thus, there is now a

\textsuperscript{135} Perry, Joseph M., Woods, Louis A. and Steagall, Jeffrey W. \textit{Alternative Policies to Deal with Labor Surpluses During the Cuban Transition}: ASCE 1996.
\textsuperscript{137} Pumar.
\textsuperscript{138} Gordon, Joy. \textit{Cuba’s Entrepreneurial Socialism}.
substantial legal informal sector in Cuba and the participants of this informal sector are called the “cuentapropistas” (entrepreneurs).

Thus, Cuba’s production and distribution system for foodstuffs and essential consumer goods consists of the old rationing system complemented by alternative markets (farmers’ markets and government-run “parallel” markets) and a fast-growing “informal” sector, which accounts for a rapidly increasing share of domestic production and consumption. In addition to the state-run first economy” and the newly established, market-based “second” economy (joint ventures, foreign investment), there is a partially legalized informal economy.

The Cuban government guarantees its citizens a wide range of basic needs; therefore any additional income from the new private enterprises goes almost entirely for consumer goods. In this vein, many Cubans associate private enterprise participation with economic freedom because ‘you are your own person, you earn what you earn, and you spend it as you like. Yet this is possible in Cuba only because and insofar as it has remained socialist.’

**Characteristics of Cuba’s self-employed and informal sectors**

Prolonged austerity, rigid salary structures, and the state-controlled economy's inefficiency in providing adequate goods and services have created conditions for a flourishing informal economy in Cuba. The contextual framework for growing informal economic activities is: the existence of the dual economy and demand for dollars; state-run dollar retail stores; uneven access to the market economy; depreciation of human capital assets; and large income imbalances. The growing informal sector of the Cuban economy is providing an ever-increasing number of employment opportunities for people who can’t or won’t find a job within the state sector. The government recognizes that Cubans must engage in such informal activities to make ends meet and that attempts to shut the informal economy down would be futile. A report by an independent economist and opposition leader speculates that currently more than 40% of the Cuban economy operates in the informal sector. Also another estimate suggests that in 2000, the Cuban government reported that Cubans spent approximately 30% of their income in

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140 Gordon.

141 González, Lázaro Raúl, CPI. *Informal Labor Market takes up slack in contracting economy*. www.cubanet.org

the informal economy. Mesa-Lago suggests that in Cuba significant informal sector growth arising from looser regulation would prompt more illegal activity, as economic linkages proliferate and incentives for theft from the state multiply.

Jorge Pérez-López describes the difficult balancing act that the legalization of private or “own account” economic activities represents for citizens and the government alike in Cuba. Today, the informal economic activities in Cuba encompass diverse job descriptions. There are street vendors, artisans, animal breeders, mechanics, carpenters or hairdressers, waiters and cooks, hookers and their pimps, computer repairmen, and so on. Cuba’s informal economy ranges from a market in stolen goods to legitimate purchases of produce from local farmers.

Table 5.9: Impact of Informal Economy on Individual Income

December 2000 Survey Results
Havana, Cuba

<table>
<thead>
<tr>
<th>Annual Income*</th>
<th>Salary</th>
<th>Informal Economy</th>
<th>Remittances</th>
<th>Self-Employment</th>
</tr>
</thead>
<tbody>
<tr>
<td>N Valid</td>
<td>646</td>
<td>159</td>
<td>114</td>
<td>49</td>
</tr>
<tr>
<td>Missing</td>
<td>80</td>
<td>567</td>
<td>221</td>
<td>677</td>
</tr>
<tr>
<td>Mean</td>
<td>190.88</td>
<td>425.24</td>
<td>751.83</td>
<td>987.93</td>
</tr>
<tr>
<td>Median</td>
<td>150.00</td>
<td>240.00</td>
<td>425.00</td>
<td>600</td>
</tr>
</tbody>
</table>

*US dollar equivalents, representing earnings in both Cuban pesos and U.S. dollars

Source: Sarah A. Blue. UCLA Geography

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143 Wikipedia. the free encyclopedia. “Economy of Cuba”


145 Perez-Lopez.
Table 5.10: Sources of Income

July-August 2000
Havana, Cuba

According to official labor statistics, the labor force of Cuba constitutes 4.5 million who are economically active. The state sector constitutes 76% and the non-state sector 24% (1996 est.). Private employment is relatively small with approximately 200,000 private farmers and 100,000 “cuentapropistas,” or self-employed business owners. However, these numbers exclude the percentage of workers in the informal sector, which is substantial. This dual economy absorbs the unemployed labor force, improves the revenue stream for the shrinking state economy, and incorporates more Cubans into the dollar economy. While micro enterprise is just 2 percent of the labor force, it's an important sector because of the “multiplier” effect. For every licensed self-employed worker in Cuba, there may be as many as three other people who are unlicensed, creating a ripple employment effect.146

One of the primary incentives to enter either the informal labor sector or the self-employment and tourist sector is that these areas operate in the dollar economy. Those with access to dollars, through either dollar income or remittances have a markedly higher standard of living. The access to dollars implies an arbitrary selection discriminating against those without access to dollars.147

Unfortunately, there is another effect created by the burgeoning informal labor sector. One of the fastest growing informal labor markets, prostitution, is a result of the increase in tourism. Sex tourism is a major employer for many Cuban women. This is made obvious by the number of women seen in the streets, and hotels openly soliciting foreign men. Statistics on the number of sex tourists and sex workers is difficult to obtain since it is considered illegal by the government. Further complicating matters is the fact that prostitution in Cuba is not a clear-cut affair. Many women have short-term “boyfriends” visiting Cuba who do not pay them cash, but take them to clubs, restaurants, and buy them gifts they could otherwise not afford. Furthermore, many of these women are trying to cultivate “relationships” that will permit them to leave Cuba.148

**State Response**

In 1993 the Cuban government supported the self-employment sector, but after a slow recovery from the economic crisis, it has since begun to adopt policies such as regulation and taxation to constrain and limit it. Presumably the intent of these policies is to maintain control over these small private industries (restaurants and bed and breakfasts and so on) within the public sector. These measures reduced private sector employment from a peak of 209,000 in 1993 to approximately 53,000 in 2003.149 Regulations concerning the self-employed sector require the registering of self-employed workers in 157 categories of trades, crafts and services, and restaurants. They include requirements such as questioning the aspiring self-employed workers about where they intended to obtain the capital to start their business by government labor officials. Inspectors also have the authority to refuse self-employment licenses to jobless, able workers if employment in the state sector is available in their region.150 Owners of small private restaurants can seat no more than 12 people and can only employ family members to help with the work. Flat monthly fees must be paid regardless of income earned, and stiff fines are levied when any of the self-employment regulations are violated. Furthermore, the tax rules require private workers who earn any hard currency to pay all of their taxes in convertible currency (essentially dollars). Previously, they were required to pay 75 percent of their monthly tax quota in hard currency.

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The government defends its actions, claiming that regulations prevent the illegal use and diversion of state-owned resources. However, government measures have other implicit political goals, such as limiting individual independence from the state. In spite of these repressive policies, the informal sector continues to play a significant economic role.\textsuperscript{151} While there could be dramatic productivity growth in an expanded private sector, with growing incomes reducing fiscal pressures on the socialist welfare state, the pluralization or dualism of economic activity is seen as an ideological and practical threat in Cuba.\textsuperscript{152} Furthermore, as discussed in section 5.1, these changes have led to growing inequality in the last decade.

**Consequences**

Not only does the informal sector foster inequality, it fosters inequality that is unrelated to worker productivity. According to Burchardt, with the generalization of the self-employed informal sector and the existence of an illegal one, income ceases to depend on social criteria or work efficiency. In other words, the functionalist theory of inequality does not apply. Instead, living standards depend on informal networks and relationships to privileged activities such as tourism. It is common to meet doctors, engineers, scientists, and other professionals working in restaurants or as taxi drivers.\textsuperscript{153} This income disparity does not provide incentives for employees in the non-dollar sectors to improve their skills and productivity.\textsuperscript{154}

In summary, the informal and self-employment sectors increase total income but also increase inequality. As identified earlier, we can see evidence of this growing inequality in the growth of private property, the increasing gap between dollar wages and peso wages, and the destabilization of an incentive-based, planned system of functionalist inequality.\textsuperscript{155}

**What is the future? – New Policy Paradigm**

In recent times, Cuban authorities have been confiscating products and equipment in raids from operators in the informal economy. The raids, carried out by police, Communist party, and government officials, seem to be part of a larger effort to control or repress various


\textsuperscript{152} Ibid.


activities of the informal economy. The case of socialist Cuba is complicated by the existence of the dual economy – the coexistence of the formal and informal economic spaces. The government's decision to open up and expand the self-employed sector in late 1993 was initially interpreted as a clear sign that communist-ruled Cuba was moving toward a more market-orientated economy. But since then, many foreign analysts studying Cuba's economy have expressed disappointment at the constant imposition of regulations and taxes by the authorities on the sector. Some of them are of the view that the Castro regime has never allowed the private sector to flourish. It has choked businesses with red tape, forced them into illegal survival strategies and condemned them to a provisional and tenuous existence. "These enterprises face a very insecure future," said Ted A. Henken, a professor at Tulane University.

Panitch and Leys state that the concept of the “emerging sector” (a coalition of technocrats in the dollar sector and parts of the traditional bureaucracy) is used frequently to decipher the current political scenario and conduct policy analysis in Cuba. Analyses suggest that ‘this technocratic-entrepreneurial group and the influential private entrepreneurs in the informal sector may merge into a new power elite that, as a Cuban bourgeoisie, could become the avant-garde for a capitalist transformation’. However, there are flaws in this analysis following from an overestimation of the importance of the emerging sector and, conversely underrating the possible resistance of internal political structures. The inherent weaknesses are such that the new rich in Cuba still cannot invest their money productively, and they do not enjoy any opportunity to achieve political influence.

Economic reforms introduced in the 1990s may be significant in the Cuban context but are modest in comparison to those instituted by other countries in Latin America, Asia, and Eastern Europe. In Latin America the creation of trade associations and pressure groups, along with small-scale financial institutions, gave the informal sector significant political leverage and

156 CUBANET “Raid targets operators in informal economy”. March 27, 2003.
http://www.cubanet.org/CNews/y03/jan03/07e1.htm (Retrieved on 02.09.2004)
161 Ibid.
facilitated various kinds of economic integration, notably subcontracting.\textsuperscript{162} The Cuban government has looked to China and Vietnam as models of centrally-controlled political and economic change, “but it has been unwilling to go as far as these nations in instituting legal and institutional reforms of property relations and rights and contracts.”\textsuperscript{163} Cuban authorities need to embrace more profound political and economic reforms. Without settled policies and laws that protect private property and the freedom to contract, reform prices, enhance capital and labor markets, and create a social safety net for the most vulnerable groups of the population, entrepreneurial activity and technical innovation in the economy will be stunted.\textsuperscript{164}

5.5 The Effect of Agriculture on Labor, Poverty, and Inequality, 1959-2003

Recent developments in agriculture have had strong impacts on poverty and inequality in Cuba. Since the Spanish developed the sugar industry in the late 1500’s, agriculture has been an important part of the Cuban economy. Sugar’s importance grew in the late 1700’s with the introduction of slave labor, and was maintained through the Castro regime until 1989, when the “Special Period in the Time of Peace” began. Because of the large influence of the sugar economy pre-1989, much of Cuban agricultural policy was directed towards maintaining this particular agricultural system. After 1989, with the fall of the Soviet bloc, the focus shifted from an externally motivated agricultural production focusing on sugar production to an internally motivated model focusing on food development and food security. This section will focus on how this shift in agricultural production impacted labor, poverty, and equality in Cuba post-1989.

Historical Perspectives: 1959-1989

After the Cuban Revolution, the new government pursued an aggressive strategy to improve social welfare and restructure the economy. While the social policies, like education and health care were more successful, attempts to restructure Cuba’s agricultural practices failed.\textsuperscript{165} Faced with the US embargo that cut off their primary market for selling sugar and other foodstuffs, Cuba sought new markets. A new market was found through a political alliance


with the USSR. Cuba sold sugar to the Soviet bloc and in return received staple foods, petroleum, and manufactured goods. To maintain high levels of sugar production for export, Cuba continued with an agricultural model that required high input and highly mechanized services. Using Russian techniques, industrial fertilizers were used to remediate poor soils, crop pests were controlled by a large regimen of pesticides, and machines replaced human labor. Changes also occurred on the governmental level with the re-organization of smaller, multiple crop units under individual management to state centralized farms as well as the development of central planning techniques of scientific application.

This system was characterized by the replacement of human labor for mechanization, leading to an increasingly urbanized population. Fewer agricultural workers were needed to harvest, weed, and control pests within the field. Tractors were able to till soil and plant seeds automatically. Unfortunately this also led to a fragmentation of the rural community, as fewer groups of people were needed to collectively farm and produce food crops. These aspects of the new farming regime were claimed by Castro as signs of increasing sophistication within Cuba.

Under the maintenance of the sugar industry, unemployment or underemployment became greater and led to increased inequality. In some regions, poverty increased due to the unsteady employment offered by the sugar mills, which led to a decrease in food security and an increase in nutritional deficiencies within the population. Inequalities became greater between the established urban sector and the rural sector due to differences in social services development, which was more pronounced in urban areas in order to serve the majority of the population.

The fall of the Soviet Bloc in 1989 revealed Cuba’s vulnerability and dependence. An 80% drop of the high input chemicals, as well as access to fuel and irrigation caused food production to drop immediately. Thus Cubans were forced to adopt an alternative form of agriculture in order to achieve food security.

**The switch to self-dependence: post-1989**

As the “Special Period in the Time of Peace” began, Cuba’s primary goal turned toward food security and economic independence. Castro called on agricultural scientists to produce

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167 Oppenheim.
more food without fertilizers or fuel. Before 1989, scientists had already begun to explore a less intensive and reliant system because of a new understanding of the effects of pesticides on human health. There was also an increased acknowledgement of sugarcane mechanization putting an entire class of rural laborers out of work, thus preventing development within the rural sector. Many also recognized that an increased use of human labor and animal traction would help decrease the dependence on fuel. Thus, the call for increased food security also became a call to increase the agricultural labor force and rebuild the rural social fabric.

**Labor**

The switch to non-mechanized farming made apparent the need for many more workers in the countryside, since many had fled for the cities during the years of automation and technification. The abundant need of human labor could be seen as a direct correlation to the drop in chemical imports, from 1.3 million tons pre-1989 to 160,000 tons post-1989 and the need to now perform many of the previous chemical procedures by manual labor.

For this reason, Cuba needed to take advantage of its human capital for this increased labor need. The agricultural workers were amassed by immediately mobilizing the available workers into various programs in rural and urban areas. The country experimented with a number of new initiatives to maintain agricultural production levels. Among these were 1) the large-scale mobilization of urban volunteers for two-week stints in the countryside and 2) the recruitment of under and unemployed urban workers for 2-year sojourns on state farms. Many of these workers could maintain jobs within the cities while on their rotation in the rural sectors. The government also encouraged workers in their marriageable and child bearing years to take on these agricultural stints hoping that these young people would stay and revitalize the countryside.

Because of the automation of intensive, technified agriculture, and the centralized application of scientific knowledge, few agricultural technicians who understood the ecological basis of agriculture were needed pre-1989. But this lack in qualified personnel was recognized in the late 1980’s, and a strong emphasis to enter the field was placed on new students.

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170 Oppenheim.
173 Oppenheim.
Incentives such as *The Third Educational Reform* were focused on agriculture education within the university that guided students into the sector by only allowing spaces for these study areas.\(^{174}\) This dearth of trained agricultural technicians became obvious in the areas of soil maintenance, pest control, animal maintenance, and weed management, and spurred new fields of labor development.

This allowed for the development of new labor areas in soil rectification, water production, biological fertilizers, and biological control.\(^{175}\) The biotechnology industry has especially grown in response to the need for natural pesticide production. Currently there are more than 230 locally controlled and operated Centers for the Reproduction of Entomaphages and Entomapathogens (CREE) to create nontoxic pest controls. An example of such a CREE is an Agricultural High School where students scout fields to determine infestations, raise the natural enemies, and release and monitor the results of the insects in the field.\(^{176}\) Additionally, national oxen breeding campaigns are underway to maintain necessary levels for production.

The number of working oxen has risen from 100,000 in 1989 to 400,000 in 1998. This new form of production energy has led to a whole line of cultivators, seeders and harvesters that are suitable for oxen power.\(^{177}\)

The urban sector also has had a boost of 160,000 jobs provided by the increase in urban gardens in and around cities.\(^{178}\) Over five to ten square kilometers of farms are developed in every medium to large city providing 360,000 tons of vegetables.\(^{179}\) The development of an animal husbandry sector in the urban areas has also resulted in another labor opportunity. This involves the breeding of rabbits, goat, sheep, and chicken for increased protein consumption within the urban sector.\(^{180}\)

Governmental compensation for farmers has also encouraged the labor development of the agricultural sector. Such incentives include the opening of farmers markets for farmers to sell their goods. This opportunity to sell goods in the open market has allowed farmers to make

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\(^{175}\) Oppenehim.

\(^{176}\) Harris, L. 1998. “Cuba Attaining Sustainable Agriculture.” *People's Weekly World*.

\(^{177}\) Ibid.


\(^{180}\) Ibid.
additional money when their crop yield is higher than the amount the state requires.\textsuperscript{181} The free agricultural markets were open on October 1, 1994, and the numbers have been growing to include at least one in every municipality and in most small towns.\textsuperscript{182} In addition to this incentive, the government has been paying farmers who sell goods to the state sector partly in dollars and other non-monetary goods that they would otherwise not be able to get with Cuban pesos.\textsuperscript{183}

\textit{Poverty}

Home food production lowered poverty in both rural and urban areas, increasing food security. Along with the superb health and educational systems, most Cubans eat relatively well. Special care has been paid to the elderly and the young, who are allotted extra rations. When compared to other countries in Latin America during the same period, one does not see the severe poverty that is found in many rural and urban areas throughout Latin America, especially in the agricultural class where many markets have collapsed due to unprotected economies of certain crops.\textsuperscript{184} The embargo has thus far protected the agricultural industry in Cuba from the effects of food crop saturation.

This switch to a more independent system has also affected the type of agriculture to be grown. Although sugar is still produced, much less land is given to sugarcane now because of the need to produce food for people and fodder for animals. This has resulted in a drop in the production of sugar cane; 7.6 million tons in 1991 to 4.2 million tons in 1993.\textsuperscript{185} This helped ensure greater food security among the citizenry because they had greater control over food access. Large state farms were incapable of adapting to low-input technology and high labor systems, and therefore were split into smaller plots under more individualized control.\textsuperscript{186} The government has improved food security by organizing a large labor movement toward agriculture involving large-scale cooperatives and government usufructs in the rural regions. The government attempted to link people to the land by reorganizing production into small-scale

\textsuperscript{182} Deere.
\textsuperscript{183} Koont.
\textsuperscript{184} Sinclair and Thompson.
\textsuperscript{185} Deere.
\textsuperscript{186} Levins.
management units. The effect was that more people are able to farm their own food and control production on a small piece of land.\textsuperscript{187}

In 1993, many of Cuba’s state farms were transformed into Basic Units of Cooperative Production (UBPC), which have autonomy from the state. Farmers own what they produce although the land still belongs to the nation.\textsuperscript{188} These farms are based on a general assembly of workers who decide the pay and the conditions for the workers. Because of the need to grow other food besides sugarcane, a portion of the work is directed toward food agriculture. Workers share in any excess money the cooperative earns based on job type and number of hours worked, giving the workers more incentive, as well as tying them more closely to the cooperative and community.\textsuperscript{189} Because of the ability to farm in coops and government usufructs, food production has been increasing to a point that exceeds a farmer’s own needs, allowing them to sell excess at the markets.\textsuperscript{190}

People in the urban sector are also involved in producing their own food through gardens and individual plots at the various organoponicos, where excess foods can also be sold at the markets or at smaller private home markets.\textsuperscript{191} These smaller, private markets provide foods usually at a lower price than government run farmers markets, allowing the poorer sector and elderly sector an equal chance at buying fresh produce.\textsuperscript{192} The movement to produce food in urban gardens has reduced food dependence on the rural countryside and made food refrigeration and shipping from the country to the cities unnecessary.

\textit{Inequality}

Inequalities have been reduced between rural and urban sectors because there is better access to food throughout the country due to an increase of food agriculture in both sectors. This has also reduced the need to transport food goods among regions and sectors. A strong movement toward rural development policy resulted in improved education and health care within the rural sector. In the Villa Clara municipality of Manicaragua is the town of La


\textsuperscript{188} Deere.

\textsuperscript{189} Garza, L. 1995. Cuban Workers tell U.S. Youth of efforts in Sugar Harvest. \textit{Militant}.

\textsuperscript{190} Sinclair and Thompson.

\textsuperscript{191} Companioni et al.

Herradura with only about a dozen buildings, but among them is a family doctor’s home. Under the Turquino Plan, priority is given to providing access to basic services in Cuba’s most mountainous regions. Also under this plan, a university has been built in this area with access to video rooms and television reception.\textsuperscript{193} The government has made a concerted effort to increase agricultural knowledge by providing extension services in rural areas as well as urban areas. This modernized peasantry is also gaining a greater role in government through participation and initiative strategies.\textsuperscript{194} Agricultural policy has impacted gender inequality. Women are encouraged to enter into flower farming (PDHL), and cooperatives and NGO’s promote the role of women in families for food security.\textsuperscript{195}

\textbf{Policy Recommendations}

Cuba has shown how food security allowed social equity and self-reliance to develop, but will this continue when the embargo is lifted and Cuba is able to return to large-scale industrial agriculture? Much of recent development within Cuba has been concentrated on small-scale agriculture and food production, but this may have limited other areas of growth. As exports re-enters the economy, will the citizens of Cuba be ensured the food security and high standard of living that has been maintained through the revolution?

The large amount of human capital devoted to small-scale agriculture has allowed Cuba to survive through the special period. Some believe that this mode of agriculture is just a temporary channel for survival as long as the embargo remains.\textsuperscript{196} Many Cubans themselves believe that this style of farming should and will remain.\textsuperscript{197} But with the opening of markets and the domination of other economies in the picture, there may be a push toward a more intensive style of agriculture, once again needing only a minimum number of people to run the farms. This will lead to a higher percentage of unemployment that was previously taken up by small-scale urban gardening and high rural employment. Cuba will need to find other industries to mobilize this human capital, or else suffer from large unemployment rates and less security.

\begin{flushleft}
\textsuperscript{193} Garza. \\
\textsuperscript{194} Sinclair and Thompson. \\
\textsuperscript{196} Harris. \\
\end{flushleft}
The current push for the U.S. to lift the embargo has primarily come from the U.S. agricultural sectors. One would presume that this is because the U.S. farmers would like additional markets to dump overproduced agricultural products. This has certainly occurred in most of the other Latin American countries, often resulting in the destruction of much of the native agriculture production in these countries. This act of dumping large agricultural stocks into these countries has also lead to an increase in poverty as the extra U.S. agricultural products drive down the price of many food goods and local farmers receive less money for their products. In this case, one would believe that Cuba should be very aware of how open it wants to become and what it is willing to export and import, as it will have a serious impact on small-scale agriculture and food security.

Currently Cuba imports foods that complement the domestic small-scale production. This has been done for such items as fodder, milk, and rice in the past, where production did not meet demand. Currently, imports of chickens and eggs are coming from southern U.S. states to augment Cuba’s own poultry production. There are also possibilities for Cuba to export goods to the U.S. at the current rate of production. If the U.S. embargo does end, there would be room to import Cuban grapefruit and limes into the U.S. because of increasing demand and low national production in the U.S. Cuba’s main lobster industry occurs when Florida’s is closed allowing for another profitable sector of trade.

If Cuba is able to find trade items that are complementary to the U.S. market and still able to maintain both food sovereignty and its current type of agriculture, Cubans will be able to maintain those advantages they gained in recent years while expanding their markets. The movement back toward classical industrial agricultural would threaten the large percentage of employment that the alternative agricultural sector is currently taking up and make Cuba vulnerable to increased unnecessary exports.

5.6 Role of International Development Assistance in Combating Poverty

Development assistance is an important tool to combat poverty. In recent years Cuba has had a significant transformation in both the type and source of its development assistance. As articulated earlier, before the collapse of the former Soviet Union, the USSR was the

198 Sinclair and Thompson.
199 Medina.
predominant supplier of aid to Cuba. After the fall of communism in Eastern Europe, the UN, Canada, and the EU became Cuba’s primary sources of assistance. This change in source of funding also had implications for how that funding was allocated. In the past Cuba received aid for industries that produced supplies for the USSR and provided the communist block with key natural resources found in Cuba. Today assistance shifts towards local economic development, poverty alleviation, health, and environmental protection. But how has this new assistance impacted poverty and inequality?

**Soviet Development Assistance**

It is difficult to analyze Soviet development assistance, because there is little systematic data. The data available suggests that the grants/loans made to Cuba by the former Soviet Union were diverse in nature and significant in quantity. Perez-Lopez identifies development assistance to Cuba from the USSR, East European communist states and Council for Mutual Economic Assistance (CMEA), as totaling 3.8 billion rubles from 1981-1985\(^\text{201}\). In part it is difficult to estimate aid because a large part of Soviet subsidies were instituted as preferential non-market trade agreements. The USSR was the major donor and supplier of assistance to Cuba in agriculture, energy and fuels, ferrous and nonferrous metallurgy, machinery and heavy industry. Furthermore, the CMEA provided technical aid in sugar and citrus production, and natural resource research and extraction. Moreover, “the USSR also permitted Cuba to run a continuous merchandise trade deficit which is unrequited by any known financial flow which might arise, for example, from a surplus on services on the current account.”\(^\text{202}\) Cuba no longer has access to this credit and does not intend to pay back the roughly $23 billion debt to Russia.

The demise of the USSR in 1990-1991 impacted the Cuban economy dramatically. Cuba lost not only Communist Bloc markets, preferential pricing, and subsidized oil imports, but also Soviet aid.\(^\text{203}\) With the disappearance of all development assistance from the USSR and former East European communist states, Cuba had to expand its web of aid providers to multilateral, bilateral and non-governmental organizations (NGO).

**Donor countries/NGOs/Multilateral agencies**

\(^{201}\) Perez – Lopez Jorge, Swimming Against the Tide: Implications for Cuba of Soviet and Eastern European Reforms in Foreign Economic Relations, Journal of Interamerican Studies and World Affairs, Vol. 33, No.2 (Summer 1991)


\(^{203}\) Perez – Lopez.
European Union

The EU, through its own funding and in combination with its member states, has been one of the largest providers of official development assistance (ODA) to Cuba. Since 1993, the EU has provided approximately €145 million in aid, with the majority directed towards humanitarian assistance programs. However, since 2000 EU funds have decreased, as Cuba is no longer considered to be in an economic crisis. Recently aid has begun to focus on promoting economic reform and civil society. Much of the money for these new programs comes from packages that jointly fund multiple Latin American programs and NGO’s working with multiple Latin American countries. Consequently, the total aid to Cuba declined, as it now shares aid packages with other Latin American countries.

The EU shifted their funding packages to encourage Cuba’s integration into broader Latin American and Caribbean political and economic frameworks. EU member states also provide direct funding through bilateral agreements with Cuba (bilateral trade/aid is trade/aid directly between two countries). These programs target new trade and investment opportunities for European companies, vocational training, small-scale agricultural support and local infrastructure. The EU realizes the importance of its aid to Cuba as the United States embargo has prevented Cuba from participating in, and benefiting from, the activities of multilateral institutions such as the IMF and World Bank. With the economic climate as it is in Cuba, development assistance from Europe has been extremely valuable in helping to sustain the country’s economic and social viability.

Canada

In 1994 the Canadian International Development Agency (CIDA) granted Cuba eligibility for Canadian development assistance. Since then CIDA has worked with multiple partners, including NGOs, Canadian universities and the private sector to implement various development objectives and goals. This direct bilateral aid commenced in 1996. The initial program concentrated primarily on “technical cooperation to support the process of economic reform, with a view to improve the overall framework for trade and investment, while helping Cuba preserve its gains in health and education.” The program was successful on two fronts; in improving the quality of economic forecasting and decision-making; and in the “social sector

where the program has supported the supply of paper for school notebooks, food aid, and the
donation of approximately $14.8 million (wholesale) in medicines over five years through Health
Partners International of Canada. ²⁰⁶

Since 1994 CIDA granted Cuba almost $65 million (Canadian) in official development
assistance (ODA.) Cuba received $29.7 million in bilateral programs, $33.3 million in
partnership projects with Canadian organizations, and around $2 million through multilateral or
other agencies.  CIDA prioritizes those programs focusing on modernizing the state; supporting
the social sector; creating participatory development (or civil society); and protecting the
environment.²⁰⁷ During the last three years, Spain and Canada have been the two leading
bilateral donors in Cuba.

*United Nations Development Programme (UNDP)*

One of the other major donors to Cuba is the UNDP. From 1992 to 2001 the UNDP
invested $41.1 million in 105 projects. Environment-related interventions account for 71%
($30.1 million), $2.4 million for humanitarian assistance, $1.8 million for social development,
$1.2 million for industry and $1.1 million for health projects.²⁰⁸

Historically, the UNDP supported the transfer and development of high technology and
industry. However, after the collapse of the former Soviet Union, the UNDP has shifted from
the narrow focus of science, technology, and industry to concentrate on providing assistance in
social, economic, financial, and energy programs. Not only did they diversify the ideological
focus of these funds but also the geographic focus, offering aid to more diverse provinces and
cities than earlier. The UNDP diversified its funding focus based
on the principle that their long
term presence in Cuba placed
them in a strategic position to
approach complex environmental,
social and economic problems in
the areas of macroeconomic

²⁰⁷ Ibid.
management, the environment, energy, decentralization, and social sectors.\textsuperscript{209}

While the UNDP recently expanded assistance targets in Cuba, it does not have more resources to use in these new programs. Consequently, the UNDP transitioned itself into an organization based on strategic alliances. “Establishing partnerships with several countries and agencies, UNDP now delivers and manages resources of other partners in programs jointly designed, formulated and executed by the government and UNDP…”\textsuperscript{210} This transition effectively offset the general loss of funding, as UNDP was able to access additional funds through these new strategic partnerships.

Today the UNDP is focusing on developing private markets in Cuba, increasing food security, and building new housing. The Human Development Program at the Local Level (PDHL) (active in 44% of the country) is essentially a privatization project on the local level.\textsuperscript{211} This initiative supports the creation of the Cuban version of small and medium sized enterprises by offering a revolving pool of hard currency funds to start up businesses. Recent projects include creating flower farms, producing construction materials, and developing traditional trades and production of medicinal herbs and plants. In the area of food security the UNDP is helping Cuba build more effective irrigation and water management systems and supporting Cuba’s initiatives to promote urban farms, organic agriculture, and developing infrastructure related to agriculture. In the area of housing, the UNDP funds the rehabilitation and development of old housing and new housing, “focusing on reconstruction and recovery of the housing stock and on introducing innovative strategies for the improvement of neighborhoods, UNDP’s program will focus on innovation and demonstration programs that can be replicated throughout the country.”\textsuperscript{212} Housing policy became a focal point in the 1990’s as Cuba’s government pulled funding out of this area.

\textbf{Conclusion}

The transition and increase of development assistance away from industry pre-1990, to local level economic development, environment and poverty alleviation post-1990, has successfully led to local economic improvement and environmental conservation. Conversely, and most recently, the reduction of ODA has had a detrimental effect on the economy and

\begin{itemize}
  \item \textsuperscript{210} UNDP, Country Programme outline for Cuba (2003 – 2007), 29 April 2002.
  \item \textsuperscript{211} UNDP – Cuba, Preventing Poverty Through Sustainable Development at the Community Level, (PDHL).
  \item \textsuperscript{212} UNDP, Country Programme outline for Cuba (2003 – 2007), 29 April 2002.
\end{itemize}
people. Poverty statistics are difficult to locate and therefore a direct correlation of development projects on regional or village wide poverty cannot be identified. However on a very ‘high level’, increases in development aid was congruent with increasing GDP growth and GDP per capita (see Table: 5.5 & 5.6) and most recently, the decreases in ODA run parallel to declining GDP and GDP per capita.

On the one hand, the government of Cuba has been experimenting with the legalization and size of the micro and small enterprise since the “Special Period”. In addition to reducing poverty and creating efficiencies, this, with technical and financial support from donor agencies, led to a bottom up strengthening of the economy. Today, UNDP, the EU and CIDA are well positioned to promote, foster and help develop any new initiatives due to the current success of current and previous projects.

On the other hand, these same donor agencies must rethink their strategies, as Cuba’s short-term success in the late 1990’s has been reversed and ODA, in combination with revisions in economic policy, is needed once again to provide the foundation for economic growth.

Understanding that Cuba does not have access to international loans through either the IMF, World Bank or capital markets, makes clear the importance of ODA from donor countries and international organizations. This support is instrumental in providing support to the economic development of Cuba.

5.7 Summarizing…

How have Cuba’s recent policies impacted labor, inequality and poverty? How are Cuba’s agricultural labor, and development policies related to inequality and poverty in Cuba? It seems that in the past few years the biggest change has been a minor shift towards capitalism. International Aid from Canada and the UNDP play an important role in this shift, creating opportunities for new markets, joint ventures, international companies, and local micro-enterprise. We also found that the burgeoning informal labor sector is related to the promotion of free market policies and new industries like tourism. In agriculture as well, free market policies were used to increase food security and production, creating new private market employment opportunities and a better standard of living for Cuban citizens. Furthermore, new programs like PE will only increase this trend.
Descriptive statistics suggest that during the same time the Cuban economy grew, inequality increased, and unemployment remained more or less stable. (Although none of these statistics are entirely reliable, as explained in the text.) While the Cuban Revolution ameliorated the distribution of wealth from 1958 to 1989, the total income to be distributed was based on Soviet subsidies. Since 1989 socio-economic policies of Cuba and International Aid policies pushed Cuba towards a free market model. These policies have many advantages: food security, new housing, new jobs, and a higher average standard of living. However, these policies also have many undesired effects including income disparities and a labor market that does not have incentives for increasing productivity. Worse yet, these policies give rise to other social ills like an increase in prostitution and crime. We can only conjecture that there is a significant relationship between these economic reforms and their outcomes. If this relationship does in fact exist, we suggest the following recommendations for shaping the future socio-economic policies of Cuba: Economic activities associated with the informal sector should be legalized and then taxed appropriately on a highly gradated tax schedule. That would be a much more productive policy. They should keep accessing various sources of international aid but be careful of who reaps the rewards and the political implications. In some ways the UNDP programs are in fact counter revolutionary and these have big political implications. The economic development policies should tap into a more value added - high skill labor market and should incorporate measures for workforce development. The social safety net should be maintained and credit should be made available to non-remittance receivers allowing them to start up small businesses - because right now remittances are creating unequal opportunities.
6.1 Introduction

The Revolution promotes a single Cuban identity, which trumps all distinctions based on race, locality, gender, and age. However, when assessing the political empowerment of Cubans, one must pull apart the single identity to accurately determine how each subsection of Cuban society has benefited from Castro’s movement. After the authors’ visit to Cuba, the disparities among these subsections and the fabrication of the single Cuban identity became glaringly apparent. While the political empowerment of Afro-Cubans, rural Cubans, women, and youth has increased, the extent and the manner of empowerment vary. Empowerment has not only fluctuated with each group, it has also fluctuated in response to political and economic pressures challenging the country. For example, the Special Period and the flood of tourism have increased the disparities between groups, especially along racial lines. After experiencing the taste of empowerment granted by the Revolution, the groups that have benefitted are unlikely to forfeit their position. The increasing gap in racial equality and the generation gap that has left Cuban youth indifferent to Revolutionary values together threaten Castro’s regime and the very heart of the Revolution.

This section will address the existing political rights granted to Cubans, including channels of participation and the limits placed upon them. Then the following subsections of Cuban society will be analyzed: Afro-Cubans, rural Cubans, women, and youth. The authors will offer a history of each group’s political empowerment, evaluate current conditions, and reflect on the degree to which their experience in the country affirms the analysis.

6.2 Participation in the Cuban Political System

The forms of participation in the Cuban political system have changed dramatically since the revolution in 1959. With the revolution former channels of political participation were banned, and new ones were created. A rupture with the past characterized the first years of the
revolution. In order to make this transition, decision-making was centralized in the hands of the government, and the government justified such a move by citing the particular circumstances of the revolution. The threats from the internal and external opposition justified the exclusion from the political system to those who opposed the new government. In order to make the radical changes that people expected after the revolution, the new centralized system assured that leaders could rapidly and efficiently implement their policies.

One common criticism about the Cuban political system is the lack of political parties. Advocates of political democracy understand that parties are necessary conditions for political participation, and for this reason, no channels of political participation exist in Cuba. However, some Cubans will argue that the socialist system resembles more accurately a direct democracy, and that equality is one of the pillars of their democratic system. They argue that before the revolution, elections were fraudulent and led to unhealthy administrations, and they believe that because of the revolution people now fully identify with their leadership.

Channels of Participation

The revolution created new forms of political involvement and mass participation. The new system constructed a new social consensus and allowed people that never participated before to enter into the political system. New channels to connect citizens with the government were created, and people were able to participate in different activities, many times through voluntary labor. For example, the literacy campaign involved a large percentage of the youth population, and permitted—by teaching how to read and write—the entrance of formerly excluded people into the political system.

The channels of participation were created and are controlled by the government. In order to do this, the government formed a net of grassroots organizations in the Cuban civil society. Examples of these organizations are the Committees for the Defense of the Revolution, Federation of Cuban Women, the Unions, and popular militias. In these organizations people can actively participate in the decisions that concern their communities. This mechanism of representation allows the central government to communicate and implement their policies from

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the top to the bottom in a very fast and efficient way. At the same time, people in the civil society voice their concerns throughout these channels to reach the decision makers.

The unions are a clear example of the mechanism of participation in the Cuban political system. After 1970 unions became mass organizations and were decentralized and democratized. In order to solve conflicts over regulations involving discipline and rights, the creation of work councils elected by secret ballots was promoted. In 1990 during the Special Period (the first years of the 1990s, when Cuba’s economy suffered the collapse of socialism in the Soviet Union and Eastern Europe) the government needed a new consensus to implement radical policies to handle the crisis. The creation of the Workers Parliament by the Cuban Central Federation brought 3 million workers from 80,000 workplaces (85% of the workforce) together to discuss and propose solutions for their marketplaces and the economy. The summaries of the workers’ suggestions were discussed in municipal and provincial meetings with National Assembly deputies, and provided input for the special session of the National Assembly held on May 1 and 2, 1994.214

Limitations of Political Participation

The Cuban political system allows the political participation of great number of people. In fact, virtually everybody participates in the political system through voluntary work in grassroots organizations, such as schools or neighborhood organizations. However, as Hernandez, Dilla, Abbassi, and Diaz have pointed out, “These numbers may not tell us very much about the quality of this participation, understood as the capacity of the citizen to discuss the making of public policy, to criticize that policy, and to be active in its implementation.”216 “[To] participate is not simply to have access to multiple areas of discussion but to contribute to decision making in these areas”.217

There is not much evidence about the quality of political participation in Cuba, and many people believe that the role of these organizations is simply formal and purely bureaucratic. It is important to note that the goal of the current participatory system in Cuba is to prevent conflict of interest between the government and the civil society. In order to achieve this goal, the

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215 Ibid.
current system blocks the access into the political system to those who reject the basic values of the revolutionary government.

For the reason mentioned above, groups of organizations that oppose the values of the revolution have a hard time participating into the political system. The system as it is does not allow the entrance of new groups to participate into politics.

Nowadays, some organizations are pushing for a more open political system that allows groups from outside the existing system to participate into politics. An example is the Centro Catolico de Formacion Civica y Religiosa. This is a lay organization created by individuals within the Catholic Church that advocates changes from within the current political system. The organization is in favor of increased access into the policy-making process for groups that have different views from those of the government.

Another example of the limitations of the current system has been the Varela Project. A group of organizations collected signatures in order to make five key changes in the political system: free expression, free association, amnesty to political prisoners, rights to form private enterprises, and a new electoral system. Instead of incorporating these changes into the political discussion, the government ignored and repressed these demands.

The Cuban political system started to change in the last few years. Nowadays, different organizations are asking for a more open political system, but those such as the Centro Catolico still do not have a formal channel through which to participate. The government should consider this a limitation of the current system and recognize the importance of improving the qualitative participation into the political system. From the government’s point of view, not recognizing the limitations of the current system will polarize the society even more and will jeopardize the support that they have at present.

6.3 Political Empowerment of Afro-Cubans

The question of the political empowerment of Afro-Cuban people is complicated at best. Beginning with the institutionalization of universal male suffrage in Cuba in 1901 and the formation of groups such as the Partido Independiente de Color (PIC), Afro-Cuban political participation has been inextricably linked to race. Although some would characterize the race problem in Cuba prior to the Revolution as non-existent, issues of race were central to Jose

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Marti’s conception of ‘a nation with all and for all’ and Fidel Castro’s revolution towards becoming such a nation. In essence it has been a revolution within the Revolution. Prior to the Revolution, Afro-Cubans - though legally fully incorporated into Cuban society - were routinely denied the benefits of full, equal citizenship. They were denied access to housing, education, employment opportunities, and various social and cultural venues.

The notion of a raceless Cuba existed only as part of a popular ideology. In the minds of the leaders of the socialist movement, the Revolution could not be deemed successful unless these inequalities were eradicated and the popular ideology of racelessness became reality. Cuba would have to become a single people born of a single patria. The question of the degree to which the Revolution succeeded in the political empowerment of Afro-Cubans can best be considered through the examination of three post-revolutionary periods: the Revolution, the Special Period, and present day conditions.

**The Revolution**

The introduction of a socialist regime marked the beginning of institutional equality for many Afro-Cubans. As early as March 1959 Castro began to call upon the Cuban people to abandon discriminatory practices and embrace all of Cuba’s people as equals. Prior to Castro’s official promotion of an antidiscrimination agenda, various Afro-Cuban intellectuals and political activists had already requested that the new communist party adopt an official policy against racial discrimination as well as policies that would grant black Cubans equal access to jobs, education opportunities, and other institutions to which they had marginal access. Even in its earliest stages Afro-Cubans saw opportunities in the Revolution for change where they had not previously existed. For example, there was some increase in leadership positions held by black Cubans. In 1965 blacks represented 9% of the Central Committee of the Partido Comunista de Cuba (PCC) compared to 12% in 1980. However these numbers are not indicative of any significant gains in administrative employment or employment for the general population.

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219 Helg.
223 De la Fuente.
populace. According to the 1981 census Afro-Cubans made up about 34% of the population\textsuperscript{225}, but show no major difference in employment from whites before or after the revolution. Eighty two percent of white males were employed in 1943 compared with 82.9% of non-white males (mulattoes and black Cubans). Similarly in post-revolution Cuba in 1981, 71.9% of white males and 70.7% percent of non-white males were employed.\textsuperscript{226} Therefore these changes cannot necessarily be attributed to the Revolution.

Castro’s regime did not opt for an explicit antidiscrimination policy, however through widespread media and public campaigns and social education, sought to change the national consciousness regarding racial division and the emergence of a single Cuban identity. They took significant steps toward transforming the institutional barriers that held black Cubans as second class citizens.\textsuperscript{227} As more and more of the industries and other sectors became state owned or state run Afro-Cubans were allowed access to more mainstream societal institutions than any other time in history. In addition to the deliberate redistribution of the racial makeup of the labor force\textsuperscript{228}, black Cubans benefited greatly from other initiatives such as the nationalization of private schools and the national literacy campaign. As evidenced by the initial requests of black Cubans for more opportunities and the institutional response, the Revolution began to foster a sense of political empowerment by way of social and economic access. In this sense it succeeded in giving some agency to a historically and culturally marginalized group.

\textit{The Special Period}

The Special Period presented a new set of challenges to the successes achieved by the Revolution as well as to the Revolution as a whole. These challenges proved to be even more so for the Afro-Cuban population.\textsuperscript{229} Due to the economic desperation caused by the fall of the Soviet Union and the subsequent reforms Cuba began to experience the re-emergence of social

\textsuperscript{225} Cuba, \textit{Censo 1981}
\textsuperscript{226} De la Fuente, Alejandro \textit{Race and Inequality in Cuba, 1899-1981} Journal of Contemporary History, Vol. 30, No. 1 (Jan., 1995), p. 131-168 (The overall difference is attributed to racial lines blurred by race mixing and the flight of white Cubans from the island.)
\textsuperscript{227} Hernandez, Rafael; Dilla, Haraldo; Abbassi, Jennifer Dugan; Diaz, Jean \textit{Political Culture and Popular Participation in Cuba} Latin American Perspectives, Vol. 18, No. 2, Cuban Views on the Revolution (Spring, 1991), p. 38-54
classes and inequality in a way that it had not seen since before the Revolution. It became clear that while the Special Period was difficult for all Cubans, all Cubans were not equally affected.

The dollarization of the Cuban economy has been a central factor in the re-creation of social and economic inequalities. While only 33.5% of Cubans had access to dollars in 1996, this number increased to 62% by 1999. The Cuban government estimates that remittances in 1999 totaled $725 million.\(^{230}\) The majority of the Cubans that have fled Cuba have been white and consequently the majority of Cubans receiving dollar remittances are white.\(^{231}\) This practice gives them a more secure if not higher economic standing than their Afro-Cuban counterparts. Similar inequalities appear in the newer markets such as tourism. More white or fairer skinned Cubans tend to be employed in these dollar paying sectors which further exacerbates Cuba’s new inequality. While it is apparent that these types of inequities were developing along color lines, black Cubans were no longer equipped to address these concerns as a group.

During the early decades of the Revolution the majority of uniquely Afro-Cuban socio-cultural institutions were gradually dissolved. The medical, educational and various other services that these associations provided were no longer needed. The Afro-Cuban press was absorbed by state controlled media outlets. Furthermore, they were considered counterrevolutionary and unnecessary in an age of total integration and inclusion.\(^{232}\)

The re-emergence of inequalities associated with race or color during the Special Period has been a cause for alarm for black Cubans, even to the point of public demonstration, but they are dependent on the government to address these imbalances. An “afro” awareness had been incorporated into the national consciousness and people were still aware of cultural and religious practices specific to Cubans of African descent, but there existed no collective “black” Cuban consciousness. To identify as Afro-Cuban was equated to identifying as anti-Cuba. There is no way to mobilize a people that do not exist. The same system that empowered them also served to cripple any attempts at collective mobilization.

On the other hand, black Cubans are too well educated and politically aware to be easily relegated to their pre-revolutionary status as second class citizens. Furthermore, not only do Afro-Cubans have the sense that they are equal citizens and deserve equal treatment, but they

\(^{230}\) Abel, Christopher; Lewis, Colin M., eds. 2002 Exclusion and Engagement: Social Policy in Latin America, Brundenius, Claes Cuba: Retreat from Entitlement? Institute of Latin American Studies University of London.

\(^{231}\) Safa.

confidently look to the state to support these rights. This sentiment implies that they at least conceptually feel empowered politically. However it is important to note that this empowerment is closely tied to a regime that was ailing as new social conditions evolved.

Present Day Conditions

Throughout the Revolution it has been widely believed that Afro-Cubans have been among its most ardent supporters. In the wake of the Special Period, as racial inequalities reappeared so did racial identities to a certain degree. Toward the end of the Special Period racially defined groups began to form to petition the government to reverse the increasing inequality that resulted from Special Period reforms. In form and function, these organizations are similar to the alliances that existed before the Revolution.

The level of empowerment in this regard is questionable because while forming new, identity-specific organizations is evidence of mobilization, the government response to new inequalities has been slow. It is therefore difficult to determine exactly how Afro-Cuban empowerment should be conceived, especially as these organizations are only unofficially promoting a political agenda.

A second issue related to current black Cuban political empowerment is the notion of political paralysis.\footnote{De la Fuente, 2001.} What if the Revolution were to end? What if the Cuban-Americans were to return? These questions are quite common among Afro-Cubans and quite relevant to the question of political empowerment. The distinction to be made is whether or not Afro-Cubans choose to support the Revolution based on its own merits or for fear of the alternatives.\footnote{Zimbalist, Andrew. “Teetering on the Brink: Cuba’s Current Economic and Political Crisis” \textit{Journal of Latin American Studies}, Vol. 24, No. 2. (May, 1992), p. 407-418.} There is a belief among black Cubans that even given growing inequality, the end of the Revolution would be a step in the wrong direction for Cuba and Afro-Cubans. “We are not going back,” says one black Cuban doctor.\footnote{De la Fuente, 2001.}

If it could be concluded that continued Afro-Cuban support for the Revolution were based on their aversion to the alternatives and not their belief that in the system, then the argument for political paralysis is strengthened. However, even if political paralysis were the overriding reason for Afro-Cuban revolutionary support, if black Cubans continue to mobilize within the system and attract attention to their unique interests then it would be fair to assert that
that same system has empowered them to do so. Like many socially marginalized groups, black Cubans have been empowered through state actions.\textsuperscript{236} Given that government policies can promote or hinder Afro-Cuban political participation, and the historical variations of access to political power and participation for black Cubans, the extent to which Afro-Cubans continue to be a socio-political force, is a testament to their ability to work within the given system, not necessarily the system itself.

Overall it is difficult to gauge the degree to which the Revolution has empowered Afro-Cubans. There seems to be some consensus on improvement in the opportunities for black Cubans at various times throughout the Revolution,\textsuperscript{237} particularly at the beginning, but there are also elements of the Revolution that simultaneously limit Afro-Cuban political engagement. Among them include the eradication of single group identification, re-emergence of race related inequality, and dependence on state actions for political participation. The significance of group identification is further evidenced by the fact that there are, at least in name, state sponsored social and political networks established for other groups the Revolution aimed to benefit such as women, workers, youth, etc.,\textsuperscript{238} while no such networks exist for Afro-Cubans.

The authors of this paper had the opportunity to speak with several Cubans, some who identified as black and others who did not, who believe that race is still an issue in Cuba even though the government and many Cubans would say that everyone is equally Cuban. In addition to the limitations of the Revolution, true political empowerment for Afro-Cubans has perhaps been further eclipsed by a nationalist ideology that above all else calls for Cubanidad, regardless of race. In effect, black Cubans are identified demographically (race data has been released in the census since 1981), culturally (many aspects of Cuban national culture are routinely identified as Afro-Cuban), and are nominally identifiable as a distinct social group, but to a certain degree have been rendered politically invisible.

6.4 Political Empowerment of Rural Populations

\textit{Land and Agriculture}

\textsuperscript{236} De la Fuente, 2001.
\textsuperscript{237} Nodal.
\textsuperscript{238} Hernandez, et al.
In 1959, only 8% of Cuba’s population owned 70% of the arable land, while 70% of the population farmed only 8% of the arable land. Peasants had limited access to education, technical assistance and credit. It was in conditions such as these that the foco strategy of the July 26th movement was so effective – they sought to empower the rural populace, and eventually rode this wave of rebellion into the cities.

In the first Agrarian Reform in 1959, the revolutionary government nationalized all holdings larger than 404 hectares. These were primarily lands owned by absentee foreign (mostly U.S.) agribusiness. The Second Agrarian Reform in 1963 nationalized all land holdings larger than 63 hectares. Small private farms were allowed to thrive, and all efforts at collectivization were voluntary. This was an important divergence from Castro’s Communist benefactors, where forced collectivization devastated the drive of the peasants, and led to starvation in the countryside as well as in the cities.

Additionally, the Cuban government took steps in 1964 to prevent the re-concentration of land by prohibiting the sale of land to anyone but the state. This ensured that the land reforms that were enacted would last.

Two initiatives in the 1980s served to empower the rural populace by stabilizing the food production process and focusing on domestic production and sustainable agriculture. The Programa Alimentario in 1985 promoted diversification on small and large farms, and shifted the focus from agro-exports to domestic food production. And the Programa Nacional de la Lucha Biologica in 1988 provided technical assistance to encourage farmers to adopt ecologically-sensitive farming practices. As Soviet supplies of diesel and agrochemicals dried up, Cuban farmers were already moving towards economic and ecological self-sufficiency.

The third Agrarian Reform in the early 1990s was a profound decentralization in agriculture. In 1993, the government announced the free leasing of state land to Basic Units of

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241 Ibid.
242 Sinclair and Thompson.
244 Sinclair and Thompson.
245 Ibid.
246 Ibid.
Cooperative Production (UBPCs) that would have an unprecedented level of autonomy in the production and sale of their products. While biological diversity, pest management and water use were still planned on a central level, UBPCs could be better managed, and workers were more empowered as part-owners of the collective.

An interview with Norma Romero Castillo, co-director of the UBPC Alamar in the outskirts of Havana, confirmed the potential of the UBPC model to grow food and opportunity. Workers at the cooperative were enthusiastic about the different projects at Alamar, from the ornamental plant nursery to the new irrigation pump that has increased production. They had good reason to be enthusiastic: while UBPC’s are required by law to distribute at least 50% of their profits to the workers, Alamar members were receiving more than 70% of the profits because of their limited debt. This UBPC is empowering individuals and communities, while providing fresh produce and an outlet for entrepreneurial experimentation.

Education

The Cuban government has built an education model to meet the different needs and conditions of the rural population. More than 2,000 schools with less than 10 students each have provided instruction to isolated communities, helping rural communities to survive. These schools are so effective because they employ locally-adapted curricula, and are coordinated in conjunction with regional agricultural plans. Teachers are encouraged to relocate to the countryside through the use of rural teacher incentives including radios, lamps and assistance with home construction.

The parity with urban schools is directly tied to the government’s strategies of rural development for families, teachers and students. The creation of a “modernized” peasantry has facilitated social and economic initiatives from encouraging sustainable agriculture techniques to discouraging urbanization.

Many rural schools focus on agricultural sciences, and there are few opportunities and limited resources for rural students seeking to study engineering or social sciences in urban universities. The Cuban government has made it difficult for campesinos to get “off the farm”

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249 Gasperini.
250 Sinclair and Thompson.
by enforcing strict laws that prevent relocating to urban areas. More than 70% of Cubans already live in cities,\textsuperscript{251} and the government is doing everything that it can to prevent more from moving to urban areas in search of opportunity.

\textit{Development and Investment}

Rural communities have not been forgotten in Cuba’s efforts at modernization. The government has focused on developing the rural infrastructure and in providing production services and incentives, including state credit for rural cooperatives.\textsuperscript{252}

While much of the foreign direct investment (FDI) is focused in urban areas, the government mandates that a portion of all FDI funds go towards projects in rural areas and small cities.\textsuperscript{253} These rules have led to the construction of roads, schools, and centers for commerce and socializing. Combined with strict migration policies Cuba’s rate of urbanization is significantly lower than that of other Latin American countries.\textsuperscript{254}

\textit{Solar Power}

Cubans in the countryside are becoming “empowered” – literally – through the production and dissemination of solar power technology. A small solar cell assembly facility opened in Pinar del Río in 2001, and solar panels have been installed in more than 2000 rural schools in remote mountain areas. Over 34,000 children are reading, writing and watching educational videos in these schools during the day, while adults crowd around television sets during evening classes and social gatherings. The non-governmental organizations Cubasolar and Ecosol trained brigades in each of the provinces in the installation of photovoltaic systems. In June of 2001, Cubasolar received the United Nation's Environmental Program 'Global 500' Award for this program.\textsuperscript{255}

Additionally, the Cuban Society to Promote Renewable Sources of Energy (CUBASOLAR) constructed the first Cuban educational center dedicated to studying the use of solar energy in the Granma province in September, 2003. Equipped with the necessary study materials, the centers will contribute to the creation of an energy culture through specialized

\begin{footnotes}
\footnote{Economist Intelligence Unit (EIU). \textit{Cuba Country Report}. August 2003.}
\footnote{Monreal, Pedro. 2002. \textit{Development Prospect in Cuba: An Agenda in the Making}. School of Advanced Studies, University of London.}
\footnote{Economist Intelligence Unit (EIU). \textit{Cuba Country Report}. August 2003.}
\end{footnotes}
information, conferences, and practical training in the functioning of solar panels, heaters, pumps, distillers, and driers.\textsuperscript{256} Solar power is the least expensive avenue for electrification, especially in isolated areas, and Cuba could empower children and adults in rural communities across the island if this program were to expand.

### 6.5 Political Empowerment of Women

Cuban women participated in every insurrectionary campaign against Batista, including the 26\textsuperscript{th} of July Movement, serving as combatants, spies, gunrunners, and propagandists.\textsuperscript{257} Castro’s government rewarded the women by establishing degrees of empowerment never before experienced in Cuba. The situation of Cuban women improved rapidly after the Revolution, owing to the government’s idealistic goal of gender equality. The Revolution aimed to protect women’s roles as workers by ensuring equal access to professions, salaries, and social security benefits, as well as protecting their roles as mothers with the Family Code, the abolition of prostitution, and other health and reproductive reforms. While the admiration for these goals is undeniable, one must question the degree of actual implementation fifty-five years after the Revolution. To accurately access the Revolution’s degree of success in prioritizing and implementing sexual equality, it is necessary to examine the progress in political, economic, educational, and reproductive freedom available to the women of Cuba.

One of the most progressive acts of the Revolution was the establishment of a non-governmental organization called the Federacion de Mujeres Cubananas (FMC). In 1960, Vilma Espin, a former commando and wife of Raul Castro, founded the FMC under Castro’s direction.\textsuperscript{258} Like most of the Revolution’s mass organizations, the government established the FMC to rally women around the Revolution’s goals. When Castro charged the FMC with the task of increasing literacy rates, the organization sent over 100,000 literary trainers into the rural areas and assisted in training programs for the 63,000 in-house domestic workers displaced by the Revolution. Other objectives included professional training in teaching, nursing, militia work, and agricultural management. In return for the participation in its campaigns, the government abolished prostitution, legalized abortion, increased the quality of prenatal care, and

\textsuperscript{258} Ibid.
amended the penal code to make rape a corporal offense. While an NGO may not seem authoritative, the FMC differs in that the Cuban constitution guarantees the advisory role of the organization and its last congress adopted 200 proposals, the majority of which were adopted by the National Assembly. Moreover, the size of the FMC increases its influence: currently 80% of Cuban women or 3.7 million women belong to the organization. Cuban women celebrated International Women Day with a national ceremony in Havana in March 2004 and have already begun preparations for the Eighth Federation of Cuban Women Congress scheduled for next year.

Although Cuban women fought for political rights before the War for Independence, many rights were withheld well into the twentieth century. In 1917, women finally won the rights to divorce, to child custody, and to the administration of their property. Cuban women received the right to vote and the right to stand for elections in 1934. In 1940, the first woman was elected to the Cuban parliament. The most effective means for democratic representation in Cuba are mass organizations, of which the Committees for the Defense of the Revolution (CDR), Cuban Confederation of Workers (CTC) and the FMC have had the greatest impact on women’s political empowerment. The FMC encourages younger women to seek leadership roles in these organizations, a policy that has succeeded in increasing their political presence, with rates of regular participation of 42.8% for the CDR, 87.5% for the CDC, and 41.7% for the FMC. Unfortunately, while participation in mass organization has risen, women’s participation at the municipal level remains low. However, at the federal level, due to strong urging from Castro and the FMC, 10.7% of ministerial officials and 27.3% of parliament representatives were women. The latter figure places Cuba ahead of the United States in female representation. Women make up more than 50% of the voting population and 29.4% of the Partido Comunista de Cuba (PCC). While women have not attained total political equality,

262 Highlights of Cuban Rebelde Radio News 1800 gmt 08 Mar 04, BBC Monitoring Americas.
263 Rivero y Mendez.
265 Ibid.
these figures highlight growing participation and awareness of women’s roles in the Cuban political system.

In many respects the liberation of Cuban women was tied to the liberation of the working class, as the Revolution sought to achieve gender equality through economic channels. While women have made significant professional advances in the post-revolutionary period, equality does not exist and the gains have actually created greater challenges for women. Many argue that women’s labor currently supports the economy with women’s participation in the national economy growing from 15% in 1965 to 43% in 1995. Currently, women hold over 40% of state sector jobs and account for 52% of the scientific researchers and 66% of the technicians and professionals. However, a disparity exists between their high participation rates and technical education and their ascension to leadership roles. In 2001, Cuban women held only 33.5% of the management positions within the country, and while this figure exceeds the goal of 30% established in 1995 by the United Nations Fourth World Conference on Women, it still fails to meet the gender equality espoused by the Revolution. Moreover, although women comprise 50% of the work force in health, tourism, and education, they comprise only 30% of the agricultural work force, a sector historically dominated by men. Of that figure, only 11% are leadership positions. Men continue to occupy a disproportionate amount of technical and scientific posts.

In many instances the lack of female presence in leadership roles is actually by choice. Although the government has attempted to liberate women in their domiciles, traditional gender roles continue to dominate in households. In 1975, the FMC succeeded in its fight to establish the Family Code, which attempted to mandate the equal division of both housework and childcare; however, the code has not been adequately enforced. In response, the FMC established 838 child-care centers that support 96,000 workingwomen, which ameliorated the situation to a certain degree, but failed to satisfy total demand or to create equality in the home. The FMC contends that the Special Period forced the country into “survival mode,”

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268 Stoner.
273 Safa.
compelling women to assume greater responsibility outside and inside of the home – especially faced with drastic food shortages. During this shift, many of the Revolution’s goals for women were lost. For many women the challenge of juggling professional, political, and domestic duties proves too great a challenge, leaving career advancement as an afterthought.

Educational advancements have proved the most successful elements of the Revolution across all of Cuban society, including women. According to the UNDP’s Human Development Report for 2003, the literacy rate of Cuban women falls fractionally lower than the rate of their male counterparts, 96.9% to 96.7%; however for the combined primary, secondary and tertiary gross enrollment ratio for 2000-2001, women earn a 77% ratio compared to a 75% ratio for men. Currently women comprise 60% of Cuba’s university graduates. Women account for more than 70% of medicine graduates. Campaigns to encourage women to study medicine have been so successful that last year Cuba introduced quotas for men. While these statistics are impressive, they fail to correct inequality in the home and workplace, leaving the full potential of educated Cuban women unrealized.

The final measure of empowerment involves women’s medical and reproductive rights. Advances in the health system during the post-revolutionary period greatly enhanced the medical treatment of women. The system places increased value on prenatal care and breast-feeding, with separate hospitals for maternal care and abortions. The decrease in fertility rates has been among the most dramatic in recorded history. According to the 2003 Human Development Report, Cuba’s birthrate for 2000-2005 is 1.6, down from 3.5 for 1970-1975, making Cuba’s average birth rate per woman the lowest in Latin America and the Caribbean. Various explanations include the high divorce rate of women of fertile age, increased contraception use, and increased abortion. Unlike other Latin American countries, Cuban women have the right to request an abortion at any time before the twelfth week, free of charge. The only stipulation

requires an adult to accompany females under the age of 16. The National Statistics Office reported that there were 5.6 million births between 1968 and 1996, while there were 3.2 million abortions. In 2002, there were 49.8 abortions for every 100 births, a figure that fails to account for the large number of menstrual regulations, a treatment that delays menstrual periods for two weeks to prevent pregnancy.\(^{280}\) Cuba ranks fourth in the world for abortions per capita with 7.48 abortions per 1,000 people.\(^{281}\) According to Nancy Iglesias Mildenstein, a leader of the FMC, the increasing number of women seeking abortions worries the organization, not for moralistic reasons, but because abortion fails as a practical method of birth control. While vasectomies are freely available in Cuban hospitals, few men have undergone the procedure as Cubans continue to perceive contraception as a woman’s responsibility.\(^{282}\) According to the Cuban government, it has never implemented an “explicit Population Policy” that has aimed to reduce or control population growth. Instead, the government claims to employ “implicit Population Policies,” including policies to protect mothers and integrate women into socially productive activities.\(^{283}\) The lower fertility rate implies that women possess greater control over these choices, but also hints at societal pressures for women to postpone maternity in favor of career advancement or to limit the number of children to decrease the pressure of “double-duty.”

The Revolution succeeded in dramatically improving women’s literacy rates, health, and employment opportunities. Cuban women also gained a stronger sense of entitlement, expecting female representation in government and equal access and payment in professional spheres. However, a patriarchal attitude continues to thrive in the country, forcing women to work “double-duty” inside and outside of the house and limiting their professional development.\(^{284}\) While the FMC has made significant contributions to the empowerment of Cuban women, the organization is also referred to as Castro’s “helpmate” implying that women are still subservient and their empowerment is at the mercy of the government. Moreover, the increased socialization of services directed at women, such as day care and employment, implies a divide between government-imposed gender equality and the continuation of traditional gender stereotypes.

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\(^{282}\) Dellit.


\(^{284}\) Stoner.
The authors were unable to meet with the FMC or any other groups specifically dedicated to women’s rights; consequently, commenting with certainty on the observed status of female empowerment proves difficult. However, from indirect statements and observations, recurring themes emerged. For example, while there seemed to be women at all levels of management, there also seemed to be an expected stereotype that prevailed. Even in professional environments, women wore provocative clothing as if to satisfy certain expectations of how a woman should appear, even in leadership roles. The authors met with female professors, joint venture executives, UNDP officials and others and at each meeting the machista attitude remained under the surface. For example, the UNDP Communications Official stood behind a female Cuban worker, and often spoke over her and during numerous meetings, such as the Organiponico, women were present, but silent. The sociologist professor from the University of Havana argued that women enjoy equal rights in Cuba, but also expressed annoyance at the “feminist” inquiry. This seems to be a cultural attitude that the government cannot easily modify with laws and regulations; it is an aspect of culture and must be changed from the bottom-up. Consequently, until an ideological shift in gender roles occurs, Cuban women will be torn between pre-revolutionary and post-revolutionary ideals for their gender.

6.6 Political Empowerment of Youth

The original intent of Castro and his fellow revolutionaries of the 26th of July Movement was to create “the new socialist man” who would place the Revolution at the heart of his daily life. In the wake of the corruption and greed of the Cuba that existed under Batista, the Cuban government that took power in 1959 sought to transform the culture away from one centered around the individual and his needs to one of common purpose, mass participation, and revolutionary spirit. Loyalties would be transferred from the family to the state. Castro and his administration believed that it was to be the youth of Cuba, not the present generation of workers, who would create this new society. Through the massive literacy campaigns of the 1960s and through intensive Marxist-Leninist ideological education, the younger generation of Cuba was to establish itself as the world’s model of a strong, dedicated, socialist society. Said
Castro: “The task of the schools...is the ideological formation of revolutionaries, and then, by means of the revolutionaries, the ideological formulation of the rest of the people.”

In looking back on the forty-five years, Cuba’s efforts to empower the youth with revolutionary fervor and dedication, at best, have seen mixed results. For those who have been willing to submit to the demand for ideological conformity, they been granted some level of inclusion and participation in the government apparatus. Such young people allow for the government to choose their courses of study, and their admission into “elite” schools is based on their own demonstrated allegiance to the Revolution and that of their parents. In such a system, ideological allegiance is more empowering than drive, independence of thought, and intelligence.

Upon the authors’ visit to Cuba, this scenario was experienced first hand, as the Havanatur guide who escorted the group throughout its stay was a young man whose father was a high-ranking general in the Cuban Army who received training in Russia and accompanied Castro on dozens of his trips abroad as a coordinator for his security detail. His loyalty has been rewarded, as his son now has been able to work in the tourist sector, where he mixes with Europeans and Americans and receives tips and other gratuities in the form of the highly-valued U.S. dollar. Over the course of conversations, it became evident that he saw few significant problems with life under the Castro regime, and he could not understand the motivation of those who work at Vitral and who have participated in the Valera project.

Aside from the system of education as a vehicle for empowerment within the Revolutionary movement, the Union of Young Communists (UJC) and the Union Pioneers of Cuba seek to involve Cuban youth in the advancement of the Revolution and instill its values. Young people who joined these organizations would find themselves participating in parades, community service projects, sports, theatrical productions, and a host of other community-building exercises. Conveniently, active membership would mean less free time to engage in individual pursuits and a constant reinforcement of the collective ideals of the Revolution. Youth Committees for the Defense of the Revolution were also set up to mirror the adult organizations that taught the virtues of the Revolution and Communism to neighborhoods and basically anyone who would listen.

While originally intended to be organizations of massive political mobilization, the evidence suggests that they did not have their intended results. In the years after their creation, and, indeed, up until today, the juvenile delinquency that the Revolution and the programs instituted by Castro and his government was intended to stop, has not abated. It turned out that many young people felt no attachment to the messages being put forward by their government, and in 1963, leadership mandated that all “delinquents” ages fifteen to seventeen had to complete three years of military service, and in 1964 Castro went so far as to consider forcing all young people to do military service out of a concern that a large number of the generation who was to carry out the Revolution would develop “without discipline, without training, without being organized and without that conditioning, which military instruction provides.”

Recent years have seen increasing rates of school dropouts, crime, drug use, and prostitution. It appears that ideology has not been enough in getting the masses of young people over the years to become politically active and supportive of the government. They have not had avenues to express frustrations with a lack of jobs, a lack of opportunity, and freedom to think as they choose. Marxism-Leninism must be the ideology espoused in the universities, and for many years, the constitution referred to Cuba as an atheist state, and cracked down on the practicing of religion.

Ideology can only go so far in motivating people to become part of something greater than themselves. Young people who have followed the Revolution have done so because they felt a sense of pride in what they were trying to achieve. However, even the most dedicated have found disillusionment. A former naval officer said in 1992, “Young soliders, new conscripts, [and] old timers are fed up with Cuba’s crumbling system.” In the past few decades, there have been numerous episodes of flight from Cuba’s shores by both civilians and military personnel. Young people left by the thousands during the Mariel Boatlift of 1980, and they could not be considered leftover capitalists. Sport, long been used by Castro as vehicle for espousing the glory of the Revolution, has evolved into another place where disenchantment has trumped ideology. This can be seen in the growing number of defections to the United States by many of Cuba’s prized athletes, namely baseball players such as Livan and Orlando “El Duque”

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286 Bunck, p. 33.
288 Bunck, p. 81.
Hernandez and Jose Contreras. Many Olympic athletes such as long-jumper Niurka Montalvo and water polo player Ivan Perez have also defected; furthermore, eleven athletes and one coach defected during the 1999 Pan American Games in Canada.\textsuperscript{289}

There may have been a place within the Revolution for many young people, but even that chance appears to have disappeared. Perhaps this disillusionment may stem from belief within the Castro regime that Communism and allegiance to the state is the only option for a society to be successful. However, the government is keenly aware that its efforts at insulating itself from global trends and demands as to how a society should look. As one author put it, “The government has grown concerned that, as it exposes its socialist system to crowds of mostly European tourists and embraces a dollar-based economy, young people will become more interested in McDonald's than Marx, and Cuba's brand of orthodox socialism will wither.”\textsuperscript{290}

As mentioned earlier, the Revolution sought to create a society where the fundamental attachment was to the state. “Juvenile delinquency,” said Castro, is caused by the “influence of the home, the influences of the family, the influence even of certain traditions in the family.”\textsuperscript{291} It can be argued that such an enterprise that seeks to eliminate family ties will come up against a great deal of resistance. The conflict between the family and the demands of the revolution played itself out in another way that ultimately alienated the young people who were meant to be the future of the revolution. As parents became involved with local Committees for the Defense of the Revolution, they were able to spend less and less time with their children. Many of these children then came to despise the Revolution; said one youngster in a 1988 survey: “My parents were happy fulfilling the demands of the Revolution; they forgot all about me.”\textsuperscript{292}

The following anecdote illustrates the perception among a great deal of Cuba’s youth as it pertains to their political empowerment and opportunities. The authors of this paper had the opportunity to speak with several students at the University of Havana. An anthropology student described the scene this way: There is a man who owns an apple tree and all of the nine apples that are on it. Seven people around the tree want to get the apples as they fall to the ground. However, two of the seven tell the owner of the tree that the other five have been slandering him, telling lies, and wishing him ill will. As a result, as the apples fall, the owner gives them all to

\textsuperscript{290} Wilson.
\textsuperscript{291} Bunch, p. 62.
\textsuperscript{292} Halebsky, p. 182.
the two who snitched. This student argued that most Cubans are in a position not unlike like the five who may or may not have spoken ill of the tree owner.

6.7 Conclusion

The revolution of 1959 created immediate and dramatic opportunities for historically unempowered peoples of Cuba -- young people, black people, women and campesinos. Through mandated access to education, health care and employment opportunities, all of these groups improved their quality of life. Through the omnipotent and omnipresent state, male and female workers in the cities and the countryside experienced an unprecedented amount of opportunity and input in their society.

The Special Period signaled a rollback of some of the progress that blacks and women had made in society and in the workplace. Decentralization in the agricultural sector has been met by similar efforts in other labor sectors, but the increased efficiency has not led to increased opportunities for young people of any race or gender.

As Cuba moves into the 21st century, the Cuban people are shifting their efforts into organizations that are working for social change under the protection of the Catholic Church and the Cuban constitution. The government is struggling to keep up with the pace of social change, which shows no signs of slowing or reversing. “We are not going back,” declared an Afro-Cuban doctor, who may have been speaking for all Cubans, men and women, black and white, urban and rural, and young and old.
7.1 Introduction

Since the end of the Cold War, over two dozen former communist countries have joined the global trend towards democracy. The lessons learned by the international community in assisting these transitioning countries develop democratic institutions and can serve the Cuban people well when the opportunity for transition presents itself in Cuba.

Many of Cuba’s citizens have yearned for the political, economic and civil liberties enjoyed in much of the rest of the world. However, the Cuban government has long restricted most avenues of political dissent and has denied its people basic rights to due process, free expression, association, assembly, movement and the press. Its recent crackdown on dissidents is particularly abhorrent. Cuba’s key policy problems over the next decade will revolve around liberalizing its political system and economy without losing the significant social gains that it has made over the past forty years. As part of that effort, special attention must be paid to the creation of a vibrant civil society, political party development, constitutional reforms, and decreases in corruption. The following pages attempt to illuminate the issues that need to be addressed as part of that struggle.

7.2 Political System

Governance System Overview

Stereotypes about Cuba abound. When one thinks of Cuba’s system of government it is hard to overcome the image of Fidel Castro, holding a Cuban cigar, giving a speech to a mass of people in which he purports the goals of the revolution. However, although Castro is the leader and figurehead of the government, he also has created institutions that help keep the country running and the communist system intact. Castro is the central figure in the Cuban political realm, setting the agenda, making decrees and organizing central planning, but there exists a functioning government structure that works to enact policy. In looking ahead to the future of the Cuban system of government post-Castro, one must begin with a solid understanding of the
current system of governance in Cuba. Any future government must build from the foundation of the present system. A smooth transition to democratic rule can be best achieved by using the current governmental structures and slowly modifying these institutions into a democratic system.

Presently in Cuba, there are two main branches of government; the Asamblea Nacional del Poder Popular, the legislative branch, and the Council of State, the executive branch. The Asamblea Nacional de Poder Público is directly elected by the people and is structured similarly to a parliamentary system in the sense that they are elected and then they, not the people, elect the executive.

The Asamblea is responsible for electing the President, the First Vice President and the five lower Vice Presidents. Historically, the Asamblea has always voted for Castro. Despite Castro’s dominance, the system is based on democratic principles. The people vote for their Asamblea member from 601 member districts and the Asamblea member in turn is responsible for legislative activities and electing the president. However, this process only amounts to a semblance of democracy because the Asamblea is inherently weak compared to the executive. Although the Asamblea is given the power of legislature to make laws and vote on important legislation proposed from within the assembly, the Asamblea only meets twice a year for at most two weeks and for the rest of the year, the Council of State decrees laws and creates policy.

The members of the Asamblea are responsible for endorsing the legislation passed during the times of recess. This is not usually controversial because over 70% of the Asamblea is part of the Communist party. Elections for the Asamblea are not competitive and individual candidates are backed by the local communist party organizations in the districts. An example of the Asamblea rubber stamping a policy is the passage of the Ley Mordaza in 1999. This policy states that all people who send unfavorable information about the Castro regime to others outside the country could be sentenced to up to 20 years in prison.

The other main branch of government, the Council of Ministers is the “maximum executive and administrative organ and constitutes the Government of the Republic.” The Council of State is made up of 27 ministries, 4 institutes and the heads of state; i.e., the

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President, the First Vice President and the 5 regular Vice Presidents are Fidel Castro, Raul Castro, Carlos Lage Davila, Jose Ramon Fernandez Alvarez, Pedro Miret Priedo, Jose Luis Rodriguez Garcia, and Osmany Cienfuegos Gorriaran, respectively. Each of the 27 ministers is responsible for his or her own agency and enacting the laws and goals put forward by the heads of the Council. For example, the sugar minister is responsible for maintaining sugar production at a certain level.

The heads of the council are responsible for the following activities, “The council runs foreign trade and foreign relations, draws up the draft budget and is responsible for the general organization of the revolutionary armed forces.” According to the Cuban Constitution, the council, made up of the heads of state, is responsible for the duties of the government when the Asamblea is not in session. These duties include decree law, legislative initiative, and interpreting existing laws. These powers give the Cuban executive council superiority over its legislature and puts the decision making power of the country into Castro’s hands. The Constitution, which was written by Castro and was approved by the people in 1976, allows for this process.

Changing the Governance System

Despite the weaknesses of the current system, there is a tradition of voting for a national assembly in Cuba. This tradition needs to be capitalized on after the end of the Castro regime. In the long run, it seems that a democratic transition would be possible especially aided by the current government structures. However, Castro has taken advantage of one major factor that could inhibit the transition process: extreme nationalism.

In the event of Castro’s death or demise, there will be much pressure from the rest of the world, especially from the United States, for a rapid democratization based on one of many recent models of transition such as in Paraguay in 1990 and Peru in 1980. However, neither case had a previous structure that could be used like in the case of Cuba which would probably cause conflict during a complete system change. Also, it would be a mistake to impose a democratic system on Cuba with the loaded gun of an American or a United Nations peacekeeper. Peacekeeping may be necessary in post-Castro Cuba, but forcing the installment of a non-Cuban system would be unwise due to the high nationalism within the country. Keeping familiarity by

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building upon the governmental structures that already exist in Cuba will help ensure continuity during a time of large systematic change. This will help ensure popular support from the Cubans.

Currently there is a petition in Cuba for electoral reform known as the Proyecto Varela (Varela Project). This is a plebiscite that has been proposed by Cubans who seek democratic reform; it is written by Cubans for Cubans. The main points in Proyecto Varela are the continuation of the Asamblea Nacional, allowing Cubans to form their own businesses, and amnesty for all Cubans who are “political” prisoners. The most important part in terms of democratization is the maintenance of Asamblea Nacional; this includes professionalization through longer sessions and better voting methods (i.e., a petition signed by 5% of the voters in the district for a candidate to get on ballot instead of straight nomination by the Communist party). Through this professionalism the Proyecto Varela hopes to create a more democratized society where voters have a choice and peaceful assembly is legal. The personal and property rights proposed in Varela are important to any democratic transition. Through a stable system of political and property rights, Cubans can feel more comfortable in a changing country since they would not have to worry about new system creating problems in creating public policy. Through a system based on the one everyone is experienced with, policies and proposals can be dealt with by those who have a basic familiarity with them; those in the Asamblea and the bureaucrats in the lower levels of the Council of State. This reformed Asamblea should be in power in the short run. A stable fixture from the previous system can, through reform, show Cubans that a better system will be built from structures already in place. After a transition period with a democratic assembly, the Cubans should move toward reforming the executive branch.

The Proyecto Varela is an important first step that should be enacted after the end of the Castro regime. The current ministers on the Council of State each have an important role in the government and should be maintained. If there is no stability during the transition, key industries such as sugar and tourism could be hurt by foreign or domestic private interests. Over time, the cabinet should be re-organized and restructured as needs arise. These governmental agencies could play a strong role in maintaining stability in post-Castro Cuba.

Building upon Historical Structures

An important part of Latin American political structures has historically been the existence of a presidential system. Looking throughout Latin America, presidential systems are the majority. There are many possible explanations for this system being so dominant in Latin America, such as the importance of personalism (i.e., the personal connection between leader and the people at the very basic level) in Latin American culture, the colonial structures of the Spanish and Portuguese, and even pressure from the United States during the recent transitions to democracy since the 1950s. In looking at this history, presidentialism would be the way to elect an executive to lead Cuba. In the long term, after a successful and peaceful election of the Asamblea, the country should look towards electing a president directly by the people. Through direct election of a president rather than through a parliament, the Cubans can feel a direct connection to their newly elected leader. This will be an important part in trusting new leadership. Through a majority rules voting system where if no candidate gets a majority, the two top vote getters go to a run-off, the Cubans can feel confident that a majority of Cubans supported the winner. With majority support, it is easier for a president to appeal to the people. This will allow for greater distancing from the Castro regime toward a new representative democracy.

In order to guarantee free and fair elections, international observers will need to be brought in to ensure credibility. The United Nations or a neutral IGO with experience in elections can be responsible for this task. It would be important for the United States and the Organization of American States to not intervene in the election. Due to the historical conflict between Cuba and the United States, there would be a great deal of distrust from Cubans toward Americans interested in Cuba. The Organization of American States has been seen by many who oppose it (including Cuba since it is not allowed on the OAS) as a tool of the United States and thus may not be viewed by Cubans as reliable. Therefore, the United Nations would be the first choice for observers of these national elections, or possibly a more local group like MERCOSUR, which currently deals with trade relations but may be seen as more neutral and under less influence from the US than other organizations.

An important part of the current governmental structure that should be taken into account when thinking about a post-Castro Cuba is the Committee of the Defense of the Revolution (CDR). There are many CDRs throughout Cuba; they are local government entities that are
responsible for local representation and local action. They operate on a small scale, for example there are CDR offices in every neighborhood in Havana.

The actions of the CDR must be carefully scrutinized. In an interview with a CDR representative, the official stated that the CDR is responsible for finding civil leaders to be nominated for the Asamblea de Poder Popular, making sure the neighborhood is running smoothly, and keeping the revolution alive in the local areas.\textsuperscript{297} This is done through many actions; first the CDR goes to local neighborhood meetings to see how well the system is functioning and to see who is an exceptional leader from the area. By nominating a strong representative that they find at the local level, the CDR believes that others in the neighborhood can see what is possible through loyalty to the revolution. According to the official, in addition to watching the neighborhood, the CDR plays another important role; making sure children attend school. As keeping the revolution alive is the main role of the CDR, one sees a wall full of propaganda and revolutionary statements in any CDR office. Through maintenance of the ideas of the revolution, it is believed that Cuba can move toward the egalitarian future that has been the goal of the country for the past 45 years.

Although the CDR does many positive things in the Cuban community, such as help the unemployed find work, it functions mostly as a propaganda machine. Thus, to assist in any transformation to democracy, the CDRs must be disbanded in post-Castro Cuba. The CDRs would provide a dangerous link to the past that could result in distrust of any new regime that would be set up. The CDRs are a symbol of the Castro regime and could compromise people’s confidence in a new system. However, part of the CDR function should be continued; its work with the local governments in the form of neighborhood councils has been key in creating civil involvement in Cuba which is very high. These neighborhood councils could prove to be quite helpful in a transition to democracy. Neighborhood councils have been important in Cuban life since the revolution; people take part at the neighborhood level in a democratic process as decisions, complaints, and statements from the neighborhood councils are taken into account by the CDR.

The tradition of working within this local system can provide the experience in democracy that Cuba will need to develop at the national level. This structure will create an appearance of continuity from the previous government that will help the Cubans adjust to larger

\textsuperscript{297} CDR Representative. Personal Interview. 21 February 2004.
changes on the national level. These neighborhood councils should work together to create a larger city council within the major cities like Santiago and Havana, and these councils should be elected in a district method where each neighborhood council elects one representative or helps elect a city council member from a group of neighborhoods to be represented at the city level.

**Looking Towards the Future**

Making the changes proposed by Proyecto Varela in conjunction with maintenance of current democratic structures is the best way to start a gradual movement toward democracy in Cuba in the future. Through plans initiated by Cubans, new changes will be seen as in the best interest of Cuba and not imposed on Cubans. As proposed earlier, elections should take place but they should be done through the existing local structures by electing representatives to the Asamblea Popular de Poder Público and then evolving to a more democratic system on the national level. The groups proposed earlier should monitor these elections but there should be no interference from them in the process whatsoever. Independence is an important part of the transition since Cubans are extremely nationalistic and would like to maintain their autonomy.

### 7.3 Political Party Development

#### The Importance of Political Parties

Juan Linz, a preeminent scholar of democratization, once commented that, “Today in all countries of the world, there is no alternative to political parties in the establishment of democracy. No form of nonparty representation that has been advocated has ever produced democratic government. [We] are faced with a world of democracies based on parties.” Thus, it is essential that any democratization plan for Cuba includes the active development of political parties. This is no easy task as today the Communist Party is the only constitutionally recognized and legal party in Cuba.

#### Overview of Political Parties in Cuba

Currently, the Communist Party has a monopoly on political power in Cuba. The party holds all government positions, including judicial offices. Although party membership is not a formal requirement for political positions, it is “virtually a de facto prerequisite for high-level

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official positions and professional advancement in most areas." Occasionally, non-party members are allowed to serve in the National Assembly.

Castro seems steadfast in not allowing opposition political parties to form in Cuba and refuses to follow a path similar to the Soviet Union’s glasnost-perestroika reforms. Castro has publicly stated, “I will say once and for all, we only need one party.” However, although the formation of opposition political parties is a crime in Cuba, there are now over 100 groups in existence with various aims and ideologies. This is just one of the many positive developments in the realm of political party development that can serve as a catalyst for bringing broad change to the political arena in Cuba.

Numerous, albeit, small political groups have begun to spring up in Cuba mostly at the regional and neighborhood level. Most groups are not yet parties, but are forming the seeds for an active civil society network. Over the past few years, teachers, engineers, architects and doctors have been working in the direction of forming associations to get their voices heard. There are also numerous trade unions, ecological and cultural activists, anti-abortion groups, and families of political prisoners who are coming together to form interest groups. These groups have been growing and the potential for proliferation is large.

Most opposition groups have their roots in the human rights movement as one the main focuses of Cuban human rights activists has been to force an opening of Cuba's political system. The Cuban Committee for Human Rights was the first to form in 1978. Although most of its leaders have been forced into exile, the organization continues for function today. Another vocal group is the National Commission for Human Rights and National Reconciliation. The group publishes human rights violations in Cuba and has a staff of over 300 people who work as a support network for political prisoners.

Some political parties have begun to gain more support although they receive no official recognition. Democratic Solidarity, a center-left political party, is active in most regions in Cuba. The Christian Liberation Movement has gained momentum in many provinces. The Democratic Socialist Tendency has gained few supporters as it is harshly criticized by both the

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302 Ibid.
303 Ibid.
government and regime opponents. Finally, the Social Democratic Party was founded a few years ago, but has lost influence since its leader was jailed in 1997.

**Momentum in Political Party Development**

As stated earlier, a watershed effort to promote peaceful democratic change in Cuba started in 1997 with the initiation of the Varela Project. The Project is an unparalleled effort to advance political and civil liberties in Cuba and calls for a referendum on free elections, freedom of speech, freedom of association, freedom for political prisoners and free enterprise. The Project draws upon a constitutional provision that enables citizens to introduce legislative initiatives when accompanied by 10,000 signatures. This is significant because change is being demanded at the grassroots level by a large portion of the population, not just by a few courageous individuals.

So far, over 25,404 signatures have been submitted to the Cuban National Assembly. The legislature has declared the project ineligible for discussion despite the fact that debate of legislative initiatives is constitutionally required. In 2002, the Cuba government arrested and tried 75 people, over half of whom were organizers for the Varela Project. Oswaldo Payá Sardinas, the project’s founder, and other organizers are actively seeking international attention to garnish support for the initiative and also to prevent the Cuban government from intimidating and imprisoning citizens who have signed the petition. These pressures have been successful through the years in helping to attain a certain degree of political, press, cultural and religious freedoms in Cuba.

Castro has stated that, “Cuba never will adopt methods, styles, or philosophies or idiosyncrasies of capitalism.” However, as pressure from within Cuba and internationally continue to mount and a new generation enters adulthood, Castro’s support base will continue to erode. By taking opportunities in the small openings for political organization, the seeds of democracy will continue to grow. There are many reasons to believe that positive changes in the realm of democratization are occurring in Cuba. Oswaldo Payá Sardinas has written, “In Cuba, there is hope for change…Democracy is for everyone. It can be born in any environment, in any

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305 Chardy.
culture, in any race, out of any ideology – as long as there is respect for human dignity.” The movement for greater political freedom in Cuba is likely to continue gaining momentum and spreading throughout the country.

7.4 Civil Society

**The Roots of Civil Society**

Civil society is defined as the realm of public groups and associations created for the purpose of articulating or representing individual or group interests. Civil society plays an intermediary role between individual and family interests, the state, other actors, and forces, such as the market. In communist-party states such as Cuba, most civil society actors appear as opposition forces committed to diverging from the political agenda of the central government, in Cuba’s case, this means departing from the goals of the revolution. The most important preconditions for the emergence of a civil society in polities that eliminate such groups are independent thought and formal or informal pre-revolutionary social structures. The emergence or re-emergence of civil society can occur as long as the arduous conditions of Cuba’s communist regime are alleviated.

Due to the diminished strength of the Cuban state after the demise of the Soviet Union, changes have occurred in Cuba’s socio-political opportunity structure. Societal responses to a decline in state capabilities, changes in the international environment, and the unexpected consequences of the limited economic reforms and political adjustments made between 1992 and 1994, have led to a solid foundation from which to build a stronger, more independent civil society.

**The Emergence or Re-emergence of Cuba’s Civil Society after the Soviet Collapse**

The Cuban government was forced to make several political and economic concessions after the collapse of the Soviet Union in order to continue its communist control. While Cuba continued to exile groups and individuals that openly antagonized the ruling party, new dissident groups and leaders proliferated. Between 1986 and 1993, the regime allowed for “decompression” of specific sectors of Cuba and continued its repression against others. The most relevant changes that affected civil society structures were the creation of a Cuban “non”-

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governmental organization sector, an increased role for foreign aid and development NGOs, and the inclusion of religious sectors into the Communist Party.\textsuperscript{308}

By 1995, three clear sectors of civil society emerged: 1) Socialist civil societies which consisted of government authorized mass organizations, NGOs, and associations recognized under Decree-Law 54; 2) Alternative civil societies which were public groups not recognized by the state, pre-revolutionary institutions that remained outside the official civil society, and groups involved in dissidence or independent social activism; and 3) The informal civil society made up of personal networks, spontaneous groupings, and private associations with no inclination to become public entities. Groups could easily move from one category to another.

In 1995, the government recognized 2,200 NGOs, a zenith boom for a country which was restricted from forming independent organizations for more than 30 years.\textsuperscript{309} Some of the more prominent socialist civil society organizations include the Federation of Cuban Women, the National Association of Small Farmers, and the Committees for the Defense of the Revolution. Others include the Ideas Bank Z, a promotional group for young artists, the Cuban Council of Churches, and the Martin Luther King, Jr. Center. However, NGOs that make up the socialist civil society sector must be in agreement with the Cuban state.

Friction occurred between the state and state-recognized NGOs in 1995 as their autonomy limits were tested. As a result, the state cracked down on many NGOs for anti-revolution activities. The crackdown resulted in a fragmented but vigorous alternative civil society which tripled in size by 1998, and a dwindling state-initiated sector that never fully recovered the autonomy it enjoyed from 1993-1995.\textsuperscript{310}

The informal civil society sector (ICS) is not institutionalized and does not seek public identity, but is integral in channeling the social needs of Cubans without engaging in direct conflict with the authorities. It serves as a support rather than a threat to the party-state in that it facilitates the survival of the party-state system through illicit markets that are necessary due to structural inefficiencies of the state. The informal civil society therefore provides the human and material resource base for an emerging civil society. Some examples of informal organizations include Spiritualist Circles, Gay and Lesbian social networks, neighborhood groups, Radio Listening Circles, etc.

\textsuperscript{308} Espinosa..
\textsuperscript{309} Ibid.
\textsuperscript{310} Ibid.
Much of the pro-democracy research and programmatic activities that emerge from Cuba are fueled by the efforts of the alternative civil society (ACS). The ACS consists of organizations that most directly challenge the vision of the communist-party state. They function in the public realm and have institutional identities, publicly stated goals, purposes, and programs, established leaders, members, and supporters, and transnational links across the globe. Organizations such as Vitral, a Cuban sociocultural Catholic center and magazine which publishes written pieces on creating an increasingly democratic Cuban state is one such member of the ACS genre. While organizations such as these are transparent and daily functioning dissident bodies of Cuba, leaders and participants are threatened with job loss and heavily monitored by local CDR chapters.\textsuperscript{311} The overall objective of the alternative civil society is to gain greater autonomy for the state in order to fulfill their objectives.

\textit{Government Controlled Media and the Presence of Independent Press}

Cuba’s Constitution states that freedom of press is “subordinate to the goals of socialist society” and that “under no circumstances” will the media ever be in the hands of private entities. Outside of the international television stations that are aired in the major tourist hotels, the written press, national and local radio stations, and the two television stations all air reports that are in line with the ideology of the state power. The Department of Revolutionary Guidance is given the power of censorship and answers directly to the central committee of the communist party. The 2,000 journalists who work for the government-controlled media are all members of the Cuban Journalists’ Union whose code of ethics state that “a journalist, through his work, must help promote the constant improvement of our socialist society.”\textsuperscript{312}

The government stops at nothing to obstruct independent media journalists in their work despite the fact that all broadcast stations viewed by the public are government controlled and there is little internet access for most Cubans. Most recently on March 18, 2003, 12 independent journalists working for unauthorized Cuban news agencies were arrested for subversive activities. The dissidents included journalist Ricardo Gonzalez, editor of the dissident magazine \textit{De Cuba}, who only published two issues before his arrest, revealing that creating a government

\textsuperscript{311} Hernández, Dagoberto Valdés. Personal Interview. 28 February 2004.  
\textsuperscript{312} “Welcome to the Land of Revolutionary Propaganda.” Web Page.  
\url{http://www.cubantrip.com/ENG/mediapage.html}. 

158
monopoly over news inside the country is of utmost importance. Nevertheless, seven regional independent regional news agencies and 13 Havana-based agencies are known to exist and despite the government’s continuous arrests, independent news agencies continue to launch.

**What will be needed to strengthen civil society if transition occurs?**

It is evident that while all NGO and media sectors are not supported by the Cuban authorities, dissident groups do exist and continue to form despite threats of arrest, deportation, and death. The fall of communism and a transition to democracy should have little structural problems in creating a strong, functional, and emerging civil society sector. The largest problems will result on an ideological level from Cubans who have been socialized to believe false theories that change will result in loss of security and social services, will lower the already poor living standards, and threaten sovereignty, territorial integrity, nationality and the nation-state. The following sections will present recommendations on how Cuba can transition structurally and ideologically to create an emerging civil society sector.

**Structural Needs**

During Cuba’s transition, it is imperative that open dialogue, international support, and state protections are developed to ensure long-term sustainability for all civil society actors. The following objectives will provide a foundation from which the emergence of civil society can rely upon to strengthen its presence:

- Enlisting international NGOs and philanthropic entities to support and assist their present civil society in strengthening and maintaining their existing structures.
- Holding public debates and forums to provide direction for NGOs in developing their strategic plans, missions, and goals of their organization.
- Linking civil society groups, elected officials and media representatives to encourage dialogue and plans on how the government will support civil society and ensure full participation for its constituent.

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• Providing training sessions and workshops to reveal various models of effective civic action and provide civil society organizations with options as to how they wish to engage in civic work.

• Building the capacity of organizations to further define, articulate, and advocate their particular political agendas.

• Encouraging media to be present at all levels of the transition, from understanding the various directions civil society organizations are moving to gauging a pulse on the social, political, and economic needs of the Cuban population.

**Ideological Transition**

For an ideological transition to occur, it is necessary for all parties to be involved in the process, the most important being the individual, the family, intermediate organizations, and the state. The following are objectives that should be facilitated by the civil society and state in order for all Cubans to fully embrace and understand the necessary emergence of civil society:316

**Role of Civil Society**

• To promote informal spaces for participation and co-responsibility, such as friends, literary or art gatherings, associations for mutual help in the neighborhoods (neighbor communities), groups of professionals, groups of workers, artisans, etc.

• To organize initial experiences in farmer cooperatives and private workshops.

• To present some new non-government projects for organizations or Church financing agencies, some intermediate groups, according to the spaces that might appear.

• To establish a dialogue with study centers and universities specialized in topics related to civil society.

• To make sociological inquiries and surveys in order to support social projects and tasks.

• To establish a Civic Consultation Office in order to give advice to the civil groups and associations and to exchange experiences with them (either State or autonomous organizations).

• To carry out study sessions or open academies in order to reflect on projects like this one. The debates would be held by good-willed persons and social organizations.

• To look for cultural spaces which can enrich civil society.

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316 Hernández and Márquez.
• To have civil society publications deal more effectively with social topics, so that the message of open association and freedom can be spread and be part of the present thought and national life.

**Role of the State**

• To establish a permanent space (a university department) for the study of civil society, in a reflexive and academic environment.

• To favor the creation of associations, informal groups, organizations and institutions without the direct interference of the State, by regulating its social projection for the common good and not through ideological principles which are exclusive and restrictive.

• To include in the curriculums of primary school and high school the subject "Moral and Civic," by making new programs and texts which respond to that topic in an efficient way.

• To organize study encounters on democracy and participation with other Cubans and sectors from our nation apart from leaders from the State, the Party and mass organizations. And not only Cubans who live abroad, that is, Cubans who live in Cuba are to organize these encounters and participate in the Seminars or study sessions.

• To re-structure the institutions and powers from the State so that they can be more democratic, participative and pluralist, thus opening more spaces for the rebuilding of civil society.

### 7.5 Constitutional Reforms and the Rule of Law

**Why the Rule of Law is Critical**

An essential goal of countries in transition to democracy is the creation of the rule of law. The rule of law dictates that all citizens are equally entitled to participate in the formation of collective decisions and that no one, including those who govern are above the law. Moreover, certain freedoms and rights must be respected and protected. In order to achieve its ends, the rule of law requires legal predictability, a legislative body that functions as means to pass laws, and a separate judicial body to legitimate these laws.

The democratic ideal further requires that a genuine law-based state must be legitimized by the consent of the governed. “The democratic law-based state is therefore closest to the ideal
of the rule of law in that it presupposes accountability to its citizens and an active civil society that respects the basic rights and freedoms of its citizens.”

Establishing the Rule of Law

Cuba does not operate under the rule of law. It even fails to respect the meager due process rights that it does have. The dearth of accountable, democratic institutions, as well as the lack of respect for human rights entrenches problems that will make a transition to democracy difficult. An appropriate way to create and solidify the rule of law is for Cuba’s citizens to participate in the country’s political life and to create a government that is accountable to their interests. This will entail “not only the creation of new democratic institutions and a completely new legal framework, but also, and perhaps most difficult, the creation of a civil society with respect for law and public institutions — a rule of law culture.”

Establishing a state that recognizes and reaffirms the rule of law requires a legal framework that supports and defines the operations of the state and appropriate boundaries where individuals, organizations, and businesses may freely act. A lasting, legitimate framework requires democratic institutions that can produce rules and standards of their legitimacy.

An appropriate way to ensure this framework is through the adoption of a new Constitution. However, the current Constitution, appropriately amended may act as guiding document through the first stages of the transition. The current Constitution was first adopted in 1976, extensively revised in 1992, and partially revised in 2002. A peaceful transition to democracy may be aided by retaining several elements of the current Constitution and amending it only so far as would be necessary to sustain the transition. Then after the immediate transition, a new Constitution would be drafted and submitted to voters in a plebiscite.

The Constitution needs to be amended to remove the monopoly power of the Communist party and the command economy. In particular, the Constitution needs to lose its references to Marxist-Leninist ideology as well as the 2002 attempt to prohibit any future amendments to basic law.

The Constitution must also consist of a bill of rights that respects and promotes the rights enumerated in the Universal Declaration of Human Rights. The state’s power over the arts, sciences and culture must be constrained. An independent mass media must be permitted and

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317 Patallo-Sanchez, Laura “Establishing the Rule of Law in Cuba”
http://ctp.iccas.miami.edu/Research_Studies/LPatalloSanchezRuleofLaw.pdf
318 Ibid.
allowed to flourish. Furthermore, a greater degree of individual expression must be allowed. Greater religious liberty must be codified into the document, deleting clauses allowing the government to curtail these freedoms. Cuba already has a progressive Constitution, banning discrimination on the basis of race and sex. Given the Cuban government’s history of homophobic actions, this principle must also be extended to sexual orientation. Finally, citizens must be afforded all rights not explicitly ceded to the state by the Constitution.\footnote{Domínguez, Jorge “A Constitution for Cuba’s Political Transition: The Utility of Retaining (and Amending) the 1992 Constitution” http://ctp.iccas.miami.edu/Research_Studies/JDomínguez.pdf p. 11.}

During this initial period, the legislature must review laws that require immediate attention. These include laws that violate basic rights enshrined within the transitional Constitution such as freedom of speech, assembly, and seeking redress from the government. Other laws that should be tackled immediately include those dealing with property rights, market exit and entry, contract rights, and banking and finance laws.

While the current Constitution may be appropriate for the transition, a new Constitution, firmly enshrining democratic principles must eventually be adopted. During the transition period, the National Assembly, operating under the transitional Constitution should prepare a new Constitution and present it to voters for ratification.

Procedures should be established for the creation of some kind of constituent assembly in which representatives would debate and draft a proposed Constitution. The constitutional assembly should include either an equal or proportionate number of representatives from all sectors of Cuban society, including opposition groups or dissident groups, members of the Cuban Communist Party, and members of any other political party or non-governmental organization that exists in Cuba at the time a transition begins.

This document would obviously tackle the role of the courts, especially the Supreme Court and the courts of appeals. The judiciary deserves and requires professionalism and independence to legitimately carry out their decisions. Therefore, justices should not be subject to removal except by legislative supermajority for limited, specific charges. The courts must also be granted the authority to decide the constitutionality of legislation. Currently, the national assembly has this power. Removing this function would better align powers and prevent abuse. Cuba, like many socialist countries, also has an Office of the Public Prosecutor.
Cuba this office may be an instrument to combat the likely rise in corruption. Many of the issues regarding design would be better addressed when the transition occurs.

**Rule of Law Support System**

Creating a culture respecting the rule of law does not end with the creation of a new Constitution. There will be a need to create institutions that are accountable to the citizenry. These include a free press and free, fair, competitive elections. Similarly, the institutions that presently exist will need to reflect an open society. For example, those trained in the legal profession will need to advocate on behalf of their clients and uphold individual rights.

Moreover, new laws must be tailored to Cuba’s circumstances as well as its moral, social, and cultural history. Failure to understand these factors in the passage of legislation will result in laws that are unpopular, viewed as illegitimate, and potentially disregarded.

**7.6 Combating Corruption in a Democratic System**

**Corruption in Cuba: A Historical Perspective**

During the first decades of the nineteenth century, corruption was endemic to the state. As Louis Pérez points out 320, “it was to government that Cubans looked for economic security. State revenues became the source of economic solvency as Cubans came to define their material well-living in political terms.” The revolution in 1959 claimed to eradicate traditional forms of corruption for the first few years, but the development of a black market of goods and currencies, especially during the Special Period, brought about new tensions in the behavior of public employees.

**Corruption and Democracy**

In a democratic environment tensions arise that allow for corrupt mechanisms to operate. As Susan Rose-Ackerman mentions 321, there are six structural features that act as incentives that foster corrupt behavior:

1. The government can benefit persons or firms using legal criteria rather than willingness to pay; thus, bribes displace the market.
2. Public servants can have few incentives to do their best since their salaries are low and the control mechanisms are weak; thus, bribes act as incentives to increase remuneration.

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3. Persons and firms could try to reduce their tax burden; thus, bribes decrease the costs for those who pay them.

4. The government can benefit firms through contracting-out, tenders and auctions; thus, bribes affect the allocation of resources and contracts in the economy.

5. Bribes could substitute legal ways of political influence; bribing politicians buys their support, and politicians who bribe could buy votes.

6. Justice can have the power to impose costs and transfer resources between the parties; thus, bribes could bypass legal norms.

For Cuba, the path to democracy will be also linked to the development of some of the features mentioned above that are not present yet. Cuba needs to define policies to prevent corruption to pervade the civil society and the economic institutions in the future.

An interesting case to look at is that of the countries in the Americas. Acknowledging the problems associated with corruption, in 1996 the members of the Organization of American States (OAS) adopted the Inter-American Convention Against Corruption\(^{322}\), which represented the first anti-corruption treaty in the world. Although Cuba is excluded from participation in the OAS since 1962, the treaty, and the resources provided by the OAS to implement it\(^{323}\), could serve as useful guidelines to establish and enforce anti-corruption mechanisms in a democratic context.

Fighting corruption is essential because it undermines the legitimacy of public institutions and the development of the countries. Each government should hold corrupt persons accountable. Therefore, it is important to develop strong and effective anti-corruption mechanisms.

**The Scope of Corruption**

Corruption can be defined in many ways. As a guideline, the Convention identifies the following as acts of corruption:

1. “The solicitation or acceptance, directly or indirectly, by a government official or a person who performs public functions, of any article of monetary value, or other benefit, such as a gift, favor, promise or advantage for himself or for another person or entity, in exchange for any act or omission in the performance of his public functions;

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\(^{323}\) Ibid.
2. “The offering or granting, directly or indirectly, to a government official or a person who performs public functions, of any article of monetary value, or other benefit, such as a gift, favor, promise or advantage for himself or for another person or entity, in exchange for any act or omission in the performance of his public functions;

3. “Any act or omission in the discharge of his duties by a government official or a person who performs public functions for the purpose of illicitly obtaining benefits for himself or for a third party;

4. “The fraudulent use or concealment of property derived from any of the acts referred to in this article; and

5. “Participation as a principal, coprincipal, instigator, accomplice or accessory after the fact, or in any other manner, in the commission or attempted commission of, or in any association or conspiracy to commit, any of the acts referred to in this article”.

These five points should serve as a basis for defining corruption in Cuba, and being able to establish clear rules to regulate the civil service.

However, the situation in Cuba regarding corruption is more delicate given the pressures to open the economy to a market-oriented system. As was the case with many socialist countries under the Soviet influence, the recommendations to open up to the markets elaborated by the international community did not emphasize transparency as much as they emphasized speed of the process. This is a clear mistake that has been acknowledged several times but continues to be repeated in the developing world.

Regarding this point, it is worth quoting Casals and Diaz Briquets: “As a post-Castro transition eventually gets underway, presumably in a market economy direction, opportunities for corruption will abound. Petty corruption is likely to gradually begin to diminish as long as economic conditions improve and as commercial activities repressed under the current system are legalized. As government controls over economic activity are relaxed, the black market, one of the primary drivers of petty corruption in socialist Cuba, will evaporate. Grand corruption opportunities, however, are likely to multiply particularly if, as has been the experience of other former socialist societies, the current political elite plays an active role in the transition”.  

Moreover, the participation of the military and the high-rank communist party members in the running of the state leaves these two groups with large discretionary power. As Jorge

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Casals and Diaz-Briquets, p. 4.
Perez Lopez shows in his paper\textsuperscript{325} the owners and managers of the largest private companies (related with tourism, trade, and electronics) are “predominantly high-level military officers and Cuban Communist Party officials.”\textsuperscript{326}

\textbf{Resources to Fight Corruption}

Besides establishing the Inter-American Convention Against Corruption, the OAS has developed some additional initiatives to fight corruption. It has also provided legislation models to address the following issues in each country:

\begin{enumerate}
\item Access to public information
\item Regulation against illegal financial appropriations by public officials or public servants and against international bribery
\item Establishment of ethics codes for public officials and public servants
\item Protection for persons who testify against corrupt actions
\item Mechanisms to achieve civil society’s involvement in the fight against corruption
\item Establishment of yearly financial statements for public officials and public servants
\end{enumerate}

Cuba can take advantage of the bill drafts already set up by the OAS, as well as the Convention rules that were established in 1996. In addition, the Inter American Development Bank and the Organization for Economic Cooperation and Development have issued several reports on the subject.

\textbf{Conclusion}

In addition to curbing corruption, Cuba will need to define, as any country, a legal framework that prioritizes transparency and accountability in the public and in the private sector. Institutions and laws will be put in place, but they will not constitute a sufficient condition for avoiding corruption. Informal practices will also be needed to change. In that sense, the future private sector in Cuba will have to develop sound corporate governance mechanisms and the general public will need to be informed on the mechanics to fight corruption and on the advantages of having a corrupt-free government and private sector.

\textit{7.7 Conclusion}


\textsuperscript{326} Ibid.
Clearly, establishing a democratic government in Cuba will not be easy. However, by identifying and responding to significant problems, the Cuban people will be able make that transition. Chief among them is the recognition that democracy is not simply holding elections. Democracy also entails a free and vibrant civil society, a fundamental respect for human rights, as well as equality before the law.

Creating the belief in democratic rule and encouraging widespread adherence to its principle will undoubtedly be the most difficult challenge. Nevertheless, it is a challenge that must be met. The task of transforming Cuba into a democratic country will require significant political, social, and cultural will. Unfortunately, success is not guaranteed. The success of democratic reforms will require broad support by all segments of society.

Democracy is not simply about holding elections, but is a broader concept, requiring the creation of a system where citizens consent to be governed, participate in the political process, and yet can hold their government accountable.
Chapter 8: Cuba’s Future Challenges—The Economy
Norman Bishara
Alex Sarapu
Aaron Skrocki
Jacqueline Tan

8.1 Introduction

The trip to Cuba was enlightening because it provided a tangible and informed context for this report. In particular, the group was able to see first hand the impact – for better and for worse – of socialist policies, as well as the limited market reforms such as joint-ventures, on the Cuban economy, and on average Cubans. In this section we ask the threshold question: What changes, reforms, and innovations would be necessary to achieve functioning markets in Cuba? In doing so we are careful not to assume that such reforms can only occur with massive political change, rather we recognize that the existing socialist government has taken steps toward market reforms that could be accelerated in the future.

Throughout, the section also aims to provide ways that will allow for market-based reforms while still maintaining an adequate level of the social protections Cubans have come to rely on for their daily needs, such as food, shelter, employment, education, and health care. Rather than attempting to make normative statements dictating what is “best” for Cuba we strive for an evenhanded look at the “pros and cons” of each possible reform. Moreover, while we chose not to directly address the economic effects of the United States embargo against Cuba, it is implicit in our analysis that market reforms – combined with the political changes described earlier in this paper – will help move Cuba toward a lifting of the embargo. In any event, steps toward functioning markets in Cuba will inevitably increase its economic abilities and thus lessen its dependence on the goods and capital hampered by the embargo while making it more likely that the very concerns behind the embargo are neutralized.327

While these evaluations are by no means an exhaustive study of the challenges facing market reformers in Cuba, they do address some of the major areas of concern such as increased privatization in various key economic sectors, property rights and business protections, labor market concerns, exchange rates and market pricing, and capital flows. In making these

327 Of note is that fact that among the economists, international managers of joint ventures, state-owned business people, and health care professionals that we met with on the trip the embargo was perceived as the most important factor in perpetuating Cuba’s economic woes.
evaluations of possible market reforms we are assuming that the Cuban government and the Cuban people are in favor of taking such reforms.

However, our evaluation does not assume the prerequisite that there is a complete overhaul of the existing socialist government, however we do recognize that for these suggestions to take root the current government would have to be prepared for changes to the status quo, many of which may appear to contradict socialist assumptions. If a transition does occur, we assume that it would be a peaceful one that will, when coupled with already evolving Cuban economic reforms, drive Cuba toward much greater market reforms. We do assume that these reforms will be beneficial to the Cuban people and embraced to the extent that the standard of living will improve while preserving fundamental rights to education, nutrition, and health care that ordinary Cubans are now accustomed.

In drafting this portion of the project we also envisioned strong analogies between the experience of post-communist nations, particularly in Eastern Europe, and potential Cuban reforms. Indeed there are many lessons from those transition economies that can assist Cuba in moving toward market reforms. However, those analogies are not absolute because in Cuba’s case the socialist political system remains largely intact and in many ways, particularly with regard to social, health and educational services, adequately serves the Cuban populace.

In contrast, the sudden collapse of the Central and East European communist states in the late 1980s forced a set of decisions about how those economies would move inevitable toward free markets, and more importantly if they would get there with gradual or “big-bang” reforms, particularly in the state-owned manufacturing sector. Cuba is not in that same position, at least not at this time. Therefore our proposal is for gradual reforms that can take place within a version of the existing political and social system to minimize disruption, yet lead to true market benefits.

This chapter will cover reforms for macro-economic policies (section 7.2), micro-economic policies (section 7.3), regulations and institutional reforms, including the legal system (section 7.4), and labor markets and related issues (section 7.5). Finally, the chapter ends with a brief conclusion.
8.2 The Macro-Economy

Exchange Rates

Choosing an exchange rate regime is extremely important for a developing country, especially one attempting to transition from a communist-run economy to a free-market capitalist system. As the East Asian financial crisis of the late 1990s demonstrates, the repercussions of choosing an exchange rate that decreases the risk of speculative attack, but nonetheless provides for an appropriate level of capital inflow to fuel a growing economy is a tricky endeavor. Flexible or floating exchange rates, which are determined by pure market forces, may provide much needed capital inflow for a growing economy, but they leave economies susceptible to speculative attack. Rapid appreciations and depreciations of currency, as in Thailand, can mean economic disaster for developing economies. Choosing a floating exchange rate over a fixed exchange rate, which is “pegged” to another currency (usually the dollar), or vice versa offers tremendous trade-offs between relative stability and economic growth.

After the collapse of the Soviet Union, the transition of Eastern Europe from communism to capitalism brought the issue of floating or fixed exchange rates to the front of the “economic transition” debate. On the one hand, flexible exchange rates provide some level of protection against inflation of local currency and external shocks. But, flexible exchange rates also require a rather robust financial sector that can deal with rapid capital inflows and outflows, something that most developing countries lack. In addition, there was, at the time, very little empirical evidence to suggest whether economies would grow more rapidly under floating or fixed regimes. Choosing a regime depended heavily on the “role of the central bank, the implementation of monetary reforms, and the scale of fiscal deficits and their financing.” In the end, of the eight transitioning economies, four chose to implement a fixed peg, while the other four chose a flexible exchange rate. Evidence from Eastern Europe suggests that a pegged exchange rate may help fend against high inflation. Moreover, it appears that some of these countries that implemented a fixed exchange rate, the Czech Republic, Estonia, and Poland, enjoyed faster rates of reform in other sectors of the economy. In fact, Latvia, which adopted a

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pegged exchange rate experienced a longer and deeper recession than Estonia, which adopted a floating exchange regime\textsuperscript{330}.

Lessons from the Eastern European transition also suggest that what may be a wise policy decision in the short-run can lead to economic ruin in the long-run. Fixed exchange rates may cause rapid real appreciation and large account deficits, leaving an economy open to speculative attack\textsuperscript{331}. This is precisely what happened in Mexico, as capital inflows continued without government intervention causing a crash in the currency. Avoiding appreciation is of particular concern to Cuba, which is likely to experience a rapid influx of capital from the United States. With large capital inflows, the currency will certainly appreciate. Because of these problems associated with a fixed exchange rate, many economists have recommended the gradual move toward a floating exchange rate in the long-run once inflation is stabilized\textsuperscript{332}. The primary reason for moving to a floating exchange rate is that the “domestic economy is unlikely to possess the high degree of flexibility needed to absorb adverse shocks under a permanent pegged-rate system.” With this in mind, Cuba may consider a short-term strategy of implementing a fixed exchange rate followed by a gradual movement toward a floating exchange rate that can more readily deal with adverse effects on the economy.

\textbf{Capital Flows}

Capital flows are directly related to exchange rates. Individuals in open-market economies look to make investments that yield the highest rate of return. Interest rates and exchange rates are the primary factors that determine return on foreign investments. At the most basic level, when a domestic currency appreciates, the return on foreign investments in terms of local currency increases, thus making foreign investments more attractive to domestic individuals. On the other hand, as a domestic currency depreciates, the return on foreign investments will decrease, leading domestic investors to look toward investing in domestic accounts, assuming that interest rates and the future exchange rate are held constant. With floating exchange rates, capital flows are susceptible to speculative shock. As capital inflows rise because of a domestic currency appreciation, any hint of depreciation can lead to a massive

\textsuperscript{330} Sachs.
reversal of capital flow, possibly resulting in a currency and banking crisis. This is precisely what happened in Mexico, as capital inflows continued without government intervention causing a crash in the currency. According to Sheahan, large inflows of capital, “usually signal that something is going wrong: possibly that credit is growing excessively and fueling increases in consumption that cannot be maintained, possibly that financial capital is going into dubious loans, possibly that external debts are rising too rapidly” (1998).

It is impossible to foresee how exchange rates will impact capital flows in Cuba, but there is evidence to suggest that the government may wish to maintain some control over capital flows. In Thailand, for instance, authorities have placed limits on the amount of domestic currency foreigners can hold in local accounts. In addition, government officials cut interest rates, thus limiting the rate of return on Thai investments. These actions appear to have curbed the rapid appreciation that was set to send the country into another financial crisis. With its highly educated population, it is likely that foreign investment will rapidly increase once the Cuban economy opens its capital markets. Current joint-ventures in Cuba, led mainly by European companies, suggest that Cuba is an attractive investment opportunity and that any change allowing open investment will cause a rapid influx of capital investment. If the economy experiences some type of shock, a likely occurrence in a new open-market economy, unregulated controls on capital may cause disaster. Based on the lessons from Mexico and Thailand, it may be necessary to maintain some controls over capital inflows to prevent a financial crisis.

**Trade and Price Liberalization**

Socialist planning creates a distorted price structure that ignores scarcities within the economy and depends on an over-valued domestic currency. Allowing domestic prices to match global prices is necessary for trade liberalization, but a rapid and total liberalization may lead to rapid domestic inflation as economic scarcities become apparent. These higher prices of domestic goods affect real wages. Indeed, by 1993, the Eastern European economies experienced a 20 to 35 percent decrease in real wages[^333]. Such experiences have led many governments to maintain strict controls over prices in a number of “essential” sectors, including utilities, basic food items, and housing. In addition, stricter controls over prices help maintain

employment in sectors that might initially experience high unemployment. When previously high priced goods are suddenly subjected to lower world prices, firms will undoubtedly lay-off surplus workers causing higher unemployment. This is especially true in Cuba where the government has controlled the allocation of workers to certain sectors. The market is not prepared to reallocate these workers and resources without government intervention. Finally, controlling prices maintains a level of government revenue as firms continue to produce at previous levels.

Despite these possible advantages of price control, some economists argue that the short-term political gains associated with controlling prices do not off-set the longer-term rewards of price liberalization. Jan Svejnar argues that evidence from Eastern European economies suggest that transition economies should align prices of tradable goods with world-market prices as soon as possible. One advantage is that prices reflect scarcities in the economy, driving firms to reallocate resources into other sectors creating a more robust and diversified economy. In addition to price liberalization, Jan Svejnar proposes implementing tariff protections for the most vulnerable sectors of the economy as “domestic producers respond to world prices and reorient their production activities.”

The idea that transition economies should liberalize prices on tradable goods while maintaining some tariff protection for certain sectors of the economy seems particularly appropriate for the Cuban economy. Heavily invested in sugar production, a rapid liberalization of trade would almost certainly cause a collapse of the entire industry. Based on equipment and production methods from the early 1900s, the sugar-cane industry in Cuba is extremely inefficient. While distorted prices keep workers employed and some of the sugar-cane factories running, many of the country’s factories have been shutdown because of large inefficiencies. Likewise, Cuba’s agriculture sector, heavily dependent on manual labor and lacking any type of mechanized efficiency, would certainly be subject to massive shocks if rapid price liberalization occurred. According to one Cuban Agricultural Minister, “if there was an opening of trade, Cuba would have to protect its agricultural sector from low-priced world-market goods.” Cuba seems a likely candidate for a mix of price liberalization on tradable goods, coupled with tariff controls to protect certain sectors of the economy from total collapse.

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335 Interview with Cuban Agricultural Minister, Hotel La Victoria, 23 February 2004.
8.3 The Micro-Economy

Privatization

The recent economic hardships of Cuba resulted in a rise of privately owned enterprises. Besides the normal challenges faced by start-ups, these private enterprises had to deal with the Cuban government’s strict regulations, since the government felt that private enterprises will only exist in the short-run. Regulations also denied the private enterprises access to key inputs such as hired labor, imported inputs, foreign exchange, credit and access to market (being able to sell to companies, not just individual customers). The government also set the regulation such that cost should not exceed 10% of total revenue. This is especially difficult since the private enterprises are only able to purchase inputs at dollar stores, agricultural markets or from government suppliers at state-determined prices.

Predatory competition from state enterprises and the tax burdens are unbearable. The private companies also suffer negative reporting by their press. Small-scale enterprises also lack a political voice and basic security that they will not be confiscated. Since early 1997, a wide array of professions and business services are still prohibited. These include engineering, management consulting, accounting, architecture, interior decorating, information technology, real estate, advertising, employment agencies, and environmental consulting. For professionals to work in legal micro-enterprises, they must be declared retired, redundant by their state enterprises and be reputed in their original places of employment.

Given the initial negative attitudes on privatization by the government and the media, privatization in Cuba suffered a setback. Privatization has the benefit of helping Cubans attain a higher standard of living and making the work force more productive and entrepreneurial, hence it should be an option open to all Cuban citizens. By allowing privatization to occur gradually, the government and the financial sector can have sufficient time to put in place necessary legislations and infrastructure.

Privatization of state-owned property can be engineered in a number of ways. It can occur through land restitution, where land is being returned to previous owners when sufficient proof exist. This may be more arduous in the short run for Cuba since it is administratively intensive and land records may be incomplete. It may also be difficult to separate individual

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plots of land that have merged to form collective farms. A good provision of housing and social security for landless citizens needs to be underway since these Cubans may not have the saving or the necessary capacity to get mortgages. Privatization can also occur through the sale of state property, often to workers or managers of the state owned property at favorable rates. The sale can meet several goals: (1) producing revenue for the government, (2) hastening the process of restructuring firms, and (3) getting foreign investors involved in the industry. The Cuban government can consider whether it prefers to rehabilitate firms and sell to the new owners at higher price, or to sell them at the earliest possible date. Unlike the sale of shops and restaurants that can occur without much delay, the sale of large enterprises to private investors, especially foreigners, is usually more controversial and less successful. The third way for privatization to occur is through the use vouchers that are distributed free or at nominal cost to bid for particular properties/assets, such as the shares of state-owned enterprises. This mass or voucher privatization has the advantage of being a faster way of distributing assets and is relatively transparent. It will also receive the support of people who previously work with the asset, in whose hands the share will most likely concentrate in -- as opposed to selling it to outsiders.

Privatization of the economy can come in the form of start-ups by local and foreign entrepreneurs. From the experience of other transition economies, entrepreneurs tend to be well-educated, and come from managerial ranks of state-owned enterprises, from research positions or state government. These entrepreneurs also tend to have the ability to acquire access to resources from the state sector through lease or purchase. The entrepreneurs and foreign investors can be asked to tender their privatization plans, so that the government can choose the plan that is most suitable for the enterprise’s growth.

Cuba may currently lack a pool of domestic investors, hence, the emergence of foreign direct investments (FDI). FDI fulfills the funding gap between domestic savings and the required capital investment of Cuba. FDI is known to provide benefits to recipient economies, although it differs across countries depending on the policies in place to attract FDI. Foreign investors are also beneficial for Cuba’s economic growth since their experience and expertise can lead to a technological and corporate governance spillover.

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To encourage entrepreneurship, Cuba can consider lifting a number of restrictions and put in place the measures below. Firstly, members belonging to certain sectors of the population such as college graduates, teachers, and other professionals have to be given the option of self-employment in the area of their expertise or training. Secondly, fees and taxes imposed on entrepreneurs can be eliminated. Thirdly, the self-employed can should be allowed to hire outsiders if they require assistance. Fourthly, the use of intermediaries between producers and consumers should not be prohibited. Lastly, state enterprises should be able to purchase product or services from the self-employed.

Evidence suggests that new start ups outperform privatized state-owned enterprises. To assist in the privatization and creation of small and medium-sized enterprises (SMEs) in Cuba, it is necessary to provide technical support and financial services to these firms since their initial failure rate is high. Alternative long and short term financing for SMEs are good substitutes to bank financing, since the high risks and low returns presented by SMEs make it harder for them to access bank credits. Commercial banks also do not have the necessary operations to deal with SMEs.

Foreign aid or government-supported guarantee programs help reduce the risk that banks face. Besides the above programs, Cuba can also encourage SMEs to access funding through credit unions (financial cooperatives), and village banks. Members of cooperatives, who are also the respective owners, govern the organization democratically. A cooperative principally uses its members’ savings to finance community loans and lowers its operational cost by employing volunteers. Currently, none of the 2800 Credit and Services Cooperatives (CCSs) that assist agricultural producers in Cuba is autonomous. Acopio, the government monopsonistic purchasing agent for all agricultural and food products, is the only legal source of agricultural inputs, including credit, in the country. Encouraging the set up of independent financial cooperatives in Cuba will not only increase the farmers’ bargaining power against the acopio, it is also a good tool in educating people about self-governance and democracy.

International and local non-governmental organizations (NGOs) can be invited to establish village banks. The village banks are set up for people who do not have access to a credit union. The loans, normally not exceeding US$300, are given to groups of about 25

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338 Brada, J. “Privatization is Transition – or is it?”. *Journal of Economic Perspectives*. Vol. 10, No. 2 (Spring 1996).
women for productive purposes. The objective is to assist the poorest micro-entrepreneurs. In Cuba’s case, the amount of the loans, the number and gender of people in each group should be tailored to the people’s needs and thus give it more flexibility.

**Agriculture**

Agriculture is an important sector in Cuba, especially since Cuba is expected to retain its independence on major agricultural products for national security reason. Cuba’s move towards self-sufficiency also does not allow foreign direct investment to play a large part in Cuba’s agriculture, unlike some other sectors. In addition, Cuban farmers’ may also gain easy access to funding through the credit unions and village banks, which limits the need for foreign direct investment.

The agricultural sector has undergone major restructuring with the reduction in the amount of land and other operating resources so that only the most productive land, machinery and mills are used. Under agricultural decentralization, a cooperative scheme exist where the land are privately owned and managed. There are also hundreds of thousand of land allocated to the most productive private farmers in a process known as usufructo (rent-free lease agreements). These cooperatives and rent-free lease agreements can be maintained as they foster entrepreneurship, without sacrificing the government’s ownership of the land. The government can assist in setting up service centers where farmers, with varied sizes of land, can share certain resources such as agriculture machineries to encourage economies of scale.

Many of the production or processing plants are using technology that is decades old since Cuba still lack the capital to import new technology, which may lead to trade deficit. The government can provide training to the agricultural workers to help cope with the restructuring programs. Cuba also needs to export more agricultural products, especially value-added ones like processed food to increase its agricultural revenues. For example, Cuba can export citrus jam, on top of its usual citrus exports.

Since organic agriculture is a more labor intensive process, not many countries and farmers used to machines and chemicals will switch to the organic method of production. Organic production is, however, gaining popularity among the consumers who are increasingly health conscious. Cuba can gain competitive advantage in agriculture by focusing on its organic

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340 Gayoso, p. 68.
341 Also known as Basic Unit of Cooperative Production (UBPC).
production. A few agricultural products that Cuba has comparative advantage in can be chosen for export purposes. Cuba should seek to improve the agricultural value chain especially in terms of quality, productivity, packaging and distribution of its value-added organic exports, so that it can achieve internationally recognized organic certificates and hence export to more countries. This may initially be difficult since Cuba lacks the operational efficacy, technology and marketing knowledge to implement these large scale processes and sell its products to countries, especially those that are geographically far away.

As Cuba is experimenting with bio-fertilizers and bio-pesticides, Cuba can look into exporting pest management and marketing biodiversity more intensively as a production strategy. Cuba has the potential to grow into an international R&D hub for genetic engineering, microbiology, micro propagation and the production of artificial seeds, especially since Cuba has done a lot of research on these issues and continuously seek to innovate on its agricultural production methods. Given the scientifically-skilled labor force, the R&D hub can be enhanced by engaging in joint ventures with experts from other nations. Joint research may pose a problem if the intellectual property rights are not well-defined.

Other foreseeable problems that Cuba may face are having its agricultural sector be subjected to world market price fluctuations, as well as the constraint in technology. The latter problem can be reduced through technical cooperation with international agencies. With trade liberalization, Cuba may still face problems convincing other countries to lift their agricultural subsidies. Cuba may have to gradually lift possible trade protections and taxes as a reciprocal act.

**Tourism**

Tourism, which is still a growing trend in Cuba, accounts for the largest portion of the economic pie. Foreign investors are actively engaged in joint ventures with the Cuban government to build more hotels so that they will gain a first mover advantage when the US tourists arrive after the embargo is lifted. Many of the physical installations in the hotels are still owned by the Cuban government and operate under management contracts with foreign tour companies and hotel chains. To encourage privatization and foreign investment, the government should give more autonomy and ownership to the foreign investors in the tourism sector. To help raise the occupancy rates and profits of the hotels, the government should consider opening up the hotels to Cubans.
Cuba’s strategy for the medium term is on diversification – which includes not just beach tourism, but other regions, as well as eco-tourism. Cuba should focus on developing eco-tourism since not many countries have the scientific expertise to build on the diverse ecosystem like Cuba’s. Cuba is currently targeting tourists from countries like Scandinavia, Russia, Brazil and China. Besides the above, Cuba can also work on: marketing itself as a tour destination to other countries; packaging it as a joint destination with other Latin America countries or the US; increasing flights to and from countries and gaining approved destination status in more countries. Cuba can also work on improving its airport services and tourist facilities.

There are a few points of concern. Firstly, depending on tourism as an important source of income may come at the expense of the environment, which the government is concerned about. Secondly, tourism is highly dependent on external factors like terrorism and the world economy. Thus, Cuba should institute a good social security mechanism to help Cuban tourism employees cope with unexpected downturn. Thirdly, to prevent large trade deficits, Cuba has to produce more of the inputs for the tourism industry, rather than depending excessively on imports.

Oil and Alternative Energy

Oil production in Cuba has been increasing. The state oil company, Cubapetroleo (Cupet) increased its investment program, but reduced its share of total production by its lacks of capacity to explore in Cuba’s Mexican Gulf. Investment continues to improve the oil and gas distribution network. All electricity generation currently makes use of Cuban fuel, although the system still suffer from power cuts due to the poor quality of Cuban crude oil especially during peak times. Joint ventures with foreign investors have helped Cuba become more efficient in oil production. Cuba can provide more incentives to foreign investors to aid the ventures. For example, the government may want to reflect on the current housing and migration legislation that may be preventing many suitable candidates from applying to work in an oil/gas plant.

For the sake of economic growth, the government will likely emphasize higher domestic energy outputs than environment preservation. It is also looking at using nuclear, an expensive but possible option for generating electricity. Cuba can consider focusing more on researching and improving other energy sources that Cuba currently has more competitive advantage in. These include solar and hydroelectricity, which may be cheaper and easier to construct. At present, these alternative sources are still not significantly contributing to Cuba’s energy needs.
To be more efficient in producing electricity, it is necessary for the alternative energy to gain scale in terms of production and distribution. It can also export alternative power such as the sale of solar panels to other countries. Cuba can consider putting in more resources to path its way on becoming an international R&D hub (it currently has a research center in Santiago de Cuba) for increasing its intent and research into alternative power sources. Cuba currently has the skilled labor to do this. This project may need to compete with other programs for funding, but the economic and educational returns generated will make it worthwhile.

**Mining**

Nickel prices are increasing, and Cuba is planning to expand production on Nickel. Sherritt, a Canadian company in a joint venture with Cuba accounts for 40% of production increases from 30,000 tons of nickel-cobalt to 80,000. The Ministry of Basic Industry has been seeking other foreign partners for joint ventures and subcontracting work. This will be beneficial to the industry since the foreign investors have the necessary technology for more efficient mining of nickel. The Ministry can consider controlling the amount of nickel that can be mined each year, to ensure that the nickel will not be depleted too rapidly.

**Manufacturing/Pharmaceuticals**

The rate of growth in the manufacturing sector is not optimistic. The total manufacturing output according to national income data, has increased by only 1% since 1997. The reduced sugar production meant reduction in demand for other inputs like tire and labor. Cuba needs to focus on some of its main manufacturing growth sectors such as construction materials, food processing and pharmaceuticals. Cuba can also restructure its special export zones for offshore manufacturing facilities.

Given its competitive advantage in bio-medical sciences, the pharmaceutical industry should be developed so that it can compete more intensively in the international market. The current pharmaceutical industry produces import substitutes and goes into export sale in 40 countries. The Cuban pharmaceutical companies can supply and sell more licenses to international partners to enable them to manufacture their products. They can also secure more international partnerships for research in the development of treatment for AIDS, cancer and

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342 Gayaso.
343 Ibid.
other illnesses. By being more proactive in this area, Cuba will be able to capture a large portion of the Latin America’s and other developing countries’ market.

Other Microeconomics Consideration

In order to achieve higher economic growth, Cuba needs to produce more value-added and innovative goods and services. This may also help reduce the dependency on low-value added activities such as processing of natural resources, as well as imported manufactures. Better infrastructure, good access to information technology and marketing knowledge will play important roles in propelling Cuba forward.

8.4 Rights, Regulations, and Institutions

Reforms to Property Rights

Government protection of property rights is particularly important to assisting in the creation of an attractive investment climate and attracting FDI, while still enforcing sufficient market discipline that will not harmfully distort private enterprise efforts. This section discusses the issues, benefits, and costs surrounding redistribution of property ownership (including in a post-socialist Cuba) and how a market-oriented Cuban government might be structured to protect property rights in the best interests of its citizens.

Personal and Corporate Property Rights

To continue to attract much needed foreign investment, Cuba could take steps to expand on the property rights protections embodied in Law 77 of 1995 (“Law 77”). That law was created in response to investor concerns that their investments in Cuba could be nationalized and that there was no guarantees of investment liquidity into convertible currency. To address those legitimate business concerns Law 77 provides that an investor will be compensated for any property taken by the government and that expropriation will occur only for reasons of “public good and in the interest of society.” In particular, Cuban law could allow for the outright ownership of property by foreigners, even if under certain restrictions on use.

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344 In full, Law 77, Chapter III, Article 3 provides that:

The foreign investors within Cuban national territory enjoy full protection and security and their assets cannot be expropriated, except for reasons of the public good or in the interest of society, as declared by the Government, in accordance with the Constitution of the Republic, current legislation, and international agreements covering the mutual promotion and protection of investments undertaken in Cuba. In the case of expropriation, indemnification is made in freely convertible currency and is equal to the commercial value established by mutual agreement.
The fact that foreigners – both business investors and individuals seeking holiday homes – are not able to own property in Cuba makes attracting investment difficult. In the later instance, foreign tourists might be more apt to visit the island for longer periods and bring in more capital if they were allowed to by property on the island for vacation homes.

Property ownership by foreign nationals or corporations would greatly encourage business investment. Most notably in the tourism sector, foreign ownership would give great incentives for investors to not only commit the initial investment in land and facilities, but it would encourage them to update and maintain those facilities. The same trend would apply to manufacturing and utilities where current foreign joint investors. Those investors do not have a complete incentive to invest in the best technology for the island because the make those decisions with the Cuban government – essentially a capital-poor partner.

The benefits would be the possibility of more technology intensive investments and simply more capital in-flows of foreign direct investment overall that could stimulate the economy and create more employment generally. However, these reforms would require to Cuban government to finally take a step that is truly anathema to socialism: the sale of Cuban’s collective property. Besides the psychological difficulties with the Cuban government allowing out-right foreign property ownership, there is that fact that the government would have to give up its centralized control of those enterprises that it now enjoys. Moreover, if the Cuban government does allow some foreign ownership then it, in effect, will begin to disadvantage its existing tourist and utility holdings (which are likely to be far less efficient). In that sense, the granting of property rights to foreign investors is unlikely, although it would benefit the Cuban economy by allowing for true market based incentives to be efficient. One disadvantage is that in allowing more rights to foreigners the Cuban government risks further widening the gap of economic inequality between Cubans and foreign visitors and investors. Once the transfer of property rights from the state to foreigners begins it is unlikely to reverse itself, particularly because Cubans lack the financial resources to compete with FDI.

In a situation where Cuba moved to fully embrace a capitalist market-based system of personal and corporate property rights, it is a relatively easy decision to restore those rights, in full, in a post-socialist Cuba. However, the challenge comes in how those property rights that are in dispute are to be adjudicated and allocated. The sticking point with Cuba will be the land
and property expropriated and redistributed by the Castro regime after the revolution in 1959. This confiscated property covers both corporate and private assets.

As discussed above in the section describing privatization, redistribution of currently state-owned enterprises (SOEs) would be a complex undertaking, and unlikely in any situation short of a complete collapse of the existing system of government. In addition, many of those enterprises were formerly owned, perhaps in an earlier, much different incarnation, by corporate entities that may still be in existence and eager to reclaim those properties (including many U.S. companies). Accordingly, a transition Cuban government will have either maintains the stance that those rights were voided or develop a series of rules that or begin to address how those assets can be transferred back to their former owners.

Rather than an outright transfer back to claimants, the Cuban government could allow for those lands to be re-acquired by the former owners as long as they are not indispensable to government operations and if the owners agree to conditions of reclamation that acknowledges gains in asset value. Moreover, if assets have been destroyed or otherwise won’t be returned, then the Cuban government could create a long-term plan that will attempt, even nominally, to compensate the former owners.

As for individually owned property, particular homes and land, seized by the government the owners should be given the property back without restrictions if that is practicable. However, because many Cubans left the country and their property was taken by the government and it is now in use, the transition government will have to develop a system whereby, on a case-by-case basis, ownership or compensation is decided by an independent panel. Guidelines for such a commission must include weighing the factors involved including current use of the property, whether it is currently occupation, the intended future use by former owners, and fair market-rate compensation if necessary.

The advantage of such a controlled redistribution of state-owned property to former owners is that the healing process of Cuban, both those that stayed during the Revolution and those that went into exile – could be expedited. This move would have the added advantage of removing one of the most visceral arguments from the embargo debate because the expropriated property problem would finally begin to be addressed. However, the process of returning property to former owners, particularly foreign owners, would not be popular with Cubans who
resent those or their countrymen who left for prosperity and the foreign corporations (many of them American) who are blamed for abuses before the Revolution and the embargo.

Nonetheless, the Cuban government could signal its desire for reform by beginning to move towards settling the expropriated property issue, particularly with regard to homestead property of individual Cuban exiles. In doing so the first steps toward reconciliation could begin.

**Protection of Property Rights, Including Intellectual Property**

As discussed above, the Cuban government has already recognized the importance of certain property rights to fostering development by enacting legal provisions against property expropriation of foreign investor’s assets without compensation (Cuba Law 77 of 1995 prohibits uncompensated expropriation and purports to “protect investors from third party claims”). In order to achieve functioning markets during a period of transition the full protection of property rights to reduce the risk to investors will need to be added to Cuban foreign investment law and the Cuban Constitution. This is of course in addition to the carefully managed restoration of individual Cuban and pre-Revolution property rights that are discussed above. Such legal safeguards are particularly important to attract meaningful foreign investment in light of past government nationalization of private property.

Other means of protecting investor property rights and promoting investment include government allowance of investment insurance and, overall, working with international monetary institutions and donors to secure durable financing. In addition, the government could promote avenues of legal recourse and integrity in the legal system for the predictable enforcement of property rights for both Cubans and foreign investors.

One element of property rights that may be extremely important to encouraging open markets in Cuba will be the government’s ability to modernize the economy. Specifically, the legal system can be restructured to promote the transfer of modern technology. The Eastern European market transition experience suggests that foreign investment can help reduce the technological gap between the transition country and the developed world. Therefore it is important that Cuba protect the intellectual property rights of investors, particularly when it

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comes to the benefits of acquiring new equipment and modern techniques that will be needed to
aid Cuba’s market transition.

The downside to recognizing and protecting these rights is that in doing so the Cuban
government will be forced to abide by costly intellectual property rights that it now ignores for
everything from computer software to components of electricity producing windmills. While
these reforms will expose the Cuban governments past flaunting of intellectual property rights
and raise the cost of certain activities, it is an important reform for showing that Cuba is serious
about abiding by international standards and laws. The added benefit is that investors will be
willing to transfer technology to Cuba with confidence that their technology won’t be duplicated
without authorization. This change will encourage investors to place more capital of a higher
quality at Cuba’s disposal and help foster Cuba’s acceptance into international financial markets.
Overall these benefits can spillover into the simple quality of life items like electronics and
appliances that are now denied many Cubans.

**Legal Institutions to Promote the Market Transition**

In order to move toward functioning markets, to reassign and protect property rights,
promote a market economy, and maintain and improve Cuban’s standard of living it is essential
that a transition government consider developing a strong and credible legal foundation for the
future Cuba. This includes redefining the system of privatization, and business regulation and
taxing schemes.

**Business Regulation**

To encourage markets of all sorts the Cuban government should expand existing systems
of business licensing and monitoring (for small, medium and large enterprises) to ensure that
competition remains fair and open. It should also allow for business to be monitored and taxed
within market constraints. Initially, there are problems of capacity as well as harnessing the
power, money and persuasiveness of the donor community to emphasize the importance of
successful legal reforms.\(^{347}\)

Specifically, as apparent in many Eastern European transitions, corruption and
inefficiency that harm the market economy start with officials ill-equipped to monitor and

\(^{347}\) Linn, Johannes F., Vice President for Europe and Central Asia, World Bank Group, “Legal and Judicial Reform
in the Transition Economies of Europe and Central Asia,” comments at the St. Petersburg Conference of Law and
enforce the rules of a free economy. Building capacity in this area – for instance in training court personnel and judges – can come with the aid of international organizations. The extent to which Cuban intellectuals – form Cuba or in exile – are equipped to participate in the transition legal system is unclear and will be part of our investigation during the country visit.

The potential benefits of these reforms in tandem with a loosening of restrictions on property ownership and private entrepreneurial activities are clear. First, these changes will lend integrity to the developing Cuban markets that will allow for true competition, with all its benefits, to flourish. Second, it will further encourage increased, high-quality, investment of capital from abroad, including flight capital from exiled Cubans. Similarly, hoarded capital and pent-up entrepreneurial desire on the island can have legitimate outlets, thus curbing black or gray markets that are outside of the tax and regulatory system.

**Tax Institutions**

The ability to collect taxes and thereby continue to fund and implement government programs will be of major importance to the Cuban government during a time of market transition. Much like other aspects of the economic system governed by legal rules, the tax system will need to be applied fairly and consistently to deter tax avoidance and corruption.

First and foremost, a new reformist Cuban government will have to craft a tax regime that can sufficiently meet the needs of the Cuban people (collecting and managing sufficient revenue for government expenditures) while not impinging on the development of private enterprise or discouraging foreign direct investment. In addition, the actual tax format and rates will have to be determined in light of the circumstances of transition.

The advantage of these reforms is that they will complement and harness functioning markets that will be developing as a result of overall economic improvement. There is an existing tax system in Cuba that has grown in sophistication with the advent of foreign joint investments that can be expanded with relative ease. With more money entering the tax system (a positive overall) there is the increased incentive for avoidance and even corruption among collectors. Nonetheless, functioning markets will need a level of regulation that can be

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supported by tax revenues and the obvious benefits of more tax funds to be spent on much needed infrastructure and social services that benefit the average Cuban citizen.

8.5 Labor Issues

The labor force in Cuba will play a crucial role in creating a functioning market economy due in part to the high workforce education level. No other Latin American country has a workforce with the level of education found in Cuba. If the government is able to effectively incorporate its strong educational system into any market oriented transition, Cuba will be well positioned to take advantage of its human capital resources in the future. This section will focus on possible policy options that will allow the market system to function and grow while providing social protections that keep poverty and unemployment at bay during any future shift towards a market economy.

Minimum Wage and Unemployment

When looking at the Cuban transition economy, it will be important to identify which sectors of the economy could suffer the highest rates of unemployment. These groups may be best served by having lower minimum wage in order to keep the greatest number of people employed during a transition. If there is evidence that the cost of living varies from region to region and the current housing shortage continues for the foreseeable future, minimum wages should be set accordingly, to help ensure a reasonably high level of employment.\(^{350}\) This will also serve to lessen the pressure on Havana to be the economic engine for the entire country.

A universal concern with the minimum wage in the developing world is noncompliance.\(^{351}\) One way to lessen this is to construct clear, uncomplicated laws that set realistic wages. Although some regionalism should be considered in determining minimum wages in Cuba, the fewer clear differentiations, the easier it will be to institute a scheme that is adhered to by potential employers. Observance of minimum wage standards in Cuba faces the additional challenge of incorporating employees from the large agricultural sector. The seasonal nature of agricultural work will make it difficult for the workers in question to be incorporated


into a full year payment schedule.\textsuperscript{352}

Effective minimum wage laws have the potential to positively influence the Cuban transition to a market economy. However, as the CEE (Central and Eastern European) countries have shown, the minimum wage has little effective use in poverty prevention.\textsuperscript{353} In Poland, the minimum wage, in conjunction with unemployment benefits, led to the formation of an absolute wage floor. While this could help to alleviate the poverty created during a transition to a free market economy, it has the unfortunate consequence of creating strong disincentives towards work. This leads to higher unemployment and places a greater economic burden on the shoulders of the government.\textsuperscript{354} Moreover, it has the potential to keep the free market from finding its equilibrium when wages are not allowed to adjust downward, thereby slowing economic recovery in a given area and hindering future employment. These are crucial issues that will play heavily in a Cuban transition towards markets. Most Cubans have lived their lives with the idea that the state will provide a strong social safety net. Although the potential costs of employing a similar system, at least during a transition, are high, it may prove to be the best course in terms of protecting the societal structures that Cubans view as permanent entitlement, at least in the short run.

\textit{Labor and Housing}

According to Professor Omar Everleny, Cuba has a national housing shortage of over 1 million units, and it is particularly severe in and around the capital.\textsuperscript{355} It appears that the government lacks resources, and possibly the will, to deal with the shortage as demonstrated by its production of only an additional 20 to 30 thousand units per year. De facto dollarization, coupled with gradual economic movement towards the informal, free market, sectors of tourism in and around Havana, is adding to the crisis by attracting Cubans from around the country to the capital region. This inability to move will hinder those with a particular skill set from filling vacancies in other areas of the country, thereby slowing overall economic growth. In any transition, low-cost, temporary housing will be key to expanding economic growth because of the need to locate workers where their skills can best be utilized.

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\textsuperscript{353} Ibid.
\textsuperscript{354} Ibid.
\textsuperscript{355} Interview with the Cuban Economist Omar Everleny, Vedado, Cuba, 24 February 2004.
Active Labor Market Policies

These policies work to aid labor in locating jobs, training or retraining workers to fill open positions, as well as new job creation.\(^{356}\) The CEE countries that took this approach had better economic growth and performance than those who did not.\(^{357}\) Because of the high education level of the Cuban workforce, these types of policies have the potential to provide significant benefits at a reduced cost to any Cuban government that attempts a market oriented transition. While Cuban economists have identified sectors outside of the tourism industry where the potential for significant economic growth is clear, the government refuses to act on their recommendations at this time.\(^{358}\)

Job Destruction, Job Creation and Labor Mobility

Cuba could follow the example of the Czech Republic, which chose to phase out state sponsored jobs at a much slower rate than its CEE neighbors.\(^{359}\) Contrary to popular economic opinion at the time, this approach did not slow the creation of new jobs, since the economy was expanding into areas that did not directly compete with the state sector. This would provide the Cuban economy with a more stable foundation while not hindering further economic expansion. According to Economics Professor Omar Everleny of the University of Havana, many of Cuba’s leading economists have presented the current government with plans that would allow for this type of economic expansion while not weakening the political control of the regime. The professor continued, stating that “the Castro regime views the potential loss of political control as outweighing the gains that could come from this type of growth in the small-scale privatization of labor.”\(^{360}\)

Returns to Human Capital

Using the CEE experience as a point of reference, Cuba will receive a high return on the educational expenditures made by the revolution.\(^{361}\) Several studies from the region demonstrate


\(^{358}\) Everleny Interview.


\(^{360}\) Everleny Interview.

\(^{361}\) Svejnar, 2002.
that those countries with the highest workforce education level fared best during the transition. For this reason, it is crucial that the educational successes of the Castro regime are compromised as little as possible in order to ensure that a market transition has the intellectual capital necessary to continue on into the future. The cases of the CEE countries suggest that the Cuban worker will be well placed to succeed in a global marketplace that highly values education.

8.6 Conclusion

Perhaps the single constant principle that all commentators on Cuba can agree upon is that Cuba will inevitably be forced to change and evolve in the coming years. The disagreement is, of course, what those changes will be, who will (or should) direct them, and what outcomes are probable and preferable. Ultimately, this chapter and chapter 7 (concerning Cuba’s political future) both strive to address the most likely areas for change and reform in the Cuban government and, subsequently, in the Cuban economy. In both cases the goal is to suggest areas of concern and potential growth rather than to predict and dictate within uncertain boundaries.

So then this chapter examined what changes, reforms, and innovations would be necessary to achieve functioning markets in Cuba. To that end we looked at macro and micro-economic reforms, each being supported by a variety of legal, structural, financial (and in some instances) attitudinal changes from within Cuba (and in some instances from external forces). What is clear from this analysis is that there are many, interrelated factors ranging from agrarian and property rights reforms to labor and capital market realizations that must occur at a fairly coordinated level for Cuba to move toward sustainable functioning markets.

In making these observations we tended to adopt a gradualist approach under an assumption that realistic reforms (essentially an acceleration of the ongoing loosening of the socialist command economy principles) are possible under the auspices of the existing social and governmental order. However, there remains the ever-present possibility that a massive wave of change, like that which displaced the former communist states in Eastern and Central Europe in 1989, could arrive in Cuba at any time. That contingency is, by definition, unpredictable. Nonetheless, it would not make void the overall analysis put forth throughout this chapter, even if the gradual move toward markets is eventually untenable. The possibility of massive, uncontrolled change—both political and economic – in Cuba simply makes the conclusions for

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reform in this chapter more urgent than ever so that its institutions and people are prepared for the harsh and inevitable market pressures that are building around the island. If Cuba embraces even limited reforms immediately it will increase the chances that its economy, prized social institutions, and national character will weather the coming storm with the least amount of hardship and disruption.