

# Transition or Survival?

The Cuban Reforms of the 1990s

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In 1991, economic crisis impelled Fidel Castro to declare “a special period in time of peace.” Absolute Cuban dependence on the Soviet state had characterized the preceding decades, and with the collapse of European communism in 1989, Cuba was orphaned. Castro’s proclamation of a “special period” introduced the attempts at reform that his regime would make to try to avoid complete collapse. Many of these reforms represented compromises to the ideological stance of the communist regime, incorporating capitalist mechanisms in both the external and the internal economies. Throughout the 1990s, it was normative to associate these reforms and the subsequent economic progress with the beginning of a transition to free markets in Cuba. Indeed, significant concessions were made, and the liberalization of the economy *did* bring about recoveries in a few niches of Cuban society. However, careful analysis of the policy measures implemented reveals that they did not significantly alter the fundamental nature of economic control in Cuba. The reforms of the early 1990s in Cuba clearly *were not* the beginning of transition or revolution, but, rather, they were the manifestations of irregularities and weaknesses in a thoroughly socialist system.

## **I. SOVIET DEPENDENCE**

In 1960, shortly after the inauguration of the United States’ economic sanctions, Cuba began a partnership with the Soviet Union that would be of vital importance to the island-nation for 30 years. The Soviets supplied Cuba with reliable, subsidized trade and direct monetary transfers as they sought political advantage in the Caribbean. The Soviet Union’s influence ushered Cuba into the communist foreign trade community. Cuba

soon became part of the Council for Mutual Economic Assistance (COMECON or CMEA).

The dominance of Soviet trade in the Cuban economy cannot be overstated. In 1988, 82 percent of Cuban exports were being shipped to the Soviet Union and COMECON, while 85 percent of imports were coming from these countries (Perez-Lopez 1991). These trade relations were not balanced, with the Soviets agreeing to subsidized prices far above the prices available on the international market. Shortly before the Soviet fall, Cuba was trading sugar at one ton for every six to seven tons of oil. Four years later, when trading at market prices, exchange by weight was almost even. Furthermore, Cuba benefited from an increasingly large trade deficit, debt which the Soviet Union allowed to go unpaid. Additional direct monetary transfers were given to Cuba. In 1989 alone, Cuba received over \$6 billion in assistance from the Soviet Union. In essence, the economic success of Cuba's communist regime was being financed by its Soviet sponsors.

The fiscal stability provided by Soviet sponsorship yielded remarkable social welfare improvements during the years of assistance. According to official numbers, illiteracy fell from 25% to 4%, food was relatively abundant, infant mortality was cut by a fifth, and life expectancy grew to match US levels. Although communist nations are notorious for fabricating rosy statistics and these measures of conditions in Cuba are most likely exaggerations, it is evident that Cuba *did* experience considerable gain during the three decades of Soviet support. In the late 1980s, Fidel Castro was taking credit for the relatively high standard of living, and his regime was enjoying a time of increased popularity.

However, the Soviet Union was insulating Cuba from economic reality in many ways, creating productive abnormalities and setting the stage for a crisis. First, trade with COMECON had become exclusive, other foreign markets ignored by or cut off from the Cubans. Cuba's explicit alignment with the Soviet Union isolated it from many countries that were potential trading partners. Secondly, the limited nature of Cuba's trade relationships allowed the island-nation to rely completely on the production of one good, sugar, to meet its demand for exports. This overspecialization was promoted by Soviet subsidies and the promises made by the Soviet government to purchase Cuban sugar exports at prices well above the prices being taken on the world market. In 1990, 70 percent of Cuba's export revenues came from the sale of sugar. Finally, Cuba was completely dependent on supplies of Soviet imports. In 1989, 90 percent of Cuba's oil was supplied by the Soviet Union. Wheat flour, powdered milk, rice, fertilizers, cotton, busses, machine parts and other vital goods came almost exclusively from foreign trade with communist countries. 51 percent of the calories consumed by Cubans were from imported foods. In short, Cuba was terribly undiversified, producing sugar as its only major export and relying on narrow trade channels for goods of vital importance.

## **II. ECONOMIC CRISIS**

The collapse of the Soviet Union and the Eastern European communist countries left an enormous vacuum in Cuba's economy. Total foreign trade dropped 75 percent from 1989 to 1993. GDP fell from \$32 billion to \$20.3 billion. Shortages of food, oil, and machinery parts devastated agriculture and industry. Factories were shut down. Sugar production fell from 8 billion tons to 4.2 billion tons. Inflation was devastating.

The economic fallout from the disintegration of European communism was worse in Cuba than in any of the transitioning countries (Mesa-Lago 1994, p. 9).

The Cuban population began to suffer immediately. Shortages led to stricter rationing. In 1991, Cubans were allotted two rolls and four eggs per week. Long lines formed for even these meager portions. In 1993, per capita food consumption was 900 calories per day. Blindness and paralysis from malnutrition resulted for at least 45,000 Cubans. The population suffered as bus routes were shortened or eliminated, power supplies were cut, and running water became sporadic. Spare parts, which had previously been imported, became unavailable, making breakdowns irreparable.

The response of the inflexible bureaucracy to the crisis only aggravated the situation. Cuban planners refused to acknowledge the decreased supply of goods that was made evident by the shortage. They therefore also refused to devalue the Cuban peso by increasing prices. The result was purchasing power well beyond the availability of goods. With extreme shortages in rationed supplies and excess liquidity, Cubans sought to buy goods on the black market, and prices for illegally sold products soared. Adding to these problems were the spending habits of a regime used to subsidized budgeting. Castro's government continued to spend at a deficit, but with the departure of historical sources of external credit, the regime was forced to inflate to cover expenditures. Ana Julia Jatar-Hausman writes, "The situation worsened everyday: high inflation in the growing informal market, widening fiscal deficits, scarcity in the formal sector, the plunge of the Cuban peso, and the creation of a parallel economy were creating an unstable situation" (1999, p. 52).

The effects of Castro's policy were truly devastating. The black market was forced upon Cubans who simply could not survive on rationed supplies. Furthermore, with fixed prices and extraordinary inflation, use of illegal foreign currency was essential. In 1993, the official exchange rate was one Cuban peso per US dollar. However, in the same year, the exchange rate on the US dollar in the black market reached 170:1. The average monthly state wage, paid in pesos, was barely enough to buy a pound of pork in the official market. Those unwilling to utilize illegal dollars faced extreme poverty and starvation.

### **III. "A SPECIAL PERIOD"**

In 1990, the Castro regime acknowledged the depth of the economic crisis and the need for corrective reforms. Economist Juan Carlos Espinosa describes the reform process as a progression that took Cuba through three phases (1995, p. 57). The first phase, which lasted from August 1990 until the summer of 1993, was the Dual Strategy Phase in which Cuba pursued conservation measures internally while seeking to incorporate external markets into its foreign trade dealings. From 1993 until August 1994 Cuba was in the Domestic Reform Phase, legalizing foreign currency holdings and liberalizing the production structure. Espinosa labels the final period, beginning in September 1994, the Mixed-Market Phase. During this time, Cuba adopted small, controlled markets that set prices according to supply and demand.

Cuba's most immediate reaction to the crisis in 1990 was the implementation of an austerity program which sought to strategically reduce consumption in sectors weakened by the withdrawal of Soviet support. With his announcement of "a special

period in time of peace,” Castro presented a plan that would allow imports to be cut by 60 percent. Oil imports alone were to be cut in half, reducing oil quotas to the state and private sectors by up to 80 percent. Household allowances were to be cut 10 percent with huge decreases in food and clothing rations. Bicycles would be substituted for cars, and oxen would replace tractors. Oil refineries, nickel-processing plants, and factories were to be closed. Construction projects were nixed and plans were made to restructure labor according to the new conditions. These conservation measures sought to enable short-term survival by consciously lowering the standard of living (Fleming 1993).

It appears that even these substantial cuts were based on a faulty estimation of the depth of the economic crisis. Foreign trade actually dropped 75 percent from 1989 to 1993. Oil imports, predicted to be halved, dropped from \$8.1 billion to \$2.2 billion. Factory shutdowns were far more extensive than predicted and unemployment became an unplanned reality. Even the shift to more labor-intensive agricultural production could not offset the loss of profitability from mechanical failures. This lack of agricultural output combined with the termination of food imports and subsidies made necessary extreme rationing, such as the aforementioned two rolls per week. Consumption cuts above what were planned were necessary because of the domestic economy’s inability to deal with the Soviet collapse.

In this first period of reform, Castro recognized the insufficiency of the austerity measures and began to accept the necessity of new foreign markets. An attempt to diversify production away from the dominance of sugar was made as the state sought new markets for its goods. These reforms were aimed at replacing the exclusive trade relationship that had been enjoyed with the Soviet Union. However, perhaps a greater

departure from typical fidelista ideology was the acceptance of foreign direct investment. In 1992, a constitutional amendment was made to allow joint partnerships between foreign partners and the Cuban state. Foreign investors were allowed to have up to 49 percent ownership and were given total exemption from taxation. By allowing this kind of investment, the regime sought to bring foreign resources to the country and stabilize Cuba's economy by an injection of foreign currency.

Castro's acceptance of foreign capital was made with a specific aim: to revive the tourism industry and establish a source of international revenue that would replace the failing sugar industry. At the 4<sup>th</sup> Party Congress in 1991, Castro explained the need for liberalization in this area:

It's very important that everyone should understand how much Cuba needs tourism, even though it implies our making some sacrifices... This is a matter of trying to save our homeland, the Revolution and Socialism, and we need those resources... If only we had as much oil as Venezuela or Kuwait has, so we wouldn't have to think about international tourism and could build a thousand hotels! If only all of the hotels could be ours, but where would we get the capital? Who is going to lend it to us – the CMEA or the socialist camp? So we're resorting to foreign capital (Castro 1991).

Between 1990 and 1993 the number of joint ventures in the country *did* increase from 2 to 112, a moderate success. However, the realized investment was severely hampered by the inability of foreign investors to operate in a truly free market. With no land market, foreign entrepreneurs had little confidence in the land leases and usufructs that had been granted to them arbitrarily. Unclear rules and the sluggishness of bureaucratic decision-making contributed to a great sense of uncertainty among investors. Extensive zoning and operational regulations limited entrepreneurial achievement. Despite assurances from Castro, free-market operators were under the constant threat of a change in regime mentality and the subsequent nationalization of their assets.



By the middle of 1993, it was evident that the initial reforms were insufficient and that more extensive reforms were necessary. Laura J. Enriquez writes:

At first, Cuban policy-makers reacted by modifying the country's foreign economic relations. They sought new trade relations and products for trade, as well as foreign investments. Although progress was made on all these fronts, by mid-1993 it was clear that the reforms had to be extended to the domestic economy and productive structure (Enriquez 2003, p. 203).

Cuba entered Espinosa's Domestic Reform Phase.

By 1993, Cuba's excess liquidity problem demanded attention. Inflation was rampant, shortages were numerous and severe, the black market was becoming the only viable source for many goods, and holding US dollars was necessary for survival. At this point, Cubans were beginning to see a horrible irony: the Castro regime was pursuing dollars through foreign investment while seeking to eradicate their use by the Cuban population (Jatar-Hausman 1999, p. 59). That August, policy was reversed as dollar holdings were legalized and exchange with the Cuban peso was liberalized. At the same time, the state set up retail stores that sold goods for dollars. Castro felt that by doing so, he would both undercut the black market and gain access to the foreign currency that he needed so badly.

The effects of this liberalization were substantial. Inflation was controlled and purchasing power equity was achieved within a short period of time. The importance of the black market was reduced and the Cuban economy gained economic stability through the integration of the dollar. These positive effects were curtailed somewhat by the Clinton administration's banning of remittances to Cuba in 1994. Furthermore, as experienced with earlier reforms, the continued dominance of socialist control mitigated

wide spread growth, as dollar usages were highly regulated and prices were maintained at fixed levels.

With the persistence of severe scarcities and unemployment, the Castro regime decided to continue along the controlled path of reform and legalize certain forms of self-employment. In September of 1993 the Cuban state issued Law-Decree 141 which opened 117 occupations, most of which were service-related, to self-employment. The goal of these measures was to encourage the unemployed to produce diverse goods which were desired by the public and which the state was unable to provide. To a large extent, this goal was realized as self-employment boomed in the first few years.

The opening of free labor markets is a large step in the liberalization of an economy. However, one must note the framework in which such institutions are established. The Cuban regime severely limited and controlled the operation of these new markets. An official manuscript by the Cuban government provided the following: “It is necessary to provide the organization and establish the required order to ensure that self-employment responds to particular principles that favor its development in all areas that are useful to people, while keeping the practice of it from taking harmful forms” (Gazeta Oficial 1993). The state sought limitations to keep the new occupations from adopting the “harmful forms” of capitalist free market interaction. Self-employment was limited to the unemployed, pensioners, housewives, and state workers who engaged in such activities on their own time. Chosen classes of workers, such as government leaders, university graduates, and workers in chosen industries, were banned from self-employment. There were licensing requirements, intrusive regulations, and heavy

taxation. Control of these fledgling activities remained strictly in the hands of the central planners, who exercised unlimited and arbitrary power.

As the self-employed sector began to experience moderate success, social distortions emerged. Faced with horribly inadequate compensation by the state sector, skilled workers left the jobs for which they were trained to do unskilled work in the small private sector. Furthermore, the success of some in private enterprise caused discontent among those banned from self-employment.

In a final reform of 1993, Cuba issued Law-Decree 142, allowing the breakdown of state farms into smaller cooperatives called Basic Units of Cooperative Production (UBPCs). This change was brought about by the collapse of agricultural production and the failure of large scale farms to operate after the loss of Soviet oil. The regime hoped that a change in the organization of production would increase efficiency and improve labor productivity by altering the incentive structure (Jatar-Hausman 1999, p. 73). Under the new policy, the UBPCs would not own the land they cultivated, but would have usufruct to the land for an indefinite period of time. The cooperatives would own the goods that they produced and share in the profits from their sale, but, until a later reform, all products were sold to the state at state-mandated prices. Managerial authority and leadership was to be decided internally by the UBPC. The result was a boom in agricultural participation. With a more labor-intensive agricultural system, many Cubans migrated to the rural areas. In 1992 over 75 percent of arable land was being directly controlled by the communist state. By 1996, two million Cubans had a personal stake in 70 percent of the island's farmland. Decentralized control and more efficient methods helped the Cuban economy adapt to post-Soviet food demand.

Again, however, the communist state was wary of losing control and placed substantial restrictions on the UBPCs. The cooperatives were formed arbitrarily by the state. They had no claim to ownership of their productive assets and could be dismantled at anytime by the central planners. Additionally, planners mandated which goods they would produce and the price that would be paid for them. Until September 1994, the state was the only market for these goods. Potential efficiencies from agricultural decentralization were severely limited by state control.

In 1994, with the economy still reeling, Castro's government moved into what Espinosa labeled the Mixed-Market Phase. Continued food shortages, productive inefficiencies, and black market proliferation put pressure on the regime to liberalize further. In September of 1994, official policy was changed to allow the operation of Mercados Agropecuarios (MAs). MAs were free farmer's markets where producers could sell excess food goods. A wide variety of goods were sold at prices determined by supply and demand.

This reform may have been the deepest penetration into communist ideology of any policy change in the 1990's. For the first time, Cuba's communist government was allowing market forces to govern the sale of privately owned items. However, communist leaders made clear that the markets were *not* autonomous. There were many regulations about who could participate in these markets, what could be sold, and where farmers could travel to engage in trade. Heavy taxes were placed on goods that were sold. Also, communist officials stated that the markets were not permanent and were simply a way of satisfying pressing economic needs. In fact, the 1994 legislation was nearly identical to legislation passed in 1980 which established farmer's markets called

Mercados Libres Campesinos (MLCs). MLCs were eradicated in 1986 when Castro decided to reconsolidate under socialist ideals.

The pattern of reform during Cuba's "special period" appears to be one of "slow retreat" (Sanguinetta 1995, p. 22). In 1990, Castro's regime recognized the need for decisive action in the face of the evaporation of the Soviet partnership. Reform measures were taken and found insufficient. At each level of reform, concessions were made by the communist government and new institutions were adopted which resembled free market structures to varying degrees. However, Castro's grip on power and contempt for capitalist principles were evident throughout. Every reform was accompanied by regulatory constraint which negated market forces and seriously limited possible economic growth.

#### **IV. TRANSITION IN THE WINGS?**

In *The Socialist System: The Political Economy of Communism*, Hungarian economist Janos Kornai argues for what he calls, "the main line of causality" governing the establishment and maintenance of a communist regime (1992, p. 360). He expounds this idea by indicating five blocks of phenomena, with a linear path of cause and effect running through them sequentially. The first block, and therefore the root cause of all communist economic experience, is the undivided power of the Communist Party. According to Kornai, state ownership, bureaucratic control, the economic apparatus, and all further elements of communist rule are subordinate to and dependent upon the will of the ruling regime. The chain of causality, starting with the concentration of political power, describes an economy which operates as a system, the individual economic

mechanisms and indicators working together as parts of a whole. Therefore, Kornai argues, only a change in a country's concentration of political power can transition a nation away from communism. Kornai believes a distinction can be made between reform and transition, the latter involving a political revolution that breaks the Communist Party's monopoly on power (1995, p. 4). All reforms and policy changes that do not strike to the core of causation will merely be abnormalities in a thoroughly communist system.

The work of scholars Ludwig von Mises and Murray Rothbard, support Kornai's assertion that the essence of socialism is found in its concentration of political and economic power. In *Human Action*, Mises writes, "The essential mark of socialism is that *one will* alone acts... The main thing is that the employment of all factors of production is directed by one agency only" (1963, p. 695). Elsewhere in *Human Action*, and throughout his treatise on socialism, Mises develops this idea, discussing the various ways in which a regime can rob its subjects of the power to control economic goods. No matter what terminology a ruling class uses to describe its actions, when it abolishes the power on an individual to control his property, it is abolishing ownership. This leads Mises to assert that there can never be a mixed economy; there is no viable "third way" (Mises 1963, p. 716). He writes,

Private ownership of the means of production (market economy or capitalism) and public ownership of the means of production (socialism or communism or "planning") can be neatly distinguished... They can never be confounded with one another; they cannot be mixed or combined; no gradual transition leads from one of them to the other; their obversion is contradictory. With regard to the same factors of production there can only exist private control or public control (Mises 1963, p. 716).

Like Kornai and Mises, Rothbard recognizes that once control has been ripped away from individuals, a market economy cannot exist. In his article “How and How Not to Desocialize,” Rothbard writes,

The free market is an interconnected web of lattice-work; it is made of innumerable parts which intricately mesh together through a network of producers and entrepreneurs exchanging property titles, motivated by a search for profit and avoidance of losses, and calculating by means of a free price system. Holding back, freeing only a few areas at a time, will only impose continuous distortions that will cripple the workings of the market and discredit it in the eyes of an already fearful and suspicious public (Rothbard 1992, p. 66).

Rothbard goes on to state that the only way to effectively desocialize is to grant complete freedom in all economic actions simultaneously (1992, p. 69). Kornai, Mises, and Rothbard agree, as long as a power is centralized in the hands of a ruling class, socialism will persist.

Kornai’s proposition of causality has been supported by evidence from Cuba’s economic reforms in the early 1990’s. Fidel Castro’s undivided grip on power was not broken or seriously challenged. Therefore, according to Kornai, Cuba’s reforms were only superficial, failing to challenge the essential character of the communist system. This has been exhibited in Cuba in three ways: 1) The regime’s complete control of institutions implemented during the reforms. 2) The lack of a thorough, cohesive plan for reform. 3) The commitment to socialism expressed in the statements and actions of the regime’s leadership.

#### *Complete institutional control*

The complete control maintained by the Cuban state has been demonstrated in each reform by the high level of regulation surrounding new institutions. Cuba’s

austerity program was highlighted by state-mandated levels of consumption, dollars were legalized, but only for certain purchases from state-owned stores, and foreign investment opened highly regulated markets that were only accessible to non-Cubans. When workers' opportunities were expanded to include self-employment and agricultural cooperatives, innumerable regulations followed. Furthermore, when Cuba took the drastic step of allowing the MAs to operate according to the principles of supply and demand, market performance was seriously hindered by limitations, regulations, and heavy taxation. Castro has refused to implement policies that could serve to undermine his political control, and when reforms have been adopted, they have not been accompanied by the flexibility that is needed to make them cogent and successful.

Ben Corbett, an American journalist who spent four years traveling to Cuba, writing and observing, commented, "For every transaction in Cuba, there are always three or four little slips of paper to be filled out, signed, and filed" (2002, p. 17). These types of legal hassles, when combined with the requisite licensing fees and numerous taxes, completely prohibit legal exchange in many markets. For instance, to sell mangos, an entrepreneur must complete a lengthy application for a permit and thereafter pay 1,000 to 1,500 pesos per month to maintain his status. Even after registering, he must log receipts and report on every transaction. Even with flawless bookkeeping, a shopkeeper is likely to fail random inspections that are based on changing, even arbitrary, standards (Corbett 2002, p. 97). Landlords' entrepreneurial efforts are similarly frustrated. The state mandates the number of rooms in a building that may be rented. A five dollar per night licensing fee is charged whether or not the room is occupied. Additional payments



are required to gain licenses for serving food and advertising on the street (Corbett 2002, p. 36).

The cornerstone of Cuba's new economy, tourism, presents an interesting example of how Castro's regime confines every market to "manageable" proportions. To attract foreign capital, Castro exhibited uncharacteristic generosity towards entrepreneurs. Although still hampered by the uncertainty inherent in a country with an authoritarian dictator, the tourism industry became an oasis of relative freedom for foreign investors. However, few gained from the blossoming of this market. Corbett describes a system of "tourism apartheid" that cuts off most Cubans from the income available through tourism. The state strictly manages the employment of Cubans in positions serving tourists. Those operating without authorization are swiftly prosecuted and severely punished. Furthermore, a wall of separation exists between the tourist sector and the rest of the island. The state operates separate taxis, trains, and hotels that accept dollars and are off limits to Cubans. Until 1997, when Cuba faced pressure from international human rights groups, Cubans were not allowed to mingle with tourists. Even today, contact between the island's citizens and tourists is discouraged by informal police hassling.

In an article that focuses on the civil sphere's participation in economic transition, Gerardo Otero argues that, to some extent, the reforms of the 1990s were regulated so thoroughly that they created fractures within the Cuban population and *strengthened* Castro's hold on power (2002, p. 39). This was the case with the legalization of dollar holdings. Great gaps in wealth were created which did not reflect aptitude or performance. The purchasing power schism, when combined with the necessity of black market purchases, divided society and diminished its capacity for collective action. The

same phenomena can be seen in the legalization of self-employment. Small scale private enterprise existed before its legalization and would have continued to expand without a policy change. By legalizing self-employment, the regime was able to control and tax the new sector, gaining power from markets that already existed.

In his article, “The Survival of the Cuban Regime: A Political Economy Perspective,” Javier Corrales describes how a communist government can utilize reforms to gain power for itself. “To stay in office, incumbents in both democracies and authoritarian regimes must do the same: please or reward their winning coalition with ‘things of value’” (Corrales 2002, p. 494). He defines the “winning coalition” in Cuba as the sum of the Communist Party, military leaders, and security apparatus, a decided minority on the island. Corrales writes, “Once reforms are unavoidable, the authorities proceed to reform by simultaneously creating ‘power reserves’ for the hard-liners (winning coalition)” (2002, p. 495). With tourism, dollarization, and other reforms, the extensive regulation of markets squelches the possibility of widespread gain, and kickbacks to loyalists, accompanied by the persecution of rebels, strengthens the malevolent dictatorships’ monopoly on power.

Castro’s unyielding grip on the Cuban economy was further illustrated by his unwillingness to allow dissident voices in the debate over economic policy. Otero writes, “The Cuban state has not yet allowed the creation of any autonomous public sphere; it has used either strict repression tactics or exile to drain the ranks of known activists” (2002, p. 39). Changes to the economic structure by the Cuban state are *not* the result of healthy political discourse, but rather are an example of the extent to which reform measures are completely self-serving.

The arbitrary nature of Castro's decision-making limits the benefits of reforms by increasing the risks that a certain policy will be reversed. Without the assurance of liberties, or the assumption of natural rights, a communist government is free to give and take as it pleases. Those operating in Cuba, both foreigners and domestics, have been hesitant to invest time and capital in sectors of the economy which are not guaranteed longevity.

The regime's power and propensity to repeal policies that they find threatening was clearly displayed by Castro's 1986 Rectification Campaign. In 1980, a series of reforms, similar to the reforms of the 1990s, were enacted. Private enterprise in some trades, productivity bonuses to workers, some privatization of housing, and free markets for agricultural produce and handicrafts were all legalized. After meeting government quotas, farmers were permitted to sell at market prices. The central planners sought to satisfy demand for variety, provide incentives for increased production, and subvert the black market. The success of the 1980 reforms was significant. By 1986 the regime was feeling threatened by the burgeoning private sector and Castro implemented his Rectification Campaign (Castaneda 1994, p. 183), reversing many of the reforms and reining in the liberalized market. Such reversals in policy have destroyed confidence in the Cuban economic system and have undermined the success of reform mechanisms.

Again, it must be remembered that the hallmark of communism is the undivided power of the ruling party. In a communist system, all actions are subordinate to the single, controlling will. It is the control itself, not the method of control, which indicates the existence of a communist system. In his book on socialism, Mises describes how the complete power of a regime to control economic action necessarily leads to the abolition

of private property. He explains that ownership is defined by the ability to control the use of a good. Mises writes,

“Limitation of the rights of owners as well as formal transference is a means of socialization. If the State takes the power of disposal from the owner piecemeal, by extending its influence over production; if its power to determine what direction production shall take and what kind of production there shall be, is increased, then the owner is left at last with nothing except the empty name of ownership, and property has passed into the hands of the State” (Mises 1936, p. 56).

It is clear that Castro’s offers of “freedom” and “ownership” were only a façade masking a shift from one form of control to another. The limitations, regulations, and inconsistencies described above, ensured that authority over economic affairs in Cuba remained completely in the hands of Fidel Castro and his regime.

#### *No cohesive plan*

Additional confirmation that Cuba has not undergone a significant transition is evident in the manner in which reforms were implemented. The Cuban government has never outlined a plan for substantial change in the Cuban economy. Rather, reforms are adopted only when deemed necessary to preserve the regime’s control. Jorge Sanguinety describes the path of reform in Cuba as a process of “slow retreat,” each action being initiated only as a previous reform fails to produce the desired correction. He argues that all economic decisions in Cuba are politicized, a characteristic which has landed the island in the inefficient middle-ground of economic policy (1995, p. 22). Isolated reforms fail as the regime continues to adopt measures without first establishing the supporting institutions necessary for success (Castaneda 1994, p. 206).

With the collapse of Soviet Communism in 1990, Cuba entered a period of economic “free fall”, hitting rock bottom in 1991 (Maltzev 2004). Even so, significant changes in economic policy were not implemented until 1993. These delays are impossible to justify economically, and it is obvious that political considerations were behind the initial postponement of reform (Corrales 2002, p. 497). When Castro finally accepted the need for domestic reform in the summer of 1993, he adopted isolated programs that addressed the economic failure in narrow sectors. The legalization of dollars was intended to undercut the black market, and was not integrated into any plan for further market liberalization. Likewise, the formation of agricultural cooperatives was an attempt to address the failure of Cuban agriculture without opening the doors to free entrepreneurial decision-making. Even the decriminalization of self-employment in some professions and the establishment of farmers markets were only attempts to address failures of government supply in specific sectors. These reforms carefully avoided the development of a sphere of economic freedom. Ben Corbett writes,

When something goes wrong with the economy, if there’s a housing shortage, a natural disaster, a blackout of an entire municipality, the Castro regime gives the problem a few taps, wiggles a loose wire, prints a few more pesos, keeping Cuba operating until the next breakdown (Corbett 2002, p. 5).

And later :

When the economy bottoms out, he decentralizes, loosens the leash on the people, allows them to engage in free enterprise; the renewed activity, in turn, stimulates the economy. But once the economy is reinvigorated, he tightens leash, recentralizes power, and creates new restrictions for the people (Corbett 2002, p. 92).

Under a transition-minded government, success in early reforms will lead to more liberalization (Corrales 2002, p. 500). The opposite has been true with Cuba. Each time reforms have brought moderate economic success, measures have been taken to reel in

the economy and return to extreme centralization. This happened in 1986 with Castro's Rectification plan, and it occurred again in the late 90s as Cuba halted reforms and even stripped Cubans of many of the small freedoms they had begun to enjoy for the first time. Taxes on the self-employed have been hiked, causing participation in this sector to "plummet" (Corbett 2002, p. 118). In 1997, the freedom of movement was denied to Cubans, prohibiting the migration of people to areas where economic opportunity exists.

In his book, *Are Economic Reforms Propelling Cuba to the Market?*, Cuban-American Carmelo Mesa-Lago proposes that Castro has intentionally pursued philosophically diverse policies in order to maintain his control. He writes:

Playing with different ideological groups and distributing posts among them has always been Castro's tactic to avoid any particular group's becoming too powerful to challenge his hegemony...The ideological fragmentation of the economic team induces a lack of coherence and impedes them from rendering consensus and designing an integral reform package (Mesa-Lago 1994, p. 60).

Between 1993 and 1996, during the most active period of reform, there were 25 changes in Castro's cabinet, a group including only 33 members (Corrales 2002, p. 496). The dictator's manipulation of his closest set of advisors during this time indicates his unwillingness to allow a consensus on reform to develop. Castro is a master of political manipulation and his haphazard method of reform has disallowed the formation of strong market forces, strengthening his unchallenged grip on power.

### *Socialist Commitment*

In both word and deed, Castro's regime has been intimately bound to socialism ever since he declared his commitment to the Marxist faith in 1961. Government leaders have continually expressed their commitment to socialist ideals in public statements.

References to reform are made with sullen regret, portraying the changes as necessary evils that will be done away with as soon as possible. All speculation about a transitioning economy is hastily dismissed. During a public address in 1993, Castro stated, “We will have to improve and perfect socialism, make it efficient, but not destroy it. The illusion that capitalism is going to solve our problems is an absurd and crazy chimera for which the masses will pay dearly.” (Castro 1993). During the early 90s, Castro regularly used the example of Eastern Europe to support socialism. He pointed to the poor conditions of transitioning countries and declared that “socialism must be preserved!” He saw the Soviet collapse as a “tragic disappointment” and the Latin American forms of communism as “socially unjust” (Jatar-Hausman 1999, p. 53). Many of his other statements rail against the social injustices of capitalism and the moral supremacy of a socialist society.

The sentiments behind these statements are supported by political actions which directly reflect socialist ideologies. Today, Cuba has the same socialist institutions that were utilized by pre-1989 communist regimes in Eastern Europe. Among these are an authoritarian leadership structure, a highly politicized daily life, and inflexible, bureaucratic decision making (Radu 1995). Cuban policy, while pragmatic, exhibits unflinching socialist ideals. There is open hostility towards private property, an affinity for state control of the means of production, and political control over the economy, social life, and politics (Radu 1995). All of these ideals are upheld by an unelected minority. During periods of reform, when Cuba has adopted market-type mechanisms, it has stated that they are temporary fixtures necessary to make possible the achievement of socialist harmony. Jatar-Hausman comments that private capitalism has never been

accepted ideologically and liberalization has been “legalized but not legitimized” (1999, p. 117).

It is now evident that the Cuban reforms in the early 1990s were *not* elements of a transition to free market capitalism. Castro’s undivided power in Cuba has never been broken. As predicted by Kornai, it can be clearly seen that the reforms that seemed to move Cuba toward free markets were merely irregularities in a system that remained fully committed to socialist ideals. However, scholars, including Kornai, acknowledge that reform, even reform not accompanied by political change, can begin a process that leads to actual transition.

Luis Locay states that when economic reforms are successful, and one must admit moderate success in Cuba, citizens gain wealth. Increased wealth gives people a greater say in how they are governed and greater resources to support their ideological stances. Also, successful reform will result in the development of infrastructures such as communications systems that will make a forcible opposition to the government more feasible (Locay 1995, p. 9). Castro finds himself in a dilemma. If he refuses to reform, his regime will face financial collapse. If he uses market resources, he may be empowering Cubans to overthrow his regime.

Kornai refrains from giving a roadmap to transition and states, “There is no triumphant march forward from the classical system...There is movement both forward and back, and in some place or other the cart may become stuck in a rut for quite some time, moving neither forward nor back” (1992, p. 392). However, he does describe some of the ways that reforms can lead to fundamental changes. Reform tends to provide non-



state groups with increased autonomy, create profits in the liberalized sectors, and reveal economic inconsistencies (Kornai 1992, p. 571). Kornai also states that the reform system is the arena in which the fatal inconsistencies inherent in socialism first appear (1992, p. 572). With a more relaxed economic system, participants clearly see the potential of a fully liberalized economy with individual autonomy and private property. The result is increasing discontent among the public and a drive toward political revolution.

The post-communist countries of Eastern Europe provide a source from which to gain knowledge about reform's role in transition. While transition occurred in various ways, there are examples of countries in which reform played a major role in a permanent move away from communism. Poland, the Soviet Union, and many other communist countries to a lesser extent, were led to revolution by an extended period of economic reform. However, Hungary is perhaps the clearest example of a country where reform played a prominent role in transition.

Hungary first experimented with reform in 1968 with the adoption of the New Economic Mechanism. This program liberalized industrial production, allowing for market-based, decentralized decision-making and implementing the use of "financial instruments" in economic management (Wolf 1991, p. 48). Industrial bodies were broken down into smaller units and were allowed to trade with each other in some circumstances. While these concessions were significant, Hungary, like Cuba in the 1990s, refused to relinquish ultimate control of the economy. Social ownership was never challenged and the state continued to dictate its will through the use of price controls, regulation, and taxation. The benefits of the reforms were small and temporary.

Beginning in 1972, Hungary underwent a period of recentralization during which the Communist Party cracked down on private enterprise and consolidated power in the hands of the bureaucracy. When oil prices rose later in the decade, the country's inflexible economy was unable to adjust. Facing financial collapse, the regime agreed to turn to reform again. From 1979 to 1983, Hungary loosened its hold on prices, liberalized its foreign currency transactions, and relinquished some decision-making powers. As with the earlier reforms, the reforms of these years were executed without privatization and exhibited an "unwillingness to yield to the market" (Wolf 1991, p. 56). In 1989, continued economic failure and civil discontent forced the acceptance of private property and the transition to markets. The following year, the Socialist Party was removed from power in free elections.

Before political revolution and economic transition, Hungary underwent several cycles of reform that failed to break the Communist Party's monopoly on power. However, these reforms were significant in the eventual failure of communism in the country. As Kornai noted, reforms have the ability to empower the private sector and set the stage for more radical changes. The cyclical pattern of liberalization and reconsolidation in Hungary had this effect. Anna Seleny writes, "Economic reforms (and other departures from central planning) led to a redistribution of control over economic activities...and eventually opened up the possibility of renegotiation of the basic assumption of political control" (1995, p. 28). Thomas A. Wolf agrees:

The reforms of this period were not all in vain. Years of partial decentralization and limited autonomy with respect to prices, wages and foreign trade must have had some effect in sensitizing managers to market institutions, and preparing them for the bolder reforms that were to follow after 1989 (Wolf 1991, p. 57).

The parallels between pre-1989 Hungary and post-Soviet Cuba are striking. Both regimes pursued reform while at the same time managing to maintain centralized control. However, the two countries are distinct in that Cuban communism alone survived the fall of the Soviet bloc.

## **V. THE SURVIVAL OF CUBAN COMMUNISM**

At present, Fidel Castro is the longest standing authoritarian dictator on Earth. With the complete collapse of all of the Soviet satellites and the alleged ability of reform to initiate transition, it must be asked, what is unique about Castro's Cuba that has allowed it to survive severe economic crisis? At least part of the answer to this question lies in three related conditions: the relative youth of Castro's regime, the nationalist and socialist leanings of the Cuban people, and the effective use of propaganda in Cuba.

### *Relative Youth*

Cuba's survival of the Soviet collapse can largely be attributed to the short duration of communist rule at the time. When Castro declared his allegiance to Marxism in 1961, the Eastern European communist nations already had nearly 20 years of experience with communist rule. Therefore, when the Soviet system disintegrated, these nations had already endured two more decades of the economic decline that economists such as Kornai and Mises have described. It was essential to Cuba's survival that only one generation of Cubans had lived under communist rule and most Cubans still remembered the time of the revolution.

The youth of Cuban communism is further strengthened by the fact that Cuba is still under its first dictator. Many Cubans remember Castro as the man who brought them out of the hands of a repressive regime, even if it was replaced by another. Furthermore, Castro is a public relations mastermind who has created an unchallengeable persona for himself. His image is perpetuated by maintaining on his person symbols of the revolution such as the olive-green uniform and beard. Tad Szulc, a Cuban analyst who has had personal contact with the dictator writes, “That Castro has not lost his touch as Cuba’s great master of political seduction is as obvious on Cuban television as in the many interviews he gives to U.S., West European, and Latin American TV networks” (Szulc 2001, p. 105). At the critical time of the Soviet collapse, Castro was still able to ride the success of his Stalin-like “personality cult” (Radu 1995).

#### *Nationalist and Socialist Leanings*

Castro’s regime also experienced a measure of public support that other communist countries never enjoyed. To a large degree this support sprang from the fact that communism in Cuba was not imposed but was rather born in a popular revolution. Otero writes, “The Cuban revolution had indigenous, nationalist origins that became the basis for its later ideological foundation. The Cuban state-socialist regime therefore holds greater popular legitimacy historically than did similar regimes in other Soviet bloc countries” (2002, p. 51). It appears as though revolutionary nostalgia is still very much a part of the psyche of the Cuban people. Their nationalism and commitment to socialist goals frequently confound critics of the Cuban state. In 1995, United States Secretary of Defense Elliot Richardson called Cubans “stubbornly nationalistic,” and credited them

with “an excess of pride” (Richardson 1995). The unforced creation of a communist state in Cuba (although its maintenance has been forced) may have engendered actual socialist commitment by party leadership as well. Javier Corrales, who studied the political environment of Cuba in the 1990s, indicated the strength of the *duros*, anti-reform hardliners, during this time (Corrales 2002, p. 497). In the policies that Castro initiated during the 90s, he was careful to protect and cultivate this group, which would support his ongoing commitment to socialism. While leaders of the Communist Party in Cuba have been the grateful recipients of graft, it appears that Kornai’s description of self-interested leadership may not be as applicable to the Cuban situation as it was to the regimes of Eastern Europe.

### *Propaganda*

The patriotism that was engendered in the revolutionary beginnings of communist rule on the island has been carefully nurtured by Castro’s effective use of propaganda. The regime has used paralyzing censorship and outright deception to persuade Cubans to embrace socialism’s superiority. Cubans are not allowed to interact freely with travelers from capitalist countries, and can only access the Internet illegally. At the same time, the state run media is constantly reminding them of the inhumanity and inefficiency of capitalism (Corbett 2002, p. 9). The United States is often attacked specifically, and Castro has used the alleged American-Cuban rivalry to promote nationalism among Cubans. Antony Mueller writes,

Understanding Castro’s political survival requires understanding that he was able to arouse strong feelings of national pride by standing up against the perceived suppression and hegemony of the United States. By rhetorical talent and charisma...Castro created a unique system with a specific ideology. This political

ideology equalizes socialism with welfare and socialist welfare state with social justice. Anti-imperialism and anti-Americanism are seen as equivalent to national independence, and national independence is the foundation for national pride that puts the Cuban people apart from the rest (Mueller 2002).

The U.S. embargo on Cuba has further enabled Castro to spread his propaganda. The United States is portrayed as a malevolent enemy, and Castro is able to blame all economic ills on the meddling capitalist neighbor to the north.

Today, it appears that Castro's lies are wearing thin for many Cubans. The younger generation especially is no longer providing Castro with the admiration he has enjoyed for so long. However, many still fear the consequences of capitalism and choose to accept the regime rather risk the potential harm done by the implementation of another system. Castro's campaign to nurture inborn socialist sentiments and create fears of capitalism has given him a very strong political position and has allowed him to overcome the economic pressures that have toppled other communist regimes.

## **VI. CONCLUSION**

In 1990, Cuba began a process of reform in an attempt to deal with the fall of Soviet communism and the worst economic crisis of its history. Cuba first reformed its external economic relations, seeking to gain support and foreign currency through vital trade relationships. By 1993, the previous reforms had achieved only limited success and Castro's government was forced to pursue more drastic domestic reforms. Dollar holdings were legalized, agricultural cooperatives were formed, and many forms of self-employment were authorized. In 1994, the regime was again forced to compromise and opened the doors for free farmers' markets. These reforms, though market-focused in appearance, never represented an actual transition to a capitalist economic structure. This

fact is evidenced by the extent to which new economic institutions were regulated and controlled by the regime. Also, the chaotic pattern in which reforms were implemented and the strong socialist commitment expressed by state leadership demonstrate the lack of authentic transition. While the reforms of the early 1990s do present opportunities for capitalism to “emerge through the cracks,” relative youth, popular support, and effective use of propaganda have preserved the state’s grip on power to this day. Until Castro’s exclusive claim to power is broken, reforms in Cuba will only be the manifestation of superficial irregularities in a thoroughly communist system.

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