An Overview Evaluation of Economic Policy in Cuba, circa 2010

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I. Introduction

The economic development of Cuba has been characterized by high levels of investment in people with successful results, but with weak performance in terms of the production of goods and services generally. Cuba’s achievements regarding human development are well known and are epitomized by the United Nations Development Program’s “Human Development Index” (HDI). On the one hand, this index ranks Cuba at #1 in the world for the Education component (somewhat surprisingly) and #31 for the Life Expectancy component. On the other hand, Cuba’s world ranking is for GDP per capita in purchasing power parity terms is #94 with an overall world HDI ranking of #51 (UNDP, HDR, 2009, 271). These rankings underline the inconsistency between the Cuba’s high level of human development on the one hand and its economic underperformance on the other. The strong economic performance of the 2004 to 2008 period appeared to constitute a rapid recovery in terms of Cuban GDP statistics. However, this recovery, while perhaps not illusory, was fragile and unsustainable, based on factors such as support from Venezuela and high nickel export prices, and indeed it has been reversed in 2009-2010.

Given the quality of Cuba’s human resources, the economic performance for the last 15 years should have been excellent. The central argument of this essay is that Cuba’s weak economic performance has been the result of counter-productive public policy. The objective of this essay is to analyze and evaluate a number of central policy areas that shape Cuba’s economic performance, including monetary and exchange rate policy, policy towards micro-enterprise;
agricultural policy, labor policy, foreign investment policy, policies towards infrastructure renewal, and the policy approach to self-correction and self-renewal.

In order to present a brief overview of the evaluations, an academic style of grading is employed, with an “A+” being excellent through to an “F” representing “failure”. This evaluation schema is of course subjective, impressionistic and suggestive rather than rigorous. It is based on brief analyses of the various policy areas. However, the schema is similar to the scoring systems widely used in academia, and is used here with no more apology than is normally the case in the academic world.

Before proceeding with the policy analysis and evaluation, a brief overview of economic performance in the decade of the 2000s is presented to provide the context for the examinations of economic policy.

II. General Economic Performance

A central constraint on Cuba’s economic well-being since 1950 has been its weakness in earning foreign exchange from the export of goods and services. This was painfully clear in the 1961 to 1970 period and again from 1990 to around 2000, though the special relationship with the Soviet Union reduced its immediacy from about 1970 to about 1990. For a small country, foreign exchange earnings constitute the economic foundation for continuing economic and social improvement.

From approximately 1992 to 2004, Cuba sought to increase its foreign exchange earnings principally through an expansion of tourism, remittances from Cuban émigrés living abroad, and growing nickel exports with sugar, rum, tobacco products, bio-technological exports, and a few
smaller exports also making useful contributions. This was supplemented with direct foreign investment within joint venture arrangements and five export processing zones. Cuba also successfully reduced the need to import petroleum through increases in the domestic extraction of petroleum and natural gas.¹

Around 2003 to 2005, Cuba embarked on a strategic reorientation in its drive to earn and conserve foreign exchange. In this period, the foreign exchange locomotives for the economy became medical services paid for principally by Venezuela, together with nickel which experienced very high prices from around 2006 to the onset of the recession in late 2008 with assistance from tourism and remittances. Sugar exports had become inconsequential, and other export products were of limited significance. Indeed for 2007, service exports accounted for about $US 8.3 billion or approximately 70% of foreign exchange earnings. From 2004 to 2008, exports of goods and services rose from $5.6 to $12.0 billion permitting large increases in imports and stimulating economic growth, which averaged 8.3% per year over this period.

While the growth record of 2004 to 2008 was highly satisfactory, it was fragile and perhaps artificial. This was because it depended on high nickel prices which fell from an average high of $31,532 per metric ton in 2006 to $11,000 for the first five months of 2009. Moreover, Cuba’s economy had become dependent on the largesse of President Chavez of Venezuela who had been subsidizing Cuba’s petroleum imports and paying for Cuba’s medical service exports with petrodollars. By May 2009, there was concern that Venezuela’s financial support would be impaired by lower oil prices as well as the worsening financial performance of Petroleos de Venezuela (PDVSA). (Medina Herrera, May 27, 2009) Should lower petroleum prices continue

¹ Thanks in no small part to the technological transfers and investment provided by Sherritt International.
for some time, it will be difficult for Chavez to maintain the current level of subsidization for the Cuban economy and the high value of Venezuela’s importation of services.

Cuba’s recovery during the 2000s also has been somewhat illusory as well as transitory. Despite strong economic growth, average wage levels for the 2000-2008 period did not recover but instead remained at about 24% of the 1989 levels (See Chart 3.) Again despite the strong economic numbers, the value of GDP in 2007 originating in the agricultural and manufacturing sectors both continued at about 50% of the 1989 values, as illustrated in Chart 1. In fact, in 2006, manufacturing and agriculture plus mining accounted for only 12.5% and 4.3% of GDP respectively with services accounting for 77%. (ONE, 2007)
Investment levels remained low throughout this period, averaging 8.4% of GDP compared to an average of 18.7% for all of Latin America for 2000 to 2008 and lower than any other country in the region. (UN ECLAC, p.152) This low level of investment may be insufficient to maintain the current value of the capital stock.

In summary, despite the apparently reasonable economic recovery, especially for the 2004 to 2008 period – which could prove to be transient - Cuba’s general economic performance has lagged its levels of human development.

II. Evaluation of Some Central Policy Areas

1. Monetary & Exchange Rate Policy

There are a number of specific elements in monetary and exchange rate policy that are relevant for an evaluation, including control of money supply and inflation, control of financial system, and the management of a rational exchange rate system. Cuba also has faced a unique problem since 1992, namely the dual monetary and exchange rate system.

Control of the domestic money supply was problematic for some decades. There has long been excess purchasing power due to price controls and a rapidly expanding money supply, coming to a crisis phase in the early 1990s when the black market exchange rate to the US dollar briefly reached as high as 150. The situation has improved considerably in the 2000s, with inflation in “moneda nacional” averaging 2.0% from 2000 to 2008 (UNECLAC, p. 169.) However, this is due partly to the fixing of prices in the “old peso” economy, and the exclusion of increasing volumes of high-priced goods purchased from the dollar stores or “tiendas para la
recaudacion de divisas” that appear to be omitted from the basket of products on which the price index is based. (Unfortunately the measurement of inflation is opaque and precise information on the methodology for constructing the consumer price index not been made public.) Control of the financial system appears tp have been reasonable.

The management of Cuba’s exchange rate has been unsatisfactory since the early 1960s when it lost its convertibility. At this time, the exchange rate of the old peso is grotesquely overvalued, and bears no relationship to the true value of tradable goods and services for the Cuban economy. (The “old peso” or “Moneda Nacional” is officially equivalent to US$1.11 but for Cuban citizens it exchanges for 25 to 26 pesos to the convertible peso or the “CuC”, which in turn trades at 1.11 to the US dollar.) The value of 1.11 old pesos to the US dollar is thus purely fictional. It is also the source of multiple irrationalities in the economy. Perhaps the exchange rate of the convertible peso to the US dollar is more reasonable, though it is difficult to know for sure. The dual monetary and exchange rate system generates numerous difficulties and irrationalities for the Cuban economy and for citizens generally, including:

- hardship for citizens’ who earn “Moneda Nacional” but need “Convertible Pesos” to live;
- confusion re the true cost of foreign exchange resulting in major irrationalities regarding trade and the use of foreign exchange;
- resources (esp. Labor) continue to be drawn out of the “Moneda Nacional,” economy to the “Peso Convertible” economy;
- generalized confusion re economic signaling is promoted;
- export diversification and expansion is blocked;

My evaluation of Monetary and Exchange Rate Policy is as follows, with the overall grading being an un-weighted average of the specific estimations:

- Control of Money Supply and Inflation “B+”
- Control of Financial System “B”
- Exchange rate policy “F”
- Monetary and Exchange Rate System Dualism “F”
2. Policy toward Small and Micro-Enterprise

In the early years of the Castro regime and then culminating in the Revolutionary Offensive of March 1968, most of the non-farm economy was expropriated and placed under the control of relevant Ministries and ultimately Junta Central de Planificacion (Juceplan). By 1970, the number of officially-recognized self-employed had fallen to around 30,000 or 1.2% of the labor force. The reasons for the nationalizations were to eliminate capitalism and the “chaos of the market” as much as was possible and replace these with the “rationality” of central planning.

The consequences of the nationalizations of small enterprise became quickly apparent. The state sector –controlled by bureaucracies in Havana office towers - was unable to adequately replace small scale entrepreneurial efforts adequately so that quality, quantity and the diversity of production declined. The underground economy expanded, theft from the state sector increased in part to feed the underground enterprises, and the material standards of living were impaired. The urban landscape became commercially dead – in contrast to the bustle of other Latin American cities. The economy entered a long period of economic sclerosis, typified by the existence of the many of the same bureaucratized restaurants on La Rampa in 2010 as in 1970.

In response to the economic melt-down of 1990-1993, the government ratified what people were already doing as part of their survival strategies, and legalized many new areas of self employment in October 1994. Following this was a rapid expansion of self-employment as enterprises sprang up from the underground economy and as new enterprises commenced. By
1995, there were some 138,000 registered micro-enterprises. This process led to major improvement in the quality, quantity, and diversity of goods and services, to increased productive employment and income generation, to foreign exchange earnings and savings, to renewed commercial vigor in urban areas and a general improvement in the quality of people’s lives. On the downside, because no provision made for the legal sale of inputs to the sector, a main source of inputs came to be theft from the state. Much has been made of alleged high incomes in the micro-enterprise sector. Indeed, restaurants and bed and breakfast operations did generate high incomes for a while at least, and when there was a huge monetary overhang and excess money in circulation, prices and incomes were pushed to high levels. When the excess money in circulation was eliminated, prices in the microenterprise sector declined and incomes fell. Most of the sector now involves low-income people providing goods and services for other low income people, so that in consequence, the micro-enterprise sector is a less significant source of income inequality.

Shortly after the legalization of self-employment in 1994, the government began to contain it with various limitations, controls, prohibitions, and onerous taxes. All activities not explicitly approved are prohibited. All professional self-employment is prohibited. Of the 156 activities initially permitted, some 41 were closed in 2004 to new job entrants. Licensing is used to limit entrance to self-employment. Micro-enterprise has no access to credit and no access to foreign exchange or imports. It can not utilize “intermediaries” to sell what is produced. Advertising is prohibited. There are tight limits on employment in the sector. There are numerous petty restrictions such as the 12 chair limit on chairs in a private restaurant. There has been an unrelenting hostility towards the sector in the media and political environment. And finally, there is an onerous tax regime against self-employed Cuban citizens, as summarized in
Table 1. Of particular note is the 10% limit on costs that can be deducted from gross income in calculating net taxable income and also the non-deductibility of investment from taxable income. Foreign enterprises face a tax regime that is close to international practice so that the harsh tax regime for Cuban citizens constitutes serious discrimination against them, a surprising phenomenon for a socialist country.

**Table 1. Tax Regimes for Micro-Enterprise and Foreign Enterprise in Joint Ventures**

<table>
<thead>
<tr>
<th></th>
<th>Micro-Enterprise Sector</th>
<th>Foreign Enterprise in Joint Ventures</th>
</tr>
</thead>
<tbody>
<tr>
<td>Effective Tax Base</td>
<td>90% of Gross Income</td>
<td>Net Income after Deduction of Costs</td>
</tr>
<tr>
<td>Effective Tax Rates</td>
<td>May Exceed 100% of Net Income</td>
<td>30% of Net Income (50% for mining and petroleum)</td>
</tr>
<tr>
<td>Deductibility of Investment</td>
<td>Not Deductible from Taxable Income</td>
<td>Fully Deductible from Taxable Income</td>
</tr>
<tr>
<td>Lump-Sum Taxation</td>
<td>Up-Front “Cuota Fija” Tax Payments Necessary</td>
<td>None</td>
</tr>
<tr>
<td>Tax Overpayment</td>
<td>No Rebates for Overpayment</td>
<td>Not Applicable</td>
</tr>
<tr>
<td>Profit Expatriation</td>
<td>No</td>
<td>Yes</td>
</tr>
</tbody>
</table>

Source: The Author

The consequences of the current policy approach to the micro-enterprise sector can be listed quickly, and essentially the potential positive effects are all reduced, :

- product quality and diversity are limited
- efficient job creation is limited;
- activities are forced underground or extinguished;
- the enforced stunting of microenterprise produces inefficiencies;
- restricted entry limits competition and results in higher prices than otherwise;
- contempt for the law and evasion is promoted;
- innovation is blocked

The overall result is of the policy approach to the microenterprise sector is damaging to the day-to-day quality of life, the efficiency of resource use, and economic innovation and improvement.
Interestingly enough, there have been a number of policy innovations and experiments that seem to suggest that major policy changes are being contemplated and analyzed within the Cuban government. These policy changes include

In 2006:
- Permission for Cuban citizens to enter and use hotel facilities;
- Relaxation of rules re purchase of electronic items

In 2009:
- Long-term leases of unused state land by small farmers

In 2010:
- City parking attendants pay a rental fee for the right to park cars on the street, charge the car parkers, and retain parking profit;
- Relaxation of some restrictions on private taxis;
- Experiment with cooperative hair dressing salons and barber shops;
- Establishment of markets for inputs for small farmers aside from state input allocation;
- Permission for bus drivers to rent small city busses and operate them on a “for-profit” basis.

These are certainly interesting innovations. Indeed the lease of unused state lands to small farmers could become a significant policy change if accompanied by supportive and complementary public policies. Otherwise, the policy changes so far have been of a suggestive, tentative and experimental character rather than definitive. In my estimation the policy approach towards microenterprise would rate an “F”.

3. **Agriculture and Food Production:**

Cuba’s agricultural performance in the 2000s has been mixed. The volume and the quality of food available for consumption have improved resulting in a recovery of nutrition levels following the problems of the early 1990s. However, this is largely due to increased food importation. Urban agriculture and the production of some foodstuffs are bright spots. But the
sugar sector has been a disaster, leading to reductions in overall agricultural output, and making Cuba a large net importer of foodstuffs, as illustrated dramatically in Chart 2 (ONE, various years.).

**Chart 2**

**Cuba’s Agricultural Exports and Imports, 1958-2008**

(Millions of Current Pesos)

![Chart](image-url)

Source: Oficina Nacional de Estadisticas, Anuario…, various years.

The sugar sector has steadily declined, with production levels falling from the seven to eight million tons of the 1970 to 1991 period to recent levels around one to two million tons by the mid 2000s. Although efforts have been made to replace sugar with a diversified range of food crops and forest plantations, a large proportion of the land has reverted to “marabou”, the noxious weed that “crowds out” other vegetation. The shutting down of half the sugar mills in 2002 and lack of success in replacing sugar has reduced the potential for converting sugar production to ethanol-based fuel and enhanced electricity generation. Moreover, the contraction of the sugar agro-industrial complex has destroyed the economic base for the sugar mill towns and reduced the markets for input-providing activities.
Some recent policy initiatives in agriculture have been promising. The leasing of land to small farmers is a positive step, though as of mid-2010 it had been implemented only modestly. The greater priority granted to agriculture by the government of Raul Castro and improved access to agricultural inputs should be encouraging.

Overall, an evaluation of the quality of policy in the agricultural area would likely be that some improvements have occurred but major new initiatives are needed and have not yet been forthcoming. Thus a grade of “C” may be appropriate.

4. Labor Policy

There are a number of dimensions of public policy towards labor that merit attention, namely labor force utilization, remuneration systems and levels, and labor rights.

Cuba achieved high levels of labor force utilization by 2008. The labor force participation rate, namely the percentage of adults between age 15 and 65 that are employed or are seeking work, was 73.6% in 2008 according to official statistics, a level that is high relative to other Latin American countries. The unemployment rate in 2008 was reported at 1.6% again according to official statistics (UN ECLAC, Table A-18). According to these measures, the utilization of the labor force was very effective. However, we have little idea regarding “underemployment” or underutilization of labor while they are on the job.

By 2008, remuneration levels for workers in general had recovered somewhat from the low levels of 1993 but were far below the levels of 1989 before the economic melt-down, as illustrated in Chart 3. Workers earn “old pesos” or “moneda nacional”, but need “convertible
pesos” to survive. The average monthly wage in 2008 was 414 pesos in “Moneda Nacional” which amounted to CuC 17.25 convertible pesos at the exchange rate that is relevant for Cuban citizens (24 MN=1 CuC) or about US$ 14.90 (Vidal, 2010, 35.) Unfortunately the availability of goods and services in the “Moneda Nacional” economy –through the rationing system – is limited and insufficient for survival. This means that citizens must find other sources of income to survive, preferably in the “convertible peso” economy, from remittances, tourism, tips of various sorts, illegal activities, in-kind income from places of employment, pilferage, or foreign travel (for professionals, professors, and some government officials).

Chart 3  Real Inflation-Adjusted Wages (Pesos)

Source: Based on data from Pavel Vidal, 2010, p. 35.

Note: The real average monthly wage is calculated by discounting the nominal wages from 1989 to 2008 by the consumer price index with base year 1989

A third area of labor policy concerns labor rights. Cuba has signed the Universal Declaration of Human Rights and is a member of the International Labor Organization. The
basic United Nations declarations support freedom of association for labor. The International Labor Organization's Declaration on Fundamental Principles and Rights at Work includes, as the first fundamental right of labor, "freedom of association and the effective recognition of the right to collective bargaining" (ILO Declaration.) However, Cuban workers do not have the right to undertake independent collective bargaining or to strike. Unions are not independent organizations representing worker interests but are official government unions. Independent unions and any attempts to establish them are illegal in Cuba. This situation can not fail to make the labor force more docile and subject to manipulation by their Union organizations which in turn are controlled by the Communist Party.

The central function of independent labor unions is to provide countervailing power to oligopolistic or monopolistic employers in wage determination and in the setting of the terms and conditions of work. Unions have been successful in western countries in raising wages, improving the equity of income distribution and improving work conditions. In the Cuban case, workers confront a monopolistic employer – the state - that also controls their unions which in effect are analogous to “company unions.” By controlling the workers unions and containing their wage demands, wages have undoubtedly been held down. It could be argued also that the absence of strong unions has muted the urgency of undertaking economic reforms and permitted the government to continue to implement counterproductive economic policies.

In sum, the various components of labor policy could be evaluated as follows:

<table>
<thead>
<tr>
<th>Labor Resource Utilization:</th>
<th>“B”</th>
</tr>
</thead>
<tbody>
<tr>
<td>Remuneration Levels:</td>
<td>“F”</td>
</tr>
<tr>
<td>Labor Rights:</td>
<td>“F”</td>
</tr>
<tr>
<td>Overall</td>
<td>“D+.”</td>
</tr>
</tbody>
</table>
5. **Foreign Investment Policy**

There has been an inflow of direct foreign investment (DFI) since 1991, when Cuba opened itself to such investment in joint venture arrangements with state firms. By 2000, foreign firms in 50% ownership “economic associations” with Cuban firms dominated a number of sectors including international marketing of cigars (100%) and rum (100%), telephone communication (100%), international tourist hotels (10% plus management contracts in about 40%) and exploration for minerals and petroleum (100%) (Perez-Lopez, p.155) Cuba opened to direct foreign investment due to the benefits that it can generate, though of course there are also costs. The benefits can include transfers of entrepreneurship, technology, machinery and equipment, managerial know-how, financial resources and access to foreign markets. One of the main costs is profit repatriation.

Cuba has not been successful in obtaining foreign investment flows in manufacturing, construction, transportation, agriculture and services of various sorts – all areas that are legally open to DFI. In part, this is due to the luke-warm interest of the Cuban government for DFI. But the hesitation of foreign enterprise to enter Cuba is also the result of the inhospitable and unorthodox policy environment in which they must operate. Foreign enterprises face a variety of restrictions, problems and uncertainties which affect their operations negatively and reduce the attractiveness of investing in Cuba.

First of all, there is uncertainty about the commitment of the Cuban government to the course adopted regarding foreign investment. Although official documents destined for international consumption welcome DFI, other statements from former President Castro and the media have raised questions regarding its role. For example, former President Castro waged an
“anti-globalization” campaign with annual international conferences since 1999, often with himself as the principal personage at the podium. At these events, he presented himself as the champion against international capitalist imperialism in its “globalization phase”. This undoubtedly has generated uncertainty among potential investors. Even Sherritt International has not felt itself immune from the general uncertainties in Cuba:

The Cuban Government’s future policies relating to foreign investors and foreign exchange payments could be affected by the political and economic environment resulting from its limited access to foreign exchange. The Corporation is entitled to the benefit of certain assurances received from the Government of Cuba… that protect it from adverse changes in law, although such changes remain beyond the control of the Corporation and the effect of any such changes cannot be accurately predicted. (Sherritt International, p.23)

Second, while the Foreign Investment Law outlines “rules of the game” for foreign investors, in fact, each possible foreign investment seems to be determined on a case by case basis. Each potential project must be negotiated with the counterpart enterprise and the Ministry of Investment and Cooperation (MINVEC). After significant investments of time and money, foreign investors can be turned down for a variety of reasons. A well-publicized case of what appeared to be discretionary decision-making is that of FirstKey Project Technologies, which had been in negotiations for a US $450 million joint venture project to upgrade the old Soviet-era electrical generation plants, thereby improving Cuba’s electricity system. (J. De Cordoba and C. Vizthum, June 281999) According to the Chairman of the enterprise, the Cuban Government reneged on the contract and then used the FirstKey engineering study as a guideline in discussions with enterprises in a number of European countries. The result of such stories is that the business community became somewhat more skeptical regarding investment potentials in Cuba.
Third, the Government controls the recruitment and selection of employees which must be done through ACOREC, *Agencia de Contratación a Representaciones Comerciales*, and not by the foreign firm. The wage system and salary scale are determined by the Government as well. The foreign enterprises must pay wages and salaries in U.S. dollars (or Euros, after the U.S. dollar was withdrawn from use within Cuba at the exchange rate of 1.00 old peso = U.S. $1.11) while the workers are paid in “old pesos” (with the relevant exchange rate for Cuban citizens in recent years at 25 to 26 pesos per U.S. dollar.) With hiring and remuneration beyond their control, the effectiveness of the personnel management by foreign enterprises may be impaired.

A further potential problem that must produce unease for foreign enterprises operating in Cuba is the absence of basic labor rights, as discussed above. Cuban labor practice violates international standards in this area. This situation may present problems for foreign enterprises in future. Business operation and profit-making in such an internationally unacceptable legal environment also places foreign firms in a disreputable and extra-legal situation.

A fifth issue regarding foreign firms and Cuban labor is that the Cuban government acquires the largest part of the wage and salary expenditures of foreign firms, and pays the actual workers a small fraction- about 4 to 5% - of what the foreign firms actually pay, because the relevant exchange rate for foreign firms is 1.00 old peso = US1.11. However, the real value of the monthly wages and benefits actually received by the average worker is higher, though less than the payments by the foreign firms. The real value would include the in-kind benefits of medical services, on-the-job meals, and perhaps education (which are free at all levels) as well as bonus payments, and the low-cost rationed products. But the effect of this payments arrangement is to make Cuban labor somewhat expensive for foreign firms relative to that in other countries, thereby impeding foreign investment in a diversified range of more labor-intensive activities of
the sort which often locates in export processing zones. But it also permits the government to share the foreign exchange earnings in a fairer and more politically acceptable manner and to provide social services more effectively to Cuban citizens.

In sum, the policy environment facing foreign investors is complex and not very friendly. From the standpoint of maintaining state control over the economy, Cuba’s policies towards DFI may be reasonably successful but from the standpoint of promoting DFI, the policies have been very weak. The Overall Evaluation for policy relating to foreign investment is thus a “D”.

6. Infrastructure Renewal

Physical infrastructure includes a wide range of public facilities necessary for the functioning of a modern civilization. Among the various components of infrastructure, the following could be included: housing, public buildings, water systems, electrical systems, streets roadways and trucks, railways and rolling stock, heritage sites, public transportation, waste management, shipping and ports, air transportation, natural gas, and sewage and sewage treatment systems systems. Infrastructure is expensive, requiring large outlays of capital equipment, resources and skilled labor for its installation and maintenance. Continuous and careful maintenance is also necessary to prevent the premature deterioration of infrastructure. However, investment in infrastructure can usually be postponed so that in difficult times, reinvestment and maintenance can be delayed. In Cuba’s case, maintenance and reinvestment were disregarded in some areas of infrastructure such as housing, sewage systems, streets and roads and water supply systems throughout much of the post 1959 period,. “Disinvestment” then
accelerated during the tough times of the 1990s, following the termination of the special relationship with the former Soviet Union.

Cuba has moved to reverse the deterioration in physical infrastructure during the 2000s. The investment in “heritage sites” especially in Old Havana has been most impressive and Eusebio Leal, the Historian of Havana who has spearheaded this effort has performed a great service for Cuba (and also for tourism.) The “Revolucion Energetica” while not perfect, has done much to improve the electrical system across Cuba. A major effort also has been focused in urban transportation with the importation of new Chinese buses. Investment has also been made in railway rolling stick.

But, as noted earlier, investment levels overall remain low relative to other countries, A number of areas of infrastructure remain seriously depleted, most notably the stock of housing together with the water and sewage systems. A rough “off the cuff” evaluation of the various areas of infrastructure is summarized below. This evaluation draws on the author’s personal knowledge of Cuba in the 1990s and 2000s as well as the work of Juan Belt (2008) but is admittedly impressionistic and certainly not rigorous. The weights applied to the different elements of infrastructure are arbitrary.

<table>
<thead>
<tr>
<th>Infrastructure</th>
<th>Weight (%)</th>
<th>Condition</th>
<th>Grade</th>
</tr>
</thead>
<tbody>
<tr>
<td>Housing</td>
<td>20</td>
<td>Major Effort Needed</td>
<td>F-</td>
</tr>
<tr>
<td>Public Buildings</td>
<td>5</td>
<td>Some Improvement</td>
<td>B</td>
</tr>
<tr>
<td>Water systems</td>
<td>10</td>
<td>Needs Work</td>
<td>F</td>
</tr>
<tr>
<td>Sewage systems</td>
<td>5</td>
<td>Needs Work</td>
<td>F</td>
</tr>
<tr>
<td>Electrical systems</td>
<td>10</td>
<td>Improved</td>
<td>B</td>
</tr>
<tr>
<td>Roadways and Trucks</td>
<td>5</td>
<td>Some Improvement</td>
<td>C</td>
</tr>
<tr>
<td>Railways and Rolling Stock</td>
<td>5</td>
<td>Weak despite Investment</td>
<td>D</td>
</tr>
<tr>
<td>Public Transportation</td>
<td>5</td>
<td>Some Improvement</td>
<td>C+</td>
</tr>
<tr>
<td>Waste Management</td>
<td>5</td>
<td>Needs Work</td>
<td>D</td>
</tr>
<tr>
<td>Shipping &amp; Ports</td>
<td>5</td>
<td>Improving</td>
<td>C+</td>
</tr>
<tr>
<td>Air Traffic Systems</td>
<td>5</td>
<td>Improvement</td>
<td>A-</td>
</tr>
<tr>
<td>Natural Gas</td>
<td>5</td>
<td>Improvement</td>
<td>A-</td>
</tr>
</tbody>
</table>
7. Policy Approach to Self-Correction and Self-Renewal

An important requirement for the sustained effectiveness of an economic system is the ability to freely, openly and continuously analyze and criticize its functioning. Open analysis and criticism in a context of free generation and diffusion of information provide a necessary spur for self-correction, exposing illegalities, flawed policies and errors. Free analysis and criticism is vital in order to bring illicit actions to light, to correct errors on the part of all institutions and enterprises as well as policy makers and to help generate improved policy design and implementation. This in turn requires freedom of expression and freedom of association, embedded in an independent press, publications systems and media, independent universities and research institutes, and freely-functioning opposition political parties.

Pluralistic democratic countries have free presses and open debate on the issues of the day. Opposition political parties, academics, interest groups and NGOs, and journalists continuously analyze and critique public policy issues and proposals and the functioning of private and public enterprises and institutions. Indeed, there is major competition among economic and business journalists as well as academics to be the most perspicacious analysts of public policy.

Unfortunately much of this has been lacking in Cuba. The media and the politicians largely perform a cheerleader role, unless issues have been opened up for discussion by the President and the Party. For example, there was little public discussion or debate concerning the shut-down of most of the sugar sector in 2002, of the continuing attacks on self-employment, or
the elements of the “Revolución Energética” or of the imprisoning of the dissidents in 2003. This means that public policies get announced full-blown without critical input into their formulation, and without subsequent criticism and early correction. However, there have been some encouraging signs such as the publication, especially in Juventud Rebelde, of solid analyses of some issue-areas such as the economic illegalities and corruption. Some components of the Universities undertake serious economic research and policy analysis. The “bloggers” critiques that have emerged since 2007 also have been “pushing the envelope.” But they have been denied access to the web. They have been harassed and intimidated – unsuccessfully – by actions of state security such as the picking up of some of the bloggers and deposited elsewhere in the city. They have been vilified as “mercenaries” in the service of foreign powers. They have been denied the possibility of foreign travel and even denied the possibility to participate in relevant domestic events such as a conference on civil society and the new media! Their web sites and therefore their commentaries are available within Cuba only with difficulty. But they have not been shut down as of mid-2010, though this could change.

An interesting development in 2010 has been the inclusion in a “letters to the editor” section in the main newspaper, Granma, of commentaries and suggestions relating to economic performance. This is a useful development which may mark a move towards greater use of open criticism as an economic corrective device. However, this development is under editorial control by Granma which is the “Official Organ of the Communist Party of Cuba”.

The near-absence of checks and balances on the policy-making machinery of the state also contributes to obscuring over-riding real priorities and to prolonging and amplifying error. The National Assembly is dominated by the Communist Party, meets for very short periods of time – four to six days a year – and has a large work load, so that it is unable to serve as a
mechanism for undertaking serious analysis and debate of economic or other matters. The cost for Cuba of this situation over the years has been enormous. It is unfortunate that Cuba lacks the concept and reality of a “Loyal Opposition” within the electoral system and in civil society. These are vital for economic efficiency, not to mention, of course, for authentic participatory democracy.

Furthermore, when major policy blunders occur, there are no consequences for the highest leadership. Lower level ministers and officials can be fired and demoted. However, even when catastrophic policy mistakes are made, there are no consequences and thence no meaningful accountability, for the ruling party and the highest officials. On the other hand, when Ministers have been fired as were Ministers Perez Roque, Jose Luis Rodriguez, and Carlos Lage in early 2009, no meaningful explanation was provided and the press did not probe.

The presentation of information on the economy has improved over the last 10 years. The web site of the Oficina Nacional de Estadisticas is now surprisingly good and the Anuario Estadistico Economico is quite comprehensive and appears in a timely way. However, the methodologies for the measurement of some fundamental economic data such as labor force, employment and unemployment, consumer price index, and national accounts are opaque and ambiguous so that the analyses based on them are not as strong as they could be. As well, certain areas of the economy appear to be off limits to careful analysis and scrutiny, notably the bio-technological industry and the conglomerate enterprises that straddle the peso and the convertible peso economies. Finally, the political decision-making process within the highest levels of the Government is a “black box,” the workings of which we can only speculate about.
In appraising the capacity for self-correction in the Cuban economy, I would make the following estimations:

| Independent press, publications systems and media: | Improving | “D” |
| Independence of universities and think-tanks: | Improving | “C-” |
| Concept and practice of a “Loyal Opposition:” | Absent | “F” |
| Overall: | | “D” |

III. Summary and Conclusion:

A summary of the evaluations of the various assessment areas yields an overall evaluation of “D +”. This is not a strong assessment of Cuban economic policies.

1. Monetary & Exchange Rate Policy | C- |
2. Micro-Enterprise Policy | F |
3. Policy towards Agriculture | C- |
4. Labor Policy | D+ |
5. Foreign Investment Policy | D+ |
6. Infrastructure Renewal | D |
7. Capacity for Self Correction | D |
| Overall Grade: | “D +” |

The result of such weak policies in these areas is weak economic performance. Badly conceived economic policies nullify the potential efforts of the Cuban citizenry. The major investments in human capital, while fine in their own right, are not yielding strong economic performance. Indeed, misguided policies are undermining, sabotaging and wasting the economic energies and initiatives of Cuba’s citizens.

Major policy reforms amounting to a strategic reorientation of Cuban economic management are likely necessary to achieve a sustained economic recovery and future economic trajectory. So far, writing in June 2010, the Government of Raul Castro has made some modest
moves, principally in agriculture, as mentioned earlier. Other policy areas such as those relating to micro-enterprise are reported to be under discussion at high levels in the government. On the other hand, the replacement of the reputed pragmatists Carlos Lage, (Secretary of the Council of Ministers) and Jose Luis Rodriguez, (Vice President of the Council of Ministers and Minister of Economy and Planning) and the replacement of Lage by Major General José Amado Ricardo Guerra of the Armed Forces seems to suggest that the Raul Castro Government may be moving towards a less reformist approach to economic management (Granma International, 2009.)

The types of policy reforms that would be necessary to strengthen the policy areas discussed above would include the following:

1. Monetary & Exchange Rate Policy: movement towards realistic and unified monetary and exchange rate systems;

2. Micro-Enterprise Policy: establishment of an enabling and supportive policy environment rather than a punitive policy of containment;

3. Policy towards Agriculture: further support for small-scale farmers plus a reinvigoration of the abandoned sugar fields with cane for ethanol, among other policies;

4. Labor Policy: implement the International Labour Organization approach to fundamental labor rights;

5. Foreign Investment Policy: establish a clearer and more unequivocal rules-based policy framework;

6. Infrastructure Renewal: strengthening resource flows towards maintenance, especially for housing, water, and sanitation, and facilitating self-managed and do-it-yourself maintenance on the housing stock by liberalizing the trades and making repair supplies available at reasonable cost;

7. Capacity for Self Correction: permit an authentic implementation of freedom of expression and freedom of association thereby permitting economic analysis and criticism through a free press and media and the formation of alternate "teams" of potential economic managers – some within political parties.
In sum, effective economic management requires new ideas, transparency and criticism, and, indeed, a major policy reform process in order to reverse the current wastage of human energies, talents and resources. Policy reorientations in the directions noted above are unlikely to be forthcoming from the Government of Raul Castro, which appears to be deeply conservative as well as “gerontocratic”. Cuba will likely have to wait for a “New Team” or more likely a “generational change” in its overall economic management before such major reforms can be implemented.

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