

Ny Tid

Rapport 14



Uwe Optenhögel & Florian Pronold

Cuba

– In Search of an »Orderly Transition«

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Publicerat i september 2012

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The article was originally published in German by the magazine 'Berliner Republik' in July 2012.

Bild: Madden/Wikimedia Commons

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Ny Tid är ett projekt inom tankesmedjan Arena Idé. Syftet är att befrämja en radikal och progressiv idéutveckling inom olika politikområden. Projektet kommer att söka inspiration från såväl andra länder som de senaste forskarrönen. Inom projektet kommer vi att publicera rapporter och uppsatser kring en rad frågor och med en bred ansats. Rapporterna kommer att presenteras och diskuteras på offentliga seminarier.

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Cuba – In Search of an »Orderly Transition«

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Introduction

For the first time since the demise of the Eastern Bloc Cuba's socialist rulers are undertaking serious reform. However, the leadership lacks courage and trust in the people.

In Cuba, some things work differently. The visit to the island by Pope Benedict XVI at the end of March 2012 brought this home once again. The Western media tried to engineer a meeting of Cuban dissidents with the Holy Father and to get the Pope to commit himself to hauling the Castro brothers over the coals for their human rights policy. The Pope did nothing of the sort, heeding the advice of his Cuban bishops who had preached cooperation. The Catholic Church also knows that the small group of regime opponents are not a force at the moment and thus cannot be a vehicle of change.

And change is happening in Cuba at all levels: economic, political and social. But it is coming primarily from the heart of society, fuelled by the ongoing economic misery and recently spurred on by speculation about the health of Venezuelan President Hugo Chávez. This is because Cuba's current economic model depends to a considerable extent on his subsidies. Cuban socialism is not a carbon copy of the East European version. Cuba is not half as Catholic as Poland. The Cuban trade unions remain the Party's »transmission belt« in workplaces, but there is no patriotic mass movement with ideas of its own, such as Solidarność in the 1980s. In Havana there is neither a charismatic workers' leader in the same mould as Lech Wałęsa, nor a civil rights advocate of the stature of Václav Havel.

The Pope limited himself to vague criticisms of Marxism and talked about human rights only in carefully weighed words about Christian charity. Instead, before the eyes of the world the Vatican criticised the 50-year US embargo as inhuman and gave his blessing to the new line of cooperation between the Catholic Church and the Cuban state in the transformation process. The basis of this alliance is the fact that the Church no longer questions the legitimacy of socialism in Cuba. As Cardinal of Havana, Jaime Ortega, has emphasised in numerous talks with Western politicians that the Catholic Church regards Cuban socialism as the result of a people's campaign for national independence and thus as identity-shaping, in

contrast to the situation in Central and Eastern Europe where in 1945 socialism rolled into most countries mounted on the tanks of the Red Army.

The myth is fading

However, Cuba's myth is fading. Social services, once the pride of the Revolution, are no longer affordable and are becoming markedly poorer. Nevertheless, the regime is holding on to the ambitious social policy of the Revolution: in recent years the share of education, health care and social security in GDP has increased. Given the poor economic performance, however, even these priorities are not enough to maintain standards.

The inefficient economy has alienated the people from the government. The generation who lived through the Revolution and benefited from it is slowly dying out. The unproductive planned economy offers the young generation the prospect neither of work nor consumption. The relatively homogenous and egalitarian society distinguished by the overcoming of social injustices and racial barriers is a thing of the past. Beneath the surface of power political stability Cuban society is diversifying. Fidel Castro elevated Marx's proposition »From each according to his abilities, to each according to his needs« into a maxim. This promise has lost credibility. In Cuba social exclusion can be seen once more. This development touches a nerve in the Cuban psyche. Anyone without access to the »peso convertible« linked to the dollar easily falls into poverty. Particularly affected are the growing number of old people living alone and Afro Cubans. At the same time, individual origin is once again becoming important for educational success.

Even the government of President Raúl Castro no longer closes its eyes to all this. For the first time since the end of the Eastern Bloc Cuba is seriously on the path of reform and trying to modernise the centrally run economy. At the beginning of the 1990s, the economic crisis caused by the demise of real socialism was still interpreted as externally induced. In contrast, the current crisis is seen as a consequence of Cuba's lack of its own economic model. No one has expressed this more emphatically than Raúl Castro himself, who said before the Cuban National Assembly in 2010: »Either we change or we go under«. Mistakes are admitted and the focus is on putting them right. The time is also over in which Cuban officials declare that every problem on the island is due to the US embargo. The embargo

has long performed a dual function for Cuba. It continues to do the country considerable economic damage, but at the same time it has a stabilising effect domestically: it makes it possible to cultivate the bogeyman of an overbearing imperialistic neighbour against whom one can only defend oneself with revolutionary discipline and unity.

Chávez keeps the ailing economy alive

The state of the economy as reform of the economic model gets under way is extremely poor. Half a century after the Revolution Cuba has not been able to get its planned economy off the ground. Within the framework of the division of labour of the Council for Mutual Economic Assistance (COMECON) the country was committed to deliver sugar or other foodstuffs and raw materials. When the Eastern European economic community and thus the Soviet subsidies ceased Cuba had to completely rebuild its economy. Fidel Castro passed this task on to his brother and then Defence Minister Raúl and his »Fuerzas Armadas Revolucionarias« (FAR). The successful completion of this mission marked the entry of the Cuban military into the economy, at least in its more modern sectors. Since then they have extended their influence and today are the pragmatic driving force behind the reforms. Although in this way collapse was avoided the economic sectors built up since then – tourism, nickel exporting and, to a certain extent, health services and biotechnology – have not developed enough to cover the country's need for foreign currency. For years Cuba has lived with a structural foreign trade deficit, with high foreign debts and, as a result, a shortage of liquidity. When Hugo Chávez came to power in Venezuela at the end of the 1990s Fidel Castro found a new source of subsidies. Although they kept alive the ailing planned economy, at the same time they stymied the promising reform efforts, a serious wrong decision that cost Cuba a lost decade with regard to economic policy.

Meanwhile, the island has an economic structure in which the »productive« sectors account for only around a quarter of value added, with the service sector accounting for the rest. Cuban economists talk of a »dysfunctional tertiarisation« that threatens the healthy development of the economy. Since the beginning of the 1990s the Cuban economy has not been in a position to ensure the necessary recapitalisation, the basis of its very existence. Gross fixed-asset investments fell by 47 per cent between 1989 and 2007. In 2006 they accounted for only 13.5 per cent of GDP and remain at this level today. This is half the level

of 1989 and around half of what is regarded as necessary for sustainable growth. Thus Cuba lies below the Latin American average of around 20 per cent. The country is de-industrialised and there are almost no intact value chains, to say nothing of the dilapidation of the infrastructure.

The dual currency that followed dollarisation at the start of the 1990s continues to have grave consequences for Cuba's wage earners. It became the main catalyst of social differentiation. Wages were paid in the Cuban peso, which has little purchasing power. Most basic necessities are traded in the convertible CUC, however. For this reason Cubans who have access to foreign currency are much better off than their fellow countrymen who do not. People acquire hard currency either through remittances from Cubans living abroad, through tourism or through foreign trade. Generally speaking, additional incomes from remittances and from the black market or private economic activities significantly exceed regular incomes. Thus paid work is becoming increasingly unimportant. This system creates entirely the wrong incentives. The fact that a waitress, a taxi driver or the cleaners at a tourist place earn four times as much as a doctor or a teacher is leading to the inversion of Cuba's social pyramid. Consequently, many young people are asking themselves whether it's worth getting a good education. And more and more highly qualified professionals are emigrating to places where they can earn good money even without qualifications.

The search for a new development model

Against this background the government has been introducing economic reforms since summer 2010 which became official policy with the adoption of the "Guidelines on Economic and Social Policy" at the Sixth Party Congress of the Communist Party in April 2011. The Guidelines represent a »roadmap« for seeking a new sustainable development model. A debate is going on concerning the future balance between the state, cooperative and private sectors. There is no doubt that the reforms are intended to rescue socialism and not to weaken or abolish it. The turnaround is supposed to be brought about by privatisations in crafts and small businesses, as well as private production and marketing of foodstuffs on land leased from the state on a long-term basis. Furthermore, the decentralisation of decision-making and budget components to provinces and municipalities as well as more autonomy for state enterprises is under discussion. The distribution of land

has already been going on for around two years. Besides this, Cuba is strengthening the cooperative sector and is cutting back the widespread social subsidies, for example, food ration cards and canteens in state-owned workplaces.

But the bulk of the economy will remain under central planning and the most important means of production will remain in state ownership. The guiding principle of the reforms is farewell to a paternalistic state. The goal of this agenda is to reduce wage costs by making people redundant in the state sector and to raise the extremely low labour productivity in state-owned companies. The private sector now being created and the cooperatives are supposed to absorb those made redundant and improve the availability of goods and services. The new self-employed are supposed to improve state finances through their taxes. In agriculture the measures are supposed to lead to a rapid increase in production in order to substitute imports of agricultural products (Cuba's food import rate is around 80 per cent) and to give the state some financial room to manoeuvre.

Where are job seekers supposed to find a job?

The labour market is characterised by massive underemployment and low productivity. Already by April 2011, 500,000 state employees were supposed to be laid off, rising to 1.3 million by 2015. Given a working population of 4.9 million this is a very ambitious goal. But this reform measure has barely taken off. Even Cuban experts were unclear as to where the army of job seekers were supposed to find jobs. The list of professions set free for self-employment seemed as though it was from the nineteenth century, not the twenty-first. It is now slowly being extended to include modern professions. However, labour market reform is proceeding, albeit more slowly than planned. According to the trade unions, in 2011 around 800,000 employees were affected by implementation or restructuring processes.

The expansion of crafts and small businesses has been more successful. According to official data the number of »cuenta propistas« – »employees on their own account« rose from around 145,000 in 2008 to around 360,000 at the end of 2011. In part, this is likely to be the result of the legalisation of what were previously black market businesses. Pensioners are also coming back into the labour market. By 2015 the sector is supposed to account for around 35 per cent of employees and a similar share of GDP.

The obstacles to the success of this reform measure are in the small print, in the realisation of accompanying or preparatory measures to enable the new micro and small businesses to operate in the first place. This includes the setting up of credit lines, regulations on tax and social security, import and export provisions, structural reform in the banking system and so on. This process has proceeded sluggishly so far. It remains to be seen whether the incentives made available so far are sufficient to persuade the population to use their scarce resources and the organisational and improvisational capacities honed on the black market within a legal framework. Bureaucratic irresponsibility and the primacy of political control could also stymie people's initiative and willingness to take risks.

But even if the reforms were a total success the effects would largely be limited to the domestic market and the labour market. For Cuba it would be a major step forward to improve the supply situation and give a permanent place to private initiative and responsibility. But the leading Cuban economists also know that this would be merely one step on the long way to a more sustainable economic model. The agenda of further structural reforms is long: a new policy is needed with regard to foreign direct investment, a company and macroeconomic innovation policy, a reorientation of foreign economic policy, establishing a functional tax system, integration of the two currencies and a growth strategy that finally gives the state a certain financial leeway.

Summarising how things stand at the moment one could say that although the modernisation process is moving slowly and is too tightly controlled, at least it is continuous. And it is rather a matter of trial and error than a master plan. In terms of overall economic growth the effect of the reforms was still negligible by 2011; in previous years growth was between 2.5 and 3 per cent. However, one thing is clear: if the roadmap is implemented it will change Cuban socialism fundamentally.

While economic reform is already under way, the transformation of the political system that many expect has been much slower. The government is well aware of the difficulties and the President never gives a speech without mentioning the necessary »change of mentality«, although with limited effect. Not least the numerous middle ranking cadres of the Party have a whole host of power and privileges to lose if there is more transparency, part privatisation

of economic sectors and decentralisation. Raúl Castro has repeatedly addressed the opponents of reform and has called on sceptics in the Party and in the political leadership to change their mentality or step down. There are many indications that Cuba is on the way to a two-speed state: economically the Party congress's reforms are being implemented, while politically some sections of the Party reject rejuvenation and adaptation of structures to the new realities.

Whether the Party bureaucracy will do itself a favour by maintaining a blockade is doubtful. This is because economic reforms are already taking on their own momentum. The economic changes are not only being steered by other groups in the leadership who are less ideologically entrenched, but in individual reform areas policy is being discussed with experts from outside the government, a novelty in Cuba that is making the political process somewhat more transparent to the public.

Should Europe go for change through rapprochement?

The EU and its member states are following the Cuban reform process with interest without being able to develop a sustainable stance. Instead, they are creating obstructions of their own. Official policy is continuing to follow the »Common Standpoint« inspired by the conservative Spanish government under José María Aznar in 1996. The point of this is to link an improvement in economic relations to progress with regard to human rights. This policy has not achieved its aims, however, and it has been clear for some time that it has failed. In the meantime many EU member states have concluded bilateral cooperation agreements with the island, thereby circumventing the policy.

To date, the human rights situation has been a sensitive issue in relations with the European Union. Amnesty International also continues to point out violations in its reports. However, there is reason for hope. In spring 2011 through the mediation of the Catholic Church not only were all political prisoners released who were sentenced after the conflict with the EU in 2003, but dozens of other cases were dealt with. »The European Union, which had made the arrest of 75 opponents of the regime a key issue in bilateral relations, must acknowledge their release if it doesn't want to lose credibility«, writes Bert Hoffmann of the GIGA Institute for Latin American Studies. Given the proven ineffectiveness of the »Common

Standpoint« the question arises for European policy of whether it should finally emancipate itself from backing the US embargo policy and rather fall back on a tried and tested European policy, »change through rapprochement«.

Going its own Way

The reform process that is now under way has taken on proportions comparable to the beginning of reform in China or Vietnam. Like the Asian reference model Cuba is setting out on this path under the leadership of the Party. However, to date the economy has not been opened up to anything like the same extent as happened in Asia in the mid-1980s. At the current stage of globalisation the classic path of catch-up industrialisation is probably blocked for Cuba. Opportunities could be opened up by establishing a cluster economy, developing niches on the world market, which appears to have been done successfully in biotechnology. The production factor needed for that is the only one that Cuba has in abundance, a well educated population.

Havana is banking on a »transición ordenada«, an orderly transition. Only in this way can the Revolution be saved, according to the »comandantes«. There should be no attempt to copy a model but rather to seek the country's own strategy to overcome the crisis. Whether the pragmatic path propagated by Raúl Castro is pursued consistently remains open. Even if the reform measures succeed further structural challenges remain. However, on the basis of the good educational level and with a combination of Cuban composure and improvisational skills acquired during hard times the reforms could provide a way out of the economic agony. To date, it sometimes looks as if the leadership lacks courage and trust in its own people to put forward bolder reforms. The key to success lies in Cuba alone. However, transformation without any risk whatsoever and entirely under control will scarcely be an option. And only the future will show whether it will be possible to continue the course taken »without haste but without pause« (Raúl Castro) in the face of Cubans' dissatisfaction with their economic situation.