

Raulonomics:

Tough Diagnosis and Partial Prescriptions in Raul Castro's Economic Policies



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By Philip Peters
Vice President, Lexington Institute

Summary

Cuban President Raul Castro has been at the head of Cuba's government for nearly three years, as acting President since July 2006 and as President since February 2008.

His time in office has been marked by stark assessments of Cuba's economic problems in official speeches and the state media. Among these are inefficiency; insufficient work incentives; low agricultural production; a dual-currency system that distorts prices and incomes and sharply limits many Cubans' purchasing power; high import bills; and a demographic crunch brought about by an aging population, an aging workforce, and low birthrates. External events, such as three hurricanes that battered nearly every province in 2008 and the global economic downturn, have recently added to Cuba's economic woes. The government's forecast for growth in 2009 was revised downward from 6 percent to 2.5 percent.

Raul Castro has stressed principles such as incentive pay to increase productivity and has raised expectations for economic policy change through his own words and by encouraging a nationwide debate. However, apart from a substantial agricultural reform now in progress, his policies to date seem decidedly inadequate to spur the across-the-board growth in employment, incomes, and output that is needed to solve the problems he has identified. The government has generally opted for policies that squeeze more production and efficiency out of current economic structures. Outside agriculture, options for liberating Cubans' productive energies by allowing greater private or market-based activity have generally not been pursued.

The result is that the distinguishing feature of Cuban economic policy today is the large gap between the government's own dire diagnosis and its relatively limited policy prescriptions.

A political priority

As Fidel Castro neared the end of his time in office, economic policy action seemed to be a high priority.

On November 17, 2005, Fidel Castro gave his [last major speech](#), a four-hour talk in the formal lecture hall of the University of Havana.

At the time, Cuba's economy seemed to be on an upturn. The term used to describe the economic crisis of the 1990's – the "special period in time of peace" – was falling into disuse. Tourism was reviving, nickel prices were up, an offshore oil discovery raised hopes of more oil to come, Venezuelan aid was flowing, and countries such as China were providing credits. Cuba seemed to be escaping a decade-long cash flow crisis, and international debt was being restructured to end a punishing dependence on short-term, high-interest credit.

But Castro was concerned about the future: "Can a revolutionary process be irreversible, or not? When those who were among the first, the veterans, are disappearing and making room for new generations of leaders, what is to be done and how should it be done?" Castro asserted that Cuba would not allow the United States to end its socialist revolution – the Cuban people, he said, "would never permit this country to become again a colony of theirs." Reflecting on the demise of the Soviet Union, Castro pointed to internal political dangers and said, "This revolution can destroy itself. We can destroy it, and the fault would be ours."

The dangers he cited mainly involved illegal behavior – the black-market activity to which large numbers of Cubans resort in order to survive. He decried inequality, focusing not on that created by his government's own policies such as the dual-currency system, but rather on the high incomes of illegal taxi drivers and those who pilfer goods from the state to sell on the black market. "How many kinds of theft are there in this country?," he asked.

Castro's speech did not conclude with a policy checklist, but he did signal an intention to end housing and transportation subsidies while maintaining free education and health services. In general, the stage seemed set for more centralized economic decisionmaking and major efforts to stamp out pilferage and the black market. His answer for those looking for an opening to market mechanisms: "There were those who believed that with capitalist methods they were going to construct socialism. It is one of the great historical errors."

One month later, then-foreign minister Felipe Perez Roque seemed to acknowledge that today's generation of young Cubans have higher expectations than earlier generations, and that the achievements claimed by the socialist government do not satisfy them. In

a [December 2005 speech](#) to the National Assembly, Perez Roque noted that, “we have a challenge, these youth have more information and more expectations than the young people who went out to teach literacy at the beginning of the Revolution.” Many Cubans, he said, respond to talk about achievements of earlier decades by saying, “Listen, don’t come here now with the same old talk about health and education.”

The following summer, Fidel Castro fell ill and left office, and his brother Raul assumed his duties.

Raul Castro’s [first major policy speech](#) in July 2007 centered on economic policy, but with a different twist.

A Cuban worker’s salary, he said, “is clearly insufficient to satisfy all necessities, and hence has practically stopped fulfilling the role of assuring the socialist principle of each working according to his capacity and receiving according to his work.” That failure brings “social indiscipline” – read petty theft and black market activity to make ends meet – that is “difficult to eradicate.” “We know the tension to which party cadres are subjected, especially at the base, where available resources are almost never enough to cover accumulated needs,” he added. Black market activity, in other words, is a direct response to the state’s inadequate pay. Where Fidel blamed greed or insufficient revolutionary qualities, Raul said people deserve a day’s pay for a day’s work.

The solution, he said, lies in higher productivity, revived industrial production, increased foreign investment, and even “structural changes and changes of concepts” in agriculture.

Raul Castro discussed agriculture at length, in both jocular and serious terms. He wryly noted the amount of idle land that could be put to productive use, and he ridiculed the bureaucracy of milk production and distribution. Rather than exalt in Cuba’s guarantee of milk to young children, he called it inadequate: “What must be done is to produce milk so that anyone who wants can drink a glass of milk.”

Strong diagnoses

The blunt assessments of Cuba’s economic problems have extended into the state media.

In October 2006, the newspaper *Juventud Rebelde* published “The Big Old Swindle,” a remarkable [series of articles](#) on Cuba’s state enterprises. Reporters looked at smaller, service-oriented businesses such as repair shops, cafeterias, and taxis, and found rampant irregularities and illegality. Workers cheated customers, for example by serving smaller portions of beer than they should, so they could accumulate surplus product,

sell it, and pocket the earnings. More interesting was the finding that in many businesses, there is no functioning supply system. Workers in barber shops, shoe repair shops, and other enterprises were found to be buying their own supplies, setting their own prices, and deciding how much revenue to keep and how much to put in the till for the government. In effect, the workers were running private businesses inside the structure of a state enterprise – and were they not to do so, the enterprises would come to a halt.

A [November 2007 article](#) in the same newspaper ([in English, here](#)) showed what a stroll through just about any Cuban neighborhood reveals: that many more youths are unemployed than official figures admit, or as the article put it, “the figures are never a reflection of reality.” It explained that in the province of Granma, social workers counted about 18 times more unemployed persons than official figures show.

An October 2007 article, also in *Juventud Rebelde*, documented [deficiencies in dental care](#) based on reporting from six provinces across the island. Problems included shortages of personnel, and the lack of equipment, materials, and even running water in clinics. The reporters also found patients who resorted to illegal “private clinics” where they paid for services.

Yet [another article](#) surveyed Cuban workers’ opinions on workplace issues in May 2008. In addition to positive opinions, it cited complaints about ineffectual labor union representation, bad food service, “excessive meetings,” and lack of equipment and supplies leading to low productivity. One worker called for a link “between the effort one makes and the money one receives.” Several commented that the dual-currency system distorts incentives and causes workers to abandon the field where they are best trained, and to take any job that brings hard-currency earnings.

Agriculture: priority sector, real change

Agriculture was the clear priority in Raul Castro’s July 2007 speech. It is the one area where his government has examined a sector as a whole and begun to implement changes that attack various facets of the sector’s problems, with approaches that promise results.

The motivation is clear. Cuba has the potential for high agricultural production, with a capable workforce and vast amounts of unused agricultural land, especially since it sharply downsized its sugar sector nearly a decade ago. Increased domestic farm production would allow Cuba to forego food imports and save scarce foreign exchange. Cuba’s trade deficit increased by 65 percent in 2008 to \$11 billion because of a 41 percent increase in imports, including a \$232 million increase in the cost of food imported from the United States alone.

The first move was to settle debts the state owed to farmers and cooperatives. In December 2006, Raul Castro said the revolution was “tired of excuses” for poor agricultural performance, and asked how farmers could be expected to produce if the state failed to pay them for the goods they deliver. Six months later, Cuba’s finance ministry announced that the government had paid 550 million pesos to settle debts with farmers, clearing all debts from the previous six months, and refinancing debts totaling another 863 million pesos.

The government has also increased prices that it pays to producers. In Cuban agriculture, all producers – individual private farmers, all kinds of cooperatives, and state farms – have contracts whereby they deliver a portion of their produce to the state, and sell their surplus on the open market. Interviews conducted with farmers and officials in December 2008 indicate that prices paid to producers for beef had gone up tenfold, milk and plantain prices tripled, and the prices for potatoes, sweet potatoes, and black beans had doubled. The increase in beef prices led the head of a cooperative in Havana province to speculate, “I’m convinced that we will see things like they were before, where you go to a butcher shop and get the meat you want.”

The government’s biggest bet in agriculture may be its effort to return idle lands to productive use by encouraging individuals and cooperatives to apply for land grants.

A July 2008 [decree](#) set the rules for the land grants: Individuals seeking their first plot of land can be granted up to 13.42 hectares – in Cuba, that’s called one *caballería* – and those seeking to add to their farmland can have their holdings increased until they are three *caballerías* in size. The grants are 10 years for private farmers, 25 years for cooperatives.

Those who apply face an evaluation process. According to a local official interviewed last December, applicants’ plans for the new land, their character, and work record are judged by the local office of the agriculture ministry, the small farmers union, the neighborhood “defense” committee, and the Communist Party. The official said that in the municipality of Artemisa, the first 33 of 241 applications were approved in about six weeks.

Cuban farmers complain that the processing of land grant applications has been slow, and the Cuban media has at times echoed their complaints. In June 2009, [Granma](#) reported that land distribution in Matanzas province was “not going well.” Nationwide, however, the process is moving ahead. The Cuban newspaper [Trabajadores](#) reported July 6 that since September 2008, 110,463 applications for land grants have been received. Of these, 78,113 have been approved, 55,995 of which are in production. As a result, 41 percent of Cuba’s 1.7 million hectares of idle land have been distributed. If this process continues, and if prices, incentives, and other conditions affecting

production are favorable, 2009 agricultural output will surely improve simply by virtue of more farmers working more land. Cuba's private farmers grow about 70 percent of the nation's produce on one third of the land.

Whether these new farmers will have the tools they need to work the land is another matter. The state has started to establish stores where farmers can buy implements in hard currency and under a new program, part of the compensation paid to dairy farmers comes in the form of credits redeemable at these stores. But in March 2009, [Juventud Rebelde](#) reporters found farmers working hard to clear their new land, but at times lacking fencing wire, fuel, or other materials. Some farmers cited in the article suggested that the state provide credits that would be paid back at harvest time.

Cuban officials have recognized that their own bureaucracy needs to be restructured, and efforts are under way to accomplish that. An office of the agriculture ministry is being set up in each of Cuba's municipalities to provide a single location where producers can go for all government decisions affecting their operations. If carried out according to plan, this step would decentralize decisionmaking from provincial and national offices to the local level.

In addition, an agriculture ministry official interviewed last December says that the ministry plans to reduce the number of its enterprises – responsible for supplies, transportation, warehousing, and the like – from 440 to 120 or fewer.

A downsizing of that scope would imply changes in the *acopio*, the system whereby the state collects produce from farmers, warehouses it, and distributes it at highly subsidized prices through the nationwide, household-based rationing system. “We are studying it, and we know it has to improve – a lot,” the official said. The goal, he said, is to move away from distribution through central hubs, and to distribute local production locally as much as possible. Due to efforts to date, he said that 80 of Cuba's 169 municipalities now are self-sufficient in milk. A longer-term goal, mentioned by both Fidel and Raul Castro, may be the end of the rationing book altogether, leaving a system where food subsidies only go to households in need.

This year's tomato harvest illustrates how the central bureaucracy can act as a bottleneck to farm production. An [article in Juventud Rebelde](#) reported in May 2009 that farmers had increased tomato production, but hundreds of tons rotted due to lack of transport by the state agency that is supposed to collect the crop and bring it to processing centers. One cooperative is suing that agency, seeking 146,343 pesos to compensate for 2,610 quintales of tomatoes (a quintal is a 100-pound unit of measure) that were not transported to market. On June 7, the [same newspaper reported](#) that on an experimental basis, the agriculture ministry will soon be out of this business in the city and province of Havana. The collection, transport, and sale of food will be handled instead by 23 financially independent state enterprises with the authority to enter into contracts with producers.

Ending “prohibitions”

The actions of Raul Castro’s government that have received the most news coverage have not involved major economic policies, but rather the removal of what he calls “excessive prohibitions” that affect Cubans’ daily lives.

These include allowing Cubans to:

- enter hotels previously reserved for tourists only, both for lodging and to pay to use pools and other facilities;
- have cellular phone contracts in their own names;
- buy computers, DVD players, microwaves, and other appliances;
- rent cars from agencies previously open only to tourists; and
- fill prescriptions at the pharmacy of their choice, rather than the neighborhood pharmacy to which they are assigned.

These actions all remove restrictions on consumer freedoms, but nearly all involve purchases of goods and services that most Cubans cannot afford.

In the case of cellular phones especially, the new policy has the effect of bringing black market activity into the legal sphere – thousands of Cubans already had cellular phone service, but their accounts were in the name of foreigners who assisted them by opening an account. The activation fee for new accounts has been cut in stages from 121 to 60 to 40 convertible pesos, and judging from lines of customers at phone company stores, the price cuts are having an impact. Cuban officials announced that 133,000 wireless lines were added in 2008, including 40,000 in December alone in response to a cut in activation fees.

To the extent that Cubans now rent cars, buy computers, stay in hotels, and get cellular phone service, the state enterprises in each of these areas stand to benefit. The government’s removal of such prohibitions also encourages relatives abroad to send money to make these purchases.

In December 2007, another action was taken with regard to a particular subset of the Cuban workforce: those who work for foreign companies. The action made it legal for the companies to pay Cuban workers hard-currency bonuses in addition to their salaries paid in Cuban pesos. This practice was illegal, but longstanding and widespread. Companies were told to keep records of such payments, and workers were to be required to pay income tax on them in 2008. These payments, typically ranging from

\$100 (U.S. dollars) per month for clerical employees to \$300 or more for professionals, are the main reason that Cubans strongly prefer work with foreign companies. (The rule does not apply to workers at joint ventures, where hard-currency payments are also made.) As a result, a worker who earns \$200 per month from a foreign company must now pay the same tax as a Cuban entrepreneur who earns the same amount as an artisan, taxi driver, or home-based bed-and-breakfast operator.

The unfinished agenda

In contrast to the agriculture sector, other economic policy areas of concern to the government have not been the focus of concerted action or reform.

Salary reform. In 2007 the government announced that a new policy would be implemented so that in every workplace, each worker's pay would be tied to productivity, and there would be no ceiling on workers' earnings. Systems to measure productivity were to be put in place, along with sliding pay scales to allow workers to see how their increased output could increase their pay. This policy is intended to increase both productivity and workers' purchasing power. However, it has been implemented very slowly and in May 2009 a series of articles in Bohemia magazine described the policy as still in its infancy, stifled by a bureaucracy that is, in varying degrees, unaware, incapable, or unwilling to carry it out.

Other new measures in this area have included allowing workers to hold more than one job, allowing students to work part-time, raising the retirement age, doubling the minimum salary in state employment, and raising salaries in the education sector.

Currency reform. Cuba's dual-currency system has a punishing impact on the purchasing power of those Cuban households – about one third, according to official data – who lack hard-currency income and whose earnings come solely in the form of the nonconvertible Cuban peso. For many years, Cuban officials have said that the creation of a single-currency system is under study, and Raul Castro has embraced this objective, but he has said that it “might be audacious” to think that this could be accomplished even within five years.

Foreign investment. Raul Castro called in 2007 for more foreign investment in Cuba, but results have been meager. The most promising development is the plan for a Spanish-led consortium to drill for offshore oil, on a date yet to be announced, in a zone where test wells showed promising results in 2004. In real estate and tourism development, port development, and other energy projects, the news has been more about plans and intentions than about commitment of funds and initiation of actual projects. Officials say that in addition to the recently completed rehabilitation of the oil refinery at Cienfuegos, there are plans to add other refineries with Venezuelan aid, raising Cuba's

refining capacity from 110,000 to 350,000 barrels per day. Talks with Brazil about ethanol development did not prosper, and while officials have said Cuba is open to foreign investment in agriculture, no major projects have been announced. The “fundamental effort” in agriculture, Cuba’s foreign investment minister stated in April 2008, is “with the country’s resources.” Cuba has not changed policies that would affect its relative attractiveness as a destination for private foreign direct investment.

Enterprise. Even after the Cuban media revealed deep problems in many small and medium-sized state enterprises, and after a nationwide debate where it was suggested that some of these enterprises could be converted into cooperatives following the same model used in the farm sector, no reforms have been made. Nor has the Raul Castro government taken significant action to allow Cuba’s licensed [entrepreneurial sector](#) to expand, even though that sector could generate additional employment and tax revenue. A significant exception involves private taxis, and is connected to the government’s broader efforts to improve public transportation. In January 2009, regulations were issued to facilitate the licensing of new private taxis, and on July 8 *Granma* reported that the number of licensed taxis increased from 3,486 to 6,334 nationwide, with 1,280 applications in process.

Conclusion

The strongest defining characteristic of Raul Castro’s economic policy has been the strong, often brutally honest diagnosis that his statements and reporting in the official media have made of Cuba’s economic troubles. In his discussion of numerous policy issues, he has stressed the principle of incentive pay to improve production, and he has shown no aversion to the likely consequence, which is that some Cubans may end up earning far more than others.

True to his word, Raul Castro focused first on the farm sector and has made his most significant and promising reforms there.

The slow movement in other policies, including those affecting salaries, purchasing power, and enterprises, indicates a policy process that may be dependent on the formation of a political consensus that does not yet exist. The government has not availed itself of many policy options, some using foreign capital or market mechanisms, that could improve economic performance without changing the essence of Cuba’s socialist model.

The increased economic difficulties faced by Cuba in 2009 have not caused the policy process to accelerate. These difficulties include a reported 25 percent decline in 2009 foreign exchange earnings, efforts to renegotiate foreign debt, the return of scheduled blackouts and other energy conservation measures, the closing and slowing down of

selected factories, reductions in public transportation services, and government budget cuts.

What is clear is that there is a large gap between the government's – not to mention the public's – aspirations for economic policy and performance, and the measures put in place to date to fulfill those aspirations. If the pace of policy change remains slow, and if the emphasis remains on state-centered decisions and planning, Cuba's stark inequality in workers' purchasing power and its inability to generate well-paying jobs for its youth are likely to persist for the foreseeable future.

Resources

The web version of this paper is available at

<http://www.lexingtoninstitute.org/raulonomics-tough-diagnosis-and-partial-prescriptions-in-raul-castros-economic-policies?a=1&c=1181>

In it, the following materials are cited in hyperlinks:

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1600 Wilson Boulevard, Suite 900
Arlington, Virginia 22209
703-522-5828 tel
703-522-5837 fax
www.lexingtoninstitute.org
mail@lexingtoninstitute.org