



## Where is the Cuban economy heading?

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### ► To cite this version:

| Rémy Herrera. Where is the Cuban economy heading?. 2006. halshs-00113546

**HAL Id: halshs-00113546**

**<https://shs.hal.science/halshs-00113546>**

Submitted on 13 Nov 2006

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**2006.32**



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Maison des Sciences Économiques, 106-112 boulevard de L'Hôpital, 75647 Paris Cedex 13  
<http://mse.univ-paris1.fr/Publicat.htm>

ISSN : 1624-0340

# WHERE IS THE CUBAN ECONOMY HEADING?

Rémy HERRERA (CNRS)\*

**Summary** This article is the introduction of an issue (to be published) of the U.S. review *International Journal of Political Economy* on the Cuban economy, and coordinated by Rémy Herrera. It deals with the progresses, but also with the deficiencies, of the Cuban revolution in the economic field, until the recent de-dollarization. It underlines its economic challenges at the beginning of the XXI<sup>st</sup> century, as well as its internal forces and its external opportunities facing these challenges.

## Key words

Development, socialism, revolution, growth, de-dollarization, social expenditure.

## *Où va l'économie cubaine*

**Résumé** Cet article est l'introduction d'un numéro à paraître de la revue états-unienne *International Journal of Political Economy* consacré à l'économie cubaine et coordonné par Rémy Herrera. Il dresse un bilan synthétique des avancées, mais aussi des insuffisances, de la révolution cubaine dans le domaine économique, jusqu'à la récente dé-dollarisation, en plaçant l'accent sur les défis économiques du pays au début du XXI<sup>e</sup> siècle, comme sur ses atouts internes et ses opportunités externes face à ces défis.

## Mots-clés

Développement, socialisme, révolution, croissance, dé-dollarisation, dépenses sociales.

## JEL Classification

J43, J71, N36, N40, O10, O13, O54, P16, P51.

## WHERE IS THE CUBAN ECONOMY HEADING?

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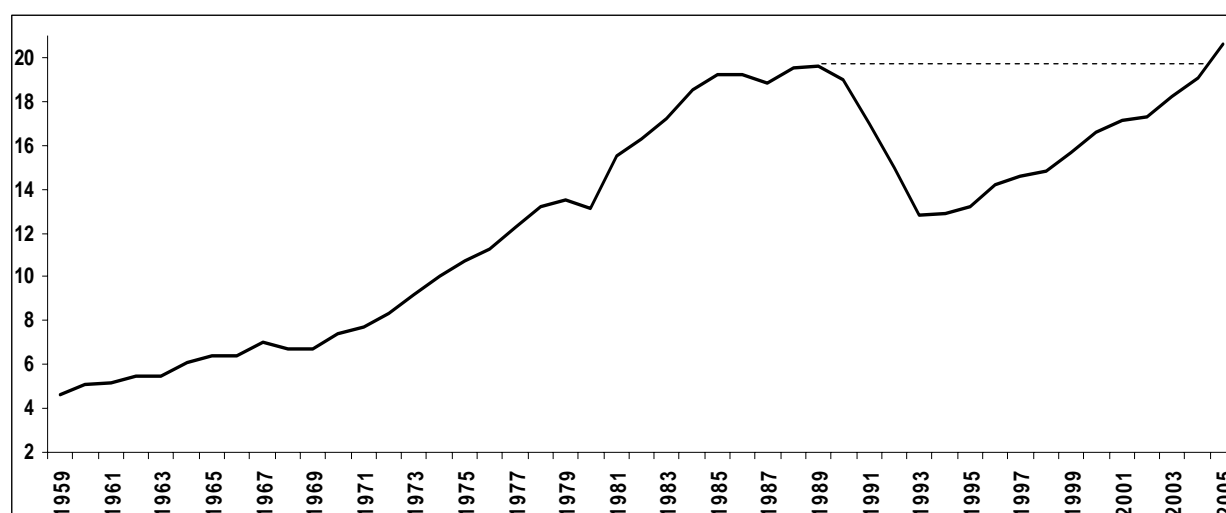
From a strictly economic point of view, Cuba's growth performance from 1959 to 1989, in relative terms, was far from bad—despite strong external pressure, especially from the U.S. embargo. Between 1959 and 1989, the Cuban economy recorded an average growth rates in its annual gross domestic product (GDP) of almost 5 percent (Figure 1, Table 1). Measured according to the final social product and to the global social product, the growth rates were, respectively, 4.8 percent and 4.4 percent. The average GDP per capita grew slightly more than 3 percent per annum. As a consequence, over the same period, Cuba bears comparison rather well with the other Latin American countries. Cuban GDP in 1989 was only slightly less than that of Brazil and was at almost the same level as that of Mexico. On the contrary, at that time, it remained higher than that achieved by Argentina, Chile, Peru, and (prerevolutionary) Venezuela. The results obtained by Cuba between 1959 and 1989, compared with the then socialist countries (USSR and in Eastern Europe) are clear: At the end of the period, Cuba ranked first.<sup>1</sup>

Entry into the Council for Mutual Economic Assistance (CMEA) provided the Cuban economy with strong motivation; but in 1989, its national income, expressed by per capita aggregate net value of material production, remained less than half that of the USSR. The major feature of the Cuban economy over these three decades remained its dependence on external markets, mainly due to the island's specialization in sugar. The influence of external factors has always been important, sometimes even decisive, in accelerating (CMEA) or decelerating (U.S. embargo) the strategies implemented by the revolution. In spite of strong constraints, and some insufficiencies, these strategies made it possible for the national economy to realize considerable advances in agriculture, industry, and infrastructure.

One of the brightest successes of the revolution is undoubtedly the creation of a high-quality pharmaceutical and biotechnological complex—with integration of science, production, and services. The third plan (1986–90) supported the production of a broad range of goods in the electronics sector, including semiconductors, components of personal computers, software, medical equipment, industrial automation, television sets, air conditioners, and refrigerators. However, even with this rather favourable assessment, we cannot overlook the insufficiencies and deficiencies that persisted in the Cuban economy at the end of the 1980s. To recognize these weaknesses is to make a historical observation, but to consider relations between Cuba and the USSR as the continuation of a neocolonial pact, under the cover of socialism, is to make an ideological judgment. The Soviet Union did not own any means of production or land. Even if Cuba never succeeded in being a self-reliant country, its socioeconomic development only started in 1959–60, with the implementation of the socialist project.

The collapse of the Soviet Union pushed the Cuban economy into an extremely serious crisis. In the 1990s, the government's response was to maximize the flow of foreign currencies in order to increase import capacities and to guarantee both the needs of the people and the conditions of the recovery.

Figure 1. **Evolution of Cuban GDP from 1959 to 2005**  
(billion dollars, at constant 1981 prices)



Sources: Calculations by the author, from Álvarez (1998) and Oficina Nacional de Estadísticas (various years).

Note: The calculation of GDP in 2005 was based on the first half of the year.

Table 1. **GDP Growth Rate in Cuba by Historical Periods: 1959–2005**  
(annual averages, expressed as a percentage)

1959-1960 :	+1,5
1961-1963 :	-0,4
1964-1966 :	+6,5
1967-1970 :	+2,0
1971-1975 :	+7,4
1976-1981 :	+5,5
1982-1985 :	+5,3
1986-1990 :	+0,1
1991-1994 :	-9,5
1995-2000 :	+4,5
2001-2002 :	+2,1
2003-2005 :	+5,9

Source: Calculations by the author.

The dismantling of CMEA, in which the foreign trade of Cuba was integrated and which protected it from the risks of the world markets, caused a brutal fall in exports (-79 percent) and imports (-73 percent) between 1990 and 1993. This followed sharp falls in investment and consumption, amplified by the hardening of the U.S. embargo and foreign indebtedness. Productivity fell, as did GDP (-35 percent in volume between 1989 and 1993). The crisis hardly affected sugar production (Table 3). The budget deficit grew because of public enterprises accounts and the political decisions to preserve, in spite of scarce resources, social cohesion by limiting the degradation of employment, wages, food distribution, education, and health care. It was quite different in the Russian "transition" to capitalism (Table 2).

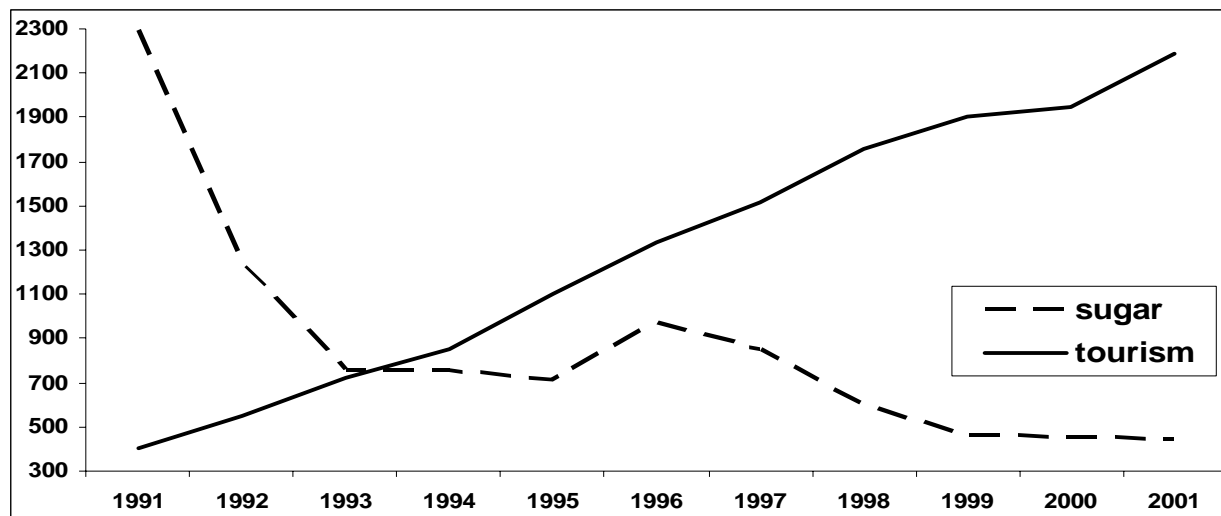
Table 2. Effects of the Adjustments to the Crises in the 1990s:  
Comparison with Russia and Cuba

	Russia	Cuba
<b>Life expectancy – men: 1990</b> (years)	63.8	72.9
<b>Life expectancy – men: 1994</b> (years)	57.3	73.6
<b>Life expectancy – women: 1990</b> (years)	74.3	76.5
<b>Life expectancy – women: 1994</b> (years)	71.1	76.9
<b>Infant mortality rate: 1990</b> (for 1,000 births)	17.4	11.1
<b>Infant mortality rate: 1993</b> (for 1,000 births)	19.9	9.4
<b>Crude birth rate: 1993</b> (for 1,000 inhabitants)	9.6	16.9
<b>Crude death rate: 1993</b> (for 1,000 inhabitants)	15.7	6.8
<b>Population growth rate: 1990-2000</b> (%)	-0.3	+0.6
<b>GDP growth rate: 1990-2000</b> (%)	-5.1	-1.9
<b>Population: 1990</b> (million inhabitants)	148.3	10.7
<b>Population: 2000</b> (million inhabitants)	145.5	11.3
<b>Number of inhabitants per physician: 1994</b>	224	202
<b>Nutrition: 1994</b> (calories per day)	2427 < x < 3386	2833
<b>Access to drinking water – urban zones: 1994</b> (%)	77	93
<b>Access to drinking water – rural zones: 1994</b> (%)	65	85
<b>Gini Coefficient of income inequalities: 1990</b>	0.256	0.25
<b>Gini Coefficient of income inequalities: 1994</b>	0.412	0.38
<b>Population below poverty line: 1990</b> (%)	10	6.3
<b>Population below poverty line: 1993-96</b> (%)	23 < x < 35	14.7

Sources: IMF (1995), World Bank (1996), OECD (1995), Oficina nacional de Estadísticas (various years), and Ferriol Muruaga (2004).

As Fidel Castro declared in October 1997, during the Fifth Congress of the Communist Party of Cuba: *"We did not like much tourism, everybody knows it; however, we developed tourism by preparing us to support its disadvantages. . . . We did not like foreign investments much either; but development required capital, one needed capital, therefore we needed to accept foreign investments. . . . We accepted the sending of currencies from abroad, whereas we had always refused to do it. . . . It was necessary to forge the conviction and to hold the promise to resist, to fight and to win, even if we would have been absolutely alone. . . . We could not give up, nor weaken, that would not have been worthy of the history of this country, nor of what our ancestors did. It is about a struggle, and in the struggle, the essential, it is the people, its conscience, its spirit of sacrifice, its sense of honor, its freedom, its independence. And the people is the people, which surprises everyone by its virtues, that never discourage the actions of those who tire, pass to the enemy or are deprived of the values that make a man deserves really to be called human being. . . . Our people decided to answer as it had to do it. . . . We examined all the experiences; we were opened to all the opportunities, except that to give up socialism, to give up the conquests of the revolution, people's unity, the power of the people, except those to give ourselves up and to accept that others are the masters of our destiny. . . . We had made our choice for a long time: socialism or death!"* (Castro Ruz 1998).

Figure 2. Cuban Income from Sugar Exports and from Tourism, 1991–2001  
(in million dollars)



Source: Calculations by the author, on the basis of Oficina Nacional de Estadísticas (various years).

It was in this extremely difficult context that the revolutionary government engaged in fundamental reforms of the 1990s. The "special period in time of peace" began. Specifically, the response to the crisis consisted, initially (1990–93), of resisting external shocks by distributing the cost of the adjustment and the supply restriction. In a second response period (1993–96), the government attempted to reactivate the productive forces related to the external sector in order to achieve a quick and favorable reintegration into

the world economy. In a third response period (1997–2000), the goal was to improve efficiency to reduce external pressure. The key measures in each period were geared toward equipping the economy with new growth engines to relieve the sugar sector and to generate cash receipts. The dollarized entries of capital associated with tourism, foreign direct investment, and the sending of currencies from abroad favored growth recovery. The Cuban choice to remain socialist bore its fruits: Growth *recuperación* and macroeconomic internal balances took place at the end of 1994. Tourism replaced sugar as a strategic priority and is one of the keys to Cuba's economic success (Figure 2 and Table 3).

Table 3. **Average Production of Sugar in Cuba by Historical Period, 1755–2005**  
(million tons)

<b>Colonial period (1755-1898) :</b>	0.2323
1755-1799 :	0.0139
1800-1849 :	0.0923
1850-1894 :	0.6025
1895-1898 :	0.2738
<b>Imperialist period (1899-1958) :</b>	3.3579
1899-1913 :	1.3981
1914-1918 :	3.2872
1919-1928 :	4.3980
1929-1940 :	2.7652
1941-1945 :	3.4280
1946-1958 :	5.3664
<b>Revolutionary period (1959-2005) :</b>	5.7482
1959-1971 :	5.6579
1972-1989 :	7.1516
1990-1993 :	6.7488
1994-2002 :	3.7988
2003-2005 :	2.2333

Source: Calculations by the author.

Consequently, one of the most important structural reforms was that of the sugar industry. Despite the extent of the reformation, the “end” of sugar specialization took place in a few months and involved a broad consultation of the workers. Accelerated in 2002, these reforms meant that 70 sugar refineries would be closed; production would be concentrated in the most efficient *centrales*; management would be trained to accommodate the modernization of equipment; more than one million hectares would be released for stock-farming or cultivation; and above all, more than 100,000 workers



would be retrained and employed in new areas. As for agriculture taken as a whole, where results recorded since the crisis are most disappointing, the dilemma is to solve the difficulties encountered without permitting land liberalization. Some authors advocate this option in order to motivate the peasants. Nevertheless, the history of prerevolutionary Cuba shows the disappearance of the Amerindian cultures and knowledge (sixteenth century), of huge cattle estates (seventeenth century), of sugarcane plantations worked by slaves (eighteenth to nineteenth centuries), and of *latifundios* and sugar refineries, where a wage-earning proletariat of cane cutters worked, and workers of *centrales* (1886–1958).

This is the history of small-scale farmers fought by the great landowners, rejected to the margins of *latifundios*, and forced to labor to ensure the sugar supply. In spite of the land reform and the maintenance of a private sector in agriculture, five decades of revolution were not sufficient to (re)build this peasantry. Land privatization would surely lead to the resurgence of the unequal, polarized land structure of the past.<sup>2</sup> We must be aware that the *latifundio* remains one of the worst enemies of the Latin American people. But this does not reduce the critical need to engage in drastic reforms in agriculture, such as making rational import substitutions in the agricultural consumption sector (for the domestic market as well as for tourism), making Cuba's exporting role more dynamic (including exporting new organic products, for example, fruit), and adapting institutions and management methods to the conditions of more intensive agriculture.

It is clear that the role of the state is absolutely crucial in the present restructuring of the Cuban economy, as well as in its future successes—and, especially, in socialist planning. The state effected this reorganization at a minimal socioeconomic cost and achieved its essential goal of preserving the social system, thanks to the centralization of a certain number of key decisions, the coordination between its micro and macro policies, and the affirmation of the primacy of social needs over any other interest. As a dollarized sector, tourism distorts access by Cubans to U.S. currency, but the state organizes transfers of the receipts generated to ensure the continuity of the social system. Foreign direct investment and joint ventures were encouraged, involving autonomous outflows of capital and sometimes destabilizing the working relationships. The state protected the laws of labor and the role of labor unions while limiting wage differentials. Even during the dollarization period, each foreign firm paid wages in foreign currency through a "bridge company," which paid, in a second step, the workers' wages in Cuban pesos—the difference financing public spending. Furthermore, the attention of the state had also to be redoubled in order to fight against corruption.

The sending of currencies from abroad increased the concern over inequalities, but the state has always firmly prevented all private accumulation of capital. Work for one's own account was authorized, allowing the rise of a lot of activities (in trade, in craft industries, in the provision of services, and so forth), without legalization by the state of the recruiting of employees, except by the family holding the licenses. Stores were also opened where the transactions were conducted in dollars (or in convertible pesos), as

well as agricultural markets (*agropecuarios*) in which private peasants, recent recipients of land distributions, cooperatives, and state farms can sell part of their production. Nevertheless, the majority of basic goods continues to be provided to the people, at very low prices, by the state food system (*libreta*), by the working canteens, and by the restoration of collectives in schools and hospitals (73 percent) or directly by home-grown produce (13 percent) — that is to say that only 14 percent of food consumed is bought on the so called free markets. Moreover, the army is frequently solicited to supply the official state markets with foodstuffs. The “free” sales made it possible for a number of peasants to grow rich, but these liquidities did not enhance capital dynamics or control any creation of value by the private use of wage-earning work. In brief, if the Cuban state had to admit, temporarily, the penetration of market mechanisms, it seems to have succeeded in submitting them to the benefits of the people. Thus, it is not possible to speak, until now, of a “transition” to capitalism in Cuba.

## Notes

(\*) Rémy Herrera (economist) is a full-time researcher at the CNRS (French National Centre for Scientific Research) and teaches at the University of Paris 1 Panthéon-Sorbonne.  
E-mail: [herrera1@univ-paris1.fr](mailto:herrera1@univ-paris1.fr).

1. For more details, see Herrera (2005).
2. For a historical perspective, see Herrera (2003).

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