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**WESTERN HEMISPHERE  
SECURITY ANALYSIS CENTER**

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**October 2010**

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*The views expressed in this research paper are those of the author and do not necessarily reflect the official policy or position of the US Government, Department of Defense, US Southern Command or Florida International University*



## EXECUTIVE SUMMARY

Four years after calling for structural and conceptual changes, Raúl Castro finally unveiled a roadmap of substantive economic reforms. Over the next 18 months, at least a million workers will be laid off from the bloated state sector. Alternative forms of earning a living —self-employment, cooperatives, leasing of land or physical space, among others— are being authorized as old constraints on these alternatives are rescinded. From the perspective of ordinary Cubans, these reforms —called an *actualización*, or an update of the economic model— were long overdue. Yet, in hindsight, the slow-paced process can be explained, not in terms of the need for time to "identify" Cuba's economic problems which have been known for decades, but by Raúl Castro's emphasis on *la institucionalidad*, the need to channel decision making through institutions. His brother left a chaotic state apparatus which first needed mending before an elite consensus on the reform package could be forged. Cuba is entering a situation without precedent: this package is likely to run its own course without the *Comandante* (Fidel Castro) stopping it. By 2015, Cuban society will probably look different than today, featuring unprecedented inequality and living standards that are on the rise.

## INTRODUCTION

On July 26, 2007, Raúl Castro first spoke of "introducing structural and conceptual changes."<sup>1</sup> A year prior, Fidel Castro's illness had temporarily put him at the helm. From the start, Raúl emphasized *la institucionalidad*, the notion that decision making flows through institutions. This was not an earth-shaking proposition, but one that sent a clear signal: the days of abrupt twists and turns were over. In February 2008, Raúl was formally inducted as the president of Cuba. Subsequently, his government took small steps toward a more sensible economic policy, such as paying off state debts to agricultural cooperatives, leasing state-owned land to peasants and cooperatives, allowing Cubans to purchase consumer items such as computers and cellular phones with convertible pesos (CUCs), permitting Cubans with CUCs to stay at hotels and shop in supermarkets previously reserved for foreigners, and raising wages and even lifting wage ceilings if warranted by the rise of productivity. More significant were the pilot programs launched in Havana in early 2010: many beauty and barber shops were turned into worker-run cooperatives that would be subject to monthly taxes, and some taxi drivers were authorized to use their vehicles for their own gain as long as taxes were paid and the cars properly maintained.<sup>2</sup> In early April, Raúl Castro told the delegates at the Communist Youth congress that the state sector employed an excess of more than a million workers, whom, he implied, would soon need to find employment elsewhere.<sup>3</sup>

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<sup>1</sup> Raúl Castro, "Trabajar con sentido crítico y creador, sin anquilosamiento ni esquematismos," *Granma*, July 27, 2007, <http://www.granma.cubaweb.cu>.

<sup>2</sup> Mauricio Vicent, "Cuba debe despedir a un millón de empleados estatales," *El País*, May 1, 2010, <http://www.elpais.com>.

<sup>3</sup> Raúl Castro, "Sin una economía sólida y dinámica, sin eliminar gastos superfluos y el derroche, no se podrá avanzar en la elevación del nivel de vida de la población," *Granma*, April 5, 2010.

## THE EMPHASIS ON INSTITUTIONALIZATION

Most of the initial reforms were of no consequence for the ailing Cuban economy. Incipient agricultural reforms —from paying off state debts, leasing idle lands, and opening stores that sell tools to peasants and cooperatives in CUCs, to empowering municipal offices of the Ministry of Agriculture to make decisions— did, however, suggest official intentions to address the economy's fundamental problems. Cuban agriculture had languished for decades, picking up somewhat during the brief liberalization of the early 1980s and then again in the mid-1990s. Afterwards overall reforms stagnated until the *Comandante* retrenched them in 2002-2003.

Between 2001 and 2008, Cuba imported about \$2.6 billion in food from the United States.<sup>4</sup> At the same time, up to fifty percent of the island's arable lands lay fallow. Since September 2008, the government has been leasing land to peasants and cooperatives in a process that has let slightly more than a million hectares; nonetheless, only 46 percent of it is under cultivation or in cattle farms.<sup>5</sup> While about 800,000 hectares still await the slow-moving leasing procedures, the lands will not yield higher output, nor will productivity increase, without peasants and cooperatives having regular access to credit and inputs such as tools and machinery, or without understanding the fiscal and social-security contributions that they will soon be expected to make. Cuba lacks the resources to continue importing food from the United States at the 2001-2008 pace. Yet, to spur domestic food production, the government must grapple with more than just leasing idle lands.

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<sup>4</sup> U.S.-Cuba Trade and Economic Council, "Economic Eye on Cuba," May 2009, <http://www.cubatrade.org/CubaExportStats.pdf>.

<sup>5</sup> Dora Pérez Sáez, "Mayoría de usufructuarios de tierras son jóvenes," *Juventud Rebelde*, August 19, 2010, <http://www.juventudrebelde.cu/cuba/2010-08-19/mayoria-de-usufructuarios-de-tierras-son-jovenes/>.

"We must forever banish the idea that Cuba be the only country in the world where people can live without working," Raúl Castro told the National Assembly of Popular Power on August 1, 2010.<sup>6</sup> No one who read that speech carefully could have been surprised at the statement issued by the Central Organization of Cuban Trade Unions (CTC), published on September 13, 2010 by all media outlets on the island.<sup>7</sup> Yet, there was a certain state of disbelief that reforms of substance —Havana prefers to call them an *actualización*, or an update, of the Cuban economic model— had finally seen the light of day. The CTC's *pronunciamiento*, or statement, outlined what lies in store for ordinary Cubans:

- By the end of March 2011, no less than 500,000 workers in the bloated state sector will be laid off. By the end of 2011, almost 400,000 citizens will be self-employed, meaning that 250,000 will join the under 150,000 who are already in the ranks.<sup>8</sup>
- Workers who are laid off will receive their salaries for up to a year. (This is a change from previous policy which allowed displaced workers to be paid their salaries without an end date or to study while receiving their wages.)
- Alternative sources of employment such as cooperatives and self-employment will absorb hundreds of thousands (in fact, more than a million when all excess workers are laid off). Almost all

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<sup>6</sup> Raúl Castro, "Hemos adoptado importantes decisiones que constituyen en sí mismas un cambio estructural y de concepto," *Granma*, August 2, 2010.

<sup>7</sup> Pronunciamiento de la Central de Trabajadores de Cuba, *Granma*, September 13, 2010.

<sup>8</sup> Información sobre el reordenamiento de la fuerza de trabajo, <http://www.penultimosdias.com/wp-content/uploads/2010/09/info-sobre-reordenamiento-de-la-fuerza-de-trabajo.pdf>. This document was obtained by a foreign correspondent from a Cuban official.

regulations that hindered self-employment are to be rescinded.

- The CTC echoed what Raúl Castro, the Economic and Planning Minister Marino Murillo, and others had been emphasizing: reduction of social expenditures and the elimination of free services (e.g., nursing homes for the elderly), excessive subsidies (e.g., cutting back items such as cigarettes and coffee from the ration book, *la libreta*), paying laid-off workers to study, and early retirement. Rising productivity, improving quality, and growing the economy are marked as the new charges to save Cuban socialism.
- In both factories and offices, the CTC and the Cuban Communist Party (PCC) must secure the sociopolitical consensus needed to attain a successful "updating" of the economic model.

By 2015, the economic model will be fully updated without having frayed the social safety net that the revolution established.

## DO THEY GET IT?

As with the agricultural reforms launched in 2008, the program outlined in the CTC statement depends on complex factors:<sup>9</sup>

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<sup>9</sup> For more details, see: Leticia Martínez Hernández, "Mucho más que una alternativa," *Granma*, September 24, 2010, which lists 178 activities now authorized for self-employment. Proceso de reducción de plantillas, Ciudad de La Habana, August 24, 2010 is a power point presentation obtained by the Associated Press which takes the reader through the various steps the City of Havana province will take to cut 134,248 jobs by the end of 2011. <http://www.penultimosdias.com/2010/09/14/la-reforma-que-viene/>.

- Can the Cuban state mount a mini-IRS to collect taxes, keep Cubans from underreporting, and establish a social-security fund? Do Raúl Castro and his cohorts understand that excessive taxes—which could add up to 60-70 percent of profits—will stymie the reforms?
- Can the Cuban banking system sooner rather than later provide the loans people will need for self-employment and cooperatives? Do Raúl Castro and his cohorts understand that taking out loans and paying them back with interest will take ordinary Cubans into unfamiliar territory?
- Should ordinary Cubans trust the recently announced "update" of the economic model? How long will citizens who have been earning their living in the black market wait until they come in from the cold, indeed, if they ever do? Do Raúl Castro and his cohorts understand that their credibility is badly mauled given how erratic economic policies have been over decades?
- How will those laid off deal with their unprecedented situation? Will most embrace entrepreneurship, pay their taxes, and abide by the law? Probably not. Many, perhaps a majority of those displaced, will be stunned, or are already frightened at the prospect.<sup>10</sup> Cubans are not used to paying taxes and breaking the law has been a daily necessity.
- Can the Cuban state respond to the announced measures with flexibility and finesse? Do Raúl Castro and his colleagues understand that their usual heavy-handedness will not only undermine the "update"

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<sup>10</sup> Mauricio Vicent, "Los cubanos temen el ajuste de Castro," *El País*, September 28, 2010.

plans but reinforce in ordinary Cubans their ingrained mistrust of government economic policies?

- While workers in France go on strike to protest pension reforms, and the police in Ecuador riot to defend their full benefits, there are no similar experiences in Cuba. Whatever workers are saying in the union meetings now being held, do Raúl Castro and his cohorts understand that ideological proclamations will not get them very far? In short, do Cuba's senior leaders understand that —no matter the rhetoric about social justice— they have opened the door to a new social contract? By 2015, a reformed economic model will have crafted a society marked by a degree of inequality unseen since the 1950s.

## AT A CROSSROAD?

In August 2009, Raúl Castro told the National Assembly that "identifying our principal problems will take us some more time" and, thus, the PCC Congress would be postponed.<sup>11</sup> Though Cuba's principal economic problems have been known for decades, the *Comandante* always derailed the efforts to address them. Not this time. Perhaps he delayed the process behind the scenes. But, the fact is that Raúl had his own reasons for slowing the pace: he is conservative. For example, rather than appointing a younger leader as his first vice president of the Council of State and the Council of Ministers in 2008, Raúl chose José Ramón Machado Ventura, his closest ally since the 1950s. Although Mikhail Gorbachev and Deng Xiaoping are often suggested as models to follow, Raúl's prototypes might be better found in an earlier Soviet pair. After Leonid Brezhnev's passing, two old men —first the more open-minded Yuri Andropov, then the mummified Konstantin Chernenko— ruled the Soviet

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<sup>11</sup> Raúl Castro, "Tiene que ser el pueblo, con su Partido a la vanguardia, el que decida," *Granma*, August 1, 2009.

Union. Not until 1985 did the youthful Gorbachev take the reins of the Kremlin. Is Raúl more akin to Andropov than to Chernenko? Had he lived, Andropov —Gorbachev's mentor— might have launched his own economic reforms, though probably not *glasnost*. By laying out the first trek of an economic roadmap (2010-2015) which the Cuban people and the rest of the world have now been informed of, Raúl is indeed more like Andropov. Perhaps the PCC will finally hold its congress at the end of 2011, fourteen years since the last one in 1997; a lapse that has likely irked Raúl, whose leadership depends on institutions. The slow pace of getting to the September CTC statement might also be understood in terms of the institutional chaos that the *Comandante* left behind. Raúl and his cohorts needed time to restore *la institucionalidad* that would help them forge a consensus on how to bolster the long failing economy. In retrospect, we might well see this moment as a crossroad: for the first time, the Cuban government laid out economic policies that played themselves out, without anyone cutting them short. Along the way, maybe Raúl Castro and the other senior leaders, though more likely the next generation, will see the wisdom of Deng Xiaoping's maxim: "It doesn't matter whether the cat is black or white, as long as it can catch mice." Cuba would still be a dictatorship, but one in which the leadership finally put the living standards of ordinary Cubans at the heart of their rule.



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Dr. Marifeli Pérez-Stable is a professor of sociology at FIU's Global and Sociocultural Department and a published scholar on Cuban affairs. Her research focuses on rethinking the Cuban experience. Dr. Pérez-Stable's most recent book, *The United States and Cuba: Intimate Enemies*, will be published soon by Routledge. She holds a PhD in Sociology from State University of New York, Stony Brook.

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