

6-11-2015

The True GDP and Foreign Debt of Cuba

Jorge Salazar-Carrillo

Department of Economics, Florida International University

Follow this and additional works at: https://digitalcommons.fiu.edu/economics_wps

Recommended Citation

Salazar-Carrillo, Jorge, "The True GDP and Foreign Debt of Cuba" (2015). *Economics Research Working Paper Series*. 94.
https://digitalcommons.fiu.edu/economics_wps/94

This work is brought to you for free and open access by the Department of Economics at FIU Digital Commons. It has been accepted for inclusion in Economics Research Working Paper Series by an authorized administrator of FIU Digital Commons. For more information, please contact dcc@fiu.edu.

The True GDP and Foreign Debt of Cuba
by
Jorge Salazar-Carrillo*

In the book about the economic history of Cuba that will come out under my co-authorship this coming June, the Cuban economy is examined in every possible way. Writing a Foreword for the book, Professor Alan Hesston, from the University of Pennsylvania, the remaining “guru” of the purchasing power parities international comparisons of gross domestic product (GDP), writes that Cuba has never been included because it does not follow the System of National Accounts approved by the United Nations and the World Bank.

About twenty years ago, I wrote in one of the seminal compendia that the late Irving Horowitz put out in Cuban Communism, that Cuba followed the Global Social Product (GSP) accounting system that the Soviets had devised, which double-counted certain economic activities. They continue to do so with a vengeance, because they announced close to ten years ago, that they were counting as products certain economic activities by the government that were already accounted for as consumption of the population. The Economic Commission for Latin America and the Caribbean has duly noted in its reports, that Cuban statistics are not comparable to those of the other countries they cover, because they are inflated.

How can we get out of this dilemma? In another article of mine for Cuban Communism it was established that since Cuba is an open economy, as its exports and imports represent a major portion of its production, they should be looked at to estimate its GDP. But, since the island follows the famous book How to Lie with Statistics, their numbers should not be trusted.

Fortunately, every export and import of Cuba, is an import or export of another country, so they

*Full Professor of Economics, Florida International University. This is part of the Introduction to a new book I am preparing on Cuba, titled [Social Justice and Development in Cuba](#).

can be estimated, with one exception: services. The latter are rather fuzzily reported in Cuban national statistics, but sparsely in internationally accepted ones.

Since most of Cuban reports about its economy are part of the communist distortion of news known as agitation and propaganda (agit-prop), we have to parse the statistics. The principal exports of Cuba, as I pointed black in the mid-1980s, are human beings. These go to developing economies, most notably Venezuela and Brazil. The former is a black box as well, but the latter is more transparent. The over \$10 billion in Cuban Convertible Pesos (CUCs) that Cuba reports as exports, would imply salaries of well over 100,000 CUCs per year for professional services. Even though most of these are medical, this is a gross exaggeration, given the information received from Brazil, that they are paid an average of less than \$40,000 yearly. From this, the personnel receives a living wage and can remit additional amounts to their families in Cuba, which the Cuban Government does not receive. At most, the reported \$10 billion would be equivalent to \$2 billion. (By the way, these services are part of the GDP of the receiving countries). The other exports are inflated as well, but not nearly as much, with nickel and chrome actually representing \$1 billion, tobacco \$400 million, sugar \$200 million, rum \$200 million and pharma \$200 million. Altogether exports of goods of \$4 billion. Plus, at most, \$1 billion net in tourism, given the higher import coefficient attached to these services.

An additional article of mine in Cuban Communism estimates the export multiplier of Cuba to be in the order of one third, which allows us to estimate its GDP at \$15 billion a year. This jibes pretty well with the average yearly earnings of Cuban workers in CUC equivalent dollars (\$20) multiplied by all the labor force, five million, and adding all the government goods and services provided freely, which represents consumption (C), plus the government sector (G) being the major portion, and a small investment portion (I), practically all of it taking care of amortization

and depreciation. And finally imports (M) minus exports (X), which through remittances and aid, allows Cuba to have a large balance of trade deficit, but subtracts from its GDP.

If GDP is divided by the population of about 11 million (and stagnant or declining) it renders a per capita of around \$1,360, among the low tier in the World. This agrees with the Cuban mean or average wages of \$20 a month, which are above the median wages. The latter divides the population into two equal portions, while the former is skewed by high government and some professional salaries. Even the average wages are only about half of the extreme poverty incomes calculated by the United Nations. As Heston writes, about the level of Bolivia or Haiti

How can the Cubans survive? Four factors in order of importance:

1. Remittances (frequently unrequited like love) by family and friends, in kind and monetary, which I now estimate to be \$5.5 billion yearly.
2. Aid and loans, mostly from Venezuela, but also from international bodies and other countries, estimated to be now about \$2 billion a year (because of the decline in oil prices).
3. Gifts and pilferage from tourists, as well as their purchase of services in the informal economy, estimated at \$1 billion yearly.
4. Stealing from the government, which are estimated to be \$0.5 billion, because it is mostly in Cuban pesos (CUP). Altogether \$9 billion which, if added to the \$15 billion, bring the Gross Domestic Income of Cuba to about \$24 billion yearly, and represents \$2,182 per person. This allows the Cuban population some respite, but does not save it from extreme poverty. With the additional caveat that the bulk of remittances does not go to the black and mulatto population (60%), making the income distribution in the island perhaps the worst in the world.

As Professor Robert Aliber, from the Booth School of Business of the University of Chicago wrote in the Preface to my book on the economic history of Cuba, “this is the cost of arrogance”.

He should know, as the author of the book Manias, Panics and Crashes, a best seller, and a Professor of International Economics and Finance. He saw the disaster first hand last year, leading a group of students from Dartmouth on an educational sojourn to Cuba.

Caveat emptor.

The foreign debt begins with the debt to American companies and individuals expropriated in 1959-1968, which now stands at \$8 billion (even though it has been growing at simple interest). These were made officially to the U.S. Foreign Claims Office.

Then you have the judgments against the Government of Cuba adjudicated by U.S. Courts, and which are outstanding, or in the process of being decided, with the jurisprudence indicative that they would be favorably considered. These add to about \$4 billion.

The debts to the Paris Club outside of Russia and the Soviet Union stand at about \$5.5 billion. This is long term, non-commercial debt. The debt to Russia of \$32 billion has been partially pardoned, though it will ultimately depends on the whims of the rulers at the time. As of this moment it has been slashed to \$3.2 billion.

Before Cuba defaulted in the late 1980s it already had a debt of \$8 billion which is still in the books of the Banco Nacional de Cuba, which was mothballed in 1997 as central bank of the country.

The foreign debt with China stands at around \$6 billion. The debt to Japan for commercial loans was reduced to \$280 million, and that to Mexico to \$146 million. A large debt which is cited but infrequently, is the \$11 billion owed to Argentina. As well as the loans by Venezuela for oil and other goods and services, held by the Banco Central de Venezuela, which have accumulated to about \$20 billion over more than ten years.

Finally you have the commercial, as different from the sovereign, debt with private banks and other finance institutions, which stand at about \$16 billion. Not to mention the very secret debt with foreign companies partners with the Cuban government, which have been forced frozen, disallowing profit remittances. As well as the debt to private foreign companies and banks, which have been frozen at the Banco Nacional de Cuba, or are still outstanding.

Altogether the foreign debt stands at about \$70 Billion.

Caveat emptor.