The Cuban Economy–Progress, Challenges and Opportunities

A new report from the Foreign Policy Program’s Latin America Initiative, *Cuba’s Economic Change in Comparative Perspective*, underscores a clear lesson from the Cuban experience: without economic growth, social gains cannot be maintained. To be sustainable, progressive politics require economic prosperity.

Since Raúl Castro assumed the presidency in 2008, Cuba has been engaged in a process of updating its economic model aimed at modernizing state-owned enterprises and institutions and opening up more space for the development of the non-state sector. Progress has been made, but many challenges remain.

Inspired by the question of how to shape an economic policy that encourages sustainable growth in Cuba, Brookings scholars and economists at the University of Havana’s Center for the Study of the Cuban Economy (CEEC) and Center for Research on the International Economy (CIEI) gathered an experts working group to examine Cuba’s economic reforms from a comparative perspective. The findings they debated over the course of a year are collected in *Cuba’s Economic Change in Comparative Perspective*.

The good news is that the reform guidelines (*Lineamientos*) adopted by the Cuban government and Communist Party in 2011, confirm these lessons and set forth steps to elevate Cuba onto a new growth path. While they accept the importance of market-oriented reforms, however, the guidelines reaffirm socialist planning and state-owned enterprises and do not clearly outline Cuba’s future development model.
Progress to date

Since the Lineamientos were adopted, progress has been evident on many fronts:

- Small-scale business has emerged throughout the island;
- Non-state cooperatives outside the agricultural sector have been authorized;
- Unsustainable social subsidies are being cut and the educational and health care systems are being rationalized;
- Most Cubans can now travel abroad freely and return without penalty;
- Mobile telephones and internet are becoming more widespread (though slowly by international standards); and
- Moreover, during the last two years, the Cuban government has announced a series of structural reforms, which, if implemented, could be major steps forward to assuring more autonomy for firms to retain earnings and make their own decisions regarding investments, employment and prices.

But despite how far the economy has come, it still has a very long way to go. The papers in this volume analyze three key areas of reforms needed going forward: economic growth with equity, monetary policy reform and exchange rates, and institutional change.

Economic Growth with Equity

Juan Triana and Ricardo Torres propose a future development model that prioritizes growth and stresses market signals. They would progressively reduce the state administrative apparatus in favor of indirect regulation with clear rules and incentives. But a smart state, in the Triana-Torres model, would still perform a great many strategic functions in the economy while more effectively tending to the Cuban consumer.

The paper by prominent Costa Rican economist Alberto Trejos explains the dramatically successful restructuring of his nation’s formerly rather closed and protected economy. Costa Rica opted for an unambiguous openness to international trade and active promotion of foreign investment, but the state remains a strong player through state-owned enterprises in various sectors. In Costa Rica, foreign investment has diversified in dynamic clusters in electronics, medical equipment, life sciences and business process outsourcing –sectors where Cuba might also hope to be competitive.

Monetary Reform and Exchange Rates
Writing in their own capacities, World Bank economists Augusto de la Torre and Alain Ize argue for a “big bang,” a quick unification of the two currencies and two exchange rates. However, they also accept a more gradual transition toward adjustment of the exchange rate regime, allowing initially for a fixed exchange rate, followed later by a more flexible but still managed exchange rate regime with inflation targeting – a common approach in Latin America today.

Cuban economists Pavel Vidal and Omar Everleny propose a somewhat more gradual adjustment path, accepting multiple exchange rates as an interim measure – the approach the Cuban government appears to be following at present. However, they also urge the government to be more transparent in defining its monetary policy strategies and more effectively communicate them to the Cuban public.

All four authors offer a critical warning: these tasks are extremely complex and entail significant risks. A botched monetary reform could catalyze a dangerous inflationary spiral.

Institutions

Author Carmelo Mesa-Lago provides a somewhat more impatient assessment of progress to date than other authors in this volume. While applauding the general thrust of reforms, he nevertheless bemoans the slow progress and suggests the old socialist planning model may be the crux of the problem. He also locates stubborn opposition within the government whose orthodoxy and fear of delegation account for the frustrating delays and contradictory steps that have marked the Cuban reform process to date. Mesa-Lago points to the lessons learned from previous reform efforts in China and Vietnam, where too slow and partial change failed to generate dynamic growth and improvements in living standards – lessons Cuba’s government seems to be disregarding.

Meanwhile, Cuban economist Antonio Romero addresses sequencing, warning that various sectors must be transformed simultaneously for reforms to be effective. He adds that government entities must be better coordinated, and that excessive gradualism can actually complicate matters. Finally, he flags the need for a legal system that provides guarantees to all economic agents, and policies that actively protect natural resources and cultural patrimony, a theme touched on by many other authors in this volume.

Next Steps

Looking ahead, now is the time for the Cuban government to accelerate reforms. Among possible short- and long-term policy priorities, the authors point to the following:

- More aggressively reform domestic price mechanisms to increase agricultural production and alleviate some pressures on the balance of payments;
- Further expand the domestic private sector, especially regarding professional services, to allow middle class Cubans to work for themselves as architects, lawyers and private consultants and open space for more creative innovation and youthful employment;

- Offer a more welcoming hand to foreign investment which will open access to new technologies and markets; and

- Gradually engage with the international financial institutions.

Overall, the papers in *Cuba’s Economic Change in Comparative Perspective* urge more clarity regarding Cuba’s ultimate development model, a consistent, comprehensive reform strategy, and greater transparency to facilitate scholarly analysis and mid-course corrections.

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