

# C E P A L

R E V I E W

NUMBER 66  
DECEMBER 1998  
SANTIAGO, CHILE

OSCAR ALTIMIR  
*Director of the Review*

EUGENIO LAHERA  
*Technical Secretary*



UNITED NATIONS

## CONTENTS

<b>Beyond the Washington Consensus: an ECLAC perspective</b>	<b>7</b>
<i>José Antonio Ocampo</i>	
<b>The Cuban economy</b>	<b>29</b>
<i>David Ibarra and Jorge Måttar</i>	
<b>Education in Latin America: demand and distribution are factors that matter</b>	<b>39</b>
<i>Nancy Birdsall, Juan Luis Londoño and Lesley O'Connell</i>	
<b>Determinants of inequality among urban households</b>	<b>53</b>
<i>Luis Felipe Jiménez L. and Nora Ruedi A.</i>	
<b>Health management contracts in Costa Rica from a comparative perspective</b>	<b>73</b>
<i>Ana Sojo</i>	
<b>A development strategy founded on natural resource-based production clusters</b>	<b>105</b>
<i>Joseph Ramos</i>	
<b>Big Latin American industrial companies and groups</b>	<b>129</b>
<i>Celso Garrido and Wilson Peres</i>	
<b>Between political control and efficiency gains: the evolution of agrarian property rights in Mexico</b>	<b>151</b>
<i>Gustavo Gordillo, Alain de Janvry and Elizabeth Sadoulet</i>	
<b>Tariffs and the <i>Plano Real</i> in Brazil</b>	<b>171</b>
<i>Renato Baumann, Josefina Rivero and Yohana Zavattiero</i>	
<b>Recent ECLAC publications</b>	<b>189</b>

# The Cuban *economy*

---

**David Ibarra**

*Macroeconomic Policy*

*Adviser to the Director,  
ECLAC Subregional  
Headquarters in Mexico.*

**Jorge Máttar**

*Regional Adviser on  
Economic Development,  
ECLAC Subregional  
Headquarters in Mexico.*

At the end of the 1950s, Cuba's economic structure was marked by serious technological lags and insufficient industrial development. The growth rates of production and investment were low, while income distribution displayed a notable bias towards concentration. Over the period from 1959 to 1989, the product grew at an average rate of around 4% per year and economic policy gave the State a leading role in the production of goods and services, with a marked predominance of planning over the market mechanisms in the regulation of economic activity. In this stage, the economy underwent far-reaching changes in its production bases, although many of the typical shortcomings of the Socialist countries were repeated: over-dimensioned projects, incorporation of obsolete or obsolescent technologies, and neglect of competitiveness. Thus, for three decades Cuba was on the sidelines of the enormous changes which were taking place in Western markets. Under its arrangements with the Socialist countries, the country enjoyed guaranteed markets for its exports, favourable terms of trade (although rather less so in the 1980s) and generous financing for its balance of payments. Albeit with flagrant cases of inefficiency, Cuba increased its stock of capital goods and expanded its physical infrastructure; increased the capacity of its dams; modernized its railway system, and built expressways, highways and rural roads. Progress was made in the electrification of the country, and heavy investments were made in the development of human resources, especially in the areas of health, education, culture and sport. The high social content of the economic policy made possible substantial advances in the provision of basic services for the population and the training of an increasingly skilled labour force.

## I

## Recent economic evolution

The entry of the Cuban economy into the Council of Mutual Economic Assistance (CMEA) at the beginning of the 1970s gave rise to a period of faster economic growth than in previous periods, largely furthered by heavy net transfers of external resources.<sup>1</sup>

After the disappearance of the CMEA, Cuba began the 1990s with structural restrictions on its incorporation into Western trade. The State still controls much of economic activity, on both the supply and the demand side, the currency is not convertible, and the external linkages with the former CMEA countries have still not been completely broken. All this explains the special features of the production structure and distortions in relative prices compared with those prevailing in the market economies. Moreover, in the new circumstances efforts to achieve distributive objectives and make progress in the social field give rise to heavy burdens which are beginning to exceed the capacity of the national economy.

Cuba's need to adjust its economy to the new external circumstances is similar to the situation faced by other Latin American economies in the 1980s, with the difference that in the Cuban case the period of adjustment is shorter and the constraints are greater. Thus, in 1993 the country embarked on an adjustment programme centered, as is usual, on two main elements: a macroeconomic stabilization effort and liberalization in the areas of production, finance and trade. Unlike what happened in the rest of Latin America and in the European economies, however, the reform process did not include a significant privatization component and incorporated deliberate deci-

sions to pursue equity in sharing out the burden of the change of strategy.

An idea of the magnitude of the recessionary adjustments made may be gained from the fact that the product fell by 35% in real terms between 1989 and 1993, which was the year when the crisis reached its height. In this period, total consumption contracted by 13%, with family consumption going down by a similar proportion. Capital formation slumped from 24% to less than 6% of the product, while the fiscal deficit rose from 6.7% to 30.4% of GDP. Balance of payments capital account income went down to less than one-tenth (from US\$ 4122 million to US\$ 404 million), forcing an adjustment in the trade and payments balances. Finally, real wages went down by around 18%.

From 1993 onwards, the combination of significant stabilization efforts and the rearrangement of some structural changes has begun to put the economy on a sounder basis and bring about changes in its traditional forms of operation. Short-term strategic planning has undoubtedly made substantial progress, although the country is still far from completing more far-reaching changes. More specifically, the economy has begun –albeit with some fits and starts– a recovery phase in which annual growth rates averaged 3.4% between 1993 and 1997. Over the same four years, the imbalance in the public accounts went down to only 2% of GDP; monetary liquidity went down from 67% to around 40% of the product; exports and imports doubled, and the situation with regard to the parallel exchange rate improved, with the rate going down from an average of 78 pesos per dollar in 1993 to 19 pesos in 1996, a little over 20 in 1997, and 19 in March 1998.

Despite this progress, the full recovery of the Cuban economy requires the reactivation and greater competitiveness of the sugar industry, which is currently in a very unfavourable situation and has adverse effects on both the external and fiscal accounts, since the latter are affected by the subsidies that the industry absorbs. Sugar production also serves as a guarantee for obtaining foreign credits, which are of decisive importance for dealing with the shortage of

<sup>1</sup> This article is based on *La economía cubana: reformas estructurales y desempeño en los noventa* (The Cuban economy: structural reforms and performance in the 1990s) (ECLAC, 1997), and on the presentation of that study made by David Ibarra at the Fondo de Cultura Económica in March 1998.

<sup>1</sup> Many of the economic statistics for Cuba are open to question because until very recently they used methods of calculation different from those recommended by the United Nations. Furthermore, there are shortcomings due to the intrinsic lack of information (on prices, for example), the change in the system of national accounts (from the system of material product accounting to the standard United Nations system) and limitations of access in sensitive areas for reasons of national security (in the case of foreign investment and the external debt, for example).

foreign exchange suffered by the country. In the present economic situation, it might be thought that the slump in oil prices might reverse the unfavourable

trends in the terms of trade, but the decline in the international prices of sugar and nickel tends to wipe out this effect.

## II

### Economic reforms and changes in institutions

In 1989, the sudden dissolution of its very special linkages with the Socialist countries forced Cuba to make profound reforms in its economy and to change the rules previously governing its social life. Unlike what happened in a number of Eastern European countries, the decisive pressures for change were probably not associated with ideologies or paradigms, embraced by the bulk of the population, which were in opposition to the official line.

Right from the start of the crisis, it was decided to spread its burden evenly, and a complex system of measures was adopted to facilitate the readaptation of production and recover the basic macroeconomic balances. The economic policy responses to the new situation began to be applied in 1993 with the implementation of a broad programme of adjustment and structural change. Subsidies to enterprises were slashed; capital expenditure was kept at very low levels; special taxes were approved, and rationing of imports and a partial freeze on prices and wages were applied in a sort of incomes policy. Although monetary policy continued to be of a passive nature, the government legalized the parallel market and the possession of foreign currency and set up a network of shops to recover foreign exchange, thus encouraging an increase in remittances from abroad, which helped to relieve supply shortages.

The State continues to play an important role in production and resource allocation, with strict regulations on investments and the management of scarce foreign currency and inputs. Central planning has gradually given way to more indirect controls, however, especially at the macroeconomic level. The reform process has advanced on various fronts and must continue to do so if it is desired to consolidate the changes designed to adapt the economy and society to an external environment which has undergone considerable changes. In this respect, it must be ac-

knowledged that the adaptations have mainly been of a domestic nature, but the speed and even the direction of some changes are related with the possibility of easing the external conditions which keep the country on the sidelines of financial markets and many trade flows.

A "second economy" has arisen and gradually become more consolidated with the formation of mixed-capital enterprises, the granting of management autonomy to export enterprises, and the increase in the number of actors in the liberalized markets. These departures from the system of centralized planning have given rise to a new wave of reforms which have altered the fiscal and financial structures and have led to the establishment of indirect State controls of a macroeconomic and micro-economic nature.

#### 1. The external sector

The backbone of the structural reform process is the effort to rebuild external economic relations in order to overcome the external bottleneck and the very severe contraction of the economy. It should be noted here that the dramatic turnaround in foreign trade seriously affected the very heart of the Cuban economy. In 1997, exports and imports were still below their 1989 levels, and the recovery of the terms of trade still seems far off.

In order to combat these tendencies, the government has eased many of the previous regulations; in particular, it has broken the State monopoly on external trade by giving management autonomy to the public enterprises and allowing them to operate side-by-side with private establishments. Export firms are now permitted to acquire inputs directly abroad and to finance Cuban producers who compete with external suppliers. In addition, the encouragement of the

inflow of foreign capital and know-how has led to substantial changes in the rules on foreign investment and ownership, as well as the establishment of favourable fiscal and customs treatment.

Promotion of exports and deliberate reduction of external purchases have been the main elements in the balance of payments adjustment. The current account deficit was reduced from US\$ 3 billion to US\$ 428 million between 1989 and 1997. This is a fragile and incomplete adaptation process, however, as is shown by the acute dependence with regard to the supply of capital goods, energy products and other strategic inputs, as well as basic consumer goods. Nevertheless, there are achievements to show: as well as doubling exports between 1993 and 1997, transactions with the West have grown from less than 20% to around two-thirds of foreign trade.

#### a) *Foreign investment*

In 1988 it was agreed to establish the first mixed enterprise in the island, to build and operate the "Sol Palmeras" hotel at Varadero. The organization of commercial associations with foreign capital speeded up as from 1992, and at the beginning of 1998 there were 317 such associations. The capital came from over 50 countries, with Spain, Canada, Italy, Mexico and France accounting for particularly large shares. The sectors most favoured with such investment are tourism, mining and the oil industry.

In 1995 a new law was adopted to attract foreign investment and technology, and agreements have been signed with the governments of various countries for mutual protection of investments. The main features of this law represent a considerably more flexible approach compared with the previous system, but restrictive practices or controls still exist, especially the case-by-case approval of projects with foreign participation and the hiring of Cuban personnel through public bodies. The recent foreign investments have helped to create some 60,000 jobs in various activities and over 600 foreign companies and commercial firms have installed offices to represent them in the country.

#### b) *Tourism*

In 1994, the reorganization of tourism activities was initiated. The previous excessive concentration of decisions has been reversed, and economic and financial autonomy has been granted to the enterprises set up, in order to improve their competitive-

ness. Hotel chains are free to acquire their inputs on either the local or the external market and they are participating –through financing and technical assistance– in the development of a network of national suppliers.

The Ministry of Tourism undertakes institutional promotion programmes and defines investment policy, but the hotel chains negotiate directly with foreign investors, who come mainly from Argentina, Brazil, Canada, Italy, Mexico, Spain and the United Kingdom. It is estimated that tourism services provide direct employment for 65,000 people. In 1998, the installed capacity for international tourism came to almost 390,000 rooms. There is a programme for building 27,000 more rooms per year up to the year 2000, with the aid of foreign investment, which will make it possible to receive nearly two million more visitors.

## 2. Reform and modernization of the State

#### a) *Redimensioning the State apparatus*

Up to 1989, the size and functions of the public sector were closely linked with the State's participation in planning the national economy and running State enterprises. Likewise, the structure of the central government was functional to the needs of economic integration with the members of the former CMEA.

As from the 1990s, a new style of organization of the State began to take shape. In 1994, the number of ministries and central-level institutions was reduced from 50 to 32. The central government was made more compact, the new institutions were assigned functions in accordance with the economic reform process, and there was a considerable reduction in the central government payroll. In line with these new approaches, the State now plays less of a leading role in the economy, in accordance with the reforms and new objectives.

Gradual restructuring and redimensioning of the production sectors to adapt enterprises to the size of the market, the availability of inputs, and the use of technologies that allow them to be competitive has been undertaken, involving both the reconversion of production activities and the closure of non-viable enterprises and the modernization of activities and better use of the available resources. The government now tends to form small but more efficient central management bodies and to delegate or decentralize

functions and responsibilities to the provinces and municipalities, as well as giving increasing management autonomy to public enterprises. Without prejudice to the foregoing, an effort is also being made to share out the burdens of the crisis and maintain the social safety nets. However, the external bottleneck has caused the authorities to establish strict direct controls on the allocation of foreign exchange and strategic inputs.

At the same time, with the dual purpose of speeding up structural change and equitably sharing the benefits and costs of the adjustment, special incentive arrangements have been set up for over 1.4 million workers (as at the beginning of 1998), especially in export activities and those efficiently replacing exports.

#### b) *Financial reform*

The financial reform process is only just beginning to adapt this sector to the changes in the real sector of the economy, in economic relations with the exterior, and in individual and collective property rights. Institutional reforms are being made which are designed to create and strengthen financial markets and institutions in order to improve the mobilization of savings and channel them to investment and the recovery of production. Measures are thus being taken to create a financial system made up of banks, non-bank intermediaries and capital markets.

In 1993, as the first step in the reform of the financial system, it was made legal to possess foreign exchange and, subsequently, to open bank savings accounts in convertible currencies. Next, money changing offices and other financial intermediaries were set up. Among the latter, special mention may be made of the formation of banks or financial institutions specializing in serving and integrating the production circuits connected with the reconstruction of foreign trade and the development of instruments to provide support for trade with the West. Finally, foreign banks have been given the possibility of participating in the economy and already have a dozen offices representing them. The same has occurred in the case of other financial services, such as insurance.

The above-mentioned changes mark the beginning of more profound changes in financial institutions in order to adapt them to the results of the economic shifts taking shape in Cuba. Mention may be made, in this respect, of the publication in 1997 of

decrees setting up the Central Bank of Cuba and the commercial banking system and regulating the establishment and functioning of banks and non-bank financial institutions. Cuba has thus broken with the system of having only a single banking entity and has opened up the way for the tripartite system which prevails in the market economies: a Central Bank, a commercial banking system, and an investment banking system.

### 3. The labour market

In 1989 the employment situation was favourable, although the jobs available were not always of high productivity. In the 1990s, the crisis and structural changes have reduced employment in the public sector and increased the number of jobs in non-State activities. Private own-account employment has increased, but it is still subject to restrictions: own-account enterprises cannot hire paid staff and in practice are excluded from bank credit. Moreover, tax policy has become very severe with respect to these businesses, leading to discouragement and the closure of many of them, with the consequent loss of opportunities for creating income and jobs.

Although wage reforms are still pending and workers have lost purchasing power, efforts have been made to share the costs of the adjustment as equitably as possible. Thus, various measures have been taken to keep up employment in para-State enterprises and to maintain the incomes of workers who are technically redundant, in an effort to relieve the immediate social costs which are the inevitable counterpart of the long-term benefits of the production adjustment process. Workers who lose their jobs receive a State guarantee of 100% of their wages during the first month and subsequently benefits equivalent to 60% of their basic wages for a period which depends on their number of years of service. There are also enterprises which keep their workers standing by for technical or social reasons, continuing to pay them their full wages.

The economic duality of markets and prices is reflected in the duality of the net remuneration (but not the wages) of the labour force. The real wages of public employees in the central sector have deteriorated, but workers in high-priority activities (exports, energy products, foodstuffs) receive supplementary income in the form of incentives for raising productivity and generating or saving foreign exchange.

Thus, one of the dilemmas of the Cuban economy is how to generalize the incentives currently received by only part of the working population, which have led to a certain amount of migration of workers who do not enjoy such incentives towards areas of modern activities, such as tourist services.

#### 4. Macroeconomic reforms

##### a) *Fiscal reforms*

The tax reform process is being applied only gradually because of the enormous administrative demands it poses and the lack of previous practical experience in taxing individual persons and enterprises. The previous taxes are being replaced by taxes similar to those used in the West and the tax on money circulation will be replaced by a sales tax. By mid-1998, all State enterprises had been incorporated into the new tax system.

Among the main purposes of the 1994 Tax System Act are those of protecting the lowest-income social strata, stimulating work and production, and helping to eliminate excess liquidity. Two direct taxes have been established: a 35% tax on company profits and a progressive tax on personal income. Revenue from the tax on profits increased five-fold between 1995 and 1998, while the second tax concentrated on own-account commercial activities and, since 1996, on the foreign exchange income of certain types of professionals.

In May 1997 it was made legal to rent real estate and a tax was established which is calculated on the basis of the characteristics of the property rented. It is estimated that 20% of tourists, excluding non-resident Cubans, stay in private houses.

The gradual application of this Act has resulted in an increase in the taxes paid by the non-State sector and the population in general. In 1995, these two sectors accounted for 6.7% of total tax revenue, but in the following year their contribution was 9%, and this increased to 9.4% in 1997. This figure is still below the potential contribution of the private sector, particularly because many of the non-State production activities are in the cooperative agricultural sector, which has not yet been incorporated into the new tax system.

##### b) *The monetary system*

In the monetary field, the parallel foreign exchange market was legalized, as was the opening of

foreign-currency savings accounts in Cuban banks. A system of "foreign exchange recovery shops" was also set up with the dual purpose of making up for shortcomings in national supply and siphoning-off excess liquidity. Thus, markets have been segmented and transactions are carried out in various currencies: Cuban pesos, U.S. dollars and, more recently, convertible pesos. The State-controlled formal market, which receives high State subsidies, has kept the prices of essential consumer goods and services stable in terms of Cuban pesos. In the free markets for agricultural, industrial and handicraft goods, prices are freely fixed (in the three circulating currencies: Cuban pesos, convertible pesos and U.S. dollars) according to the fluctuations of supply and demand. In the foreign exchange recovery shops, prices are set by the government and purchases can be made in convertible pesos or in U.S. dollars.

#### 5. The planning system

The Cuban planning system has undergone substantial changes and adaptations due to the demands of the macroeconomic stabilization process and the structural changes associated with the rebuilding of economic links with the Western world.

Thus, the institutional frontiers separating the public and private sectors have been changing. Planning has given way to the market forces as a system of economic coordination. Even so, the system of centralized control still prevails and the public enterprises play a leading role in the allocation of resources and the supply of most goods and services. The market forces are on the rise, however, furthering the progressive decentralization of economic activities and decisions. Consequently, there is an uneasy coexistence between central planning and the market in more and more areas of the economy.

At the same time, the rebuilding of economic links with the West involves the transition from a broad-based growth model to another where considerations of competitiveness, technical excellence and flexibility in adapting to markets prevail, and although central planning may be appropriate for the first-named model, it has obvious shortcomings for the pursuit of intensive development, especially in economies which are only small and are more open to external trade.

The results of the structural adaptations of the Cuban economy naturally display a complex picture

of advances and setbacks. The domestic and external forces sometimes favour and on other occasions hinder the advance and rapidity of reform efforts.

The inevitable ups and downs of the "special period" affected the presentation of annual plans to the National Assembly between 1991 and 1995. At the same time that emergency measures were being implemented, new forms of macroeconomic and microeconomic management began to be introduced which emphasized market relations and pursued stricter criteria of competitiveness and efficiency. This led to the adoption of hitherto non-existent forms of planning which made up the so-called "strategic planning" approach.

No system of planning, or, to put it in more general terms, no economic coordination system, is independent of the legal and organizational framework within which it operates. In Cuba, the impact of new circumstances and urgent problems has led to the initiation of a period of reconstruction of institutions which is still under way. So far, the institutional reforms and those of the planning system have advanced side-by-side, and this explains the flexibility and much of the success of the economic stabilization process and some essential structural changes. Nevertheless, these two interdependent processes of change have not yet concluded and some tensions still persist, with no clear delineation of the division of labour between the State and the market in resource allocation or the coordination of economic activity.

## 6. Other reforms

### a) *Legalization of dual markets and family remittances*

Since the measures taken in mid-1993 to legalize the possession of foreign exchange, family remittances have assumed growing importance in the external sector of the Cuban economy. They supplement family income and at the same time represent a purchasing power which helps to sustain and expand transactions in the free markets and the "foreign exchange recovery shops". Furthermore, the establishment of free markets has in itself encouraged production and facilitated the spread of new sources of income for the population.

From a macroeconomic standpoint, although the multiple nature of the price system or the monetary circuits may have disadvantages in the longer term, it

has made it possible to capture scarce foreign exchange and increase the available supply for families and enterprises.

### b) *Changes in the agricultural sector*

Between 1959 and 1963, two agrarian reform laws were adopted which established a dominant State sector in Cuban agriculture, concentrating within it most of the land in the country. In 1993, however, it was decided to allow third parties to make use of the bulk of State-owned land, with the aim of promoting an increase in supply, decentralizing official functions and responsibilities, and reducing fiscal support.

For this purpose, basic cooperative production units (BCPUs) were established, opening up the way to smaller-scale and more autonomous forms of organization. The far-reaching nature of the reforms may be gathered from the fact that two-thirds of the total cultivable area is now operated by non-State entities. The BCPUs were entrusted with 42% of the cultivable land for exploitation and received loans equivalent to the value of the equipment and installations.

In 1994, "farmers' markets" in which prices are freely set were formally established. Markets of this type have been established in the 169 municipal areas of the country, with 29 in the city of Havana. This has thus given legal standing to the marketing of their own goods by individual peasants as well as by public enterprises and cooperatives, after fulfillment of their sales commitments to the State. In 1997, private enterprise provided 73% of all supplies, while the State and co-operative sectors provided 24% and 4%, respectively.

The immediate effects of the change in agricultural land use have been reflected in the encouragement of production, the creation of independent sources of employment, and the incipient formation of new entrepreneurs. The experiment has not yet reached maturity, and it faces the risks associated with every agrarian reform process, which are magnified in the case of Cuba by the crisis, the over-mechanization of agriculture in the previous period, the lack of management experience, shortcomings in the supply of essential inputs and spare parts, and forms of ownership which do not fully encourage reinvestment, technological innovation, or the care of natural resources (Demsetz, 1967; Coase (ed.), 1988).

### III

#### Final comments

There are still major problems which affect the evolution of the Cuban economy and society and are likely to continue to do so. The microeconomic advances have been concentrated in the production of marketable goods, and the capital formation process has considerably declined, as have the standards of maintenance of enterprises and the infrastructure, just at the time when technical reconversion needs are at their highest. The reorganization schemes for agricultural producers and industry are far from consolidated (this is particularly so in the case of many of the agricultural cooperatives and the industrial plants which have not redimensioned their operations or corrected overmanning); as occurred in 1996 with the overheating of the economy, the external bottleneck, which has only partly been solved, imposes strict limits on the attainable growth rates, and the gap between social security income and expenditure has widened since 1989, as benefits are granted independently of the payroll-based revenue collected.

Demographic phenomena (such as population ageing and the high proportion of pensioners compared with the active labour force), together with the financial needs referred to in the previous paragraph, reduce the budgetary funds available for investment and modernization of production to a level below that which is advisable, and this is why it is so important to review the whole set of pension systems and social safety nets.

Now that the stabilization phase of the "special period" has been completed, the country is facing a parting of the ways with regard to its future evolution, which is so intrinsically complex that only a broad sketch of a general nature can be attempted. One option would be to limit the liberalization of the "second economy" and halt the strengthening of private property rights, which would make it possible to prevent the subsequent segmentation of society or the dispersion of political and economic power. The drawbacks of this approach are equally clear, however: lower rates of development, a reduction in the innovative impulses for growth, and a dangerous prolongation of the period of inevitable economic and social changes.

The other option would be to press on with the reforms and gradually eliminate the obstacles to the development of the "second economy". From the Cuban standpoint, this option would not be free from problems either. To begin with, it would be necessary to accept the gradual separation of powers between the State and the market, which would amount to changing the socialist paradigm followed so far. At the same time, it would be necessary to compensate for the tendencies towards income stratification, by extending the incentives currently given to the "second economy" to other segments of the labour market in order to preserve the legitimizing objectives of the Cuban Welfare State.

Contrary to what is often assumed, profound changes in production systems cannot be achieved instantaneously, nor can they be prevented from affecting the social body as a whole: first of all it is necessary to travel the little-known and risky paths of the institutional transition. To make matters worse, Cuba does not have much room for maneuvering. Apart from domestic tensions, the present international economic isolation imposes extraordinary limits on the attainable rate of national reconstruction. For these reasons, in order to carry through the reform effort this must be carried out gradually, without trying to follow a straight line but instead following a zigzag path. The recent increase in the tax burden on private own-account activities shows that there are domestic tensions, while the United States embargo illustrates those of foreign origin.

A distinction must be made here between radical strategies of structural change which can be put into effect immediately and the slower rate of evolution of institutional changes. It is perfectly possible to deregulate external trade or unify exchange markets overnight, but this might be incompatible with the more gradual process of reorganization and reconversion of production at the microeconomic level or the acceptance by society of new values or greater sacrifices in the short term.

As already noted, the reform drive in Cuba has arisen mainly in response to disturbances of external origin which called for curative strategies imposed

from above after a period of consultations with popular-level organizations. It therefore displays the ambiguity typical of profound reform processes, many of whose objectives will only be attained as progress is made in the solution of the inevitable political tensions and rigidities.

This is not to deny the need for the gradual elimination of flagrant economic distortions and the adoption of a new set of reforms; it merely emphasizes the need to choose the short- and long-term priorities very carefully and to appraise with caution the rate at which institutional changes can reasonably be applied.

At all events, the future of Cuba is not confined within the classical dichotomies of capitalism or socialism. There are many different paths open, as is shown by the different balances be-

tween efficiency, equity and growth reached in Northern Europe, the Pacific Rim countries, or Costa Rica in Latin America.

So far, we have mainly reviewed the domestic options and conditioning factors for the economic transition and the reinsertion of Cuba into Western markets. In an interdependent world, however, national decisions are affected by increasingly important outside influences. For this reason, the rate of the Cuban reform process and some of its features will be subject to the reactions and responses of the international community, expressed either in the form of closer relations and the settlement of differences, or in greater separation and even mutual hostility.

(Original: Spanish)

### Bibliography

- Coase, R. (ed.) (1998): *The Firm, the Market and the Law*, Chicago, IL, Chicago University Press.
- Demsetz, H. (1967): Toward a theory of property rights, *The American Economic Review*, No. 57, Washington, D. C., The American Economic Association, May.
- ECLAC (Economic Commission for Latin America and the Caribbean) (1997): *La economía cubana: reformas estructurales y desempeño en los noventa*, Santiago, Chile.