

Hannah Factor

4/1/19

Economics Adventure Fund: Reflection Paper

Reflections and Analysis on the Cuba Economy from a UNC Economics Major

On this trip, I confronted a lot economic assumptions I previously viewed as universal. It was tremendously difficult to fully comprehend something different from the economic system I had always inhabited, even though I had been consistently hitting the books and lectures on its alternatives. During my trip, a lot of these experiential reflections took place while *waiting*, an action that is traditionally considered by neoclassical economics to be a deadweight loss. Indeed, I waited about two hours to be served ice cream in the state-run ice cream parlour, I waited an hour and a half to interview economists for this project, and I waited for just about anything and everything in between. It seems that waiting is an integral part of visiting Cuba for scholars, students and tourists alike. However, actually being afforded the opportunity to travel to and experience a planned economy, and meet with Cuban economists and entrepreneurs of all types allowed me to see both the challenges, opportunities and resilience that arise in a society and market this complex. It taught me that when options and resources are extremely limited, the combination of strategic thinking, creativity and compassion can be the most valuable form of human capital. And it showed me how inaccessibility to trade, and conversely, overreliance with certain trading partners, have really hindered Cuba's economic development.

Where are the eggs? Challenges in Cuba's economic development

On one taxi ride, I passed by a run-down building where a large number of egg cartons lay stacked on the floor. There appeared to be tens of thousands of eggs sitting in an open-air, visible from the street, unrefrigerated building on a Caribbean island whose temperature consistently hit 90 degrees during the time I was there. Counterintuitively, this was the first sign of the egg shortage in Havana, eggs being a foundational staple of the Cuban diet and typical

basket of goods for any given family. What I saw inside the room was the result of a speculator attempting to influence and profit off the new, higher price of eggs by hoarding them. It looked strange, but from an economist's perspective, aside from the lack of refrigeration, was extremely rational, albeit exploitative. Resources are tight in Havana and opportunities for profit are slim in a state-dominated economy. Indeed, when I arrived at my Airbnb, one of the first things my host told me was that breakfast could no longer be offered because she simply did not have eggs, and there were no realistically affordable substitutes to make breakfast with. I would later read that egg shortages, along with other main diet staples, are a common trend in Cuba, with growing uncertainty as changes in the economy begin to take hold that could allow for more legal private sector action to hopefully prevent shortages of essential goods like these in the future.

Contextualizing Cuba's challenges in development: Perspectives on constitutional reform

Despite the egg shortage, now seemed like the perfect time for an economics student to visit Havana. The state had just passed a new constitution introducing a number of private sector reforms over the coming years, including the first recognition of private property and private ownership over means of production since the 1959 revolution. In terms of the economic model, the new constitution still affirms a socialist system and socialist planning, not central planning. Dr. Ricardo Torres, professor at University of Havana highlighted this distinction to be more ideological than grounded in truth, stating that Cuba is truly a centrally-planned economy. And in mentioning socialist planning, the new constitution mentions markets, and allows markets to operate, yet still under socialist planning as the main coordinator for the economic system. Even more, it recognizes private ownership over the means of production, which incidentally may include the egg/poultry industry in the coming years. Interestingly, Torres was quick to point out how private ownership implicitly recognizes the exploitation of labor for the sake of production,

a view that places him on the left of the American political spectrum of economists, and was also a critique levied by many who opposed this constitutional referendum. Torres did remark that the new constitution promotes workers participating in leadership decisions in their companies, as well as affirms the need for regulating for wealth accumulation. Still, according to the new constitution, the *main* means of production must be state-owned, but as Torres quickly highlighted, that could mean many things, and leaves the fate of something like the egg/poultry industry largely uncertain.

To me, the constitution represents a tension where the Cuban economy wants to become truly independent in light of decline of its main trading partners and tightened US embargo, while at the same time maintaining its socialist values (see next section for elaboration on this point). When asked whether he thought Cuba's private sector, which currently composes 28% of its entire economy, would increase, he said "we cannot predict that, we've only had a change of the model, a change of the framework for which the government will help set up the implementation steps to make it all possible. The *how* of all this will happen in the laws." This statement speaks to the growing uncertainty of Cuba's economic composition and its potential impacts on the standard of living of the Cuban people.

International trade's impacts on domestic economic development

Torres believes that Cuba *should* want to trade with *anyone* willing to trade with them. "If you're trying to diversify your economy, anyone is welcome." When I asked if Cuba would reconsider certain trading partners in light of Trump's tightened sanctions, Torres gave the following perspective "If you're tightening sanctions, it's not rational to expect that Cuba will pay attention to any of your concerns. So if countries like China, North Korea, Turkey are willing to forge even closer ties with Cuba, Cuba will welcome that move." We also spoke about

how Venezuela was Cuba's highest trading partner in goods in 2017, which derives from the high number of oil imports from the country. Yet with the increasing civil unrest and political crisis unfolding in Venezuela, this economic partnership is expected to be tested, and Torres speculating that shipments have decreased, even though oil tends to be a consistent import. Because the 2018 trade numbers have not been released, it is difficult to know what will happen. But many economists are forecasting something in the vein of the "Special Period" of economic crisis that characterized Cuba in the 10 years following the fall of the Soviet Union in 1989, their main trading partner and political supporter at the time. While Venezuela's decline may not be so hard-hitting as a decades-long recession, this further contextualizes Cuba's need for private sector reforms in forging its own economic independence, rather than relying on trade with increasingly volatile nations.

Education, entrepreneurship, and the transition to markets

Dr. Dayma León, Cuban economics professor at the University of Havana, was quick to affirm education as both a universal human right and a principal component of Cuba's economic development. She mentions how one of the Cuban revolution, and the subsequent Castro's regime's major accomplishments is well-educating the Cuban people. She does however make the point that the issue now is not access to education, it is access to employment opportunities and livable wages, and creating a functional talent pipeline from the university to the workforce. She noted how wages in Cuba are distortedly unequal, in part due to the bifurcation of state versus private industries as well to the economic segregation enabled their two currency system. In Cuba, one currency is used by the majority of people for most transactions, and the other is largely considered a luxury currency which is pegged to the US Dollar, mainly used by foreigners/tourists, and therefore mostly benefitting people in the tourist industry or people with

foreign connections. Since fields like medicine are still state-owned, their wages are paid in the form of the lower-valued currency, and are, generally speaking, not enough to be financially independent. It is common for international media to report on Cuban doctors who become taxi drivers to make a living, where they will be paid in the luxury currency.

I had dinner with a Cuban doctor, Dr. Castillo (name changed to protect identity) while I was there. Castillo spent years working as a guest worker in Qatar to make a salary high enough to support her and her two daughters. “It’s nothing, what I make here. I had to go but it was and still is the hardest decision I made.” Indeed remittances, while not growing as a share of Cuba’s GDP, are still a huge component of Cuba’s trade, as Dr. Torres and Dr. Léon highlighted. Now having returned to Cuba to see her daughters grow up, Dr. Castillo has undertaken an informal cake decorating business where she sells personalized cakes to friends, families and neighbors for special occasions like birthday parties, quinceaneras and weddings, all transactions done in cash. She says it doesn’t make much, but is enough for her family to get by, something she wouldn’t be able to do on her doctor salary alone. When I asked why she didn’t get a legal license to start this business formally, she said she didn’t have the initial cash to pay for that license, with self-employment licenses unsurprisingly administered Cuban government. She also didn’t want, nor could afford to have her earnings taxed. Again, from an economics perspective, her decisions are incredibly rational, but speak volumes of some of their failures of state-run industry to provide for its employees, and therefore further their economic development goals.

Concluding thoughts and analysis

From my perspective, it seemed like there is a necessity for significant policy intervention. One that would allow legal pathways for individuals interested in starting their own businesses, where their profits could then financially support the functionings of a state-run

economy, rather than the status-quo where most Cuban entrepreneurs circumvent it entirely. And you can do that through decreasing the price of a self-employment license or having a functioning financial system where you can borrow. But as Dr. Torres mentioned, Cuba as a whole does not even have access to credit, in part due to the US trade embargo. Increasing capital overall in Cuba is challenge enough. But is necessary nonetheless in improving the standard of living of the Cuban people, and in Dr. Castillo's case ensuring they do not have to resort to a black market to support their families. It will be interesting to see how Cuba's economy progresses, which from this experience and research, I believe chiefly rest on two main factors 1. Whether Cuba's increasing private sector will significantly increase workforce and income opportunities 2. Whether Cuba can form advantageous international trading relations with stable partners.

Appendix:

Dr. Ricardo Torres is a professor of economics and Cuban economy with the Center for the Study of the Cuban Economy at the University of Havana. He has served as a consultant to Cuban and foreign companies interested in Cuba, holds a biweekly column at Progreso Semanal. He has been a government scholar at Hitotsubashi University in Tokyo (2007-2009) and research scholar at Harvard University (2011), Ohio State University (2012), Columbia University (2013) and American University (2015). He has participated in conferences and courses in several countries in Latin America (Brazil, Chile, Costa Rica, Dominican Republic), United States, Europe (Spain, France, Sweden, Norway, Netherlands), Asia (Japan, China, Singapore, Vietnam) and Africa (Morocco, South Africa). He has also edited and authored several books and papers on the Cuban economy. Among his most recent publications are Policies for Economic Growth: Cuba's New Era in Cuba's Economic Change in Comparative Perspective (Brookings Institution, 2014), No More Free Lunch: Reflections on the Cuban Economic Reform Process and Challenges for Transformation (Springer, 2014) and Miradas a la Economía Cubana. Análisis del sector no estatal (Editorial Caminos, La Habana, 2015). He got his Ph.D. in Economic Sciences from the University of Havana in 2011

Dr. Dayma Echevarría is a professor of Cuban economy with the Center for the Study of the Cuban economy at the University of Havana. She was a visiting scholar to Harvard University in 2017, and specialized in social politics and education's connections to workforce issues. Her research is in Qualitative Social Research, Social Policy and Social theory. She got her Ph.D. in Sociology from the University of Havana in 2008.

Supported Readings

<https://www.brookings.edu/opinions/how-to-bring-capital-to-cuba/>

<http://time.com/5467742/cuba-doctors-export-brazil/>

https://brasil.elpais.com/brasil/2018/11/24/internacional/1543042730_806992.html

Books gifted to me by the Institute of the Study of Cuban economy, which largely informed my academic foundation for my analysis:

Economía Cubana : Entre cambios y desafíos

Miradas A La Economía Cubana