



# **Institutional Changes of Cuba's Economic-Social Reforms**

**State and Market Roles, Progress, Hurdles,  
Comparisons, Monitoring and Effects**

CARMELO MESA-LAGO

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# Institutional Changes of Cuba's Economic Social Reforms: State and Market Roles, Progress, Hurdles, Comparisons, Monitoring and Effects

Dr. Carmelo Mesa-Lago

University of Pittsburgh

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This paper solely reflects the opinions of the author.

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# Introduction

This chapter<sup>1</sup> studies Cuba's ongoing process of institutional change, focusing on five central structural reforms: updating the economic model; distribution in usufruct of idle state land; dismissal of unneeded state employees and expansion of the non-state sector; modifying wage policies; reducing gratuities (including rationing) and social services; and selling/buying houses.<sup>2</sup> As other chapters in this volume discuss themes of monetary policy, dual currency and exchange rates, foreign direct investment, and banking, they will not be addressed here. The chapter is divided in three sections: I) institutional changes analyzed on five factors in each of the reforms: state and market roles (including state regulations and ownership), progress achieved, persistent hurdles, and comparisons with reforms in China, Vietnam and Latin America; II) monitoring of the reforms and evaluation of macroeconomic effects; and III) conclusions and ways forward.

## I. Institutional Changes, Progress, Hurdles and Comparisons

### *UPDATING THE ECONOMIC MODEL*

**State and market roles.** The VI Party Congress agreements of 2011 do not substantially transform the current economic model, but seek to “update” it in a gradual manner, preserving the predominance of the central plan and state ownership of property over the market and non-state ownership of property. The agreements avoided the terms “reform” and “private” (though the latter was accepted in 2014), lacked specifics on the role of planning and the market and their interactions, had many gaps and were vague in key aspects of the model. Marino Murillo, chief of the Permanent Commission to implement the agreements, reiterated this predominance in 2013 and stated: “There will be not a transformation of property but modernization of its management” including expansion of the non-state sector and the recognition of the market. He and Raúl Castro declared that they will neither restore capitalism nor implement shock therapy (Castro, 2013b; Murillo, 2003b). However, government rhetoric may have been a euphemism to disguise actual practice.

**Progress.** The analysis in the following sections shows that the reforms have generally been positive and market-oriented; the agreements give the market a greater role than it has had since 1961 when central planning began. In 2013, Murillo announced a more complex and profound stage of the reform that would tackle more difficult issues in 2014, transforming and deregulating the largest state enterprises: mining (nickel, oil), steel and textiles. As Omar Everleny Pérez Villanueva (2013) has noted, everything must

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<sup>1</sup> The author alone is responsible for this essay but gratefully acknowledges comments or materials from Richard Feinberg, Marc Frank, Armando Nova, Omar Everleny Pérez Villanueva, Pavel Vidal and Mao Xianglin.

<sup>2</sup> For a comprehensive analysis of Cuba's economic-social reforms and their effects see Mesa-Lago and Pérez-López, 2013.



come from the overly rigid and centralized plan; instead of a facilitator, it is an obstacle and discourages enterprise performance; the government centrally assigns resources to enterprises that are not allowed to use their own resources to solve their own problems; and production levels are not decided by enterprises since most are dependent on domestic output or imports. However, these obstacles are gradually being eliminated. Instead of shifting all profits to the state and the latter deciding the budget allocation to enterprises, large enterprises may retain 50% of their profits net of taxes for reinvestment and wage raises, giving managers more decision-making power and creating incentives to increase efficiency and production. State enterprises will be allowed to sell idle inventories at a price agreed to with buyers. Enterprises with losses for two years or more will have to turn a profit or be downsized, merged with others or shut down (Decreto 328/2013). Enterprises could use funds assigned for the purchase of imports to instead purchase goods produced locally, without previous state approval (Murillo, 2013a, 2013b).

**Hurdles.** According to Raúl (2013a), updating the model has “a long and complex road ahead.” Several local and foreign economists believe it is a mistake to preserve a model dominated by central planning, which history has proven (in the USSR, Eastern Europe, China and Vietnam, as well as in Cuba) to be inefficient and which has caused the economic problems the nation faces (Alonso and Vidal, 2013). Some reforms planned for 2014 – including deregulation and self-financing of key state enterprises, closing those with losses, and using part of their profits for investment and wage funds – were tried in Cuba in the 1970s and 1980s, but were later abandoned. In mid-2013, two years after the agreements were approved, Murillo (2013b) informed the National Assembly that a team had just been appointed “to study and understand the updating of the economic model;” at the end of 2013 he reported that “the first version of the proposal for the conceptualization of the model had been elaborated” (*Granma*, 12-21-2013). Out of the 313 agreements approved in 2011, only 46 (15%) had been implemented by the end of 2013. This indicates the slow progress achieved toward a concrete model, enforcing the agreements, filling their gaps and clarifying vague points. Another barrier to success is the leaders’ commitment to “avoid[ing] the concentration of wealth,” which generates disincentives and ignores the large income inequalities already in existence. Murillo pushed to eliminate all obstacles involved in updating the model, and yet, the greatest obstacle seems to be the model itself that interferes with the reforms and their success. Finally the reforms have created some winners, but have also raised concerns among the general population about the future.

**Comparisons.** Cuba and North Korea are the two socialist economies with the largest role of a planned economy and state property and the smallest role of the market and private property. Conversely, China and Vietnam developed a “socialist market” model where the private sector, markets and foreign investment, combined with an indicative plan and decentralization of decision making, have spurred the highest economic growth rates in the world. Thwarting the party bureaucracy and resistance to deeper economic changes, a recent China Party meeting agreed to push forward new reforms which mandate that, in the relation between the government and the market, the latter should play a decisive role in financing and allocation of resources, that competition be strengthened and restrictions on land ownership be overhauled (*New York Times*, 11-

13-2013, 11-16-2013). In Vietnam, both the state and the non-state sectors generate 40% of GDP, while the latter has the highest investment share: 38.5% versus 37.2% from the state and 24.3% from foreign investment (Nova, 2013). Structural reforms in Latin America have mainly consisted of shock therapy and privatization; Cuba rejects this approach and takes a gradualist, slow tack that preserves the predominance of the state role. In the region, Cuba also leads in the size of the state sector, far ahead of some countries that have strengthened the role of government, like Argentina, Bolivia, Brazil, Nicaragua and Venezuela; in these countries as in the rest of the region, the market still plays the predominant role.

### *DISTRIBUTION IN USUFRUCT OF STATE IDLE LAND*

**State and market roles.** The only agricultural land owners are farmers who received small plots from the state at the start of the revolution, whose numbers have been steadily declining.<sup>3</sup> Two laws in 2008 and 2012, the second more flexible than the first, regulated the usufruct distribution of idle state land in small plots to individuals, cooperatives and state farms/entities (Decretos-Leyes 2008, 2012). The state keeps ownership of the land whereas the usufruct farmer (usufructuary) has the right to cultivate the plot and appropriate its fruits.<sup>4</sup> Although the state owns the land, tightly regulates contracts and mandates the selling of part of the crop (*acopio*), the practice of usufruct is still a step closer to the market. Moreover, if more liberalized, the use of usufruct could significantly increase agricultural output and reduce costly food imports. According to Nova (2011), essential issues to be solved in agriculture are: real land ownership (rights to decide what to grow, to decide to whom to sell the produce and to set the price); recognition of the market's key role; elimination of monopolies and diversification of marketing with autonomous marketing cooperatives; and free labor hiring.

**Progress.** The usufruct law of 2012 made several improvements over the 2008 law, which was quite restrictive and didn't produce results. The plot size rose from 13.4 to 67.1 hectares (165 acres), provided the usufruct is linked to a cooperative or state farm. The contract length remains unchanged for persons (10 years)<sup>5</sup> but it increases for cooperatives and state entities (20 to 25 years). Despite the advantage of the latter two forms, 98% of usufruct land has gone to individuals. The usufructuary is allowed to build homes (more than one if relatives work the land) and barns on the plot, as well as to plant orchards, all of which had previously been banned. If the contract is not renewed, the state must evaluate the investment made and reimburse the usufructuary. In case of usufructuary death or incapacity, relatives working the plot can inherit the usufruct and the investment. The tax reform granted the usufructuary a two-year exemption on personal income tax, land value and hiring labor; said exemption may be extended if the usufructuary cleans the land of *marabú* (a thorny bush difficult to eradicate). Tax on inactive usufruct land was also suspended one year (Ley 113 of 2012).

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<sup>3</sup> In 1959 there were some 200,000 private farmers but their number dwindled to 23,000 in 2012 (ONEI, 2013b).

<sup>4</sup> For a comparative analysis of the right of ownership in Cuban structural reforms, see Mesa-Lago, 2013a and Palli, 2013. The best study on Cuban entrepreneurship is Feinberg, 2013.

<sup>5</sup> In contrast, Decreto-Ley 273/ 2010 grants the land-surface right to foreign investors in luxury golf courses for up to 99 years.

Since 2011, the state has offered microcredit to those holding land in usufruct and allows them to open bank accounts. All agricultural producers, including usufructuaries, are permitted to sell more to the market (47% in 2012) and since 2013 directly to tourist entities without co-ops intermediation (Murillo, 2013b; *Reuters*, 7-30-2013). Decreto 318/2013 reformed *acopio*, ended the state marketing monopoly in three provinces, allowed competition and market-price sales of chicken, pork, vegetables, eggs and non-citrus fruits. The first wholesale market to sell agricultural supplies was created in the Isle of Pines in 2014 (*Reuters*, 6-1-2014).

At the end of 2012, 1.5 million hectares of idle state land had been distributed to 174,271 individual usufructuaries and 2,700 legal entities (*Juventud Rebelde*, 11-10-2013). ONEI (2013b) reports 300,810 total usufructuaries in mid-2012, of which 157,948 were under the usufruct law of 2008 (the 2012 law entered in force in December) and 142,862 were authorized during the crisis of the 1990s and are now under the 2012 law. Table 1 shows the changes in thousand hectares in agricultural, cultivated and uncultivated land by type of tenant (state, UBPC/CPA cooperatives, and CCS/private sector)<sup>6</sup>. In December 2007 (before the first law was enacted) there were 6.6 million total hectares of total uncultivated agricultural land, and by June 2012, it was reduced by 62% to 1.4 million hectares. The state share was cut by 1.1 million hectares and that of UBPC/CPA by another million, whereas land cultivated by CCS/private grew by 1.2 million.<sup>7</sup> Usufructuaries neither own land as private farmers nor are they necessarily CCS members, but they ought to be in the CCS/private sector group because they were only receiving state land. The table suggests that the increase in total CCS/private agricultural land by 1.04 million hectares in 2007-2012 was probably due to state land distributed in usufruct, a figure that is 30% lower than the cited 1.5 million hectares. The state and UBPC/CPA shares of total agricultural land fell whereas the CSS/private sector share rose from 18% to 35% of agricultural land and from 26% to 40% of cultivated land (Table 1).

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<sup>6</sup> UBPC: basic units of cooperative production; CPA: agricultural production cooperatives; CCS: credit and service cooperatives.

<sup>7</sup> Out of uncultivated land, the total idle part was 1,232,800 hectares in 2007 and had been cut only by 21% to 975,500 in mid-2012. In 2007 the idle land was 51% state, 44% UBPC/CPA and only 5% in CCS/private (ONEI, 2013b).

**Table 1. Distribution of Agricultural, Cultivated and Uncultivated Land in Thousand Hectares and Percentages, by Tenant Sector in Cuba: 2007 and 2012**

Years and categories	Total	State	Non state	
			UBPC/CPA	CSS/Private
<b>Area (1,000 hectares)</b>				
<b>2007</b> (December)				
Agricultural land	6,620	2,371	3,034	1,214
Cultivated	2,988	694	1,495	799
Uncultivated	3,631	1,677	1,539	415
<b>2012</b> (June)				
Agricultural land	6,405	2,007	2,139	2,260
Cultivated	5,040	1,413	1,634	1,994
Uncultivated	1,365	594	505	266
<b>Change 2007/2012</b>				
Agricultural land	-214	-364	-895	1,045
Cultivated	2,052	719	139	1,194
Uncultivated	-2,266	-1,083	-1,033	-149
<b>Distribution (%)</b>				
<b>2007</b>				
Agricultural land	100.0	35.8	45.9	18.3
Cultivated	100.0	23.2	50.0	26.7
Uncultivated	100.0	46.3	42.4	11.4
<b>2012</b>				
Agricultural land	100.0	31.3	33.4	35.3
Cultivated	100.0	28.0	32.4	39.6
Uncultivated	100.0	43.5	37.0	19.5

Source: Author's calculations based on ONEI, 2012 and 2013b.

**Hurdles.** Despite its increased flexibility, the 2012 law is still restrictive and creates uncertainty. The usufructuary's 10-year contract will be terminated or not renewed if he fails to fulfill his obligations, such as "using the land in a rational manner" (a specification left to government interpretation – 9,000 contracts were cancelled for this reason), compulsory sale to the state of about 70% of the crop at state-fixed prices (*acopio*, modified in 2013), hiring more workers than allowed, selling the plot investment or investing without state permit, and for public need or social interest. Despite a legal cap of 108 days, plot measurement can take up to two months due to flaws in public records and thousands of applications are delayed by lack of qualified personnel and negligence. To obtain inputs and services and market their produce, the usufructuary must be linked to a state farm or cooperative, preferably either UBPC or CPA, the two with the least autonomy.<sup>8</sup> It is incongruous that the usufruct was introduced to increase agricultural output, but forces linkage to UBPC and state farms, recognized as inefficient production forms.<sup>9</sup> More rational would be to authorize voluntary cooperatives of usufructuaries. Regardless of the noted progress, in 2012, usufruct shares in total agricultural and cultivated land were 17% and 13% respectively, and still 21% of the land was uncultivated (81% under state/UBPC/CPA). Marabú covers 50% of all the land in usufruct; it must be cleared to start production, but state credit

<sup>8</sup> A law of 2012 restructures UBPC and gives them more autonomy; another of 2013 permits cooperatives ties with CCS.

<sup>9</sup> CCS coops and private farms produce 57% of all output with only 24% of the cultivated land (Nova, 2011).



cannot be used for that purpose. Hence, tax exemptions are not granted. Usufructuaries can only hire relatives or seasonal workers either self-employed or in cooperatives, and the investment size is limited to 1% of the plot size. Officially, these disincentives are officially justified as preventing wealth concentration. Around 77% of usufructuaries lack experience in agriculture (*Juventud Rebelde*, 11-10-2013); the government may offer training but it does not release public information detailing how many have been trained. The state sets the *acopio* price below the market price, which is a production disincentive. State microcredit is grossly insufficient, as are markets that sell inputs to farmers at high prices. Rules to request usufruct, sign and extend the contract, and approve or modify investment (even building a house) are cumbersome.<sup>10</sup> Decreto 318/2013 bans sales of beef, milk and milk byproducts, coffee, cocoa and honey; it also keeps rice, beans, corn, potatoes, sweet potatoes, taro, onions, garlic, oranges and grapefruit under *acopio* in 2013 and 2014, hence keeping these the most important agricultural products out of the free market.

**Comparisons.** Cuba's agricultural usufruct reform is much more modest than their counterparts in China and Vietnam, which have a much larger market role and fewer state regulations. In all three countries the state retains land ownership, but in the two Asian cases virtually all agriculture is managed privately or by autonomous cooperatives; contracts are for 50 years or indefinite periods time (instead of Cuba's 10 years renewable under tight conditions and the risk of cancellation); there is freedom to hire workers, and investment fully belongs to owners; farmers freely decide what to sow, to whom to sell the produce and set the price based on supply and demand. There is neither *acopio* nor are prices set by the state below the market price in China or Vietnam, although in late 2013 *acopio* began to be curtailed in Cuba. The Sino-Vietnamese reform features resemble what Nova noted was needed in Cuba and their results have been impressive: countries that historically suffered from hunger are now food self-sufficient and export a surplus. Vietnam is the second largest world exporter of rice and supplies 250,000 tons to Cuba annually, half of its consumption needs (ONEI, 2012). Despite these notable differences, within the historical context of Cuban socialism, the usufruct is a step toward the market, albeit modest and quite restricted. In contrast, in Latin America, the usufruct is normally granted by a private farm owner, the free market and private land ownership dominate, state farms are rare, and cooperatives, where they exist, are typically autonomous.

#### *DISMISSALS OF STATE EMPLOYEES AND EXPANSION OF THE NON-STATE SECTOR*

**State and market roles.** Official estimates of unneeded state employees range from 1.3 to 1.8 million or between 26% and 36% of the employed labor force in 2011. Cuba's very low open unemployment rate (1.6% in 2008 – virtually full employment and the lowest in the world) was achieved through "hidden" unemployment – underutilization of labor or unneeded state jobs – which reduced labor productivity and wages (Mesa-Lago, 2010). The huge fiscal cost of this policy forced the government in 2010 to recognize the problem and the need to dismiss the labor surplus. But that, in turn,

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<sup>10</sup> Usufruct regulations take six pages of the Official Gazette (Decreto-Ley 304) versus four pages of the basic Decreto-Ley 300.

required the expansion of "non-state" jobs including self-employment, non-agricultural-production and services cooperatives (hereafter "new cooperatives" or "new co-ops") and usufruct. These market-oriented policies aim to cut fiscal costs and improve productivity and wages. Self-employment had been authorized before but not at the current magnitude and speed; the self-employed own their micro-businesses but in the new co-ops (as in usufruct), the state keeps the property and leases it to co-op members who manage the business and keep the profits.

**Progress.** From 2006 to 2013, approved self-employed activities expanded at a rate of 28%, from 157 to 201 authorized categories of jobs, including the addition of some skilled jobs. By the end of 2013 there were 2,000 small restaurants (*paladares*) and 7,500 rented rooms (Resoluciones, 2013; *El País*, 6-1-2014). New cooperatives began in 2011 with barbers, hairstylists and manicurists. 222 new co-op activities were approved in 2012, and 71 more in 2014, including construction, transportation, garbage collection, produce markets, bird and shrimp breeding, light manufactures and food services (*Nuevo Herald*, 4-29-2013). Some 77 co-ops were created to market agricultural products in Havana City with the same functions as supply and demand markets (*Granma*, 7-1-2013 and 7-6-2013). In 2013, 2,401 state-premises were leased to 5,479 co-op members. In March 2014, 224 co-ops were operating and 228 more had been authorized (*Granma*, 3-3-2014). There are 2,150 barber and hairdresser co-ops with 5,500 members (*Bohemia*, 8-6-2013). The goal of this policy is for 40% of the employed labor force to be in the non-state sector by 2016. Effects of new co-ops cannot be evaluated due to their recent creation (Castro, 2013b).

Co-op members pay monthly rent to the state, purchase inputs, and freely set prices (the latter also being true for the self-employed). Spurred by the profit motive, members improve the locale, offer better services, earn five to six times their previous state salary and raise fiscal income. Co-ops and the self-employed are permitted to buy from, sell and lease to the government and tourist facilities including joint venture hotels, hire employees (not limited to family members), open bank accounts, receive micro-credit, and import household appliances. In 2013, some taxes were temporarily suspended or made more flexible. As a result, 20 state restaurants were transferred to co-op operation, and a wholesale enterprise began in the Isle of Pines to sell food, intermediate and consumer goods (computers, furniture, technical tools), and rent storage, frigorific and transport equipment. These products/services are sold to the state, cooperative and private sectors (including farmers and the self-employed) to stimulate their inception and development (Resolución MINCIN No. 52, 2-14-2013). In June 2013 the wholesale market was regulated through contracts, competition, and free market prices set by supply and demand (*Nuevo Herald*, 6-5-13). As a result, a co-op in Havana, Mayabeque and Artemisa now manages the first wholesale market leased by the state, based on supply and demand, breaking the state monopoly (*Reuters*, 6-20-13). State enterprises can lease wholesale and supply markets of produce to the new co-ops, trucks to all producers, retail markets to co-ops and the self-employed (that sell at market prices), and contract produce with all co-ops that directly contract with consumers (Decreto 318/2013).

**Hurdles.** Permitted activities for the self-employed are quite specific and mainly non-skilled (clowns, mimics, carters, bathroom caretakers), though few are skilled (realtors, translators, insurance agents), and university graduates cannot work on their own. Thus, an architect can be a taxi driver but not practice his or her trained profession privately. Such constraints waste Cuba's huge investment in education and obstruct the dismissal of state professional employees as well the expansion of the non-state sector. New co-ops must go through four bureaucratic stages to get approved and the final decision is left to the Council of Ministers. The government usually decides to transfer an activity to a co-op and workers can join it or be laid off, but the degree to which co-ops will be fully independent from state intervention remains unclear. Independence of the new co-ops vis-à-vis the state is questioned. Workers can be hired with a cap of 10% of total labor hours being worked by the co-op members and only for 90 days (*Reuters*, 8-26-2013; Ritter, 2013). Inspectors burden the self-employed and often ask for bribes. Norms strictly regulate all activity, even renting public bathrooms for self-employed caretakers.<sup>11</sup> Co-ops must obtain a license and pay high monthly fees and taxes, including taxes on sales, services, hired labor, social security and personal income—the progressive rate is 50% above \$2,000. Over five employees, the tax on labor applies a rate over the base salary that climbs from 50% to 200% according to the number of employees. Hence, the tax system penalizes the self-employed workers who create more jobs and it conspires against the state goal of laying off its unneeded workers—the tax rate is justified to avoid concentration of wealth (Ley 113/2012). Tax levies are high and deductible expenses low, thus inducing underreporting (Alonso and Vidal, 2013). In addition to disincentives caused by taxation, micro-credit granted and inputs sold are grossly insufficient,<sup>12</sup> state retail sales have a profit of 200%, imports are not allowed, and exports have dwindled (*Havana Times*, 5-9-2014). Wholesale markets in the experimental stage give priority to the state over the non-state sector. Prices are rising and Murillo has said they will not stabilize until output increases (*Bohemia*, 8-29-2013). Self-employment uncertainty (successively allowed, reduced and reauthorized) has been reinforced by recent actions: the closure of tiny business set in Havana building porches; the imposition of high taxes on sales of imported clothing and the later banning of those sales affecting 20,000 self-employed that might go underground; and the closure of home-based cinemas (including 3-D that state theaters do not show) and video-game arcades (*Granma*, 9-26-2013, *Reuters*, 11-2-2013). Decree-Law 315/2014 permits the confiscation of businesses and fines violators. In many cases, bureaucrats fear competition: a state-restaurant manager offering bad food and service is threatened by a nearby excellent private restaurant.

At the start of 2014, 596,500 state employees had been dismissed, amounting to 10% of the labor force and tantamount to 60% of the official target of one million layoffs at the end of 2011 and 33% of the goal of 1.8 million dismissals in 2014-2015. However, the creation of non-state jobs has been insufficient to absorb those who have been fired. The open unemployment rate grew from 1.6% in 2008 to 3.5% in 2012. Although the latter was the lowest in Latin America, it has been artificially reduced because of exclusion of

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<sup>11</sup> Resolución 512, Ministry of Economics and Planning on bathroom rentals has six pages in the *Gaceta Oficial*, 10-31-2013.

<sup>12</sup> In 2012, 133,291 loans were granted to individuals, averaging \$250; 90% was for purchase of building materials, leaving 10% for self-employed, coops and usufructuaries (*Granma*, 12-21-2012). In 2011-2013, 218,400 loans were granted, averaging \$141 and only 0.2% to self-employed (*Juventud Rebelde*, 12-19-2013, 12-27-2013).

workers not actively seeking employment (ECLAC, 2013b; *Juventud Rebelde*, 2-24-2014). Poor statistics are an obstacle to evaluating the expansion of the non-state sector. Table 2 shows the available official data in 2005-2013 on the employed labor force by state and non-state employment (the latter disaggregated by co-ops, self-employed and other private workers), but excludes private farmers, usufructuaries and land renters. Additionally, the categories are not consistent through time. Until 2011 co-op members were limited to the agricultural sector and showed a declining trend, but they rose in 2012 because new co-op members (barbers, hairstylists and manicurists) were added; “other private workers” also fell until 2010, but have increased since 2011 as workers hired by self-employed were clustered with the latter. Self-employment also declined from 3.6% to 2.9% in 2005-2010 and then rose to 9% in 2013. The state-sector share grew from 80.2% to 83.8% but fell to 75.2% in 2012; conversely the non-state share fell from 19.8% to 16.2% but jumped to 24.8% in 2012 due to the increase in all three components. If official data for 2012 (ONEI, 2013b) on all usufructuaries (300,810), land renters and private farmers (125,812) were added to the estimated non-state sector (1,219,000), the sum would be 1.6 million, or 34% of the employed labor force. However, if this sum were put together with 75.2% of the state sector, the total would be 109%.<sup>13</sup>

**Table 2. Employed Labor Force by Type of Employer in Cuba: 2005-2013** (in thousands and percentage of the employed labor force)

Years (Dec)	Employed Labor Force (ooo)	State Sector		Non-State Sector <sup>a</sup>						Total <sup>e</sup>	
		(ooo)	(%)	Cooperative <sub>s<sup>b</sup></sub>		Self- employed <sup>c</sup>		Other Private <sup>d</sup>		(ooo)	(%)
				(ooo)	(%)	(ooo)	(%)	(ooo)	(%)	(ooo)	(%)
2005	4,723	3,786	80.2	271	5.7	169	3.6	496	10.5	936	19.8
2006	4,755	3,889	81.8	257	5.4	153	3.2	456	9.6	866	18.9
2007	4,868	4,036	82.9	242	5.0	138	2.8	453	9.3	834	17.1
2008	4,948	4,112	83.1	234	4.7	142	2.9	460	9.3	836	16.9
2009	5,072	4,249	83.8	232	4.6	144	2.8	448	8.8	823	16.2
2010	4,984	4,178	83.8	217	4.4	147	2.9	442	8.9	806	16.2
2011	5,010	3,873	77.3	209	4.2	392	7.8	537	10.7	1,137	22.7
2012	4,902	3,684	75.2	213	4.3	405	8.3	600	12.2	1,219	24.8
2013	4,919					444	9.0				

<sup>a</sup> Excludes usufructuaries, private farmers and land renters (see text). <sup>b</sup> From 2005 to 2010, members of agricultural cooperatives; since 2011, likely also includes non-agricultural-production and services cooperatives. <sup>c</sup> Since 2011, data includes also their hired wage earners. <sup>d</sup> From 2005 to 2010, includes wage earners in mixed enterprises and hired by self-employed and private farmers; since 2011 those hired by self-employed are reported in the self-employed column. <sup>e</sup> Sum of cooperatives, self-employed and other private activities.

Source: Absolute figures from ONEI, 2010, 2012, 2013b, 2014b; self-employment in 2013 from AP, 1-15-2014; the author has estimated state, other private and non-state figures from ONEI figures, and calculated all percentages.

In December 2013 there were 444,109 registered self-employed workers (18% of which were hired workers), a net of 291,509 after subtracting the 152,600 self-employed previously approved prior to the expansion of the number of authorized occupations.. The 2012 goal was 695,300 and only 42% of that was met by the end of 2013. The 2015

<sup>13</sup> Feinberg (2013), adding estimates of unregistered and part-time self-employed, reaches 2 million workers, 41% of the employed labor force and 116% of the labor force.

goal is 1.8 million, thus demanding a six-fold increase of the 2013 net amount in just two years. Out of the total self-employed, 68% did not have a prior work record, but were probably illegal workers that became legalized; 18% kept state jobs while earning extra money on the side, and 14% were pensioners. Only 16% had been fired from state jobs in 2012. The primary work activities were food, transportation, house leasing, public vendors and home-good sellers; 61% was not specified (*Juventud Rebelde*, 8-16-2013).

**Comparisons.** The Sino-Vietnamese reforms have advanced much more than Cuba's in this area, as employment in the private sector goes beyond self-employment and new co-ops, engaging wage workers, and professionals can work on their own or in the private sector. In China, 75% of the employed labor force is in private enterprises and self-employment; they contribute between 50% and 60% of the GDP and half of total taxes; cooperatives are autonomous and usually own their business (Xianglin, 2013). In the most developed Latin American countries, formal salaried work in the private sector predominates, but self-employment still accounts for 18% to 24% of the labor force. In less developed countries, self-employment rises to between 40% and 58% of the labor force (the highest of which is in Bolivia and Peru), and is an important source of income and wealth, without the tough restrictions imposed in Cuba (ECLAC, 2012a). Latin American co-ops normally jointly own their businesses, are more autonomous and submit to fewer regulations than in Cuba as well.

#### *WAGE POLICY, REDUCTION OF GRATUITIES AND SOCIAL SERVICES, AND THE END OF RATIONING*

**State and market roles.** Wages are centrally fixed and quite depressed in real terms, and severe restrictions provoke labor-effort disincentives. The state provides "gratuities" and generous social services: universal free access to health care and education; large subsidies to the cost of social security pensions (prior to the 2008 pension reform, workers did not pay contributions and could retire at 55 for women and 60 for men, among the lowest ages in the region); rationed goods at subsidized prices; cheap meals in work-center cafeterias; and home ownership for most of the population. Starting in 2003, under the "Battle of Ideas" launched by Fidel, 3,000 municipal university campuses were created, significantly increasing the percentage of people in higher education. While enrollment jumped 40 times in the humanities and five times in physical education, it fell 39% in natural sciences and math, both essential to development. A social workers training program was also established, but those graduates were used inefficiently. Social services costs peaked in 2007-2008 taking 55% of the budget and 37% of GDP; 88% of the cost of rationed goods was subsidized at the cost of 25 billion CUP (\$1 billion USD) in 2013 (*Reuters*, 7-12-13). Even during the grave crisis of the 1990s, gratuities and social services were not trimmed. Despite high costs, the quality of such services declined: the real average pension fell by half in 1989-2011; due to an acute shortage of teachers (prompted by very low wages), "emerging teachers" were trained in only a few months, worsening the level of incoming students at universities; health-care infrastructure, equipment and services deteriorated. Additionally, Cuba has the second most aged population in the hemisphere and rapid



aging raises pension and health-care costs substantially.<sup>14</sup> Such economic and fiscal largesse is unsustainable in the medium and long term (Mesa-Lago, 2013b). Raúl Castro acknowledged these problems, stating that social services must be subordinated to fiscal resources and economic capacity, and launched a program to reduce social services, eliminate gratuities and rationing. These reforms are oriented towards the market but rule out any supplementary or partial privatization of social services.

**Progress.** Salary reform in 2008 strived to raise wages and incentives by authorizing multiple jobs and payment for results, eliminating the salary cap and legalizing enterprise stimulus bonuses in CUC or hard-currency. Other social reforms seek to reduce budget expenses by shutting down inefficient, costly programs such as schools in the countryside, thousands of municipal university campuses and the social-workers program; setting entry quotas and tightening entrance exams to universities, and sharply cutting enrollment in humanities and physical education while enlarging enrollment in natural sciences and math. The number of hospitals and clinics was cut by 32% in 2007-2012 and health professionals by 16% (ONEI, 2012); the expansion of herbal medicine and acupuncture attempts to compensate for cuts in health-care curative services. The pension reform increased retirement ages by five years for both genders and established contributions made by workers, but tied to a raise in their wages. Since 1995, Cuban economists have warned that universal rationing benefits the high income group that does not need this subsidy and have hence recommended eliminating rationing and establishing social assistance targeted to the needy. Accepting this idea, in 2006-2013, Raúl Castro gradually removed certain goods from rationing and began selling them at market price, several times higher than the rationed price. These goods included beef, tubers, lard, chickpeas, cocoa, cigarettes, toothpaste, detergent, soap and liquid gas. He also cut the quota for beans and eggs by half, and reduced the sugar quota by 20%. Utility tariffs and prices in foreign-currency shops (TRD) were also elevated.

**Hurdles.** Table 3 exhibits the results of multiple social reforms. No data are available on the effects of the 2008 salary reform, which possibly helped to increase the average real wage by two percentage points by 2011, though this was still 73% lower than the 1989 level. Expenditures in state-budgeted social services shrank from a peak of 55% of the total state budget related to current expenses in 2007 to 48% in 2012. In terms of GDP, these expenditures declined from 37% to 27.3% between 2008 and 2013. The most affected sectors were social assistance, housing, health care (despite population aging which increases health costs) and education. Social assistance was slashed by 76% while beneficiaries as a percentage of the population were reduced by 72%. Housing expenditures combined with communal services were cut from 2.9% to 1.3%; housing alone was 0.3% of GDP in 2012 (ONEI, 2013a). The pension reform reduced the state-funded financial deficit (annual revenue minus expenditures) from 41.5% to 39% of expenditures in 2009-2010, but it increased again to 48% in 2013, the highest on record. Relative to GDP, the deficit rose slightly to 3.1%. In the long run, the actuarial deficit (projected revenue to pay future obligations) will intensify due to population

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<sup>14</sup> In 2010, the population age 60+ (17.8%) exceeded that age 0-14 (17.3%); the former grew to 18.7% in 2013 (ONEI, 2014b).

aging and the high life expectancy at retirement age. Despite some nominal increases, the average real pension in 2012 was one half of its 1989 level.

**Table 3. Results of Structural Social Reforms in Cuba: 2006-2013**

Indicators	2006	2007	2008	2009	2010	2011	2012	2013 <sup>a</sup>
Real average wage (1989=100)	23.9	24.5	25.0	26.0	27.1	27.1	27.1	27.1
Real average pension (1989=100)	39.3	39.3	48.2	50.0	50.0	50.0	50.0	
Social current expenditures <sup>b</sup>								
% of state budget	53.4	<b>55.4</b>	53.1	54.0	53.1	53.6	48.2	51.1
% of GDP	28.9	33.2	<b>36.6</b>	36.3	33.9	32.6	29.6	27.3
Education (% of GDP)	10.0	12.1	<b>14.1</b>	13.1	12.9	12.8	12.0	10.8
Health care (% of GDP)	7.1	9.9	10.3	<b>11.3</b>	9.7	10.1	8.0	
Social security pensions (% GDP)	6.7	6.4	7.1	<b>7.6</b>	7.6	7.4	7.3	7.2
State financed deficit (%) <sup>c</sup>	37.4	35.3	40.5	<b>41.5</b>	39.1	41.0	43.1	48.1
% of GDP	2.5	2.2	2.9	<b>3.2</b>	3.0	3.0	3.1	3.1
Housing & communal services <sup>d</sup> (% GDP)	2.8	2.8	<b>2.9</b>	2.8	2.7	1.9	1.8	1.3
Social assistance (% of GDP)	2.2	2.0	<b>2.1</b>	1.5	1.1	0.5	0.4	
Beneficiaries (% total population)	<b>5.3</b>	5.3	5.2	3.8	2.1	1.6	1.5	

<sup>a</sup> Preliminary data. <sup>b</sup> Peak denoted in dark font. <sup>c</sup> [(current revenue - current expenditures)/current expenditures] x 100.

<sup>d</sup> In 2012, housing received only 14.4% of the combined total, and communal services 95.6%.

Sources: Real wages and pensions from Mesa-Lago and Pérez López, 2013; rest author's calculations and updating based on ONEI, 2013b, 2014b.

Some social reforms have harmful social consequences. Cuts in health services affect the population, e. g., reductions in personnel, especially family doctors (reduced to one third of former numbers due to their export to Venezuela and other countries; ONEI, 2013b), closure of some hospitals and clinics, and cuts in diagnostic tests and specialist consultations. Workers' cafeterias with subsidized prices have been shut down and replaced by a voucher system that is insufficient to buy lunch. Ending rationing is the toughest social reform. Although quotas are meager and only cover food needs for seven to ten days a month, the system is still vital for low income groups that do not receive foreign remittances. Hence, its elimination faces wide opposition. The vulnerable population has expanded due to substantial price raises in goods and public services (TRD charge a 240% markup), dismissals that doubled the open unemployment rate, and reduced access to family doctors. About 480,000 citizens age 60 and over are in need but only 15,825 slots are available in nurseries/asylums (*Juventud Rebelde*, 11-9-2103). Raúl promised that no afflicted needy would not be left unprotected, but social assistance has been severely curtailed. Although targeting is appropriate to detect beneficiaries not really in need, the VI Party Congress agreements ended assistance to beneficiaries with relatives who can help them, failing to address the generalized level of need and the expanding vulnerable population.

**Comparisons.** The Sino-Vietnamese reforms disrupted the pension and health systems because they were tied to big state enterprises now largely decentralized, as well as rural communes now disbanded. In China, formal and informal co-payments were

typical in education but now it is free. New systems are emerging: urban areas have medical care funds financed by the state, employers and workers, and users have a 15% co-payment; in rural areas, co-ops provide health care and the copayment is 30%; the new pension system is still in an early stage (Xianglin, 2013). These reforms in social-service financing are more radical than Cuba's.

After a significant increase in social spending in Latin America, a leveling off or decline, including in Cuba, began in 2010-2011. Despite this, the share of GDP used for social spending in Cuba is still twice the regional average (ECLAC, 2013a). In several Latin American countries, structural reforms privatized part of social services, often with adverse results. In health care, competing private for-profit corporations (HMOs) were created and expected to improve care and reduce costs, but in practice HMOs charged high premiums and co-payments, excluded pre-existing conditions, and imposed higher fees to women in their child bearing years and the elderly. In Chile, a pioneer in social reform, services in the public health sector deteriorated and later required significant investment, but as they improved, the population enrolled in HMOs declined from 25% to 16% whereas the public sector expanded. The Cuban pension reform was modest, limited to altering some parameters rather than fostering structural change.

Half of Latin America fully or partially privatized social security pensions from 1981-2011, increasing the capital accumulated in private funds and improving managerial efficiency of individual accounts. However, reforms failed to expand labor-force coverage, in most cases competition did not work, administrative charges were very high, and transition costs have been much greater and lasted longer than initially projected. Re-reforms in three countries between 2008 and 2010 have increased the state role in such pensions. Two closed the private system and moved all the insured and their funds to the public system. Chile kept the private system but improved it with higher pensions, enhanced social solidarity and gender equity, and strengthened competition. Aside from a few exceptions, public pension systems face growing financial and actuarial deficit, as well as inefficiencies, and pay low pensions (Mesa-Lago, 2012a, 2012b).

### *SELLING AND PURCHASING DWELLINGS*

**State and market roles.** The urban reform of 1960 confiscated most housing, forbade its sale and rental, decreed that homeowners could only keep one home, virtually banned private construction, abolished mortgages and granted tenants the right to pay monthly rent to the state for 20 years to become homeowners. A positive outcome was that 95% of the population now owns their own homes, but there were adverse effects as well. The rate of state housing construction was much lower than population growth, and many homes are in severe disrepair due to lack of maintenance (resulting from absence of construction materials, state restrictions on building, and the inefficiency of the government agency for repairs) and hurricanes that in the last ten years damaged one million dwellings, equating to 28% of the stock of 3.88 million units (ONEI, 2013c). The official housing deficit is 600,000 units, but the true amount is closer to one million by the author's estimate. The National Institute of Housing reports 1.17 million homes

(30% of the stock) to be in mediocre or poor condition (Benítez, 2013). In Centro Habana, 49% dwellings are in bad shape and 9% are in critical situation; 230 edifices collapse daily, and 24,311 residents live in temporary shelters (Herrera, 2013). To ameliorate these problems, building of private homes (termed “self-effort”) was permitted as were housing swaps (*permutas*) of homes of supposedly similar value. However, in practice *permutas* triggered bureaucracy and corruption. The housing reform (Decreto-Ley 288, 2011) is an important move towards the market.

**Progress.** The 2011 reform authorizes the sale and purchase of homes for Cuban citizens and foreign permanent residents at a price freely fixed by seller and buyer, ownership of a second home for recreation in the countryside or the beach, the right to inherit a home and for emigrants to pass it to relatives (or sell it before leaving the island). In addition, the reform permits sales of building materials at market price, grants subsidies for those in need with homes damaged by hurricanes to buy such materials, concedes some tax exemptions, and expands state microcredit (90% of which is to build/repair homes). Those eligible for the subsidy include home owners, tenants in a multifamily dwelling, and renters of state buildings. Two Supreme Court rulings in 2013 implicitly acknowledged a previous illicit transaction and authorized its payment in dollars, suggesting that the government wants to legalize prior transactions and improve market security (Circular 265, April 2013; *Cubaencuentro*, 9-10-2013). In 2013, the market-set collateral guarantee was reintroduced on jewels, precious metals, agricultural equipment, cattle and crops, as well as mortgages on recreation houses and empty lots but not on principal homes (Banco Central de Cuba Instrucción 1, 2013). Housing capital, which had been frozen for 50 years, can now be sold to change residence, invest in microbusiness, buy a cheaper dwelling and use the remaining funds to improve life, or get a small capital to settle abroad.

Dwellings transferred between November 2011 and March 2012 totaled 14,310, of which 80% were donations (probably legalization of prior illegal sales) and 20% were sales. In November 2012, 45,000 accumulated transactions were reported (without disaggregating those sold and donated) and 80,000 more in 2013 alone (EFE, 12-3-2013) for a total of 125,000, or 3% of the stock. And yet, it is reported that 100,000 homes were informally sold, similar to the number of formal transactions. A 2013 survey gave an average house sale price of \$31,498 (a fortune in Cuba), ranging from \$21,464 in Villa Clara to \$59,191 in Playa Havana, but \$500,000 in Miramar and \$2 million for a penthouse in Havana (Arlidge, 2013; *AP*, 4-30-2013; Benítez, 2013; Morales and Scarpaci, 2013).

Subsidies for poor families to repair their homes damaged by hurricanes were 566 million CUP from January 2012 to March 2013, granted to 33,431 beneficiaries, an average of 16,960 CUP (\$700) per person/household. The maximum subsidy to build a dwelling of 25 square meters is 85,000 CUP (\$2,500), a substantial sum in Cuba, and 5,000 or 10,000 CUP (\$208 and \$417) for repairs depending on the work needed (Acuerdo, 2013; *Granma*, 5-6-2013).

**Table 4. Housing Construction Total and by Builder in Cuba: 2006-2013**

Indicators	2006	2007	2008	2009	2010	2011	2012	2013
Dwellings built								
Thousand units	111.4	52.6	44.8	35.1	33.9	32.5	32.1	25.6
Units per 1,000 inhabitants	9.9	4.6	4.0	3.1	3.0	2.8	2.8	2.3
Dwellings built by (% of total) <sup>a</sup>								
Population	69.9	52.0	52.8	40.4	33.7	27.5	28.9	47.7
State	26.7	42.6	41.8	55.4	64.0	70.6	69.6	52.3

<sup>a</sup> Dwellings built by cooperatives made the difference to 100%.

Source: ONEI, 2012, 2013b, 2014b.

After peaking at 111,400 in 2006, the number of dwellings built dwindled to 25,600 in 2013, while the rate of units built per 1,000 inhabitants fell from 9.9 to 2.3 (Table 4). Despite positive steps taken, houses constructed by the population declined from 70% of total construction to 29% from 2006 to 2012 whereas those built by the state rose from 27% to 70%. Preliminary data for 2013, however, show a reversal to 48% and 52% respectively, an indication that reforms might be having better results on this front.

**Hurdles.** The major impediment to the sale of homes is that supply is higher than demand due to Cubans' low purchasing power. The average annual wage is 5,580 CUP (\$232) and a very cheap house costs \$5,000 so it would take 21 years of wages. Cubans also lack basic knowledge on how to evaluate their property and set a market price: no appraisers exist, and, due to the bad state of most dwellings, the buyer must invest about 50% over the asking price to repair the house, a fact that few know. Mortgages on primary residences are still banned and lending banks for housing don't exist (Morales and Scarpaci, 2013; *Reuters*, 3-20-2013). To sell a home it must be recorded in the municipal property registry and the transaction must be conducted by a notary public (*notario*). The registry was virtually abandoned and out of date because few cared to record their home or update its status; an attempt to create a national cadaster in the 1960s was abandoned. Only 17% of home owners have registered or updated their property status (based on ONEI, 2013c). There are additional hurdles to home sales including the insufficient amount of public notaries; until late 2013, realtors were banned, although they worked illegally and now charge a 5% commission; architects cannot work as self-employed, obstructing dwelling construction and repair. Advertising is limited to signs at homes, places where buyers and sellers meet, and a few web sites with low population access. The Cuban TV also began announcing sales in 2013, a step in the right direction (Arlidge, 2013; *Granma*, 7-11-2013).<sup>15</sup> Previously a 4% sales tax on the selling price was levied, but that requirement was suspended in 2013. As noted,

<sup>15</sup> The web *EspacioCuba* has 2,500 listings and 30-40 daily customers (AP, 4-30-2013). According to Morales and Scarpaci (2013), 100,000 homes were listed in mid-2013.



state budget allocation for housing comprises the second lowest amount of public spending and has been decreasing. The 2013 state plan for the sale of housing construction materials was 2.3 billion CUP or \$96 million (Murillo, 2013b), but actual sales reported in the first quarter were 539 million CUP (\$22 million) below the plan, because of insufficient equipment, low quality products, high prices and slow stock mobilization due to price rigidity (Benítez, 2013; Bustamante, 2013).

Legal procedures and regulations on building homes, selling houses and receiving subsidies are all cumbersome as well. A building application requires eight visits to four state agencies, which takes at least 132 days (*Granma*, 7-8-2013). Nationals cannot own more than two homes and non-resident foreigners are forbidden to buy houses; it is unclear if foreigners can own apartments built by Cuban companies in authorized luxury resorts (Palli, 2013). Municipal authorities decide who qualifies to build and also set priorities for subsidies, inspectors evaluate the applicant construction plan, materials needed and transportation costs, and the municipality makes the final decision. Detailed rules also define what goods can be bought with the subsidy at TRD (Acuerdo, 2013; *Granma*, 5-6-2013). Corruption, fraud and law infractions exist: to cut taxes the sale price is given as a fraction of the real one; donations hide new purchases; subsidies and construction materials are provided to persons that are neither needy nor have dwellings damaged by hurricanes; officials are bribed to approve illegal deals; foreigners buy homes and place their titles in the name of a Cuban relative or friend<sup>16</sup> (*Diario de Cuba*, 3-20-2013; Murillo, 2013b; *Reuters*, 3-20-2013; *Granma*, 10-4-2013).

**Comparisons.** China's ownership rights are much more liberal than Cuba's. The property law of 2007 allows national and foreign investors to own homes under construction on state-owned land and, once completed, grants the right to sell, lease and mortgage such rights for 70 years for residences (automatically renewable) or 40-50 years for industrial and commercial businesses. China does not have a unified national housing system; in Beijing a resident family can buy two homes and a child 18 years old or older can buy another two, and there is no limitation on commercial use. There are no restrictions on foreign permanent residents and large international companies (Blackstone, Morgan Stanley, and Goldman Sachs) have realty branches in China. Such property rights have led the real estate industry to make huge profits from a frenzy of eager buyers (many foreigners) that keep real estate prices bubbling (Palli, 2013; Xianglin, 2013). The home ownership rate in Cuba is the highest in Latin America, but no other country has so many restrictions and regulations on ownership, investment, buying/selling, building and repairing of homes imposed on its nationals and particularly on foreigners. Mexican trusts (*fideicomisos*) allow foreigners, through a domestic bank, to hold real estate titles for 100 years, generating huge investment with little risk (Palli, 2013). Mortgages exist throughout the region and most countries have housing lending banks that facilitate credit and construction. On a positive note, Cuban subsidies to the needy for home construction/repair are generous by regional standards.

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<sup>16</sup> There is a two-tier market: Cubans mostly buy small, cheap houses whereas foreigners with Cuban connections acquire the most expensive properties (*Reuters*, 3-20-2013).

## II. Reform Monitoring and Evaluation of Macro Results

### *REFORM MONITORING*

The VI Party Congress neither provided a timetable to implement the agreements of 2011, nor set priorities or a sequence of actions. The Permanent Commission reporting to the Council of State is in charge of coordinating, monitoring and overseeing implementation of the agreements. Chief of the Commission Murillo said that it has the authority to make changes to the agreements or propose new ones, and that it was developing a plan through 2015 that would be strictly fulfilled (*La Jornada*, 3-28-2012). Twice a year, Murillo reports to the National Assembly on the agreements' progress. The PCC First National Conference in 2012 stipulated that the Party is responsible for fostering and overseeing compliance of the agreements, especially updating the model, and to ensure that they do not become a "dead letter" (*Granma*, 1-29-2012). The Central Committee meets twice annually to review progress and prepare a report on the agreements' implementation. The leadership of the Party and of the government should closely oversee the process and, when appropriate, make adjustments to correct negative trends. The General Comptroller Office also exercises control over the reforms affecting the non-state sector; Director Gladys Bejarano reported a new stage in the implementation process in which statistical information would be a tool of management and monitoring, facilitating informed criticism, and the fight against corruption (*Granma*, 7-5-2013). The National Office of Tax Administration (ONAT) controls taxes in the non-state sector. The mass media must also provide regular, reliable information on the progress achieved and hurdles faced to keep the population informed regarding the reforms and any alterations that are made.

The creation of oversight entities and mechanisms to monitor the agreements' implementation is an important step as well, but several agencies are involved in the process without clear coordination and data exchanges. Reports are brief and broad with scant figures; in some cases, years pass without reporting a policy outcome or updating key data. Additionally, the National Assembly does not allow for frank debates on the progress of the economic reforms, and is not provided with sufficient data for informed discourse. Evaluating the effects of the reforms demands a robust statistical base. The Permanent Commission may gather such data, but it has not publicly released it despite Raúl's call to do away with secrecy and to keep the people informed. ONEI lacks statistics on usufruct; the number of usufructuaries began to be published in 2013, but figures are still needed on cultivated land, production, yields, sales and prices, disaggregated by producers (state farms, cooperatives, private farms and usufruct). Meager data is available on credits given to farmers, their purpose, and repayment performance, and also on inputs sold to them. No data has been published on the impact of the 2008 salary reforms, poverty incidence, income distribution, average salary by gender and race, and number of dwellings sold or donated since the end of 2012. The party and the government conduct public opinion surveys, but don't publish them (although a few scholars conduct and publish limited surveys). So far no surveys have been released about the people's views on the reforms and desired changes. In 2013, Minister of Finance and Prices Lina Pedraza reported a significant quantity of unpaid

personal income tax and under-declaration of income due to weakness in the state tax collection system. ONAT has an obsolete information system (e.g., deceased self-employed are still enrolled, payment delays on file for those who actually paid on time) that must be updated in 2014 and must make short-run changes to adjust to the new stage of the reforms (*Granma*, 7-6-2013). Moreover, the fight against corruption, one of Raúl's key targets, has not been accompanied by transparency and accountability of state enterprises and agencies (see Romero, 2014).

## MACROECONOMIC RESULTS

In most cases it is not possible to attribute macroeconomic performance to the reforms because of other factors that could not be isolated; but as Table 5 illustrates, macroeconomic indicators have not improved since the implementation of the reforms.

**Table 5. Reforms and Macroeconomic Performance in Cuba: 2006-2013**

Indicators	2006	2007	2008	2009	2010	2011	2012	2013 <sup>a</sup>
GDP constant prices (%)	12.1	7.3	4.1	1.4	2.4	2.8	3.0	2.7
Capital formation <sup>b</sup> (% GDP)	10.4	9.7	10.8	5.4	8.6	7.7		
Agricultural output (%)	-7.5	19.6	0.6	3.3	-5.1	5.0	0.5	
Ibid (% GDP)	3.2	3.7	3.6	3.7	3.5	3.5	3.7	3.6
Crops output (2005=100)								
Tubers and plantains	85.5	92.0	83.5	86.8	87.4	88.5	90.7	86.9
Vegetables	83.4	81.2	76.1	79.5	66.8	68.8	65.9	75.1
Cereals <sup>c</sup>	101.3	110.7	104.3	118.9	106.7	126.0	137.2	150.4
Beans	66.4	91.5	91.5	104.2	75.7	125.2	119.6	122.2
Citrus fruits	67.2	84.5	70.6	75.6	62.2	47.7	36.7	30.0
Other fruits	91.1	95.7	90.1	91.3	93.0	99.7	117.8	112.9
Cacao	102.5	66.7	53.2	67.1	82.6	73.0	98.0	
Tobacco	114.2	98.5	82.6	96.9	78.8	76.5	75.0	
External trade (billion pesos)								
Import of goods	9.5	10.1	14.2	8.9	10.6	14.0	13.9	14.8
Export of goods	2.9	3.7	3.7	2.9	4.5	5.8	5.9	5.7
Agricultural <sup>d</sup> (% of total)	0.5	0.4	0.4	0.5	0.3	0.4	0.4	
Balance of goods	-6.6	-6.4	-10.5	-6.0	-6.1	-8.0	-8.0	-9.1

<sup>a</sup> Preliminary data. <sup>b</sup> Gross fixed capital formation. <sup>c</sup> Rice and corn. <sup>d</sup> "Agricultural/cattle products by groups."

Sources: ONEI, 2013a, 2013b, 2014b, and author's calculations including crops output index.

**GDP.** Growth rates declined from 2007 to 2009 due to domestic problems and the global crisis. Although a partial recovery process began to take place, growth slowed to 2.7% in 2013 (below a 3.6% goal), the sixth lowest rate in Latin America; the officially projected growth for 2014 is 1.4% below the goal of 2.2% (*Granma*, 6-23-14). Growth averaged 2.5% in 2009-2013 whereas 5-6% is needed to spur adequate development. Minister Yzquierdo (2013) blamed the poor growth on Hurricane Sandy, non-fulfillment of hard-currency revenue, planning flaws, bad investments, insufficient credit and low labor productivity. Raúl (2013) recognized that "still GDP performance is not noted in the average Cuban family economy." Gross fixed capital formation fell from 10.8% to 7.7% in 2008-2011, vis-à-vis 25.6% in 1989, with a regional average of 22.7%, versus 50% in China and Vietnam (ECLAC, 2012b; Pérez Villanueva, 2013). In both indicators, performance has been well below planned targets.

**Agriculture:** Nova (2012) argues that the agricultural sector is decisive and strategic because of its spillover has multiplying effects in other sectors of the national economy. If this sector does not have the expected results, as has happened in recent years, the multiplying effect is negative. Agricultural output decreased 5% in 2010 and grew 0.5% in 2012 (a quarter of the goal of 2.2%); as a percentage of GDP it was stagnant from 2007 to 2013 (Table 5). The output index shows that by 2010, two years after the first usufruct law, output in all crops except cereals was substantially below 2005, although by 2013 also beans and some fruits had exceeded that level. ONEI (2013a, 2013b) preliminary reports show that in 2013, non-sugar agricultural output grew 2.6% but there were significant declines vis-à-vis 2012: citrus 18%, tubers and plantains 4% (plantains 26% and potatoes 18%) and non-citrus fruits 4%.<sup>1</sup> In 2012, milk and eggs fell 17%. Conversely, vegetables grew 14%, cereals 9.7% and beans 2% (ONEI, 2014b). With very few exceptions, all output indicators are well below 1989 levels (Mesa-Lago and Pérez-López, 2013). Cuba's General Auditor attributes the lack of results in usufruct to the failure to change the mentality of state entities and their leaders (*Granma*, 3-3-2014).

The usufruct effect on agricultural output is difficult to measure because it is not disaggregated within the CCS/private sector (where it must belong) but usufructuaries were the only to receive idle state land. Also, the more flexible 2012 usufruct law entered in force in December and its full potential cannot be assessed until final data are available for 2013. The CCS/private sector share in total cultivated land by crop expanded in 2011-2012 and in the latter year ranged from 89% to 97%, except for citrus and beans where the state had a majority. The sector share in total agricultural output also rose and oscillated between 85% and 97% with the same two exceptions noted. Finally, sector yields in most crops were higher than those of the state. Total agricultural output virtually stagnated in 2012, but while state production declined in nine out of ten products, CSS/private sector output rose in six out of ten, which could be interpreted as a usufruct outcome (based on ONEI, 2013b). And yet, data for 2013 contradict such interpretation: CSS/private sector output contracted in six areas and rose in four whereas the opposite was true of the state sector (ONEI, 2014a). One explanation for this oddity is that private and usufruct farmers are diverting output from state *acopio* to the market, but this should have been the case in 2011-2012 also.

**Exports/imports:** The balance of trade in goods ended in a deficit for the entire period (2006-2013), reaching a record of \$10.5 billion in 2008,<sup>17</sup> which led to debt insolvency. After proper policies were enacted, the deficit shrank but rose again to \$9.1 billion in 2013, the second highest in history. Due to poor domestic performance, the share of agriculture and livestock in total exports was minimal and fell from 0.5% to 0.4%; food imports account for 70% of consumption and rose from \$1.5 billion to \$2 billion in 2011-2013 (*Granma*, 12-15-2012, 7-7-2013; ONEI, 2013b). Cuba's heavy trade-economic dependence on Venezuela is risky because of the latter's economic-political problems, coupled with the lack of tangible macroeconomic results.

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<sup>17</sup> ONEI yearbooks refer to "pesos" not specifying if they are CUP or CUC; ECLAC gives same data in US dollars.

**Comparisons.** In the initial six to seven years of the Vietnam reform, more aggressive reforms led to it having higher GDP growth rates, investment, agricultural output and exports than Cuba, despite being under a similar US embargo (Vidal, 2014). People in China and Vietnam are satisfied with the reforms because they resulted in improvement in living standards but in Cuba the lack of economic results and some adverse social effects have not generated such positive feelings.

### III. Conclusions and Ways Forward

Institutional reforms are advancing in Cuba and are positive overall. They include the establishment of microcredit, bank accounts and wholesale markets for the non-state sector, the sale of homes which was previously banned, and inheritance rights of usufructuaries and home owners. These are the most important reforms under the revolution. Furthermore, many of them either lack a precedent—mass dismissal of unneeded state employees, elimination of or reductions in gratuities and social services, home sales, and commercial relations between the state and non-state sectors—or they have advanced much more than previous reforms, like self-employment. The reforms are oriented towards the market. For example, prices are set by supply and demand in home sales and self-employed/co-op services; the self-employed own their tiny businesses; new co-ops are managed by their members who enjoy the profits; and the number of economic agents has expanded, as has the competition between them. The reforms try to increase efficiency and production, but while they have not improved legitimacy, levels of uncertainty have grown (Alonso and Vidal, 2013). Key structural changes and components of the new model are still missing: integral price reform, elimination of monetary duality, a realistic exchange rate, and bank system restructuring. The reforms are being implemented slowly (albeit with more dynamism in the last two years), and they have not produced tangible results. The reforms still fall far behind the Sino-Vietnamese reforms, and Raúl has less than four years left to complete them. Cuba's reforms run counter to the shock therapy typical of Latin America, where the market and private property predominate even in countries that in recent years have reinforced the state role. It is highly unlikely that the reform process be reversed, as has happened before, because of the magnitude of the socio-economic troubles accumulated over 55 years of centralized state socialism and the lack of feasible alternatives. Summarized below are the most important conclusions and some suggestions for moving forward.

**Updating the model.** The Cuban economic model is not being transformed but updated gradually, preserving the supremacy of the central plan and state property over the market and non-state property (though with the latter expanded). Most Cuban academic economists seek a more balanced mix of planned economy and state-owned property with an open market and non-state-owned property. Updating the model will be a long and complex process which has been unsuccessful in other former socialist countries, as it has in Cuba. Several key components of Cuba's changes in 2014 in the largest state enterprises were attempted before and then abandoned. It took 33 months



to organize a team to study and conceptualize the first version of the new model. The greatest obstacle to the reforms seems to be the model itself. If Cuba were to follow an adapted “socialist market” or mixed economy model, as in China and Vietnam (which have a private sector, open markets and foreign investment, combined with an indicative plan and decentralization of decision making) it would achieve much higher-sustained economic growth under the Party rule.

**Usufruct.** The Sino-Vietnamese experience shows that agricultural reform is pivotal. Cuba’s agricultural reform is mainly executed through usufruct and has required a second law, more lax than the previous law but still restrictive. At the end of 2012 there were 174,271 usufructuaries but 142,862 had been working the land for 20 years without a significant role in increasing agricultural output. Officially, usufructuaries received 1.5 million hectares of agricultural land, but it is possible they only received one million. The average plot size was either six or nine hectares, much lower than the 13 or 67 hectares respectively allowed in the two usufruct laws of 2008 and 2012. Either 33% or 54% of usufruct land was not yet producing at the end of 2012, probably the result of the hurdles analyzed. New usufructuaries have been working for five years but agricultural output declined in 2010, stagnated in 2012 and possibly rose slightly in 2013. Cuba could accomplish food self-sufficiency in a few years, save \$2 billion in imports and generate a surplus for export, if it shifted to indefinite usufruct contracts with the right to decide what to plow, to whom to sell produce and to fix all prices. *Acopio* should be eliminated completely.

**Dismissals and expansion of the non-state sector.** Statistics for 2012-2014 that include accurate disaggregated data by type of employment are needed. The dismissals plan is far behind the goal, yet open unemployment still rose to 3.5% in 2012, even excluding those not seeking jobs. Since 2010, the state sector has declined whereas the non-state sector has expanded. Despite the increase in self-employment, members of new co-ops and their hired manpower, total net job creation has not grown enough to absorb the state-employment surplus. To dismiss unneeded state employees, save substantial resources and raise state wages, more flexibility is crucial to expanding the non-state sector. To accomplish this, the state must permit self-employment in skilled, high-value-added jobs for university graduates, authorize medium-sized enterprises and co-operative ownership of businesses, allow true co-op independence, reduce excessive taxes on non-state workers, halt government measures that create uncertainty, and expand microcredit and wholesale markets.

**Social reforms.** Social expenses were cut 7 percentage points relative to both the state budget and GDP. Most cuts are rational and efficient but rising unemployment, fewer goods sold by rationing, ending gratuities and escalating prices have caused adverse social effects and expanded the vulnerable population while social assistance expenditures were slashed by 76%. The pension reform neither reduced the financial deficit funded by the state nor improved actuarial equilibrium. And yet, universal free access to education and health care continues, and pension coverage of the labor force is one of the highest in Latin America.

Cuba has rejected the structural social reforms in the region that privatized pensions and health care, and also avoided the Sino-Vietnamese disruption of those systems. But access and quality of social services have deteriorated and, despite salary reform and nominal increases, the real average wage is 27% of its 1989 level and the real average pension 50% of its 1989 level. A social safety net to protect the needy and vulnerable should be financed with tax-reform revenue. Allocation of health funds could improve targeting the most essential needs (water and sewage infrastructure, as well as geriatric hospitals and asylums, instead of reducing the already quite low infant mortality). Education expenses could also be reduced, eliminating costly programs such as foreign student fellowships. The Latin American lesson for Cuba is not to privatize pensions but to close the current system and create a new funded public pension system for young workers (with supplementary individual accounts), with a solid actuarial base, appropriate reserves and efficient administration in order to ensure adequate pensions in the long run and provide resources for productive investment.

**Housing.** This is considered the most serious social problem even though 95% of the population owns their own home, the highest home ownership rate in Latin America. Despite steps to stimulate home building, the rate of new homes built fell by 77% from 2006 to 2013 and from 70% to 29% of those built by individuals although an upbeat reversal occurred in 2013. The sale and purchase of dwellings at market prices liberates housing capital that has been frozen for half a century. There were 125,000 home transactions between 2011 and 2013, which accounts for 3% of the housing stock. These were mainly donations but another 100,000 homes were sold reportedly informally. These meager results are due to a number of complicating factors: supply far outstrips demand given low purchasing power; foreign investment is precluded (although it happens anyway); owners lack knowledge of the market; excessive regulations; the property registry has been outdated for half a century and only has 17% of owners registered; no mortgages are permitted on main residence and there is a lack of housing financing banks; architects are banned from working privately; there is an insufficient number of public notaries and realtors were only authorized in 2013; and Cuba has experienced a slowdown in construction-materials sales. To get better results, foreigners—including émigré Cubans—should be permitted to buy houses or help their relatives do so, mortgages should be allowed on main residences, credit should be expanded with the help of foreign countries and NGOs, architects should be permitted to work privately, the non-state sector should play a key role in the construction industry, and a housing lending bank should be established as in many Latin American countries.

**Monitoring.** Several state agencies and mechanisms have been created to monitor the reforms, the most important being the Permanent Commission, but appropriate coordination and sharing of data among them is needed. Despite periodic Commission reports, there is no statistical series on the reform effects, which are essential for proper assessment and adjustments, transparency, and accountability. More public debate at the National Assembly on the reform results is necessary, as well as critical evaluations by the news media.

**Macro effects.** The macroeconomic effects of the reforms are difficult to evaluate due to a lack of statistics and the inability to isolate other factors that may have an impact on

performance, but agricultural output fell or was stagnant in three of the last four years. Effects on GDP are even more arduous to assess, but growth rates in 2011-2013 were among the lowest in the region and the reforms have not helped to increase them. Agricultural exports are a tiny fraction of the total and the reforms have not reduced costly food imports due to negative/stagnant agriculture output.

Why are the reforms so slow and cramped with obstacles, taxes and disincentives that conspire against their success? According to Raúl, the reforms are complex and difficult, take time to achieve results and must not be hurried so as to avoid costly errors. Alonso and Vidal (2013) argue that the slow path may be a way to face the resistance of potential losers like the bureaucrats. Critical opponents claim that there is no real intent to reform and that all the reform efforts to date have been a ploy to win time. It is plausible that a conflict exists within Cuban leadership; the most advanced members push for the reforms but the hard-liners—fearful of delegation and loss of economic power and a "snowball" effect—attach controls, regulations and taxes which they justify by arguing that they avoid wealth concentration. Such conflict leads to compromises that breed an ineffective hybrid model, unable so far to bear the results required to improve living standards and get the population support and legitimacy. Raúl has been in power for more than seven years and his reforms have not yielded tangible results. He has promised to retire in February 2018 when his second five-year term expires and he will be 86. Thus, less than four years are left for him to complete the key institutional changes the nation urgently needs.<sup>18</sup>

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<sup>18</sup> Cuban economist Ricardo Torres has stated: "We don't have the luxury to spend six more years dealing with relevant issues in which we must advance much faster" (*Trabajadores*, 9-18-2013).

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A stylized graphic of the American flag, featuring a large, light blue star in the upper left corner and two vertical stripes, one light blue and one dark blue, running down the right side of the page. The background is a dark blue, textured surface.

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