Cuban Economists Envision Role For Markets in Post-Castro Era

By BOB DAVIS
January 10, 2007; Page A1

With Fidel Castro ailing and absent from the public stage, some influential Cuban intellectuals are laying plans for a more market-oriented approach to fortify the island's ailing communist economy.

The debate over economic experimentation, squelched a decade ago by the Castro regime, offers a glimpse of what a post-Castro Cuba could look like. Now, it is intensifying at a time when Castro disciple Hugo Chávez is steering Venezuela toward the kind of hardline socialism that has failed to produce prosperity in Cuba.

Together, the Cuban economists' proposals would cut down on state interference in businesses and aim to wring more productivity out of the island nation's economy. Among the steps under discussion: decentralizing control, expanding the power of managers at privately owned agricultural cooperatives, extending private ownership to other sectors, boosting investment in infrastructure and increasing incentives to workers.

None of the plans would shuck communism for capitalism or open the island further to foreign investment -- which economists outside Cuba say are critical for the island to prosper. But the fact that the government is permitting -- and perhaps even encouraging -- the debate suggests regime officials might find these kinds of changes acceptable, though it may take Mr. Castro's death to put them into action.

"We are in the midst of a process of debate, which is cautious and controlled, but is happening for the first time in many years," said Pedro Monreal, a senior professor at the Center for Research on the International Economy in Havana. "It's an historic moment," says Julia Sweig, a Cuba specialist at the Council on Foreign Relations in Washington. "The Cuban regime feels confident enough to have voices it once purged be at the center of the economic debate on reform."

The proposals are prompted by the continuing economic privation in Cuba, where state salaries don't come close to covering living costs. But the planning is made more immediate by the 80-year-old Mr. Castro's continuing health problems. The Cuban government hasn't disclosed the nature of Mr. Castro's illness -- a Spanish surgeon recently said it isn't cancer -- but he hasn't been seen in public since temporarily relinquishing power at the end of July, and he is unlikely to return to his presidential duties.

Phony Numbers

Cuba claims its economy grew at 12.5% last year, after an 11.8% gain in 2005, which would make it one of the world's fastest-growing nations, but critics say the numbers are as phony as those once produced by the Soviet Union. Carmelo Mesa-Lago, a professor emeritus at the University of Pittsburgh, who has long
tracked the Cuban economy, says Cuba engages in statistical sleights of hand, such as double-counting entries, changing base years to yield better results and failing to show how it estimates revenue produced by Cuban doctors and other professionals working overseas.

"I don't see anything [in Cuban economic statistics] that would warrant this magic rate of growth," says Mr. Mesa-Lago, who figures the government is probably inflating its growth statistics by at least two-thirds.

Whatever growth Cuba manages owes a lot to Venezuela, which provides it with subsidized oil -- some of which Cuba re-exports -- and employs tens of thousands of Cuban professionals. President Chávez sees himself as an heir to Mr. Castro in leading a bloc opposed to U.S. policies, and earlier this week said he would nationalize his country's largest telecommunications and electric-utility companies, aping Mr. Castro's early moves in his turn to communism.

Even with the aid, most Cubans are able to scrape by only by working in black-market enterprises or because of cash sent by relatives in the U.S. and Europe. The disconnect between the Cuban government's claims and the Cuban's people's bleak living standards may increase popular pressure for change. "The Cuban people can believe that the economy is growing statistically, but it's not growing in their homes," says Rafael Hernández, editor of the magazine "Temas" - - "Issues" in English -- a scholarly quarterly in Havana that writes about the Cuban political-economy and society.

Mr. Hernández says the government should pick up the renovation agenda that Mr. Castro and his brother Raúl, now Cuba's acting president, shut down in 1996 for straying too far from socialist ideology and for potentially undermining political control. At the time, the regime approved agricultural co-ops -- which survive today -- where the state continues to own the land but members own the business and equipment. These entities can sell a portion of their output in farmer's markets at prices higher than those set by the state. Now, Mr. Hernández says the co-ops should be used as a model for other sectors.

Small textile or shoe makers should be able to start co-ops that sell in private markets, he said. Currently, the government permits only families to own such private businesses; a co-op would be able to expand and hire employees outside the family. But under Mr. Hernández's concept, co-op members wouldn't be permitted to sell shares in their venture, which might accelerate capital accumulation. "Co-ops are socialist," he says. "You could do it without violating socialist principles."

Omar Everleny Pérez, a senior researcher at the Center for the Study of the Cuban Economy in Havana, agreed "there should be an increase in the space for the private sector and cooperatives, not only in agriculture, but in other sectors," although he isn't as specific as Mr. Hernández or as confident that change is coming.

Mario González-Corzo, an economist at the City University of New York's Lehman College, says the cooperatives would have to be decentralized and revamped to have much of an economic impact. Currently, the government subsidizes co-ops' purchases of fertilizer, machinery and other goods, and sharply limits how much they can sell privately. Managers have to bargain extensively with government officials to get permission to change prices.

Mr. Monreal, the Cuban international economist, says the island's economy needs a more thorough makeover, along the lines of what China and Vietnam managed. Cuba is deficient in "calculation, motivation and innovation," he says. By that he means Cuba doesn't let markets determine prices, provide enough incentives for firms and enterprises to earn money, or encourage Cubans to take economic risks. Following a China model would require far more decentralization and acceptance of private markets than Cuba has ever permitted.
Even to well-connected Cubans, the direction of the debate is difficult to follow.

'Black-Box Process'

"It's a kind of black-box process," says Mr. Monreal. He views Raúl Castro's decision last month to examine agricultural problems, but to defer any decisions for six months until an economic survey is completed, as a template of how the regime will incorporate changes. The president's brother, who has served for decades as defense minister, has frequently backed economic overhauls and the companies owned by Cuba's armed forces -- including tourism firms, cigar marketers and consumer-goods retailers -- are among the best-managed on the island.

But 76-year-old Raúl lacks his brother's commanding presence, and needs to move cautiously to broaden support. He appears to be trying to do so by allowing the economic debate to proceed. In December, he told university students in Havana that they should debate issues "fearlessly."

Monreal, Mr. Hernández and others were forced out of their jobs. Mr. Hernández said he believes that even if the political winds once again shift against him, "that wouldn't shut down the expressions of opposing views."

It may take Mr. Castro's death -- or at the very least, a public declaration that he is permanently incapacitated -- to give government officials the confidence to institute even modest economic retoolings. Mr. Castro has relentlessly opposed any changes that smack of capitalism, and believes Venezuelan oil subsidies have reduced the island's economic problems and need for market-based incentives.

In the past few years, Mr. Castro has led drives to recentralize the economy and stamp out corruption, which has often meant more repression of Cuba's tiny private sector. For instance, he fired thousands of gas-station attendants he suspected of siphoning off gasoline to sell on the black market, and replaced them with "social workers" -- Cuban youths doing government service. The government has even banned private citizens from starting businesses as masseuses and clowns.

Write to Bob Davis at bob.davis@wsj.com

URL for this article:
http://online.wsj.com/article/SB116840262503872329.html

Hyperlinks in this Article:
(1) mailto:bob.davis@wsj.com