

Chapter 4

CUBA: A PROJECT TO BUILD SOCIALISM IN A NEOLIBERAL WORLD

Al Campbell

Resources were not obtained by opening the economy to market forces, or by privatizing government property, or by trimming social expenditures. Different from other readjustment cases, it was not acceptable to apply market and neoliberal laws to restrict without limits the levels of consumption and investment. Such activities would have resulted in the absolute poverty of most of the population and the total loss of the ability to lead development in favor of the national interest.

José Luis Rodríguez,
Minister of the Economy and Planning¹

Introduction

With the dissolution between 1989 and 1991 of the non-capitalist Soviet international economic block that Cuba had been part of (COMECON), Cuba had to decide what new type of economic system to build. Unlike its former “socialist” allies, Cuba consistently maintained its intention not to allow a capitalist restoration.² By 1991 neoliberalism had become the dominant form of capitalism in both the First and Third Worlds. The post 1991 effects of global neoliberalism on both Cuba’s narrowly defined economy and its broader (very linked) social project can be understood in the following frame: the intersection of 1) Cuba’s rejection of neoliberalism as being incapable of bringing authentic social and economic development

to Third World countries, 2) Cuba's commitment to look for new structures to build socialism, 3) Cuba's necessary extensive economic interactions with international neoliberal capital, and 4) the latter's inherent drive to reshape Cuba's economy and society in accord with neoliberalism's own intrinsic nature.

This essay will look at the following aspects of the interaction of the Cuban economy with global neoliberal capital since the demise of COMECON. Section two will briefly review Cuba's consistently maintained rejection of neoliberalism and capitalism, its commitment to building socialism and its recognition that certain "concessions" would have to be made to international capitalism to assure the survival of their project. Then section three will address the issue of "what neoliberalism is", to the minimal extent needed for the subsequent discussion of its effects on Cuba since 1991. Section four will give several quantitative measures of neoliberalism's influence on Cuba through its external channels, foreign trade and especially the much discussed foreign investment and joint ventures. Then section five will turn to what this author will argue is a much more important issue for the socialist future of Cuba, the possible effects of neoliberal ideology on the current reforms in the state-run main system of domestic production. Here the focus will be on the current discussion in Cuba concerning the functioning of state enterprises, which includes among other important aspects both a changing relation of the enterprises to the state and (perhaps) a changed concept of work motivation and justified remuneration. With all this as background, the sixth section will discuss several fundamental structural aspects of the Cuban economy that are incompatible with capitalism, that would need to be completely reversed for a capitalist restoration, and which are not currently under discussion as part of the considerations of economic reform. Section seven will then address one particular high-visibility aspect of the currently discussed reform process that some defenders of Cuba's socialist project consider particularly dangerous to that project. The chapter is then concluded.

A Declared Rejection of Capitalism and Commitment to Building Socialism

Literally hundreds of speeches and written articles from 1989 to the present by both political leaders of the Revolution and Cuban academics present Cuba's consistent position of rejecting a capitalist restoration as a desirable path for new growth and development for their country. The purpose of the following very small sample from those declarations is to both reflect their position and to give an indication of the reasons they give for their rejection. The first sample is a series of quotes from three speeches by Fidel. The first two come from just after the worst part of the economic downturn, while the third is from a speech two years later, so all three are early in the almost two decade period since the end of COMECON in 1991. The next sample represents the position of a broad and influential social group in Cuba, the CTC union federation that represents the large majority

of Cuba's roughly four million economically active non-agricultural workers. The third sample comes from a little discussed independent survey by the Gallup polling company concerning the attitudes of ordinary Cubans toward a number of aspects of Cuban society. Again this was carried out very soon after the nadir of the economic downturn, when life in Cuba had been very hard for four years. The last sample jumps in time almost to the present, after many of the hardships of the special period had been left behind, and the discussion concerning the economic reforms that are occurring today was just beginning to unfold.

Capitalism and social development always have been, always are, and always will be irreconcilable. Capitalism and plunder, plunder within and outside the country, are inseparable. Capitalism and unemployment are inseparable.³ There will be no transition towards capitalism.⁴ We had to establish joint ventures in a relatively short time period, we had to accept foreign investment, we had to do what we did in respect to the decriminalization of convertible currency We are aware of the inequalities that it created, the privileges it created, but we had to do it and we did it.⁵

We have seen that all this opening we have made, this experience, has been a bag of problems, of contradictions, of daily headaches.⁶

Capitalism as a system belongs to prehistory, even though we know that it rules in the world, and we know that it rules and how it rules, but it has nothing to offer people, one wolf wishing to devour another wolf, that's its sermon; a merciless selfishness that has nothing to do with what we would wish for human beings.⁷

At its five-year national congress in 1996 the CTC adopted 168 theses on the current situation and its tasks. Theses 15 to 37 constituted section II of the document, which was entitled "Our Strategy Does Not Lead to Capitalism," and argued that position.⁸

In 1994 fourteen Gallup pollsters questioned 1,002 randomly selected⁹ adults on their attitude toward the revolution. Here we have a still broader group than the CTC, a statistical sample of the entire Cuban population of the time. Sixty-nine percent identified themselves as communists, socialists or revolutionaries, and hence were against the restoration of capitalism.¹⁰

At the December 2005 session of parliament ("National Assembly of People's Power"), Cuba's then Minister and President of the National Bank of Cuba, Francisco Soberón, gave a speech that was reproduced in

full in the press. Its final line was "Socialism is not a conjunctural option for Cubans but rather the destiny that we have freely and irreversibly chosen."¹¹ Again, the reasons given for this position, in this case as part of a speech that argued Cuba would be adopting more market-like and market mechanisms in the near future, are of interest.

.... we should begin by emphasizing that for its 46 years the Revolution has always tried, even under the most adverse circumstances, to assure the most equitable distribution possible, in accord with the morals of our Socialist system. ... In our Socialist system the environment of cruel insecurity has disappeared, and people have a good part of their basic necessities guaranteed, independent of their contribution to society. ... Comrade Fidel said on a particular occasion that the Revolution will not have reached its highest moral values until we are able to create much more as free humans than we are able to produce as slaves. ... Perhaps one of the most complex dilemmas that confront a Socialist revolution is to achieve efficiency in economic management without renouncing the politically strategic objective of creating a communist consciousness. ... In Socialism, which gives dignity to humans and frees them from alienating consumerism.... By expressing these ideas, one runs the risk that some will think that what we are trying to make understood is that people should work only for money. That would be a grotesque transfer to Socialism of the most vulgar relation that any ignoramus is capable of perceiving in capitalism.¹²

International opponents¹³ of the Cuban social system have two obvious possible arguments as to why these universally maintained declarations by Cuba's political leadership do not preclude a transition to capitalism. The first is that the leadership is being duplicitous, deliberately misrepresenting its intentions to restore capitalism because that would not be politically palatable to the Cuban population. The second is that although they indeed intend as claimed to maintain their project to build socialism, by instituting the market-like reforms that they now are implementing, they have moved onto a "slippery slope" that will lead to the restoration of capitalism against their will.

The following two quotes reflecting these two positions come from the mid nineties, when an international debate erupted about whether the market-like mechanisms and markets introduced in Cuba at the time indicated or prepared the way for a restoration of capitalism. They are included at some length because they are exactly the discussion going on now concerning today's reforms. The *Economist* made the duplicity argument.

However, hardline speeches will deflect attention from a shifting ideology and a deepening of economic reform and social transformation. There are indications that the PCC congress {the fifth party congress of the Partido Comunista de Cuba in October 1997- A.C.} will include efforts by party ideologues to link the market reforms so far introduced to the idealistic socialism identified with the national hero, Ernesto “Che” Guevara.¹⁴

... [the congress] could yet herald a new phase in the economic reform process behind a cloud of rhetoric.¹⁵

The noted academic cubanologist and dedicated opponent of socialism, Carmelo Mesa-Lago, made the “slippery slope” argument.

But the dynamics of the reform call for further change. The government legalizes some of the economic activities that are taking place, although it tightly regulates them, and such a step is seen as a green light to expand those activities. Restrictions are ignored, and there is a move to new illegal operations. This, in turn, puts pressure on the government to grant another concession, which is followed by a further push toward the market. In his speeches at the beginning of the 1990s, Castro warned against the danger of a chain reaction or the snowballing effect of the economic reforms in the USSR and Eastern Europe that ultimately led to a market economy, but he felt confident that such a process would not take place in Cuba. Yet recent events suggest that history is repeating itself in the Caribbean.¹⁶

But by the end of 1997 the advocates of a capitalist restoration began to complain about the “stalling” and later the “abandonment” of the “reform process.”¹⁷ It is now a historical fact that the claims in the 1990s by the Cuban leadership that they would make concessions to global neoliberalism in order to survive, but that they would limit those concessions to an extent that prevented a capitalist restoration, are in fact what occurred. The arguments of duplicity or a slippery slope both proved false in that case. This should be borne in mind when considering the current reform process in Cuba.

Neoliberalism

Neoliberalism is today’s capitalism.¹⁸ It represents a change from the dominant form of capitalism of the 1950s and 1960s, and many aspects of it are best defined by its change from that earlier form of capitalism. A

terse picturesque description is that it has restored “many of the most violent features of capitalism, making for a resurgent, unprettified capitalism.”¹⁹

Keeping in mind the parable of the seven blind men and the elephant and accepting that there are many ways to describe neoliberalism, I will here characterize it as having two principal aspects. The first is an inter-class dimension: neoliberalism involves a much more aggressive attack by capital against labor. The second is an intra-class dimension: neoliberalism is characterized by a rise to hegemony of finance capital. But for the purposes of this essay, its surface manifestations are more important to note than its underlying essence.

The following are commonly associated with neoliberalism: i) free trade;²⁰ ii) free capital movements; iii) reduced government or equivalently “free markets”,²¹ including in particular financial deregulation and privatization; iv) increased labor market “flexibility”; v) “strong money” (low inflation) and the associated central bank policy of inflation targeting; vi) a changed corporate governance model and often “shareholder value.”

According to this or any other reasonable description of neoliberalism, it is immediately apparent that Cuba is clearly not neoliberal. This of course is nearly universally accepted.²² The more subtle issue is in what ways has global neoliberalism, which the Cubans have continually fought against, penetrated the Cuban development process. At the most extreme, the concern is whether global neoliberalism has been able to sew seeds in the Cuban development process that in time will grow to yield a capitalist restoration.

External Channels of Neoliberal Influence: Trade and Foreign Investment

Trade

In 1987 Cuba conducted 72.0 percent of its merchandise trade with the USSR and an additional 16.3 percent with other planned economies,²³ leaving less than 12 percent of its trade with the capitalist world. In 2006, given that there were almost no planned economies left in the world, Cuba carried out essentially 100 percent of its trade with capitalist countries.²⁴ While this represented a big change in the nature and conditions of its foreign trade, how did this impact the nature of the production process in Cuba, and in particular, how much did it drive Cuba toward neoliberal or capitalist production?

During the 1990s Cubans wrote frequently about the changes this meant for the operation of their enterprises. In 1992 the Constitution was changed to allow a decentralization of the export and import processes, but markets were still explicitly rejected in favor of state control: “the State directs and controls foreign commerce.”²⁵ While most imports now had to be paid for in hard currency, there was at first still a single state enterprise that dealt with all the foreign trade and so at first the process of imports worked for the enterprises essentially the same as before. Soon after the

constitutional reform, however, numerous agents were empowered to import, including a number of big enterprises,²⁶ but there was nothing in this changed import procedure that required any significant change in the nature of their production processes. With exports there were more effects. Above all, exporting Cuban enterprises now had to become more “flexible.” That is, completely contrary to the previous system of long term stable contracts, now to export it was often necessary to be able to shift the specifics of what was produced, to do so quickly and with higher quality than in the previous system, and to assure deliveries on time (which often involved the performance of other enterprises). These were difficult changes, a whole culture of production had to be changed. But even in these export-related changes, where the effects on enterprise operations were much greater, there was nothing that implied that the enterprises now had to operate according to the laws of capitalist accumulation.

Theoretically there is no reason to assume that trade will determine the mode of production of the people who trade. The loose idea that trading with a “more efficient” trading partner will cause one to adopt the “more efficient” production process is crude Social Darwinism.²⁷ The historical record demonstrates this same point. The Soviet Union traded for 60 years with capitalist countries without changing its non-capitalist production process. And as most progressive development economists argue, capitalist countries traded with pre-capitalist societies for centuries and in the end often had to resort to force to transform those societies to capitalism.

Foreign Investment

Contrary to trade, capitalist foreign investment does largely imply capitalism for the enterprises involved, and as such conceivably could represent a vastly greater threat to the process of building socialism. Any country attempting to build socialism therefore needs to treat capitalist foreign investment with many more safeguards than trade with capitalist countries.

Foreign investment in Cuba is essentially all in joint ventures. While it is now legal for foreign companies to completely own an enterprise in Cuba, in practice almost all joint enterprises remain at least 51 percent Cuban owned. Joint ventures went from 20 in 1990 to a high of 403 in 2002.²⁸ Currently the number has continued to fall from 258 in 2005 to 234 in 2006, but the capital involved has grown as the Cuban government has consciously moved from small, hard to monitor, strictly profit-driven joint ventures to larger joint ventures, especially with Venezuela and China, that are instituted more consciously as part of Cuba’s overall development plan.²⁹ Among the joint ventures, the most discussed by both supporters and opponents of the Cuban system are those in tourism.³⁰ Foreign tourism was chosen as the fastest way to generate the foreign exchange Cuba needed after the collapse of COMECON, and it exploded throughout the 1990s. This author believes that there was no other way to generate that much foreign exchange that rapidly, and that without it the revolution might well have been

overthrown. But the point of concern here is that shortly thereafter, there were a million relatively wealthy tourists coming to Cuba (2 million by the 2000s), spreading the image to many Cubans that capitalism bred wealth.

Three limitations have been key in preventing foreign investment in Cuba from carrying out the same important contribution to a transformation to capitalism that it played in China: i) the extent of foreign investment, ii) the extent of the non economic (i.e., political) control of foreign investment, and iii) the absence of the legal ability for the production model used in these enterprises to spread to the rest of the economy.

i) In 1996,³¹ it was estimated that three percent of the national income came from joint ventures.³² Consistently, in 1995 there were 105,953 workers in joint ventures out of a workforce of 3.8 million, or 2.8 percent of the workforce.³³ One gets just a slightly higher measure of their impact if one considers that they contributed an average of 8.2 percent to Gross Capital Formation between 1993 and 2002.³⁴ Even the commonly asserted claim that they at least were central to foreign exchange earnings is overstated: the value of their exports of goods and services as a percent of the value of all exports from 1993 to 2002 was just over 13 percent.³⁵ So while joint ventures made and continue to make an important contribution, they clearly have played a very secondary role in the entire economy. This in turn represents one important limitation on the influence of the neoliberal and capitalist ideas that they bring into the Cuban economy.

ii) Decree Law 50 in 1982 had legalized certain forms of joint ventures, but in fact no joint ventures were formed until the very end of the 1980s. The constitutional reforms of 1992 that were intended to reshape the constitution to accord with the new political-economic reality built the joint venture concept into Cuba's basic legal structure.³⁶ But the fundamental operational law for joint ventures today is Law 77 ("The Law of Foreign Investment") from September 1995.³⁷ Key for our considerations here are its provisions for authorization of foreign investment in chapter VIII: "Of the Negotiation and Authorization of Foreign Investment." First, it specified both the general goal for accepting such joint ventures, and indicated several specific operational implications of that goal. The general goal was to "carry out profitable activities that contribute to the strengthening of the economic capacity and the sustainable development of the country, on the basis of respect for sovereignty and national independence and the protection and rational use of natural resources."³⁸ Operationally, this has been held to indicate that the three central interests by Cuba in joint ventures are "financial resources, technologies and new markets."³⁹ Further, all proposed joint ventures (excepting some very small ones) must be directly approved by a very high group of the (elected) leadership of the Revolution, the Executive Committee of the Council of Ministers,⁴⁰ for both its social-political as well as its narrowly defined economic benefits for Cuba. Such a tightly politically controlled foreign investment procedure is markedly different from the "absence of capital controls" that is a well-known central aspect of neoliberalism. It prevents existing (capitalist) joint ventures from spawning

new joint ventures in accord with, and to the degree determined solely by, their own desires—the rule of the law of the market.

iii) Central to the restoration of capitalism in China was that the capitalist practices imported with joint ventures were legally allowed (and even officially encouraged) to be duplicated in the private domestic economy, to the extent that non-state enterprises now constitute over 50 percent of that economy.⁴¹ This is not legally possible in Cuba. There is no legal private property (individual or group) in industry.⁴² A recent campaign in Cuba against illegal industrial production underlines that it is the intention of the new government of Raúl Castro not to allow such a spread of capitalism to domestic manufacturing.

These three considerations together indicate that, notwithstanding the real potential for capitalist foreign investment in general to continually expand the role of capitalist relations of production to the point where they come to dominate an economy, this is not happening at present in Cuba. To the contrary, Cuba is presently characterized by its restriction to a small part of the total economy, with a political process controlling any new projects and hence any possibility of its qualitatively expanding its role. Cuba has legal property forms in the domestic economy that make it impossible to reproduce there the private production relations from the joint ventures.

The Domestic Economy

While there are other concerns that could be considered in relation to the domestic economy, three of the most important issues frequently and currently⁴³ discussed as part of the ‘transformation to capitalism’ debate about Cuba are: i) self employment (“*trabajo por cuenta propio*”), ii) the property relations in agriculture, and iii) the new management system in industry (“*perfeccionamiento empresarial*”).

Self Employment: On September 8, 1993, Decree Law 141 was passed listing over 100 occupations as acceptable for self employment. Subsequently a number of additional occupations were added. Of particular importance and eventual controversial nature were the “small private restaurants” (“*paladares*”) made legal in 1995.⁴⁴ Participants were licensed and paid taxes.⁴⁵ Of key importance concerning their potential to contribute to a capitalist restoration was that these were to be private markets. In particular, the state would not set prices, but rather prices would be set according to what the market would bear.

It is important to get a rough feel for how much of the Cuban work force is self-employed. At the end of 1995 there were 200,727 registered self-employed workers, out of a total civilian workforce of 3,788,587, or 5.3 percent.⁴⁶ While that number has gone down some over the years since then, it is still broadly representative today. As such, it represents a very small part of the Cuban workforce. However, most commentators agree that for every licensed self-employed worker there are a number who work ‘for him’ in one way or another—unregistered assistants, people

producing what he then sells, etc. There are no reliable public estimates, but if the number is as high as 2 (full time equivalents) as some reasonable commentators indicate, that would suggest around 15 percent of the economically active population is engaged in self-employment. One would get a still higher number if one considered all the people who did 'some work' and got 'some income' through this. Two key considerations about the importance of this type of work are the following. First, by all indications this number has not significantly changed over the last decade and hence we do not see a trend of self-employment expanding to replace state economic production as supporters of a capitalist restoration had hoped. But second, these self employment markets do in practice ideologically support in the consciousness of some Cubans the neoliberal '*markets über alles*' position that planning cannot effectively provide individual services and that markets⁴⁷ are necessary for at least this type of economic activity. As such and notwithstanding the major limit on its role in the economy, self employment presents a particular challenge to the Cuban socialist project that must constantly be evaluated and addressed.⁴⁸

Property Relations in Agriculture: There are two distinct 'market-like mechanisms' that have been used with the intention of increasing agricultural output. They are often mixed together in discussions as they are in practice, but they should be kept conceptually separate. One is to let agricultural producers sell part of their production directly to consumers on markets whose prices are determined solely by supply and demand. The other is to raise the price the state pays for goods it buys from producers at prices it sets.

On October 1, 1994, approximately 120 Agricultural Products Markets were opened,⁴⁹ with two to three times that many in existence today. Private, coop, or state producers can sell in these markets anything beyond the amounts they are required to sell to the state. One can immediately see how, notwithstanding the capitalist nature of these markets, the production process behind them is very far from being 'free market.' Only what is produced beyond the state contract can be sold there, and the state contracts are constantly re-evaluated on the basis of what an agricultural unit has produced in the past. If one increases one's output dramatically and hence has large amounts to sell on these agricultural markets (from which one will generate that year a revenue far above that of an industrial worker or state service employee), the next year the contracted amount will be raised, in accord with what this unit has now shown it can produce. This was publically discussed from the beginning as the way that these markets would improve not only distribution, but more importantly, agricultural production.

Five important considerations about these markets are the following. First, these markets will almost certainly significantly expand in the near future as it is nearly certain that the ration card will be eliminated.⁵⁰ Second, at present a number of important agricultural products are sold entirely to the state and not distributed through these markets, such as tobacco, sugar, milk, beef, and others. These latter are the products particularly involved in

the “increase state prices” stimulus approach that has been talked about so much recently under Raúl. To begin with, at the National Assembly meeting in December 2006 Raúl directed the Cuban government to pay up the large debts it owed to its own agricultural producers. This was followed in Spring 2007 by beginning a process of raising the prices paid to the producers (but not charged to consumers) for a number of these products. As an example, milk and beef prices were tripled.⁵¹ Third, the agricultural reforms contain a number of key non-market reforms as well as the market-like ones. Among these are a drive to put idle and underutilized arable land (estimated at 51 percent⁵²) back into production and a program to decentralize the responsibility for assigning land to producers to the community level. Fourth, the combination of these market-like and non-market measures has succeeded in increasing the production of food. Caloric intake has returned to (and slightly increased above) its 1989 level,⁵³ and milk production is up 30 percent in the first quarter of 2008 over the same period in 2007. This has also affected the price of food. Prices in the agricultural markets of course are well above the (highly subsidized) prices of rationed goods, but they are well below the black market prices that existed prior to the opening of these markets, and equally important, they have been continually falling for over a decade. Finally, like the self employment measure, these successful results are leading some Cubans to embrace the ideological neoliberal ‘markets *über alles*’ position also in regards to agriculture and conclude that it can be stimulated only by market-like measures (notwithstanding that some of the measures involved in the success are non-market measures). Again, we thus have a practice that, even if accepted on net as appropriate for the revolution at its present conjuncture, must still be recognized it as containing a threat to the Cuban socialist project and therefore must be constantly evaluated and addressed.

The New Incentive and Management Systems in Industry: In the late 1980s Raúl began to design an improved system of enterprise management for enterprises run by the army. The model was explicitly adopted as the model for the whole economy in the early 1990s and further developed throughout the decade. In 1998 it began to be implemented as the system of “enterprise improvement” (*perfeccionamiento empresarial*). Put simply, its goal is to raise the productive efficiency of state enterprises, thereby enabling a predominantly (but not exclusively) state run economy to meet the population’s need for goods and services.⁵⁴ The Cuban leadership believes this program has so far been fundamentally very successful. Carlo Lage said:

The companies applying *perfeccionamiento*, being 28 percent of all companies with 20 percent of sales, account for 51 percent of all profits, 72 percent of foreign exchange earnings and are 50 percent more productive.⁵⁵

With so far only about a quarter of the roughly 3,000 Cuban enterprises (and involving only a fifth of sales) operating in this improved fashion after

10 years, the Cuban leadership sees this as both a project that still has tremendous potential to further improve the Cuban economy, and as a project that will remain a central component of their economic program for many years to come.

As opposed to one of the pillars of neoliberalism indicated above, improved enterprise performance in Cuba is not pursued through driving down the workers' share of net output. Rather, at present three issues are stressed as key. The first is eliminating corruption and theft by both management and workers. This is not an issue involved in the return-to-capitalism debate.

The second issue is increased enterprise efficiency. One aspect of this is simply a more rational use of resources by management (including improved accounting). Again this is not an issue seen by either advocates or opponents of a return to capitalism as promoting such a return, though advocates generally claim increased efficiency would be a result of such a return. Raúl holds specifically that in a planned economy one can achieve such increased efficiency without capitalist markets. But another aspect of Cuba's concept of increased enterprise efficiency is that it will be furthered by "economic decentralization" and "increased enterprise autonomy." By this they mean that a significant number of decisions that were made in the Ministries before will now be made by the enterprise directors: Since a characteristic of capitalism is economic decision making by individual enterprises (or more precisely, individual capitals), this aspect on the surface can seem like a move in the direction of capitalism. In the next section which discusses the barriers in Cuba to a capitalist restoration, I will return to this issue and argue why in the institutional setting that exists in Cuba today this does not support such a restoration.

The third issue constantly proposed today as part of improved enterprise performance is "payment according to work."⁵⁶ Just like the last issue, on the surface this seems a pro-neoliberal reform. I will return in the next section to argue why, in the specific institutional structure of Cuba today, it is not—unlike the role it did play in the restoration of capitalism in China.

Barriers to the Restoration of Capitalism in Cuba

This paper does not make the claim that capitalism could not be restored in Cuba. There were barriers to the restoration of capitalism in China, as an example, but the government there eliminated those barriers and restored capitalism. The argument rather is that at present there remain major barriers to the restoration of capitalism in Cuba that would need to be eliminated for such a restoration, and as of the writing of this paper, there is no indication of any powerful or serious movement to eliminate any of these barriers.

The most immediate barrier one sees is that there is no legal structure for private productive capital accumulation. There is no limitation on wealth accumulation, but one cannot turn that into capital by hiring

labor, exploiting it, capturing the surplus value, and accumulating that as continually expanding capital.

Three ways to overcome this fundamental restriction come to mind. The first is the Soviet Union and East Block's road, where the state-owned basic means of production were privatized,⁵⁷ that is, turned into capital. There is no discussion at all of this in Cuba. The second way is the Chinese road. Here private capitalist production, first largely as joint ventures with foreign capital and then as normal domestic capital, grew up over several decades while state owned enterprises (SOEs) declined. Here too, Cuban laws simply do not allow this. The joint ventures are with Cuban state enterprises, and domestically a private producer is either forbidden to hire labor or in some fields (for example, agriculture) restricted to hiring only a few employees. Again, there is no discussion at all of making the sweeping legal changes needed to allow any but the smallest scale capitalist operations. The third way is less clearly articulated, but represents a fear of some supporters of the Cuban socialist project—that the process of *perfeccionamiento empresarial*, especially with its increased enterprise autonomy, will somehow grow into capitalist enterprises. But even a superficial consideration of this process makes clear that in itself it cannot restore capitalism. Enterprises production is still nationally planned, individual enterprises are not free to set their product prices, individual enterprises are not free to set wages, and finally enterprises (not to speak of private enterprise owners, which do not exist) are not free to keep their profits, all of which are necessary for capitalist private production. Again, the existing system would need to be replaced (or "overthrown") to move to capitalism; it does not seem to be a process that could slowly evolve.

Stated another way, the large majority of the economy is state owned and planned, and Cuba's clearly stated intention is to make that state-owned economy more efficient, not to convert it to a private capitalist dominated economy by either the Soviet or Chinese roads. While again I make no claim that a complete reversal from their present anti-capitalist course could not occur at some future time, there is not even a preliminary discussion of it in Cuba at this time.

A related major barrier that would need to be eliminated for a restoration of capitalism is the state's near total control of the vast bulk of new investment. Here the state has two major control mechanisms. First, the majority of the economy is still state owned, and therefore the state makes the bulk of the domestic investment decisions (including the state's input into the investment decisions of joint ventures). Note that while enterprises are being given more autonomy on many issues including minor investment decisions, to date the state still controls major investment decisions. These are very often not made on the basis of individual enterprise profits or profitability, but rather on criteria such as import substitution, building chains of production, and so on (that is, as part of an economy-wide economic plan). Second, as already mentioned, all proposals for foreign capital activity in joint ventures are reviewed at multiple levels of the state, and each must receive the final

approval from the highest political level, the Council of Ministers.

Another related barrier to a capitalist restoration is that there is no labor market in Cuba.⁵⁸ This takes us back to the now much discussed “payment according to work” brought up in the last section. The extent to which this represents a reflection of global neoliberal ideology in Cuba today is an important question.

It is worth noting that international champions of neoliberalism recognize these as essential barriers to their desired project of restoring capitalism in Cuba. The *Economist* wrote

The central control of prices continues to restrict the scope for the allocation of goods, services and capital through the market mechanism.⁵⁹

Enterprise reform has progressed steadily but remains hampered by price and labor controls.⁶⁰

The final barrier that would need to be overcome in order to restore capitalism, generally ignored by too narrow “economic analyses,” is the most fundamental because of its social nature: the popular support in Cuba for the Revolution and the popular opposition to a system of Third World neoliberalism and capitalism. The Gallup results cited above indicating majority support for Cuba’s non capitalist path reflect this fundamental social barrier to a capitalist transformation. Further, the Battle of Ideas⁶¹ was launched in 2000 to make people, and especially young people, aware of what their social/economic system has brought them, which they would not have under Third World neoliberalism – something too easy to take for granted and to forget when one focuses on a system’s shortcomings. This author finds from his at least yearly trips to Cuba since the beginning of the 1990s that the marginal effects on basic attitudes from the Battle of Ideas and the strong economic performance of Cuba for the last four⁶² years have left the ratio of support to opposition at least as high as the two to one ratio reflected in the Gallup poll at the depth of the economic crisis in 1994.

“Payment According to Work”

The concern here is that this concept, now being strongly advocated in Cuba, may be the result of the influence of global neoliberal ideology and hence a danger to the process of building socialism. Here I will make two short and simple arguments: that in the context of Cuba it is not, and that, further, the concept is actually, as is repeatedly asserted by the Cubans, consistent with payment in a socialist⁶³ (but not a communist) economic system.

If one has competition among workers for jobs and enterprises that are free to set wages as low as they can get workers, then the formula “payment according to work” becomes a (circular) justification for enterprises

driving down wages. Since one cannot in general actually measure the marginal contribution of any worker, enterprises accept the market ideology that markets set wages according to workers' marginal contributions. Then if labor market competition drives down the wages that workers are willing to accept, enterprises justify the lower wages as being set by the marginal contribution, which the labor markets are now showing is lower than previously. So the whole concept becomes part of the process of exploiting labor to whatever degree the class struggle allows. But since as argued in the last section, Cuba does not have labor markets nor can its enterprises set wages, the concept of "payment according to work" cannot play the same role in Cuba. Instead, it is promoted there with a dual goal. First, it is intended to stimulate workers to make a greater effort at work, both quantitatively and qualitatively ("work harder and work smarter"). It is just the latest form of the use of material incentives that have been used, along with moral incentives, over the whole course of the Cuban revolution. Over that time the partial use of material incentives has not contributed to a capitalist restoration. But beyond that, this corresponds to Cubans' sense of socialist equity, the goal that "everybody's living standard corresponds directly with their legally earned incomes, that is, with the significance and quantity of their contribution to society".⁶⁴ In this latter sense "payment according to work" is partially equivalent to what Marx called for in "Critique of the Gotha Programme." There Marx spelled out that in his vision of socialism each person could draw from society goods that took the same amount of labor time to produce as the person contributed labor time to social production.⁶⁵ This is the basis for the repeated claim by the Cubans that not only is this formula not a neoliberal import into their institutional framework, but further that it is consistent with their project of building socialism.

Conclusion

While I hold that the quote by the Minister of the Economy and Planning that opened this paper is both correct and centrally important, it is only half the story. The sweeping economic reforms of the economy after 1989 were indeed made contrary to the neoliberal recipe. But as the architects of those reforms themselves often acknowledged, concessions to the world dominant ideology and economic reality of neoliberalism had to be made. Stated differently, Cuba was not able to follow the road to building socialism it would have chosen if it had not been a small country in a neoliberal world. Cuban social/political/economic reality today (and tomorrow) must be understood as simultaneously consisting of both the following. First, global neoliberalism has affected Cuba's current reality in a number of ways. In addition to affecting Cuba's institutions, it is essential to keep in mind the impact of the illusions created by such factors as tourism, self-employment and the Agricultural Products Markets on the consciousness of (some of) the Cuban people, an issue which is centrally important for the transition to socialism. Second, up to the present, major

barriers remain in Cuba's institutional structure and social consciousness that would have to first be eliminated before global neoliberalism could impose on Cuba its inherent goal, the abandonment of Cuba's project of attempting to build socialism.

(retrieved October 20, 2008). Imports and stock change are derived by subtracting the total production of coal, oil, and natural gas from their total consumption. Renewable contribution is estimated by this author. Following the practice of the International Atomic Energy Agency, nuclear contribution is measured by its thermal equivalent, but hydro and renewable contributions are measured by the electrical energy they represent. Traditional biomass (such as wood burning in the rural areas) is excluded from the total primary energy supply.

9 Cui, Minxuan, *Zhongguo Nengyuan Fazhan Baogao* (Annual Report of China's Energy Development) (Beijing: *Shehui Kexue Wenxian Chubanshe* or Social Sciences Academic Press, 2008), p. 33.

10 *Ibid.* p. 33.

11 *Ibid.* p. 33.

12 Energy Watch Group, *Uranium Resources and Nuclear Energy*, EWG-Series No. 1/2007, Website: <http://www.energywatchgroup.org/fileadmin/global/pdf/EWG_Uraniumreport_12-2006.pdf> (retrieved January 1, 2007).

13 *Ibid.* p. 34.

14 Colin J. Campbell, *Oil Crisis* (Brentwood, Essex, UK: Multi-Science Publishing Company Ltd, 2005).

15 The Association for the Study of Peak Oil and Gas Ireland, *Newsletter No. 94 – October 2008*, Website: <http://www.aspo-ireland.org/contentFiles/newsletterPDFs/newsletter94_200810.pdf> (retrieved October 20, 2008).

16 Dave Rutledge, "Hubbert's Peak, the Coal Question, and Climate Change," Presentation at the Annual Conference of Association for the Study of Peak Oil and Gas USA, Houston, Texas, October 19, 2007.

Chapter 4

1 José Luis Rodríguez, "The Road to Economic Recovery" in Max Azicri and Elsie Deal (eds.), *Cuban Socialism in a New Century. Adversity, Survival and Renewal* (Gainesville: University of Florida Press, 2004), p. 151.

2 Technically, one other former COMECON member, the Socialist Republic of Vietnam, still claims to be building socialism. It is not the topic of this essay, but this author maintains that like China's much more written about "socialism with Chinese characteristics," Vietnam has restored capitalism, notwithstanding its still large state sector. On China, see the short paper by Al Campbell, "Is China's Market Path a Road to Socialism?" 2008, accessible at www.nodo50.org/cubasigloXXI, or the more developed argument in the book by Martin Hart-Landsberg and Paul Burkett, *China and Socialism. Market Reforms and Class Struggle* (New York: Monthly Review Press, 2005).

3 Fidel Castro, *Granma Weekly Review*, August 23, 1995, p. 6.

4 *ibid.*, p. 11.

5 *ibid.*, p. 9.

6 Fidel Castro, *CubaInfo*, September 14, 1995, p. 5.

7 Fidel Castro, *Granma Weekly Review*, November 23, 1997, p. 10. For one of a number of collections of his speeches from this economically difficult period that all contained this continued rejection of capitalism and commitment to socialism, see Fidel Castro, *Cuba at the Crossroads* (Melbourne: Ocean Press, 1996).

8 There is broad participation in these congresses. There is a lead up period to the congress with meetings in nearly all workplaces. There were 70,000 concrete suggestions in response to the 1996 preliminary draft that were presented and recorded in these meetings, and many of them were incorporated into the final draft.

9 The sample came from across the island except, due to bureaucratic hurdles, from the eastern part, where support for the revolution has always been strongest.

10 In the context of Cuba, being a "revolutionary" almost always means identifying with the process led by the revolutionary government, and hence being anti-capitalist. Along the same lines, in the poll 58 percent said they considered the revolution on balance to have more achievements than failures, while 31 percent responded the opposite way. The poll was conducted by the Costa Rican associate of Gallup, CID-Gallup, and a review of a number of the results can be found in *Cuba Update*,

February, 1995, p 9.

11 Francisco Soborón Valdés, "El Socialismo no es para los cubanos una opción coyuntural," *Diario de la Juventud Cubana*, December 23, 2005, accessed on 7/26/2008 at www.juventudrebelde.cu/2005/octubre-diciembre/dic-23/cuba_intervencion_index.html. The translation is by this author.

12 *ibid.*

13 In the case of the second argument here, many supporters.

14 Economist Intelligence Unit. *Cuba, Dominican Republic, Haiti, Puerto Rico Country Report*. 1997(3), p 7.

15 *ibid.*, p. 12.

16 Carmelo Mesa-Lago, *Are Economic Reforms Propelling Cuba to the Market?* (Miami: University of Miami, 1994), p. 68.

17 It is important to note a sleight-of-hand used continually by the advocates of a restoration of capitalism. When they become convinced that new economic reforms are no longer potentially beneficial to a capitalist restoration, they talk of "an end of reforms" instead of "a change in the type of reforms to ones less agreeable to capitalism." The process of economic reform in Cuba has never stopped (and rarely even paused) since 1959.

18 Here I will present only enough for the points I will be concerned with. As an example of more complicated issues, consider the issue of "free trade" which is associated with neoliberal theory. Since capitalism is still organized (primarily) through nation states, the different nation states and the capitals connected to them often try to pursue (if they are strong enough) a policy of 'open your markets to my goods but I will protect my markets from your goods,' as opposed to free trade. And they pursue this, as obviously inconsistent as it is, in the name of the universal benefits from free trade and neoliberalism. Three good books that give a rich picture of neoliberalism consistent with the brief presentation here are Gérard Duménil and Dominique Lévy, *Capital Resurgent* (Cambridge: Harvard University Press, 2004); David Harvey, *A Brief History of Neoliberalism* (Oxford: Oxford University Press, 2005); and Andrew Glynn, *Capitalism Unleashed* (Oxford: Oxford University Press, 2006). For a shorter introduction to neoliberalism, see Al Campbell, "The Birth of Neoliberalism in the United States: A Reorganization of Capitalism" in Alfredo Saad-Filho and Deborah Johnston (eds.), *Neoliberalism. A Critical Reader* (London: Pluto Press, 2005).

19 Duménil and Lévy, *op. cit.*, p 1.

20 I have already discussed in endnote 18 the limitations of neoliberal "free trade" in practice.

21 By the nature of capitalism "reduced government" or "free markets" need to be something very different in practice from their form as an ideological battering ram. Markets are not "natural," they cannot exist "by themselves" or "free." They require both a specific set of definitions of what is legal and what is not, and a force capable of enforcing those norms. Both of these capitalist needs require a state and government. In practice "reduced government" and "free markets" mean campaigns to eliminate all services that the state provides to labor that could be profitably commodified, and in particular those that strengthen the position of workers in the labor market.

22 Although the large majority of people consider Cuba to be non capitalist, a small group of people do consider Cuba to be "state capitalist." While this author strongly rejects that characterization, even that would leave it non neoliberal, considering the role the government plays in their concept of so-called state capitalism.

23 "Other planned economies" include Eastern European countries, China, North Korea, Vietnam and Mongolia. Comité Estatal de Estadísticas, *Anuario Estadístico de Cuba, 1987* (no publishing data given), Table XI.2, pp. 416 and 418. Calculations by the author.

24 North Korea of course still has a planned economy, but it constitutes only 0.004 percent of Cuba's merchandise trade. While as I have indicated above I consider Vietnam capitalist, it in any case constitutes only 1.6 percent of Cuba's trade. More important is that Cuba's trade with its two largest trading partners, Venezuela (20.6 percent) and China (14.9 percent) is very extensively planned by trade agreements,

notwithstanding their capitalist nature. While trade per se is not a concern of this essay, it is worth noting that the next largest trade partners operate according to more standard capitalist trading practices: Spain (8.2 percent), Canada (7.3 percent), Netherlands (6.9 percent), Germany (5.3 percent), USA (4.0 percent), Brazil (3.7 percent), and Italy (3.5 percent). Comité Estatal de Estadísticas, *Anuario Estadístico de Cuba, 2006*. Table VII.2, accessed on 7/26/2008 at www.one.cu/aec_web/paginas_de_tablas/p_vii/vii_2_3_4.htm. Calculations by the author.

25 Article 18, cited in Elena Álvarez and Jorge Mátter (coordinators), *Política social y reformas estructurales: Cuba a principios del siglo XXI* (México, D.F.: CEPAL, INIE and PNUD, 2004), p. 22.

26 Which then had to generate sufficient sales in hard currency to pay for their needed imports.

27 Which not only is inappropriate for social processes, but it is also neither appropriate for biological evolutionary processes nor was it Darwin's theory of evolution.

28 Omar Everleny Pérez Villanueva, "The Role of Foreign Direct Investment in Economic Development: The Cuban Case," in Jorge I. Domínguez, Omar Everleny Pérez Villanueva and Lorena Barberia (eds.), *The Cuban Economy at the Start of the Twenty-First Century* (Cambridge: Harvard University Press, 2004), p. 172.

29 Marc Franc, "Foreign investment projects in Cuba down: official," Reuters, July 9, 2008, www.reuters.com/article/idUSN0942151920080709.

30 While they indeed have been important, and in particular for earning foreign exchange in the 1990s, their image of dominating joint ventures is overblown. In 2002 they constituted only 76 of the 403 joint ventures, while there were 85 in basic industry, 48 in construction, 140 in 12 other fields and 53 more. Elena Álvarez and Jorge Mátter, *op. cit.*, p. 20. For the 2003 distribution see Omar Everleny Pérez Villanueva, *op. cit.*, p. 177.

31 As argued above, and as continually argued by advocates of a return to capitalism, Cuba made extensive 'market favorable reforms' from about 1993 to 1996, and then that process stopped. As already noted, reforms have continued in Cuba since then, but they have not been considered appropriately 'market friendly' by these advocates of capitalist restoration. It is because of this "stalling" that most figures concerning the share of these 'market friendly' reforms in the total Cuba economy, while they have changed some, remain today of the same order of magnitude as they were then. Because of this, using those figures (released very infrequently both then and today, and mostly in speeches) as qualitative indicators is generally appropriate.

32 Figure presented by Carlos Lage, the Vice President generally considered to be in charge of the economy, cited in the London-based newsletter *Cuba Business*, special edition on the seminar "Tightening the US Trade Embargo on Cuba: Implications for Trade and Investment," July 8-10, 1996, p. 4. Since roughly half of each joint venture belongs to Cuba, even that 3 percent is much more than what comes from 'foreign capital in joint ventures.'

33 *Cuba Business*, *op. cit.*, July/August 1996, p. 3.

34 Omar Everleny Pérez Villanueva, *op. cit.*, p. 173.

35 *ibid.*, p. 175.

36 It also ended the state monopoly on foreign trade, which most foreign capital considered necessary. For a listing of all the articles in the new constitution related to economic issues, see Comisión Económica para América Latina y el Caribe and Fondo de Cultura Económica, *La Economía Cubana. Reformas estructurales y desempeño en los noventa* (México: Comisión Económica para América Latina y el Caribe and Fondo de Cultura Económica, 1997) pp. 413-6.

37 The whole law is given in *ibid.*, pp. 417-40.

38 *ibid.*, p. 418.

39 *ibid.*, p. 418.

40 They have the final word. Each project has been studied and discussed by several layers in the approval process before it reaches the Executive Committee, and they then review those studies to see that everything is in order, and sometimes to consider the project from a broader social-political perspective.

41 See the two references in endnote 2 for this data.

42 Artisanal production is one part of the allowed self-employment (most concern
services), which will be discussed below as part of the changes in the domestic
economy. Below I will also discuss private property in the agricultural sector, which
has been there throughout the Revolution.

43 The latter two are central to the discussion today. The former was important to this
same discussion in the mid 1990s, but for the reasons indicated here it is not much
discussed today in Cuba, although the changes made then are still in force.

44 See Comisión Económica para América Latina y el Caribe and Fondo de Cultura
Económica, *op. cit.*, pp. 499-519 for the 1993 law, an original list of allowed profes-
sions, and extensions in 1995.

45 While called “taxes” they were really more of a licensing fee, in that they were fixed
independent of revenue.

46 Statistics from the Ministry of Labor and Social Security, cited in *Cuba Business*,
op. cit., July/August 1996, p. 3. The Ministry of Economy and Planning gave similar
but slightly different figures for the end of 1995, cited in Economist Intelligence Unit,
Cuba, Dominican Republic, Haiti, Puerto Rico Country Report, 1997(3), 1996(3), p.
12. It is important to note that there were already 41,200 registered self-employed
in 1989 (under a 1978 law) before the beginning of the special period reforms.

47 The intention to keep these as markets of self employed workers is exactly an at-
tempt to keep these from becoming real capitalist markets, where owners of capital
hire wage labor and extract surplus value from their work.

48 No evaluation is made here of whether, on net, such self employment brings more
benefits to the revolutionary process than dangers, for example if the state indeed
cannot adequately provide those services at this time. The point here is that inde-
pendent of it, if they are on net desirable, they involve a threat to the socialist project.

49 *Granma Weekly Review*, *op. cit.*, October 12, 1994, p. 5.

50 The state will still have significant contracts as it also distributes food through schools,
hospitals and workplaces.

51 Philip Peters, “Raul the Reformer?” Lexington Institute, September 25, 2007. Ac-
cessed 8/30/2008 at <http://lexingtoninstitute.org/1177.shtml>.

52 *Granma International*, 43(15), April 13, 2008, p. 6.

53 Al Campbell, “The Cuban Economy: Where It Stands Today,” *Review of Radical
Political Economy*, 40(3), Summer 2008, p. 279.

54 See Philip Peters, “State Enterprise Reform in Cuba: An Early Snapshot,” Lexington
Institute, July 2001. Accessed on 8/30/2008 at [http://lexington.server278.com/docs/
cuba6.pdf](http://lexington.server278.com/docs/cuba6.pdf). Note that as Peters indicates this was written before any results could
be evaluated, but it nevertheless gives a detailed look at what is involved in the
program. Note also that while Peters consciously tries to discuss what he considers
to be both the strengths and weaknesses of the program, he also operates with a
very strong mainstream ‘markets-are-optimally-efficient’ bias.

55 Marc Frank, “Cuban official nixes Russian and Chinese reforms,” Reuters, August 30,
2007. Accessed 8/30/2008 at www.reuters.com/article/idUSN3025851720070830.
Frank correctly notes that some of the companies are joint ventures, and without
giving some indication of what contribution to the numbers given come from that
and what part comes just from the enterprise improvement effect, the numbers given
have an unknown bias.

56 Notwithstanding the obvious possible different interpretation from the words them-
selves, the Cuban discussions of this issue use the expression “payment according
to results” interchangeably with “payment according to work.”

57 This also made a secondary contribution in the Chinese case, where as opposed to
being key to the transformation the privatization of state owned enterprises (SOEs)
is an issue being fought over today in the situation that capitalism has been rees-
tablished. Again see the two references on China in endnote 2.

58 This was one of the first capitalist practices Deng reestablished in China, already
in the early 1980s, understanding it as necessary for his intended restoration of
capitalism. Again, see the two references on China in footnote 2.

59 Economist Intelligence Unit, *op. cit.*, p 8. In line with their wishful thinking in the
mid 1990s discussed above that the leadership was engaged in the restoration of

capitalism, they explained why this barrier would be overcome. "This limitation is likely to subside, however, as the need to integrate the domestic economy with the external sector increases the use of international pricing." Ten years later many domestic prices in Cuba, still controlled by the state, in fact have not been forced to conform to international prices.

60 *ibid.*, p 3. It should be noted these were two of the first "reforms" promoted by Deng in China. See Al Campbell, *op. cit.* in endnote 2.

61 Given the importance and the resources the Cuban government has attached to this program, it is surprising how few articles on it have been written outside of Cuba. For an introduction to the specifics of the program, see Áquilas Mendes and Rosa Maria Marques, "Cuba and the 'Battle of Ideas': A Jump Ahead," *Review of Radical Political Economics*, forthcoming.

62 For a short introduction to the strong recent economic performance, see Al Campbell, "The Cuban Economy: Where It Stands Today," *op. cit.*

63 Keep in mind that Cuba neither is nor claims to be socialist, they only claim to be in the transition from capitalism to socialism.

64 Raúl Castro, *Granma Internacional*, 43(9), March 2, 2008, p. 6

65 For a deeper discussion of this issue, see Al Campbell and Ufuk Tutan, "Human Development and Socialist Institutional Transformation: Continual Incremental Changes and Radical Breaks," *Studies in Political Economy*, forthcoming.

Chapter 5

1 Amartya Sen, *Development As Freedom* (New York: Anchor Books, 1999)

2 Martha Nussbaum, another founder of the "capabilities approach" to development lists ten capabilities. See: Martha C. Nussbaum, *Women and Human Development: The Capabilities Approach* (Cambridge: Cambridge University Press, 2000)

3 Franklin Tugwell, *The Politics of Oil in Venezuela* (Stanford: Stanford University Press, 1975), p.182

4 Banco Central de Venezuela: www.bcv.org.ve/indicadores

5 Terry Lynn Karl, *The Paradox of Plenty* (Berkeley: University of California Press, 1997)

6 Fernando Coronil, *The Magical State* (Chicago: University of Chicago Press, 1997), p.76 ff.

7 *Ibid.*, p.100

8 *Ibid.*, p.167

9 *Ibid.*, p.180

10 *Ibid.*, p.182

11 2003 OPEC Statistical Bulletin

12 Venezuela's urbanization rate was 88 percent in 2001 (World Bank Development Report), which is second only to Uruguay, which is practically considered a city-state, because most of its population lives in Montevideo.

13 Julia Buxton, *The Failure of Political Reform in Venezuela* (Aldershot, England: Ashgate, 2003), p.114

14 OPEC Annual Statistical Bulletin, 2003

15 Buxton, p.115

16 Banco Central de Venezuela

17 Karl (1997), p.125

18 This economic disease is caught whenever a commodity brings a sudden increase of income in one sector of the economy, which is not matched by increased revenues in other sectors of the economy. What happens is that this sudden sectoral increase causes severe problems in other sectors. The increased income from the oil sector causes a distorted growth in services and other non-tradables, while discouraging the production of tradables, such as industrial and agricultural products. The reason for this disparity is that the greater income rapidly raises the demand for imports, since domestic production cannot meet demand quickly enough, and also raises the demand for services, which the domestic market has to supply since services cannot be imported as easily as tradables can. The increased demand for imported goods and domestic services, in turn, causes an increase in prices, which ought