

The “Cuban Model” and Its Microeconomy

by
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No productivist model of socialism has ever existed in Cuba. Rather, the Cuban approach has drawn on a hybrid of ethical principles with some consistent strategic themes. Cuba’s socialist strategy has been reformulated quite flexibly, in relation to these principles and historical circumstances, and this flexibility seems to have been important in allowing Cuban socialism to adapt and survive. More recently, Cuba has looked for a selective engagement with the global economy, advancing its strong service sectors while protecting key domestic services and domestic food production. The major in-principle change in recent years has been the licensing of the hiring of private labor. Changes to Cuba’s microeconomy are also best understood through the lens of ethical socialism and adaptation. Special attention to Cuba’s microeconomy is warranted because of the complex relation between wages, subsidized prices, and shared services.

Nunca ha existido ningún modelo productivista del socialismo en Cuba. Por el contrario, el enfoque cubano se ha basado en un híbrido de principios éticos con algunos temas estratégicos consistentes. La estrategia socialista cubana ha sido reformulada de manera bastante flexible en relación a estos principios y circunstancias históricas, y esta flexibilidad parece haber ayudado en la adaptación y supervivencia del socialismo cubano. Más recientemente, Cuba ha buscado un compromiso selectivo con la economía mundial, avanzando sus sectores de servicio fuertes hacia adelante a la vez que protegiendo servicios domésticos clave y la producción nacional de alimentos. El principal cambio en los últimos años ha sido la licencia de contratación de mano de obra privada. Los cambios a la microeconomía cubana también se entienden mejor a través de un lente de socialismo ético y adaptación. El énfasis en la microeconomía de Cuba tiene sentido dada la compleja relación entre los salarios, los precios subsidiados y los servicios compartidos.

Keywords: Cuban socialism, Transition, Socialist microeconomy

With each new round of policy changes in Cuba, popular and academic debates return to the theme of the future of the Cuban Revolution and to competing notions of “transition,” whether to capitalism or to socialism. Necessarily associated with such debates are considerations of the daily lives of Cuban people, including salaries, price and currency structures, the system of social services, property rights, and the redefined role of small business. Differences in the lines of debate and strong ideological filters regarding anything to do with Cuba contribute to misunderstandings. When asked by a North American journalist whether the “Cuban model” was “still worth exporting,” the retired leader Fidel Castro laughingly replied, “It doesn’t even work for us.” The

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remark was widely interpreted outside Cuba as a confession of the failure of Cuban socialism from its main architect (Euronews, 2010; Schmidt, 2010). Inside Cuba the remark was recognized as an extension of Fidel's idea that "revolution is changing everything that needs to be changed" (Castro, 2000). Cubans have made it clear that they do not follow a fixed or productivist model (that is, a preconceived idea of how production is to be structured), nor do they ask to be copied. Nevertheless, the question of a Cuban "model" usefully draws attention to the conceptual and strategic foundations of Cuban socialism during processes of change.

Within Cuba, discussion on change revolves around the idea of improving and updating the socialist project (Raúl Castro, quoted in Espinosa Martínez, 2005: 68), of broadening and improving Cuba's forms of participatory democracy (Alzugaray Treto, 2009: 8), of confronting "organizational, structural," and conceptual challenges to the achievements of the revolution, building participatory forms (Nápoles Rodríguez, 2009: 104–112), and of addressing key issues of efficiency (PCC, 2010). Experienced outside observers have noted the capacity of the Cuban Revolution to "reinvent itself" (Brundenius, 2009: 45) but also the problems of low wages, youth disillusionment, "sagging morale," and the ongoing challenge of reconstructing a strong agricultural sector (Landau, 2009: 138). Adding to the complexity of discussing such problems, at the microeconomic level there is a common tendency to convert local money wages into hard currency, exaggerating their inadequacy by ignoring both the system of controlled prices and the extensive "social wage."

All this suggests a need to link discussions of Cuban socialism and the country's supposed "model" to the processes of change (including "transition") and to an understanding of key elements of the Cuban microeconomy. On that basis, and treating Cuban political thought as foundational, this paper will examine the conceptual and strategic foundations of Cuban socialism and the way these ideas have been applied and revised during the post-Soviet Union and the post-Fidel reform periods. It suggests that certain ethical principles have informed Cuba's socialist project and that these principles have also helped shape subsequent reform more than any commitment to a "model" of productive relations. In the second part, the paper will examine processes of economic reform. Using a critical, institutional method that pays attention to historical detail, it draws on Cuban and outside literature as well as evidence and interviews. It begins with an examination of the foundations of Cuban socialism, then addresses the post-Soviet and the post-Fidel reforms, and finally examines the impact of these on wages, prices, and currencies and on property and small business.

FOUNDATIONS OF CUBAN SOCIALISM

Fidel Castro, without doubt the central strategist of the Cuban Revolution since the Moncada rebellion of 1953, has consistently identified his main intellectual influences as José Martí, the nineteenth-century revolutionary, and the young Cuban Marxists who struggled against fascism in the 1930s. Of his own contribution he says, "[It] consists in having brought about a synthesis of the

ideas of Martí and of Marxist-Leninism and having applied them consistently to our struggle" (quoted in Cantón Navarro, 2008: 11).

Martí's breadth of thought and humanism left an indelible mark on Cuba. Influenced by earlier liberals such as José de la Luz y Caballero, he blended strong moral and radical liberal concepts into a revolutionary, anti-imperialist perspective. He began with a concept of justice and extended it to include civil freedoms and access to education and culture, holding that "to be cultured is the only way to be free." Education, in turn, included the widespread inculcation of social conscience and ethical culture, as well as universally high levels of formal education. So long as justice was not achieved, there had to be a social struggle and, in the case of implacable entrenched interests (as in colonial rule), a revolutionary struggle (Cantón Navarro, 2008: 12–34). A committed anti-imperialist, Martí foresaw the great threat of U.S. neocolonial annexation (Martí, 1994 [1895]: 116–117).

To education, culture, and anti-imperialism Martí added the call for unity. Revolutionary forces needed the broadest possible alliance of farmers, workers, students, and all the dispossessed and "poor of the earth." He saw "revolutionary unity," with a single party, as the only way a small nation could avoid being divided and dominated by imperialism (2009: 171, 174). He recognized the conflict between capital and labor but avoided a formulaic response, writing in 1875: "Each country creates its own special economy . . . [which is] the combination of solutions to distinct conflicts between labor and wealth: there are no immortal laws. . . . In each country there is a special history of capital and labor. . . . For particular histories, particular solutions" (quoted in Cantón Navarro, 2008: 14).

Consistent with this, the program of the Cuban Revolutionary Party of 1892 was based on broad principles and ethical considerations as applied to such things as free labor, the abolition of exploitation, social equality, the creation of "a new people," and the conduct of the revolutionary war. However, there was no defined postindependence economic plan or "model." In this respect both Martí and Fidel Castro maintained a degree of pragmatism or tactical flexibility by focusing on ethical principles and arguing that circumstances must be addressed by "necessary" measures. Martí reacted against the legacy of Spanish colonialism but also against imported ideas and practices. Problems should be "subject to debate, not submitted to a predetermined economic school" (Martí, 1975: 334–335).

The Congress of Washington of 1889 led Martí to call for a "second independence" in Latin America, a real economic independence (Martí, 2009: 89–93). He foresaw Washington's hegemonic plans for the continent and the threat of neocolonialism. The peoples of Latin America had to be free of all the big powers, which had always sought to divide and rule. Martí criticized the U.S. proposal for a customs union as asymmetrical, giving most advantage to the northern power (94–95). He was an admirer of Henry George and therefore saw the land problem as central, but he did not adopt George's idea of a land tax. Land was the primary source of all property and, as "public land," had to be returned to the people who lived on it (247–248). This idea underwrote Cuban land reform and is reflected in the contemporary principle that land in Cuba is not to be bought or sold.

Cuba's early Marxists acknowledged their debt to Martí. Carlos Baliño, a founder of Cuba's Socialist Workers' Party, was a contemporary of Martí. He wanted political power to pass to the workers and private and corporate property to become "the common property of the whole society." He ignited the ongoing Marxist debates on the nature of the socialist state and of social property and the ways in which workers might receive "the integral fruits of their labor" (Molina, 2007: 98–102). Baliño (1976: 43, 205) drew on Martí's idea of a broad anti-imperialist alliance, saying that Martí was the liberator, poet, and "apostle" of Cuba, had captured the hearts of the people, and was a "guiding light, an exceptional intelligence . . . a keen conscience, a loving and generous heart" (quoted in Cantón Navarro, 2008: 135).

After Baliño, prominent Cuban Marxists of the 1920s and 1930s such as Julio Antonio Mella, Blas Roca, and Juan Marinello also embraced Martí. Mella, for example, adopted Martí's internationalism and spoke of his free spirit in an age of U.S.-backed dictatorship: "It is not possible in the Cuba of Martí that thinking freely can be a crime." For Mella, the project of Latin American unity was central, was the unity of revolutionary forces. He followed Martí's commitment to a broad concept of culture, which included consciousness building as well as formal education and the arts. Where Martí had said "justice first, and art next" and "to be cultured is to be free," Mella asserted that "culture is the only emancipation, real and definitive" (Cantón Navarro, 2008: 142–144). At the same time, the Peruvian activist José Carlos Mariátegui, a contemporary of Antonio Gramsci, reinforced among Latin American Marxists the idea of an independent Latin American road to socialism. Mariátegui maintained that socialism was a process that varied in distinct contexts and could incorporate elements of liberal reasoning. The Latin reality was quite different from the European, particularly in the coexistence of distinct modes of production and distinct cultures (Santana Castillo, 2008: 143–151). "Models" could not be copied from one social context to another (Mariátegui, 1975 [1928]). Contemporary Cuban socialists have consistently stressed the need for flexible economic plans that "respond to the particular cultural and historical conditions of each society in each moment" (Machado Rodríguez, 2010: 200).

Fidel Castro famously credited Martí with being the "mastermind" of the failed Moncada barracks attack in 1953, and the subsequent 1955 manifesto of the July 26 Movement also carries Martí's stamp. As well as being revolutionary, collectivist, and redistributory, it demanded a massive expansion of education (including the construction of "children's cities" to educate the children of peasants and workers) and new cultural programs (Castro, 2007: 12, 26, 93–94). As did Martí, Fidel broadly identified the protagonists or revolutionary subjects as "the people," the "great unredeemed masses" who had been misled and betrayed, including rural workers, industrial workers, small farmers, owners of microbusinesses, students, and young professionals (Molina, 2007: 179–180). Indeed, just such a coalition finally defeated the U.S.-backed dictatorship at the end of 1958. The Moncada Program had promoted sovereignty for the people, agricultural reform based on the 1940 liberal constitution, a 30 percent worker share in all the large companies, a 55 percent share for sugar workers, and confiscation of the property of the regime's criminals (Molina, 2007: 181–182). It was a popular program but not yet a socialist one.

A cascading series of events—with the U.S. government cutting sugar purchases and oil supplies and then directing oil companies not to refine substitute oil from the Soviet Union—led to a radicalization of the revolution and the nationalization of all large industry, including sugar, oil, agribusiness, and utilities. These nationalizations responded to historical circumstance. In 1961 the United States broke off relations with Cuba and made a failed attempt at invasion just as a mass literacy campaign was getting under way. During that failed invasion, Fidel Castro, in a large public gathering, declared the revolution to have become a socialist project. A second round of agrarian reform in 1963 brought the state into ownership of 70 percent of Cuban agriculture (Molina, 2007: 189–191). After that, debates on the form of Cuban socialism began to be led by the Partido Comunista de Cuba (Cuban Communist Party—PCC).

Building on Martí, the Cuban leader Ernesto “Che” Guevara spoke of the need to create “new men and women” so as to be able to build socialism. He stressed the values of freedom, collectivism, sacrifice, a fuller sense of education, and consciousness building (Turner Martí, 2008: 20–27). Socialism had to accommodate, as far as possible, the spirit of the new era, working to suppress human exploitation and in accordance with the concrete circumstances of each country (Guevara, 2007: 5). If the revolution responded to specific needs of the country, Che asked, how could it be argued that we must follow a “mechanical and narrow formula” about productive forces and relations of production? He opposed the “mechanical” application of Marxist ideas (15). Here we see another important Cuban “vote” against a narrow model and in favor of principles combined with a historically specific program.

Circumstances blocked Cuban ambitions to industrialize the economy, with the Soviet Union offering a sugar-for-oil deal that, while providing sustained economic benefits, locked the country into the sugar monoculture. The maintenance of large-scale sugar was thus a pragmatic adaptation rather than the application of any sort of productive blueprint. Between 1971 and the early 1980s Cuba—while maintaining its own emphases on education, social justice, and solidarity—was influenced strongly by the Soviet model in planning, management, and accounting. The First Congress of the PCC in 1975, in its “System of Management and Planning” and in the context of pursuing an accelerated and more diverse industrialization, engaged more directly with the commercial models of the Soviet bloc’s Council for Mutual Economic Assistance (López García, 2005: 32–35). Cuban socialist texts of the 1970s described surplus as the fruit of the “labor of a socialist society, whose results are used to satisfy the needs of all its members” (DEI, 1978: 7). The economic project focused on improving the returns of these socialist enterprises, which by the 1970s were mostly state-owned. This approach to productivity was portrayed as a fairly technical process (DEI, 1978: 13–17). The labor force had been increasingly employed by the state, from barely 9 percent in 1953 to 86 percent in 1970 and then 94 percent in 1988 (Espina Prieto, 2006: 370).

In some respects Soviet-linked relations worked for Cuba, as the purchasing power of sugar against oil held up through the 1970s, when other countries were hit by strong oil price increases. There were improvements in living standards and access to consumer goods (Rodríguez and Moreno, 1990). At the same time, investment in education, health, and research was paying dividends

in the development of biotechnological and pharmaceutical industries, the key elements of Cuba's globally competitive industrialization (López García, 2005: 35). Nevertheless, Cuban socialism maintained its own traditions and ideas. Cuban analysts speak of a process of "social accumulation" that combines Marxist notions of economic accumulation with the Cuban idea of "the transformation of human beings [through] education, health, social security, the creation of values, and different forms of participation in daily political tasks." This idea was later said to be "at the root of reasons why Cuba did not replicate the Euro-Soviet cycle" of a collapse of socialism and transition to a capitalist mode (Bell Lara, 2008: 83). The notion of shared benefits from an accumulated social surplus (the very substantial social wage in terms of free education, health, and many other services), combined with the development of social consciousness, allowed Cuba to weather shocks to the system.

According to Fidel Castro, the main achievements of the Cuban Revolution have been reclaiming the country's land and industries from the monopolies, dealing effectively with unemployment, illiteracy, and racial discrimination, and making great advances in social security, education, and health (Castro, 1983: 3–6). To this might be added Cuba's consistent internationalism and the broader dream of a unified Latin America (16–17).

Cuban socialism thus drew on principles from Martí and the Cuban Marxists, conditioned by strong Latin American concepts of independence, anti-imperialism, and autonomous development. The Cuban Revolution involved breaking the power of private monopolies and the vindication of broad sectors of society, establishing social control of land and all major industries, a radical extension of education in its broader sense, affirmation of local cultures, and a strong sense of justice and social ethics. Yet there was no blueprint. How these principles were applied to the domestic economy changed substantially through the early years, was influenced by the Soviet model in the 1970s, and began to shift again in the mid-1980s. It may not be a coincidence that Cuban socialism seems to share the adaptive and syncretic nature of Afro-Cuban religion.

POST-SOVIET REFORMS

If there is a group of consistent, historically developed principles behind the Cuban Revolution, a form of "ethical socialism," did it change after the country's economic relationship with the Soviet Union disappeared? I suggest that, once again, we see adaptation based on principle rather than model. Major changes were introduced in the mid-1990s, but the "post-Soviet" era in Cuba can be said to have begun before the Soviet Union's collapse. A major revision of economic and defense strategy was under way in 1986, in part prompted by the U.S. invasion of the Caribbean island of Grenada. Civil defense was reorganized, but Fidel Castro also led a process of rectifying "errors and negative tendencies"—"problems of a conceptual kind . . . also problems of an ideological sort" embedded in the prevailing economic system (Castro, quoted in López García, 2005: 36). Material incentives had always existed, albeit in a tense relationship with ethical commitment to the social project and the development of social consciousness. Che had called for an intelligent management of that

tension (López García, 2005: 41–42; see also Yaffe, 2008). Criticism of incentives in the "rectification" period focused on their link to planned productivity norms rather than actual productivity. In other words, productivity was recognized through meeting the goals of the plan rather than assessment of the outcomes. There was no incentive for changing norms. This bureaucratization led to manipulation of the incentive system and corruption. The focus on enterprise surplus was also seen as a problem. The combined effects were failures in participation and "ownership" of the social process. In the ensuing debate, Fidel Castro returned to a common theme: "We have to use both kinds [material and moral] of incentives" (quoted in López García, 2005: 39–45). The real question was how to reinvigorate participation, "ownership" of the social project. As this debate got under way, the Soviet Union collapsed and, along with it, 85 percent of Cuba's foreign trade. Cuba fell into a deep depression, with more than 30 percent economic contraction per year between 1990 and 1993 (see Anderson, 2002; CEPAL, 1997; Espinosa Martínez, 1999). The more autonomous debate on reform had to proceed under emergency conditions, with a focus on survival.

Even before the crisis of the 1990s, Fidel Castro had left open the possibility of foreign investment: "That could be done in some cases, we're not dogmatic on this" (quoted in Miná, 1987: 159). However circumstances helped drive the structural changes. In a process called "redefining the consensus" that was notable for its participatory democracy (Alarcón de Quesada, 1999: 8), the special-period measures were discussed in 1993–1994 by the PCC, the workers' parliaments, the trade union federation, and the other mass organizations such as the Committees for Defense of the Revolution, the Federation of Cuban Women, and the municipal popular councils. The number of agricultural cooperatives was increased to cover 67 percent of cultivated land (up from 25 percent). Remittances and dollar holdings were allowed, opening up a dual currency system. Tourism came to replace the downsized sugar industry as the country's primary hard-currency earner. A new law allowed state–foreign company joint ventures. Licensing of a small self-employed sector was introduced. Environmental sustainability received new emphasis. Free education, health, and social support systems were maintained, and there were some new fees on select goods and services (Espinosa Martínez, 2005: 78–79). These extensive changes, including the idea of sharing the shortages (Castro, 1991; García Salabarría, 2009), were said to have moderated the decline of the economy and maintained a high degree of social inclusion while avoiding the standard neoliberal recipes for structural adjustment (Anderson, 2003; Bell Lara, 2008: 84–86).

At the same time as the cooperative sector was expanding, the already dominant state sector was absorbing "surplus labor" from the huge collapses in production, especially in the sugar industry. In a more market-oriented society this might have been called reducing unemployment by a "general subsidy on wages," effectively reducing wages overall (e.g., Kaldor, 1936: 722–723). In the Cuban context this process was seen as "sharing the pain" of the depression. The Economic Commission for Latin America and the Caribbean estimated that, while unemployment barely rose in the special period, the "equivalent unemployment" was around 30 percent for every year between 1992 and 1996 (CEPAL, 1997: 185, 189). Real wages fell sharply, and a "second economy,"

consisting of (authorized) cooperatives, microbusinesses, and open markets and a range of (unauthorized) commerce in mostly small “grey” and “black” markets, emerged (CEPAL, 1997: 17–21). Production of food for home consumption was encouraged. In the 1990s many Cubans began depending on this second economy for their basic livelihoods.

Not all the suggestions from this consultative process were adopted. One Cuban economist had documented the serious inefficiencies in many state enterprises, attributing these to the contradiction between the state’s role as enterprise manager and its role as guarantor of employment (Vilariño, 1997: 32–39). He called for broader changes in property relations with an eye to adopting lessons from the “socialist market” economies of Vietnam and China. Problems identified were inefficient use of resources and an inefficient external sector, a weakening of the worker-farmer alliance, overly centralized democratic socialism, a loss of confidence in institutions, and the alienation of workers. The reform measures suggested included greater heterogeneity in forms of property, greater integration of planning with the “socialist market,” greater economic decentralization, elimination of the dual currency system, and an expansion of cooperative systems, individual and cooperative usufruct leases, and small business, including the contracting of labor for it (Vilariño, 1997: 3, 74, 173–175). Some elements of these ideas were picked up in the 1990s reforms, while others reemerged in the proposals of 2010.

The Cuban economy recovered gradually in the late 1990s and early 2000s, the two biggest hard-currency earners being tourism and health services. Economic growth was particularly strong between 2004 and 2007 on the backs of new agreements with Venezuela and China. The new resources from these exchanges allowed investment in energy and transport infrastructure and policy initiatives such as the “Energy Revolution” (Calvó and Ibañez, 2009). By the mid-2000s, several writers, reflecting on the elements of the Cuban Revolution, pointed to foundational principles and elements of development strategy. Espinosa Martínez (2005: 61–71), responding to criticism that Cuba displayed “neither strategy nor model” (Font, 1997), asserted that a principle-based strategy had remained coherent: economic independence, the human being as the subject and object of development, political sovereignty, social justice, participation, internationalism, and the socialist project. Díaz González (2005: 263–279) argued, similarly, that the Cuban Revolution was based on certain ethical principles and had maintained a necessary flexibility: “It is precisely Cuba’s capacity to pursue a different model in the context of globalization that has permitted the continuity of the Cuban socialist project.” She described those principles as equitable in the face of expanded inequality, solidarity-based rather than requiring social exclusion, promoting social participation instead of social fragmentation, and using ideology as a “tool for struggle” instead of for commodification and consumerism (Díaz González, 2005: 276–277).

In one of the better characterizations of post-Soviet-era Cuba, Bell Lara (2008: 43–80) positioned elements of development strategy in the context of Cuba’s unique history and the broader left debates. The question was not incorporation into the world economy but how to manage the terms of that engagement (94). Cuba had chosen limited global engagement in the key areas of health, education, and basic foods while engaging in strategic areas such as

tourism, commercial agriculture (sugar, tobacco, fruit), and certain key technologies. It focused on "the productive-scientific constellation of health," an accumulation of biotechnological and pharmaceutical knowledge linked to the production of medical equipment and medicines and the provision of health services (94–103). There had been strong development of human capital, but computerization had been relatively weak. Spaces for engagement with foreign investment were opened in select areas (e.g. oil, communications, tourism, nickel, fruit) in the context of an economic blockade by Washington. The aim was not simply income but also management training: "To understand the world of capital, dominate the rules of the market, work effectively with them, and try not to be absorbed by the world of capital" (103). These changes took place under a political concept of "democratic centralism" promoted by the Bolsheviks, reinforced by Martí's stress on national unity, and (as reiterated by the Fourth Congress of the PCC) linked to the Cuban Revolution's theme of promoting maximum popular participation (Machado Rodríguez, 2010: 188).

REFORMS AFTER FIDEL

Outside expectations of distinct change after Fidel Castro's retirement as president of the Council of Ministers (over 2006–2008) were inflated, but this change was not irrelevant. The food and financial crises of 2008 helped force further discussion of the themes raised in Cuba's deeper crisis of the 1990s. However, Raúl Castro's more pragmatic leadership must have contributed to a greater focus on some key ongoing themes: rebuilding forms of participation and addressing key contradictions, not least dissatisfaction over wages and livelihoods. Cuban writers had noted that problems in building social consciousness and developing and sustaining high levels of participation were fundamental to the socialist project (Alemán Santana, Saroza Montegado, and Pérez Méndez, 2008: 45–46). The food import bills and pressure on the balance of payments were important catalyzing pressures.

Prior to the PCC's reform proposal of late 2010, agricultural reform commanded state attention. There had been a great expansion of farming cooperatives in the 1990s, but despite this there was a significant drop in agricultural output in the mid-2000s. This was said to be due to externally determined supply targets and fixed prices that were sometimes below the cost of production (Nova González, 2010: 57). The initial response to this policy failure was to expand growers' markets with liberalized prices, and the next step was to promote a usufruct lease system whereby individual farmers produce and share portions of their production with the state (MJRC, 2008). The strategic aim was to increase self-sufficiency and avoid net food imports. These individual leases did not represent a major change in property regimes, as the state remained the owner of the land and could reassume it if production were not maintained. However, a second stage in agricultural reform, that of licensing individual Cuban farmers to hire some labor (typically just a few people), was a significant change. Not even the joint-venture companies of the 1990s had allowed individuals to hire labor.

Meanwhile, Cuba was making a great effort in the service sector, sending tens of thousands of health and education professionals to Venezuela, covering its general deficit in imported goods. Services were indeed the leading edge of Cuban productivity because of the historical investment in human resources (CEPAL, 2008: 27; Fernandez de Bulnes Garcia, 2008: 176–177). This in turn had led to a renewed focus on tertiary education, to “convert education into the new locomotive that would drive the economy” (Pérez Izquierdo, 2008: 152).

The 2010 round of economic reforms addressed the perceived need for greater productivity to meet expectations and eliminate “self-deception” (R. Castro, 2010: 1) and to raise levels of participation in management (Piñeiro Harnecker, 2010). It was to be “completely Cuban, designed by ourselves,” and was seen as an “updating” of the Cuban economic model (Puig Meneses and Martínez Hernandez, 2010: 4–5). The PCC’s reform proposal of 2010 had as its major theme building (through an updated and improved socialist, planned system) a more efficient economy focused on savings, increased productivity, an emphasis on both export orientation and import substitution, an expanded nonstate sector (particularly through small business and cooperatives), new forms of taxation, a more commercially independent state enterprise sector, the elimination of losing operations, and reductions in state subsidies (PCC, 2010: 6, 11, 14). The package renewed the debates of the 1980s and 1990s. It was said to add “clarity” to a reform that was addressing not just global challenges but longer-standing internal problems such as “excessive paternalism.” There was said to be a “need to identify characteristics and specific details of the Cuban economic model in the construction of socialism, while challenging limits and looking for alternatives in development” (González, 2010). State enterprises would have their budgetary support cut. Cooperatives could own and rent their means of production. The number of enterprises and units supported by the state would be reduced to the minimum required to guarantee “required functions” (PCC, 2010: 9–10). The price system would be subject to an integrated revision to allow “a correct measure of economic costs, stimulus for the economy, an improvement of the trade balance, and elimination of subsidies and unnecessary gratuities” (PCC, 2010: 13). This shift might appear a capitulation to “market mechanisms” under the neoliberal model, but it is perhaps better seen as the selective incorporation of liberal elements into an evolving social system. In some important respects it also represents a recognition or incorporation of what had been called the “submerged economy” (González Gutiérrez, 1995)—a range of unauthorized commerce, part of the second economy (CEPAL, 1997: 17), that included unauthorized rentals, sales, services, and the informal contracting of labor.

Ricardo Alarcón said that Cuba was adapting to “the reality of the world,” which required Cubans “to save resources and to manage better what we have. . . . We are not going to privatize education or public health, nor are we going to dismantle the system of social security and assistance” (*Prensa Latina*, 2011a). No change was planned for the 1995 joint-venture model, and the objectives of foreign investment remained those of gaining “access to advanced technology, management methods” and “diversifying and widening export markets.” Priority would be given to participation in the eight-nation Alianza Bolivariana para los Pueblos de Nuestra América (PCC, 2010: 15–16). State farms would

still exist, for example, in dairy and livestock, but would be subject to the same efficiency principles as other state businesses (PCC, 2010: 22–25). Widespread discussion of these proposals took place in the months leading up to the PCC Congress of April 2011. After more than 163,000 meetings of the mass organizations, most of the 291 clauses of the proposal were amended and 36 new elements were added. Most had to do with changes to the *libreta* (ration book), price policy, transport, education and health, and monetary unification (R. Castro, 2011).

There were recognized contradictions in the reforms, such as cutting back excess labor in state enterprises and raising the age of retirement, but both were said to be necessary (González, 2010). The greatest changes of this package appear in agriculture, small business, taxation, subsidies, and employment law. The ability to hire private labor, introduced earlier in the agricultural sector, was to be extended into small business with a new taxation regime (PCC, 2010: 22–24). The reforms have been substantial and in some cases (foreign investment, mass tourism, labor hiring) broke with socialist expectations. Cuban socialism has some strategic themes (e.g., state control of land and major industry, social participation) and some dialectical themes (e.g., confronting inequality with solidarity) in development strategy, but strategy has also been adaptive. Cuba is indeed “reinventing” itself, but the practical impact of this on the country’s microeconomy deserves scrutiny.

WAGES, PRICES, AND CURRENCIES

The complex relationship among wages, prices, and currencies in Cuba creates some difficulties in understanding purchasing power and livelihoods. Those who simply translate a fairly average monthly wage of 460 pesos (MN [*moneda nacional*]) to its equivalent of \$20 (CUC, [convertible Cuban pesos]) are missing a great deal. A dollar in Cuba is not necessarily a dollar. The inability to make such a direct conversion arises from the regime of price controls and subsidies, the dual currency system, bonus payments, alternative income streams, and the large size of the social wage. Nevertheless, changes to wages and incomes—including the link to problems of morale and participation—need to be understood in the Cuban context.

In the general economic scheme we see, on the one hand, low price inflation and a fairly stable exchange rate (Vidal Alejandro, 2010: 32–33). Unemployment was very low by 2007, less than 2 percent (ONE, 2008: Tables 7, 7.1). On the other hand, this was a socialist economy that invested more strongly in a recovery phase, in part at the expense of discretionary consumption. Between 2002 and 2007 gross capital formation ranged from 8.5 percent to 11.7 percent per year, 85–90 percent of which was financed from national savings (ONE, 2008: Table 5.18). Most of this strong investment went into transport, housing, infrastructure, and shared services such as education, health, and other elements of the social wage.

Wages in that same period rose at about the same rate. However, according to one calculation, this made real wages just over double the all-time low of the mid-1990s but less than a quarter of their level in the late 1980s (Vidal Alejandro,

2010: 33). Yet even this accounting for inflation is not enough, given the slowly shifting system of price regulation and subsidies. Purchasing power depends on the individual consumption patterns. Pensions are becoming an increasingly important part of the wage system as, because of good health and low fertility rates, Cuba's population ages. In 2008, after a consultative process, it was decided to raise the retirement age by five years, to 60 for women and 65 for men (Radio Rebelde, 2008). Average pensions were raised in the mid-2000s to about half of the average wage in 2007 (ONE, 2008: 7), and pensioners have the same access to basic subsidized goods and free services.

Cubans have to buy many items (most clothes, toiletries, consumer electronics) in hard currency (the CUC) but still have access to many goods and services denominated in pesos at very low prices. Basic food prices are kept low. In street stalls in early 2011, ham and cheese sandwiches were selling for 5 pesos (20 cents), a slice of pizza for 2 pesos (8 cents), and a basic soft drink for 1 peso (4 cents). Even when prices were in CUC, some items, such as cakes and pastries, were selling for 35 cents. Manufactured and imported foods cost more: a can of soft drink was 60 cents, a can of beer \$1, CDs and DVDs \$2–10, and better-quality clothes and shoes \$20–70.

Several additional factors are at play in Cuban prices: the ration book, transport, and state support for culture. The ration book available to all Cubans provides extremely cheap access to some basic foods. It has been a cornerstone of social security but has been scaled down in recent years. Some items are provided at the local state stores (rice, beans, sugar, coffee, pasta, some bread, oil, some biscuits, vinegar, cocoa, potatoes), some at butcher shops (chicken, eggs, ground meat, and some fish), and some at local bakeries (bread), all at highly subsidized prices and subject to a monthly maximum (e.g., several pounds of rice or sugar or beans per month per person). Beyond the rationed amount, additional items can be purchased at regulated prices in state stores or at higher prices in producers' markets. This has led to a complex network of prices. For example, rice is sold on the ration book for 25 centavos MN (around 1 cent) per pound. Above the rationed amount it sells for 3 pesos (about 14 cents) per pound. This helps generate an underground market for surplus rice, traded between families, at about 3.50 pesos per pound (María Iglesias Castaño, interview, Havana, January 24, 2009). The state-run fruit and vegetable markets sell goods at the cheapest rates but often have limited items, and they are supplemented by cooperative growers' markets at higher "free-market" prices but with regulated maximums.

Regulated prices, of course, lead to what has been called the "submerged" economy to distinguish it from the black-market sale of stolen or fraudulent goods (e.g., cigars). Considerable effort is spent tracking the side-effects. The logic of economic liberalism would be to abolish quantity and price controls, but this would increase the number of middlemen and drive prices up. The logic of Cuban regulation is to ensure that all have access to basic foods. Ration book prices are so low as to have an insignificant impact, even on low wages. In the 2010–2011 reforms, while the ration book is to be phased out as a standard form of distribution, similar programs will be maintained for vulnerable groups (PCC, 2010: 21–22). Toothpaste, soap, and detergent were removed from the ration book in early 2011 (Leyva, 2011: 6), and soap began to be sold at 25–45 cents per bar.

Public transport is also subsidized, and the purchase of thousands of new buses in the mid-2000s relieved some of the earlier transport problems. Bus fares are insignificant. Taxis cost considerably more. Many countries subsidize trains and buses, but few subsidize culture as Cuba does. There was a surge in book publishing in the 2000s, and most new paperback books and magazines (on culture, film, music, literature, politics, and history) range from 5 pesos (20 cents) to 20 pesos (80 cents). A dual price system for Cubans and foreigners comes into play for access to the ballet, theater, music, and attractions like zoos and the aquarium. Where a tourist may pay \$5 or \$10 to see the ballet, a Cuban will pay 5 or 10 pesos MN (20–40 cents). The Cuban government supports the arts and keeps them widely accessible, and this has the effect of stretching the Cuban peso.

Line-based phone services are cheap, as are public phones. There are now over 1 million mobile phones in Cuba (*Cuba Standard*, 2010) but, while connection fees have fallen, mobile service remains expensive. Internet access has been free in institutions, though often limited (by rationing) to an "intranet" of e-mail and educational journals. Full access is available but expensive, often \$6 per hour. The U.S. blockade has denied cable access and required the slow and expensive satellite connections. Nevertheless, by 2009 1.6 million Cubans had e-mail access (ONE, 2010: Table 7). With the new fiber-optic cable from Venezuela laid in early 2011 (*Latin American Herald Tribune*, February 13, 2011), Internet access should gradually improve, though additional investment will be required to take advantage of the new bandwidth.

In addition to the impact of the various subsidized goods on livelihoods we have to consider the social wage of free services and institutional benefits. These consist of free education for life, free health and dental services, rent- and mortgage-free primary housing, and guaranteed social security for all. This package is of considerable value. In many countries most wages are spent on food, housing, education, and health, none of which is a major concern in Cuba. Nevertheless, a tax scheme for small business is being introduced (ANPP, 2010: 2; Bolaños Weiss, 2010: 4–5) by way of contribution to social security. The state invests in housing, but owners are expected to maintain their apartments or buildings. A deficit in good housing has been steadily addressed since the mid-2000s, with setbacks due to hurricanes and the global financial crisis. From 2005 to 2009 between 35,000 and 111,000 houses were constructed each year (ONE, 2010: Table 12).

The dual currency system presents a complication that is linked to but not the same as the regime of price regulation. This system came about through the internal legalization of dollar holdings and dollar transactions when Cuba's external earnings collapsed. The temporary measure became policy in 1993, when the dual currency was institutionalized, the dollar being used for external-sector products and transactions and the peso for wages and most domestic transactions (Hidalgo de los Santos, 2008: 166–167). Over time, that distinction began to break down, and in 2003, when Washington fined the banks that were assisting Cuba's dollar transactions, the dollar was replaced with the convertible peso. The dual currency system carries various problems, and there has been talk of eliminating it for well over a decade (e.g., Vilariño, 1997: 173–175). It probably averted inflation, helped with a gradual adjustment, and, combined with the system of price controls, insulated the population from additional

inflationary pressures resulting from the strong growth of tourism. However, it also introduced inequalities, with those working in the external sector, overseas, or in tourism getting access to dollars. In 2008, CUC (“dollar”) bonuses were extended into other professions, but many still do not have them. The issues arising from the dual currency system include income inequalities, implicit subsidies for the external sector, and cross-sectoral financing and accounting problems (Hidalgo de los Santos, 2008: 172). The recent reform simply repeats the long-standing position that the dual currency system must be eliminated (Rodríguez García, 2008).

Low wages in Cuba are a fact, but the problem has been exaggerated both inside and outside Cuba. The Cuban peso is a stable currency, and its purchasing power is several times above its conversion rate because of price regimes and the large social wage. The exact figure is impossible to calculate because it depends on individual consumption patterns. If one eats locally produced food, goes to musical events and the ballet, and buys books, a normal salary goes a long way. If one consumes processed food and drink and wants consumer electronics, nice clothes, and overseas travel, wages are extremely low unless one works overseas or has access to small-business income. What compounds the problem of wages in Cuba is the very high level of education. With over 1 million university graduates (Radio Cadena Agramonte, 2010) and a wide view of the world, not least from the presence of millions of foreign tourists, highly educated Cubans know very well what they do not have. The heightened expectations and frustrations of a highly educated population compound the dissatisfaction with low wages. Helping build morale, levels of participation, and livelihood possibilities is therefore a concern in the reform of wages and incomes.

PROPERTY AND SMALL BUSINESS

Two important elements of the recent reforms are property relations and small business. From a liberal point of view, the changes in these elements seem minimal and not approaching the standards of a system of capital accumulation, but from a Cuban socialist perspective, that is the point.

The usufruct agricultural leases allowed since 2008 do not substantially change the social ownership of land and simply represent the promotion of a custodianship agreement between the state and individuals that depends on ongoing production and the sharing of produce. The more significant change here is allowing small farmers to hire labor; this reform has been passed on to the wider small-business sector and is subject to a new tax regime.

Since 2011 Cubans have been able to “buy and sell” their homes (MercoPress, 2011), but this commerce takes a regulated form quite distinct from a capitalist system, which deregulates prices and allows individual accumulation. Cubans gain secure titles to their homes either through inheritance or through state allocation and do not pay rent on them, but they cannot rent them out without a special license. Homes can be officially exchanged but not sold as a commodity. The limitations of this system have led to a fair amount of unofficial home exchange for a price and thus a substantial submerged economy. Yet, for many

purposes, including access to services, it is important for Cubans to be registered in their homes. A central aim of the new regime is therefore to reincorporate the submerged economy into the official one by allowing more open home-property transactions. The new system does not allow the purchase of multiple homes for business purposes, and for the same reason home prices will remain constrained—probably to thousands of dollars rather than hundreds of thousands.

The changes of 2010–2011 open up greater flexibility in renting rooms, houses, and other spaces. Previously, the renting of rooms (a lucrative small business, with tourism) was reserved for retired people or those without other work. Doctors or diplomats working abroad, for example, could not rent their houses or apartments. Under the new system, any property owner can apply for a rental license. Licenses to rent in convertible pesos are maintained for renting to nonresidents (e.g., tourists) while renting in pesos is for those who are permanent residents in Cuba (mainly Cubans). Space can also be rented for small shops, workshops, and other small businesses such as hairdressing. The renter pays a monthly fee and a small percentage of the business's total annual income (Pérez Navarro, 2010: 4–5).

These are substantial changes from the Cuban point of view but maintain the principles of retaining social control of commercialized property, ensuring that price regimes do not exclude citizens and limiting individual accumulation. Cuban theorists have noted that the regulatory form of property varies across societies and that even "individual ownership" has distinct meanings. In capitalist systems, an evolving body of rules and assumptions applies to collective and individual property, including an "ownership" that serves the logic of individual accumulation. At the same time, social property and individual property exist as distinct forms in socialist transitional societies (García Brígos et al., 2008: 141–148). In this sense, Cuban "ownership" of property is joined to notions of identification and participation. Nevertheless, an expanded rentier status, along with the expansion of small business, while relieving livelihood limitations to some extent, does contribute to some individual accumulation.

As with property, the changes to Cuba's small-business regime appear tiny from a liberal capitalist perspective, but they are significant in the Cuban context and have required substantial discussion and public information sessions. *Cuenta propismo* (self-employment or microbusiness) under Cuban socialism has a long and varied history. A cautious turnaround began in the 1990s. By 1993 there were 55 authorized small-business activities, and by 2008 this had become 157. These registered microbusinesses could not hire labor and in 2002 were spread across transport (22 percent in 2002), renting (10 percent in 2002), and general commerce (68 percent in 2002). By 2005 there were 169,400 registered *cuenta propistas*, about 3 percent of the workforce (Pérez Izquierdo, Oberto Calderón, and González Rodríguez, 2008: 111–119). Surveys found that while many were satisfied with their incomes, most thought that their taxes were too high, most worked very long days, and many complained about their working conditions and the uncertainty of their pension rights. Quite a number had given up their licenses because of the fees but continued their businesses illegally (122–137).

Details of the 2011 changes to small-business taxation did not appear in the PCC's 2010 policy proposal but were spelled out in a series of sections of the party's newspaper, *Granma*. Apart from the new categories of licensed business, the major change is that small businesses can hire labor. Previously (and in contrast to the Vietnamese and Chinese systems), only the state or a social organization could hire labor; small business was limited to individual or family enterprises. Ricardo Alarcón observed that the new approach brought it into the formal sector through licensing, taxation, and social security. Small business had been an important part of Cuba's socialist system until 1968: "Now we are going back . . . [but with] a big difference, that they will not be 'informal sector workers.'" Cuba's small-businesspeople will have health services, social security, including pensions and maternity leave (*Prensa Latina*, 2011b; *Granma*, December 6, 2010). Cubans engaged in the 178 licensed activities (since 2010) will maintain access to pensions, maternity leave, and other social protections, as well as free health and education (Puig Meneses and Nuñez Betancourt, 2010: 4).

Nevertheless, small-businesspeople are to be incorporated into a new regime of social security contributions through revision of the tax system and the promotion of "a tax-paying culture" (ANPP, 2010: 8). This had been less necessary when the state received most surplus directly from its own operations. According to Minister of Finance Lina Pedraza, a central idea of the reforms is to use the tax contributions of private-sector workers to sustain social programs and at the same time "destimulate" the concentration of wealth (ANPP, 2010; ANSA, 2010). While maintaining a progressive tax system with an average rate of about 30 percent, a simplified tax regime will apply to single activities that do not contract labor, while the general tax regime will apply to more complex activities. Tax rates vary according to groups of activities (Bolaños Weiss, 2010: 4–5), but they increase with increases in income up to a maximum rate of 50 percent where earnings are above 50,000 pesos per year (ANPP, 2010: 2; *Granma*, December 9, 2010).

Small-businesspeople are also to pay a 25 percent social security contribution to support a 60 percent pension. For example, a person who earns 350 pesos per month and makes an 87.50-peso contribution is entitled to a pension of 210 pesos per month (Bolaños Weiss, 2010: 4). An increasing scale of wage regulation is also built into the system. Those hiring fewer than 10 workers are required to pay them one and a half times the provincial average salary, while those hiring 10–15 workers must pay double and those hiring more than 15 workers triple the average. These higher-than-average rates most likely take into account the fact that there are substantial workplace or "fringe" benefits, such as access to transport and meals at work, in Cuban state industry and public service (Bolaños Weiss, 2010: 4–5). Labor hiring incurs a tax of 25 percent on the combined salaries of workers employed, payable every three months. The number of workers can be inferred by the government from the size of the business and need not be declared (ANPP, 2010: 2).

Despite the apparently strong tax regime, small business has been an attractive option for many of those laid off from state enterprises. Work and Social Security Resolution 35 of October 7, 2010, provides the procedure for such layoffs. There must be an interview panel with a union representative present. The worker may take up another work vacancy, apply for a *cuenta propia* license or

a usufruct lease of land, or look for employment in the nonstate sector. Laid-off workers receive full salary for a month and then 60 percent of salary for a period depending on the length of service (*Granma*, December 7, 2010). Between November 2010 and March 2011, more than 171,000 new *cuenta propia* licenses were approved (*Prensa Latina*, 2011b). Of these, two-thirds were for those without work, 16 percent for workers and 15 percent for retired people (Leyva, 2011: 1). Although there have been estimates of job losses in the state sectors, the extent to which the microbusiness sector will absorb this "surplus labor" is not yet clear. The shedding of state labor does not seem to have undermined the role of the country's trade unions, which "continue to exercise real influence, both in national policy-making and in workplaces" (Ludlam, 2009: 542).

The reforms to property, small business, and taxation are changing the microeconomic environment for many Cubans. These changes have been accompanied by one major thematic change in Cuban socialism: allowing individual Cubans to hire labor. Nevertheless, the system continues to impose strong limits on individual accumulation, to protect wages and social security entitlements, and to guarantee equitable access to housing. One innovation has been to incorporate the small-business sector more clearly into the formal sector, with defined pension benefits. How the taxation and contribution schemes will develop in practice remains to be seen.

CONCLUSION

No productivist model of socialism has ever really existed in Cuba. Rather, the country's approach to independence and its own socialist project was founded on a hybrid of ethical principles from José Martí and from Cuba's own Marxist tradition—justice, education, culture, and popular unity—with key themes of anti-imperialism, participatory democracy, internationalism, breaking the power of private monopolies, and promoting the dream of Latin American unity. The recent reforms reflect consistent themes: the social control of land and major industry, inclusive and equitable social development, maximum participation, and deep commitment to education, health, and culture.

Development strategy and productive relations in Cuba have been regularly reformulated in relation to historical circumstance, including "making a virtue out of necessity." The U.S. economic and political domination of Cuba led to the revolutionary response and to democratic centralism. Similarly, the U.S. economic blockade drove Cuba into the Soviet sugar-for-oil relations, locking in Cuba's historical sugar monoculture. A somewhat more introspective reform began in the mid-1980s but was interrupted by the collapse of the Soviet Union. This forced a range of profound changes such as the introduction of joint-venture foreign investment, a dual currency system, and a large tourism sector. As a small and combative country, Cuba has had to adapt to powerful external forces. In the current phase we can see the fruit of a historical emphasis on human capital in the construction of a strong services economy. The food and financial crises of more recent years have helped drive the current reforms, with their emphases on domestic agriculture, import substitution, and efficiency. The socialist strategy has looked for a selective engagement with the global economy, advancing its strong service sectors (tourism, health services, and

biotechnology) while protecting key domestic services (especially education and health) and building domestic food production.

Principles of “ethical socialism” have informed debate on a microeconomy that remains quite different from the neoliberal model. The theme of maintaining levels of social participation and inclusion has accompanied the contemporary drive for efficiency. The reforms of the 1990s and of more recent years have been subject to wide debate and revision in a range of social organizations, not just in the National Assembly and the Communist Party, but democratic centralism is also, again, under debate. The change from Fidel to Raúl raised expectations but is probably most apparent in the focus on practical matters of the domestic economy. At the same time, generational renewal remains central to the country’s political adaptation.

Wages and small-business opportunities remain central to popular debate. Yet discussion of Cuba’s low wages is often exaggerated by not taking into account the strong social wage (mainly in free services) and the range of subsidized goods. Pervasive subsidies and price regulation mean that a dollar does not equal a dollar in Cuba; it depends on what one buys. Nevertheless, frustration over low wages is exacerbated by high educational levels and individuals’ inability to turn their skills and capacities into new livelihood opportunities. Key challenges will be to maintain the strong social wage while opening new livelihood opportunities and to sustain identification with and participation in the unique social project that Cubans call their Revolution.

Property and small-business regimes have shifted but with firm social control over individual accumulation. The major in-principle change in recent years has been licensing individuals to hire labor. Small farming was the first sector to be “opened” in this way because of the current emphasis on domestic food production. At the same time, an expanded microbusiness sector with a new taxation regime but also strong social security is being drawn into the formal economy. However, this is not a substantial wage-labor opening, having more to do with a reincorporation of the submerged economy created in the 1990s. The outcome of this expansion in microbusiness remains to be seen.

The Cuban Revolution is attempting to revive levels of participation, particularly youth participation, while it targets efficiency, opens up new livelihood opportunities, and maintains social inclusion. In this process, it seems to share the adaptive and syncretic nature of Afro-Cuban religion. Change and reform in Cuba have to be understood not in terms of any general model (whether of liberal exchange or socialist production) but by reference to the country’s own hybrid ethical principles and a detailed examination of its particular history. This principle-based approach, along with flexibility and an adaptive capacity, has been central to the survival of an independent Cuba.

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