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Rational Choice or Capricious Whim? Analyzing the Decision-Making behind Cuban Economic Reform

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Introduction

One summer afternoon in Havana, I sat talking to a group of Cuban economists. They were explaining to me the rather intricate workings of the Cuban economy. After laying out the four different “markets” that operated simultaneously, one of the economists noticed my somewhat dazed look. Laughing, he said he understood my confusion. “It’s hard for us too,” he said. “There is no model.”

Later that evening I began to consider the implication of Cuba operating without an economic model. What purpose does an economic model serve? Could Cuba really not have an economic model? What fills the vacuum created by its absence? What are the implications for future economic decisions in such a “model free” environment? This paper seeks to address some of the questions generated by my economist friend's comment.

What role do economic models play for governments? Typically, one would expect a model to suggest appropriate policy for governments to enact. It is a guideline, a rubric to which policymakers turn when attempting to achieve specific economic goals. Differences between economic models stem from their differing assumptions, theories of economic behavior, and policy prescriptions. Of course, no state perfectly follows any single economic model. However, states are usually associated with a specific model. And, economic policy is normally presented within the framework of the dominant model. Model exceptions usually have to be justified.

The "problem" posed by the absence of an economic model depends upon your perspective. For economic actors attempting to predict future state behavior, the absence of a model results in greater uncertainty; there is no paradigm that can be used to generate likely scenarios of government behavior. For decision-makers, the absence of a model also signifies greater uncertainty. Upon what are decisions based, if there is no model? In theory, this suggests that decision-makers have greater autonomy in a "model free" environment. In practice, it leads to a highly complex decision-making environment where (potentially) a vast array of options can be considered. For a scholar, the lack an obvious economic model for Cuba translates into the need for a better understanding of the decision-making process. If one cannot turn to a set of economic theories in order to either explain past actions or predict future economic policy, then an understanding of the decision-making process is required in order to better capture the "logic" of economic policy.

Given the relationship between the United States and Cuba, it is not surprising that many would interpret the absence of a model as verification of the arbitrary rule of Fidel Castro. Economic decision-making, in such circumstances, reflects the preferences and prejudices of the tyrant. State policies reflect the dictator's whims.

Rational choice theory offers an alternative perspective. This method argues that decision makers make choices that reflect a preference between outcomes. Such utility maximization offers a degree of flexibility. As Geddes notes (2000), analysts do not need to assume that personal gain (material gain) is the sole objective of decision-makers. A careful study of goals, context, and information can provide a framework for assessing decision-making under the rational actor model.

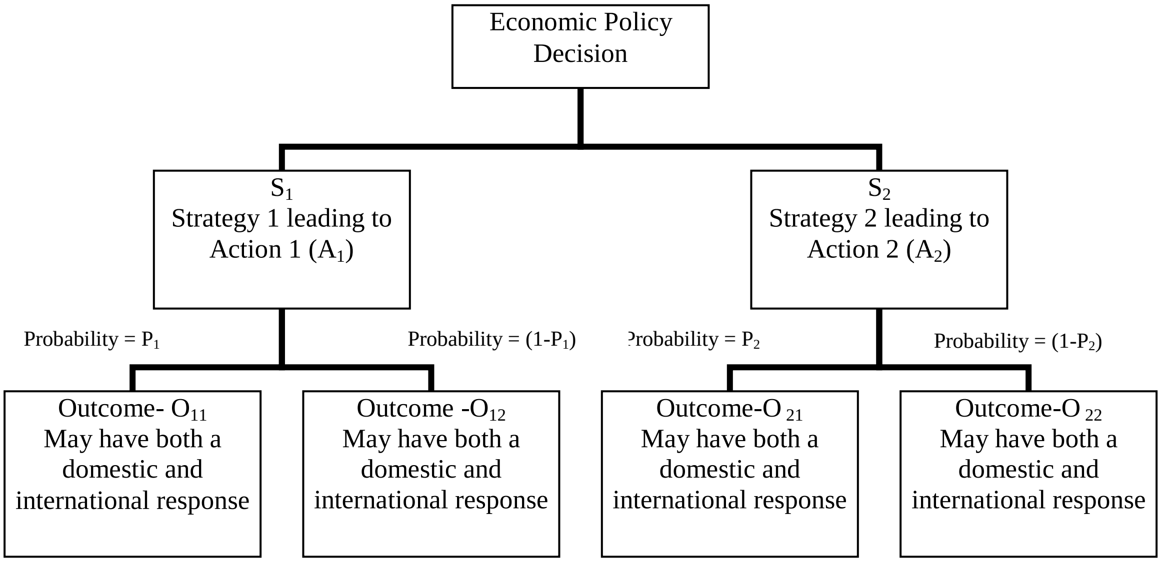
How capricious is economic decision-making in Cuba? Is Fidel Castro a rational actor or an erratic tyrant? In an effort to answer these questions, I apply the rational actor model to four economic decisions undertaken by Cuba in the past decade and a half. These policies fall into two critical areas: currency and foreign investment. Were the decisions announced by Fidel Castro rational? You decide.

Economic Decision-Making in Cuba

The literature on economic decision-making is quite extensive. Up until the mid-1980s, most discussions separated domestic economic decision-making from international economic decision-making (see, Keohane and Milner, 1996). Usually, internal decisions were thought of as involving various domestic actors with differing capabilities and interests. Often the state was not portrayed as a participant; rather, different components of the state—bureaucracies, governing institutions, etc—were identified as separate actors. In contrast, international economic decision-making envisioned a unitary state acting in response to other states and international economic actors. Over time, this "great divide" between domestic and foreign decision-making became increasingly questioned. Theories of interdependence (e.g., Keohane and Nye) required analysts to examine the interaction between the domestic and international spheres. The development of globalization perspectives further undermined the utility of two conceptually distinct modules of decision-making. Initially, a "two level game" conceptualization was developed. Drawing upon game theory, the "two level game" frame of reference envisioned two simultaneous games "played" by policymakers: one internal to the state and the other external to it. By structuring it as "two level," this image acknowledges that both domestic and foreign decisions must be examined to understand state actions. However, this "two level" game does not really remove the "great divide" between these two spheres. It does not provide a means for examining the interaction between internal and external concerns and constraints. Furthermore, a two level game implies equality in the decision-making process at both levels. It is hard to assess the relative power and possibly differing role of state in each of the levels.

Clearly, economic decisions are made in an environment with both external and internal dimensions. The first step in assessing this process involves conceptualizing the different generic "inputs". Most simply, one can argue that each "sphere" influences decisions in two ways. First, each sphere has a set of constraints or conditions that set the parameters of the decision. Second, each sphere has a set of objectives or goals associated with it. Rational choice argues that decision-makers select the policy or action that will lead (hopefully) to the most desired outcome. Or, in dire circumstances, politicians will choose the path that results in the least objectionable outcome. The incentive structure created by internal and external circumstances--and the relative strength of each--shapes the decision taken. Below is a diagram of this model of decision-making.

Figure 1: Economic Decision-Making Tree



Each of the outcomes has an expected utility. If there are both domestic and international outcome, the overall utility reflects the sum of the separate utility of each outcome. The model assumes that decision-makers have a sense of the probability of outcomes as well as a preference for outcomes (subjective utility). The logic of the process suggests that decision-makers will select the policy that has the greatest likelihood of a preferred outcome.

There are critical assumptions embedded within this model. First, it assumes that decision-makers are able to assess probability of outcomes. Second, it assumes that decision-makers have preferences for different outcomes. Lastly, it assumes that decision-makers are able to make relatively sophisticated calculations that combine probability and utility: that is, a highly desired outcome with a lower probability would often NOT be selected if the alternative was a less desired (but not worst) outcome with a greater probability.

For some, such assumptions render this model unacceptable. I would argue that these assumptions are not too rigorous, especially in the case of Cuba. The political survival of the Cuban regime in general, and Fidel Castro in particular, suggests a degree of political suaveness possible unmatched in contemporary politics. By looking at the past behavior, domestic and international contexts, and public statements, one can tease out probability estimates and outcome preferences.

The next step is to create a diagram that reflects the unique combination of influences for economic policy decisions. Clearly, the schema provides the greatest analytical assistance when it is modeled for a specific decision. The constraints imposed by internal and external elements, as well as the objectives of the Cuban state and other states differ with time and circumstances. Some common features can be asserted, though. In general, one may argue that a consistent object of Cuban decision-makers (Fidel Castro in particular) has been the maintenance of power (frequently articulated as the survival of the Revolution and revolutionary values and principles). Furthermore, one can also claim that the external environment typically imposes a strong constraint/context on economic decision-making. Beyond these generalizations, though, a lot of variation exists depending upon the specific economic decision that one seeks to understand. Clearly, though, this model of decision-making suggests that a change in any of the four components can lead to a change in economic policy.

Case #1 – Legalization of dollars

On August 13, 1993, the Cuban Council of State promulgated Law-Decree 140. This legalized dollar holdings in the country. In the context of post-1959 Cuba, this was a radical economic decision that countered decades-old moral and legal opposition to reliance upon and use of US dollars. Like most Latin American countries, Cuba had access to hard currency through remittances and tourism. Foreign tourism had not been a main area of development for revolutionary Cuba. And, since the early 1960s, the Cuban government had identified the Cuban immigrant population in the United States as a danger to the country and an anathema to the Revolution. Thus, as Castro noted:

> We--precisely due to our conflicts with the United States and conflicts with the worse elements of that emigration, those who used to be politicians--had been very strict regarding all this matter of transferal of money". (Castro, 1993)

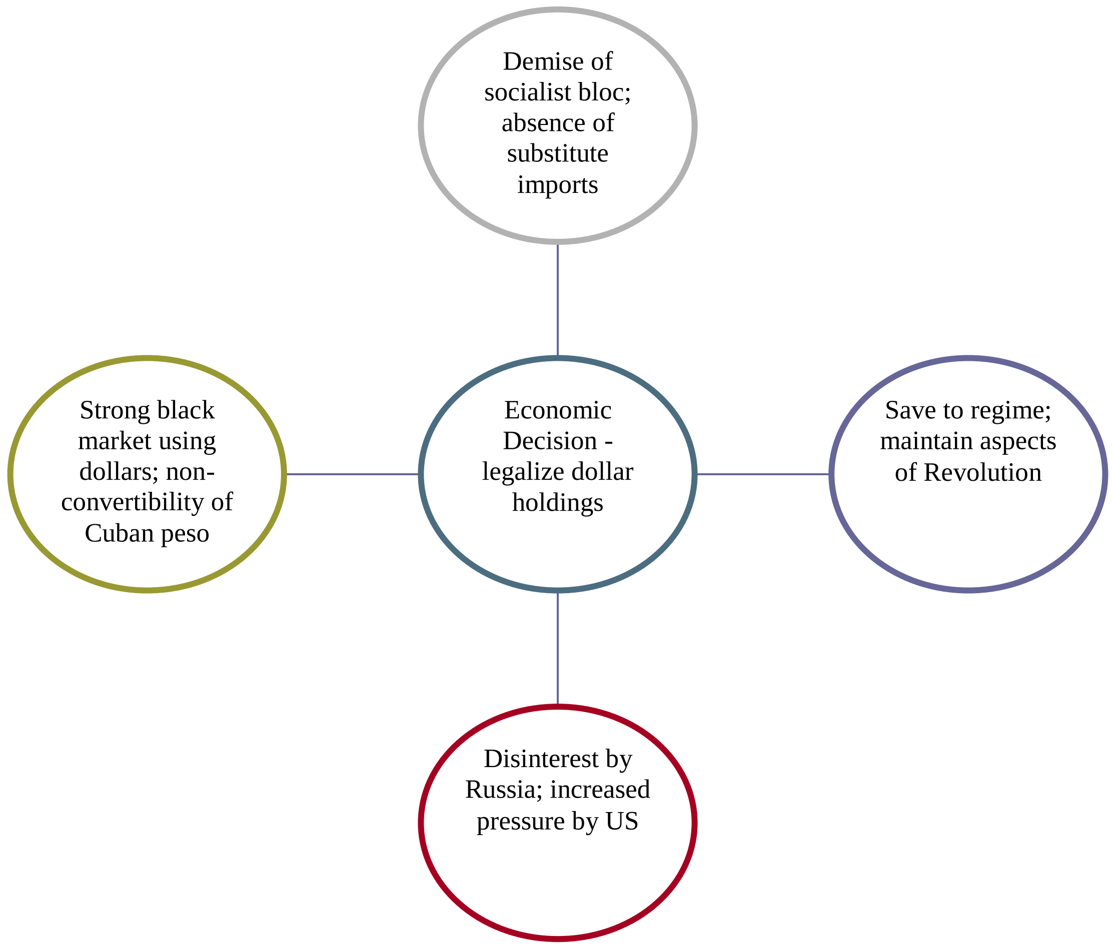
Thus, when contemplating economic decisions made by the Cuban government over the past decades, the legalization of dollar holdings has to stand as one of the most startling decisions. Why did the state make such a drastic departure?

In a speech to economists in 1995, Castro laid out some of the key considerations:

> More recently, the abrupt disappearance of the socialist bloc and the subsequent loss of the greater part of the international economic relations we had been cementing for over three decades on fair and worthwhile grounds have forced us to face an extremely difficult, complex economic crisis. To this, add the effect of the restrengthening of the blockade, as cruel for the damage it causes our country, as it is useless in its ultimate goal of overpowering the fatherland. In the economic sector, we have been able to introduce the necessary changes in our methods and operational mechanisms, always acting with flexibility and

> realism within the framework of the revolutionary principles we will never relinquish. (Castro, 1995a)

Figure 2: Factors Surrounding the Legalization of Dollar Decision (1993)



An additional element was noted in the speech when Castro introduced the idea of legalization of dollar holdings: the critical need for foreign exchange.

> We must purchase oil, food, medicine, raw material, and spare parts with foreign exchange. We must purchase everything with foreign exchange. … This is why we must increase our income in convertible foreign exchange. It is vitally important for the country. (Castro, 1993)

The pressing need for foreign exchange, though, had to be balanced by the political goal of “preserving and defending the true interests of [the Cuban] people, interests” which in the eyes of the leadership “were not met in the past and will not be met in the future in a society where the prevailing values are those of the capitalist system”. (Castro 1993)

The fall of the Berlin Wall, the end of communism in Eastern Europe, and the disappearance of the Soviet Union all signaled the end of the Cold War. However, the United States did not alter its policy toward Cuba. Rather, the US saw this as an opportunity to hasten the end of the Cuban regime. The Cuban Democracy Act (also known as the Torricelli Act) prohibited foreign-based subsidiaries of US companies from trading with Cuba, as well as travel to Cuba by U.S. citizens, and family remittances to Cuba. At this time, 70% of Cuban trade with US subsidiaries was in the realm of food and medicine. According to the sponsoring Congressman, the Act was intended to "wreak havoc on the island." (Congressional Record).

Thus, beginning in 1989 (when Gorbachev informs Cuba that the terms of trade between the two states will change), all of the factors that influence economic decision making began to change. They can be summarized as:

<u>Global Conditions/Constraints</u> = demise of socialist bloc, especially the CMEA, the trading group to which Cuba belonged; tightening of the embargo by the US, with the passage of the Democracy in Cuba Act (known as Torricelli Act)

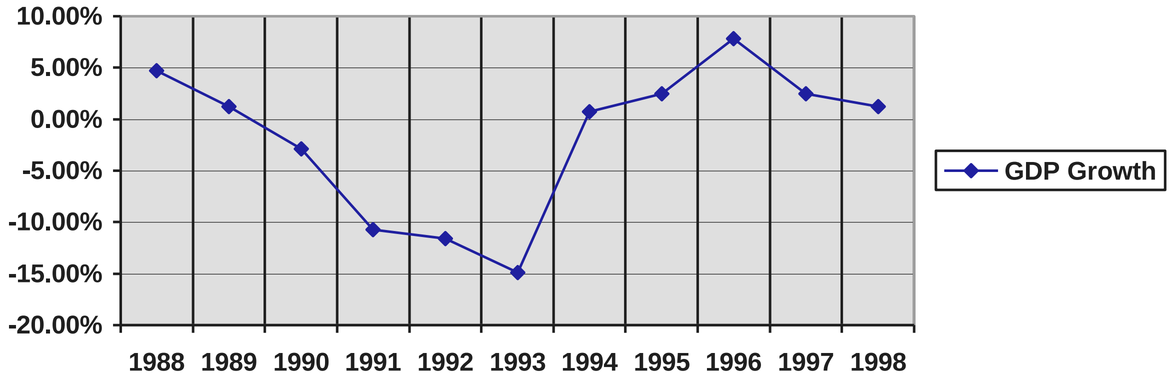
<u>Internal Conditions/Constraints</u> = food shortages; fuel shortages; “primary product”-input shortages; medical shortages; etc

<u>Internal goals/objectives</u> = survival of regime/Revolution: “We must keep in mind that the best economic decisions will always be those strengthening national independence and the role of our nation in the concert of nations, the guiding principles of our society, and most importantly, the heroic and decisive struggle against the criminal imperialist blockade” (Castro, 1995a)

<u>External goals/objectives</u>: disinterest on the part of Russia and China; commitment of ending the regime on the part of the US. By strengthening the embargo; Torricelli Act seen as a way to bring down Castro "within weeks."

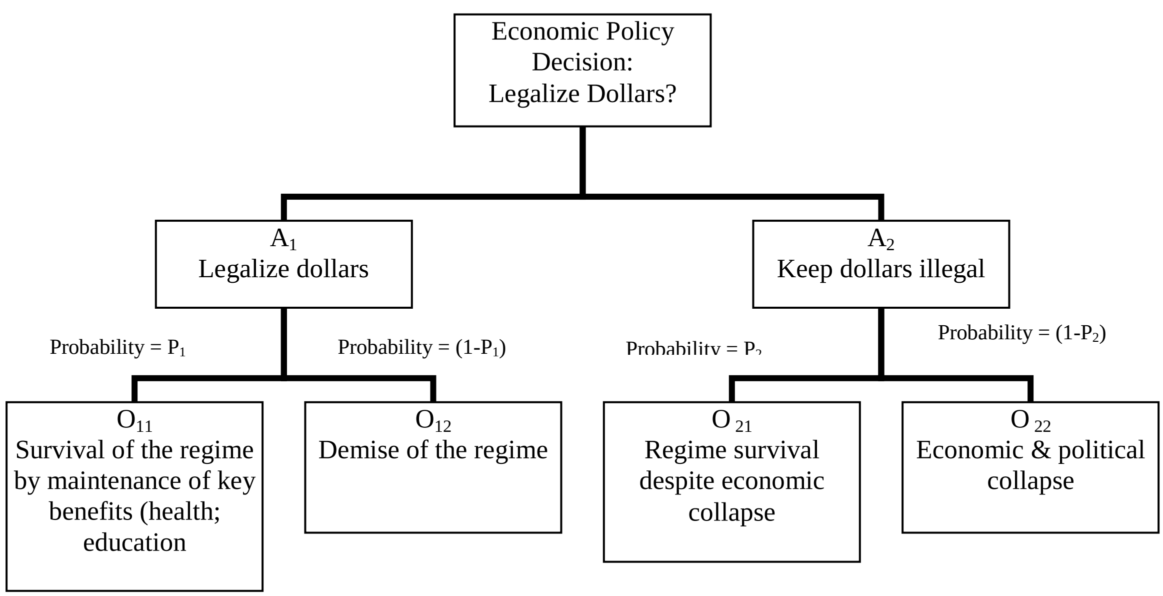
All of these elements interact with each other. Clearly, the global economic conditions and constraints impact upon the Cuban domestic economy. These lead to increased pressure upon the state to maintain its political objectives. The graph below illustrates the deterioration of the Cuban economic situation, with its attendant political stress.

Figure 3: Percentage Change in Cuban GDP, 1988-1998



In this context, the legalization of dollar holdings appears to be a logical response to all of the elements coming to bear—and intensifying—on the Cuban economy.

Figure 4: Decision-making Tree for Dollar Legalization



In general, we can assume that O_{11} and O_{21} had (at a minimum) equal utilities. Furthermore, we can assert that the Cuban leaders would prefer either O_{11} or O_{21} to O_{12} or O_{22}. Therefore, the probability (P_1 or P_2) would determine whether or not to select A_1 or A_2. And, the evidence from public speeches suggests that P_1 was considered greater than P_2.

Case #2 – Opening up to direct foreign investment

The transformation of Cuban policy on direct foreign investment also generated much attention. While foreign investment in Cuba existed prior to the 1990s, it was neither very extensive nor very encouraged. The move to alter law in order to promote foreign investment was, thus, notable. In Castro's own words: "Who would have thought that we, so doctrinaire, we who fought foreign investment, would one day view foreign investment as an urgent need?" (Castro, 1993)

The decision-making context was the same as that regarding legalization of dollar holdings. The economic role played by the Soviet Union and other socialist states had not been replaced by other countries. From Cuba's perspective:

> We received factories, loans, and many other things from the socialist bloc, but it has disappeared and we are getting nothing. We are getting nothing from the non-existent USSR and socialist bloc or from any international financial institution, which are all dominated by the United States. (Castro, 1993)

As time passed, the situation did not improve. No countries stepped in to provide preferential trade arrangements along the lines of the CMEA. The United States was continuing to pressure Cuba; The Cuban Liberty and Democratic Solidarity Act (typically referred to as Helms-Burton), which passed the Congress in 1995, joined the Torricelli Act in burdening on Cuba. From Castro's perspective, "the enemy does not falter in its determination to destroy [Cuba]." (Castro, 1995b)

After working on drafts and debating elements, the National Assembly passed Decree-Law No. 77 on foreign investment. The law codifies the property rights of foreign investments, including tax rates, regulation on payrolls, restrictions on ownership (up to 100% foreign ownership allowed). When presenting the Decree-Law to the Assembly, Ricardo Alarcon (President of the Assembly) prefaced its introduction with an explanation:

> in today's world, without the existence of the Socialist bloc, with a globalizing world economy and strong hegemonistic tendencies in the economic, political and military fields, Cuba, in order to preserve its accomplishments despite the fierce blockade to which it is subjected; lacking capital, certain kinds of technology and often markets, and in need of restructuring its industry, *can benefit from foreign investment*, on the basis of the strictest respect for national independence and sovereignty, given that such investment can usher in the introduction of innovative and advanced technology, the modernization of its industries, greater

> efficiency in production, the creation of new jobs, improvement in the quality of the products and services it offers, cost reduction, greater competitiveness abroad, and access to certain markets, which as a whole would boost the efforts the country must undertake in its economic and social development. (Alarcon, 1995 – emphasis added)

Taking apart the statement, one can see all of the components identified in the schema addressed. To summarize:

<u>Global Conditions/Constraints</u> = demise of socialist bloc; emergence of globalization as an economic force; tightening of the embargo by the US, with Torricelli Act and Helms-Burton

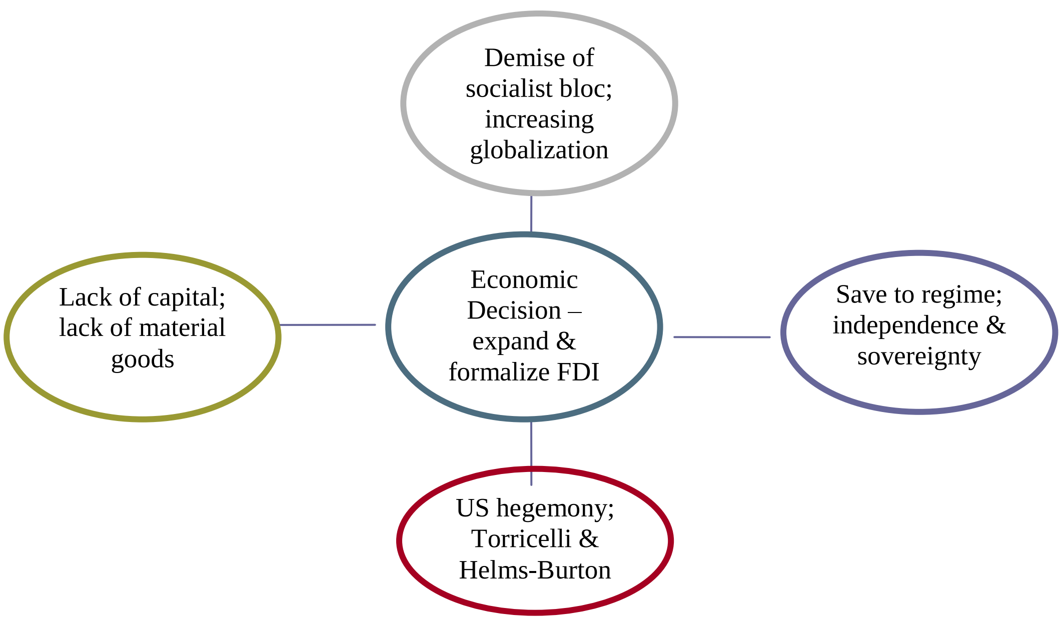
<u>Internal Conditions/Constraints</u> = continuing struggle to meet needs of the population

<u>Internal goals/objectives</u> = survival of regime/Revolution: with emphasis on independence and sovereignty of Cuba.

<u>External goals/objectives</u>: US hegemony, coupled with continuing desire of the US to end the regime.

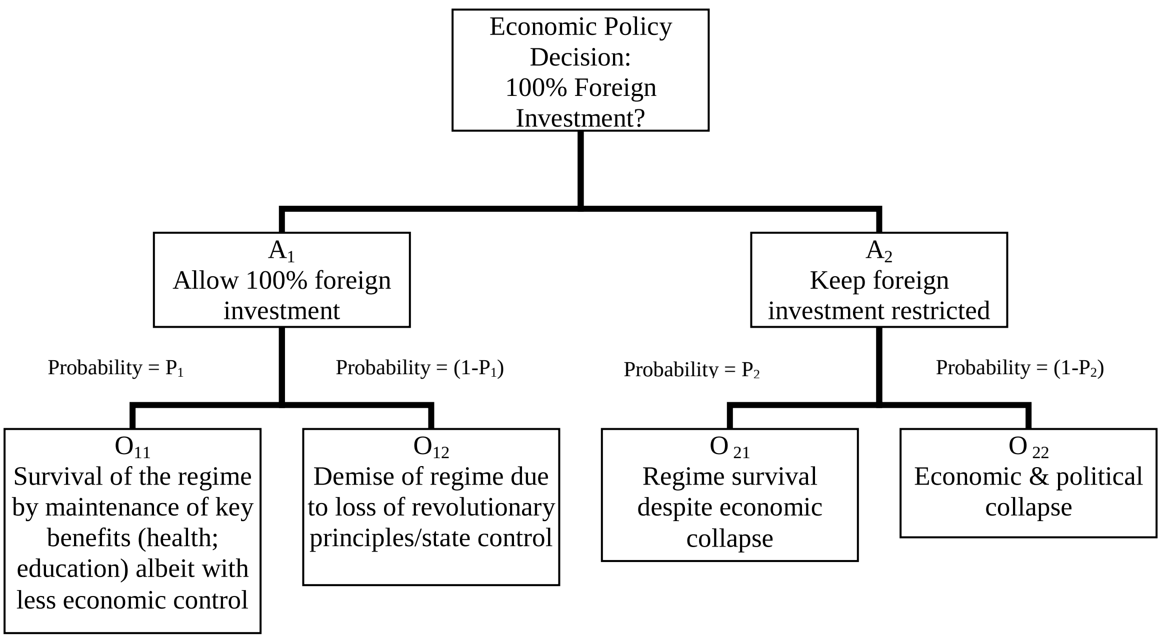
Figure 5 presents these aspects visually.

Figure 5: Expansion of Direct Foreign Investment Decision (1995)



The desire for foreign investment was not new. The extent of changes undertaken to attract it was, however. The commitment to 100% foreign ownership, as well as investment from Cubans no longer on the island, was clearly a departure. Assessing the scope of pressures upon the Cuban system helps to illuminate why the regime chose to pursue these policies. Thus, the decision-making can be modeled accordingly.

Figure 6: Decision-Making Tree for Direct Foreign Investment



In general, we can assume that O_{11} and O_{21} had similar utilities. Perhaps some might argue that O_{21} had a greater utility because it maintained 'revolutionary purity" (or maximum state control). It is likely that O_{12} and O_{22} would be less preferred. We may infer that decision-makers would prefer either O_{11} or O_{21} to O_{12} or O_{22}. Therefore, the deciding factor for whether or not to select A_1 or A_2.would be the relative probability associated with each outcome (P_1 or P_2). Again, evidence from public utterances suggests that P_1 was considered greater than P_2.

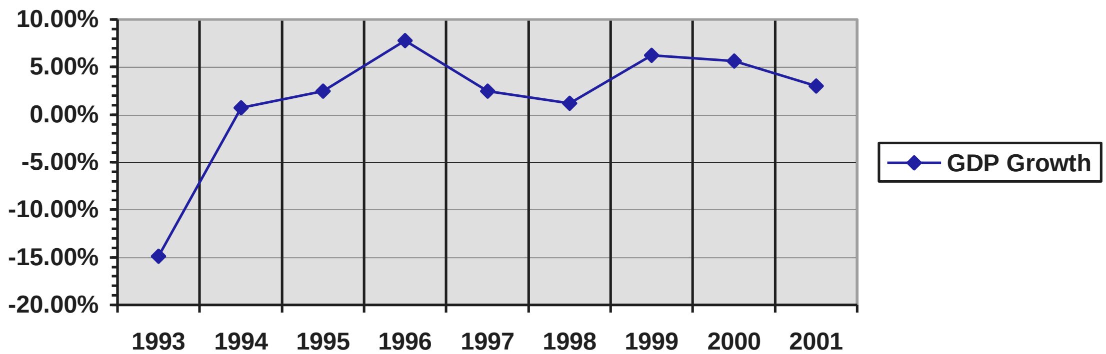
Case #3 – Restructuring the Sugar Industry Decision

After the end of the Soviet Union, many predicted the imminent collapse of the Cuban regime. As Cuba struggled through the 1990s, the survival of the government emerged as a possibility. The (relative) rebounding of the economy did not signify an end to major economic changes, though. On April 10, 2002, the Cuban government announced that about half of Cuba's 156 sugar mills would be closed permanently as part of a restructuring process. Given the place sugar has had in the Cuban economy for almost

200 years, this was a major transformation in Cuban economic policy. What prompted such a drastic move?

In comparison to the early 1990s, the external and internal economic conditions were not as dire. The economy had stopped contracting, although the percentage growth varied from year to year (see Figure 5).

Figure 7: Percentage Change in Cuban GDP, 1993-2001



The halting improvement in GDP growth was matched by continuing direct foreign investment in the country. Major investors came from Canada, Spain, and Mexico. As Cuba entered the new century, China and Venezuela emerged as major trading partners. In the past, Cuba tended to shift into a position with a single, dominant trading partner (first the United States; later, the Soviet Union). Now, Cuba was wary of relying too much on any one country.

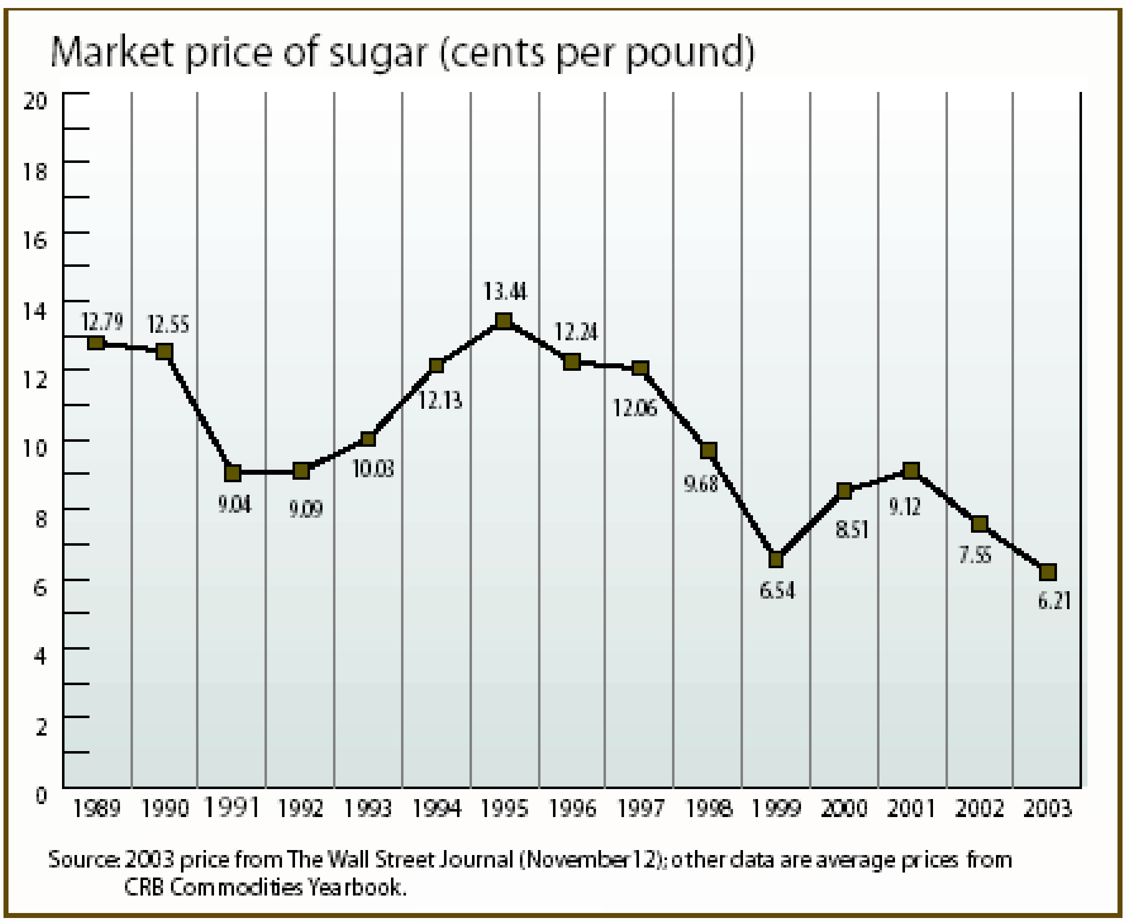
> We went to bed one night and when we woke up, the Soviet Union was not there anymore and we had to begin all over again. The same thing had occurred years before with the United States. This is not going to happen again to us (quoted in Jatar-Hausmann, 1999)

The improved internal and external economic environment was general in nature. In the specific realm of sugar, the situation was bleak. The reasons for a drastic policy change in the sugar industry included depressed world prices, a poor outlook for the world sugar market, and Cuba's excess capacity. Overall, Cuba could produce more than the market could absorb but with lower productivity levels than other producers. Yet the sugar industry was central to the Cuban economy. Cuba's raw sugar mills are located in 100 of its 169 municipalities. And, nearly a half of a million jobs were associated with the Cuban sugar industry, responsible for 1 in 5 jobs in the country.

Under such conditions, the economic decision to change the sugar was significant. The state argued that the restructuring had three general objectives: achieve efficiency and competitiveness in sugarcane and sugar production; increase food production through agricultural and industrial diversification; and, develop a sustainable agriculture, supported by knowledge and human capital. In essence, by devoting less land and less labor to sugar (closing mills and transferring crops to "sugar lands") while improving productivity--through more technology and capital--Cuba could further strengthen its economy. In many ways, this harkened back to the early years of the Revolution, when Cuba sought to develop through diversification away from sugar production.

A few statistics reveal that the Cuban government faced problems with sugar production.

Figure 7b: Market Price for Sugar – 1989-2003



Source: <u>Cutting Losses: Cuba Downsizes Its Sugar Industry</u>

Figure 8: Comparative Levels of Sugar Production & Export

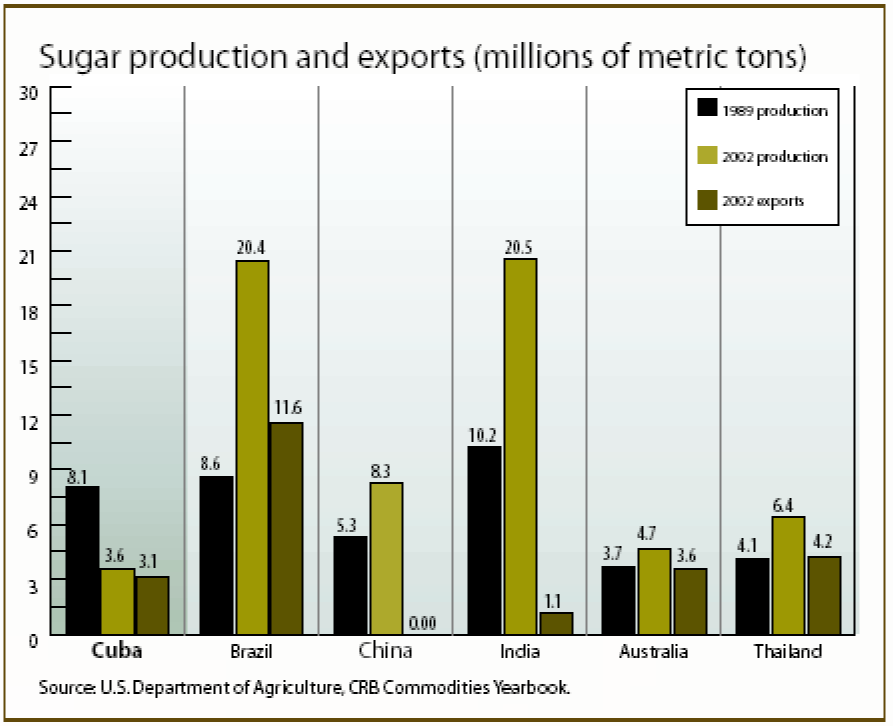
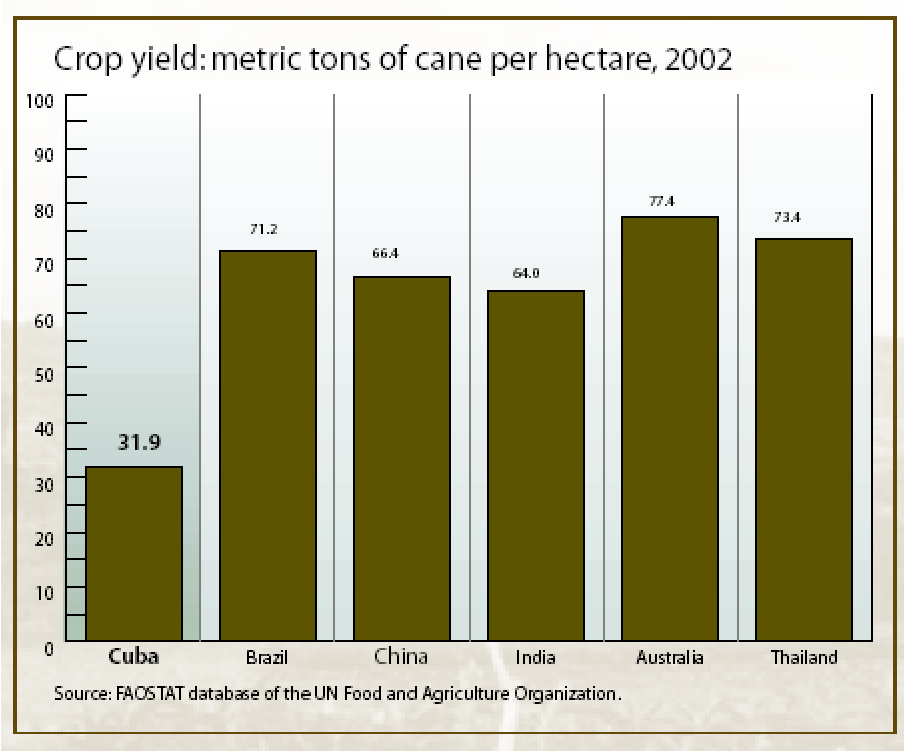


Figure 9: Comparative Sugar Productivity, 2002



Source: Cutting Losses: Cuba Downsizes Its Sugar Industry

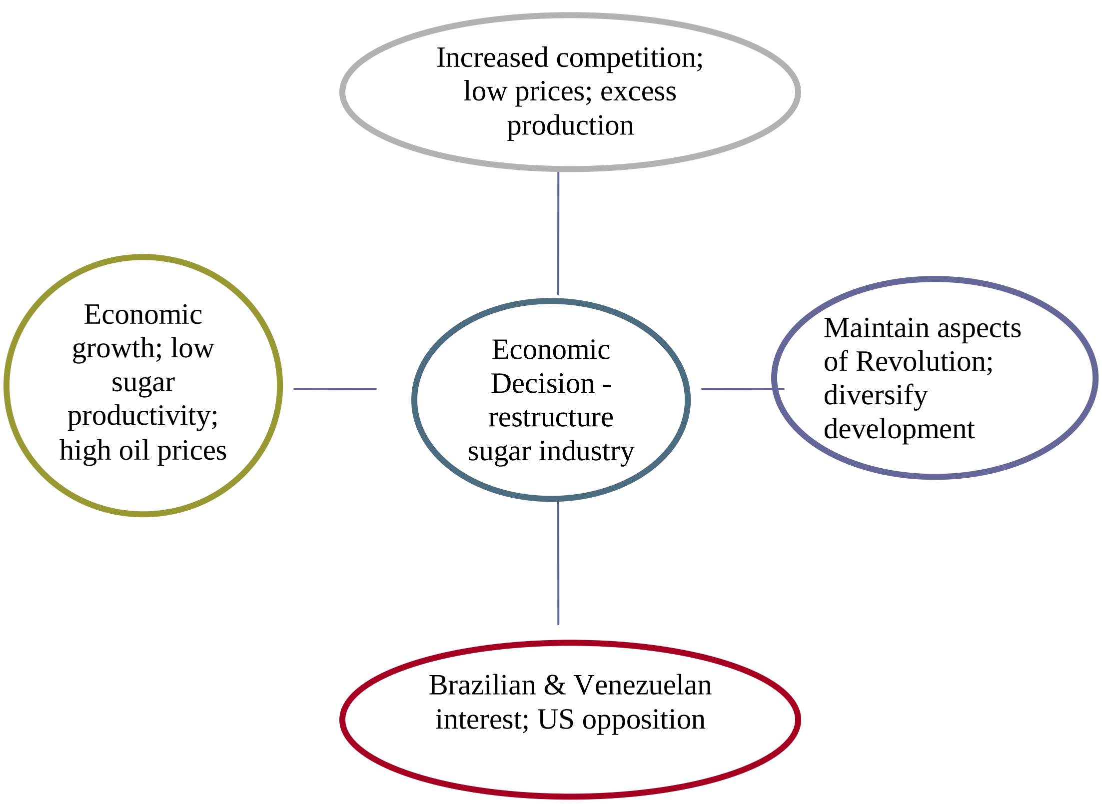
Falling prices, declining market share, and low productivity all create global economic constraints in the area of sugar. And, as Castro noted in an address to sugar workers beginning their retraining, additional factors influenced the decision:

> in 1959-1960, after the triumph of the Revolution, with one ton of sugar, at world market prices, it was possible to buy eight tons of oil. Today, at current oil prices, which have been hovering around 30-something, it takes two tons of sugar to buy one ton of oil. But back then, in addition, the sugar industry barely consumed any oil. The development of the Revolution led to the need for the mechanization of the sector. Those who lived off of cane cutting completely disappeared; and tens of thousands of people from the cities had to be mobilized to cut the sugar cane, until the machines appeared and the harvest could be mechanized. ….Then came the equipment. Machines and trucks compacted the soil, and then came subsoiling. Chemical products were used to eliminate weeds, but were very costly. Fertilizers were used to maintain the production capacity of the land. Today, producing a ton of sugar at current oil prices raises the cost in hard currency of that ton of sugar by at least 40%. (Castro, 2002)

So, the irrationality of continuing was clear. At the same time, conditions existed to restructure with greater efficiency and effect. Sugar was open to direct foreign investment (with an eye to developing greater productivity). And, displaced sugar workers were offered retraining:

> The Ministry of Education will provide 1617 teachers. There is no need for any new buildings, because the classes begin at 5:00 p.m., when all the high school students have finished for the day. And at all these sugar mills, like everywhere else in the country, there are high schools with computer labs and audiovisual equipment. One of the first things that can be studied, with a certain prior level of education, is computer science, and this will not cost a penny, except perhaps in certain cases where more computers will be needed. There is no need for any new buildings. All the audiovisual equipment is available, with no need for extra expenditures. The teachers are available with no need to increase the education budget. (Castro, 2002)

Figure 10: Restructuring the Sugar Industry (2002)



Thus, with a minimum expenditure, the state would undertake to transform sugar workers into more educated and better-trained workers. Investing in human capital, Cuba would alter its industrial profile to become more productive (and lucrative). Displaced workers would have opportunities (if appropriately trained) to enter into the newer trading area: service workers. By 2002, Cuba had already begun to send doctors and teachers to Venezuela and Brazil in return for imports. Despite the major dislocation of a critical industry, a sense of promise was clear in Castro's speech:

> It is difficult to withstand 43 years of a blockade and to have done what has been done in 10 years of the special period. The time is coming to reap the fruits. For the moment, when the special period arrived for all the rest, and some proclaimed that the end had come for the ideas of socialism, here they will find a country that is prospering, advancing, doing things that countries living under the capitalist system could never even dream of doing. Yes, the feat we have achieved is becoming a unique case in all history. (Castro, 2002)

Thus, the situation surrounding the decision to restructure can be summarized as follows:

<u>Global Conditions/Constraints</u> = increased competition; low world prices for sugar; excess capacity and production; growing use of substitute (fructose); relative price of sugar to oil poor.

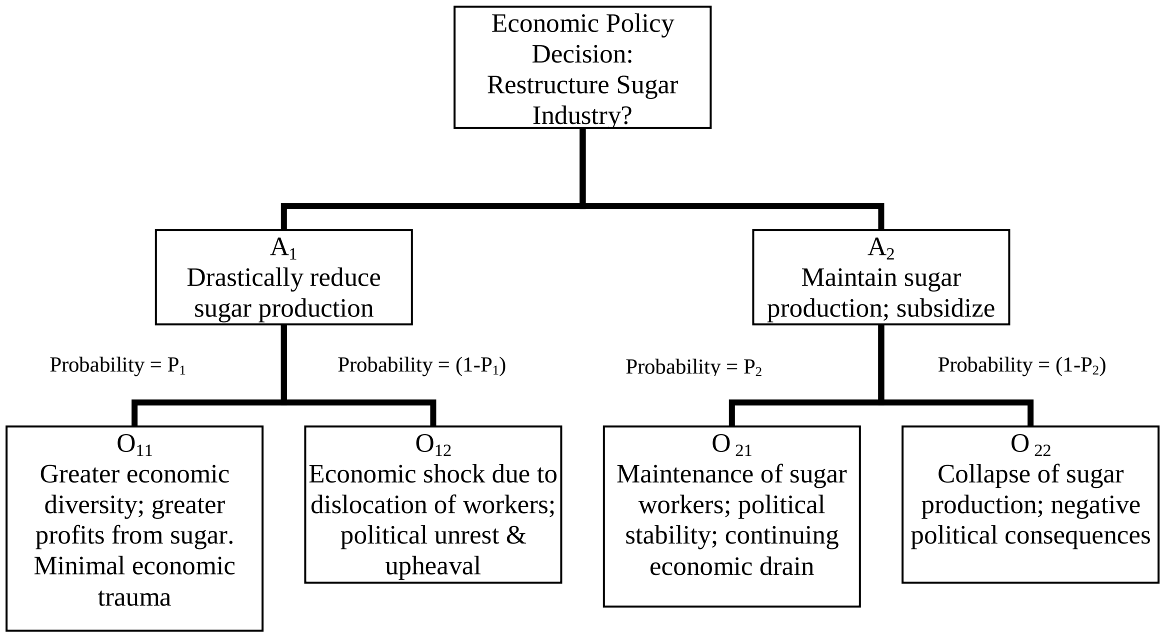
<u>Internal Conditions/Constraints</u> = poor productivity compared to other producers; highly mechanized and heavy use of inputs for production; need for inputs in other areas; inability to subsidy industry; use for workers in other areas.

<u>Internal goals/objectives</u> = Revolutionary goals of development with emphasis on independence and sovereignty of Cuba; regime survival (uncontrolled collapse of sugar industry could be devastating).

<u>External goals/objectives</u>: growing ties to Brazil and Venezuela; continuing interest of the US in ending the regime, but preoccupation with other matters.

While restructuring the sugar industry was profound, it was not done in the same context of crisis as earlier decisions examined above. Both unfavorable and favorable conditions existed. It might be argued that the characteristics of the sugar industry had been poor since 1990. Perhaps the restructuring decision was determined by the rise of favorable internal and external attributes which made planned downsizing possible.

Figure 11: Decision-Making Tree for Sugar Industry Restructuring



In this scenario, we can assume that O_{11} had a greater utility than O_{21} because it led to a better economic outcome. Compared to either O_{11} or O_{21}, though, it is likely that O_{12} and O_{22} would be less preferred. Therefore, the deciding factor for whether or not to select A_1 or A_2 would be the relative utility associated with O_{11} and O_{21} coupled with the probability of each outcome (P_1 or P_2). Given that O_{11} has a greater utility, if P_1 were either equal to or greater than P_2, A_1 would be the choice. Public statements suggest that P_1 was considered greater than P_2 by Cuban officials.

Case #4 – De-Dollarization Decision

In a televised announcement on October 25, 2004, Fidel Castro announced substantial changes to the role played by the US dollar in the Cuban economy. The new regulations did not signify that Cuba was abandoning its dual economy where some transactions occur in Cuban pesos, others in convertible foreign currency. Nor were criminal penalties for possession of foreign currency being reinstated. However, use of dollars by "all entities" in Cuba would shift to convertible pesos. In addition, a surcharge of 10% would be levied on exchanges from dollars to pesos after November 8th. The new measure did not affect dollar-denominated bank accounts; however, no new dollars could be deposited after November 8th. The new regulations did allow the deposit of Euros or other convertible currencies. Likewise, Euros and other currencies did not face a future 10% surcharge on exchanges.

From 1993--after the decriminalization of dollar holdings--until autumn 2004, dollars had grown ever more pervasive in Cuba. It was a currency utilized not just by tourists; Cubans would spend dollars in “dollar stores” which sold consumer items only available for purchase in those stores. Cuban industries would pay other Cuban firms for materiel in dollars. (Scherlen, 2004)

Yet while the presence of dollars was everywhere, not everyone had access to dollars. And this translated into growing inequality. One economist summarized the situation clearly:

> The coexistence of peso and dollar currencies and economies in Cuba, together with the dual exchange rate system, generate a variety of problems. The basic reason for this is that the average wage and income are somewhere between US $9 and US $17 per month at the quasi-official exchange rate. (The average wage in Cuba was estimated at 232 pesos and the average income from all sources at 359 pesos in 2000 [CEEC 2001, 8].) This means that those Cubans with access to U.S. dollars from remittances, foreign travel, or tips and gratuities from tourism, for example, generally have higher real incomes than those without such access. Moreover, as noted earlier, ever-increasing proportions of goods and services are available for dollars in dollar stores and not for pesos. The result is that everyone has been chasing dollars since the early 1990s. In other words, there has been a strong incentive for people to leave or reduce those economic activities that earn pesos and enter or expand those that earn dollars. The result is that the general structure of material rewards in Cuban society bears little relationship to the true social value of the employment generating the incomes. (Ritter, 205: 16-17)

Thus, the use of dollars challenged a fundamental tenet of the Revolution and a source of pride (equality) for the regime.

Actions on the part of the United States increased pressure upon Cuba. In October 2003, President Bush established to Commission for Assistance to a Free Cuba. Secretary of State Colin Powell was named its chair. Its mandate focused on five different areas: bringing about a peaceful, near-term end to the dictatorship; establishing democratic institutions, respect for human rights, and the rule of law; creating the core institutions of a free economy; modernizing infrastructure; and meeting basic needs in the areas of health, education, housing, and human services (Mission and Members of the Commission). When announcing the Commission, President Bush stated that

> Clearly, the Castro regime will not change by its own choice. But Cuba must change. So today I'm announcing several new initiatives intended to hasten the arrival of a new, free, democratic Cuba. (Bush, October 10, 2003)

When the Commission delivered its report, the President accepted its recommendations fully. In keeping with its mission, there were several difference aspects to the Commission's plan of action.

In order to hasten the fall of the Castro regime, the Commission called for several different new regulations. A number of them dealt with the Cuban-American community. Those wishes to travel to Cuba for family visits have to apply for specific licenses. They may only visit Cuba once every three years. New arrivals from Cuba must wait three year to visit. Authorized per diem has been decreased from $164 to $50 per day. Family visits are only permitted to see immediate family, which is stipulated as "grandparents, grandchildren, parents, siblings, spouses, and children" (Report to the President: Commission for Assistance to a Free Cuba – henceforth Commission). Regulations concerning remittances were also revised. In keeping with the travel restrictions, remittances are allowed only for permitted family members, none of whom can be Cuban Communist Party members or Cuban government officials. Cuban-Americans are still permitted to send $300 per quarter to those who are qualified to receive the money. The Commission also recommended greater emphasis on law enforcement and "sting operations against 'mule' networks and others who illegally carry money" (Commission).

The Commission also recommended actions aimed at people within Cuba. The President is authorizing "up to $36 million to carry out democracy-building activities, support for the family members of the political opposition, and to support efforts to help youth, women, and Afro-Cubans take their rightful place in the pro-democracy movement." Furthermore, the Commission proposed "up to $18 million for regular airborne broadcasts to Cuba and the purchase of a dedicated airborne platform for the transmission of Radio and Television Mart into Cuba." And, the Commission also suggested that the US government spend "$5 million for public diplomacy efforts to disseminate information abroad about U.S. foreign policy, including Castro's record of abusing human rights, harboring terrorists, committing espionage against other countries, fomenting subversion of democratically-elected governments in Latin America, and other actions which pose a threat to United States national interests." (Commission)

Some components of the new regulations focused exclusively on the Cuban government. For instance, the Commission called for the US government to "neutralize Cuban government front companies by establishing a Cuban Asset Targeting Group made up of law enforcement authorities to investigate and identify new ways hard currency moves in and out of Cuba." The Commission's recommendations include targeting "regime officials for visa denial if they (1) are or were involved in torture or other serious human rights abuses or (2) provided assistance to fugitives from U.S. justice" (Commission). In practice, the US government has been broadly refusing visa requests for any Cubans that work for the state, including academics who had traditionally traveled to the US for scholarly purposes.

All of the above measures are seen as mechanisms for quickening the demise of the Castro regime. In concert with these recommendations, the U.S. levied a fine against the Swiss bank UBS for violating its agreement with the Federal Reserve by supplying Cuba with fresh U.S. currency. This complies with a Bush Administration promise, made October 9, 2004 to a Miami audience, to "investigate and identify new ways hard currency moves in and out of Cuba, and to stop it."

Under such circumstances, the government sought for ways to reduce Cuba's vulnerability to these pressures. De-dollarization of the Cuban economy was clearly an option (Lexington Institute). While some greeted the news as "a sign of distress" (Bussey, Miami Herald), others might argue that it was adopted from a (relative) position of strength. Several favorable factors played into the decision-making process. The need for hard currency to pay for rising oil prices lessened because of agreements with Venezuela. (Monreal, 2006) A number of trade agreements with China also strengthened the economy. Underlying economic and political problems with the heavy use of dollars in Cuba had been in existence for years (since 1993). Pressure by the United States on dollars offered a political scapegoat; the pain caused by de-dollarization could be blamed on the Bush Administration. And, the economic costs of (potentially) declining dollar inflows could be offset by decreased outflows of hard currency for oil purchases.

All of the following conditioned the de-dollarization choice:

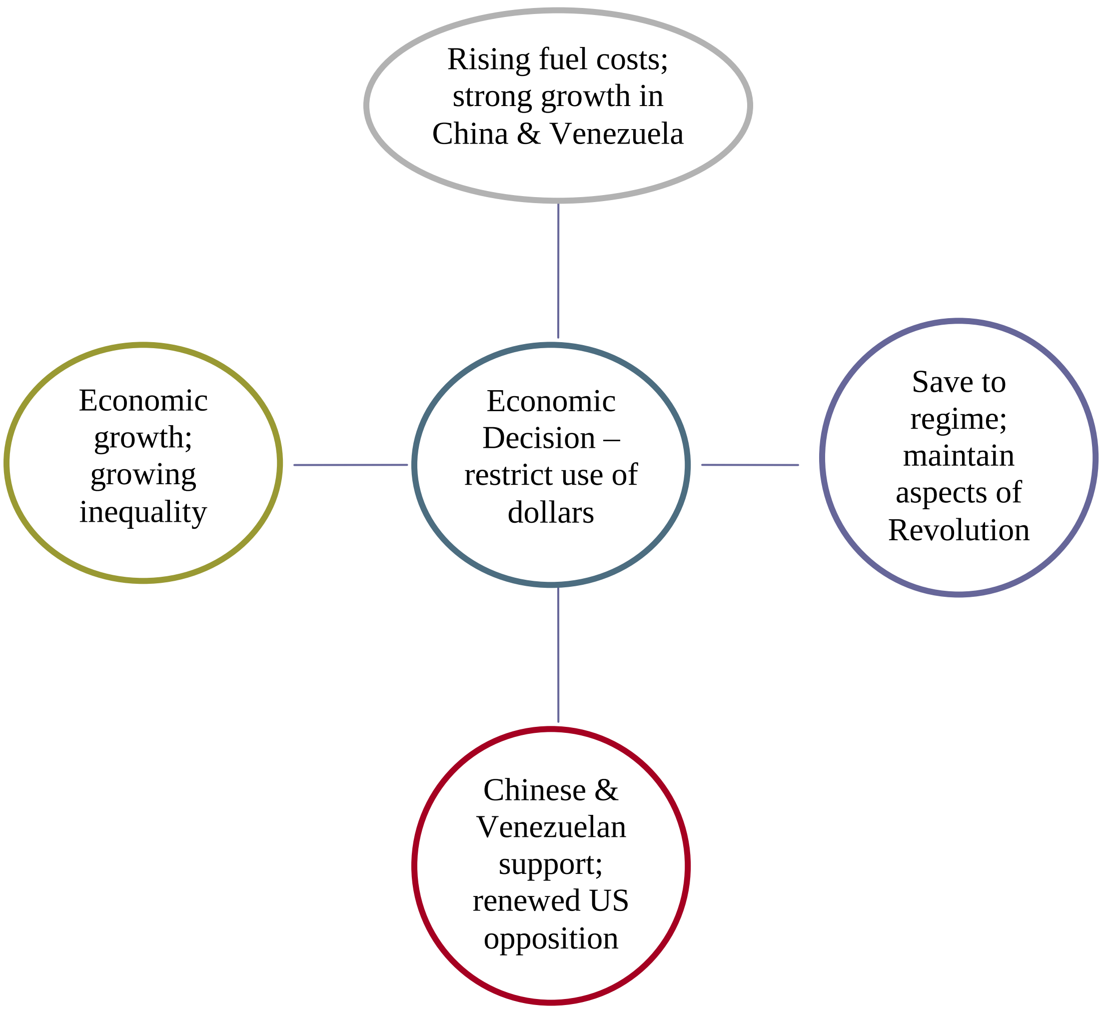
<u>Global Conditions/Constraints</u> = rising oil costs; increased trade with China, Venezuela, and Brazil; US pressure on foreign banks; charges of money laundering.

<u>Internal Conditions/Constraints</u> = economic growth; recovering tourism; inequality due to unequal access to foreign currency

<u>Internal goals/objectives</u> = Revolutionary goals of development with emphasis on independence and sovereignty of Cuba; revolutionary concerns about equity.

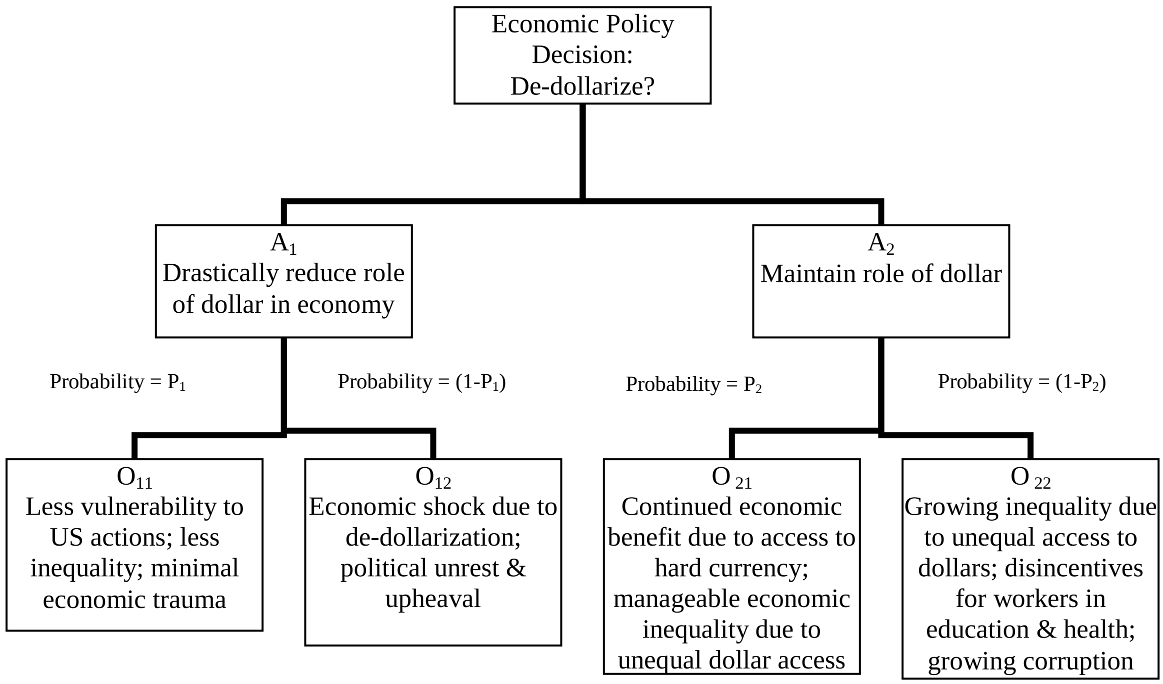
<u>External goals/objectives</u>: growing ties to China and Venezuela; upsurge in US activity to place pressure upon the regime

Figure 12: De-Dollarization Decision (2004)



Overall, de-dollarization was a potentially risky option for the state. High oil prices can cause considerable balance-of-payments difficulties and remittances (typically in dollars) continue to play a large role in Cuba's economic health. Only a fraction of the population has regular access to dollars, thus the impact would probably not be too widespread (especially in contrast with decisions regarding the sugar industry). The decision looks like a gamble based on an optimistic assessment of Cuba's economy.

Figure 13: Decision-Making Tree for De-Dollarization



In this scenario, we can assume that O_{11} had a greater utility than O_{21} because it led to a better political outcome-less political vulnerability to the US and less economic inequality within Cuba. It is likely that O_{12} and O_{22} would be less preferred to either O_{11} or O_{21}. Therefore, the deciding factor for whether or not to select A_1 or A_2 would be the relative utility associated with O_{11} and O_{21} coupled with the probability of each outcome (P_1 or P_2). Given that O_{11} has a greater utility, if P_1 were either equal to or greater than P_2, A_1 would be the choice. Statements by Castro and others indicate that P_1 was considered greater than P_2 by Cuban officials.

Conclusion: Implications of the Decision-Making Schema

So what does this exercise in retroactive policy analysis gain us? My quest was to gain some frame of reference for understanding economic decisions in Cuba in the absence of an over all economic model. In this way, Cuba is unlike the former Soviet Union and Eastern Europe and more akin to China and Vietnam. In Russia and its former satellites, central planning and state socialism (as opposed to democratic socialism) have been openly discarded. Market principles and a commitment to capitalism underlie their economic choices. Of course, within that broad “model” there is tremendous room for variation. However, it does provide a set of parameters within which economic decisions are made.

Cuba has not rejected socialism. Indeed, the refrain "*socialismo o muerte*" (socialism or death) continues to echo across the island—by officials. There is clearly continuing resistance of "neo-liberal" globalization (see, for instance, <u>Capitalism in Crisis</u> by Fidel Castro). This position embraces aspects of globalization, while calling for change as well:

> Globalization is an irreversible reality characterized by the growing interaction of all countries in the world, their economies and peoples. The major scientific and technical advances have shortened distances and allowed for direct communication and transmission of information among countries located anywhere on the planet. With its impressive technological achievements, globalization holds tremendous potential for development, the eradication of poverty and fostering well being in conditions of social equality for all humanity. Never before had the world commanded today's formidable technological resources. However, the world is still very far from materializing the potentials of globalization. It develops today under the aegis of neoliberal policies that impose unregulated markets and unbridled privatization. Far from promoting the expansion of development throughout an increasingly interdependent world badly in need of sharing the progresses achieved, neoliberal globalization has aggravated existing inequalities and raised to inordinate heights social inequities and the most irritating contrasts between extreme wealth and extreme poverty. (Castro, 1999)

So, how does Cuba make economic decisions when it neither wholly rejects globalization nor entirely adopts orthodox socialism? The parameters that bound economic decisions are much wider. Such circumstances, I would argue, allows for greater weight to be placed on the conditions and circumstances that shape Cuban economics and politics.

At present, Cuba is reaping the benefits of challenges to "Washington Consensus" in Latin America and the rest of the world. Its connections to Venezuela and Bolivia have revived its foreign policy role in Latin America. There have also been economic gains (see Monreal, 2006). Global politics and economics are also assisting Cuba. Both China and Cuba see advantage to increasing ties. When looking at the "global" components that shape economic decision-making, at present Cuba is experiencing a more positive environment.

This assessment of the incentive structure and decision-making tree has implications for predictions about post-Castro Cuba. It is clear that benefits have been derived from fulfilling some aspect of the Revolution: as one author noted, it is possible that "the secret of Fidel Castro's endurance comes down to standard-issue eyeglasses" available to all Cubans (Chavez, 2005: 1). A willingness to balance revolutionary goals with economic realities has been a hallmark of post-USSR Cuba. This tendency is likely to remain even after Castro leaves power. For instance, there are frequent reports about the "economic pragmatism" of Raul Castro and his tolerance for "economic reform." (see, for example, Erikson, 2005: 95)

The schema falls short in giving us insight into more detailed analysis of economic decision-making. Its predictive capability is low. How does Cuba choose from among the variety of options available? How can we explain the scope and pace of the sugar industry restructuring? Works by Corrales (2004) and Rosenberg (1992) offer explanations about the internal politics of Cuba that shape the choices made within the context I have discussed above. Delving further into this "black box"—the selection process between various options, such as the pace and scope of specific economic policy—is crucial.

Overall, though, this paper sought a more modest objective. Without strong theoretical heuristics, how can we assess economic policy in Cuba? I reject relying on a single variable – Fidel Castro's personal whim—as the explanation for all decisions on the island. I believe that the schema developed and demonstrated above helps to elucidate the various factors that shape Cuban economic decision-making.

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