

Cuba and the Question of Legacy

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Some say that President Obama's opening to Cuba is designed to bolster his legacy. Indeed, the current debate centers on his actions and on US policy. This focus, however, misses the more interesting dynamic: the debate within Cuba over the next steps in the *pas de deux* with the United States and the question of Cuban President Raúl Castro's legacy.

At issue is the nearly absolute power that the Cuban government has over its people. That power is an outgrowth of the government's monopoly over the economy. During periods of food shortage, the government would allocate food in ways that favored loyalists. With jobs scarce, the government has allocated the best jobs to party faithful. So too with fuel, seed, fertilizer, and the other essential elements of growth. While universal education and basic health care are free to all, only a favored few have guaranteed access to university admissions and advanced health care for cancer and other potentially fatal diseases.

But economic control does not foster economic growth. Cuba is in trouble and President Castro admitted as much when US Chamber of Commerce CEO Tom Donohue and the then-Chamber of Commerce Chairman Steve Van Andel met with him in Havana last year. He admitted that the government had seized too much of the economy. He went on to say that the Cuban leadership had made mistakes in becoming reliant on a single country for support.

That comment clearly referred to the sudden termination of aid from the Soviet Union, which drove a deep recession in Cuba during the 1990s. The comment may also reflect anxiety about the long-term stability of Venezuela, which is providing oil to Cuba at prices well below the market. If the crisis in Venezuela worsens, the subsidy might be reduced or cut off altogether. If so, the situation could be as bad as it was when aid from the Soviet Union stopped.

To prepare for a future without a *patrón*, the Cubans know that they must attract foreign investors. President Castro told our group that he needs \$10 billion in foreign direct investment over the next five years to rebuild the economy. Indeed, Cuba's new foreign investment law is reasonable, at least on the surface. However, those who do go to Cuba will find that they cannot invest in Cuba's private sector—or as Cuban officials call it, the “non-state sector.” All foreign investment must be in the form of a joint venture (JV) with the government. In other words, the JV government partner will be positioned to adjudicate any internal dispute. Investors will also find that they cannot hire their own workers. A government employment agency will assign employees to the JV. The JV will then pay the government employment agency for those services. The agency will take the government's cut and pay a small fraction of the fee to the workers.

These rules reflect an essential element of Marxist theory: hostility to the productive use of private capital. To maintain control, the government must control the economy, which means that the government must control the allocation of capital. If the government insists on that control, foreign investors will shy away from the opportunities that do exist in Cuba. The challenge for President Castro is to attract capital while maintaining anti-capitalistic policies. This is the dilemma that drives the debate in Cuba.

That said, President Castro has approved the development of a small and carefully controlled private sector in Cuba. In some professions, individuals can work “for their own account” and are known by the literal Spanish term for that phrase: *cuentapropistas*. They run their own business but are limited in that they cannot accept equity investors or borrow more than a small amount of capital. Most get support from family members including family members in the United States.

Discrete government production units have been turned over to the workers as private *cooperativas*, independent of the state and owned by the workers. The auto-body shop for the City of Havana is an example of a very successful *cooperativa*. The manager told us that he and his team cut their costs by 25 percent and increased output four-fold. He told us that to expand the members of the *cooperativa* must reinvest their profits because they cannot accept money from outside investors and can borrow only a limited amount of money.

Speaking with Cubans on the streets, I got the impression that many feel that an opening to the United States would solve all of their problems. Yet, many were apprehensive about such an opening. They have been taught that the United States would come and impose “imperialistic” policies on the Cuban people. This fear was most evident when Tom Donohue took questions from students at the University of Havana. At least three times during that hour-long session, I heard the students add a phrase to their question to the effect that: “We want you to come but we don’t want to give up our socialism.”

I didn’t press that point by asking exactly what they meant by socialism. Clearly, those to whom I spoke want to keep the medical care system and the universal access to education. What wasn’t clear was if by “socialism” they meant that they want to maintain policies that limit capital investments to government projects and government businesses. In fact, I doubt that they realized that, under current policies, they would be denied access to capital.

Following the announcement about negotiations between Cuban and US diplomats toward renewed diplomatic ties, the media reported that there was considerable excitement among the Cuban people about renewed ties to the United States. However, the media reports did not examine the views of the Cuban elite. I don’t doubt that some of them view both the opening and the excitement surrounding the announcement as dangerous. The opening could lead to changes that threaten the elite’s control and the excitement about the opening could create expectations among the public that will be difficult to control.

In what could be an effort to placate anxiety among the elite, President Castro has said that ties to the United States will not be “normalized” until the US Naval Base at

Guantanamo is returned to Cuba, and the US government agrees to pay compensation for the damage done by the US “blockade” of Cuba. Rhetoric aside, it will take considerable time and compromises by both governments before the relationship is fully normalized.

In the interim, Cuban officials must address fundamental issues about management of the economy. Whatever people believe about the effect of the US embargo, lifting it will not solve Cuba’s problems. If it were lifted tomorrow, the biggest change would be that Cuban leaders would no longer have an excuse for the terrible economic plight in Cuba. To rebuild the economy, Cuban officials must adopt policies that welcome foreign capital investments and they must take steps to demonstrate that they respect the rights of foreign investors.

Ultimately, Cuba’s future will depend on decisions made by Cubans themselves and not on US policies. President Castro says that he will retire in 2018. Between now and then, he must decide on his legacy: he can be the last revolutionary leaving a failed state to posterity, or the father of a reformed Cuban economy leaving his people with a chance at a better life.