

# OLSONIAN QUESTIONS ON THE FUTURE OF CUBA: ARE A FREE MARKET ECONOMY AND A DEMOCRACY VIABLE?<sup>1</sup>

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## 1. INTRODUCTION

In his latest book, Olson (2000) studies “the enforcement of power and the role of citizenship” (Cadwell, 2000). He focuses on the process by which the common good could be a potential factor to determine fair government. The author addresses this issue by trying to explain two significant phenomena: “Why was economic performance so much better, especially in relation to expectations, after the defeat of fascism than after the collapse of communism?” “Why do the formerly communist countries suffer so much from official corruption and organized crime?” If we are to imagine a Cuba after Castro, that is, once we are able to establish economic and political reforms in that country, I ask myself the following question: How could we avoid or minimize the repercussions of corruption and crime and what needs to be done to establish a free market economy within a democratic context?

This paper is based on the premise that a market economy is the best vehicle to achieve economic development and, consequently, this system as such is a universally desirable common good. Despite the fact that it may be possible to achieve economic development without a completely consolidated market economy, the former has not only proven to be the most effective economic system in terms of development, it is also the fairest in terms of opportunities of growth for all its citizens. Therefore, this paper shall focus on analyzing the difficulties that come with establishing a free market economy in Cuba—once the country is able to undertake the reforms needed for its implementation—and how to pave the way in order to avoid the numerous obstacles that lie ahead. The establishment of the common good, “market economy”, to use Olson’s terminology, implies the existence of some form of collective action. In this paper we shall apply the same concept to another common good: “democracy”. Although the implementation of a political system that might be called democracy is likely to be less complex than that of a market economy, it must be taken into account that trying to establish both systems at the same time increases the difficulties that may arise during this process.

Since I would like this paper to circulate in Cuba, I must stress that by “market economy” I am not referring to a “wild capitalism” economy as some have cunningly tried to suggest. Neither Marx’s definition of capitalism nor modern market economies, are predatory economies, but, in fact, wealth-creating economies. All market-oriented economies are regulated by legal systems based on specific rules and regulations and supported by institutions and organizations entrusted with safeguarding their compliance.<sup>2</sup> These regulations are designed to uphold and guarantee institutions such as private property rights, contract security, free trade and business competition as well as to avoid or limit monopoly. But a free-market economy does not necessarily define all forms of capitalism. Indeed, a true

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free-market—or simply market—economy is defined by a vast array of economic opportunities and various degrees of participation. Its system, built on individual freedom and civil rights, allows a person to choose from diverse employment opportunities, to spend freely and according to his or her income, to live wherever he or she chooses, to independently buy and sell any type of legally acquired property, and, to set the terms of any transactions or contracts with third parties without state intervention. This evidences why most successful and dynamic market-oriented economies have always been, and still are, those that operate within democratic nations where all citizens enjoy unrestricted civil rights and individual freedom.

However, despite its obvious benefits, developing a market economy from a centralized and distorted socialist economy, which, furthermore, operates under an absolutist government, is far from being an easy task, as the experience of more than 25 ex-socialist countries has shown. In Cuba—that is, once we are able to introduce significant reforms—conditions will likely be extremely difficult, depending on the kind of political leaders that will succeed the one-man powered regime currently in place. The obstacles to be expected include a generalized opposition for reasons ranging from lack of comprehension and an apprehension towards a market economy to ideological prejudice and specific interests, whether personal or party-related.

However, for the purpose of this analysis, it is particularly important to determine which factors, aside from the actual implementation of a market economy and the suitability of macroeconomic measures, are necessary in order to accomplish the long-expected development. After all, there are indeed a few economies, however imperfect they may be, that come rather close to our ideal of a market economy, even though they have lacked satisfactory or stable growth rates. One might argue that one simple reason for this is that these economies have been unable to fully implement their market processes or that the way they were run, through the application of correlative economic measures, has not been the most suitable to unleash the country's full potential and gain the trust of investors who would be the main growth source.

Aside from the validity of these arguments, one must not forget that the companies, which make up the structure of the economy, together with human capital, are the most important energy sources in stimulating economic development. Without these two factors, notwithstanding the fact that both operate in a market economy, no measurable growth is possible. In fact, sometimes the vitality of such companies can reach such a level that it may generate sustained economic development, and this, although it might not be a fully developed market economy. It should be stressed, however, that, under no circumstances, this should be a valid reason to disregard the establishment of a market-oriented economy. Companies from various sectors, such as manufacturing, agricultural, commercial, service, energy or transportation, are the core of a nation's economic activity. The country's macroeconomic measures, together with its legal system, will dictate the conditions, which can vary as to suitability, under which companies will drive the country's process of growth.

Therefore, the viability of a market economy in Cuba and the way it should be implemented in order to allow its growth must be analyzed in the light of two scenarios or, more specifically, two arenas of operation: on the one hand, state reform, on the other, company development and related network of inter-company relationships. We should consider all forms of state reform, ranging from institutional, organizational and legal reform to targeting the people responsible for those changes and for managing the systems that will consequently emerge, in order to build an environment that will allow companies to operate, grow and contribute to the country's economic development. However, we will need more than mere reforms to set up the companies that will make such contributions. These companies, big or small, will have to be forged by a great variety of constituents which must act independently, without state intervention, following their own interests, i.e., to generate profit and obtain financial gains which justify the investment, facing a moderate risk level, but within the rules established by society and under state supervision.

Within this framework, the role of the state will be to monitor compliance with the rules that define a market economy, and, under no circumstances, to manage these companies, or even become their owner or co-owner. Observance of the rule of law shall focus mainly on complying with individual freedoms and rights, property rights, enforcement of contracts, and tax regulations, particularly enforcing tax payment by each and all taxpayers, both personal and corporate. Its role shall also include ensuring efficient, transparent, and appropriate use of resources by government administrators. A significant factor in the creation of these companies will be the country's ability to create and safeguard an environment that will attract sufficient foreign investment while, at the same time, stimulating the efforts of domestic investors. This way, even though it might be relatively easy to set up a market economy in Cuba (and we shall see that this is not the case), important questions still remain. Will the companies responsible for the growth of the Cuban economy automatically emerge once reforms have been undertaken? Will these companies be able to generate sufficient jobs, income levels and productivity to allow a gradual and systematic increase of the Cuban population's standard of living? The answers to these questions are directly linked to the type of reform policies that Cuba chooses to undertake and its ability to stimulate investment activity. Therefore, this analysis shall focus mainly on the processes that should, or could, take place at governmental level, instead of (due to lack of space rather than importance) focusing on the expected behavior for companies and, more generally, citizens in a market economy.

This paper has been divided into several sections, starting with this introduction. The second section presents some definitions and concepts that will serve as background information. The third section introduces an overview of the evolution of the Cuban economy, highlighting its most relevant elements for the purpose of this analysis, such as the reduction of the level of the economy's complexity from 1959 until the beginning of the nineties. The fourth section offers a brief discussion on the evolution of Cuba's economy, starting with the effects of the crisis that was triggered by the dissolution of the Soviet Union. The purpose of the fifth section is to analyze a few examples of implementation of market-oriented economies that might be relevant for Cuba. The sixth section gives an overview of the measures that should be implemented in Cuba to establish a market economy. The seventh section focuses on Olson's analysis of the logic of collective action and examines the evolution of those countries that abandoned socialism. The eighth section presents the results of the application of Olson's theories to a Cuban transition process. Finally, the ninth section presents a few conclusions on this analysis and the implications of some aspects that might be of some interest to different strata of Cuban citizens as well as other agents interested in what might happen in Cuba after Castro.

## **2. BACKGROUND INFORMATION**

The question set forth in the title of this paper, i.e., whether it is viable to set up a market economy in Cuba, is an issue that was previously raised in a much wider context by Betancourt and Seiglie (1998), as they questioned the viability of economic development as such in some countries. But instead of limiting their discussions to the possibility of achieving development, the authors addressed the conditions that are necessary to enable development itself. In other words, what are the factors that enable development or make it possible? Aside from concentrating on the future of the Cuban economy, I shall focus my discussion on two issues: first, how to lead the country towards a market economy and second, how to ensure the operation of a market economy in a democracy. Both conditions are necessary to achieve Cuba's growth and development. Regarding the second aspect, I shall follow the same idea set forth by Betancourt and Seiglie (1998), i.e., that economic development must be seen as "a process or set of processes through which a society systematically increases the standard of living of the majority of its people".

I agree with this approach of “a standard of living determined by the income of its citizens”, which some consider rather limited but which is, in fact, rather practical. This approach has been widely used by economists all over the world and by the majority of those involved in economic issues. Moreover, this approach suffices for the purpose of this analysis. Indeed, a more comprehensive approach would unnecessarily complicate this paper. Also, this material definition of development, which does not underestimate the other numerous dimensions of human development, should be considered a priority if we take into consideration the conditions of great material poverty in which the vast majority of the Cuban population has lived during the last forty years or more. I believe it is safe to assume that an astonishing majority of these people would agree to applying this approach of development as a main guideline for a reform strategy and the subsequent economic policies of the governments that will succeed the Castro era.

In his research of the nature of the social organization of economic activity, Knight (1933) emphasized that the degree of complexity of a modern economy can become so high that it can be compared, as has often been done, to a living being or organism. The analogy extends to the gradual way characterizing the development of all biological organisms, particularly extremely complex ones. But economic systems do not evolve at high speeds, and they certainly do not emerge by spontaneous generation. The changes experienced by most dynamic economies cannot be seen overnight. History shows that all economic systems grow and develop hand in hand with the societies surrounding them and require long periods of maturation. The changes undergone can only be seen and measured at certain time intervals. Even companies, as well as other kinds of economic organizations, although their individual development occurs more rapidly than that of societies, also need specific periods of gestation and maturation; they too, rarely develop overnight. The evolution of economic systems, as shown by history, is generally based on a cluster of economic organizations of increasing complexity resulting from the decisions of multiple economic factors, each following its own private interests.<sup>3</sup>

Economic development has at least a quantitative dimension in terms of growth and a qualitative one in terms of organizational and institutional structures. In fact, economic development, according to Hirschman (1958), may be viewed as an increase in the organic and institutional complexity of the economy expressed through an increase in the diversity of forward and backward linkages, as well as through an ongoing process of fragmentation, evidenced by the division and subdivision of work processes within companies or through the creation of new companies, expressed by Çambel (1993) as fractals. These considerations allow us to perceive the development process of an economy as an evolutionary process of a network of organizations of increasing complexity.<sup>4</sup> Socialism tried to accelerate this development by increasing its efficiency and introducing centralized planning and government-owned companies, but miserably failed because it was unable to centrally operate a system of such complexity, let alone one of growing complexity. Mises (1920) was one of the first to identify this problem; but the implementation of a socialist economy is a political decision where economic criteria are not taken into account. On the other hand, we must not forget that an increase in the complexity of an economy does not always translate into its development. As Soto (1987) has well documented, the development of a bureaucracy is a means to increase complexity, which, in fact, is merely an obstacle to economic development.

These considerations imply that, even though it may be possible and advisable to apply what has been defined as “shock therapy” as opposed to a so-called “gradual” approach, when it comes to economic reform policies, development as such never comes instantaneously, only gradually. At the same time, this condition implies that the economic reform policies, if they are to be successful, must not only be adequate, but ought to be applied systematically, throughout their implementation and consolidation process. When it comes to the implementation of those policies, the instability and uncertainties that are inherent in an insecure government team, or even any constant changes in the formulation of such policies, is a sure guarantee for failure. This consideration is paramount because it is to be expected that the people in Cuba, along with the future government responsible for the reform

process, will be very eager to show rapid proofs of economic development in response to all those years of stagnation and recession. However, the truth is that economic miracles do not exist and lack of patience can be the biggest foe for a real recovery operation of a domestic economy.

### 3. SOCIALISM'S INSTITUTIONAL REDUCTION

In all economies where it is implemented, socialism typically reduces the complexity of government's institutions. Cuba followed the classical process of introducing numerous restrictions on various fronts simultaneously. On the one hand, through the process of expropriation, it managed to make all expressions of Cuba's financial sector disappear, both from companies' organic viewpoint and that of institutions, such as private property and credit. It also drastically restricted commercial sector activity, including retail and wholesale, together with all forms of transportation and related services. The service sector in itself was also rigorously reduced: activities such as accounting, law, advertisement and others totally vanished or became state-controlled.<sup>5</sup> The whole process was facilitated by the fact that there was no collective action on behalf of the owners and the population to effectively defend themselves and oppose this process. Instead, many decided to leave the country in the hope that the United States would initiate military intervention, reverse the process, and bring the country back to its original state. It is also interesting to note that many citizens, in lieu of taking collective action to protect their private and public interests, seemed to rely instead on the action of a foreign nation as *free riders*.<sup>6</sup>

The consolidation or conglomeration of companies eliminated competition, thereby reducing the organic complexity of the economy through the creation of state monopolies. In theory, eliminating the redundancy represented by competition between companies would increase the economy's global efficiency since it would reduce transaction costs.<sup>7</sup> However, the government did not realize that its inefficiency in processing the huge amounts of information necessary to replace a market system by one of centralized planning would only increase transaction costs even more. At the same time, the elimination of market mechanisms would lead to price liquidations that are part of the signal system needed by any economy to efficiently allocate its resources. Transaction costs became so high that existing resources were not enough to keep production, consumption and investment at its traditional levels. This led to the introduction in the Cuban economy of a rationing system, even though motivations for this initiative were also largely political (i.e. controlling the population and its whereabouts). Furthermore, to allow the economy to run at a minimal level, the country had to start relying on subsidies from the Soviet Union.

After undergoing nationalization and socialization, companies also witnessed their internal complexity decrease. This way, the newly state-controlled company would not only lose the benefits associated with private ownership (i.e., independence, management ship, investment, competitiveness) but also its autonomy in managing the resources needed for running marketing, financial administration and technological development functions, among others, which are all factors defining corporate efficiency. When companies start to lose their ability to manage themselves independently, they become simultaneously unable to hire the most efficient employees: for the latter (including entrepreneurs and owners) it means they are no longer free to offer their services to those companies that are most attractive to them. In a socialized company, complexity is limited to a workshop, or production system, characterized by minimal power of decision in terms of allocating resources to production, and a total loss of ability in fixing its product prices, as well as in its response to price signals, its decisions on production and inventory levels not to mention its capacity to function under criteria of efficiency other than the old concept of profit. It is interesting to emphasize that while the company becomes more "socialized" in terms of property, it simultaneously becomes "less social" as its production can no longer satisfy the needs of society.

With the introduction of rationing, consumers suffer a severe reduction of their sovereignty. Most free-market activities are declared illegal and those that survive become clandestine and thus, criminal. Consumers are no

longer free to choose the quantity and variety of the food products or goods they will consume. Variety in itself becomes scarce: durable consumer goods, mainly household appliances, disappear for several years, and with it, all economic options to buy or build housing, automobiles of any sort and the freedom to travel abroad. On top of this, city and intra-city transportation suffer drastic restrictions. Concomitantly, it no longer makes sense to save money, not only because incomes are barely enough to buy the basic necessities available through the rationing booklet and the black market, but simply because there is nothing left to buy with these savings. At the same time, all forms of consumer credit vanish.

#### 4. EVOLUTION SINCE THE NINETIES

The economic crisis suffered by Cuba after its loss of substantial Soviet subsidies forced the government to adopt a series of adjustment measures that bring about new changes in the institutional and organic network of the Cuban economy thereby increasing its complexity. These measures translate into lifting a few restrictions on a small group of selected economic activities. In fact these measures, which are not designed to introduce substantial economic reforms, do result in an increase of the complexity of the country's economic organization. To a certain extent, the lifting of these restrictions did increase the level of freedom of certain agents and allowed the government to stand up to a crisis situation while at the same time saving it from potential social and political upheaval. From a macroeconomic standpoint and, in order to achieve a balance between government income and expenses, another measure consisted of laying-off workers whose factories were paralyzed due to a lack of supplies. This step was complemented by lifting restrictions on self-employment in the hope that this step would create the employment opportunities that the government was no longer able to guarantee its citizens, no matter how unproductive. From a microeconomic standpoint, one of the measures adopted by the government was the re-emergence of limited expressions of private property or "finger" capitalism (since it depends on Castro's approval), although this process had already begun during the eighties without any measurable impact on the country's institutional plot. Although this measure applies mainly to foreign owners, it increases the options of many economic agents in the country, enabling the companies that benefit from this change to operate with a certain level of freedom that is unheard of in Cuba since the nationalizations that took place in 1960.

Other steps include the careful opening of farmer's markets, although not at the same levels experienced during the mid-eighties (before the process was halted by the so-called "Rectification Process", Mesa-Lago, pages 264-288), the decriminalization of holding and circulation of US dollars, the legalization of self-employment, the promotion of international tourism, tolerance of prostitution mainly aimed at the tourist industry, greater autonomy for state-controlled companies through the abolition of centralized planning, and finally, terms granted to Cubans for receiving dollars from abroad. Paradoxically, the loss of Soviet subsidies forced the Cuban government to adopt extremely harsh adjustment measures, similar to the ones recommended by the International Monetary Fund in similar crisis situations and which have been so criticized by the Cuban government itself. What is most interesting in this case is that the adjustment measures had to be implemented without the help of a soothing short-term IMF loan. Cuba was able to sail through the crisis thanks to a bridge, or *by-pass*, created by a system of monetary dualism that emerged as a result of a partially dollar-run economy, as analyzed by Sanguinetta (1993, 1994).

It is interesting to observe that the different levels of economic freedom that were achieved were the combined result of government's lifting of specific restrictions followed by an immediate response of economic agents, either Cuban or foreign, who modified their actions accordingly. This phenomenon shows that, when the time is right for opening up the Cuban economy even further—which should not be done gradually, but through what many refer to as "shock therapy"—the country's economy will already have acquired a certain response capacity. This is probably one of the most important lessons learned in the nineties concerning the great many mysteries surrounding Cuban society when it comes to its mindset to undertake a market economy. Those long years of extreme deprivation

have accumulated wishes and demands that may become the main trigger for economic recovery. When it comes to economic stimuli, we cannot overemphasize the importance of the response capacity of a population, but this factor should not be ignored by those who, when designing special economic restoration projects, fall back into obsolete paternalistic and government-controlled schemes.

However, we must ask ourselves the following: What will be the extent or limitation of a recovery solely based on lifting restrictions without any real efforts to establish new legal frameworks, significant constitutional changes, comprehensive institutional reforms or privatization programs to settle all cases of expropriation and significantly decrease or even eliminate state-owned companies? The answer to this question does not depend on the government's ability to manage the economy but on its ability to stimulate markets as well as all other factors necessary for their flexible and efficient operation.

## **5. EXPERIENCES WITH MARKET-ORIENTED ECONOMIES**

Even though, during specific time periods, the development undergone by some companies is due to the leadership of greatly talented and energetic individuals, one cannot assume that the will of one single person or small group of individuals can build an entire economy. Even socialist experiments on economic “engineering”, which led to the establishment of centralized planning systems, were unable to reproduce the efficiency of modern economic systems based on private property and free markets, despite the fact they were motivated by extremely powerful individuals such as Lenin, Stalin, Mao Tse-tung and Castro. Cuba brought along its own experiences, under the blanket of socialism, taking initiatives to accelerate industrialization at the beginnings of the revolution under the aegis of Che Guevara, but they failed, as analyzed by Sanguinety (1999). Nonetheless, these efforts were surreptitiously guided by merely reproducing the economic structures generated by other economies, since socialistic forms of economic organization were never able to generate a dynamic of their own. It must be stressed that the power of those great “social engineers” was in fact more reductionist or destructive than creative and constructive, if we observe the different stages of evolution of the organic complexity of their respective societies.

Thanks to the level of knowledge and the variety of experiences we now have regarding market economies, we are now fully aware of the steps that need to be taken in order for an economy to reach strong levels of growth and overall development. This is evidenced by the overall agreement that exists among economic analysts when it comes to the objectives of institutional and political reforms needed to guide the transition process of socialist or highly state-controlled economies towards market economies. This apparent universality when it comes to economic knowledge is, however, limited on two fronts: not only do the experts not necessarily agree on the paths to follow, their knowledge is not always shared by all strata of the population.

The experts only agree on the objectives of the reforms as such, not on the paths that must be followed to achieve them. These paths are determined by economic and political factors as well as some of a different nature. In fact, there seem to be multiple rational strategies to set up reforms; also, depending on individual characteristics, what may be considered rational in one country may not be considered so in another. There may exist multiple strategies, for instance, to restore private property rights, mainly concerning the issue of returning property that was confiscated during the early establishment of the socialist regime. Other possible areas of disagreement include the type of currency system to be adopted during the transition period. In Cuba's case, the issue is whether or not to continue with an economy partially run in dollars or whether to restore the peso as the sole currency.

On the other hand, experts' agreement on the objectives of reform cannot be automatically extended to other members of societies under transition. Neither the benefits nor the properties of a market-oriented economy are

necessarily accepted or understood by a high enough proportion of citizens to guarantee their implementation. In many instances, this fact may severely limit the possibility of a transition to move forward. An interesting case is that of Chile in the sixties, under the dictatorship of Pinochet. At that time, military government members, distrusted most of the steps that were recommended by the then scorned *Chicago Boys*<sup>8</sup>. The latter were extremely successful in convincing the decision makers of that time about the benefits of the suggested reforms.

But it should be emphasized that the rulers in charge, even though they did not harbor socialistic ideas of any kind, distrusted the market as the core of the economic activity's organization. The military in Chile, and also in Argentina, Brazil and Peru, still believed in the leviathan state, as the main, or at least the essential, engine or instrument to guide and bring about economic development.

However, the education process of the Chilean dictator and its adjutants proved to be much less difficult than educating an entire legislative body, that is, if the latter had existed had there been democratic elections. There are however no reasons to hope, nor is it my recommendation, that Cuba repeat this particular process of establishing a market economy. But then, how do we establish a market economy in a democratic political context? How can we avoid the long *impasse* of countries like Russia, Ukraine, Dominican Republic, Brazil, Guatemala or Ecuador whose legislative bodies or constitutional frameworks do not allow or seem incapable of defining or implementing measures that would improve their chances of developing?

Despite all these questions, the simple lack of understanding of the benefits and operation of a market economy is not the only source opposing reforms. Other sources include specific coalitions or interest groups that may perceive these reforms as a significant risk of loss, either financial or power-related, or both. One good example is presented by Gaidar (1996) who mentions the resistance by *kolkhoz* and *sovkhoz* leaders to reforms, which would mean the end of their privileges. Sometimes, as witnessed in Russia, some of these coalitions emerge because of initial errors that occurred during the transition process itself. Also, as emphasized by Shleifer y Treisman (2000), 177-181, the power of these coalitions can become so strong, that lack of understanding by other factions of the population ceases to be the main obstacle to the reform process.

In Cuba, heads of government-owned companies or party leaders who survive the initial political changes may incarnate these opposing forces. There are also dissident political organizations that brandish several agendas, often of socialist nature, based on a deep distrust and lack of understanding of a market economy. The propaganda of its strongest enemies, still pushing for a controlled economy, deeply impacts the intentions of good-willed individuals of social-democratic or social-Christian orientation. Also, it is to be expected that they will represent a strong obstacle source to the establishment of a market economy, an aggressive growth policy and, thus, an economic recovery for Cuba's economy. In fact, we should not be surprised if a Cuban transition towards a democratic regime turns out to be far easier than a transition towards a market economy.

The question is whether Cuba, once it undertakes a transition towards a market economy, will necessarily have to endure the same problems as those suffered by other socialist countries, or whether it will have political options that will allow or, at least, increase its chances of a more adequate transition towards its interests. Further on in this analysis we shall examine the issue of feasibility of some form of collective action before a transition is possible, taking into account Cuba's current restrictions. These restrictions might also suggest the feasibility of some kind of possible action to originate outside Cuba, whether by groups of exiled Cubans, interested governments or international organizations.

## 6. ESTABLISHING A MARKET ECONOMY IN CUBA<sup>9</sup>

As I mentioned previously, what must be done to establish a market economy in Cuba has been rather well defined and understood. Also, most economic experts agree on the issue. Where they tend to disagree is on how to set it up and make it work, since conditions, especially political ones, are different in every country. Also, what might be a good strategy in one place might turn out to be wrong in another. What must be emphasized however is that those measures that may be quickly and drastically adopted should not be delayed. Indeed, a gradual implementation of measures such as opening-up markets makes no sense at all and would only delay the economy's development. Other steps such as, for instance, the creation of a new legal system, have aspects that can be put into practice immediately with measures such as repealing regulations criminalizing free trade and free contracting, while other steps such as training, recruiting and appointing competent judges in specialized areas and in sufficient numbers will, however, require more time. What we must always keep in mind is that the quicker we set up the mechanisms for a market economy, the greater the chances for the economy to grow and put an end to the huge economic problems accumulated by the Cuban population during four decades of neglect and wasteful spending. Following is a list of the most important steps that must be followed in Cuba's case:

- Legalize free enterprise, lift all restrictions on domestic and international trade
- Restore private property rights
- Facilitate direct investments by Cuban nationals and foreigners
- Redefine the monetary system
- Design and implement a fiscal reform
- Redefine the role of the state and implement organizational development
- Prepare the ground for the development of a new constitution and legal system
- Create a financial sector
- Implement an education reform
- Reform the health care and social security systems

The definition of all these measures is quite simple. One of the main obstacles to their implementation, as we have already discussed, would be a potential disagreement among the government team members or between the executive and legislative powers. The lack of understanding by a large portion of the population, combined with a potential lack of confidence in the government team might be another factor. Ineffective handling of these reforms (in the sense of *management*) by the governing team could be a third issue.

Economists and other advisors eagerly recommend these measures but they are not always aware of how difficult it is to implement them, particularly when it comes to selecting who shall be responsible for this task and for running the subsequent new systems. Many reform programs fail because they are not managed by the right people. However, after so many years of government inefficiency, the reforms would be so critical for Cuba that importing people from abroad for a period of time could be considered in order to bring about the changes and train enough local personnel.

It is important to understand that these measures must be implemented more or less simultaneously, as one complements the other, a fact that complicates the issue of management and leadership even more. For example, the fact of easing investments will not attract capital if there is no clear definition of a fiscal framework, nor if companies cannot export their profits, or if there are too many obstacles to import raw materials and repair parts. Without a tax reform able to generate the revenues necessary to respond to the government's needs, the consolidation of the rule of law and the modernization of a system of administration of justice will not go very far. The managerial ability of the government team in charge of the transition and of setting up a macroeconomic policy must be

extremely high precisely because these reforms must all be coordinated and, also, because this coordination effort should be sustained for a long period of time.

Two aspects that were seriously underestimated during other transitions observed since the fall of the Berlin Wall and the disappearance of the Soviet Union concern the organizational and managerial aspects of these reforms. This, consequently jeopardizes the entire process or, at best, could seriously limit the impact and efficiency of the changes. For instance, the implementation of a legal system should not be restricted to new legal regulations, but should include training of all kinds of professionals, such as judges, defense lawyers and public prosecutors as well as technical personnel specialized in certain areas that were almost non-existent in Cuba during the socialist regime. Other than training, these individuals should acquire substantial practice by working in the field for several years, before these systems can be considered totally operational and efficient. In this same area of justice administration, universities will have a role to play for many years while other educational centers must train intermediate level technical personnel in the same field, such as court administrators, paralegals, registrars or recorders of deeds, etc.

## 7. OLSON'S ANALYSIS

Olson's theories on collective action may be helpful to predict a few possible scenarios for Cuba after the fall of Castro and to determine the conditions that might contribute to the viability of setting-up a market economy and a democracy. As we have seen, Cuba's problem cannot be solved by simply defining what steps need to be taken in order to build a market-oriented economy and a democracy, as we have briefly done here, but by finding a method or strategy that will transform these objectives in a reality. More specifically: what must we do to bring those who believe in a democracy and a market economy to power? Once power is in their hands, what factors will help these new leaders agree on the adequate program to implement these required changes?

To address this issue, we shall first analyze what happened in those countries that were able to free themselves from the restrictions of socialism from an Olsonian perspective. Let us come back to Olson's two questions raised at the beginning of this paper, namely: "Why was economic performance so much better, especially in relation to expectations, after the defeat of fascism than after the collapse of communism?" "Why do the formerly communist countries suffer so much from official corruption and organized crime?"

I believe the answer to Olson's first question is much easier than the second. The answer, indeed, lies in each society's level of relative complexity. At the end of WWII and after fascism came to an end, the economies of ex-fascist countries, unlike those of socialist countries, did not experience a reduction of their organic and institutional complexity; this explains why the former were able to recover much better than the latter. Despite the destruction suffered by these societies during WWII, their productive memory, as well as their wealth of human capital, remained practically intact. Socialist economies, on the other hand, did not have a productive memory before their institutional reduction. Also, a significant part of that memory which did prevail had to be "forgotten" as it represented inferior forms of production. In some strange way, the bombs caused less destruction than socialism. Trying to rebuild a socialist economy makes no sense since, typically, most of its companies are created under a distorted system of relative prices and are only able to survive under a totalitarian system where political decisions always come before the economic ones. After the disintegration of the socialist block, the economic systems of its countries had to be largely reinvented, something that could not be done through shock therapy. Consequently, while the Marshall Plan was viable to bring about Europe's reconstruction, its influence on a transition from a socialist economy to a market system is not. In this case, the issue is not so much rebuilding what existed before, but creating new economic systems.

The second question is more difficult to answer. There is a great difference between ex-socialist and ex-fascist countries as far as the role played by corruption and crime. In the first group of countries, socialist governments disappeared along with their political systems leaving property rights “in limbo”, or very close to anarchy. This led to a Hobbesian situation in which predatory activity started filling the void created by a lack of authority together with the absence of a real strategic reform plan. This phenomenon, referred to as the *piñata* in the Nicaraguan case, may repeat itself in Cuba, even if it involves properties subject to claims by their legal owners. In other words, the institutional weightlessness suddenly faced by countries experiencing a collapse of the totalitarian authority responsible for keeping order leads to uncontrolled liberties that are exploited by the most entrepreneurial and less ethically inclined elements of those societies. However, if expropriated property is returned rather quickly at the early stages of the revolution, it could curb the plundering of public property.

In a socialist society, power sources stem from the political not the economic apparatus. This explains why the field of politics usually attracts a socialist society’s most ambitious and entrepreneurial members, particularly those with lesser ethical atavisms against the new order. Although many believe, in harmony with the socialist credo, that a political system is ruled by leaders who are honestly motivated by the principles of socialism and communism, it is in fact more realistic to follow the more classic assumption that the behavior of these citizens, including participants at lower levels, is motivated by personal ambition and greed. This suggestion does not contradict the fact that many do believe in socialism at various degrees. What we are suggesting here is that, generally, personal interest tends to weigh more than its assigned value.

In a socialist regime, the accumulation of wealth does not express itself through bank accounts or property (except for maybe a few, including the highest-ranking leaders) but through accumulated political “wealth”. This political wealth takes the form of recognized merits that are based on loyalty as well as other activities defined as meritorious. Following Marxist principles, monetary wealth, which is seen as a manifestation of greed, is reduced and replaced by a form of wealth that is less tangible and definitely much less efficient from an economic viewpoint.<sup>10</sup>

Consequently, through this unsettling and perhaps surreal concept of wealth we can see how, for some citizens, sources of wealth under socialism come from the political system, not the economic system. Nonetheless, opportunities for growth are limited for two reasons. First, as a means to achieve personal wealth, the political system is less efficient than the economic one. Second, the political system offers much less opportunities and therefore is not as fair. The most entrepreneurial individuals, with the exception of those upholding incompatible ethical values (negative altruism?), learn to play the political game and accumulate merits by trading loyalty. The ambition of the capitalist is replaced by that of the opportunist, or arriviste, who is but an entrepreneur of a different kind.

Despite the rhetoric of heroism and altruism, this phenomenon repeats itself under all forms of socialism and conveys the principle of personal interest (although it is not exclusive), as the universal force which drives human behavior. The lucrative enterprise lies in the political system, which enables a handful of people to attain some form of economic wealth, although primitive considering the prevailing economic scarcity of such a system. Whilst the Olsonian autocrat disappears along with the collapse of the regime, the balance of power among other political “entrepreneurs” may remain in a state of suspension or weightlessness. Even if we assume, like Olson, that the new balance of power shall not be determined by a culture of democracy or the presence of altruistic leaders but by the selfish and opportunistic behavior of the most powerful two-faced individuals, then, unless we have a system of established rules, there is a risk of predominant and prevailing corruption. In fact, I do not believe the term corruption as used by Olson is quite appropriate since a legal system might not be adequately established. At any rate, socialist regimes are and have always been known for violating their own rules, and their citizens, along with the system, have always considered this behavior to be normal. In other words, corruption is a behavior that openly mocks existing rules and tries to ignore (or bribe) the organizations in charge of their compliance. But when neither law nor

authority is respected, what would otherwise be defined as corruption becomes something closer to anarchy, a kind of repressed or restricted anarchy.

## 8. THE CUBAN TRANSITION

One aspect regarding the issue of viability which concerns us is whether Cuba, in its transition towards a market economy, will need to endure the same problems as other socialist countries or whether it will benefit from political options that will enable, or at least increase, its probabilities towards a transition that suits its citizens' interests. In other words, there is no way to determine whether a transition towards a market economy and a democracy will come naturally after Castro's regime comes to an end. In fact, before a market economy sees the light in Cuba, it is more likely some form of democracy will emerge, since the first option is much more complex. A minimal form of democracy is indeed an option, from a simple electoral viewpoint, and this solution could be negotiated among the various political factions that will probably emerge in a post-Castro Cuba. This phenomenon is not unique. The case of the Dominican Republic comes close to the Cuban situation. It has taken the country forty years, since the death of Trujillo to be precise, to arrive at a political system that elects its civil servants through a direct universal suffrage, although, after each electoral period, many still wonder how democratic this political system really is. For an analysis of this process, please refer to Espinal (2001).

Many people believe that once Castro or his regime are gone, Cuba will inexorably evolve towards a democracy and a market economy and that, almost automatically, the economy existing before the advent of socialism will be restored. Implicitly, these expectations sometimes include the idea that all semblance of the current government will disappear and be peacefully and nicely replaced by a reform team. Others believe or hope that Castro's team should be replaced in a violent manner. Although we cannot rule out the possibility that the first government succeeding Castro will undertake the reforms outlined here as the most representative of the Cuban public interest, the first lesson on collective action that Olson (1965) teaches us is that societies generally do not voluntarily or automatically act in favor of their collective interests. Only small groups are capable of voluntarily reaching agreements, whereas larger groups, such as entire nations, need coercion to achieve some sort of stable organization or a system of incentives in order for its citizens to behave, paradoxically, in accordance with their collective interests. Olson goes one step further in his book *Power and Prosperity*, published posthumously, when he states that: "no one has ever seen a large society able to achieve peaceful organization... through voluntary collective action." In other words, if Castro were to be defeated by means of violence (an initiative that would probably be led by a strong hand), it would be quite possible that the old autocrat would be replaced with a new one. After all, this is exactly what Castro did with Batista and is what generally occurs in many other countries.

Barring the possibility of a miracle, it is not very realistic to hope that the voluntary collective action of 12 million Cubans or so will lead the country to a market economy or a democracy as if guided by some force of gravity or invisible hand. In fact, democracy came to Cuba from the outside and by violent action; Cuban society was not able to preserve it. Nothing suggests that today's society is better prepared than previous generations to build a democratic system. Cuba's economy before 1959, dominated by mixed market characteristics, was the result of a long process, that excluded state control, which started with the colonization of the island itself. It was easy to destroy this system; recovering it, however, will be more difficult.

Keeping Cuba's present-day conditions in mind, the issue then is to define what type of coercive collective action or particular incentives can be achieved and are recommendable and how they could be stimulated before society adopts economic and political structures that go against the common good. This includes the possibility of some form of action that would originate outside Cuba, whether by groups of exiled Cubans or by interested governments

or even international organizations. The issue here is whether the ideas or preferences of insular Cubans in matters of politics or public goods match those of Cuban exiles considering coming back. Under present conditions, one is not even sure if there exists any form of agreement or disagreement at all due to the fact that communication between representatives of both groups is very limited or simply non-existent. However, it wouldn't be unrealistic to assume that the probability of disagreement is stronger than that of agreement, especially on issues concerning the restitution and compensation of expropriated property and claims of other nature. Although these issues are an important factor to be considered as a prerequisite to the establishment of a free market economy, they could also be included in a simpler agenda which would not jeopardize the economy.

Another source of strong disagreement, which often expresses itself in Cuban circles, concerns the balance of preference between justice and reconciliation. An undetermined number of Cuban people, both living in exile and those on the island, believe that, before undertaking any political and economic reform, some form of judicial action against the members of the socialist regime responsible for committing outrages should be undertaken, particularly those who were involved in executions, imprisonment or other abuses of authority. Another undetermined number of Cubans would rather wipe the slate clean and forget about the whole issue. One may assume opinions among these groups are quite eclectic and vary considerably on the scale of vehemence.

Needless to say, these attitudes do add an element of uncertainty when it comes to formulating possible scenarios for Cuba's future; however, although they complicate the analysis and the planning and study of its corresponding scenarios, we cannot ignore them. In this context, we must stress that this existing uncertainty could agglutinate the powers of those who favor Cuba's current regime and who know that their separation, once Castro is gone, carries a very high price. We should not forget either that Cubans excluded from this circle of power have systematically been faced with repression when trying to establish any type of association; i.e., Castro's instrument of choice to significantly raise transaction costs and thus make almost any attempt for political alliance through Coasian<sup>11</sup> negotiation impossible. This phenomenon, which seems totally incomprehensible for those Cubans who embraced exile before living through this experience, explains why there are so very few movements of rebellion or serious opposition efforts against Castro's authority.

The government exploits this lack of cohesion among Cuban citizens—including people in government ranks—and also deepens it by exerting absolute control over all sources of information, thereby also affecting their ability for collective action in relation to the definition of public interests. The divisions to be expected in the variety of attitudes, expectations or preferences of the Cuban people regarding public policies, specifically decisions that contribute to creating public goods that make up collective interest, are rendered more complex by the phenomenon which Olson defines as the common citizen's "rational ignorance". This concept refers to the fact that in all societies there is no incentives for members to be experts on matters of public policy. In concrete terms, this refers to citizens' logical ignorance when it comes to defining the concept of a market economy and how to set it up. We also believe that in present-day Cuba this ignorance is exacerbated by its isolation in terms of information and education, as we have previously mentioned.

Despite its many similarities, the Cuban case stands apart from the typical transition cases of most ex-socialist countries for several reasons. The first being the politically weak and poor situation of government opposition, whether on the island or outside. This situation does not allow us to foresee a safe place for society to ensconce itself once its current leaders are gone. In other words, unless there are some hidden forces within the current Cuban society that are able to take the reins of power when the time comes, anarchy and not corruption will prevail. If we accept these principles as valid, then we can deduct that the only way to establish the common goods i.e., "market economy" and "democracy", after Castro's disappearance is through coercive action which would flow from one of the following scenarios: a) Castro's team itself decides to undertake the necessary reforms, b)

Castro's team is replaced after an internal coup d'état, c) Castro's team is replaced after the intervention of some external power of a reformist nature. The probability of this third scenario is ruled out because of its unlikelihood. Indeed, there is little indication that such an initiative could be organized<sup>12</sup>. The likelihood of scenarios a) and b) is stronger, but they do not necessarily guarantee the desirable reform program. Indeed, Castro may be replaced by his current subordinates and it is not known if these individuals will be able to agree on a coherent reform plan, even though they have the right incentives, as we mentioned previously. There may be a genuine desire to take Cuba out of its current economic impasse, but this process might be obstructed by the diversity and incompatibility of everyone's agendas. Under these conditions, chances for what Olson calls "the autonomous emergence of democracy" would become slimmer, whereas chances for the advent of another autocrat would increase. However, it seems highly unlikely that an autocrat rising from the ashes of Castro's regime will pursue Castro's messianic agenda. He will probably be closer to Olson's model of the stationary bandit and try to consolidate his power by undertaking highly popular economic reforms.

And so, we come to our first likely scenario: the possibility of a transition towards a market economy before one towards democracy. There might be two obstacles to this process. The first being internal opposition if it is able to get organized and express its discontent through the only means it has available, namely the streets of Cuba's cities. The second obstacle may lie in the United States, specifically the provisions of the Helms Burton Law, that demand the country to hold "free elections" before it considers normalizing economic relations between both countries. Needless to say, if the current trade restrictions between the United States and Cuba continue as a consequence of the existing embargo, all economic reforms will be seriously jeopardized. Under this scenario, democracy might see the light later on, because of external pressures, namely those coming from the United States. Of course, given Cuba's present-day conditions, its absence of a civil society and political parties, not to mention the time required to put all this into place (including developing a new constitutional framework, etc.), an impoverished democracy of this nature would turn out to be extremely weak and, in the long run, would suffer deep crises through a long consolidation process as was the case of the Dominican Republic, previously mentioned.

On the other hand, and following Olson, the ideal solution for a democracy in Cuba might be, once Castro is gone, a balance of power shared between "a small group of leaders, groups or families" (page 31), so that none of its members has enough power to prevail over the others or venture a coup d'état. Although this form of government may turn out to be too fragile, we assume its members are rational individuals whose common interest is keeping their positions within Cuban society, including their own survival. Therefore, it is reasonable to assume that these individuals will try adopting a collective strategy in sync with these objectives, which brings us to the second possible scenario: the possibility that the initial leaders and agents of a transition towards a democracy and a market economy belong to the high-ranking officials of Cuba's present-day government.

One must consider the serious moral dilemma created by this situation for Cubans who are against the current regime. Insofar as it is desirable, on the one hand, that judicial action be taken, as suggested by some, against those members of Castro's government who abused power and, on the other, present-day government members might think these wishes will become a reality, and, acting rationally, they should follow a strategy of collective action which might contribute to Cuba's transition towards a democracy and a market economy. We can presume this is the outcome desired by most Cubans on the island and by some who live abroad, including those who clamor for judicial action, although this last alternative seems to contradict the general objective. This means that the clamor for justice will generate the forces that can prevent a normal life for citizens after Castro but which, at the same time, can favor a rapid return to such normalcy.

It is important to stress that, assuming the surviving members of Cuba's ex-Castro regime act rationally, it will make no sense for them to support a socialist regime without the presence of its leader. Otherwise, serious internal

pressures may arise and their magnitude may be so strong that without the presence of their former leader they may not be able to face them. Moreover, the longer this situation extends, the more we assume these pressures will build up. It follows that a miscalculation by Castro's surviving government officials may create a third possible scenario in the event that an uncontrollable process of civil riots takes place. In this case, anarchy may prevail and no form of collective action at all would be possible and the future of a democracy and a market economy would be extremely uncertain.

Thus, we can identify at least two Cuban coalitions with partially common interests and partially differing ones. Those who hold positions under the current regime, and those outside the government, including exiled Cubans. Based on the previous reasoning, one might assume that, after the Castro era, the first and the second group will wish for a democracy and a market economy. The difference lies in that a subset of individuals within the second group (let's refer to them as the intransigents) insists on some form of justice before undertaking a reform. They also want the transition process to be led by representatives of their own group, not by Castro's old party officials. Without these intransigents, there might be some opportunities for negotiation and this may lead to an improvement of Paretian nature. However, depending on the influence and strength of these intransigents, such an improvement may be impossible to achieve.<sup>13</sup> On the other hand, if these intransigents were sufficiently powerful to prevent Castro's officials to govern but not powerful enough as to assume power, between them and the other groups, we would be confronted with a situation similar to the prisoners' paradox since no coinciding strategies would emerge and we would face a sub-optimal Paretian situation<sup>14</sup>. This would lead us to a fourth possible scenario characterized by a long process dominated by the inability to undertake reforms, even though some improvements in terms of economic and individual freedom might be attained.

Under the third scenario and also under the fourth, if we evolve from stagnation to a situation of violence, is where external forces may jump in and force a solution of stability that, in principle, may favor foreign interests over Cuban ones. Therefore, for Cubans living on the island and those abroad, it is in their best interest to try to undertake some form of Coasian negotiation so that national interest may prevail over others. They must also settle the issue of justice by adopting more creative solutions, maybe along the lines of South Africa or other countries that were unable to follow traditional legal processes due to lack of adequate authorities.

## 9. CONCLUSION

Applying Olson's logic of collective action to the conditions under which Cuba's diverse coalitions are organized, we may conclude that, provided the right conditions arise, both a market economy and a democracy will be viable in Cuba. As to when these conditions will materialize remains quite uncertain but, in principle, one can have an influence upon the turn of events. These conditions include how current coalitions, particularly those made up by today's most influential government members, will manage to reach a Coasian negotiation that will allow them to follow a common agenda. One of the problems they may face is the size of the group: if too large, negotiations' transaction costs will become so high that they may become impossible to undertake. If this group is unable to reach a common agenda, chaos will prevail and the country may face what we could denominate a situation of Paretian regression in which all Cubans become losers, particularly if we measure national interest exclusively by the ability of an economy to recover, as would be the case in many countries.

Under these circumstances we may argue the possibility of three sub scenarios. Number one: the armed forces take over power from civilian authorities and keep the country under control. In this case, the path to follow may remain uncertain but, provided there are sufficient pressures from abroad, democracy and market economy may be viable. Number two: dissident groups within the country manage to mediate or help the post-Castro government

team reach a Coasian negotiation so as to set-up a transition government which, despite being temporary, is prepared to start some reforms. But the viability of these reforms may be limited under this scenario as they rely on the precarious stability of this arrangement. Until now, evidence suggests that dissident groups have been unable to undertake Coasian negotiations, even among themselves, so there is no reason to believe they will acquire this capacity overnight considering the magnitude of this crisis. We must stress, however, that this situation was due to high transaction costs resulting from Castro's repression. Once this situation is over, we believe the costs of transactions may decrease and these negotiations may emerge. Of course, there is no way to predict this under present conditions.

The diverse coalitions of Cuban exiles that wish to have an influence on Cuba's future may play a similar role as mediators or catalysts. Evidently, in all these years, these groups have been unable to define a common agenda other than general considerations having no operational value at all. Also, these coalitions do not appear to have tried to keep contact or maintain any kind of communication with government representatives although obviously this would have had to be done in great secrecy, considering Castro's repression. We assume, however, that this kind of contact could become an extremely valuable tool when it comes to having an influence on Cuba's future events. In fact, it could be the only opportunity for the exiles to have some influence as a group on Cuba's internal affairs, since they have no other means to achieve this.

Thus, if Cubans' national interest is confined to the establishment of a democracy and a market economy in Cuba, which means severely restricting the scope of demands for justice against those government members who abused power under Castro's regime, then it is in the best interest of dissidents and groups outside Cuba to adopt a common agenda to face a new era without Castro, which includes the following coordinated actions: a) defining a working program to set up a democratic regime and a market economy that may be accepted by the main authorities in the country including members of the current government, but not necessarily Castro's closest advisors, b) mass producing of reading material on the different aspects and conditions of Cuba's development after Castro, where it will play a role in the international economy and enjoy civil liberties of which it has been deprived for so many years and c) conducting various activities aimed at creating relationships among Cubans to discuss the country's future and break the monopoly of the debate concerning Cuba's future which until now has been exclusively held by Castro.

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## NOTES

<sup>1</sup> I appreciate the comments made by Roger Betancourt, Rolando Castañeda, Mauricio Font and Luis Locay and those who attended the presentation of this paper during the 11th Annual Meeting of the Association for the Study of the Cuban Economy at the Biltmore Hotel, Miami, Florida, August 2-4, 2001. I would like to thank Mercy Sanguinety for her editorial work on the original in Spanish, Frederique Kramer-García for the English translation, and Margarita Tassi for the layout. Of course, I shall remain entirely responsible for the final product.

<sup>2</sup> We are applying the terminology used by the New Institutional Economics (NIE), which distinguishes institutions from organizations. The first refers to entities involving concepts and styles of operation, such as property rights, while the second defines teams of individuals put together in order to carry out specific projects or functions, as is the case with firms or companies and government agencies. For a more in-depth analysis of these and other NIE concepts, please refer to Betancourt (1991) and Harriss, Hunter and Lewis (1995).

<sup>3</sup> We must emphasize the complex conditions of an economy since many people still underestimate this fact and still believe that an economy must be controlled in order to satisfy the needs of a nation.

<sup>4</sup> The concept of organic and institutional network implies an economic model similar to that of a neural network, which interconnects its companies and other organizations subject to the restrictions and rules represented by institutions. This network represents the productive memory of society. The concept of complexity applied here is to the same as the one derived from the theory of chaos and has been applied here to the nature of the organic network translated as forms of organizational and functional complexity, according to Rescher's (1998), nomenclature. You may also refer to Day (1994) and Simpson (1990). Its application to this paper is motivated by the need to show that, in highly complex systems, both biological and economic, there are natural evolutionary processes that cannot be externally replicated by a state bureaucracy. Socialist planning, even though it tried to replicate the process of creating and developing linkages among companies, was only able to create a rough model of the systems created in free economies. Often, during the development of market economies and once submitted to a privatization process, these socialist-born companies had to be abandoned.

<sup>5</sup> In theory, the disappearance of these sectors was based on the Marxist definition which states that surplus value is only generated in "areas of material production", since other sectors are consumers of surplus value and, consequently, parasites or part of the system of "exploitation of man by man" which should be completely abolished. In the Cuban case, there are enough reasons to assert that the reasons were more political than anything else, namely, releasing human resources allocated to production and reassigning these to jobs in areas of mass control, security and armed forces.

<sup>6</sup> This concept is used to refer to citizens who do not pay for a public good consumption of which, by definition, is not excludable, such as public street lighting or national security, but who benefit from services that are somehow financed by contributions from other citizens, generally through taxes or other forms of collective action.

<sup>7</sup> Transactions between economic agents are not free but do involve consumption of resources. For example, the act of buying and selling may require the buyer to go to the market (or stand in line) and the seller to spend money in advertising (or hold inventories).

<sup>8</sup> Refer to Mesa-Lago (2000), 34.

<sup>9</sup> We have included this section to provide a more comprehensive content to this paper, which, as I mentioned previously, was written for the purpose of circulation in Cuba. Those who are familiar with this issue may go directly to the next section without losing continuity.

<sup>10</sup> It is interesting to observe that in the Cuban case, the Olsonian metaphor of the "stationary bandit" is not directly applicable for two reasons. The first being that Castro's preferences do not match those of the citizens he controls. In Olson's terms, Castro

has no encompassing interest. His agenda is of a messianic nature, rather than one of consumption, as seems to have been the case of former dictator Batista. Hence, many prefer Batista to Castro or any other despotic individual with a more mundane agenda. The second reason is that Olson's stationary bandit did not have Castro's power to expropriate his victims of more than what would be necessary while still optimizing the level of consumption and wealth. Castro has in fact behaved as an "errant bandit" although Soviet subsidies transformed him into a stationary one. It is interesting to see that, after the collapse of the Soviet Union, Castro's behavior has had to come closer to that of the stationary bandit because the "budget" restrictions resulting from the halt on subsidies make his preferences look more like those of the common Cuban citizen and his interests more encompassing than ever. Ironically, Castro, forced to adjust the Cuban economy, must ultimately restrict his behavior and adopt what Kornai (1980) referred to as a hard budget constraint.

<sup>11</sup> A Coasian negotiation (named after Ronald Coase, winner of the economy Nobel Prize and creator of this concept) is one in which two parties in a potential situation of conflict reach an agreement by means of a payment or concession from one party to the other so that the benefit for the payer becomes higher than the cost of the transaction itself. For example, it might be beneficial for a farmer whose crops are being destroyed by his neighbor's cows to pay the latter in order to keep the cows away from his land.

<sup>12</sup> Some believe this power may be the United States Armed Forces. Aside from the fact that such a scenario is highly undesirable, I believe its likelihood is rather remote, unless bloody anarchy explodes in Cuba and no internal authority is able to control the situation.

<sup>13</sup> It is said that a state which distributes resources among different agents reaches optimum Paretian balance (by Wilfredo Pareto) when none of the agents can improve its situation without the deterioration of at least one of the others. This concept can be extended to a transaction of political positions or behaviors. In other words, one presumes that the objective of any transaction, which may involve a transfer of goods or behaviors, is that each party improve its situation as a result of the negotiation, even if the outcome is not entirely satisfactory for both parties.

<sup>14</sup> The intransigents can emerge for many different reasons; first, they do not see the benefits of a negotiation, in other words, they are shortsighted, or because the transaction costs are too high compared to the benefits.