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THE MEANING OF DOLLARIZATION IN CUBA

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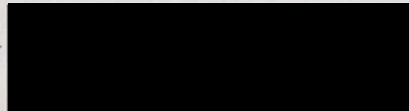
*Notes for distribution at the meeting of the
ASSOCIATION FOR THE STUDY OF THE CUBAN ECONOMY (ASCE)*

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FLORIDA INTERNATIONAL UNIVERSITY

August 12-14, 1993

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THE MEANING OF DOLLARIZATION IN CUBA

Castro's speech on July 26, 1993 is a most clear expression of the failure of his regime. Dollarization of the Cuban economy is an act of desperation. Castro is trying to salvage his political power by jettisoning the irrevocable ideological stance on socialism he announced after its collapse in the Soviet Union. Will he succeed as in the past? Perhaps not this time. Because, in doing so, Castro has betrayed his loyal followers inside the island and made his enemies, the so-called "worms," the privileged class of Cuba.

Castro blamed the present predicament on the already worn out theory of the two blockades, one the United States embargo and the other the collapse of Soviet economic support. However, nowhere in his speech is there an acknowledgment that, had it not been for his stubborn hostility against the United States, the so-called two blockades would have never occurred. Furthermore, he also fails to address the impact of wasted resources in an overblown military machine and the wasteful economic projects launched in response to his whims.

Economic impact

Lack of capacity to import has forced incredible austerity and adversities upon the Cuban people. Cuba was living way beyond its means thanks to Soviet support. This was not out of socialist solidarity, but in payment for Cuba's role as a surrogate for their imperialist adventures in Africa. In fact, in a popular opposition song the point was made that Cuba exchanged trucks of soldiers for onions and other food items. When the market for the soldiers of a mercenary state--which were used to expand the Soviet Empire--collapsed along with the Socialist dream, there were no buyers for this most strange export product in which Cuba had specialized under Castro.

In his speech, Castro reviewed briefly the excessive liquidity situation created by maintaining people on the Government payroll regardless of the country's productive capacity. He referred to the excess liquidity in the economy by saying that "circulating currency is three times more today than it was in 1970." He added that "in 1970 it was possible to reduce the excess currency in circulation in ways that are not easily accessible to us now."

So, the Cuban peso is becoming less and less able to provide access to goods for the average citizen. The excess liquidity led to an exchange rate of 60 pesos to 1 dollar in the black market against an artificial and unrealistic parity in the official market. The recent measures to allow Cubans with dollars to purchase goods in government stores for tourists and diplomats, no questions asked, fed further the peso devaluation process.

The regime's educated elite has been seeking jobs as bartenders and waiters because the tips received were equivalent to multiples of the salaries they could eke out of their professional jobs. Loyal military and party cadres have been given director positions in the so-called "private" enterprises being created. Party cadres are being converted into a bourgeoisie class totally dependent on Castro's will. Not to mention black markets operators and the growing hordes of prostitutes who have destroyed one of the myths most exploited by Castro's propaganda.

As dollars became more and more accessible to these individuals, black market operators were increasing their peso prices so their efforts could generate enough buying power to acquire goods available only in dollar stores. It was the old inflationary game of decreasing goods being chased by increasing amounts of pesos. Castro's action in legalizing the dollar is in fact undermining even more the use of the Cuban peso as a means of exchange. Farmers and other black market operators in goods and services, who up to now had to hide their peso and dollar holdings, are demanding payment in dollars openly, without fear of any official punishment.

The parallel actions aimed at the exile community to make it easier to travel to Cuba with unlimited amounts of dollars and to make emigrant remittances to their relatives aims to tap an immense source of dollars. In the case of El Salvador, the Salvadoran community in the U.S.--less numerous and wealthy than the Cuban exile community--provided more than US\$800 million in remittances last year to their families back home. The "worms" could be worth more than one billion dollars in remittances to Cuba today. This could be the make or break difference in the balance of payments to avoid economic collapse.

However, adding dollarization to the opening to foreign investors and the expansion of the tourist trade--a move he resisted for decades--will force Castro to make additional systemic concessions. In the end, price levels will be determined more by the dollar relation to the peso than by government fiat. Efforts to shelter people on fixed incomes, and particularly party and repressive apparatus cadres on whom he depends to perpetuate his dictatorship, will lead to the equivalent of multiple exchange rates. And experience shows multiple exchange rates do not work in the long run, creating a framework for distortions in economic decisions and widespread corruption. Under such a situation, corruption is likely to erode whatever is left of revolutionary morality.

Therefore, the pressure for a full opening of the Cuban economy into a market system will continue haunting Castro and his associates. But the most threatening unintended consequence of dollarization lies in the political realm.

Political impact

What Castro has done is to abandon his illusory pretense that he was going to articulate a new model for socialism unique to Cuba, thus ignoring the monumental failure of state interventionist models not only in the Soviet Bloc but also in social democracies and Latin America. What has succeeded worldwide is letting individual decision-making rule the economy. The market economy has won in Cuba as it did in the broader Cold War contest.

Cubans with access to dollars are now free to use that money in any way they choose. In doing so, they will set the pattern for the behavior of other Cubans who will also try to get hold of whatever dollars they can by undertaking productive, marketing or service activities on their own initiative. The political corollary of such a situation is loss of political control by the regime.

Contrary to the basic assumption of the Torricelli Bill, history reveals that hungry people seldom rebel. Hunger makes them docile and easier to control by those who have the power to allocate the scarce goods available. It is this political power that Castro will find is diluted as a consequence of dollarization. The political behavior of people who have access to dollars in the market or from their relatives overseas will be less submissive than of those who depended on the regime for all their needs.

But dollarization has an even more threatening political implication for Castro. It is a basic characteristic of societies that the repressive capacity of the state is usually in the hands of people who somehow enjoy a privileged status within that society. This may be through the institution of private property in capitalist regimes or through the benefits associated with party status in the communist regimes. The fact is that in all political systems the privileged classes depend on the loyalty--usually through the sharing of privileges--of the political and repressive subsystems of that society to preserve the status-quo.

And Cuba is no exception. The Cuban people express their contempt for the regime leadership by using the terms "mayimbe" and "pinchos" to refer to those they perceive as the new rich. In itself, this is a language reflection on the failure of Castro to abolish the notion of social classes among the Cuban population.

But, what will dollarization do to the "mayimbes" and "pinchos" living on fixed peso incomes whose purchasing power will decline in a market ruled by the dollar? Those who believed in Castro's ideological thrust, and continue to do so, will turn sour on him. Those who were merely pretending to have an ideological commitment to socialism will try to use their government positions to obtain access to dollars, through extortion, bribery, or getting into one of the "private" companies. It looks like the regime will end in a Cuban "piñata."

The political consequences of the new attitudes that will develop among Castro's followers will result in an increasing inability to resort to repression to prevent anti-state activities. This at a time when the behavior of those opposed to Castro is likely to become more defiant as their livelihood becomes freer from state control. It is in such periods that revolutions have taken place in the past. Any effort to retract dollarization, as he did with the so-called "rectification of errors" of 1986, is likely to meet significant resistance.

In this respect, the present mood of Cubans is reflected in one of the most important incidents that has occurred in the last decade: the Cojimar riot. There, the local population reacted by throwing stones to the police and overturning two police cars when several people who were trying to get relatives out of the country in a motorboat were machinegunned by the coastal patrol. It was not because of lack of food that people rebelled. It was because of the arbitrary use of force to punish an action people accept as legitimate in view of the present situation of the country. And, even more significant, the police did not open fire! The will to repress is becoming hesitant. And revolutionary history reveals that hesitant repression leads to more rebellion.

External impact

One ironic consequence of dollarization is that it will seriously weaken the influence of the Cuban extreme right over the exile community. Faced with the opportunity of doing something to help their relatives in Cuba in a tangible and effective way, most of them will not support the present U.S. policy expressed in the Torricelli Bill. The influence of the Cuban right over the exile community, which the Clinton Administration has been cultivating since the 1992 Presidential Campaign, will evaporate.

In fact, it is already weakening in many respects and will be subject to its most conflictive test when the extreme right tries to press the Clinton Administration to enforce the Torricelli Bill on those individuals within the exile community who put their families ahead of the struggle against Castro. This opens an excellent opportunity for Castro to move those in the U.S. he can control, and is already mobilizing very effectively, to erode support for the embargo against Cuba.

Even if formal rejection of the Torricelli Bill is not attained, evasion is going to be very significant. In today's electronic international financial markets, how can the Treasury prevent a Cuban exile from sending thousand of dollars to Canada to be transferred to a relative in Cuba or be given to him in Jamaica, Mexico or any other transit point before going into Cuba? Is the Administration ready to prosecute Cuban-Americans for trying to help their mothers or other relatives avoid starvation or other hardships? Unrealistic laws that ignore powerful motivations of those for whom they are intended do nothing but encourage their violation or avoidance. And in this case family bonds are very strong in the Cuban community and the humanitarian tradition of the U.S. will be on their side.

We have already seen the Administration take a more realistic stance than it had taken before in the sharing of telephone revenues. Other issues may emerge. In a move to tighten the embargo last year, the Bush Administration reduced to \$300 per quarter the amount that could be sent to relatives. This at a time when the needs of those left in Cuba were increasing due to the collapse of other sources of supply. Eventually, the Administration will have to yield to reality and increase the amount of money people can send their relatives. It may also be forced to increase the amount allowed for expenses when travelling to Cuba. The present level of \$100 per day is too low and will do nothing but encourage defiance of the law. On the other hand, pressure may have to be exerted on Castro to reduce the extortionary freight rates charged for package deliveries, at present ranging from US\$10 to US\$28 per pound. The US should condition any liberalization of the rules for remittances and packages to increased competition from US package shipping companies such as DHL and Federal Express, which will require an exception to the embargo.

In conclusion, without discarding completely the possibility it may result in his survival, Castro's frantic move to save himself may well be the beginning of the end for his regime. At the same time, it may also be the beginning of the end for the right wing leadership that has dominated exile politics and U.S. policy for three decades. Since over the years both groups have needed each other to exist and maintain their respective political clienteles, their simultaneous demise may be to the good. Perhaps, the present dilemma faced by the Cuban people in which Castro's cry of "Socialism or Death!" is met by the Cuban American Foundation's cry of "Freedom through Starvation!"--embodied in the Torricelli legislation--will give way to less apocalyptic outcomes.

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