

Ileana Díaz: Why can't the Cuban business system work?



The portal [Joven Cuba](#) is currently publishing a series of articles titled “[Urgent proposals for the Cuban economy](#)” with guest contributions from renowned Cuban economists both on the island and abroad. Cuba heute is publishing a selection of these contributions in English translation, which are subject to a Creative Commons license. [Today's guest author Dr. Ileana Díaz](#) has been a lecturer at the Faculty of Economics at the University of Havana (UH) for more than 30 years and advises the government on the [reform of the state-owned enterprise system](#). She has published in journals and books that have been honored three times by the Cuban Academy of Sciences. She is chair of the University of Havana's Founders Network and is associated with the Center for the Study of the Cuban Economy (CEEC).

For many years, the business sector was dominated by the state, as there were only a few thousand agricultural cooperatives and a few hundred joint ventures. There was a presence of the private sector in agriculture, some in transportation, and since 1979 the opening up of self-employment began, with the greatest growth being achieved from 2010 onwards.

However, today the panorama is expanding and there is a business system made up of: 2,573 state-owned enterprises (state-owned, subsidiaries, MSMEs, 100% Cuban companies), 5,133 cooperatives, 8,696 private MSMEs (although more than 11,000 have been approved) and 103 joint ventures. These numbers do not count the more than 500,000 self-employed workers, some of whom are family businesses or employ up to three workers, although they have no legal status as companies.

Does this system even work as such? A system is a set of interrelated elements for the achievement of an objective, within which processes are generated that take into account all the inputs to achieve results. The system operates in an environment where there are both facilitating and disabling forces.

If the system is made up of all the related actors, they should interact to achieve the objective of satisfying the needs of the population. To do this, they must take into account existing regulations and, of course, the inputs, labor force, and capital necessary for production.

But what are these regulations in Cuba? They are all those that come together in the predominant economic model, which regulates the actions of the business system and its links, and which is characterized by:

- 1) A centralized, discretionary, and administrative resource allocation model.
- 2) Inefficiency and inexistence of foreign exchange and input markets.
- 3) Distorted pricing mechanism. No pricing system. Rigid, inflexible administered prices (exchange rate, interest rate, salaries, fuel and water inputs, etc.).
- 4) Soft financial restrictions involving unjustified subsidies and grants.
- 5) Limited competition between all actors. Existence of monopolies.
- 6) High barriers to entry for new companies (especially state-owned companies and non-state-owned companies are prohibited from certain activities).
- 7) State-owned companies are subject to many organizations that act as owners.
- 8) State-owned enterprises do not go bankrupt.

Such regulations establish rules of the game that are designed for state-owned enterprises, but they are the predominant ones, those managed by the state, and every day the regulations established for non-state-owned enterprises encapsulate them in restricted administered market conditions.

It follows, then, that there are two spaces, the administered and the market, which generates responses of the following order:

- Limited supply from state-owned companies, which do not offer real competition to non-state-owned companies; it is the state that preserves them, restricting private companies
- No access to markets by state-owned companies (the most important ones are assigned). Non-state-owned companies have access to the informal currency market (there is no official one) and to the input market.
- Prices in state-owned enterprises that do not reflect economic reality. Prices of supply and demand by non-state-owned enterprises.
- Wages stagnant in state-owned enterprises and high in non-state-owned enterprises.
- State-owned enterprises do not go bankrupt and non-state-owned enterprises can go bankrupt.
- The state-owned enterprise has no real autonomy, unlike the non-state-owned enterprise.
- The non-state actors, be they cooperatives, micro and small enterprises or temporary employment agencies, are very clear about who is in charge.

What are the consequences?

Strong limitations for virtuous and sustainable linkages between both forms of property, that is to say, the logical interrelations of a system are no longer achieved since there are no clear rules of the game for them and the model fractures them into “watertight” compartments, which hinders their links.

Result?

There is no public satisfaction, nor is there economic growth. State-owned enterprises are inefficient and non-state-owned enterprises, although apparently they perform better, are limited by the model that favors state-owned enterprises and by the specific regulations for non-state-owned enterprises.

Proposal

Any policy proposal for the business system involves a change in the economic operating model.

Encouragement and promotion of companies of all forms of ownership and above all private companies (lowering barriers to entry).

What role should the different actors play?

To achieve this, the model described must be modified, otherwise it will be much more expensive than necessary and will be detrimental to the budget and ultimately to the population.

A process must be designed, approved and regulated at the highest level, which, through the classification of state-owned enterprises, will enable a shift from a centralized mechanism for the allocation of resources to one where the market allocates (regulated by the state through incentives).

Recompose the pricing system, from one that is administered to one that reflects economic reality and allows the government to define incentives according to the desired pattern of economic insertion. (Today the state of state-owned enterprises is unknown, how many are really making a loss?)

State-owned enterprises must have autonomy to decide on structure, number of workers, salaries, inputs, suppliers, customers, investments, etc. These are business decisions. The company must be managed as such, taking risks evaluated by the owner, who should be concentrated in one institution and not dispersed in many bodies.

State-owned enterprises must be able to die and be born, the latter in a more natural way. With due protection for the workers.

A strong and competitive state-owned enterprise pushes the non-state-owned enterprise towards growth.

Other important changes to the model: competition between all actors, elimination of soft financial restrictions and the possibility of bankruptcy.

In addition:

- Restructuring of the tax regime for the entire Cuban business system (all actors).
- Diversification and modernization of the financial system for all actors.
- Development of an entrepreneurial ecosystem for all actors.
- Possible joint ventures with the most diverse forms of ownership and capital.
- Move towards a legal regime valid for all actors.
- Necessary establishment of competition and consumer protection rules.

An institution should be established to represent the people and act as owner, ending the subordination of companies to the branch ministries. ([Cubaheute](#))