

# DISCUSSION PAPER

CUBA QUIZAS

by

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No. 45

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Summary

Cuba is the scene of a great social "experiment". Inequalities in consumption have been drastically reduced and a heavy emphasis has been put on real incentives. Dire poverty was soon eliminated, but in the decade 1961 to 1971 growth of output of necessities was slow, suggesting that financial incentives were needed. However the experiment was in a sense spoiled by two extraneous developments, the abandonment of both national financial balance and accounting in production units. These are being restored, with some apparent results in increased production. The years to come will throw more light on the relation between equality and growth.

This is a country study from the IDS-IBRD volume on the reformulation of planning models.

## C U B A   Q U I Z A S

(By Dudley Seers <sup>1)</sup>)

### The key issues

1. In Cuba, the development strategy has put heavy emphasis on the elimination of poverty, through a sharp reduction in inequality. The equality in Cuba is now probably unique. It is a case, therefore, highly pertinent to the issues of this report: if one could set up an experiment in the social sciences, it might well look like Cuba.
2. Economic data on Cuba are scarce and it is impossible here to deal at all fully with the results of the revolution. But it seems broadly that, although there was a spurt forward in many productive sectors immediately after the revolution, the national income rose only about in line with population from 1961 to 1968, <sup>2)</sup> and then declined in the following three years. <sup>3)</sup> The main issue therefore appears to be whether redistribution has inhibited growth.
3. But this is misleading. Before trying to explain what has occurred, I would like to point out that to discuss the

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- 1) I would like to acknowledge the valuable research assistance of Richard Stanton.
  - 2) See President D'articos in Economia y Desarrollo, No. 12, p. 34. It is not clear whether adjustment had been made for price changes, but the most favourable assumption is that he was using a fixed-price comparison. Since wages and prices were frozen for much of this period, it would not matter greatly. However since the Marxist definition of income was presumably used, the actual rise was somewhat higher; this definition excludes the social services, precisely the most dynamic sector.
  - 3) Ibid. No. 13 gives figures (p. 194) from which one can infer this.

"trade off" in these terms is in my view, theoretically mistaken, when elimination of poverty is the central objective. Then the important question to pose about a country's performance is not: how much did the nation's income grow? But rather, whose income grew? And what sort of production increased? Increases in the income of the top 20% have no direct impact on absolute poverty - and they aggravate relative poverty (i.e. inequality). Besides if the object is to change the existing distribution of income this implies the inappropriateness of prices produced by this distribution and used in estimates of growth.<sup>1)</sup>

4. It is often argued that however narrowly the benefits of growth are concentrated, poverty can be cured one day in the future, by redistributing the national product after it has increased. The political assumptions of this argument are questionable, because growth makes those who benefit from it more powerful. But in any case, the conclusion does not necessarily follow even in purely economic terms. Because of the specificity of assets, it depends on what types of production increased - one cannot cure poverty by redistributing cosmetics or casino tickets.<sup>2)</sup>

5. In the case of Cuba, there is indeed a question about the consistency of objectives, but it cannot be posed in such naive terms. The movement of an aggregate has particularly little meaning when far-reaching changes take place in the structure of production and income, including the emigration

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1) There are additional problems of measuring, or even defining, the national income in countries with large rural populations.

2) It could be argued that casinos, if not croupiers, can be converted to productive use - but this is expensive.

of a large fraction of those who were formerly. The question which is raised is the slowness in improving the lot of the poor. In the first few years after the revolution, dire poverty and unemployment were virtually eliminated.<sup>1)</sup> But further progress in the production of necessities, especially food, or of goods which could be exported, was slow. Sugar output in the 1970s (except special effort which produced 8½-million tons in 1969-70) has not exceeded typical pre-revolutionary levels; from 1962 to 1968-9 non-sugar agricultural output fell by 18%<sup>2)</sup> and supplies of consumer goods including necessities, such as food, grew tighter.<sup>3)</sup> Progress in rehousing those in slum or overcrowded dwellings was slow. It is true that teaching and medical services, which are essential to the elimination of poverty, expanded rapidly. But the infant mortality rate obstinately remained around 40 per 1,000<sup>4)</sup>.

6. The key question is not whether the redistribution and

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- 1) A comparison of nutritional surveys in 1967 with those made a decade earlier showed "a definite improvement" in the state of nutrition. "Health, Health Service and Health Planning in Cuba", Vicente Navarro, Associate Professor at Johns Hopkins, in International Journal of Health Services, Aug. 1972. p. 406.
- 2) Economia y Desarrollo, No. 17, 1972, p. 160.
- 3) In 1969 there was an important increase from ½-litre to 1-litre a day in the milk ration for children under 7 and other special categories (Navarro, loc. cit), but this may not have been fully reflected in actual consumption.
- 4) In fact this rate had been 35 in 1953. It is possible to ascribe the rise to 38 in 1966 to improvements in statistical collection (The JUCEPLAN statistical department estimates that the correct figure should have been 39 in both years - Resumen de Estadísticas de Poblacion No. 3 Dec. 1967). Comparable data for subsequent years are not available, but partial information from consumer registration sources suggests a deterioration up to 1969 followed by an improvement in 1970 & 1971 (UN Demographic Yearbook 1971, Table 28).

the associated use of moral rather than material incentives caused the per capita incomes to rise little if at all between 1958 to 1971, but whether they contributed to the failure to make further substantial incursions into poverty after 1961.

### The pre-revolutionary situation

7. It is necessary to see this issue in historical perspective. In the 1950s, Cuba was beset by serious social problems. Open unemployment was some 16% in 1956-7,<sup>1)</sup> poverty was widespread, with a large fraction of the population illiterate and undernourished (especially those in large rural families).<sup>2)</sup> This was not, however, due to inadequate national income, which at about \$500 a head<sup>3)</sup> was quite high enough to make acute poverty unnecessary.

8. The distribution of this income was however highly concentrated, and so was access to medical and educational facilities. Although no coefficient of concentration can be estimated, Cuba must have been among those countries in which it was "relatively high" (i.e.  $> 0.5$ ) (See Chapter 1). At its roots lay a highly concentrated distribution of property, especially of land, 9% of the landowners holding 73% of the land.<sup>4)</sup> Many factories and much land belonged to foreign

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1) "Symposium de recursos naturales", Consejo Nacional de Economia, Feb. 1958.

2) The sample surveys of rural workers carried out by the Catholic University Group (ACU) demonstrates this. For example less than 10% of homes had running water.

3) Harry Oshima in Food Research Institute Studies, Nov. 1961, p. 214. The equivalent figure would be around \$1000 a head in today's prices.

4) Estimates by INRA before the land reform.

companies. Contrasts between incomes, housing, health, educational levels, in Havana and the rural areas were particularly marked.

9. There seemed little prospect of the chronic poverty being alleviated. Up to the 1920s, the Cuban economy had advanced rapidly, with sugar output reaching 5 million tons in the mid-1920s, though developing severe inequalities in the process. But in the following 3 decades progress was slow. Increased sugar output was restrained by quotas and industrialisation by the Reciprocal Trade Agreement (1934) with United States.<sup>1)</sup> Apart from tourism (the benefits of which largely accrued either to foreigners or to groups and areas already rich) there was little dynamic in the economy, which had considerable surplus capacity in capital as well as labour. A succession of dictatorships notorious for their inefficiency and corruption<sup>2)</sup> repressed the political forces that favoured the redistribution of income.

Steps after the revolution to redistribute income.

10. Most of the implements of redistribution were used:-

(a) Assets were redistributed. Tenants of smallholdings and houses became their owners.<sup>3)</sup> In addition, nationalisation, which starting with foreign-owned companies and landholdings, spread to all productive assets. There was no compensation for United States asset-holders, and though most local property-owners were paid annuities, these involved a degree of expropriation. Much property (especially housing) was abandoned by emigrants.

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- 1) The pre-revolutionary period is analysed in "Cuba: The economic and social revolution" (Ed. Dudley Seers, U. of N. Carolina Press 1964).
  - 2) "Report on Cuba" (Johns Hopkins, 1951) by an IBRD mission was particularly scathing, describing the Ministry of Education as "a principal focus of political patronage and graft...a cave of entrenched bandits and of gunmen and an asylum of professional highway robbers" (p.425). These unusually strong words, for a report published under the Bank's auspices, speak for the international reputation of Cuba in that period.
  - 3) After the second stage of the agrarian reform in 1963, 24% of land remained in private hands. (Economia y Desarrollo, No. 17, 1972, p. 148)

(b) Public investment and consumption were concentrated on the poor, especially health and educational services. Particular attention was paid to the reduction of illiteracy, and there was a very big increase in adult education at all levels, including technical training. The expansion of public expenditure made big inroads into unemployment, and by being concentrated in rural areas it helped reduce the urban-rural imbalance.

(c) Income was redistributed in the following ways:-

(i) Wages were increased, especially at lower levels, the effective minimum becoming by 1971 nearly 100 pesos a month, for both agriculture and industry. Pensions were made universal and raised to levels near or at the corresponding wage levels. At the other end of the scale, salary rates for managerial jobs were reduced, few being left above 300 pesos, so that a span of about 3:1 covered the great majority of wage and salary rates.<sup>1)</sup>

(ii) Piece rates and other incentive payments were abolished, and claims for overtime discouraged.<sup>2)</sup> Stress was laid, especially in education, on moral incentives, made concrete in medals, titles, etc., to take the place of financial acquisitiveness.

(iii) Charges for medical attention, schooling and some other services, (e.g. school meals, entrance to sporting events, local telephone calls) were eliminated, as were loan obligations of smallholders. Basic food-stuffs were put on ration and their prices were kept low, and so were the prices of other necessities such as bus journeys. Consequently the range of real incomes became even less than that of money incomes.

11. The government was strong enough after the revolution to put the redistributive measures into effect. The political power of not merely the poor rural areas, where the revolution originated, but also many urban dwellers had been mobilised. The military and police forces, which had been an integral part of the former

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1) An official currently in a senior post was allowed a personal supplement to maintain his income level.

2) However, workers in establishments with good records of attendance and voluntary work were allowed higher pensions when they retired.



régime, and might have attempted to overthrow the new one, were disbanded and replaced, and many of the rich started to emigrate.

#### Causes of production problems

12. The measures outlined in paragraph 10 had an impact on poverty.<sup>1)</sup> Why was the improvement not sustained? Of course, at this stage, 15 years after the revolution, a thoroughgoing evaluation would be premature. Evaluations of the social progress of the Soviet or Chinese revolutions after only 15 years would have proved misleading. Nevertheless it is possible to indicate some elements in the explanation.

13. It might have been expected that the reduced concentration of income would lead to a fall in investment. However, this has not happened in Cuba. Investment has been almost completely under public control, and has been supported by heavy aid, especially from the Soviet Union. It has been more than 20% of the national income.

14. Part of the explanation of production difficulties lay in the international context. The loss of professional and skilled manpower through emigration to the United States aggravated production problems. So did the switch to Soviet and East European sources of supply for intermediate products and equipment, especially spare parts, as a result of a trade embargo, and the same sources of technical expertise. (Cuba was neglected by many aid agencies, even multilateral ones). Moreover, part of the country's resources were tied up in military preparations to deal with possible invasions, especially after the Bay of Pigs.

15. Yet by the early 1970s these problems had been eased. In many sectors, the loss of qualified personnel had been

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1) A 'poverty-weighted' national income would show a sharp rise in the first few years after the revolution, though perhaps an index giving all the weight to the bottom 40% would be more meaningful - at least in Cuba. Such an index would not allow, of course, for the rise in the welfare of the poor due to public services and price changes.

offset by the results of the big increase in education and training programmes; the conversion to COMECON sources of inputs had been very largely completed; and the threat of invasion had dwindled. Indeed the trade embargo and military intervention were in some respects economic assets. They provided an excuse for shortages; by stimulating nationalism, they also encouraged voluntary labour, which was extensively used to break production bottlenecks. The cutting of trade and other links with countries in the Western Hemisphere reduced the "demonstration effect" of standards of consumption which could not be afforded by the population as a whole, as well as the influence of technical assistance which would doubtless have been inappropriate for Cuba's development strategy.

16. A main cause of production problems has to be sought in economic management. The economy has lacked the central rationale of either a price system or an overall development plan,<sup>1)</sup> which was a contributory factor in policy mistakes (e.g. reversals of sugar policy). Moreover, financial balances were abandoned for both individual enterprises and the economy as a whole.

17. Managers of factories and farms ceased to keep accounts, or even to know their costs of production (the economy being in effect treated as one big enterprise without inter-departmental invoices). This not only caused inefficiency (including hoarding of labour): project evaluation also became practically impossible.

18. No attempt was made to match rises in wages, pensions, public services or investment (or reductions in prices) by measures to absorb the consequent increases of purchasing power, and the government has persistently rejected a currency reform (apart from a confiscation of large notes soon after the revolution). So cash in the hands of the

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1) There have, however, been medium-term physical plans for particular sectors, and annual plans for foreign exchange, labour use and key products.

public rose to very high levels: 1) retail inventories virtually disappeared (except for reading matter and pharmaceuticals); and long queues had become a familiar sight. There appears also to have been a considerable black market. 2)

19. The market imbalance had results somewhat inconsistent with social objectives. A family's consumption level came to depend partly on whether its members had between them the time and stamina needed for queuing, which penalised the elderly and those with children under school age, and partly on access to official transport, canteens, etc.

20. It also meant a vicious circle: queueing led to absenteeism and production difficulties, which in turn aggravated the shortages. Moreover, since many families could not spend the wages of their employed males, the government made little progress in its attempt to mobilise the female labour reserve of  $1\frac{1}{2}$  million. In addition the prevalence of absenteeism and black market operations impaired the appeal to moral incentives.

21. Cuban experience in the 1960s turns out, therefore, not to have been a proper test of an egalitarian policy - this does not necessarily entail the abandonment of financial controls, or complete abolition of material incentives. It is possible, however, that all these policies had their roots in the years of guerrilla warfare, when there was, of course, no need for accountancy or an appeal to material

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1) At the end of 1970, this reached about 3.3 billion pesos, or more than the total annual wage bill. (Dorticos loc cit).

2) Prime Minister's speech, 1 May, 1971. The highly specific nature of the rationing system encouraged ration-swapping, which is the starting point of a black market.

incentives.<sup>1)</sup>

The recent change in strategy

22. In 1970 this complex of problems grew worse, partly because of the diversion of labour to the attempted sugar crop of 10 million tons. A sweeping change of policy took place, designed to increase material incentives as well as to restore financial balance, both overall and for production units.<sup>2)</sup> Prices of 'non-essential' goods were raised sharply, those of restaurant meals being at least doubled and of rum trebled. New production norms were introduced. An "anti-loafing" law was passed. Television sets, refrigerators and even apartments started to be offered as prizes for good records of attendance and production; and it was decided to make cars available to technicians and union officials. Wage increases were linked to productivity. Some pension rates were lowered (for those yet to retire). Accounting was reintroduced and a standard system adopted in 1973. Government statements stressed the importance of saving materials and electricity.

23. A development plan for 1971 - 5 was also prepared. Although this focusses conventionally on a high growth rate (11%),<sup>3)</sup> it could be argued that aggregates have more significance now that income is distributed more equitably, poverty has been reduced and production is concentrated on necessities.

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- 1) Another contributory factor may have been the euphoria which followed the successful repulsion of the Bay of Pigs invasion.
  - 2) A recent policy statement by Fidel Castro admitted implicitly that the distribution of income had not been closely enough geared to productive contribution. (Speech to the 13th Congress of the CTC Granma 25th Nov.73) Before reaching communism, which implied distribution according to need, it was necessary to first apply "the inexorable law" of socialism, that each should be paid according to his labour.
  - 3) Economía y Desarrollo. No.13, 1972. p.194. The growth rate of agriculture, apart from sugar, is put at the very high rate of 16.4%.

24. It is far too early to see the impact of the new policies on equality, production or poverty. However, cash in the public's hands has fallen;<sup>1)</sup> absenteeism has declined; and the national income is reported to have risen by 9% in 1972, despite a poor sugar crop, and 13% (very provisionally) in 1973.<sup>2)</sup> The quantity of under-utilised capital and human resources in 1971 certainly permitted a surge forward in output, including foodstuffs. However the new policies may well cause some of what was previously disguised unemployment (because of the hoarding of labour) to emerge into the open. And the distribution of consumption is becoming rather less equal. So the growth in production may not mean a comparable rise in consumption at the lowest levels.

25. While interpretation of Cuban experience is complicated by the temporary abolition of financial controls, this experience suggests that very drastic redistribution, especially if it takes the form of abolishing material incentives, may interfere with the reduction of poverty (at least in a society which has been conditioned to expect personal rewards). Now that financial controls are being introduced, it will be easier to assess whether what is still a highly egalitarian society has the dynamic potential to complete the task of eliminating poverty.

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1) Castro. loc. cit. The reduction had been 1230-m. pesos in 2½ years.

2) Ibid.

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