

American Universities Field Staff



**REPORTS
SERVICE**

ASPECTS OF THE CUBAN ECONOMY

Part I: The Financing of Castro's Reforms

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Havana
August 1960

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When Dr. Fidel Castro took over in 1959 Cuba's postwar economic illness was so pronounced and had been so thoroughly researched that few disputed his diagnosis or his proposed treatment.

When I visited a competent economist in Havana, several months after Dr. Castro had replaced Fulgencio Batista, I found him ebulliently sanguine about the island's prospects.

Someone finally was applying to Cuba the economic measures he had for years been advocating, the economist told me.

"If all the surveys made during this decade in Cuba were laid end to end," he exclaimed, "they would bridge the Florida Straits. The learned recommendations of American Missions, Cuban economists, and official commissions would outnumber even Batista's bonds and stocks. No one read the reports, of course; the recommendations for economic reforms were filed under 'M' for mañana."

"Now," the economist said, "Dr. Castro has read them, and he is going to rid Cuba of her burden of the unemployed, the five hundred thousand men chronically without jobs who have pressed down upon this land for a quarter of a century, preventing mechanization of the sugar business, stifling innovations, paralyzing everyone who has a job."

[IPP-7-'60]

This enthusiasm for the program Castro had announced was notable in coming, not from a Cuban flushed with victory over Batista, but from a man in the upper echelon of the United States Foreign Service. Castro, he said, would show Cuba how to feed its own people, an easy task when properly approached. Castro was collecting taxes, had stopped corruption, would choke off the flight of capital, would stop the flood of luxury imports that the islands could ill afford. Before he was through, Castro would make the island the economic paradise it should be.

He, like many others who knew Cuba well, had been dismayed to see its economy faltering along year after year under its hopeless load of an unemployed or underemployed labor force, an oppressive overhead of machinery and trained manpower used for only a few months each year, and a deadening habitual dishonesty in both government and business.

Nearly a decade earlier, Mr. Francis Adams Truslow had brought to Cuba an economic and technical mission sponsored by the International Bank for Reconstruction and Development. He had found that:

" . . . the relatively static character of the Cuban economy is evidently not due to a lack of physical and human resources or--in recent years--of financial potential. It does not appear to be entirely due to the dominance of sugar

"Its causes must be sought among prevailing attitudes of the Cuban people and the conduct of their institutions. . . . A progressive outlook and effectively organized human effort are needed and, without them, an advancing economy cannot develop.

"It was apparent to the Mission that unconstructive attitudes, which appear to be common in Cuba, are among the chief obstacles to economic progress."

In 1959 my friend in the United States Embassy felt that Castro was doing for Cuba what had long needed doing. He was supplying a new progressive outlook; he was effectively organizing a full-scale human effort; he was supplying Cuba's first completely honest administration in half a century, he was revolutionizing the basic attitudes of the Cuban people and the conduct of their institutions.

A year later I called on the same economist-diplomat in Havana. I found him, harassed by the problems of deteriorating Cuban-United States relations, no longer excited by the promise of the Revolution.

"And how goes the Revolution?" I asked.

Remembering our conversation a year earlier, he managed a smile.

"After making a brilliant start," he said, "the track became a little muddy, the Revolution took a wrong turn and, I'm afraid, has bogged down."

He looked at some reports on his desk.

"And they switched jockeys in the middle of the race," he added.

After another six months had passed I had dinner in Havana with him. By then, Communist technicians from Europe were active in areas of Cuban life once dominated by North Americans. Soviet petroleum was flowing through American refineries. Government administrators and the National Institute for Agrarian Reform (INRA) were operating Cuban and former American enterprises of all kinds. Land had been nationalized.

"Was this," I asked, "what the economic doctors had ordered 'to make Cuba the paradise it ought to be?'"

"Well, in a way, something like this had to happen," the diplomat-economist declared. He talked at length about Castro's program. I am indebted to him for much of the following analysis of Cuba's economic revolution.

Without the base of material and human assets inherited from the long United States involvement in Cuba, Castro could not have started in 1959 to build a revolutionary economy. Without that base he could not have undertaken his tax-reform and rent-reform programs, the low-cost housing projects, the programs for new roads, schools, hospitals, and recreational centers with which he has won the gratitude and loyalty of many Cubans.¹

Castro started, in short, with a going economic machine, a thick cushion of supplies, a large pool of trained Cubans, and numerous lines of credit in the United States and Europe. All these were ready to be used by the Castro revolutionaries, and use them they did.

It took a long time for many United States and European sources of credit to reach the state of hopelessness in which they realized that new credit advances would not salvage those accounts already outstanding.² Along with the good, however, Castro inherited the chronic weaknesses that Cuban society had developed under American hegemony.

¹ A survey of the "Attitudes of the Cuban People Toward the Castro Regime" in April and early May 1960 by a Cuban research organization supervised by the Institute for International Social Research, Princeton, N.J., indicated that 80 per cent of the Cuban people in Havana and adjacent semiurban areas were satisfied with the situation in Castro Cuba at that time. The best aspects of the New Cuba, in the view of those interviewed, were these programs and governmental honesty. Even self-proclaimed counterrevolutionaries praised some of these achievements. The survey uncovered attitudes corresponding to those found by this writer in numerous interviews.

In the economic sphere these included the sugar industry's exceptionally heavy overhead of underutilized equipment and labor. The 161 mills work only a few months of each year. Annually there is a dead season extending through the summer, when the mills and related facilities serving the sugar industry--railways, highways, and ports--are either unused or grossly underused, and when the labor force of the industry is reduced to a tiny fraction, mainly retainers. During the long slack period sugar workers either take part-time jobs or scratch out an existence on credit and subsistence farming. Many just subsist and suffer.

The sugar industry also burdens Cuba's economy with the uncertainties that spring from reliance on one main export crop. If the demand and the price for sugar in the world is favorable, the Cuban economy looks pretty good. If the demand and price for sugar in the world goes down, the Cuban economy bogs down.

When the sugar industry is flourishing, it nourishes the Cuban economy, since it is the largest single source of tax revenue and its labor force is large. At the same time the numerous enterprises serving the sugar industry prosper to the further advantage of the entire economy.

Sugar and its by-products account for more than 80 per cent of all Cuba's exports. Exports in turn provide nearly 40 per cent of Cuba's national income. Thus almost all the activities of the island are meshed into its export economy.

Of a total national income just short of 2 billion pesos annually (prior to the Castro take-over) more than 650 million pesos came from the sugar industry.

Although in times of prosperity the sugar industry provided a better living for Cubans, the "good times" that resulted were decidedly relative. The 1951 report of the International Bank for Reconstruction and Development said: "The last important period of growth in the nation's capacity to

² The experience of one United States machinery manufacturer exporting to Cuba is typical. He was owed \$6,000 for a shipment made in 1959; the Cuban purchaser had made peso payment to his bank in Havana as soon as the machinery had been delivered. But the Castro Government refused to release the dollar exchange. When he received an order in 1960 from the Cuban firm for a new shipment worth \$6,000, the manufacturer told his agent he would extend the usual 90-day credit if he were paid for the 1959 sale. Even though the payment did not come through he made the second shipment, thus extending the credit to \$12,000.

From time to time the Cuban Government released dollars, thereby maintaining some confidence among scores of United States companies whose credit arrangements with Cuban customers had been excellent before 1959.

For a summary of United States-Cuban trade and its place in the foreign trade of Cuba, see Table I and Appendix I.

produce--and hence in the living standards of its people--seems to have come to an end some 25 years ago. There is chronic unemployment even in good times . . . and because Cuba's main product is extremely seasonal, a large part of her labor force and of her capital equipment is unemployed for much of each year The insecurities of the Cuban economy . . . encourage a 'master' vicious circle. Important economic groups . . . think primarily in defensive terms--to freeze the existing situations rather than to help to create a better one. They tend to preserve or create unnecessary work; to think first of the disturbing effects of an improved method or a new machine rather than of the long-run gains from greater productivity The accent is on preserving the status quo and on regulating the division of a fixed national product rather than on innovation to enlarge the total product."

A later study issued by the Banco Nacional de Cuba in 1956 indicated that the conditions described by the International Bank persisted. The study found that in the years from 1947 to 1954 the Cuban standard of living had failed to rise. Even during the 1951-52 boomlet occasioned by the conflict in Korea Cuba's gross national product increased only enough to permit a two percent rise in the standard of living over the 1947 level.

With the sugar industry determining the state of the entire economy, and in turn being controlled by foreign buyers and world market conditions, every Cuban Government has been at the mercy of uncontrollable forces. The wars of the 20th century, for instance, helped Cuba; the world depression of the 1930's brought near-starvation to millions of Cubans; a poor sugar harvest somewhere else in the world benefits Cuba; a good one hurts. An American tariff, a shift in Cuba's share of the American market, are reflected immediately in Cuba.

The solution, as everyone has observed for generations, is much greater diversity of production and less dependence on imported essentials. That is, without reducing sugar production, the Cubans needed to increase the production of other things both for export and domestic consumption. A primary need was for domestic production that would displace imports that were costly in foreign exchange.

It was on this problem that Castro focused a major part of his program during the first year or so of his regime, when Communist-bloc assistance was negligible.

Where could the Castro regime find the material and human resources for his vast economic and social program that included public works projects ranging from road building to school construction.

The answer is that, despite its deficiencies, the Cuban economy had expanded enormously in the years that it had been dominated by United States interests. Hardly a major source of material wealth exists in Cuba that

cannot be traced to a United States source for its initial capital and for the skills required in its development.

Before 1900 a population of 1.5 million Cubans was sustained by income from sugar, tobacco, cattle, coffee, a few mines, and many small farms. The economy, as it developed in the 20th century, eventually supported a population of some six millions. The resources which the Castro regime had at hand in 1959 included:

The world's largest industry for the production and export of sugar cane, with 161 operating mills, among them the world's largest, staffed with experts and employing skilled labor of ample supply.

A tobacco farming industry producing superior cigars for the world market.

An extensive livestock industry raising close to five million cattle, many of high quality, on modern, well-kept ranches.

A valuable mining industry and mineral potential.

Three substantial petroleum refineries and distribution systems.

One of the best communications systems in Latin America--highways, railways, and telephone, radio and television installations.

A developed electric power system.

Among the highest per-capita national incomes in Latin America with proportionately high ownership of automobiles, trucks, radios, television sets, etc.

A number of well-developed ports for overseas trade.

Modern factories for textiles, auto tires, shoes, beverages and other products.

An expanding system of modern hotels and restaurants for foreign tourists.

A highly developed banking system, including chains of United States and Canadian banks operated largely by Cubans.

A trained corps of Cuban technicians, distributors and maintenance personnel handling modern machinery installed in Cuba.

Established lines of credit tied to the export trade in sugar.

The line of credit listed as the last item above was used by the Castro Government to finance the imports it needed for its broad program of social improvement.

Although new credits from the Soviet-Red Chinese bloc were in the offing, they had not been implemented as recently as August 1960.

The fact is United States citizens and corporations by mid-1960 had extended credits to Cuba totaling almost twice the amount the Soviet Union had agreed to make available to Castro.

A Soviet credit of \$100,000,000 was extended at a time when United States interests were owed approximately \$180,000,000 for goods shipped and services rendered to Cuban customers after Castro took over. Dollar payment was blocked by the Castro Government, which in effect thus financed itself through forced loans from United States citizens and corporations. The amount included about \$60,000,000 due for petroleum imported into Cuba by two American and one British-Dutch refinery from their Venezuelan subsidiary producing companies.

While it held these sizeable amounts of foreign exchange, the Castro Government went on to expropriate the enterprises and land it needed to go ahead with a program looking toward socialism.³

Castro's initial success therefore was based on the capitalistic economy he inherited from its Cuban-American creators, with its backlog of credit, inventory, skills, and trade relations, all established in Cuba under American hegemony.

During the first year of the Castro regime there was no major change in the well-established pattern of Cuban-American trade except a managed reduction by the Cuban government of imports of specified American goods such as cigarettes, razor blades, expensive motor cars, and certain other "luxuries" in the electronic and gadget categories. At least partially balancing this reduction was an increase of imports in a few categories. Meanwhile Cuban exports to the United States continued. The United States bought and paid for in 1959 the usual amount of Cuban sugar at the usual bonus prices. Most other Cuban products which customarily find a market on the mainland moved there although in reduced volume. (See Table I on page 10 for Cuban foreign trade figures.)

Cuban foodstuffs continued to move to the United States, although most were marketed by the National Institute for Agrarian Reform (INRA), a Government agency, rather than by private interests. The INRA exports

³ The trend of the revolutionary program has made it evident that socialism is the goal of the ruling clique in Cuba and that it was approaching this goal in mid-1960 as rapidly as circumstances would permit. It is uncertain what proportion of the Cuban electorate approves the goal because Castro has not permitted the issue to be put to a vote.

had been harvested from intervened or expropriated lands, some of which belonged to United States citizens. Some of the produce marketed by INRA had actually been grown by the owners of land that had been acquired by INRA. From the point of view of dispossessed landowners, INRA was marketing stolen goods. The United States Government, however, did not interfere with such trade or with the transfer to the Banco Nacional de Cuba of the dollar proceeds. The value of sales by INRA from one seized finca alone in the 1959-60 season exceeded \$400,000.

Meanwhile, Cuba's new trade conquests were insignificant; no new credit sources were active; no international loans were sought or offered; no capital investments of importance were made in Cuba.

Clearly Castro's accomplishments during the first year of his rule depended on Cuba's already existing resources. His dollar income came from an established foreign trade, preponderantly North American, and from forced loans mainly from North Americans who weren't being paid for current sales and services. He effected savings of dollars by curtailing some kinds of United States imports (savings largely offset by new kinds of United States imports and offset also by the losses in income from tourism-- which in turn, however, was somewhat balanced by a curtailed Cuban tourism in the United States).

The so-called early triumphs of the revolution, therefore, could be labeled "Made in the U.S.A."

Conversely, if there actually had been "economic aggression" by the United States during the first year or so of the Revolution, Castro's program might have been less successful. An effective ban on United States credits and a drastic reduction of the 1959 sugar quota would have been a blow to Castro's methods of financing his reforms. Nevertheless, a major part of Castro's revolutionary program still could have been started. In effectively reorganizing Cuba's material and human resources Castro needed as much credit and as many trade dollars as he could get from the United States. But a more modest reorganization could have been accomplished with less credit and fewer dollars. And, deprived of American sources of income, he might have looked earlier to Soviet-bloc assistance.

Castro's program in 1959 and well into 1960 was to convert and consume the wealth he had found in Cuba. He was redistributing and dividing Cuba's national product rather than enlarging the total product. No important productive capacity was added.

The program brought grave dislocations within the economy and some telling mistakes and losses. There was some additional diversification of crops, with perhaps more rice grown than before, more hogs imported and less lard; but also there were crops spoiled and wasted, there

were cattle unnecessarily dispersed and poorly fed, there were instances where breeding stock was needlessly slaughtered. Some waste land was cleared; some cleared land was allowed to deteriorate.

On balance, perhaps, the losses outweighed the gains unless one were to insert in the Castro balance sheet the change in cultural attitudes coming with the Revolution and nurtured by it during its first stage. Among Cubans on the lowest rung of the economic ladder hope replaced apathy, courage took the place of fear. Cubans who had never expected to have an honest Government concerned with their humble lives were brought to their feet cheering, machetes flashing in the air.

But the fact is that it was a Cuban society largely developed under United States auspices, and sustained during its revolutionary conversion by American credits, that made the first stage of the Cuban Revolution economically possible.

The image shows two handwritten signatures in black ink. The signature on the left is a cursive name that appears to be 'Tony'. The signature on the right is a more elaborate cursive name that appears to be 'Glan'. Both signatures are written in a fluid, connected style.

APPENDIX I

TABLE I*

Cuban Foreign Trade, 1902-50 (Averages) and 1951-1959

[In millions of pesos]

Year	Total		Trade with United States (values)		Trade with United States (percentages)	
	Imports	Exports	Imports	Exports	Imports	Exports
Average for period:						
1902-10	86.5	102.1	40.9	86.2	47.3	84.4
1911-20	231.6	332.6	159.7	257.9	69.0	77.5
1921-30	250.1	316.3	161.2	250.4	64.5	79.2
1931-40	89.1	127.8	58.3	98.3	65.4	76.9
1941-45	181.1	316.2	147.1	268.9	81.2	85.0
1946-50	462.8	630.5	373.7	387.1	80.7	61.4
Annual:						
1951	640.2	766.1	493.3	418.5	77.1	54.6
1952	618.3	675.3	462.8	409.5	74.9	60.6
1953	489.7	640.3	371.1	393.6	75.8	61.5
1954	487.9	539.0	367.5	369.4	75.3	68.5
1955	575.1	594.2	363.8	409.7	73.4	68.9
1956	649.0	666.2	501.0	439.0	-	-
1957	772.0	807.6	590.0	478.0	-	-
1958 ¹	777.0	733.5	560.0	505.0	-	-
1959 ²	625.0	640.0	450.0	500.0	-	-
			?	?		

* Sources: Data for 1902-50—Ministerio de Hacienda, Dirección General de Estadística; 1951-59—Banco Nacional de Cuba and Ministerio de Hacienda.

¹ 1958—Figures issued by Castro officials but based on Batista records.

² Estimates based on Banco Nacional and United States Embassy reports. (Some doubt exists as to the accuracy of statistics issued by Castro officials.)