

American Universities Field Staff



**REPORTS
SERVICE**

ASPECTS OF THE CUBAN ECONOMY

Part V: Fidelista Finances

by Irving P. Pflaum

September 1960

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Cuban Government financing and accounting practices had been so intricate for decades before Dr. Fidel Castro Ruz seized power that it is not surprising to find conflicting opinions on how they have been affected by the Revolution.

"The Revolutionary Government has done a most remarkable job," a conservative American bank manager told me in Havana--recently but before the regime made its move to seize all banks. "Cubans still have faith in the peso. You may not believe it, but they are hoarding their currency. And the Government has held the line on prices pretty well. There's nothing like a runaway inflation here."

A few days later I interviewed Cuba's #1 practicing banker, a veteran of 40 years with one financial institution. "They're printing bank notes like mad," he told me. "A couple of hundred million new ones have come out this summer. The peso has been shot to hell. A lot of 25,000 just sold in Miami at 2.5 pesos to the dollar."¹

¹ The transaction mentioned was of Cuban peso bank notes illegally taken out of the country for sale abroad. There was a limited illegal market in Cuba and the price reported in the Florida press in July and August 1960 was 1.75 peso for \$1.00. The official exchange rate is one peso for \$1.00. The dollar was legal tender in Cuba until a decade ago.

[IPP-12-'60]

Somewhere between these views is the truth about Fidelista finances, but it isn't easy to find. The words "bewildering complexities" were used often by expert observers to describe Cuba's finances even before Castro appeared on the scene with his checkbook.

In pre-Castro Cuba, the Government presented two budgets a fictional one called "ordinary" and a somewhat less fictional one called "extraordinary." Moreover there were 242 extrabudgetary accounts which the Government supported or with which it was to some degree involved. Although no figures were published for many of these accounts, an official treasury estimate showed they contained from 52 million to 86 million pesos during each of the years 1949 to 1955.

The two "fictional" budgets were the result of Articles 52 and 53 of the Constitution of 1940, said to be a model document. (It has been suspended by Castro who has his own "basic law.") These articles provide that the budget of the Ministry of Education shall not be less than the "ordinary budget of any other ministry"; that the monthly salary of a primary-school teacher shall not be less than one-millionth of "the total ordinary budget"; and that the University of Havana, so long as it is unable to pay its own way, shall receive $2\frac{1}{4}$ per cent of the total ordinary budget after the payment of interest on Cuba's foreign debt.

The worthy motives inspiring Articles 52 and 53 in the Constitution Batista himself had proudly presented to the nation, made it impossible for him to ignore these provisions. Hence, the "ordinary" and "extraordinary" budgets. The Constitutional provisions were applied to the former and not to the latter, this being the only difference between the two budgets, aside from their size. The practice was established in Batista's only constitutional presidency (1940-44) and continued during the presidencies of Grau (1944-48) and Prio (1948-52), during the Batista Dictatorship (1952-58), and during Castro's regime in 1959, to some degree.

Even under the double-budget system the sums allocated to education were relatively high. The end result, however, fell short of the expectations of those who wrote the Constitution. What actually happened was the creation of educational sinecures, a development more pleasing to some teachers and professors than to the budgeteers and the students of Cuba.

Articles 52 and 53 of the Constitution of 1940 caused relatively minor bewilderment as compared to that occasioned by constitutional requirements relating to the financing of new government services and by the exclusion from the budget of expenditures for "developing the national wealth" under Article 255. All in all, one might conclude that the Constitution of 1940 was calculated to fill the mental hospitals of Cuba with certified public accountants.

A corrective of some kind was needed and in fact the Constitution made provision for one in authorizing a General Accounting Office (Tribunal de

Cuentas) which was established in 1950 under President Prio, a decade after the Constitution took effect. Cuba's GAO enjoyed relative immunity from political interference by Prio and Batista and seems to have curtailed corruption and exposed some fraud while earning respect for its efficiency and integrity. It disappeared as an effective organization under Castro, though it may be revived again after his Soviet advisers experience a few of the "complexities" of Cuban public finances, including Castro's habit of writing personal checks to initiate public projects.

The extrabudgetary accounts and special funds of Cuba, before Castro, exceeded in many years the total budgetary receipts. For example, a tax of 0.02 peso was (and is, I believe) levied on each package or container brought into Cuba, the money theoretically going into a civil service retirement fund; a tax of 0.15 to 1.50 peso is collected on each invoice based on its valuation, for a customhouse brokers' pension fund.

There were 52 such pension funds probably containing well over 80 million pesos. Government contributions in 1952-53 represented 11.8 per cent of the total receipts of the workers' pension funds; 50.5 per cent of Government employees' funds, and 53.7 per cent of the pension funds of Cuban professional men and women. The Government's contribution might be an outright subsidy, a transfer from another pension fund, a loan, a direct payment from a collecting agency (such as customs), a payment made by the courts out of fines, or a transfer of income from direct taxes (e.g., 2 per cent on barber supplies, .5 per cent on pharmaceuticals, and so forth).

Monies accumulated in the various pension funds, some enjoying preferential support from the Government, were invested, a total of around 20 million pesos being an authoritative estimate of the amount available per year in the 1950's.²

The pension funds of the electrical workers, the dental profession, and hotel and restaurant employees were invested fairly heavily in real estate; the last-named group financed the Havana Hilton (now Havana Libre) Hotel. Other funds were invested in Government bonds, usually in those issued in 1954 and 1955 (100 million pesos each issue) to pay for public works (such as the Havana harbor tunnel) under an Economic and Social Development Plan involving the expenditure of 350 million pesos between 1954 and 1958.

Contractors on projects under this plan were required to accept part payment, usually 75 per cent, in bonds which they sold at a discount after taking care of the kickbacks to the Batista regime. In that way many special bonds found their way into trust and pension funds influenced by Government officials.

²International Bank for Reconstruction and Development, Report on Cuba, page 496. A large number of persons had a vested interest in retaining the confused situation over pension funds and the unequal donations of the Government to them.

Table No. 1—Cuban Budgetary Revenues and Expenditures, 1940-48 and 1949-56*
[In thousands of pesos]

Year	Revenues	Expenditures ¹	Surplus or deficit
Calendar			
1940	78,146	79,347	-1,201
1941	80,165	77,678	2,487
1942	106,307	101,705	4,602
1943	125,315	112,229	13,086
1944	148,423	133,188	15,235
1945	158,018	145,146	12,872
1946	201,065	174,014	27,051
1947	277,248	199,386	77,862
1948	241,862	288,794	-46,932
Fiscal			
1949-50	229,628	228,614	1,014
1950-51	285,670	271,427	14,243
1951-52	326,799	325,211	1,588
1952-53	308,616	340,585	-31,969
1953-54	270,866	303,513	-32,647
1954-55 ²	311,415	311,415	(³)
1955-56 ²	312,900	312,900	-----

¹ Total of ordinary and extraordinary budgetary expenditures.
² Budgetary estimates of receipts and authorization of expenditures.
³ Actual deficit for 1954-55 fiscal year estimated at 26 million pesos.

Sources: 1940-48, International Bank for Reconstruction and Development, *Report on Cuba*, page 664; 1949-54, Comisión sobre Estimados y Rendimientos Fiscales, *Estadísticas Fiscales*, and 1954-56, Ministerio de Hacienda, Havana.

Table No. 2—Cuban Budgetary Expenditures, by Budgetary Classifications, by Functions, and by Types, 1953-54*

Expenditures	Millions of pesos	Percent of total
By budgetary classification		
Public debt	6.9	2.3
Legislature	3.3	1.1
Judiciary	11.6	3.8
Presidency	1.3	.4
Consultative Council	.6	.2
State, Ministry of	3.3	1.1
Justice, Ministry of	.9	.4
Government	19.5	6.4
Treasury	15.9	5.3
Public works	30.0	9.9
Agriculture	4.9	1.6
Commerce	2.1	.7
Labor	1.9	.6
Education	75.2	24.8
Health and welfare	22.7	7.5
Communications	11.9	3.9
Defense	58.1	19.2
Information	.6	.2
Pensions	29.5	9.7
University of Havana	2.7	.9
General Accounting Office ¹	.1	-----
Total	* 304.1	100.0
By function		
General government	73.0	24.0
National defense	55.0	18.1
Education and culture	52.2	17.2
Social welfare	38.5	12.7
Roads and transport	25.3	8.3
Security and justice	20.1	6.6
Public health	14.7	4.8
Posts and telegraphs	11.4	3.7
Public-debt service	7.6	2.5
Agriculture and resources	2.8	.9
Electoral agencies ²	2.3	.8
Industrial and commercial development	.6	.2
Housing and urban services	.6	.2
Total	304.1	100.0
By type		
Personnel payments	194.7	64.0
Purchase of materials, supplies, and services	32.2	10.6
Construction and repairs	19.9	6.6
State pensions	15.9	5.2
Special and emergency grants	12.0	3.9
Subsidies	11.6	3.8
Advances and loans to retirement funds	7.8	2.6
Interest on public debt	3.9	1.3
Retirement of public debt	3.7	1.2
Purchase of real estate	2.4	.8
Total	304.1	100.0

* Tables taken from *Investment in Cuba*, U. S. Department of Commerce, July 1956.

¹ This is only a small part of the expense of the General Accounting Office.
² Total includes 1.1 million pesos in adjustments.
³ Expenses in connection with 1953 Census of Population. This is a non-recurring item.

Sources: Expenditures by budgetary classification, Ministerio de Hacienda, Comisión sobre Estimados y Rendimientos Fiscales, Havana, 1955; expenditures by function and by type, Tribunal de Cuentas, Havana.

Early in 1955, Cuban banks were required to purchase Government bonds if they wanted to qualify for public checking accounts, as all the major banks did. Between the special funds and the banks, the Batista regime managed to market for cash the bonds it had issued for public projects. This in general was the situation when Castro took over.

* * * * *

Statistics are subject to various interpretations. For example, take the budgeted expenditures of the Batista dictatorship during the year Castro entered the Isle of Pines Prison after his conviction for armed rebellion in Santiago de Cuba. The year 1953-54 probably is typical of the Batista era; he had been dictator since 1952 and except for Castro's little episode at the Moncada Barracks on July 27, 1953, the nation was at peace.

After combining ordinary and extraordinary budget expenditures we find Batista allotting 75.2 million pesos to a budgetary classification called "education" and 58.1 million to a classification called "defense." "Education" does not include funds for the University of Havana which is given 2.7 million pesos. If we assume the university is educating its students, the Batista budget thus gives education 25.7 per cent and defense 19.2 per cent of the total expenditures. This is a proportionate emphasis on education that few if any other countries in the world can equal.

We can look at the same budget by functions. Now we find Batista allotting 52.2 million pesos to "education and culture" and 38.5 million pesos to "social welfare" or a total of 29.9 per cent of all expenditures compared to 55 million for "national defense" or 18.1 per cent. Another item called "security and justice" is down for 20.1 million or 6.6 per cent and if we assume half of this is for "security" and half for "justice" and that "security," or the National Police Force, is part of "national defense" we will get 21.4 per cent for defense against 29.9 per cent for education, culture, and social welfare (the latter including, no doubt, Government payments into pension funds, listed elsewhere at 29.5 million pesos).

Any government spending nearly 30 per cent of its total budget for education, culture, and social welfare and only about 20 per cent for national defense is a progressive government. In a land ruled by such a government the people should enjoy good public schools, fine libraries, adequate social security, and have no worries about militarism.

Cuba, in fact, had disgraceful public schools, virtually no public libraries, a most inadequate social security system, and many worries about militarism. The statistics are misleading.

Castro's budgets are not available for comparison but I doubt that national defense in his Cuba receives as little as 20 per cent of all his expenditures. And I wonder where, budgetarily speaking, he would put the millions

spent by the National Institute for Agrarian Reform [INRA] for fertilizers, tractors, housing, barns, hogs, feed, chickens and chicken coops, stores, warehouses, trucks, jeeps, station wagons, rice paddies, tomato plantings, expenses of delegations sent abroad, entertainment of delegations from abroad, and salaries of the agency's personnel.

Batista listed 64 per cent of all his expenditures as "personnel payments," and 10.6 per cent as payment for materials, supplies, and services. These items accounted for three-fourths of the whole budget. The other fourth went to construction and repairs, state pensions, special and emergency grants (12 million pesos or 3.9 per cent), subsidies (11.6 million pesos), advances and loans to retirement funds, interest on the public debt, retirement of the public debt, and the purchase of real estate (an activity stopped by Castro-- he just took the real estate).

Batista's budgets averaged 300 million pesos annually during his dictatorship (1952-58) with deficits running around 30 million pesos a year. His major public works projects were not included in the budgets but were financed with special bond issues. He left for Castro at least 550 million pesos in domestic bonded debt at four per cent interest or more. And about all Batista did leave was debt. He and his gang cleaned out the Treasury; the only funds untouched were on deposit in New York, or otherwise not immediately available to the fugitives. Cuba's gold and foreign currency reserves amounted to 535 million pesos in 1951, just before Batista seized the government, and 521.4 million pesos in 1955, but in 1959, when Castro took over, they were variously reported to be between 75 million and 50 million.

Still Batista's deficit financing was rather moderate. The total means of payment in Cuba--currency in the hands of the people and demand deposits in banks--rose from around 900 million pesos when Batista took over to nearly one billion toward the end of his regime. He started with a money stock (bank notes, *i.e.*, currency pesos) of about 380 million pesos and left about 450 million.³ Prices were rising during this period but not precipitately. Cuba had no reliable price indexes but wholesale prices on the island have paralleled those in the United States, except in the two World War periods, and except during Batista's last reign when there was a significant decline in Cuban wholesale and retail prices between 1952-56.

³ I have relied on Henry Christopher Wallich's Monetary Problems of an Export Economy, Harvard University Press, Cambridge, Mass., 1950, for historical data and on Stacy May's Economic Development in Cuba, IBEC Technical Services Corp., New York, 1948. Other sources are P.S. Stephens, Overseas Economic Surveys (the section on Cuba), Her Majesty's Stationery Office, London, 1954; Seguros, Banca, y Bolsa, Havana, May 1956; Revista del Banco Nacional de Cuba; U. S. Dept. of Commerce, Investment in Cuba, July 1956; and the Report on Cuba (1951) of the Truslow Mission of the International Bank for Reconstruction and Development.

The estimated deficit of Batista's last year, 1958, was 105.9 million pesos. The extraordinary size of this operating deficit was blamed on military expenditures in fighting Castro. Also in fiscal 1958, for the period July 1957 through June 1958, public works expenditures appeared for the first time on the operating budget, for a total of 48.8 million pesos for the first nine months (with about 20 million more for the last three months). Public works supported with special funds were not included, however. These are estimated to have cost 31.3 million in 1958.

* * * * *

Among the first facts to be noted about Fidelista public and private finances is the abrupt termination of Batista's device (bond issues) for paying for the "development of national wealth," i.e., for large-scale public works projects. Castro could not have sold Government bonds even if he had wanted to. There was no market for them after 1959. Yet Castro embarked immediately on a gigantic program of road building, public housing, postrebellion reconstruction of bridges, new beach and hotel development, international promotional and advertising campaigns, schools, camps for underprivileged children, "university cities," rural housing on intervened (seized) farms and ranches, new factories, a network of people's stores, extensive swamp drainage and new rice and vegetable cultivation, new "hog cities," national parks, swimming pools, slum clearance, and many other projects, including a laudable sanitation program.

Castro also gradually put his Government into all kinds of businesses, many requiring large subsidies to meet payrolls. And he took on the workers in enterprises threatened with bankruptcy or closed by their owners for a variety of reasons related to his revolutionary revisions of tax and rent laws. Many of these workers had to be employed in made-work paid for by the Government. Large sums had to be given to INRA co-operatives as "investments" though much of the money was used for current expenses, including swollen payrolls.

Castro also maintained substantial military and police forces and set out to organize a huge militia.

The costs of the Castro programs obviously are substantial but no outsiders, and perhaps few insiders, have access to the figures that would make an accurate analysis possible.

* * * * *

Although there were tax innovations under Castro, he in the main had to turn to the same sources of revenue as did Batista, Prio, and Grau. Castro in 1959-60 imposed a four per cent "voluntary" tax on all payrolls, an increased tax on alcoholic liquors (but consumption fell sharply); much higher

direct taxes, including taxes on income⁴ (but tax sources declined rapidly and taxpayers in higher brackets disappeared or their incomes dried up). He also set high taxes on certain exports, mainly minerals, but they yielded little revenue, since mining operations gradually ceased.

About half of Cuba's tax yield had come from import and consumption taxes. These sources probably continued to produce the same proportion of the yield for Castro, although revenue from import taxes dropped because of restrictions on trade and the limitations on peso-dollar exchange which eventually dried up imports from the United States.⁵

There are no authoritative statistics on the assets acquired by the Castro regime in 1959-60 through the efforts of the Department for the Recovery of Misappropriated Wealth, nor on the funds taken out of Cuba by Batista and his gang. Rufo Lopez Fresquet, who for all of 1959 and part of 1960 was Castro's treasury minister, told me he believed Batista "got away with about 350 million pesos." Another source made an estimate of \$163.4 million stolen in dollars alone.⁶ But whatever the Batista gang stole and took out of Cuba, it was gone and of no use to Castro. The assets available to him by seizure were the contents of safety deposit boxes, working sugar mills, rice plantations and mills, and cattle ranches and some income-producing chattels and urban realty. I was given an estimate by a Cuban cabinet minister (now out of the cabinet but still in Cuba) of "about 200 million pesos worth recovered in useful form."

If by "useful form" the minister meant that the Government acquired capital assets that would immediately produce income, his figure probably was inflated. Several personal experiences corroborate this estimate.

While I was pursuing my investigations of the National Institute for the Tourist Industry [INIT], that organization's delegate in Varadero, Mr. Abraham

⁴ Castro imposed a tax of 40 per cent on the profits of all business enterprises in Cuba with a surtax of 10 per cent on profits over 1 million pesos. There were rebates of 25 per cent to agricultural enterprises and to enterprises outside Havana but not to sugar enterprises. The personal income tax began at 3 per cent on incomes up to 4 thousand pesos and rose to 60 per cent on incomes over 500 thousand. Special sales taxes of 8 per cent and 10 per cent were levied on alcoholic drinks, including beer, and on a variety of household goods, some being taxed 15, 20, and 30 per cent (the last applied to automobiles too).

⁵ Fuel shipments, for example, from the United States (not petroleum) finally stopped until cash payments were made. One shipload in July was brought back to the United States from Havana harbor when the dollars were not forthcoming. The exporter said he was owed "many thousands of dollars" and wasn't prepared to risk more.

⁶ Huberman and Sweezy, in the July-August issue of the Monthly Review, a left-wing periodical published in New York.

Macigues y Macigues, suggested I might like to take a tour by yacht of Varadero peninsula. I and the señorita guide assigned to me soon found ourselves leaving the confiscated yacht club in a confiscated yacht, the property in Batista's time of a North American businessman. We had barely made the open and choppy sea on the first leg of our tour when both of the gasoline motors gave up. As we were hauled back by the Cuban Coast Guard, who had responded to a radio call, the girl guide informed me that she had yet to complete a trip on an INIT yacht. They all broke down.

In another place at another time I met a Cuban family whose home was about to be intervened as misappropriated wealth. The neighbors for blocks around had heard of the impending seizure and with the help of the homeowner they were stripping the place of every useful and movable thing. INIT later got that home but I wonder how useful it could have been. It would require a sizeable investment to make it livable again.

At still another place and another time I was offered a ride in a farm truck recently acquired by INRA as a piece of misappropriated wealth (along with the farm and farm house). We limped along for several miles until the truck gave up and was deserted by the driver. "Can't get spare parts," he explained. Was the truck a part of the 200 million pesos "in useful form"?

But in any case, Castro did acquire some liquid assets and they could have been used and largely consumed during the years 1959 and 1960. Whether 200 thousand or 200 million pesos worth (my guess would be about 40 million) they would lighten his financial burden somewhat.

Additionally, Castro's financial burden was made lighter by the absence of the payoffs, kickbacks, and inflated prices of the Batista era. A Cuban Government peso would buy more because less was stolen. I say "less" was stolen because it is likely that some of the building contracts signed by the National Institute of Savings and Housing [INAV] were inflated--to help compensate for INAV's notoriously slow payments and to help cover interest on the bank loans obtained by the contractor, if for no more sinister reason.

Of the approximately 550 million pesos received and spent annually by Batista during the last years of his regime, an estimated 20 to 25 per cent went into padded payrolls and graft.⁷ That would leave not more than 412.5 million a year for what might be called "legitimate government activities," including the major public works that were financed with bonds.

Add the actual cost of these public works and we reach 500 million pesos as an average annual cost-of-government-before-Castro, disregarding graft and padded payrolls.

⁷ Estimate made by an experienced banker who financed many projects in Batista's time.

An expert analysis of Castro's activities and published statistics in 1959 came up with the astounding total of 800 million pesos spent and owed for current transactions. The analyst admitted he couldn't be sure the total wasn't greater; he was being conservative, he said. For instance, how could he discover how much it cost to finance Prensa Latina, Castro's far-flung press agency which virtually gives away its services to subscribers in Latin America? How could he discover what it cost to send Cuban delegations to all parts of the world, mainly those under Communist control, or to entertain visiting delegations, or to stage conventions for tourist agents, to promote trips for newsmen, to operate newspapers and radio-TV stations and networks? "I wouldn't be surprised," he added, "if Castro spent for propaganda and promotion more than Batista stole."⁸

It is assumed, therefore, that in his first year of operating the Government of Cuba, Castro showed a deficit of at least 300 million pesos and that for the second year, one of near-total nationalization of the major means of production, the operating deficit will be considerably larger.

And how did Castro finance the deficits? He "borrowed" large sums from United States interests by refusing to honor bills for goods and services. As of August 1960 the total of these forced loans was about \$180 million. That leaves, if our estimates and assumptions are sound, a running deficit for 1959 of 120 million pesos. But Castro also "borrowed" internally; he didn't pay his Cuban creditors promptly or in full during 1959. No estimate could be found for these debts. Apparently the balance of the deficit, whatever the amount, was covered by printing currency, and to block a runaway inflation, the Cuban Government controlled many prices.

In 1960, external "loans" were hard to get. For example, the three foreign-owned refineries in Cuba in mid-1960 stopped bringing in petroleum on credit (they were owed some \$60 million at the time) and fuel and wheat shipments had to be met with cash on the barrelhead. Internal "loans" also became scarce: contractors were reluctant to take on new deals and many projects were left uncompleted. I saw scores of housing project dwellings without glass in the windows, without fixtures in kitchen and bathroom, without lighting fixtures. So in 1960, more currency was printed and a number of the more expensive projects were halted temporarily or slowed down, for lack of materials, lack of cash, or both.

⁸ This estimate and comment came from a British citizen whose task it is to assemble and assess all the available economic, financial data about Cuba. His name and title cannot be given as the information was told me in confidence with the understanding that only the nationality of the analyst, who seems a trustworthy and honorable person with wide experience in totalitarian finance, would be mentioned.

Nevertheless, prices were being held in line; the dollar-gold position was maintained (until the United States sugar quota was cut) and essential imports arrived and were paid for. There were delays but no crucial shortages.

* * * * *

In summary, it would seem that each of the two bankers quoted at the beginning of this report was right in his own way but that neither comment has meaning in a Cuba that has all but completely severed its economic ties with the West and seems unmindful of the economic implications of close association with the Communist bloc.

A handwritten signature in cursive script, appearing to read "Irving Pflaum". The signature is written in black ink on a white background.