

Economic Model and Business System in Cuba

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Cuba's business system consists of 2,644 state-owned enterprises (including subsidiaries, MIPYMES, and 100% Cuban-owned commercial companies), 5,121 cooperatives, 9,075 private MIPYMES (although more than 11,000 have been approved), and 103 joint ventures. Additionally, there are over 500,000 self-employed workers, some of whom operate as family businesses or employ up to three workers.

The Cuban economic model, which shapes the particularities of the business system, is characterized by the following:

1. Centralized allocation of resources in a discretionary and administrative manner.
2. Underdeveloped markets, including those for production factors and foreign exchange.
3. Distorted pricing mechanisms: administered and rigid prices with limited flexibility (exchange rates, interest rates, wages, fuel, water, etc.).
4. Soft financial constraints, leading to unjustified subsidies and grants.
5. Low levels of competition.
6. High entry barriers for new businesses, particularly state-owned enterprises, with certain activities prohibited for non-state companies.
7. State-owned enterprises (SOEs) are subject to supervision and control by multiple organizations.
8. State-owned enterprises do not go bankrupt.

This system affects state and non-state enterprises differently, resulting in the following outcomes:

- Limited supply from state-owned enterprises, which do not offer effective competition to non-state enterprises.
- Minimal participation by SOEs in markets, as they receive inputs and other resources through central allocations. Non-state enterprises rely on the informal foreign exchange market (since there is no official one) and the input market.
- Prices in SOEs do not reflect the economic reality, while non-state enterprises set prices based on supply and demand.
- Stagnant wages in SOEs compared to higher wages in non-state enterprises.
- SOEs do not go bankrupt, whereas non-state enterprises can fail.
- SOEs lack real autonomy, unlike their non-state counterparts.
- Significant limitations exist for creating sustainable and beneficial linkages between both types of ownership.

Proposed Reform for the Business System

The proposed reform has two main components: adjustments to microeconomic conditions and the roles of different actors, as well as the creation of institutions to manage state-owned enterprises.

Microeconomic adjustments and role of actors

A gradual transformation of the microeconomic environment is proposed, aligning it with the characteristics of each actor. The proposal introduces two types of businesses: commercial enterprises and monopolies.

- Commercial enterprises: These are producers of goods and services operating in competitive markets regardless of ownership. They should have the autonomy to manage financing, investments (both domestic and foreign), foreign trade activities, and make decisions regarding customers, suppliers, production volumes, business models, and resource management. This category includes both state-owned and non-state enterprises.

- Monopolies: These are producers of goods and services related to key means of production (public services, natural resource extraction). These are essential activities that impact both the population and the overall performance of the country's business system. These enterprises should have autonomy over economic management, cost reduction, investments not funded by the public sector, and supplier and customer management.

This classification allows for a gradual transition, which would involve:

- Differentiated regulation for companies (establishing specific policies or measures in areas such as finance, credit, taxation, and wages).
- A pricing system that reflects economic outcomes and helps define incentives.
- The creation of input, financial, and labor markets to reduce the reliance on administrative resource allocation.
- Operating under a strict fiscal regime.
- Developing indicative and strategic plans in line with the National Strategic and Social Development Plan.
- Granting real decision-making autonomy.
- Allowing businesses to go bankrupt if losses cannot be covered.
- Encouraging the creation of new enterprises and reducing the list of prohibited activities related to key means of production. The expansion of the non-state sector promotes competition based on quality over price, while also creating jobs for those affected by the restructuring of state-owned enterprises.
- Promoting competition.
- Encouraging innovative business management.
- Restructuring and downsizing the state business system (evaluating the transfer of companies to local jurisdictions, transforming or closing companies, and assessing whether the OSDE-Enterprise-UEB structure should remain across the entire system).

The gradual transition towards market creation will occur through a dual pricing mechanism.

Institution for State-Owned Enterprises

The reform calls for the establishment of a public entity directly representing the people as owners, subordinated to the Council of State and reporting periodically to the National Assembly. This would eliminate the multiplicity of bodies acting as owners.

Such an entity would allow ministries to focus on their regulatory functions, while the new organization would set guidelines for the state business sector, aligned with the country's strategic goals. Similar organizations exist in countries with public ownership, adopting various organizational models depending on the specific needs of each economy.

These changes require political will and a roadmap to guide the process, which should not be abrupt but gradual, yet urgent. Additionally, like any reform, it must have an integrative approach that includes other key components, such as macroeconomic factors, production incentives, and social considerations.

This text summarizes some of the author's key ideas on the topic. For a more comprehensive discussion, please refer to the recently published book: "Empresas Estatales cubanas. Situación y propuesta de transformación ". Editorial Ciencias Económicas. La Habana, 2024