

The Cuban economy: experiences and perspectives (1989-2010)

JOSÉ LUIS RODRÍGUEZ GARCÍA

ON AUGUST 29, 1990, the Cuban press published an article announcing that due to the reduction in the supply of various products - especially oil - coming from the Soviet Union, a special period of extraordinary measures should be implemented to address the impending crisis.

The fundamental reasons for the crisis lay in the demise of the European socialist countries - which had occurred rapidly since 1989 and culminated in the dissolution of the Soviet Union itself in December 1991 -, considering that the socialist countries supplied 85% of Cuban imports and 80% of investments and took around 80% of the country's exports (Alvarez, 2000; Rodríguez, 1999).

Cuba also had to face the intensification of the U.S. embargo since the approval of the Torricelli amendment in October 1992, which would be followed by the Helms-Burton Act (1996) and the program of the "Commission to Assist a Free Cuba" (2004).

The economic crisis was very deep. GDP fell nearly 35% between 1989 and 1993, the fiscal deficit reached 33% of GDP in 1993, and imports at current prices fell 75% in those four years. Despite government efforts, the living conditions of the population deteriorated dramatically. The intake of calories and proteins, for example, decreased by more than 30%, leading to the emergence of nutritional deficiency related diseases, such as optic neuritis and epidemic neuropathy in 1993 (Rodríguez, 1999, 2007, 2008).

At that critical moment, however, when many thought that the end of socialism in Cuba was inevitable and neoliberal adjustment measures were being imposed around the world, the country set out to defend the socialist model and make the necessary changes to adapt to the then prevailing conditions.

An economic emergency program was implemented from a strategy whose main goals were to persist and overcome the effects of the crisis at the lowest possible social cost, while creating the conditions to reintegrate the Cuban economy into the new internal and external conditions, relying, for that purpose, on the necessary political consensus.

To cope with the difficult situation at the beginning of the special period, between 1990 and 1992, a set of measures was put into practice.

The process of changing the economic paradigm would be characterized by the opening of considerable space to market mechanisms, without sacrificing the essence of socialism, with the aim to recover production and services.

Above all, it was essential to maintain power and do everything that was useful to the nation and the people, in a situation in which resistance was crucial to save the country's independence, making only the concessions necessary to achieve this vital goal.

In this context, amidst the transition to the neoliberal capitalism that was occurring in the former European socialist countries and in the former Soviet Union, the persistence of monetary and trade relations in socialism lay, once again, at the center of important debates, as had occurred over many years¹ (Carranza et al., 1995; Gonzalez, 1993; Alonso, 1992).

The correct interpretation of these phenomena, expressed in the contradictory relationship between market and planning under socialism, had a strategic importance for the survival of the revolutionary project in Cuba, while the market mechanism was rightly interpreted as essentially contrary to the construction of socialism, without denying the need to significantly expand its use in order to survive in a situation of crisis.²

At this point it is interesting to see what conditions were present in 1990 to address the special period.

In the first 30 years of the revolution, the country developed significant potential for material and human resources, the most important factor being the political awareness of the population, along with a deep concept of freedom and national sovereignty. From the point of view of the economy, between 1959 and 1989 GDP had grown at an annual rate of 4.4%, accompanied by a development of basic infrastructure that ensured a positive evolution of production and services, besides a significant improvement in all social indicators, including: rise in the schooling level of the population to 6.4 years; public health levels comparable to those of the most developed countries; eradication of chronic unemployment; highly equitable income distribution; and general improvement in the living standards of citizens (Rodriguez, 1989).

The sudden demise of the socialist countries and the Soviet Union led to an emergency situation which required changing the economic strategy, so as to ensure the survival of the revolution.³

Early in the first period it seemed that there would be a sudden drop in GDP, but that a relatively quick recovery was possible, associated with both the consolidation of various economic programs then in progress and the maintenance of a relatively stable system of international economic relations.

The situation became much worse in 1991, when GDP fell 10.7%, stocks declined, and finally the Soviet Union disappeared on December 25, giving place to a Community of Independent States, which almost immediately severed ties with Cuba.⁴ The possibility of a profound deterioration of the crisis was confirmed before the year ended.

Considering the danger of an economic collapse from the demise of the Soviet Union, in 1992 the Cuban government introduced a rapid restructuring of foreign trade. In turn, the establishment of associations with foreign capital was accelerated, in order to obtain financing, market or technology, on a case by case analysis.⁵

All these transformations demanded changing the Constitution of 1976, which was agreed in the summer of 1992. These changes led to the elimination of state monopoly on foreign trade, the recognition of mixed property⁶ and the introduction of direct election of representatives to the National Assembly, among the most important changes.⁷

Although urgent, these changes in foreign economic policy did not directly affect the population.

The debate over the domestic economic policy to be implemented would revolve around the need to reduce rising inflationary pressures and improve internal finances in order to solve the problem immediately. This would be done through discussions with the entire population between January and April 1994, when over 530,000 arguments were analyzed.⁸ In addition, state agencies were restructured in April 1994.

Despite the measures taken, GDP fell 11.6% in 1992, and until the first half of 1993 internal structural changes could no longer be postponed, considering the general deterioration of the economic activity.⁹

It was therefore absolutely necessary to increase food production and open up space for the non-agricultural private sector in the absence of state employment.

In his speech on July 26, 1993, Fidel Castro announced the biggest changes to be introduced in the Cuban economy, including the most complex one: the legalization of possession and use of foreign currency, creating a dual economy that would also allow part of the population to receive remittances from abroad. This measure, however, would be less traumatic than a drastic devaluation of the Cuban peso or a change in currency.¹⁰ The introduction of foreign currency circulation in the country had both positive and negative impacts. It boosted foreign investment and allowed the most dynamic sectors of the economy to start their recovery through a more efficient management of available currencies. Similarly, the collection by the State of part of the convertible currency in the hands of the population was ensured by a system of “Tiendas de Recaudación de Divisas” (TRD) [literally: stores for the collection of foreign currency], at prices that included a high sales tax to ensure their social redistribution.

The negative effects of this measure were associated primarily with the ensuing regressive income distribution,¹¹ linked to remittances from abroad.¹² However, measures were quickly taken to stimulate better labor results with payment in hard currency.

While the establishment of dual currency circulation had positive effects on the economy, these effects operated mainly in the short term.¹³

Along with the introduction of foreign currency circulation in 1993, it was essential to reverse the inflationary pressures existing at that time. This led to the adoption of a set of measures approved by the National Assembly of People's Power in May 1994, following a long process of mass discussion.

These measures included: reducing the fiscal deficit, mainly by decreasing subsidies for unprofitable companies; increasing the prices and tariffs of non-essential goods services; eliminating a set of benefits; and introducing a new tax system.

The internal monetary adjustments, however, provided for deeper changes only in relation to agriculture, the private sector and the business management system, in order to ensure the beginning of the recovery process (Gonzalez, 1997).

Anyway, it was imperative to increase food production and for that purpose a substantial part of state farms (highly dependent on imported inputs) was converted into Basic Units of Cooperative Production (UBPC in the Spanish acronym), thus reducing the share of state property in arable land from 75% to 33%.¹⁴

The results to be achieved, however, would take years to materialize due to undercapitalization and low levels of labor productivity in agriculture.¹⁵ In this sense, food production has not yet developed satisfactorily and imports remain very high. Currently, new decisions have been made for the rent-free lease of land, either idle or insufficiently exploited, to individuals and businesses in order to stimulate production (Castro, 2009).

With the reduction of employment in the state sector, the opening up of self-employment offered service options in the private sector and some increase in supply to the population.¹⁶

Complementing the previous decisions, the Convertible Peso (CUC), which is equivalent to the dollar in value, was introduced in 1994; free pricing markets were approved for the sale of agricultural and industrial products; foreign currency payment systems were expanded, and the decentralization of business management was gradually introduced.

After a decline of 14.9% in 1993, in 1994 the downward trend of GDP was reversed by a limited growth of 0.7%; but in 1995 the growth reached 2.5%, leading the economy to start the recovery phase that has been maintained since then, with a 4.7% increase in GDP by 2009.

As part of the economic revival process, since 1995 the use of foreign exchange has grown in the business sector, alongside important foreign investment agreements and a modest flow of short-term credit, albeit at high interest rates. The restructuring of the financial and banking sector was approved in 1997.

In 1998, building on the positive experience developed by the Armed Forces, the business improvement system was introduced, with positive results in the last ten years for approximately 900 companies.

The macroeconomic results of that phase, besides the growth of the economy, were: a significant reduction in internal financial imbalance through the stabilization of the fiscal deficit at 2% to 3% of GDP; a decline in the liquidity of the population to 38.5%; the exchange rate of the Cuban peso to the U.S. dollar in the informal economy fell from 150 to 21.1. In turn, labor productivity increased 3.3% per year, energy capacity fell 7.7% and the efficiency of investments improved by 74%.

The impact of the Special Period on the population was mitigated as soon as the Cuban government had a minimum of resources available to reduce the social cost of the crisis.

The negative effect was more visible in the deterioration of the living standards of higher-risk social groups. A remarkable decline in enrollment in higher education was also noticed, together with a deterioration in public health services, an increase in unemployment and a regressive income distribution¹⁷ (Álvarez & Mattar, 2004).

In 2000, a program known as the Battle of ideas was introduced to address these problems, supported by the improvement in basic social services on the basis of personalized service, giving preference to the most vulnerable groups, at the lowest possible cost and with high economic and social results.

Thereafter, various stages have been developed in the Battle of Ideas. First, social assistance has been redesigned with a new type of social workers. Then, new investments and changes in the educational system were introduced, including the decentralization and expansion of higher education. In more recent years, a strong investment process has been developed to increase the extent and quality of health services.

The expansion of dollarization and the excessive decentralization of its management in a situation of financial deficit led to financial indiscipline and increased tensions in the balance of payments at the beginning of the current decade.

Two sets of measures were approved to correct the situation. New regulations were put in place to ensure a more effective control of foreign currency use, and new powers were granted to the Central Bank of Cuba as the top financial authority in the country.

At the same time, significant efforts were made to pay off outstanding debts with creditor countries, in order to obtain new credit.¹⁸

These decisions were founded on different facts. On the one hand, there were rising financial tensions linked to the negative impact of September 11, 2001. On the other, a state of energy emergency emerged in the second half of 2004, when the most important thermoelectric plants collapsed for being technologically obsolete. Furthermore, the United States embargo against Cuba intensified, particularly in financial terms.

As for the economic policy, important decisions were made in 2005, when

the dollar depreciated against the convertible peso;¹⁹ at the same time, minimum wage, pensions and social assistance increased, aiming to offset the rising cost of living (Central Bank of Cuba, 2007).

Under these conditions, thanks to the strategy for the payment of the outstanding debt, more credit became available, new investment prospects opened up, and important agreements were signed with Venezuela, offering the possibility of importing fuel and paying for it in medical and educational services.

Late in 2004, favorable conditions to boost economic growth, which reached 11.2% in 2005 and 12.1 % in 2006, with a current account surplus, were again created.²⁰

Considering the conditions created, in 2005 a group of strategic investment program was launched, which included: the Energy Revolution designed to address the high cost of oil, changing the form of energy generation and consumption; the recapitalization of transport; the expansion of the hydraulic infrastructure; a new policy to increase food production (increasing consumption and reducing imports); a new housing program; and the strengthening of the country's defense capabilities, all that alongside the social programs existing in the Battle of Ideas.

Although the Cuban economy achieved higher growth rates between 2004 and 2007, the annual plans continued to show significant deficits in convertible currencies.

The situation has worsened in recent years, as a result of rapid increases in the prices of food, raw materials and oil. In 2008 alone, increases in food prices on the world market led Cuba to spend an additional US\$ 840 million on food.

In turn, devastating hurricanes lashed the island in the last decade.²¹ In 2008, the impact of three severe hurricanes caused losses of more than US\$ 9.7 billion, putting further pressure on the balance of payments.

Consequently, the growth rate fell 7.3% in 2007 and 4.1% in 2008. However, efforts to reduce spending in convertible currency through an import substitution program that spared some US\$535 million between 2008 and 2009 have been insufficient to address the external financial imbalance.²²

Aiming to achieve the stabilization required to ensure higher growth rates, the stability of the balance of payments within the shortest term possible was presented as a fundamental premise of the economic policy starting from 2009.

For this goal to be achieved, investments that failed to produce a positive short-term impact on the balance of payments were reduced; social food consumption decreased and the standard share of different products was adjusted; the use of inventories as a source of the plan was recommended; import substitution was rationalized, in search of favorable net results; the retail commodity circulation plan was adjusted to ensure internal financial stability; budget spending and social spending were reduced; and negotiations were initiated to defer payment of the outstanding debt and obtain new lines of credit (Castro, 2009).

These decisions led to the need to adjust the 2009 plan. The initial growth forecast of 6% of GDP was reduced to 2.5% in March, and to 1.7% in June, finally achieving an increase of 1.4 % over the year.

Before the most recent decisions, Raúl Castro conducted a deep analysis of the country's economic situation on July 26, 2007. The massive discussion of the topics presented in the speech showed the high level of consensus on the diagnosis presented, but also the anxiety of the population to improve their living standards.

In that regard, several measures have been implemented to enable the sale of various consumer goods and services to the population, such as computers, cell phones and tourist services. Most important was the beginning of the distribution of idle land to encourage food production.²³

The 2010 plan was prepared on the same basis as that of the previous year, with an expected small growth of 1.9 % for the year (Murillo, 2009).

The end of the first half of 2010 witnessed a growth in the economy, as well as a recovery in labor productivity relative to the increase in the average wage, amidst reports of progress in the renegotiation of the foreign debt and the reduction of bank debts with clients (Castro, 2010).

Recovery and the end of the Special Period: challenges for the Cuban economy

The Cuban economy has reached a reasonable performance level in the last 50 years, combined with an outstanding improvement in social indicators that put Cuba among the best places in the world (Brundenius, 2009).

The results of the Cuban Revolution are owed to the efforts and sacrifices of the Cuban people, considering not only the complexities of building socialism in underdevelopment conditions, but also the aggressive policies implemented by the United States over the years.

Investment efforts over 50 years required an estimated 118 billion pesos, at an annual growth rate of 5.7%. Fifty percent of these investments went to the infrastructure and social areas, 31% to the industrial sector and 19% to agriculture (Rodríguez, 2008).

GDP grew at an annual rate of 3.2 % between 1959 and 2009, despite the impact of the United States embargo, which had cost approximately US\$ 236.2 billion by 2008 at constant prices.²⁴

The economic structure of Cuba boasts a growth in the services sector, which increased from 49% to 76% of GDP, with a decline in the primary sector from 22% to 5%, and in the industrial sector from 29% to 19% (Figueras, 1994; Rodríguez, 2008).

Cuba also endures the external imbalances typical of an economy that is trading the road to development. Thus, exports have grown at an annual rate of 3.5%, while imports have increased 6% at current prices. However, the export of services has partially offset these imbalances over the past five years.

In terms of social development, today Cuba has the lowest rate of inhabitants per physician in the world, together with the highest proportion of teachers per capita and one of the lowest unemployment rates in the world (National Bureau of Statistics, 2010a).

Cuba's modest achievements, in turn, were shared with 160 countries between 1960 and 2008 by 271,000 civilian employees, who extended their solidarity to improve the poor living conditions of other peoples in the Third World, primarily in the fields of health and education (Kirk & Erisman, 2009; Feinsilver, 2006; Cuba Coopera, 2009). The amount of this cooperation was estimated at 2% of GDP in 2004.²⁵

After 50 years of struggle for development, Cuba must still face important challenges in the immediate future. The Communist Party of Cuba has recently announced the project on the Alignment of the Economic and Social Policy, which was widely discussed by the population and approved at the VI Party Congress held in April 2011. This document contains the key changes to be undertaken in the coming years, and whose main directions had already been anticipated in various official speeches. A vitally important element is that which expresses the desire to maintain the Cuban economy as a planned economy. Although a larger space is open for non-state forms of property, these will have a limited reproduction.²⁶



Flower seller in Havana, Cuba.

The decisions proposed and under implementation, especially regarding the reorganization of employment are complex and entail coping with social tensions. However, they are indispensable to ensure the economic rationality and efficiency required by the Cuban socialist economy.

In this sense, and essentially coinciding with the provisions of the aforementioned project, the main directions of the efforts to be made at the macro-economic level could be summarized as follows, in order of priority.

Firstly, the balance of payments deficit should be settled in the short-term, by reducing expenditures in convertible currency and renegotiating the foreign debt service but, above all, by increasing export revenues, since the decrease in spending has material and social limits that prevent advancing beyond a certain point.

Secondly, a systematic internal financial balance should be maintained by controlling inflationary pressures, while developing new incentives to substantially increase labor productivity.

At the same time, all measures must take into account the need to gradually reduce inequalities in the distribution of income generated during the special period, starting from prioritizing compensation for more efficient work.

Finally, it is necessary to achieve an increase in the investment rate that enables, on the one hand, completing the production infrastructure for development²⁷ and, on the other, resuming the path to industrialization in areas of greater competitiveness and added value.²⁸

The road to recovery should be resumed as soon as possible, and this requires achieving growth rates above 5%-6% annually in a few years.²⁹ The 2011-2015 plan approved this year should be included in this context.

Socialist development in the immediate future also requires adjustments in the economic strategy and policy that enable essentially to solve two critical problems: the balance of payments deficit and low labor productivity, thus creating the necessary conditions for sustainable long-term development.

Increasing productive efficiency will require a more flexible economic management, not only in the state sector but also in the cooperative and private sectors. Accordingly, processes involving land leases and means of production in personal services point in that direction to provide forms of cooperative production. In turn, the granting of new licenses for self-employment announced by President Raúl Castro enables introducing greater flexibility in the use of the workforce, with the aim of offering alternative solutions to underemployment in the state sector, which is an essential step to increase the income of producers and thereby allow for increased labor productivity.

Anyway, once the burden of underemployment is relieved, it will be possible to embark on a process of decentralization in the state business management system, in order to increase economic efficiency.³⁰

However, we must take into consideration that the path in the search for greater efficiency has a long stretch to be trodden before the exchange rate can

be adjusted to eliminate monetary duality. This will necessarily be a gradual process, whose implementation will require various alternatives.³¹

Finally, the highest priority should be given to the introduction of science and new technologies in production and services, so as to ensure the achievement of an appropriate level of use of the enormous human capital created, and the advance towards a knowledge economy.

The experience of the last 50 years in Cuba, including the 20 years of the Special Period, clearly shows the complexity of the economy in the construction of socialism, in which mistakes are costly and can go as far as destroying the revolution (Castro, 2005).

If the country has succeeded in moving forward to date, overcoming obstacles that seemed insurmountable, it is because the economic factors have always been considered in the economic policy applied to development, along with social and political aspects, but mainly because no strategic mistakes were made, considering that in socialism the political factors have priority over other factors.

Finally, we cannot ignore, in the Cuban experience, the role of the revolutionary leadership of the Commander in Chief and his loyalty and full dedication to the people of Cuba as a relevant factor in the economic and social achievements of the past 50 years in the country's history.

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Notes

- 1 The debates outside of Cuba focused, in most cases, on trying to include Cuba in the context of countries where socialism has been defeated. See Carmelo Mesa-Lago (1993).
- 2 This interpretation is essentially different from that of market socialism and even from those that proclaim the use of the law of value through planning. See Andrew Zimbalist (1989a), Alec Nove (1983), and Fidel Vascós (2009).
- 3 Some measures had been adopted to prevent the effects of a crisis, such as the development of international tourism since 1986 and the opening to foreign investment in this sector in 1987, but no one could predict what would happen exactly. However, the commander in chief mentioned the possibility of the demise of the Soviet Union in his speech of July 26, 1989 and established Cuba's position would be in this context (Castro, 1989).
- 4 The impact was brutal, ending the supply of Soviet oil in 1992. The losses of this rupture were initially estimated at US\$ 5.6 billion (Castro, 1993).
- 5 State-owned corporations, virtually nonexistent before 1990, totaled 170 in the first half of 1995. In turn, the number of economic associations with foreign capital, which totaled 20 in 1990, rose to 176 in 1994, reaching a maximum of 403 in 2002 (Everleny 2004; Domenech, 1996).

- 6 In September 1995, a new Law on Foreign Investment would be adopted.
- 7 Most of these changes had been discussed with the population in 1990, as part of the process of the IV Party Congress.
- 8 These analyzes were performed through the so-called “workers’ parliaments”.
- 9 In this respect, we should point out that the state budget deficit had reached about 30% of GDP; the liquidity in (Cuban) pesos of the population reached 66% of GDP; almost 60% of companies had no profit; the dollar exchange rate in the informal economy increased from 7 pesos per dollar in 1990 to 120 per dollar in 1994; unemployment continued to rise and the fall in GDP could not be stopped (Castro, 1993; Domenech, 1996; García Gómez, 1998).
- 10 However, the possibility of resorting to this extreme measure remained open and was agreed by the National Assembly of People’s Power in May 1994. In the academic context, several authors were in favor of the measure (Carranza et al., 1995).
- 11 Although there is no precise measurement of the Gini coefficient in those years, it seems that it increased from 0.22 before 1990 to around 0.40 over the 1990s (Brundenius, 2009).
- 12 There was a tendency to exaggerate the level of remittances and their weight in the Cuban economy of those years. Although an exact calculation is not possible, ECLAC (2000) estimated them at US\$ 800 million annually.
- 13 The debate around the need to have an exchange rate of the Cuban peso that objectively reflected its purchasing power intensified over the years. However, considering the number of factors involved in this adjustment, implementing it will require significantly reducing the balance of payments deficit, increasing economic efficiency and offsetting the effects on retail prices. All this entails a process that will take time and effort.
- 14 Consequently, the proportion of cooperatives increased from 10% to 52%, and private farmers remained in 15% of the arable land.
- 15 We must not fail to mention that around 67% of land in Cuba is considered as of low or very low productivity (Nova, 2006).
- 16 The number of self-employed peaked at 208,000 in 1996. In 2008 there were 141,600 workers, and the income was equivalent to two or three times the average wage, although they represented only 3% of the employed workforce (Pérez et al., 2008).
- 17 It is estimated that the Gini coefficient dropped to 0.38% in 2005 and should have slowly improved from that time on through the increases approved for salary and minimum pensions as well as for social assistance (Brundenius, 2009; Ferriol, 2009).
- 18 Payment agreements were signed between 2003 and 2004 with China, Japan and Vietnam, among the most important creditors.
- 19 The dollar fell 8% and the Cuban peso appreciated 7% against the convertible peso.
- 20 The current account balance had a surplus of 0.3% and 0.5% of GDP in 2004 and 2005 respectively.
- 21 The damage caused by the hurricanes between 1998 and 2008 totaled US\$ 20.5 billion (Communist Party of Cuba, 2010).
- 22 The goods trade balance experienced a deficit of 10.569,6 billion pesos in 2008. Only

- with the export of services it was possible to offset this figure and obtain a trade surplus of 2.899 billion pesos (National Bureau of Statistics, 2010a).
- 23 The rate of distribution of available land reached 57% of the total at the end of the first half of 2010.
 - 24 This figure at current prices exceeds US\$ 96 billion.
 - 25 Estimate based on MEP calculations. In 1980 the amount of the aid offered by Cuba was estimated at approximately 0.72% of GDP (Felipe, 1992).
 - 26 «[...] In the updating of the economic model, planning will be paramount, not the market [...] in the new forms of non-state management, the concentration of property by businesses and individuals will not be permitted” (Communist Party of Cuba, 2010).
 - 27 It is, above all, about electricity generation, transport and hydraulic infrastructure.
 - 28 Therefore, it is of great importance to accelerate the collaborative projects with Venezuela expressed in the agreements signed in July 2010 and reiterated during President Hugo Chavez’s visit to Havana in November of that year (see Castro, 2010b).
 - 29 The forecasts of the Economist Intelligence Unit (2010) for the years 2011-2014, in Cuba’s case, put the growth rates between 3.7% and 4.4% on average, a year.
 - 30 The decentralization of decisions has a limit set even by the actual availability of resources that can be used for this purpose. However, there are always decisions that cannot be decentralized, but that may achieve a greater consensus as the economy recovers and the system becomes efficient.
 - 31 An alternative may be to introduce coefficients by areas in order to mitigate the distorting effects of the monetary duality and create, at least partially, a system of more efficient economic signals in selected areas of the economy.

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Abstract – This essay discusses the evolution of the Cuban economy over the past 20 years, called “special period” by the Cuban government. The analysis details the measures taken to address the crisis and the measures taken to overcome the crisis without

compromising principles and without endangering the very existence of the revolution. To support this analysis, abundant figures and bibliography are set forth, allowing us to grasp both the impact of the crisis and the results achieved during the economic recovery still underway. Finally, we offer a macroeconomic summary of the main achievements of the Cuban economy over 50 years.

Keywords: Cuba, Special period, Economic crisis, Cuban economy, Socialism.

José Luis Rodríguez García holds a degree in Economics from the University of Havana (1969) and a PhD in Economic Sciences (USSR, 1978). He and is a Merit Member of the Cuban Academy of Sciences (2006). @ – joseluis@ciem.cu

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