

# Social and Solidary Economy and the transformation of the Cuban economic model

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On May Day 2013, International Labor Day, thousands of Cubans – including groups of private workers or “cuentapropistas”- paraded in dozens of cities and towns across Cuba, embracing the novel slogan launched by the government, “Towards a prosperous and sustainable Socialism”. They were summoned by the Cuban Workers Confederation (CTC), which aims to organize and represent them as it does state-sector workers.

The implicit message is that Cuba’s private workers are allies of their public and cooperative colleagues in the construction of the new model of socialist economy. Implicit also is that the citizens who are building that socialism share the values of solidarity and social and environmental responsibility, intrinsic to Socialism.

But, what Socialism are we supposed to be building? According to Marino Murillo, Vice President of the Council of Ministers: “Socialism is social ownership of the fundamental means of production. Prosperity refers to the satisfaction of people’s needs. Sustainability is the capacity of the society to sustain itself economically, socially and environmentally, which is equivalent to development, because you cannot sustain what you do not develop.”<sup>[1]</sup>

In economic terms, it means developing a (macro) economy that is in its essence *social and solidary*, made up of a mix of economic actors – state-owned enterprises, cooperatives, private workers—that adopt as part of their (micro) economic activities of production, distribution and consumption of goods and services, the principles of *responsibility toward society* (family, employees, clients and other stakeholders, the community) and the environment, natural and constructed.

Nevertheless, many believe that Cuban society is in reality evolving toward the *deconstruction* of its social and solidary economy, and that the economic players are *less and less* responsible toward the society and the environment. Is it true that we run the risk that greed and narrow-minded personal pursuit will supplant social values such as righteousness, generosity, compassion, cooperation, empathy and community?

In this work we analyze the concept of Social and Solidary Economy (SSE) applied to the Cuban reality, beginning with a characterization of its economic system based on the mixed economy, or three economies model. We conclude that Cuban SSE is, potentially the union of those three spheres – public, enterprise and private – comprised of a variety of economics actors -State, associative and autonomous – that adopt the principles of responsibility toward society and the environment.

## **Cuba's socialist economy: implicit and changing concepts**

In Cuba, social responsibility and solidarity constitute – theoretically – the *raison d'être* of economic activity, promoted top-down by the central government in an economy with strong predominance of the State sector. The term used in Cuba to characterize our system is “socialist economy”, not “social and solidary economy”, despite its coincidences. This model was created by the State through its socio-economic and political system, central planning and state-owned enterprises. The enterprises have social objectives that are implicit, rarely explicit or defined by its managers and workers. Nor do they enjoy– to date–the financial autonomy necessary to allocate part of its revenue toward social or environmental actions that are not explicitly contemplated in the national Economic Plan.

The *Guidelines for Social and Economic Policy*, the most important plan to “update” the Cuban socialist model since 1976, stipulate that the economic system that will prevail will continue to be based on the socialist property of the *fundamental* means of production, and the primacy of planning over the market for guiding the distribution of goods and services. They propose greater independence for State-owned enterprises and expansion of non-state forms of ownership and management in production and services, “to unshackle the productive forces, increase production levels and improve the standard of living of the population.” It reaffirms the social nature of the economy, endorsing “the principle that in Cuba’s socialist society no one will go unprotected,” and stating that “economic entities of all forms of management will be subject to a regulatory framework that takes into account the established norms of social and environmental responsibility”.[\[2\]](#)

It is Enterprise Social Responsibility (ESR) based on external norms and regulations established by the government, not as a voluntary, discretionary initiative, managed by the firm as a form of stakeholder engagement.

As part of the process of renovation of the Cuban economic model, the government explores ways to strengthen the socialist state enterprise in key sectors and grant it greater autonomy, while simultaneously transfer a great number of jobs from the public sector to the growing cooperative and private sectors and decentralize a large portion of the economic activity.

## **The three economies in Latin America**

How do we characterize the Cuban economy? We start out from José Luis Coraggio’s proposition that existing economies are always mixed, or plural, resulting from the interaction of three spheres or dominions of the economy: the public, enterprise and popular sectors.[\[3\]](#)

*The public economy* is the sphere where governments at the different levels – national, regional and local – supply goods and services to the citizenry, typically free or at subsidized prices, including education, health, defense and internal security, social security, housing and communal services, culture and art, sports, science and technology, public spaces, water and sewage, roads and highways, environmental services and many more. It is administered by a political leadership that interprets the needs of the citizenry or else oversees it through a democratic process that builds consensus or wide majorities.

*The enterprise or business economy* can be capitalist, driven by the pursuit of profit and the dynamic of capital accumulation, or socialist, directed at fulfilling sectorial plans and generating revenue for the State. Its assets can be 100 percent private, state-owned or mixed; ventures can be national, foreign or joint; or some combination of these. In any case the decisions of the

owners or managers are subject to external limits imposed by the head office, market competition, regulatory policies, economic plans, political power and civil society.

The *popular economy* is comprised of individuals, families, communities and various collectives that act in pursuit of material gain but are also inspired by values of solidarity and cooperation. Its foundation is the *domestic family economy*, aimed at producing standard of living and use values to satisfy necessities but foregoing the market (familiar gardens, animal husbandry, domestic services). But it also includes the *popular market economy*, based on variable combinations of the sale of labor power, and independent work to produce goods and services, privately or cooperatively, in small private enterprises or in the informal sector, activities aimed at earning income to purchase consumer goods and services in the market.

Among these three sectors there are a profusion of *mercantile exchanges and unilateral transfers, monetary or not*(subsidies, taxes, donations, public goods, remittances, etc.).[\[4\]](#)

At the intersection of these spheres we find “another” economy, the *Solidary Economy*, where there takes place a concurrence, from the public economy, of services to the population, development planning and participatory budgeting and management; from the business economy, public-private enterprises; and from the popular economy the cooperatives and other civil society organizations that undertake economic activity. According to Coraggio, this is about creating new social relations that construct an alternative economy, organized not around the reproduction of capital, but around the supremacy of work in the reproduction of life. According to Paul Singer, Brazilian economist and sociologist, it is an economy without bosses through work managed by the workers themselves. For Singer, generalizing self-management of the economy and the society is the principal role of the solidary economy in the struggle for socialism.[\[5\]](#)

## **The three economies in Cuba**

How can we apply this model, conceived for capitalist economies in Latin America, to the Cuban economy? We begin by describing the Cuban economy based on the model of the mixed economy.

In the Cuban socialist system, *the public economy or budgeted system* constitutes an important and encompassing sphere, since the State assumes exclusively the provision of basic services. In 2012 the activities financed through a government budget represented two thirds of the country’s current account public spending and 40.8 % of Gross Domestic Product (GDP). Forty percent of the total labor force, or 1.9 million workers, were employed in communal, social and personal services in 2012. That year the National Office of Statistics (ONE) tallied 2,382 budgeted units, out of a total of 10,556 in the country.[\[6\]](#)

Other goods and services, such as housing, retail trade, food services, transportation and certain communal, social and personal services, which are privately-owned in the majority of countries, in Cuba constitute part of the public economy, not with standing the portion (not quantified) that is supplied by the popular economy.

Nevertheless, with the implementation of the *Guidelines* came a significant reduction in the public sector of the economy in favor of the enterprise and popular spheres. A significant number of the currently public budgeted units, national and local, that produce goods or personal and business services, will be transferred to the private and cooperative sectors. The weight of the

budgeted system in the Cuban economy is expected to drop significantly and, as a consequence, public spending in this sector of the economy.

In Cuba, *the enterprise or business economy is state-owned*, given the non-existence of private enterprises and the fact that joint ventures are the product of investment between foreign and state-owned firms. In 2013, ONE counted a total of 2,472 state-owned enterprises, 30 % less than in 2006. A snapshot of the Cuban enterprise system shows at the top some thirty new Upper Organizations of Enterprise Management (OSDE), a kind of head office for the State enterprise groups, which answer to the corresponding government minister. The OSDEs oversee many enterprise groups or unions, similar to corporations, and at the base there are nearly 2,000 Basic Enterprise Units (UEB) with little autonomy and connected by vertical links to the level above.<sup>[7]</sup>

A number of ministerial decrees and resolutions were emitted in 2014 that propose a series of changes for state-owned enterprises.<sup>[8]</sup> Among these are that the enterprises will be allowed to sell at market prices any excess in production once they have met their contracts with State entities, as well as market their idle and slow-moving inventories to other enterprises or directly to the whole sale market. The enterprise will not be required to contribute to the State the value of depreciation and amortization, and will be retain 50% of after tax profits. They will be allowed to create voluntary reserves from net profit, if these are duly authorized. Nevertheless, their possible uses do not include social investments.

These reforms of the Cuban enterprise system will lead to state-owned enterprises that are more self-managed— make key strategic and operational decisions internally – and that operate according to the rules of the market— maximize profit and accumulate capital –rendering their behavior analogous to that of capitalist corporations and enterprises.

The Cuban state-owned enterprise has always had implicit solidary objectives, but rarely have they been explicit or defined by its managers and workers. In so far as state entities will be allowed to manage the use of their reserves, there is little that the enterprises can do even if they have the will. The current transformations may contribute to the state-owned enterprise definitely rejecting its responsible and solidary vocation, in order to maximize its profits and capitalization, or constitute the opportunity to embrace it consciously, explicitly, and democratically.

An employee of one of today's leading Cuban state-owned enterprises wrote:

Every socialist enterprise [...] should respond the following basic questions: What will be their contribution to society? What benefits will it grant its workers and which of their needs will it satisfy (through salary and other means)? How will it guarantee continual growth and the maximum level of efficiency and profits?<sup>[9]</sup>

As to the *popular economy* in Cuba, in this paper we define it as equivalent to the *non-state sector*, made up of cooperatives and private workers: individual farmers, artists and artisans, and self-employed (TCP).

Its foundation is similarly the *domestic family economy*, aimed at the production of use values to satisfy human needs while foregoing the market, as well as the *popular mercantile economy*, based on variable combinations of the sale of salaried labor and self-employment to produce goods and services, aimed at earning income to purchase consumer goods and services in the market.

In 2013 the number of *private workers* reached 1,064,200 (21.6 % of total employment) between farmers and other private (60%) and TCP (40%). It is estimated that the figure could reach 2 million, or 40% of employment, in 2015. The TCP, which in September 2010 were some 157,000 in 178 activities, in July 2014 reached 467,000 in 206 activities.[\[10\]](#)

Given that the principal resource of a worker is his or her capacity to work, and that labor can be sold in exchange for a salary, the limits between the popular economy and the public and enterprise economies are often blurred, and they are connected through formal and informal links. Since real salaries are not sufficient to meet basic material needs of persons and their families, many workers in the State economy– public and enterprise – dedicate part of their work capacity to the popular economy, to supplement their cash or in-kind incomes. Double and triple employment is common in today’s Cuba.

According to Richard Feinberg, if we add the 575,000 famers and self-employed agricultural workers, the informal workers carrying out unauthorized private activities, and state workers that have second jobs in the private sector, the total number of private workers could reach 2 million, or 40% of the work force.[\[11\]](#)

This coincides with the forecast for 2015 of employed non-state workers only in the formal economy. In fact, the percentage employed in the state sector fell from 83.7% of the total in 2009 to 73.8% in 2013, while the percentage of private workers doubled.[\[12\]](#)

Cuban law does not recognize the private enterprise as a legal entity, nevertheless, among the TCP there is a mix of private individual property, where the owner and worker are one, and private capitalist property, made up of *micro, small and medium-sized enterprises*, property of a TCP that routinely hires salaried labor.[\[13\]](#)

Of the 456,000 TCP, 20% are workers hired by other self-employed workers. If we assume that existing enterprises have an average of 4 employees, we can estimate that there are currently some 23,000 non-agricultural enterprises in Cuba. If we apply the same index to the 575,000 farmers and agricultural workers, there are another 32,000 enterprises or farms. None of them has legal status as a private mercantile enterprise, thus they cannot open a bank account or sign contracts; only the licensed TCP or farmer, can operate, as a natural person.

Cooperatives are considered “a socialist form of collective property [...] that constitutes an economic organization with legal status and private assets, made up of persons that associate and contribute personal assets or work, with the aim of producing and providing useful services to society and that covers all of its expenses with its income.”[\[14\]](#) It is therefore different form both state-owned and private property, and can be considered social or associative property.

Since the beginning of the Revolution until 2013, the only authorized cooperatives were agricultural. In 2013 the Council of Ministers began to approve the experimental creation of cooperatives in other sectors of production and services. As of March 2014 they have approved 498, in the following sectors: food services and retail trade, construction, personal and technical services, recycling, light industry, public transportation and energy. Of the total number of approved cooperatives, 77% resulted from enterprise units formerly managed by the state that were turned over to their workers, and 23% come from the non-state sector, at the request of TCP interested in associating.[\[15\]](#) The absence of university professions among the 206 authorized self-employment (TCP) activities, severely limits the number of non-state cooperatives approved, despite the many applications received by the authorities.

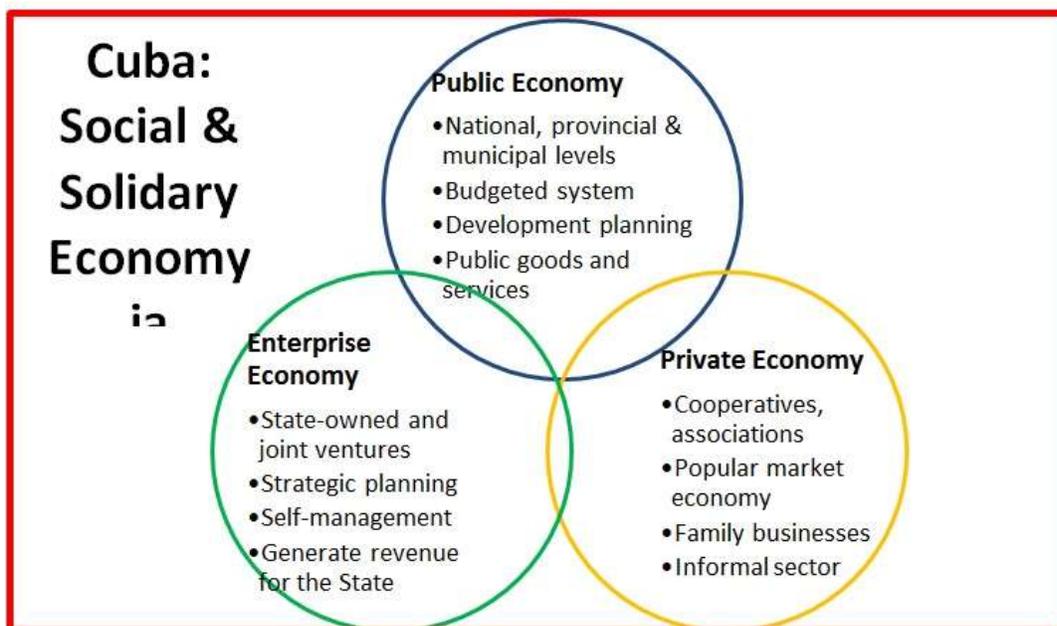
It is note worthy that the *Guidelines* consider only the state-owned enterprise as socialist, and the cooperative as a form of social property. The term “civil society” is not even mentioned in the document, which indicates that the strategy of economic update does not contemplate that associations, foundations, civil and religious societies, labor unions, mass organizations and community and grass-roots associations (such as tenants associations, parent-teacher associations, Neighborhood Transformation Workshops, etc.) could be economic players that produce and market goods and services not for profit. Nevertheless, in practice they are and they do: Cuban NGOs publish and market publications, charge admission to their museums, entertain international tourism, offer courses and lodging to paying students, own farms and workshops that market their productions, and develop other activities to generate revenues that help cover their costs.

### **The Social and Solidary Economy in Cuba: potential and aspiration**

In Coraggio’s model of a mixed economy in Latin America, the solidary economy is described as the intersection of the three spheres, made up of a subset of solidary activities and actors from each one. It is inconceivable that a capitalist economy, no matter how progressive, can be in essence, social and solidary. At least the majority of corporations will respond primarily to the logic of reproduction of capital. Only an economy truly socialist, “with” and not “of” the market, can aspire, in the words of Coraggio, to the formation of new social relations that construct an alternative economy based on the supremacy of labor in the reproduction of life.[\[16\]](#)

Thus, the *Cuban social and solidary economy is*, potentially the *union of the three spheres*. It is possible to develop a (macro) economy that in its essence is *social and solidary*, comprised of a series of economic actors, state, associative and private, that adopt as part of their (micro) economic process of production, distribution and consumption of goods and services, the principles of responsibility toward society and the environment.

### **Diagram of the Cuban mixed economy and (potential) Social and Solidary Economy**



The key to constructing a truly social and solidary economy in Cuba is to consciously assume Enterprise Social/Environmental Responsibility, from the macro economic model up to the behavior of all its actors, creating the public policies that can make this happen. ESR should complement the regulatory frame work established by the government, not exempt the state from fulfilling its civic duty of serving the public interest. It is a question of crafting an “entrepreneurial citizenship” capable of contributing to the “Prosperous and Sustainable Socialism” that we are committed to building.

## Notes

- [1] Marino Murillo, National Association of Economists and Accountants (ANEC) of Cuba, International Congress on Economic Management And Development, November 2013, reported in *El Economista*, ANEC, October 2013.
- [2] *Lineamientos de la Política Económica y Social del Partido y la Revolución*, Cuban Communist Party, 2011
- [3] José Luis Coraggio, “Los caminos de la economía social y solidaria”, *Íconos*, N° 33, Quito, January, 2009, pp. 29. According to the Constitution of Bolivia, “The plural economy is comprised of the community, state, private and social cooperative forms of economic organization”.
- [4] José Luis Coraggio, “Tres corrientes in la ESS”, *Temas* N° 75, july-september 2013, pp. 4-11.
- [5] Quoted by Susana Hintze, “Políticas públicas para la ESS in América Latina”, presentation at the Seminary “La ESS: enfoques para su inserción en la Economía Internacional”, Mayabeque, Cuba, september, 15th-18th, 2013.
- [6] ONEI. Anuario Estadístico de Cuba, 2013/ 2014.
- [7] Luis Marcelo Yera, “Tipos de propiedad económica y transición socialista in Cuba”. Instituto Nacional de Investigaciones Económicas (INIE), 2014.
- [8] José Luis Rodríguez, “Cuba y la compleja transformación de la empresa estatal (I)”, *Cubadebate*, July 15th, 2014. <http://www.cubadebate.cu/opinion/2014/07/15/cuba-y-la-compleja-transformacion-de-la-empresa-estatal-i/>
- [9] Adolfo Castillo Vitloch, “¿Revolución in la Revolución? Hacia un nuevo modelo de empresa estatal socialista”, *Temas* N° 75 July-September 2013, Havana, pp. 82-89.
- [10] O. Fonticoba y Susana Lee, “Recuperar ritmos de avance que aseguren el desarrollo socialista sobre bases sostenibles”, *Granma*, July 7th, 2014, Havana, p. 4.
- [11] Richard E. Feinberg, “Soft Landing in Cuba? Emerging Entrepreneurs and Middle Classes”. Latin America Initiative at Brookings Institution, November 2013.
- [12] ONEI, ob. cit.
- [13] Marcelo Yera, ob. cit.
- [14] Guideline n° 25, *Lineamientos de la Política Económica y Social del Partido y la Revolución*, ob. cit.
- [15] Camila Piñeiro Harnecker, “Diagnóstico preliminar de las cooperativas no agropecuarias in La Habana, Cuba”. Centro de Estudios de la Economía Cubana, University of Havana, May 2014.
- [16] Quoted by Susana Hintze, ob. cit.