



**STATE ENTERPRISE REFORM IN CUBA: An Early Snapshot**

 Lexington  
Institute

By Philip Peters  
July 2001

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to his ability, to each  
according to his work.”**

– from the official guidelines to Cuba’s  
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1655 Fort Myer Drive  
Suite 325  
Arlington, Virginia 22209  
[www.lexingtoninstitute.org](http://www.lexingtoninstitute.org)

## Introduction

State enterprises, the backbone of Cuba's socialist economy, are being overhauled.

*Perfeccionamiento empresarial*, the policy of state enterprise reform, has no exact analogy in capitalist economies and is not borrowed from other socialist countries' models of reform.

*Perfeccionamiento empresarial* is not capitalism, and it is certainly not privatization, although many in Cuba call it a superior alternative to the privatizations that swept Latin America in recent years. It is an initiative to improve the socialist state enterprise, but the official guidelines to the process define its "socialist principle" as, "From each according to his ability, to each according to his work."

Cuba's enterprise reform is a search for profitability, efficiency, and quality that features intense self-evaluation and in theory opens the door to re-engineering at all levels of the business. It comes at a time when state enterprises, which number over 3,000, are going without subsidies and must sink or swim on their own by producing to satisfy market demand. It requires Cuban workers and managers to have skills and outlooks radically different from the previous generation's; they must operate on their own in markets, not merely as subordinate units of government ministries. It intends to shear layers of bureaucracy from everyday economic decision making – so much so that it represents the death knell for Soviet-style state planning. It seeks to create a chain of profitable, autonomous, agile state enterprises.

To a capitalist, however reformed these enterprises are, they will always lack the crucial ingredients of private ownership and complete freedom from government guidance. To the contrary, Cuban officials say this is a crucial advantage. State ownership preserves the enterprises' socialist essence.

But there's a big "if" hanging over all the foregoing. The far-reaching effects of enterprise reform will only come about if it is implemented fully, and its implementation is only now beginning. There is no sign that Cuba's government is wavering in its commitment, but the process is moving slowly and cautiously. As in any process of change, one can imagine sources of opposition – in this case, from government or Communist party officials whose authority is passing to executives in individual

enterprises. Inertia could stall this reform. Layoffs and unemployment could render it politically unpalatable.

Therefore, this paper does not attempt to deliver a verdict on *perfeccionamiento empresarial*. Rather, it offers a snapshot of the process in its early stages and discusses its implications for the rest of Cuba's economy.

## The 1990s: economic crisis and response

Most descriptions of Cuba's post-Soviet economic crisis focus on the loss of the Soviet financial subsidy valued at about one fourth of Cuba's national income. An equally profound difficulty was caused by a second factor: Cuba's economy was joined at the hip to the Soviet bloc's economic community, COMECON. Three fourths of Cuban trade was

with COMECON; Cuba's economic plans were linked to its economies and designed to complement them, and innumerable aspects of Cuba's productive capacity, from training of professionals to spare parts requirements, were in symbiosis with governments that suddenly ceased to exist.

Hence Cuba was forced to choose: it could opt for isolation and autarky, or for a difficult "re-insertion" into the global economy. Policymakers opted for the latter, and many of the resulting changes form the context for state enterprise reform.

The first change was to close enterprises and to lay off many thousands of workers in the early 1990s. Some of these workers found other state employment, and others are working as self-employed entrepreneurs, as

vendors in farmers markets, or in other non-state settings.

Cuba also undertook a transition from material planning to financial planning. Instead of allocating material inputs in the Soviet-style planning model, the state began to measure its support for enterprises in terms of financial subsidies, and these subsidies were steadily reduced. In 1993, the budget of Cuba's central government absorbed 5.434 billion pesos in state enterprise losses. By 2000, 608 million pesos were budgeted for that purpose, a reduction of 89 percent. One Cuban economist estimates that only 15 percent of Cuban enterprises receive subsidies today, and these are mostly in the agricultural sector.

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Foreign trade was decentralized. Over 250 entities are permitted to import and export, compared to only a handful a decade ago. This creates competitive pressure in the state sector, a Cuban analyst explains, because state budget allocations for social needs are delivered to the consumer now, not to the producer. The result is that ministries are no longer tied to assigned suppliers; the Ministry of Education, the analyst explained, recently bought furniture from a Chinese company in Brazil rather than the domestic market. The tourism sector also imports its supplies, although Cuban domestic industry is increasing its share of sales to this industry.

Government was downsized from 50 to 32 ministries, and many of these reduced their payroll. Reflecting the beginning of transfer of authority from government ministries to enterprise managers, the Ministry of Economy and Planning was downsized by two thirds.

Joint ventures with foreign capitalist partners were permitted in 1993; this created a new kind of enterprise, founded in socialist legal structures but responding to international market conditions and needing to earn profits by capitalist standards. Joint ventures bring foreign business practices such as accounting, marketing, customer service, and – of great importance to their workforce – incentive pay, based on output and paid in dollars.

Cuban state enterprises are replacing simple, fixed-salary compensation plans with pay structures that give workers extra pay for extra output. Enterprises that earn hard currency revenue in sectors such as tobacco, oil, and mining often make these bonus payments in dollars, tying the dollar payments to the enterprise's profits and workers' productivity. Over one million Cuban workers (1 worker in 4) now receive incentive pay, according to official estimates. In May 2001, defense minister Raul Castro noted that in many enterprises there is "resistance to linking salaries to results." But this is "one of the pillars" of *perfeccionamiento*, he added, "and no concessions can be made." If an enterprise fails to meet a contract deadline, for example, "everyone, from the head of the enterprise to the last worker will see his income affected."

State enterprises are also undergoing a drive for quality and efficiency. A sign in the Ministry of Agriculture lobby quotes Cuban vice president and economic czar Carlos Lage: "What is not efficient is not socialist." Cuban newspapers feature frequent accounts of enterprises that adopt International Standards Organization (ISO) norms for productivity and quality. Reportedly, over 900 enterprises have working groups that concentrate on quality issues, and as of January

2001, 350 enterprises were employing consultants to help adopt ISO 9000 quality standards. Awards programs have been established to recognize business excellence.

After shunning large-scale tourism development for decades, Cuba developed a tourism industry in the 1990s. The 2 million tourists expected to visit Cuba this year represent a 40-fold increase from the visitation level of the late 1980s. Tourism replaced sugar as Cuba's top foreign exchange earner. It has brought dollar incomes to tourism industry workers and to many thousands of other Cubans whose businesses operate on its periphery.

Tourism and the growth of dollar income among Cuban families have brought the development of a new kind of Cuban state enterprise – businesses that operate in the

*mercado de frontera* (the "border market") – where they have access to markets that are profitable and bring dollar revenue. Examples include the conglomerate CIMEX, which operates car rental agencies, restaurants, and Cuba's chain of "dollar stores" that sell consumer goods to Cubans with dollar incomes; and Cubanacan, a corporation that operates hotels, restaurants, and other businesses that cater to tourists, amid many others.

**In the 1990s, Cuba moved to financial planning. Instead of allocating material inputs in the Soviet-style planning model, the state began to measure its support for enterprises in terms of financial subsidies. The subsidies were steadily reduced, from 5.434 billion pesos in 1993 to 608 million pesos in 2000, a reduction of 89 percent.**

These businesses, the new growth in the Cuban economy, are not the principal reason for the current push to state enterprise reform. Rather, *perfeccionamiento empresarial* was created to revive, reorganize, and re-orient the "legacy" enterprises that grew up in the Soviet-style planning model and were cut adrift by the post-Soviet economic shock.

"Cuba continues to be a centrally planned country," an official in the Ministry of Basic Industries explains, "but now there is a decentralized distribution of resources. Before, it was planning from above, where resources were decided and distributed to lower levels. Now business plans flow from bottom up, always based on the enterprise's ability to serve its market and to compete. Today our role is not to be administrators. Nobody comes to me to say, 'I need money' – if they do, I tell them to go to a bank to get a loan."

"We had a very uniform system in our enterprises," according to a Cuban economist, "where they all had a similar structure, there was very little autonomy for managers, accounts were based on material goods, efficiency and cost control were not very relevant, and there was not a connection to the international economy. When conditions changed, we needed to find new ways to organize the economy."

## How *perfeccionamiento* works

That new way of organization was found in the *perfeccionamiento* movement that had begun in the 1980s to overhaul the enterprises controlled by the Cuban military. The leader of that movement, Armando Pérez Betancourt, refers to the “typical structure” of the socialist state enterprise as a “straitjacket.” Now the chief of the office that oversees the implementation of enterprise reform, Pérez Betancourt fights against “paternalisms” and calls for “liberating the minds” of Cuban managers so that they can “practice audacity as an everyday work method.”

Drawing on these ideas, and following a Communist party congress resolution passed in 1997, Cuban economic policymakers formally launched the enterprise reform process in August 1998. The idea is “to separate the functions of the state from those of state enterprises,” to enable those enterprises to reach optimal productivity, and thereby to create in Cuba “a real alternative to neoliberalism,” according to an article in a Cuban academic journal. Referring to Latin America’s privatization trend, Cuban Central Bank President Francisco Soberon said “we did not add our voices to those who preached an absolute and unquestionable truth that the state was always a bad administrator.”

The basic idea of Cuba’s enterprise reform, then, seems to be to make state enterprises profitable and competitive in the international marketplace by giving greater authority to managers and reducing bureaucracy. At the same time, the socialist character of the economy is preserved by the state’s overall policy direction, by state ownership, and by taxation of profits to address social needs.

For an individual enterprise, the reform process begins when it is selected to enter *perfeccionamiento* by the office that directs the process, the Executive Group for Enterprise Reform, a unit of Cuba’s Council of Ministers.

The initial selection sets two processes in motion. The enterprise’s books are audited to determine whether they are accurate. If at any time the accounts are found not to be accurate, the enterprise is withdrawn from the process until its books are put in order.

Simultaneously, the enterprise begins the *diagnóstico*, a self-evaluation that examines 16 “sub-systems” of the business, including its organization, management methods, quality

control policy, labor and salary policy, cost control, planning, information systems and policies, pricing, marketing, treatment of employees, and others.

The self-evaluation begins with instruction in the reform process itself – how *perfeccionamiento* is designed, what it is intended to achieve, and how an effective evaluation is conducted. Some enterprises are aided by Cuban business consulting firms or teams of academics trained in economics and business administration. One consultant’s instructional materials contain a section on “Rules for an Effective Meeting” that tells participants to “listen to and respect others’ points of view,” to “encourage others to say what they think,” and never to “underestimate the ideas and questions of others.” Another instructional unit explains the importance of clearly defining an enterprise’s mission and clearly articulating it in a mission statement that all employees understand.

The *diagnóstico* is an exhaustive process. All personnel are polled, brainstorming sessions are held, and the enterprise produces a document that includes the poll results and a written evaluation of each of the 16 “sub-systems.” In each case where a problem is identified, the document indicates whether the cause is internal or external.

Detailed questions must be answered in each of the 16 areas, and supporting data must be provided. For example, in the planning category, questions include:

- Is medium- and long-term planning used fully in all areas of the business?
- Does the enterprise manage by objective? Are concrete goals set, with measurable results and clear deadlines?
- What analytical systems are used for planning and measuring results?
- Is there an investment plan? Has it contributed to efficiency gains? Are feasibility studies conducted? What have been the enterprise’s sales and profits over the past three years, and how do these track with investments in each part of the business?
- Is energy consumption measured? Is there an energy conservation plan?

Once the *diagnóstico* is complete, and if the books are certified to be accurate, then it is sent to the Executive Group for approval. When it is approved, the enterprise writes a final report (*expediente*) that recommends solutions. The final report is then sent to the Executive Group for

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approval. Upon approval, the enterprise formally enters the reform process; it is free to implement its recommendations, it is relieved of a series of regulatory requirements, and its managers gain new authority.

It is expected that enterprises will adopt *perfeccionamiento* as a permanent management tool, continuing to self-evaluate and re-engineer to optimize efficiency, competitiveness, and profit. “Continuous improvement” is the objective.

The area of labor and salary policy offers one guide to the potential impact of reform. Enterprises are required to design a labor policy that fits their business needs. They are given flexibility to hire workers on a permanent basis, on a temporary basis paid by the hour or by a measured task, or as contractors who work off-site. They are directed to develop a compensation system with the “strongest possible link” between pay and production. The basis of this system is a pay scale with monthly salaries ranging from 140 to 700 pesos (as compared to an average national salary of 223 pesos), but in addition to basic salaries, enterprises may pay production bonuses, and these can be paid in dollars if the company has dollar revenues. Enterprises are also freed from economy-wide regulations that require workers to have defined numbers of years of experience to qualify to work in various job categories.

The process began in 1998, when 98 enterprises entered. By July 2000, 1,412 had entered; 407 were certified to have accurate accounting, 286 had their *diagnóstico* approved, 58 had presented their final report, and 19 had that final report approved and had formally entered *perfeccionamiento*. By June 2001, 1,530 enterprises were at various stages of the process – of which 751 were certified to have accurate accounting – and 244 enterprises had passed all the hurdles and received final approval.

Cuban officials say that accounting is the largest obstacle to progress in state enterprise reform. “Cuba lost the art and custom of accounting thirty years ago,” a business consultant explains. “Under a system of material planning, accounts were kept by quantities of materials, and it was no longer a custom to measure results by profits or financial results. Accountants went to other professions.” Cuban media reports cite numbers of enterprises that are suspended from the process because their books are not accurate.

## Company experiences

**Tire and rubber factory.** The *Empresa de Goma Conrado Piña*, a rubber products company in El Cotorro in Havana province, was founded in 1945. It produces sneakers, automotive hoses and gaskets, and tires for cars, trucks, and bicycles.

The enterprise had its final report approved in April 1999 and formally entered the *perfeccionamiento* process. In an interview, Lázaro González, the top executive since 1985, explained the company’s experience with enterprise reform.

In the past, González said, the company’s freedom of action was “very limited – practically all our problems were resolved at higher levels,” meaning in the Ministry of Basic Industries. His job “was really to carry out directives from

above. I couldn’t structure my payroll or designate who works with me. The plan didn’t have to do with customers.”

“If I surpassed my targets they congratulated me,” he said, and “if I fell short they criticized me” – but in either case there was no financial impact on the company or on the earnings of its managers and employees.

In González’s view, the key to the process is communication.

“Without the participation of workers in each step the process doesn’t work,” González said. “We spent many days studying and talking about problems affecting production.” González wrote a 3-page directive to managers that stresses the company’s need for a “confrontation of ideas and views” during research and drafting of the *diagnóstico*. It stresses need to create “a work environment that encourages subordinates to express their views without fear of reprisal;” it warns against sycophancy, and discusses the essential need for an “adequate system of moral and material incentives tied to economic results.” Now that the company has entered *perfeccionamiento*, González continues the process of self-evaluation. “We have a system for constant communication,” he said, including “a written weekly bulletin, meetings with workers, and executives always walking around talking to workers.”

The company employs nearly 1,700 workers, about the same number as before *perfeccionamiento*. González said the gains have been dramatic: average production increased 83%, sales increased 60%, after-tax profit is up 300%, and there is a 95% labor productivity increase. After-tax profits in 2000 were \$2.13 million, over triple the 1999 level. The enterprise pays tax of 25% of its payroll spending and 35% of gross profit.

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These gains enabled the firm to increase its average monthly base pay by 74% to 390 pesos. Because the company has dollar revenues – it sells to foreign exchange earners such as the state’s chains of dollar stores and the Ministry of Sugar – it is able to pay dollar bonuses. Depending on monthly production, workers earn a 5-10% dollar bonus, so that a worker earning a 300-peso salary would receive \$15 (the equivalent of 300 additional pesos at current exchange rates) if a 5% bonus is paid. When production is at the high end and a 10% bonus is paid, an extra \$30 effectively triples that worker’s salary. Workers have automatic teller machine cards and receive their pay by direct deposit.

González said he was concerned about worker support for the process. “In any change, resistance comes when people see no immediate benefits, however small, material as much as moral.”

As a result, the enterprise moved quickly to heed worker concerns about conditions and benefits, improving food service and adding new buses to transport workers to and from their homes.

How has González’s job changed? “There’s more responsibility, more worry, more work,” he said. “Before, the business’s problems were not mine. I raised them, and others decided what to do. Now the problems are mine.”

**Architectural firm.** EMPAI is a Matanzas architecture and engineering consultancy founded in 1977. It has 262 employees, of which 114 are professionals. In its early years the bulk of its work involved standard government buildings such as schools, health centers, and housing. Today only 30% of its billings are in that category, and it mainly serves the tourism industry.

In an interview, EMPAI executives said that they needed to improve their operations in the face of stiff competition from Havana firms. “If we didn’t question everything and bring ourselves up to the level of the tourism industry, we would lose out,” the director, José Macias, explained. “It was a question of life and death.”

EMPAI’s re-engineering began in 1995, 3 years before *perfeccionamiento* processes were instituted, when new management took charge. The company’s final report was approved in July 1999. To promote open and vigorous dialogue during the self-evaluation, executives took two steps: they assured personnel that they would not be penalized for voicing criticism, and they put “sharpshooters” – their nickname for the most vocal and critical workers – on the evaluation committees.

**“Until very recently, our state enterprises were not enterprises,” a Cuban observer noted, “they were state entities, fulfilling a plan, regardless of whether they made a profit, or had too many workers, or worked inefficiently. Today, even with the slowness [of *perfeccionamiento*] and all its difficulties, it’s important because it says state enterprises have to become enterprises. They have to produce what there is demand for, make a profit, have a workforce that fits their productive needs.”**

EMPAI has doubled its sales since 1995 while reducing personnel by 15%. Executives attribute the productivity gains to several factors: training, monetary incentives, and use of information technology. The company has 112 personal computers, 28 times the number available in 1995, and they are networked.

Like other state enterprises, EMPAI has difficulty retaining professionals. Cubans are drawn to the relatively high earnings of tourism industry employment, a special difficulty for EMPAI for two reasons: it is located near the tourism center of Varadero, and its employees often make job contacts in that industry in the course of their consulting assignments.

Consequently, EMPAI took advantage of *perfeccionamiento* to design a new salary policy. In addition to a basic salary,

workers are evaluated each quarter and paid a lump-sum bonus that can equal 30% of their base pay. Workers receive profit sharing distributions 3 times each year, paid partially in dollars. Finally, they can earn extra pay for completing projects ahead of deadline. For one mid-level professional, these “extras” raised earnings from a basic salary of 375 pesos to 886 pesos.

**Sugar exporter.** Cubazucar is the business in charge of marketing Cuba’s sugar and sugar products overseas. It has 7 offices around Cuba, one in London, and one in Moscow.

Last December, the company had completed its self-evaluation, its

*diagnóstico* was approved, and the drafting of the final report was under way.

In an interview, chief executive Alejandro Gutiérrez said he views the reform effort as similar to “total quality management” techniques used in capitalist enterprises. He has made efforts to involve all his workers in identifying problems and recommending solutions, and his first step was to eliminate fear of layoffs – workers were assured that if layoffs did occur, they would be given new jobs in the Ministry of Foreign Trade or one of its enterprises.

The polls, discussions, and anonymous written suggestions that were part of the *diagnóstico* process revealed a glaring omission: the lack of a quality policy. “We were dedicating ourselves to the quality of the sugar,” Gutiérrez said, “not to the quality of service that we gave our customers.” Workers noted that training programs were not ideally suited to their tasks. Workers and management agreed on the need to



develop a salary system that includes performance incentives. All these issues are addressed in recommendations in the final report. Cubazucar also seeks to flatten its management structure; if recommendations are approved, five divisions each reporting to a vice president will be replaced by two directorates: commercial/development and accounting/finance. This is intended to simplify management and to increase information flow among colleagues with related functions.

Gutiérrez's staff also looks forward to the reduction in bureaucratic requirements that would come with approval of their final report. Cubazucar's contracting of simple office services such as cleaning, maintenance, and food service is now restricted to a company affiliated with the Ministry of Foreign Trade; upon approval of the final report, the company will be free to buy these services from any vendor it chooses. Simple investments such as purchasing a bicycle for a port worker will no longer need to be approved by the ministry. Statistical reports on payroll, purchases, and other matters will no longer have to be produced for various government offices. And the company will be free to structure its workforce according to its needs.

**Other companies.** The author was able to examine *diagnósticos* from other companies. As would be expected from the amount of subjects they need to cover, these are long, detailed documents that identified hundreds of problems with both internal and external causes. The most notable feature was that they did not refrain from putting in writing the shortcomings identified in their businesses, or the criticisms expressed by polls of workers.

In one poll, workers noted the lack of an incentive system, lack of management response to worker suggestions and complaints, and insufficient priority given to quality of production.

Another company's management concluded that it needed to address the need for maintenance planning, the need to gear production to the type and mix of products desired by customers, the lack of a quality control policy, a lack of incentive pay, insufficient communication throughout the organization, and inadequate work conditions.

Yet another company noted a constraint on its sales and profitability that derives from the rules that have long governed Cuba's state enterprises. Enterprises are part of a government ministry's structure and in general are only able to do business within that ministry. This company, which

provides a wide range of services, noted that its productive capacity would be used more fully and more profitably if it were able to provide automotive maintenance and other services to any potential customer in Cuba, not only those within its own ministry.

## Implications and future issues

**Impact on managerial culture.** Cubans' opinions of *perfeccionamiento* are not unanimous; some seem to know little of the process, some question the impact of a process that seems to be moving very slowly, some doubt the capacity of reformed enterprises to increase worker compensation significantly, and some worry that it may bring layoffs and erode the state's commitment to employment and social equity.

However, one also finds Cubans who have no connection to the process who believe that *perfeccionamiento* is changing Cuba's business and managerial culture. "Until very recently, our state enterprises were not enterprises," one observer noted, "they were state entities, fulfilling a plan, regardless of whether they made a profit, or had too many workers, or worked inefficiently. Today, even with of the slowness [of *perfeccionamiento*] and all its difficulties, it's important because it says state enterprises have to become enterprises. They have to produce what there is demand for,

make a profit, have a workforce that fits their productive needs." One critic of the slow pace of reform said nonetheless that the process is creating a culture where criticism can be voiced: "This is the first time workers' opinions are truly being taken into account."

Cuban bookstores are reflecting an interest in modern management. In Cienfuegos, alongside biographies of Che Guevara and an account of the adventures of Manuel Piñero Losada, a revolutionary veteran who spent a career directing Cuban intelligence activities in Latin America, one finds *Effectiveness in Business*, a \$10 paperback on management, marketing, customer relations, finance, and the art of negotiation. Off Havana's Plaza de Armas, a bookstore offers a volume on techniques of success by Miami Heat coach Pat Riley, amid other titles: *The New Paradigm of Leadership, Budget Your Expenses and Savings, Learning to Think Like a Boss, Effective Management of Key Customers, and Conceptual Sales – The Sales Technique with the Most Success in the U.S.* Meanwhile, outside on the Plaza, vendors of used books display old volumes of *The Economic Thought of Che Guevara*.

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Non-Marxist economics and business management have found their way into the Cuban university curriculum. A 5-year program conducted by Canada's Carleton University with Cuban universities taught economics and business administration to Cuban students and at the same time trained Cuban professors to teach the courses themselves. Since 1995, the European Community has financed the offering of 12-week courses in management and marketing to junior and mid-level Cuban professionals in Havana and Santiago. The University of Havana offers a degree in business law, an option that did not exist a decade ago, and is producing about 4 times the number of law graduates as 10 years ago. The University also offers postgraduate courses and advanced degree programs in economics, international economics, finance, business administration, management, information management, tourism development, tax administration, total quality management, hotel management, information technology, and human resource management.

**The party and unions.** What roles do the Communist party and socialist labor unions play in a process that promotes profitability and potentially threatens workers' jobs? This seems to be a delicate issue. Their role is "to support the changes," says one executive. They are involved in the preparatory stages of *perfeccionamiento*, explaining to workers what is involved and how participation is essential to creating a useful *diagnóstico*.

Outside the reform process, they promote other changes in business practices. Cuban media report that labor unions held their sixth "Economic Efficiency Assemblies" in February and March 2001. These meetings were preceded by study and discussion in workplaces, covering problems of production, accounting, theft of materials, and the process of enterprise reform.

A July 2000 press account of a meeting of the Cienfuegos provincial committee of the Communist party said delegates declared themselves firmly in favor of "strengthening the indispensable role" of party committees in "supervising... and contributing to the progress" of *perfeccionamiento*. They noted their commitment to "the spirit of critical thinking" and underscored that the party is the "vanguard" of Cuban society. These comments largely conform to a political role – "not to administer the business," as one executive said, but to "build popular support for enterprise reform."

An official in a non-economic ministry calls *perfeccionamiento* an "invisible political reform because it makes the party withdraw from the management of enterprises. There wasn't direct party control before, but its influence was so heavy that decisions were often guided by politics, not economics."

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**Competition.** The focus of *perfeccionamiento* is on single enterprises, but as these enterprises gain autonomy, the broader economy may be affected. When executives are free to purchase supplies from any source – not just their ministries' designated suppliers – then Cuban enterprises will in theory have to compete for their business. This would remove artificial protections and introduce a measure of competition even among enterprises that have not been reformed. Cuban enterprises will also have the potential to gain competitive advantages in export markets.

## Conclusion

If *perfeccionamiento* is not accomplishing a rapid transformation of Cuban industry, neither is it right to conclude that it is a public relations exercise.

While the process advances gradually, the pace seems to be governed by its own rigorous requirements – witness the Cuban government's own reporting on the number of enterprises that are excluded because of their substandard accounting practices. "We want to use quality, not time, as a yardstick," says Carlos Lage.

In the absence of a policy to stimulate broad growth of small private enterprise, *perfeccionamiento* seems to be one of the Cuban government's preferred options for generating growth. Finally, it seems clear that the slow pace is also convenient to the government because it avoids the large-scale unemployment that could result from enterprises exercising their prerogative to release excessive employees. According to one estimate, the state sector has 500,000 excess employees, all of whom could be released in the event that managers were given at once the freedom to reduce payroll and the mandate to achieve profitability.

In the context of Cuba's other economic reforms – incentive-based agriculture, foreign investment, small enterprise, and others – *perfeccionamiento* stands as an additional example of a policy that grafts market mechanisms and non-socialist management practices onto a socialist economic model. The result will be a Cuban economy that is less centralized, more attuned to international market realities, equipped with a labor force and managerial class that responds to supply, demand, and material incentives – and, if all works according to design, more productive and prosperous.

This does not add up to a decisive free-market reform, but if in the future Cuban policymakers opt for an additional round of market-oriented reforms, a reformed state enterprise sector will be an important part of the groundwork. It is a process that bears watching.

## Further reading

*The Cuban Way: Capitalism, Communism and Confrontation*, by Ana Julia Jatar-Hausmann, Kumarian Press, 1999.

Speeches, announcements, decrees, other official information, and news on Cuba's economy can be obtained from [www.cubaweb.cu](http://www.cubaweb.cu), which carries Granma, Trabajadores, other Cuban publications, and Cuban wire services.

The Georgetown University Cuba Briefing Paper Series includes papers on many aspects of economic policy in the past decade, as well as on a wide range of political and social topics. See [www.georgetown.edu/sfs/programs/clas/Caribe/cbps.htm](http://www.georgetown.edu/sfs/programs/clas/Caribe/cbps.htm).

A Cuban website ([www.nuevaempresa.cu](http://www.nuevaempresa.cu)) includes basic documents about enterprise reform, links to Cuban official websites and Latin American business-related websites, listings of professional development courses for Cuban managers, a directory of Cuban enterprises, and other information. At the time of this writing, the site is under development, and its webmaster indicates that content will be added.

Lexington Institute studies on Cuba's economy, U.S.-Cuba relations, and other materials are found at [www.lexingtoninstitute.org/cuba](http://www.lexingtoninstitute.org/cuba).

Studies by the author published by the Alexis de Tocqueville Institution: "Cuban Agriculture: Slow Road to Recovery," March 1999; "Cuba's New Entrepreneurs: Five Years of Small-Scale Capitalism," August 1998 (text available at [www.adti.net](http://www.adti.net); authored by Philip Peters and Joseph L. Scarpaci); "Cubans in Transition: The People of Cuba's New Economy," March 1999; and "A Different Kind of Workplace: Foreign Investment in Cuba," March 1999; all available for sale at the Alexis de Tocqueville Institution ([www.adti.net](http://www.adti.net)).

**To contact the author:** [peters@dgs.net](mailto:peters@dgs.net)

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1655 Fort Myer Drive  
Suite 325  
Arlington, Virginia 22209  
[www.lexingtoninstitute.org](http://www.lexingtoninstitute.org)