

***Bloqueo* Economics in Cuba**

Structural Heterogeneity and the Mode of Production Approach to the Analysis of Development and Underdevelopment

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Prof. emeritus Dr. oec.publ. Manfred Nitsch
Latin American Institute, Freie Universität Berlin
manfred.nitsch@t-online.de

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- Cuba and the *Kleinmachnow Syndrome*
- Institutionalism and Modes of Production
- “Against Parsimony” (Hirschman) in economic theory
- Structural heterogeneity as an analytical tool
- Scenarios for Cuba
- Bibliography for students of development economics (this is not an elaborated article)

Cuba and the *Kleinmachnow Syndrome*

- Cubans: 11 millions on the island, 2 millions abroad, primarily USA
- History: 1959 great exit after takeover, and later, too
- Kleinmachnow: 1989 Fall of the Berlin Wall
 - Restitution claims for nearly all of the real estate
 - „*Kleinmachnow Syndrome*“ as a code for the fear of restitution and the corresponding behavior
- Hypothesis: Cuba is suffering from the *Kleinmachnow Syndrome*

Symptoms of the *Kleinmachnow Syndrome*

- Restitution fears: houses, land, firms and other assets are claimed by the proprietary classes which had left the island.
- “Socialism” protects the possessors from the owners; whereas any kind of “liberalism” threatens with the hailing of private property as a fundamental human right; entrenched enmity as a result.
- The longer it (Castro rule) lasts the better, since the owner (landlord or "uncle") dissipates into a bunch of distant foreigners or "cousins".
- The more run-down the house or the farm, the better, since nobody cares for a ruin with unclear property rights.
- Result: no accumulation (innovation, investment); short-termism; the socialist State as an indispensable protector; analyzing a blockaded economy with ***Bloqueo Economics***.

History of the mode-of-production approach

- Karl Marx' historical materialism: capitalism is only (!) a certain phase in history
- Before, alongside, and after (!) capitalism: other modes of production (and reproduction)
- Cultural ecology or materialism and culture, anthropology
 - North and central European plains: peasants and knights
 - Mountains, e.g. the Andean mode of production; *comunidades*
 - Deserts: Nomads
 - Rivers: Oriental despotism (Wittfogel) and hydraulic society
 - Tropical rain forests: acephalous tribes
- “Structural Heterogeneity” – from Latin America
 - Transnational corporations vs. local economies
 - Indigenous customs vs. *economía familiar* vs. monetary economy

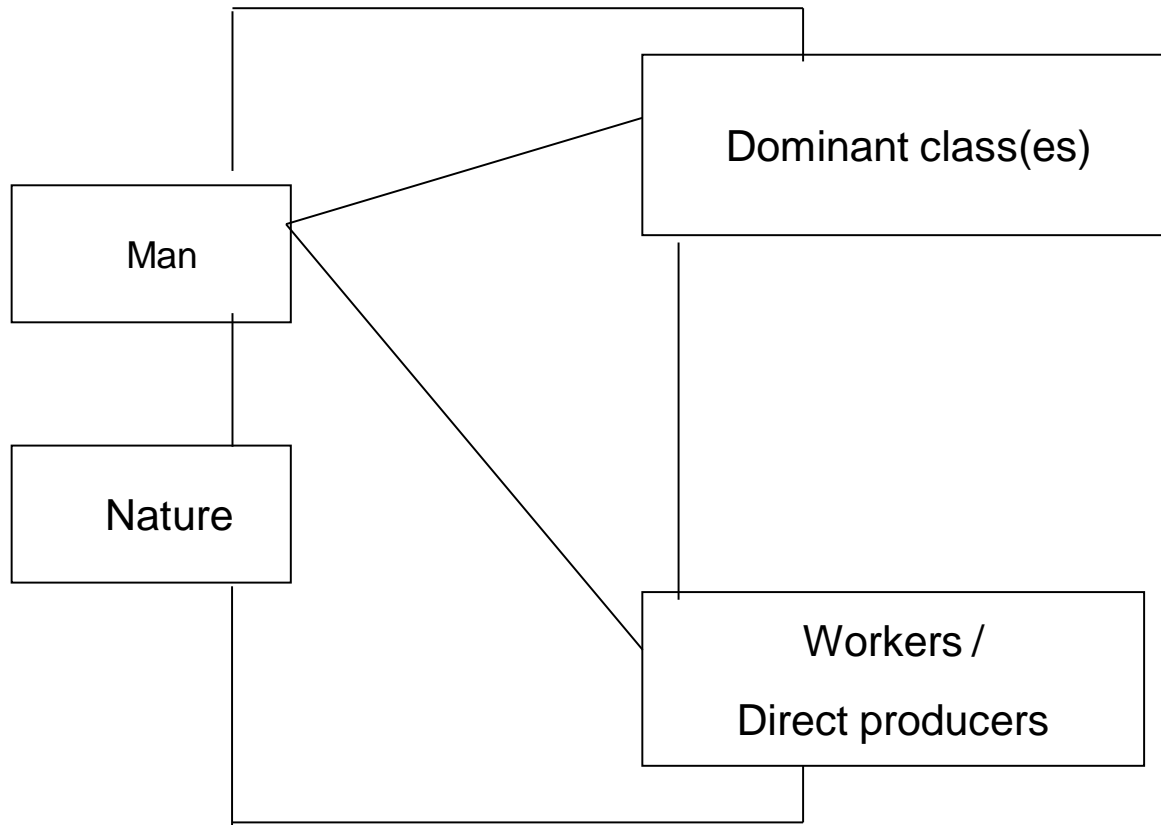
Basic assumptions in economic modelling

“Against parsimony” (Albert O. Hirschman)

- Methodological individualism
 - Dominant in mainstream economics
 - Neoclassical *homo oeconomicus*
- New vs. “old” institutionalism
 - “New” institutionalist economics - individualistic
 - Principal-agent model
 - Transaction costs
 - Asymmetrical information, moral hazard, free riding, etc.
 - Here: Institutionalism in the “old” tradition
 - Take collectives seriously: classes, communities, nations, ...
 - Take history seriously: path dependencies
 - Take superstructures and Marx’ “contradictions” seriously

The mode of production approach

Superstructure („Überbau“)



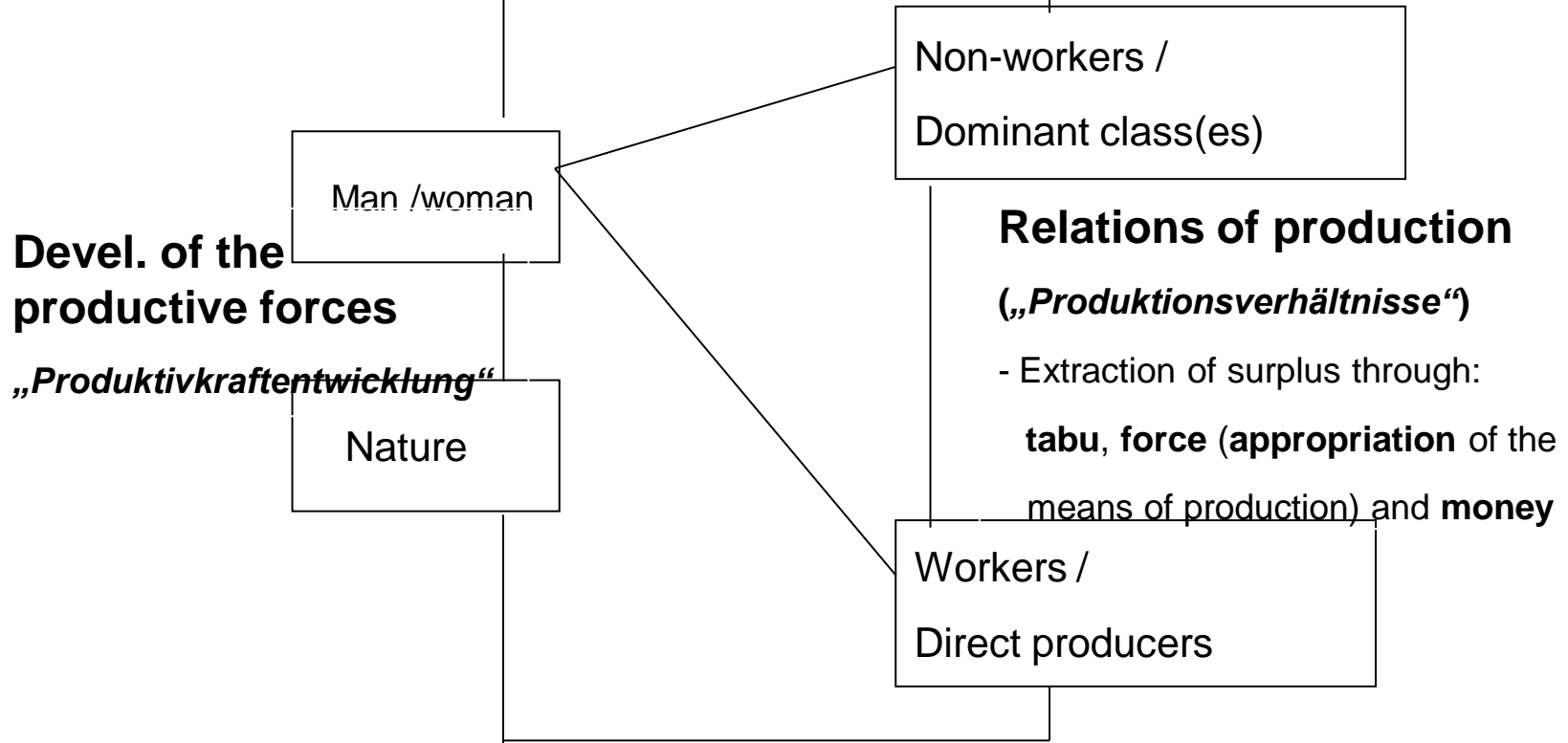
Contradictions („Widersprüche“) ??

- State of the productive forces („Produktivkraftentwicklung“) and the relations of production („Produktionsverhältnisse“)
- Material base („Basis“) and superstructure („Überbau“)

Basic concepts of the mode of production approach

Superstructure („Überbau“)

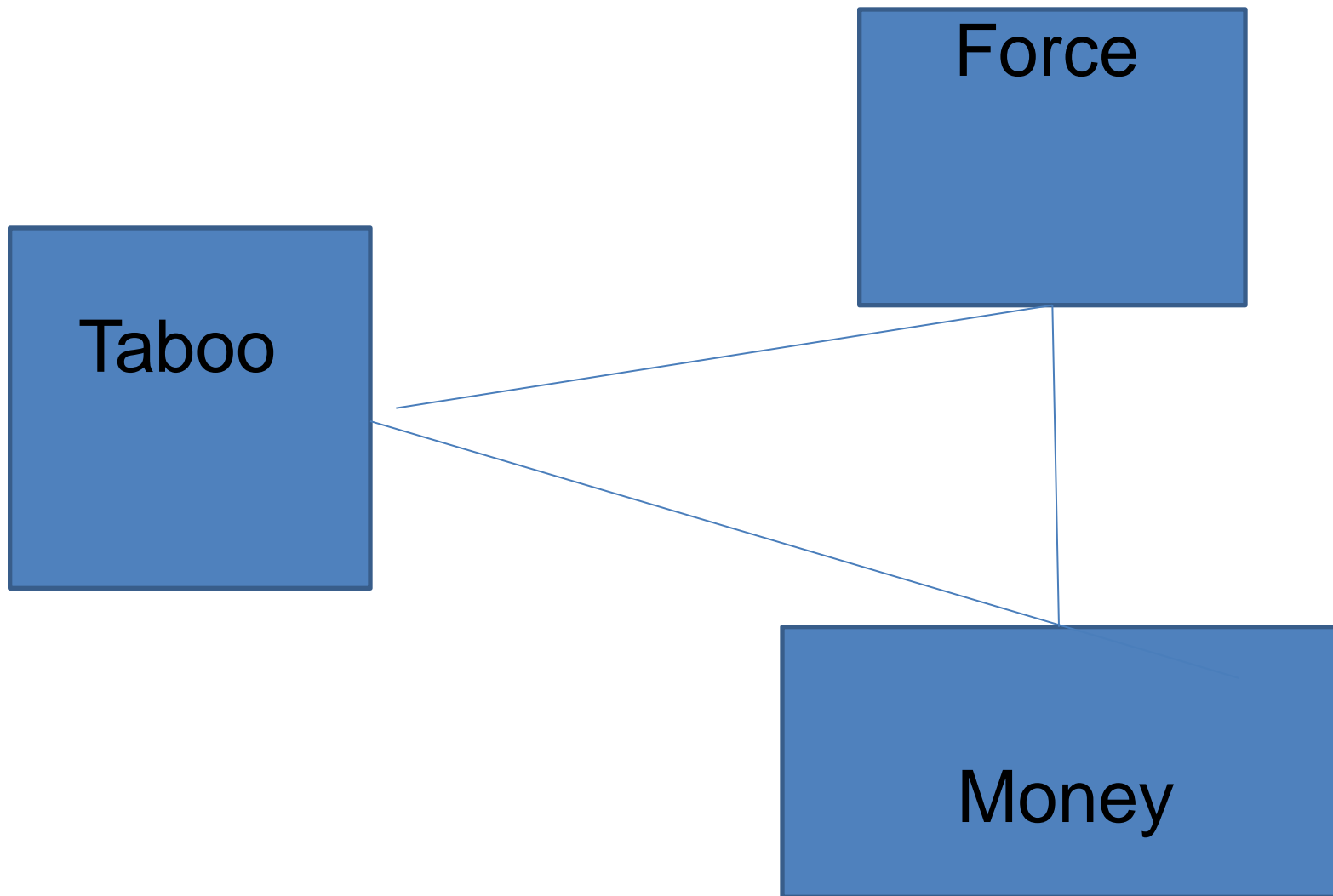
- cultural, religious and legal norms, institutions, and taboos



Harmony or contradiction between

- the state of the productive forces and the relations of production (and reproduction) and / or
- the material base („Basis“) and the superstructure ?

General “tripod” model of any resource allocation (Stadermann)



General “tripod” model of any resource allocation (Stadermann)

- Custom (not only in traditional societies): Allocation primarily by **taboo**, using also **force** and sometimes **money**
- Socialist societies with Communist Party rule: Allocation primarily by **force**, invoking socialist values as **taboos** and using (pocket) **money**
- Capitalist societies: Allocation primarily by **money**, invoking quasi-calvinist values as **taboos** and using **force** for protecting property and public security
- Crime: Allocation primarily by **force**, striving for **money**, invoking Robin Hood or Sheriff values as **taboos**

Taboo/Norms in economic affairs/ Superstructure (*Überbau*)

- Religious doctrines in general
 - Not only “taboos” in the extreme sense
- Traditional customs
- Constitutional norms
- Contemporary cosmopolitan, universal norms, secular super-ego mandates and prohibitions
 - Human rights
 - Codes of decent behavior

Force/Rules/Regulation/Violence

- Also in a wide sense: Rules, judiciary system
- Politics
- Administration
- Formal and informal violence
- Crime, terrorism
- Military affairs, (Cold) War
- Any economic order is “fortified by force”

Tripod examples: Access mix by different actors in Cuba

- Communist Party *nomenclatura* - much taboo and force potential, little money but access to business
- Workers / employees – small potential in all three dimensions
- *Cuentapropistas / Propiacuentistas* – neither force nor taboo, but some money
- State administrators and military - conflicting taboos (socialism vs. development vs. conservation), much force, little money, but access to business

Contemporary modes of production in Cuba

- State socialist economy of Soviet style
- Family economy – combining production and consumption / reproduction, *propiacuentistas*
- Cooperative economy / *economía solidaria*
- Monetary economy – often with FDI
- Methods of analysis for modes of production and structural heterogeneity: **stocks** and **flows**, always with non-monetary items included

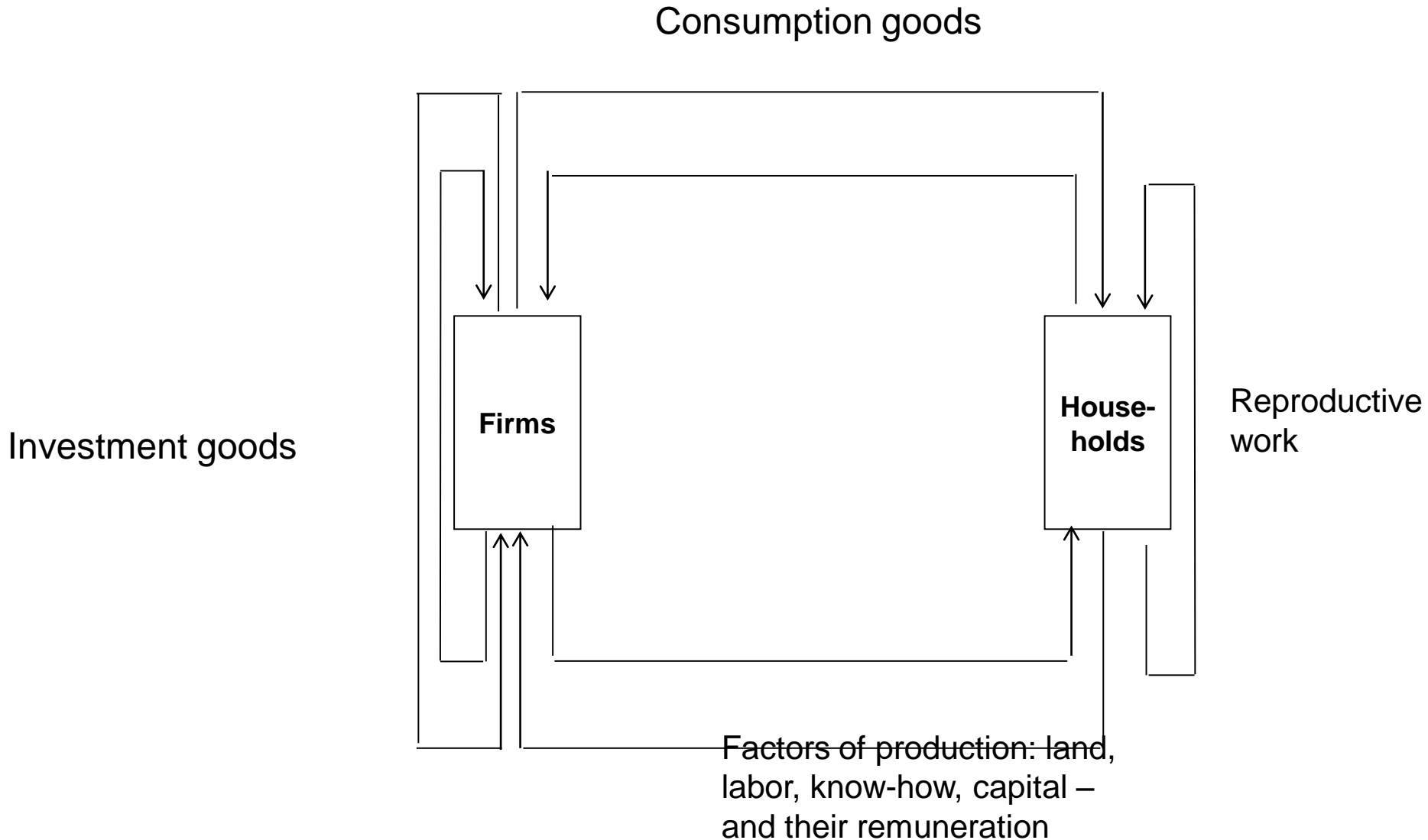
(Family) Enterprise / Household / *Propiacuentista*

Balance sheet (stocks)

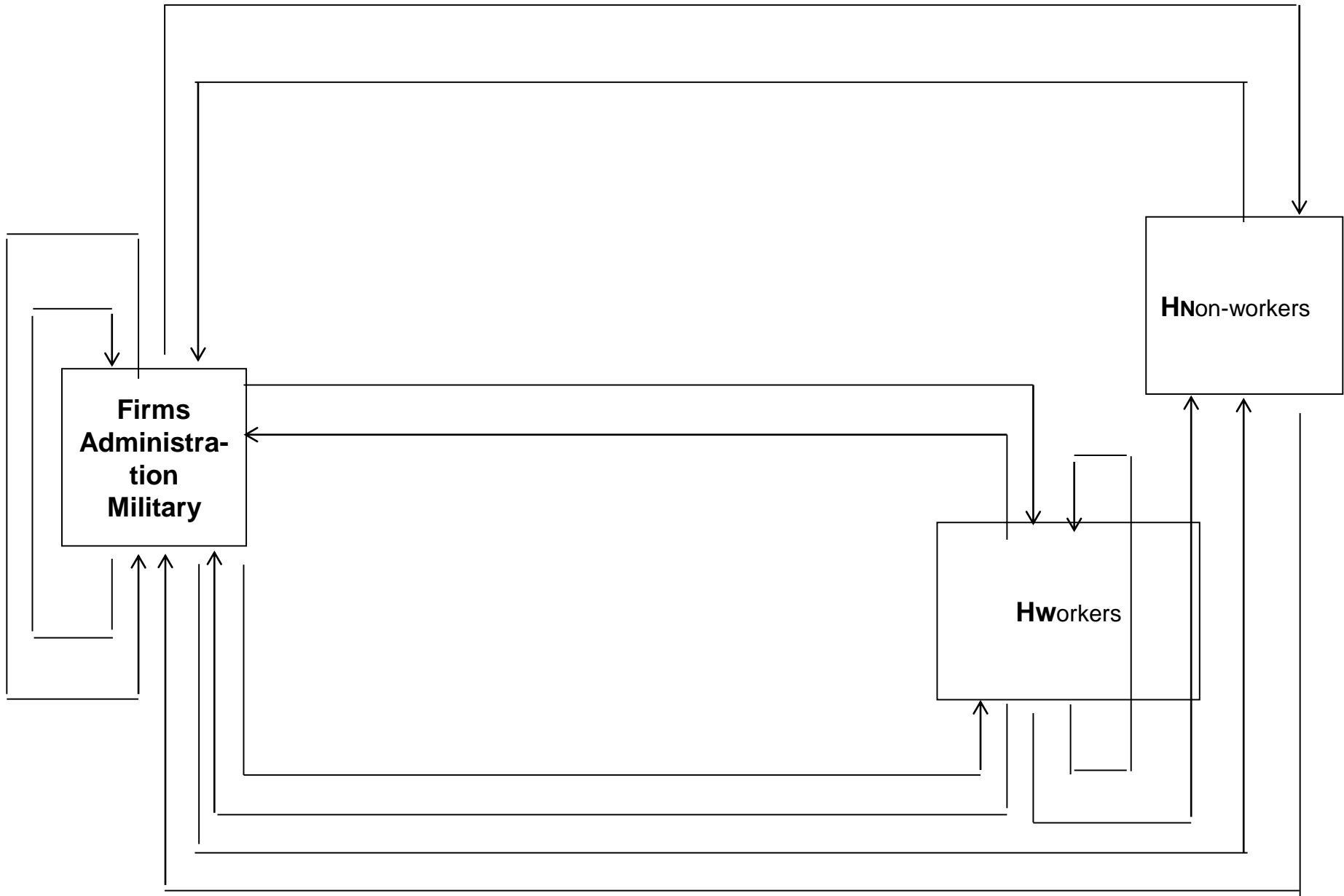
<u>Assets</u>	<u>Liabilities</u>
<ul style="list-style-type: none">- real- financial<ul style="list-style-type: none">- Pesos- Libreta- CUCs- US\$- human capital- social capital<ul style="list-style-type: none">- reciprocity- coop membership- social security- access to public services- labor rights- culture	<ul style="list-style-type: none">- relatives- friends and neighbors- market partners- banks and insurance co.- state / government (taxes, fees, permits, bribes) <hr/> <u>Equity</u> <ul style="list-style-type: none">- man / husband / member- woman / wife / member- children- others – exiled Cubans ?

The economic circuit (flows)

Mainstream assumptions: Every flow is monetarized, no external effects, perfect competition on all flow markets, general equilibrium, one good: GDP



The economic circuit in a class society



Family economy (*Familienwirtschaft* / *economía familiar*)

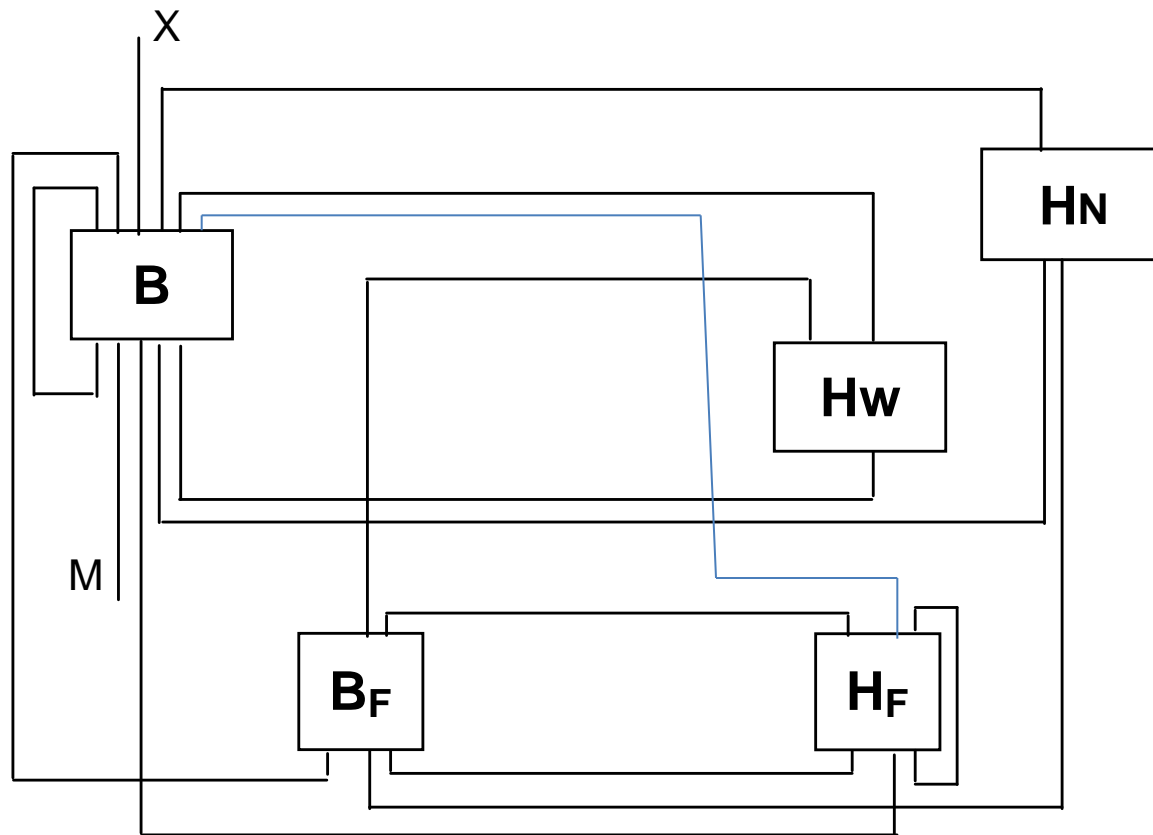
- Controversial concept: Non-capitalist mode of production or *petit bourgeois* or influential and potentially rich upper-class *Mittelstand*?
- Chayanov (= Tschajanow) 1923 as propagator of peasant life and martyr in the Soviet Union, revival in the post-68 search for non-capitalist modes of production
- Simultaneous decision-making on firm and household affairs, family life-cycle **genes** determine development, stagnation or death
- Good life (*Buen Vivir*, consumption, leisure and good outlook for children) instead of accumulation in business
- Poor families: Self-insurance through diversification, “investment“ in reciprocity assets or honoring of reciprocity obligations or financing their children’s careers rather than the growth of their businesses; no economies of scale, danger of self-exploitation through lack of market power, polypolistic competition and high fixed costs

Scenarios for Cuba

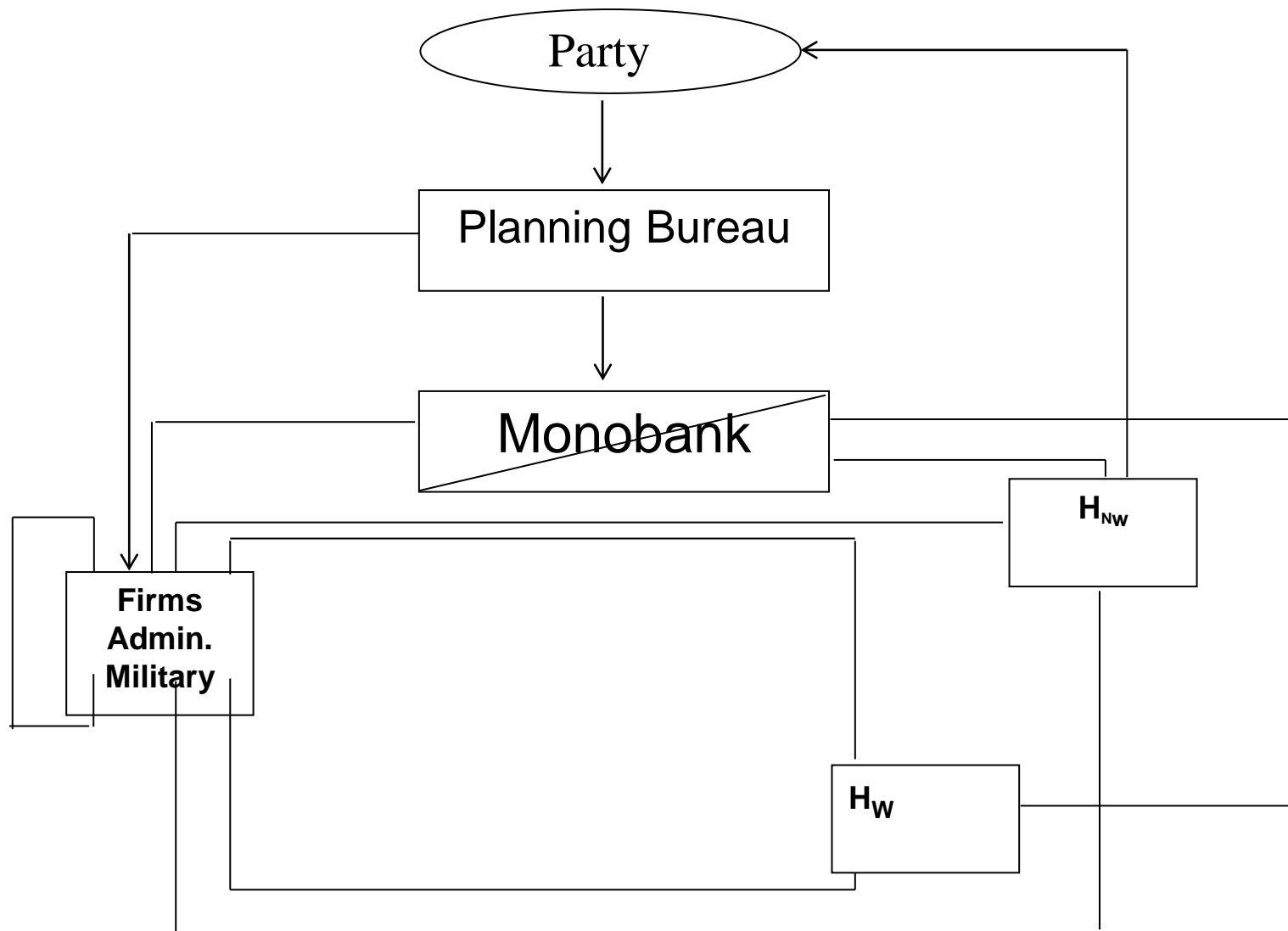
- Business as usual
- Democratic socialism
- State capitalism
- The Chinese way: *Guanxi* economics
- The Russian way: *Blat* disaster
- Oligarchic capitalism
- Eco-Social market economy and democracy

Business as usual: The economic circuit in a class society with the socialist and the family mode of production

Ché Guevara's dream: Abolish capitalism / = money !



State socialist mode of production



Democratic socialism (21st century)

- Formally multiparty political democracy within an egalitarian IT constitution – but/and with an hegemonic Socialist Party
- Formally free press, minority rights, etc.
- Large public administration and services
- Strong state enterprises with more or less monetary-economy outlook and FDI partners
- Family enterprises with strong cooperatives
- NGOs as a “third sector”; support from leftist catholics/Pope?
- Authoritarian tendencies with **taboo** and **force** strategies in favor of possessors against **money** (external bourgeoisie)
- External threat of restitution – *Kleinmachnow Syndrome* – as decisive stabilizer

State capitalism

- Formally multiparty democracy within a liberal constitution – with hegemonic party/ies
- Somewhat controlled press
- Public administration, military and public utilities in the hands of the “state class”
- Strong state enterprises controlled by the “state class / bourgeoisie”, often with FDI
- Capitalist private enterprises (with elements of crony capitalism), often restituted ones
- Authoritarian taboo structures

The Chinese way: *Guanxi* economy

- Communist Party rule, *avantgarde* cadres
- Controlled media and “harmonious society”
- Traditional big state-owned enterprises being slowly transformed into
- Capitalist enterprises
- Village enterprises
- Family-led enterprises
- Authoritarian taboo and force structures

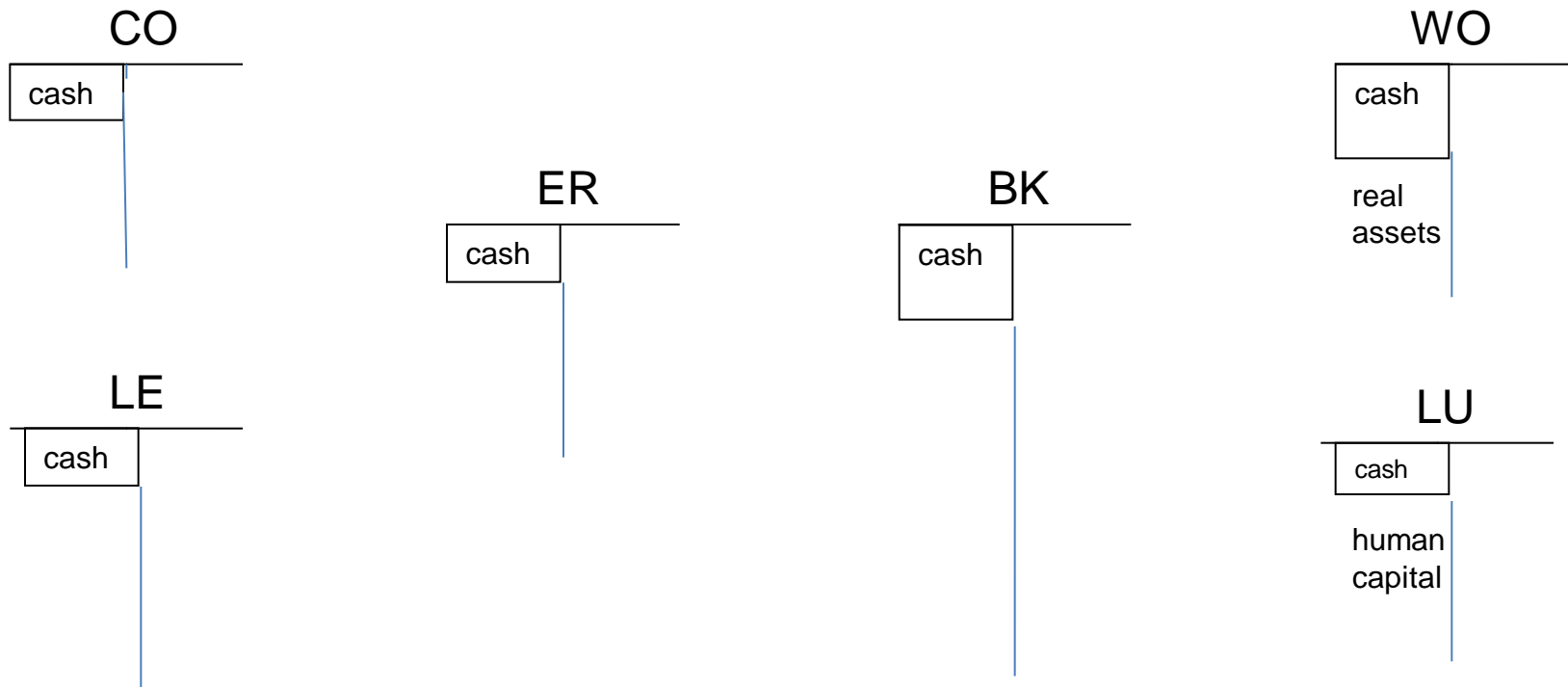
Definition von Guānxi 关系

- **Principle of reciprocity**
 - trust based on friendship, social, individual, emotional commitment, and long-term relations
 - exchange of favors for mutual benefit
 - between two or more individuals
- **Historical background: Confucian rites and ethics**
 - 禮 lǐ: *rites*, today → 礼物 lǐwù: *gift, present*
 - 五倫 wǔ-lún → **five human relationships**: role model for the traditional Confucian hierarchy
 - care and concern between parents and children
 - mutual respect between husband and wife
 - harmonious relationship of the elderly and the younger
 - righteousness of the superior and his subordinates
 - trust between friends

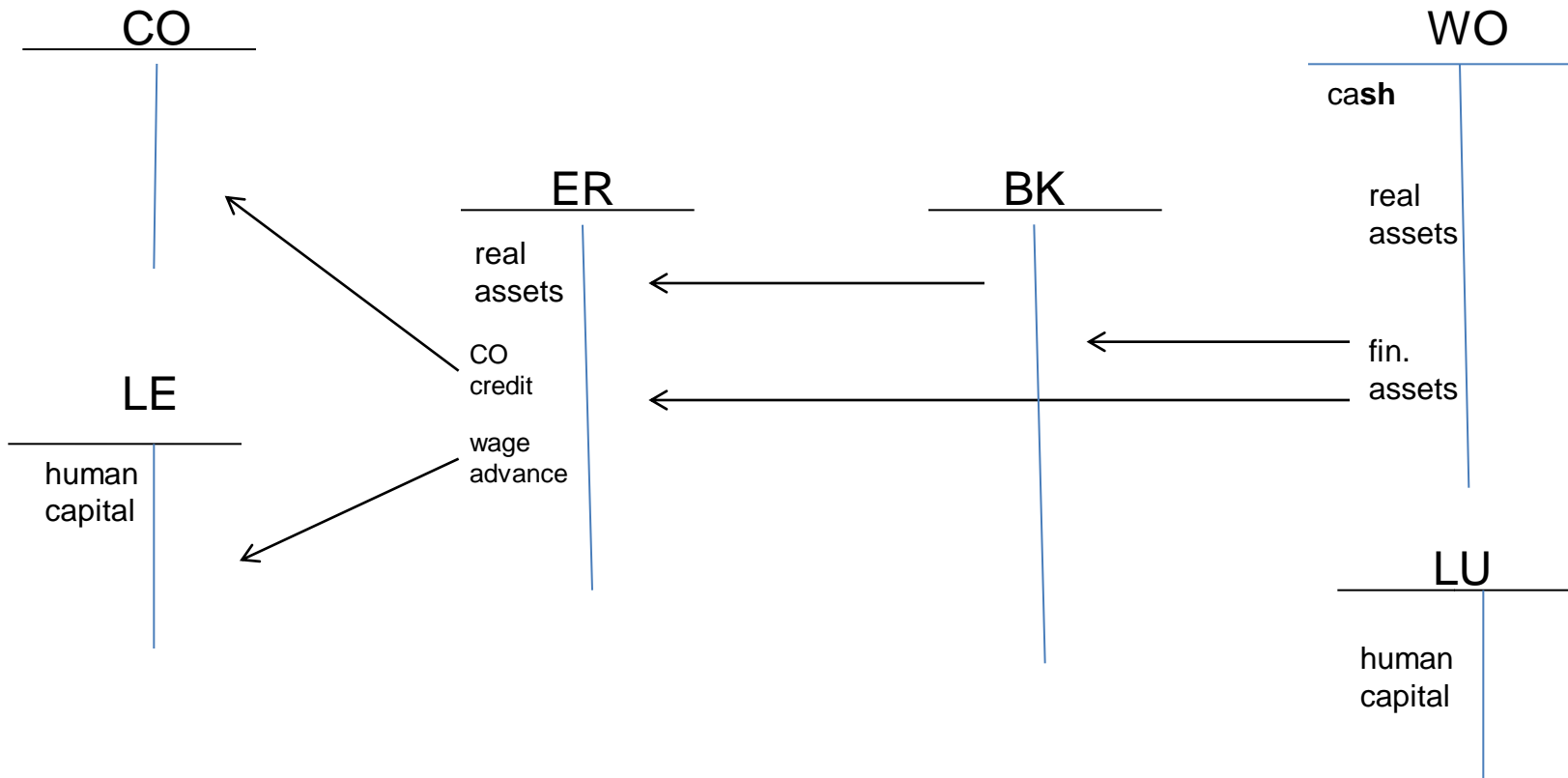
The *Guanxi* economy as a quasi monetary economy

Model I: Money as an asset among others:

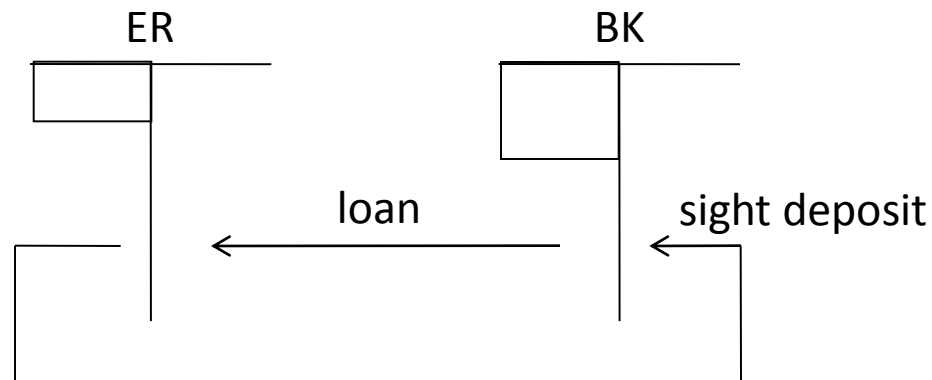
Friedman's helicopter and the neoclassical exchange economy



Model II: Money as medium of deferred payment: Keynes' monetary theory of production

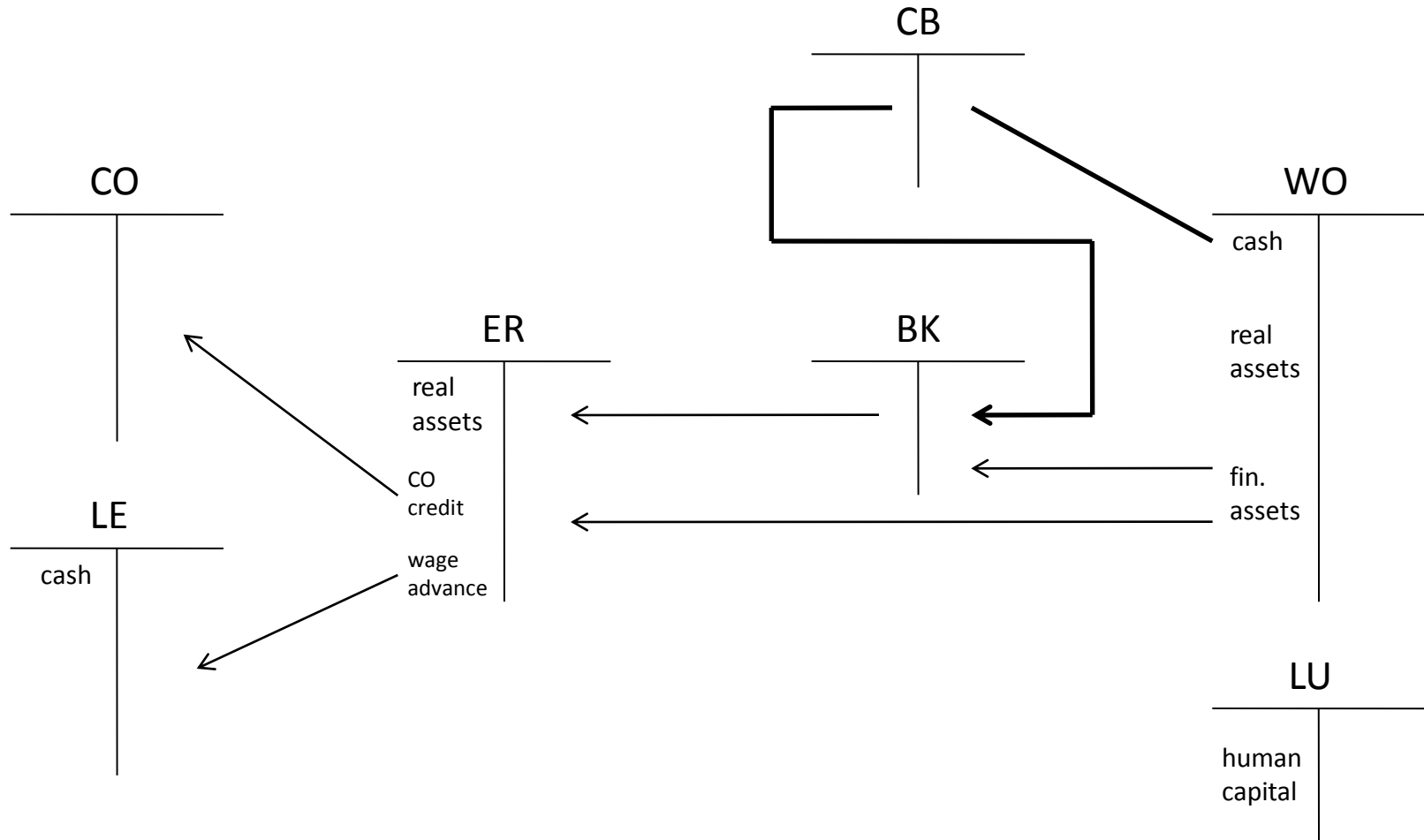


Credit creation *ex nihilo*: Schumpeter's "development" entrepreneur and his banker



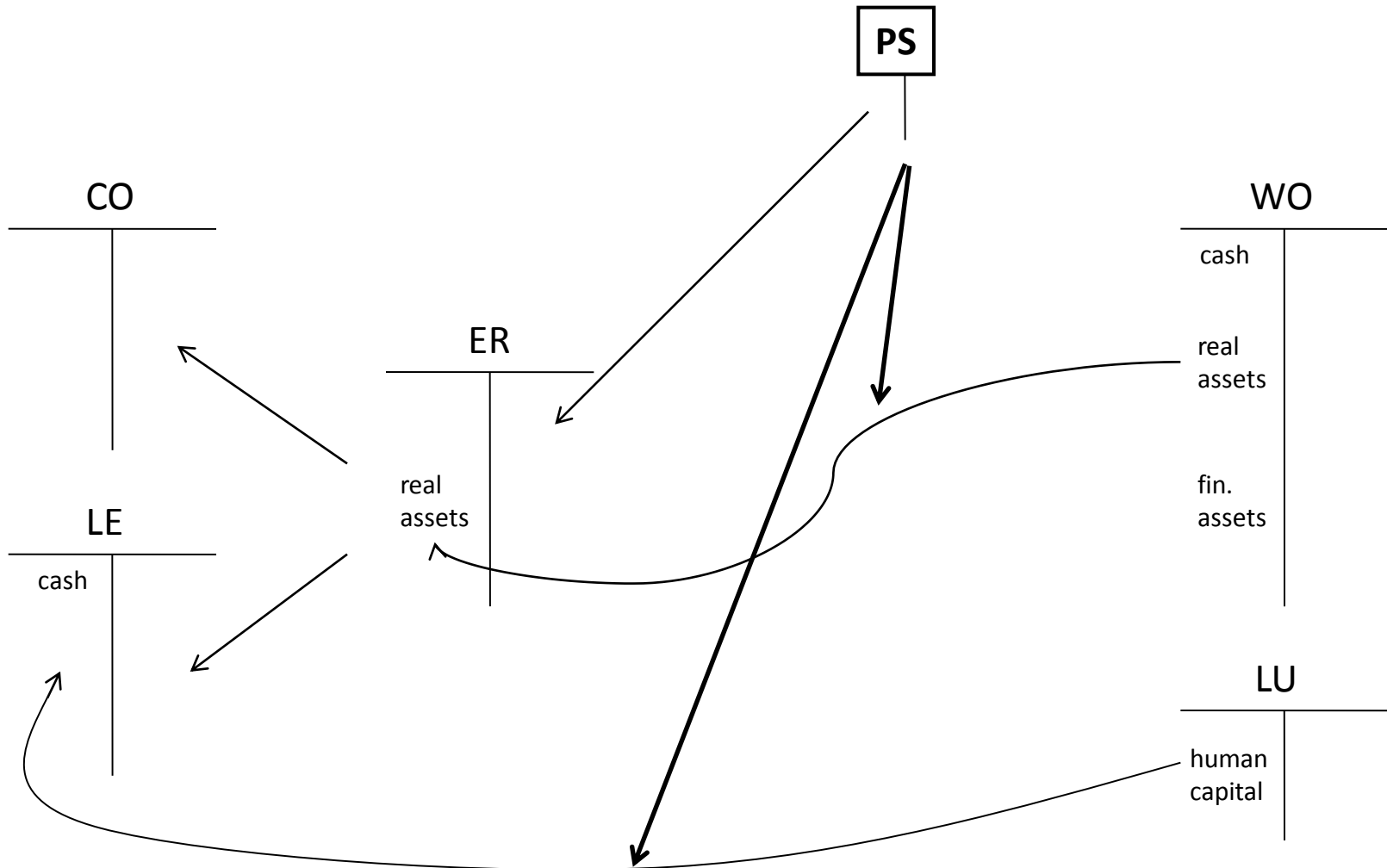
Interplay of commercial and central banking

Constitution of a monetary economy through emission of universally valid banknotes



***Guanxi* (= trustful relationship) economics I:**

ER-PS *guanxi* plus command *ex nihilo*

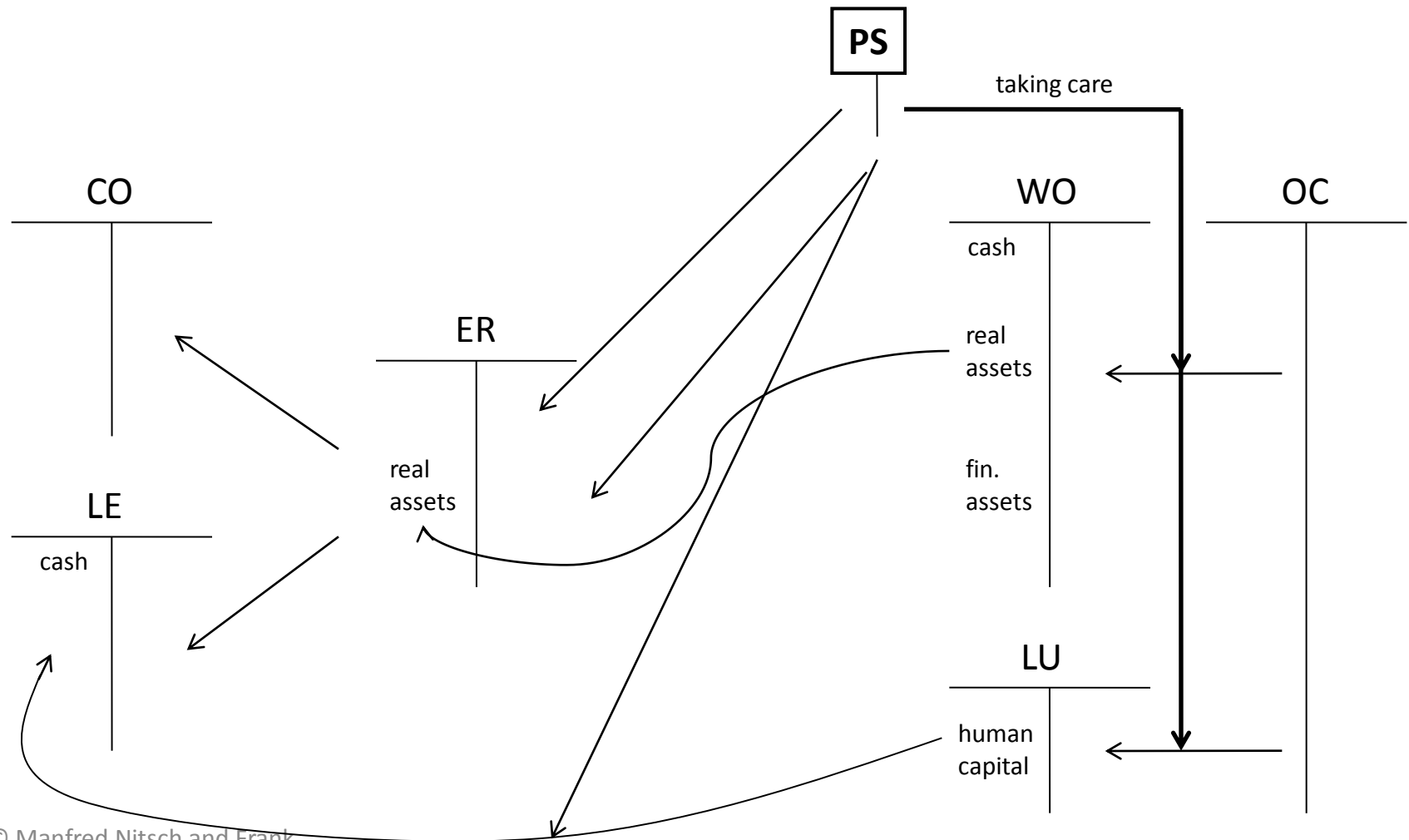


Role of the Party Secretary

- Communist Party: Cadre organisation with party cells in every enterprise, department, institute or military unit, resulting in dual leadership
 - Director: Stability and status quo
 - Party secretary: Ideological loyalty and change
- 1980's: Start of Deng Hsiao Ping's reform course
- Before that: Cultural revolution
- Mao's "Red Book", bible of the "Red Guards":
 - Mission of the Party: "It is a great and difficult task to improve the life of hundreds of millions of Chinese and to turn our country with its retarded economy and culture into a rich, strong and civilized commonwealth. ..." (1957)

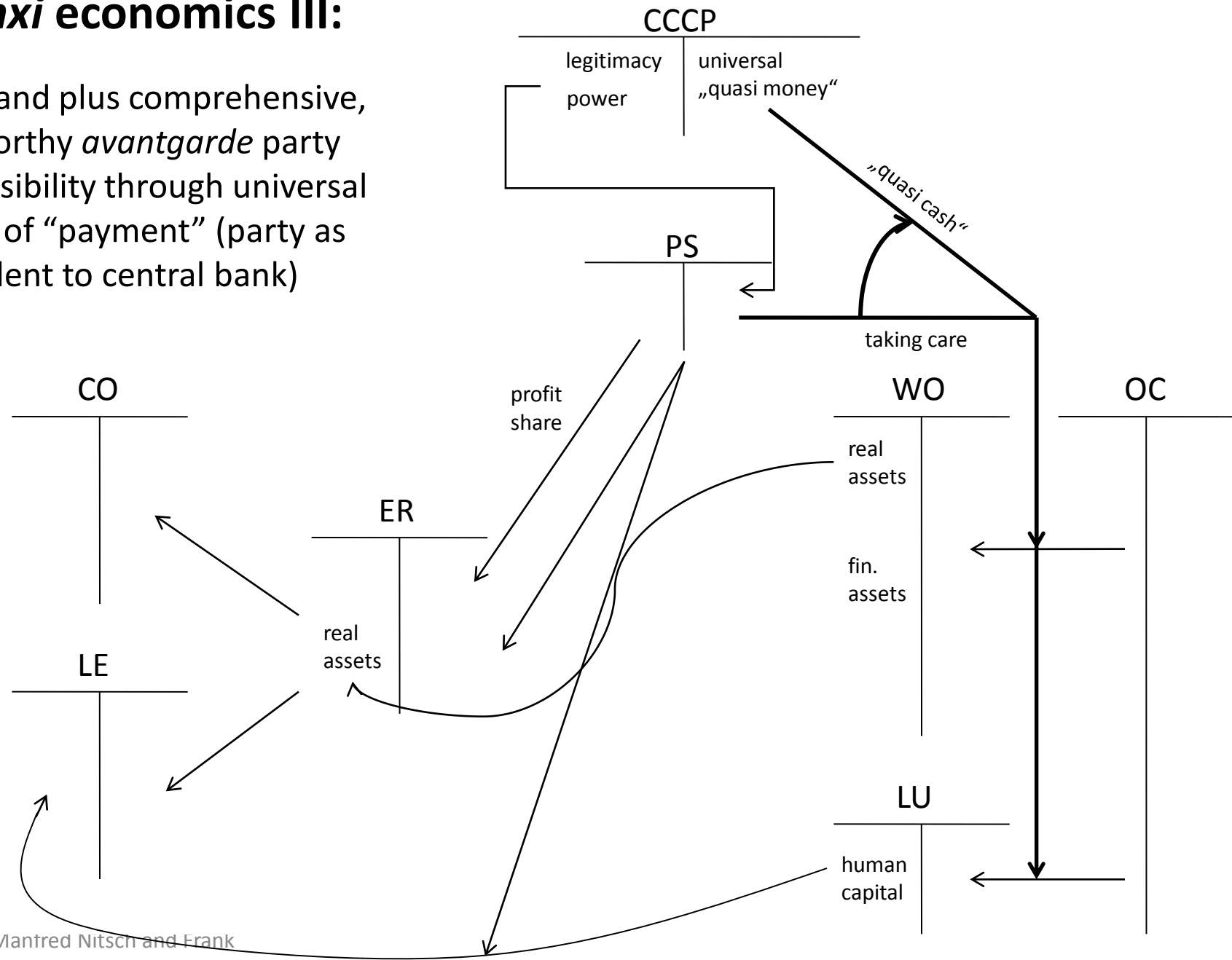
Guanxi economics II:

Command plus comprehensive, trustworthy *avantgarde* party responsibility through universal (dictatorial) access to resources and decision-makers



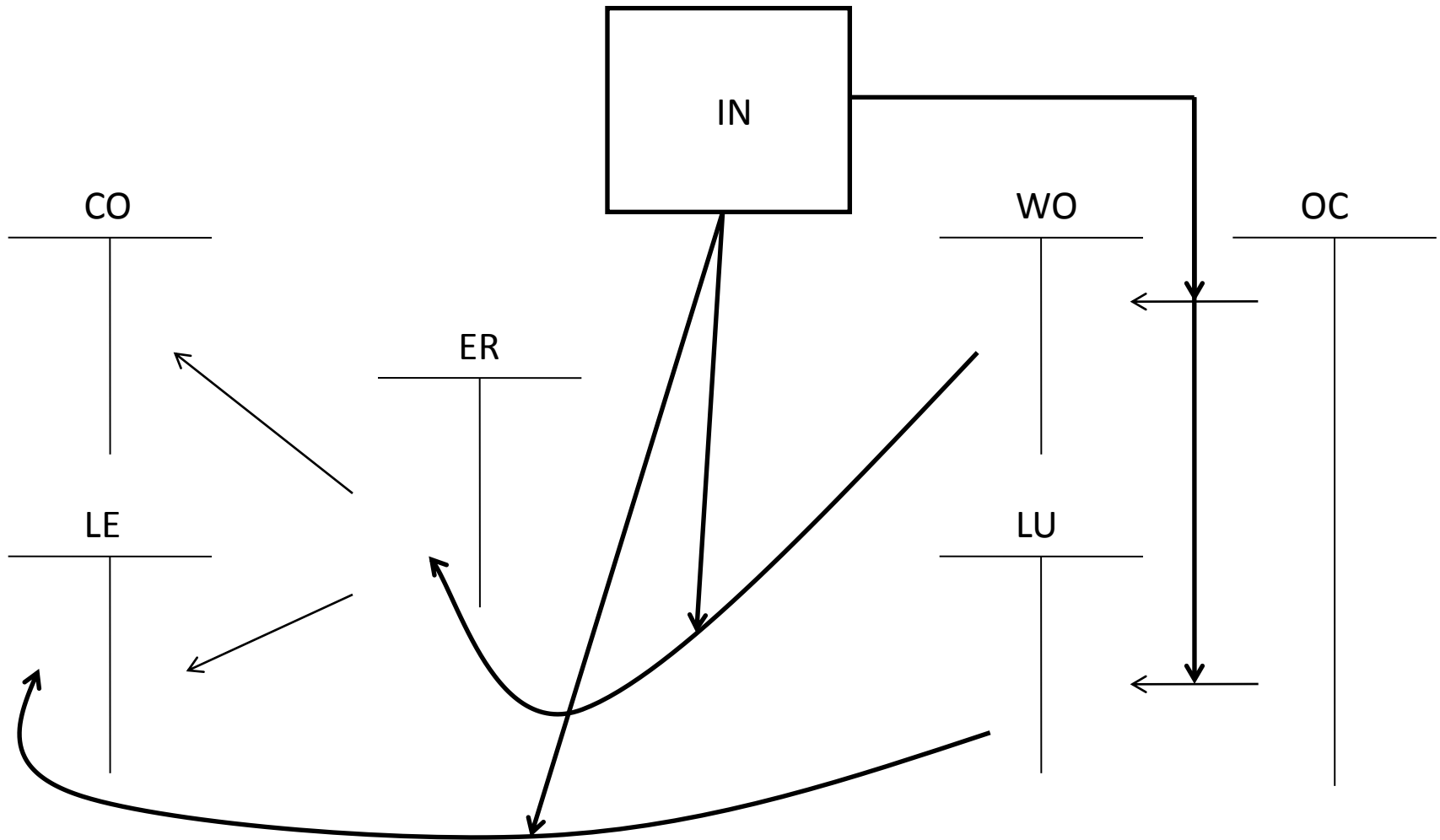
Guanxi economics III:

Command plus comprehensive, trustworthy *avantgarde* party responsibility through universal means of "payment" (party as equivalent to central bank)



Summary for Economic Development Theory:

Institutionalized secondary distribution of capital is essential for growth in societies with a contemporary division of labor



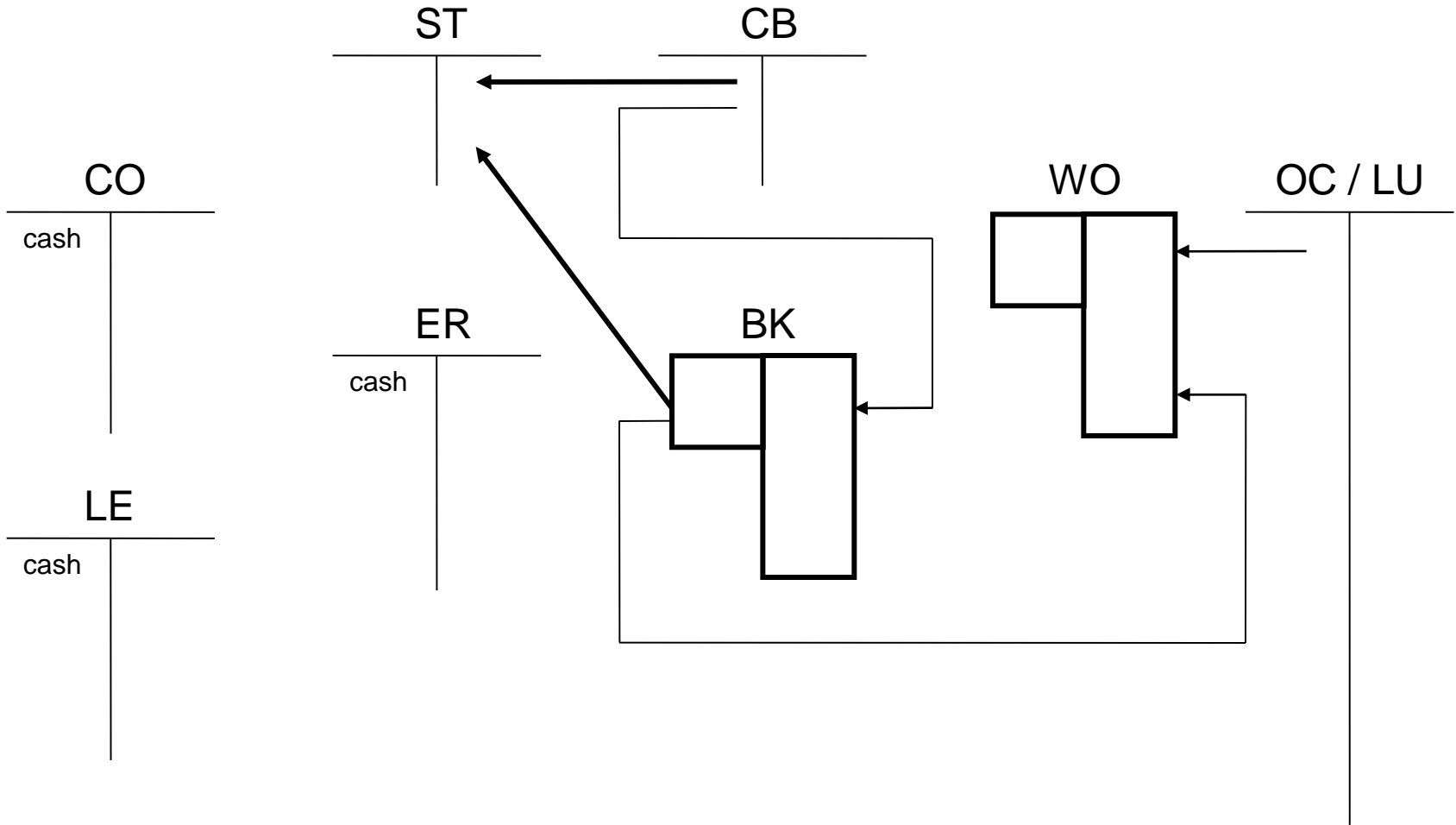
Summary for China as a model for Cuba?

- Subtitle of our paper on “Guanxi Economics” (2008): “Confucius meets Lenin, Keynes and Schumpeter in contemporary China”
- Parallel title for Cuba: “Kleinmachnow Zombies meet Lenin, Ché Guevara and Chayanov in contemporary Cuba”
- Should one add: Raúl Gorbachev?

The Russian way: Perestroika (“*Blat*” disaster) economy

- Gorbachev and Yeltsin years in Russia seen as a disaster scenario for Cuba - and elsewhere, too
- Communist Party – forbidden
- No institution taking care of “coherence” in the country
- Over-indebtedness of enterprises and public entities on all levels
- Printing money as a means of immediate relief
- Unsustainable over longer period

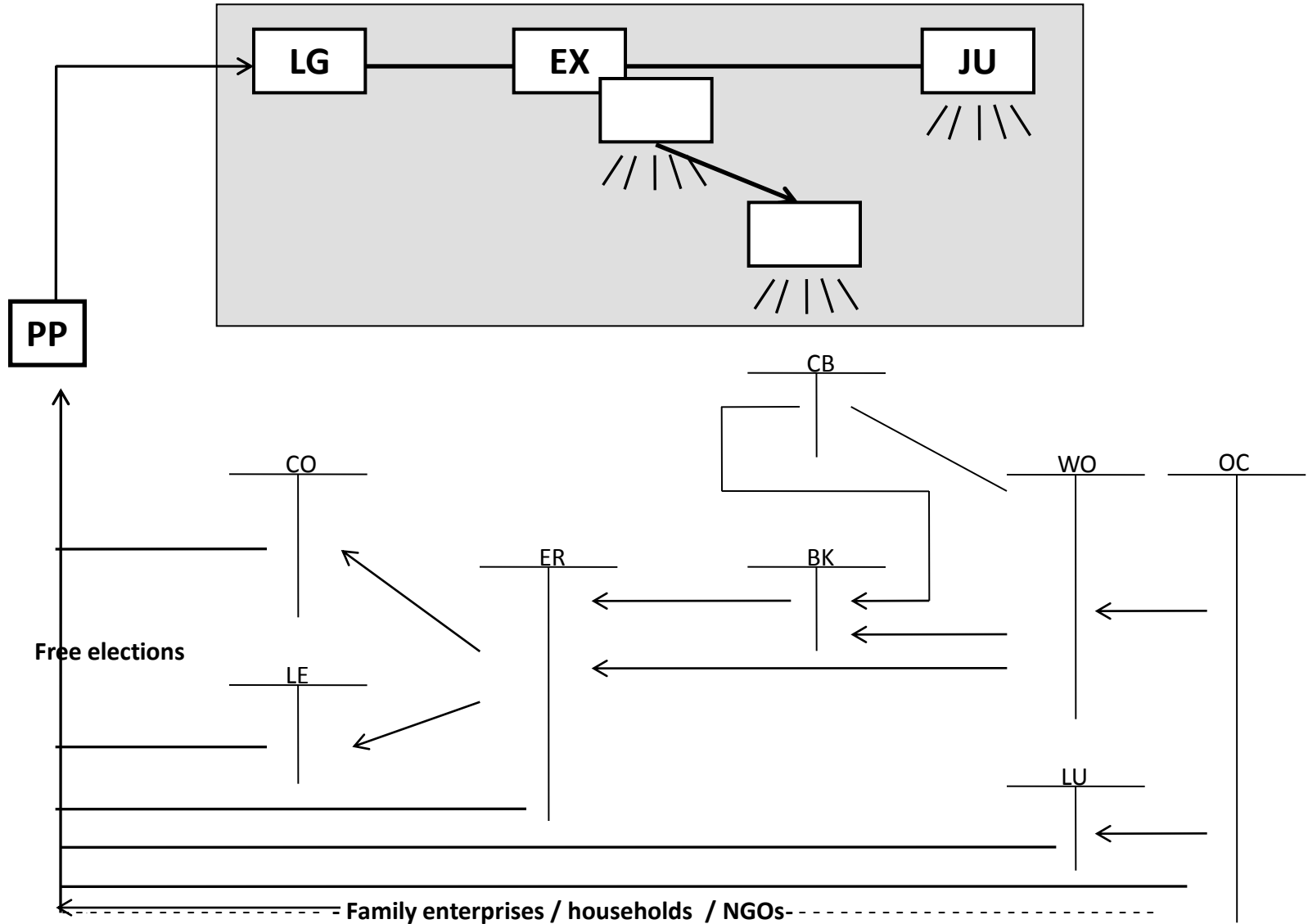
Perestroika / big bang economics / “*blat*” <sorry for this indecent? word>



Oligarchic capitalism

- More or less democratic multiparty system
- Media in the hands of state class and private oligarchs
- Predominance of big private business with FDI, based on restitution of assets and return of the *bourgeoisie*
- Small and medium-sized enterprises with limited access to financial system and public services
- Authoritarian neoliberal taboo and force structures

Eco-Social Market Economy, Development and Democratic Welfare State



Eco-Social Market Economy, Development and Democratic Welfare State

- Democratically moderated capitalist class society with multiparty system in a liberal constitution
- Restitution issues negotiated and resolved along *Kleinmachnow* model
- International integration into OAS and good neighborhood with USA
- Resource allocation via money, with rule-of-law force and cosmopolitan and Christian norms and taboos

Scenarios for Cuba

(Modes of production, tripod taboo-force-money)

- Business as usual
- Democratic socialism
- State capitalism
- The Chinese way: *Guanxi* economics
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Thank you

Manfred Nitsch

LAI / FU Berlin

manfred.nitsch@t-online.de

Abbreviations

B - Betrieb / firm

BK – bank

C - capitalist

CB - central bank

CCCP – Central Committee of the
Communist Party

CO – consumer

ER – entrepreneur

EX – executive branch
of government

F - family

FDI - foreign direct investment

FU - Freie Universitaet Berlin

IN -- intermediary

ISS – institute of social
security

JU – judiciary

K - Kapitalist / capitalist

LAI – Latin American Institute

LE – employed labor

LG – legislature

LU – unemployed labor

M - imports

OC – other creditor(s) /
owners / victims?

PN – politician/s

PP – political party/ies

PS – party secretary

ST – state (as fiscal entity)

W - worker

WO - wealth owner

X - exports

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