Bloqueo Economics in Cuba
Structural Heterogeneity and the Mode of Production Approach to the Analysis of Development and Underdevelopment

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Contents

• 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“)

- Dominant class(es)
  - Man
  - Nature
  - Workers / Direct producers

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
- Non-workers / Dominant class(es)

Relations of production („Produktionsverhältnisse“)
- Extraction of surplus through: tabu, force (appropriation of the means of production) and money
- Workers / Direct producers

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)

<table>
<thead>
<tr>
<th><strong>Assets</strong></th>
<th><strong>Liabilities</strong></th>
</tr>
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<tbody>
<tr>
<td>- real</td>
<td>- relatives</td>
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<tr>
<td>- financial</td>
<td>- friends and neighbors</td>
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<tr>
<td>- Pesos</td>
<td>- market partners</td>
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<tr>
<td>- Libreta</td>
<td>- banks and insurance co.</td>
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<tr>
<td>- CUCs</td>
<td>- state / government (taxes, fees, permits, bribes)</td>
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<tr>
<td>- US$</td>
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<tr>
<td>- human capital</td>
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<td>- social capital</td>
<td><strong>Equity</strong></td>
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<tr>
<td>- reciprocity</td>
<td>- man / husband / member</td>
</tr>
<tr>
<td>- coop membership</td>
<td>- woman / wife / member</td>
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<tr>
<td>- social security</td>
<td>- children</td>
</tr>
<tr>
<td>- access to public services</td>
<td>- others – <em>exiled Cubans</em> ?</td>
</tr>
<tr>
<td>- labor rights</td>
<td></td>
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<tr>
<td>- culture</td>
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</tbody>
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The economic circuit (flows)

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

Consumption goods

Investment goods

Factors of production: land, labor, know-how, capital – and their remuneration

Firms

Households

Reproductive work
The economic circuit in a class society

- Firms
- Administration
- Military

H\text{workers}

H\text{non-workers}
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

Party

Planning Bureau

Monobank

Firms
Admin.
Military

H

H_{NW}

H_{W}
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**
  – 礼 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

- CB (Central Bank)
- WO (Centralized Real Assets)
- CO (Commercial Credit)
- LE (Local Economic Real Assets)
- BK (Bank Credit)
- LU (Human Capital)

Key:
- Real assets
- Financial assets
- Human capital
- Cash
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
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- 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
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Thank you

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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


SPIEGEL: Kleinmachnow-Syndrom, No. 47, 1991, p. 37


