

# Scenarios for Cuba's Economic Development

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April 2, 2019

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# 1. Scenario-building

- Method with special characteristics
  - Possible outcomes; not probabilities
  - Somewhat over-accentuated caricatures
  - Idyll vs. Disaster
  - Good for discussion rather than planning
- Don't confuse Scenarios with prognoses, trends and forecasts!

## 2. Scenarios for Cuba

- New Constitution (February 24, 2019)
  - Basis for our discussion here
  - In the following some reference
- Modes of Production
  - Marxian term (*Produktionsweisen*) for fundamental constellations of social relations in different epochs and regions, but also for contemporary mixed economies
  - Englobing production and reproduction for whole societies and/or their ideal-type segments
- Structural Heterogeneity – also in Cuba
  - Contemporary societies always contain various modes of production, whose “genes” are different – as therefore is their “reproduction” and logic of behaviour.
  - They live together and are intertwined or “articulated” in many different ways.

## 2.1 Market Economy and Democratic State

- Latin American / Caribbean Model
  - There were hopes like that for the new Cuban constitution in Europe and the Americas
  - Not in the books, but in hearts and minds
- Characteristics as a mixed, “market economy“ <capitalism>
  - Monetary economy – dominant capital-market driven enterprises with growth and innovation incentives, intertwined with the
  - Family-led economy (*economía familiar*) as a mode of production *sui generis* – profit for consumption first
  - State-owned enterprises – under political control; not dominant
- Politics
  - Democracy with competing parties, rule of law, human rights etc.
  - Welfare state with lasting Cuban social and ecological achievements – or at least with standards like in the other Latin American and Caribbean countries

# Monetary Economy and Family-led Economy

Market economies with both of these modes of production

## Balance Sheet (as a tool to analyse economic development)

### Aktiva / Ativos / Assets

- Real assets
- Financial assets
  - **Money**
  - Cooperativa, others
- Human capital
- Social Capital
  - Social Insurance
  - Reciprocity claims
  - Public Services
  - Labour rights
  - Culture Capital

### Passiva / Pasivos / Liabilities

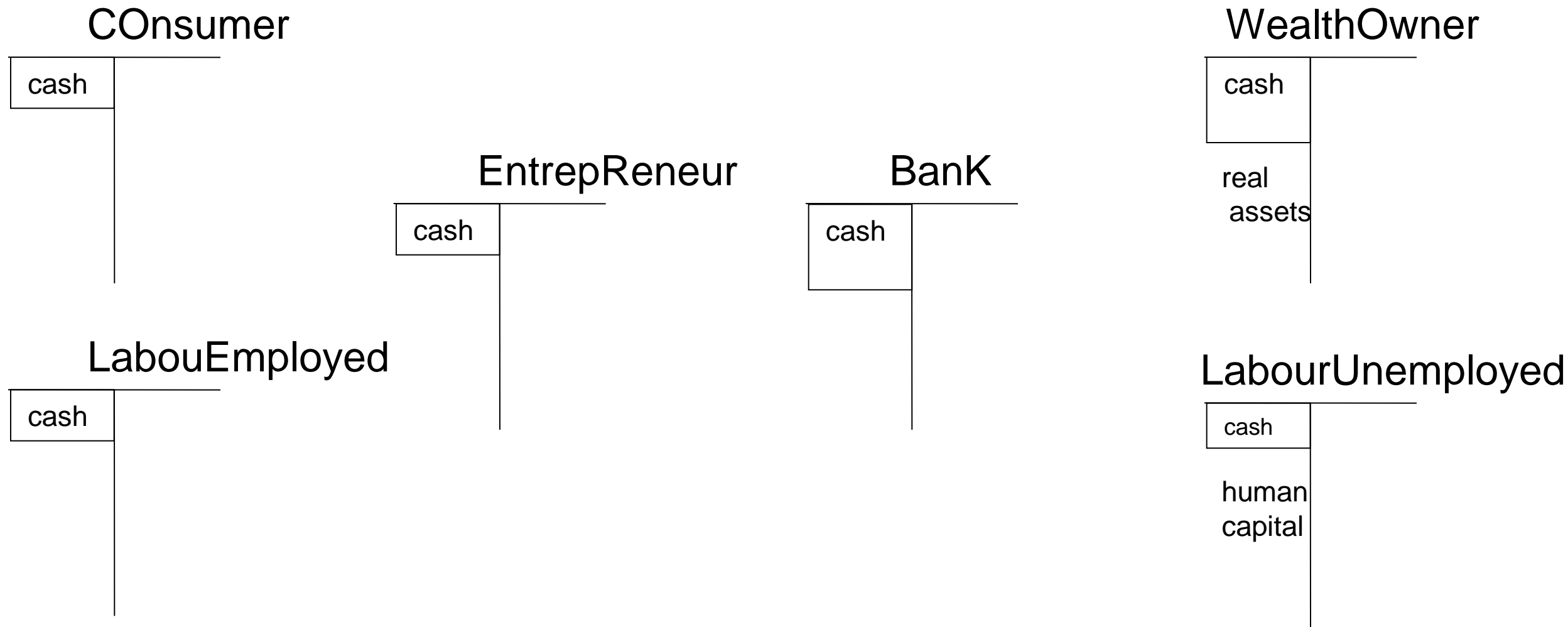
- Relatives
- Friends and neighbours
- Market partners
- Banks / Insurance

### Equity / Eigenkapital / Patrimonio neto

- Man / Member
- Wife / Member
- Child(ren)
- Company / NGO
- State / Municipality

# Money as means of exchange and quasi real asset

## Social division of labour in a contemporary exchange economy



# Money in an Exchange / Barter Economy

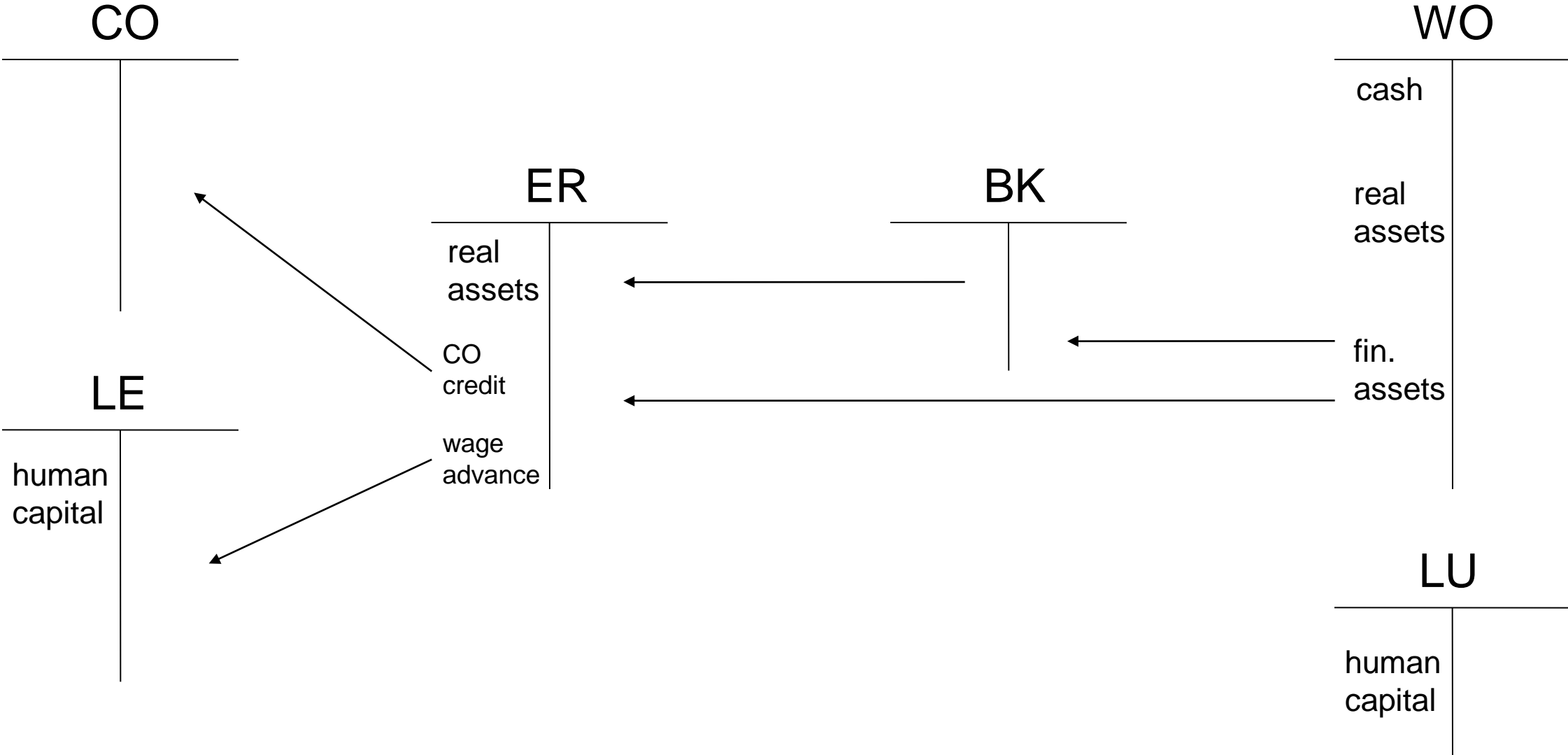
## Family-led economy as a mode of production

- Theoretical construct, particularly relevant in Cuba for its *Cuentapropistas* and its informal economy – but also in mainstream and popular economics!
- Everybody working and consuming primarily according to **one's own assets and liabilities**.
- Close to reality for the **family-led-economy mode of production**, where production and consumption / reproduction decisions are made by the same persons.
- **Consumption** in a wide sense comes first in poor and most middle-class and even rich families. Prestige, power, personal inertia and individual idiosyncrasies are included here, as well as the biological cycle of births and deaths.
- **Accumulation / Growth / Development** occurs mainly, when the family's own savings are used for investments and when some additional money is borrowed from other families or banks.
- **Schumpeterian entrepreneurs are rare**. However, in many countries, like Germany, the rise of family enterprises into world-market champion leagues of the global monetary economy can be quite conspicuous.



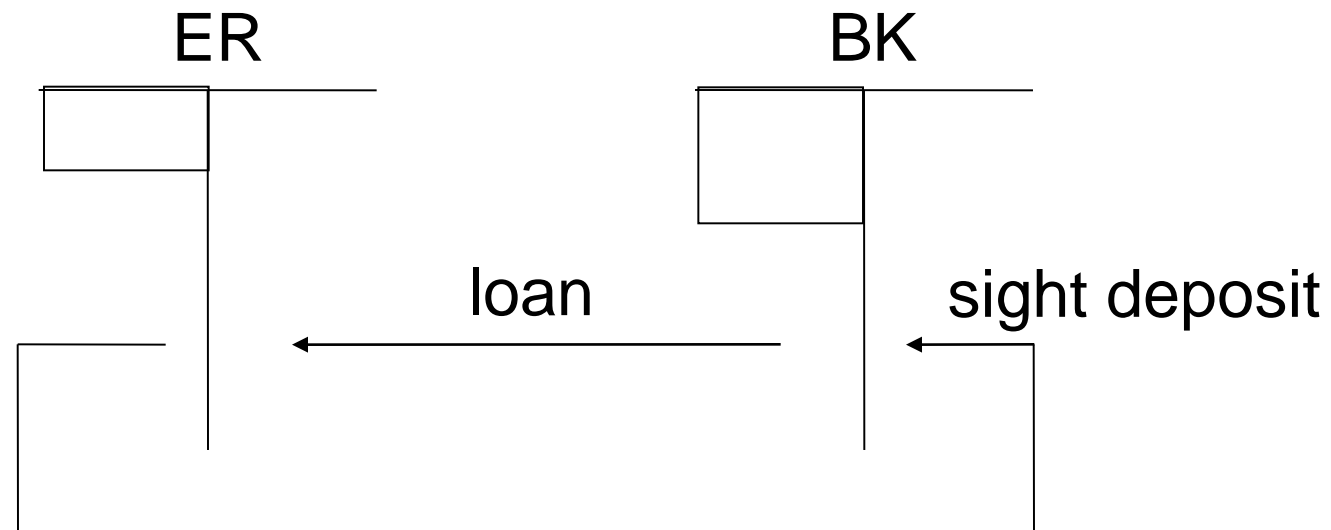
# Money as means of deferred payments in loan contracts and equity participation

Keynes' *monetary* theory of production in a society of creditors and debtors



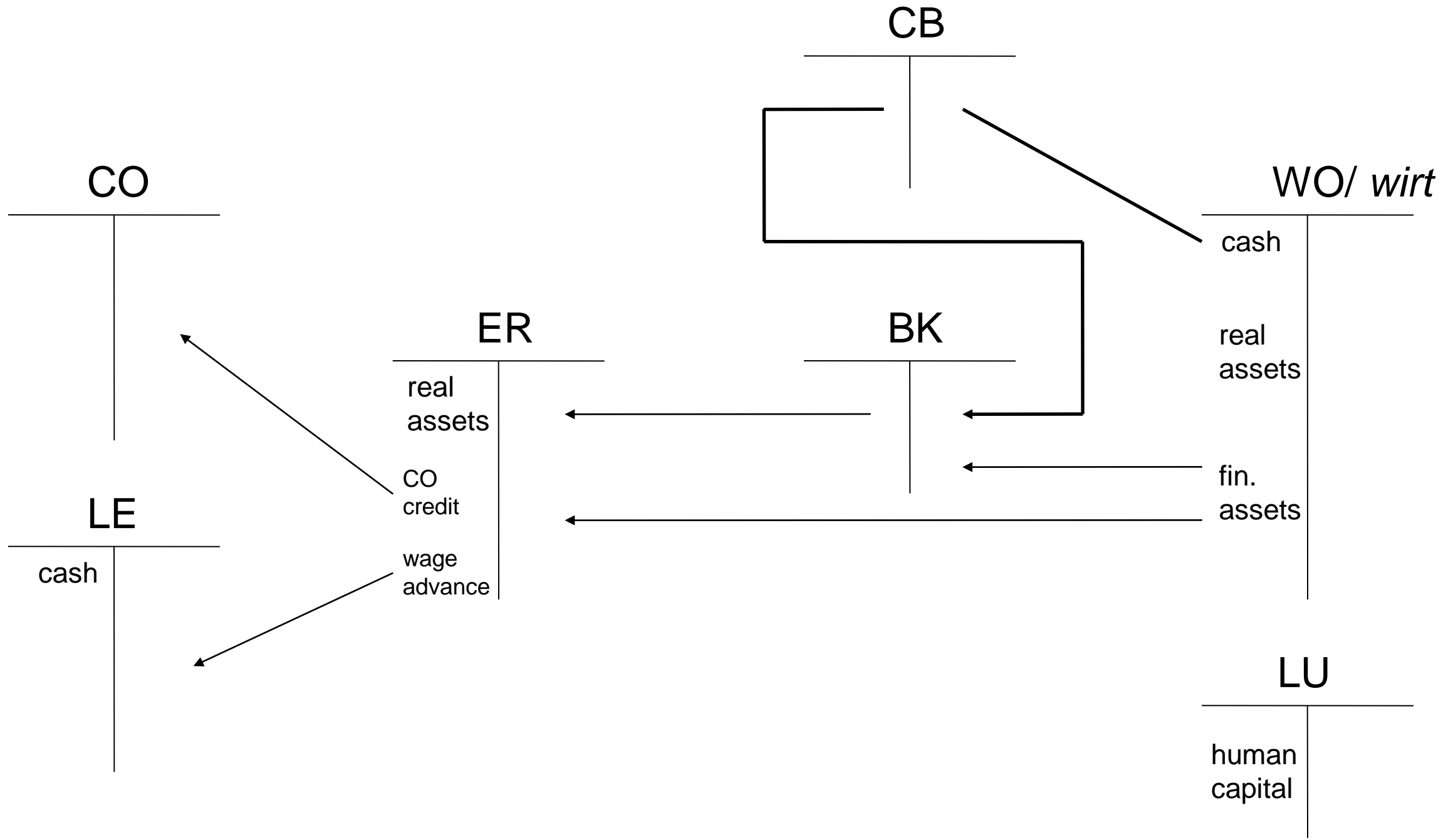
# Creation of credit *ex nihilo*:

Schumpeter's *Unternehmer* / Entrepreneur and his Banker  
as the decisive actors for DEVELOPMENT  
"Theorie der wirtschaftlichen Entwicklung" (Leipzig 1912)

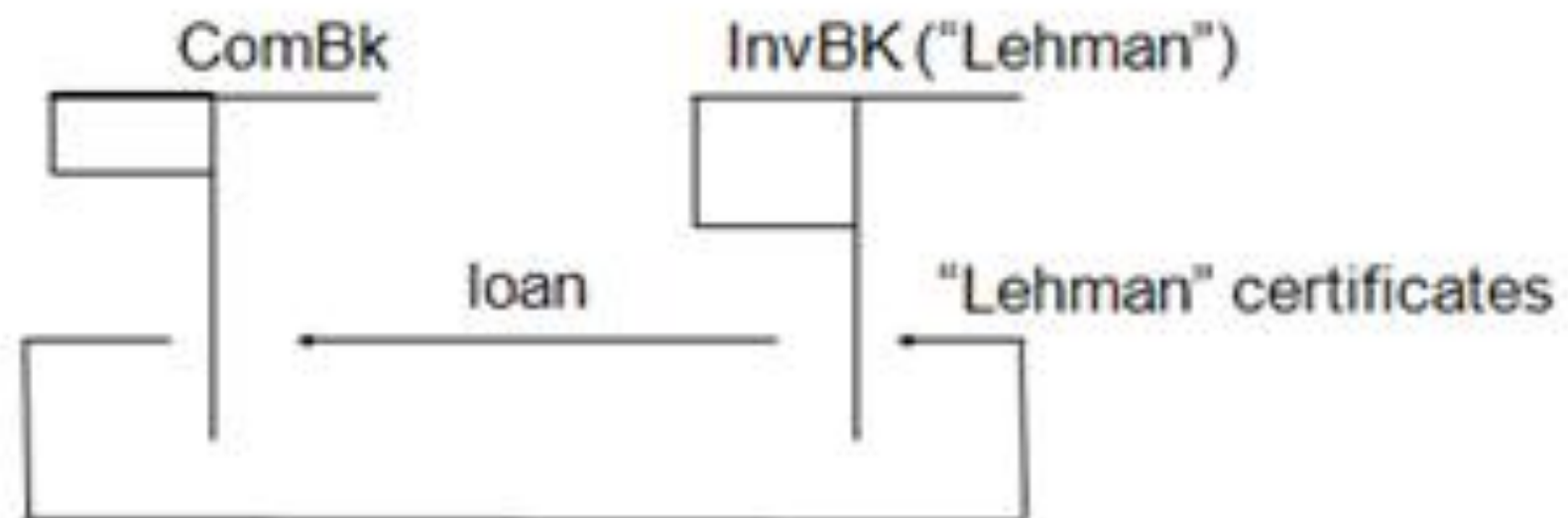


# Constitution of a functioning monetary economy

Permanent flow of resources – funding - from *Wirt* to *Unternehmer*



Credit creation *ex nihilo* between banks:  
Interplay between commercial and investment banks



# Credit Creation *ex nihilo*

- Schumpeter's wording „aus Nichts“ (*ex nihilo*) often still not understood and taken seriously, - or demonized.
- Mutual credit with *a priori* unlimited “Leverage” – not restricted to Banker-Entrepreneur relationships, but also usual between banks and between governments and banks.
- Danger of bursting bubbles: credit crunch “*in nihilo*”; therefore strict regulation and supervision necessary.

# Characteristics of a Monetary Economy – in Cuba?

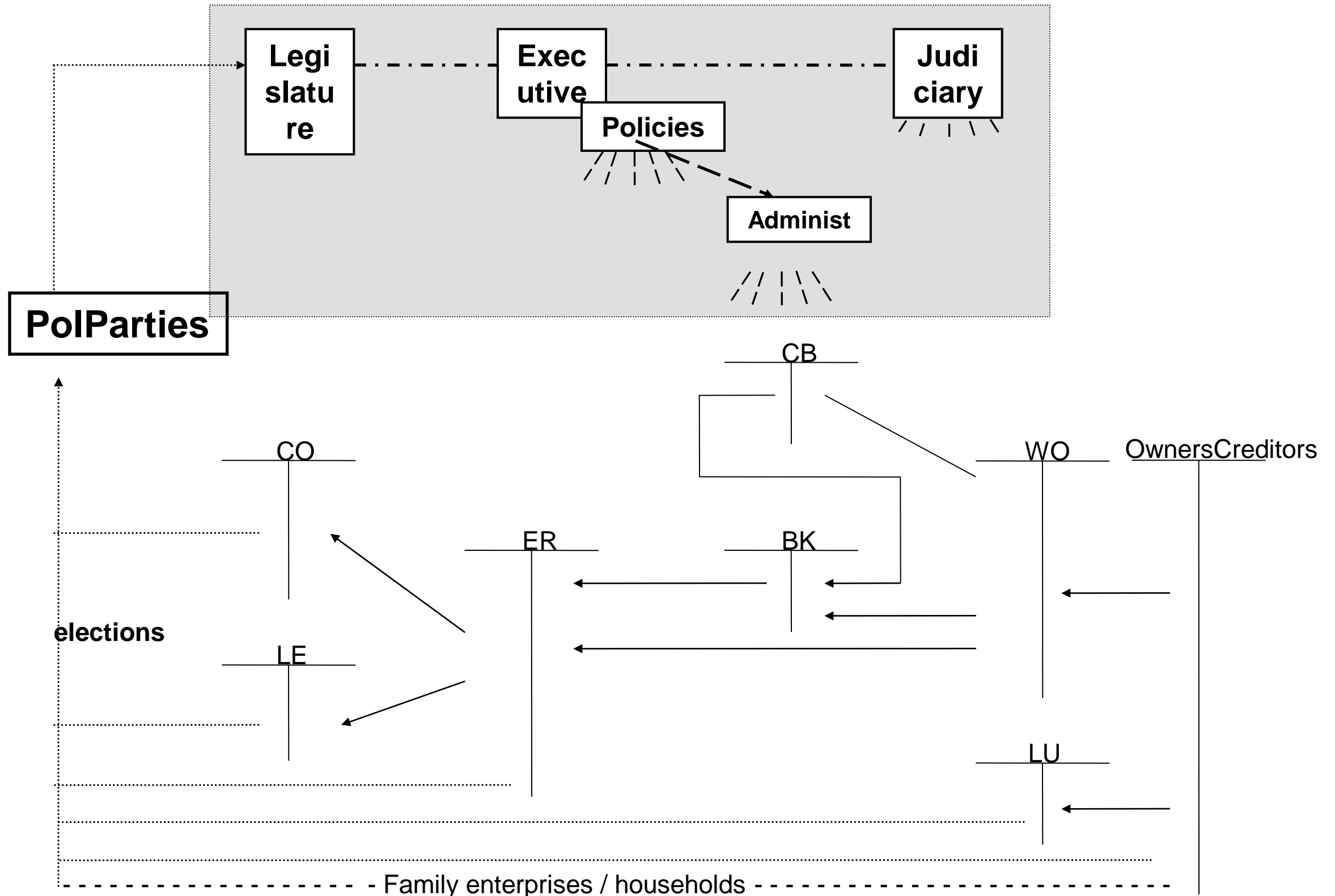
- **Market relations, prices reflecting scarcity**
  - Goods and services, including labour
  - Assets – under the threat of restitution (for real estate: exiled owners reclaim real estate from local possessors /occupiers; in Germany: *Kleinmachnow Syndrome*)
  - Common / unified currency; monetarized economy
- **Property rights assured and protected**
- **Powerful globalized companies and foreign direct investors working under this mode of production**
- **Shortcomings**
  - Inequality
  - Bubbles and crises through credit creation *ex nihilo*
  - Blind and deaf with regard to social and ecological problems as well as human rights

# Characteristics of a Democratic State – in Cuba?

- Multi-party politics
- Rule of law
- Freedom of press, civil society, and academia
- Human rights
- Social policies hopefully preserving Cuba's achievements
- Ecological principles and objectives according to the UN Sustainable Development Goals
- **Standards at least like in the other countries of Latin America and the Caribbean**

# Summary of the Latin American Model scenario

Economic development requires *coherence* through markets, common currency, efficient administration, and – hopefully - a democratic welfare state.





# **2.2 Socialist Planned Economy and One-party Rule**

## **Political Principles in the new Constitution of 2019**

- **Preámbulo: Guided by ... José Martí e Fidel Castro and the ideas of Marx, Engels and Lenin.**
- **Article 5: “El Partido Comunista de Cuba, único, martiano, fidelista, marxista y leninista, vanguardia de la nación cubana .... es la fuerza única política dirigente superior de la sociedad y del Estado. Organiza y orienta los esfuerzos comunes en la construcción del socialismo y el avance hacia la sociedad comunista. ...”**
- **Article 6: Similar “Avantgarde“ status to the Communist Youth Organization (Unión de Jóvenes Comunistas)**
- **Article 14: State only “recognizes“ others as “Organizaciones de masas y sociales“.**
- **Preámbulo: Convencidos “de que Cuba no volverá jamás al capitalismo ... y que solo en el socialismo y en al comunismo el ser humano alcanza su dignidad plena“ ...**

# **Socialist Planned Economy and One-party Rule**

## **The Economic Order**

- **Prices paid to and from state-owned enterprises (SOEs) are far from market prices.**
- **Che Guevara's heritage: Abolish money!**
  - Remuneration of labour through “quasi-free“ food (via *libreta*), housing, education, health, public transport, and other services.
  - Monetary salaries in “Moneda Nacional“ resemble pocket money
    - monetarization a fundamental breach with Che's ideology.
  - Alternatives to Money in resource allocation: Taboo/ideological adherence and Force/rules/administrative acts. Actors in conflict.
- **Flexibility through hoarding, barter of goods and services, queuing, corruption, and improvising.**
- **Shortcomings in innovation, economic development, civil society activities and freedom in general.**
- **Dual Governance (always?):** The **Director** for stability and plan fulfilment, and the **Party Secretary** as an agent for ideological control, but also as a change agent for projects beyond the plan.

## TÍTULO II FUNDAMENTOS ECONÓMICOS

ARTÍCULO 18. En la República de Cuba rige un sistema de economía socialista basado en la propiedad de todo el pueblo sobre los medios fundamentales de producción como la forma de propiedad principal, y la dirección planificada de la economía, que tiene en cuenta, regula y controla el mercado en función de los intereses de la sociedad.

ARTÍCULO 19. El Estado dirige, regula y controla la actividad económica conciliando los intereses nacionales, territoriales, colectivos e individuales en beneficio de la sociedad.

La planificación socialista constituye el componente central del sistema de dirección del desarrollo económico y social. Su función esencial es proyectar y concucir el desarrollo estratégico, previendo los equilibrios pertinentes entre los recursos y las necesidades.

ARTÍCULO 20. Los trabajadores participan en los procesos de planificación, regulación, gestión y control de la economía.

La ley regula la participación de los colectivos laborales en la administración y gestión de las entidades empresariales estatales y unidades presupuestadas.

ARTÍCULO 21. El Estado promueve el avance de la ciencia, la tecnología y la innovación como elementos imprescindibles para el desarrollo económico y social.

Igualmente implementa formas de organización, financiamiento y gestión de la actividad científica; propicia la introducción sistemática y acelerada de sus resultados en los procesos productivos y de servicios, mediante el marco institucional y regulatorio correspondiente.

# The Economic Order in the Constitution of 2019

ARTÍCULO 22. Se reconocen como formas de propiedad, las siguientes:

- a) socialista de todo el pueblo: en la que el Estado actúa en representación y beneficio de aquel como propietario.
- b) cooperativa: la sustentada en el trabajo colectivo de sus socios propietarios y en el ejercicio efectivo de los principios del cooperativismo.
- c) de las organizaciones políticas, de masas y sociales: la que ejercen estos sujetos sobre los bienes destinados al cumplimiento de sus fines.
- d) privada: la que se ejerce sobre determinados medios de producción por personas naturales o jurídicas cubanas o extranjeras; con un papel complementario en la economía.
- e) mixta: la formada por la combinación de dos o más formas de propiedad.
- f) de instituciones y formas asociativas: la que ejercen estos sujetos sobre sus bienes para el cumplimiento de fines de carácter no lucrativo.
- g) personal: la que se ejerce sobre los bienes que, sin constituir medios de producción, contribuyen a la satisfacción de las necesidades materiales y espirituales de su titular.

Todas las formas de propiedad sobre los medios de producción interactúan en similares condiciones; el Estado regula y controla el modo en que contribuyen al desarrollo económico y social.

La ley regula lo relativo al ejercicio y alcance de las formas de propiedad.

ARTÍCULO 26. El Estado crea y organiza entidades empresariales estatales con el objetivo de desarrollar actividades económicas de producción y prestación de servicios.

Estas entidades responden de las obligaciones contraídas con su patrimonio, en correspondencia con los límites que determine la ley.

El Estado no responde de las obligaciones contraídas por las entidades empresariales estatales y estas tampoco responden de las de aquel.

ARTÍCULO 27. La empresa estatal socialista es el sujeto principal de la economía nacional. Dispone de autonomía en su administración y gestión; desempeña el papel principal en la producción de bienes y servicios y cumple con sus responsabilidades sociales.

La ley regula los principios de organización y funcionamiento de la empresa estatal socialista.

ARTÍCULO 28. El Estado promueve y brinda garantías a la inversión extranjera, como elemento importante para el desarrollo económico del país, sobre la base de la protección y el uso racional de los recursos humanos y naturales, así como del respeto a la soberanía e independencia nacionales.

La ley establece lo relativo al desarrollo de la inversión extranjera en el territorio nacional.

# Cuba's "New" Constitutional Economic Order

- Socialist planning as "*componente central*" with the state-owned enterprise as "*sujeto principal*".
- **Private** property as a "complement" to planning for natural and juridical persons (corporations?), including *Cuentapropistas*.
- Foreign direct investment as an "*elemento importante*".
- Cooperatives with "*trabajo colectivo de sus socios propietarios*" - and others?
- **Personal** property of goods "*sin constituir medios de producción*", including housing, consumption goods and tools.

# Summary of the Socialist Constitutional Order scenario

Structural heterogeneity between the global monetary economy, national socialist planning, and the local *economía familiar*

- Dictatorial leninist one-party political system
- Monetary Economy for Foreign Direct Investment and their Nomenclatura partners
- Socialist Planned Economy for SOEs and their Nomenclatura agents and Workers
- *Cuentapropistas*, other private-property firms and corporations (?), and other *Economía Familiar* agents / actors between monetary markets and socialist planning
- Cooperatives based on Worker-Owners - and others?
- Informal Monetary Economy agents/actors on all levels, locally and abroad, and in all currencies (local and foreign)

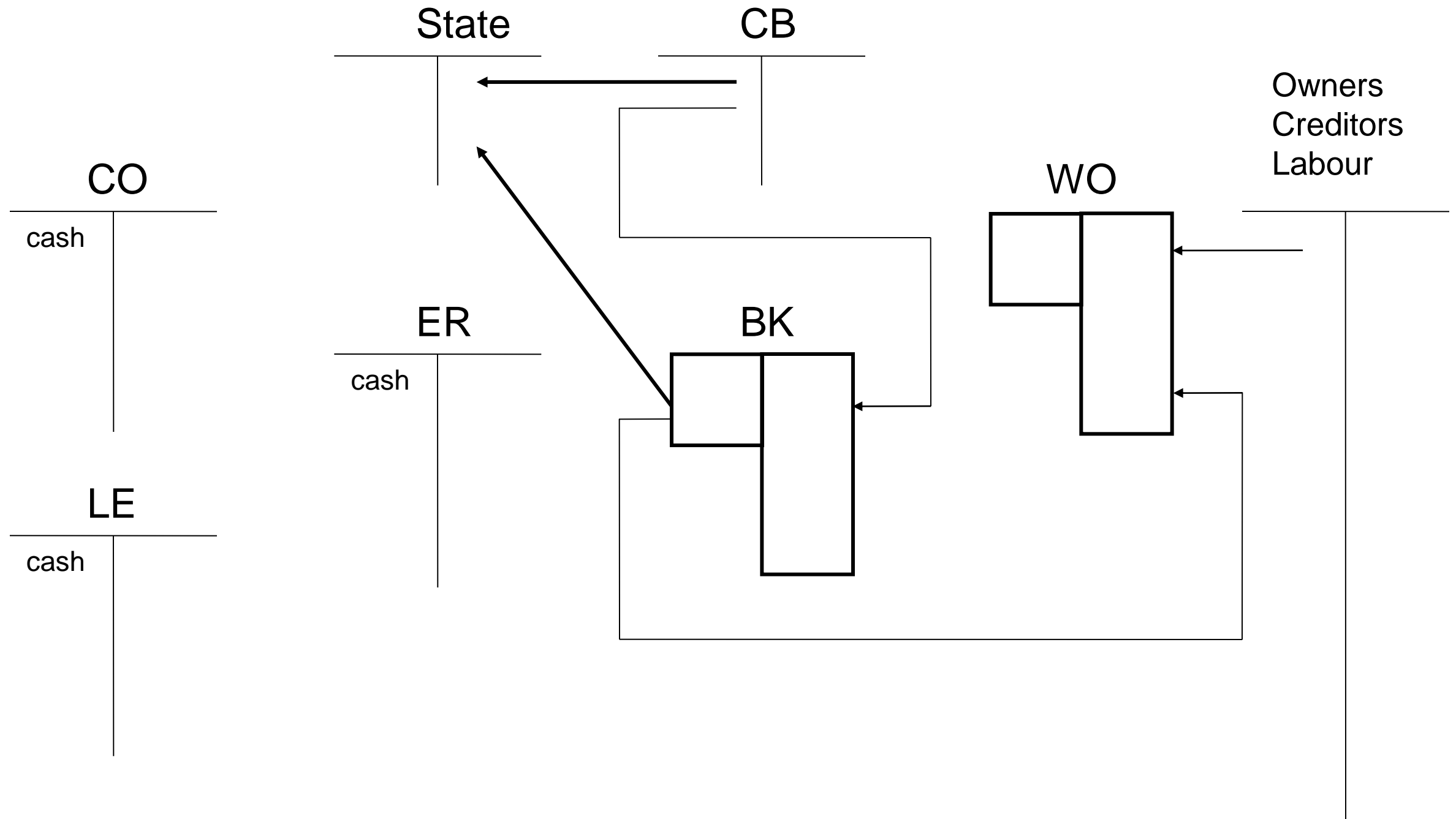
## 2.3 Crisis, Crony Capitalism, and Political Authoritarianism (The ex-Soviet Experience)

- **The Russian and Central Asian Experience**
  - Most feared scenario
  - “Blat/Bljad” (literally “bitch”; English: “F...”; German: “Verdammte Sch....”) as the catchwords for Gorbachev-Jeltsin’s “Reforms”, which brought down the Soviet Union.
- **Characteristics**
  - Partial freedom for SOEs to behave like market partners – leading to chaos
  - Reliance on market mechanisms without the necessary rules and regulations
  - Consultants’ adherence to “methodological individualism” of mainstream economics (ignoring collectivities)
  - Communist Party abolished
  - Central Bank forced to print money
  - SOEs over-indebted
  - Retreat of the victims to *economía familiar* / *datscha* and subsistence economy
  - Rampant inflation
- **Results**
  - Politics: Formal democracies with more or less authoritarian rule
  - Economy: Management buyouts often by “Cronies / Oligarchs”, mostly former nomenclatura persons, with outstanding careers in business, army, secret services, and/or politics before and after the crisis.

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

**Chaotic loss of coherence because of non-existence of functioning financial system, nor mono-party, nor any other substitute**

**Result of chaos: pervasive over-indebtedness, employees and consumers as victims, and no money for entrepreneurs**



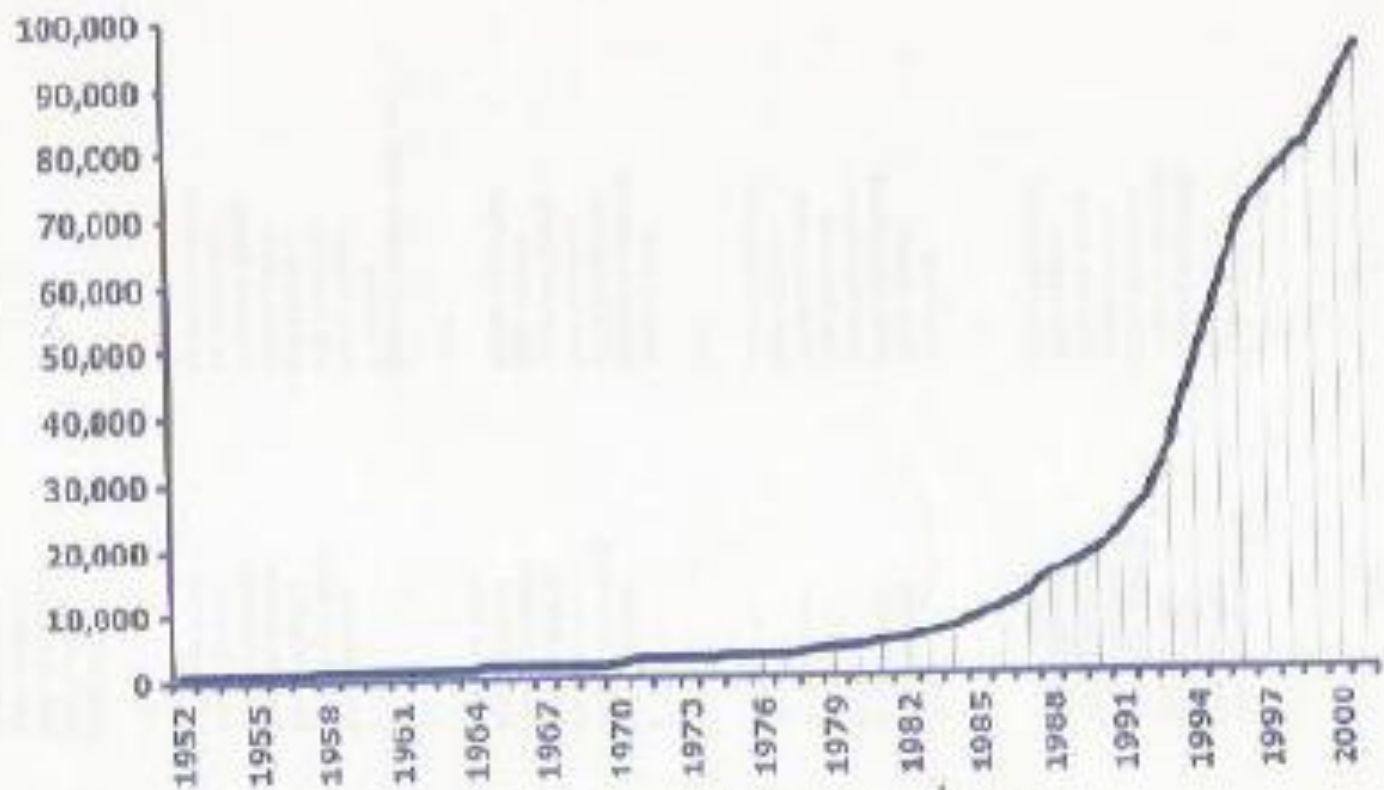
# Summary of the Crisis plus Crony Capitalism and Authoritarianism scenario

- *Perestroika* and chaotic liberalization
- Money-printing as seemingly easy option
- Loss of coherence
  - Central Bank and financial system unfit for a monetary economy
  - State budgets in deficit
  - Planning without authority to implement
- Communist Party forbidden
  - Loss of the hidden coordinator
  - Unconnected mafia-type connections – “*svyazi*” unlike “*guanxi*”
  - Delta (addionality) factor – also in the reverse gear modus
- **Winners: Politicians, oligarchs and businesspersons often from former high-level administrative, military and secret services.**



## 2.4 Socialist Market Economy and One-Party Rule (The Chinese Experience)

- History: Deng Xiaoping's "Socialist Market Economy"
- Structure
  - In the beginning: *Party-Guanxi* Economy
  - Struggle for hegemony with the Monetary Economy mode of production
  - Now: Hybrid form as a model?
- Summary

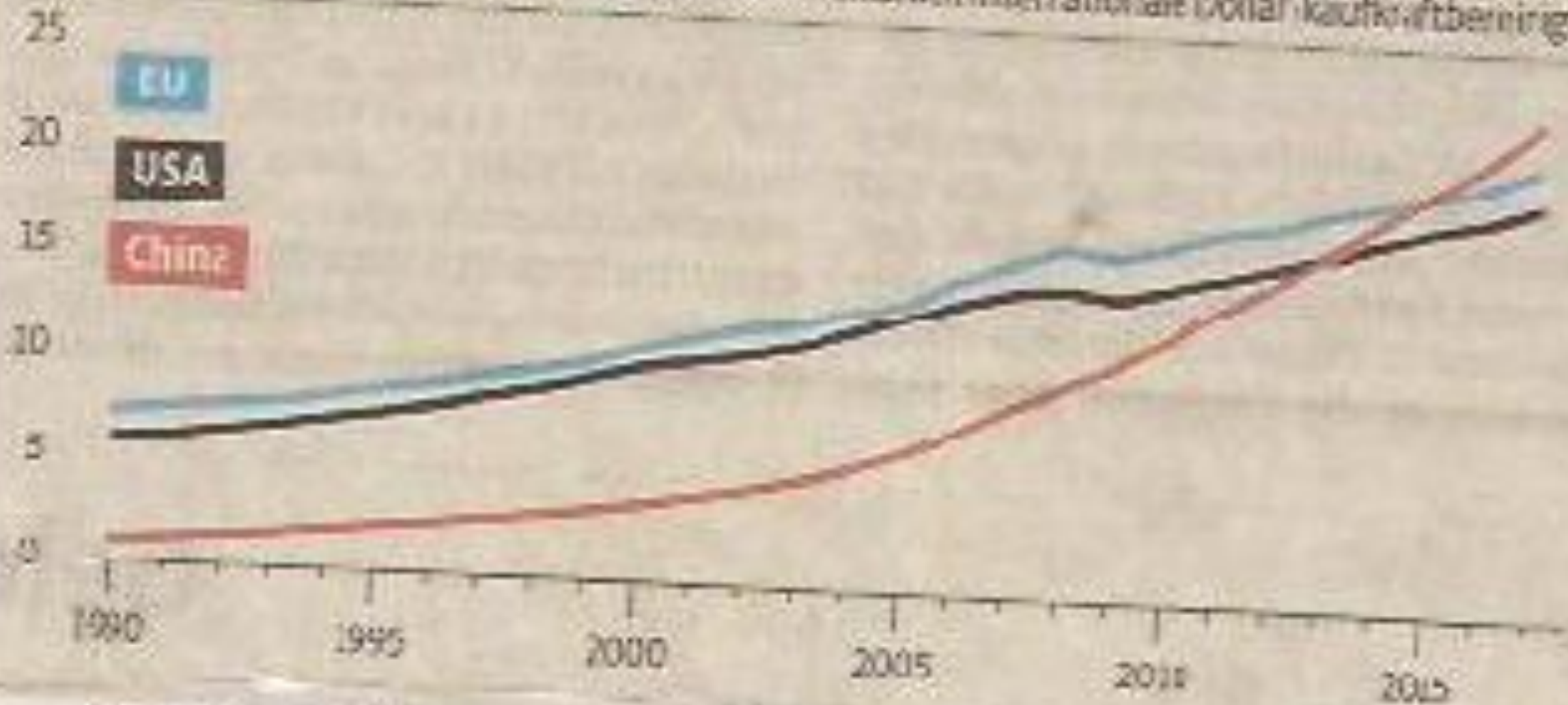


China: GDP in 100 Mio Yuan

vt. Diebel (2006), Annex I, p. 4

# Chinas Aufstieg

Bruttoinlandsprodukt in Milliarden internationale Dollar (kaufkraftbereinigt)



57, 7./8. July, 2018, p. 1

# I. Macro-Economics: Engines of economic growth

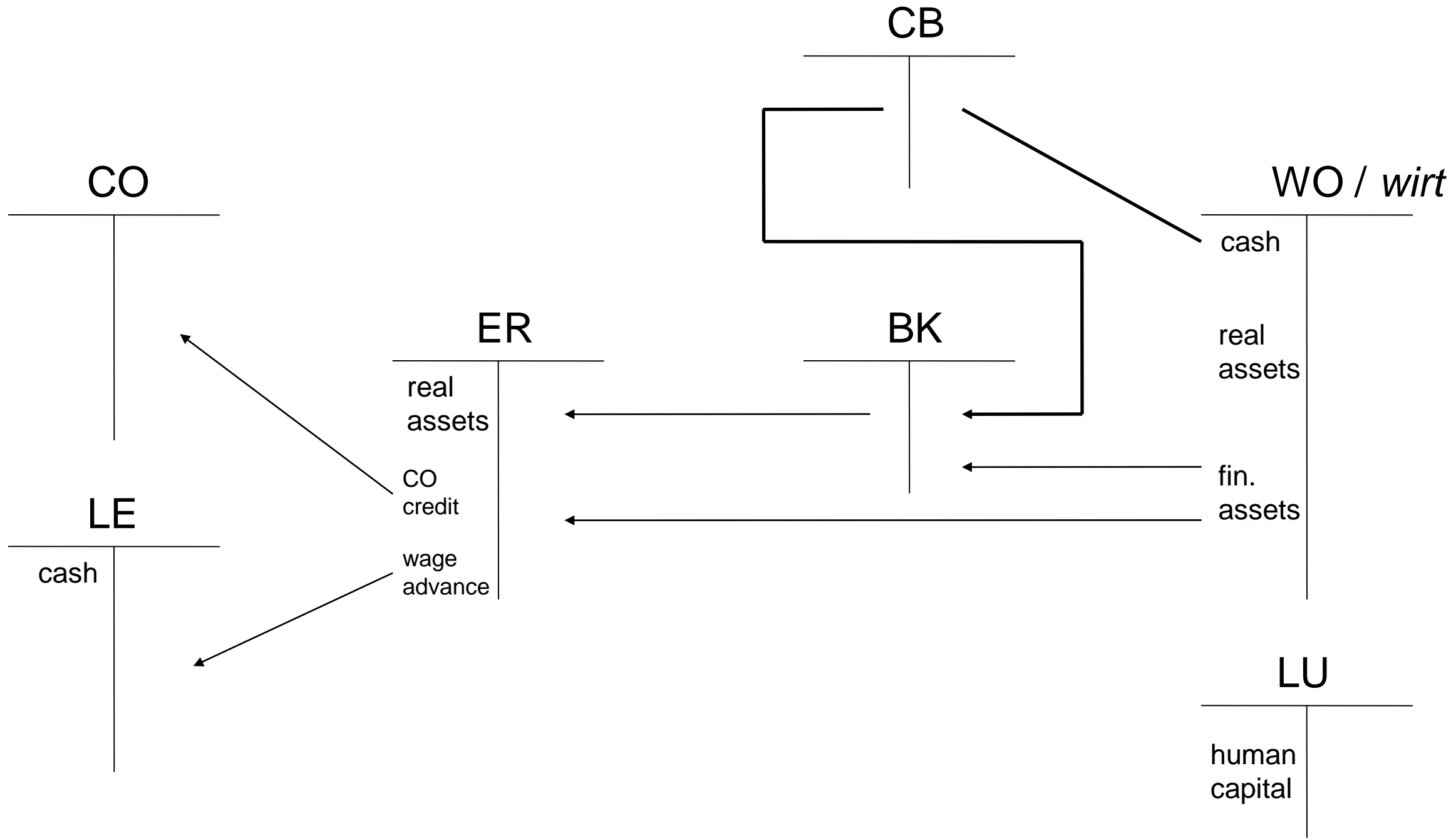
- Deng Xiaoping 1979/80: Cat black or white – „as long as it is catching mice, it's a good cat.“
- **Socialist Market Economy**
  - “Akkumuliert akkumuliert! Das ist Moses und die Propheten!” (Karl Marx 1867)
  - “Enrichissez-vous!” (François Guizot 1843)
  - Remnant from socialist planning: Party Secretaries in every institution
- Planning for provisioning: Import controls
- Export promotion: Undervalued currency, export finance, foreign direct investment; foreign exchange reserves

# Socialist economics

- Central Planning
  - Lenin's model: First World War allocation via food stamps / *Lebensmittelkarten / libreta*
  - Problems: Flexibility, speed, innovation, bureaucracy, corruption
- Markets
  - Administered prices close to or far from equilibrium: China vs. Cuba
  - Easier for consumption goods than for labour, real estate, and capital goods
  - International trade and investment – anyway market-oriented
- Coherence
  - Barter and queuing-up
  - Market response by demand and supply
  - Planning – still in place
- **Guanxi** (comradeship, mutual relations, mostly within the Communist Party)
  - Between directors – career pattern depending on success of their institution
  - Between party secretaries – career pattern depending on their projects

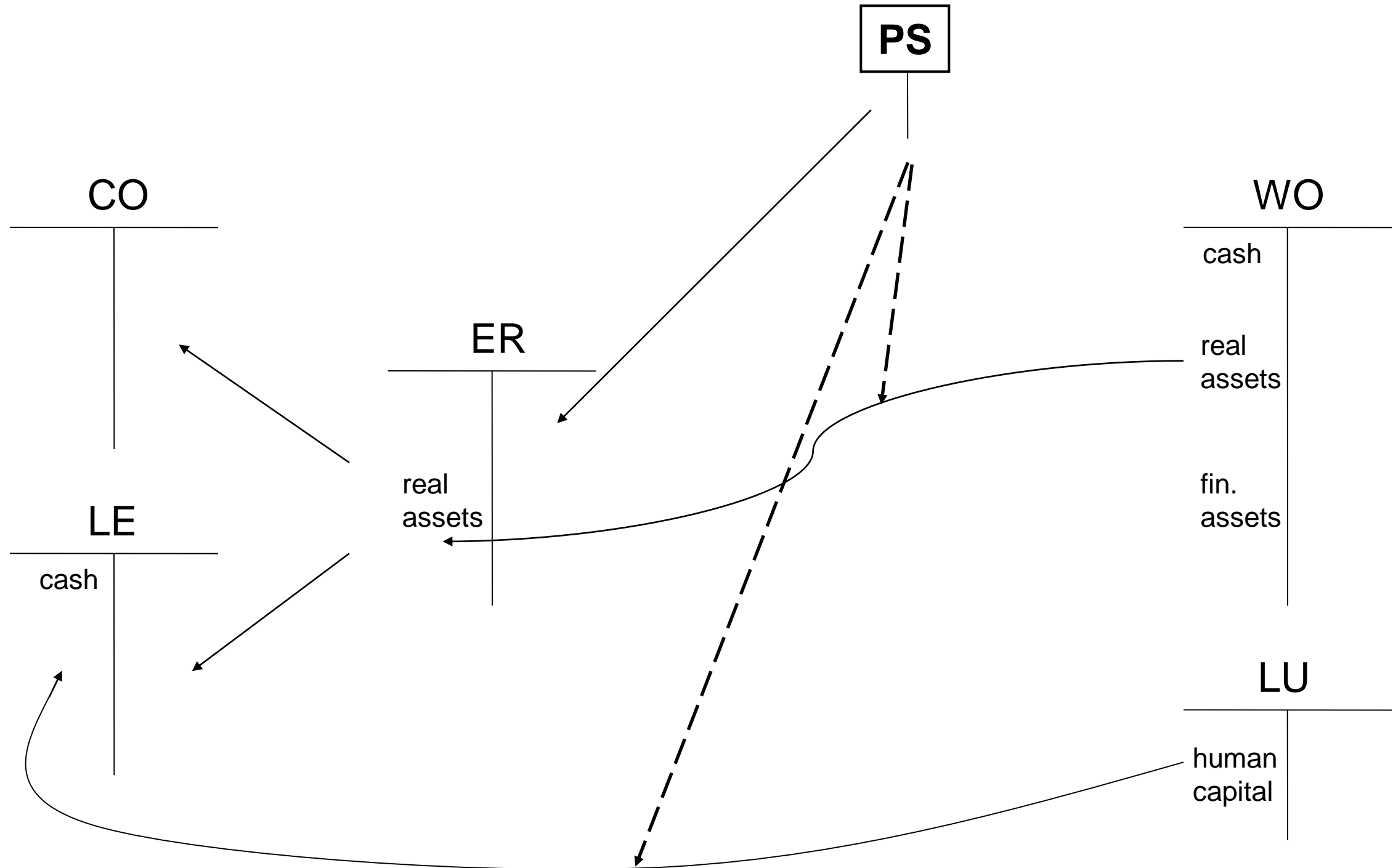
# Reminder: Constitution of a functioning monetary economy

Permanent flow of resources – funding - from *Wirt* to *Unternehmer*



# *Guanxi* (= trustful relationship) Economics I

Entrepreneur - P(arty)S(ecretary) *guanxi* plus command *ex nihilo*



# Definition of Guānxi 关系

- **Principle of reciprocity**
  - trust based on friendship, social, individual, emotional commitment, and long-term relations
  - exchange of favours 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

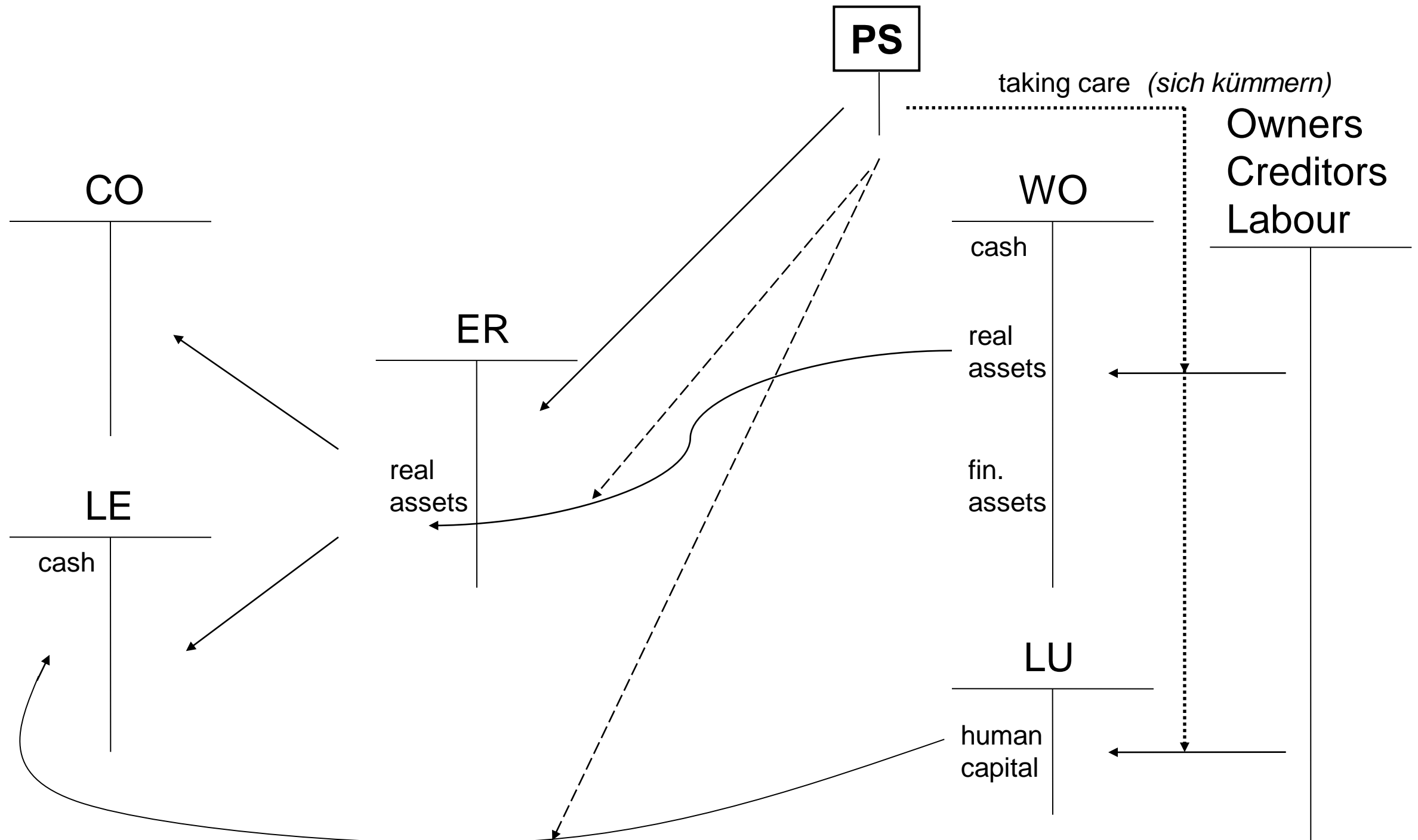


# Role of the Party Secretary of the Communist Party

- Communist countries are ruled by an **Avantgarde** Party in all areas of production and reproduction: “Vanguard mode of production” (Lebowitz).
  - **Cadre** party with a strict rite of entrance rituals versus **mass** organizations for everybody else
  - Attraction of the CP for intellectuals worldwide: To be member of the “Avantgarde”! Somewhat equivalent to “clergy” in religious structures
- **Dual Governance** through Director and Party Cell and its Secretary in **all (?)** Institutions (enterprises, administrative units, university institutes, schools, housing blocks, military, police, theatre and the like).
- Recent 2018/19 initiatives by the Chinese authorities to force foreign companies to establish Communist Party cells in their enterprises.

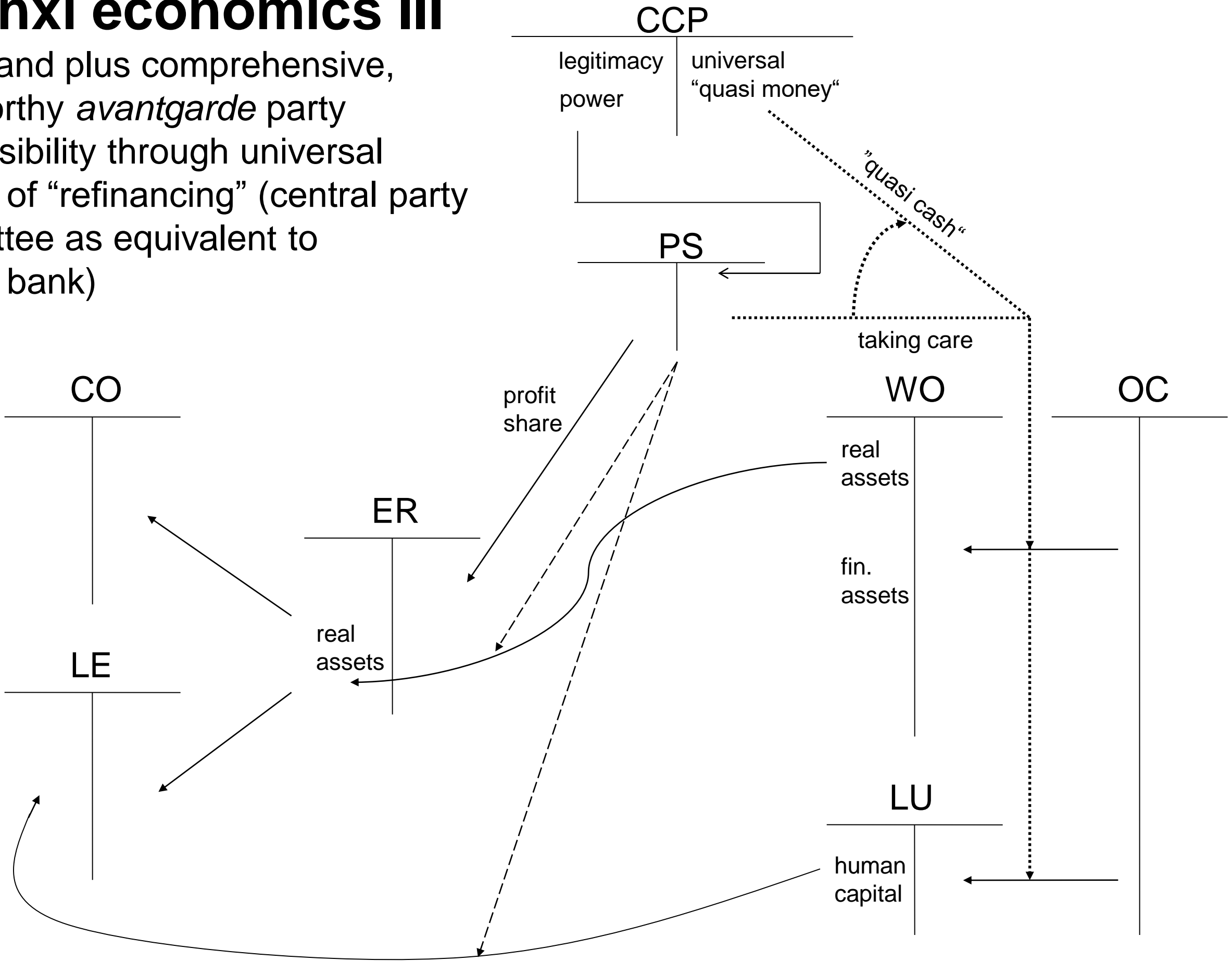
# Guanxi economics II

Command economy with comprehensive responsibility by the Party in ER, WO and in the owner and creditor institutions, where the people work and live, who get rid of the resources which are transferred to the entrepreneurial enterprises



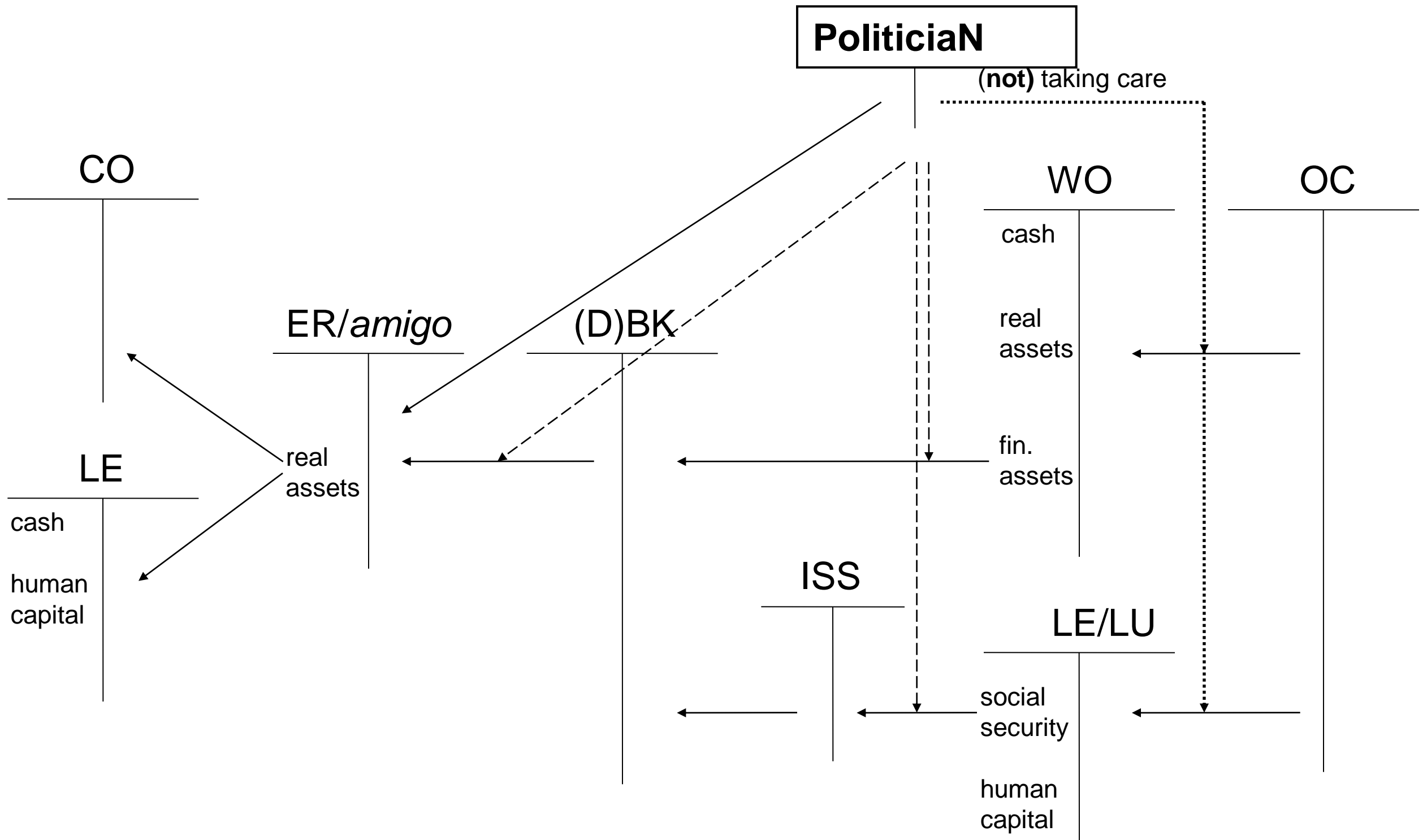
# Guanxi economics III

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



# Guanxi economics IV everywhere:

Politicized development banking between *developmentalism* and *amigo* banking plus party-influence over business, politics and administration



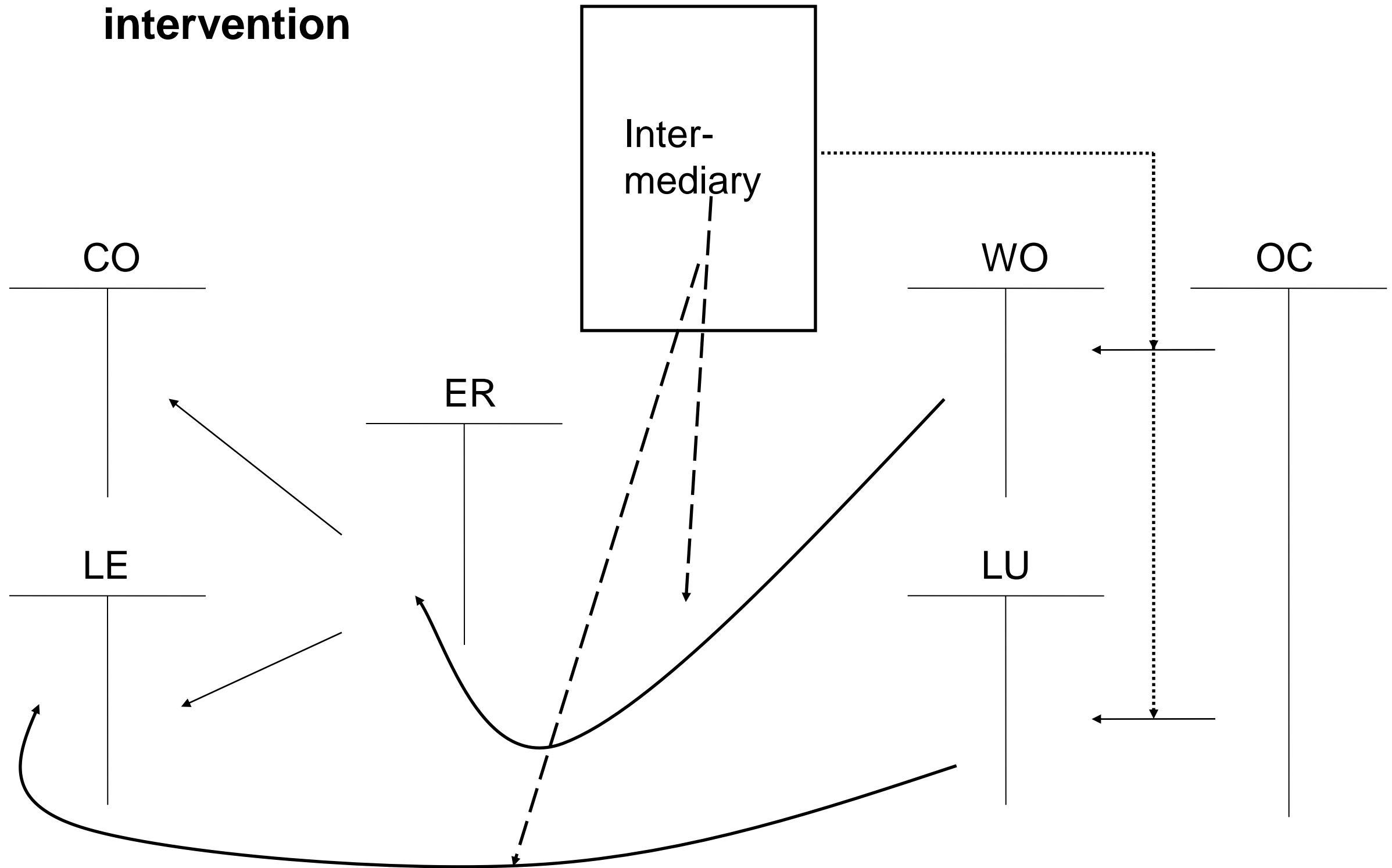
# 2.5 Democratic Socialism in a *República Cooperativa*

- **Political Democracy: Freedom, Justice, Solidarity**
  - Multi-party system – with the socialist party/ies as equal among others, not “Vanguard”
  - Rule of law – with strong protection of the weak
  - Freedom of press, civil society, academia, arts ...
  - Human rights
  - Participation through many types of initiatives
  - National service – military or civilian
- **Economic Order: Following the UN Sustainable Development Goals (SDGs)**
  - Market economy rules in general, but strict rules for conservation and protection
  - Free trade unions
  - Codetermination (*Mitbestimmung*) of workers/employees in all enterprises and administrative agencies
  - Government-directed public services, free education, social housing, pensions, etc.
  - Independent central bank; strict banking supervision
  - Progressive taxes on income, wealth, land, and legacies
  - Taxes on resource use rather than labour
- **Cooperativism: Voluntary cooperation on grassroots level**
  - Incentives for cooperatives in agriculture, housing, banking, health, commerce, etc.
  - Strict rules for auditing and legal supervision of cooperatives
- **International Relations: Following the principles of the United Nations**

### **3. Summaries: Economic Growth and other criteria in favour of different scenarios**

- 3.1 Institutionalized *secondary* distribution of assets for economic growth
- 3.2 Competent persons in different roles for economic growth and the maintenance of the status quo in terms of political power
- 3.3 Scenarios for Cuba's future

### 3.1 Rapid economic development requires institutionalized, permanent *secondary* distribution of capital / assets and labour – via banks, capital markets or political party intervention



## **3.2 Successful and rapid economic development requires various collaborating *homines/feminae oeconomici/ae*, playing together in a well-organized orchestra**

- **Entrepreneur**
- **Banker**
- **Customer, Worker**
- **Status-quo Wealth Owner / *Wirt***
  - Firm owner
  - Investor / Saver
  - Victim of Schumpeter's "creative destruction"
    - Forced to give up control over resources – resistance and conflicts
    - Or fairly remunerated – smooth transition
- **Office-holder**
- **Delta factor for coherence – often the political Party Secretary with his or her network of party members and sympathizers**



# 3.3 Scenarios for Cuba's Future

- **The Latin American Model**
  - **Market Economy with Political Democracy**
  - **Standards like in the other Latin American and Caribbean countries**
  - **Plus Cuban achievements**
- **Socialist Planning with One-Party Rule**
  - **Dictatorial Leninist political system**
  - **Planning plus Monetary Economy as a complement, Cooperatives, and Economía Familiar**
- **The ex-Soviet-Union Model**
  - **Crisis and more or less Democratic Authoritarianism**
  - **Crony Capitalism with state-owned and mixed enterprises**
- **The Chinese Model**
  - **Dictatorial leninist/Maoist political system with One-Party Rule**
  - **Socialist Market Economy with Planning Agency and Party Cadre *Guanxi* relations**
- **Democratic Socialism**
  - **Market Economy with Political Democracy, Socialist Party/ies – among others**
  - **Strong State protecting the weak**
  - **Codetermination and participation by workers and civil society**
  - **Sustainable Development Goals and other UN principles as general guidelines**

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# Abbreviations

BK – bank	LE – employed labour
CB - central bank	LG – legislature
CCP – Central Committee of the Communist Party	LU – unemployed labour
CO – consumer	OC – other creditor(s) / owners / victims
ComBank – Commercial Bank	PN – politician/s
CP - Communist Party	PP – political party/ies
ER – entrepreneur	PS – party secretary
EX – executive branch of government	SOE – state-owned enterprise
IN - intermediary institution	ST – state (as fiscal entity)
InvBank – Investment Bank	WO – wealth owner / Wirt
ISS – institute of social security	
JU – judiciary	

**Vielen Dank / Thank you**

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