

THE CUBAN DOLLARIZATION

Reflections for a de-dollarizing process

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Introduction

The recent, partial, but increasing dollarization of the Cuban economy is an original and complex phenomenon, relatively little studied in the literature dedicated to international monetary economics. It is exhibited by a simultaneous circulation of three currencies on the national territory: the Cuban peso (national currency, remained unconvertible since 1959), the U.S. dollar (which in fact imposed itself on all other foreign currencies), and the convertible peso (internal equivalent to dollar). This multiplicity of currencies, associated to a double exchange system (a 1 to 1 official rate between peso and dollar and a semi-official rate of about 26 pesos for 1 dollar), translates a compartmentalization of the economy in distinct, quite tight monetary circuits, in which price levels and structures of similar goods or services can be differentiated.

The dollarization is the direct consequence of the very profound crisis which stroke the Cuban economy after 1991 and the collapse of the Soviet bloc — the GDP lower point having been reached in 1993-94, with a fall by 34% in volume with respect to 1989 level (a fall comparable to the 1929 crisis). In spite of the grave economic difficulties during the 90's, which made unavoidable the legalization of the U.S. currency on the island and obliged the authorities to integrate the dollarization as one of the components of their economic policy, till now the process has been remained under control. Thanks to it, the government has reached, in some degree, its goal of rising foreign currency inflows, thus also of assuring the national economy's recovery. The latter allowed to re-establish the peso's value, strongly depreciated during the depression, and even —sufficiently rare fact to be stressed— to stabilize the national currency against dollar (at the rate of 21 to 1) between 1996 and the end of 2001. At the beginning of November 2001, after the global activity's contraction —tourism in particular— following September 11, 2001, the dollar has slid from 21 to 28 pesos, then returning to 26 pesos. Despite the U.S. embargo's hardening, the Cuban revolutionary power, constrained to accept dollarization, has finally placed it at the very heart of its strategy of recovery. Obviously, the effects of this monetary reform have not been all positive. Threats it makes support to the Cuban society are such that the state recurrently recalls its wish to decide its suppression as soon as the conditions will permit it. The key question is henceforth to agree on what these conditions are.

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The present article proposes: to explain to what extent the present dollarization is to be distinguished from the pre-revolutionary one (first part); to analyse its causes, mechanisms, and socio-economic effects (second part); and to evaluate the terms of the debate —opened in the island and overseas— about dollarization, as well as some scenarios of de-dollarization for Cuba (third part).

The dollarization in Cuba before the revolution

The time of the U.S. domination

Present dollarization of the Cuban economy is not of the same nature than that which characterized its past history, and cannot be interpreted as a return to the situation prevailing before 1959. The dollar has circulated continuously in Cuba between 1898 (first U.S. military intervention) and 1959 (Cuban revolution). Before 1914, it played *de facto* the role of national currency in a society fully submitted to the United States —more exactly to its finance (Morgan, then Rockefeller)¹. The first dollarization followed the military occupation of the island, from 1898 to 1902, which favoured the penetration of the U.S. financial capital into all key sectors (above all the sugar industry). In 1902, the Cuban Republic was born without any national currency in its Constitution: the *Banco Nacional de Cuba* was only a foreign commercial bank's subsidiary. A "*Treaty of Reciprocity*" gave legal course to dollar, which fulfilled the main functions of national currency in Cuba. Only in 1914, a new currency was created, the peso, which did not aimed to autonomize the Cuban monetary system (it remained dual), but rather to evince rival currencies (Spanish and French) yet in circulation, in order to build the entire economy upon dollar. The banking system's liquidation law (1920) revealed local banks' bankruptcy and achieved the Cuban finances' takeover by the United States.

The consequences of Cuba's monetary and financial submission weighted heavily during the 1929 crisis: the depression stroke the economy much more hardly than the rest of Latin America. The island was extremely vulnerable to variations in export incomes, composed of sugar at 80% and directed toward the United States at 75%. Cuba was forbidden to resort to economic policy defensive steps used by Latin American governments everywhere else. Moreover, it had to concede tariff cuts and conserve a peso/dollar exchange rate of 1 to 1 (*Table 1*), which entailed a strong deflation, contracted money supply, and laminated the country's economy: GDP fell by 36% between 1929 and 1932. The social impact was catastrophic. Nevertheless, an alternative was foreseeable, consisting for instance in imposing a conversion of the circulating dollars into pesos, devaluating the national currency and setting up the exchange control, supported by an expansionist policy and the protection of local productions (import substitution)². It ought to have happened that the United States had accepted the creation of an autonomous monetary system in Cuba; on the contrary, they favoured their own sugar-manufacturers and limited the Cuban sugar exports (*Jones-Costigan Sugar Act, 1934*).

¹ See: Herrera (2003a).

² Maddison (1985).

Table 1. **Exchange rates, per annum averages**
(national monetary unit by U.S. dollar)

	1929	1930	1931	1932	1933	1934	1935	1936	1937	1938
CUBA	1.00	1.00	1.00	1.02	1.01	1.01	1.01	1.01	1.01	1.02
Argentina	1.05	1.20	1.50	1.71	n.a.	2.98	3.06	3.02	3.03	3.07
Brazil	8.47	9.34	14.22	14.04	12.56	11.86	12.05	17.01	16.13	17.12
Chile	9.29	8.28	8.29	12.64	13.02	9.85	19.69	19.53	19.34	19.34
Mexico	2.08	2.12	2.10	3.14	3.56	3.60	3.60	3.60	3.60	4.52

Source: Maddison (1985).

In 1950, however, in a very changed world context, the United States promoted the implementation of the National (central) Bank of Cuba. The question was to insert Cuba within the framework of the new financial international organizations, in which the U.S. position predominated, and to control the Cuban banks' activities, boosted by sugar booms of the World War II and the Korean war. The effective role of this monetary institution was less to regulate money supply expansion adequately with the needs of the national economy development than to run the Cuban gold and dollar reserves as the sugar specialization imbricated even more the island into the U.S. economy, to diversify the investments within the structure of capital ownership, and to favour Batista government's sumptuary or military expenditures. Cuba was fully integrated into the dollar zone.

The Cuban revolution and the dollar

The revolution and the progressive instauration of a socialist economy³ broke this state of facts. It is under the authority of Commandant Guevara, President of the National Bank of Cuba from November 1959 to February 1961, that "*the system itself*" was overthrown and involved in the transformation of the country's monetary and financial institutions. The latter were placed, for the very first time —after four centuries of Spanish colonialism and six decades of U.S. domination— at the service of the national interests. To avoid flights of capital abroad and to reduce a foreign currency gap pressing on the balance of payments, reserve and exchange controls were set up. This measure implied, among others, controls of payments in foreign currencies, of currency in- and outflows, of dollars purchases and sales to non residents, of import licences... The banks' nationalization (400 establishments) was decided on October, the 13th, 1960, just as the main industrial, commercial, and infrastructural sectors.

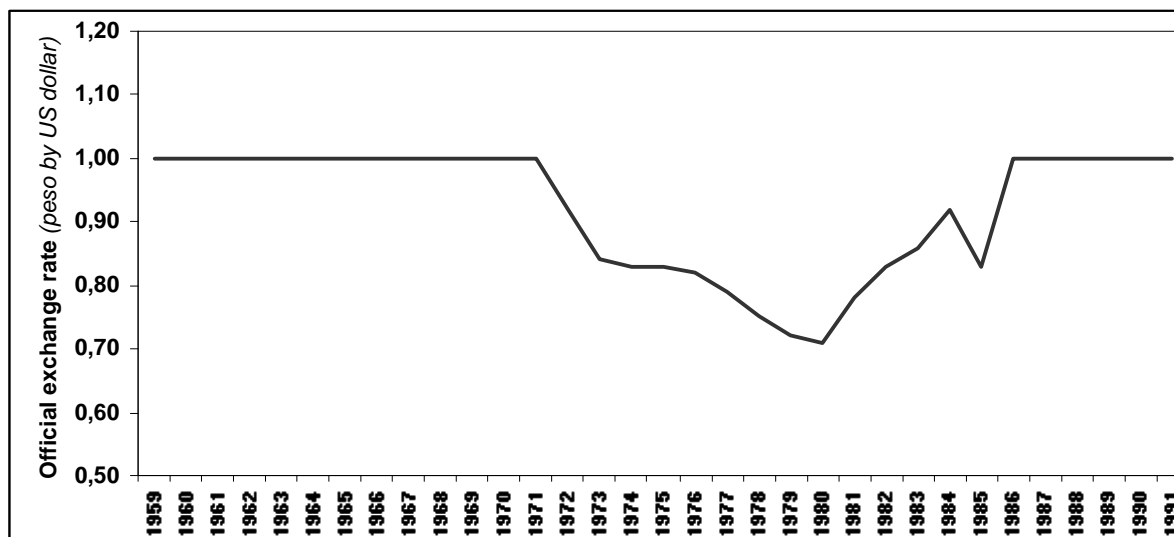
The specialized financial institutions were integrated into the socialist state's new structures, particularly the National Institute of the Agrarian Reform (*Instituto Nacional de la Reforma Agraria*, INRA) and the Foreign Office. In 1963-64, a theoretical debate started about financial issues of planning⁴ —especially the *fiscal system of financing* (*sistema presupuestario de financiamiento*)— opposing on the one hand Guevara

³ Herrera (2001).

⁴ See here the Cuban review *Nuestra Industria – Revista económica*, in particular: n° 1 (June 1963), n° 3 (October 1963), n° 5 (February 1964) and n° 7 (October 1964).

(minister of Industry), Álvarez Rom (minister of Finance) or Mandel, and on the other hand Mora (minister of Foreign Trade), Rodríguez (INRA) and Bettelheim. In February 1961, the restructuring of the National Bank of Cuba was fully achieved, cumulating monetary, banking, and credit functions. In a consolidated social property of means of production, it became a key instrument of central planning implementation and impulsion of the country's (partial) industrialization. The new Cuban peso, signed by "Che", evinced the dollar.

Graph 1. **Cuba's official exchange rate**
(Cuban peso by U.S. dollar)



Source: Mesa-Lago (1994)

Its official value remained stable until the beginning of the 70's, then returned to a parity with the dollar in the 80s, after the "rectificación process" (Graph 1). Yet, the circulation of the U.S. currency did not disappear completely during the revolution. One of the reasons lay in the creation of *diplo tiendas* (retail shops in dollars for diplomats and non residents). However, the dollar circuits —as those of its internal equivalent, the "fichas INTUR" (foreign currency bonds)— were relatively limited to this commercial network and segments of the informal sector, supplied by (licit or illicit) foreign currencies remittances by Cubans abroad to their relatives. Holding dollars remains prohibited until 1993.

The on-going Cuban dollarization and its socio-economic effects

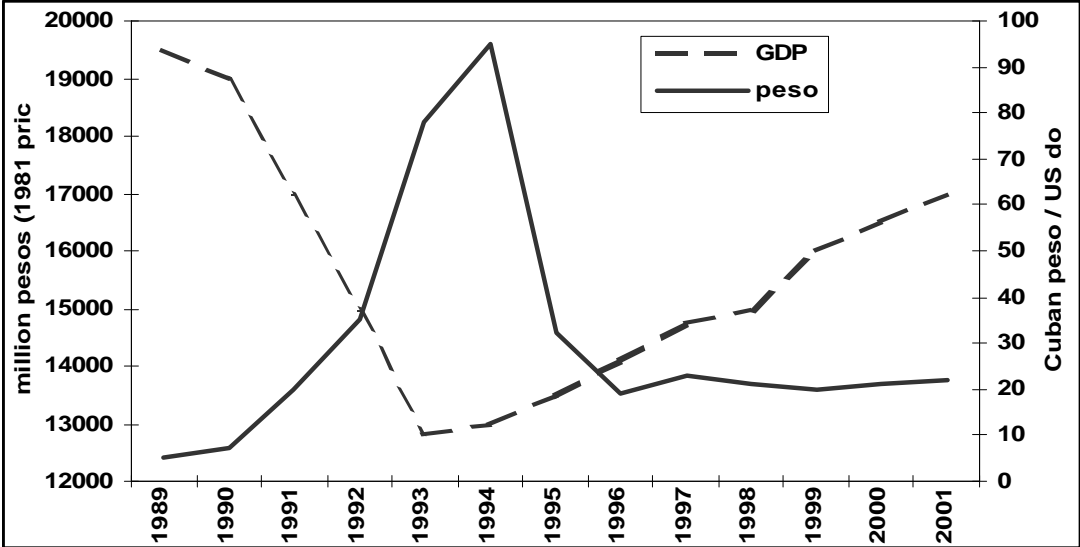
Causes and mechanisms of the present dollarization

In Cuba, the on-going dollarization presents singularities that distinguish it both from the other Latin American countries that have adopted it, in a neo-liberal perspective, to stabilize their exchange regime (Argentina, Ecuador...), and from "transitional" countries where monetary reforms were yet carried on under the aegis of communist parties (China, Vietnam). Contrary to the Latin-American countries, the dollarization in Cuba aims to favour foreign currency entrances in order to limit

exterior accounts' deficits and to improve import capability, as avoiding a too strong depreciation of the peso. The purpose is to give the state the means to pursue social interventions and endeavour to ensure living and working conditions of the population by smoothing the effects of the crisis. Unlike China and Vietnam, the Cuban state took the initiative for capital accumulation —which still escapes private agents— through an ownership structure of the means of production largely dominated by the public form. As a matter of fact, Cuban reforms did not entail neither privatization nor financial liberalization, as in the Asian transitions. The market mechanisms' penetration is undeniable for some years in Cuba, but it remains much more limited than in Vietnam or above all in China. This point is important, because the fact that Cuban monetary authorities did not develop a sophisticated financial market allows to foresee realistically a reversibility of the dollarization process.

The present dollarization results from the profound crisis occurred in the island after the USSR's breaking-up. The Cuban foreign relations were indeed strongly overlapped within the CMEA (Council for Mutual Economic Aid), in privileged conditions, protected from hazardous world markets. From 1990 to 1993, the exports and imports fell by 78,6% and 72,9% respectively. On the import side, the most affected categories were raw materials, machines, transports and combustibles —the state trying to preserve at all costs food supply. This evolution was amplified by a strengthened embargo⁵ and by the external debt (10.9 billion dollars in 2000). The collapse that followed provoked falls in GDP (*Graph 2*), productivity, investment and consumption, and a rise in fiscal deficit. The latter, deepened by the public enterprises' deteriorated accounts, but also by a *political will* of the government to limit wages degradation, the employment level and social spending, involved more liquidities in circulation, considerably increased in 1993-94, and led to a galloping inflation.

Graph 2. **GDP and exchange rate evolutions from 1989 to 2001**



Source: Oficina nacional de Estadísticas and Banco central de Cuba.

⁵ “Torricelli Act” in October 1992; “Helms-Burton Act” in March 1996. See: Herrera (2003b).

Consequently, the value of the Cuban peso weakened: between 1990 and 1994, the *per annum* average semi-official exchange rate arose from 7 to 95 pesos by dollar, with a peak up to 150 at the end of 1994 (*Graph 2*). In this extremely deteriorated context, the government implemented profound economic reforms, whose one of the keys lay in the decriminalisation of foreign currencies holding in August 1993.

Ruling out devaluation, the reforms' main objective was to allow the state to collect the maximum foreign currencies destined to reduce external imbalances, thus to be in a position: *i*) to maintain, as far as possible and even altered, the Cuban "social model" (public education and health, *libreta de abastecimiento* giving access to food products distributed by the state, housing and transports at low prices...); *ii*) to displace the national economy's centre of gravity from sugar, whose incomes declined, toward tourism and non-sugar export sectors (medical products, nickel, tobacco, sea products...); *iii*) to tend to self-sufficiency in food sectors (by substituting imports) and energy (by exploiting new gas and oil-fields). To reach this goal, the Cuban state had to call upon foreign direct investments (FDI); though no-negligible and rather diversified (tourism, oil, mining, but also industry, construction and agriculture), capital inflows remained however insufficient to cover imports required by the country as well as persistent current accounts deficits (*Table 2*).

Table 2. **Balance of payments**
(in million pesos)

	1993	1994	1995	1996	1997	1998	1998	2000
Trade balance	-847,4	-971,4	-1484,3	-1790,3	-2264,5	-2688,8	-2909,3	-3173,0
Goods: exports	1136,6	1381,4	1507,3	1866,2	1823,1	1540,2	1456,1	1691,8
Goods: imports	1984,0	2352,8	2991,6	3656,5	4087,6	4229,0	4365,4	4864,8
Services*	476,7	663,8	845,2	1372,4	1519,0	1932,1	2162,7	2336,5
Balance of goods & services	-370,7	-307,6	-639,1	-417,9	-436,7	-392,4	-461,8	-687,1
Income	-263,8	-422,8	-524,8	-492,6	-482,9	-448,7	-514,1	-693,0
Current transfers**	262,9	470,2	646,2	743,7	791,7	813,0	798,9	842,4
Current Account	-371,6	-260,2	-517,7	-166,8	-436,7	-392,4	-461,8	-687,1
Long term capital	118,4	817,4	24,4	307,9	786,9	632,7	209,9	347,3
Direct investment***	54,0	563,4	4,7	82,1	442,0	206,6	178,2	399,9
Other capital	237,7	-555,0	572,0	-133,5	-329,5	-223,3	275,0	369,2
Capital/Financial Account	356,1	262,4	596,2	174,4	457,4	409,4	484,9	716,5
Reserves (variation)	15,5	-2,2	-78,5	-7,6	-20,7	-17,0	-23,1	-29,4

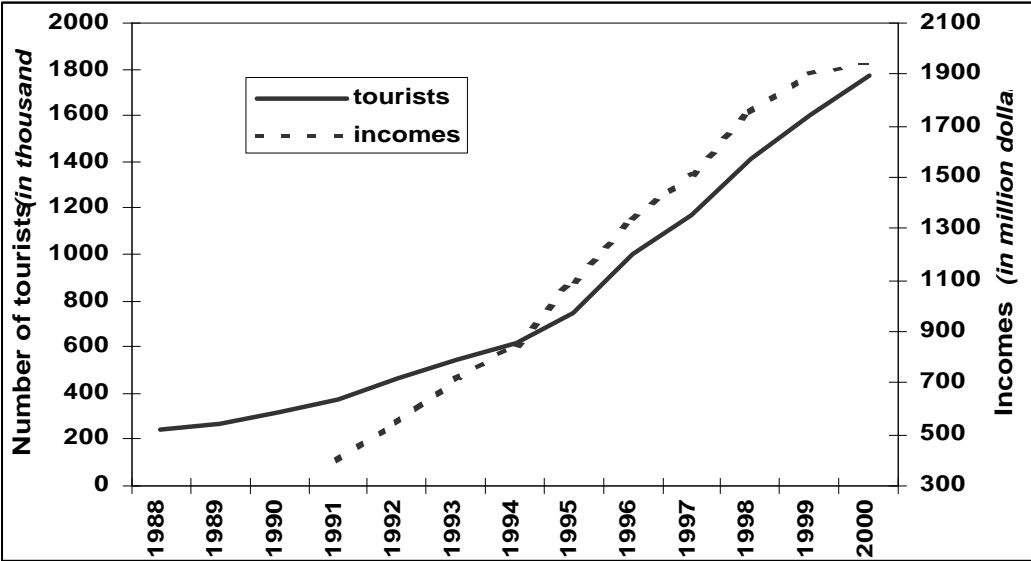
Source: *Oficina Nacional de Estadísticas*.

Notes: * = includes tourism ** = includes remittances in dollars (*remesas*) *** = includes FDI

Henceforth, the government adopted a series of monetary steps institutionalizing a partial dollarization of the economy by: *i*) authorizing receipts of foreign currency remittances from abroad (*remesas*), *ii*) decriminalizing foreign currency holding and opening of bank accounts in dollars, *iii*) creating retail shops (*tiendas de recuperación de divisas*) whose sales of current or durable consumption goods are effectuated exclusively in dollars or convertible pesos. Joined to the dismantling of the state

monopoly in foreign trade, the dollarization process implied to put in competition local units' productions with the imported goods at international prices, that was supposed to favour a more rational management of the public enterprises (*perfeccionamiento empresarial*). Tourism, FDI, and *remesas* became the Cuban economy's new engines, but at the same time the main vectors of dollarization, which grew rapidly (Graph 3). Following the estimations—even if approximated—made by the CEPAL (1997), the amount of assets in foreign currencies held in Cuba was about 650 million dollars at the end of 1996. In 1998, the private incomes in dollars could have exceeded one billion dollars⁶.

Graph 3. **Number of tourists and associated incomes in Cuba**



Source: *Oficina nacional de Estadísticas*.

It follows that the dollarization was both suffered by Cuba as a *de facto* situation linked to its old foreign markets' disappearing, and integrated by its government at the hearth of reforms set consisting in admitting temporarily market mechanisms, but strongly regulated by the state. In these circumstances, dollarization progress occurs along with a mutation of the planning system, which became more decentralized, adopting new monetary and financial tools⁷. The rational and efficient management of the liquidities required appropriated regulations: deep changes, carried out in 1997, ended the single bank system by separating its central functions from the commercial and investment ones; a decentralized network of specialized financial institutions has been implemented, ruled by the Central Bank of Cuba. The latter still remains the new device's director organ, placed under the control of the state. In other respects, a new fiscal system has been brought into play.

What is important to understand is that the upholding of the Cuban social system is partly due to the application of inter-sectorial transfers making use and taking advantage of the two existing exchange rates: the first rate is the official one (surely over-evaluated), the other one is a semi-official (and perhaps under-evaluated) rate. The state's direct subsidies to public enterprises have been reduced and replaced to a

⁶ Escaith (1999).

⁷ See: Alvarez (2000).

large extent by an inter-firms balancing out⁸. Firms of the so-called emerging sector (joint ventures, tourism, dollarized unities of production...) take in the first place advantage of the state's investments and of management autonomy, particularly to allocate foreign currencies they earned. In counterpart, they drain incomes in dollars toward the state, either by transferring their balance surpluses in dollars to a foreign currencies central fund (*Caja central de divisas*), or by collecting the wages in dollars of their employees (paid in pesos through "bridge-firms"), or again by fiscal ways. The historically dominant export sector, that of sugar, contributes also to drain dollars, but it does not dispose of the same rights to allocate them. Its evolution is still directed by the state to control for the best the orientation of growth factors towards economy's driving forces. The system was conceived in such a way that state enterprises in traditional sectors (social services, food, infrastructure...) could finance their purchases of inputs in foreign currencies by buying dollars at the *Caja central de divisas* thanks to Cuban pesos at the official rate of 1 to 1, but selling part of their productions directly in dollars. As a consequence, they are able to provide to people the bulk of their products and services either free (education, health...) or at extremely low prices (food, water, transport, housing, telephone, electricity, culture, sport...). Henceforth, the dollarization exerts a decisive influence on the Cuban planning, which has not been abandoned, but changed of nature and instruments⁹.

The effects of the Cuban dollarization

By promoting capital inflows linked to the three new growth engines (tourism, FDI, monetary remittances from abroad), Cuban dollarization management considerably contributed to the economic recovery —even if the latter does not yet reach nowadays the 1989-90 level. But it has also produced a series of effects considered by the Cuban government as undesirable. As a matter of fact, the 1997 *Resolución económica* of the Cuba's Communist Party explained: "...without being unaware of its drawbacks, dollarization of the inter-firms relations has got positive net effects, because we succeeded in maintaining the running of the economy and in reviving its growth, as well as in redynamizing exports and reducing the costs, although to an insufficient extent facing our needs and our potentialities. This dollarization is not the Cuban economy's normal path and we shall leave it as soon as it will be economically practicable" (Cuba's Communist Party, 1997)¹⁰.

The dollarization has trenched worryingly within the population between those who get and those who do not get access to incomes in dollars, provoking in the last time a social differentiation —judged unacceptable by the Cuban government. Workers who fulfil absolutely necessary, essential functions to the society (factory workers, agricultural workers, teachers, physicians, researchers...) are penalized with regard to people having access to dollars, because they are paid only in pesos. Acquisition sources of foreign currencies are now relatively varied in Cuba: remittances from abroad, mainly the United States (*remesas*), incomes derived from

⁸ On this point: Hidalgo (2002).

⁹ See: González Gutiérrez (1997).

¹⁰ A direct negative effect of the dollarization process is the lost of "seigneurage receipts" for the Cuban state (in stock and in flow). On this technical issue, see: Morandi, Mendonça and Nakatani (2002).

tourism, material incentives and bonuses in convertible pesos paid to employees by public enterprises (*estímulos*), revenues from businesses on one's own account (*actividades por cuenta propia*), monetary conversions (*compra de divisas*) on the exchange market created for population (*CADECA*) or in the informal sector (*mercado paralelo*). According to the I.N.I.E. (*Instituto nacional de Investigaciones económicas*, National Institute of Economic Researches), in 1996, the structure of Cuban population incomes in dollars was the following (*Table 3*):

Table 3. Structure of Cuban population incomes in dollars
(in percentage, in 1996)

Total incomes	100.0
Remittances, tourism, services....	68.1
Material incentives (<i>peso convertible</i>)	1.5
Incomes from no-state sales	22.2
Purchases of foreign currencies	8.2

Source: INIE (1997)

The egalitarian wages and incomes structure and the existence of a complete system of public social services constitute the success—largely acknowledged at a worldwide level—, as well as one of the justifications of the revolutionary process. Accordingly, the latter is inevitably destabilized by the fact that a part of Cuban population incomes can no more be based upon labour or a social right (*Table 4*). At the same time, all incentives to work and to increase labour productivity are thrown into confusion by dollarization process.

Table 4. Structure of Cuban population total incomes
(in percentage, in 1996)

Total incomes	100.0
Incomes from the state	40.9
<i>Wages and other labor incomes</i>	28.6
<i>Incomes to cooperatives and private unities</i>	6.0
<i>Social security and assistance</i>	6.2
No-state incomes	59.1

Source: INIE (1997)

Nevertheless, as almost two third of Cuban people have now access to the dollar, the inequalities are rather to be found in the banking deposits' concentration. One estimate that, in 2000, 12% of the banking accounts represented 80% of the deposits (against respectively 15% and 70% in 1995). The emergence of a new social stratum, much more richer since holding significant accumulated foreign currencies amounts, exacerbate the internal social contradictions. The rise of these contradictions could strengthen anti-socialist forces, hostile to the Cuban socialist project. At the economic and political levels, the dollarization is hencefore susceptible to generate a certain instability in the island. In such a context, one of the keys of the device implemented by the Cuban state is the strict locker still imposed to private capital accumulation and to private wage-earning hiring.

Debate around the Cuban dollarization

The terms of the debate

The capitalist countries, especially the developing ones under I.M.F. adjustment, went through severe financial crises during the last years. These crises were often caused by capital outflows and/or speculative attacks on the international financial markets, provoking huge pressures to devalue their national currencies. Such devaluations distort the internal relative prices structure, which increases inflation and interest rates, thus also external debt. This fragilizes much more the conditions of their economic growth, leading to an increase of unemployment and poverty. On the whole, the very foundations of the sovereignty of their economic policy are affected and finally questioned. The “orthodox” neo-classical economists —and even some “heterodox” ones— traditionally face each others about the choice of the “best exchange rate policy” in the present period of capital flows liberalization¹¹. Words also ran high concerning the dollarization between *mainstream* economists in the United States: examples¹².

Beyond the alternative between fixed or flexible exchange rates (or one of their respective variants), the dollarization is more and more frequently presented as a solution to contain exchanges instability. Such is the case in Latin America, more particularly within the business circles favorable to the A.F.T.A. (American Free-Trade Agreement; in Spanish: A.L.C.A. or *Acuerdo de Libre Comercio de las Américas*)¹³. A complete dollarization would allow the economy to overcome exchange policy constraints. As a renunciation to one’s currency, it would suppress the horns of the dilemma of which exchange regime to adopt —as well as the roots of the country’s monetary (national) sovereignty. According to us, the question is not here to intimate that margins of the economic policy are quite large for developing countries, nor that it would be easy to liberate oneself from the external constraint in the present globalized world, but only to affirm that such margins, however restricted they may be, do exist and can really be used for the best to meet the own interest of the economies and their populations. In other words, the heart of dollarization matter belongs not only to *policy* decisions but also and above all to *political* ones.

More especially as it is far from being proved that the dollarization constitutes the panacea regarding monetary and financial stability of dependent peripheral economies. Several recent monetary experiences in Latin America (Ecuador, Guatemala, Salvador...) demonstrated that dollarization process did not provide internal prices stability, nor that of components of the balance of payments, nor even regular foreign capital inflows¹⁴. It did still less carry out a sustainable growth of productive sectors in an economy. It is enough to glance at the events happening in Argentina —the most “advanced” Latin American country in this way— to persuade us...

¹¹ See: Lepage and Wajsman (1999).

¹² Authors in favor of dollarization: Berg and Borenzstein (2000), IEEP (2000), Hanke and Schuler (2001), Schuler (2002). Against dollarization: Acosta (2002), Morandi, Mendonça and Nakatani (2002).

¹³ For a Cuban position on ALCA: Martinez (2002).

¹⁴ Nakatani and Mendonça (2003).

The debate about Cuban dollarization

The debate about dollarization of the Cuban economy is controversy. It is so, first of all, outside Cuba, especially in the United States, for instance within the Florida International University's *Association for the Study of Cuban Economy*. This latter —whose project “*Transition in Cuba*” is financed by the U.S. Department of State for half a million dollars— flaunted its spirit as soon as its 1990 congress, where one of its guests of honour was the former president of the National Bank of Cuba, Pazos —whom Guevara had replaced—: waiting for Castro's rapid collapse, Pazos (1990) put forward propositions for a transition to capitalism regarding the prices structure, productive apparatus' conversion, without forgetting refund of properties nationalised by the revolution and restoration of the relations with the United States.

As to him, Moreno-Villalaz (1992) formulated what he called “*an optimal monetary system*” for Cuba, taking the monetary system in practice in Panama as a model, with free in- and outflows of merchandise, capital and currencies. All prices, supposed to be derived from supply-demand confrontation, would be converted into dollars, and a financial system created for foreign capital. This scheme foresees monetary policy withdrawal —the sole market having to regulate automatically currencies flows as a function of the internal needs by “*endogenous money supply*”. The excess of liquidities in pesos would be absorbed through privatizations and taxes. The state's receipts in pesos would disappear afterwards, and the peso replaced by the dollar.

Nevertheless, Katz (2000) seems to have good grounds for saying that it is not sure that “*the sole country which has experimented a dollarization during a long period [can] be considered as the model of the eradication of poverty and unemployment*”, nor even as an example of economic stability. As a proof, the author mentions that Panama underwent more than fifteen I.M.F. stabilization programs during the last years. Moreover, unfortunately, this country is not known to be a champion of the national sovereignty...

Another proposition, apparently less radical than the complete dollarization, is presented by Sanguinety (1994). By examining the monetary aspect of a transition to capitalism, he recommends a full liberalization for the circulation of the dollar in parallel with the Cuban peso. Relative values of the two currencies would be only determined by the market —the goal being a competition between dollar and peso, allowing the agents to choose in which currency drawing up contracts: the firms would be free to pay wages to their employees in dollars or in pesos, inter-firms mobility of workers making coincide decisions of the ones with those of the others. A full freedom would be left to capital in an economy similar to that dreamed by von Hayek, where money is de-stated. The idea —quite provocative— is to imagine the appropriate exchange regime awaiting the monetary union between Cuba and the United States.

Miranda (1999) believes in an inflexion of the course of reforms in the sense of a larger liberalization. A measure strongly advised —and shared by some Cubans economists, as we will see¹⁵— would be to authorize the creation of private small and medium enterprises. According to him, there are yet seeds of capitalism in Cuba, due

¹⁵ Carranza, Gutiérrez and Monreal (1995).

to an unequal opportunity to run private business. This author considers that the rise of a private sector would give an impulse to the economy by using dollars that remain hoarded. At the monetary level, the right way would be toward an exchange rates unification (duality being hurtful to external trade and the economy as a whole) and, during a transitional period, fixing of a new exchange rate on the basis of a basket of currencies, before the dollar “*at its true market value*” is finally in use for anchoring the peso. The crucial idea, following a typically neo-classical interpretation of money, is that the economy disposes of a “*liable*” monetary system, internally as well as externally, to converge toward capitalism.

The Cuban economist Hidalgo (2002) lays the emphasis upon the choice of the exchange rate to be adopted after the present dollarization. The distortions the latter involves in the Cuban economy are so prejudicial that they require changes to another exchange regime. But she asserts that a de-dollarization process which would suppress the dollar and the convertible peso at the same time could produce benefits’ distribution and fullness very different according to the exchange regime adopted. Official exchange rate devaluation, if unavoidable, would lead to feed the emergent sectors, at the expense of the other ones, because of the inter-firms transfers’ cancellation. If she did not choose a specific exchange system, Hidalgo (1999) suggested that, whatever the circumstances, this regime would have to gain the international financial markets’ consent and confidence.

Yet, some foreign authors do not use discretion nor show such carefulness. Kildegaard and Orro Fernandez (1999), for example, declare explicitly their opinion in favor of the hardest fixed exchange regime, consisting in implementing a currency board and in taking the dollar for the Cuban peso as anchor currency. Accordingly, “*the best option*” contemplated for the future of Cuba regarding its monetary policy would be exactly that England applied in the past to its colonies, like India in the Nineteenth Century...

Scenarios for a de-dollarization

Discussions about de-dollarization

It remains that the revolutionary government, as well as many analysts, both in and outside Cuba, focus on the belief of a necessary de-dollarizing of the economy. Some tenants of a de-dollarization maintain that time has not yet come to bring about this complex reform, requiring as preliminary task the readjustment of the balance of payments, and the economy’s full recovery —at least at its pre-crisis level. The situation is all the more delicate as the authors claiming a de-dollarization as soon as possible do not seem to agree upon the sequence of steps to adopt, nor even upon a coherent framework allowing to carry into effect this project. In another connection, it is clear that part of the population (the one who has taken the most directly advantage from the dollarization for ten years) does not feel willing to accept the implementation of a de-dollarization of the economy —which obviously hinders politically the course of the reforms planned by the government.

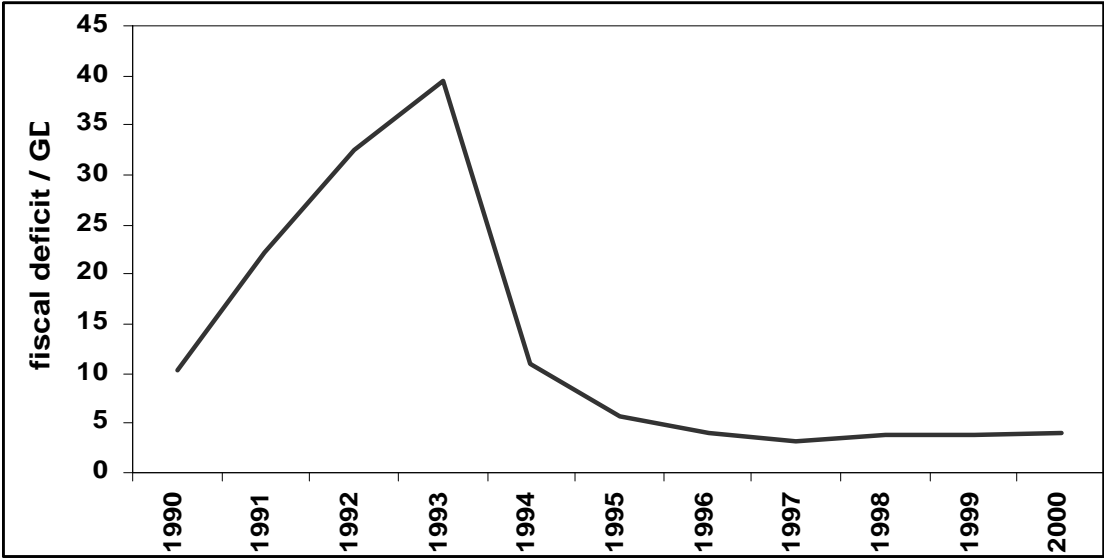
In Cuba, Carranza, Gutiérrez and Monreal (1995) are among the first to have formulated concrete proposals of de-dollarization. The monetary dimension of the economy's restructuring they conceive is based on a double statement during the crisis: first, the excess of liquidities; second, the concentration of these liquid assets. The solution put forward to remedy both imbalances is seen by them as a *sine qua non* condition of broader global reforms, destined in particular to authorize the creation of small and medium enterprises with Cuban private capital. Their project aims at the dollar withdrawal, along with the convertible peso, and at social inequalities reduction. Foreign currencies holding would remain legal, but all nationals of Cuba, as well as all foreign residents or tourists, would be obliged to use the national currency in Cuba. The crucial measure consists in a monetary conversion of all savings accounts and banknotes in circulation into a new currency, whose issue would be accompanied by a seizure according to a sliding, degressive scale: at a 1 to 1 rate until a given ceiling, then the more excess liquidities held are beyond this limit, the less favourable is the conversion rate.

According to us, such a solution raises major problems. First, this device adds the incoherency of trying to conciliate the authoritarianism of a confiscatory measure, destined to reduce inequalities, to the liberalism of an opening to the private sector, whose consequence could probably produce exactly the inverse result. Thus the resulting impact could be that of cumulating harmful effects of both advanced steps. Second, even if the authors justify such a confiscation by a principle of justice, it would entail the risk —besides that of incurring the political hostility by the richest— of a drop in confidence towards monetary authorities. Such a scenario would make extremely critical their future decisions and undoubtedly induce the worst psychological effects on the agents. Third, to be efficient, this reform ought to proceed by surprise, without warning; otherwise, if it is a dead cert, it seems difficult to avoid massive conversions of pesos into dollars, and speculative behaviours on the exchange rates. Let us assume one succeeds in implementing it, the reform would still remain incomplete, since keeping intact liquidities held by the agents out of the banking system. Yet, none of these propositions has been applied by the Cuban government, which rather preferred to manage the dollarized market and keep the national economy under control.

Johsua (2001) proposes another way to de-dollarize, considered as one of the most important tasks to accomplish for the Cuban economy in the medium term. The author believes that “*re-establishing a prohibition to hold foreign currencies would be inefficient, dangerous and undesirable, by giving the impression of a backwards return*”. His analysis stems from the ideas that “*the source of dollarization is the peso's weakness*” and that this latter “*appears as an excess of liquidities*”. The priority would be to correct the imbalance at the origin of this excess of liquidities —by limiting money supply and fiscal deficit (*Graph 4*)— to consolidate the peso's stabilization and the people's confidence. The preliminary measures to de-dollarization, aimed at “*absorbing part of these liquidities*”, could be to float new long-term state loans in pesos (at sufficiently attractive rates) and to open saving accounts (at rates higher than those of demand deposits). Of course, bank deposits in foreign currencies could continue to be encouraged. But the fundamental step would consist in “*reconverting the tiendas de recuperación de divisas by admitting, firstly, payment in pesos and dollars, then in pesos*”.

only, the whole on the basis of market rates". Prices would be marked in Cuban pesos and the economic growth recovery would progressively allow the fall in prices, inaccessible to the entire Cuban population at the beginning. In an intermediary step, an active policy of incomes redistribution (wages and bonuses' rise) from the dollarized sectors to the other ones is advised. Yet, these proposals leave undetermined the scope of margins of action the state can use in matter of indebtedness (Graph 5), the justification of an immediate, simultaneous suppression of the convertible peso and the dollar, or the risk of fall in *remesas*...

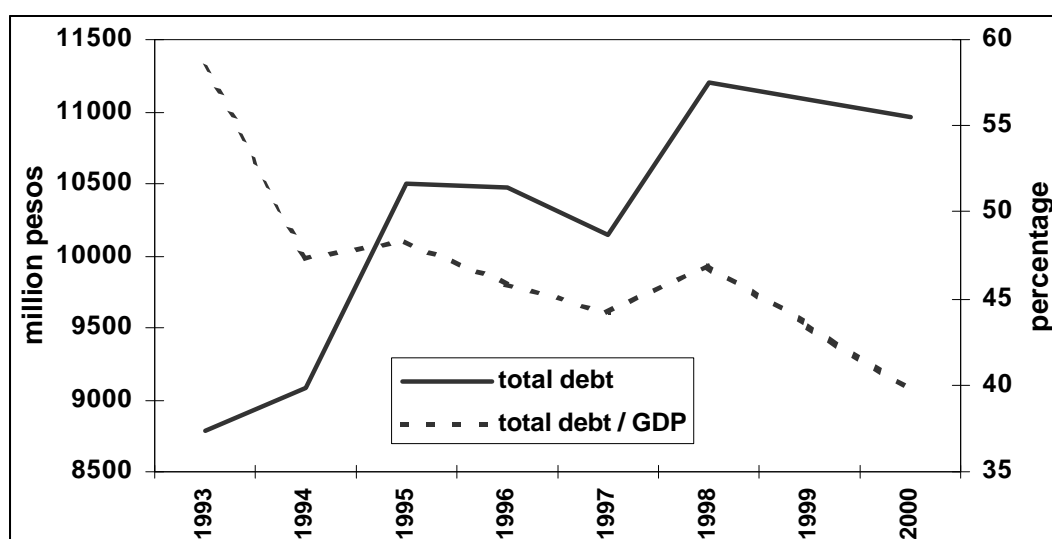
Graph 4. **Fiscal deficit of the Cuban state**
(as a percentage of GDP)



Source: *Oficina nacional de Estadísticas*.

According to us, this leads to some comments. Firstly, we must understand that the excess of liquidities is not the sole cause of the peso's weakness, which is to be found in the crisis that followed the Soviet Union's collapse and its effects on the Cuban productive structure. This excess of liquidities is also the consequence of an economic policy decided by the revolutionary government to smooth, despite the crisis, the deterioration of wages and employments, and their harmful social impact. Secondly, Johsua's analysis concentrates upon the dollarization of the liquidities held by the population in the consumption sphere. The priority remains, for sure, the disappearing of the *tiendas de recuperación de divisas*; but the productive sectors' financing (inter-enterprises subsidies) plays an essential role in every monetary reform, especially in that of de-dollarization. Finally, the changes contemplated by the author applied to the Cuban economy mechanisms, constraints and institutions which concern capitalist economies, but not socialist (or mixed) ones. In these latter, monetary, financial, and banking policies obey to very different categories and objectives than those of capitalism. Such is the case of the role devoted to banks and to their policy of deposits and credits at interests. In such a scheme, the goal would not be to abolish the function of reserve of value of money; on the contrary, its property to be capital-money does not disappear, but would be reinforced.

Graph 4. **Cuba's total debt**



Source: *Oficina nacional de Estadísticas*.

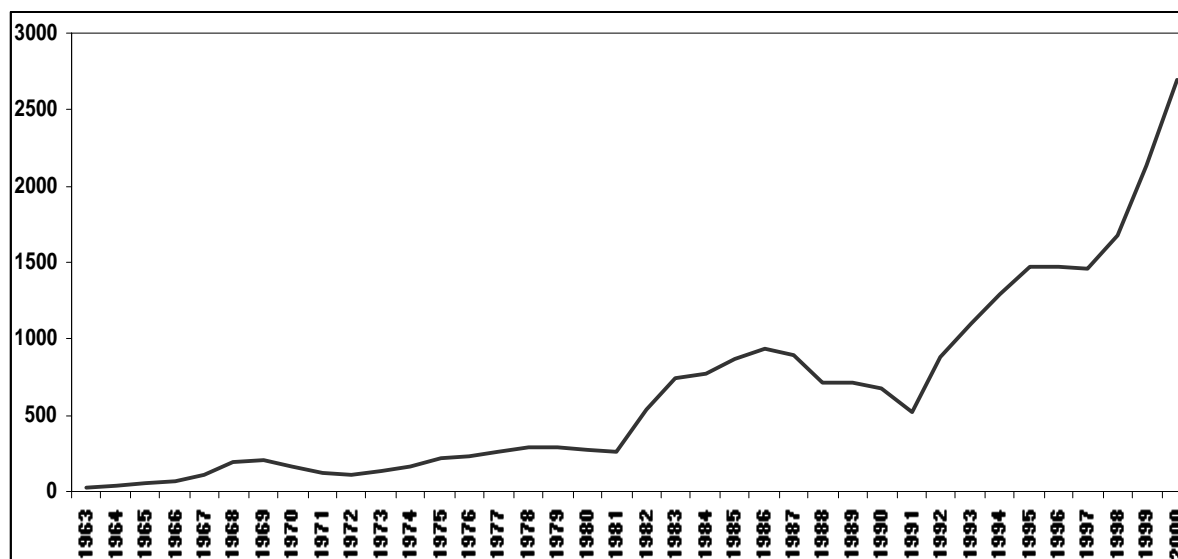
An alternative de-dollarization for Cuba

Another de-dollarizing process of the Cuban economy could be envisaged, which would give to the convertible peso a key role in the transitional period, before its disappearing becomes possible. The currency chosen on the internal markets ought to be the Cuban peso. Choice of the convertible peso —devaluated with respect to the peso if necessary— as a means of circulation substituted to the dollar, would allow to avoid a “race to dollars” and, along with economic recovery, to modify inter-firms subsidies mechanisms as well as reinforce progressively those of planning in national currency. Such a disposal would offer some advantages, in particular: to extend the control on the exchange market and on foreign currencies in- and outflows by the Central Bank; to increase the amount of dollars collected by the state; to reduce underground exchanges of foreign currencies and misappropriations of merchandises. It could also attenuate risks of financial crises generated by the dollars loans made by the Cuban banks for the national enterprises.

As to him, González Gutiérrez (1997) considers that “*to make the dollarization fall back, it would be necessary to implement a series of coordinated actions. Among them: a) to restore to the national currency the most functions possible, compatible with the coexistence of an economic regulation predominantly realised by the means of foreign currencies; b) to transform the financing schemes in foreign currencies with their peculiar character into financial and banking mechanisms of general type; c) to transfer progressively the economic regulation to the national currency (reinforcement of financial management and planning in national currency); d) to advance toward a gradual convertibility of the national currency*”. If the way chosen is that of the strengthening of the national currency, along with that of planning, the question of the exchange regime will lose its importance, since the Central Bank would be in charge to apply a strict control of external exchanges and to bring into play an internal system of fixed exchange rates —possibly multiple according to the needs of the various sectors to be developed. This orientation would obviously require a discussion process of all reforms within the population.

Very recently, at the end of July 2003, the Cuban government restricted some transactions in dollars on the island: “state firms [are] no longer allowed to use the U.S. currency, instead being obliged to deal in the convertible peso”¹⁶. The Central Bank declared that “the reform would not affect the general population, and was aimed purely at fostering ‘fiscal discipline’”¹⁷. This decision of turning away from the dollar could announce a bending point in the Cuban monetary policy and its ability to issue and manage a stable national currency. It could also confirm the economic recovery, with a GDP growth (6.2% in 1999, 5.6% in 2000, 3% in 2001 and 2002, probably 5% in 2003) boosted by its new engines (tourism, FDI, *remesas*) and helped by the rise of the oil national production (Graph 5). Yet, Cuba’s growth remains directly impeded by the effective extension of the U.S. embargo¹⁸, which not only intended to restrain development of the Cuban economy’s new driving forces (by hitting the inflows of funds and goods), but also to undermine social benefits gained since years and to jeopardize their successes, recognized by many international independent observers (in particular those of the WHO, UNESCO, UNICEF and many NGOs)¹⁹.

Graph 5. Oil national production



Source: Mesa-Lago (1994) and *Oficina nacional de Estadísticas*.

Conclusion

Paradoxically, the fact that Cuba does not belong to the IMF or the World Bank —thus is not head over ears in debt with respect to the international organizations nor constrained by structural adjustments they dictated— could, to some extent, loosen room to manoeuvre for its government, and explain its economic recovery. If the embargo clearly reduces these margins, the latter exist and have been judiciously used to face the most profound crisis since the beginning of the revolution in 1959.

¹⁶ *BBC News*, July 21, 2003.

¹⁷ *Idem*.

¹⁸ Herrera (2003b). Also: American Association of World Health (1997).

¹⁹ From an official source, the direct economic damages caused to Cuba by the U.S. embargo since its institution would exceed 70 billion dollars (Cuba’s Report to the U.N. Secretary-General, 2002).

Now, contrary to developing countries submitted to neo-liberal policies, the Cuban state could maintain its absolute priority to social expenditure (education, health, research...), its system of universal food at low prices, and social inequalities as limited as possible —*i.e.* the very duties of the revolution since its origins.

It should be added, in conclusion, that Cuba also tolerates on its territory a fourth currency: the euro is authorized to circulate locally (in the tourist areas) since June 2002. Facing the difficult de-dollarizing process, a question of the day deserves a special investigation: that of the eventual benefits of a “euro-ization” of the Cuban economy. It has been recently examined by Ritter and Rowe (2000). According to these Canadian authors, a swift from dollarization to euro-ization could yet involve more drawbacks than advantages and generate additional problems for the Cuban state. In these conditions, the sole solution would be, as to them, to do its best to reinforce the peso as a national currency, what implies disappearing of the present dual exchange rates and monetary system.

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