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Cuba deepens austerity in response to continued economic stagnation

Cuban Economy Minister Alejandro Gil Fernandez announced last month that the government will be cutting fuel consumption and imports, including raw materials, equipment and food next year. These cuts are the result of several years of stagnant growth, averaging just 1 percent per year over the past three years, a decline in exports, most notably of professional medical services, and a fall in Venezuelan oil subsidies owing to that country's own deepening crisis.

Gil said that the government would reduce energy consumption throughout the economy, from 91 metric tons per million pesos in gross domestic product (GDP) this year, to 84 next year, forcing state-owned companies to do with less. This would reduce the pressure on the government to use scarce hard currency for oil purchases, as Cuba's own energy production accounts for only half of its needs.

Gil explained the government's rationale for cuts, saying, "The 2019 plan is one of adjustment to current realities. We cannot spend more than we earn." This is especially the case as Cuba has committed to halting any increase in short-term debt.

Reductions in energy consumption announced back in 2016 had already resulted in large cutbacks in public lighting and bus service, working hours and air conditioning at many state-owned companies, and less availability of fuel for vehicles.

Gil also said that imports would be reduced by 11 percent, a measure that will have an impact throughout the economy and lead to a variety of shortages. Cuba is heavily dependent on imports for a wide variety of items, from raw materials and equipment for its

industries, as well as food and all kinds of consumer goods, and the measure will no doubt lead to higher prices for most Cuban workers.

Alongside the cut in imports, the economy minister also announced the government would attempt to boost exports by 6 percent. Revenues have decreased in a number of sectors, including sugar and nickel mining, as well as tourism, at least in part due to US president Donald Trump's reimposition of restrictions on travel to the island by US nationals.

Speaking at his brother Fidel's graveside on January 1, the 60th anniversary of the Cuban Revolution, 87-year-old Raul Castro condemned the Trump administration for "taking on the path of confrontation with Cuba," while reiterating the Cuban government's austerity message, declaring the need "to reduce all non-necessary expenses and to save more."

A large part of the decline in export revenue has come from the programs through which Cuba sends doctors and other medical professionals abroad in exchange for a combination of hard currency and oil, and which represents the majority of its export revenue. This business took a hit after the election of the fascistic Brazilian former army captain Jair Bolsonaro to the presidency of Brazil. As president-elect, Bolsonaro set a hard line against Cuba, forcing out some 8,300 medical professionals.

The "More Doctors" program with Brazil is one of the two biggest export-earning deals Cuba has with its doctors, and accounts for \$400 million to \$500 million in export revenue, according to the Economist Intelligence Unit. The biggest program by far is in Venezuela, to which Cuba supplies 28,000 professionals, and is itself threatened by Venezuela's ongoing economic collapse.

Pavel Vidal, an economist at the Pontifical Xavierian University in Cali, Colombia estimates that professional services such as these deals for medical professionals account for 55 percent of Cuba's total exports, and that revenue from this source has fallen from \$10.2 billion to \$7.7 billion over the past four years. Some of this decline has come from Venezuela, which has seen its ability to supply oil hindered by its own economic crisis.

Venezuela's shipments of subsidized oil to Cuba have reportedly resumed as of September 2018, according to Reuters reports, after a pause, although shipments are still far below previous levels, and Cuba is expected to continue purchasing oil from Russia and Algeria as a result. Most of the decline in oil shipments to Cuba have been the result of a drastic decline in production in the Venezuelan oil industry.

Refinery capacity at PDVSA, the Venezuelan state oil company, is currently running at just around a third of capacity due to a lack of needed parts and other supplies due to a scarcity of hard currency resulting from the fall in oil prices. As a result of the oil price

decline, Venezuela's economy is nearly in free-fall, with inflation estimated at over 1 million percent and prices on many goods doubling or tripling every few months. GDP has fallen by almost half since 2014.

There is a real concern in the Cuban government that an end to what remains of Venezuelan support would plunge the Cuban economy into a situation similar to that which it faced in the 1990s after the collapse of the USSR, albeit without a popular political figure like Fidel Castro to contain the protests this would inevitably generate.

The Cuban government's draft of a new constitution is aimed at enshrining an expansion of private property and market mechanisms that has been under way for some years, and which has seen the elimination of a million public sector jobs and the encouragement of a broad swathe of petty entrepreneurs known as *cuentapropistas*, or "self-employed."

Though there is widespread agreement among the ruling Cuban Communist Party (PCC) of the need to increasingly turn to the world market, there is something of a division in the Cuban government over the extent to which it will commit to unleashing market forces in the domestic economy and allow the private accumulation of wealth.

This has come out in some of the statements from government officials, with Cuban president Miguel Díaz-Canel arguing in the National Assembly against a slowdown of the process:

It is time to act without dogmas and with realism, addressing the priorities, facilitating the real strengthening of state enterprise and its productive links with foreign investment, joint ventures and the non-state sector of the economy.

We must also put in order the activity of the private sector of the economy, but without impeding or slowing down its performance, stimulating best practices until ensuring that those working within it move away from illegalities. The challenge is to integrate all the actors, forms of property and management present in our social economic environment into the battle for the economy that, I reiterate, is today the fundamental battle.

He also defended the *cuentapropistas* from charges that they would be a source of danger for the Cuban regime, owing to their independent source of wealth and potential links to reactionary Cuban exiles and their allies in the US government:

Self-employed workers are not enemies of the Revolution, they are the result of the process of updating the economic model; they have solved problems that burdened the State and for which it was sometimes inefficient. They have rescued trades that life proved necessary.

We know that there are still attempts to turn the non-state sector into an enemy of the revolutionary process, but they will not succeed in dividing us. For this we count on the commitment of our self-employed workers and of state institutions.

It is notable that one of the significant and widely reported draft changes to the Cuban constitution, removing the article stating that the country is “advancing toward a communist society,” has apparently been rescinded following popular opposition. While Cuba is not socialist and has not been “advancing toward a communist society,” under the leadership of the Castros and their successors in the PCC, there is no doubt wide support for genuine socialism among Cuban workers, who face pressures similar to those faced by other workers around the world.