

Bloqueo Economics in Cuba

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

Guest lecture at the DENEb Seminar “Development Economics”
Deutsches Institut für Wirtschaftsforschung
Development Economics Network
Berlin, January 8, 2015

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

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

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.
- The longer it (Castro rule) lasts, the better, since the owner dissipates into a bunch of heirs.
- 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.

History of the mode-of-production approach

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

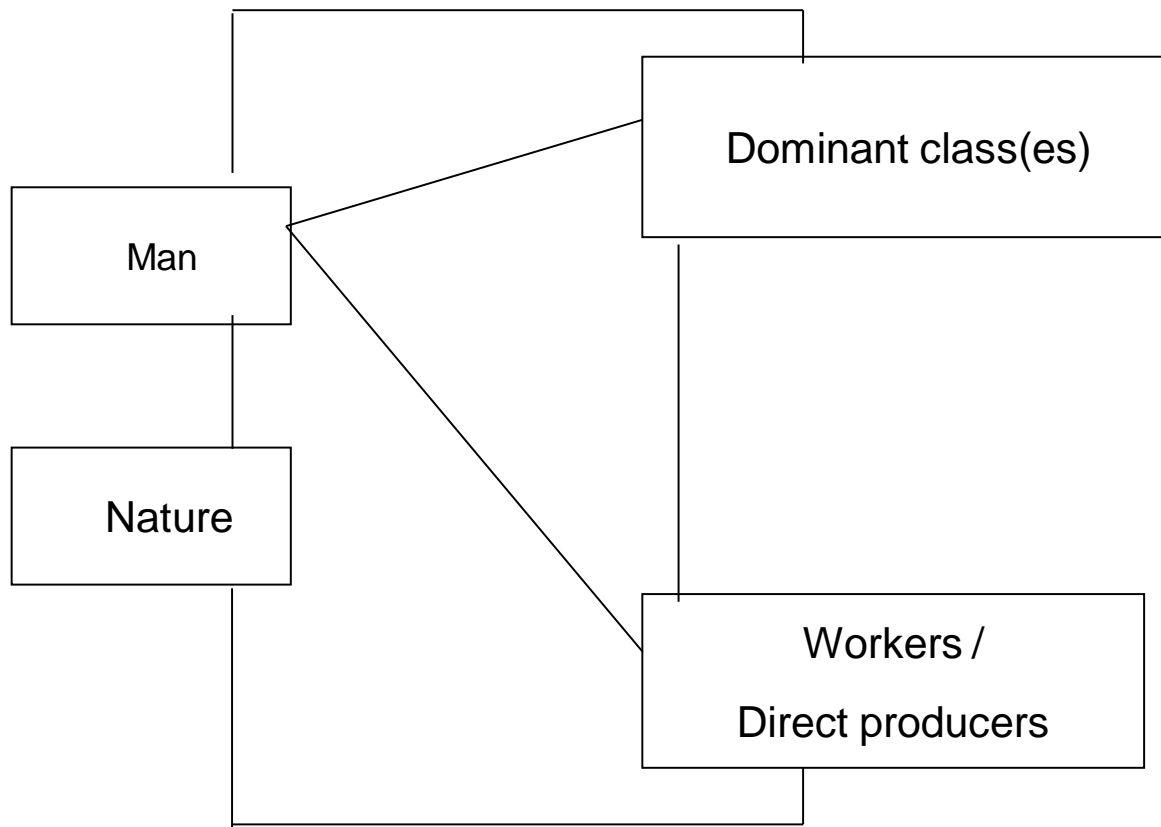
Basic assumptions in economic modelling

“Against parsimony” (Albert O. Hirschman)

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

The mode of production approach

Superstructure („Überbau“)



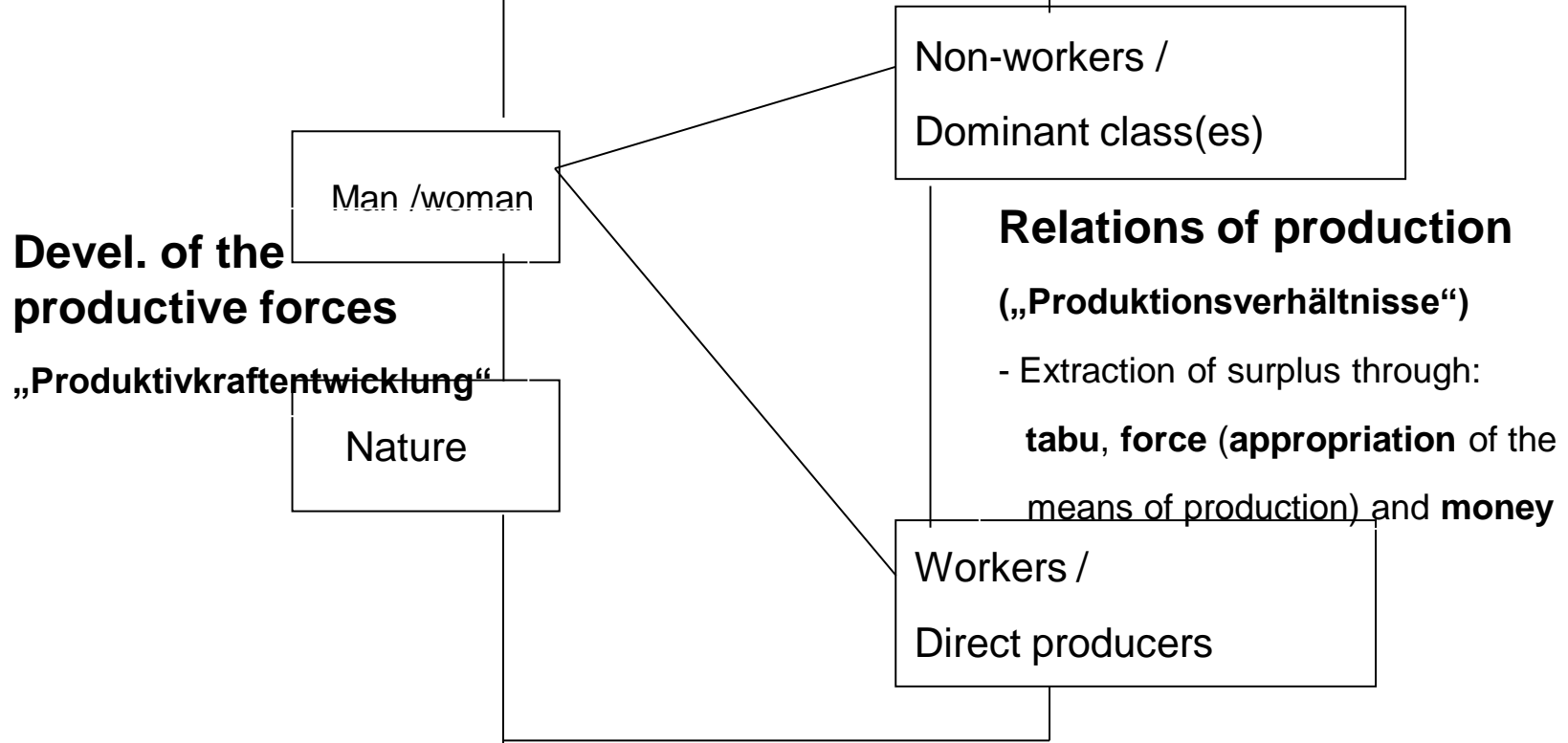
Contradictions („Widersprüche“) ??

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

Basic concepts of the mode of production approach

Superstructure („Überbau“)

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



Relations of production

(„Produktionsverhältnisse“)

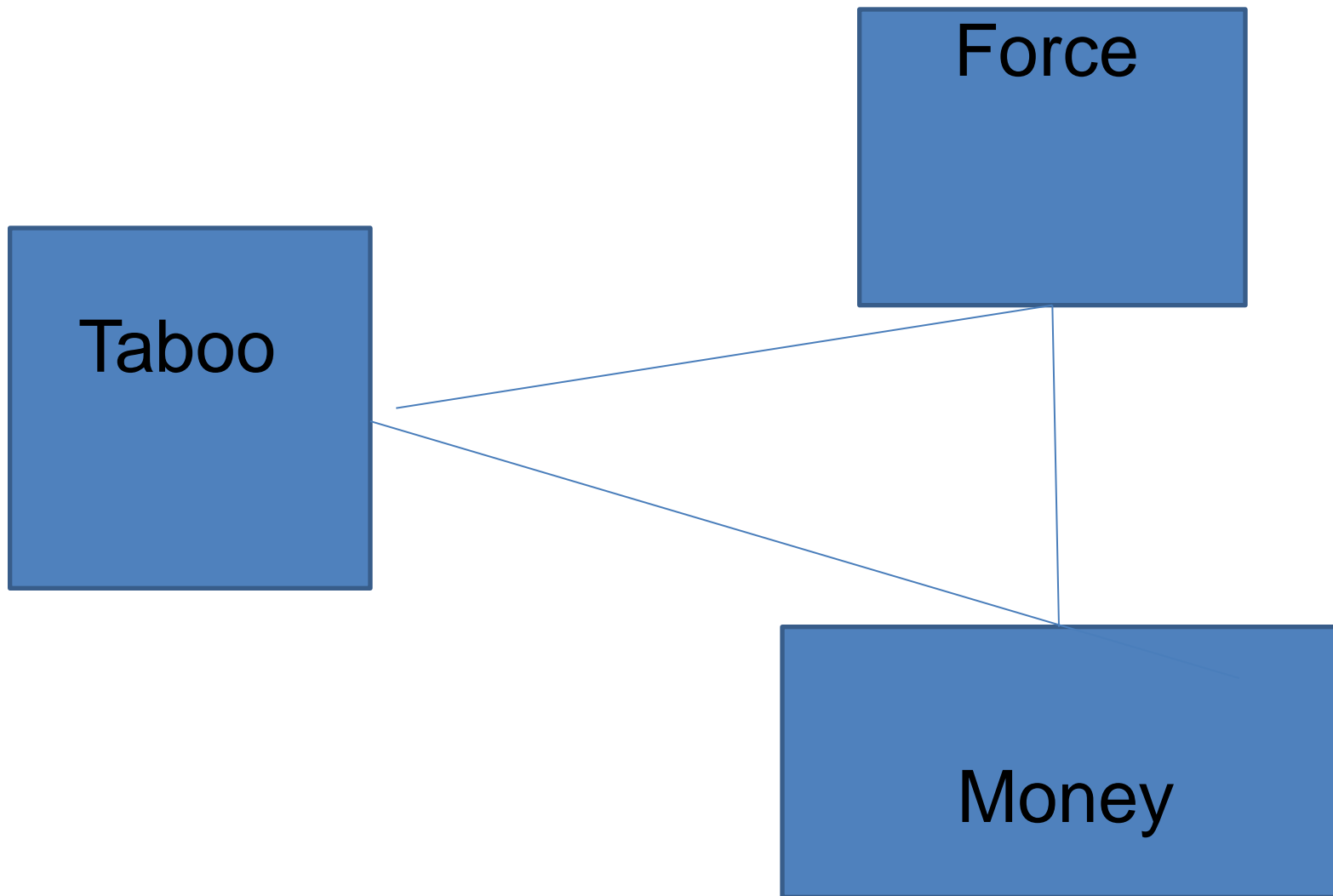
- Extraction of surplus through:

tabu, force (appropriation of the means of production) and money

Harmony or contradiction between

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

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



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

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

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

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

Force/Rules/Regulation/Violence

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

Tripod examples: Access mix by different actors in Cuba

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

Contemporary modes of production in Cuba

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

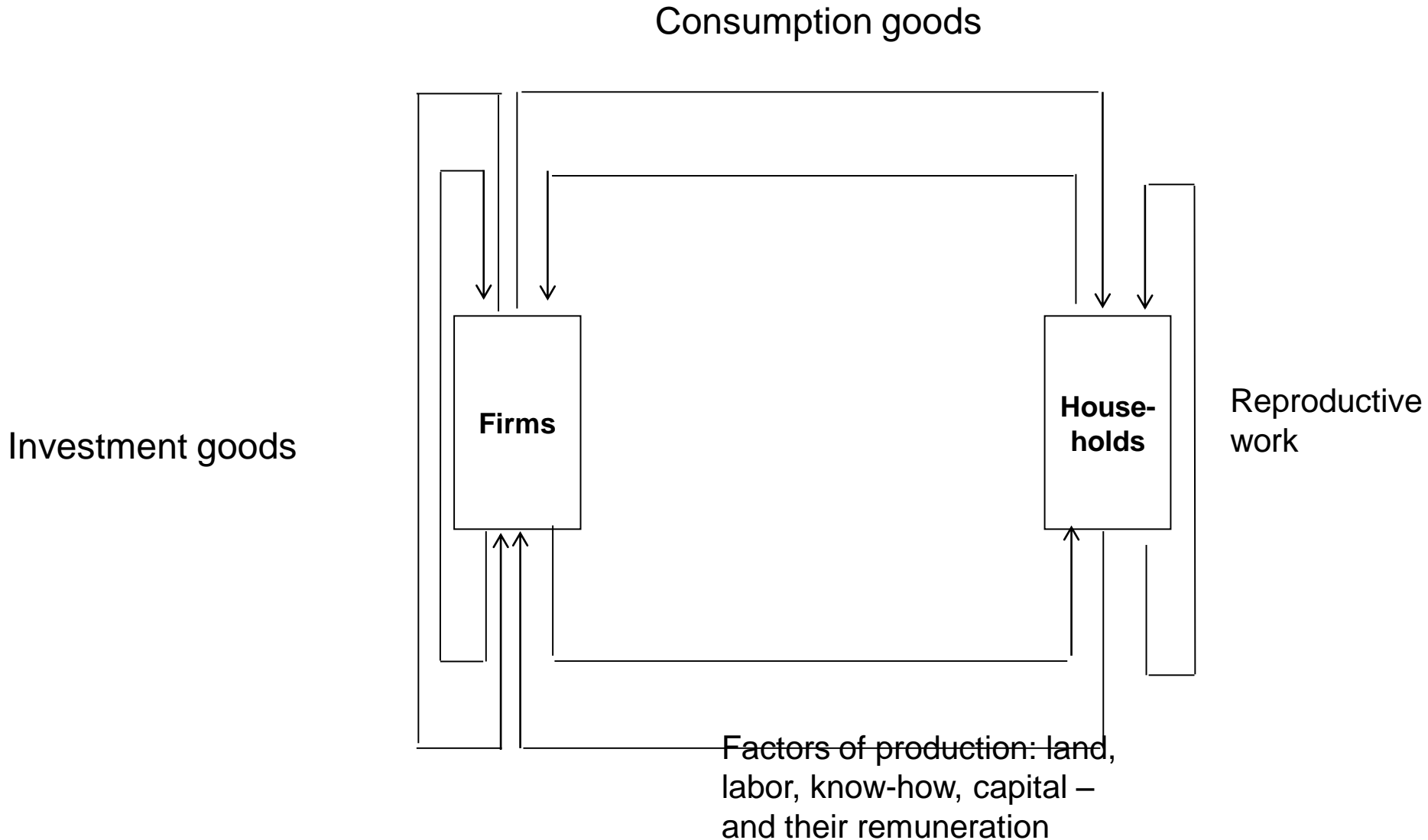
(Family) Enterprise / Household / *Propiacuentista*

Balance sheet (stocks)

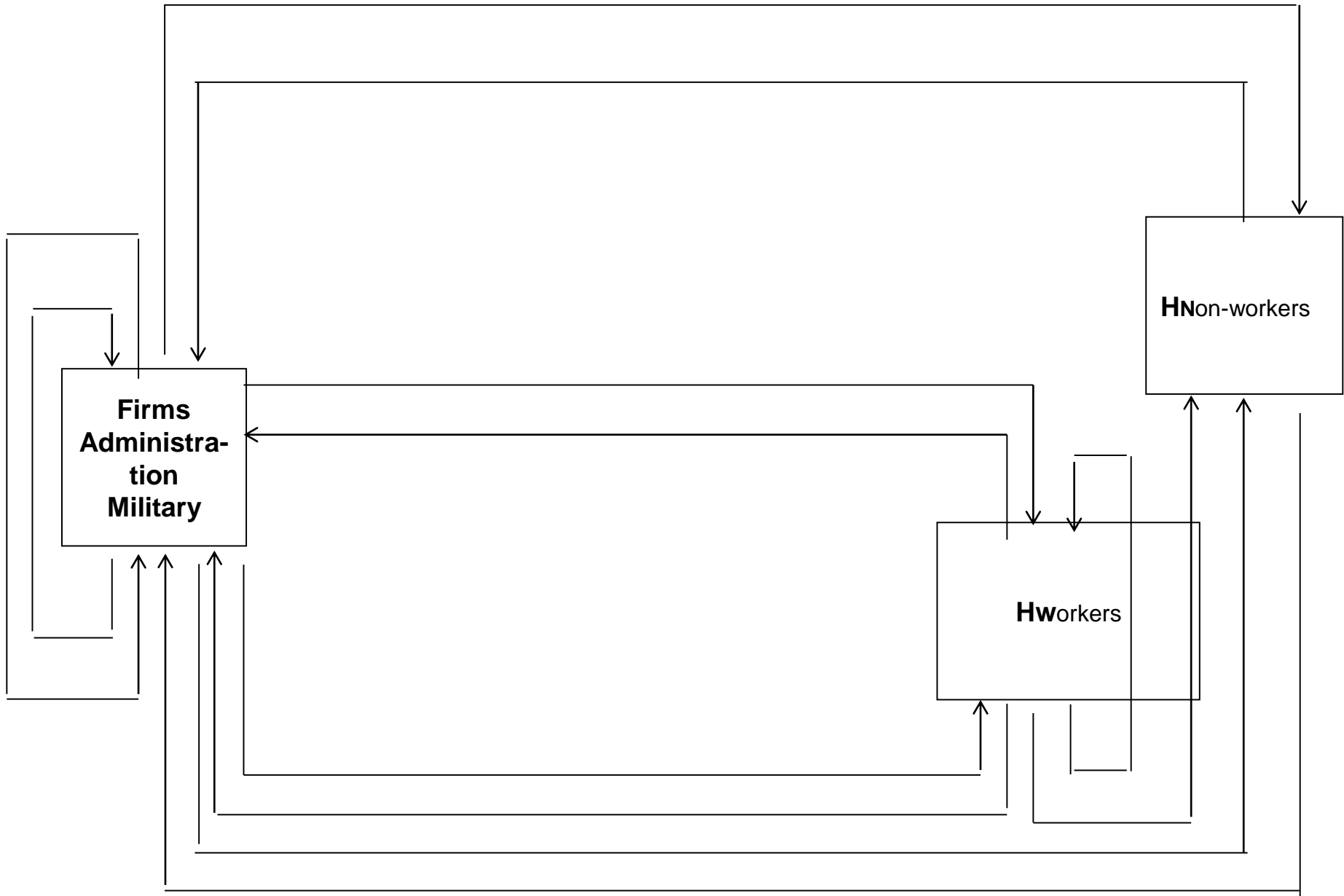
<u>Assets</u>	<u>Liabilities</u>
<ul style="list-style-type: none">- real- financial<ul style="list-style-type: none">- Pesos- Libreta- CUCs- US\$- human capital- social capital<ul style="list-style-type: none">- reciprocity- coop membership- social security- access to public services- labor rights-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

The economic circuit (flows)

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



The economic circuit in a class society



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

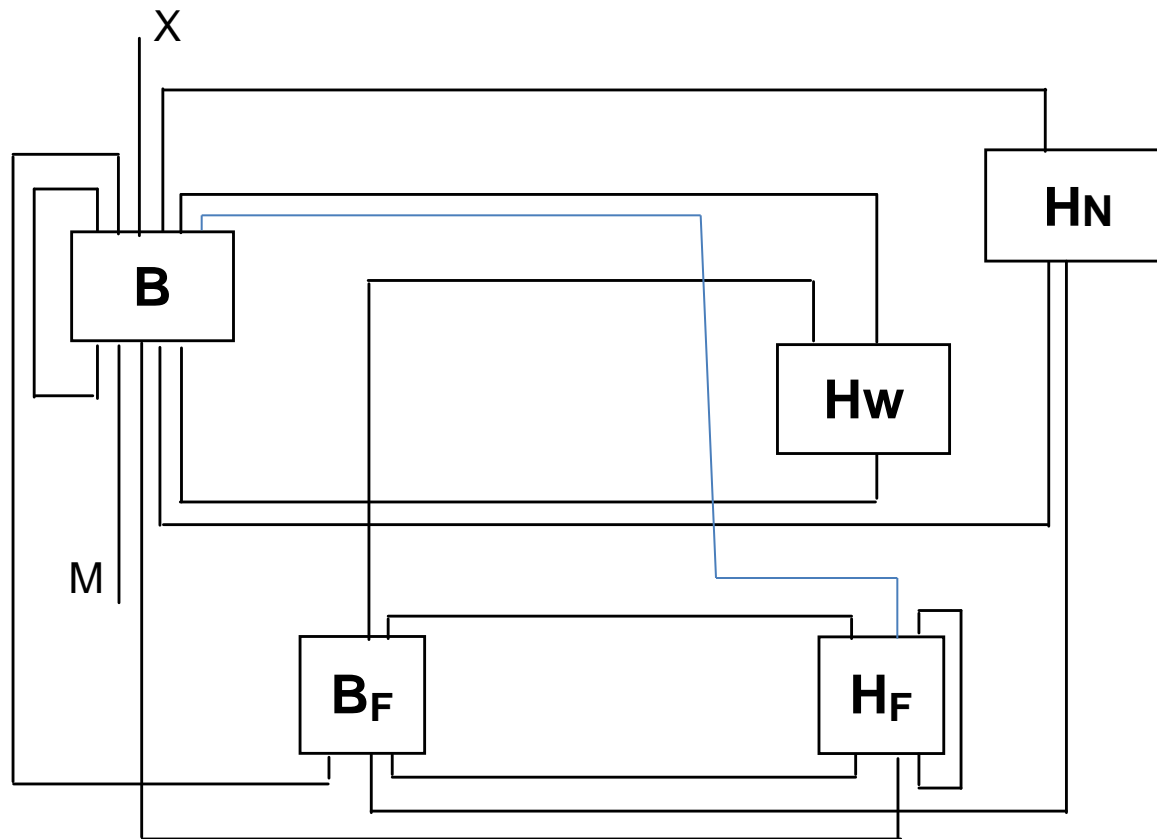
- Controversial concept: Non-capitalist mode of production or *petit bourgeois* or influential and potentially rich upper-class *Mittelstand*?
- Chayanov (= Tschajanow) 1923 as propagator of peasant life and martyr in the Soviet Union, revival in the post-68 search for non-capitalist modes of production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

Scenarios for Cuba

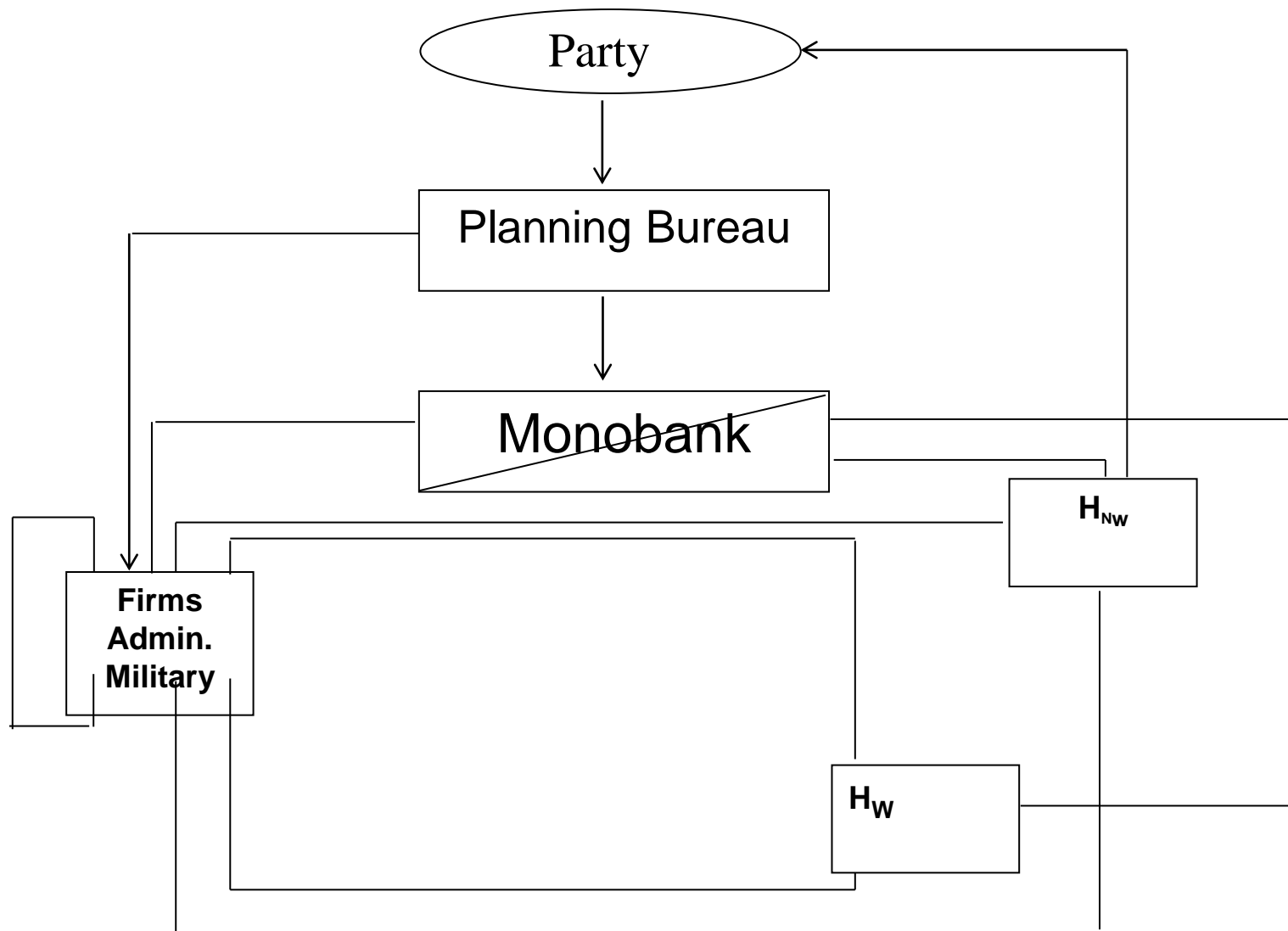
- Business as usual
- Democratic socialism
- State capitalism
- The Chinese way: *Guanxi* economics
- The Russian way: *Blat* disaster
- Oligarchic capitalism
- Eco-Social market economy and democracy

The economic circuit in a class society with the socialist and the family mode of production

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



State socialist mode of production



Democratic socialism (21st century)

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

State capitalism

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

The Chinese way: *Guanxi* economy

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

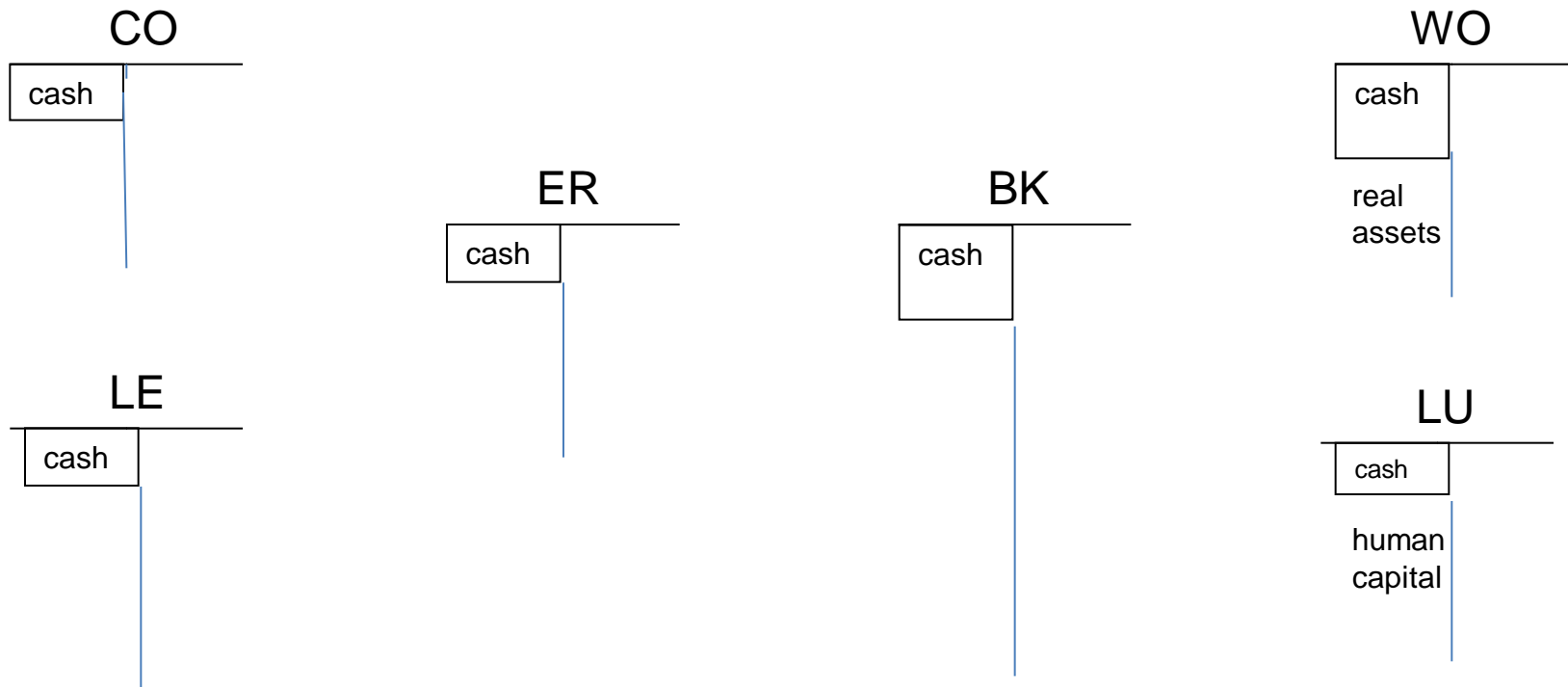
Definition von Guānxi 关系

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

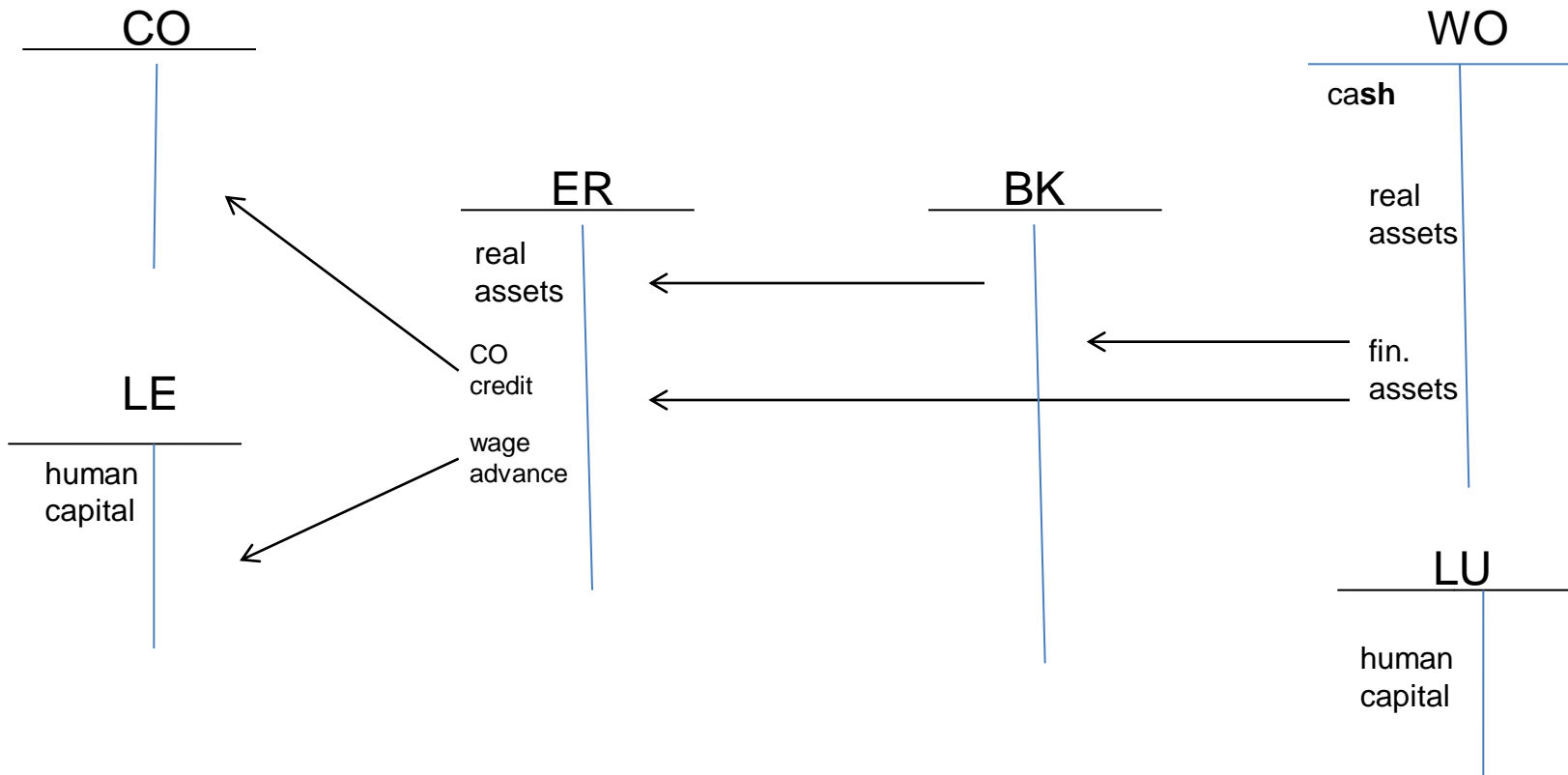
The *Guanxi* economy as a quasi monetary economy

Model I: Money as an asset among others:

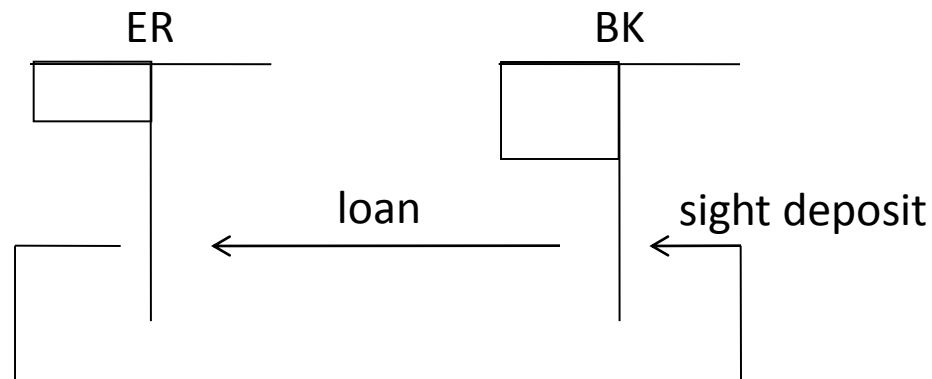
Friedman's helicopter and the neoclassical exchange economy



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

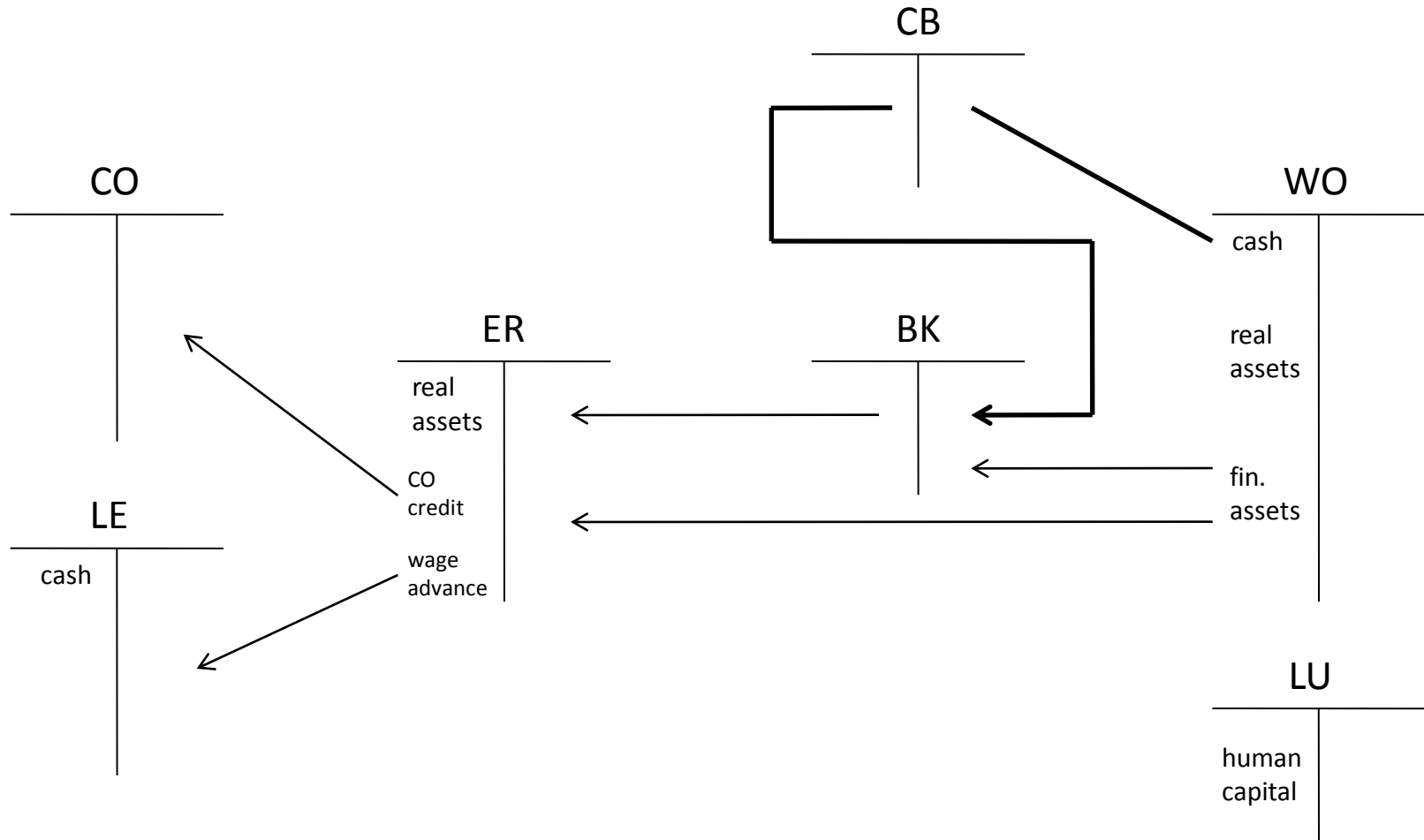


Credit creation *ex nihilo*: Schumpeter's "development" entrepreneur and his banker



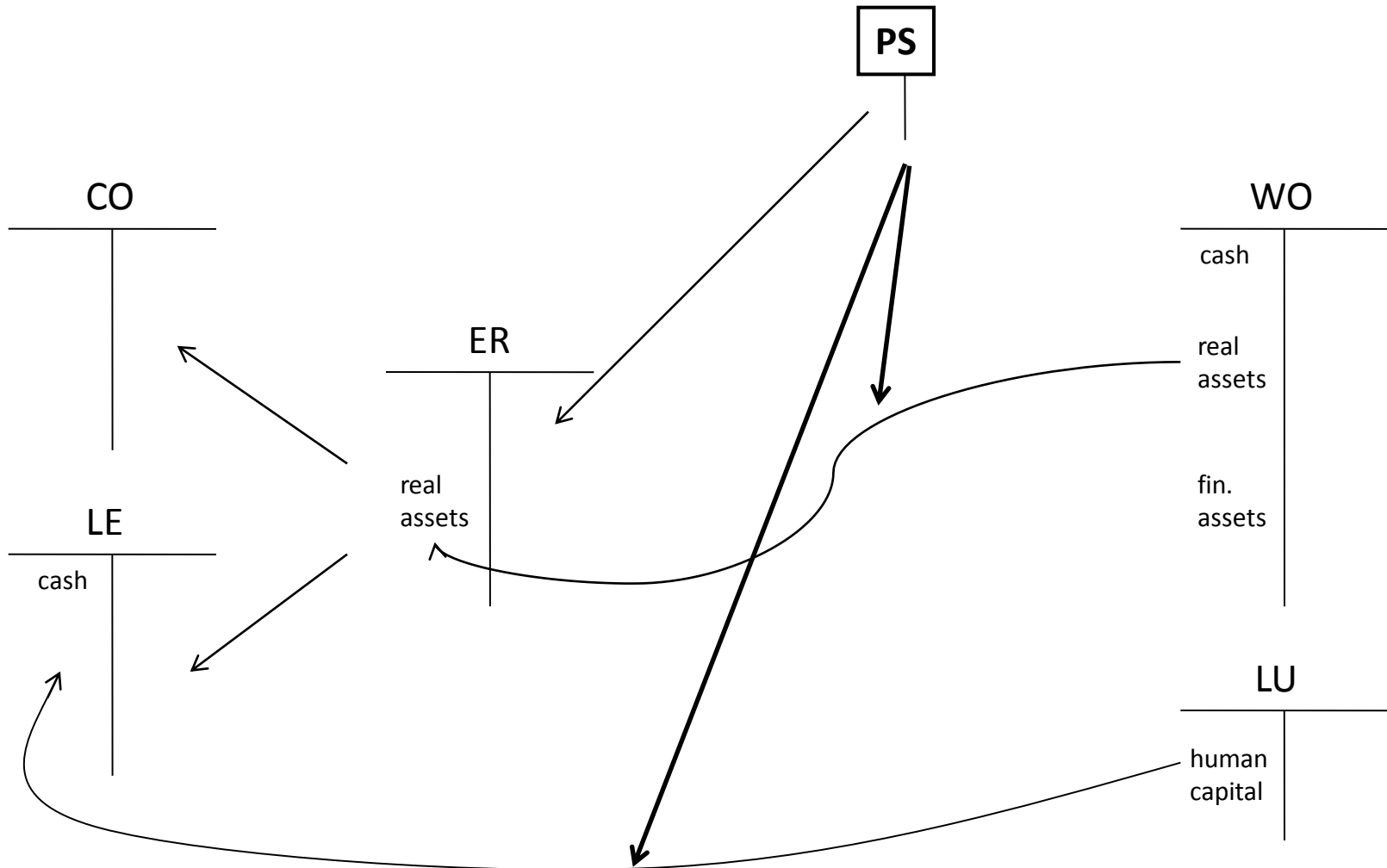
Interplay of commercial and central banking

Constitution of a monetary economy through emission of universally valid banknotes



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

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

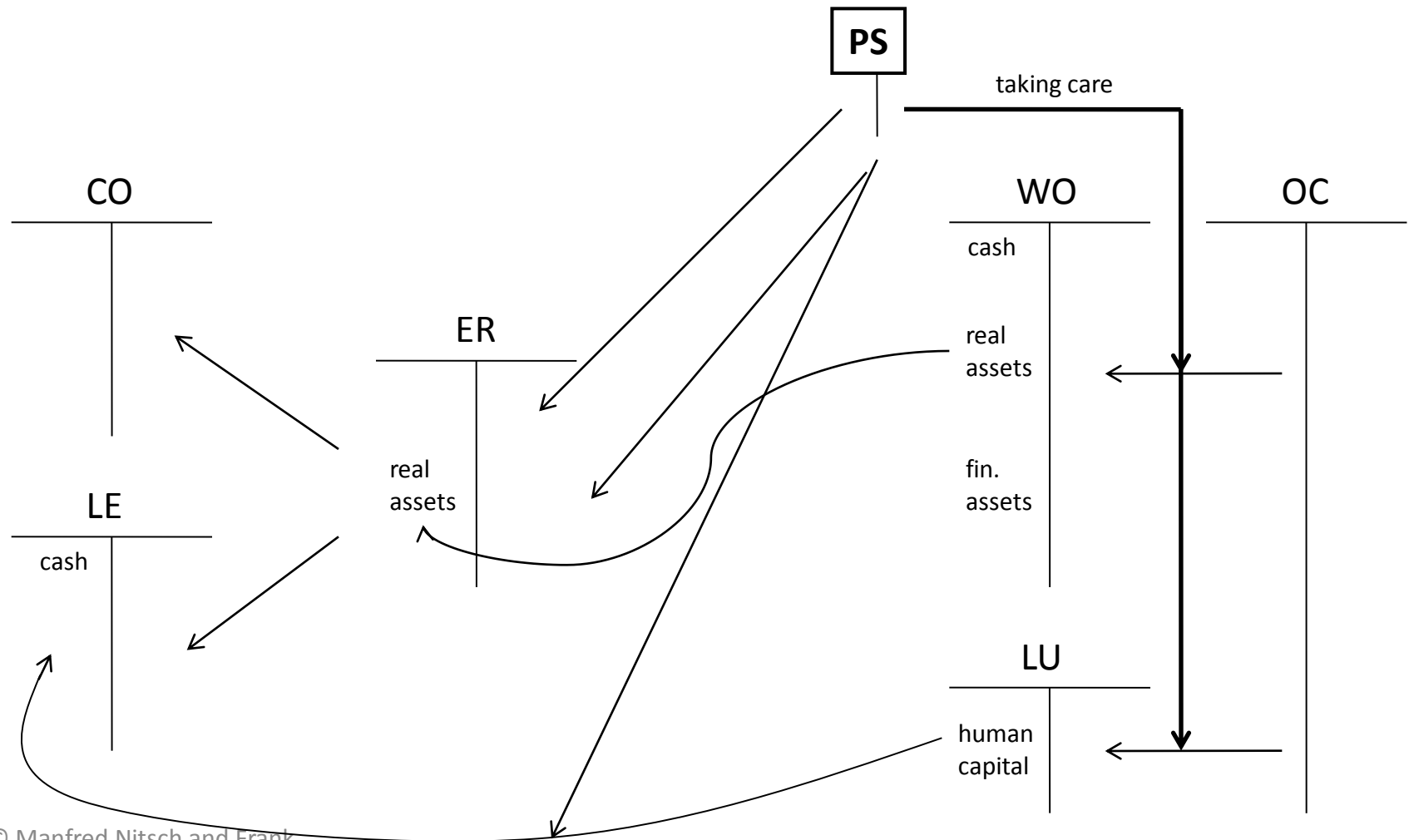


Role of the Party Secretary

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

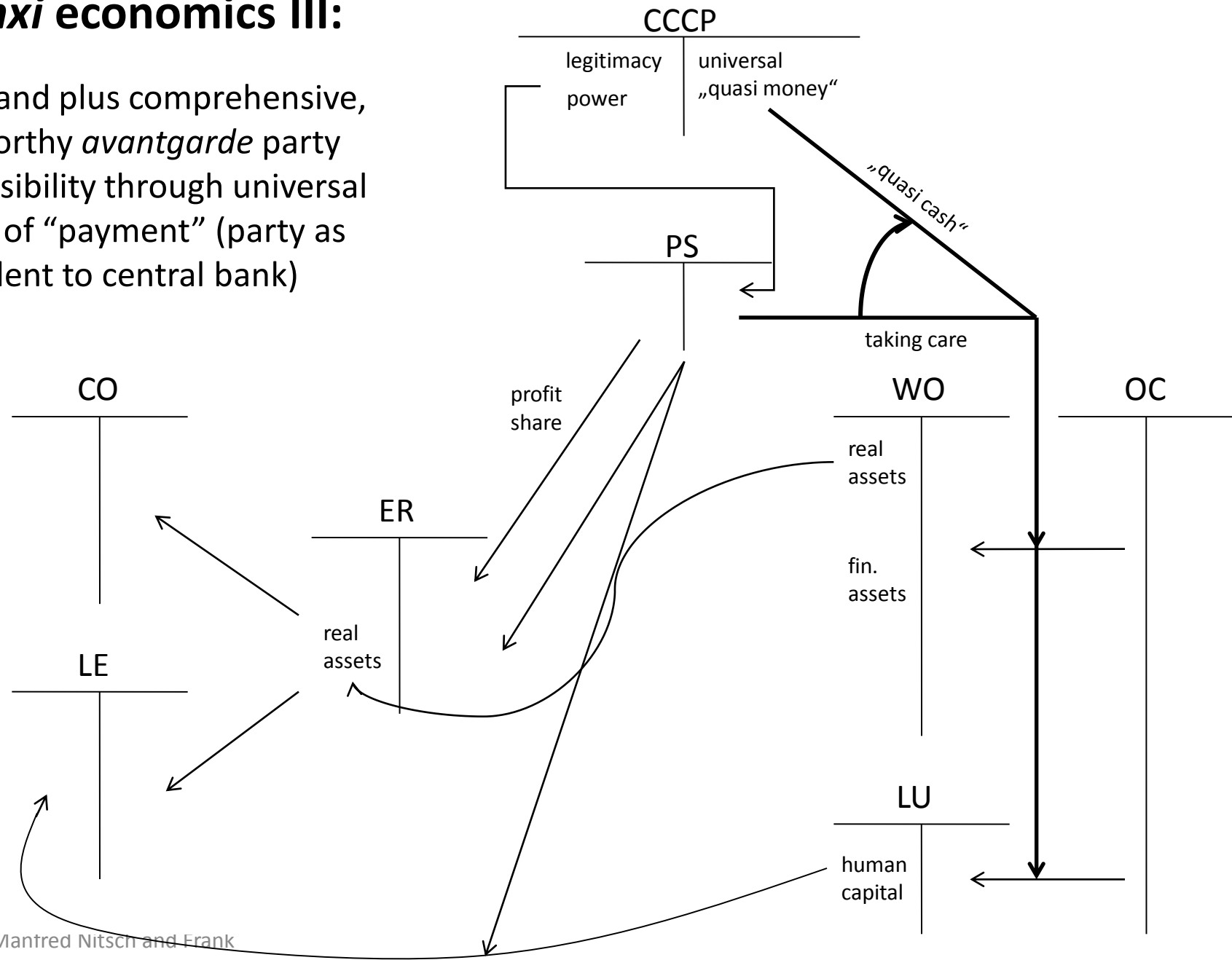
Guanxi economics II:

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



Guanxi economics III:

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



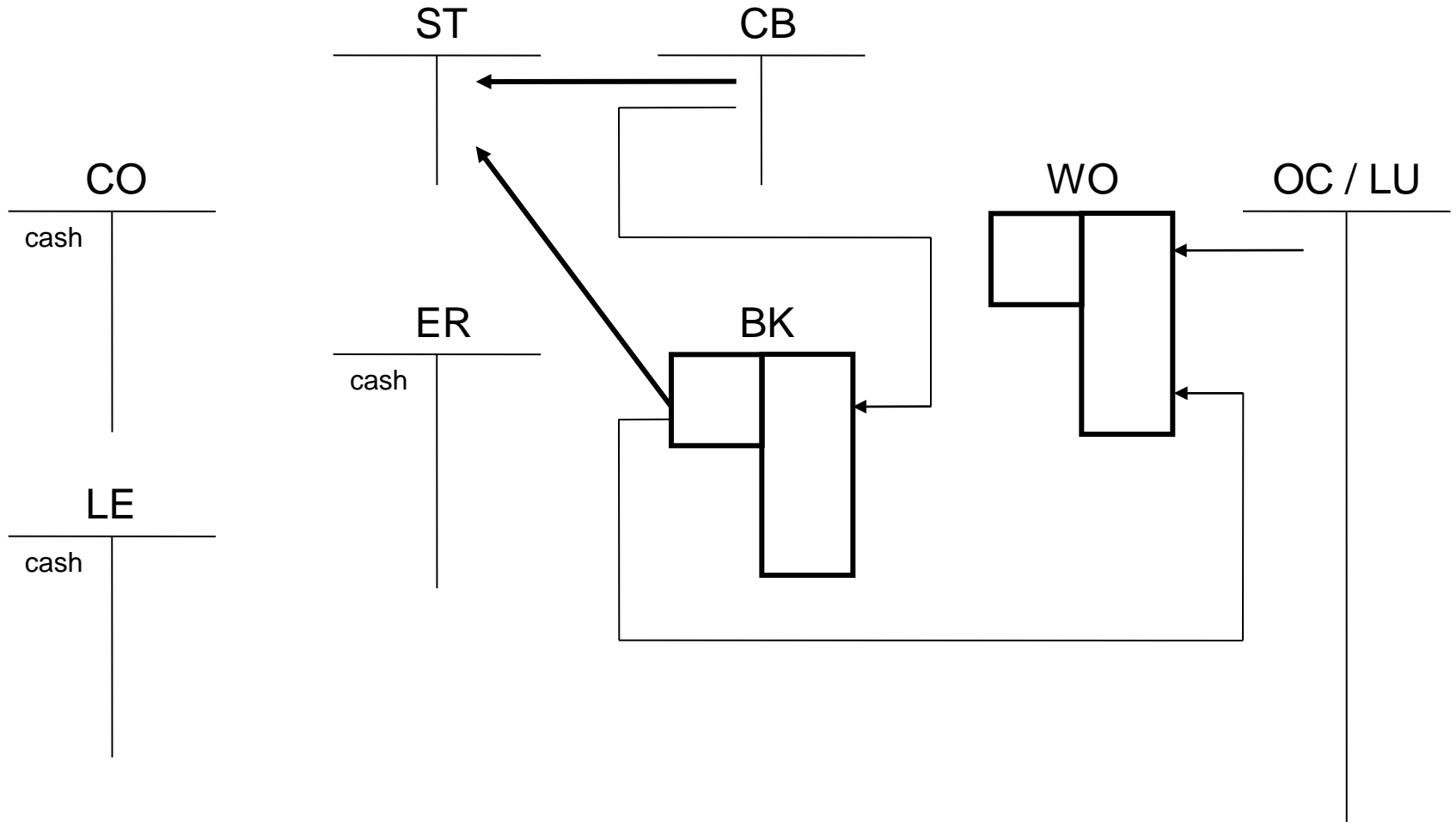
Summary for China as a model for Cuba?

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

The Russian way: Perestroika ("Blat" disaster) economy

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

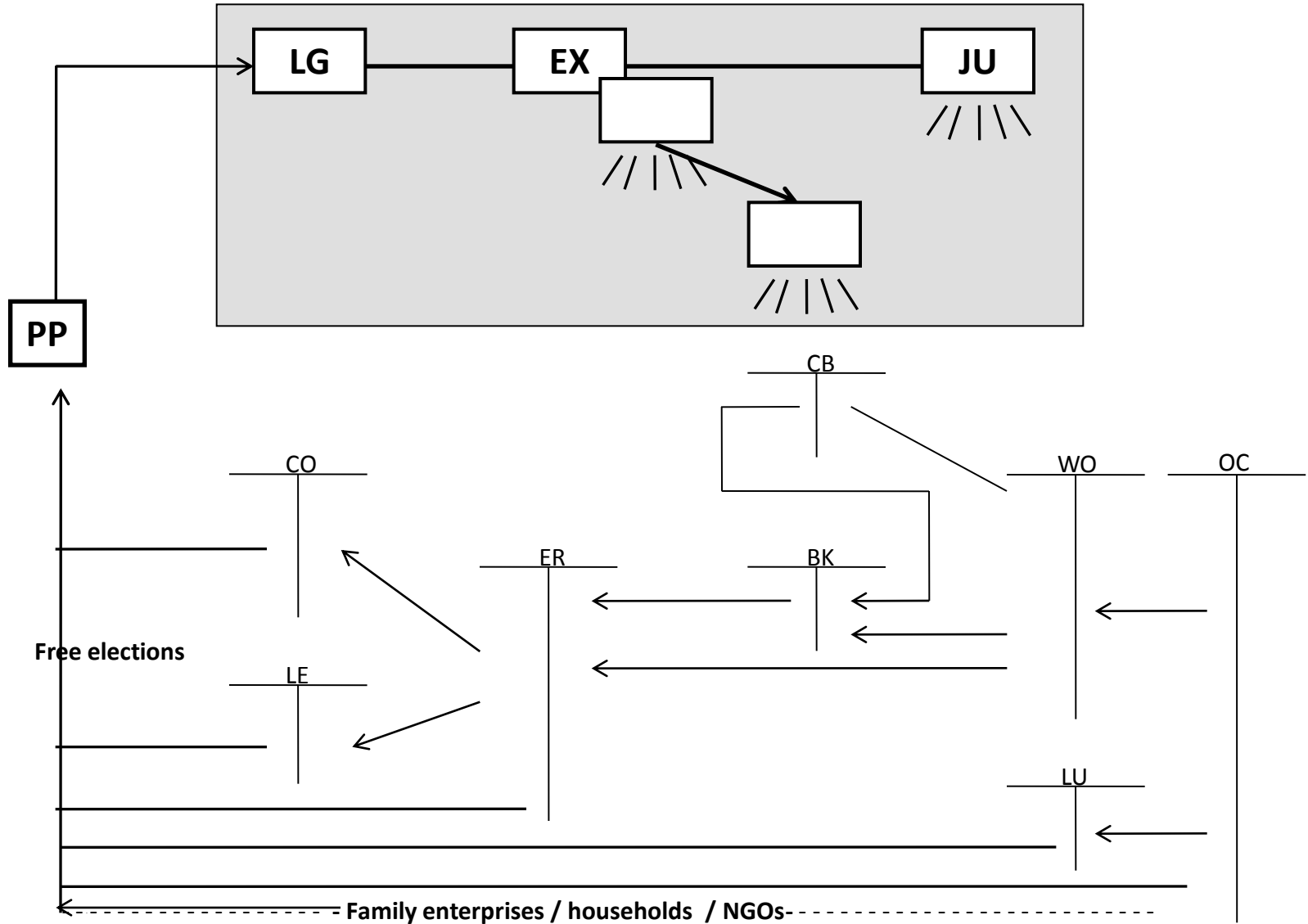
Perestroika / big bang economics / “blat” <sorry for this indecent? word>



Oligarchic capitalism

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

Eco-Social Market Economy, Development and Democratic Welfare State



Eco-Social Market Economy, Development and Democratic Welfare State

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

Scenarios for Cuba

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

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

Thank you

Manfred Nitsch

LAI / FU Berlin

manfred.nitsch@t-online.de

Abbreviations

B - Betrieb / firm

BK – bank

C - capitalist

CB - central bank

CCCP – Central Committee of the
Communist Party

CO – consumer

ER – entrepreneur

EX – executive branch
of government

F - family

FDI - foreign direct investment

FU - Freie Universitaet Berlin

IN -- intermediary

ISS – institute of social
security

JU – judiciary

K - Kapitalist / capitalist

LAI – Latin American Institute

LE – employed labor

LG – legislature

LU – unemployed labor

M - imports

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

PN – politician/s

PP – political party/ies

PS – party secretary

ST – state (as fiscal entity)

W - worker

WO - wealth owner

X - exports

Bibliography I

- Bahro, Rudolf: Die Alternative. Zur Kritik des real existierenden Sozialismus, Köln-Frankfurt/M. : Europäische Verlagsanstalt, 1977.
- Balzer, Geert: Produktionsweisen, Artikulation und periphere Gesellschaftsformationen, in: Peripherie, Nr. 14, 1983, pp. 49-62.
- Córdova, Armando: Strukturelle Heterogenität und wirtschaftliches Wachstum, Frankfurt/M.: Suhrkamp, 1973.
- Córdova, Armando / Silva Michelena, Héctor: Die wirtschaftliche Struktur der unterentwickelten Länder (1967), in: Dies.: Die wirtschaftliche Struktur Lateinamerikas. Drei Studien zur politischen Ökonomie der Unterentwicklung, Frankfurt/M.: Suhrkamp, 1971, pp. 63-119.
- Friedman, Milton: Money Mischief, New York: Harcourt Brace Jovanovich, 1992
- Grimm, Tilemann (ed.): Das Rote Buch. Worte des Vorsitzenden Mao, Frankfurt/M.: Fischer, 1967 (and many other editions).
- Hamburger Autorenkollektiv: Zur Analyse der strukturellen Heterogenität unterentwickelter Gesellschaften, in: Nohlen, Dieter / Nuscheler, Franz (Hg.): Handbuch der Dritten Welt, Bd. 1, Theorien und Indikatoren der Unterentwicklung und Entwicklung, Hamburg: Hoffmann & Campe, 1974, pp. 115-138.
- Hirschman, Albert O.: A Generalized Linkage Approach to Development, with Special Reference to Staples (1977), in: Id.: Essays in Trespassing. Economics to Politics and Beyond, Cambridge u.a.: Cambridge University Press, 1981, pp. 59-97.
- Hirschman, Albert O.: Against Parsimony. Three Easy Ways of Complicating Some Categories in Economic Discourse, in: American Economic Review, Vol. 74, No. 2, 1984, pp. 89-96.
- Keynes, John Maynard: (without title); <A Monetary Theory of Production>, in: Der Stand und die nächste Zukunft der Konjunkturforschung. Festschrift für Arthur Spiethoff, München: Duncker & Humblot, 1933.
- King, Lawrence P. / Szelényi, Iván: Post-Communist Economic Systems, in: Smelser, Neil J. / Swedberg, Richard (eds.): The Handbook of Economic Sociology, Princeton-Oxford-New York: Princeton University Press / Russell Sage, 2005, pp. 205-229.
- Kornai, János: The Soft Budget Constraint, in: Kyklos, Vol. 39, Fasc. 1, 1986, pp. 3-30.
- Kornai, János: The Socialist System: The Political Economy of Socialism, Princeton: Princeton University Press, 1992.
- Kornai, János: The Place of the Soft Budget Constraint Syndrome in Economic Theory, in: Journal of Comparative Economics, Vol. 26, No. 1, 1998, pp. 11-17.
- Lebowitz, Michael A.: Kornai and the Vanguard Mode of Production, in: Cambridge Journal of Economics, Vol. 24, No. 3, 2000, pp. 377-392.
- Marx, Karl: Grundrisse der Kritik der Politischen Ökonomie (1857-59), Berlin: Dietz, 1974.
- Marx, Karl: Das Kapital. Kritik der politischen Ökonomie, Band 1 (1867), Berlin: Dietz, 1966.

Bibliography II

- Neira Fernández, Germán: Economía campesina – un modo de producción? Exposición y crítica de A. V. Chayanov, Bogotá: CINEP, 1978.
- Nitsch, Manfred: Die Fruchtbarkeit des Dependencia-Ansatzes für die Analyse von Entwicklung und Unterentwicklung, in: Simonis, Udo E. (Hg.): Entwicklungstheorie – Entwicklungspraxis. Eine kritische Bilanzierung, Berlin: Duncker & Humblot, 1986, pp. 229-263; English translation: Assessing the Usefulness of the Dependency Approach, in: Economics (Tübingen), Vol. 33, 1986, pp. 68-97.
- Nitsch, Manfred: Vom Nutzen des monetär-keynesianischen Ansatzes für Entwicklungstheorie und –politik, in: Schubert, Renate (Hg.): Neue Wachstums- und Außenhandelstheorie. Implikationen für Entwicklungstheorie und –politik, Berlin: Duncker & Humblot, 1999, pp. 183-214.
- Nitsch, Manfred: Strukturelle Heterogenität in Lateinamerika und Osteuropa. Vom Nutzen des Produktionsweisenansatzes für die Analyse von Akkumulation, (Unter-)Entwicklung und Transformation sowie für den Aufbau von Mikrofinanz-Institutionen, in: Schorkowitz, Dittmar (ed.): Transition – Erosion – Reaktion. Zehn Jahre Transformation in Osteuropa, Frankfurt/M.: Peter Lang, 2002, pp. 91-130.
- Nitsch, Manfred / Diebel, Frank: Guanxi Economics: Confucius Meets Lenin, Keynes and Schumpeter in Contemporary China, in: Intervention 5 (1), 2008 77-104.
- Nitsch, Manfred: Blat <Russland> und Guanxi Economics Revisited: Warum ist der chinesische Netzwerkkapitalismus erfolgreicher? Berlin, 02.12.2013 (PowerPointPresentation, Osteuropa-Institut der FU Berlin)
- Pinto, Aníbal: Naturaleza e implicaciones de la “heterogeneidad estructural“ de América Latina, in: El trimestre económico (México), No. 145, 1970; Portuguese translation: Natureza e implicações da “heterogeneidade estrutural“ da América Latina, in: Bielschowsky, Ricardo (org.): Cinquenta anos de pensamento na CEPAL, Rio de Janeiro – São Paulo: Record, 2000, pp. 567-588.
- Riese, Hajo: Keynes, Schumpeter und die Krise, in: Konjunkturpolitik, Vol. 32, No. 1, 1986, pp. 1-26.
- Riese, Hajo: Geld im Sozialismus. Zur theoretischen Fundierung von Konzeptionen des Sozialismus, Regensburg: Transfer, 1990.
- Riese, Hajo: Das Scheitern des Sozialismus und der Transformationsprozess, in: Schikora, Andreas / Fiedler, Angela / Hein, Eckhard (Hg.): Politische Ökonomie im Wandel. Festschrift für Klaus Peter Kisker, Marburg: Metropolis, 1992, pp. 23-36.
- Riese, Hajo: Grundlegungen eines monetären Keynesianismus. Ausgewählte Schriften 1964-1999, Marburg: Metropolis, 2001 (2 Bde.).
- Schumpeter, Joseph: Theorie der wirtschaftlichen Entwicklung. Eine Untersuchung über Unternehmergeinn, Kapital, Kredit, Zins und Konjunkturzyklus, 7. Aufl., Berlin: Duncker & Humblot, 1987.
- SPIEGEL: Kleinmachnow-Syndrom, No. 47, 1991, p. 37
- Stadermann, Hans-Joachim: Tabu, Gewalt und Geld als Steuerungsmittel, in: Schelkle, Waltraud / Nitsch, Manfred (Hg.): Rätsel Geld. Annäherungen aus ökonomische, soziologischer und historischer Sicht, Marburg: Metropolis, 1995, pp. 145-171.
- Tablada Pérez, Carlos: El pensamiento económico de Ernesto Ché Guevara, Havana: Casa de las Américas, 1987
- Tschajanow, Alexander: Die Lehre von der bäuerlichen Wirtschaft. Versuch einer Theorie der Familienwirtschaft im Landbau, Berlin: Parey, 1923; Nachdruck mit einer Einleitung von Gerd Spittler, Frankfurt/M.-New York: Campus, 1987; Spanish translation: Chayanov, Alexander: La organización de la unidad económica campesina, Buenos Aires: Nueva Visión, 1974; English translation: Chayanov, A. V.: Peasant Farm Organization, in: Thorner, Daniel: The Theory of Peasant Economy, Homewood, Ill.: The American Economic Association, 1966, pp. 29-277.
- Wittfogel, Karl A.: Die Orientalische Despotie. Eine vergleichende Untersuchung totaler Macht (1957), Frankfurt/M.-Wien: Ullstein, 1981.