

CHAPTER 10

FAR from Perfect: The Military and Corporatism

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Abstract: This paper explains the potential for the rise of state corporatism in Cuba during a transition to democracy. The focus is on examining the economic and political power of the Cuban military due to its involvement in the Cuban economy. The paper investigates Perfeccionamiento empresarial and how this program has led to a major increase in the power the military will wield during a post-communist transition. Surprisingly few authors writing about transition scenarios in a post-Revolution Cuba take the FAR into account in describing change on the island. Many of those who do mention the military neglect to acknowledge the effects its growing power will have on the transition government. More recent work on transition in Cuba does treat the role of the FAR. Yet, even this newer scholarship fails to establish the connection between the swelling economic and political clout of elite manager-officers, the likely weakness of the transition government, and the possibility of the rise of another authoritarian system in Cuba. My essay seeks to fill in this gap in the literature, by investigating the potential for the emergence of authoritarianism based on a state-corporatist partnership between a weak transition government and elite FAR manager-officers.

Introduction

Cuba's productive capabilities continue to deteriorate, its leadership ages and sickens, and the political regime's human rights abuses continue to mount. On August 1, 2006, Fidel Castro temporarily ceded power to his brother Raúl, Cuba's defense minister and head of the Cuban military, known as the Revolutionary Armed Forces (FAR). The transfer of power came as a response to a sharp decline in Fidel's health while undergoing intestinal surgery. While Castro's health seems now to be improving, his retreat from the center of political power highlighted the potential for major change in Cuba to occur very soon.

1. 2007 Jorge Pérez-López Student Award Competition

Yet, Cuba has neared the brink of sweeping change many times since the flight from power of Batista on December 31, 1958, which ushered in the Revolution and the rise of Fidel Castro. Recently, the most notable near-collapse of the current Cuban system occurred in the years following disintegration of the USSR and the abrupt cessation of all remaining Soviet aid to the island. Faced with a rapidly imploding economy and the loss of nearly all its former trading partners, the regime's leaders decided to experiment with economic liberalization within the limited scope of military enterprises. The project, known as *El sistema de perfeccionamiento empresarial*, or the System of Enterprise Perfection, allowed officers of the FAR to manage firms with relative autonomy from the state's central planning committee. Soon the military began to incorporate more firms under its influence, expanding into non-military sectors such as tobacco production and tourism.

The success of the economic liberalization within FAR-managed enterprises has led to a substantial increase in the economic and political power of elite manager-officers² hailing from the highest ranks of the FAR. The independence of the FAR from the regime remains a controversial issue, though the available evidence on the Cuban military—which is scant—indicates that the FAR and its powerful manager-officers can survive the collapse of Cuba's political regime. The FAR's burgeoning influence in Cuba will make it a critical variable during a post-communist transition in Cuba, should such a transition occur in the near future.

Surprisingly few authors writing about transition scenarios in a post-Revolution Cuba take the FAR into account in describing change on the island. Many of those who do mention the military neglect to acknowledge the effects its growing power will have on the transition government. More recent work on transition in Cuba does treat the role of the FAR. Yet, even this newer scholarship fails to establish the connection between the swelling economic and political clout of elite manager-officers, the likely weakness of the transition government, and the possibility of the

2. In this essay the following terms will be used interchangeably: "elite manager-officers," "raulista elites," "FAR elites," and "red business elites" (when "red business" refers to Cuban state-owned enterprises). "Manager-officer" can also refer to a lower-ranking FAR manager who has less influence than "elite manager-officers;" context will make the distinctions clear.

rise of another authoritarian system in Cuba. This essay seeks to fill in this gap in the literature, by investigating the potential for the emergence of authoritarianism based on a state-corporatist partnership between a weak transition government and elite FAR manager-officers.

This essay is composed of three sections. The first section presents some historical background on the adoption of the FAR's new economic role and the growth of the military's economic and political influence. The second section aims at establishing the potential for the FAR's power vis-à-vis that of a transition government to lead the latter to adopt state-corporatism as a way of increasing its influence. Also, included is a definition of state-corporatism and an analysis of how state-corporatism has arisen in Russia due to the power of entrenched Soviet-era managers and their ability to foil the post-Soviet government's efforts to privatize the economy.

Finally, the third section of this paper emphasizes the need for Cuba's transition government, should it seek to foster functional democracy, to implement a mass giveaway privatization as a way to break the influence of FAR elites.³ The third section introduces privatization theory and presents two proposals for privatizations drawn from the Cuba transition literature, offering critiques of these plans.

Overall, this essay examines the potential for a post-Revolution Cuba to witness the rise of state-corporatist authoritarianism, as post-Soviet Russia did. To prevent this type of authoritarianism from developing, a transition government in Cuba must implement a mass giveaway privatization. The FAR elites will attempt to sabotage the privatization. To avoid this, the transition government must weaken the powerful manager-officers by exposing corruption and prosecuting malfeasant officers. Finally, facing an economically and politically weaker FAR, the transition government can implement mass giveaway privatization, thereby greatly limiting the chance that state-corporatism can develop in Cuba.

3. I realize that this is a controversial claim. For example, Juan J. Linz and Alfred Stepan reject the notion that privatization leads to democracy in transition states (*Problems of Democratic Transition and Consolidation: Southern Europe, South America, and Post-Communist Europe*, p. 438).

The literature on transition in Cuba is vast. This essay focuses on several key sources that shed light on the present situation of the Cuban military, as well as sources on privatization theory and state-corporatism. This essay does not purport to be a comprehensive proposal for the restructuring of a post-communist Cuba, but rather aims at investigating the likely dynamic between elite FAR manager-officers and the transition government and the seeds of state-corporatism underlying this relationship.

The FAR and the Cuban Economy Today

Historical Background

The Cuban economy has undergone major structural changes since the collapse of party-state socialism in Eastern Europe. The entry of the FAR into the Cuban economy and its growing influence in the economic realm manifests itself as one of the most dramatic restructurings initiated by the current Cuban government. The decision to allow the FAR to manage military-related industries with the goal of increasing their efficiency and profitability came in the mid-1980s, by which point relations between Cuba and its benefactor the Soviet Union had suffered intense strain. The USSR's commitment to supplying Cuba with military equipment began to wane by the late 1970s.⁴ Additionally, the Soviet Union's 1979 invasion of Afghanistan shamed and humiliated Fidel Castro, who in that same year chaired the Non-Aligned Movement, an organization of states committed to independence from the spheres of influence of both the United States and the Soviet Union. Due to Cuba's dependence on Soviet aid, which appeared to be diminishing by 1979, Castro had no other choice but to publicly approve of the Soviet Union's military action against Afghanistan, a fellow member nation of the Non-Aligned Movement.⁵ Further political turmoil with the USSR over Cuba's policies concerning Central America and Grenada and regarding diminishing Soviet support for Cuba's military venture in Angola, encouraged the Cuban government

4. Amuchastegui, Domingo. "FAR: Mastering Reforms." *Cuba in Transition: Volume 10. Papers and Proceedings of the Eighth Annual Meeting of the Association for the Study of the Cuban Economy (ASCE)*, Coral Gables, Florida, August 5, 2000. p. 433.

5. Amuchastegui, "FAR: Mastering Reforms," p. 434.

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to consider economic alternatives that would promote greater independence from the Eastern Bloc.⁶

According to Domingo Amuchastegui, who worked closely with several FAR organs and with Cuban intelligence while living on the island⁷, and who wrote the essay “FAR: Mastering Reforms,” Fidel Castro and his brother Raúl, Cuba’s defense minister, clashed over how to implement economic reforms. Raúl “focused on the need to experiment with one specific and coherent system, more in line with the major trends in the real world;” Fidel, on the other hand, fearing the political consequences of liberalizing on a nation-wide scale, refused to implement so sweeping a reform. An agreement emerged between the brothers: the Cuban armed forces would implement the reforms within its own enterprises, which formed the *Unión de la Industria Militar* (the Union of Military Industries). These economic reforms would not apply to the entire economy, but remain a limited experiment within the FAR⁸ Since the inception of the reforms, however, the number of FAR-managed enterprises has increased dramatically, and includes many non-military firms in industries as diverse as tobacco production and tourism.

The set of economic reforms applied to the enterprises managed by the Cuban armed forces became known as the “System of Enterprise Perfection (Sistema de perfeccionamiento empresarial—SPE)” and its major goals included 1) increasing the self-reliance of the FAR and making it less dependent on the Soviet Union; 2) “increas[ing] efficiency and productivity in military factories producing uniforms, small arms, and consumer goods;” and 3) “provid[ing] a model that could be adopted elsewhere in the economy.”⁹ According to Brian Latell, former National Intelligence Officer for Latin America,¹⁰ and author of the essay “The

6. Amuchastegui, “FAR: Mastering Reforms,” p. 434.

7. According to Amuchastegui, he worked closely with “the Central Political Directorate the *Décima Dirección* (Military Operations Abroad), the Foreign Relations Directorate, and as Guest Professor at the National Defense College (CODEN) of the General Staff in the Ministry of the Revolutionary Armed Forces (*MINFAR*). I was also chief analyst in two sections of the General Directorate of Intelligence (*DGI*), and had considerable field experience with Cuban military and intelligence missions abroad.” (From footnote 2 on p. 109 of Amuchastegui’s “Cuba’s Armed Forces: Power and Reforms.”)

8. Amuchastegui, “FAR: Mastering Reforms,” p. 435.

Cuban Military and Transition Dynamics:” “Large numbers of officers received training abroad, enterprises adopted new accounting procedures, decentralization and greater competitiveness were encouraged, and some factories were downsized.”¹¹ These measures represented a sharp break with past socialist practice. The training of soldiers in Western business techniques in order for them to fill new roles as firm managers and production efficiency experts undermined the notion that Cuba would follow Marxist-Leninist central planning methods and it redefined the role of the Cuban serviceman. No longer would soldiers merely be receivers of orders from the regime. With the advent of *perfeccionamiento*, many officers would find themselves making production optimization decisions as military firms gained greater autonomy from central planning authorities. Additionally, the idea that some enterprises would undergo downsizing represented a breach of Cuba’s socialist commitment to guaranteed employment. Amuchastegui corroborates this notion, characterizing the System of Enterprise Perfection as a “big *fordist* experiment that meant violating and doing away with more than 100 principles, laws, and regulations of the so-called socialist economy.”¹² These nascent capitalist tendencies catalyzed a change in the character of the FAR, despite the state’s official position that the System of Enterprise Perfection “was not the first step toward a capitalist economy but a ‘management method’ intended to make state enterprises more efficient and productive.”¹³

9. Latell, Brian. “The Cuban Military and Transition Dynamics.” Cuba Transition Project. Miami: Institute for Cuban and Cuban-American Studies (2003). p. 12-3.

10. Dr. Latell served as the Central Intelligence Agency’s National Intelligence Officer for Latin America between 1990 and 1994. He began his work as a specialist on Latin America, and in particular Cuba, in the 1960s, when he was assigned to the “Cuba Desk” at the CIA. He is now a Senior Associate at the Center for Strategic and International Studies in Washington, D.C. (From p. 39 of Latell’s “The Cuban Military and Transition Dynamics.”)

11. Latell, p. 13.

12. Amuchastegui, Domingo. “Cuba’s Armed Forces: Power and Reforms.” *Cuba in Transition: Volume 9*. Papers and Proceedings of the Eighth Annual Meeting of the Association for the Study of the Cuban Economy (ASCE), Coral Gables, Florida, August 12-14, 1999. p. 111.

13. Latell, p. 13.

The Economic and Political Power of the FAR Today

The clout of elite manager-officers can be better comprehended through a closer examination of the sources of their economic and political power. After several years of *perfeccionamiento*, the FAR has become a formidable force in the Cuban economy. Though the military version of the SPE began as a limited project, the FAR has now come to dominate what Amuchastegui claims is “well beyond the ‘lion’s share’ of the national economy.”¹⁴ Latell cites a study asserting that enterprises managed by Cuba’s armed forces are responsible for “89 percent of exports, 59 percent of tourism revenues, 24 percent of productive service income, 60 percent of hard currency wholesale transactions, 66 percent of hard currency retail sales, and employ 20 percent of state workers.”¹⁵ These figures emphasize the pervasiveness of FAR economic activities, including entrepreneurial ventures in sectors such as tourism and retail that have little or nothing to do with the production of military supplies. According to Amuchastegui, the FAR control the following major enterprises: the Cuban Civil Aviation Corporation, headed by Division General Rogelio Acevedo, who is a member of the Central Committee; the *Plan Turquino-Manatí*, “a huge developmental plan covering some 20 municipalities, approximately 20 percent of Cuban territory”; the *Banca Metropolitana*, “a banking institution created 5 years ago”; *Habanos S.A.*, “an enterprise in charge of international marketing of Cuban tobacco,” which is headed by Colonel Oscar Basulto; *Gaviota S.A.*, “Cuba’s fastest growing tourist enterprise since 1992...One of the FAR’s ‘pet’ projects.”¹⁶ These firms are a far cry from the small, single enterprise toward which Law-Decree No. 187 seems directed. Many of the FAR-controlled enterprises are enormous concerns that employ many workers and large amounts of capital. The high-ranking FAR officers that head these firms find themselves in a position to make myriad business and political connections, and solidify their power through the granting of favors. Latell supports this notion: “The praetorian enterprises appear more than anything to function as protected monopolies granted to regime favorites for political as well as economic purposes...Perhaps there is even an understanding...that they

14. Amuchastegui, “FAR: Mastering Reforms,” p. 438.

15. Latell, p. 17.

16. Amuchastegui, “FAR: Mastering Reforms,” p. 437.

[*raulista* officers] may sequester nest eggs as personal insurance against the uncertainties of the post-Castro era.”¹⁷

This evidence indicates that top officers loyal to Raúl do not operate under the same constraints as civilian managers under the generalized implementation of *perfeccionamiento*. With such power over resources, jobs, and distribution networks and such strong connections with political elites and foreign investors, the *raulista* officers in charge of FAR enterprises can exert pressure throughout Cuban society, and, therefore, have the muscle to achieve whatever aims they may have. This power would become all the greater in a post-Castro regime Cuba, as Fidel Castro’s cautionary biases against layoffs and downsizing production often hinder the efficiency and profitability of FAR-managed firms.¹⁸

Moreover, the FAR boasts increasing *direct* power in the political realm and bureaucratic realm. In 1989, as part of a purge of government officials in various ministries and a restructuring of the institutional hierarchy, the Ministry of the Interior (MININT)—responsible for the repressive security forces in Cuba—came under the direct control of the Ministry of the Revolutionary Armed Forces (MINFAR).¹⁹ In this way, the FAR rose in status and extended its already pervasive reach. Increasing organizational control through the absorption of the MININT, increases the power that the FAR can command, whatever the intentions of its elite officers. Such control over communication lines, coercion hierarchies, and local officials, down to the village level, would be difficult for any opposing institution—especially a post-communist transition government—to challenge.

In terms of direct political power, the FAR has even surpassed other traditional organs of political power in Cuba. Amuchastegui asserts that, “Frequent policy designs and recommendations coming from the FAR (specifically from Raúl Castro/Casas Regueiro’s²⁰ team) can play a more influential and decisive role than those coming from other quarters in the

17. Latell, p. 19.

18. Latell, p. 20.

19. Latell, p. 22-3.

20. General Julio Casas Regueiro is Cuba’s first vice minister of defense and oversees all of the FAR’s economic activities.

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Party or the Government.”²¹ Moreover, the Cuban military controls the Ministry of the Sugar Industry, the Ministry of Fisheries and Merchant Marine, and the Ministry of Transport and Ports.²² Thus, the FAR’s reach has extended further: it now controls much of the economy, the internal security apparatus, and has succeeded in sapping political power from the Communist Party and even from some regime elites. Apparently, the only upper echelon institution that the FAR does not control is Fidel Castro.²³ This line of argumentation emphasizes the entrenchment of the Cuban armed forces. Indeed, potential challengers to the FAR must co-opt the military’s ties to sources of political and bureaucratic power.

The ability of the FAR to influence the course of the post-communist transition in Cuba raises questions about what the dynamics between the military and the transition government will look like. A major concern is whether the FAR’s self-sufficiency and power will threaten the development of democracy by allowing the armed forces to bully an initially weak transition government into maintaining the economic status quo and the authoritarian nature of the state. For guidance in understanding the possible FAR-transition government relationship, it is helpful to consider the example of Russia and examine the connection between the Russian post-communist government and powerful Soviet-era managers that remained in charge of state-owned enterprises. In Russia, managers retained great influence after the collapse of the USSR, particularly vis-à-vis the new government. Describing the development of Russia’s mass privatization scheme, Roman Frydman et al., authors of the essay “Exit and Voice After Mass Privatization: The Case of Russia,” write: “To ensure the support of the powerful political and economic forces within individual state enterprises, the program gave to enterprise insiders majority ownership in as many as 70% of Russian companies.”²⁴ This excerpt indicates that the transition government in Russia did not possess enough strength on its own to implement a mass privatization. Moreover,

21. Amuchastegui, “Cuba’s Armed Forces: Power and Reforms,” p. 111.

22. Amuchastegui, “FAR: Mastering Reforms,” p. 437.

23. Latell, p. 21.

24. Frydman, Roman, Katharina Pistor and Andrzej Rapaczynski. “Exit and Voice After Mass Privatization: The Case of Russia.” *European Economics Review* 40 (1996). p. 582.

without support from powerful managers, the new Russian state remained alone and unable to effectively control opposing forces calling for change on the one hand, and for upholding the status quo on the other.

Additionally, shareholders of the newly privatized Russian firms experienced great difficulty in their attempts to restructure the management of their enterprises. In many cases, managers remained virtually immune to threats of dismissal due to their majority shareholdings and political clout.²⁵ These managers would often allocate their firms' profits and resources in such a way as to build alliances with workers, who also owned sizable stakes in the companies for which they worked. One of the major complaints of Russian investment funds and other non-insider shareholders was that managers routinely used profits to raise workers' wages, instead of distributing dividends to the various owners of stock.²⁶ According to Maxim Boycko of the Russian Privatization Center, author of the essay "Voucher Privatization," "Because of the political influence of the managers, the [Russian] government could not threaten to exclude incumbent managers from privatization if they resisted bringing in active investors."²⁷ This excerpt reveals that managers of Russian firms wished to stall efforts by the transition government and shareholders to foster true economic liberalization and complete the process of privatization.

The dynamics that arose in Russia between "incumbent managers" and Russia's transition government could develop in a post-communist Cuba as well. The economic and political power of the heads of FAR-managed firms combines with the military might that Cuban manager-generals can muster. Consequently, Cuba's transition government will have to contend with entrenched managers that have incentives to impede the completion of privatization and other economic liberalization, and who have the clout to defy government mandates with virtual impunity.

In Russia, the transition government found itself weak against influential managers of state firms, and found a remedy for its ineffectiveness in an arrangement known as state-corporatism. This economic and politi-

25. Frydman, et al., p. 584.

26. Frydman, et al., p. 584.

27. Boycko, Maxim, Andrei Shleifer and Robert W. Vishny. "Voucher Privatization." *Journal of Financial Economics* Vol. 35 (1994). p. 257-8.

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cal system is a variant of corporatism that leads to the establishment of authoritarian control by the state via a partnering with entrenched managers that accrues benefits to both business and political elites. Due to the similarity between high-ranking FAR manager-officers in Cuba and Soviet-era incumbent managers in Russia, there is a high potential for state-corporatism to develop in a post-socialist Cuba.

State-Corporatism

Having examined the new economic role of the FAR, its growing economic and political power, and its increasing independence from the political regime, this essay moves into its main argument. The idea is that the Cuban armed forces' can use their influence to force a transition government in Cuba to abandon a sweeping reform agenda and unite with elite manager-officers to gain political and economic authority. This paper argues that, should this development occur, the likely political system for a post-communist Cuba would be state-corporatism.

Definition and Theory of State-Corporatism

First, the term "state-corporatism" must be defined. Paul Kubicek, author of the essay "Variations on a corporatist theme: Interest associations in Post-Soviet Ukraine and Russia," elaborates on the fundamental features of corporatism, contrasting them to the elements characteristic of pluralism. He also sheds light on the special corporatist variant known as state-corporatism. In defining the essentials of corporatism in general Kubicek offers Philippe Schmitter's description:

Corporatism can be defined as a system of interest representation in which the constituent units are organised into a limited number of singular, compulsory, noncompetitive, hierarchically ordered and functionally differentiated categories, recognised or licensed (if not created) by the state and granted a deliberate representational monopoly within their respective categories in exchange for observing certain controls on their selection of leaders and articulation of demands and supports.²⁸

28. Kubicek, Paul. "Variations on a corporatist theme: Interest Associations in Post-Soviet Ukraine and Russia." *Europe-Asia Studies* Vol. 48, Issue 1. (Jan 1996). p. 2.

Pluralism, on the other hand, Kubicek states, is a system “in which groups are multiple, voluntary, competitive, overlapping, non-hierarchical and free from state interference. In short, pluralism is predicated upon a free-functioning civil society, whereas corporatism defines efforts to penetrate and shape civil society.”²⁹ Kubicek draws a further distinction, defining *state-corporatism*, which

focuses on the heavy hand of the state, which creates, guides and structures social life. The parameters of independent activity are restricted. Bargaining is decidedly assymetrical, and organisations are penetrated and/or co-opted by the state, often serving as little more than an appendage of the latter. Order is imposed from the top in order to prevent spontaneous explosions from below... These features, of course, could do much to undermine ‘democracy.’³⁰

Kubicek’s definitions of state-corporatism and pluralism clarify why a transition state faced with powerful managerial elite challengers would find state corporatism an attractive political solution. In a transition situation, demands from all segments of society buffet the state, which, in the minds of its citizens, becomes an omnipotent savior that can solve all of the problems inherited from the former regime. When the state discovers that it lacks the political and economic power to make the societal changes for which its constituents clamor, it faces the choice of limiting the demands placed on it by society or losing upcoming elections.

In the special case in which managers of state-owned enterprises enjoy the economic, political, and even military power to force the hand of the transition state regarding policies of economic liberalization, the state finds that it must compromise in order to survive. In such a situation, state-corporatism can readily emerge as an economic and political compromise, in which the state grants sizable concessions to managerial elites and their workers, and the managerial class lends its formidable support to the state. The state, in turn, uses its now buttressed position to limit the number of interest groups operating in society and force these to maintain close ties with the government. In this way, the transition government can slow societal change and ensure that it does not fall victim to excessive

29. Kubicek, p. 2-3.

30. Kubicek, p. 3.

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pressures emanating from civil society. Moreover, by slowing the rate of social change and economic restructuring, the transition state perpetuates favorable conditions for big business managers, ensuring their continued support, and, thus, the state's survival.

A post-socialist transition government forced to adopt state-corporatism will have to abandon plans for a workable privatization of state-owned enterprises.³¹ The dependence of the state on the political and economic power of the managerial elites means that the government must pursue policies that perpetuate the status quo as long as possible. According to Kubicek: “‘Red business’ has little interest in the growth of the private sector from the bottom up, and may be able to pervert privatization so that it actually limits competition and maintains economic oligopoly and political oligarchy.”³² Nevertheless, real privatization—in the sense of freedom from both the “authoritarian tilt” of the state and the intransigence of “red business” managers—must occur if a post-socialist nation seeks functional democracy and political liberty.³³ This privatization must be a mass privatization, capable of allocating the assets of state-owned enterprises to the entire population and breaking the domination of “old elite” managers by undermining their claims to economic power, which would effectively enervate their networks of political power. This, in turn, would free the transition government from having to establish state-corporatism in order to survive and gain strength.

Similarities to Russian “Red Business”

Returning to the analysis of state-corporatism, the paper now examines the potential for state-corporatism to develop in a post-communist Cuba. The high-ranking *raulista* officers of the Cuban military have emerged as a “red business” managerial class through the adoption of the System of

31. “Workable” in the sense that shareholders can restructure their firms freely and govern them to maximize profits without being blocked in their efforts by incumbent managers that enjoy government backing, and who, in turn, use their influence to support the state.

32. Kubicek, p. 14.

33. “Functional” in the sense that political parties are not restrained or limited and that the general citizenry plays an integral role in the democracy. In other words, the “democracy” does not merely consist of political and business elites catering to their mutual interests.

Enterprise Perfection. These military elites resemble the Russian “old elite” managerial class, though their situation is more complex. First, the FAR manager-officers benefit from the added influence of commanding a vast communication and transportation network, a formidable stockpile of weapons and delivery systems, and tens of thousands of subordinates bound to obey their superiors. The FAR’s elite officers do not have to make mutually beneficial deals with lower ranking managers, as civilian “red business” elites must do with their rival oligopolists. The business directives of generals of the FAR speed down the chain of command instantly. Such organizational power, backed by armed subordinates, can force a post-communist transition government to acquiesce even more completely to the will of the *raulista* officers. This can clear the way for an even more authoritarian state-corporatist regime than Russia’s to emerge in a post-communist Cuba, with the state acting not as a partner to “red business” managers seeking to slow the rate of change, but purely as an instrument of military authority.

Like the Russian “red business” elites, the elite manager-officers of the FAR have little interest in supporting economic liberalization efforts, let alone efforts to privatize state-owned enterprises. Latell identifies an exception to this trend in General Rosales del Toro, head of the Cuban sugar industry, who has attempted—over the protests of Fidel Castro—to shut down sugar mills in order to boost efficiency. Yet, in general, Latell concludes the following: “Enterprise managers in other sectors probably face similar constraints in trying to introduce free market type efficiencies in Cuba’s command economy, although there is really no evidence that others are energetically endeavoring to do so.”³⁴ This passage supports the notion that, for the most part, high-ranking FAR managers, like their Russian civilian counterparts would not favor privatization and would attempt to stall or sabotage the transfer of assets from the state to individual citizens. FAR generals neither wish to lose their oligopolistic powers over the Cuban economy, nor their ability to influence a post-communist successor state.

34. Latell, p. 20.

Mass Giveaway Privatization: Antidote to Corporatism

Having examined the potential for state-corporatism to emerge in a post-communist Cuba, we assert that the island's transition government can prevent the rise of state-corporatism by privatizing state-owned enterprises via a mass giveaway privatization. This section presents several analyses. First, there appears a brief discussion of the dilemma vis-à-vis elite FAR manager-officers that a transition government in Cuba—particularly a government seeking to establish a functional democracy—will face. Second, there is an examination of privatization theory. Finally, there is an evaluation of already existing plans for privatization in a post-communist Cuba.

Dilemma and the Need for Mass Giveaway Privatization

The post-communist transition government of Cuba will, like that of Russia, enter office as a weak institution. Generating revenue for the purpose of running the new government will prove challenging, as the general population will have small incomes and few savings on which the transition government can levy taxes. Furthermore, the state will have to contend with the entrenched economic and political power of military elites who control much of the Cuban economy. Should the transition government seek to establish a functional democracy, it will face the following dilemma. The transition government can partner with the military elites, which will give the state ready support, authority, and power. However, such a pact between FAR-managed business and the government opens the door to state corporatism and authoritarianism, which will undermine democracy. Then again, without the backing of the military elites, the state cannot hope to carry out its reforms or even survive in office. The transition state must make the choice between committing itself to the difficult course of developing a truly democratic political system, or resigning itself to establishing state-corporatism.

If the transition state chooses to foster a functional democracy, then it must implement a mass privatization.³⁵ Rolando H. Castañeda and George

35. Later, it will be argued that the mass privatization must take the form of a mass *give-away* privatization.

Plinio Montalván support this notion in their essay “Transition in Cuba: A Comprehensive Stabilization Proposal and Some Key Issues.” According to these two authors: “The widespread distribution of property will be a deterrent against public corruption.”³⁶ Regarding the vast segments of the Cuban economy that fall under the control of FAR officers, the notion of “widespread distribution” is especially important. The manager-officers of the Cuban military, particularly the *raulista* elites that control whole industries, gain influence from the enormity of the communication and distribution networks they control. In order to weaken these military elites, the transition government can target their networks by creating many small, partial owners of the large FAR concerns. “Old elite” managers, both in Russia and in Cuba, fear the loss of control to new shareholders that come to own stakes in former state-owned enterprises. Consequently, enervating the economic and political power of “red business” managers means targeting the unity of their control through the introduction of many shareholders from all segments of society, not simply other elites. Many different mass privatization schemes exist, but the one employed in Cuba must avoid the pitfalls that have plagued other privatizations and must be tailored to Cuba’s particularities.

Mass Privatization Theory

Before delving into the particulars of the Cuban privatization case, it is important to develop a clear understanding of the general characteristics of privatization as well as its challenges. This examination will help clarify why the transition government in Cuba should opt for a mass *give-away* privatization. According to Gérard Roland, author of *Transition and Economics: Politics, Markets and Firms*, two basic privatization strategies exist: “massive giveaways emphasizing speed,” and “revenue maximization through gradual sales.”³⁷ The “massive giveaway” strategy centers on the notion that, above all other considerations, state-owned enterprises must be liberated from state control. Jeffrey Sachs, author of

36. Castañeda, Roland H. and George Plinio Montalván. “Transition in Cuba: A Comprehensive Stabilization Proposal and Some Key Issues.” Inter-American Development Bank p. 9.

37. Roland, Gérard. *Transition and Economics: Politics, Markets and Firms*. Cambridge, Mass.: The MIT Press, 2000. p. 229.

Mass Giveaway Privatization: Antidote to Corporatism

Poland's Jump to the Market Economy, describes the “massive giveaway” or mass privatization approach “as one of transferring ownership back to the private sector, rather than selling enterprises as in the traditional approach.”³⁸ The underlying idea here is that the state under socialism did not legitimately own the enterprises that it expropriated from its citizens, and therefore, the state should not expect compensation for the firms of which it divests itself.

At the other extreme lies the “revenue maximization” plan, geared toward selling state-owned enterprises to the highest bidders, regardless of whether they are foreign or domestic, though they are usually foreign investors. This scheme has also become known as the “British Model” of privatization, referring to a limited number of firms that the British government turned over to the private sector in the 1980s.³⁹ The “British Model” has the great advantage of generating much revenue for the transition government at a time when it finds itself most in need of funding. The “revenue maximization” strategy offers a way for transition states to build up cash reserves that can be used to ensure law and order and enforce transition policies that may be extremely unpopular or wholly unfamiliar.

If Cuba were to use a “British Model”-type privatization with revenue maximization as its goal, many wealthy Cuban exiles, foreigners, and elite manager-officers of the FAR would quickly buy up the entire economy. If foreigners owned the major enterprises, then the citizens would be left with nothing. If, on the other hand, wealthy citizens were allowed to purchase the leading state enterprises, then much of the general citizenry would be left out of the privatization. Worse still, the only citizens likely to emerge from socialism with wealth are those who had connections with the Party leadership. All of these political considerations can be weighty enough to encourage a transition state to forgo revenue maximization and go ahead with a rapid mass privatization, or “massive giveaway” scheme.

Rejecting the “British Model” or revenue maximization approach means turning attention to a “massive giveaway” or mass privatization

38. Sachs, Jeffrey. *Poland's Jump to the Market Economy*. Cambridge, Mass.: The MIT Press, 1993. p. 87.

39. Sachs, p. 83-4.

strategy. The mass giveaway privatization involves the transfer of property rights to all or most of the Cuban citizens, safeguarding against exiles, foreign investors, or military elites buying up and controlling large sectors of the Cuban economy.

Analysis of Existing Privatization Plans for Cuba

Having examined the theory and structure of mass giveaway privatization, it is important to consider privatization proposals for Cuba that already exist in the literature. Despite the benefits that a mass giveaway privatization offers, many authors do not advocate this approach for Cuba, emphasizing instead the need for a revenue maximization scheme. These writers fail to consider the political benefits that a mass giveaway privatization would offer a post-socialist government in Cuba. For example, Teo A. Babún, Jr., author of the essay “Preliminary Study of the Impact of the Privatization of State-Owned Enterprises in Cuba,” asserts that the best transition model for Cuba is the one adopted by East Germany⁴⁰. East Germany chose to privatize its state-owned economy via sales of firms along the lines of the “British Model.” While this method generated revenue for the reunified German state, the resulting domination of the East German economy by wealthy West Germans engendered widespread resentment among East German voters⁴¹. Attempting an East German-style privatization scheme in Cuba likely means selling state-owned enterprises to wealthy Cuban exiles.

Louis A. Pérez, Jr., author of *Cuba: Between Reform and Revolution*, sheds light on the islander-exile conflict. According to Pérez:

Many [islanders] believed that the return of the exiles would signal the restoration of expropriated properties to previous owners. The many tens of thousands of families faced eviction, dispossession, and the loss of farms, houses, and apartments as the immediate result of ‘liberation.’ Nor could vast numbers of Cubans of color...contemplate with equanimity the return to power of white, wealthy, and right-wing exiles. There was, hence, fear of change, anxiety associated with the unknown,

40. Babún, Teo A., Jr. “Preliminary Study of the Impact of the Privatization of State-Owned Enterprises in Cuba.” *Ninth Meeting of the Association for the Study of the Cuban Economy*. Coral Gables, Florida. August 12-14, 1999. p. 430.

41. Boycko et al., p. 255.

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apprehension that change could easily serve to make a bad situation worse (Pérez, p. 401).⁴²

Pérez's account highlights islanders' anxiety over what they view as a possible re-conquest of Cuba, starting with the repossession of Cuban firms and real estate by expatriates via an East German-type sales approach to privatization. Such a plan would provoke intense opposition from islanders and its adoption by the transition government would throw into question the new leaders' commitment to furthering the interests of their own citizens.

Moreover, the acceptance of a direct sales privatization program in Cuba may not only alienate islanders from the post-socialist government, but also encourage Cuba's inhabitants to throw their political allegiance behind the FAR. Elite FAR manager-officers, fearing the forced sales of their enterprises to Cuban exiles, could use their influence to discredit a transition government seeking to adhere to the direct sales method. As per Latell: "FAR professionalism traditionally was characterized by a closeness to the civilian population that was reciprocated with strong respect and admiration for military personnel."⁴³ The prestige that the Cuban armed forces continues to enjoy on the island could give the FAR the political leverage necessary to turn public opinion against the transition government, accruing to itself added political capital. Such an increase in the power of *raulista* elites would do much to force the issue of a state corporatist bargain between FAR leaders and transition government politicians, as the latter would find themselves virtually bereft of a popular mandate.

Despite the flaws in Babún's plan based on the East German model, the privatization proposal advocated by Rolando H. Castañeda and George Plinio Montalván reveals itself to be even more problematic. In particular, two aspects of their plan raise concerns: 1) "The privatization of small and medium-size firms...requires relatively simple transfer processes based on market parameters. It should be carried out primarily through public auctions...and should give preference to worker owner-

42. Pérez, Louis A., Jr. *Cuba: Between Reform and Revolution*. New York: Oxford University Press, 1995. p. 401.

43. Latell, p. 26.

ship;” and 2) “To motivate workers and management to increase productivity and maximize profits of the privatized firm, they should have preferential rights to acquire up to 20% of the share capital transferred⁴⁴.” This excerpt reveals that Castañeda and Montalván support a revenue maximization privatization based on auctions of state-owned enterprises. Because participation in auctions depends on money, most Cubans would be excluded from the process of asset transfer. Not only would this situation fail to gain the support of the citizenry, but it would cede control over Cuba’s future to those with access to capital: Cuban expatriates, foreign investors, and the elite manager-officers of the FAR.

Auctions open to foreign investors would also play into the hands of powerful officer-managers of the FAR, as they can use their status as an institution firmly rooted in Cuban nationalism as a lever against the transition government. According to Latell, who cites the remarks of an official from the former Soviet Union: “[The FAR] continued after the demise of the Soviet Union to enjoy ‘a special status in Cuba.’ He [the official] said that the armed forces were ‘still perceived by the majority of Cubans as the defenders of national interests.’”⁴⁵ *Raulista* “red business” elites, unwilling to lose their enterprises to foreign investors, could rile public opinion against the privatization, discrediting the post-communist government. The “special status” of the FAR makes this institution even more capable of stalling privatization efforts than the entrenched managers of the former Soviet Union.

Yet, by privatizing via public auctions the transition government clears the way for military elites themselves to offer bids for state-owned enterprises. Consequently, a public auction privatization would risk the possibility that FAR elites will be able to assume legal ownership of firms they control and concretize their influence over the Cuban economy. In this case, the FAR would not seek to prevent privatization, but would rather manipulate the process to favor their elite colonels and generals. Again, the average Cuban would be left with little or no claim to either the political or economic realm.

44. Castañeda and Montalván, p. 8, 9.

45. Latell, p. 2-3.

Conclusion

As to Castañeda and Montalván's insistence that 20% of the assets of state owned enterprises should go to the managers and workers of these firms, this stipulation would facilitate the emergence of state-corporatism. As per the discussion of state-corporatism in Part II of this essay, the post-communist transition government in Russia opted for an "insider privatization" that reserved significant portions of enterprise shares for Soviet-era managers and workers. Having these substantial holdings in their firms allowed managers and workers to team up and block the entry of "outsider" investors, the lowering of wages, and the dismissal of "incumbent managers." With insiders sapping the momentum of privatization, the nascent Russian democratic government had to accept the power of "red business" elites and find a compromise in state-corporatism. Should insiders of FAR-managed enterprises receive preferential access to shares, the Russian scenario could play out in Cuba, with state-corporatism as the result.

By adopting a mass giveaway privatization scheme, Cuba's post-communist transition government can avoid favoring Cuban exiles, foreigners, and military elites and thus avert the political problems and widespread resentment to which auction-based privatizations give rise.

Conclusion

This paper reveals that the rise of an authoritarian regime in post-socialist Cuba is a strong possibility. The economic and political power of elite FAR manager-officers will pose a major obstacle to the island's transition government, which will likely force the new state to choose between a state-corporatist partnership with the *raulista* elites, or continued weakness and subordination to the military. Other transitioning states such as Russia have fallen into the state-corporatist trap due to the influence of entrenched state-enterprise managers. Cuba's transition government must learn from the mistakes of these post-socialist states, resist the pull of powerful "red business" elites, and finally break their power networks.

The preceding analysis has demonstrated that Cuba's transition government, should it seek to avoid an authoritarian result and implement a functional democracy, must initiate a mass giveaway privatization. This will complete the process of breaking the military's grip on economic and

political influence, and will prevent the need for the transition government to establish a state-corporatist pack with elite manager-officers.

The notion of state-corporatism receives far too little treatment in the literature on Cuban transition. The traditional view has been that at Fidel Castro's demise Cuba will move swiftly toward Western-style democracy. However, developments on the island in the years following the collapse of Eastern Bloc socialism indicate that the establishment of democracy in Cuba is not a forgone conclusion. The current regime's implementation of the System of Enterprise Perfection has created a powerful new interest group out of high-ranking military officers, which has greatly complicated the post-Castro picture. This essay has striven to demonstrate some of the complexities of the transition dynamic and present strategies for how Cuba's transition government can cope with challenges presented by one of the many transition variables: the FAR. The paper does not pretend to be a comprehensive solution to the problems of Cuba's post-socialist transition. The hope is that this analysis will raise awareness about the danger of state-corporatism developing in Cuba and show that this hazard can be avoided if recognized and steadfastly resisted.

Conclusion

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