
A PRELIMINARY NETWORK ANALYSIS OF ECONOMIC LIBERALIZATION IN CUBA

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Abstract

Cuba has found it necessary to put into effect market-oriented policies in addressing the severe economic crisis triggered by loss of Soviet support after 1989. The challenge for development theory is to delineate paths of complex causation among the institutional sources and effects of such market liberalization policies. New institutional economics and network economics suggest that politico-economic development may be traced to the formation of market coordination mechanisms, taken in this study to include entrepreneurial, managerial, and interorganizational networks.

Cuba's market liberalization policies are tactical in nature, consistent with earlier, tentative experiments (which were largely led by the armed forces). Economic policy is conditioned by an overriding need for political security and control. The inconsistent exercise of central control constricts the possibility of autonomous formation of market coordination mechanisms such as networks and makes for the disarticulation of economic sectors, actors, and institutions. This study proposes a research agenda on economic networks as articulatory factors in economic development.

Introduction

The onset of a period of grave economic decline and austerity in Cuba in 1990 brought stricter rationing of food, consumer goods, and oil to curtail demand, the diversification and expansion of exports, revitalized tourism, and strategic efforts to bolster international diplomatic and commercial relations. Notwithstanding

these efforts, during the first three years of the so-called “special period” there was a 40 percent drop in the gross domestic product, 70 percent drop in industrial and agricultural capacity, and 60 percent decline in domestic consumption. In 1993, the Cuban government introduced other measures, legalizing certain kinds of foreign investment, joint venture, and private microenterprise as well as legalizing the dollar. It thus sought to balance diverse aims on a fulcrum of political control: to create demand abroad for Cuban products, and generally to obtain hard currency, while attending to growing domestic demand that far outstrips rationing.

Cuba’s distribution system for foodstuffs and essential consumer goods consists of a rationing system, farmers’ markets and government-run “parallel” markets, a fast-growing “informal” sector which accounts for an increasing share of domestic production and consumption (Betancourt, 1992), and *diplotienda* stores, which offer consumer products at a premium for those with U.S. dollars. In addition to the state-run “first economy” (itself undergoing “rationalization”) and a market-oriented “second” economy (joint ventures, foreign investment, tourism, and parastatals), there is a partially legalized informal economy. Taken together, these account for the unsettled structure of markets in Cuba (Pastor, et al., 1995). For simplicity, this study will occasionally use the blanket term “parallel economy” for all of the marketized and hard-currency-driven avenues of economic participation taken together.

Market Mechanisms in the First, Second, and Third Economies

As Pérez-López (1995b) notes, participation in informal and second economy activities has come to the fore during the post-Soviet period. Own-account activities range from the most common type, services—cook, taxi driver, mechanic, electrician, produce seller, small restaurateur (running small restaurants out of private homes)—to production, of beef, agricultural products, and small-scale manufactures. Restrictions include requirements for vendor registration and an often-flouted prohibition against hiring salaried employees who are not close relatives. Other strictures affect professionals who were at first excluded from selling services but have been allowed to do so if the service lies outside their area of specialized training. Still prohibited from self-employment are public officials, members of the armed forces, judges, prosecutors, and other

public officials. The number engaged in private economic activity of all kinds exceeds a million people.

Ironically, the coupling of limited liberalization with efforts at close regulation has betrayed the institutional limits of state control. Carmelo Mesa-Lago raises the issue rhetorically:

. . . Is the state capable of executing the legal dispositions and regulations that have been approved? Can the government really act against the hundreds of thousands who work on their own without registering? How many inspectors would be needed to control the hundreds of thousands of mini-businesses which very often do not have a fixed locale but operate as temporary mobile vendors? How can the hiring of salaried employees who are not family members be avoided? What exactly constitute "excessive" earnings and prices? To what extent is the vagueness of these formulations a weapon that the government is ready to use against own-account work, in case the process escapes its control? The answer given by a Cuban economist to all these queries was: The leadership knows that the law is unenforceable; these restrictions are established for ideological reasons, to give the impression that the State is still in control of the economy and to let those who are excluded from own-account work that these activities occur within a severely limited framework and that those operating there are obligated to turn over a part of their profits to society (Mesa-Lago, 1995: p. 69).

Service workers in tourist resorts--whose names are drawn from Party lists--are closely monitored to ensure they turn over at least 40 percent of dollar tips to management for pesos, an often futile effort at surveillance. Under new laws (e.g., decree No. 50), the government contracts with joint ventures to hire workers at an average monthly remuneration of U.S. \$400 in hard currency. This goes to the state, which in turn pays an average wage of 250 pesos per month--U.S. \$20 at recent exchange rates of twenty pesos per dollar. Many workers justify underreporting earnings with reference to these confiscatory policies, which involve retention of nine-tenths of wages in the tourism/foreign investment sector.

Kummels (1995) describes Cuban patronage networks and how they unavoidably involve most everyone in illicit or corrupt activities:

Despite the external differences between defenders of socialism and of capitalism, in daily life . . . there is a close cooperation between [them] . . . Those who are not socialists depend on the cooperation of Party militants to obtain lucrative jobs in meat or sausage plants, in the tourist network or in diplomatic circles. These positions are advantageous because of the possibility of access to hard currency, beef, rum, or other goods, which can later sustain black market activity. Furthermore, the non-socialists need the protection of the militants for their illegal businesses. Only with their help can they obtain and produce the goods which the central administration cannot make available to the public, at least in sufficient quantities. For their part, the declared socialists need these tradespeople in order to be able to enjoy illegally-acquired goods with clean hands . . . [I]n daily life, cooperation between socialists and non-socialists is assured above all by way of family solidarity and the understanding that without the tradespeople the planned economy would long ago have come to an end (p. 136).

Access to the parallel economy therefore depends on familial and social networks that cross political boundaries. The state is understandably reluctant to police the informal economy, although it has done so selectively since 1996, in an effort to display political control. While there could be dramatic productivity growth in an expanded private sector, with rising incomes reducing fiscal pressures on the state, the pluralization of economic activity is seen as an ideological and practical threat in Cuba.

The Implications of Independent Economic Activity

The dollarization of the economy, overvalued peso and scarce consumer goods, unprofitable operation of state enterprises, and orientation of joint ventures toward export, tourism, or other hard-currency-generating activities (rather than domestic needs), combine to make for repressed inflation in the state-run economy and sharply rising prices in the second economy. Depression of real wages factors in the development of the informal service sector.

These economic tendencies play into ideological conflicts. Recognition of the problems associated with monetary and pricing policies led during the first years of the “special period” to a rift between two factions: One, found in several ministries with significant peso holdings, proposed decontrolling prices, ending subsidies, and imposing new taxes; a losing “populist” faction wanted the issuance of a new currency under conditions unfavorable for those with pesos, notably farmers and merchants (Valdés, 1995: p.2). Likewise, wrangling between *dirigist* and reformist factions has led to the reshuffling and renaming of ministries in the guise of restructuring (Mesa-Lago, 1995). Despite elite consensus about the need for economic change, there is disagreement about *means*.

In Cuba, as elsewhere, *dollarization* has been in part a response to repressed inflation, an effort at fixing prices (Melvin and Peiers, 1996), but also a way of releasing hoarded dollars into the economy and encouraging exile remittances, which have consistently exceeded U.S. \$600 million a year. Only 15 percent of the population, mostly in Havana, receives dollar remittances, and few Cubans have access to hard-currency generating activities such as services in tourism, so that the vast majority of the population is excluded from goods and services in the parallel economy. The lack of integration between economic and social policy streams in Cuba places “a fiscal constraint on a government that follows long-term inflationary macroeconomic policies (Melvin and Peiers, 1996: p. 10),” in this case commitments to protect rationing, radically redistributive pricing and social policies, and an inconvertible currency. The risk of dollarization, according to Melvin and Peiers (1996), is that “the domestic currency will lose its role in providing the major functions of money (p. 11).” In Cuba, the peso has become a political currency for price-controlled goods and subsidized services, with the dollar the marketplace alternative.

Thoroughgoing liberalization of the Cuban economy, which would likely require internal political change conditioned on the lifting of the U.S. trade embargo, would mean a natural realignment of Cuban trade toward the United States. As much as 80 percent of Cuban exports and imports would be shifted away from current partners, especially Canada and Japan but also Spain, Germany, and other European countries (Montenegro and Soto, 1996). The Cuban leadership does not relish the prospect of a cultural or political repenetration of the country by the United States in the wake of

economic *rapprochement*. However, with a loosening of economic controls, a growing domestic market would foster Cuba's integration with the world economy as a whole, not just with the United States. The Cuban government has begun to permit producers' associations, consumer cooperatives, and quasi-contractual private associations that create small service enterprises. There is also a move to allow own-account workers to pool their resources in partnerships, for example to provide services such as auto repair (Valdés, 1995: p. 16). Castañeda and Montalván (1994) suggest that it is because of ingrained collectivism and centralism that such microeconomic relations are still lacking: Since the state is incapable of managing market relations, it is unwilling to give the market much latitude. For their part, Cubans are reluctant to embrace newly-authorized or re-authorized market devices such as registered own-account work, widely regarded as "working for Fidel" (Crabb, 1998: p. 18). Halting and inconsistent policy combined with ingrained political attitudes delay the necessary integration of the institutional structures of economic relations in Cuba.

Institution-building in the Economy

Economic reforms introduced in the 1990's may be significant in the Cuban context but are modest in comparison to those instituted by other countries in Latin America, Asia, and Eastern Europe. In Latin America (for example, Peru) the creation of trade associations and pressure groups, along with small-scale financial institutions, has given "informal" merchants political leverage and facilitated various kinds of vertical economic integration, notably subcontracting. The Cuban government has looked to China and Vietnam as models of centrally-controlled political and economic change, but it has been unwilling to go as far as these nations in instituting legal and institutional reforms of property relations and contracts. Without a reliable structure of policy and law to protect property and the freedom to contract, entrepreneurial activity and technical innovation in the economy will suffer, and, generally, economic innovation—the development of institutional structures that correspond to market demand—will continue to lag. Kelley (1994) finds that it is principally the lack of formal sector employment that generates informal activity, which affects the capital- and labor-intensity of the economy and complicates distributional issues when demand, productivity, and incomes in the formal and informal sectors diverge. His findings are consistent with

the situation in Cuba, where so-called factor productivity--efficiency in the use of financial, technical, and labor inputs--is *higher* in the informal sector than in the economy as a whole, contrary to what is known of informal economies in general. For instance, state-run factories, are grossly overmanned, and either idle or functioning well below capacity (Valdés, 1995: p. 18).

Mead and Morrison (1996) find an inverse relationship between a nation's level of politico-economic institutional development and the scope and type of its informal economic activity, so that large informal sectors signal institutional insufficiencies. Similarly, Morrison, et al. (1994) examine the institutional links of informal enterprises with the suppliers and consumers of goods and services and conclude that regulatory constraints and insufficient financing account for diminished institutional capacity and stunted capital formation. The inhibition of vertical integration within and across economic sectors (i.e., supply networks or commodity chains) will limit organizational options and keep most transaction costs high.

In a comparative East Asian study, Ranis and Stewart (1994) focus on the relation of economic informality to (1) the viability and productivity of the agricultural sector, (2) the nature of economic linkages and institutions in the urban formal sector, and (3) type of governmental intervention. They contrast instances of policy success when, as in Taiwan, there is a moderately-sized urban informal sector with significant production and consumption links to the modern economy (such as subcontracting and various forms of vertical integration), along with adequate labor absorption, to instances of policy failure such as the Philippines, where urban informal and traditional subsectors and agriculture have grown in isolation from modernizing elements of the economy. There, inadequate financing mechanisms and inflationary monetary policies make for excessive labor mobility and a labor surplus. In comparable transitions in socialist states like China, Vietnam, and Cuba there needs to be significant growth *outside state control* in both farm and non-farm labor and product markets. Otherwise, what obtains is the distortion of economic incentives and persistence of political markets, as with the typical socialist case of "cadre-entrepreneurs" who profit in the early stages of marketization through their control of public resources (Nee and Matthews, 1996).

In Cuba, direct state intervention in the agricultural sector is decreasing, and both the quantity and quality of output correspondingly increasing, in newly-established forms of private and cooperative farming, though inputs like chemical fertilizers, fuel, and irrigation equipment are in short supply. In the 1980's, Cuba had institutional mechanisms for centralized administration in agriculture under the System of Management and Planning of the Economy (Meurs, 1992). The creation of cooperative enterprises (Basic Units of Cooperative Production) in former state farms as a substitute mechanism is part of a stated policy of switching to low-input and self-reliant farming. However, the simultaneous creation of military Agricultural Districts and of "Youth Labor Military Farms" suggests a turn toward the *militarization* rather than liberalization of the agricultural sector (Rossett, 1997).

In October 1997, the military added to its control of ministerial posts at the head of Communications, Transport, Ports and Merchant Marine, Fishing, Civil Aeronautics, State Reserves, Justice, and Higher Education the portfolio of Sugar Minister: Many attribute the military's key role in the economy, through top appointments and control of commercial enterprises, to a relatively high level of professionalism and institutional weight. The military has also conducted market experiments, beginning in 1986 with Raúl Castro's authorization for 17 MINFAR (Revolutionary Armed Forces Ministry) enterprises to operate with greater managerial autonomy, exempt from labor laws; they promptly cut their workforces and became more productive (Oppenheimer, 1992: p. 300).

Castro acted on recommendations of a Central Committee study group which, influenced by Deming and Drucker, had advocated greater managerial autonomy and worker participation in decision-making, improved quality control, and a reduced work force," and promotion based on performance rather than seniority; by the onset of economic crisis in 1990, the new credo "had been put into practice in all of the military's enterprises and were being selectively introduced in civilian-run firms (Walker, 1996: p. 5). MINFAR continues to lead in managerial innovation, running some of Cuba's most profitable enterprises, notably the tourist hotel and transport conglomerate *Gaviota* and the construction firm *Union de Empresas Constructoras*, which builds joint-venture hotels. Whether from farms, tours, or hotels, revenues go to the FAR budget.

There are over 200 farmers' markets in Cuban cities (more than 30 in Havana alone), providing a fourth of all of the foodstuffs the population consumes. The development of an agricultural economy in which both private and state enterprises (and the military) operate is far more advanced than counterpart markets for small-scale manufactures, craft products, and services in the second economy; in fact, it is the agriculture is making for the "generalization of monetary-mercantile relations" across Cuba (Valdés, 1995: p. 15). The great importance of this sector has implications for economic development, as Betancourt (1991) suggests: (1) because those active at the commercial end of Cuban agriculture tend to have "experience in participation in market exchanges" (p. 15) and are thus poised to adapt to changes in agricultural organization and commerce; and (2) because this sector readily lends itself to privatization. However, there are still insufficient spillover effects from policy change in the agricultural economy (Wickrama and Mulford, 1996: p. 378). What obtains instead is *sectoral disarticulation*, or weak production linkages, and labor and productivity disparities, across economic sectors, along with the *social disarticulation* that accompanies the sectoral disparities in wages already noted; the growth of informal economic activity is largely a response to depressed wages and curtailed opportunities for employment (Breedlove and Armer, 1997).

Writing about global labor policy in Cuba, Valdés (1995: p. 17) stresses the way that the "State, progressively, has stopped being employer," no longer accounting for 95 percent of all employment, as it did in 1990, but for 80 percent or less for the economically active population of 3.6 million; government rhetoric is no longer concerned with "unemployment" as such but with the "rationalization" of work and "reordering" of the labor force" (p. 18), which may simply amount to a tacit acceptance of unemployment. However, both the Ministry of Labor and the Cuban Confederation of Labor state union have expressed concerns about this development while supporting the rest of the economic "rationalization" agenda.

If the regime is capable of making a virtue of necessity in employment and government restructuring policies, why not also address Cuba's property regime and commercial and contract law system? Betancourt (1991) and Alvarez and Puerta (1994) argue that such a step would entail integrated institutional, constitutional, and

ideological changes that are now inconceivable. Pérez-López (1995a) suggests that, instead, policy tends to be quite tentative:

. . . Cuba's reforms—legalization and liberalization of self-employment, changes in the agricultural sector that converted state farms into cooperatives, reauthorization of farmers' free markets and artisan markets, some managerial reforms, encouragement of incoming foreign investment--bear a strong resemblance to the (Soviet Union's) *perestroika* program, although the Cuban reforms fail to include measures that stimulate a domestic private sector, such as those embodied in the Soviet Law on Cooperatives, and [fail to] grant state enterprises freedom to manage their own affairs.[Unlike China] Cuba has not undertaken meaningful price reforms and has not created free economic zones to attract visitors (pp. 13-14).

Mesa-Lago goes further, declaring economic reform dead as of 1996, [When Raúl Castro] asked the

[Fifth Plenary of the Central Committee of the Communist Party] to . . . assure that the market is subordinated to . . . the state, strictly regulate the reform measures, increase the supervision of the embryonic private sector, [and] prevent and impose tough sanctions on the violators of the rules (Mesa-Lago, 1998: p. 874).

Ironically, it seems that the steps taken during the previous five years had spurred the economy just enough to strengthen the regime and bring back fears of instability. The legalization of informal sector activities marked by high productivity, controlled but substantial decentralization of agriculture, and general reorientation of the economy to foreign capital slowed economic decline and restored growth in 1995-96. However, with curtailment of these measures, for example through crackdowns on unregistered "informal" merchants, the economy stalled again in 1997-98.

Prospects for Political and Institutional Change

The liberal argument is that the state should not unduly limit institutional autonomy or hinder creation of social and economic associations capable of acting in the civic arena (Trinidad et al.,

1988). Poland, Hungary, and Czechoslovakia “experienced the emergence of [civil] society even within the framework of authoritarianism,” while in Romania, Bulgaria, and Albania, “where neither economic reforms nor a second, or civil, society quite jelled,” the ruling Communist parties were able to call elections amidst the revolutionary wave of 1989-90 (Pérez-Stable, 1995: p. 1). The rise of a pluralistic political culture in Cuba, even to these standards, would require widespread acceptance of democratic rules, greater respect for differing interests, values, and political views, and a greater trust in the fairness and trustworthiness of public institutions. Instead, as Castañeda and Montalván (1994) note, “[Cuban] civil society is very poorly developed, providing almost no organized counterweight to the pervasive and weighty influence of the state . . . There is no space or tolerance of open (or public) debate, dissent or even disagreement, because the leadership is extremely hostile to public criticism . . . (p.9).”

Hall (1995) proposes that the capacity to manage a transition from communism is determined by the state's ability to cooperate with and coordinate social relations without resort to despotism, incorporating excluded actors and allowing political participation. This assumes the prior capability under socialism to operate “on the basis of social relations of reciprocity and associative ties:”

[A]t the shop-floor level, shortages and supply bottlenecks led to bargaining between supervisors and informal groups; at the level of the “second economy,” the allocative distortions of central planning reproduced the conditions for networks of predominantly part-time entrepreneurs; and at the managerial level, the task of meeting plan targets produced dense networks of informal ties that cut across enterprises and local organizations . . . The existence of parallel structures in the informal and interfirm networks that “got the job done” under socialism means that instead of an institutional vacuum we find routines and practices, organizational forms and social ties, that can become assets, resources, and the basis for . . . coordinated actions (Stark & Bruszt, 1998: p. 7).

Valdés (1995) dismisses the argument that a civil society *in opposition* to the Revolution could appear in Cuba, by evolution or otherwise. Neither economic liberalization nor the creation of institutional spaces for independent thought and action (e.g., among

academics and research scientists), nor even the reduction in "number and functions of state organizations" and "lateralization" of state power, translate into the creation of a civic space in the liberal sense (p. 4). For Valdés, 1993 is the watershed year in a transition from a statist economy to a "progressively mixed economy where new sectors are opened, but gradually . . . [a] process which has come to be called the *new socialist market economy*" (p. 6). Yet, progress toward less state control of the economy and more "self-management" at levels of firm, enterprise, and microenterprise is affecting the state-economy but not the state-society relation. Market forces and values are ever more pervasive, but there is no radical transformation of the revolutionary state in prospect.

As suggested earlier, in Cuba government restructuring has meant the downsizing and consolidation of certain ministries. The Communist Party has been implementing reductions in personnel in state agencies since 1991, and the loss of what are pejoratively called "functionaries" has resulted in delegation of authority to lower levels of the Party and provincial and municipal governments. These personnel reductions are deepening the already significant conflict between professionals and Party members whose careers depend on political connections (Castañeda and Montalván, 1994: p. 10). And public personnel cuts are often thwarted by the action of networks of patronage or friendship in the bureaucracy which allow officials forced to depart one agency to find refuge in another.

Whether social networks in government play a productive role or not depends on circumstances. Andrej (1996) argues that under "conditions of institutional uncertainty," *articulatory managerial networks* can play an important compensatory role: They can serve as the "scaffolding" on which new ideas, outlooks, and behaviors become institutionalized (Gilmore and Krantz, 1991). Network approaches to economic analysis suggest that the introduction of multiple, decentralized, and dynamically interconnected centers of administrative control can provide the foundations for new institutions. Even when they recapitulate established institutional forms, entrepreneurial and managerial networks can make for generative and productive connections among economic sectors.

However, barring a violent transition in Cuba, a prior condition for the development of administrative and organizational capability may be the emergence of countervailing institutions, or

institutional "countercontrol" (Lamal, 1991: p. 84). This occurred in the former Soviet Union with new political parties, multicandidate free elections, labor strikes, and demonstrations led by dissident groups, which, granted, led to the collapse of the political system. This precipitous outcome has confirmed for Fidel Castro the dangers of *perestroika*. Nonetheless, some sort of reform seems needed in order to loosen the forces of institutional change.

Networks as Incipient Institutions

Network analysis is gaining prominence in economics on the premise that it is precisely in circumstances of fundamental uncertainty that enterprises seek strategic alliances, conducting business cooperatively as well as competitively in pursuit of common goals, operating at the conjunction of the organizational and the personal. Such alliances are functionally interdependent, basing their operations on the control of activities, resources, and knowledge. Networks are defined structurally by actual and latent relations, and by their positioning, whether horizontally across firms or vertically. Government can engage in coproduction activities with and otherwise support such networks, if it affords them enough autonomy. The development of autonomous networks in commerce amounts to the institutional development of markets. In a similar vein, managerial networks can develop as managers' interactions within or across sectors (e.g., tourism, trade, and shipping) settle into predictable, social-exchange forms of governance or coordination, which gain structural "embeddedness" in the course of complex exchanges under conditions of uncertainty. Network structures are characterized by an institutionality of process rather than hierarchy, particularly in a society and economy of Cuba's scale, where there is little difference between managerial or interfirm relations and interpersonal relations. Cuba's is a relational rather than individualistic culture (Earp, 1996) so that entrepreneurial and managerial networks consist mainly of interpersonal ties and mutuality of exchange even when the institutions involved are well-developed. Network structures involve an identity-type of relation: relationships where social status predominates, whether based on school or family ties, social class, political standing, or provenance (such as coming from the same town or neighborhood, which is an important consideration in Cuba). The earlier analysis of Cuba's parallel economy similarly found that it is based on cross-cutting family and social networks.

The argument of the network literature is that institutional development based on the increasing embeddedness of process (of social resources and production and commercial transactions) is salutary, on the assumption that network ties reduce transaction costs, noise, friction, and uncertainty in economic activity. Moreover, they do so without resorting to hierarchy or bureaucratic rules, so that process supersedes structure—as tends to be the case with informal economies. Social and human capital then become a function of brokerage activities, as key individuals (managers, entrepreneurs, and other *boundary-spanners*) facilitate transactions on the basis of interpersonal ties, obligations, and tactical alliances. The economic value of networks is a function of their requisite complexity along with traits like flexibility and maneuverability. Networks depend on the ability of some individuals to span institutional gaps (or “holes”) and to connect with other critically-situated individuals in common courses of action.

However, in an informal economy, the density of commercial and, potentially, political associations depends on whether it is both the main source of income and an effective avenue for economic mobility. When, as in Cuba, earnings must come from several sources, there is little economic mobility, and the capacity to associate is hampered by policy and law, there is little chance “that informal sector demands will find expression in spontaneous [associational or organizational] forms” (Widner, 1991: p. 39).

There *are* signs of the relatively spontaneous development of institutional forms and management practices outside state control in Cuba, particularly in the decentralization of decision making in international commerce, in favor of the managers of parastatal enterprises, and it is here that one might look for prospective growth in networks. While imports and exports were until recently entirely a matter of state control, now any manager of an enterprise producing for export may arrange commercial transactions directly. During a roughly ten-year period (begun with the mid-eighties rectification program) Cuba undertook an intensive process of management education, beginning with a three-year collaboration with the United Nations Development Program through an agency called the Unified System for the Selection, Development and Training of State Managers (Brandwayn, 1993). From the ranks of over 14,000 administrators trained during this period, and hundreds

of others trained more recently in England, Spain, and elsewhere, have come the managers of the many new types of hybrid enterprise, including the import-export arms of state agencies, joint ventures in tourism, "mixed enterprises" (a foreign partner and a parastatal agency forming a mercantile society), and "risk contract" partnerships--foreign and Cuban investors retaining separate legal identities and assuming risk individually, an arrangement that is becoming common in mining and petroleum (Valdés, 1995: p. 7).

In the new hybrid enterprises, managers act as entrepreneurs, seeking commercial associates and investors in Cuba and abroad, a change in managerial outlook which has significant portents:

. . . Interchanges between Cuban managers employed in tourism joint ventures and their colleagues in various parts of the state sector have also produced changes in perspective. [According to a Cuban economist] "Cuban managers are now fascinated with the idea of finding foreign partners . . . A year ago, when Cuban managers thought about how to become more competitive and efficient, they concentrated on improving Cuban, socialist models. Now they are looking almost exclusively to foreign, market economy, models . . . It's capitalism through the back door . . . [a model] copied in the rest of the economy . . . It will have a pull effect. Ten years from now Cuba may still call itself socialist, but it could in fact be a mixed economy." (Gunn, 1998: p. 17).

In hybrid ventures like these, managers are faced with unusually fluid networks; they have the incentive to improvise complex sequences of reciprocal exchange, in so doing strengthening interpersonal association (Borys and Jemison, 1989). The greater the native participation in joint venture management, the more likely that the benefits of foreign investment, such as capital formation and technology transfer, can be enjoyed without the costs of penetration by foreign capital (Breedlove and Armer, 1997).

The State Committee for Economic Collaboration (Comité Estatal de Colaboración Económica) assumed major responsibility for foreign investment in 1991 and to that end formed a "Central Negotiating Group" which works with counterpart trading groups in most state ministries (Monreal and Rúa del Llano, 1995: p. 156). Despite the reluctance to abandon centralism that its very existence

betrays, this trade and investment mechanism allows managers unprecedented access to the marketing and distribution networks of foreign companies and to "marketing agreements, joint-production agreements and other types of strategic alliance between state enterprises and transnational corporations" (Brandwayn, 1993: p. 368). It is in these defining elements of domestic and international market integration that one might find the basis for institutional development in commerce and trade, following Andrej (1996). Here managers directly experience the world of commerce, with an incentive structure that rewards productive initiative.

New institutional linkages and developments are evident everywhere in Cuba today, notably in trade and commerce, as the following instances suggest: a) There is a growing transportation and logistical infrastructure, warehousing, and distribution system in Cuba, including maritime facilities and import-export and insurance services; b) There is corresponding development of customs law and regulation, along with the introduction of tariffs and taxes (U.S. prohibitions under the trade embargo dictating that vessels docking in Cuban ports may not enter U.S. waters for 180 days already double the cost of shipping, so that taxation seems all the more burdensome to those affected); c) Free trade zones, found throughout Latin America, have begun come to Cuba on a limited scale, in Havana and Santiago de Cuba; and d) Mining (under the Ministry of Basic Industry) has seen the development of 52 risk-contract partnerships with foreign investors; Cuba produces 10 percent of the world's cobalt and is the third largest nickel producer, and its National Geological Service has made geological mapping along with specialized technical services available to investors. Petroleum has established 40 joint ventures, including land exploration contracts and offshore risk contract partnerships.

The island's telecommunications system, which until 1993 was a state monopoly under the Ministry of Communications, has been broken up into a series of hybrid enterprises: the national telephone company, EMTELCUBA, found a foreign partner in Grupo Doms, a Mexican holding company, while the CUBACEL cellular telephone company paired with other Mexican investors and Japanese suppliers; notwithstanding the Cuban Democracy Act and the tightening of the U.S. embargo, beginning in 1995 trilateral negotiations among the American and Cuban governments and AT&T resulted in the reactivation of the undersea cable to Cuba and

expansion of long-distance service, MCI was licensed to provide direct-dial service via satellite, and other services and companies moved to provide service, among them IDB WorldCom (for telex and telegraph), LDDS Communications (long distance service), WilTel International (construction of fiber-optic lines from Florida), and ItalCable, for a satellite earth station linking Cuban resorts with Rome (Nichols and Torres, 1998). Several of these ventures provide for collaboration between foreign managers and Cuban counterparts. Negotiations over the expansion of telecommunications and liberalization of access by U.S. and European providers have been the most intensive, sustained, and effective of bilateral talks, engaging both sides in commercial policy determinations apparently unaffected by the United States trade embargo. In this case, it may have been the pragmatic, technical collaboration of a transnational elite network that bridged the great divide of U.S.-Cuba relations.

Conclusion: Alternative Prospects and Theoretical Propositions

The prevalent view of Cuban-American students of the Cuban transition might be the one voiced by economist Antonio Villamil (1993), that, whether through modest or radical change, Cuba will have to move toward a free-market or mixed economy and democracy. Doing so would enable it to involve the United States, Latin America, Europe, and international financial institutions (the World Bank, Interamerican Development Bank, and International Monetary Fund) in national reconstruction. The premise is that a liberal civic culture is bound to generate institutional diversity, autonomy, and capacity, as well as drive economic development.

Pérez-Stable (1995) claims to detect the emergence of civil (or "second") society in Cuba, but not yet its institutional "articulation" (p. 2). Simply put, Cuba is lacking the political and institutional preconditions for transition to a democratic society. If there is a general lack of independent institutions, there is also an absence of intermediary institutions capable of mediating citizenry relations with the state. Centeno (1995) contends that "the capacity for order will rest on the ability of the FAR [armed forces] to maintain some institutional coherence (p. 5)," since the Communist Party cannot be relied upon to maintain the "organizational infrastructure of the state (p. 6)," and since there is neither "organized and institutionalized politics" nor "the symbolic or institutional slack

needed to manage the delicate balance of imposing neo-liberal policies while maintaining legitimacy and control (p. 7).” In short, for Centeno and other observers, it might be a Hobson’s choice between institutions of state control and some unimaginable domestic crisis or intervention bringing about a transition. That “the level of collectivization or socialization of economic activity was more extensive in Cuba than in Eastern Europe” represents an impediment to a liberal transition, while the “divisions stemming from access to dollars or to nomenklatura privileges” may also act as a significant obstacle (p. 9).

Valdés (1995) believes that even the most spontaneous and forceful change is occurring within revolutionary bounds, and that the fits and starts of liberalization policy have simply manifested the tactical agility of Cuban leaders. In this view, the cyclical nature of economic policymaking in Cuba is not cause for concern so much as a corollary of pluralism—of a plurality of intersecting and competing interests within the confines of a socialist civil society. The creation of mixed enterprises, joint ventures, and other hybrid forms of commerce, and the rise of managerial, entrepreneurial, and other social networks in the economy, is an indication of a potential for the development of capable institutions, both public and private, in a democratic direction.

What are the theoretical implications of this overview of Cuba’s transition? Neoclassical economic models are of little value in assessing new institutional forms such as own-account work and hybrid joint ventures. Unlike classical economics, network theory stresses social and cultural concerns and factors and operates analytically in the interstitial spaces of national economies. It looks, for example, at the reorientation toward the market of exchange and patronage networks which once served to consolidate the institutions of the Revolution through the incorporation of critics (Linger, 1993). It also looks for *venture-support* networks, bridging devices common to socialist economies in transition (including Cuba’s) which surmount political barriers, linking entrepreneurial outsiders with Party insiders who offer resources, logistical help, and protection (Kummels, 1995). However, the need to engage political operatives at every turn is a drag on innovation. When not unduly constrained, hybrid forms of interfirm association such as managerial networks may be expected to reduce transaction costs and to facilitate strategic shifts in policy.

What is suggested is a research agenda focused on network-based transitions toward the market. Networks are poised between existing and emerging institutions, and between present and future sociopolitical and economic forms. Economic development cannot occur without the development of autonomous and capable institutions, nor can it be sustained without the institutional capacity to combine and recombine in new organizational forms. The density of articulation among economic actors and sectors, their resulting combinatorial potential, and the freedom to align and realign strategically are the principal measures here proposed for economic development, at the least during social transitions of epochal scale (such as Cuba's), when the adaptation and readaptation of institutions is most critical. As Hirshman first proposed, crucial factors in economic development such as capital accumulation depends on generative linkages among wages, purchasing power, and productivity; development in general depends on economic integration "through an intersectoral network of forward and backward linkages" functioning in such a way that growth in one sector impels growth in other sectors (Breedlove and Armer, 1997): In Cuba, agriculture has been seen to fill this generative role, though not to the exclusion of other economic and policy factors. However difficult to realize, the assessment of these causal relations of economic development for Cuba, in a context of changing managerial practices, associational forms, and economic values, is the line of research here proposed.

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