CUBA Seminar

The Cuba Project

Queens College and
Graduate School and University Center (GSUC)
City University of New York

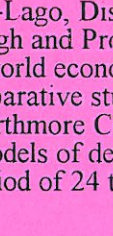
Market, Socialist and Mixed Economies: Chile, Cuba and Costa Rica

Carmelo Mesa-Lago
Distinguished Professor Emeritus, University of Pittsburgh

This talk is based on his recent book
Market, Socialist and Mixed Economies:
Comparative Policy and Performance --- Chile, Cuba and Costa Rica

The result of ten years of work, this is the 56th book published by Carmelo Mesa-Lago, Distinguished Professor Emeritus of Economics and Latin America at the University of Pittsburgh and Professor and Research Scholar at Florida International University. It has been praised by top world economists as: "wonderfully discerning" (Albert O. Hirschman, Princeton), "one of the best comparative studies" (Jan Svejnar, University of Michigan), "a pioneering study" (Frederic Pryor, Swarthmore College), and "brilliant" (Roger Betancourt, University of Maryland). The book selects three models of development in Latin America (Chile, Cuba and Costa Rica), analyzes their policies over a period of 24 to 35 years, and evaluates and ranks their performance.

Friday
November 10, 2000
3:30 P.M.



Skylight Conference Room (9100)
The Graduate Center
365 Fifth Avenue (@ 34th Street)
Manhattan

To pre-register:
Leave message at 718 997-2846 or send email to: font@troll.soc.qc.edu

This event is organized by The Cuba Project (Queens College and GSUC/City University of New York), with support from the Ford Foundation and the Christopher Reynolds Foundation.
The Cuba Project is affiliated with the Bildner Center for Western Hemisphere Studies.

MARKET, SOCIALIST AND MIXED ECONOMIES: COMPARATIVE POLICY AND PERFORMANCE--CHILE, CUBA AND COSTA RICA

Baltimore, Johns Hopkins University Press, 2000, 703 pp., 124 tables

Carmelo Mesa-Lago

Summary. The result of ten years of work, this is the 56th book published by Carmelo Mesa-Lago, Distinguished Professor Emeritus of Economics and Latin America at the University of Pittsburgh and Professor and Research Scholar at Florida International University. It has been praised by top world economists as: "wonderfully discerning" (Albert O. Hirschman, Princeton), "one of the best comparative studies"(Jan Svejnar, University of Michigan), "a pioneering study" (Frederic Pryor, Swarthmore College), and "brilliant" (Roger Betancourt, University of Maryland). The book selects three models of development in Latin America (Chile, Cuba and Costa Rica), analyzes their policies over a period of 24 to 35 years, and evaluates and ranks their performance.

Three Models of Development in Latin America. The book compares three different socioeconomic development models in Latin America in the period 1958-97 (1973-97 in Chile):

1. Chile, the prototypical neoliberal model particularly under the Pinochet period (1973-90), which gave a preponderance to economic goals (privatization, growth, stability, efficiency), restricting social goals to a residue. Such imbalance has been gradually corrected by three successive democratic administrations (1990 on) which have placed higher accent on social goals under the more balanced approach of a "social market economy."

2. Cuba, the state socialist (centrally planned) model, which virtually eliminated private ownership of the means of production and placed excessive emphasis on social goals, even egalitarianism in certain stages, but at the cost of poor efficiency, productivity and growth (1959-90). The collapse of the USSR/socialist camp and the severe economic crisis that ensued in the 1990s, forced a timid market oriented reform (basically halted in 1996) which has not yet recovered the pre-crisis economic level and has adversely affected some of the previous social achievements.

3. Costa Rica, a mixed model, which combined a predominant market economy with an adequate state role, and achieved a fair balance between social and economic goals with good results in both (1953-81). The debt crisis of the 1980s and the exhaustion of that model (due to excessive state intervention and fiscal imbalances) led to an structural adjustment reform which has led to fair economic results and maintained the most important social gains.

The three diverse economic models have been implemented by different political systems: an authoritarian military regime in Chile (followed by multiparty democracy), an authoritarian one-party regime in Cuba, and a multiparty democracy in Costa Rica throughout the entire period.

Comparative Policies in Various Stages. The book focuses on eight socioeconomic policies: (1) ownership, (2) market versus planning, (3) financing, (4) stability and prices, (5) development strategy, (6) external sector, (7) labor and employment, and (8) distribution and social services. Policies of the three countries in each of these eight areas are systematically described and analyzed through various stages. At the end of the book these policies are summarized and lessons extracted from the experience of the three models.

The first two models were extremes: Chile overemphasized the market and economic goals while drastically reducing state functions and social goals; Cuba did exactly the opposite: collectivized the economy and all social services, put the state in charge of all, and overemphasized social goals. Costa Rica managed to fairly balance goals (economic and social) and means (market and the state). Adjustments were later introduced in the three countries: toward social goals and more government regulatory powers in Chile since the 1990s; toward economic goals and a timid move to the market in Cuba since the 1990s (still with overwhelming state ownership and control); and toward economic goals and the market in Costa Rica since the 1980s.

For 41 years Cuba has had the same regime under Castro's leadership, with centralized control of its economy and political system, and yet it has been the country that has implemented most changes in socioeconomic policy (seven, and three shifts in development strategy); those frequent (some time radical) changes have had adverse results in performance. Chile was the next country in terms of policy changes in spite of having the same authoritarian government for 17 years under Pinochet. Costa Rica, which under its continuous democracy experienced a dozen changes in leadership and six of the party in power in the last 42 years, happens to be the country with the most stable socioeconomic policy; this fact combined with the lack of armed forces helped its performance.

Socioeconomic Performance of the Three Models and Ranking. Twenty indicators of development were selected to measure the socioeconomic performance of the three countries and historical statistical series elaborated for 1960-93 (1973-93 in Chile). About half of the indicators dealt with *economic* variables, both internal and external (e.g., growth, GDP per capita, inflation, fiscal balance, export concentration/diversification, foreign debt per capita) and the other half with *social* variables (e.g., real wages, open unemployment, illiteracy, educational enrollment, infant mortality, life expectancy, rates of contagious diseases, housing). Two types of ranking were used in each of the indicators: (a) *absolute*, measuring the starting and ending years in the period (for instance, the infant mortality rate in 1960 or 1973 and 1993), and (b) *relative improvement*, the change in one indicator through time (for instance, the reduction in infant mortality between 1960/73 and 1993). The indicators were merged into two clusters (economic and social), and then combined into an index of development (using various weights).

The results of these comparisons in both the absolute and relative improvement rankings among the three countries were as follows: In the absolute comparison, Chile ranked best (first) in economic indicators but worse (third) on social indicators; Costa Rica ranked best in social indicators and second in the economic indicators; and Cuba ranked second in social indicators (in the 1990s, but first in the 1980s) and worst in economic indicators. In the relative improvement indicators, Costa Rica managed to close the social gap with Cuba, despite a worse stand at the starting point, for instance, in 1960 life expectancy was 61.6 years in Costa Rica and 64.0 in Cuba but in 1992 they were 75.7 and 75.4 respectively; infant mortality per 1,000 in 1960 was 74.3 in Costa Rica and 35.9 in Cuba, and in 1992 were 13.7 and 10.2 respectively. Chile also significantly reduced the social gap with Cuba in the 1990s.

A comparison with international rankings that include the three countries, led to similar results. For instance, the Human Development Index of the United Nations (UNDP) ranked the three countries in 1993 (among 174 countries in the world and 20 in Latin America) as follows: Costa Rica (31 and 1), Chile (33 and 3) and Cuba (79 y 10). An analysis was done of factors other than the model (for instance, economic aid versus embargo, differences in endowment, natural disasters), to assess their potential impact on performance.

Conclusions. The balanced approach to development in Costa Rica, led to the second best economic results and the best social results, while the extreme approaches of the other two countries resulted in good performance in one set but sacrificing the other. In spite of good economic growth, lower inflation and fiscal deficit in Chile, poverty incidence worsened, real wages, secondary and higher-education enrollment and social security coverage declined, and unemployment reached historical records (the infant mortality rate, however, continued its decline). At the end of the 1980s Cuba was leading the region in many social indicators (housing was a notorious exception), but the cost of social programs was very high and adverse economic distortions occurred, e.g., open unemployment was kept low but at the cost of significant overstaffing and very low labor productivity, and egalitarianism generated perverse incentives for labor absenteeism.

The corrections implemented in the 1990s in Chile and Cuba changed to some degree the previous performance. Chile's social indicators improved considerably (decline in open unemployment and poverty incidence, increase in real wages and secondary and higher-education enrollment) but, at the same time, economic indicators became even better (higher average growth rates, lower inflation, and budget surpluses). After a severe deterioration in the first half of the 1990s, Cuba's economic indicators had a mixed performance in the second half (higher growth albeit still 20% below the 1989 level, reduction in inflation and the fiscal deficit, but increasing external trade deficit and debt), while some social indicators deteriorated (open unemployment and underemployment rose significantly, real wages and university enrollment declined sharply, income inequalities expanded, and morbidity in several diseases rose) and a few social indicators kept improving (infant mortality, life expectancy). In Costa Rica economic growth continued to be fair (after the decline in 1981-85) and inflation declined but the fiscal deficit continued to be high; most social indicators kept improving.

In summary, Costa Rica accomplished excellent socioeconomic performance (combining a predominant market system with an adequate state role) preserving all its political and civic freedoms. Chile improved its economic and social performance with the return to democracy. Continuous absence of democracy in Cuba has been accompanied with the worst socioeconomic performance of the three countries.