# THE GATEKEEPER STATE:
## Limited Economic Reforms and Regime Survival in Cuba, 1989–2002

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*Abstract: In the 1990s the Cuban regime displayed two unexpected characteristics. One was survival. The other was the implementation of uneven economic reforms, meaning that some sectors of the economy were revamped, while others remained untouched. This article connects these two outcomes by arguing that uneven economic reforms explain regime survival. Uneven economic reforms served to strengthen the power of the state vis-à-vis society, and within the state, the power of hard-liners. This new type of state, which I call "the gatekeeper state," dominates society through a new mechanism—it fragments the economy into different sectors of varying degrees of profitability and then determines which citizens have access to each respective sector. While some authoritarian regimes stay alive by providing widespread economic growth, the Cuban regime in the 1990s survived instead by restricting access to capitalist rewards. This has permitted the incumbents to navigate through societal pressures and postpone regime transition.*

The continuity of the Cuban political regime in the 1990s has amazed most Cubanologists of every persuasion (e.g., Hawkins 2001; Suchlicki 2000; Aguirre 2000; Dilla 1997; Bengelsdorff 1994; Ritter 1994; Domínguez 1993b). Despite the demise of dictatorships in Latin America and most of the Soviet Bloc, Cuba's regime has remained unabashedly authoritarian. This continuity in politics contrasts with the discontinuities in economics. Between 1993 and 1996, Cuba opened new sectors to foreign direct investment (FDI), liberalized farm markets, legalized the possession of U.S. dollars and new forms of self-employment, and reduced the fiscal deficit by cutting spending.

Compared to economic reforms elsewhere in Latin America, Cuba's reforms were timid. Cuba fell short of privatizing any state-owned enterprises, liberalizing financial markets, and permitting full-scale profit making, as most aggressive reformers in Latin America did in the 1990s.[1] Cuba also fell short in comparison to Communist China

1. By 1999, the accumulated privatization revenues of the top nine privatizing countries in Latin America amounted to 9.1 percent of GDP, among the highest in the world (based on Lora 2001). Average private investment in Latin America increased from 13.6 to 16.5 percent of GDP between 1989 and 1998 (based on Everhart and Sumlinski 2001).

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and Vietnam in the 1990s, which allowed the rise of a private business sector (see Brundenius and Weeks 2001). However, compared to the Revolution's own past, Cuba's economic reforms were profound. The few sectors that were targeted for reform actually underwent unprecedented change. Economically, therefore, the Cuban regime displayed a combination of both significant reform in some areas and reform avoidance in many others.

Many scholars in the mid-1990s believed that economic reforms were a preamble of things to come in politics: economic opening would yield political opening. To their surprise, this did not happen, and this article tries to explain why not. Specifically, I argue that the uneven nature of economic reforms contributed to regime survival. First, the uneven economic reforms served to mislead—in fact, completely fool—those actors who in the early 1990s were pressuring for deep economic and political opening. The reforms allowed the state to give the impression that the regime was moving toward the market—the type of signal that was necessary to placate the pressures coming from reform advocates—when in fact, the government never intended to follow that path. Instead, the government intended to side with the hard-liners.

The other reason is that uneven economic reforms magnified the power of the state by enhancing its capacity to dispense inducements and constraints. It is normally believed that economic openings hurt incumbent politicians (at least in the short-term), and may even undermine authoritarian states in general. This is because market reforms agitate society by creating losers and winners, both of whom put pressure on the state. To survive these societal pressures, states must build new coalitions with new actors (Gibson 1997), show some reform accomplishment such as restored growth (Remmer 2003; Weyland 2002; Haggard and Kaufman 1995), and move on to "second-stage reforms" by making state institutions less corrupt and more transparent (Pastor and Wise 1999).

In Cuba, these societal pressures never became that strong, and thus the state did not have to bother much with any of the above policies. The reforms were carried out in a manner that enlarged the leverage of the state over society, rather than diminishing it. Advocates of market reforms argue that an open economy unleashes economic forces and agents that can act as checks on state power (see Williamson 2000; Fukuyama 1989; Friedman 1962). Yet, when reformers enact circumscribed, rather than full-fledged market reforms, the power of the state may not decline. In Cuba, limited reforms actually enhanced the power of the state by converting it into the gatekeeper of a new and highly valuable commodity: the small and profitable externally connected sector. As a gatekeeper, the state has increased the payoff of cooperating

with it: the state rewards (or elicits) societal loyalty by dispensing access to this sector. In many ways, the Cuban state has transformed the way it interacts with society: while the number of winners is decreasing, the reward that actors obtain for endorsing the state is becoming more valuable. This has lessened the prospects of regime change.

## THE RESILIENCE OF (ONE-PARTY) AUTHORITARIAN REGIMES

Incumbents in authoritarian regimes stand a better chance of surviving internal and external shocks than in democracies (see Przeworski et al. 2000, 109). Bruce Bueno de Mesquita, James Morrow, Randolph Siverson, and Alastair Smith (2000) argue that this phenomenon can be explained by the differences in size of the winning coalition, defined as the members of the population whose support is essential for the survival of the government (see also Geddes 1999). Incumbents in democracies require, by definition, large winning coalitions, at least large enough to beat their rivals electorally. Incumbents in authoritarian regimes, by definition, do not require large winning coalitions to stay in office. They are sustained by a small segment of the population.

To stay in office, incumbents in both democracies and authoritarian regimes must do the same: please or reward their winning coalition with "things of value." Precisely because winning coalitions in authoritarian regimes are smaller, pleasing them is easier, or less costly to the incumbents. So, in the context of a huge crisis, the incumbents in authoritarian regimes will still find enough "pork" to please the small winning coalition. In one-party dominant authoritarian regimes, the incumbents enjoy even "greater political resources": they can use bureaucratic privileges for recruiting a minimal number of subordinates (Haggard and Kaufman 1995, 13). If the winning coalition were larger, as in the case of a democracy, it would be harder to find sufficient "things of value" for the entire coalition. In principle, therefore, it is easier for authoritarian regimes to maintain the loyalty of the core group during economic crisis than it is for democracies. With fewer favors, they can achieve far greater loyalty among the reduced number of actors that support them.

Cuba qualifies as a small-winning-coalition regime. The pillar of the regime includes three selective groups: the party (with a membership in 1997 of 780,000 in a country of 11.4 million), the military (with 50,000 troops in 1999), and the security apparatus, whose size is unknown (see Suchlicki 2000). As long as enough "things of value" can be provided to these actors, which is not too costly because this is not a large group, their loyalty can be preserved even during harsh times.

## PRESSURE FOR REFORM AND THE DILEMMA OF MARKET REFORMS FOR AUTHORITARIAN REGIMES

In their model about the survivability of authoritarian regimes, Bueno de Mesquita et al. (2000) fail to consider the possibility of internal splits within the winning coalition. Other theorists have shown that deep economic crises create divisions among incumbent forces, whether democratic or authoritarian, regarding how to respond to the economic crisis. The split occurs between soft-liners (pro-economic reform) and hard-liners (reform-adverse) (see Przeworski 1991; Haggard and Kaufman 1995; Corrales 2002b). In authoritarian regimes, the split can occur along yet another dimension: namely, what to do politically? Some will favor political opening while others prefer hardening (O'Donnell and Schmitter 1986). Although the incidence of splits is less frequent in single-party authoritarian regimes as opposed to military or personalistic regimes (see Geddes 1999; Haggard and Kaufman 1995, 11–13), these splits have nonetheless occurred in one-party states such as Mexico, Korea, and Taiwan, leading to regime change (Solinger 2001).

Pressure for economic reform also comes from external actors. The literature on economic reform stresses that during economic crises, incumbents are desperate to obtain external allies. Cuba's potential new external allies (mostly in Europe and Latin America) pressed for economic reform. Some of them (e.g., Spain and Mexico) were deep reformers themselves and pushed Cuba to become one as well (see Carranza Valdés, Gutiérrez Urdaneta, and Monreal González 1996, 25–31). With its capital stock depreciated, and unable to make new investments (Zimbalist 2000, 21–22), Cuba simply could not ignore the demands of investors.

Finally, pressure also comes from society at large. Economic hardship makes citizens demand economic relief. In 1989, the collapse of the Soviet Bloc plunged Cuba into a severe depression. The gross domestic product (GDP) plummeted from 20.8 million pesos in 1989 to 16.7 million pesos in 1993 (CEPAL 2001). This was one of the worst depressions in Latin America's history. Food consumption levels, to mention one indicator of personal hardship, plummeted from 3,109 calories a day in 1989 to 2,357 by 1996, a dramatic 24 percent drop in the space of a few years (Cubanalysis n.d.). The regime had justifiable reasons to fear urban riots, and offering relief to society was imperative.

Yet the regime also had justifiable reasons to fear alienating the hard-liners, the largest group within the winning coalition (see LeoGrande 2002; Smith 1996, 104). Reforms could make hard-liners feel politically abandoned. The danger was that they would see their views ignored by Castro, feel the costs of reforms more profoundly than other sectors (see Pérez-Stable 1999), and witness the possible increase in power of political rivals given that economic reforms give rise to new, possibly wealthier, societal actors (see Feng 2000, 204).

The Cuban state thus faced a dilemma starting in 1989. Reforms were necessary to please some members of the winning coalition and incorporate new members. Yet, reforms risked alienating the largest sector of the winning coalition, the hard-liners. Castro had to make a decision—either side with the *duros* or the soft-liners. The rest of this article argues that after making some concessions to soft-liners in 1993–95, Castro ultimately sided with the *duros*.

## A SMALL OPENING TO SOFT-LINERS IN 1993–95?

In mid 1993, after four years of consecutive annual GDP contraction, the Cuban government finally felt cornered (see Mesa-Lago et al. 2000a, 289–94). Pressures to liberalize were ubiquitous. Less than two years prior, at the 1991 Fourth Party Congress, the politburo discussed major reforms, but cavalierly shelved them.[2] By 1993, the economy still showed no signs of improving and pressures continued to mount. To what extent did the leadership accommodate these pressures? I answer this question by looking first at cabinet changes and then at adopted policies.

It is not easy to gauge the political divisions within the top echelon of the Cuban government, a regime that is well known for its hermetic politics and an obsession with portraying an image of unity. Yet, there is one way, however imperfect, to discern internal divisions: examining the number of changes in the cabinet and the entry of new faces.

Figure 1 shows the number of cabinet changes in Cuba from 1979 to 2002.[3] Several points stand out. First, large cabinet reshufflings are not correlated with economic performance. If so, regression analysis of

2. Although scholars initially argued that in 1991 the government began to liberalize economically, in retrospect, the decisions were quite hesitant. Other than the re-legalization of family-based service work, nothing was done to ease the strictist restrictions of the "Rectification" period. Rectification was the name that the government gave to its mid-1986 decision to close the economic openings of the 1970s such as farmers' markets and self-employment. In the words of Mujal-León and Busby (2001), Rectification was a return to totalitarianism after a period of "softer post-totalitarianism," making Cuba one of the least liberalized economies in the Communist world (see Cruz and Seleny 2002; Mesa-Lago et al. 2000; Eckstein 1994; Bengelsdorff 1994; Zimbalist 1994). Even though officials recognized that Rectification proved to be ruinous (Roque Cabello and Sánchez Herrero 1998), this anti-market stand was reaffirmed in 1991 (see Domínguez 1993a; LeoGrande 2002; Pérez-López 1994; *Miami Herald*, September 28, 1992, 12A). The few economic changes approved were nothing more than policies already in place during Rectification: more austerity and price hikes; more foreign investment; and more joint-ventures, mostly in tourism, which had been allowed since 1982 (see Mesa-Lago et al. 2000a, 299; cf. Font 1997 and Eckstein 1994, 60–87). To weather the crisis, the only economic right that Cubans in Havana received was the freedom to raise their own pigs and grow their own home vegetable gardens ("victory gardens") (see Eckstein 1994, 109–12).

3. All data on cabinet changes drawn from *Europa World Year Book* (1979–2003).

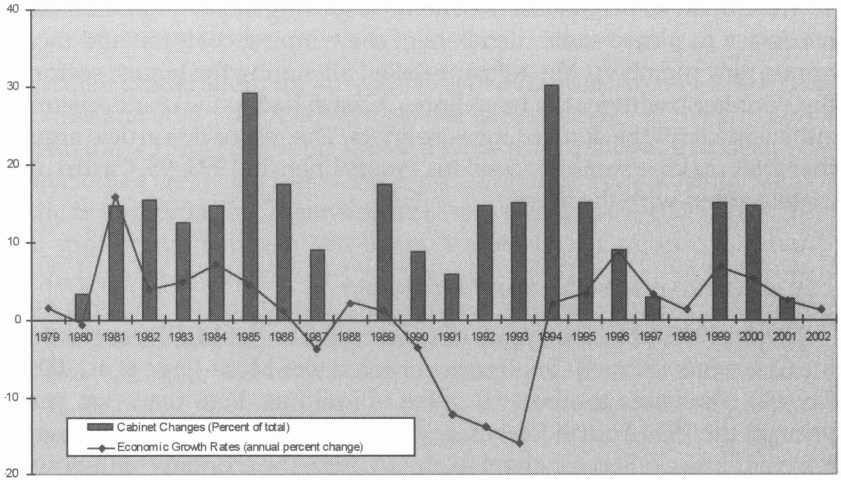


*Figure 1 Economic Performance and Cabinet Changes in Cuba, 1979–2002*

Source: Economic Growth Rates: from 1980–90, GSP Rate (Percentage), Mesa-Lago et al. 2000; from 1991–2002, Gross Domestic Product, CEPAL (1992–2003).
Cabinet Changes: *Europa World Year Book*.

cabinet changes as the dependent variable and economic growth rates as the explanatory variable would yield a negative coefficient. Instead the coefficient is positive (0.1193) and statistically insignificant (*t*-statistic 0.481034).

Second, large cabinet reshufflings in Cuba are instead associated with: (a) changes in economic policy direction and (b) purging campaigns. Figure 1 shows three major cabinet reshufflings: in 1993–95 (twenty changes in three years, or an average change of 20 percent of the cabinet per year), in 1985–86 (sixteen changes in two years, an average change of 23.5 percent of the cabinet per year), and in 1989 (six changes in one year, a change in 17.6 percent of the cabinet). Two of these episodes coincide fully with deep policy changes: specifically, the 1993–95 changes coincide with the period of deepest market reforms; while the 1985–86 changes came right after the period of market reform reversals ("Rectification"). The 1989 change is not related to economic policy changes, but to a political witch-hunt, that is, the Ochoa affair of 1989—the largest purging of the military and the cabinet since the 1960s (discussed further below).

Undoubtedly, the Cuban cabinet underwent a significant change in 1993–95, both in terms of reshuffling and, more significantly, entry of new faces. Sixteen new individuals entered the cabinet between 1993

*Table 1 Old Guards and Newcomers in Cuba's Cabinets, 1996–2002*

| *Cohort/Career Background* | *Total Incoming Members of 1993–95 Cohort* | *Cabinet Composition Early 1996* | *Early 2002* |
|---|---|---|---|
| Total Pre-1993 Cohort | | 23 | 17 |
| Total 1993–95 Cohort | 16 | 15 | 9 |
| Technocrat | 5 | 4 | 3 |
| Military | 2 | 2 | 0 |
| High-ranking Political Official | 5 | 5 | 2 |
| Former Vice-Minister | 4 | 4 | 4 |
| Total Cabinet in early 1996 | | 38 | |
| Total 1996–2002 Cohort | | | 10 |
| Technocrat | | | 1 |
| Military | | | 2 |
| High-ranking Political Official | | | 4 |
| Former Vice-Minister | | | 3 |
| Total Cabinet in early 2002 | | | 36 |

Source: *Europa World Year Book.*

and 1995, perhaps the largest inflow in decades. I will call this the 1993–95 cohort. This cohort came close to matching the number of the old guards in the cabinet—those who entered prior to 1993 (some dating to the 1970s), henceforth the "pre-1993 cohort."

It is clear that during the peak of economic reform (1993–1995), Castro did not hand over the cabinet entirely to newcomers. Early in 1996 the cabinet still remained under the control of the pre-1993 cohort, with twenty-three of thirty-eight seats (see table 1). Nevertheless, the space provided to newcomers was not minuscule either—fifteen seats, including crucial positions such as foreign relations and economy and planning.

Is it possible to assume that the balance between the pre-1993 cohort and the 1993–95 cohort represents an estimate of the balance between the *duros* and reformers? Answering this requires conducting interviews and examining the policy positions of each cabinet member, which is impossible to do in Cuba. One must rely instead on less direct methods of inference.

For the pre-1993 cohort, it is easy to infer that most members in office in early 1993 were *duros*. The reason is that most of them were

"survivors" of the Ochoa affair of mid-1989, and further, implemented the Rectification. The Ochoa affair was the most virulent crackdown against reformers—or *"gorbachevistas,"*—that is, sympathizers of Gorbachev's model of simultaneously opening the economy (perestroika) and politics (glasnost).[4] The government executed four high-ranking military officers, sentenced almost two dozen government officials to prison (including two former ministers), and fired or demoted many more. The fact that the pre-1993 cohort stayed in the cabinet throughout Rectification suggests that they must have felt quite comfortable with hard-line economic policies or, at the very least, were closeted reformers.[5]

For the 1993–95 cohort, on the other hand, making such inferences is more complicated. On the one hand, a theoretical reason exists to expect this group to be more pro-reform: the policy orientation of hired ministers often reflects the policy direction of the period of recruitment (see Domínguez 1997), and 1993–95 is the period of greatest market opening. Yet, to suggest that the 1993–95 cohort was entirely composed of reformers is a stretch. Castro might have recruited conservatives to oversee the newcomers.[6]

What is nonetheless feasible is to examine the profile of hired ministers and make some observations about the hiring preferences of the Executive. In filling cabinet posts during economic crises, governments juggle two objectives—maximizing technocratic competence and political loyalty (see Geddes 1994). Governments need to recruit technically competent individuals capable of confronting the economic challenges and implementing complex policy changes. But they also need individuals who are committed to the political survival of the government.

To satisfy this dual requirement of technocratic competence and loyalty, two combinations were impossible in Cuba. One was the combination of a candidate scoring high on both technocratic expertise and

4. The government accused General Arnaldo Ochoa of leading a "macrofaction" involved in drug trafficking and other economic crimes. There is disagreement about whether Ochoa himself favored domestic reforms, but there is agreement that he challenged Castro's military policies in Angola. Ochoa was probably executed more for his potential as a coup-plotter than for anything else. Yet, the government used the Ochoa excuse to purge the cabinet of *gorbachevistas* (see Colomer 2002-03; Mora 1999; Eckstein 1994; del Águila 1994; Preston 1989).

5. The last known official suspected of supporting some degree of glasnost for Cuba was Carlos Aldana, a high-ranking member of the Political Bureau of the Communist Party (not a minister), but he too was expelled in September 1992 presumably for his pro-reform views (see Vera and Colomer 1998; Domínguez 1993a; French 1992). For a skeptical view on Aldana's reform proclivities, see del Águila (1994).

6. One hypothesis is that these cabinet changes constituted a mere technical downgrading, an effort to replace competent people with younger, easier to manipulate yes-men. See declarations by Cuban defector Alcibiades Hidalgo, former adviser to Raúl Castro (*El Nuevo Herald*, 28 and 30 July, 2002).

loyalty. This is an impossible fantasy since finding such a person is improbable. The other impossible combination is a candidate who is neither technocratic nor loyal. No government would hire such a candidate. The only possible choices are the following.

*Technocrats.* These are highly trained individuals with experience in international, business, financial, or nonpolitical-oriented circles. Most Latin American reforming governments in the late 1980s and early 1990s recruited cabinet members from this pool. This option was also available in Cuba, given the rise of semi-independent researchers who had studied in, or traveled to, reform-oriented countries such as the Soviet Union, China, Western Europe and Latin America in the late 1980s (Amuchastegui 2002–03). For the Executive, the advantage of recruiting technocrats was injecting technical competence, more international respect, and new ideas into the cabinet; the risk was incorporating individuals of unproven loyalty to the Revolution.

*Vice-Ministers.* Another way to inject technical expertise is to appoint individuals who occupy second-rank positions in ministries (e.g., vice-ministers). Because vice-ministers are often in charge of the operational functions of ministries, they acquire technical expertise. The advantage of recruiting this group is more proven loyalty than group one, but at the cost of fresh ideas since vice-ministers often represent policy continuity rather than new thinking.

*Military officials.* Instead of relying on civilian technocrats or vice-ministers, whose loyalties are untested, the government could recruit from the military, whose loyalty (especially after the Ochoa affair) was assured. The military is often a close proxy of technocrats, given its experience running large-scale operations, traveling abroad, and acting as a laboratory of policy innovation (Espinosa 2001, 19). Recruiting from this group allowed the government to incorporate technical competence without sacrificing as much loyalty as would be the case with technocrats.

*High-ranking political officials.* These are individuals who had a distinguished career in the revolutionary struggles of the 1950s and 1960s, held some high-level office at a national level political organ (e.g., member of the Political Bureau of the Communist Party, the National Assembly, the labor confederation), or had a close relationship with the president (e.g., Special Adviser to Fidel Castro). Recruiting from this group allows the government to maximize loyalty at the expense of technocratic competence.

What choices did Fidel Castro make in 1993–95? A review of the background of the sixteen members of the 1993–95 cohort shows that Castro

opted to balance risk (see table 1).[7] On the one hand, he chose technical expertise (five technocrats).[8] On the other hand, he balanced this choice by also appointing from the three other pools (four vice-ministers,[9] two military officers,[10] and five high-ranking officials).[11] Each of these groups allowed Castro to incorporate higher degrees of loyalty.

The 1993–95 cohort thus incorporated a new breed—albeit a small one. Only a small group within this cohort represented a true break from the past—the five technocrats. These were not the independent, neoliberal, internationally connected "technopols" typical of Latin American ministries of the early 1990s. However, they represented new blood that was less tied to the political status quo. Together with the few "closeted" reformers that might have existed in the pre-1993 cohort, one could speak of the emergence of a less-orthodox group. This was not a faction, defined as a group of like-minded minorities helping each other politically to advance their ideas against majorities. Factions have not existed in the Cuban cabinet since the 1960s. But it is enough evidence of diversity to suggest that the cabinet was more pluralistic in early 1996 than in early 1993. However, it is also evident that the newcomers were not majoritarian—neither within their cohort nor within the cabinet. They had to share political spaces with the old-timers and *duros.*

The limited pluralism of 1996 was short-lived. Ultimately, Castro sided with the *duros*. I reach this conclusion based on these reasons. A government that is siding with hard-liners tends to: (1) reform cautiously (rather than sweepingly), creating "power reserves" for the hard-liners, defined as domains of policy that remain under control of the hard-liners; and (2) discontinue the reforms as soon as the economy recovers. Cuba's post-1993 economic reforms meet both hypotheses.

## POWER RESERVES FOR HARD-LINERS: OPENING AND RESTRICTING IN 1993–95

The pattern of economic liberalization that Cuba started in 1993 conforms with the "power reserve" hypothesis. In broad strokes, there are two ways to introduce economic reforms. One is to pursue all-out reform (shock therapy). The other is to introduce the least amount of reform

7. I classified ministers according to their professional position prior to being appointed, based on data provided by the international press and *Granma*, the official organ of the Cuban Communist Party. Background information for the pre-1993 cohort was unavailable.

8. Juan M. Junco del Pino, Osvaldo Martínez, José Luis Rodríguez, Francisco Soberón, and Carlos Dotres.

9. Bárbara Castillo, Ibrahim Ferradaz, José Manuel Millares, Jesús Pérez.

10. Silvano Colas Sánchez, and Orlando Rodríguez Romay.

11. Alfredo Jordán, Wilfredo López, Roberto Robaina, Nelson Torres, and Salvador Valdéz.

possible (gradual reform). In the late 1980s and early 1990s, most Latin American administrations in deep economic crises chose the first strategy. Cuba in 1993 chose the latter. The government liberalized selectively, and in every liberalized sector, it introduced substantial restrictions.

In agriculture, for instance, the state permitted transforming state farms into cooperatives, Unidades Básicas de Producción Cooperativa (UBPCs) (September 1993), and the emergence of farmers' markets (October 1994). But, UBPCs were denied autonomy. The state determines production plans, sets the price of products, and monopolizes the distribution of goods and inputs such as fertilizers, fuels, pesticides, and equipment (see Mesa-Lago 2000, 256). The state also approves which farmers can form or join a cooperative.

In the external sector, the state allowed up to 100-percent foreign ownership of local businesses (September 1995). However, of the 368 entities with foreign capital in 2000 (CEPAL 2001), only one is believed to be 100-percent foreign-owned. The rest are joint ventures with the state, suggesting that the state is forcing its way into these businesses. In hiring workers, joint ventures must hire from a list of candidates provided by the state. Joint ventures are required to pay all wages to the state (in dollars) rather than directly to workers, and the state then pays the workers in undervalued pesos, thereby realizing a huge profit. This violates the International Labour Organisation's convention banning the confiscation of wages and the interference of labor's right to choose employment (Travieso-Díaz and Trumbull 2002).

In exchange rate policy, the government de-penalized dollar holding (derogation of Article 140 of the Penal Code, July 1993). And yet, to capture these dollars, the government opened approximately 275 shops where dollar holders can buy goods and pay a sales tax of 140 percent on most products (Ritter and Rowe 2002; Zimbalist 2000, 18). The state holds a monopoly over all dollar-transacted retail trade, estimated at 73.6 percent of GDP (Ritter and Rowe 2002, 107).

In microeconomics, the state allowed self-employment (Decree 141, September 1993). But from the start, the self-employed were banned from hiring labor and operating in many sectors, essentially killing the possibility of expansion. *Paladares* (private restaurants) are required to do most wholesale business with the state: inputs (including many foods) have to be acquired from state stores, where prices are 20 to 40 percent higher (*Miami Herald*, March 27, 1997). Already in January 1994, the Cuban government began to crack down on the self-employed with the order to close hundreds of *paladares* (*Miami Herald,* January 29, 1994). Fines can be as high as 1,000 pesos for each chair over the limit (*Miami Herald,* March 27, 1997). In 1995, a draft law to allow Cubans to own and operate private businesses, which was strongly endorsed by the Spanish government, was shelved.

In telecommunications, the government created a special Ministry of Computing and Communications (Decree Law 204) to promote the "massive use of services and products related to information technology, communications, and computing" (http://www.cubagob.cu). Yet, electronic mail access is only permitted in the workplace, users typically share a single account, Internet cafes or connections in public libraries are restricted, and no Internet service providers exist. Only nongovernmental organizations (NGOs) that are neutral or loyal to the regime are allowed access (Boas 2000, 62–63). Resolution No. 383/2001 prohibits the sale of computers, printing equipment, photocopiers, or any other means of mass printing to any Cuban association or citizen without a permit granted by the Ministry of Foreign Trade. Cuba thus has one of the lowest levels of Internet connectivity in the Americas (see Corrales 2002a).

Finally, in the area of human and capital flows, the state liberalized remittances (including allowing Cubans to open checking accounts in dollars) and facilitated trips by Cuban exiles. Remittances benefitted 60 percent of the population by 2000 (Mesa-Lago et al. 2002, 7–8). However, Cuba has the highest restrictions on and transfer cost for remittances among eleven Central American and Caribbean countries (Orozco 2002, 56). The average transference cost in Cuba is US$28 for every US$250 sent; whereas in Ecuador, which receives a comparable amount of remittances, the transfer cost was US$19.50 in 2001. Remittances can be cashed in government-owned or joint-venture channels only. Remittances are taxed through an over-appreciated exchange rate of one-to-one, through value-added taxes on final sales or through taxes on interest earned by bank deposits (see Barberia 2002). In the area of migration, Cuba is one of the few countries in the world requiring exit visas—eligible to politically safe citizens for a fee of approximately US$300.

In short, the restrictions in each of Cuba's presumably "most liberalized" sectors are weighty. Cruz and Seleny (2002) label them "segmented marketization." I propose instead—stealth statism. Behind the pretense of market reforms, the Cuban government ended up magnifying the power of the state to decide who can benefit from market activities and by how much.

The point of this opening-and-restricting style of economic reform was twofold. First, it served as a fooling device. The government managed to create the illusion in 1993–95 that Cuba was indeed committed to market-oriented change. This was necessary to alleviate the mounting pressure for change at home and abroad. Political economists agree that economic policy can often be used by governments to issue signals. Governments can announce audacious policies ("overshooting") for no reason other than to compel skeptics to take the government seriously,

as many Latin American presidents did in the early 1990s. Reform-demanders were skeptical of Castro's intentions. Castro needed to change those expectations. Hence, it was necessary to take bold steps, or at least, appear to be doing so. In reality, this was a mask. Behind every reform, there was a provision expanding the restrictive capacity of the state.

The second objective was to reward the *duros* within the government (see Pastor 2000). The restrictions reassured the *duros* that the reforms would not go too far. More crucially, it gave the *duros* a privileged new role: gatekeepers to the new economy. They became the principal beneficiaries of the economic gains of the reforms, and the sole arbiters of access to these gains (more on this later).

## ONCE OUT OF THE WOODS . . .

Another indicator that the Executive favored the *duros* was the sluggish pace of reform after recovery. A true reform-minded administration, in which reforming technocrats have the upper hand, tries to broaden and deepen the reforms after recovery. Technocrats argue that the reforms are working, and thus, push for more. In contrast, an Executive committed to pleasing the hard-liners does the opposite, decelerating and maybe even discontinuing the reforms.

This is what happened in Cuba. Between 1995 and 2000, the Cuban economy recovered, as GDP per capita increased at an average annual rate of 3.4 percent. While not enough to offset the decline of the early 1990s (in 2001, Cuba's GDP was still 20 percent below the 1989 level), the recovery did soften political pressures on the government. The government responded by slowing down and reversing reforms and has not since considered seriously pursuing the other reform projects such as legalizing private property, liberalizing the labor market, and privatizing state-owned enterprises (see Pérez-López 2001). The policy reversal began in January 1996, precisely when Cuba was enjoying its best economic performance in some time. One of the hard-liners in the Central Committee declared: the party cadre "must form an ideological trench . . . from which the Marxist ideology . . . can be defended and from which diversionist ideology can be countered" (*Miami Herald*, January 16, 1996). In March 1996, Raúl Castro delivered his famous anti-reform speech to the Political Bureau of the Communist Party, in which he lambasted the reforms and the reformers within and outside the party (see also Pérez-López 2001, 51). The government then launched attacks against the intellectual community and political dissidents (*Miami Herald*, May 2, 1996). By 2000, the pace of approved foreign joint ventures slowed down considerably with the increase in *trabas*, or bureaucratic obstacles, for new approvals (Travieso-Díaz and Trumbull 2002; *Economist*, July 4, 2002). Vice-President Carlos Lage also criticized the foreign

trade zones, and the government began to privilege state-owned enterprises (SOEs) over foreign corporations in the granting of contracts and shifted attention to apparent distractions (such as vague processes of reforming SOEs called *perfeccionamiento empresarial*),[12] and more disturbingly, increasing restrictions on self-employment.

We now know that the reforming administrations' proclivity for losing interest in reform in Latin America is not uncommon. Weyland (2002) borrows from prospect theory to explain this phenomenon, arguing that actors become risk-takers if they find themselves in the domain of losses, and risk-averse, in the domain of gains. This theory predicts that state leaders will initiate risky reforms if they face an intense economic crisis (the "domain of losses"), but will avoid risky reforms once the economic crisis ends (i.e., when they enter the "domain of gains"). In Cuba, the slowdown of reforms coincided with the country's economic recovery between 1995 and 2000.

Yet, the slowdown of reform was more complicated than simply losing an appetite for risk. In fact, the government's propensity toward risk did not disappear at all, evidenced by its decision to punish reform winners (e.g., penalties on the self-employed, heavy taxation of *paladares*, increased restrictions on foreign direct investment, and open criticisms of major trading partners, such as Mexico and Spain). Few reformers in Latin America and Eastern Europe have had an open policy of penalizing reform winners, even after losing interest in reforms. If anything, the tendency has been to overprotect the winners (see Schamis 1999; Hellman 1998), in part because turning against winners is politically risky. In Cuba, however, the state has had no qualms about this, and the only winners that it has sought to protect are the *duros*.

## THE VICTORY OF THE OLD GUARD: THE 2002 CABINET

Little question remains that by the late 1990s the reform advocates had been politically weakened, not just in terms of the extent to which their policies were being watered down, rejected, or reversed, but also in terms of their presence in the cabinet. A look at retirements after 1996 shows the victory of the old guard. By early 2002, six of the fifteen members of the 1993–95 cohort in office in 1996 had exited the cabinet, a retirement rate of 40 percent. In contrast, eight of the twenty-three members of the pre-1993 cohort in office in 1996 had exited by 2002, a retirement rate of 34.8 percent. This is still an overcount, since three of the pre-1993

12. The goal of *perfeccionamiento empresarial* is to make SOEs less reliant on direct subsidies and more sensitive to price signals by making them more autonomous (Economist Intelligence Unit, February 2001). Over 1,100 of 3,000 SOEs were targeted for reform; as of 2001, only 88 SOEs had completed the process.

cohort died in office, two of whom were replaced by old guards, thus the net retirement rate of the pre-1993 cohort drops to a low 15 percent. The net retirement rate (which excludes those who exited due to deaths and includes replacements by old-timers) is 3 of 20.

One would expect the retirement rate of the old guard—for reasons of age alone—to be significantly higher than the rate for other groups. In fact, the opposite occurred in Cuba. The pre-1993 cohort dominated the 2002 cabinet, holding seventeen positions, including three of the four vice presidencies (the 1993–95 cohort held nine positions, and the 1996–2002 cohort held ten positions).

Furthermore, the 1996–2002 cohort shows a departure in the hiring preference that prevailed in 1993–95, away from non-establishment individuals (table 1). Only one technocrat was recruited, so that by 2002 there were only four technocrats left in the cabinet. Most cabinet members were political loyalists and establishment figures: seventeen from the pre-1993 cohort plus six high-ranking political officials, one military officer, and seven former vice-ministers.

In sum, by the early 2000s, the Cuban regime returned to the homogeneous conservatism of the early 1990s, both in terms of policy and leadership. This is probably one reason why the return of economic hardship in 2001–03 did not produce calls for market reforms within the government or that the political crackdown of 2003 did not produce cabinet resignations. The survival of old timers and non-reformers in the Cuban cabinet is simply remarkable, as remarkable as the survival of the regime itself.

## THE NEW "GATEKEEPER" STATE

The economic reforms of 1993–95 transformed Cuba into a state-capitalist economy. Latin America's political economists should recognize this term. State-capitalism is the term used to describe many Latin American economies prior to the 1980s, in which the state achieved dominance by maintaining a mixed economy heavily dominated by the state. Indeed, it was customary to speak of the "triple-alliance": an alliance of the state, multinationals, and domestic capitalists that promoted, yet also distorted, development (Evans 1979). Cuba comes closer to this model today than at any other point since the early twentieth century with one important modification: there are no private domestic capitalists (and by extension, middle sectors). Capitalism in Cuba consists of a double alliance between a non-democratic state and multinationals.

That this alliance has magnified the power of the Cuban state becomes evident when one examines how the reforms have fragmented the Cuban economy. As many point out (e.g., Fabienke 2000; Zimbalist 2000; Mesa-Lago et al. 2000; Dilla 1997; Carranza Valdés et al. 1996; Pérez-

López 1995), the Cuban economy is fragmented into at least three sectors, in increasing order of profitability: the old statist sector, the informal sector, and the new joint state-external sector. The old statist sector is stagnant if not contracting (e.g., sugar). The informal sector is large, but as is typical of sectors where property rights are not specified, its growth is unlikely to yield widespread prosperity (see Olson 2000, 173–99). Finally, the joint state-external sector is truly thriving (e.g., tourism, nickel, and citrus production).

The state is profiting from this fragmented economy in two ways. First, there is an economic gain as the statist economy is living off of the profits of the state-external sector (Jatar-Hausmann 1999; Kaufman Purcell 2000). The second gain is political and more important. The state has emerged as the gatekeeper of the thriving state-external sector. The state alone gets to decide which Cuban citizens can enter this sector, and access is reserved for core members of the winning coalition—the ruling party, the military, and collaborators. For instance, party leaders help decide who gets to participate in the non-state sector (mixed enterprises, cooperatives, self-employed, etc.), which in 2000 absorbed 22.5 percent of total workers, up from 8.2 percent in 1981 (Economist Intelligence Unit, November 2001, 20). The party is even more directly involved in staffing the external-state sector, the most lucrative of all (see declaration by Marcos Portal, Minister of Basic Industry, Associated Press, September 6, 1995). Tourism alone supports 100,000 jobs in Cuba (Figueras 2001). Only friends of the Communist Party get recommended for jobs in tourism and joint ventures. The state keeps all Cubans away from tourist facilities, but rewards politically well-behaved Cubans with packages in these resorts. It does the same with communication services. For instance, the Cuban telephone company ETECSA, a joint-venture between the state and an Italian firm, has reiterated that only friends of the Communist Party, and volunteers in Committees for the Defense of the Revolution (CDRs), will receive access to telephone and Internet services (Directorio Democrático Revolucionario 2002).

The other beneficiary of the reforms is the military, which manages tourist properties, participates in many joint ventures, and controls key cabinet positions connected to the external sector such as telecommunications. The Armed Forces Ministry, under the direction of Fidel Castro's brother Raúl, runs the Grupo GAESA (Grupo de Administración de Empresas), a huge business conglomerate. GAESA is presided over by military officials close to Raúl: General Julio Casas (president) and Mayor Luis Alberto Rodríguez (general director), who is Raúl Castro's son-in-law. GAESA holds some of Cuba's most lucrative businesses such as Gaviota (which operates more than thirty hotels); Tecnotex, SA (which handles import needs of firms in the holding); Aerogaviota (a small tourist aviation company); Almest (which builds hotels for international

tourism); Almacenes Universal (which controls several free-trade zones); and Antex (which provides technical and engineering assistance abroad); (Afanasiev 2002; Fernández and Menéndez 2001; Espinosa 2001).

Citizens who do not want to accept the low wages of state jobs and do not qualify for jobs in the external sector join the informal sector.[13] However, citizens cannot fully escape the power of the gatekeeper state even there. The government retains a monopoly over banks, exchange houses, and retail stores so that a percentage of every financial transaction in the informal economy ends up in the hands of the state.

Most important, the government holds citizens participating in the informal/illegal market hostage by acting as a selective enforcer. Most informal market activities are illegal. But as with prostitution, the state often allows those informal activities while reserving the right to enforce the law at any given moment and catching lawbreakers by surprise—what Aguirre (2002) calls the combination of "openness and rigidity" in a system of formal and informal controls. Citizens operating in informal markets can never dismiss the possibility of a crackdown, and thus, live in constant anxiety. The state uses its own resources to bribe authorities, including members of the CDRs, to look the other way. Either way, it dominates citizens by tolerating informal activities on the one hand, while simultaneously cracking down on them unpredictably.

## TWO MODELS OF SELF-PERPETUATION: CHINA AND CUBA

Comparing Cuba with China in the 1990s illustrates two different ways in which authoritarian regimes seek self-perpetuation. All authoritarian regimes rely on force to stay in power (Przeworski et al. 2000, 271). This much is obvious. But beyond this, as argued above, authoritarian regimes must also offer other "things of value" to their winning coalitions. One model is to deliver spectacular economic growth, sometimes achieved by giving free rein to market forces, betting that the market will generate new economic winners. High economic growth allows authoritarian states to sustain themselves by enlarging the size of the winning coalition with two new types of supporters: market winners (citizens who gain economically from the reforms) and admirers (citizens who marvel at the regime's economic performance). As long as the state succeeds in coopting many of the new winners, generating admirers, and protecting enough losers, it has a good chance of surviving.

13. The difference in income across type of economies is immense. The ratio between the average wage in the traditional economy and the other economies can be up to 70 times, compared to a ratio of only 5:1 between highest- and lowest-paid workers at the end of the 1980s (Fabienke 2001, 125).

An alternative model is to be complacent about weak economic growth altogether, or rather, to keep economic growth circumscribed to small pockets of the economy. Here, the survival strategy of the state hinges not on expanding the size of the winning coalition, but on keeping it small in relation to the limited economic gains available—economic scarcity is less perceptible when there are fewer mouths to feed. The trick is to always persuade the remaining members of the winning coalition that siding with the regime is economically more profitable (for them, though not necessarily for the country) than breaking with it. Under this model, introducing small-dose, restricted-access capitalism is rational. Not many actors win, but those who do are rewarded and become obsequious to, or tolerant of, the regime. Authoritarian regimes either provide economic growth and hope that the winning coalition expands, or else, limit growth and keep the winning coalition small and thus satisfied with the little that is available.

China in the 1990s exemplifies the first model. In its effort to deliver spectacular economic growth, the Chinese state became the largest promoter of private sector wealth in the history of socialist countries. Private investment as a share of GDP increased from an insignificant 3.7 percent in 1980 to 17.0 percent in 1999, higher than Chile and one of the highest in the world (see table 2). By 2000, private firms generated 50 percent of China's GDP (Asian Development Bank 2002). Although the Chinese government continues to impose limits on the private sector (Huang 2003), it nonetheless continues to make room for the domestic private sector. For example, in 1999 the Chinese Congress amended its constitution to recognize the private sector, and in 2000, it enacted a law of sole proprietorship that protects the interests of investors and creditors (ibid.). In 2001, Chinese president Jiang Zemin called for the ruling party to accept nontraditional classes, including private businessmen (STRATFOR 2001), and China joined the World Trade Organization, requiring that China improve property rights and ease restrictions on investment (Asian Development Bank 2002). Simultaneously, the Chinese government continued to subsidize the inefficient state sector as a way to protect labor from market competition. The Chinese state is still prepared to repress those economic winners who express dissent.[14] But its main strategy of self-perpetuation consists of generating an even larger number of new winners, converting some of them into new allies and hoping that even the losers remain appreciative of state protections.

14. In June 2003, for instance, the state penalized the Dawu Group, one of China's largest private companies, by confiscating assets, freezing its bank accounts, and arresting its wealthy founder, Sun Dawu, for publicly opposing Beijing's policies (STRATFOR 2003).

*Table 2 Foreign Investment and Soldiers*

| | *Private Investment as % of GDP* | | | *Soldiers per 1,000 Inhabitants* | | |
|---|---|---|---|---|---|---|
| | *1980* | *1990* | *2000* | *1989* | *1999* | *Change* |
| *Post-Military Regimes* | | | | | | |
| Argentina | 19.2 | 9.4 | 15.4 | 3 | 2 | -0.33 |
| Chile | 11.2 | 18.4 | 16.4 | 7.4 | 5.9 | -0.20 |
| *Post-Anti-Capitalist Regimes* | | | | | | |
| Nicaragua | na | 11.2 | 19 | 18.7 | 2.5 | -0.87 |
| China | 3.7 | 8.3 | 17.0[a] | 3.5 | 1.9 | -0.46 |
| Vietnam | na | na | 8.8[b] | 19.2 | 6.2 | -0.68 |
| Cuba | na | na | 4.2 | 28.5 | 4.5 | -0.84 |

Source: Private investment: Everhart and Sumlinski (2002) for Argentina, Chile, Nicaragua, and China; Steer (2003, 25) for Vietnam; and Ministerio de Hacienda (2001) for Cuba. Soldiers per 1,000 inhabitants taken from U.S. Arms Control and Disarmament Agency (2000, 1989).

NOTES:

[a] 1999.

[b] Estimate.

Cuba in the 1990s exemplifies the second model. Table 2 shows the effects of Cuba's policy of discouraging the private sector.[15] In 2000, private resource flows (the sum of FDI and remittances) that entered Cuba accounted for only 4.2 percent of GDP, one of the lowest in the world (equivalent to Malawi). If remittances are excluded, private resource flows decline to an insignificant 1.5 percent of GDP.[16] With these low levels of resources, economic growth will always be somewhat anemic, and the pockets of wealth in the island will be limited. The gatekeeper state's only option is to keep the winning coalition as small as possible.

Both models of self-perpetuation carry risks. The risk of the Chinese strategy is that there is no assurance that the new economic winners will be loyal to, or feel awed by, the regime. Economic winners can turn anti-authoritarian (as happened in South Korea and Taiwan) and sometimes even anti-incumbent (as happened in Chile in the 1980s and in

15. Scholars debate the reasons for unimpressive and declining levels of FDI in Cuba, some blaming it on the U.S. embargo (e.g., Spadoni 2001), others, on the internal embargo—the restrictions on doing business in Cuba (e.g., Shiffman 2002; Travieso-Díaz and Trumbull 2002; Werlau 1997).

16. This figure is small in comparison to China. FDI in China amounted to 4.1 percent of GDP in 2000 (OECD 2002).

Mexico and Peru in the 1990s). The risk of the Cuban strategy is twofold. The first is the difficulty of determining the right size of the winning coalition. Finding the right level of smallness is tricky. Second, the policy of repressing independent means of earning a living, which is necessary for the state to act as the gatekeeper of profitable sectors, will upset many citizens.

Because of these risks, neither regime can be said to be in a stable equilibrium. However, the Cuban state seems to be managing these risks fairly well.[17] This becomes clear by looking at the requirements of the gatekeeper state and how the Cuban state has met them. I have argued that the gatekeeper state must meet three requirements to survive: (1) capture most of the gains from capitalism; (2) keep the size of the winning coalition small enough; and (3) retain a monopoly over the transfer of gains to the members of its winning coalition. The section on power reserves showed how effectively the Cuban state has met the first requirement. Below I show how the Cuban state is meeting the other two requirements just as well.

Evidence on behalf of the second requirement is clearest at the level of the military. Table 2 shows that in comparison with two former nationalist-military regimes in Latin America (Chile and Argentina) and three former anti-capitalist regimes (China, Vietnam, and Nicaragua), the Cuban military has experienced a profound shrinkage in soldiers—a huge 84 percent drop. Many may attribute this to the decline in activism of Cuba's foreign policy. It is also a rational strategy to reduce the size of the winning coalition. In Latin America's new democracies, as well as in China and Vietnam, the state has reduced the size of the old winners (the military) and has welcomed new winners (market-based investors). In Cuba, however, the state has reduced the size of the old winners to a far greater degree without making room for new winners outside the traditional ancillary institutions of the state.

At the party level, evidence of shrinkage is more complicated. On the one hand, party membership seems to have increased by 232,457 between 1992 and 1996 (http://www.pcc.cu/construc.htm). If true, this means that membership increased from 5.7 percent to approximately 7.1 percent of the population. This is impressive, but in itself is not evidence of an expansion of the winning coalition. An increase in party membership is relatively cheap for the state because it does not burden the state with significant additional costs, in contrast to membership in the military, which expands the payroll and adds pension and other costs.

17. For an assessment of how the Chinese regime is handling its risks, see Chen (2002) and Gallagher (2002).

Rather than party membership per se, the key indicator of the size of the winning coalition is the size of the party's leadership—the group that runs the gatekeeper state. Here, the evidence of shrinkage is irrefutable. In the early 1990s, Castro reorganized the party's Central Committee, eliminating many positions and introducing stricter criteria for the selection of leaders, which "facilitated rooting out reformers or contrarians" (del Águila 1994, 29). Prior to the 1991 Fourth Party Congress, the number of departments in the Central Committee was reduced from nineteen to nine, and the staff was cut by 50 percent (LeoGrande 2002). In 1997, the Central Committee of the Cuban Communist Party was purged from 225 to 150 members (Inter-Press Service, October 13, 1997).

Evidence also exists that the Cuban regime has become more intolerant of independent means of earning a living (requirement three). Government-imposed restrictions on the formal independent sector (self-employment) are well known (see Jatar-Hausmann 1999; Henken 2002a; Henken 2002b). In the early 2000s, the clampdown was extended to informal sectors, with two prominent targets: street vendors (*vendedores ambulantes*) and taxi-bike operators (*bicitaxis*).

The clampdown of taxi-bikes illustrates the political logic of the gatekeeper state. Taxi-bikes are Cuban rickshaws. They emerged following the government's decision to sell China-made bikes at affordable prices to help the population cope with the transportation crisis of the early 1990s. Using old car parts and home-made canopies, many Cubans converted their bikes into tricycles for two passengers. Initially, taxi-bikes served residential areas. However, they have become a tourist attraction for many willing tourists who take them despite their slow speeds. Starting in February 2001, the Cuban government has launched an attack against taxi-bike operators, frequently harassing and fining them. In February-March 2003, this campaign intensified in Havana, leading to the arrest of the director of the union of taxi-bikes.

The repression of the taxi-bike market shows the logic but also the precariousness of the Cuban model. The gatekeeper state is never stress-free. The first stress point is at the gate itself. Consider the options available to repressed taxi-bike operators. One option is to try to enter the tourist taxi sector, where the operator can earn an impressive $467 per month, significantly beating the average wage in the public sector of $6 per month (figures taken from Mesa-Lago et al. 2000, 3). If that fails, the taxi-bike operator could qualify for the more accessible job of tourist policeman, where he can earn $31 a month. But to get either job, the repressed taxi-bike operator must befriend, maybe even bribe, authorities at the party or CDR. This illustrates, paradoxically, why repressing the taxi driver might not generate political subversion against the state, but quite the contrary, citizen compliance with, and bribes to, the state.

In either case, state officials win, earning either compliance or bribes. Because of the pressure to join profitable sectors, state officials know that the viability of the regime depends on maintaining the sturdiness of the gate and the selectivity of those who can go through it.

The second pressure point is the repression itself. The repression of self-employment opportunities has not received as much international condemnation as the repression of human rights activists, such as the arrest and quick sentencing of seventy-eight dissidents and the execution of three hijacker-defectors in April 2003. It is nonetheless one of the most intrusive ways in which the Cuban state routinely controls citizens. Because markets become irrepressible once they achieve a certain size, the gatekeeper state must always act preemptively, disbanding them before they prosper. If the Cuban state continues to act preemptively against such markets, it may be successful in prolonging its life.

These two features of the gatekeeper state—preemptive repression and monopoly over access to capitalist rewards—help to account for the paradoxical nature of Cuban politics in the 1990s. They explain why membership in the Communist Party has risen in the very same country in which dissent, defections, and alienation are rising as well (see Fernández 2000).

## CONCLUSION: LIMITED ECONOMIC REFORMS AND REGIME TRANSITION

This article challenges several notions in the literature on Cuba as well as on market reforms and regime transition. Some authors suggest that Cuba's new political economy offers respite from the suffocating statism of the 1980s and that the Communist Party's control over society has somewhat softened. This article argues instead that the Cuban state and its ancillary organs, such as the party, remain quite controlling.

The state has invented a new "racket" (to borrow from Tilly 1985) that works as follows: The state creates small market pockets—the few sectors open to foreign direct investment (FDI) are transacted in dollars—in an island of economic poverty and stagnation. The state becomes the sole gatekeeper of such pockets, exclusively deciding who gains access to them. This new state is powerful in a different way than was the case under the pre-1993 command-economy model. Previously, only one economy existed—the state sector—and all non-dissidents were guaranteed access to it. Because it was the "only pie" to be distributed among many, the value of each piece was significantly discounted. In the new economic model, however, the state distributes pieces from three different pies. The most valuable pie, the state-external economy, is distributed among the smallest portion of the population, namely, the winning coalition. The state is in a position to offer a more valuable reward to loyalists than before. It can also offer a more onerous punishment to

dissidents in the form of exclusion from the most desirable pie. The predominant incentive for citizens, therefore is "to leave the state peso economy" (Ritter and Rowe 2002, 109). One exit is Miami; another is to befriend or bribe a government official. This explains why Cubans today display a high incidence of both exit and opportunistic loyalty.

Another feature of the literature on Cuba is a certain optimism that the economic reforms of the 1990s generated a constituency inside the government favorable to further liberalization. The argument is based on the idea that the in-groups, after witnessing the benefits of the market, are now prepared to extend them. Instead, I argue that signs point in the opposite direction. The pressure for reform within the government might have been significant earlier, perhaps peaking in 1993–95, but it has since subsided. Technocrats at the cabinet level have been displaced, and actors who are running and profiting from the gatekeeper state are not necessarily interested in expanding economic liberties. Instead, they have adopted the preference of ordinary cartel-members, clamoring for more state protection against competitors and higher barriers to their arenas of wealth.

One can now begin to understand the two puzzles outlined in the introduction. The combination of risk-taking and risk-aversion in economic reform is explained by the split in preferences within and outside the winning coalition in the early 1990s. The survival of the regime is explained by the state's acquired capacity to distribute inducements and constraints by fragmenting the economy into different pieces of different value and monopolizing access to the most valuable piece.

A central conclusion of this paper is that it makes no sense to think of Cuba as a market economy, just as it does not make sense to see it as a socialist economy either. Cuba's new economic model is not market-oriented because there is no freedom of association, no property rights for citizens, and no price freedom—all indispensable for capitalism. It is not socialist either because the state is now the guarantor, in fact, the generator, of enormous inequalities: the state determines who has access to the thriving state-external sector; everyone else is either a loser or a mere survivor. The state is thus directly responsible for the rise of inequality in Cuba.[18]

That said, it is clear that Cuba did introduce a small dose of capitalism, and it is worth asking what impact has this had on the prospects for democratization. Market economies are usually considered a necessary though not sufficient precondition for democratic development (Friedman 1962). However, while market openings can yield democratic

18. Some estimates contend that the Gini coefficient, an indicator of income inequality that ranges from 0 to 1, skyrocketed from 0.22 in 1986 to 0.55 in 1995, similar to pre-1959 levels (Fabienke 2001; see also Mesa-Lago 2002).

gains, they can also be politically corrosive, allowing democratic gains to coexist with democratic setbacks. Market reforms may create a leaner and thus "meaner" state that either establishes a tyranny of technocratic-efficiency-austerity values and practices (e.g., Centeno and Silva 1998), or overwhelms institutions of accountability (e.g., O'Donnell 1994). Alternatively, market reforms may weaken civil society by aggrandizing the privileges of the already well-off and lessening the power of marginalized groups (Oxhorn and Ducatenzeiler 1999).

In Cuba, the way in which market reforms have eroded democracy is different. First, Cuba's reforms were far more restrained, meaning that more room for the "meaner" state prevails in decisions about the allocation of resources, and thus, fewer spaces exist for autonomous societal groups to flourish. Second, despite their limited nature, reforms in Cuba generated serious societal inequalities, which are more politicized because they are determined by the state more than by market forces. Finally, reforms have virtually precluded the rise of institutions of accountability. In Latin America, market reforms may have undermined institutions of democratic accountability, but seldom did they cancel them out altogether. In Cuba, these institutions of accountability were nonexistent prior to the reforms, and their possible rise was thwarted because 1990s reforms empowered exclusively the one group that opposed them the most—the *duros*.

The Cuban case thus illustrates the complicated relationship between market reforms and democratization. The relationship is not linear. Instead, it resembles an inverted J-curve. During the early stages of reform, when a communist state launches market openings (e.g., Cuba 1993–96), one can envision a moment of political liberalization in which democratization is possible: the move from a command-economy to a more mixed one creates more political opportunities for political change. But if economic reforms are aborted, the consequence is the rise of a gatekeeper state. The regime does not return to the same levels of totalitarian restrictions that existed at the outset, but it decidedly moves in a non-democratic direction.

Authoritarian regimes face two options for survival. They either produce high levels of economic gains, which allow them to expand the size of the winning coalition, or they restrict economic gains, in which case, they must restrict the size of the winning coalition. Both options require restrictions on dissent. But in the latter, the state must be far more vigilant of civil society (see Dilla and Oxhorn 2002), always ensuring the selectivity of the gate.

Introducing small doses of capitalism is like applying a small amount of bleach. If the bleach is applied in a concentrated form to one item of clothing, regardless of how small a portion, it will leave a stain. If the bleach is too diluted in water, it has no bleaching effect. In

Cuba, capitalism has been introduced in small doses and similarly unevenly—concentrated in some sectors; diluted in others. In the external-state sector, capitalism has been applied in concentrated form, transforming the beneficiaries into stained monopolists. Elsewhere in Cuban society, small-dose capitalism has been diluted with so much statism that it has had little effect in yielding a wealth-holding, entrepreneurial, middle-sector society. Insofar as the emergence of middle-sector status boosts the bargaining leverage of society vis-à-vis an authoritarian state, one must conclude that at least this form of democratic pressure is weak in Cuba.

It is no wonder that Fidel Castro reiterates, as vociferously as he does, that he will not give up socialism in Cuba. He is reaffirming a commitment to a system of state governance that, however unequal and inefficient, is quite efficient in generating loyalty and rewards within a small winning coalition. It is also easy to understand why Fidel Castro is not alone among Cubans in displaying a preference for keeping things as they are. Few Cubans gain from it, but those who count politically for the regime gain a lot.

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