

"The New Cuban Cooperatives: Towards Democratic Self-Regulation in a Command Economy."

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### Abstract

In 2010 the Cuban Communist Party announced plans to devolve political powers to lower level governments and economically empower workers by moving towards a mixed economy. Cooperatives were given endorsement as a socialist form of production, despite their functions in the private sector. The cooperative sector is now expanding from agriculture to production of goods and services in the urban context. This research uses the Rochdale Principles of Cooperation to analyze the primary contradictions arising from the inducement of a cooperative movement by the Cuban state socialist government. Primary challenges include creating a culture of cooperation among workers accustomed to following a chain of command, creating a regulatory body for cooperatives without ideological biases, and crafting uniform standards and regulations that can apply to a wide variety of co-ops without undermining the principles of cooperation. This paper concludes that the contradictions can be resolved, and that the Cuban cooperative movement is a progressive means of devolving economic power from the state to Cuban workers.

"The New Cuban Cooperatives: Towards Democratic Self-Regulation in a Command Economy."

### Introduction

The economic crisis in Cuba of the 1990's, known as the "Special Period in Peacetime," that followed the dissolution of the USSR and the other communist nations of the Council of Mutual Economic Assistance, Cuba's network of economic support and trade partners, forced the Cuban government to institute economic reforms which following Mesa-Lago (1994), can be divided into internal and external reforms. External economic strategies focus on diversification and growth of international trade and exports, encouraging foreign investments with priority given to joint ventures with Cuban state enterprises, though now including up to 100% foreign owned companies (Morales 2015); developing the tourism industry; exploring for off-shore oil and seeking alternative sources of energy (Nieto and Delgado 2002; Eckstein 2004; Mesa-Lago 1994), and construction of \$900 billion, 115,000 acre a free trade zone at the Port of Mariel (Whitefield 2017; Morales 2015; Frank 2014).

Internal (domestic) reforms primarily pertain to expansion of the private sector, which the Cuban government euphemistically calls the non-state sector, consisting of agricultural cooperatives and independent farmers, the self-employment and small business sector, and since 2012, a non-agricultural co-op sector, which is the primary topic of this paper. In general, goods and services provided by these new forms of production are expected to be sold on the open markets based on the principle of supply

and demand.<sup>1</sup> Of course numerous smaller reforms have been made in preparation for, and in conjunction with the aforementioned reforms, such as the legalization of possession of foreign currency, the private sale of housing and automobiles, expansion of internet access and legalization of private internet connections, and granting the freedom to travel from the island without government approval. Most recently the government unified the formerly dual currency system, and action long considered necessary for normalization of trade and financial relations with the wider non-socialist world, just to name a few.

The general objective of this research is to contribute to existing theory and analysis of how Cuba can reform its economy by diversifying its economic structure, without disrupting social stability as occurred in the former Soviet bloc, or sacrificing the major achievements of socialism, such as free medical, educational and social services for all citizens. The specific objective of this research is to use the internationally accepted cooperative principles as laid out by the International Cooperative Association (ICA) to analyze Cuba's process of creating a new cooperative sector given the context of its traditional command economy. The study is based on site visits, unstructured and semi-structured interviews with members and leaders of 10 cooperatives in Cuba, and meetings with Cuban academics specializing in the Cuban cooperative movement, many of which act as consultants in the economic reform process.

The Rochdale Principles are based on democratic self-management of worker-owned enterprises (Marshalek 2017), and are the basis for Cuba's cooperative reforms. They were first formally expressed by the Rochdale Society of Equitable Pioneers in 1844 in England, under conditions of mercilessly exploitive capitalism (Piñero and Cruz 2013), and later adopted by the International Cooperative Association (ICA) with minor revisions. The seven principles include: 1. Open and voluntary membership; 2. Democratic member control; 3. Member economic participation in responsibilities and benefits of cooperation; 4. Autonomy and Independence; 5. Education, training and shared information; 6. Cooperation between cooperatives; and 7. Concern for Community.

For purposes of this research, cooperatives are considered as part of the private sector given that non-agricultural co-ops sell 100 percent of their products or services on the basis of supply and demand. In the agricultural co-ops are able to sell at least 50 percent of their products in most cases, and 100 percent in the case of once debt obligations are paid in the agricultural sector. However, the accounting cooperative, SCENIUS, one of the few allowed to offer professional services so far, only does business with state entities, making the distinction less clear. It was, on the other hand, able to negotiate prices and decline or accept contracts with any state entity, meaning it was able to negotiate the "market" for accounting services between state agencies and enterprises.

The Cuban government now considers the creation of a non-agricultural cooperative sector to be the most important internal economic reform. It is expected to play an even more important role in updating of Cuba's economic model than self-employment or conventional private businesses, although the latter are still far more prevalent. The Cuban government and Communist Party now consider cooperation to be a socialist form of production - a democratic, alternative form of management that can help minimize economic inequality (Piñero 2011). At the same time, they hold that introducing these new forms of production to the domestic (internal) economy will unleash latent productive potential of the workforce, allowing the state to concentrate on the fundamental and strategic aspects

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<sup>1</sup> The term, "market," is used here in its simplest form to mean places where goods or services are bought and sold. This is to avoid the pitfall of debating whether markets in socialist societies are equivalent to those of capitalist society, where large corporations exert extensive control. Similarly, as these new markets for goods and services in Cuba are based on the principles of supply and demand, they are considered to be "markets," rather than simply as "points of sale," because prices are not directly determined by the state.

of the economy, i.e. the commanding heights of the economy, to use Lenin and Bukharin's terms (1921). The current framework of reforms is comparable in many ways to Lenin's New Economic Policy (NEP) of 1921, but prior to Cuba's new experiment, the introduction of relatively autonomous co-ops as part of the economic plan was more closely associated with Tito's Yugoslavia than the USSR (Curl 2016).

While the contradiction implied by the title of this article manifests itself in countless aspects of the cooperative project, the goal of inducing a cooperative movement as a primary aspect of restructuring the Cuban economy is nevertheless progressive and significant. As such, research on Cuban economic reform carries foreign policy implications for governments regarding Cuba. This is especially true in the case of the United States, which continues to hamper every aspect of economic development in Cuba through the imposition of an economic embargo since 1962, rightfully considered a blockade, because it imposes monetary penalties on governments and businesses around the world who do business on the island. In addition, this research also has policy implications for the Cuba, as it will have to resolve the contradictions of creating democratically and self-regulated cooperatives sector in the context of state central planning and an entrenched bureaucracy with enduring allegiances to an ideology of centralized control.

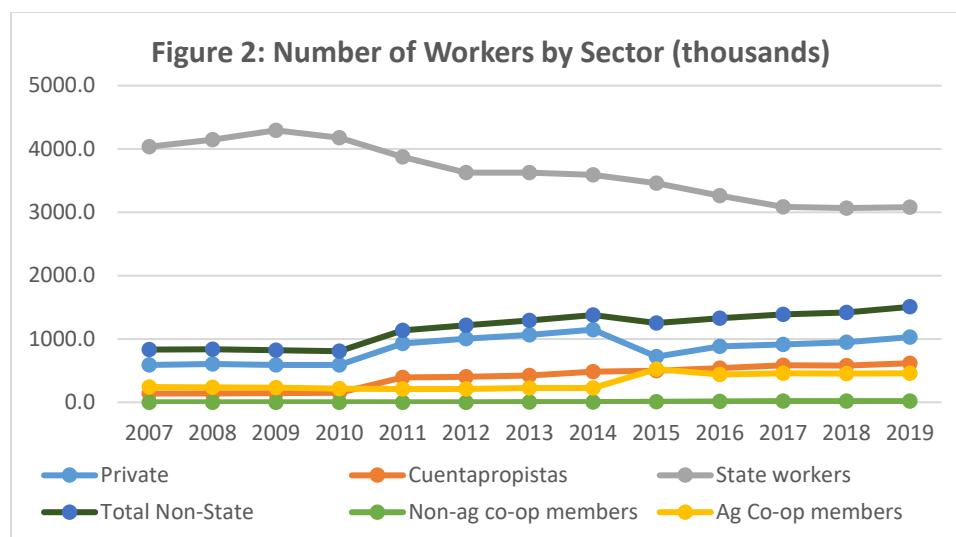
### **Background on Cuban Cooperatives**

Agricultural associations and credit and service cooperatives (CCSs) have existed in the agricultural sector of Cuba since the early years of the revolution in 1959, and Agricultural Production Cooperatives (CPAs) since the 1970s, which consist of farmers who pool their land and recourses to farm cooperatively (Puyo-Arluciaga 2014). In response to the food crisis of the Special Period the Cuban government began redistributing state farms in the 1990s to be held in usufruct and operated as self-managed cooperatives, called Basic Units of Cooperative Production (UBPCs) to increase food production (Marshalek 2017; (Nova 2015; Alvarez 2002). In this case, the land is held in usufruct and, and like CPAs, operate under the cooperative principles of democratic self-management. At the same time, the Cuban government also opened the private business sector in a limited number of basic industries, allowing some individuals to form small businesses or work as self-employed, considered by President Fidel Castro to be a necessary evil as a means to reduce unemployment (Marshalek, under review; Ritter and Henken 2015). Agricultural co-ops shifted to agro-ecological and organic techniques as much as possible since the termination of imports of petroleum and chemical inputs from the Soviet Union as it collapsed. Of course, given a lack of resources, these measures were imperative, and some farms still use chemicals prudently as available, especially in the case of monocrops for export, such as tobacco, pineapple and citrus fruits. Cooperative farms are now allowed to market a portion of their produce directly to the public based on the principles of supply and demand, usually 50 percent until debt obligations to the state are paid, and 100 percent thereafter (Marshalek 2017) as added incentives to increase production.

The Cuban economy gradually recovered from the Special Period, peaking in 2006, though the self-employment sector continued to be heavily regulated and restricted. Cooperative production in agriculture had mixed results (Marshalek 2017; Nova 2015), as imports continue to account for between 60 and 80 percent of the total value of food imports to the island, even though nearly 80 percent of cultivated lands were now in the hands of the non-state sector, as opposed to prior to 1993, when it was the reverse – 80 percent of cultivated lands were on state farms. Furthermore, prices of locally produced food has also increased. On the other hand, while it may be anecdotal evidence, agricultural products are growing in variety and availability is more dependable in the local farmers' markets. Furthermore, logically speaking, growing foreign tourism must be adding to the cost of food imports.

Cuba experienced another sharp economic decline with the onset of the Great Recession of 2008 and a subsequent series of hurricanes, but the ascendance of Raúl Castro, first as the temporary head of state as his brother, Fidel, became very ill in 2006, and then officially in 2008, led to renewal of a stalled process of economic reform. The crises' impact on the Cuban economy apparently reinforced the commitment of Raúl Castro, to increase the scope and pace of economic reforms. In 2010, after mass meetings with the general public, the Cuban Communist Party (PCC) published the *Guidelines for the Economic and Social Policy of the Party and the Revolution*, which were approved in the Sixth National Congress of 2011. In this document the term, non-agricultural cooperative, is mentioned 25 times. Although the document makes clear that Cuba is not abandoning socialism, the process of economic and political reforms continue under the presidency of Miguel Díaz-Canel, with the 89 year-old Raúl Castro still as head of the Communist Party.

As shown in Figure 1, the non-state sector has grown considerably. The number of members of agricultural co-ops more than doubled from 242,100 in 2007, for example, to 523,600 in 2015, before leveling off at around 450,000 to 459,000 in 2019. The number of *cuentapropistas*, i.e., the self-employed and owners of micro-businesses and small businesses, increased from 138,400 or 2.84% of the total workers in Cuba, to 617,000, or 13.46 percent of the total workforce, and the number of other private workers including private peasants, workers, fine artists, writers and intellectual workers, among others (ONEI 2019), decreased slightly from about 460,000 or 9.24% of the total workforce to 413,000, or 9.0% during the same period.<sup>2</sup> So, in all, the non-state sector increased from 17 percent to nearly a third of all Cuban workers, while the state sector decreased proportionally.

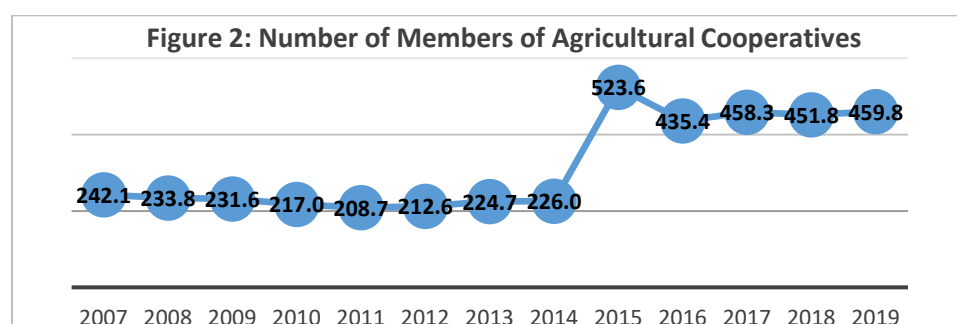


Source: Data from ONEI (Various Issues 2010-2019); Figure and estimate of “other private workers” by author.

Non-agricultural co-ops, on the other hand, didn't come into existence until 2012, and are still barely visible using the scale depicted by figure 2, and is therefore also depicted separately in figure 3. By 2019, after seven years of existence, there were less than 400 non-agricultural co-ops (hereafter referred to as co-ops unless specified as agricultural), and only approaching 500 at the sector's peak in

<sup>2</sup> The Cuban National Office of Statistics (ONEI) does not disclose whether employees of small and micro-businesses are categorized as *cuentapropistas* or “private”, but I assume they are included in the calculation for “private workers,” because the office's definition of “private” stipulates that they are not owners of the means of production.

2015 (Morales 2015), when it consisted of 523,600 cooperative members (ONEI 2019). In 2015, the government froze applications to open new co-ops (Ibid.), and again in 2017 (Marsh 2019), while only two co-ops were approved in 2018 (Rojas 2021). It is unclear whether it is currently approving applications. By 2019, the number of members of cooperatives still only made up 0.36 percent of the Cuban workforce. The Cuban government is understandably criticized for moving too slowly in expanding the co-op sector, however it remains unapologetic. In Granma, the newspaper that acts as its primary mouthpiece, Castro-Morales (2019) states “This gradual approach, characteristic of all strategies linked to the updating of the country’s socio-economic model, has produced 398 CNAs (non-agricultural co-ops),<sup>3</sup> operating in 10 sectors, with some 18,000 members, and generating income of over six billion pesos, through the end of 2018”. This makes evident that the sector declined since 2015, but the point here is that the slow pace of reform is quite intentional.



Source: ONEI: Various Issues 2010-2019

The Cuban government refutes the idea that it is moving too slowly, arguing that it must be given time to analyze the results of the cooperative experiment and correct for errors. It notes alleged irregularities in some cooperatives such as misappropriation of resources and income, corruption, collusion between cooperatives and state entities; performance of too many activities by hired workers and contracted services from third parties, accounting deficiencies, marked differences in income received by management and those performing the cooperative’s fundamental work; use of bank credits for purposes other than those declared, and irregularities in construction budgets, invoices, and billing (Ibid.). Another concern frequently voiced at the Conferences of N. American and Cuban Philosophers and Social Scientists (University of Havana) in 2016 and 2017 that focused on Cuban cooperatives, is that some supposed co-ops were really fronts for private businesses, i.e. they were “false co-ops.” Indeed, it is well known that in the self-employment and microbusiness sector that many entrepreneurs purchase a license for one activity to use as a front for other activities to avoid purchasing a separate one for every single business activity or a more expensive license (Marshalek, under review; Ritter and Henken 2015). Regardless, exact standards used to evaluate cooperatives are unavailable, i.e. they are not transparent. Among the co-ops in this study, SCENIUS, the accounting firm and one of the most successful co-ops in Cuba with 250 members, was closed down in 2017 subsequent to my site visit that year. Upon contact with the former (elected) president of the co-op, Luis Dueñas in 2018, he said the only reason given for the closure was that the company provided services outside of its approved purview. He did not agree, but now is self-employed as a book keeper.

<sup>3</sup> Inserted text in parentheses is not part of the original quote.

On the other hand, some allegations could be true in some cases. As explained by the Cuban economist, Dayrelis Ojeda-Suris (2017), “The government at first assumed that citizens of a socialist nation understand what a cooperative is, but the fact is that the Cuban economy is hierarchical, and that in fact, most do not.” Secondly, both well-educated and accustomed to an environment of scarcity, many Cubans have become very inventive in their means of survival (Marshalek, under review). Marshalek (Ibid) and Ritter and Henken (2015) point out that as a result of the difficulty that many Cubans have in making ends meet and the associated rise of a huge informal economy that “everyone has a hustle.” While this may be an exaggeration, there are plenty of small hustles that tourists will encounter to say the least. Given these assertions, based on anecdotal evidence as they may be, the careful examination of the behavior of cooperatives and their members may be warranted. Thus, accelerating the expansion of the co-operative sector may require resources to analyze their performance, and a well-publicized list of standards by which they are to be assessed.

In summary, the co-op experiment in Cuba began within agriculture, then to selected farmers’ markets and most recently to a variety of other industries, with gastronomy, commerce, construction, industry, and personal and technical services being the most widely developed in respectively. Outside of the exceptions made in the cases of six accounting firms and others providing technical services, such as computer and IT services, the Cuban government has not approved of any proposals for cooperatives that would provide professional services of any kind. The number of existing cooperatives in each industry can be viewed in Figure 3. The vast majority are in gastronomy, followed by commerce, industry, personal and technical services, ornithology, transportation, food, energy, and accounting.

**Figure 3**



Source: Castro-Morales (2019)

Among the co-ops included in this study, five are in the industry of gastronomy, two in industry (one producing textiles and the other products for the home made from bamboo, respectively), one in transportation, one in accounting, and one in food (A bakery). Most of these have been approved and are operating as a co-op, while two were state industries still waiting for approval to convert to a co-op, and one was a self-initiated (self-induced) co-op waiting for approval to go into operation, as shown in table 1. Note that in reality the categories of industries are not always mutually exclusive, despite that they are treated that way in the statistics. For example, El Centro Bambú, that makes a variety of products from bamboo, primarily home furnishing and decorations does not only produce the products, but also sells them to a variety of clients, ranging from local private Bed and Breakfasts to hotels

operated by joint ventures between Cuban and foreign enterprises in Varadero. Thus, it is also involved in commerce.

**Table 1**

<b>Name of Coop</b>	<b>Industry</b>	<b>Approval</b>	<b>Former State Industry</b>	<b>Type</b>
<b>Confecciones Modelos Co-op</b>	Textiles	Yes	Yes	State Induced
<b>Rutero 2</b>	Public Transportation	Yes	Yes	State-Induced
<b>Bienmesabe Restaurant</b>	gastronomy	Yes	Yes	State-Induced
<b>Bakery (unnamed)</b>	gastronomy	Pending	No	Self-induced
<b>CREA</b>	Construction	Yes	No	Self-induced
<b>El Biki Gastronomic Complex</b>		Yes	Yes	State-Induced
<b>Monserate Restaurant/(Cabaret)</b>	Gastronomy	Pending	Yes	State-Induced
<b>SCENIUS</b>	Accounting	Yes, but later closed	No	Self-induced
<b>Bambu Centro</b>	Housewares made of bambu	Pending	Project	Self-induced
<b>La Concha Restarurant</b>	Gastronomy	Yes	Yes	State-Induced
<b>Casona 17</b>	gastronomy	Yes	Yes	Self-induced

## **General Characteristics and Structure of Cuban Co-ops**

### *Primary Categories of Non-Agricultural Co-ops*

The non-agricultural co-ops in Cuba are typically divided into two primary categories based on the circumstances of creating a cooperative sector where none had previously existed – state-induced and self-induced, to use the Cuban euphemism. The first are those state enterprises that the state converts to co-ops, usually because they are unprofitable and considered not fundamental to the larger economy or of strategic value. Typically, the government chooses the state entities that it doesn't consider as fundamental or strategic, and that are incurring significant monetary losses to convert to worker-owned co-ops. This violates the first cooperative principle of voluntary participation, because the workers of the state enterprises are given a forced choice of becoming founding members of the new co-op, or finding other work. Given the necessity of reducing bloated state budgets, forcing workers to make the choice may be an unavoidable problem, however. On the other hand, especially regarding the early conversions, the Ministries involved in the conversions did not adequately explain to the workers what a co-op is, and weren't properly trained in how co-ops operate themselves (Ojeda 2017). As a result, many workers chose not to join the co-ops upon conversion, while many of those who remained with the enterprise often felt compelled. The state must also fulfill its traditional obligation of guaranteeing employment to all workers, however, by helping those who choose not to join the new co-op upon conversion.



By contrast, the second category of self-induced co-ops is made are voluntarily created by a group of workers wanting to cooperate to provide an agreed upon type of goods or services, which is consistent with the first cooperative principle, except for the fact they were restricted to a list of mostly non-professional, legal activities. While the intention of the government to convert unprofitable state enterprises is understandable, self-induced co-ops is the ideal, because voluntary and democratic decision-making maximize motivation through empowerment. Unfortunately, cooperative members concur that so far self-induced co-ops still make up less than 20 percent of the total in existence in Cuba.

It is also apparent that the workers of some state enterprises may also apply to have their enterprise converted into a co-op, i.e. a state enterprise can be converted into a self-induced co-op. This would be the case with the restaurant, Casona 17, that it be converted very early in the cooperative movement. So, in this case, the creation of this co-op entirely voluntary, and also democratic since the majority of the employees (now members) agreed. Other minor deviations from the state-inducement/self-inducement dichotomy also exist. At the time I made site visits in 2016 and 2017, Bambú Centro was an enterprise recognized as a *project*, but its members, who were already self-organized as a co-op internally, were awaiting approval to be recognized as a co-op. (A *project* is a special designation for enterprising projects involving arts, crafts, other cultural projects, or sometimes even what could be described as outdoor educational parks with a sustainability theme, for example.) So, this is also primarily a voluntary application for approval from another sort of enterprise. Of course, all applications for approval depend on state approval, which sort of violates the principle of autonomy, but there are few countries in the world that do not require a license for formal businesses of any sort.

### *The Legal Framework*

As the project of creating new co-ops in Cuba is considered to be in an experimental stage, the legal frame work is established by executive decrees and a series of resolutions of the Ministry of Economy and Planning, and the Ministry of Finance and prices. While a detailed review of the decrees is beyond the scope of this paper, the general characteristics of co-ops described below are derived from these laws and resolutions. The main problem with this framework is that decree laws can be revised or removed without approval of the National Assembly, just as an executive decree can be removed in the US without approval from Congress. At the same time, Cuba has a history of taking liberalization measures in the private self-employment and small business sector, only to retract them in later, leading to an experience described by Sweig (2009) as a “rollercoaster ride,” leading to much distrust among the general public regarding the promise of economic reforms. To provide assurances, the new constitution, voted on by the general population, gives legal recognition to co-ops as enterprises with its own particular “personalidad” (character or personality), distinguishing them from the aforementioned sector (Ojeda 2017). In practice, they are also given preference relative to private entrepreneurs, including tax incentives and lower prices for inputs purchased from the state. The government is also expressing intentions of creating a universal legal framework for cooperatives to this end. However, talk is cheap, and the Cuban government usually takes years to implement reforms after its initial expressions of intentions. It has be speaking of unifying the dual currency system for two decades, but only this year has finally done so, and the slow growth of the cooperative sector and repeated freezes on approval of applications cast doubt on whether this will happen anytime soon.

### *The Approval Process*

The application document for approval to form a co-op in Cuba nothing extraordinary, and includes a mission statement with a frame of reference justifying the ideas of the business, analysis of the sector of economic activity, corporate purpose, basic data for the starting members or founders, inputs, an environmental impact statement, financial and investments plans as well as, and until the



unification of currencies on the first day of 2021, in which of the two currencies business would be conducted. The approval process is, however, extraordinarily extensive, involving approval first by the Municipal Administrative Council, then the Provincial Administrative Council, the corresponding Organization of the Central Administration of the State, The Commission for the Implementation of the Guidelines (*Lineamientos*), and finally the Council of Ministers in said order. Some applications have taken as long as 4 years to be assessed, (Ojeda 2017), while the Centro Bambú had waited 3 years already in 2017. At the same time, the Committee for the Improvement of Enterprises of the Commission had several hundred applications to found new co-ops in their hands (Ibid.). Such a long process certainly undermines the voluntary nature of cooperation, and especially undermines autonomy. The Commission for the Implementation of the Guidelines is aware of this, and plans to simplify the process in the future, but so far the process is exemplary of the excessive control by the state, which logically has the effect of limiting the size, autonomy and efficiency of the co-op “experiment.” Finally, it is not yet apparent that the approval process has been standardized, leading to the question of whether it may be somewhat arbitrary, and subject to conditions not laid out by law, preferences of the state, or influenced by bureaucrats who are not eager to see the current system change or relinquish power. Indeed, the state gives priority to the conversion of state enterprises. Only about 20% of existing co-ops are self-induced, according to several cooperative members who were interviewed. As stated by of the Ojeda (2017), there remains a serious lack of transparency in the approval process. She also notes that the Committee for the Improvement of Enterprises, in charge of final approval of cooperatives, is made up of technocrats who are recent graduates and do not necessarily have proper training or background on the functioning of cooperatives.

### *Education*

Education about cooperatives is one of the most difficult issues related to expanding the cooperative sector of Cuba. Of course, the co-ops of Cuba have a responsibility to educate their members and their surrounding communities about their activities, and indeed they usually offer educational tours to school children and others, and hold special events to help educate the public. Centro Bambú for example, holds classes for children, especially those who have had a troubled past, and offers classes and apprenticeships to young people with an interest in producing furniture and other products for the home. However, typically only the board of directors and the presidents of the co-ops receive direct training from the Ministries, and are then responsible for educating the remainder of members about cooperative principles. Unfortunately, although the records and accounting is transparent to the whole assembly of members in each co-op by law, the concentration of education among the leadership presents a problem regarding the principle of education, training and information, and indirectly the principle of shared responsibilities and benefits, since shared information facilitates the latter.

There is some evidence that sometimes even the leadership has not internalized the cooperative principles well. For example, the president of *Connfecciones Modelo* constantly referred to the other members as her workers and the lines of products they make, such as traditional formal Cuban shirts called, *guayaberas*, as her own lines of production during interviews. She seemed to be clearly in charge of operations. In addition, while the board, managers and the president are typically elected by the members in the case of auto-induced co-ops in the case of state-induced co-ops, the case is rather different from state-induced co-ops. In the latter, either the elected president and possibly the board and managers were founding members who had been part of state industry before conversion, or they were simply directly appointed by the government, as in the case of *Del Biki Restaurant* and many

others. This situation undermines cooperative autonomy by putting the same leadership from the former state industries in charge of the corresponding co-op. On the other hand, such leadership also tends to have a better understanding of the technical aspects of running the enterprise given their experience, so there is an unavoidable trade-off in having the same leadership after the conversion.

The primary problem with the new cooperatives is that members need training to understand how to democratically operate them. Cuban economist, Humberto Miranda has talked about this point since he presented seminars of N. American and Cuban Philosophers and Social Scientists in 2016 and 2017. Initially I was skeptical. As stated by Al Campbell at the first of those two seminars, “when the Rochdale Pioneers who first articulated the now internationally adopted principles of cooperation, began their cooperative with no training, yet they figured out how to do it. However, I came to understand that Cuba’s case is an entirely different economic and political context. This took place in the context of 19<sup>th</sup> century brutal competitive capitalism under the industrial revolution taking place in England and beyond, where independent farmers and workers were desperate to organize to protect themselves from economic exploitation. Now in Cuba, as the Cuban government is attempting to diversify and thereby unleash the productive potential of the workers, they are moving from a centralized economy to one of diverse forms. The culture produced by the Soviet style formal state sector reinforced a hierarchical structure of command and control, so to form independent cooperatives, different work habits, norms and customs, i.e. work culture must be formed in the formal cooperative industries.

In this context, the primary and unavoidable contradiction with state-induced cooperatives is that since new and potential members need training in both cooperative principles and also in the functioning of the particular production process or service provided by the individual cooperative, the new leaders of these state-induced cooperatives are usually either the former leaders from when they were state enterprises or those appointed by the state to fulfill this function. Since they are technically better trained and equipped, they are also typically selected by vote by the assembly to continue in leadership positions as a board members, president, vice president or managers. At the same time, since, as Olga Fernandez stated in her presentation in 2017 on the past and present political and economic changes in Cuba, traditional technocratic styles of command and control established under the Soviet-influenced state model, combined with a lack of resources, have restrained political participation. This goes beyond the political sphere into the economic sphere at all levels down to the workplace

Another problem task is educating the Committee for the Improvement of Enterprises of the Commission about co-ops, who have as their first responsibility to oversee state enterprises (Ojeda 2017). However, the Commission consults regularly with social scientists who specialize in cooperation at the University of Havana and other universities who I came to know at the seminars, and degree programs in cooperative education are expanding. Initial conferences and workshops sponsored by the Ministries were quite bad at first according to Ojeda (2017), but since improved with the help of academics from several universities who specialize in co-ops. Now these academics are advising at least some co-ops as well as government officials directly, while the workshops and conferences have also improved markedly with their participation. They are also offered more frequently, but unfortunately it is still usually only the boards of directors and presidents who attend.

### *General Characteristics of Non-Agricultural Co-ops*

Non-agricultural co-ops are still considered to be in their experimental stages, but the laws generated so far attempt to adhere to the internationally accepted principles of cooperation. Smaller decisions regarding daily operations are left to the board of directors. The general assembly of all members is considered to be the highest decision-making power in the co-ops. Major decisions are made democratically at the assembly by the principle of one-member one-vote, regardless of the amount of capital contributions made by each member, which are usually in the neighborhood of 150 to 200 US dollars. Regular assemblies of all members must convene at a minimum of every 3 months, but most convene monthly, while some, such as the construction enterprise, CREA, meet weekly, because more frequent planning is necessary.

Issues regarding the general direction and operations of the co-ops are determined at the general assembly. They include, for example, the proportion total surplus income to distribute to members, although the law also requires that at least thirty percent of the surplus be set aside to cover debt and other obligations to the state, especially renting of equipment and facilities, as well as other activities and reinvestment. Up to seventy percent can be distributed to the co-op members, but as stated by Dueñas, president of the accounting firm, SCENIUS, “we quickly learned that it is a good idea to set aside more than the thirty percent of surplus required by law.” The assembly also determines the proportion that individual members receive according to the division of labor. For example, restaurants typically distribute a different percentage of the distribution to the waiters, chefs, doorman and those who bus the table, while tips are usually reserved to the waiters, because they consider some jobs as more essential than others, and because they may also require different levels of skill. At the same time, the president typically earns three times as much as the lowest earning members among co-ops that I visited. Confecciones Model distributes dividends by another method, based on the difficulty of producing, and the quantity and quality of garments produced by the members, while it has an elected committee to assess the quality of each member’s production. Leadership there also earn a greater proportion of the surplus dividends.

By a new regulation, hired temporary workers in general must receive at least as much as the lowest paid member, and the highest paid members may not receive more than three times as much as the lowest. Though the earnings differentials within co-ops are limited, earnings also vary from one co-op to another, and which increases income inequality in general, not only between the state sector, where salaries are now typically between only twenty and eighty US dollars per month, and the non-state sector, where earnings are usually much higher, but also between co-ops. At the restaurant, Del Biki, earnings ranged from about two hundred US dollars per month for the cooks to six hundred for the president, but members of the Cento Bambú can earn as much as one thousand each.

Another major decision made by assembly vote is adding or expelling members, among others. To vote a member out of a co-op in which case the latter would have to have been determined to have somehow broken or undermined the cooperative principles. Alternatively, a vote would have to be made to hire temporary workers, or contract out for services, unless the responsibility is delegated to the elected board. By law, a temporary worker cannot serve for more than three months, or a vote would have to be taken over whether to accept that worker as a member at the end of that period. Furthermore, the number of hired workers cannot exceed ten percent of the number of members of the

co-op. Some services can be contracted out, too, which is reasonable, except that it causes ambiguity. The construction enterprise, CREA, which is a self-induced co-op converted from a private enterprise, consists of forty-two people, but only twenty are members. The others are self-employed contractors. The point is that the distinction between contracted workers and hired workers in this situation is ambiguous and could be exploited by some co-ops, while others may be unable to do so, which contributes to an uneven playing field.

Elections of the board of directors, the president and managers of co-ops are also usually taken by vote of the assembly includes, but unfortunately this is not always the case. There are no term limits, at least for the company presidents, which could be considered as undemocratic, however, they can be recalled by the assembly, in which case a new president would be elected. Conversely, at the restaurants, El Biki and La Concha, the president and boards of directors were appointed, as is frequently the case in state-induced co-ops. Informal interviews (2014) with three of the members of the new cooperatively owned restaurant, La Concha in Santa Clara, revealed that when it was converted from a state enterprise to a cooperative, only one original employee remained to continue working there, because the former workers had no experience working under a cooperative structure and therefore didn't know what to expect. In the words of one member, "They were likely frightened away by the change in structure." As such, a president was appointed to find other interested workers, who were interviewed and "hired." At Confecciones Modelo on the other hand, all of the workers remained after its conversion, but they were better informed at the time than at la Concha, which was founded during the first years of the cooperative movement.

There is also another problem even when the board and president are elected in the state-induced co-ops. As Humberto Miranda at the seminar in 2017, because members of new co-ops don't have enough training, many have replicated the procedures that they had in the former state owned enterprises. They often still think of their dividend earnings as wages, for example. Certainly, some workers look to the managers as "el jefe/la jefa," as several members referred to them in informal discussions at several co-ops. Similarly, the leadership often refer to the other members as "my workers" and the like, as already mentioned in the case of Confecciones Modelo. As such, it is likely, though not necessarily the case, that the members of state-induce cooperatives vote for these same, former technocrats to the board of directors and management positions, and rubber-stamp their ideas than present their own ideas during the assemblies, since they are more experienced. In cases where corruption contributed to the unprofitability of the former state enterprise, this might resemble letting the fox watch over the henhouse.

Co-ops in general are given special status in relation to the self-employment and micro-business sector. They have the option of making large purchase of inputs at the same prices charged to state enterprises, for example, but private businesses must purchase all of their inputs at state retail stores, where prices of imports marked up by 140 percent or more. While privately owned businesses are taxed on a progressive schedule with the highest income bracket paying fifty percent, co-ops are taxed 10 percent of Gross Revenues as a sales tax and another one percent as a community development tax, as in the entire private sector, and then 35% of net revenues, i.e. surplus after deducting expenses. They may also deduct 100 percent of expenses, whereas privately owned business can only deduct ten to forty percent of expenses depending on the industry. Cooperative members do not pay further income taxes, but must pay into the new Social Security Fund.

In the case of facilities and equipment, state-induced co-ops pay rent and must also rent the primary equipment, as the members wouldn't otherwise probably not have the funds to purchase either. Rental of state facilities are determined by the area, and in general are applied at reasonable rates. The restaurant, La Concha pays less 10 cent per square foot, amounting to 166 US dollars per month, for example, and has room to seat around 50 customers at a time. In the case of Ruterio 2, the transportation service of over 200 members that uses small buses to transport clients along determined routes, the buses are rented from the state, but become the property of the co-op when depreciation reduces their value to zero. It is unclear whether such a procedure applies to other types of equipment rented by other co-ops. In the case of self-induced co-ops that are not conversions of state industries, it is their own responsibility to rent or provide their own space for operations from either the state or private individuals, and must purchase their own equipment. While co-ops converted from state industries may make large volume purchases of available inputs from the state at favorable prices corresponding to state enterprises, most inputs must be purchased from the retail markets, as wholesale markets do not yet exist. The state has, however, experimented with wholesale markets, but they were few, and quite ephemeral, and not heavily discounted according to interviews. It is working on plans to bring to create them, however, but shortages of almost all resources ensure that it will be a difficult objective to obtain. On the other hand, Radio Reloj, the FM radio mouthpiece news network of the Cuban government, recently announced that the ban on imports and exports on the non-state sector will be lifted (March 3, 2012) meaning cooperatives and small business owners may be able to import their own inputs in the future if they have the capital to do so. However, the report did not disclose when this may take place, which usually means sometime in the not-so-near future.

The dependence of co-ops on the government for space and equipment is perhaps considered necessary by the state, due to scarcity of both space and other resources. However, the efficiency of co-ops could be increased if they were to become owners of their own space and resources, because it would increase their autonomy and feeling of ownership over the means of production. Logically, people tend to take better care resources they more they feel ownership of them, whether as individuals or groups. Of course, the bigger a group is, the more diluted or abstract the feeling of ownership may become, which helps explain why state socialism resulted in poor motivation of workers in state enterprise throughout the history of socialism. The idea that all of society is the owner of all resources therein is quite abstract, while in reality, in the state socialist nations that have existed in prior history, state officials, who have more power over state resources than the general public, came to act more as if they were the rightful owners in most cases.

Finally, all Cuban co-ops have a strong community orientation. First, all must contribute one percent of gross revenues to the municipal governments of where they are located for community development. In general they also set up programs, as mentioned to educate the public, while even foreigners are often able to attend their events or participate as apprentices in some cases. The accounting firm, SCENIUS, does not have much to offer the surrounding community in terms of events or education, but rather voluntarily contributed a whopping twenty percent of their gross revenues for community development, even though their wages were modest by international standards. (They make about 300 US dollars per month on average.) The Centro Bambú has a space for temporary housing for those community members whose housing becomes uninhabitable due to hurricanes or just becoming too dilapidated with time, for example, in addition to offering educational opportunities to children and the general public. Confecciones Model also offers courses in garment production to

young adults, as one more example, while special consideration is given to teaching children and teenagers with behavioral or other problems, such as problems in the home or school.

Despite Ritter's concern (2014) about the potentially nebulous role of the Communist Party in the functioning of cooperative enterprises, only one co-op, *Restaurante Del Biki*, in this study reported having a Communist Party Cell, but the president said that politics did not play a role in the operations. The case of *Del Biki* is an unusual one, because it is apparent that a very large sum of money was invested in the gastronomical complex that includes two high-end restaurants and a bakery, while also making plans to open another facility. Upon my first site visit in 2016, the human resources manager said it was funded by both a large investor and equally by bank loans, but changed the story upon my second visit in 2017, stating that it was funded entirely by bank loans. Rumors that the Castro family, itself, has an interest in the complex abound in the neighborhood, but again – these are rumors. The bank loans were given at a 6.5 percent interest rate to be paid over eight years.

## Conclusions

Authors, such as Marshalek (2017), Knudsen and Hanson (2008), and Knutsen (200X) have demonstrated that to maximize the efficiency of cooperatives, that they must have full (democratic) control of their own operations from the point of production to the point of sale of their products and services. Of course, there is even a contradiction in creating a set of principles, in that some potential cooperative workers may not agree with the principles as they are, and yet they still believe and practice some sort of cooperation. For example, the principles of the solidarity economy are somewhat different, because they address a history of enslavement and oppression of Africans and their descendants in the Americas, and so capital accumulation by individuals is seen as more acceptable if it furthers the cause of African descendants (Hacker 2017). Furthermore, circumstances may challenge the cooperative principles in or make them hard to follow in any context of a rapidly changing world where economies are highly integrated and competitive, even in countries with long traditions of cooperation. However, as we have just seen, adherence to the principles are exceptionally challenging in the context of a command economy that suffers a chronic shortage of resources, and has the world's strongest superpower as its enemy and neighbor. Nevertheless, the cooperative principles act as a system of checks and balances to ensure the absence of exploitation of workers, their clients, customers, and surrounding communities, as long as they are closely followed to the degree possible.

Thus, co-ops in Cuba must eventually be allowed to create their own organizations, secondary cooperatives, federations and associations, and even workers' unions if they are to maximize their production potential, as in any other country. And, the democratic principle of one-person-one-vote must be applied at all levels to avoid hierarchical relationships and avoid the influence of power among cooperative members. Thus, if the Cuban government were to allow co-ops to democratically form their own organizations to govern cooperative behavior, allow them to handle their own imports and exports, choose their own social purpose whether or not on some list of banned or permitted activities, it could truly empower workers to properly manage societies resources without undermining the principle values and benefits supported by socialist ideology. In this way it could also maximize the efficiency of production with the available resources by removing state control and putting full control in the hands of those workers who have the greatest interest in their efficient use and protection. In other words,

overreach by the government stifles cooperative efficiency, while some, albeit less, regulation is currently necessary in Cuba.

It might even be worth donating workspace and equipment to the co-ops, rather than rent to them, for above reasons, too, because the cost of those inputs could possibly be compensated through taxes. State control over all of the means of production, is not necessary to achieve socialism, i.e. a system that prioritizes maximizing human development over economic development or profit. Once the cooperative sector is well established, and cooperative education and culture has a strong foothold, state oversight should hardly be necessary at all. In some countries where cooperate culture and a is long standing, such as in Denmark, there is no cooperative law at all, and co-ops are self-regulated at all levels, and they are treated like any other private business or corporation in matters of the state and taxation. In this sense, state-induced co-ops in Cuba are not really worker-owned, but rather worker-managed, because the state continues to own the means of production, which it rents to the co-op, and exerts a great degree of control, too.

While I agree that the Cuban state must necessarily regulate the new co-ops in the shorter term, it is vital that regulations are well standardized and equally enforced to ensure predictability. We have seen there is still considerable ambiguity in the rules and regulations of co-ops in Cuba, and more examples exist than brought forth by this article. Fortunately, the Cuban government is increasingly aware of this fact, and intends to create a unified legal system for co-ops, both agricultural and non-agricultural co-ops. For now, it would be quite helpful if they applied existing rules to all co-ops, especially regarding the requirement that the president, the board of directors and the management be elected by the assembly, and also by consistent rules for pricing, which are said to be determined by the co-ops by decree law, but with the state to be the final arbiter according to Ministry regulations, probably to ensure a loophole is available at times of economic crises.

Finally, equal treatment should be given to self-induced and state-induced co-ops in the approval process. Self-induced coops in many cases may encourage greater efficiency for a variety of reasons. First, Marshalek (forthcoming) shows how a culture of cooperation exists to a much greater degree in the informal economy of Cuba, where workers and much of the general population cooperate on daily economic matters regularly in order to make ends meet. Such cooperation exists even among formal private entrepreneurs who might be expected to act more competitively, but who in reality must also cooperate to make their businesses viable. Cooperation often takes the form of making referrals to “competitors” when they are unable to serve potential clients, for example. Some entrepreneurs in both the formal and informal private sector even cooperate to the extent that they form unregistered cooperatives, but either do business in the hidden informal economy or have licenses as self-employed workers, even though they function as co-ops. Such entrepreneurs are likely to learn how to cooperate formally much easier than state workers accustomed to work hierarchically.

I would also add that two of the co-ops in this study, CREA and SCENIUS, have devised incredibly socially conscious protocols for operations that may serve as a basis for ideal models for creating a socialist society based on cooperative production. CREA, the construction firm has particular focus on mutual self-help of its members, where they take note of the housing deficiency of its members and schedule work to remedy the problems in addition to their outside contracts. They frequently use recycled materials as they become available from other work sites. So, CREA also covers many of the functions of a housing co-op for its members, although they do not live in the same building or complex.



They also have a network of other workers who repair discarded appliances and other materials, so that very little is wasted and every members needs are attended to, so that they may be as productive as possible. SCENIUS, on the other hand devised a method of calculating prices to be charged to customers based on the basic needs of its members, plus the expenses incurred in the project and a small premium to contribute to the co-ops surplus. I.e., there is no exploitation of others in their business operations. In addition, they also devised a division of labor that lets any member become supervisor, who earns a higher dividend payment than other members, of a project in a manner that mimics the structure of the whole operation. These projects by self-induced co-ops are important subjects of further study by anyone interested in cooperative economic development, especially in the socialist context.

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