The Cuban Convertible Peso

A Redefinition of Dependence

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The story of Cuba's achievement of nationhood and its historical economic relationship with the United States is an instructive example of colonialism and neo-colonial dependence. From its conquest in 1511 until 1898, Cuba was a colony of the Spanish Crown, winning independence after two bloody insurrections. During its rise to empire, the U.S. acquired substantial economic interest on the island and in 1898 became an active participant in the ouster of the governing Spanish colonial power. As expressed in his poem "Nuestra America," Cuban nationalist José Martí presciently feared that the U.S. participation would lead to a new type of colonialism through cultural absorption and homogenization. Though the stated American goal of the Spanish American War was to gain independence for Cuba, after the Spanish surrender in July 1898 an American military occupation of Cuba ensued. The Cuban independence of May 1902 was not a true independence, but by virtue of the Platt Amendment was instead a complex paternalistic neo-colonial program between a dominant American empire and a dependent Cuban state. An instrument of the neo-colonial program was the creation of a dependent Cuban economy, with the imperial metropole economically dominating its dependent nation-state in a relationship of inequality. To this end, on 28 December 1898, American president William McKinley issued an executive order that mandated the use of the U.S. dollar in Cuba and forced the withdrawing from circulation of Spanish colonial currency.¹

An important hallmark for nationalist politics is the creation of currency. As early as 1906, the Cuban Congress established a monetary commission to study the feasibility of a national Cuban currency. The result was the Law of 29 October 1914, which established the Cuban peso and made provisions for the designing and minting of the first Cuban coinage at the U.S. Mint in Philadelphia one year later. According to the U.S. government, however, Cuba was a neo-colonial state meant to be dependent on the U.S. To accommodate this political disconnect, the same 1914 law also set the U.S. dollar on a par with the Cuban peso and as the legal tender of the island.² In this manner Cuba acquired dual monetary units, a circumstance unique in the Americas. But in the neo-colonial state of Cuba all was not well, with several revolt and coups marking its republican history between May 1902 and December 1958. During this period, Fidel Castro emerged as a nationalist leader. In July of 1953 he led an insurgent attack on the Moncada Barracks, drawing national attention to his vision for Cuba. Cuban patriot José Martí later embodied his defense at trial in his work I History Will Absolve Me in which Castro justifies his actions as the fulfillment of Cuban nationalism envisioned. Released into exile in 1955, Castro made a secret December 1956 return to Cuba and led an insurgency that in January 1959 ousted the American-supported Cuban regime of Fulgencio Batista.³ Castro then put forth a nationalist agenda for Cuba and imposed a socialist command economy, both in force today.

The focus of this review is an investigation into the economic policies Cuba undertook after 1958 towards economic independence. Was Cuba able to circumvent the American neo-colonial pattern of dependency with socialism and a command economy? Did socialism change Cuban economic dependency, or did Cuba instead adapt to exploit dependence to its benefit in a

²In 1980, the Cuban National Bank issued a catalog of coins and bank notes directed to collectors. With detailed technical data and citations from Cuban laws, this source is an invaluable and official socialist Cuban interpretation of its economic history, for which reason this source was used. Museo Numismático del Banco Nacional de Cuba, Cuba: Emisiones de monedas y billetes 1815-1980 (Havana: Banco Nacional de Cuba, 1980), 9.
³This general history of the early days of the Cuban insurgency was drawn from the U.S. State Department handbook used to train diplomatic personnel. It was chosen to lend an American perspective to this narrative. See Jan Knippers Black, Howard Blumentstein, J. David Edwards, Kathryn Therese Johnston, David S. McMorris, Cuba: A Country Study; 2nd ed. (Washington: The American University, 1976), 50-52.

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survivalist economic program? Such questions about Cuba have formed a heated debate shadowed by Cold War politics, imperialism and nationalism. It is the claim of this review that, contrary to what an historical examination of the Cuban peso seems to imply at first, the creation of the Cuban convertible peso does not reflect a history of economic dependence on the U.S. but instead reflects the insurgent philosophy of the Cuban Revolution, which calls for taking advantage of whatever circumstance is at hand in order to benefit the revolution and promote economic independence with an economic philosophy termed here as 'survival economics.'

The philosophy for a survivalist economy can be found in Che Guevara's 1960 *Guerilla Warfare*, his manual for successful revolution.4 This type of economic plan falls outside traditional Keynesian, command or free market economic paradigms and instead exploits any and all of these systems with its own agenda for regime survival and prosperity.

**Part One - The Command Economy in Cuba**

"We said the guerrilla is a crusader for the people's freedom who, exhausting peaceful means, resorts to armed rebellion. He aims directly at destroying an unjust social order and indirectly at replacing it with something new." Che Guevara, *Guerilla Warfare*, 1960.

When Fidel Castro came to power in 1959, Cuba was heavily linked to the post WWII American economy. By virtue of the 1943 Breton Woods Agreement, the U.S. became the dominant global economic model and its currency was designated as the global post-war economic standard. The U.S. came out of WWII as a clear victor and after the war enjoyed an economic surge as its undamaged factories replaced European concerns destroyed in the war. By 1959, America was the predominant global economic power with an economic program of capitalist free trade, success in which its neo-colonial state of Cuba also shared. Cuba was the American producer of choice for sugar, exported to the U.S. under favorable import customs rates known as the sugar quota. In the U.S., the island of Cuba was also marketed as the ideal vacation destination while Cuban culture was promoted as exotic by the American mass media.5 The American military base at Guantanamo

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4 This review argues that the guerrilla philosophy of Ernesto Che Guevara was applied by Guevara and others since 1959 in determining alternative strategies for the Cuban economy. The opening citations for each chapter are from Ernesto Che Guevara, *Che Guevara on Guerrilla Warfare* (New York: Frederick A. Praeger, 1962), 8, 16-17, 30.

5 The American mass media promotion of Cuba was a concerted marketing effort made by American companies with investments on the island exemplified by "Cuba - American Sugar Bowl," by Melville Bell Grosvenor, the founder of the National Geographic Society in the January 1947 issue of *National Geographic Magazine*. For Cuba, the approval value of the NGS promotion was immeasurable: Bell Grosvenor was an heir to the fortune of telephone inventor Alexander Graham Bell and the NGS was one of his family's philanthropic pursuits. The NGS journal was a widely-read and respected monthly magazine. American historian Douglas Little used the work of anthropologists Catherine Lutz and Jane Collins suggesting that Orientalism in the U.S. (a series of negative cultural stereotypes applied to the Middle East by early twentieth-century Americans) was introduced in popular culture also using the widely read *National Geographic Magazine*. See Douglas Little, *American Orientalism* (Chapel Hill: University of North Carolina Press, 2002), 10-11. Another example is the CBS television show *I Love Lucy*, with Cuban protagonist Ricky Ricardo, a show, which by November 1951 had a viewership of nearly 14 million people and later became the top-rated show with a viewership of 44 million. See Kathleen Brady, *Lucille: The Life of Lucille Ball* (New York: Billboard Books, 2001), 193, 213.
Bay controlled the main point of entry to the American-controlled Caribbean basin and Panama Canal, the continental passage between the Atlantic and Pacific Oceans. The Caribbean basin nations and colonies were all also allied with the U.S. and its economy.6

The U.S., however, was not the only empire in the global neighborhood after WWII. Joseph Stalin's Soviet Russia after 1924 was ruthless in its implementation of an industrialization program and a centralized command economy to replace the largely rural, agricultural and archaic Czarist economic model. The Soviet command economy did not allow for individuality or alternatives. Controlled division of labor, collectivity and team work was the order of the day, and those who did not conform were eradicated. Much like the American spirit of Manifest Destiny, the Soviet philosophy held that if terror and chaos were necessary to impose a better world, then so be it. The USSR imposed a harsh program of atheism Russification upon its incorporated colonies - made up of formerly independent states (such as the Ukraine, Georgia and Armenia) that had been absorbed into the Soviet territorial empire after 1918.7 Both the American and Soviet empires used mutually incompatible economic models: the Soviet centralized command model called for direct government control of the economy; while the American free market model called for the 'invisible hand of commerce' of minimal government intervention allowing market activity to set prices. With the development of the Soviet nuclear program, the American empire understood that the nascent Soviet empire was an entity it would have to contend with. Mistrust caused by the expansion of the American and Soviet empires escalated into hostility after 1949, laying the foundation for the post-war Cold War and the "Iron Curtain" that would fall between the Soviet and American empires.8

Soviet ideology saw Marxist communism as its core philosophy and understood itself as the economic model that would come to dominate the world because, in the Soviet view, it was simply better and more equitable than the free market economic model promoted by the U.S. Soviet ideologues understood their Soviet system to be a step forward in the movement away from the archaic capitalist individualistic free market toward the perfection, collectivity and modernity of communism. Soviet Russia made gains as a result of WWII. Though it suffered severe losses, Stalin acquired substantial territory as a participant in the great American-British-Soviet alliance that had defeated the Axis powers. In the 1945 Yalta Agreement among the three victors, the Soviet Union was awarded control of a buffer zone of the surrounding nation-states of eastern and central Europe. Meant to protect the USSR from future attacks from Germany, the buffer states eventually became Soviet neo-colonial nation-states with command economies under not-so-indirect Soviet imperial rule. The victory of communist Mao Ze Dong over American-supported Chinese nationalists and the creation of the People's Republic of China in October 1949 made the communist world the largest empire in terms of territory and population though not in terms of economic strength. The Soviet's repressive and imposing control of their neo-colonial states caused resentment, flight and revolt in both Poland and Hungary. By 1961 Berlin was closed off to prevent the collapse of East

6 The Somozas governed Nicaragua after its 1912-1934 American invasion and occupation, the U.S. invaded I I a i i in 1915 and occupied it until 1924, having intermittent presence on the island from that moment until the present time. The nation of Panama was created in 1903 in order to circumvent Colombian interests when the U.S. decided to build the Panama Canal. Cuba itself was governed by Batista directly and indirectly since 1933 when he took power in a coup that had the support of the American government. Such interventions continued after WWII: an American-inspired coup in Guatemala in 1954; American-inspired exile invasion in Cuba in 1961, and military interventions in Dominica in 1965, Grenada in 1983 and Panama in 1989.


Germany that threatened due to the flood of refugees fleeing west. In January 1961 the USSR introduced the new ruble meant to replace the war-worn ruble as the nation’s monetary unit and adjusted exchange rates for the currencies of its satellite states just as American president McKinley had done in Cuba way back in 1899.

Once in power, Fidel Castro quickly found that the American empire did not agree with his nationalist vision of agrarian land reform, industrialization and economic self-reliance for Cuba. An April 1959 meeting between Castro and American Vice President Richard M. Nixon did not go well; Nixon termed Castro as either a communist or “incredibly naïve” in regards to the use of communist models in his government. During the Cold War, this was a very dangerous assessment. The Soviet Union, watching closely, quietly sent one of its top negotiators, Alexandr Alexiev, to Cuba to offer an alternative to Cuban dependence on America. Che Guevara, one of Castro’s closest collaborators, went on a global tour to examine the economic and political alternatives that Cuba had. The initial Castro nationalizations brought great pressure upon the U.S. Congress from affected American concerns and the American-linked Cuban elite. The American government felt great pressure to do ‘something’ about Cuba. Defiantly, Castro used a heavy hand to eliminate contenders and figures of opposition like Hubert Matos who denounced the communist slant that the 1959 revolution took once it had achieved power.

At first, Castro brought back respected economist Felipe Pazos as head of the Cuban National Bank. Pazos had resigned after the 1952 Batista coup -his signature marked 1959 Cuban bank notes as it did on the 1949/1950 series - and he made plans for the construction of a modern thirty-two-storey building to serve as the headquarters for the Cuban National Bank. By 1959, in contrast, the state of the Cuban treasury was appalling: a million or so dollars in reserves, a public debt of 1.2 billion and a budget deficit of 800 million dollars. In Havana, Guevara himself undertook a crash course with Mexican economist Juan Noyola, a major academic proponent of government intervention. In defiance of American pressures, the nationalization movement in Cuba continued. Many of the dispossessed Cuban elite departed for exile in southern Florida and the protection of the American empire. In October 1960, Pazos himself resigned after Matos was arrested. In October 1960, Law 891 nationalized the Cuban National Bank. Presidential Decree 2261 of 26 November 1960 placed Guevara, an avowed communist who advocated the abolition of money, in charge. Guevara quickly cancelled the construction of the new Cuban National Bank headquarters. Cuban bank notes now bore Guevara’s nom-de-guerre: Che. According to biographer Jon Lee Anderson, Ernesto Guevara de la Serna was not an economist, something Guevara himself admitted. As a seasoned revolutionary who had survived a bloody insurgency in the jungles of the Cuban Sierra Maestra, Guevara understood the value of self-reliance and sought a noble dream: an economically independent and industrialized Cuba. But by October 1960, Guevara was convinced that the Soviet economic model in practice was little different from capitalism, and instead aspired to a purer form of communist economic theory. However, his plans to industrialize Cuba were soon dead in the water, as the Soviets did not see the benefit of creating an infrastructure of industrialization in a nation, which possessed no naturally occurring coal or iron. As a revolutionary commander and driven by a militaristic revolutionary ‘to the death if necessary’ zeal, Guevara also demanded complete obedience from the Cuban citizenry which he

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assumed could be commanded like soldier cogs in the military machine. According to Guevara, “Individualism as such, as the isolated action of a person alone in a social environment, must disappear in Cuba.” On his 1960 global tour, Guevara had visited China and DPR Korea. He was impressed with the volunteer labor brigades, backyard industrialization and barefoot doctors of Maoist China; as well as with the principle of the self-reliant North Korean 'juche'. Guevara considered these models of the communistic self-reliant 'new man', which he wanted to incorporate into the Cuban economy.41

What Guevara found at the Cuban National Bank, however, was the exact opposite: complete dependency on the U.S. in capitalist free market economic theory, practices and currency. The first Cuban banknotes of 1934 were issued over thirty years after independence: Cuban Decree 33 of 22 March 1934 called for the new currency notes to be printed "with the same requirements and formalities of the American banknote." In fact, the new silver certificate notes were designed and printed by the American Bank Note Company of New York in denominations of 1, 5, 10, 20, 50, and 100 pesos. 500 and 1000 peso notes were added in 1944. The notes were issued by the government of Cuba, were matched to equivalent silver on deposit and were redeemable in silver. Reflecting growing nationalism on the island, the Cuban government used the notes to honor national patriots denied in the American imperial history of Cuba.6 Law 13 of 23 December 1948 established the Cuban National Bank as the issuer of currency for Cuba. A series of banknotes issued in 1949, also printed by ABNC, were no longer backed with silver on deposit but with gold and gold-backed currencies like the American dollar. A 10,000 pesos banknote was issued - unnecessary for the state of the Cuban economy - directed at the high-stakes American casino business.7

Cuban coinage was equally dependent on the American empire: it was designed by Charles E. Barber at the U.S. Mint at Philadelphia. The first Cuban coins were issued in 1915 with 1, 2 and 5 centavos coins made from nickel and 10, 20, 40 centavos and 1 peso coins made from silver. The coins were identical in content to American models: the Cuban 5 centavo coin weighed the same as the 5 grams of the U.S. nickel, the one- and two-cent Cuban coins are of corresponding fractions of the 5 gram U.S. nickel. Similarly, the 10 centavo coin with 2.5 grams of ninety percent silver is identical to the American dime, and the twenty and forty centavo coins were in proportion to the American standard of 25 grams of silver per dollar. Thus, the Cuban twenty centavo coin had 5 grams of silver, twenty percent less than the American 25-cent quarter with 6.25 grams, and the forty-

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42 The new Cuban bank notes showed the portraits of Cuban nationalist heroes José Martí, Máximo Gómez, Carlos Manuel de Céspedes, Antonio Maceo, Calixto García, Francisco Vicente Aguilera, Salvador Cisneros Betancourt, Tomás Estrada Palma and Ignacio Agrajamonte. The Cuban patriots were denied their place at the surrender of the Spanish forces in 1898 in what Cuban nationalism termed the Cuban War of Independence vs. the American description as the Spanish American War, which excluded any credit to Cubans. The notes also bore the Cuban national seal, adopted at the 1869 Assembly at Guaimaro, understood in Cuban history as the moment when the Republic of Cuba was founded. See Eduardo Torres-Cuevas & Oscar Loyola Vega, Historia de Cuba 192-1898: Formación y Liberación de la Nación (Havana: Editorial Pueblo y Educación, 2001), 201. This same nationalism strengthened the call for an independent Cuban monetary note and the emergence of nationalist heroes and icons in recognition of nationalist efforts. Growing nationalism forced a reconsideration of the original Cuban compact with the American empire: in 1934 the Cuban government retired the Platt Amendment with its provision of permitting American intervention in Cuban affairs.
43 The Cuban silver certificates were demonetized by Decree 734 of 6 March 1933.

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centavo coin had 10 grams silver, twenty percent less than the American 50 cent half dollar coin with 12.5 five grams.8 The new coins also sought to establish a new national identity: they bore the inscription PATRIA Y LIBERTAD [Nation and Liberty]. The issuance of national currency is usually considered a defining and exclusive condition of nation-building; in contrast, however, Cuba's currency between 1915 and 1958 was in compliance with and under direct control of the American empire.

Cuban Law 963 of 4 August 1961 demonetized all previous circulating paper currency, stating that it was "imperative to eliminate the insecurity and risks resultant from the fact that Cuban paper currency actually in circulation was printed by foreign firms outside to control the revolutionary government." Redemption of old currency was limited – this was intended to deprive the 'counter-revolutionary' abroad of the economic power residing in accumulated wealth of the republican era. At the same time, possession and circulation of the U.S. dollar was criminalized. The new Cuban bank notes were printed in Czechoslovakia in denominations of 1, 5, 10, 20, and rarely used 50 and 100 peso bank notes, drawn on the nationalized Banco Nacional de Cuba. The new notes displayed the heroes of the republican era: Marti, Maceo, Gomez, Garcia & Cespedes. Only the twenty peso note bore the image of revolutionary Camilo Cienfuegos, who had died in 1960. The reverse side of each note bore distinctly nationalist revolutionary themes, such as the entry of the Revolution to Havana in 1959. The new bank notes also bore a new legend: PATRIA O MUERTE [Nation or Death], the war cry of the Revolution. Fidel Castro first declared Patria o Muerte on 5 March 1960, considered a seminal moment in Cuban socialist identity-formation and history.9 A new Cuban nationalism with socialist theology was being forged and was documented on the bank notes of the new Cuba: the background of each note bore the texts "Cuba Territorio Libre de America" [Cuba, Territory Free of America] and "Patria o Muerte."

The last Cuban coin was minted at Philadelphia in 1960; however, thereafter, Cuban coinage also changed: the nickel coins of the past were first minted at Kremnica, the Czechoslovakian mint, and later in Leningrad using lighter and cheaper aluminum alloy. Cuban silver coinage was demonetized on 13 March 1962 and gathered up for resale abroad for its silver content. New cupro-nickel coins bearing the images of Jose Marti and Camilo Cienfuegos, on twenty and forty centavo coins respectively, were issued in 1962 to replace silver coinage. Tellingly, the new coins also bore the war cry for revolution: Patria o Muerte. Guevara's tenure as President of the Cuban National Bank was brief: on 24 February 1961 he moved on, accepting a post as Minister of Industries. 10 However, in realspeak, the Cuban government had finalized the implementation of a command economy on the island.

In Cuba in the 1970s: Pragmatism and Institutionalization, economist Carmelo Mesa-Lago sets presents the post-1959 Cuban economic program. He distinguishes between five scopes for the Soviet-authored economic program for a Cuban centralized command economy from 1959 to 1975: 1959-1960 as the phase of liquidation of the capitalist-free market system in Cuba with nationalizations; 1961-1963 as exemplifying the introduction of socialist institutions such as INRA, the CDRs and MINFAR11; 1963 to 1965 as a period of discussion and experimentation; 1966-1970 as

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8 The weight standards for coinage discussed here were drawn from the 2002 Standard Catalog of World Coins by Chester L. Krause & Clifford Mishler and are considered the standard reference of choice according to the numismatic [coin] trade. Comparisons were made to information provided in Cuba: Emisiones de monedas y billetes, 14-28.


10 Cronología: 25 años de Revolución, 29-33, 75-493.

11 INRA is the Instituto Nacional de Reforma Agraria which oversaw the nationalization of the large agricultural estates, the CDR are the Comités por la Defensa de la Revolución, a neighborhood

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the adoption and implementation of an idealistic Maoist Guevara system with volunteer labor, and 1970 to 1975 as a return to pragmatism and a Soviet-style economic system.22 The liquidation of the capitalist free market system and nationalizations led to Cuba's break in diplomatic relations with the U.S. in 1961, resulting in an economic embargo that ended preferential American sugar quotas and banned lucrative U.S. tourism. Castro largely replaced this revenue with a series of long term sales/barter agreements and subsidies from the USSR. The USSR purchased Cuban sugar and exports at preferential, higher than free market prices and in exchange also provided Cuba with oil and other goods.

The new Soviet relationship stressed agricultural exports for Cuba based on involution and comparative advantage, methods the Spanish and American empires also practiced. Guevara resisted such methods; he came to see no difference between the Soviets and the capitalists in their methods and was thus unimpressed with Soviet communism in practice. By 1965, Guevara made the allegation that Soviet policies towards its neo-colonial satellites were akin to those of capitalism. Guevara instead proposed, if need be, subsidized trade to support socialism in under-developed nations. He also saw volunteer labor as a way to maximize production - much like volunteer brigades in China had built dams and practiced backyard industrialization during the Great Leap Forward campaign.23 By April 1965, Guevara withdrew from Cuba to participate in insurgencies in the Congo and later in Bolivia where he was killed in October 1967. The argument has been made that Guevara left Cuba because he did not agree with the Soviet models that were being implemented. According to Castro biographer Tad Szulc, the 1962 Soviet withdrawal of missiles from Cuba, negotiated without Castro, had created a growing rift of mistrust between Cuba and the Soviet Union, which deepened, with the death of Guevara.24 By 1966, Castro himself publicly criticized the Soviet economic model. According Szulc, the spring of 1968 the Soviet Union had curtailed vital oil shipments to Cuba to bring the Cuban leadership in line with Soviet interests. The Soviets had earlier tried and failed in their attempts at regime change in Cuba through the endeavors of old-school communist Anibal Escalante. The Cuban economy came to a standstill in 1968 as Soviet oil shipments were reduced; consequently, a militaristic civilian labor mobilization was invoked by Castro to increase sugar production as a necessity to save Cuba and the Revolution.25

The 1969-1970 Harvest of the Ten Millions civilian mobilizations was meant to secure sufficient sugar tonnage to allow Cuba to pay its way out of the massive debt it had incurred with the Soviet Union. This debt resulted from the fact that Cuba had not fulfilled its sales commitments to the USSR; the production it had contracted to provide was instead sold to Japan and Europe in order to procure the free market currency necessary to purchase imports, which Cuba has formerly obtained, from the U.S. and the free market economy. The USSR demanded that Cuba comply with the Soviet economic direction in order to fulfill its trade commitments and to be less aggressive in its policy of exporting its revolution. When it was rebuffed, the Soviet Union cut off its oil shipments to Cuba and watched Havana go dark.26 The result was economic chaos. The massive

block organization established in response to threats of an American invasion, and MINFAR is the Ministerio de las Fuerzas Armadas Revolucionarias, the Fidelista Rebel Army reorganized into a governmental army.

22 Mesa-Lago is a noted Cuban-born economist who has written extensively on Latin American economic issues. See Carmelo Mesa-Lago, Cuba in the 1970s: Pragmatism and Institutionalization (Albuquerque: University of New Mexico Press, 1974), ix.

23 Anderson, 597, 624-625.


26 Mesa-Largo, 7-9.

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mobilization of hundreds of thousands of urban workers to the sugar fields disrupted all key industries and provided Cuba with 8.5 million tons of sugar, an impressive goal never previously achieved. Unfortunately, it was not enough to settle Cuba's debt, and the 10 Million Tons campaign was never repeated.

In this period, Cuba maintained parity - although it had become artificial - between the Cuban peso and the US dollar. The true value of the Cuban peso against the U.S. dollar had seriously fallen: Cuba had incurred a tremendous and overwhelming debt to the Soviet Union and was excluded from the larger U.S. controlled free market. Cuba was no longer a preferred trading partner for the US, but a hostile polity under an American economic embargo. The other major Cuban revenue generator of tourism was nil - like Maoist China, Cuba did not see tourism as a necessary evil to be withstood in the name of free market currency. In the early years of the revolution, foreign tourism was largely demonized and the American dollar penalized. The tourism infrastructure in Cuba had been allowed to fall into neglect; moreover, it was largely dedicated to international political events and domestic labor stimulation rewards, which failed to generate revenue. Economist Mesa-Largo defined Cuban support for the 1968 Soviet intervention in Czechoslovakia as the first Cuban accommodation towards a Cuban/Soviet rapprochement. With Raul Castro as the chief Cuban negotiator, Cuba quietly accepted Soviet direction, and by 1970 accepted a cadre of Soviet experts who imposed a Soviet command economy. A delicate agreement had been forged: Cuba retained its national identity and leadership with Fidel Castro that was nonetheless contingent upon its economic and political alignment to the Soviet empire. On 11 July 1972, Cuba was accepted as a member of the Soviet economic cartel COMECOM: henceforth Cuba would operate under a Soviet-designed command economy. As Guevara had forecast, the American neo-colonial structure in Cuba had been destroyed and replaced with something new.

Part Two – The Cuban INTUR Exchange Certificate

"Another characteristic of the individual guerrilla is his initiative. In contrast to the rigidity of classical warfare, the guerrilla invents his own tactics for each moment of battle and constantly surprises his enemy." Che Guevara – Guerrilla Warfare, 1960.

Long before Cuba and Fidel Castro, the Soviet Union had discovered that irrespective of the success of its command economy, it still had a need for trade with the free market economy. Theoretically, both command and free markets are designed to have no interaction with rival economic systems. Each of the two economies believes that its system is the best and in time would eclipse all others. While both empires were self-sufficient in terms of raw materials, land and population, the economic boom of the post WWII free market economy accelerated the pace of technological advancement. The free market economy also benefited from the technological advances of the American military-industrial complex: during WWII it had grown industrially at a phenomenal rate to meet the demands of war. In contrast, the Soviet command system committed its resources to maintaining an oversized territory and military. The free market economy did not accept the artificial values of command economy currencies and demanded free market currency for trade payments. The need for technology not available from within thus forced the Soviet economy to accommodate itself by aggressively accumulating foreign currencies within its domain and by adopting free market commerce outside its borders to purchase foreign technologies.

The American empire controlled the access to its technology and consumer goods by demanding payment in currencies that were linked to the U.S. dollar, the free market, and the 1943

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17 Mesa-Largo, 10, 16.
Bretton Woods Agreement. Currencies of the command economy outside the free market economy, such as the Soviet ruble, the Chinese renminbi yuan, and post-1960 Cuban peso were termed non-convertible because they were officially exchanged at rates that were far above their real value as measured by standard ratios of demand, market prices, imports and exports. Officially, the Cuban peso was on par with the U.S. dollar and had in fact increased in value when the U.S. went off the gold standard in 1971 - the official exchange rate was set at 81 Cuban centavos for one dollar. In contrast, in 1973 the unofficial exchange rate dropped to a low of nine pesos per U.S. dollar, reflecting the deficit-laden and impacted socialist Cuban economy.\(^8\)

The Soviet Union had invented a number of tactics to accumulate free market currencies in order to purchase what it needed from the free market: some, like the sale of gold and oil, were based on clear comparative advantage. Other more innovative tactics included capitalizing on accumulated wealth with the sale abroad of Czarist artifacts and jewels during the 1920s, raising quick cash to purchase foreign technologies such as agricultural machinery and locomotives.\(^9\) These strategies were very successful and were subsequently expanded. Between 1930 and 1935, the Soviet Union established special stores called TORGSin, [an acronym in Russian for the term 'trading with foreigners'] which at first were established to sell Russian antiques and objects d'art to foreign visitors who paid in foreign currency. By the summer of 1931, these stores also redeemed precious metals and jewelry from Soviet citizens in payment. These items were rated by their content of precious metals and gems at international exchange rates and converted in value to TORGSin coupons to be used as foreign currency when purchasing items at the TORGSin stores. The TORGSin coupons, commonly called voni, came to have an unofficial exchange rate of 25 Soviet paper rubles for one von. TORGSin was soon offering consumer goods, aimed at the Russian citizenry, made available not by the Soviet command economy but by virtue of the accumulated wealth or remittances from abroad. TORGSin representative I. I. Gordeeff cited 3 million dollars worth of sales in Moscow alone in 1933. In 1935, Soviet Commissar of Foreign Trade A. P. Rosengoltz cited 270 million rubles worth of sales in four years. The sales statistics are even more impressive when contrasted to the economic depression in force in the free market world of that time. Though tremendously popular, the TORGSin stores were ordered closed in late 1935 when foreign exchange transactions were largely abolished. This effort was an attempt to end a speculative unofficial market in foreign currency and TORGSin voni, which competed with and thereby devalued the Soviet command economy.\(^9\)

After WWII, the Soviet Union again found that it needed to raise free market capital in order to buy technology not available domestically. An economic tactic that allowed the Soviet command economy to purchase from the free market using foreign currencies was once again necessary. To achieve this tactic, the Soviet Union promoted foreign tourism and re-established dollar stores in 1961. These stores, generically known as 'berioska', were geared towards generating foreign revenue. In the Soviet empire, 'dollar stores' were meant to soak up foreign currencies from travelers and diplomats who purchased the domestic goods the Soviets controlled. This strategy also meant to absorb foreign currency remittances its citizens possessed - offering domestic and foreign goods unavailable from the command economy at substantial markups. By 1977, these stores were

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such a success that they were established in most Soviet satellite nation-states as well. According to a 1977 Radio Free Europe report, 'dollar stores' were known as CORECOM in Bulgaria, TUZEK in Czechoslovakia, Inter-tourist in Hungary, PEWEX in Poland, COMTURIST in Romania and Inter-shop in DDR East Germany. This practice was also taken up in 1980 in China with Friendship Stores, as well as in North Korea. These stores accepted only foreign currencies and the special in-house currencies, which were equivalent to foreign currency. The in-house currency replaced, and thus drew down, the amount of circulating foreign currency. The in-house currency was also a security measure, as casinos operate with chips and chits to avoid in-house theft.

The period of 1975-1985, with Soviet direction and implementation of the Cuban command economy, can be considered a boom period for Cuba. The secret of this boom was massive Soviet subsidies, which allowed the Cuban command economy to thrive. According to economist Jorge F. Lopez-Perez, "the contract price in 1985 for Cuban sugar sales to the Soviet Union was around 45 cents per pound, compared to world market price of just above 4 cents per pound." This represents a direct annual infusion of 200 million dollars as a direct Soviet subsidy. A review of prices for 1975-1985 shows a consistent and increasing subsidy as the world price for sugar plummeted on the world market. The boom is also visible in Cuban currency: In 1983, a one peso coin was introduced bearing a star design drawn from the 1916 coin series. In 1983, Cuba also introduced a three peso bank note with the iconic Alberto Korda image of the heroic Che Guevara. The 1983 bank note is curious since monetary units in threes are not common and had never been used in Cuba before. In the twentieth century, the Soviet Union was one of the few countries that used a three denominated currency in coinage and bank notes. The Soviet economic boom in Cuba can also be used to explain how Cuba was able to undertake a substantial long term military mission in Angola in 1975 and in Ethiopia in 1978. The internationalist program also benefited the Cuban boom: according to an official 1996 Cuban report, "The prestige that Cuban revolutionary medicine has acquired in the world has contributed to states with sufficient economic resources to pay for these services from developed nations, instead requesting these from our nation. In this manner Iraq since 1978, Libya since 1979 and Kuwait since 1985 requested and obtained this service from Cuba, Angola and Algeria since 1978 have continued to receive this service with economic payment."

Unfortunately for Cuba, the boom would not last forever.

What brought about the decision to establish Soviet-style dollar stores in Cuba was a response to an economic downturn that had severely limited access to free market goods it needed. From a price in 1980 of over 28 cents per pound of sugar on the international market, by 1984 the price had dipped to five cents per pound. Despite a socialist command economy and Soviet subsidies, Cuba had not been able to circumvent the free market economy. Instead, the American embargo had caused Cuba to resort to complex multi-national barter to circumvent the closed American free trade market. In one transaction cited in a 1985 report from the Cuban National Bank, Cuba bought 115 million dollars worth of sugar to fulfill a contract with the USSR that yielded 1.16 billion worth of oil, of which Cuba re-exported two thirds for a sale of 440 million. Cuba had accumulated a large trade deficit with the Soviet Union and the COMECON nations since it had not fulfilled the sugar exports it had been contracted to supply - exports, which were to compensate for imports it had received. The committed exports to the Soviet world were instead sold in the free market.

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market economy to provide needed foreign currencies to purchase goods the Soviet world did not provide. The "Economic Report, February 1985" was a Cuban narrative of serious economic woes it hoped would bolster its request for rescheduling the 750 million dollars of Cuban debt owed to foreign banks; this substantial sum was in addition to the Soviet debt. On 28 July 1986, Cuba suspended payments on its foreign debt, effectively canceling further credit from the free market banks and creditors. A January 1988 report from the Cuban National Bank indicated a reduction of Cuban imports from 1.2 billion to 8.40 million in 1987, a reduction of thirty percent.34 There was a more serious problem that Cuba, despite socialism, could not get away from: a seriously devalued non-convertible currency and dependence on imports purchased from the U.S. dollar based free market economies.

It was to be expected that Cuba would promote Sovietized foreign tourism as a mode of gaining free-market currencies in order to finance Cuban purchases outside the COMECON cartel. In 1976, the National Institute of Tourism (INTUR) was established in Cuba, and soon efforts were underway to revitalize Cuba’s neglected tourist industry. In 1985, as in other COMECON nations, diplojienias [diplomatic stores] and INTUR shops at hotels transacting exclusively in foreign currency were established in Cuba. The Cuban dollar stores and the currency they used came to be referred in common parlance as INTUR stores and money. The format for the Cuban INTUR shops replicated the 1930 Soviet TORGSin model, with similar economic goals. Because possession of foreign currencies was penalized in Cuba, the dollarized INTUR stores were first dedicated to travelers and to the foreign and diplomatic population in Cuba. While it can be reasoned that the INTUR were established as a regime survival revenue generator mechanism, the INTUR model also created the beginnings of an economic apartheid in Cuba between the portion of the Cuban population with access to US dollars and those without.

The creation of a parallel Cuban currency, the U.S. dollar-based Certificados de Divisa [Foreign] Exchange Certificates and Certificados de Compra [Certificates of Purchase] in 1985 by the Banco Nacional de Cuba marked the implementation of the TORGsin-style INTUR dollar stores and the Soviet stratagem to extract foreign reserves from foreign travelers, as well as accumulating wealth and remittances. Four series of Cuban Certificados were issued for use in the new dollar stores, reflecting four different revenue sources. The first type of certificates with a large letter ‘A’, with orange red background denominated in 1, 3, 5, 10 and 20 pesos were dedicated to currency exchanges from Soviet and COMECON travelers; those with a large letter ‘B’, with green backgrounds and denominated in 1, 5, 10, 20 and 50 pesos were dedicated to travelers from the non-Soviet world with free market currencies.

Like the Soviet TORGsin, a facet of the Cuban program included the purchase of precious metals and items from the domestic population. Cubans redeemed Cuban Certificados de Compra for precious metals and items at INTUR stores, marked with a large letter ‘C’, printed in light blue and denominated in 1, 3, 5, 10, 20, 50, 100, and 500 pesos, the Certificados were in the format of travelier’s checks, containing signature and counter-signature areas and an expiration date of five years. Under Cuban law, possession of foreign currency by Cuban nationals, even if received as gratuities, was penalized and had to be turned in within ten days to the Cuban National Bank and redeemed for the equivalent in Cuban ‘D’ series certificates at official exchange rates. These certificates were marked with a large letter ‘D’, printed in orange and denominated in 1, 3, 5, 10 and 20 pesos and had the same check format as the ‘C’ series: The ‘D’ series was reissued later with tan color printing, evidencing demand and an increasing level of travelers and gratuities. A 1986 Cuban tourist handbook explained that fractional INTUR coins denominated in 5, 10, 25, 50 centavos and 1 peso

were issued because sufficient supplies of foreign [i.e. American] fractional currency were not always available.8

Travelers to Cuba were encouraged upon arrival to exchange their currencies for INTUR Certificados. There was little reason to exchange money for Cuban pesos other than for small tips and purchases since stores for locals rarely had much to offer the traveler; stores that did cater to travelers only accepted U.S. dollars and INTUR notes. Domestic goods at cut-rate prices such as liquor and cigars produced by the command economy and the better antiques and jewelry items turned in by Cubans for Certificados de Compra were offered to INTUR consumers. As an additional incentive, INTUR notes were exchangeable upon departure while Cuban pesos were not. Until 1989, Cuban pesos were subject to confiscation upon departure because Cuban customs prohibited the export of Cuban pesos. For INTUR, redemption of precious metals was very profitable: Cubans selling precious metals were paid 4.75 cents per gram [about 135$ an ounce] and silver at 10 cents a gram [about 2.85$U.S. an ounce] which was considerably below international prices. Remittances from abroad were also paid out to Cuban nationals in INTUR notes at official rates much below unofficial rates that further maximized revenue for INTUR. Food items, consumer goods, and electronics from abroad were available at INTUR stores to the dollar paying Cuban consumer at substantial markups, again maximizing profits. Because possession of foreign currency was penalized, the INTUR stores were largely off-limits to the Cuban population.

Ministry of Interior guards ensured that only foreign passport holders and a limited number of authorized Cubans could shop at the INTUR stores. Compliance with the INTUR stratagem was insured with substantial criminal penalties for unofficial trading both for foreigners and Cubans.6

The seeds of change had been sown. The economic downturn and cancellation of foreign debt payments after 1985 left Cuban store shelves bare of consumer goods. Cuba had not been able to ignore the free market economy. The INTUR stores provided an alternative to the Cuban command economy, which could not provide material goods to the Cuban consumer market. Those who obtained consumer goods sold in dollar stores became the new elite in Cuba. The die-hard revolutionaries who existed solely on Cuban peso salaries and who had no contact with either the Cuban exile community or tourism were excluded. Cubans operating on the Cuban peso economy were limited to goods as dispensed by official ration schemes and, because Cuba had little foreign credit or foreign currency reserves, the rations were often minimal or delayed. In order to acquire U.S. dollars or Cuban dollar-rated certificates to purchase what was not available in the Cuban market, illicit small trade became more commonplace. Prostitution, which had been largely eliminated after 1968, is but one example of this phenomenon. Cubans also called on familial financial support from the exile communities—communities that had been demonized in Cuba as traitors.

The INTUR currency and dollar stores became the new Cuban financial instruments of value, and

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9 For this study I have largely drawn from my recollections and notes from an October 1986 trip to Cuba. Also see: Carlos Bea, "Letter from Havana," San Francisco Chronicle/This World, 1 April 1990, 13; U.S. Department of State. Tips for Travelers to Cuba, [informational pamphlet Publication 9232], September 1987: 8.
The Cuban Convertible Peso

were a clear economic tactic of accommodation by the Cuban command economy to the free market economy, designed to accumulate desperately needed foreign currency reserves.

It is undeniable that the Soviet empire understood Cuba as economically and politically dependent, and was quite willing to foster this as a neo-colonial dependent relationship in order to have an outpost one hundred miles offshore from its American rival. It is also obvious that Cuba remained dependent on the American dollar during the socialist era as evidenced by the artificial parity Cuba maintained for the Cuban peso to the US dollar and the 1993 establishment of the Cuban convertible peso. At the same time, it is undeniable that Cuba did acquire a national identity separate from the US or its neo-colonial republican era past. The American response to Cuban defiance and agency has been an economic and political embargo that continues to the present day. In its socialist phase Cuba continued to need goods from the free market and adapted and undertook a number of accommodations such as the establishment of INTUR stores in 1985. Later rapprochement with exiles abroad after 1991 and the legalization of the US dollar in 1993 to acquire funds to purchase these items, and many of these accommodations can be understood as exploitation of dependent survival economies.

More precisely, Cuba remained economically dependent with socialism but developed and exercised economic agency in its dealings with the American capitalist empire, and in an insurgent manner took advantage and exploited every economic advantage, and even managed to turn negative circumstances to its favor. The survivalist Cuban economy falls outside the economic models described by Eric Hobsbawm in his 1968 Industry and Empire: The Birth of the Industrial Revolution or Nigel Harris in his 1986 The End of the Third World or Joseph E. Stiglitz in his 2002 presentation Wither Reform? Towards a New Agenda for Latin America. Instead, more correctly, Cuba learned to exploit a dependent relationship, whether American, Soviet or transnational, to its benefit.