



A Viewer's Guide to Cuba's Economic Reform

by Philip Peters





“There is an inescapable link between prosperity and production...If we want a German standard of living we’ve got to have a German standard of work.”

– British Prime Minister Margaret Thatcher, November 22, 1979, Nottingham, England

“We have to erase forever the notion that Cuba is the only country in the world where one can live without working.”

– Raul Castro, August 1, 2010, announcing layoffs from Cuban government payrolls

TABLE OF CONTENTS

Introduction	4
A Tale of Two Speeches	4
Raul Gets Started	6
The Communist Party Blueprint for Economic Reform	7
A Viewer’s Guide, Sector by Sector	12
Small Entrepreneurs	12
Agriculture	13
Cutting Government Spending	15
Private Cooperatives	16
State Enterprises	17
Foreign Investment	18
Removing “Excessive Prohibitions”	19
Tax Policy	20
Local Government	21
Credits for Business and Home Improvement	21
Conclusion	22
APPENDICES	
A Chronology of Reform	24
The Media and Reform	26
The Legalization of Residential Real Estate Sales	30
The Demographic Squeeze	33



Introduction

By a vacant storefront in Havana's busiest neighborhood, a bicycle repairman was hard at work one morning in November 2010 trying to make his three-week-old business succeed. Only weeks earlier, he was secure in his job as a recording studio's night watchman, but a drive to shrink government payrolls and to move 1.8 million workers to the private sector by 2015 caused him to be laid off and to fend for himself.

On a busy corner blocks away, labor ministry employees had set up a temporary office for one purpose: to license new entrepreneurs. Under new, liberalized rules, applicants were receiving licenses with ease for the first time in more than a decade – usually within five business days. The state's newspapers and broadcasts were even explaining the new rules and how to apply. The ranks of small entrepreneurs have grown 153 percent since late 2010, reaching 371,200.

Nearby, employees at a cafeteria and a carpentry shop, both government enterprises, were expecting change too. Amid official talk of converting state businesses into private cooperatives, a waiter speculated that half his colleagues would be laid off, and half would remain with a new challenge: earn a profit, or close completely.

In 2011, at another government office, a teacher went to register the title to his family home not because he planned to sell his property but because he liked the idea of being prepared, just in case. The government had just granted him the right to sell and buy residential property at freely set prices.

Cuba is changing, and an economic overhaul is under way.

Officials call it an "updating" of Cuba's economic model, a milder term than "reform," which might imply a mistake in the original socialist design.

Regardless of terminology, the changes are important, far more consequential than the liberalizations that helped Cuba's economy survive the loss of Soviet bloc aid and trade two decades ago.

Today's reforms are intended to lift the entire economy, not just to stimulate certain sectors. The socialist system is not in question – indeed, the reforms are born of Fidel and

Raul Castro's explicit warnings that economic troubles threaten Cuban socialism's survival – but it is being redefined. The government intends to do less, expecting that private initiative and markets can do many jobs better than state itself. It intends to provide less, targeting benefits to the needy rather than to everyone, ending subsidies to state enterprises that lose money, and employing fewer people.

Cubans see both opportunity and risk in these changes. They join a debate that the government has initiated and encouraged, and that carries on far beyond official settings, often including calls for deeper, faster reform.

In this process, there is a common challenge in nearly every task the government has set for itself. It has to do with the act of letting go: letting go of 50-year habits and practices, letting go of the compulsion to plan and direct as much economic activity as possible, letting go of control over private economic matters, letting go of aversion to markets, and letting go of attitudes that stigmatize private initiative and citizens who engage in it.

The decisions involve economic policy but the changes carry political implications, having to do with a smaller state, a smaller role for the state, and greater autonomy for citizens in economic affairs.

If the reforms succeed, Cuban socialism will be more prosperous. And the "historical" generation of leaders – those who fought and triumphed in the 1959 revolution – will have dramatically altered the legacy they leave to those who will follow.

A Tale of Two Speeches

Fidel and Raul Castro are dedicated communists who have seen and made lots of history together – as brothers, former comrades in arms, and top-level partners for five decades with Fidel as Cuba's head of state and party and Raul leading the military institution. They brought Cuba into the Soviet orbit in the 1960's, projected military power into the Western hemisphere and beyond in the 1970's and 1980's, watched the Soviet bloc begin to reform in the 1980's and disintegrate soon afterwards, and labored to ensure the survival of Cuban socialism in the post-Soviet world.

Observers in Cuba and former officials who live outside Cuba commonly cite two differences in the brothers' style and policy preferences. Raul is viewed as more apt to

“We are tired of excuses in this revolution.”

– Raul Castro, December 22, 2006, discussing housing and transportation before the National Assembly

work within institutions and their norms, and he has a reputation as being more willing than his brother to use market-based reforms to improve the socialist economy.

The first point of evidence is the re-engineering of businesses run by the Cuban armed forces during the 1980's when Raul Castro was defense minister. The process was called *perfeccionamiento empresarial*, an attempt to improve performance through incentives and modern management methods. Next is the set of market-based reforms introduced during the economic crisis in 1993 and 1994, especially regarding food production and sales, that are widely believed to have been driven by Raul Castro and accepted for lack of an alternative by a more orthodox Fidel Castro. And there are many stories such as one told by a former Cuban Communist Party official, describing a reception for a high-ranking Chinese visitor in the mid-1990's. During the toasts, his story goes, Raul noted China's economic successes and all the things Cuba could learn from them. Fidel praised the successes too, but then emphasized that “China is China and Cuba is Cuba.”

It is not surprising, then, that these differences were reflected in Fidel Castro's last major policy speech in November 2005 and in Raul's first as acting president in July 2007 – occasions where each examined economic problems and considered Cuba's future after their generation would exit the stage.

Fidel's speech, a four-hour affair at the formal lecture hall of the University of Havana, came at a time when Cuba's economy seemed to be on an upturn. The term used to describe the economic crisis of the 1990's – the “special period in time of peace” – was falling into disuse. Tourism was reviving, nickel prices were up, an offshore oil discovery raised hopes of more oil to come, Venezuelan aid was flowing, and countries such as China were providing credits. Cuba seemed to be escaping a decade-long cash flow crisis, and international debt was being restructured to end a punishing dependence on short-term, high-interest credit.

But Fidel was concerned about the future: “Can a revolutionary process be irreversible, or not? When those who were among the first, the veterans, are disappearing and making room for new generations of leaders, what is to be done and how should it be done?” Castro asserted that the United States would not be permitted to end Cuba's socialist revolution. The Cuban people, he said, “would

never permit this country to become again a colony of theirs.” But looking back to the demise of the Soviet Union, Castro pointed to internal political dangers and said, “This revolution can destroy itself. We can destroy it, and the fault would be ours.”

The dangers he cited mainly involved illegal behavior, the black-market activity to which large numbers of Cubans resort in order to survive. He decried inequality – not that generated by a skewed salary structure or the circulation of two currencies – but rather that created by the high incomes of illegal taxi drivers, those who pilfer goods from the state to sell on the black market, and other “cheapskates” and “egotists.” “How many kinds of theft are there in this country?” he asked rhetorically.

Fidel did not conclude with a policy checklist, but he signaled some belt-tightening ahead in the form of reduced housing and transportation subsidies, and stronger law enforcement to fight pilferage and the black market. Anyone looking for a Cuban Gorbachev came away disappointed when he declared: “There were those who believed that with capitalist methods they were going to construct socialism. It is one of the great historical errors.”

One month later in December 2005, then-foreign minister Felipe Perez Roque carried on the generational discussion in a speech before the National Assembly. “We have a challenge,” he said. “These youth have more information and more expectations than the young people who went out to teach literacy at the beginning of the Revolution.” Many, he said, respond to talk about achievements of earlier decades by saying, “Listen, don't come here now with the same old talk about health and education.”

By the next summer, Fidel Castro fell ill and left office, and his brother Raul assumed his duties. Raul Castro's first major policy speech came July 26, 2007. It centered on economic policy, but with a different twist.

A Cuban worker receives a salary, Raul said, that “is clearly insufficient to satisfy all necessities, and hence has practically stopped fulfilling the role of assuring the socialist principle of each working according to his capacity and receiving according to his work.” That failure brings “social indiscipline” – read petty theft and black market activity to make ends meet – that is “difficult to eradicate.” “We know the tension to which party cadres

“For a long time, the number one reformer in Cuba has been Raul Castro. He began with the Armed Forces, which is now the most efficient part of the government, from an economic point of view. He accomplished this through reforms and by allowing himself to be guided by knowledgeable people. He is much more organized than Fidel. Each person is a world unto himself and with Raul, things are going to be different.

“I think he would look for economic efficiency, as he did with the defense ministry’s enterprises, which have capitalist interests and norms. He was also one who began to stimulate the farmers markets, so farmers could guarantee the food supply, while the person who...is against all these reforms is Fidel.”

– Dissident and former military officer Vladimiro Roca, quoted in “Dissident leaders call for a peaceful change in Cuba,” *Encuentro en la Red*, September 18, 2006

are subjected, especially at the base, where available resources are almost never enough to cover accumulated needs,” he noted. Black market activity, in other words, is a direct response to the state’s inadequate pay. Where Fidel blamed greed or insufficient revolutionary qualities, Raul said people deserve a day’s pay for a day’s work.

The solution, he said, lies in higher productivity, revived industrial production, increased foreign investment, and even “structural changes and changes of concepts” in agriculture.

Raul Castro discussed agriculture at length, in both jocular and serious terms. He wryly noted the amount of idle land that could be put to productive use, and he ridiculed the bureaucracy of milk production and distribution. Rather than engage in the customary exaltation of Cuba’s guaranteed milk ration to young children, he called it inadequate: “What must be done is to produce milk so that anyone who wants can drink a glass of milk.”

The speeches indicated clear differences between the brothers, at least regarding their communications styles and their perceptions of economic issues. Whether policy differences would have emerged, we will not know. Fidel Castro’s illness kept him off the stage and eventually led him to relinquish his government and party offices in 2008 and 2011 respectively.

Out of office, Fidel has limited his public statements to historical or global issues, steering clear of Cuban domestic policy for the first time since 1959. Raul continued to consult him, however. In 2010 as he put a 32-page set of economic policy guidelines into public circulation, Raul announced that the first copy of the document had gone to Fidel days earlier, as if to say tacitly that Fidel approved it. In 2011 when Fidel relinquished the leadership of the Communist Party, Raul proclaimed, “Fidel is Fidel and does not need to hold political office to always have a top place in the history, present and future of the Cuban nation.”

But Fidel was out of office, and it fell to Raul Castro to make policy and to make his own mark.

Raul Gets Started, and So Do the Reforms

Cuba’s private taxi drivers all have stories about police enforcement efforts against allegedly unsafe vehicles, operating without a business license, and traffic and regulatory infractions that cabbies anywhere would argue never occurred. They saw the police as trying to curb them from competing with state-owned taxi companies.

That all changed in May and June of 2007, a Havana *taxista* said, when police simply stopped all contact with private taxis except in cases of moving violations. There had been no policy announcement, but the driver knew that a new policy was in place because “police officers who are friends of *taxistas* have confirmed it to us.” “The idea is to stop corruption among police, and also for the *taxistas* to resolve transportation problems,” he said. “Raul said to do this.”

Apparently, that was so. By July 2008, the transportation minister announced that the government would be granting new licenses to those wishing to operate private taxis. In January 2009, new regulations were issued that applied to both regular taxis and to Cuba’s *boteros*, which are taxis that drive a regular route, like a municipal bus, picking up and dropping off passengers along the way. By the following July, the number of licensed private taxis had nearly doubled from 3,486 to 6,334 nationwide, with 1,280 license applications in process.

This treatment of private taxis, a small matter in the scheme of things, was characteristic of Raul Castro’s style as chief executive: The government proceeded deliberately and quietly, without the public relations effort that most would use to take political credit for a popular measure.

It was also characteristic of the economic thinking reflected in decisions to come.

Putting more people and cars to work was a simple, practical way to address a transportation shortage that irks every Cuban family. An expansion of private economic activity was a perfectly acceptable tool, as were its secondary effects of mopping up unemployment (or at least moving unlicensed businesses into the legal framework) and boosting government revenues through taxes and license fees. As for the idea that private taxi drivers might make more

money and add to socialist Cuba's income inequality, Raul Castro's view seems to be that if honest work brings higher income, the government should tax the income rather than suppress the enterprise that generates it. Insisting on equal incomes, he argues, is to commit the error of "egalitarianism."

Other decisions in the beginning of Raul Castro's time in office followed this pattern.

Income from foreign companies. Foreign businesses that operate in Cuba, along with diplomatic missions, have long paid hard currency supplements to workers to augment the Cuban peso salaries they receive from their direct employers, which are Cuban state employment agencies. Such pay supplements were a well known, nearly universal, and illegal practice. Out of the blue, they were made legal in January 2008; companies and employees were required to keep records of the payments, and the workers were required to pay income tax on their hard currency income.

Consumer prohibitions lifted. In March 2008, a series of limitations on consumer freedoms were lifted, allowing Cubans to buy computers and DVD players, to stay in previously off-limits tourist hotels, and to have cell phone accounts. Cuban companies are the vendors of all these goods and services; showing sensitivity to price, they twice reduced cell phone account initiation fees and have offered numerous other discounts and price reductions, and certain all-inclusive beach hotels have offered deep discounts for Cubans in the summer low season for international tourism.

Salary policy. In August 2008, the government removed ceilings on individual earnings in the state sector and directed state sector employers to develop sliding pay scales that reward more productive workers with higher pay.

Agricultural reform. This is the first sector-wide reform, of great importance due to Cuba's need to reduce food import bills. It began in December 2006 with Raul Castro telling the National Assembly that the government must settle debts owed to farmers and cooperatives; the debts were settled within six months with an outlay of 550 million pesos. A major step to boost private farming, ongoing today, was the granting of land in usufruct to farmers and cooperatives; this process began unannounced in 2007 and was formalized in a new law in 2008. Complementary reforms include increases in prices paid by the government to producers,

and the beginning of the process of reducing Agriculture Ministry bureaucracy.

Foreign reporters interviewed Raul Castro when he was leaving a polling place in January 2008. Asked about policy changes in store, he said Cuba was in "a very complex stage," a period where there would be "big decisions – little by little." That proved to be an accurate description of the reform process that he led in his early years, and more recently since the Communist Party approved in 2011 a detailed roadmap for economic and social policy changes.

The Communist Party Blueprint for Economic Reform

The sixth Congress of the Communist Party of Cuba was held in April 2011, the first such meeting since 1997. The party is named in Cuba's constitution as the "organized vanguard of the Cuban nation" and "the highest ruling force of the society and the State." As such, it is capable of setting national policy.

The sixth Party Congress did precisely that.

The Congress approved a document titled, "Guidelines of the Economic and Social Policy of the Party and the Revolution." Called "*los lineamientos*" in Cuba, it is a detailed domestic policy blueprint. It is now the basis for a reform drive that is broader, more defined, and more systematic than the policies put forth by Raul Castro in his first years in office.

Cuban officials do not use the word "reform" and refer instead to the "updating" of their economic model. In part, this is to assert that the socialist essence of the model is not in question. And "updating" is an apt term for a policy overhaul that, judging from Cuba's chronically weak economic performance, is decades late in arriving. While results remain to be seen, the *lineamientos* at least seem proportional to the task of adapting Cuba's economy to fit the world that dawned when the Soviet bloc dissolved two decades ago.

That historical blow caused a one-third contraction in Cuba's economic output and the loss of Eastern bloc trading partners who accounted for three fourths of Cuba's international trade. The measures Cuba adopted initially to achieve its post-Soviet "re-insertion" in the world economy – a big bet on tourism plus limited openings to foreign

Three Havana Billboards



"Revolution is to change all that should be changed."



"We are working – and you?"



7 "Man grows with the work that comes from his own hands." - Jose Marti



A new business in Havana sells religious articles and clothing, with a small cafeteria alongside, in space rented from a homeowner. Upstairs there's a separate business with rooms for rent.

8

investment, market-based agriculture, and small entrepreneurship in the 1990's, followed in the next decade by an expansive partnership with Venezuela – all bore results but never staved off a sense of permanent insufficiency, if not crisis, in the nation's economic life.

The current economic malaise was summed up in November 2010 by then-economy minister Marino Murillo. In addition to the U.S. embargo and recent hurricane damage, he cited “low efficiency, decapitalization of productive capacity and infrastructure, the aging of the Cuban population,” and its near-zero growth. Cuban economists also cite factors such as excessive centralization of decision making and financial crises, both internal and with respect to Cuba's international credits. They also note the impossibility of increasing state sector salaries when productivity is low and the workforce suffers from “indiscipline” and “lack of interest in work.” Add it all up, and the result is low growth, low output, and demographic trends that only make the task of economic improvement harder as years go on.

One way to assess the import of the *lineamientos* is to look at the economic policy output of the 1997 Party Congress. It passed a resolution on the economy that noted the new challenges of the time: the loss of Soviet aid, the strengthening of U.S. economic sanctions in 1992 and 1996, and globalization. It noted that policy adjustments had already been made, and beyond that there was no questioning of the economic model.

There was almost no mention of new incentives or further liberalization. To the contrary, the resolution spoke approvingly of the state's expansion in the food service sector, foreshadowing the closure of many private food outlets in the ensuing years.

Regarding new challenges, the resolution referred to “the conviction of the Commander in Chief that the key factor for confronting them and moving ahead is resistance.”

Resistance, that is, and perhaps a sense of satisfaction with policies based on the largest possible role for state activity. Between the reforms of the early 1990's and the Raul Castro presidency, economic policy itself suffered from an output deficit and, one could argue, a complete drought when it came to ideas to address central problems of Cuba's economy. It is almost as if the economic model built to fit Soviet-era realities was being preserved in the hope that it would someday be viable again.

In this light especially, the *lineamientos* stand out as a very large act of governance where old ideas and methods have been evaluated, and a new five-year plan has been hatched – not simply to change priorities and resource allocations as in the Soviet period, but to change the model in some fundamental respects.

How will the model change?

At the root of the reform process, now formalized in the *lineamientos*, is a realization that the Cuban economy is not productive and must produce more, and that the solution lies in reducing government and expanding the private sector. Within five years, Communist Party leader Esteban Lazo said in April 2012, private sector production will grow from five to 40-45 percent of Cuba's gross national product. Also within five years, the private sector is expected to add 1.8 million workers, the finance minister said in December 2010, which would put two in five workers in the private sector.

The state will continue to provide free, universal health care, education, and other benefits, but its role in the economy will shrink as it plans, controls, and carries out fewer economic activities and instead spends more time regulating market activity.

Other highlights, summarizing and quoting from the *lineamientos*:

Employment. The policy is to “change structure of employment, reduce inflated payrolls and increase work in the non-state sector.” The state will pay less and workers will pay more to finance retirement benefits. The state will try to raise state sector pay and will start with workers whose jobs generate hard currency income or savings. All who are capable of working should work.

Cooperatives. Private cooperatives will be permitted to be formed “as a socialist form of collective property in different sectors... integrated by persons who join together contributing goods or labor....and assume all their expenses with their income.” In local and small-scale production, including maintenance and repair shops, the government should “modify the business models,” including “opening greater space for non-state activities.”

Cooperatives. Cooperatives cannot be sold, they may contract with any legal entity (individuals, government units, foreign

companies), and they will set their own salaries and profit distribution.

Spending cuts. Government will cut spending through layoffs and other measures. There will be an “orderly and gradual” elimination of monthly household food rations and other goods and services provided free or at subsidized prices. Spending will be cut in the education, health, culture, and sports sectors even as these entities look for ways to generate income and to move from the government budget to free-standing enterprises.

Agriculture. Goals include “to adopt a new business model in keeping with the greater presence of non-state producers,” providing “greater autonomy for producers,” and achieving a “gradual decentralization to local governments.” The government will limit “centralized circulation” to those “product lines tied to national balances” and give “a more active role to free market mechanisms” for all other products. [This means the gradual reduction in the number of products that are bought, stored, and distributed by the state.] National planners will be concerned with export products and import substitution. All other products will have a regional focus, including suburban agriculture. The government must ensure that farmers are paid high enough prices for products that are exported or that are substituted for imports. Specialized bank and insurance services need to be developed for the agricultural sector.

State enterprises. The number of state enterprises will be reduced, and those remaining will be closed if they turn no profit. In line with greater responsibility, managers are to be given broader decision making authority. The government will not create any new entities inside its budget for the production of goods or services, and profitable entities will be spun off and become self-financing.

Foreign investment. More foreign investment is needed in Cuba’s economy. It should be sought not only according to the long-standing criteria – projects that bring new capital, technology, or markets – but also to meet other goals such as job creation or increasing national production in strategic areas, even if there is no major benefit in terms of foreign exchange earnings. The government needs to have a more agile process for evaluating and deciding on proposals; it should consider business models other than joint ventures; and it should seek investments from new countries.

Private restaurants and rentals. In tourism, private restaurants and bed-and-breakfasts are singled out: “Non-state lodging, food service, and other activities will continue to develop as a supply of tourism services complementary to the state’s services.”

Home sales. The November 2011 action to allow sale of residential real estate was foreshadowed: “Apply flexible formulas for the exchange, purchase, sale, and rental of housing, so as to facilitate solutions to the housing needs of the population.”

Travel. The government will “study a policy that would facilitate Cubans resident in the country traveling abroad as tourists.”

Car sales. The purchase and sale of cars between private citizens should be “established.” (This was accomplished in October 2011.)

Home construction and repair. The government should “adopt new organizational forms in construction, both state and non-state,” and it should increase sales of construction materials to the public. The rural housing stock is a priority: to repair, preserve, and build new housing stock for the current and future farm labor force. New construction “modalities” should include do-it-yourself and construction by private entities, and norms should be created for construction of multifamily homes. Red tape should be cut to facilitate “remodeling, restoration, construction, and rental of homes and transfer of property with the objective of facilitating the solution of the public’s housing needs.”

Municipal government. State enterprises and cooperatives will pay taxes to their local government, not to the central government, and local governments will develop and execute projects to suit local needs.

All in all, the *lineamientos* present an ambitious agenda that redefines socialism in Cuba.

It is also a complicated agenda.

Can’t get there from here

Cuba’s economic reform program includes many goals that cannot be reached immediately. Many of its measures are designed to reach intermediate goals which, once achieved, will put larger strategic objectives within reach. It requires time and makes for a lot of interdependent moving parts.

Old habits die hard, and it is an open question whether Cuban workers and managers are ready to assume the new roles and learn the new skills that new economic policies will ask of them.

Most entrepreneurs working in Cuba today are working independently because that is their wish. As state layoffs proceed, idled workers will be turning to entrepreneurship out of need. Will they have the necessary drive and frame of mind to make new businesses work?

Cuba’s state enterprises have functioned as extensions of government ministries, meeting planned production targets and having very limited flexibility with regard to payroll and production decisions. New policies are slated to allow managers to make decisions autonomously, and to force state enterprises to dissolve if they lose money consistently. In that new world, will current managers fare well, or will new ones have to take their places? Will workers and managers change their mentality from one of fulfilling a state plan to one that responds to material incentives, cuts costs, and turns a profit? In those same businesses, will incentive pay schemes be effective and will workers respond?

Government officials are said to be preparing to regulate markets and economic sectors, rather than directing them through economic plans. Can they make that switch?

“[Raul Castro] recognizes that today’s youth are more demanding because they are incomparably more capable, more educated, more cultured, and above all, more critical – and he recognizes that it is not a bad sign that they are that way; quite the contrary... He is convinced that every generation needs its own motivations and its own values, at the same time he insists on making it very clear that no one will become a revolutionary today simply because we explain to them the extreme hardships that their parents and grandparents suffered.”

–from a 5,800-word article on Raul Castro published in *Granma* June 2, 2006, just before his 75th birthday

Two examples of this dynamic were discussed in a November 2010 meeting where then-Minister of Economy Marino Murillo was responding to questions from Communist Party members. The first concerned Cuba’s dual currency system, which imposes price distortions and purchasing power penalties throughout the economy. From the Communist Party daily newspaper *Granma’s* coverage:

“In the face of repeated questions about unification of the currency, [Murillo] explained that it will depend fundamentally on the increases in productivity of workers because to eliminate the dual currency system in and of itself would not solve current problems, they will only be solved by making the real economy produce efficiently.”

And from the same article, on the “question of when people who truly work will receive higher salaries:”

“The question...is one that provoked the most public debate. In response, Murillo explained that the source of restructuring salaries lies in reducing inflated payrolls, relieving the state of economic activities that are not appropriate for the state to conduct, reducing excessive subsidies and unnecessary free public benefits, and increasing productivity.”

More comprehensively, this dynamic can be described as follows:

Current measures such as these...

- Expanding private sector jobs and production through small entrepreneurship now and through future measures including the creation of private cooperatives
- Ending ceilings on state-sector wages, creating other rewards for performance
- Ending restrictions on consumer freedoms – permitting cell phone accounts, computer and DVD purchases, stays in tourist hotels, sales of cars, sale of residential real estate
- Allowing foreign companies to pay hard-currency supplements to workers, and subjecting such payments to workers’ personal income tax
- Moving toward elimination of the monthly household ration book and other subsidies and benefits

- Deepening agricultural reform through land grants, greater production incentives, and direct market-based sales that will replace state purchasing and distribution
- Reducing government spending through layoffs, consolidation and cost-cutting in health, education, and other sectors
- State enterprise reform – implementing incentive pay systems, ending subsidies to state enterprises, and closing those that lose money

...all contribute to reaching intermediate goals...

- Increasing economic output and productivity
- Improving government finances, reducing the fiscal deficit
- Increasing export income, reducing the import bill
- Raising incomes, raising average income
- Soaking up liquidity

...that will put long-term, strategic goals within reach

- Creating incentives to work and for Cubans to remain in Cuba
- Preserving guaranteed social welfare benefits, especially free health and education
- Putting free and subsidized social benefits on a new footing, replacing universal benefits with targeted, need-based assistance
- Raising state sector wages
- Unifying the currency, ending the dual-currency system
- Reducing international debt service costs, improving Cuba’s credit rating, obtaining new credit at lower interest rates

How do these measures and goals fit together?

One simple example involves the expansion of the private sector employment. A larger private sector will enable the government to proceed more easily with layoffs of state sector workers, which reduce government spending. The stronger the government's fiscal position, the sooner it will be able to unify the currency and end the dual-currency system.

Another is the expansion of incomes in the private sector, whether through entrepreneurship, cooperatives, foreign company pay, a stronger farm sector, or other means. Higher private sector incomes yield increased tax revenues, which moves the government toward a position where it can afford to raise state sector wages. And each Cuban household that increases its income is one less household that will need government benefits such as the household food ration book. Hence, when the government replaces universal benefits with subsidies that go only to the needy, the cost will be lower.

These and other examples show that the expansion of Cuba's private sector is so essential to the improvement of fiscal balances, productivity, and employment, that it is a bellwether for the entire reform program. As designed, the program cannot make serious progress if the expansion of Cuba's private sector does not continue.

The Implementer-in-Chief

Marino Murillo, 51, is the former economy minister who supervised the developing and drafting of the *lineamientos*. He was relieved of that job in 2011, promoted to become one of the vice presidents of the Council of Ministers and a member of the 15-member top executive body of the Communist Party, its Political Bureau.

He was also named head of a new organization, the Permanent Government Commission for Implementation and Development, a group that reports to the Councils of State and Ministers. He is the ram that pushes the reforms through the state bureaucracy on an undisclosed timetable that runs through 2015, making sure that pilot projects get under way, studies get done, policies are coordinated, and new legal norms are drafted. He has a perfect record of turning down interview requests from journalists and other visitors, but he occasionally makes

extensive appearances before party and parliamentary meetings where he details new policies and their logic.

"The agreements reached in the party Congress are not going to sit in a drawer," Raul Castro said shortly after the *lineamientos* were approved. That statement has been borne out by numerous policy changes that have occurred since the Party Congress. But the pace of implementation has been deliberately measured, in defense of which Raul Castro takes to quoting Jose Marti: "What has to last a long time has to be made slowly."

The process and its pace was described by Vice President Machado Ventura in July 2011: "We spoke clearly to the people. You can be sure that we are moving, as has been said, 'without rushing but without pausing.' Work is being done systematically, following the line that has been sketched out, in an integral manner because we are not improvising or patching things up, rather we are looking for definitive solutions to old problems. With our feet on the ground and our ear to the ground, very attentive to public opinion, ready to correct ourselves as we go, to adjust our pace and to adopt new decisions."

An example of mid-course correction occurred just one month after the *lineamientos* were approved. With new policies governing entrepreneurs scarcely six months old, those policies were liberalized further: some taxes were suspended entirely, some tax rates reduced, all entrepreneurs were permitted to hire employees instead of only those in selected lines of work, the maximum capacity of private restaurants was increased, and more.

The measures signaled a shift in priorities, emphasizing job creation over tax collection. And it was a sign that the government is watching the progress of reforms and adjusting policies as needed.

Public Discussion and Debate

In an April 2010 speech to Communist Party youth, Raul Castro urged his audience "to promote frank discussion and to see disagreements not as a problem but rather as the source of the best solutions. Absolute unanimity is usually false and therefore harmful. Opposing views, when not antagonistic as in our case, are an engine of development."



11 With the economic reforms have come an explosion of produce vendors; above in Havana and below in Vinales.

“I oppose those who fiercely defend the production and organizational schemes that have exhausted their role in history. For example, those who believe that all small shops and their administrative entities must be maintained because that is socialism. That is a lie: Socialism means the people own the means of production, but not all, only the main ones, those that really define the economy of a State... I disagree with those who believe socialism will collapse just because a group of bricklayers form a cooperative to build a house, or a plumber fixes a plugged drain, or a mechanic fixes a car, or a welder makes a window, or some cooks work as a cooperative in a production unit that used to belong to the state. I disagree with those who believe that socialism is a static and immobile thing, and that any change will result in its destruction. It’s the other way around: the socialism that does not change, that does not adapt to new situations, is condemned to failure. Remember the socialism of [eastern] Europe.”

— Citizen A. Ríos Hernández, in a May 7, 2010 letter to the editor of *Granma*

This is one of many statements where he has urged Cubans to air out their opinions on economic matters. He convoked several rounds of grass-roots discussion beginning in 2007 and continuing through the development of the *lineamientos* themselves. The meetings took place in official or quasi-official settings – workplaces, labor union locals, Communist Party meetings, and neighborhood committees. Participants say that citizens generally arrived hesitant to speak out, but hesitancy soon gave way and open grievance sessions ensued.

It is impossible to know precisely how and how much the discussions affected the *lineamientos’* content. Some policies clearly have strong public support, e.g. the opening to small entrepreneurship and the promise to allow Cubans to travel abroad without prior government permission. On the other hand, many Cubans differ with the pace of reform and want it to proceed faster. And there are criticisms from the left; high-level officials have been cited in official media rebutting opposition to the development of private cooperatives in sectors other than farming, and urging communists to drop their negative attitudes toward entrepreneurship.

The final printed version of the *lineamientos* presents each of the 313 policy guidelines side-by-side with its draft version, along with the number of public comments it generated and a brief explanation of changes that were made and “the source of the proposals that originated the change.” Reading the comparison, one learns nothing concrete about public opinion but one can see which way the wind was blowing inside the Communist Party.

A Viewer’s Guide, Sector-by-Sector

Small Entrepreneurs

“Everyone is involved in their own thing,” a Havana man commented to a visitor, pointing out the explosion of small private enterprises that are the most broadly visible change wrought by Raul Castro’s economic policies.

The new businesses are in every Havana neighborhood and they are visible in every small town. The entrepreneurial sector, 143,000 strong in late 2010, now includes 371,200 Cubans “involved in their own thing.” Very few Cubans worked as entrepreneurs

when Cuba’s economy was tied to the Soviet Union; there were about 10-15,000 in 1993, mainly barbers and beauticians. When Cuba’s economy went into crisis after the Soviet bloc dissolved, the sector was allowed to expand, peaking at 209,000 in 1996. But in Fidel Castro’s economic policies, entrepreneurship was viewed as a stopgap, a necessary evil, and the sector stagnated around 150,000 until the current reforms took hold.

The stagnation was not for lack of interest on the part of Cubans, but rather due to a largely unwritten policy whereby municipal offices of the labor ministry simply refused to grant new licenses.

So the expansion now under way began with a November 2010 announcement of new regulations. The first sign on the street was that licensing offices had done a 180-degree turn and were ready to approve licenses in 178 lines of work. A labor ministry office in central Havana took over a vacant streetfront office, posted instructions outside, assigned one staff member to answer questions and direct traffic of applicants lined up outside, and assigned four staff to taking applications. Every day, applicants filed applications until 3:00 p.m. and licenses were handed out from 3:00 to 5:00. Both officials and applicants said that most licenses were granted within five business days.

Labor ministry data show that in November 2011, 16 percent of the entrepreneurial sector were in transportation of passengers or cargo, 15 percent in food service, 11 percent were employees of other entrepreneurs, five percent rented rooms in their homes, and five percent were in sales of farm produce.

The policy changes that made this sector grow were significant.

- Entrepreneurs in all lines of work may hire employees; previously, employees were permitted only in food service.
- The seating limit in private restaurants was increased from twelve to 20 and later to 50. Prohibitions on serving beef and shellfish were ended.
- “Housing, rooms, and spaces” may be rented to entrepreneurs for use as places of business.
- Entrepreneurs may now have licenses for more than one line of work and may work anywhere, not just in the municipality in which they were licensed.

- Instead of being restricted to selling to individuals, they may now sell goods and services to state entities, foreign companies, and cooperatives.
- Entrepreneurs must pay income tax; the first 5,000 pesos in income is exempt, and the top marginal rate is 50 percent. Expenses totaling up to 40 percent of gross income may be deducted from taxable income. In addition, there is a tax, a public service tax, and a tax per employee hired, all deductible from income tax.
- Finally, there is a contribution to social security, which entitles entrepreneurs to disability and maternity benefits and to monthly payments upon retirement. The contribution can be made at different levels, and benefits will depend on the amount contributed.
- In May 2011, these policies were eased to favor job creation over tax collection. The tax per employee was suspended for businesses with fewer than six employees, taxes were reduced and deductions increased in some occupations, and businesses were allowed to close for repairs more easily and for longer periods, suspending their licenses and their tax obligations.

Impact. This sector is a proven job creator, a productive sector that absorbs unemployment and that now gives entrepreneurs who operated in the black market a viable legal framework in which to operate. Cuban economists have calculated roughly that if this sector increased by 250,000 and government payrolls shrink by 500,000, the resulting tax receipts and payroll savings could wipe out the government's deficit.

What to watch. The questions in this sector mainly have to do with limits on its growth.

- Currently, private entrepreneurs may work only in 178 occupations listed by the government. Will this practice continue, or will the government publish a list of occupations or sectors *not* open to private initiative, and permit everything else?
- Will professionals such as architects, software designers, consultants, lawyers, and others be permitted

to work in their own professions as entrepreneurs or in private cooperatives?

- How much investment will come from abroad to support new entrepreneurial ventures?
- How will the new government loan system work for those seeking to expand their business?
- Will these entrepreneurs find willing customers among municipal governments, state enterprises, and foreign companies?
- Will there be further easing of tax requirements so as to encourage more business growth and job creation?

Agriculture

Agriculture was Raul Castro's first reform priority; it is the area he first addressed in detail with the Cuban public and the first area where sector-wide reforms have been designed and applied.

Cuba has many kinds of producers: state farms, large state cooperatives, smaller cooperatives that combined individual farms into collective production, "credit and service" cooperatives that consist of private farmers who work their own land individually and share some tasks and expenses in common, and individual farmers working on their own. In 2010, the private farmers worked 41 percent of Cuba's farmland and accounted for 71 percent of the value of farm production.

What all producers have in common is a contract with the state. In return for inputs (fuel, seed, fertilizer, insecticide, etc.), the producer guarantees delivery of a certain amount of produce to the state at an agreed price. Since 1993, after meeting the contract obligation, producers have been free to sell their surplus on the open market.

The current round of reform began with land distribution to put more land into production and to increase the number of private farmers. A July 2008 law formalized a policy whereby the Cuban government distributes idle agricultural land to farmers and cooperatives who want to begin or to expand production. The lands are granted in usufruct, meaning that the grantee pays no rent and is guaranteed use of the land as long as it is





A principal challenge facing small entrepreneurs has been the difficulty of obtaining supplies from legal sources. State stores are beginning to respond; above, a hardware store, on opposite page, a store that sells bulk foodstuffs at discounted prices, where private pizzamakers buy their flour.

14

kept in active production; terms are ten years for individuals and 25 years for cooperatives, both renewable. A total of 1.4 million hectares have been granted to nearly 180,000 producers. Eighteen thousand grants have been withdrawn, according to a Cuban official, at the farmer's request or due to "incapacity." The government is also increasing the prices it pays to farmers for the crops that they are contracted to deliver to the state. Conversations with farmers indicate that the prices paid for plantains, tomatoes, yuca, and black beans have doubled in recent years, and prices paid for milk have nearly tripled. However, the prices paid for milk and rice, even after increases, are about one third Cuba's cost of importing those products, which indicates that there is more room to raise producer prices and incentives in the interest of reducing import costs.

There have been other measures, such as a reorganization and streamlining of the agriculture ministry and an attempt to devolve decision making to the local level, the effects of which are hard to detect to date. In line with the government's decision to eliminate gradually the monthly household food ration, products are being removed one by one from the ration inventory, after which these products are sold entirely on the open market. To replace the longstanding practice whereby the government decided the distribution of farm supplies and implements, the government has opened retail stores for farmers to buy what they need when they wish.

The latest data on agricultural production, excluding sugar, show a 0.9 percent increase in production in the first quarter of 2012 compared to the same period in 2011, with food crops increasing 9.8 percent and livestock production falling 11.6 percent.

The strongest growth in output was in rice (43 percent), beans (21 percent), and plantains (19 percent). Private farmers' production grew significantly in all three crops (22, 28, and 25 percent respectively), while state-produced rice grew 43 percent owing to a quadrupling in land devoted to that crop. Rice is one of the crops that Cuba spends most to import (\$219 million in 2010), and increases in rice production enabled an eight percent reduction in rice imports between 2009 and 2010.

Overall, food imports of \$1.5 billion accounted for nearly one fourth of Cuba's \$6 billion merchandise trade deficit in 2010. The modest increase in general farm output

and the notable increases in some crops have failed to dent Cuba's food import bill, which in 2010 was about the same as in the previous three years. (2008's food imports of \$2.2 billion were an exception due to damage from three hurricanes.)

Looking ahead, it may be that a big improvement is in store as new private farmers accumulate experience. But many see the reforms as well conceived but incomplete, and argue for deeper reforms to complete the job.

The most significant additional step has been suggested by the head of Cuba's small farmers association, Orlando Lugo, who in May 2011 advocated allowing all producers to sell directly to the market, without the state enterprises and ration system as intermediary:

"I think that sales have to be broken up a lot. If in Cuba there is private and diversified production, one cannot have monopolized sales. We have to seek many forms of purchase and sale.

"If I were asked, I would say it has to be direct. If a cooperative wants to sell products and have a point of sale, let it have one. If a hotel wants to buy a product from a cooperative, why can't it do so? Why does it have to be through an enterprise?"

"We have to continue insisting on direct sales by producers to the retail network. There are provinces that have some experiences. I know that it is being studied, but it is true, this is something that is still not resolved."

In December 2011, direct sales between tourism industry businesses and agricultural producers were permitted, and within one month Cuban media reported that 71 contracts had been executed.

Impact. The agricultural sector holds the potential to generate substantial employment and to reduce Cuba's import bill, which in turn would improve the government's finances and allow it to meet objectives such as raising state sector salaries.

What to watch.

- Are newly distributed surplus state lands being put to productive use, and are the private farmers and cooperatives working that land prospering? Are the new supply stores providing these new producers what they need at affordable prices?

- Will the government continue to increase prices paid to producers to stimulate production of products such as rice and milk, which can substitute for imports?
- Are farmers and cooperatives making productive use of bank loans? Are foreign governments, aid agencies, and other entities providing credits to the agricultural sector?
- Will the government change the terms of the lands granted to farmers in usufruct, for example by permitting longer terms (from 10 to 25 years), by permitting the lands to be passed to heirs, and by permitting farmers to build homes on the land?
- How quickly will the government remove additional products from the monthly household food ration, and when will such reductions result in the reduction of state enterprises that buy, move, store, and distribute food?

Cutting Government Spending

The drive to reduce government spending is reaching into every part of government.

Small barber and beauty shops have been dropped from government control and are now being leased to the barbers and beauticians who work there, and who now operate autonomously, pay rent, and keep their profits. The Ministry of Sugar was “extinguished,” *Granma* reported in November 2011, its operations organized into separate business units that a new entity, AZCUBA, will manage. One by one, products are being dropped from the monthly household food ration book (sugar, dried peas, and potatoes are examples), moving toward the goal of eliminating such universal rations entirely. Slowly, the state-operated lunchrooms that numbered 24,700 nationwide and cost \$350 million to operate, are being closed, to the benefit of private sector food service businesses.

Even sectors such as health and education, where free public services are presented as a signal achievement of the socialist government, are feeling the pinch.

The famous (and, for some, infamous) *escuelas en el campo* are closed – these are the public boarding schools that generations of Cuban students attended, many from seventh grade

until university. They served the principle of Jose Marti of linking study and work, the government contended, and students spent part of their days tending to crops. For students, memories are mixed, for many parents they were a nightmare. In 2009, Raul Castro described their cost as one of many that is “simply not sustainable” for the government. *Juventud Rebelde* reported in July 2011 that demand for student labor was decreasing, and the return on student labor, compared to cost, was low.

Health sector cuts are necessary too, an October 2010 *Granma* article stated, because “unnecessary spending hurts not only the country’s economy, but also an institution’s functioning and quality of care.” The article explained what appeared to be a thorough re-evaluation of material and personnel resources in the sector, and prepared the public for changes and consolidation of services.

In some emergency response units, the article reported, 30 employees were supporting the functioning of a single ambulance. There were eight municipalities just outside Havana where an entire 30-employee administrative structure is duplicated – one in the municipal office of the health ministry, the other in the nearby intermediate-care clinic. The newspaper also included a signed editorial on the imperative of cutting government spending: “It is urgent for our society to adjust social spending to the real capacity of the economy, without paternalistic or romantic attitudes,” it said.

In November 2010 the Ministry of Health published a document titled, “Necessary Transformations in the Public Health System.” It called for “reorganizing management structures” and reducing “inflated payrolls. It explained new policies of “reorganizing, compacting, and regionalizing” health services, and in some cases moving points of service and laying off personnel, based on studies that measure patterns of demand for services. (Since then, such consolidations have in fact occurred.) The paper reaffirmed the commitment to the family doctor program, with each doctor serving a maximum population of 1,500. It also reaffirmed Cuba’s commitment to providing health care services to countries in need, including through revenue-generating arrangements that will provide money for the domestic health system.



Murillo: “Look, if we expand the workings of the economy with non-state organizations and services, don’t even dream that we are going to be able to control all those prices, it is absolutely impossible.

“We can do a test if you want, we don’t have to invent anything. The official state price of a haircut was 80 cents – and in the city of Havana if you didn’t pay ten pesos [12 times the state-mandated price], they didn’t cut your hair. The price is posted, now who is going to go chasing after all the barbers so they charge 80 cents and no more, if people pay ten pesos in the marketplace?

“*Compañeros*, the state can perfectly well regulate the ties between the state and the individual, but to try to control the ties and the relations between individuals is the most difficult thing there is, in this we cannot exert ourselves even for a minute. And that is work, under those conditions, that is a tie between individuals.”

Raul Castro: “Marino, it’s that it takes getting used to. As Marino explained it, regulate the relations of the state with the individual, but the state doesn’t have to get into the relations between individuals, nor does the government, nor anyone. Why do we have to get into people’s lives?”

–from a 2010 appearance by then-Minister of the Economy Marino Murillo before the National Assembly, responding to a suggestion that the state regulate entrepreneurs’ prices, with Raul Castro present on the dais

The most dramatic news about spending cuts came in a blandly titled announcement in the newspaper *Trabajadores* in September 2010: “Announcement of the *Central de Trabajadores de Cuba*.”

The news was that the state sector would shed 500,000 personnel by the following April, with a “parallel increase in the non-state sector.” For those laid off, the announcement noted, “the current set of options will be broadened and diversified with new forms of non-state labor relations as an employment alternative: among them renting, usufruct, cooperatives, and self-employment, toward which hundreds of thousands of workers will move in the coming years.”

Some were skeptical. Two months after the announcement, a labor ministry retiree standing in line to buy a phone card called it “just an idea” that is “not going to happen.” “They are moving very slowly, just two or three here and there – can you imagine what would happen if they really did that?”

Indeed, the timetable for the half-million reduction was later shelved and layoffs have proceeded at a slower pace – but they have proceeded. In April 2012, labor federation official Raymundo Navarro said that state payrolls had been reduced by 140,000 in 2011 and will be reduced by a further 110,000 in 2012, with a goal of reaching a 500,000 reduction by 2015. For example, the Ministry of Education laid off 3,415 employees in the 2010-2011 academic year, relocated 3,667, and was moving to lay off 6,877 more. And the health ministry announced that it had cut outlays by 7.7 percent between 2010 and 2011.

Impact. Reducing government spending is essential to virtually every goal of the economic reform process: eliminating government deficits, raising productivity, raising state sector salaries, unifying the currency.

 **What to watch.** Spending reductions occur on many fronts: reductions in personnel, elimination of services, elimination of subsidies, reorganization of government units.

Some key questions:

- Will layoffs proceed?
- Will the government truly end subsidies to state enterprises and truly allow insolvent enterprises to dissolve?

- Will spending reductions affect the quality of health care and education?
- Will there be continued progress toward elimination of the monthly household food ration book?
- Will policies and legal structures be put in place to enable the creation of private cooperatives outside the farm sector, which would create a new, potentially large source of job creation? Given the size of the government personnel reductions that are targeted (more than one million), and the contribution of small entrepreneurship to date (230,000), it seems clear that new policies on cooperatives or other private entities will be needed if the private sector is to be strong enough to absorb so many leaving government employment.

Private Cooperatives

Cuba has long had private cooperatives in agriculture, some consisting of only a few dozen private farms. Now, consideration is being given to the creation of cooperatives outside the farm sector.

The *lineamientos* provide that they will be permitted “as a socialist form of collective property in different sectors...integrated by persons who join together contributing goods or labor....and assume all their expenses with their income.” They will be permitted to contract with any legal entity (individuals, government units, foreign companies), and they will set their own salaries and profit distribution.

In Cuban media, discussions of cooperatives have focused on their long history in other countries, and on the idea that they are defined not by their source of capital but by the way they are governed democratically. A 2011 *Granma* article envisioned new cooperatives in areas such as manufacturing; food, transportation, and other services; and all-around home maintenance and repair. A briefing document on Havana province from 2010 discussed possibilities, such as park maintenance and bridge repair, that would likely be contracted by municipal governments.

In March 2012, Cuban media reported that the Council of Ministers approved pilot projects for the creation of non-farm private cooperatives in three provinces.

Two kinds of cooperative seem to be at issue.

First are the conversions. Studies have been done of many state enterprises that are relatively small and not in areas of strategic importance, such as repair shops, cafeterias, and light manufacturing. Just as the state has shed barbershops and beauty shops and turned them over to private operators who pay rent, the state seems poised to convert small and mid-sized operations into cooperatives that would have to fend for themselves.

Second are the start-ups. This would involve any group of people who decide to join together to provide goods or services through a cooperative form of enterprise.

For some time, workers in state enterprises have been anticipating the possibility that their workplaces would be converted to cooperatives. Many are wary of the possibility of job loss. On the other hand, two twenty-something sandwich vendors in Havana, employed by a tourism ministry company, relished the idea. Their “miserable” salary of 250 pesos per month, one said, is so low that they have to live from tips. If their operation were turned private, they would offer “sodas, roast pork, everything,” he said, not just the ham and cheese that the company provides.

Impact. Each conversion from state enterprise to cooperative would serve the government’s goals of reducing state payrolls, reducing government spending, ending government management of economic units that it does not want to manage, and expanding the private sector. A substantial opening in this area could create the equivalent of a small and medium-sized business sector, and could potentially create the numbers of new jobs needed to enable the state sector reductions sought by the government. With added scale, productivity gains are likely. If professionals are permitted to form cooperatives, further gains in productivity are likely, along with possibilities for new exports of services.

What to watch. The concept of cooperatives has been discussed, but the legal and regulatory details that will govern new cooperatives are not known.

- Will anyone be permitted to form a cooperative?
- Will professionals be permitted to offer their services, such as architects, engineers, and others?

- Will the cooperatives be open to all lines of work, or will some lines of work be restricted?

State Enterprises

In an appearance before Cuba’s legislature, economy minister Marino Murillo was asked what the central government could do to provide more working capital for a state enterprise in Holguin in eastern Cuba. The solution, he said, “is not in providing money from the central government budget,” but rather in figuring out how to make the enterprise profitable. “The central government should receive money from the enterprises, not the other way around.”

No one could disagree with that goal. And surely there are many state enterprises where it is not a challenge to turn a profit – the company that produces oil and sells retail gasoline, the hotels in prime beach or urban locations, the retail outlets that operate in hard currency, the cell phone company, the inter-provincial bus company that charges hard currency fares, and many more. These businesses operate in attractive markets and are shielded from competitive forces, if indeed they are not outright monopolies. Murillo’s challenge has to do with state enterprises that are not so favorably positioned and are often removed from tourism and the hard currency economy – the factory that retreads tires, the trucking companies that move farm produce according to government plans, the tomato cannery, the furniture manufacturer, the cafeterias, shoe repair shops, and other consumer service businesses that are in nearly every town.

The *lineamientos* provide that subsidies to state enterprises will end and those that fail to turn a profit will be dissolved. They also provide that managers are to be given the authority to make decisions affecting the course of their business. These are the key elements of a state enterprise improvement program, called *perfeccionamiento empresarial*, that began in the military enterprises when Raul Castro was defense minister and was applied to some civilian companies in the 1990’s.

The economic logic of these principles – businesses should profit or die, managers should have the authority to do their jobs, the government should set rules that govern markets rather than manage operations



“The land is there, the Cubans are here, we’ll see if we work or not, if we produce or not, if we keep our word or not – it’s not a question of shouting ‘Fatherland or death, down with imperialism, the blockade hurts us’ – and the land is there, waiting for our sweat.”

– Raul Castro, in a speech July 26, 2009 in Holguin

of companies – is unassailable, as is their financial logic in a Cuban government eager to end subsidies and save money.

But implementation of managerial autonomy is more complicated. If managers in the entire state enterprise sector were suddenly free to slash costs, an immediate increase in unemployment would be likely as managers try to steer toward profitability. Some businesses might close altogether. The government, for all it wants to see its own “inflated payrolls” reduced, would lose control of the rate of change in the unemployment rate, a key factor in governance and the political management of the reform process.

There’s more. If business autonomy includes the ability to import or export without a ministry’s approval, then imports will become a new factor affecting the health of domestic enterprises. If it is cheaper for hotels to import towels and furniture rather than buy from Cuban producers, then those Cuban producers may be pushed out of business.

And yet more: Cuba needs to decide what to do with its special exchange rate for state enterprises, which distorts values in foreign trade. Individuals trade the Cuban peso at 25 to the dollar, but Cuban enterprises trade them at par. Therefore to import a good that costs one dollar, a Cuban company pays a risible \$0.04. On the losing end, a Cuban exporter receives \$0.04 for every good that fetches a dollar when sold abroad. Any devaluation of the peso in that business exchange rate, even if partial, will increase export incentives and reduce import incentives.

In sum, the declaration that all state enterprises must profit or dissolve is important, but it is only one element of the decisions that the Cuban government must make regarding the kind of environment in which state enterprises will operate.

Impact. A complete reform of the state enterprise system would definitively end Soviet-style material planning, where factories were given quotas of supplies and expected to deliver specific quantities of product. In its place would be a system based on finances, and if exchange rates are adjusted, the finances would reflect the real cost and value of Cuban goods and services in the international market. A full-blown reform would expose the state enterprise sector to domestic and international competition, with a substantial sorting out of winners and losers.

 **What to watch.** If the government’s gradual approach to laying off government workers is a guide, the reform of state enterprises is likely to be gradual too.

- How will the measures be sequenced? Will particular enterprises or sectors be reformed first?
- How much do government finances have to improve before the process begins?
- Will state enterprise managers be given complete authority to make strategic decisions, or will it be limited?
- How will the pace of closures and layoffs be managed?
- Will the artificial 1:1 peso/dollar exchange rate be abandoned? Gradually or all at once?

Foreign Investment

As early as July 2007, Raul Castro set a goal of increasing foreign investment in Cuba’s economy. But apart from continuation of some initiatives already under way, such as Venezuelan investment in the energy sector, Brazil’s financing of the redevelopment of the port of Mariel, and continued courtship of foreign oil companies to join offshore exploration, little has been done to bring in additional foreign private investment. In an economic reform process slated to take until 2015 to complete, this sector is taking longer than most.

The party’s *lineamientos* reiterated the need for additional foreign investment and called for acceptance of projects according to broader criteria than those used to date: instead of looking only for projects that bring new capital, technology, or markets, projects are to be sought to meet other goals such as job creation or increasing national production in strategic areas. The *lineamientos* also called for more rapid decisions on potential projects, consideration of business models other than joint ventures; and pursuit of investments from countries not now active in Cuba.

In July 2010, to help in “expanding and facilitating the process of participation of foreign investment in international tourism,” Decree-law 273 was promulgated, changing the maximum term for which foreign entities may be granted land rights in Cuba from 50 to 99 years. The purpose of this move was

to allow foreign companies that develop golf courses in Cuba to sell long-term leases for housing built in and around the golf courses. In spite of this change, none have broken ground on new golf course projects, which are a priority for the tourism ministry.

In December 2012, Raul Castro announced to the National Assembly that Cuba had taken a measure aimed at “re-establishing the credibility of our economy” by ending its freeze on the bank accounts of certain foreign companies that do business in Cuba. The accounts had been frozen years earlier when the Cuban government faced a liquidity crunch and could not back up the companies’ deposits with hard currency. The freeze prevented the companies from repatriating revenues and profits.

Impact. Private foreign investment has made large contributions to Cuba’s economy in energy, mining, telecommunications, tourism, and other strategic sectors. Its participation has been limited by Cuba’s highly selective approach to approving projects, policies that favor Cuban ownership over mixed ownership (e.g. in tourism), the low purchasing power of the Cuban public, U.S. sanctions, and other factors. Today, in light of Cuba’s need to generate new jobs, lift productivity, and re-tool its state enterprise sector, one can envision a role for expanded foreign investment in the island’s changing socialist economy.

In recent years, both foreign companies and foreign governments promoting their countries’ trade and investments have found that in spite of government statements calling for more foreign investment, Cuba’s policies and priorities are not yet clear. “A lot of money is waiting to come into Cuba,” one investor said.

 **What to watch.** Only political will, and perhaps adjustments to some Cuban laws, stand in the way of creating new openings for partnerships with foreign capital.

- Will the government start seeking foreign investment in new sectors of the economy?
- Considering Cuba’s experience and potential in sugar production, will Cuba join with foreign investors to build modern mills and refineries to produce ethanol for energy?

- Will the golf course/real estate projects that have been mentioned for so long in the media, finally receive a green light and proceed?
- Will Cuba change the terms of joint venture agreements or amend its foreign investment law to increase the incentives for foreign capital to come into Cuba?

Removing “Excessive Prohibitions” on Consumer and Citizen Freedom

Travel. The *lineamientos* commit the government to studying “a policy that would facilitate Cubans resident in the country traveling abroad as tourists.” Currently, Cubans need to obtain a permit from their own government, called the *tarjeta blanca*, to travel abroad for any reason.

Officials are also discussing “a profound radical reform” of migration and consular policies, according to National Assembly President Ricardo Alarcon in an April 2012 interview. He and others have suggested that in addition to allowing Cubans to leave Cuba more easily, the reform will also affect the many processes and fees that Cubans residing abroad confront when they want to visit Cuba. Cuba’s immigration and citizenship laws have a unique feature whereby emigrants are given a status called “definitive departure” (*salida definitiva*), under which they divest themselves of their property before departing and need to obtain permission to return to their country.

Persons close to the migration debate in Cuba report that one thorny issue is the treatment of doctors who wish to travel abroad, given the risk that they might decide not to return. In his interview, Alarcon referred to a special fast-track U.S. visa program for Cuban doctors that serves as an added incentive for them to leave medical missions abroad and immigrate to the United States. “We have the right to protect our human capital,” he said.

Housing. See “The legalization of residential real estate sales” - page 30.

Cars. The sale and purchase of cars between Cuban citizens was legalized in October 2011. Transactions involving cars made before 1959 were already legal; the new action allowed Cubans to buy and sell cars made since then. These cars, Soviet-era Ladas and more recent Korean and other makes, are generally in

All-important “Structural Change”

“To be rich is glorious,” said the late Deng Xiaoping, leader of a country that is now calls its model “market socialism” complete with private enterprise, private wealth, and a stock market.

Communist countries are all engaged in the “construction of socialism” but have never followed uniform economic policies – not today, as the differences between China, Cuba, Vietnam, and North Korea attest, and not in the past when the Soviet Union anchored a multinational economic bloc.

A key feature in all socialist economies is the boundary between state and private activity, and the “updating” of Cuba’s economic model in large measure involves adjustment of that boundary.

In July 2007, Raul Castro signaled that important change was coming with one sentence in a speech: “We must introduce the structural changes and changes of concepts that may be necessary.”

“Structural change” has a particular meaning for Marxists; it means changing the relationships of workers to the means of production. Examples include a worker who leaves a government job to become an entrepreneur; a state-owned cafeteria that converts to a cooperative where workers divide profits rather than earn salaries; a policy change that converts homes into means of production where rooms are rented for lodging or for an entrepreneur’s business premises; or a tract of state land that is divided and given to new private farmers who will work the parcels and profit from their surplus.

Addressing the National Assembly in 2010, Raul Castro said Cuba had moved too much economic activity into the state sector, is correcting that error, and the expansion of private activity is not in contradiction with socialism: “In designing the features that should characterize the construction of a new society, the classics of Marxism-Leninism defined – especially Lenin – that the state, representing all the people, should keep ownership of the fundamental means of production,” he said. Apparently referring to the seizure of private businesses in the early years of the socialist government, he continued: “We were absolutists about this principle and moved almost all economic activity into the state’s hands. The steps we have been taking and will take in the expansion and liberalization of entrepreneurship are the fruit of deep consideration and analysis and we can be sure that this time there will be no turning back.”

“After the U.S. war of aggression against Vietnam, the heroic and undefeated Vietnamese people asked us to teach them how to grow coffee, and there we went, and we taught and transferred our experience. Today Vietnam is the second-largest exporter of coffee in the world. And a Vietnamese official said to a Cuban colleague: ‘How is it possible that you taught us to grow coffee just the other day, and now you are buying coffee from us?’ I don’t know how the Cuban responded. Surely he said to him: ‘*El bloqueo.*’ ”

– Raul Castro, addressing the National Assembly, December 19, 2010; “*el bloqueo*” means the U.S. embargo

the hands of Cubans who got the privilege of acquiring a car due to their position in government, their service in military or medical missions abroad, or other factors. Purchase of new cars was also opened up, but with certain restrictions. Some state employees who earn hard currency qualify; so do artists and medical personnel who served on missions abroad. Excluded are others such as entrepreneurs, farmers, and foreign company employees, some of whose earnings could well permit them to buy a new car – not to mention a Cuban who receives money from a relative abroad. In this new policy, the intention is clearly not to create a wide-open market or to attract as much capital as possible from abroad. People with money in all these categories are having to settle for the used car market where prices are very high.

In April 2012, *Granma* reported that in the first three months of 2012 there were 2,730 sales and 10,660 donations of homes, and 8,390 sales and 6,780 donations of cars.

Impact. The new housing market will create a source of wealth for many Cuban families and is already bringing capital into Cuba. Migration reform seems to be a double-edged sword. In the near term it could increase emigration, worsening Cuba’s demographic troubles. In the long term, if the economic reforms improve Cuba’s job picture and if Cuba becomes a country where citizens can travel in and out as they please, it is possible that fewer Cubans would want to emigrate.

What to watch.

- Will restrictions on car sales be liberalized?
- What will be the provisions of Cuba’s reform of travel and migration policy?
- Will all Cubans be permitted to travel abroad without Cuban government permission, or will restrictions remain for doctors and other categories of professionals?
- Will the *salida definitiva* category of Cuban emigrants be abolished?
- Will the government reduce the consular fees it charges Cubans to keep their passports up to date and to travel home?

Tax Policy

The most substantial change in Cuba’s tax law is the new system of taxation applied to entrepreneurs, as discussed above. But more changes are on the way.

In a December 2010 appearance before the National Assembly, Finance Minister Lina Pedraza outlined a series of tax proposals under development: sales taxes, taxation of private farmers’ income, and possible taxation of state sector salaries (presumably after those salaries are increased). There will be a tax on working-age citizens who choose not to work, in order to make them contribute to the cost of social services. A value-added tax was ruled out, she said. There will also be dedicated taxes to finance environmental protection projects, and an increased share of tax revenues will be dedicated to local governments.

When a new law is enacted to permit private cooperatives outside the agricultural sector, one can assume that the tax system will find a way to capture some of their income, or that of their members.

Impact. With changes of this nature, Cuba will be developing a tax system that fits its new employment structure, and moving toward a distribution of tax revenue that suits its new emphasis on local government initiatives.

Given that sales made by private entrepreneurs and cooperatives are in cash, the government relies to a large extent on these taxpayers’ honesty in declaring their income and deductions.

 **What to watch.** The government has shown a willingness to adjust tax policy promptly, as in 2011 when it reduced taxation on entrepreneurs to encourage job creation. That will continue to be a large consideration. If taxes are so high as to discourage job creation among entrepreneurs and, in the future, private cooperatives, then the government will be less able to proceed with its plan to save large amounts of money by removing hundreds of thousands of workers from state payrolls.

Local Government

Under new tax policies, municipalities will receive tax revenues from local enterprises and entrepreneurs – monies that previously

went to the central government. Local governments are to use these funds to develop economic projects, albeit subject to central government approval.

This initiative is new and just getting under way. A July 2011 report in *Juventud Rebelde* noted that in the province of Villa Clara, 30 projects are in operation and ten more submitted for approval; they involved municipal sanitation, food service, farming, fishing, textile production, and other activities. The report also said that projects are being designed that would involve collaboration with private entities, research centers, and universities. The emphasis is on “generating income through products and services that substitute for imports.” A report on projects in other provinces discussed projects that may be undertaken with foreign assistance. Impact. Local development projects are not new in Cuba, but the central government’s new push and the local governments’ new sources of income could increase their number dramatically, contributing to strategic goals such as raising output, employment, and government revenue, and reducing imports.

What to watch. Will local government projects:

- be large in number?
- receive easy and prompt approval from the central government?
- collaborate with private entrepreneurs and cooperatives?
- involve foreign financing, either commercial credit or foreign government assistance?
- lead to an incubation process for small- and medium-scale development projects that can be repeated elsewhere?

Credits for business and home improvement

Cuban banks have long provided loans to farm cooperatives, they have offered credit to new recipients of farmland in usufruct since 2008, and in 2011 they began making loans to individuals for business and other purposes.

Given the priority placed on increasing farm production, Cuban media have publicized the availability of loans and the process for obtaining them. In July 2011, *Juventud Rebelde* published an interview with the President of the Bank of Credit and

Commerce, Ileana Estevez, prefaced by the statement that bank credit “is not being used to the maximum” and “needs to become a commonplace occurrence.” Estevez reported 13,000 borrowers in the farm sector, with only one percent defaulting or showing signs of trouble with repayment. Asked about procedures and application paperwork, she noted that the bank negotiates at some length with potential borrowers because the bank cannot possess a delinquent borrower’s home or other assets. The reason: “This is a socialist country,” she said.

On December 20, 2011 a new credit policy allowed Cuban banks to make loans to entrepreneurs, farmers, and individuals who want money to make a major purchase or to finance a home improvement project. The minimum amount is 3,000 Cuban pesos, about \$120. Terms include amortization periods of three to 60 months and interest rates from one to 8.5 percent. In July 2011, Cuba’s central bank president told a legislative committee that the rates should be profitable for the bank, but they should be set “in correspondence with the need to stimulate economic activity.”

Impact. Bank credits to individuals for private sector activity is one more element of economic infrastructure that can enable the private sector to grow, and also to facilitate the improvement of Cuba’s housing stock through private initiative.

What to watch.

- Are the terms of loans attractive?
- What impact are the credits having in agriculture, especially in the case of those entering farming for the first time on land newly granted by the state, and whose need for capital is very high?
- Will Cuba work with governments and private sector institutions abroad that wish to assist by providing microcredits to small entrepreneurs and farmers?



“We must be aware that every wage increase we approve, or every price we establish, must be consistent with our economic possibilities. Otherwise, the amount of money circulating increases, prices automatically increase, and there is no real purchasing power increase.

“For the worker to feel like the owner of the means of production we cannot rely solely on theoretical explanations – we have been doing that for about 48 years – nor on the fact that his opinion is taken into consideration in the labor meetings. It is very important that his income correspond to his personal contribution...

“In socialism it is vital that the allocation of resources in the economic plans strictly reflect the available funds. We cannot expect two plus two to total five. Two plus two is four. Actually, sometimes in socialism two plus two equals three.”

– Raul Castro addressing the National Assembly, July 2008

Conclusion

The reform of Cuba’s socialist economy, as described in the Communist Party’s *lineamientos*, is planned to carry on through 2015. The record so far indicates that reforms will continue at a deliberate but steady pace, with trial, error, and correction along the way.

Outsiders, seeing that Cuba is a one-party state, readily ask why the reform process moves so slowly given that it is backed by clear government and Party commitments. There are several possible reasons.

One reason is political caution, a hesitancy to force changes that are inevitably going to cause dislocation. Cuban leaders have underscored the urgency of change, but none argue that reforms need to be implemented with emergency shock therapy. All indications are that they seek the therapy without the shock.

There is also resistance.

Some is bureaucratic: government employees do not want to work themselves out of a job. Some is ideological, on the part of committed socialists who equate markets and incentives with capitalism itself, and who think reforms will lead to the system’s undoing.

Just before the recent visit to Havana of the Vietnamese Communist Party chief, Nguyen Phu Trong, the Cuban newspaper *Juventud Rebelde* praised Vietnam’s “*doi moi*” economic restructuring, calling it a “process that contemplates introducing the logic of markets into the economy, but with a socialist orientation.” *Granma* ran an interview of Nguyen, who talked about its difficulties, the hardest of which was “to change the general and individual mentality in Vietnam” in the face of many who “thought that the country intended to abandon socialism.” Cubans are in this “same phase,” he said. History has shown that Vietnam has not abandoned socialism, he asserted, citing Vietnam’s broad-based growth and poverty reduction.

A Cuban economist who was involved in the reforms of the early 1990’s sees that process and today’s as different as night and day. “It’s a change in paradigm,” he said. “Then the goal was to overcome the crisis and keep the model intact; now the model itself is changing in nature, not in degree. And as the economy changes so will the complexity of the social issue.”

“The complexity of the social issue” may be a euphemism for the challenge of governance at a time when the average Cuban family sees jobs, careers, social benefits, salaries, and opportunities all in play, with a dose of uncertainty.

Hence Cuba’s government joins many others that have had to manage simultaneously a process of economic change and the political fallout that comes with it – fallout that reaches beyond the near-term fortunes of the Communist Party of Cuba.

In a political system where the state’s economic sway has been so large for so long, a change in economic structures cannot help but affect politics, political culture, and governance too.

How?

Redefining the role of government. In many respects, the Cuban economic reform process amounts to the government challenging itself to let go of myriad economic activities that it has long operated, managed, planned, controlled, or regulated. In agriculture, it is substantially reducing its role in buying, storing, transporting, and distributing the bulk of the nation’s food, and it is preparing for markets to take over. By allowing small entrepreneurs to hire employees, it is abandoning its role as the nation’s sole employer. If it delivers promised reforms in state enterprises, government ministries will no longer have a role in strategic decisions about state enterprises; their executives alone will make them. By allowing private entrepreneurs and cooperatives to enter contracts with any legal entity in Cuba, the government is giving up a large planning and supervision role. Permitting the sale of residential real estate implies new flows of capital, creation of wealth, and even changes in the urban environment directed by actors in a new market, not by the state. And on and on. No one doubts the large economic role that the socialist state will continue to play, but it is drawing the boundaries of its own authority inward.

Changing the social contract. Cubans have been accustomed to a state that has provided lifelong employment for many, some quantity of very highly subsidized food each month, and an array of health, education, and other services that, while imperfect, have costs nothing or next to nothing. These were achievements of the Revolution, but now they are deemed unaffordable and, worse, signs

of “paternalism.” At the same time, as some government functions and enterprises have been identified as superfluous or inefficient, some workers are being declared redundant and encouraged to find new jobs, including in the expanding private sector. It is a definite change in the economic relationship between state and citizen.

Opening the debate. Cuba’s press remains state-controlled, but its pages and airwaves are featuring more blunt and accurate reporting and criticism of economic performance than in the past. Catholic media, while limited in circulation, have given voice to advocates and analysts of economic reforms, including many who call for faster and deeper changes.

Human rights. The removal of what Raul Castro terms “excessive prohibitions,” particularly in the area of consumer freedoms, has not been framed in human rights terms. But the prohibitions were criticized on human rights grounds, and their removal surely constitutes an advance in human rights. The ban on hotel stays was particularly offensive to Cubans. The ability to sell a property to which one holds title is essential to property rights, and it gives new options to many Cubans. An end to travel restrictions would be another very substantial change.

New interests. Because of their new weight in the economy and their importance in its development, entrepreneurs, cooperatives, enterprises, and individual property owners have the potential to develop significant voices in policy debates.

Local government. The new push for local governments to initiate revenue-generating economic development projects, and the provision of new tax revenues to help to finance them, can give local governments a new degree of significance and responsibility, and potentially accountability. For citizens, it will potentially matter more who is chosen to lead municipal governments. And it is possible that leadership development at the local level will come to mean not just carrying out mandates from Havana, but showing Havana what kinds of initiatives can be developed by local officials. Given their interest in the revenues, municipal governments could feel a stake in the success of the emerging private sector.

Demonstration effect. If Cuba’s private sector expands and succeeds, it will demonstrate that markets and enterprise, rather than planning and centralization, can be vehicles for improving economic conditions even in a socialist context.

Government popularity. There is no doubt that the economic reform program addresses bread-and-butter concerns of many Cubans, if not the vast majority – creating an economy where work is rewarded with good pay, where there are no more arbitrary divisions between occupations that provide decent purchasing power and those that do not, and where there is opportunity sufficient to reduce the incentives so many Cubans feel to emigrate. This is all a tall order, contingent on the program’s full and successful completion. But already, the reforms are producing winners who have improved their livelihoods. The result could be increased support for the government or the socialist system, a key factor in a change of leadership after the current “historical” generation of leaders leaves office.

Finally, the economic reforms affect the legacy that the Cuban Revolution’s first generation leaves to its successors. Had a generational leadership change occurred not too many years ago, the new leaders would have inherited a set of economic policies that were unpopular, unquestioned, and ill-suited to Cuba’s development needs. It is debatable whether the current reform program is adequate to Cuba’s needs, but it is built on a foundation of realistic self-criticism. Raul Castro’s greatest contribution may be to have legitimized debate on some long-standing pillars of Cuban socialism.

The next generation, in other words, will inherit a changing Cuba from elders who admitted errors made decades ago and began to correct them. The next generation will decide not whether, but how far to carry that process of change.



APPENDICES

I. A Chronology of Reform “To change all that must be changed”

2006

July – On July 31, 2006, Fidel Castro falls ill and temporarily delegates power, and Raul Castro takes over provisionally as President of the Council of State and head of the Cuban Communist Party.

2007

May – Private taxi drivers notice that police are no longer stopping them to check to see if they are licensed.

July – Raul Castro’s first major speech as acting President gives a glimpse of his reform ideas, calling for “structural changes and changes of concepts” and placing a priority on agriculture. He quotes his brother Fidel: “Revolution is a sense of the historical moment, it is to change all that must be changed.”

December – The under-the-table pay supplements that foreign companies have long provided in hard currency to Cuban workers are legalized. Companies must keep records of such payments and the workers must pay income tax on them.

2008

February – Raul Castro becomes Cuba’s chief executive, President of the Council of State, a post he held provisionally since 2006.

March – Following Raul Castro’s promise to remove “unnecessary prohibitions” that affect citizens’ lives, a series of consumer restrictions are lifted. Computers and DVD players are permitted for sale to the public, Cubans are permitted to have cell phone accounts in their own name (previously, they typically enlisted a foreign visitor to open an account in the visitor’s name), and Cubans are permitted to stay in tourist hotels and to rent cars previously available to tourists only.

April – Raul Castro announces that the Council of State commuted death sentences of “a group of convicts” and left them with 30-year or life sentences. This action left only three inmates on death row, all convicted of terrorism-related charges. Two of these three,

both citizens of El Salvador, had their death sentences commuted by the Supreme Court in 2010; the court changed their sentences to 30-year jail terms.

July – A program of agricultural land grants that had been under way for months was formalized in Decree-Law 259, providing for the distribution of idle state lands to individual farmers and cooperatives. Grants are made in usufruct in ten-year terms for individuals and 25-year terms for cooperatives.

July – The transportation ministry announces that it will soon begin granting new licenses for private taxis.

August – A new labor policy removes ceilings on individual earnings in the state sector and directs state sector employers to develop sliding pay scales that reward productive workers with higher pay.

2009

January – Regulations are published to enable licensing of new private taxis, and their numbers double within six months.

April – Following an announcement in December 2008 that the government was conducting “experiments...to lighten the state’s burden in the provision of some services,” the government begins turning over small barber and beauty shops to their workers, who pay rent and utilities and otherwise run the shops as their own business.

June – A new decree permits Cubans to hold more than one job, except for persons holding high-level jobs, teachers, and health sector personnel.

August – Raul Castro tells the National Assembly that Cuba might have to do without some “beneficial and even laudable activities” that generate spending that “simply is not sustainable.” He confirms the gradual closure of public boarding schools that combine study and farm work, which generations of Cubans attended starting as early as seventh grade. The Catholic church applauds it as a “positive step” that will keep families together.

August – The Office of the Comptroller is established, headed by Gladys Bejerano, to strengthen auditing inside state entities. The office goes on to figure in several investigations of corruption involving arrests of both Cuban and foreign businessmen.

September – *Granma* reports that as part of efforts to achieve “economic rationality,” the government will begin the process of closing 24,700 workplace cafeterias, beginning in four ministries in Havana. Affected workers will receive 15-peso daily stipends. The article notes that the cafeterias operate at an annual cost of \$350 million, and some of their inventories find their way to the black market.

October – A signed editorial in *Granma* argues that the monthly household food ration book should be replaced by a system of subsidies that go only to the needy.

2010

May – A meeting between Raul Castro and Cardinal Jaime Ortega begins a process, also involving the government of Spain, whereby 166 political prisoners would be released from jail, including the 52 remaining from the 75 arrested in the spring of 2003. Of those released, twelve decided to remain in Cuba and the rest accepted offers to go to Spain with family members.

August – To encourage outside investment in the tourism sector, the maximum term for land leases to foreign companies is extended from 50 to 99 years, a move welcomed by developers of prospective golf course/real estate projects.

September – A statement by the Cuban labor union federation announces that half a million state sector workers will be laid off by April 2011, with a “parallel increase in the non-state sector.”

October – Regulations affecting small private entrepreneurship, which Raul Castro calls “one more employment option” for workers that will no longer be working in the state sector, are substantially liberalized. Licensing offices, which for years had approved very few applications, assist applicants and generally grant licenses within a week. A new tax system for entrepreneurs is instituted. State newspapers, radio, and television explain requirements and procedures. In the first month, 29,000 new entrepreneurs are licensed.

October – A signed editorial in *Granma* likens the government’s finances to those of a family confronting the truth that “you can’t spend more than you bring in,” and points out the need for spending cuts, including in social benefits. It notes that education and health care, both free to the public, account for 47 percent of the government’s spending.

October – A news article in *Granma* reports on the “rationalization” of health care delivery in Havana through consolidation of clinics and specialized services, removing them from areas of low usage, and through reduction of personnel.

November – The Communist Party “*Lineamientos*,” the economic and social policy guidelines that are the basis for the reform process in each sector, are published in draft form and subjected to nationwide discussion.

December – Finance Minister Lina Pedraza, addressing the National Assembly, anticipates that 1.8 million workers will join the “non-state” sector by 2015 and describes the elements of a new tax policy under discussion: sales taxes, taxation of private farmers’ income, and a tax on people who are able to work and do not work, in order that they contribute to the cost of social services.

2011

February – State media announce that sugar is being phased out of the monthly household ration book, leaving consumers to buy sugar in state stores at eight pesos per pound (about \$0.32, half the U.S. retail price), rather than at the ration book’s deeply subsidized price. Similar announcements have been made regarding other products, as the ration book is slated for eventual elimination.

March – The plan to lay off a half-million workers by April 2011 is shelved; layoffs proceed but at a slower pace.

April – The newspaper *Juventud Rebelde* lists agenda items for a January 2012 national conference of the Communist Party, including “to plan the work of the Party, leaving behind prejudices toward the non-state sector of the economy.”

April – The Communist Party Congress elects Raul Castro to its top position, First Secretary, a post he held provisionally since 2006.

May – Following approval by the Communist Party Congress, the “*Lineamientos*,” the economic and social policy guidelines that are the basis for the reform process in each sector, are published in final form.

May – To help entrepreneurs get on their feet and to spur job creation, certain taxes and regulations are eased.



“It is necessary to change the mentality of cadres and of all compatriots as we face the new scenario that is beginning to become clear. It has to do simply with transforming erroneous and unsustainable concepts about socialism, deeply rooted in broad sectors of the public for years, as a result of the excessive paternalistic, idealistic, and egalitarian focus that the Revolution adopted in the interest of social justice.

“Many Cubans confuse socialism with free benefits and subsidies, equality with egalitarianism, and not a few of us view the ration book as a social achievement that should never go away.

“In that regard, I am convinced that several problems that we confront today have their origin in that distribution mechanism, which in its time was a healthy effort to assure the public a stable supply of food... [and] now constitutes a manifest expression of egalitarianism that equally benefits those who work and those who do not or do not need it...

“The solution to this complex and sensitive matter is not simple, because it is closely related to the strengthening of the salaries and that only will be possible if, in tandem with reducing free benefits and subsidies, we increase productivity and the supply of goods to the public.

“In the future there will still be subsidies, but not for products, but rather for Cubans who for one reason or another really need them.”

— Raul Castro, in his speech closing the Party Congress, April 2011

July – The Ministry of Education laid off 3,415 employees in the just-concluded academic year, relocated 3,667, and was moving to lay off 6,877 more.

October – Car sales are legalized. Previously, Cubans could only sell pre-1959 cars.

November – The Ministry of Sugar is dissolved and replaced by AZCUBA, an entity that will manage business units that previously belonged to the ministry.

November – A new decree permits Cubans and foreigners legally residing in Cuba to buy and sell residential real estate, with a limit of one residence and one vacation home. The measure streamlines the process of real estate transfers and encourages owners to update their property titles.

December – The government releases 2,900 prisoners serving sentences for non-political offenses.

December – Cuban banks begin to offer loans to entrepreneurs, small farm producers, and persons needing funds to fix up their homes. Cuban media promote and explain the new credits.

December – New regulations allow all agricultural producers to sell directly to hotels and restaurants in the tourism sector. Previously, tourism businesses could only buy from a state enterprise. A *Granma* article explains that the idea is to reduce spoilage, “to simplify the links between the primary producer and final consumer,” and to allow tourism installations to “take better advantage of the potential of all the forms of production at the local level.”

December – At a National Assembly session, officials set a goal for 23,000 new homes to be built by Cubans’ “own effort” in 2012. To facilitate do-it-yourself construction and repair, government retail stores are beginning to supply building materials, and consumers no longer need a government agency’s permission to buy them. State media criticize the stores for moving too slowly; officials say only half the planned number of construction supplies showed up on store shelves in 2011. In January 2012, profits from these sales were being used to provide low-income home repair grants, and Cuban media report that more than 200 grants were made in the first month.

2012

January – The Ministry of Public Health announces that its outlays were 7.7 percent less in 2011 than in 2010.

January – The *Scarabeo 9*, a moveable drilling platform for offshore oil exploration, arrives in Cuba and begins exploration north of Havana, 28 miles from U.S. waters. The exploration, conducted by a consortium led by the Spanish oil company Repsol in conjunction with the Cuban oil company Cupet, gives rise to hopes that Cuba could become self-sufficient in energy. (In May, Repsol announced that its exploration was not successful and the rig will be used by other companies in other offshore blocs.)

March – Cuban media report on a Council of Ministers meeting that approved pilot projects for the creation of private cooperatives in three provinces in sectors other than agriculture.

April – Cuban labor federation official Raymundo Navarro, in an interview with the EFE news agency, says that state payrolls have been reduced by 140,000 in 2011 and will be reduced by a further 110,000 in 2012; the goal is to reach a 500,000 reduction by 2015. The original goal, announced in September 2010, was to reach the 500,000 mark by April 2010.

April – The number of Cubans working in the entrepreneurial sector, including both entrepreneurs and employees, reached 371,200, an increase of 230,000 since October 2010.

April – *Granma* reported that in the first three months of 2012 there were 2,730 sales and 10,660 donations of homes, and 8,390 sales and 6,780 donations of cars.

II. The Media and Reform

In June 2006 Cuba’s Communist Party daily *Granma* ran a 5,800-word tribute to then-defense minister Raul Castro on the occasion of his 75th birthday. Among his leadership qualities, the article said, was this:

“In teaching the principles of criticism and self-criticism, Raul has demonstrated the need to discuss problems with all honesty and courage so as to bring about frank and constructive debate that will solve those problems and eliminate deficiencies.”

Within a month, Raul Castro became acting President. Soon after that, Cuba's state-controlled media began to change. Its pages began to include occasional blunt criticism and reporting that exposed the shortcomings of economic policies and government performance. These opinions, critiques, and reporting have often served as leading indicators of the direction that policies will take. In combination with speeches and official statements divulged through the media, they constitute what officials call the "subjective" work of convincing Cubans in and out of government of the need and reasons behind economic reform.

Official Media

An early example is a series of three news articles in the newspaper *Juventud Rebelde* in October 2006 entitled, "The big old swindle." Using reporters posing as consumers, the series showed that state retail and service businesses were consistently charging more or delivering less than the established norms, with employees pocketing the difference. It cited official data showing such cheating in 52 percent of state retail establishments. Reporters' visits to barber shops, shoe repair facilities, cafeterias, and many other establishments provided many examples.

The series also exposed that in many cases, the state was failing to provide supplies essential for many establishments to operate. A shoe repairman had to buy all his own materials, a barber did the same, a taxi driver managed to repair a vehicle that the state was preparing to scrap; there were many other examples that resulted, reasonably in the light of the facts, in prices higher than the state norms.

The final article noted that a study of "socialist property" was being undertaken to "go to the causes of the problems." The study was not made available to the public, but the government has now converted barber and beauty shops into private entities, and pilot projects are beginning where state enterprises will be converted into private cooperatives.

Other examples:

– An October 2007 article in *Juventud Rebelde* described problems in dental services based on reporters' visits to clinics in six provinces. They found shortages of personnel, equipment, materials, and even running water. They cited dentists who work with patients and others through informal means to obtain

and distribute supplies. They found "private clinics" where patients pay for services. They interviewed a top official who agreed that dentists are not ideally distributed across Cuba, and said that when thousands of dental personnel in training begin to practice their profession, the Cuban public will be better served and Cuba will be able to "maintain cooperation with other nations" – an indirect admission that shortages are caused at least in part by dentists serving abroad.

– In November 2007, *Juventud Rebelde* ran a long article on Cuba's unemployment figures that showed how those figures "are never a reflection of reality." It cited a survey by social workers in Granma province, showing that unemployment is 18 times higher than official figures show.

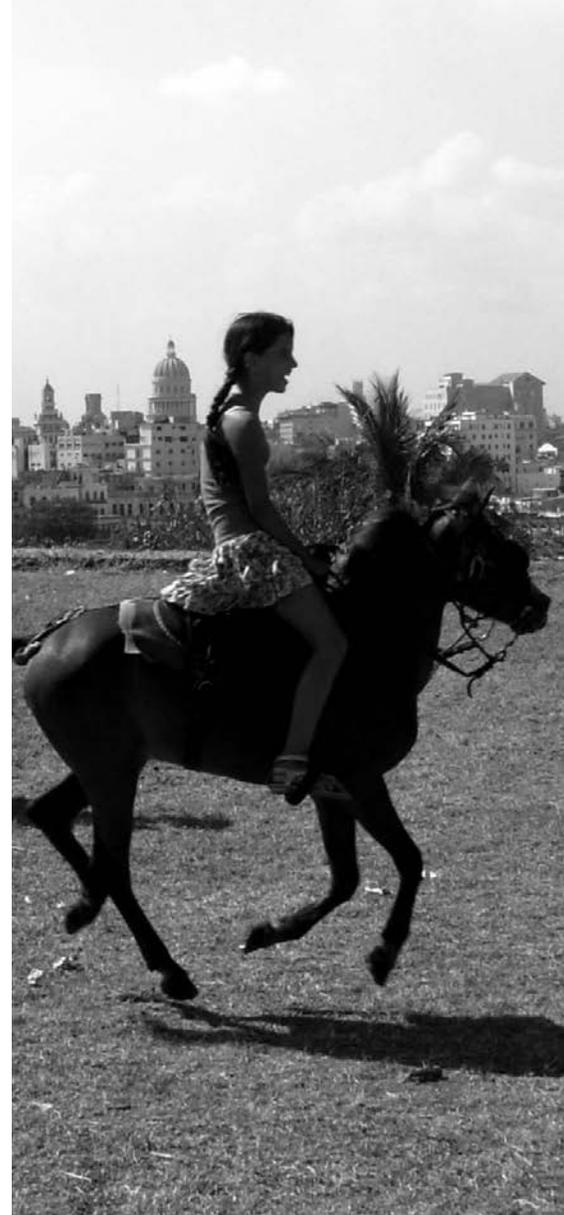
– An August 2009 column by Jose Alejandro Rodríguez in the same paper called for open criticism of socialism's failings. He cited a "sick obsession" with protecting the image of the country or a ministry or an enterprise at the expense of honest diagnoses that could make things better. He ridiculed the idea that honest internal criticism about corruption or other matters gives "weapons to the enemy." Silence and conformity, he argued, are "the most dangerous missile" that could be given to those who want to "dismantle the work of 50 years."

– Another August 2009 *Juventud Rebelde* article reported on the loss of rice at a Camaguey cooperative for lack of capacity to dry it. Yet another reported on an exceptional initiative where a municipal official in Jatibonico, Sancti Spiritus, rescued a locomotive headed for the boneyard and used it to establish passenger service for seven communities. This type of effort is exceptional, the article said, because most localities wait for "decisions, solutions, and even initiatives" to come from above "in the same way in which manna was sent to the Israelites in Biblical times."

They get letters...

"I never saw a problem with *Granma* delivering the official line," a party loyalist commented about the Communist Party daily that is Cuba's main newspaper, "but I never understood why it had to be so boring."

For many Cubans, *Granma* became more interesting to read in March 2008 when a new letters to the editor section began to run





28

every Friday, including government officials' responses to some of the letters.

In March 2009, one year after the letters column started appearing, *Granma's* editors wrote that they were receiving 13 times the number of letters received previously. The economy and housing were the most popular topics, and the editors noted that they hear from "intransigents" who complain that the letters column "did not cover all their interests."

Consumer difficulties and complaints about mistreatment by the bureaucracy are staples of the letters column.

– February 5, 2010: A. Sarría de López wrote to complain that an empty agriculture ministry bus headed eastbound from Pinar del Rio not only failed in its duty to pick up passengers, but the driver and assistant demanded money from potential passengers. A response was published March 19, 2010 indicating that the driver and assistant (a mechanic who should have been in his shop) were fired.

– February 5, 2010: A note provides an e-mail address and phone numbers where complaints about agriculture can be directed, indicating that the Minister has ordered that his personnel respond.

– January 7, 2011: I. Brooks Beltran wrote to complain about employee "apathy" in the Mantilla pharmacy in Havana, where she went to buy vitamins and medicines for her 14-month-old daughter. She was twelfth in line and experienced a two-hour wait as only one employee waited on customers. She asked to speak to the manager, but left after waiting in vain for 25 minutes. Three weeks later, a response from the health ministry was published indicating that the manager and another employee had been fired and another employee was transferred to a lower-paying job.

– February 4, 2011: A. Almarales Isaac wrote about his experience seeking to get tires repaired at a Havana "Servicentro...if one can call it that." A worker offered to do the work for less than the normal price but refused to give a receipt, leading to the suspicion that he was going to perform the work and pocket the money. A response was published April 1 by the head of the provincial auto service enterprise, who noted that the complaint was the "subject of analysis" and among several measures taken, the worker had been fired.

– January 28, 2011: O. Hidalgo Pupo of Buey Arriba, Granma province, wrote to complain that he responded immediately in 2008 when Raul Castro called for idle lands to be put into production, but was stymied by the local bureaucracy when he asked for new land to be assigned to him. His letter, headlined "The Bureaucracy's Damage," provided a chronology of delay and indecision. It received a published response February 18 from the province's top agriculture official. The 1,200-word reply detailed the work of a four-member commission that investigated Pupo's case. The result was a demotion and other disciplinary actions. Pupo, "who enjoys prestige as a good producer in the area," got his land.

The letters are also a forum for opinions about economic policy, and they have foreshadowed debates and decisions undertaken by the Communist Party and the government.

On May 14, 2010, one month after Raul Castro first stated that state payrolls may have one million workers too many, and five months after the economy minister told the legislature that a search is on for ways "to lighten the state's burden in the provision of some services," three letters advanced the idea of converting small state enterprises into cooperatives or other private entities.

– From J. Martinez Montes: "Whether private, cooperative, mixed association, or however we want to label the way of setting up non-strategic economic activities...food service, sweets shops and bakeries, small stores, workshops, repair shops, etc., could very well become new sources of employment and opportunities for the creativity of Cubans... There are very good examples of these practices; take China, Vietnam, and other countries where the state sets taxes and provides raw materials..."

– From J. L. Marichal Castillo: "In many opinions the term 'privatize' is used, as if there didn't exist formulas to socialize production and services such as cooperatives, production or service associations, etc. The name can vary, what is important is the content...The food service sector is often discussed, but these changes should include all possible sectors and for those that remain state entities, changes will have to be introduced too... The state should continue to own installations, buildings, etc. It should charge fair prices for everything, require social security and tax payments, and without doubt, have the legal capacity to intervene and even dissolve any type of organization when

its auditors or other police organs (and that is not constant harassment) detect infractions incompatible with socialist legality.”

– From J. Miguel Valdes: “In my opinion I believe that changes are urgently needed in the economic thinking of our country. I am not an economist but I believe that to permit, for example, the existence of private property in non-strategic means of production, such as food service – and always in a controlled way with taxes, fair licenses, assurance of the delivery of raw materials, etc. – far from overturning advances already achieved or creating a national bourgeoisie, would combat the diversion of resources that causes so much harm to the nation and would improve substantially the quality of services that is now terrible in almost all public establishments.” These letters argue that new forms of private production can create jobs, improve quality of services, generate tax revenue, and reduce theft of state resources – goals the government has forever embraced. They also broach the most difficult issue of all: the ideological leap that a communist system must take to allow private businesses or cooperatives. Like some in government, they argue that such changes are compatible with socialism.

Catholic Media

Cuba’s Catholic church has long published magazines that cover religious, cultural, historical, and current events topics. These publications are now playing an independent role in the current debates on economic and other reforms, giving a platform to writers both inside the church and outside, including Cuban Americans and other writers from abroad. The perspective is frequently critical, often pointing to the benefits of deeper and faster liberalization. The Catholic journals’ contribution to the debate is a counterpart to the unprecedented dialogue that Cardinal Jaime Ortega has been conducting with President Raul Castro on the same topics.

– In advance of the Cuban Communist Party’s January 2012 conference, an editorial in the Archdiocese of Havana magazine *Espacio Laical* stated that the Cuban public, having waited with patience and generosity for the government to act, feels that the reforms lack “something big...capable of renewing life and banishing despair.” It chided the Communist Party for being “tied to dogmas that failed in other experiences, and stuck in a very vertical relationship with society.” (“Vertical” in the sense of giving orders to those below.) The

editorial applauded reforms made to date and acknowledges that the process should not be rushed. But it called for prompt action to authorize private cooperatives and small and medium-sized enterprises and to allow professionals to work autonomously, i.e. in the new and developing private sector. It argued that the Communist Party’s reform project will fail if it is not built on a consensus that reflects “the real country,” which is to suggest that the Party is not yet representing real public sentiment.

– An October 2011 essay by *Palabra Nueva* editor Orlando Marquez called for the government to fulfill its commitment to reform immigration and consular policies affecting Cubans in Cuba and outside, as a “matter of justice” and “a necessity for the future.” He wrote: “It is obvious that in current regulations there are excessive and bothersome restrictions on...the freedom for persons to enter and leave the country, which is not just.” He argued that no external factor should be a pretext for delay: “There will always be hostilities, crises, enemies, differences, disputes, and unpleasant calamities, but the nation best prepared to face these and other challenges is the one that knows how to stand tallest, not physically but morally, when it acts as one and seeks growth in internal harmony, respect for differences, its capacity to accommodate them for the benefit of all...”

– An October 2011 essay in the *Espacio Laical*, “About the Press in Cuba,” by professor and former journalist Guillermo Rodriguez argued that “in the press as a whole you cannot have only those opinions considered to be ‘official policy.’ There must also be evaluations that enrich thought and even help modify what today is the ‘official policy.’ That is a value that society cannot do without, because it nourishes and develops it.” He explained that Cuba’s media culture is built on principles developed by Lenin for clandestine media before the Russian revolution, hence its ingrained secrecy and its instinct that national unity requires limits on information.

– Also in October 2011, *Palabra Nueva* published an essay by University of Havana researcher Camila Piniero on the critical policy debate concerning the authorization of private cooperatives. She explained the origins of cooperatives in 18th century Europe, their place in Latin America today, and their value for Cuba. Cuba’s experience with farm cooperatives should give Cuba a jump in creating a new law to authorize cooperatives



A sign posted in Old Havana for a house for sale in another neighborhood.

30

throughout the economy, she argued, claiming that the need for such a law is more urgent as layoffs proceed. It was a thorough and forceful argument for cooperatives as effective engines of employment and development, and as a form of business that is compatible with social equity objectives. In the same magazine in December 2010, economist (and priest) Orlando Freire criticized the narrowness of economic reforms and also called for authorization of medium-sized businesses. Small entrepreneurship, he argued, is “the least audacious of the reforms” at the government’s disposal.

– In May and June of 2011, a debate took place in the pages of *Palabra Nueva* and *Espacio Laical* about the role of future Cuban-American investment in Cuba, where Cuban Americans such as Carlos Saladrigas of the Miami-based Cuba Study Group participated.

– In November 2010 as the liberalization of small entrepreneurship was beginning, *Palabra Nueva* published an article by Lorenzo Perez, a Cuban American and retired senior official of the International Monetary Fund. Perez examined the Cuban government’s current policies and objectives in that sector, described the experience of other countries, and suggested further policy openings that would generate more employment. These include lower taxes, no restrictions on the occupations open to entrepreneurial initiative, and ensuring good legal structures to support private entrepreneurship.

III. The Legalization of Residential Real Estate Sales

Cuba’s socialist constitution guarantees personal property rights, specifically the right to “income and savings from one’s own work, the housing that one possesses with proper title, and other goods and objects that serve to satisfy the material and cultural needs of the person.”

Cuba’s National Housing Institute reports that 84 percent of Cuban homes are owned “with proper title.” Some title holders possess homes that have long been in their families; some were beneficiaries of measures that distributed rental properties and properties considered “abandoned” in the early years of the Revolution; some paid mortgages on housing built since 1959.

Holding title to a home has meant one could live in it, pass it to heirs, or swap it for another. But except for a brief period 25 years ago, Cubans holding title to residential property were barred from simply selling it. Outside the socialist context, that restriction practically nullifies the property right.

As has been their wont for five decades, Cubans worked their way around this restriction and created a real estate market of sorts. It was visible in Havana every Saturday morning as people gathered on a 19th century boulevard, the Paseo del Prado, to arrange trades (*permutas*), sometimes involving chains of transactions to satisfy multiple parties. In the eyes of the law, homes were simply exchanged and no cash changed hands, even in a swap between a two-bedroom apartment and a four-bedroom house. In reality, side payments were routinely and discreetly made to compensate the person giving up the higher-value property. In the end, legal papers were executed to make the transactions official.

All this changed on November 10, 2011 when a new law went into effect to permit Cubans to buy and sell homes at prices they set between themselves. The impact, Cuban novelist Leonardo Padura wrote, is “the conversion of property titles into documents much more real than had been the case before.”

The new law and associated measures were previewed in Cuban media last July and announced November 3, 2011. They involve modifications to 188 laws and administrative norms and procedures, Cuban media reported. In addition to permitting home sales, they end the requirement that a citizen forfeit property to the state before emigrating, and they provide a pathway for homeowners to update their titles and enter them in municipal property registries.

New Policy, New Market

What is the purpose of the new policy, apart from eliminating “irrational prohibitions,” as *Granma* describes them? The *lineamientos* call for “flexible formulas for the exchange, purchase, sale, and rental of housing, so as to facilitate solutions to the housing needs of the population.”

Cuba has a housing shortage, pent-up demand, and generally low purchasing power. Some Cubans, however, have accumulated wealth and others will receive funds from relatives abroad. As a result, the demand will be driven

in part by consumers with normal Cuban incomes, in part by Cubans with assets far above the average, and perhaps in part by Cubans abroad. Housing demand will also be influenced by population movements: Cubans who return from abroad, and those moving into Havana. (In November 2011, the Cuban government partially relaxed controls on internal migration by doing away with the requirement that Cubans obtain permission to move their residence to Havana if they have immediate family residing there.)

Revolico.com, a Cuban classified advertising website, is an on-line window into this developing market. The site recently showed 6,937 listings from persons seeking to sell or buy a house or apartment. Some listings offered brokerage services or sought them; one listing warned of a con artist posing as a broker. Prices range from a few thousand dollars for apartments in less-than-premium neighborhoods to \$200,000 for a home near the sea in an elegant area of western Havana. In the first 20 days of the new law being in effect, Cuban officials report that 364 sales of residential property were executed, along with 1,579 transfers by donation and 409 swaps.

Secure Title

Cuban media have encouraged citizens to register their titles in the justice ministry's municipal property registries regardless of intention to sell. Within days of the law taking effect, Cuba's Radio Reloj was explaining regularly how to update and register titles, including in cases where an architect is needed to document renovations and additions.

Vice Minister of Justice Francisco Eduardo Garcia told Cuban media last November that only about 200,000 residences (six percent of the total) have their titles registered, and many of those need updating. In December he told a press conference that the public must be better informed as to the "enormous benefits" of registering a title and the disadvantages of not holding one.

Garcia did not enumerate the benefits beyond the obvious benefit of being able to sell the property. Another is legal security for the individual. A complete updating of Cuba's property registry would add legal security to the entire housing stock if Cubans who departed in the 1960's were to mount legal challenges. The Cuban government would thereby become the provider of a new right and a new asset, and their protector against

external threat. Hence this new conception of socialist property could provide political benefits to the government.

Cubans are responding by flocking to notaries' offices to update and re-certify their titles, and then to justice ministry offices to enter the titles in municipal property registries. Cuban media report that in the month following November 10, there were 62 percent more title registrations of cars and residences than in the entire first half of 2011, and the offices were adding night and weekend hours. In seven weeks, there were 45,900 inquiries about certifying titles and there were 12,000 requests for architects to document property conditions in preparation for title re-certification. Press reports and the author's interviews indicate that some are registering their titles in order to sell, while many feel that their right to sell is complete if their title is properly registered, and they are doing so even absent any intention to sell.

Do It Yourself

A Cuban newspaper report during the Party Congress mentioned the need for policies "to speed up the procedures for remodeling, rehabilitating, construction, and renting," in order to better address "public demand for housing." There was recognition, in other words, that home sales will cause a "re-arranging" of people and housing – and while that may be beneficial to many, the solution to the housing shortage can only come through expansion of the housing stock. In this sector as elsewhere, the socialist state is turning to private initiative to supplement government efforts that have fallen short.

How this is supposed to work, however, is one of the least clear aspects of Cuba's new housing policies.

Government officials are encouraging do-it-yourself construction and renovation; at December 2011 legislative sessions, officials stated a goal of 23,000 new homes built by Cubans' "own effort" in 2012. Cuban retail stores are beginning to supply building materials, and consumers no longer need a government agency's permission to buy building materials. But the stores are being criticized in Cuban media for moving too slowly; officials say only half the planned number of construction supplies showed up on store shelves in 2011. The newspaper *Juventud Rebelde* reported that sales of construction supplies in 2011 fell 72 percent





The Saturday morning gathering on the Paseo del Prado, an informal real estate exchange. 32

short of the plan, attributing the shortfall to uneven supplies in state stores and prices on some items that were “inaccessible.” As of January 2012, profits from these sales are being used to provide low-income home repair grants, and Cuban media report that more than 200 grants were made in the first month.

The 2012 construction goal will require that the state spend \$100 million on supplies, doubling the previous year’s plan. To stimulate construction, a 20 percent retail price reduction on a list of 122 basic building supply items was announced in December 2011.

Cuba could expand its housing stock in several ways, all within the scope of policies now under consideration. It could enter partnerships with foreign companies to build low-cost housing. It could permit the creation of private construction companies, perhaps in the form of cooperatives. And it could expand the supply of construction materials to the public by investing in its own supply stores or by creating partnerships with foreign retailers. One sign in this regard was a November 2011 press report of an agreement that will allow the Brazilian retailer TendTudo to take a first step into the Cuban market.

What to Watch

- Home sale transactions are required to take place through bank accounts, and buyers must attest in writing that the funds used for the purchase are “of completely lawful origin.” Will that be the end of the story? Will buyers be asked the precise origin of funds, and if one says that relatives abroad provided them, will it matter?
- The government says that permitting home sales is one way “to facilitate solutions for the housing needs of the population.” Will it develop policies that effectively increase the supply of housing?
- How will immigration reform combine with housing reforms? If it becomes easier for Cuban emigrants to return to Cuba, will they visit in greater numbers or will they come to stay? Will Cuba become a retirement destination for its own emigrants?
- How will neighborhoods and the social fabric be affected? Will significant numbers of lower-income

Cubans in high-value properties sell and seek moderately priced housing elsewhere? Will high-value neighborhoods be populated by new inhabitants?

- Will the Cuban government benefit politically by this creation of wealth and this expansion of property rights, and will it garner additional support for the economic reform process?
- Will Cuban Americans feel secure sending tens of thousands of dollars to relatives for home purchases? How much will they send? Will Cuban Americans who invest in Cuban property through their family acquire a stake in a process of peaceful, gradual reform?

Home Sales: The Fine Print

Provisions of Decree-Law 288 and accompanying measures:

Cubans residing in Cuba and foreign nationals legally residing in Cuba may buy and sell homes at prices they set between themselves. Ownership of one residence and one vacation home is permitted.

Properties can also be transferred by donation or through swaps. The side payments that have long accompanied housing swaps are now legal.

Buyers and sellers register their transactions before a notary. Unlike before, the National Housing Institute is not involved.

Transactions have to occur through bank accounts; buyers pay with cashier’s check.

Buyers state under oath that they own no other main residence and that the money for the purchase was obtained legally.

A Cuban who emigrates may transfer title of a home. (Previously, an emigrant’s property went to the state.) If no transfer is effected and there are multiple claims, the claims are ranked as follows: those from co-owners; spouse and children; parents, grandparents, and other “ascendants;” brothers, sisters, nephews, nieces; uncles and aunts; cousins.

Buyers pay a real estate transfer tax equal to four percent of the home’s value. Sellers make a lump sum income tax payment in the same

amount. For tax purposes the home's value is the purchase price or the legally declared value, whichever is higher.

A 15-day process is established for property titles to be updated and entered in the municipal Property Registry in the event the current title is inaccurate, or if the building has been modified or expanded in accordance with building codes. There are procedures both for single-family and multi-family buildings.

IV. The Demographic Squeeze

If Cuba did not already have enough reasons to revamp its economic policies, its changing demography and population would be reason enough to ring the alarm.

Cuba's population growth has been minimal to negative in recent years and is projected to remain that way at least through 2025. After doubling its population from five to ten million between 1945 and 1983, Cuba has added only 1.5 million to its population in the three decades since. Birthrates are declining, the proportion of retirement-age citizens is increasing, substantial numbers of Cubans emigrate each year, and the country does not benefit from an infusion of immigrants.

For the economy, these factors add up to fewer workers supporting greater numbers of elderly for as far as the eye can see. In the face of demographic reality, the only option is to make the economy more productive, hence the current push to reform economic policy by expanding private economic activity and forcing productivity-enhancing changes on the state sector.

Emigration, 30,000 or more annually in recent years, may not seem large in a population of eleven million, but cumulative emigration has totaled 569,747 since 1990, equal to five percent of Cuba's current population.

The net emigration that occurred in 2010, 38,165 persons, is the highest in 17 years. In that same year, the workforce declined for the first time, by 46,000.

Healthy birthrates used to blunt the impact of emigration on population growth; in the 1970's, ten babies were born for each Cuban who emigrated. By 2010 there were only three births per emigrant. A national study of fertility published in 2009 showed that when couples are asked why they have fewer children than they would ideally wish to have, one third cite

socio-economic reasons and nearly two in five cite "family and personal reasons." Those could include lack of ample housing, where young families often have no choice but to remain, crowded, in a parent's home.

Raul Castro addressed these trends in remarks to the National Assembly in July 2008.

"The combination of all these factors," he said, "is already appearing in unfavorable trends among the working-age population – in 1980, almost 30 years ago, more than 238,000 youths reached this age, and last year it was 166,000. That is 72,000 less and estimates indicate that it will drop to about 129,000 by 2020. Those same estimates indicate, as the Labor Ministry said this morning, that by 2025 there will be 770,000 fewer citizens than now in that age bracket." He also described the expanding retiree population: "In 2007, people over 60 years of age...accounted for 16.6 per cent of the country's population; the year before, they constituted 15.9 per cent...These figures will continue to increase together in a more prominent way in coming years."

Eleven million and holding - Population growth has stalled

Year	Population (millions)	Growth Rate (percent)
1970	8.6	1.3
1980	9.7	- 0.6
1990	10.7	1.1
2000	11.1	0.3
2005	11.2	0.02
2010	11.2	- 0.02
2015 Projected	11.2	- 0.03
2020 Projected	11.2	- 0.05
2025 Projected	11.1	- 0.1

There are fewer babies...

Year	Live births per thousand population
1970	27.7
1980	14.1
1990	17.6
2000	12.9
2010	11.4

...and more grandparents watching fewer grandchildren

The population is aging

Year	Ages 0-14	Ages 15-59	Age 60 and older
1970	36.9	54.0	9.1
1981	30.3	58.8	10.9
2003	20.1	64.9	15.0
2010	17.3	64.9	17.8

In 2010, the workforce begins to shrink...

Year	Workforce
2001	4,696,700
2002	4,714,300
2004	4,729,400
2005	4,816,400
2006	4,847,300
2007	4,956,300
2008	5,027,900
2009	5,158,500
2010	5,112,500

...and emigrants aren't helping

Year	Net Emigration	Per Thousand Population
1970	56,404	6.6
1980	141,742	14.6
1990	5,352	0.5
2000	29,322	2.6
2005	33,348	3.0
2006	35,276	3.1
2007	32,811	2.9
2008	36,903	3.3
2009	36,564	3.3
2010	38,165	3.4

Source Material and Further Reading

The Cuban Triangle blog, written by the author, has monitored economic policy developments since 2007 and updates the issues covered in this paper. It is searchable by word and by tag. For all posts on economic reform:

<http://cubantriangle.blogspot.com/search/label/reform>

For a discussion of housing, housing policy, and urban planning see Trefftz, Erich, "50 Years of the Urban Reform Law in Cuba, the Anniversary of the Paradigm Shift," *Revista INVI*, August 2011, published in Spanish and English.

Data on Cuban population, demographics, health trends, and many other social and economic indicators are published by Cuba's National Statistics Office and are available on-line with many data series in Excel format. See the annual statistical yearbooks and many single-topic publications at www.one.cu.

Espacio Laical and *Palabra Nueva*, two magazines of the Archdiocese of Havana that contribute consistently to the economic debate, are available on the web.

The *lineamientos*, the Guidelines for economic policy adopted by the 2011 Communist Party Congress, are available in Spanish and English at the Cuban foreign ministry's website, cubaminrex.cu. The final version prints the first draft side-by-side so readers can see how the document changed.

34 Revolico.com is a website that some call the "Cuban Craig's List;" for those interested in the new residential real estate market, there are ample listings.

Photos by author:
peters@lexingtoninstitute.org

Lexington gratefully acknowledges the Ford Foundation's support for this work.





Lexington Institute
1600 Wilson Boulevard #900
Arlington, VA 22209
Tel: 703.522.5828 | Fax 703.522.5837