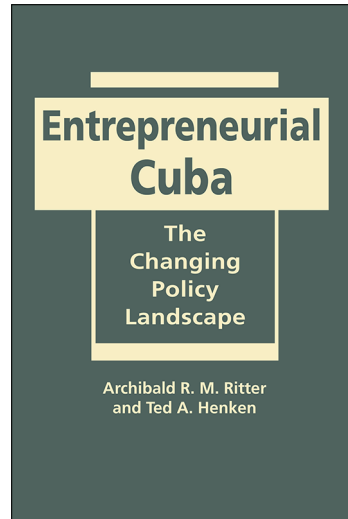


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Entrepreneurial Cuba:
The Changing
Policy Landscape

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1

Cuba's Changing Policy Landscape

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

—Raúl Castro, to delegates of the National Assembly, August 1, 2010 (Peters 2012a)

The Cuban model doesn't even work for us anymore.

—Fidel Castro, responding to U.S. journalist Jeffrey Goldberg's question about whether the Cuban model was still something worth exporting, September 8, 2010 (Goldberg 2010)

The aim is to distance ourselves from those policies that condemned self-employment to near extinction and stigmatized those who decided to join its ranks legally in the 1990s.

—Granma, Official Organ of the Communist Party of Cuba, September 24, 2010 (Martínez Hernández 2010)

While it is perhaps a fool's errand to guess at the internal dynamics of the relationship between the Castro brothers, a breathtaking series of announcements coming out of Cuba during September 2010 shed new light on how their different economic orientations intersect with Cuba's changing power dynamics. First, on September 8, 2010, the U.S. journalist Jeffrey Goldberg posted details on his blog from a series of interviews he had done with Fidel Castro in late August, when Cuba's aging but newly active and vocal former leader invited him to Havana to discuss Goldberg's recent article about Iran and Israel in the *Atlantic* magazine. During a break in one of their marathon conversations, Goldberg wondered aloud whether Castro believed that the Cuban model was still something worth exporting abroad. Stunningly, the elder statesman responded with the telling quip, "The Cuban model doesn't even work for us anymore."

Though Castro later claimed that Goldberg had misinterpreted his statement, an announcement published in the Communist Party daily *Granma* less than a week later on September 13 confirmed Goldberg's original interpretation. Addressed to Cuban workers and signed by the national secretary of

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Cuba's official trade union, the *Central de Trabajadores Cubanos* (CTC, or Union of Cuban Workers), the astounding "*Pronunciamiento*" declared that half a million state sector jobs would be eliminated over the next six months (October 2010–March 2011) with hundreds-of-thousands more layoffs to follow in the coming years. The statement went on to indicate that the state sector was bloated by more than a million redundant workers, reducing the productivity and efficiency state enterprises. Ironically, this planned "updating" (*actualización*) of Cuba's economic model was justified as a way to "continue to build socialism" ("*Pronunciamiento*" 2010).

At the same time, the announcement sought to communicate to workers a new understanding of socialism and a new relationship between Cuban workers and the state. "We must revitalize the principle of socialist distribution," declared the communiqué. Salaries should be based on "paying each worker according to the quantity and quality of the work performed." This same principle was used to justify a strict new policy for state enterprises. The "*Pronunciamiento*" made clear:

Our state cannot and should not continue maintaining enterprises and productive and service entities whose inflated payrolls and losses weigh down the economy, turn out to be counterproductive, generate bad work habits, and deform the conduct of workers. It is necessary to increase production and the quality of services, reduce bulky social spending and eliminate improper gratuities, excessive subsidies, study as a source of employment, and early retirement. ("*Pronunciamiento*" 2010)

This announcement confirmed what Raúl Castro had already forcefully declared in a session of Cuba's National Assembly in August: "We have to eliminate forever the notion that Cuba is the only country in the world where one can live without working." In that same speech Raúl spoke of imminent economic changes that would

eliminate the paternalistic attitudes that dis-incentivize the need to work for a living, and thereby reduce the unproductive expenditures represented by the equal payment [...] of wage guarantees during long periods to people who do not work. (Castro, R. 2010b)

While taking many casual Cuba watchers by surprise, such a contraction in the state sector along with a shift away from his elder brother's more rigid application of socialist ideology was the culminating event in a series of moves aimed at eliminating what Cuba's new Commander-in-Chief had long described as an unsustainable group of heavily subsidized "gratuities." Indeed, as part of a set of "guidelines" (*Lineamientos* 2010) first published in November 2010 in anticipation of the Sixth Communist Party Congress in April 2011, Cubans were informed that the island's long-standing *libreta* or ration booklet would be gradually phased out, with future subsidies targeted on the needy

only. The same document also echoed Raúl's oft-repeated argument that socialism does *not* mean egalitarianism. Instead, the "guidelines" indicated that under the new understanding of Cuba's political economy "socialism is equality of rights and opportunities for all citizens, not egalitarianism. Work is simultaneously a right and a duty, a motivation for personal realization for each citizen, and should be rewarded according to its quantity and quality" (*Lineamientos* 2010: 7).

Rounding out the month's series of dramatic announcements was a September 24 *Granma* article declaring that self-employment was "much more than an alternative" to the state sector, detailing changes in legislation intended to revive the microenterprise sector and begin to increasingly rely on it as a way to fill the employment shortfall created by the coming layoffs in the state sector (Martínez Hernández 2010). Though quite dramatic as a comprehensive new policy toward entrepreneurship, the announcement reviving microenterprise was the culmination of a series of experiments and pilot programs allowing Cuban workers greater economic autonomy in agriculture, public transport, food sales, home construction, barber shops, and beauty salons begun in 2008 (Peters 2008, 2009, 2010; *CubaEncuentro* 2008; Weissert 2009; Pérez Navarro 2009; Gettig 2013; Miroff 2010; Robles 2010; Ferrer 2010). Breaking with a past policy that never viewed microenterprise as anything more than a stop-gap measure to halt the economic crisis of the early 1990s, the article now described self-employment as:

a solution that, far from being improvised or ephemeral, will make possible an increase in the supply of goods and services while simultaneously assuring income to those who decide to engage in it. It will also allow the state to shake off a good portion of its excessive subsidies while leaving in non-state [private] hands productive activities that had been the responsibility of the state despite the difficult economic juncture. (Martínez Hernández 2010)

Openly repudiating President Fidel Castro's half-hearted approach to self-employment during the 1990s (without naming him, of course), the article went on to outline new microenterprise regulations ahead of the new October self-employment law, stating unequivocally:

The measure of making self-employment more flexible is one of the decisions taken by the country as it redesigns its economic policy, in order to increase levels of productivity and efficiency. The aim, in addition to providing workers with another way to feel useful with their personal effort, is to *distance ourselves from those policies that condemned self-employment to near extinction and stigmatized those who decided to join its ranks legally in the 1990s*. (Martínez Hernández 2010, our emphasis)

The months following these dramatic September announcements saw the release of the new laws that would guide state layoffs and regulate the ex-

panded self-employment sector (*Gaceta Oficial* 2010a, b). Most significantly, though the self-employed would be required to pay a number of new taxes (including a mandatory new social security tax), a broader range of 178 licensed occupations was now included on the legal list of self-employment options; entrepreneurs would also be allowed to deduct a greater percentage of their expenses before paying taxes; for the first time, businesses would have the ability to hire non-family employees; and they would be permitted to rent out private locales to set up shop. Later announcements also recognized the need for the development of credit systems and wholesale markets while admitting that putting these in place would take some time. In subsequent years (2011-2014), these initial changes would be coupled with other symbolically monumental economic, civic, and political reforms such as the legalization of the buying and selling of automobiles and real estate on the open, if still highly regulated domestic market (Haven 2011; Sánchez 2011), the imposition of term limits for top political leaders, the liberalization of foreign travel (Cancio Isla 2012; Decree-Law 302, 2012; *Granma* 2012c), and an opening—however small and prohibitively expensive—in public access to the Internet via 118 new state-run cybercafés (Café Fuerte 2013a; Del Valle 2013).

Cuban Microenterprise and Changing Public Policy

This book critically examines revolutionary Cuba's changing public policy toward the private sector, microenterprise, non-agricultural cooperatives, and the underground economy. The core of our analysis contrasts the halting and tentative experiments with self-employment (*trabajo por cuenta propia*) under Fidel Castro during the 1993-2006 period with the more thoroughgoing and likely more permanent economic reforms and structural adjustments so far enacted under Raúl Castro from 2006 to 2014.

We argue that President Raúl Castro's approach to the non-state sector and microenterprise is decidedly more pragmatic and potentially more economically productive than that of his more ideologically-minded brother Fidel. We also identify a number of continuities that characterize both policy periods and leadership styles. We argue that these remaining bureaucratic restrictions, ideological obstacles, and political fears prevent the optimal development of microenterprise. Without more fundamental reform that expands occupational categories to include professionals, further minimizes (and more narrowly focuses) the remaining prohibitions and regulations, and supports entrepreneurs with access to credit and wholesale supplies, many of Cuba's new breed of microentrepreneurs will not be able to exit the underground and contribute more effectively to the Cuban economy. Furthermore, without a second round of well-implemented reforms that cede space to small- and medium-sized enterprises (SMEs) as well as to the new non-agricultural cooperatives, the mi-

croenterprises within the current framework will not alone be able to create productive employment for workers displaced from the state sector.

Thus, we address the following central questions in this book:

1. How can we best characterize public policy toward entrepreneurship, small and microenterprise, and the informal sector under the Revolution; what have been the developmental consequences of past policies; and can Raúl Castro's current more pragmatic if still guarded approach produce positive, economically significant results?
2. What are the main characteristics that differentiate the current policy approach toward entrepreneurship, microenterprise, and informality under Raúl Castro from the policies under Fidel?
3. How have Cuban entrepreneurs responded in the past to similar changes in public policy toward microenterprise and how have they reacted to the most recent reforms enacted since 2010? Is their general orientation vis-à-vis the pace, scope, and depth of the current reforms one of skepticism, doubt, hopefulness, or enthusiasm? Thus far, as a result of the economic opening have they experienced a positive impact on their own enterprises and standards of living?
4. What problems remain with Cuba's current approach toward entrepreneurship and how might those problems be mitigated with a second round of more through-going reforms?

Continuities between Fidel's and Raúl's approach to small private enterprise include the priorities of maintaining centralized political control, preserving a dominant role in the economy for state enterprises and the central plan, and a continuing ideological and rhetorical commitment to state socialism. Indeed, while Raúl's tenure as president has seen an increasingly ambitious series of changes in the rules that govern the functioning of the country's moribund economy, there have been virtually no accompanying changes in its authoritarian political system apart from a declared intention to impose a limit of two terms of five years each on top political posts. Moreover, despite making a significant ideological break from his elder brother's antagonistic approach to the private sector, Raúl has been careful to stress that his changes to the Cuban economy constitute an "updating" or "perfecting" of the island's socialist economic model, not wholesale economic "reform" or a transition to capitalism. It is notable, for example, that references to the "market" or the "private sector" are absent from government discourse, which consistently uses the euphemistic term "non-state sector" whenever referring to self-employment. "Only socialism," declares the major planning document issued by the Cuban Communist Party in November 2010, "is capable of overcoming the difficulties and preserving the conquests of the Revolution" (*Lineamientos* 2010: 7). Whatever one may think of the authenticity of such seemingly oblig-

atory declarations, the Cuban government continues to insist to its people and to the world that it will continue to place the very visible hand of the socialist “plan” above what Adam Smith famously called the invisible hand of the “market.”

Regardless of whatever the government prefers to call this new stage in the island’s political economy, the real question we seek to address in this book is: Will it work? Thus, this study seeks to compare the country’s previous experience with self-employment during the 1990s with this emerging one, and to evaluate how changes in licensing, the number and type of occupational categories, the tax regime, and measures incentivizing legality (such as access to credit and wholesale markets) might impact the Cuban economy and the viability of microenterprise in the future. Although it is still in its infancy, we also aim to give a preliminary evaluation of Cuba’s recent expansion of non-agricultural cooperatives (the implementation of which only began in summer 2013) since they could be the legal basis for a move beyond the current, marginally productive, service and subsistence kinds of self-employment toward a more dynamic small- and medium-sized cooperative enterprise sector.

The Past is Prologue: Legal, but Still Illegitimate?

In response to the economic meltdown that Cuba faced in the early 1990s as a result of the lethal combination of the collapse of the former Soviet Union, the strengthening of the U.S. embargo, and the island’s own economic rigidity and mismanagement, the Cuban government liberalized microenterprise, or “self-employment” (*trabajo por cuenta propia*) in September 1993. Microenterprise—in both its licensed, legal and underground, informal, and extra-legal variants—has long existed in Cuba, even after the extensive nationalizations and near-abolition of the private sector by the revolutionary government starting in 1959 and culminating in the notorious “Revolutionary Offensive” of 1968 (see Appendix 1 for a chronology of Cuban policy toward private enterprise under the Revolution). However, the liberalization of 1993 led to a flowering of legal microenterprise as new self-employment activities burst forth into the open from the underground economy.

Small and microenterprise is of great importance in virtually all countries. It generates such important economic and social benefits that most governments have constructed a variety of programs to support it. Cuba is indeed exceptional in that it has long limited such activities in so draconian a manner. However, despite the strict controls placed upon it, legalized microenterprise or “self-employment” has produced a variety of benefits for Cuba during the past twenty years (1993-2014). These include job creation, income generation, the provision of goods and services with a high domestic value added content, and significant tax revenues for the government. These taxes in turn provide

support for social expenditures and productive investment. The government of Raúl Castro is even betting the future of the Revolution itself on the ability of microenterprise—together with an expanded cooperative sector—to absorb hundreds-of-thousands of workers laidoff from state jobs.

Self-employment has generated foreign exchange earnings from the provision of goods and services to the tourism sector and the replacement of imports. Microenterprise has also contributed to the unique and vibrant Cuban culture through a flowering of different offerings in the areas of music, art, craft production, and food services, all of great value to Cubans themselves and in the tourism sector. Legalized microenterprise also unleashes the ingenuity, inventiveness, initiative, and industriousness of the self-employed and promotes the widespread development of entrepreneurial talents and experience that may be of immense benefit to Cuba in the future. The legalization of microenterprise has also likely reduced the numbers of underground economic activities. Finally, it encourages the development of a potential “culture of legality” in place of the much vilified but omnipresent “culture of illegality” that currently prevails in Cuba’s rampant and extensive underground economy (Orsi 2013a; Burnett 2013), the subject of Chapter 7.

On the other hand, many of the negative, even noxious features of the functioning of the sector in fact arise from public policy. The limitations on microenterprise force enterprises to remain artificially small in size, create distortions arising from attempts at regulation evasion, and provoke higher prices and incomes due to limitations on the numbers of such activities in each field. Furthermore, in order to avoid onerous regulations, microenterprises can slip into the underground economy since the “costs of formality” are often greater than those of informality (de Soto 2000; Centeno and Portes 2006). From the perspective of the Cuban government, the legalization of microenterprise has led to negative consequences. Indeed, it has fought a long battle—though perhaps a losing one—against the growth in socioeconomic inequality and concentration of wealth that the expansion of the private sector has brought. Moreover, by definition granting more legal space for private entrepreneurs would weaken state control over the economy and political control over Cuban citizens who would begin to gain substantial independence from party and labor controls through independent economic activity. Finally, the government’s hostility toward microenterprise also springs from the belief that it encourages a “shop-keeper’s mentality” and the flourishing of behaviors, attitudes, and values incompatible with the development of socialism (Sacchetti 2011; Vignoli 2014), though Raúl Castro’s new understanding of socialism seems to differ substantially from his elder brother’s on this point (Peters 2010).

Revolutionary Cuba’s public policy toward microenterprise since 1993, switching from legalization, to containment, to virtual asphyxiation, and now back to legalization and broad-based promotion for the first time, highlights

one of the Revolution's central socioeconomic dilemmas. As it enters its sixth decade, in order to survive and prosper economically Cuba needs to increase economic efficiency, improve productive employment and overall economic productivity, and compete internationally, while simultaneously seeking to maintain relative equality of income distribution and strong social programs for all its citizens. However, the existence of self-employment is perceived to involve a significant sociopolitical cost, namely the ceding of economic and political space to the private sector, a risk the Cuban government is decidedly ambivalent about.¹ Despite the significance of Raúl Castro's reforms so far in the area of self-employment, it is wise to note that they are still limited to just 201 exceedingly specific and largely subsistence-oriented microenterprise occupations, not yet reaching the level of small- and medium-sized enterprises (SMEs). Indeed, the long-awaited regulations on an expanded non-agricultural cooperative sector were only issued in December 2012 and thus have yet to have any measurable impact on employment or the economy. Perhaps this is due to the fear that, as one of our self-employed informants put it to us succinctly in an interview: "Economic independence equals political independence." Thus, while the growth of microenterprise holds significant economic potential for Cuba, it also generates new challenges and dilemmas.

Specifically, Cuba is faced with the challenge of releasing the entrepreneurial energy of its citizens, while simultaneously avoiding the enhancement of a culture of illegality. As examples from the Eastern European transitions briefly examined in Chapter 2 indicate, a large underground economy can give way to a "marginalized" informal sector (as already exists in many other Latin American and Caribbean nations) and lead to the intensification of the underground economy, with some groups of entrepreneurs morphing into powerful mafias as has been the case in Russia and other parts of the former Soviet Union. In sum, Cuba's "second economy" consisting of legal microenterprises and the current underground economy has both positive and negative implications. It poses great challenges as well as offering many potential opportunities to the government's current economic regime. It also creates useful potential for greater economic prosperity and the future evolution towards a more thoroughly mixed or full market economy.

Public policy in Cuba towards legalized self-employment reflects the ambiguous economic contributions of microenterprise as well as evident incompatibilities with the Cuban government and its vision of the "good society." While various microenterprise activities were legalized in 1993, public policy in the areas of licensing, taxation, regulation, state competition, employment, social security, publicity, and prohibitions regarding the formation of cooperatives or associations seemed aimed at shrinking the sector as a whole, as well as constricting the size of individual microenterprises. This approach contrasts sharply with the approach of other countries, where the contributions of microenterprise are well understood, encouraged, and appreciated. In fact,

through its attempt to maintain total control over the economy, the government's past policy approach to microenterprise neutralized most of its potential benefits and inadvertently enhanced the development of the underground economy.

Before proceeding, a brief note on our use of the terms self-employment, microenterprise, and small enterprise is in order. The standard definitions of these terms² differ slightly from our use of the terms here, which are the outgrowth of the Cuban situation. In the Cuban context, *cuentapropistas* are persons who work for themselves (thus, the terms “self-employed” or “own-account” workers). However, in actual practice on the island the term has been broadened to refer to persons who work for themselves but may also employ up to five additional workers or in some cases, such as private *paladar* restaurants (analyzed in detail in Chapter 8), even more. We also use the term “microenterprise” synonymously with the Cuban use of the term *trabajo por cuenta propia* to refer to those who may work alone as well as those who employ additional workers either as informal friend or family workers or as officially or informally hired employees. In contrast, we use the term “small enterprise” to include microenterprises but also to encompass larger types of enterprise that may employ more than 10 persons. So far, Cuba does not have private sector “medium-sized” enterprises, though it has many medium and large-sized state and joint state-foreign enterprises and is in the process of developing a new SME cooperative sector outside of agriculture for the first time.

A number of economists, sociologists, anthropologists, and political scientists both on the island and in the diaspora (Pérez-López 1995a; Carranza, Gutiérrez, and Monreal 1995; Togores González n.d.; Togores González and Pérez Villanueva 1996; Núñez Moreno 1997; Peters and Scarpaci 1998; Fernández Peláez 2000; Peters 2006a; Scarpaci 2009; Sacchetti 2011; Mesa Lago 2011; Espinosa Chepe 2011; Vidal Alejandro and Pérez Villanueva 2010, 2012; Peters 2012a, 2012b; Piñeiro Harnecker 2012a, 2013; Mesa-Lago and Pérez-López 2013; Feinberg 2013; Scarpaci 2014; Vignoli 2014; González-Corzo and Justo 2014)) have recognized the potentially positive impact and contribution of the self-employed sector, especially if allowed to develop into a full-fledged, if carefully regulated SME and cooperative sector. Many of these studies explicitly focus on harnessing the potential of the self-employed sector as a compliment to and collaborator with what would remain a dominant state sector of a “restructured” and “updated” socialist economy under the Revolution. Another interesting study (Pérez Izquierdo, Oberto Calderón, and González Rodríguez 2003) explored and analyzed the self-employed sector, undertaking a survey, which drew together useful statistical materials. However, it appears that relatively few other analysts have yet carried out extensive ethnographic research and qualitative analysis on the island in order to understand the possible contributions of the microenterprise sector, the most appro-

priate public policy towards the sector, and the implications of the evolution of the sector on Cuba's future. This is what we aspire to do in this book.

Objectives, Central Themes, and Methods

The central objectives of this study are to analyze the evolution of Cuba's microenterprise sector during the revolutionary period but especially since the legalization of self-employment in 1993, to analyze and evaluate the current policies of the government of Cuba towards the sector (comparing them to past policies), and to explore the potential evolution and impacts of the sector under a number of possible future scenarios. This work is conducted from an historical perspective, analyzing the development of the sector in the context of Cuba's unique past. It is also set in a comparative perspective, considering the international experience and literature on microenterprise and public policy together with the Latin American experience and literature, as well as that of the countries of the former Soviet Union. Finally, given the distinct disciplinary perspectives of the co-authors, this study brings together both economic and sociological analyses and insights on the current impact and future potential of microenterprise in Cuba.

Cuba's legal microenterprises and the underground activities in Cuba's "second economy" interact in a complex counterpoint. This is the first theme of this study. A common saying in Cuba is "*todo está prohibido, pero vale todo*" (everything is prohibited, but anything goes).³ In other words, despite (or perhaps because of) rigorous prohibitions, regulations, and controls and in the face of strict enforcement and severe penalties for non-compliance, illegal economic activities in Cuba are widespread and highly diverse. Thus, while a portion of Cuba's underground economy was legalized in 1993 and has been incorporated into the official, formal economy through taxation and regulation, much self-employed activity remains "underground" and beyond government control. Many microentrepreneurs have little option but to remain legal if their particular activities are high profile and must be conducted publicly.

On the other hand, other Cuban entrepreneurs prefer to remain unlicensed and extra-legal in order to avoid onerous government regulations, taxes, and controls. By definition, clandestinity also allows these entrepreneurs to operate in secret, thereby ensuring that they continue to survive despite the potential toughening of public policy or the future outright prohibition of their activities. At the same time, legal microenterprises interact closely with the underground economy and participate in a wide variety of interactions with it, in part through the purchase of stolen supplies via the black market, the sale of their products and services, the hiring of labor, the renting of facilities, the hiring of transport, etc.

In fact, the acquisition of a self-employment license can occasionally be used in practice as a cover, protecting its holder from suspicion while he or she engages in other profit-oriented activities not explicitly permitted under their license. In the introduction to her collection of essays on the interaction of the informal economy with the Latin American state, *Out of the Shadows*, sociologist Patricia Fernández-Kelly argues that just such nuance is a more common characteristic of this complex and dynamic relationship than the dichotomous, adversarial stereotype would have us believe. “In other words,” she concludes, “a mounting body of evidence made clear that a porous membrane, not a rigid boundary, separates the formal and informal sectors” (2006: 4). It is precisely this nuanced relationship and porous boundary that we have found in Cuba between the supposedly separate worlds of the island’s first, official economy and its once stigmatized but now burgeoning second economy.

A second theme is that the policy approach of the Cuban government toward legal microenterprise has produced major disadvantages both for the Cuban people and for the Cuban government as well, despite its understandable rationale and certain benefits arising from its measured, deliberative, “*sin pausa, pero sin prisa*” (without pause, but without haste) approach (The Economist 2012). While the “*Fidelista*” policy approach to legal microenterprise seemed designed to eliminate the sector, this is certainly not the case under his brother Raúl. At the same time, there is great reluctance to grant Cuban entrepreneurs the full ability to operate as private businesses with interests and defensible property rights of their own. On the one hand, Raúl Castro has repeatedly demanded a through-going “change of mentality” among Cuba’s communist cadres—even including himself among those who need to “change their way of thinking” (Castro, R. 2010b; Peters 2010d). On the other hand, official documents and speeches emphasize the continued dominance of the central plan over the market, the leading role of state enterprises, and ownership by the state of the primary means of production, while fulminating against the private concentration of wealth (“*Lineamientos*” 2010, 2011).

This emphasis of “order, discipline, and control” over the flexible promotion of small enterprise was clearly evident during the second half of 2013 when the government moved to clarify existing legislation and explicitly outlaw a number of creative business strategies that had developed among the island’s *cuentapropistas*. This included banning the resale of household products acquired in the island’s retail stores as well as the sale of imported clothing under the legal licenses of “seamstress” or “tailor” (*Gaceta Oficial* 2013a). Further explicit limits were placed on Cuba’s entrepreneurs in early November when *Granma* published a “*Nota informativa sobre el trabajo por cuenta propia*,” which demanded “a strict compliance with the law and payment of taxes.” The article, which was signed by the Executive Committee of Cuba’s Council of Ministers, went on to call for the liquidation of private inventories of imported clothing by December 31 and require the immediate clo-

sure of all private 3D cinemas and game rooms which had been operating under “operator of children’s recreational equipment” or “*paladar*” licenses (*Granma* 2013).

Finally, perhaps in response to a sustained pushback from Cuba’s entrepreneurs and some of its leading intellectuals as well (*Espacio Laical* 2013; Cárdenas Lema 2013), Raúl Castro himself included a lengthy reference to this issue in his annual National Assembly speech in December 2013, where he repeated almost word-for-word the language used in *Granma*’s earlier “*Nota informativa*,” leaving no doubt as to where he stood on the question of regulation vs. prohibition:

Recent events have revealed a lack of control on the part of government institutions leading to illegalities in the exercise of self-employment, which were not confronted with the necessary resolve creating an environment of impunity and stimulating the accelerated growth of activities that have never been authorized. [...] Problems should be identified before they appear and, if they raise their heads, we must act immediately and without vacillation [...] which is always preferable to paying the political cost that comes from inertia and passivity in requiring compliance with the law. (Castro, R. 2013)

Under the “*Raulista*” approach, the legalization of formerly unregulated economic activities allows the government to increase tax revenues in order to better finance social services and the public sector generally and it also helps to reduce income inequalities through taxation and the regulatory framework. Moreover, licensing allows the government to track microentrepreneurs and control their activities more effectively. However, the current policy framework still seems based on a fundamental distrust of entrepreneurs. It leads to serious disadvantages from the perspective of both efficiency and equity at a number of levels: for individual enterprises, for the microenterprise sector, and for the necessary building of mutual trust and the rule of law between the citizenry and the state.

Even though the current “*Raulista*” approach has constructed a more enabling environment than ever existed during the long tenure of Fidel Castro, the approach has still not gone far enough. It continues to limit job creation in professional areas, thereby reducing the generation of real income and blocking the production of a diverse range of goods and services. For this reason, it continues to impair savings and productive investment. It wastes the entrepreneurial talents of the Cuban people on low productivity endeavors and wastes Cuba’s scarce human, natural, and capital resources. For example, though slowly expanding to include more productive and professional activities, the existing list of 201 occupations—a translation and analysis of which is provided in Appendix 2—continues to be populated largely by survival-oriented activities low in the productivity or dynamism required by a modern economy (Orozco and Hansing 2011).

A third theme of the book is that while the licensed microenterprise sector is “legal,” it has lacked true “legitimacy” judging from the often arbitrary actions of the government bureaucrats charged with regulating it.⁴ However, this is changing if the exhortations of President Raúl Castro and the good intentions behind the new self-employment regulations are to be believed. As Raúl’s words quoted above about the “political cost” of not enforcing existing laws indicate, the government is well aware that opening up space to the market and the private sector has political ramifications. Restrictions and high taxes on the private, non-state sector are therefore probably the result of a desire to retain political control, which may be threatened by the unconstrained growth of a private microenterprise and small enterprise sector.

Licensing requirements, taxes, regulations, fines and crackdowns on the self-employed may not be intended primarily as redistributive nor as tax collection instruments, but instead as a means of exerting political control over the population during an period of economic crisis and political uncertainty—especially given the recent death of Venezuelan President Hugo Chávez and the subsequent political unrest and street violence that has erupted there. However, the actual result of these measures makes much microenterprise so costly that it becomes difficult for self-employed workers to survive without occasionally going outside the law or into complete clandestinity. Have the reforms enacted under Raúl Castro done anything to change this balance? The latest statistics from late August 2014, after nearly four years under the new self-employment regulations, show a great increase in overall numbers from roughly 150,000 to nearly 500,000. However, as much as 82% of the new licensees have gone to either the formerly unemployed or retired (not to those laid off from state jobs) (Peters 2012a and b; Cuba Central Blog 2014; CubaDebate 2014b; Mesa Redonda 2014; Manguela 2014; 14ymedio 2014a). Thus, there has indeed been some success in bringing at least some of Cuba’s microentrepreneurs “out of the underground.”

However, Raúl’s stated goal is more ambitious than that if we remember that the expansion of self-employment in October 2010 was accompanied (and justified) by a simultaneous decision to lay off hundreds-of-thousands of state employees (“*Pronunciamiento*” 2010). A better gauge of the success of the opening toward microenterprise would include both a determination of its record in absorbing newly idle state workers and its ability to contribute to greater productivity and efficiency in the economy as a whole. Remaining restrictions on the types of self-employed occupations allowed to date (almost none of which harness Cuba’s highly-educated, professional workforce) make achieving this second goal doubtful.

While there have been important debates in Cuba over the pace and direction of economic reforms, the Cuban government under Fidel never saw the self-employed sector (or most of its other economic reforms enacted after 1993) as more than stop-gap measures, grudgingly employed during the eco-

conomic crisis with the purpose of saving socialism. Furthermore, these limited economic reforms were certainly never intended to begin a transition toward capitalism. Thus, with relative economic stability achieved by the late 1990s, it was not surprising to find the government slowly, but inexorably containing self-employment through increasingly rigorous policies. The question now is whether Raúl's seemingly more pragmatic and encouraging approach toward microenterprise is fundamentally different. So far, the answer seems to be an encouraging but highly qualified "yes."

A fourth theme of this study is that Cuba could gain immensely (and from a variety of perspectives) by further liberalizing the microenterprise sector. Such liberalization would unleash the entrepreneurial energies of many Cubans, energies that are currently wasted on low-level subsistence activities, often in the underground economy, or that find their release outside of Cuba through emigration—which has reached record levels especially among the young and is likely to grow following the elimination of the exit visa in January 2013 (Peters 2012c; Morales 2013). In justifying its migration reform when it was first announced in October 2012, the government spoke of its right to defend the nation against "brain drain" and "*el robo de cerebros*" (literally, brain stealing) (Cancio Isla 2012; Decree-Law 302, 2012; *Granma* 2012c). However, if other countries like the United States are "guilty" of enticing Cuban professionals to "abandon ship" and invest their skills in a better labor market abroad, Cuba is equally guilty of what might be called "brain waste," given its often frustrating and counterproductive regulations on entrepreneurship (Blanco 2013).

A diverse set of research methods are used in this study. First, in order to place the examination of Cuban microenterprise in a broad context, we undertake an historical analysis of the evolution of microenterprise in Cuba, beginning with the prerevolutionary period and continuing through the first 30 years of the Revolution. This is complemented with an analysis of Fidel Castro's reluctant embrace of self-employment in the 1990-2006 period in contrast with the policy approach under Raúl.

Analyzing the structure, functioning, and size of Cuba's underground economy presented us with major methodological difficulties, as is the case for the underground economy of all other countries. Enterprises operating illegally are seldom willing to divulge any information on their activities for fear of being detected and prosecuted. In most countries, the main motive for remaining in clandestinity is likely tax evasion. However, if the enterprises themselves have been declared illegal, as is the case with the underground economy of Cuba, the fear may be of prosecution, fines, or outright closure and confiscation of relevant equipment, materials, or properties. How to acquire information on the underground economy of various countries has been the focus of steadily improving studies in recent years, as governments and international agencies have tried to learn more about the magnitude and functioning of the underground economies in their countries (Portes and Haller

2005; Losby et al 2002; Schneider and Enste 2002a, b). In this study, however, we make no quantitative attempt to measure the size of Cuba's second economy, opting instead to complement our comparative historical approach with a qualitative one that relies on extensive ethnographic observations and interviews with Cuban entrepreneurs themselves.

For this study, an initial series of interviews was conducted between 1999 and 2001 with a group of more than 60 microentrepreneurs operating both with self-employment licenses and in the underground economy. Roughly half of these entrepreneurs were interviewed in multiple follow-up visits between 2002 and 2009. Some of the difficulties of undertaking this kind of qualitative ethnographic and interview research in Cuba today are discussed in Chapters 4, 5, 7, and 8, which focus on the underground economy and economic illegalities on the one hand (Chapter 7) and Cuba's experiments with legal self-employment on the other (Chapters 4, 5, and 8). In order to acquire an in depth knowledge of the strategies, functioning, performance, and prospects for microenterprises in the most dynamic and potentially productive part of the emerging private sector (a sector we refer to in Chapter 7 as "legitimate underground economic activities," or LUEAs), we carried out these interviews with *cuentapropistas* (CPs) in food service (especially *paladar* restaurants), transportation (with a focus on private taxis, or *taxis particulares*), and guest-housing (or Cuba's burgeoning bed-and-breakfasts, known as *casas particulares*).

Interviews focused on the following three themes: (1) Ambition and expectations for the future, (2) survival strategies employed by entrepreneurs as they negotiate their nuanced relationship with the state, and (3) an exploration of the often overlapping, porous borders that distinguish licensed from informal operators. In other words, we first asked if interviewees expect that their enterprises in particular and the fledging microenterprise sector in general would be able and permitted to become a true small- and medium-sized enterprise sector in the future. Second, we sought to learn how they respond to the Cuban government's regulations, licensing requirements, and taxes. Third, we asked how licensed self-employment differs socioeconomically from clandestine private economic activity (LUEAs)? Follow-up interviews with many of these same microentrepreneurs took place in April 2011 and focused on their evaluation of Raúl Castro's post-2010 reforms in comparison with the previous microenterprise regulations. Respondents were also asked about changing perceptions of entrepreneurial activity in Cuban society and the difficulty they had managing various potential obstacles to the growth of their businesses, such as obtaining an initial license, credit, and raw materials, finding employees, paying taxes, and navigating regulations and inspections.

As mentioned above, in order to better focus the study and have a means of comparative analysis with which to approach the research questions outlined above, these interviews and observations focused primarily on three somewhat interconnected areas of what might be called Cuba's "informal tourism economy": small-scale, privately run restaurants (*paladares*), private

transportation (*taxis particulares*), and private lodging (*casas particulares*). Among the more than 100 occupations legally opened up to self-employment in Cuba since 1993, these three were selected because they were then and still are today among the most lucrative, dynamic, and sizeable legal microenterprise sectors—both in terms of number of employees and amount of revenue generated.

In fact, in late March 2014, the Cuban television program “*Mesa Redonda*” aired a two-part series on self-employment reporting that of the total of 455,577 registered *cuentapropistas* as of the end of February 2014, the food service sector remains the largest single area of self-employment with 57,776 license holders (12.7%), followed by the 47,733 licensees in transportation (10.5%), and the 29,952 in private home rentals (6.6%). Moreover, an additional 91,978 licensees work as contractors for other enterprises (20.2%), themselves chiefly employed in the food service and transportation sectors. Thus, these four self-employed occupations comprise a full 50% of all *cuentapropistas* currently working in the small enterprise sector (Cuba Central Blog 2014; CubaDebate 2014b; Mesa Redonda 2014). It is also likely that these occupations hold the greatest potential of avoiding the curse and costs of informality and transforming themselves into SMEs either as private operations or formal cooperatives, when and if such larger-scale activities become politically feasible. Because of this, Chapters 4 and 8 draw extensively on our ethnographic interviews with *cuentapropistas* themselves, focusing specifically on the survival strategies of entrepreneurs in the transportation, bed-and-breakfast, and *paladar*/food service sector.⁵

Organization and Structure of the Book

In Chapter 2, we define and discuss the interrelated terms “informal,” “underground,” and “second” economies and describe their relationship with small and microenterprise, entrepreneurship, and economic and human development. The chapter takes a broad, global view of entrepreneurship and informality seeking to synthesize various public policy responses to these phenomena while also delineating the various social and economic consequences of distinct policy approaches. Given Cuba’s unique profile as Latin America’s only state socialist regime, the bulk of the chapter focuses on Latin America and Eastern Europe, as their histories, cultures, and political economies are most relevant to the Cuban case. We summarize the lessons from other studies of Latin America’s “informal sector” and compare them to the related lessons from studies of the “second economy” in the former socialist countries of Eastern Europe. This comparison allows us to identify a number of theoretical concepts and models, as well as practical lessons and experiences that we employ throughout the remainder of the book to explain Cuba’s shifting policies toward its own “non-state sector.”

Chapter 2 ends by identifying the characteristics that make Cuba a unique, hybrid case. As a Latin American country, Cuba is heir to a tradition where the paternalistic state (whether under Spanish colonialism—prior to 1898—or as a nominally independent nation—between 1902 and 1958 –) has long played a central, commanding role in the economy, leaving little space or encouragement for entrepreneurship (Crabb 2001). Likewise, as a socialist country, Cuba has instituted an economic model defined by a state monopoly over employment, centralized economic decision-making, and a rigid central plan that together lead to chronic bottlenecks, inefficiencies, and low worker incentives, creating a perfect environment for rent-seeking behavior, theft of state resources for private use, corruption, and a thriving black market and underground economy (Díaz Briquets and Pérez-López 2006).

In Chapters 3 and 4, we describe the history and consequences of an antagonistic public policy toward microenterprise under the leadership of Fidel Castro (1959-2006). In our analysis, we place special emphasis on the lessons from the last round of “Special Period” reforms in the area of self-employment from 1990-2006. Specifically, Chapter 3 provides a history of socialist Cuba’s fluctuating policy toward the private sector, microenterprise, and the underground economy, tracing a series of pendular swings between ideologically-driven socialist retrenchment followed by pragmatic market reforms between 1959 and 1989. In fact, this chapter argues that the revolutionary government’s shifting policies toward the private sector and microenterprise can be understood primarily as a recurring tug-of-war between communist ideology on the one hand and economic pragmatism on the other (Mesa-Lago 2000; Mesa Lago and Pérez-López 2005, 2013).

In Chapter 4, we chronicle the emergence, evolution, increasing stigmatization, eventual asphyxiation, and near extinction of a legal microenterprise sector in Cuba between 1990 and 2006. We describe the sequential stages of this particular cycle of reform and retrenchment, beginning with the initial external economic reforms associated with the special period, followed by a series of internal economic reforms including the introduction of self-employment in 1993 as a response to the country’s severe economic crisis. The chapter also provides a detailed analysis of Cuban state policies toward microenterprise licensing, regulation, and taxation during this period, discussing the rationale and implications of policies that were clearly designed to prioritize order and control over encouragement and expansion of the non-state sector. We augment this analysis with a series of brief vignettes that illustrate how the evolving regulatory environment of the late-1990s and early-2000s was experienced by some of Cuba’s entrepreneurs themselves. We conclude the chapter by chronicling the phasing out of the self-employed sector between 2004 and 2006 as part of a crackdown on economic illegalities and a move toward economic recentralization, accompanied by a newfound emphasis on ideological campaigns of preaching, policing, and prohibition, such as Fidel Castro’s now suspended ideological swan song, “the battle of ideas.”

Chapter 5 begins with an analysis of the structural and conjunctural factors that came together between 2006 and 2009 to enable, or perhaps force, President Raúl Castro to institute a long-delayed and unprecedented series of economic reforms that highlighted the central role of microenterprise in economic recovery, when its economic potential had been seen in the past as marginal at best. The chapter then describes and evaluates these economic reforms emphasizing the central policy initiatives of layoffs in the state sector accompanied by a major expansion of self-employment. The chapter also chronicles and analyses the specific changes in Cuba's self-employment regulations.

We focus here on four elements. First, we analyze the changes in the regulatory framework for microenterprise, focusing on the type of occupations available for self-employment. Second, we evaluate the new tax system for private entrepreneurs and workers, comparing it to Cuba's previous tax regime for microenterprise and tracing changes in the tax legislation for microentrepreneurs since they were first announced in late-2010. Third, we chronicle and evaluate the various adjustments that have been made since 2010 to the original self-employment legislation as a result of the inability of the first round of reforms to achieve stated goals, with a particular focus on a handful of positive steps forward between 2011 and 2014 while highlighting a number of significant steps backward as well—including the fall 2013 banning of the resale of imported clothing by the private sector and the subsequent shuttering of private 3D cinemas and game rooms. Finally, we identify areas where further reform would be appropriate, especially in relation to access to credit, the availability of a wholesale market, and the incorporation of professionals into entrepreneurial activity.

In Chapter 6, we review the new cooperative regulations issued in December 2012 that legalized the creation of non-agricultural cooperatives for the first time under the Revolution. Chapter 7 describes the broad range of economic illegalities and underground enterprises that flourish in Cuba, seeking to distinguish illicit and therefore illegitimate activities from a subset of everyday survival practices we denominate "legitimate underground economic activities" (LUEAs). We do this with an eye toward the emergence of a wiser, more pragmatic public policy that would legitimize such activities in the future harnessing their potential to contribute toward greater productivity, efficiency, and employment. Based on our interviews and ethnographic work done with Cuban entrepreneurs between 1999 and 2011, Chapter 8 focuses on the most lucrative, sizable, and dynamic self-employment activity legalized after 1993: private food service, with a particular emphasis on private "*paladar*" restaurants. Tracing the storied evolution of the Cuban *paladar*, through its various cycles of birth, death, and rebirth, allows us to understand and critically compare the experiences, opinions, and evaluations of the two most recent rounds of reform from the perspective of Cuban entrepreneurs themselves.

The concluding chapter attempts to gauge the achievements to date of the reform process, especially in terms of layoffs, employment, and productivity so far achieved. We also evaluate other, related aspects of the reform process. Some of these are quite tangible, such as the pace of layoffs, the phasing out of subsidies and rationing, and the legalization of the automobile and real estate markets. Others are less tangible but no less important, such as the depth of change in bureaucratic and cadre mentality and the extent to which mutual trust between entrepreneurs and the state has been consolidated. We end the book by presenting a series of possible future policy scenarios for small enterprise, some more skeptical and others more hopeful, including: (1) a return to small and microenterprise suppression, (2) a continued if exceedingly cautious liberalization of private enterprise together with the complementary growth of a new non-agricultural cooperative experiment, and (3) a more rapid, significant, and pro-market liberalization that would allow for the emergence of private small- and medium-sized enterprises, the concentration of wealth in private hands, full property rights for private entrepreneurs, and direct credit and foreign investment in small and microenterprise from abroad. We also highlight the potential impact that a reform of U.S. policy—shifting from isolating the Cuban government to principled engagement with the island's emergent civil society—could have for entrepreneurial Cuba.

Notes

¹ One possible consequence to the growth of an independent economic sector during the 1990s was emphasized by the late Max Azicri, who identified the source of government ambivalence this way: “Self-employment had allowed a significant portion of the population to become disconnected from the official labor network and to be more self-reliant economically. The possibility that this growing sector might become a political force with its own sectarian agenda is a political concern for the government” (2000: 147).

² According to the Commission of the European Union, these terms are defined according to their “staff headcount and turnover or annual balance-sheet total.” A microenterprise employs fewer than 10 persons and has an annual turnover of less than EUR 2 million. A small enterprise employs between 10 and 50 persons and has an annual turnover of less than EUR 10 million. A medium-sized enterprise employs up to 250 persons and has an annual turnover between EUR 10 and 50 million (Europa 2013). These are not the definitions we use in this study.

³ Another, more skeptical version of this same *choteo*, or ironic Cuban humor goes, “*En Cuba lo que no está prohibido, es obligatorio*” (In Cuba, whatever is not prohibited, is obligatory). While the first saying mocks the government’s inability to exercise full authority over the country, the second indicates the pressure felt by individuals who find little or no space for independent activities not regulated or overseen by the state. Then there is the mocking reference to Cuba’s notoriously low peso salaries and its workers resulting lack of enthusiasm on the job: “In Cuba we pretend to work and the government pretends to pay us.”

⁴ An example of this phenomenon is the successful restaurant and night club known as *El Cabildo*, run by Ulises Aquino and his popular theater group, *La Opera de la Calle*, which was closed down by regulators in the summer of 2012 and remains closed today (Frank 2012a, b; Ravsberg 2012a, b; 2013a; McAuliff 2012; Miroff 2012a, b; Fernández 2012a, b; Trip Advisor 2013; León 2013; DDC 2014). We summarize this case in the conclusion of Chapter 8, which focuses on the evolution of the Cuban *paladar*.

⁵ A late-August 2014 article from the official Cuban newspaper *Trabajadores* entitled, “Self-Employment: With the Foot on the Pedal,” confirmed these trends, reporting a total of 471,085 registered self-employed workers by the end of July 2014. Sixty-nine percent of these *cuentapropistas* were previously unemployed, while food service, transportation, and housing rental remain the most common occupations (Manguela 2014; 14ymedio 2014a).