

Cuba's Small Business Experiment: Two Steps Forward, One Step Back

BY PHILIP PETERS

Among the measures Cuba has taken to boost employment and economic output, "self-employment" stands out because it relies on the initiative of individual Cuban citizens. Cuba's *cuentalpropistas* (*trabajadores por cuenta propia*, or workers on one's own account) have made a difference: they have brought small enterprise to the streets, increased and diversified the supply of goods and services, improved their standard of living, and learned the habits of independent actors in competitive markets. Since 1993, their growth has been dramatic, peaking at over 209,000 licensed *cuentalpropistas* in 1996.

Will today's *cuentalpropistas* constitute the beginning of a larger and more vibrant small business sector? The jury is still out. Cuban government policy, following the practice in other areas of economic reform, has been very measured and cautious. As a result, the sector operates below its potential. In addition to taxation, regulation, and competition, other factors have acted as a brake on its growth: the lack of a legal wholesale supply system, and the legal ban on partnerships and hiring of employees. Cuban officials acknowledge these structural impediments, but have not acted to remove them.

A policy of "consolidating" economic reforms further squeezed the self-employed, through the imposition of new taxes in 1996, and through vigorous tax and regulatory enforcement in 1997. In part, these actions were due to the Cuban government's desire to reduce income inequality and to ensure that the self-employed move out of the black market and into licensed activity. Enforcement measures seem to have fallen most heavily on businesses that compete directly with state enterprises that generate hard currency.

Still, the experiment continues. The number of licensed entrepreneurs has remained in the 160,000-180,000 range during the past year.

Where will policy go? The November 1997 Communist Party Congress neither advanced nor reversed reforms already in place. In essence, it left options open, and it left key issues of economic policy — including those affecting self-employment — to be debated in other fora. Whenever these debates occur, they will determine whether Cuba's emerging small business sector remains embryonic or realizes more fully its potential to unleash creativity, generate employment, and contribute to the recovery of an economy still buffeted by the demise of the Soviet bloc.

RESPONSE TO A CRISIS

While self-employment has been permitted in small degrees throughout the 39-year history of Cuba's socialist government, the publication of De-

Decree-Law 141 in September 1993 opened the door to a dramatic expansion. The face of Havana was changed, as a city devoid of commerce just a few years ago flourished with vendors and small businesses nearly everywhere. By conservative estimates, licensed and unlicensed *cuentapropistas* together account for about eight percent of the labor force. If each supports two people, they put food on the table of one in ten Cubans.

The expansion of self-employment is one of many economic policy measures taken in response to the Cuban economic crisis that followed the dissolution of the Soviet Union. These include cuts in subsidies to state enterprises, large-scale reduction of state payrolls (“rationalization,” in official Cuban parlance), increased foreign investment, introduction of incentives in the agricultural sector, and legalization of the circulation of foreign currency.

The impetus for market-oriented change initially seemed to come from two political forces which, whether allied formally or not, push policy in the same direction: policymakers who want to use market forces to spur growth, and Cuban security forces concerned that social unrest could develop if economic conditions deteriorate.

Self-employment has been consistently praised by officials as a source of jobs, services and growth — and, as Viceminister of Economy Julio Vasquez implied in a December 1996 interview, a sector that takes on some of the burden once assumed by state planners: “We decided that we did not need to have the state provide every service in the economy.... Self-employment is a very dynamic sector that can help the country a lot.”

Official statements — and the very deliberate pace of reforms — also make clear that while Cuba’s economic model is being adapted, its fundamental socialist character will not change. Labor Minister Salvador Valdes stated in June 1995: “Self-employment constitutes a supplement to the supply of services, which the state should fundamentally provide, where the state always will play the preponderant role, a role the state will never give up.”

Or, as a Cuban diplomat told the author, “Our aim is not to become capitalist, but to incorporate some elements of capitalist systems in our economic system.”

“I Can’t Even Compare It”

The sidewalk food stands and other businesses permitted under Cuba’s self-employment law have changed the look of Havana. They have also changed the lives of those who operate them.

Elena, a single mother, was waiting to register at a municipal tax office. She is one of two assistants at a street stand that prepares and sells small sandwiches and croquetas for lunch and snacks. “I worked as a secretary for the government; I made 171 pesos [\$8.50] per month. But transportation became very difficult, waiting hours for the bus every day. And I wasn’t earning enough money. I can’t even compare what I earn now to what I earned then. Sometimes I make 100 pesos in a day. There are expenses and taxes, but there is always something left -- not to live in abundance, but you always eat well.”

“I prefer this kind of work. Here you always see the results of your work. Other places you work hard, but you don’t see results. And I can take better care of my daughter.”

PORTRAIT OF THE SELF-EMPLOYED SECTOR

By official estimates, 10,000 to 15,000 Cubans were self-employed in 1993, working as hairdressers, tailors, shoe repairmen, and in other home-based occupations. On September 8, 1993, Decree-Law 141 started the expansion of this sector by allowing self-employment in 117 new occupations. The sector peaked in early 1996 at 209,000 licensed workers in 158 occupations, and has since declined (see box).

Licensed *Cuentapropistas* — Official Figures

1993	10,000-15,000
April 1994	151,130
June 1995	170,000
January 1996	209,606
September 1996	184,922
December 1996	180,000
March 1997	168,000
August 1997	176,183

Officials estimate that the licensed *cuentapropistas*, which amount to four to five percent of the labor force, are joined by at least

an equal number working without a license.

University graduates were barred from self-employment in Decree-Law 141. This restriction was lifted July 1, 1995, but they are still barred from working in their own profession. For example, a government translator may work as a self-employed carpenter by night, but may not work privately as a translator.

The Labor Ministry estimated in 1996 that of those licensed, 58 percent were unemployed before they decided to become *cuentapropistas*; 26 percent were retired, and sixteen percent were holding full-time jobs as they pursued their entrepreneurial venture. One in four is female. The largest concentration is in food service: 29

Purchasing Power, December 1996

Self-employed persons rarely had exact figures to offer for income, expenses or profits, but most of those interviewed seemed to have profits of between 300 and 1200 pesos monthly. Monthly salaries in government and state enterprises ranged from 150-200 pesos for secretaries and laborers to 300-425 pesos for engineering and medical professionals. Pensions generally yielded 120-190 pesos per month.

To give an indication of purchasing power, the following are prices observed at a Havana farmer's market. Some of these items are sold at much lower prices through the state food rationing system, but Cuba's economic difficulties have made deliveries under that system anything but guaranteed.

December 1996 Prices in Pesos — Farmer's Market at 19th & A, Vedado

ITEM	PESOS	ITEM	PESOS
Rice	4/lb	Garlic, 3 heads	3
Black beans	10/lb	Lime	0.5 each
Pork	28/lb	Tomato	3/lb
Carrots	6/bunch of 6-8	Oranges	1 each
Turkey (whole)	200	Yuca	1.2/lb

Adding to the Pension

About one in four of Cuba's self-employed are retirees supplementing their pension income. Andres, a street vendor of kitchen equipment, sometimes has profits that equal his monthly pension of 190 pesos (\$9.50). Julieta, a widow, rises each day at 4:00 a.m. to make pizzas, which she sells with fruit punch to supplement her 120 peso (\$6.00) pension. "It helps, but it's hard. I stay until it's all sold," she told us wearily at 1:30 p.m. on a shaded street corner in central Havana.

Angel, a metalworker/repairman in Havana's San Miguel del Padron neighborhood, has a steady stream of work and earns monthly profits amounting to at least half his 190 peso (\$9.50) pension. David, a shoe repairman in Miramar, says his earnings help support his wife, daughter, and two nieces. "There's always some kind of need," he says. "One of them is always coming up to me saying 'Grandpa, give me five pesos.'" He echoes a common complaint — the lack of a wholesale supply system: "We need a supply shop for cuentapropistas."

percent are involved in *alimentos ligeros*, the preparation and street sale of snacks and workers' lunches which can be observed virtually everywhere in Havana. In May 1996, 1,788 small private restaurants were operating — the famous *paladares* that took their slang name from a Brazilian soap opera broadcast in Cuba. The rest of this sector is spread across a broad range of services, including carpenters, plumbers, auto and tire repairmen, "messengers" (shoppers), barbers, hairdressers, glasscutters, bicycle parking lot operators, flower vendors, tutors, music teachers, home video theater operators, taxi drivers and others.

The author's December 1996 observations and interviews with approximately 100 *cuentapropistas* showed many signs of vigorous small-scale entrepreneurship. Contrary to a common conception of "informal" economies, many of Cuba's self-employed are well educated and trained. They are industrious and enthusiastic, displaying great ingenuity as they keep pre-revolutionary cars and equipment in working order and creatively obtain basic supplies. They calculate market conditions, scout good locations and try to set optimal prices. Customer service is a priority — one *paladar*

owner said that after seeing the slow service in competitors' establishments, he set a standard of serving his customers within ten minutes of receiving their order.

While some entrepreneurs hesitated to discuss their income, dozens explained that, while they are working harder, they are earning several times the salaries they earned in government offices or state enterprises. This had an impact on the state sector's workforce. A 1994 article in the Cuban magazine *Bohemia* began:

Enrique Torriente Valdes has directed a brigade of plumbers in a sector of the Havana neighborhood of Plaza for 42 years. Well, a 'brigade' so to speak, because with desertions, its ranks were reduced from seven to two. And two make a duo, not a brigade. 'And they leave,' reflects Enrique with the air of an abandoned general, 'because salaries are low here and there's too much work. Self-employment is much more attractive.'

THE CHALLENGES OF DOING BUSINESS

Cuentapropistas describe these challenges to their ability to do business:

- Policy uncertainty. They are concerned that the government might reverse course and reduce the scope of self-employment.
- No wholesale supply system. Because restaurateurs, tradesmen, and others have no access to a legal wholesale supply system, they have no predictable basis for calculating prices and profit margins. Many resort to black market sources, a risky and time-consuming practice that is often unavoidable, and exposes them to possible legal penalties.
- Regulatory restrictions. Some regulations, such as health and sanitation requirements for food service personnel and establishments, seem routine. Others are designed to limit competition with state enterprises and joint ventures. *Cuentapropistas* cannot hire employees, with the exception of one or two assistants at sidewalk food stands. *Paladares* are not permitted to offer beef or shellfish, are limited to twelve seats, and can only employ members of the proprietor's family.
- Taxes. In 1996, Cuba re-instituted personal income taxes for the first time in three decades,

Quality First

"El Cristalero: Garantía y Seriedad" ("Glasscutter: Guaranteed and Reliable") is a sign advertising a talkative entrepreneur's shop in southwest Havana. Jorge had worked for a state enterprise, but eased into self-employment as his job became unstable, then intermittent. "Now I always have work," he said. "If I work well at a good price with quality, customers come back. If not, they go and say, 'that glass man doesn't know how to work.'"

"I earn much more than I did before, but I can't tell you exactly how much, because the price of materials is never the same." He declined to talk about his sources of supplies. "What I really need is for the state to give us one place to buy our materials." He estimates that he earns about 1000 pesos (\$50.00) per month, over twice a physician's salary.

and levied these taxes on the self-employed and others. (See detailed explanation on page 5.)

- Competition. *Paladar* owners and some tradesmen say that as self-employment has grown, they have begun to feel the effects of competition. The state itself also competes with the *cuentapropistas*: improved fast food establishments compete with private food vendors, and art and craft items produced in state workshops are sold in open-air artisans markets that are by law open only to artisans who sell their own products.

One independent observer, economist Marta Beatriz Roque, summed up the situation of the self-employed as follows:

It's positive. For the individual, it means freedom. Within the limits of the law, they feel a greater independence. And they feel better off than other workers. But there are many difficulties. They have no place to purchase primary materials. They are concerned about the taxes they will have to pay at the end of the year, and there's no real tradition of bookkeeping here. Also, they are concerned that the entire system could change from one day to the next.

The accounts appearing in boxes throughout this paper are drawn from December 1996 field research; they are not statistically representative, but they illustrate circumstances commonly described in interviews. These entrepreneurs were paying monthly taxes but had yet to file their first annual tax return. It's safe to assume that interviews conducted today would elicit more comments on taxes and regulations, both of which were far greater factors in 1997 than in 1996.

CUBA'S PERSONAL INCOME TAX

1996 saw the imposition of socialist Cuba's first personal income tax, a simple progressive tax system that relies heavily on taxpayer honesty to report income correctly. It applies to non-state incomes, which includes the earnings of the self-employed. The law creating the tax was enacted in 1994, and Cuba's National Tax Administration Office (ONAT) was created in June 1995.

Government officials say the income tax was enacted to produce revenue and reduce income inequality — a high political priority in a socialist system where a successful entrepreneur can earn far more than top professionals working for the state. Here is how Cuban President Fidel Castro addressed this issue in late 1995, as he spoke to a meeting of provincial officials:

We're not going to go back on what we have done, but we have to think about how to avoid creating a new rich class... Its good the competence this has brought, it's good that these markets and self-employment have taught people a little bit of capitalism... But we have to think of how to do things correctly... Some [of these self-employed] earn more in a day than our honored teachers earn in a month.

Castro twice closed Cuba's farmers markets (which offer non-state produce at market prices) — in the first years of the revolution, then in May 1986 after they were allowed to resume operating for six years — because he perceived that they led to income imbalances, speculation, the emergence of affluent middlemen, and other deviations from socialist norms. This experience may account for Cuban officials' determination today to increase tax compliance among the self-employed. They may calculate that in order to

Handyman's Paradise

Havana's old housing stock offers an endless stream of business opportunities to two circum-spect, unlicensed, former air force aviation mechanics who set up shop as handymen three years ago in Havana's Buenavista neighborhood. They earn two to three times their former salaries using old American power tools obtained from their father and grandfather. How does this work compare? "Other work is more orderly. You have an established schedule, you know when you go to work and when you get home. Here we work all hours. Look — here's a note asking us to come check someone's plumbing. So we work as much as we can all week, but not on Saturday or Sunday. That we dedicate to our families."

preserve this job-generating sector, they face a political imperative of preventing drastic income inequality and bringing the self-employed more fully into the legal economy.

It is clear that the new income tax is a major factor, if not the preponderant factor, that caused the 14% shrinkage of the *licensed* self-employed sector during 1996, from 209,000 to 180,000 entrepreneurs. What is not clear is whether taxes diverted an increased proportion of new entrants to *unlicensed* self-employment, or slowed the process of unlicensed entrepreneurs becoming licensed. Many start their businesses by working without a license and obtain a license when their business seems on a sound footing or when they no longer want to risk being fined for working without a license.

Cuban officials say they consulted tax experts from Chile, the Netherlands and Venezuela as they designed their personal income tax. These are its basic features:

- Income tax rates and monthly minimum tax payments (*cuota fija mínima*) for each occupation are set by the Ministry of Finance. Nationwide, the average monthly payment is 102 pesos (\$5.10); local averages range from 40 pesos (\$2.00) on the Isle of Youth to 174 pesos (\$8.70) in the city of Havana. (Here and throughout this paper, a 20:1 peso/dollar exchange rate is used. This was the rate at the time of our December 1996 field research. The rate averaged 19.2 pesos in 1996 and 22.8

pesos in 1997.)

- The monthly payments count against a taxpayer's year-end tax payment, which is calculated by applying the progressive tax rates to total income. Overpayments are not refunded.
- Up to twice a year, municipal governments may change the monthly payment for individual occupations, but they cannot reduce it below the nationally prescribed level for each occupation. One municipal tax official explained that this discretion allows municipalities to "find a balance between supply and demand." In his definition, this meant raising the monthly payments for occupations where the municipality finds that there is sufficient or excess supply.
- Taxpayers can deduct ten percent of gross income to account for business expenses. This deduction is not itemized, and it is the same for all occupations, regardless of level of business expense.
- The year-end tax computation is done in January and February. Taxpayers are required to submit income statements (*declaraciones juradas*) by March 1.

1997: "CONSOLIDATION" AND ENFORCEMENT

Cuban policy regarding self-employment has been expressed in two distinct tones. From 1994

Tax Return: Havana Hairdresser

This table illustrates how a hypothetical Cuban taxpayer might fare at year's end.

Gross receipts (pesos)	7200
Less 10% deduction for expenses	-720
Taxable income	6480
Tax owed (5% of first 3,000 pesos, 10% of next 3,000, 15% of remainder = 150 + 300 + 72)	522
Total of 12 monthly minimum tax payments of 200 pesos	2400
Year-end tax payment due	0

Note: Since this taxpayer paid 2,400 pesos in monthly minimum tax payments, she owes no additional tax at year's end. The excess 1,878 pesos (2,400-522) is not refunded. Her effective tax rate is 33%, since her monthly payments equal one third of her gross revenues.

Full-Time Moonlighting

Alicia and her husband own a small restaurant on the first floor of their home near Old Havana. The dining room, limited by government regulation to twelve seats, is brightly decorated and has a new stereo system. Alicia was hard at work in her kitchen on the afternoon of December 2, a national holiday.

Alicia works by day as an accountant, her husband as an engineer. Their restaurant has been open for one year, and Alicia expressed concern about the taxes they would have to pay on their 1996 income. Like nearly every entrepreneur we met, she misunderstood details of the new personal income tax, instituted in January 1996. She was unaware that her monthly minimum tax payments would count against (and perhaps completely cover) her total 1996 tax obligation. She also lamented the regulations that keep beef and shellfish off her menu.

Alicia would not predict whether she would leave her accounting job to run the restaurant full-time, but she is strongly committed to making the restaurant work. "You don't have the same incentive when you're working for someone else as when you're working for yourself," she said.

through late 1995, the tone was generally optimistic, and officials were willing to anticipate, if not exactly predict, that self-employment policies would continue to liberalize, and that the sector would expand. For example, in October 1995, Labor Minister Salvador Valdés said that the number of *cuentapropistas* could reach 300,000, and that hiring of non-family employees and the creation of a wholesale supply system was being considered.

At the end of 1995, a general shift away from the economic reform agenda had an impact on discussions of self-employment. Officials continued to say that policy liberalization was "under study," but the emphasis shifted to the "consolidation" of reforms already in place.

In 1996, this meant the imposition of income taxes and license fees on the self-employed, and measures to encourage unlicensed workers to move into the legal economy. In 1997, it brought

a wave of enforcement actions that seemed to be directed principally at businesses that earned foreign currency, or those that were in direct competition with state enterprises: restaurants, taxis, and room rentals.

On April 6, Labor Minister Salvador Valdes said the enforcement actions are “not a matter of attacking *cuentapropismo*, but of finding ways to perfect a system that is here to stay.” But to the *cuentapropistas* and many observers, the reality seemed harsher. Examples:

- In mid-February, there were reports that Havana’s private ice cream vendors were shut down, allegedly because they were operating with equipment illegally diverted from state supplies. “It is possible that some may not have obtained [the ice cream machines] legally,” an independent reporter wrote, “but what is certain is that none of the state enterprises repaired them and put them to use.” The private vendors may have been competing too strongly with the state vendors; their product sold well even at twelve times the state’s price.
- In March, the *Economist* reported a wave of inspections that shut down pizza vendors, ice cream sellers, and video lounges. Teams of inspectors checked *paladares* for tax and regulatory infractions (e.g. selling prohibited products such as shellfish), and many were closed.
- In June, private taxis that charge fares in dol-

Internationalist Taxi

A man in sunglasses approached the author on a street corner and said quietly, “Taxi?” His offer was accepted, and he worked two hours for \$6.00 — over one-fourth the 425 pesos (\$21.50) he earns monthly in his full-time job as an emergency room physician. Without a license, he drives a few times a week to supplement his income. His car was a reward for 14 months service as a volunteer medic when Cuban troops were stationed in Ethiopia and Angola.

lars were required to register and pay annual fees to the Ministry of Transportation.

- In June and July, over 800 taxis were fined for operating without a license and tax evasion, according to official press reports.
- In September, juice vendors in Caibarien were reportedly closed by inspectors who charged that they were selling juice made of raw material (sugar cane) that they themselves had not cultivated.

The case of housing rental provides perhaps the clearest case study. Cuban officials estimate that 21 percent of foreign tourists stayed in privately rented lodging during the first half of

Personal Income Tax Rates

Tax rates for peso incomes are as follows:

First 3,000 pesos earned	5%
3,000-6,000	10%
6,000-12,000	15%
12,000-18,000	20%
18,000-24,000	25%
24,000-36,000	30%
36,000-48,000	35%
48,000-60,000	40%
Above 60,000	50%

Tax rates on foreign currency incomes are as follows:

First \$2,400 earned	10%
\$2,400-6,000	12%
\$6,000-9,600	15%
\$9,600-13,200	20%
\$13,200-18,000	25%
\$24,000-36,000	35%
\$36,000-48,000	40%
\$48,000-60,000	45%
Above \$60,000	50%

Businesses such as restaurants that have income denominated in both pesos and foreign currency make monthly payments in both, and their year-end payments are calculated on two scales of progressive tax rates.

1997, an increase from 17 percent in the second half of 1996. On April 4, 1997, President Castro noted that some of these renters earn up to \$600 per month, and he called for them to be licensed and taxed.

Six weeks later, housing rental was made legal by the issuance of Decree-Law 171. The government stated its objectives clearly: to regulate rentals, to require that foreign visitors staying in private homes be registered with immigration authorities, to collect revenue and reduce income inequality through taxation, and to reduce competition with tourist hotels. *Granma* and Cuban state radio reported that revenues collected from landlords would be earmarked to address Cuba's housing maintenance and construction needs. Separate tax schedules were established for rents denominated in pesos and foreign currency, and higher rates were charged for lodging in zones closer to tourist hotels.

The taxes drew a strong reaction. Cuban media carried criticism from citizens who supported the concept of taxation but found the rates confiscatory. Visitors reported conversations with irate supporters of the government who were losing the opportunity to supplement their peso salaries through occasional rental of rooms to foreign tourists. (Many of the Cuban families with rooms to spare have members holding high positions in the party or government; hence the tax fell heavily on a politically loyal segment of society.)

The reaction was strong because the principal burden of the tax came in the form of high monthly fees assessed on the real estate itself, as opposed to a tax on a percentage of rental income. This system is analogous to the monthly *cuota fija mínima* levied on the self-employed, but the rates are steep: \$200 per room and \$700 or more for a 900-square-foot house in a tourist zone. Many left the business rather than register and pay taxes. Three months after rentals were legalized, the government estimated that only one in five renters in the Havana neighborhood Playa had applied for licenses.

This result, however, may have suited the government. An official newsletter acknowledged criticism that the tax rates might "finish off" private rentals, and went on to report three cases: a high-rent home in Miramar with a high occupancy rate, which will continue to be rented for dollars; a second Havana home rented in

"Laws Without Reason"

Felix sells books and old photographs at an open-air artisan's market on the Malecon, Havana's seafront boulevard. He complained that income taxes and daily market vendors' fees have driven many entrepreneurs out of business, including about 25% of the vendors in the artisan's market. He was also uncertain as to the terms of the tax law: "We don't know what the rates are going to be" at the end of the year, he said. "We're floating in the water." He also complained about regulations that limit his sales opportunities — he is not permitted to sell stamps, cigar rings, or photographs of Che Guevara. "These are laws without reason," he said.

Felix believes that self-employment was permitted "because there was a lot of unemployment and dissatisfaction. But they keep it in a box, and you can't go outside of the lines. So it [self-employment] takes on the most minimal expression."

pesos to a Cuban family, which will likewise continue to be rented; and a room in a Vedado dentist's home, which will be taken off the market. The dentist rented the room only occasionally to tourists for \$10 per night, and would have been unable to cover the \$200 per month he was required to pay in taxes.

In October, a Finance Ministry official noted that if tax rates were reduced, landlords might charge lower rents, and hotels would face stronger competition. This could cause "severe damage to construction of hotels and occupancy rates, which today represent the principal net foreign currency earner for our country." The taxes were waived temporarily during the visit of Pope John Paul II to Cuba, when a huge influx of visitors exceeded the capacity of Cuba's hotels, and additional private rentals were needed to meet the demand.

THE FIFTH PARTY CONGRESS AND FUTURE POLICY

The November 1997 Fifth Party Congress passed an economic resolution that concentrated far more on exhortation to achieve greater efficiency within the current policy framework than

on changes in current policy that would spur greater growth.

The resolution noted that self-employment will be maintained, and it stated that in certain unnamed occupations, authorization will be given for more than one worker to work in the same location. This ambiguous passage may indicate an intention to allow partnerships, or a less formal type of collaboration among *cuentapropistas*, in selected occupations.

The resolution endorsed incentive-based salaries in agriculture and other sectors, and called for increased foreign investment.

It also suggested the possibility of creating “other forms” of state enterprise. In so doing, it made clear that the debate over small and medium enterprise — a debate that one year ago seemed to encompass *private* enterprises — now centers on *state-owned* enterprises, and is part of the larger discussion of the “re-sizing” and improved management of these units. Nonetheless, an independent Cuban journalist noted that whereas officials once opposed private businesses in principle, now they cite practical reasons, such as the short track record of expanded self-employment. The journalist took this as a positive sign, and inferred that regardless of ideology, the government will permit private small businesses when it judges that they will not pose a political threat.

In the end, the Party Congress left options open. There was no indication that a significant debate on systemic reform had taken place in the context of the Party Congress, or that either side had scored any points.

This posture may be explained by two factors. The first is simple political and ideological opposition to any policy change that appears to insert free-market elements into Cuba’s socialist economy. This orthodox view was expressed in a stinging article in *Granma* in November, by Central Committee member Raúl Valdés Vivo, who said that private investment — as practiced now through joint ventures, or as proposed by some as an option for individual Cubans — could introduce “a social force that sooner or later would serve the counterrevolution.”

Second, officials may feel that they have earned some breathing space before any politically contentious policy changes are needed. While Cuba’s general economic conditions remain difficult, growth has been restored, and the

Parking Lot Hustle

Here’s an account of an interview that barely took place. The friendly young proprietor of this business, a bicycle parking lot across from a farmer’s market, had no time for a foreign visitor’s questions. It was afternoon rush hour, and as his clients arrived and handed him their numbered tags to reclaim their Chinese-made “Flying Pigeon” bicycles, he was a blur of greetings, jokes, backslaps, and athletic hustle as he raced to return the bikes in what seemed like Olympic record time. He stated this much: he charges customers two pesos a day for his service and pays 100 pesos per month in taxes; he thinks the taxes are very heavy (“durísimo”); but his earnings are “enough to live on.”

He provided the most impressive display of customer service the author saw in Havana.

dire conditions of 1993 have not recurred. According to official sources:

- After a 34 percent contraction in gross domestic product between 1989 and 1993, growth reached 7.8 percent in 1996 and is currently estimated at 2.1 percent.
- Nickel production is at record levels, over 60,000 tons in 1997. Nickel is Cuba’s third-largest earner of foreign currency.
- For the second year in a row, over one million tourists have visited Cuba.

Where does this leave the self-employed? Compared to one year ago, several changes have occurred. The sector has been reshaped to pose less of a competitive threat to key state enterprises. Its ranks of entrepreneurs have been reduced slightly, and those who remain are paying taxes. Inspections and other enforcement activities have probably reduced the unlicensed sector or made it more clandestine. And entrepreneurs still have no legal access to wholesale supplies.

Still, over 170,000 taxpaying *cuentapropistas* remain a large and visible demonstration of Cubans’ propensity for enterprise, and of the job-creating possibilities that lie within the private sector.

It may be that current policies, and the enforcement actions taken in 1997, have met the

government's political objectives: greater attention to order and compliance, and assurance to the general public that the self-employed are paying taxes to support government services. Last August, Cuban tax official Joaquin Cambra told a radio audience that 95 percent of taxpayers filed 1996 returns, and that 88 percent of the *cuentapropistas* were paying their monthly taxes on time, signs that "discipline" and an "increase in the tax culture" had been achieved.

However, if Cuban officials look to self-employment as a source of ongoing job creation, there is little reason for satisfaction. Even if the government maintains limits on this sector's ability to compete directly with key industries, it is clear that more jobs could be generated by

Adapting to Competition

Adriana is a single mother who runs a paladar in her home in Vedado, a Havana neighborhood frequented by foreign tourists and businesspeople. She doesn't enjoy paying taxes, but she cites other challenges: "It's more difficult than it was before. I opened three years ago, and I was one of the first. Now there is a lot of competition, and we don't have more tourists to make up for it." She hoped business would pick up as the peak tourist season arrived. And she diversified: one year ago, she opened a small coffee shop downstairs to serve the Cuban clientele.

Havana Neighborhood Surveys

The lists below show the businesses observed in December 1996 in ten randomly selected three-block areas in neighborhoods representing the diversity of Havana. Some of these areas are residential, some commercial and residential. They show the wide range of businesses operating in Havana — from basic personal services to entertainment, from foreign currency businesses, directed mainly at the international tourism/business clientele, to neighborhood establishments that operate in pesos and have only Cuban customers. Some businesses operate in homes, others on sidewalks or other public places. Some are advertised with signs; others, such as repairmen's workshops, are not readily visible, and are known by word of mouth. Reports from Cuba indicate that of the businesses closed in 1997 due to taxes, regulations, and inspections, the majority were in the food service sector, and the building trades/services sector was affected the least.

Old Havana. Snack cart, two pizza stands, bicycle taxis, cigarette lighter refilling, craft store, flower stand, tire repair shop, two small art galleries, electrical appliance repair, "cafeteria" (coffee/sandwich shop) two bookstands, sewing shop, "paladar" (restaurant).

Cerro. Home video theater, refrigerator/air conditioning repair, baked goods cart, *paladar*, *cafeteria*, herb/vegetable stand, hardware stand, peanut vendor, shoeshine, car/motorcycle repair.

Santos Suarez. Bicycle repair, household goods vendor, art restoration, fruit stand, shoe repair, snack stand, barber.

Lawton. Tire repair, car repair, machine/appliance repair, two snack stands, pizza stand, *cafeteria*, carpenter.

San Miguel del Padron. Two carpenters, kitchen appliance repair, cooking fuel sales, *cafeteria*, plant sales, tire repair, *paladar*.

Los Quemados. Two glass cutters, locksmith, cooking fuel sales, tire repair, three pizza stands, five food stands, two bicycle parking lots, eyeglass repair, vegetable stand, *cafeteria*.

Buenavista. Two snack stands, *cafeteria*, two car repair shops, *paladar*, metal shop/household repair, painter, tire repair.

Miramar. Pizza stand, *cafeteria*, motorcycle repair, massage salon, shoe repair, photographer.

Vedado, near tourist hotels. Six *paladares*, baked goods stand, two snack stands, flower stand, ice cream stand, hairdresser, photographer, tire repair, *cafeteria*.

Vedado, away from tourist hotels. Plant and pottery vendor, tire repair, bicycle parking lot, three *paladares*, soft ice cream vendor, three snack stands.

allowing partnerships or the hiring of employees, by creating a wholesale supply system, and by avoiding prohibitive tax rates. Some Cuban officials have recognized that these steps would also serve the government's own goals of encouraging more movement from the black market to licensed self-employment, and generating greater tax revenue.

But today, as one year ago, these options are neither debated nor discarded, and it is not known whether or when they will move to the top of Cuba's policy agenda.

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The Right Price

"My mother, grandmother, wife and daughter all depend on me. I would rather still be working as an engineer, but if you limit yourself to what you get from the ration book, you die of hunger." So Roberto has spent the past sixteen months in the restaurant business, and now operates a paladar in Havana's Vedado neighborhood. He estimates that he earns three to four times his former monthly salary of 350 pesos (\$17.50).

Flaunting regulations against paladares selling shellfish, he offers lobster — but asked his customer to move from the streetfront patio to a table indoors before serving langosta al ajillo. Across the table, he discussed his business challenges. "I suppose that taxes are appropriate, but they are a bit arbitrary. I don't know what expenses I can deduct at the end of the year."

He held forth at length about his main concern: attracting return customers. To this end, he maintains a low profit margin on food, a high one on beer. He devised a discount package that succeeded in enticing a group of visiting Mexicans to return four consecutive nights. And he is very careful about pricing: "You know, there's a big psychological difference between 11.50 and 12."

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