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Economic Illegalities and the Underground Economy in Cuba

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EXECUTIVE SUMMARY

Pervasive economic illegalities of many varieties characterize day-to-day life in Cuba and the functioning of the Cuban economy. The causes of the illegalities are complex and include pre-Revolutionary roots, the nature of the central planning system, a “common property” attitude, unreasonable restrictions on self-employment, and the dual monetary and exchange rate systems and the arbitrage this promotes. But the most important cause is economic necessity. As part of their family survival strategies, people resort to actions that are illegal in order to make ends meet.

The consequences of the various types of illegality are complex and mixed. Those activities that are truly criminal in character are socially and economically noxious. Widespread low-level pilferage from state enterprises and institutions is also harmful, even though it assists in helping people make ends meet. Other types of illegalities, such as the payment of income supplements in cash or in kind by mixed enterprises or international organizations, are largely benign. Unlicensed (and hence illegal) micro-enterprise has mainly positive economic and social consequences, and its negative consequences result from the public policies that force it underground.

The Cuban Government’s current methods to reduce economic illegalities are exhortation, policing and punishment. These have had little effect. A number of fundamental economic reforms are required to deal with the issue, including liberalizing the licensing, tax and regulatory regimes for all legitimate micro-enterprises; reducing the scope for arbitrage by unifying the current dualism of the Cuban economy; and reducing the all-encompassing role of the state in order to reduce the “common property” attitude, which inclines people to pilfer. It will also be necessary to achieve real improvements in living standards so that people do not need to resort to economic illegalities in order to survive. Unfortunately, such economic reforms and a return to prosperity are some distance away.



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RÉSUMÉ

Plusieurs types d'activités économiques illégales caractérisent la vie quotidienne et le paysage économique cubains. Les causes de ces illégalités sont complexes : certaines tirent leur origine de l'époque pré-révolutionnaire, d'autres de la nature de la planification centrale, des comportements liés à la « propriété collective », des limites excessives imposées aux travailleurs autonomes et de la dualité du système monétaire et du taux de conversion arbitraire que cela impose. Mais la cause principale demeure l'incapacité du système à satisfaire les besoins économiques de base. Pour survivre, les familles doivent s'en remettre à commettre des actes illégaux.

Les conséquences de ces activités illégales sont complexes et interreliées. Bien sûr, les activités qui sont réellement de nature criminelle sont socialement et économiquement néfastes. Quant au chapardage couramment perpétré au sein des entreprises d'État et des institutions, il est également nuisible, même s'il aide les Cubains à joindre les deux bouts. Par ailleurs, d'autres types d'illégalités comme le paiement de suppléments de revenu en espèces ou en nature par des entreprises mixtes ou des organismes internationaux, sont pour la plupart sans conséquence. Pour leur part, les micro-entreprises sans permis (et donc illégales) ont surtout un impact économique et social positif et les conséquences négatives résultent principalement des politiques publiques qui les obligent à exister dans la clandestinité.

Les méthodes appliquées actuellement par le gouvernement cubain pour réduire les activités économiques illégales sont l'exhortation, le recours aux services policiers et les sanctions. Ces mesures ont peu d'effet. Il faudrait entreprendre plusieurs réformes économiques fondamentales pour régler ce problème, notamment libéraliser l'émission de permis, mettre en place des régimes financiers et de réglementation pour toutes les micro-entreprises légales; diminuer l'importance de l'arbitrage en uniformisant la dualité de l'économie cubaine actuelle et réduire le rôle universel de l'État de manière à atténuer cette mentalité de « propriété collective » qui incite les gens à voler. Il faudrait également apporter de réelles améliorations au niveau de vie afin que les gens n'aient plus à commettre d'actes économiques illégaux pour survivre. Malheureusement, de telles réformes économiques et le retour à la prospérité sont encore bien loin.

RESUMEN

La vida cotidiana y el funcionamiento de la economía en Cuba están permeados de numerosos tipos de ilegalidades económicas cuyas causas son bastante complejas. Algunas tienen sus orígenes en la etapa prerrevolucionaria; otras, en la naturaleza del sistema de planificación central, la mentalidad de "propiedad colectiva", las restricciones absurdas al empleo por cuenta propia, y el doble sistema monetario y de tasa de cambio imperante y el arbitraje que eso promueve. Pero la causa más importante es la necesidad económica. Como parte de sus estrategias de supervivencia familiar, las personas recurren a actividades ilegales para poder subsistir.

Las consecuencias de los diferentes tipos de ilegalidades son complejas y variadas. Aquellas actividades que por su naturaleza son verdaderamente delictivas tienen un efecto nocivo tanto en lo social como en lo económico. Igualmente pernicioso es el hurto generalizado y de pequeña escala en las empresas e instituciones estatales, aunque ayuda a las personas a subsistir. También existen otros tipos de ilegalidades generalmente benévolas como el pago de complementos salariales, ya sea en efectivo o en especie, por parte de empresas mixtas u organizaciones internacionales. Los pequeños negocios que operan sin licencias, y por ende al margen de la ley, tienen por lo general repercusiones sociales y económicas positivas, siendo las políticas que los obligan a operar clandestinamente las que generan consecuencias adversas.

Los métodos que en la actualidad emplea el gobierno cubano para desalentar los delitos económicos son la exhortación, la vigilancia y las sanciones. Estas medidas han tenido poco efecto. Es necesario hacer algunas reformas esenciales para resolver este problema; entre ellas, liberalizar los mecanismos de otorgamiento de licencias y los regímenes impositivos y regulatorios para todas las pequeñas empresas legítimas, restringir las posibilidades de arbitraje mediante la unificación de la dualidad de la economía cubana, y limitar el papel absoluto que desempeña el estado para moderar la mentalidad de "propiedad colectiva" que incita a los individuos al hurto. Igualmente se deben lograr mejoras reales en la elevación del nivel de vida de forma que las personas no se vean obligadas a recurrir a las ilegalidades para sobrevivir. Desgraciadamente tales reformas económicas y prosperidad están aún lejanas.

Introduction

Various types of economic illegalities and underground economic activities occur in all countries. In Cuba, however, public policies and structural economic forces have promoted these phenomena. Indeed, Cuba appears to be awash with economic illegalities. Many Cuban citizens insist that almost everyone is involved in economic activities that are considered illegal by the state, contributing to a pervasive culture of illegality. This perception was well expressed in a 2004 Havana street saying: “*Todo se prohíbe pero todo se hace*” (“Everything is prohibited, but everything is done”). Another street saying highlights the ineffectiveness of the myriad of measures put in place by the Government to address these problems: “*Al tratar de controlarlo todo, termina sin controlar nada*” (“By trying to control everything, the Government ends up controlling nothing”).

Economic illegalities and the underground economy are serious problems with corrosive effects on Cuban society. This paper analyzes the nature and scope of these problems, the forces that produce them, their consequences, the policies necessary to reduce them and the anti-corruption campaign of late 2005.

There has been surprisingly little written on economic illegalities and the underground economy. Within Cuba, there appears to be no academic analysis of the problem. Some articles in the Cuban press have discussed corruption, but have not analyzed the factors specific to Cuba that generate it. Instead, it is often referred to as a phenomenon more unique to capitalism and not so serious in Cuba (R. Ricardo Luis and S. Lee, *Granma*, 2001).

Foreign journalists, business visitors and tourists are introduced quickly to various types of economic illegalities, however. A variety of newspaper articles have appeared in recent years in the press: Vanessa Bauza (*Houston Chronicle*, 2001) on illegal video rental; Gary Marx (*Chicago Tribune*, 2003) on illegal lotteries; Ken Gray (*Ottawa Citizen*, 2004) on black markets, illegal intermediaries and “finders fees”; Mark Frank (*Financial Times*, 2004) on the underground economy in rural Cuba; and Marina Jimenez (*Globe and Mail*, 2005) on the underground economy in general. There also have been a number of academic studies outside Cuba that have focused on economic

illegalities: A. Ritter (1974) on black markets and “privilege-taking” by officials; J. Pérez-López (1995) in *Cuba’s Second Economy*, the bench mark study for this period; J. Pérez-López (2004) on corruption in general and its likely future evolution under a process of transition; A. Ritter (2005) on “legitimate underground micro-enterprise”; and T. Henken (2004) on the *paladares* (private restaurants), taxi, and bed and breakfast self-employment and related illegal activities in Havana. In general, however, this is an understudied aspect of the Cuban economy.

Definitions: Economic Illegalities and the Underground Economy

The concepts relating to the formal, informal, underground and criminal economies have been defined in a variety of ways in different contexts and by different authors. The term “informal economy” was introduced in 1972 by the International Labour

Organization in the context of Kenya, and was further elaborated in the Latin American context by Victor Tokman (2004), PREALC and De Soto (1989), among others, and by more recent analyses (Portes and Haller 2005). However, because none of these sets of definitions fit the unique institutional character of Cuba, a custom-designed set of categories was developed for this paper and is presented in Table 1. The four categories included in the Table are Household Economy (Category A), Formal Economy (Category B),

Underground Economy (Category C), and Criminal Economy (Category D). The Household Economy is similar to the International Labour Organization’s (2002) concept of “Reproductive Economy,” and includes all non-monetized production and exchange of goods and services within the home and between friends and neighbours. The Formal Economy includes the public sector, state enterprises, mixed enterprises (with joint foreign, multinational and state ownership) and cooperative enterprises. Licensed self-employment is also included in the formal economy, as it operates within the tax and regulatory framework of the state.

The analysis in this study focuses on the Underground Economy (Category C) and the Criminal Economy (Category D). The Underground Economy involves the production and exchange of *legal* goods and services and the generation of income in unlicensed enterprises or using unauthorized methods. It is

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complex and includes a variety of phenomena:

1. “Legitimate” underground economic activities.
2. Underground activities operating within registered self-employment activities.
3. Underground activities operating within state firms or the public sector.
4. Unrecorded and unofficial income supplements paid by foreign organizations, mixed enterprises, state firms or the public sector to some employees.
5. Unrecorded and unofficial payments from customers to employees.
6. Black markets or illegal exchanges of goods and services.

“Legitimate” underground economic activities involve the production and exchange of *legal* goods and services although the persons producing them are outside the control of the state. Though tolerated elsewhere, in Cuba such unauthorized activities are considered criminal. A second variety of activity would be the private or semi-private enterprises, operated by some employees within the state sector, which require additional payments from citizens for their services. Some employees of mixed enterprises receive additional dollar incomes “under the table.” Some employees of state firms and institutions use public property for private activities and may receive particular benefits such as access to foreign travel and the per diems this generates. Other observers of the Cuban reality attest that almost every single employee of a state firm and institution uses public property of any kind for private activities or sale or exchange for other desired items¹.

The Criminal Economy refers to economic activities that produce *illegal* goods and services in clandestine circumstances outside the regulatory and fiscal purview of the state. Illicit drug manufacture and sales, prostitution, trade in endangered species, gambling in some jurisdictions, the sales of some types of firearms or explosives, smuggling, theft, and the sale of stolen property are cases in point. Bribery and overt corruption would also be part of the criminal economy.

Character and Dimension

There are many varieties of economic illegalities in Cuba. The following provides a list of some of these that are known to the author. This list could probably be extended considerably. The notation beside each example refers to the type of illegality categorized in

Table 1.

- A bread-maker in a local bakery saves inputs for the production of buns to be sold at a market-determined price—one Cuban peso per bun—rather than at the rationed market price of five centavos per bun. The buns then can be sold for a profit. (D1 and C2)
- The employees at a pizzeria reduce the size and ingredients of the pizza, saving the remaining ingredients for their own use. (D1 and C2)
- A butcher reserves some choice cuts of meat for “under the counter” sale to clients who are willing to pay more than the official rationed price. (C3)
- Cigar makers remove cigars from the cigar factory for resale. (D1 and C6)
- After-hours security guards at a cigar factory sell cigars to passers-by for convertible pesos. (D1 and C6)
- An official at a state institution with access to a vehicle for official purposes uses it more or less as a private vehicle, and the chauffeur as a personal employee. (D1)
- A waiter or barman provides low-cost home made peso-economy rum instead of official dollar-economy rum to clients. The dollar economy rum is then sold for a dollar price. (D1 and C6)
- A doorman at a cinema permits entrance without the purchase of a ticket but instead with a small payment on the side. (D1)
- An inspector of *cuenta propista paladares* (micro-enterprise restaurants) disregards discrepancies in restaurant owners’ input purchase and receipt records in exchange for a payment. (D1)
- An inspector for bed and breakfast operations overlooks an infraction regarding occasional renting of a second unlicensed room for a payment. (D1)
- A mechanic for a state sector enterprise tells a client that a placement part is not available from official sources, but that he is able to locate and provide the part from outside the shop at a higher price. While this may often be legitimate, it may also involve theft and resale of the part from the enterprise. (D1 and C3)
- A gasoline tank truck provides a larger amount of gasoline at a gas station than officially recorded. The *gasolinera* provides the driver of the tank truck with a payment and then resells the gas unofficially at a higher price. (D1 and C6)
- A state sector truck driver siphons gasoline out of the truck for resale at a black market price. (D1 and C6)
- An elevator repairman requires an additional

- fee for repairing the elevator of a small apartment building in order to get him to come and provide the service. (C3)
- Some state sector house and building painters dilute the paint they use on their official jobs in order to use the leftover paint on private jobs after hours or to resell it on the black market. (D1 and C6)
- An aesthetician requires an additional payment from the client above the state fee for services provided in the state beauty shop. (C3)
- A guard in a dollar store that sells clothing takes an item from the store and sells it privately to a client for a discount. (D1 and C6)
- A taxi driver provides a ride with the meter off and for a fixed fee, explaining that the meter is not working—or that he needs the money. Alternately, a taxi driver returning from a destination to home base picks up a client and requests payment without use of the meter. (C3)
- A citizen provides full-time taxi service for foreigners or those paying in dollars. Or citizens provide part time taxi service to supplement their incomes as doctors, civil servants, pensioners etc. (C1)
- Some drivers of state vehicles provide lifts for tourists for a dollar fee as they make their rounds. (C1)
- A foreign enterprise provides salary supplements in food and home-making supplies to its employees. (C4)
- A doctor accepts the provision of a gift from a patient, following a successful treatment. A case in which a doctor was offered a colour television by a grateful patient was reported in *Bohemia* (October, 2004) (C5)
- Some workers in a food factory or rationed sector food outlet divert foodstuffs for resale on the black market or for personal use. (D1 and C6)
- The owner of a house not licensed as a room rental facility rents a room illegally. (C2)
- The local *Comité de Defensa de la Revolución* president accepts a \$10.00 bribe in exchange for overlooking an illegal room rental. (D4)
- Citizens buy birthday cakes from a well-known but unlicensed and therefore illegal neighbourhood baker and vender. (C1)
- A mother buys powdered milk in the black market for her children. (C6)
- Toothpaste tubes in a store are missing about 25% of the paste and are filled with air instead, presumably a form of pilferage. (D1 and C6)
- Some employees of a state store partly remove perfume from some bottles that are then filled with water and sold, while the pilfered perfume is then sold illegally. (D1 and C6)
- When a customs official at the airport confiscates the computer of a student that has come to Cuba to learn Spanish, and decides and is permitted to give it to the language institute instead. The director of the institute then takes it home for personal use. (D1)
- A citizen pays a 5.00 convertible *peso* bribe to an agent in order to secure a scarce 85 *peso* (*Moneda Nacional* or 3.15 convertible *peso*) one-way airline ticket from Havana to Holguín. (D4)
- Jobs that permit the acquisition of significant foreign exchange through tips, notably in tourism, are sold to applicants by the hiring decision-maker. (D4)
- A woman pays an income bonus to her hairdresser in a state shop in order to obtain a high quality and timely service and recognizing that the hairdresser also has to live. (C5)
- A citizen sets up a satellite dish, receives foreign broadcasting, hooks up his neighbours for a 10.00 convertible *peso* monthly fee, and provides 24- hour cable service. (This was a common practice in early 2005.) (C1)
- A woman sells spaghetti, obviously stolen from somewhere in the distribution system, door-to-door in a middle class neighbourhood on a Sunday morning. (D1 and C6)
- Some tourists are overcharged ostensibly by mistake, for their meals in a restaurant, with an additional beer billed in some cases, with a “tip” included in the bill (though this is not in the menu or in the policy of the restaurant) or with the prices for some items overstated. (D1)
- An authorized bicycle repair shop illegally sells spare bicycle parts. (C2)
- Workers in a state pharmaceutical company package their own drug products for illicit sale. (D1 and C6)

Table 1: Categories of Economic Activity with Special Reference to Cuba

Type of Activity	General Character of Activity	Examples
<p>A) HOUSEHOLD ECONOMY Non-monetized activities within families and households or among neighbours and friends.</p>	<ul style="list-style-type: none"> • Child rearing • Personal services • “Do-it-yourself” activities • Cooperative work around the home • Barter of legal goods and services 	<ul style="list-style-type: none"> • All tasks relating to support and rearing of children • All household tasks • Home maintenance and repair • Repair of plumbing etc. for a neighbour
<p>B) FORMAL ECONOMY Legal products produced within the regulatory framework of the state.</p>		
<p>1. Licensed “self-employment”: agricultural and non-agricultural enterprises.</p>	<ul style="list-style-type: none"> • Registered <i>cuenta propistas</i> (self-employed workers) • Small farmers 	<ul style="list-style-type: none"> • 157 registered activities; 153,000 persons (as of Jan. 2003) • Tobacco farmers
<p>2. Formal enterprises: public sector, joint ventures, state enterprises and cooperative enterprises.</p>	<ul style="list-style-type: none"> • Ministries • Tourism; Minerals; International Marketing • Sugar sector 	<ul style="list-style-type: none"> • Meliá S.A.; Sherritt; Habanos S.A • Cimex; Gaviota; Cubanacán
<p>C) UNDERGROUND ECONOMY Unauthorized or illegal methods, legal goods and services.</p>		
<p>1. “Legitimate” underground economic activities: home-based and non-home-based enterprises.</p>	<ul style="list-style-type: none"> • Unrecorded production and transactions • Construction and maintenance • Unauthorized street sales 	<ul style="list-style-type: none"> • Appliance repair • Plumbing electrical repair • Cigar sales, “gypsy taxis”
<p>2. Within registered self-employment activities.</p>	<ul style="list-style-type: none"> • Unauthorized sales • Unauthorized dollar activities 	<ul style="list-style-type: none"> • Bicycle repair shop selling replacement parts • <i>Peso</i> taxi providing service in \$US
<p>3. Underground activities operating within state firms or the public sector.</p>	<ul style="list-style-type: none"> • Private payments to state employees above official rates • Under-the-counter sales at stores 	<ul style="list-style-type: none"> • Supplementary payments for tradesmen • State taxi drivers not metering their fares
<p>4. Unrecorded and unofficial income supplements paid by public institutions, state firms, mixed enterprises, or foreign organizations.</p>	<ul style="list-style-type: none"> • Income supplements to employees in kind or in Convertible Pesos • Special access to foreign travel, vehicles, housing 	
<p>5. Unrecorded, unofficial payments from customers to employees.</p>	<ul style="list-style-type: none"> • Unrecorded tips, gifts or gratuities 	<ul style="list-style-type: none"> • Payments or gifts in cash or kind to doctors, beauticians, or tourism workers

6. Black markets: illegal exchange of goods and services at higher prices.	<ul style="list-style-type: none"> • Under-the-counter sales of rationed products in state retail outlets • Sales of products outside the state monopoly retailing system 	<ul style="list-style-type: none"> • Butchers or bakers selling products outside the rationing system to favoured customers at a premium price • Sale of fish, seafood, potatoes, or beef
D) CRIMINAL ECONOMY		
Unlawful activities, carried out illicitly.		
1. Within state institutions, state enterprise and joint ventures.	<ul style="list-style-type: none"> • Theft of all sorts • Private use of state property 	<ul style="list-style-type: none"> • Theft of state property • Private use of vehicles and drivers
2. Within self-employment enterprises.	<ul style="list-style-type: none"> • Sale of stolen goods 	<ul style="list-style-type: none"> • Sale of parts by bicycle repair man
3. Outside the formal economy.	<ul style="list-style-type: none"> • Sale of stolen goods • Drug trade • Lotteries • Prostitution • Counterfeiting 	
4. Bribery.	<ul style="list-style-type: none"> • Sale of lucrative job positions 	<ul style="list-style-type: none"> • Sale of tourism sector jobs

Source: The author

There are also innumerable micro-enterprises in what has been labelled here “Legitimate Underground Economic Activities”. As noted, these activities are legal in virtually all countries, producing legal goods and services. However, in Cuba, numerous policy limitations force many of these otherwise perfectly legal activities into the underground economy. These micro-enterprises produce every imaginable but otherwise legal product or service.

A partial listing of such activities that are known to the author, directly or indirectly, includes the following:

- Personal services: barbers, hairdressers, manicurists, clothes washing, teachers, clothing repair, shoe repair, film rental, and “messengers.”
- Gastronomic services: snack bars, soft drink vending, baking, fruit vending, candy vending, seafood vending, pizza vending, etc.
- Retailing: bicycle parts, ice vendors, jewellers, cigarettes, newspapers, plumbing parts.
- Automotive repair services: mechanics, electricians, body shops, adornments, painters, tire repair, auto upholsterers, locksmiths.
- Appliance repair: pumps, stoves, air conditioners, TV and video, water pumps, locks, furniture

upholstering and repair.

- Construction trades: carpenters, plumbers, electricians, plasterers, glass workers, painters, concrete construction, etc.
- Transportation: taxis, bicycle taxis, carters.
- Manufacturing: shoe making, mattress making, cigarette making, cigar makers, soft drink bottlers, rum making.
- Primary sector activities: fishing, woodcutting and vending, charcoal burning and vending, food growing and vending.

While it is difficult to know exactly how significant the above-mentioned types of economic illegalities and underground activities may be, the scale appears to be enormous. A glimpse may be obtained from a number of examples.

One report indicated that in three of the 15 Municipalities in Havana, police and customs officials raided 150 clandestine cigar-making operations, which were then shut down. A total of 11,935 boxes of cigars were confiscated (www.Cubanet.org 6/1/04). If there were 150 illicit cigar operations in three of the 15 Havana Municipalities, it is likely that there are thousands across the country, because of the widely

known skills, the low barriers to entry into the activity, and its profitability. Recent restrictions on the export of cigars without proper paperwork and purchase validation has perhaps impeded but certainly not blocked the illegal production and/or sale of cigars.

There also have been a variety of illicit practices in the tourist sector. In the words of a manager of a five-star hotel:

“This is a billion-dollar business where millions flow daily in a poor country of people struggling to survive. Everyone finds some way to get unearned income and a few people get greedy. Just like in many other Third World countries, people often pay to work in the industry and then kickback a proportion of what they earn to their superiors. I could give you hundreds of examples. How high up these little mafias go, and if the problem is related to the *Cubanacán* scandal, is anyone’s guess.” (Frank, 2004A)

This was corroborated in early 2004 when 15 higher officials in *Cubanacán*² were dismissed from their jobs, as was the Tourism Minister. (Frank, 2004A) On February 19, 2005, Resolution 10 was enacted by the Ministry of Tourism, defining a code of conduct for the workers in the sector as well as higher-level management officials.

A further revealing example occurred in October 2005 when the Government ordered a change of personnel in all the gas stations on the island in order to stop the theft of gasoline that had reached alarming levels. (BBC Mundo, 2005)

Causes of Economic Illegalities

The causes of the illegal activities are complex but are rooted mainly in the economic policies that compel citizens to act outside the letter and spirit of the law in order to survive. It is also important to bear in mind that economic illegalities of various sorts are common in most countries, and that some of the forces at work in Cuba are common to most other countries as well.

To begin with, Cuban citizens’ disregard for economic authority has historical roots. From the earliest Colonial times, Cubans broke the enforced bilateral trade relationship with Spain. Contraband trade was common with France, Britain and later the United

States, as well as with corsairs and pirates. Moreover, in the Colonial era, Spain attempted significant micro-management of the Cuban economy despite distance and slow communication. The response of many Cubans to this situation was to obey the regulations and rules from Spain only nominally while continuing their own activities illegally. The phrase summing up this widespread practice was “*Obedezco, pero no cumplo*” (I obey but do not comply).

While Cuba had developed a diversified range of large modern corporate business by the 1950s, large numbers of small-scale cottage industries continued to exist in many areas of the economy. This was an authentic “informal economy” producing legal goods and services, and tolerated by the state, although it was outside the state’s regulatory framework. Some of these attracted the attention of the 1951 International Bank of Reconstruction and Development (IBRD) Mission to Cuba. These small enterprises evaded taxes, paid lower wages than the large firms, were non-unionized and avoided social benefit payments. There was probably a considerable degree of continuity between underground economic activities before and after the 1959 Revolution. People already functioning “in the shadows” in 1958 could easily remain underground after 1959.

A second factor promoting economic illegalities is the character and functioning of the central planning system adopted in 1961-1963. The rationing system implemented in 1961 was designed to provide everyone with the same basic supply of foodstuffs, clothing, and household products in order to achieve a minimum level of equality. This was to be achieved by replacing individual (or family) choice, expressed through markets, with an allotment of basic goods available at prices that were low relative to the average monthly income. However, because everyone received essentially the same rations, and not all necessities were covered, many people would sell the rationed items they did not want or trade them for other products they did want. In this way, the rationing system converted many people into mini-capitalists, searching for opportunities to sell and to buy.

Because the central planning system could not and cannot work perfectly, especially in the context of economic turbulence, enterprise managers must

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often improvise to resolve unforeseen problems. To obtain required inputs they must negotiate with other enterprises, with superior officials, or with superiors or inferiors in other sectors or ministries. Indeed, managers of state companies were more effective and successful if they had a strong net of “extra-plan” sources of inputs in order to keep their enterprises functioning. This also promoted the illegal and extra-legal exchange of goods.

A third factor is what appears to be a “common property problem” at work with respect to state property. A general attitude appears to be that state property belongs to no one and to everyone, so that if one person does not help himself to it, someone else will instead. Public property therefore is treated as if it were firewood in a public forest or fish in the seas, belonging to no one in particular. It is “up for grabs” by whoever needs it and is in a position to take it. Similarly, public property, such as a vehicle accompanying an official position, is readily used for personal purposes with few qualms of conscience. In the words of the sociologist Juan Clark: “The majority of people believe that stealing from the state is not a crime.” (Cited in Pérez-López, 1995, p.99) Others add that such theft is not seen as a crime but as a right. (A. Yanes, 2005) The standard for this type of attitude and behaviour may be the Communist Party of Cuba and President Castro, who are able to use state property for partisan political purposes and often for personal purposes.

A fourth reason for the expansion of illegal economic activities in the 1990s and 2000s is the coexistence of the old *peso* economy (with rationed products at very low prices) and the new economy (now with convertible *pesos* and previously with dollars and partly market-determined prices). The gap in prices between these two economies is enormous, creating an opportunity for arbitrage in a “black market” in which prices are determined by supply and demand. An example of the price gap between the two economies will illustrate the scope for arbitrage. The price of sugar with the ration book is 0.15 old *pesos* per pound. In comparison, a pound of sugar in the dollar stores costs 1.50 convertible *pesos*, or 39.00 old *pesos* (at the exchange rate relevant for Cuban citizens, that is 1.00 convertible *peso* = 26 old *pesos*). This is 260 times higher than the ration system price. The “black market” also includes the exchange of products that

are pilfered from the state sector, of course.

A fifth factor is that policy limitations on the legal micro-enterprises also promote economic illegalities. For example, all legal micro-enterprises must be licensed, but relatively few licenses are in fact granted. In Havana Municipality in the year 2001, only 23.9% of the 97,687 applications were in fact approved with licenses granted. (*Dirección Provincial*, 2001) Restrictive licensing means that potential legal micro-enterprises are pushed into the underground economy. Legislation in October 2004 banning the issue of new licenses for some 40 types of micro-enterprise will further intensify this effect.

The tough regulatory regime for micro-enterprises also makes their lives difficult and leads some of those who can to the underground economy. (See Government of Cuba, *Decreto Ley* 174 of 1997) Tough regulations regarding the inputs that can be used and where they can be purchased push some micro-enterprises into illegal acquisition of inputs. Restrictions on employment have a similar effect.

Basically, the more complex are the regulations governing the conduct of particular economic activities, the greater the scope for illegal actions

Basically, the more complex are the regulations governing the conduct of particular economic activities, the greater the scope for illegal actions. In consequence, there are frequent violations of those rules that are thought to be unreasonable by the self-employed. Heavy taxation also leads some micro-enterprises to try to evade

taxes in various ways. In consequence, large numbers of enterprises that would otherwise operate legally are forced into clandestinity. As noted above, there are innumerable such micro-enterprises or “Legitimate Underground Economic Activities” operating in the shadows of the underground economy, producing huge varieties and volumes of goods and services.

Heavy taxation and regulations such as labour laws, minimum wage legislation and health and safety standards also serve to promote underground economic activities in most other countries as well. (Schneider and Enste, 2002) What is different with respect to the Cuban case is the onerousness of the taxation levels, the rigor of the regulatory regime and the limited licensing of some micro-enterprise activities. (*Gaceta Oficial*, 1997)

However, the most powerful force promoting economic illegalities of many sorts is necessity.

Citizens earn old *pesos*, but their earnings are insufficient to purchase the basic foodstuffs—not to mention everything else—that they require for survival. This means that people must find additional sources of income in old pesos or convertible *pesos* (previously US dollars). Cuban citizens often remark that their official monthly wage will buy basic foodstuffs from the rationing system and other sources that are sufficient for only about 10 to 14 days of the month. Purchases for the rest of the month must be made with funds from other sources. In addition, the number of products available through the rationing system is inadequate. From 1999 to 2004, the products available through the ration book included rice, sugar, milk for children, matches, pasta, and occasional items such as beans, cooking oil, eggs, bathing and washing soap, toothpaste and meat (the latter very occasionally). It is difficult to imagine a person attempting to survive for a month on only these products. Other goods and services have to be obtained from the dollar stores, from *cuenta propistas* or from the state or private agricultural markets at high prices. (Electricity, water and most types of health services but not telephone services were also available for low old *peso* prices).

A study by L. Lam (cited in Togores and García, 2005: 260) estimated that the foodstuffs available through the rationing system for Havana (which is usually better provisioned than other parts of the country) provided adequate calories and protein for children age 0 to 6 years, but inadequate fats. However, the 14 to 65 year age group received only 43.1% of the calories, 32.1% of the protein, and 12.9% of the fats recommended by Cuba's National Institute for Nutrition and Food. Similarly, those over 65 years of age received 61.8%, 55.4% and 17.2% respectively of their recommended amounts of the three food components. This means that it is necessary to find other sources of foodstuffs, whether from the *mercados agropecuarios* ("farmers' markets") the dollar stores, the state vegetable markets, the black market or from household production. The first four of these sources are expensive.

The results of Lam's study were corroborated by a rigorous analysis by A. García and V. Togores (ibid. 260-262). Their analysis showed that the subsidized state sources of food (from rationing and public food programs) provided 70% of the caloric requirements, while household production provided 22%, and market-oriented sources 3%, leaving a consumption

gap of 6%. They estimated that in order to provide the level of caloric intake recommended by the Food and Agricultural Organization, the total cost of food alone from the various sources would be 156 old *pesos* (this does not take into account protein and other nutritional requirements—calories are used as a proxy for general nutritional intake). In fact, the average monthly per capita income in 1998 was 116 old *pesos*. This meant that virtually all Cubans needed additional sources of income, preferably in dollars or now in convertible pesos simply to buy food. But people need more than food to survive. Clothing, transportation, utility payments, personal hygiene products, etc. are all necessary. Some of these – such as sanitary napkins – are available only in "convertible pesos" at the "dollar store" prices.

The inadequacy of *peso* incomes was confirmed in April 2005 when President Castro announced major wage, salary and pension increases. The minimum wage was increased from 100 to 225 pesos and the minimum pension was raised from 55 to 150 *pesos* (*Granma*, 22 de abril de 2005). The increased incomes will have to be spent on non-rationed products from the *mercados agropecuarios*, the state vegetable markets and the hard currency stores (at international prices plus a 140% sales tax). The latter require convertible *pesos*, available at 26 old pesos to 1 convertible *peso*. In consequence, the purchasing power of the income increases for pensioners and those on the minimum wage is not particularly significant.

However, people have in fact survived. They purchase not only their required food, but also other daily requirements because they have other sources of income besides those earned from the official wage and salary system. There are a number of ways that people acquire additional incomes:

- Some receive remittances from family members or friends outside Cuba; these are estimated to total between US\$ 700 million and one billion annually.
- Some acquire convertible pesos from foreign travel for governmental, business, or academic purposes.
- Income supplements to Cubans are paid "under the table" by foreign enterprises or organizations.
- Some 140,000 Cubans earn incomes from self-

the number of products available through the rationing system is inadequate

employment. A large number of individuals work formally and informally with the registered *cuenta propistas*.

- Some receive additional income working abroad—in Venezuela, for example—in officially sanctioned capacities.
- Some earn tips from their work in the tourist sector. These payments make the approximately 100,000 tourist sector workers among the highest paid in the Cuban economy and provide a powerful incentive for qualified people to leave other areas of the economy, such as university teaching, for tourism.³
- Income supplements in kind or in cash (convertible pesos) are also provided to considerable numbers of workers in key sectors of the economy and in international or foreign organizations. Such supplements in kind also can enter the black market for resale.

However, for those citizens lacking access to any of these sources of supplementary income, the situation has been desperate. As seen above, they have been below or near a minimum subsistence level of income. Necessity is therefore the primordial force pushing citizens into economic illegalities or the underground economy.

This general situation was aptly expressed by “Adrian,” one of the gasoline employees expelled in the October 2005 firing of all gas station attendants in an attempt to stop the theft of gasoline:

“What’s most important in looking for a job is not the salary but what can be ‘resolved’, meaning in good Cuban Spanish what we can steal.” “Of course we rob, chico! Or does he (Fidel Castro) think that I can maintain my wife and two children with the 10 dollars per month that he pays me.” (BBC Mundo, 2005)

Economic and Social Consequences of Economic Illegalities

The economic illegalities that are practiced in Cuba have a range of consequences. Some of these are benign and even useful, but others are socially and economically noxious. The consequences vary depending on the specific character of the illegality,

and are summarized briefly in Table 2.

The “legitimate” underground economic activities that produce legal goods and services have mixed impacts, but on balance, these are strongly positive. On the positive side, such enterprises consist of low-income people producing a range of goods and services for other low-income citizens. Usually these goods and services are provided ineffectively by the state sector but are important for people’s daily lives. They include personal services (hairdressing, clothes washing, film rental, watch repair, etc.), food services (snack bars, soft drink bottling and vending, rum making, etc.), automotive and appliance repairs, transportation, construction and home repairs, retailing (cigarettes, newspapers, ice, etc.), manufacturing (shoes, furniture, cigars, etc.), and some primary activities (charcoal making, fishing, wood for cooking, etc.).

The micro-enterprises generate jobs and incomes for the entrepreneurs and the workers. The entrepreneurs save and invest with no access to banks, public support, or micro-finance. They earn foreign exchange for Cuba by selling products to tourists and they save foreign exchange by relying heavily on recycled and domestically available inputs. They are also valuable “schools of entrepreneurship.” The owners of these enterprises work hard and utilize their resources as efficiently and carefully as possible under the circumstances of clandestinity. On the other hand, by forcing such enterprises underground, the government does not collect taxes from them. They may also be inefficient due to their small size and the “costs of clandestinity”, and therefore may waste a proportion of the entrepreneurial energies of their owners. They also may rely on inputs pilfered from the state sector.

On the other hand, theft from state enterprises and institutions and the use of public property for personal purposes are at the other end of the spectrum. While these activities may help some people survive, they also have noxious effects. Theft damages the enterprises and institutions in which it occurs by impairing their capacity to provide the goods and services they are intended to provide to the general public. Theft also worsens income distribution in that those who do not steal have lower effective incomes

Necessity is ... the primordial force pushing citizens into economic illegalities ...

than those who do, and it reduces the available quantity of lower-priced state goods and services. The use of state property and the abuse of power for personal purposes may be less visibly noxious, but

it damages income distribution because those with privileged access gain at the ultimate expense of the broader society.

Table 2: Economic Illegalities and their Social and Economic Impacts

Types of Illegality	Economic and Social Impacts
C) UNDERGROUND ECONOMY Unauthorized or illegal methods, legal goods and services	
1. “Legitimate” underground economic activities: home-based and non-home-based enterprises	Mixed, but mainly positive: <ul style="list-style-type: none"> • Produces useful goods and services, generates jobs and incomes, earns and saves foreign exchange, promotes savings and investment, develops entrepreneurship. • Affects income distribution in complex ways. • Results in inefficiencies because activities are clandestine.
2. Within registered self-employment activities	Mainly positive: <ul style="list-style-type: none"> • Permits natural synergies. • Permits circumvention of silly regulations.
3. Underground activities operating within state firms	Mixed: <ul style="list-style-type: none"> • Permits workers to survive. • May damage activities of state enterprises.
4. Unrecorded and unofficial income supplements paid by public institutions, state firms, mixed enterprises, or foreign organizations	Positive: <ul style="list-style-type: none"> • Permits reasonable compensation and thence survival of workers. • Promotes worker commitment and industriousness. • Affects income distribution.
5. Unrecorded, unofficial payments from customers to employees	Mainly positive: <ul style="list-style-type: none"> • Permits survival of some state workers. • Provides better service for better-off people.
6. Black markets: illegal exchange of goods and services at higher prices	Mixed: <ul style="list-style-type: none"> • Some exchanges are completely positive. • Some exchanges have negative impacts (e.g. exchange of stolen goods).
D) CRIMINAL ECONOMY Unlawful activities, carried out illicitly	
1. Within state institutions, state enterprise and joint ventures	Negative; but also permits people to survive.
2. Within self-employment enterprises	Negative; but also permits people to survive.
3. Outside the formal economy (drug trade, prostitution, etc.)	Negative.
4. Bribery	Negative; promotes enrichment of strategically placed individuals.

Source: The author

Corrupt practices such as the taking of bribes or the selling of jobs also have harmful consequences. In such cases, strategically placed individuals are able to use their positions of privilege and trust for private gain. Those who are able to pay the bribes or purchase their jobs also gain privileged access to scarce goods and services, again damaging other people's access and thus harming the broader society.

Black markets may either enhance or diminish the welfare of society. If the black market exchange between a willing buyer and seller does not involve stolen property but only the re-circulation of rationed goods, for example, then it benefits both seller and buyer. As a case in point, both buyer and seller benefit from under-the-table payments accompanying a "permuta," or the exchange of housing of unequal value, as indicated by their willingness to undertake the transaction. On the other hand, a good deal of black market merchandise is stolen from the state sector. Obviously, this is a negative phenomenon. Even if both buyer and seller gain, they are doing so at someone else's expense.

Finally, stealing from the state breeds attitudes and cultures of lawlessness that damage trust and the ethical foundations of the economy and society. The practice of economic illegalities could escalate further and become a sort of undeclared civil war among citizens for spoils from the economic system. So far, this has deformed the economy and society seriously. However, it has permitted people to survive an otherwise impossible situation.

Reducing Illegalities

In view of their corrosive and perverse effects, widespread illegalities and the culture of petty corruption in time should be reduced. What measures might be effective in this regard? The Government periodically has campaigns of a punitive and exhortatory character. However, these are seldom effective for more than a short period of time. To deal with the culture of petty corruption will require deeper cutting policy measures.

Recent Approaches by the Cuban Government

The main methods used by the Government of Cuba to deal with the phenomenon are preaching,

policing, proscription and punishment. The effects of this approach in the past have been transient and the illegalities have surfaced as soon as the pressure and the campaigning subsided. If the underlying forces that generate the economic illegalities are not addressed, it is unlikely that the latter will disappear with this type of approach.

The Government of Cuba often asserts that the principal source of pervasive illegalities is the existence of the licensed, and therefore legal, micro-enterprise sector and the private farmers markets. Invariably, it then moves to further restrict their operation. But limiting legal micro-enterprise numbers and tightening the regulations on them merely pushes some of them into the underground economy. Those formerly self-employed legally would also have an incentive to engage in a variety of other illegal activities as well, in order to make ends meet.

For this reason, actions such as the elimination of 40 categories of self-employment for the issue of new licenses in October 2004 and the removal of some 2000 licenses from existing micro-enterprises in mid-June 2005 (M. Frank, 19 June 2005) are unlikely to lead to net reductions in illegal activities, and instead will probably provoke an expansion of economic illegalities of many varieties.

A frequently used approach to dealing with the more noxious economic illegalities is to monitor and police them more vigorously. A major role for the police has been to stop and question anyone traveling by foot, bicycle, or car on the street with large packages or backpacks, in order to apprehend anyone engaged in the transport of black market products. They are charged with watching out for any types of illegalities. However, the police themselves may overlook possible or actual infractions out of friendship for the perpetrator, empathy for his or her situation, or perhaps because they have received a pay-off of some sort.

Infractions may be punished by prohibitions of the relevant activities, but this may only push the activities underground. To prevent infractions, monitors or inspectors are required to police the legal self-employment activities. The role of the inspectors for the *paladares* and bed and breakfast operations is well known. However, it is also reported that in some cases, the inspectors have become avaricious,

If the underlying forces that generate the economic illegalities are not addressed, it is unlikely that (they) will disappear...

and require pay-offs for infractions that may be real, imagined or fabricated. In other cases, the inspectors seem to be somewhat less officious in enforcing the letter of the innumerable regulations relevant for the micro-enterprises.

Part of the task of monitoring people's activities in order to prevent illegalities is passed on to the *Comités de Defensa de la Revolución*, (CDRs) or the neighbourhood monitoring committees. In some areas, the CDRs may carry out this task effectively. However, the local officials of the CDRs also need additional income to survive. They are likely to be involved in illegal activities themselves, and therefore may not be diligent in exposing and prosecuting their neighbours. Or they may acquire a small share of the benefits of such illegal activities. In other contexts, security guards are used to try to prevent theft or other illegal activities. However, these individuals also would like to survive, so that they may look the other way when an infraction or theft is occurring in order to obtain a payment. They may also pilfer articles from their place of work or obtain a payment from others who may be doing the pilfering.

In other situations, the government uses a pretext to undertake house-to-house searches for illegal activities. In January 2003, for example, a campaign against drugs was used to search numerous homes and to penalize any illegal and underground economic activities encountered. This led to a cessation of some underground activities, but only until the pressure was off, at which time they resumed.

Another method used to reduce economic illegalities is exhortation through speeches, statements, editorials or articles in the media. However, it is not clear how much attention people give to the voluminous presentations of President Castro. It would be surprising if the attention paid to his words did not meet diminishing returns many years ago. The experience of the Revolutionary Offensive, when Castro, his key ministers, the media, and all the institutions of society preached the New Man ideology but without success suggests that exhortation would have but limited impact on people's behaviour if it ran counter to the family survival imperative.

The October-December 2005 Campaign

In October 2005, President Castro announced a major new campaign against economic illegalities. Although there have been other campaigns of this

sort in the past, this perhaps is the most vigorous anti-corruption drive so far.

Among the previous attempts to reduce illegalities and corruption were the following:

- September 1970: campaign against "privilege-taking by officials" (President Fidel Castro, *Granma*, Sept. 2, 1970);
- 1995-2005: low-level but steady campaign to enforce regulations and prosecute non-compliance by *cuenta propistas*;
- January-February 2003: campaign against drugs used as a means of searching homes and prosecuting other types of illegalities.

While all of these initiatives had some impact, their intended effect were not sustained for long. For example, the campaign of early 2003 led to some underground micro-enterprises ceasing operation for a while. However, some four or five months later they recommenced their operations.

The campaign of 2005 began with a high profile operation on October 17 by some 15,000 young "social workers" that took over the gas stations in Cuba to prevent pilfering of gasoline. (*BBC Mundo*, 17/10/05) A variety of other actions were taken, including the following:

- October 17: military intervention in the management of the Port of Havana (*Nuevo Herald* 8/11/05);
- October: fulminations about the "new rich" from *cuenta propismo* and corrupt practices;
- November 7-9: raids on *mercados agropecuarios* (aimed at sales by farmers prior to fulfilling their state quotas);
- November 17-18: Castro's 5-6 hour speech at the University of Havana on corruption mainly aimed at legal micro-enterprise, *paladares* and private taxis, and alluding to deficient ministers and officials;
- Late November: "*Operación Araña*" against illegal satellite TV access;
- November 22: pensions, electricity and salary increases:
 - Pensions (minimum): from 150-164 pesos;
 - Electricity rates: increasing in an escalating fashion for consumption in excess of 100 kwh per month, from 0.09 pesos for the first 100kwh to 1.30 pesos for consumption above 300 kwh;
 - Wage increases averaging 43 pesos per month.

All 2005 wage, pension and social assistance increases add some 25.8% to total state wage and pension payments.

- November 29: Operation against un-licensed bicycle taxis in Havana (confiscation of pedicabs; drivers without the right to live in Havana are sent home);
- December 5: according to President Castro, the “social workers” also began working in the Havana food distribution system, as well as state farms, co-operatives and state enterprises, in order to detect illegalities and corruption.

Fundamental Changes Required

To sum up, as long as the basic conditions of people’s lives require them to acquire additional income to survive, the various layers of inspectors, monitors, security guards and CDR officials constitute corruptible layers in the system. Their true effectiveness in enforcing the regulations and preventing illegalities of various sorts is limited.

More fundamental policy changes will be necessary in the future. First, as argued earlier, the dual monetary and exchange rate systems generate primordial economic forces that motivate people to undertake various types of illegalities. The government has not yet begun to focus on the problem of unifying the two monetary and exchange rate systems. Unifying the dual economy will be a difficult task, requiring complete re-alignments of internal wages and salaries on the one hand, and costs and prices on the other. (Ritter and Rowe, 2002)

A second fundamental change would be to revamp the regulatory, fiscal and policy environment within which legal micro-enterprises operate in order to permit them to thrive. An appropriate approach would be to permit licensing for all micro-enterprises that want to establish themselves, and that paid taxes and respected reasonable regulations. However, the credibility of such a change in government policy would be problematic. Underground micro-enterprises might not be willing to emerge above ground if they thought that government policy would change again, jeopardizing their future existence. However, with a different government or an authentic and credible change in policy towards micro-enterprises, the result in time would be that most currently unlicensed micro-enterprises would

come above ground and come into the official tax and regulatory system.

Additionally, the government could simplify its dense regulations and establish a reasonable taxation system so that there would be less incentive to remain underground. It would also be desirable to establish normal sources of inputs for the micro-enterprises, besides the high-priced former dollar stores. This would reduce and perhaps eliminate the tendency of some micro-enterprises to resort to illegal sources of inputs. Easing the regulatory burden and simplifying bureaucratic requirements would also reduce the often-abused discretionary powers wielded by officials and inspectors of all types.

State property poses a more a more difficult problem. In Cuba, as was also the case in Eastern Europe, a clear distinction between the public and private use of public property has not been maintained. The result of this ambiguity is widespread pilferage and the use of public property for private purposes. To the

extent that people view the economic system as hostile and one that makes it impossible for them to survive legally, theft may be viewed as necessary and legitimate. This attitude does not appear to be prevalent in very small enterprises in Cuba, where employees see immediately if their actions harm someone else, and where the owners can monitor the enterprise closely.

As argued above, the pervasiveness of state property itself helps promote a culture of pilferage and other illegalities, through the “common property” attitude. To deal with this deeply rooted behaviour will not be easy. Reducing the role of the state in running economic enterprises may reduce much of the scope for the pilfering of public property. Changing behaviour at the highest political level so that there is a strong demonstration effect regarding public use of public property would help as well.

A strong economic recovery and a broadly based improvement in real incomes or living standards, so that people did not have to act illegally to survive, would also help greatly to reduce such illegalities.

In the longer term, the task of reducing economic illegalities will be one of changing the economic culture that has evolved. The deeply ingrained behaviour of pilferage, extraction of personal benefits from positions of power and responsibility, and use of public property for personal gain will be changed

*More fundamental
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the future*

only with changes in the objective conditions that generate it.

Prospects for Change

Some of the policies adopted in the current campaign against corruption should have a positive impact, though others are more likely to have only a transitory impact.

Tougher regulations and reduced licensing of micro-enterprise will likely push some activities underground, so that there may in fact be increased illegalities resulting from this approach. More exhortation is also likely to be of limited and temporary benefit. Increased wages, pensions and social security payments may result in a minor reduction in the incentive to pilfer from the state, but the impact will likely be limited as peso incomes are still far below the level necessary for reasonable survival. If the wage and pension increases prove to be inflationary, (Frank, 2005) this would reduce the value of the old peso vis-à-vis the convertible peso and drive the two currencies further apart rather than towards unification. This would maintain the incentive for arbitrage between the old peso economy and the convertible peso (formerly US dollar) economy.

But a vigorous attack on the fundamental forces that generate the economic illegalities is not likely to be forthcoming for a while at least. Indeed, some other aspects of current public policy are worsening the situation.

The unification of the monetary and exchange rate dualism that creates the chasm between old *peso* economy earnings and the convertible *peso* (formerly US dollar) requirements for survival is not “in the wind” at this time. Instead, the recent appreciation of the convertible peso vis-à-vis foreign currencies prolongs and intensifies this dualism. Instead of liberalizing licensing and the regulatory regime and establishing a reasonable tax regime, the reverse is occurring. The obvious result is that the number of legal micro-enterprises will decrease, while the underground economy expands.

It is also questionable whether current approaches to changing popular perceptions of the sanctity of public

property are serious and likely to be effective. As long as the leadership, the Party and higher officials use state property for partisan and personal purposes, it will be difficult to persuade citizens not to do so as well.

Finally, economic recovery, increased real wages in the old peso economy and an authentic improvement of living standards should reduce the incentive of people to pilfer state property or use it for their personal purposes and undertake other types of illegality. While living standards have improved somewhat from the dark days of 1992-1994, relative material hardship continues for many—and probably the vast majority. It is unlikely that many people could survive on their *peso* incomes alone without additional sources of income. Until this situation changes, the economic illegalities will continue.

However, the ongoing economic recovery of Cuba should permit real incomes to increase; thereby reducing the incentive to undertake various economic illegalities. Modest economic recovery will likely continue into 2006 and perhaps beyond, in view of the special relationship developed with Venezuela that assures Cuba petroleum imports at favourable prices. Increased investment in nickel and probable expansion of nickel exports in the future, together with steady increases in tourism and perhaps some increases in domestic petroleum production, should also help to maintain economic recovery.

In summary, the current anti-corruption campaign and modest economic recovery should be helpful in reducing economic illegalities. However, it seems unlikely that the scope and intensity of the economic illegalities analyzed here will diminish significantly as long as some of the fundamental approaches to public policy and institutional structures remain unchanged.

...economic recovery, increased real wages in the old peso economy and an authentic improvement of living standards should reduce the incentive of people to... undertake illegalities

Endnotes

1. "The personal benefits of a particular position in Cuba are measured in terms of what kind of goods the individual is able to manage to take home, and not in terms of salary (which is in reality little more than symbolic). This has created a market for "positions" or "jobs" where access to a number of them is sold by a price determined by "how much" the individual is going to make out of the related illegal activities. This happens not only in tourism, but elsewhere, especially in places related to food (*bodegas, carnicerías, comedores obreros y escolares, almacenes de víveres*), and other basic needs, like clothes, items of personal consumption or gasoline. To obtain a job as a "bodeguero" or in a retail store, or in a garage, has a high price." (Ana Yanes, 2005)

2. *Cubanacán* is a state conglomerate enterprise that includes 51 hotels, 52 restaurants and cafeterias, a chain store with about 300 outlets, two marinas, a travel agency, a car rental and taxi service, a convention centre and 15 entertainment centres.

3. As of January 19, 2005, Resolution No. 10 of the Ministry of Tourism prohibited the receipt of tips by tourism sector workers from foreigners. (*Ministerio de Turismo, Capítulo Primero, Artículo 1*) All tips actually received by tourist sector workers are to be turned over to their managers or chiefs for subsequent distribution. This regulation may be difficult or impossible to enforce. It will likely push more people into a new zone of illegalities. To the extent that it can be enforced, it may reduce the incentives for tourism workers to provide good service.

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