

THE SELF-EMPLOYED IN CUBA: A STREET LEVEL VIEW

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Self-employment in Cuba was legalized in September 1993 as a part of a series of liberalizations that the Cuban government has adopted in response to the collapse of the Soviet Union. The sudden end to virtually all trade and aid from Cuba's Communist patron was a devastating blow to the economy. Cuba's gross national product (GNP) shrunk by an estimated 40 percent from 1989 to 1993. Put in a hemispheric perspective, Cuba's economic downturn was far worse than what other Latin American nations had experienced during the debt crisis and the "Lost Decade" of the 1980s. Cuba had been largely insulated from that regional crisis by its dependent relationship with the Soviet Union. However, when the Soviet Union dissolved, Cuba's vulnerability lay exposed for the world to see. The country had never evolved beyond a monoculture economy. In 1993 its fate still rested on sugar production; it had not diversified to any degree; and its centrally planned economy was singularly unprepared to compete in a capitalist system that was suddenly the only game in town.

Self-employment was just one of several reforms that Cuba embarked upon in the post-Soviet "Special Period in Time of Peace" in order to resuscitate its practically moribund economy. Perhaps the most important reform was the legalization of the holding of dollars, which enabled Cubans to purchase goods that had previously been available only on the black market. Wider choices for consumption achieved their intended result by easing political tensions somewhat, and newly-legalized remittances became an important contributor to the balance of payments. Other reforms included the legalization of foreign in-

vestment in Cuba, which provided a lifeline of convertible currency and technical expertise, and the reorganization of a part of the country's arable land from state farms to cooperatives.

Self-employment has caused considerable controversy in Cuba from its inception. The government is by no means comfortable with this dynamic enclave of Cuban capitalists, yet it relies on self-employment for unemployment relief, tax revenue, and the incorporation of more Cubans into the dollar economy. Some state-employed Cubans express resentment toward the self-employed sector and have not readily accepted the change.

The tensions generated by this situation have led to fluctuations in the numbers of self-employed Cubans, as the government has alternately encouraged and repressed the sector. The initial reaction to the new opportunity was impressive: by December 1993, just a few months after its legalization, 70,000 Cubans had obtained licenses for self-employment. In February 1994, however, the government acted to control the burgeoning sector by striking five occupations from the list of 110 permissible self-employed activities. In April 1994, the government issued a list of infractions punishable by fines of up to 1,500 pesos, including working in unauthorized activities and hiring middlemen.

The sector continued to rapidly expand for a short time; by May of 1994, the number of self-employed had reached 150,000. With incidents such as an August 1994 crackdown that included the arrest of approximately 40 self-employed persons for "illicit enrichment," however, the pace of entry into the sector

slowed considerably. From May 1994 to April 1995, only approximately 20,000 Cubans became self-employed. In December 1994, artisan markets were created in order to allow the sale of a variety of “light manufactures” and artisanal goods. Self-employed Cubans can charge in pesos or dollars for these goods and services.

The Cuban government does not publish detailed information regarding the self-employed sector, such as how many Cubans are involved in each permissible activity. Examples of some of the most noticeable activities, however, are food and drink sellers who bring a table to the edge of their property in order to sell to passers-by on the street; artisans selling handicrafts in urban markets; bicycle repairmen (usually doing a brisk business in Cuba, where the bicycle virtually replaced the automobile at the height of the economic crisis in 1994); “bicycle taxis,” rickshaws toting tourists on rides that are slow and bumpy but inexpensive; home restaurants, known as *paladares*; butchers and produce vendors at agricultural markets; and shoe and sandal makers.

In June of 1995, the government announced the addition of 19 new occupations to the list of legal self-employed activities. At the same time, the ban on participation of university graduates in the self-employed sector was lifted, producing a surge in the ranks of the self-employed. Though they are not allowed to become self-employed in their professional field, considerable numbers of university graduates have left the state sector to become self-employed. Presently, only those professionals involved in the health, education, and the defense establishments are prohibited from becoming self-employed. By late 1995, the number of self-employed Cubans had climbed to 208,000, a high water mark for the sector to date.

However, the government took a dramatic step toward imposing control on the sector when, in December, 1995, it instituted Cuba’s first income tax in 37 years. The self-employed were given 60 days to file their first quarterly returns. Annual tax rates range from 5 percent to 50 percent, and daily and monthly fees were established as well. Initially the tax was targeted toward the self-employed who earned

dollars, but eventually all Cubans who worked outside of the state apparatus would be taxed.

Continuing to alternate suppression with encouragement, the government opened 40 new activities for self-employment in June 1996, increasing the number of legal activities to 162. Nevertheless, higher tax levels and increased harassment have had the more significant impact, and the sector stood at approximately 150,000 in 1997, a decline of 28 percent in less than two years. The number of self-employed has hovered around 150,000 since that steep decline.

THE SURVEY

The research project centered on interviews conducted with 230 self-employed Cubans in July and August, 1997. I conducted interviews with Cubans in cities (Havana, Pinar del Rio), medium-sized towns (Guanabacoa, Santa Lucia) and in a small rural village in an attempt to get perspectives from a variety of locales and environs.

In gathering information for the study, I simply approached self-employed workers, explained that I was a researcher interested in self-employment in Cuba, and requested permission to ask several questions. Most interviews took no longer than ten minutes. The survey consisted of questions regarding age, date of entry into the self-employed sector, previous occupation, amount earned in previous occupation, amount earned in self-employed occupation, number of hours worked per week, number of employees if any, salary paid to employees, value of taxes paid, source of inputs, and restrictions faced for the growth of the business.

When I visited organized self-employed meat and produce markets (*agropecuarios*), I was able to conduct many interviews in a relatively short period of time. I approached as many self-employed workers as possible to request interviews and tried to conduct interviews at times when they were not very busy. In the *agropecuarios*, however, this was not always possible, because most were hives of activity in the hours that they were open. Other self-employed markets, such as the crafts markets in Old Havana, were also quite busy, though not to the degree that the *agropecuarios* were.

Interviewing self-employed Cubans who were not located in a centralized market involved a more time consuming process of walking the streets in search of interview candidates. These self-employed workers are not allowed to advertise their businesses, and locating them was difficult at times, especially in smaller towns. There were no official statistics available on the geographic distribution of the self-employed, but in conducting my research I found them to be more concentrated in urban areas. The most likely reasons for this are that there is more disposable income in larger towns for the “extras” that the self-employed sell (though many of the goods sold are basic items, such as certain kinds of food, that are not available from the state); that the government offices for registering to become self-employed are more prevalent in cities and self-employment is more accepted in neighborhoods there; and that there are more dollars circulating in cities than in smaller towns and therefore more opportunity for additional income.

In approaching individuals on the street, I was gratified at the reception that I usually received. Despite the atmosphere of official mistrust and even hostility that they worked in, most self-employed I spoke with were open and friendly with me. Roughly three-quarters of the people I approached consented to be interviewed. Those who declined to be interviewed often apologized or explained why they could not do it (in most cases they did not want to attract attention to themselves, though the surveys were anonymous). Only once did someone get angry, declaring loudly that he was a true communist and that what he was doing was approved by the state, and no, he did not want to be interviewed.

THE RESULTS

Income Differential

Perhaps the most significant finding of the survey was that the self-employed generally earn more than their state worker counterparts by a large margin. Income varied widely across occupations, and some self-employed workers struggle to earn a living wage. However, the sample population of self-employed interviewed in the survey earned an average of nearly fourteen times what they earned in their previous, state sector jobs. The self-employed I spoke with re-

ported earning 221 Cuban pesos per month on average (\$10.04 at the then-current exchange rate of 22 pesos to the U.S. dollar) in their previous, state sector jobs. In their self-employed occupations, they earned an average of \$135.80. The self-employed are earning far more than their state-employed counterparts, and the discrepancy will have important implications for Cuban society.

This discrepancy is crucial to understanding the dynamics of the sector. The self-employed are slowly emerging as a new class in Cuba. They have incomes that for regular Cubans are unattainable, unless one deals on the black market or has relatives abroad who send money. They are not becoming rich; most of those I spoke with said they had little left at the end of the month to put away as savings. However, they can purchase an array of goods that the average Cuban cannot, and they are creating a market for themselves as well as for dollar-toting tourists. For example, I frequently saw Cubans patronizing the *paladar* restaurants, where the hearty meals could cost as much as \$8. In interviewing the owners, I would ask how their Cuban clientele could afford to eat there, as one dinner represents most of a month's salary. The answer was that the Cuban diners were dollar-earning, self-employed people, who enjoyed a disposable income that others did not. Similarly, self-employed Cubans patronized other self-employed shoemakers, artisans, and blacksmiths, etc., because the goods available were of higher quality than state-produced goods, though they were more expensive.

Thus the income gap between self-employed and state-employed Cubans grows wider as the self-employed benefit from strong demand for the goods and services they offer. As they provide more goods to the shortage-ridden Cuban economy, they increase the incentive to earn dollars to buy those goods. The self-employed sector is showing signs of a self-generating dynamism that will continue to grow, if permitted to do so by the state.

The Tax System

In 1996, the government instituted the first income tax in socialist Cuba. The National Tax Administration Office (*Oficina Nacional de Administración Tributaria*) collects the annual taxes on the self-em-

ployed. The tax rates are determined by a progressive scale set by the Ministry of Finance. A flat monthly fee is also collected; government sources state that the average monthly fee is 102 pesos (around \$5).¹ Those interviewed for this study, however, reported an average monthly payment of close to \$13. These monthly payments are discounted from the year-end payment, made each year in February. For most types of self-employed activities, monitoring sales is beyond the capabilities of the government, and so the annual tax is paid on the basis of a sworn statement of the year's earnings. The tax scale used in Cuba is as follows:

| | |
|------------------------------|-----|
| From 0 to 3,000 pesos earned | 5% |
| 3,000 to 6,000 | 10% |
| 6,000 to 12,000 | 15% |
| 12,000 to 18,000 | 20% |
| 18,000 to 24,000 | 25% |
| 24,000 to 36,000 | 30% |
| 36,000 to 48,000 | 35% |
| 48,000 to 60,000 | 40% |
| 60,000 to above | 50% |

If a self-employed worker pays more in monthly fees than what the progressive scale indicates, no refund is given. These monthly fees can be adjusted twice a year by municipal authorities, though they cannot dip below the national minimums. Municipal authorities thus have considerable power to discourage or encourage local self-employment. Ten percent of gross income can be deducted to account for businesses expenses. Most people thought that this amount was not nearly sufficient to cover their expenses.

In investigating the personal income tax system, it became clear that the self-employed regularly underreport their earnings in their year-end sworn statements. Most people gave me the figure that they had used on their annual statement when estimating their income, and therefore the survey results reflect this underestimation. One self-employed accountant²

provided valuable information on the nature of the tax system. He showed me several copies of self-employed tax returns that he had prepared, and described how he helped them avoid the majority of taxes that they owe: "I usually ask them how much they want to pay in taxes, then we calculate how much that would be as far as an annual salary." He estimated that a typical self-employed worker reports only one-fourth of his actual income. The government is aware of the incentive to misrepresent income. He said: "Yes, the government knows that people lie. That is why the tax rates are so high, to try to make up for some of the revenue lost because people lie about their income." Below is the tax return of one of his clients, a food vendor, in pesos:

| | |
|--------------------------------|--------|
| Gross Income | 14,040 |
| Business Expense Deduction | 1,404 |
| Net Income | 12,636 |
| Taxes Owed | 1,477 |
| Total of Monthly Payments Made | 500 |
| Difference to be Paid | 977 |

The accountant estimated that this person's income was in reality around 60,000 pesos. This type of underestimation most likely applies to the answers given in interviews. The self-employed workers, while generally very cooperative and forthcoming, would have no reason to respond to questions regarding their income with anything but what they had reported on their tax returns. The discussion with the accountant cast doubt on veracity of the income estimates. However, the most significant finding derived from the income data from the survey is the large disparity between state incomes and self-employed incomes. This disparity only becomes greater if the likely underestimation of self-employed incomes is considered.

Similarly, the self-employed surveyed reported taxation levels considerably higher than the government tax table would indicate. The highest tax rate that the government tax tables prescribe is 50 percent (for any

1. "Regulaciones para cuentapropistas," *Granma* (26 June 1996), p. 4.

2. He was one of the very few white collar self-employed with whom I spoke. His family in the United States had given him a computer, and he gave lessons and prepared tax returns with it. Most white collar professionals are proscribed from practicing their professions on a self-employed basis.

amount over 60,000 pesos earned), plus any overpayment of monthly fees. The average tax rate reported in the survey, however, was 57 percent of total earnings. According to the tax tables, no self-employed worker would be taxed that much, unless the overpayment of monthly municipal fees, which are not refunded, boosts the tax bill quite significantly. However, as noted above, anecdotal evidence indicates that such overpayment is not very significant. Thus there is evidently an under reporting of income, an overestimation of tax rates, or a combination of both.

Even considering the possibility of misrepresentation by the self-employed, it is clear that the self-employed enjoy higher incomes than their state-employed counterparts. There are other benefits as well: many told me that the biggest advantage to self-employment, even more so than increased earning power, was freedom. They could make their own hours; if they did not want to work, they did not have to, they would simply not earn money that day (most did not take many days off, as will be explained below). This was a new experience for Cubans, and they cherished it. There was an important psychological benefit to working for oneself and accruing the fruits of one's own hard work. The alternative, working in a listless, centrally planned economy that offered few incentives to work hard, paled in comparison for many self-employed. Yet despite the clear advantages of self-employment in Cuba, there has been a dramatic drop in the numbers of self-employed in recent times. If the economic and psychological benefits of self-employment are so strong, why are Cubans not responding to the opportunity *en masse*?

Restrictions Faced

Part of the answer lies in high taxes on the self-employed. As noted above, the average tax was 57% for those who completed the survey. The monthly tax rate, which is set by municipal authorities, had risen

several times in the past year for many of the self-employed interviewed. Of those who responded to the question regarding restrictions, 38% reported that high taxes were an important impediment to the growth of their businesses.³

Not only do the taxes cut earnings by more than half, the seemingly arbitrary manner in which the government raises them probably implies a psychological toll as well. Anxiety about the future was widespread; though many self-employed Cubans appreciated the freedom of their occupations, not having a fixed income worried many of the those interviewed. For Cubans who have had all important economic decisions made for them by the state, relying on the fluctuations of a market economy for their livelihood, and being subject to continually rising income taxes, are dramatic adjustments.

Another factor is the increased official harassment faced by the self-employed; 16% of those who responded to the question regarding restrictions listed harassment as a significant impediment facing the growth of their business. The government has established new and costly fines for various infractions, while police and government inspectors have intensified their monitoring and regulation of the self-employed sector. Many interviewees complained of inspectors who drop by private homes at night to ensure that only those registered for self-employment are manufacturing the goods to be sold; according to several people interviewed, this has become much more common in the last year. The rise in such intimidation has very likely contributed to the decline in the numbers of the self-employed.

Certain restrictions are used as a means to intimidate or harass self-employed Cubans. For example, one young artist selling his paintings in the Plaza Cathedral in Havana said that the law prohibiting buying artisanal goods from other people in order to sell them at a profit in the market is enforced arbitrarily.

3. One-fifth of those interviewed did not report government restrictions as affecting the growth of their businesses. Generally, those who said that they faced no restrictions were also the most hesitant to be interviewed about their business. The section of the survey concerning restrictions was the most politically sensitive. The questions on restrictions often provoked criticism of the government, and it was my feeling that those who listed no restrictions often did so out of a reluctance to be quoted complaining about their situation.

One day a government inspector saw that the artist had not signed one of his paintings that was displayed in the plaza. The inspector accused the artist of selling another person's work and gave him a fine of 1,500 pesos, or approximately \$75. The young man was outraged, but there was little that he could do. When asked if there were ways for self-employed workers to dispute fines, he laughed and shook his head no. The inspectors are empowered to administer fines as they see fit, and there is no effective way to protest their decisions.⁴ Another artisan was registered to make drums. He lived alone and had no family, and was thus forbidden from working with anyone. (The self-employed are allowed to employ only family members.) However, he said that it is impossible to make the drums without having someone hold the drum while he pulled the skin tight over the top in order to enable him to sew it on. He said he could be fined for having an employee, even though he could not make the product he was registered to sell without one.

Another regulation clearly intended to limit the growth of self-employed businesses prohibits *paladares* from seating more than twelve persons. These restaurants, serving large portions of food at prices much below those of state restaurants, have the potential to thrive. The seat limit, however, stifles expansion. Often *paladares* in the sections of Havana popular with tourists would have as many customers waiting outside as dining inside. Some restaurants, it seemed, could easily attract four times as many clients as they were permitted to handle. *Paladares* were also prohibited from having live entertainment. *Paladar* owners seemed to develop their businesses in accordance with the prevailing political atmosphere. One owner, when asked about the piles of construc-

tion materials on the porch of his home, described his plans to construct a bar and add some decorative touches to his restaurant. He said that he had put his plans on hold a few months before, however; a crack-down on *paladares* made it unwise to attract additional attention, and he had left his restaurant undecorated.

The regulation that prohibits hiring persons other than family members has perhaps the most limiting effect on self-employed businesses. This law guarantees that, regardless of how profitable a business may be or how hard a person may work to succeed, Cuban self-employed businesses will never expand to any significant degree. They are destined to remain small and to play only a limited role in the economy. Avoiding this regulation often consumed a considerable amount of energy. In private restaurants, for example, non-family cooks and other personnel must be ready to dash off to a bedroom to avoid detection when inspectors arrive. Artisans who hire others to make products must do so in strict secrecy, because if they are discovered they lose their license.

A lack of financing was another important restriction of the self-employed. Of those who responded to the question regarding restrictions, 12% considered lack of financing to be a serious impediment to the growth of their business. Many of those interviewed were not familiar with the idea of bank or government credit because it has never been available to Cubans. The number listing lack of credit as an important restriction most likely would be higher if they were more familiar with the ways banks operate. No credit is provided to establish a self-employed business, and there is none available for expansion or any other reason.⁵ One common complaint was that there are no wholesale markets for self-employed

4. Anecdotal evidence indicates that some corruption exists within the ranks of inspectors. Some self-employed interviewed were of the opinion that the inspectors get a percentage of the fines they write or that they do not turn over all of the revenue they generate. Others, however, said that they maintained decent relations with inspectors, whom they had gotten to know in their daily visits. One woman interviewed said that the inspectors "had a job to do, and just like anyone else they struggle to survive." Another interviewee asserted that inspectors were specifically told to limit self-employed incomes to a certain amount and that they were given quotas for the number of fines they must issue per month. Officials at ONAT, however, would not confirm this.

5. Most self-employed workers steer clear of the Cuban banking system entirely. One private restaurant owner said that he earned considerable amounts of disposable income from his well-located establishment. He did not, however, put his money in the bank. The interest he would earn, two percent, was not worth the risk of attracting attention to his growing savings.

workers to buy inputs at less than retail cost, making profit margins very slim. One restaurant owner said, "I can only buy beer at a dollar a can, just like anyone else. I can't charge any more than a dollar, because people would refuse to pay it. So I make no money on beer in my restaurant."

Unavailability of supplies was cited by 34% of those who responded to the question as a significant restriction to the growth of their businesses. The lack of supplies reflects the general scarcity of goods in Cuba's centrally planned economy. Sugar, rice and beans were among the few goods that could be purchased at low, government-regulated prices using the state rationing book, known as the *libreta*, and were usually plentiful. Selling products using goods obtained from the *libreta* was illegal, however.⁶ The self-employed have to purchase all other goods at state stores or on the black market. The black market often has goods that are unavailable from state stores, but it is unreliable and can be expensive. For service professions such as bicycle repair or carpentry, the black market was usually the principal source of inputs.

The importance of the black market to the self-employed is not surprising; it affects virtually every aspect of daily life in Cuba. Prices on the black market are generally lower for the goods that are also available at state stores. Other goods, such as beef and lobster, are available only on the black market. For example, one housewife told me that 30 eggs, nicknamed "lifesavers" because they are available when virtually nothing else is, cost four dollars in the state stores and only three dollars on the black market. She estimated that she purchased 80 percent of her groceries on the black market. Most goods available on the black market have been pilfered from state enterprises.

Education

One of the most noticeable trends was the large numbers of self-employed who had university educations, especially considering that self-employment for

university graduates was only legalized in mid-1995. University graduates were more commonly found in activities such as artisanry than in low-skill work such as parking lot attendant or bicycle-taxi driver. Self-employed workers in Havana were more likely to be university-educated than those in smaller towns or rural areas. The high educational levels of the self-employed indicate that professional positions with the state pay less than self-employed occupations. They also indicate that there is a significant "brain drain" from the state sector to the self-employed sector. The graduates of Cuba's vaunted educational system are finding higher incomes in self-employment and are responding to the new opportunities in increasing numbers.

The most common educational category of the self-employed surveyed was technical, or pre-university vocational training for such careers as electrician or accountant. Forty-five percent of those interviewed held technical degrees; 29 percent held university degrees; 24 percent had graduated from secondary school; and 2 percent had only a primary school education level.

The effect of the exodus of educated Cubans into the self-employed sector is still unclear. Cuba's economy is undoubtedly less able to efficiently absorb its educated work force than it was before the crisis of the 1990s. The contraction of the economy reduces the impact of the labor migration to the self-employed sector; many of the chemists, teachers, engineers and the like who work as self-employed already were not working in their fields before turning to self-employment. Rather than a "brain drain", there is to some extent a "brain overflow" as idled professionals take up self-employment.

Duration of Businesses, Average Age, and Hours Worked

Those interviewed reported being self-employed for an average of 2.9 years. Because self-employment has been legal for nearly five years, this figure suggests that there has been significant numbers of Cubans

6. Food vendors are required to show receipts proving that they purchased their materials at state dollar stores, instead of at the peso-denominated *libreta* stores.

moving in and out of the sector. The fluctuations in the total numbers of self-employed substantiate this. Common reasons for leaving the self-employed sector include rising tax levels and increased harassment. Furthermore, the average time spent as self-employed is pushed up by a small number of interviewees who had been self-employed, illegally, for decades. One Havana photographer, for example, had been shooting photos on a freelance basis since the 1960s; another woman had made straw hats in a beachfront community since 1973.

When the self-employed leave the formal self-employed sector, however, they often do not abandon their livelihood, but continue to do it informally. A common estimate is that for every registered self-employed worker in Cuba, there is another one who is working illegally. Frequently, Cubans begin to work as self-employed illegally on a trial basis. At a later point, they must decide whether or not the risk of being caught outweighs the advantages of not paying taxes and not being regulated. As tax rates rise and regulations become more onerous, there is a greater incentive to work illegally, and the one-to-one ratio of legal to illegal self-employed workers may change.

The average age of the self-employed surveyed was 37.5 years. The self-employed come from the heart of the Cuban labor pool: workers who are at or near their peak in terms of productivity and creativity. Their relative youth is not surprising, as self-employment entails risks and younger people are more likely to be willing to accept the risk. Self-employment also requires resourcefulness, to a degree that varies according to which activities one pursues. Every Cuban must be resourceful to acquire basic necessities that are not provided by the *libreta*. The self-employed, however, must find inputs for their business in a shortage-ridden economy in addition to providing for their personal needs. Those most likely to accept this challenge, and to thereby be successful, are the most energetic and dynamic of the work force, who are likely to be relatively young.

The youth of self-employed Cubans is probably a function of the physically demanding nature of the typical self-employed occupation. While not every occupation is as grueling as that of the bicycle-taxi

drivers, who pedal two or more tourists around Havana on converted Chinese bicycles day and night, none is easy. Furthermore, they typically work very long hours. Among those surveyed, the average number of hours worked per week in self-employed activities was nearly 66. The long work weeks give some perspective to the increased earnings of the self-employed. While they typically earn more than state employees by a wide margin, they still find it necessary to work much more than the typical state worker. Their \$135 average income per month does not provide for many extras in Cuba, where the dollarization of the economy has spelled real inflation. Most of those interviewed regularly worked themselves to exhaustion six or seven days a week. Few had reached the point at which their increased income would induce them to work fewer hours. Furthermore, self-employed workers often cannot take advantage of lower prices and greater availability on the black market. Because they work such long hours, they can spend less time securing goods on the black market and are forced to buy goods in dollars at state stores more frequently than other Cubans.

Organization

In the face of the serious restrictions and harassment encountered by the self-employed, one might expect some amount of organizing to occur in order to more effectively press for better treatment. However, the self-employed generally remain atomized and do not benefit from collective action. Several told me that complaining to the local citizens groups, formed under the *Poder Popular* initiatives of the 1980s, accomplishes very little. There was a sense of the futility of protest; organizing did not bring much chance of improved representation in the minds of most of the self-employed I spoke with. Organizing also attracts the attention of state officials, and the fear of persecution was clearly a disincentive to organization. Certain self-employed who plied their trades in marketplace held regular meetings, but these were limited to discussion of who would get what space to sell his or her wares, what days certain people would work, and other practical matters.

I did encounter one more developed organizational body in a medium-sized city in the west of Cuba,

however. A group of economists, acting under the auspices of the Catholic Church, had organized regular meetings of the local self-employed. According to one of the founding economists, the meetings were designed to “offer the self-employed the space to reflect upon their situation. We discuss new regulations, the tax system, and answer any questions they have.” She told me that the state prohibits such meetings, but that the Church offers protection from the authorities. In the Cuban Catholic Church-sponsored magazine, *Vitral*, the group publishes occasional articles directed to the self-employed to explain regulations and the tax code.

The economist showed me a pamphlet advertising a weekend workshop that the group was going to hold a few weeks later. The workshop was to focus on improving the bookkeeping methods of the self-employed and offering them suggestions on improving the efficiency of their businesses. Most self-employed keep few records, and one of the group’s goals was to improve their record-keeping. The economist said that the response had not been great to date, because many self-employed were afraid to organize. The government regularly sent spies to their meetings to monitor the proceedings. Many self-employed engage in “self-censoring”, she said, because they are afraid that others will report them to the authorities. Due to the detailed and numerous regulations affecting the sector, the self-employed are constantly in danger of being denounced for one violation or another, and this inhibits attempts at organization. The Cuban government tried to create a self-employed union in 1996, but it was seen as a tool to gain control over the sector, and so it did not succeed.

The involvement of the Catholic Church extends beyond the economists’ fledgling self-employed group. The Church also sponsors a civic consulting group that offers free legal advice to self-employed workers, as well as psychological consultation. The activism of the Church on behalf of the self-employed is an important development. In the Special Period, there has been increased official tolerance of religion, and the popularity of the Catholic Church is on the rise. With the visit to Cuba of Pope John Paul II in January 1998, the Church will most likely gain greater

autonomy and ability to act on social issues. By forging ties with the self-employed, two forces for whom political change would be clearly beneficial are united. Their union could have important ramifications in the near term for the evolution of the Cuban political system.

Political and Macroeconomic Effects

Self-employment has clearly contributed to the recovery of the Cuban economy, but whether or not it is indispensable is not so clear. The government, in an unprecedented admission that the state could not provide work for all its citizens, has announced that unemployment is at 7 percent. The labor force consists of approximately four million people. If all registered self-employed workers were unemployed, that rate would rise to 10.7 percent. Furthermore, as mentioned above, a conservative estimate is that for every registered self-employed worker in Cuba there is another working illegally. If no self-employment, legal or otherwise, were possible, the unemployment rate would therefore rise to 14.5 percent.

Such a hike in unemployment rates would undoubtedly increase political tension on the island. Without the self-employment option, tens of thousands of some of the most driven and resourceful Cubans would face the frustrations and deprivations of unemployment. Given the severe limits of what the government can provide in the Special Period, discontent would probably surface. In defiance of the state’s omnipresent security apparatus, Cubans rioted in 1994 in protest of harsh economic conditions, and this scene would be likely to be replayed if self-employment is abolished. Self-employment offers Cubans a way to escape abject poverty and is an important safety valve for the regime.

However, the Cuban economy has recovered somewhat from the low point of 1994. In 1995, according to official figures GDP grew by 2.5 percent, and in 1996 by 9.8 percent, fueled by foreign investment and tourism. The increased harassment and taxation of the sector indicate that the regime is becoming less tolerant of capitalism amongst its citizens. With the cushion of the economic turnaround, self-employment is perhaps seen as an evil that is less necessary.

Due to limits on my research in Cuba, I was unable to obtain the views of Cuban officials on the future of the sector. The proof of a shift in policy is in the falling numbers of self-employed. My research shows that self-employment is an attractive alternative for Cuban citizens; it not for lack of interest on the part of Cubans that the numbers are declining. The regime obviously feels that the benefits from expanded self-employment opportunities are not worth the risks associated with granting greater economic freedom.

While several people I interviewed expressed the opinion that the government was slowly trying to eliminate self-employment, this seems unlikely. Profits are too limited for a controlled number of self-employed people to pose a serious threat to the government. Furthermore, as detailed above, there is little organization amongst the self-employed. The prevailing sentiment of the respondents to the survey was that they did not harbor any political ambitions. Overwhelmingly, they related that they simply wanted to be able to work for themselves in peace.

The most important factor, of course, is the cost-benefit analysis of the regime itself. Fidel Castro's government has summarily shut down free market experiments in the past, and it could end this one in a similar fit of socialist orthodoxy.⁷ The difference today is that Cuba's longtime sponsor, the former Soviet Union, no longer exists, making the elimination of free market initiatives significantly more difficult. Therefore, I do not believe that the current wave of repression is a step toward the elimination of self-employment in Cuba. To put it bluntly, the regime simply cannot afford to end it.

I was unable to obtain official statistics on the impact of the tax revenue from self-employed businesses, but it certainly provides a sizeable contribution to government revenue. Cuba's budget deficit is one of its most salient economic problems as the Special Period enters its eighth year. The government must be wary of doing anything that might worsen the budget def-

icit, and eliminating self-employment certainly would have that effect. Extrapolating the results of my survey, the self-employed would contribute more than \$130 million in tax revenue annually. In the context of the ongoing economic crisis, even the most rabid anti-capitalist factions of the government would be reluctant to kill this golden goose.

CONCLUSION

A new class of better-off Cubans has arisen as a result of the legalization of the dollar and the new opportunities for self-employment. My survey indicates that they earn significantly greater incomes than state workers; they are generally well-educated; they face serious restrictions, including high tax rates, harassment, and a lack of supplies and financing; they are dedicated to their occupations and work long hours; and they are important actors in Cuba's black market. Their improved purchasing power has stimulated the Cuban economy, particularly the black market. Their highly visible success creates tension between themselves and certain elements of the government, between the self-employed and state workers, and possibly between the government and a general populace that catches a first-hand glimpse of what average Cubans can achieve when granted a dose of economic freedom.

The last is what makes the self-employed phenomenon so interesting and important for the near term future of the country; when a transition toward a true free market economy occurs in Cuba, the self-employed will be an important minority of Cubans who have small enterprise experience, who are familiar with risk taking, investment and profits, taxes and regulation. They will be uniquely equipped to thrive in a capitalist setting. They will continue to sell goods and services to the domestic population and cater to tourists, but they will be able to expand their businesses, hire other people, and generate real wealth.

Furthermore, much of Cuban society still believes in socialist ideals and many Cubans still hold capitalism

7. For example, private farmers markets, where prices were determined by supply and demand, were legalized in the early 1980s, only to be banned by the regime in 1986 for alleged excessive profiteering.

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in contempt. The self-employed can serve as important examples of the benefits of free markets. Cubans are generally well-educated and the widely-held skepticism regarding capitalism in Cuba cannot be entirely ascribed to thirty-seven years of socialist propaganda. Many fear domination by the United States, with the fruits of an open Cuban economy being extracted

and the ills of capitalism imported, leaving average Cubans no better off financially and without the security of a socialist safety net. To the extent that the self-employed can create employment and demonstrate the tangible benefits of hard work for average Cubans, they will do much to smooth the transition to a market economy in Cuba.