

# THE CUBAN BLACK MARKET

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*For My Parents*

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## LIST OF SPANISH TERMS AND ABBREVIATIONS

<i>Acopio</i>	State procurement quota
<i>Bodega</i>	Ration Store
<i>Cuenta Propia</i>	Self-employment
<i>Cuentapropista</i>	Self-employed worker
<i>Libreta</i>	Ration Booklet
CDR	Committees for the Defense of the Revolution
CEPAL/ECLA	Economic Commission for Latin America
CADECA	Exchange booth
CIP	Center for Psychological Studies
CUC	Cuban Convertible Peso
CEEC	Center for Cuban Economic Studies
FAO	Food and Agriculture Organization
INIE	National Institute of Economic Research
MA's	Farmer's Markets (1993-present)
MLCs	Free Farmer's Markets (1980-1986)
MTSS	Ministry of Labor and Social Security
ONE	National Organization of Statistics



## INTRODUCTION

A ten dollar cab fare from the center of Havana to Jose Martí International Airport 11 miles away is literally a steal. This was the fare I was charged by my cab driver on my way to the airport on the morning of May 27, 2005—ten dollars that would never be seen by the state-owned yellow cab, or *Panataxi*, company, because my *Panataxi* driver had purposefully switched off the meter at the start of our journey. “A little for me, and a little for Fidel,” he sardonically chuckled.

The cab driver’s action was not uncommon, it was merely the last of a long list of extra-legal occurrences I had observed in Cuba over the course of my one-year stay. Indeed every day, in some form or another, I observed Cubans engaging in the informal sector, or what in Cuba is called the black market (*mercado negro*).<sup>1</sup> For many these actions were not a choice, but a necessity. The black market constituted for them an indispensable lifeline, at least as important for their survival as the ration card, or *libreta*.

Cuba’s black market took center stage in the early 1990s when the bottom dropped out of its formal economy following the collapse of the Soviet Union. In the period 1993-1995 it was estimated that the value of black market transactions was greater than the value of formal transactions (González Guitiérrez 1995). In response to the unprecedented crisis that had engulfed the island, the government enacted a series of reforms geared toward resuscitating the fading economy. Although these reforms both directly and indirectly diminished the size of the black market, the black market still

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<sup>1</sup> Throughout this study, the informal sector in Cuba will be referred to as the black market. The term “black market” was adopted as it is the literal translation of “*mercado negro*”—the colloquial term used by Cubans to describe illicit activities in their country. The black market in Cuba refers to activities of both legal and illegal character that fall outside of government regulations. This definition will be developed in greater depth in Chapter 1.

constitutes an important source of basic household goods and additional income for a large part of the population.

As important as the black market may be for the vast majority of Cubans, very few studies both inside and outside of Cuba have been published on this topic. Two main streams of analysis have been used to explain the existence of the Cuban black market. One stream of analysis, common to the study of the informal sector in command economies, attributes the emergence of Cuba's black market to a disequilibrium between supply and demand in the formal sector. This stream of analysis has been used most effectively by Cuban economist Alfredo Gutiérrez González in the only serious study published in Cuba on the issue.<sup>2</sup> American economist Jorge Pérez-Lopez has also used this stream of analysis in the only published book on the Cuban black market. Another stream of analysis, along the lines of Friedrich Schneider and Dominik Enste, adapted by Canadian economist Archibald R. M. Ritter to the Cuban black market, focuses on official policies such as tough government regulations and heavy taxation. These severe policies, he argues, push formal sector micro-enterprise workers into clandestinity.

While both streams of analysis are undoubtedly constructive for understanding the emergence of the black market in Cuba, neither analysis speaks to the most important development in the Cuban economy in the 1990s, namely dollarization. By profoundly diminishing the purchasing power of peso-denominated wages, dollarization<sup>3</sup> is the principle factor behind driving the vast majority of Cubans into the black market.

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<sup>2</sup> Few studies have been published in Cuba on the black market. This is undoubtedly due to the fact that the Cuban government does not wish draw attention to or make publicly known the extent of black market operations in Cuba. Through a reliable source at INIE (Instituto Nacional de Investigaciones Económicas), I was told that that the government had commissioned an extensive study on the black market in 2004. The resulting document, however, was not published and was not made available upon my request.

<sup>3</sup> While the dollar was taken out of circulation in November of 2005, it was replaced by the Cuban Convertible Peso, or CUC, whose value until recently was pegged 1x1 to the dollar.

Cubans, on a regular basis, turn to the black market as buyers to maximize the value of their peso-denominated wages, they also, on occasion, engage in the black market as sellers to augment their incomes.

While formally the connection between dollarization and the continued existence of the black market has not been drawn, the Cuban government has recognized the negative social impacts of dollarization, namely the increased inequality between the “haves” (those in the possession of the dollar) and the “have-nots” (those without dollars). While the government, within its economic limitations, has made a concerted effort to close the gap between dollars and pesos,<sup>4</sup> the gap for most Cubans is a gulf and therein lies the black market.

It was in May of 2004 that I came to Havana to conduct what became a year long study of the Cuban black market. Over the course of the year I combed through the documents of various libraries and research centers across Havana. Simultaneously, I merged into the folds of the Cuban black market as a participant observer. This process was slow because to an outside observer the depths of the black market in Cuba lay hidden. While the casual tourist may take note of the ubiquitous cigar vendors on the streets of Old Havana or the prostitutes that linger around Chinatown after midnight, in order to fully grasp the black market one must live in Cuba on Cuban terms. Each day my knowledge of the Cuban black market expanded until its true depth, breadth and pulse was revealed.

Over the course of the next six chapters a sketch of the Cuban black market will be drawn. Chapter 1 situates the Cuban black market in informal sector literature. It is

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<sup>4</sup> Most recently, in March of 2005 the Cuban peso was revalued with respect to the CUC by 7 percent, went from 26 pesos to 1 CUC, to 24 pesos to 1 CUC

argued that the Cuban case, while sharing certain commonalities, does not fit well with any of the conceptual frameworks used to analyze the informal sectors of other parts of the world. At the end of this chapter a framework will be developed for the purposes of this paper. Chapters 2 and 3 trace the evolution of the Cuban black market from 1959-1995. Similarities are drawn between government policies in the 1960s and 1990s and the growth of the black market economy during these two periods. Chapter 4 characterizes legal private micro-enterprises in the mid-1990s in order to bring the Cuban black market into relief. Chapter 5 is a characterization of the Cuban black market based on data gathered during my year stay in Cuba. And finally Chapter 6 describes how dollarization has not only sustained, but also institutionalized the black market over the course of the 1990s and first five years after the turn of the twentieth century.

*Chapter One*

**AN OVERVIEW OF THE INFORMAL SECTOR**

## **AN OVERVIEW OF THE INFORMAL SECTOR**

From the street peddler in downtown Havana to the unlicensed computer software engineer in the Silicon Valley, informal economic activities are an everyday reality across all societies regardless of their levels of economic development. The diverse array of these informal economic activities with their varying causes, objectives, and class composition has made it difficult to assign a singular and agreed-upon definition to what has become commonly called “the informal sector.”<sup>5</sup> Perhaps the most commonly accepted definition has been: “all economic activities that contribute to the officially-calculated gross national product but which are currently unregistered” (Schneider 2002). Yet most definitions focus on specific aspects of the informal economy, conditioned above all by the final objective of the author’s analysis. Estimation procedures measuring the magnitude of the informal sector have therefore varied across studies in accordance to the definitions adopted. This has rendered cross-country comparisons in which differing estimation methods are utilized incompatible and subject to misinterpretation. Accuracy in measurement has posed yet another quandary in the study of the informal sector as most people who are engaged in informal activities do not want to be identified.

Yet despite disagreements in definitions and complications in estimation procedures and measurements, a growing body of evidence is emerging from various disciplines (economics, sociology, anthropology, criminology) suggesting that informal

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<sup>5</sup> “Subterranean,” “submerged,” “parallel,” “hidden,” “occult,” “unofficial,” “underground,” “black,” “unobserved,” “unmeasured,” “unrecorded,” “shadow,” “illegal,” “criminal,” “second,” and “clandestine” are other terms which have been used to describe the phenomenon (Pérez-López 1995, 7).

sector activities are not only increasing around the world but in some instances even surpassing formal sector activities. From a government policy perspective, a growing informal sector renders official statistics inaccurate; policies and programs implemented by the government may therefore be ineffective and self-defeating. Growing informal sector activities may also lead to lower tax revenues for governments, encouraging them to increase taxes, thereby further provoking businesses to informalize their operations<sup>6</sup>. From a civil society standpoint, the informal sector provides jobs for the unemployed—albeit outside of government support structures (minimum wage laws, health and safety regulations, social security and health care benefits)—supplementary income for poorly-paid formal sector workers, and affordable goods and services for the vast majority in developing countries. There are those who claim informal sector activities are detrimental to a country's development, cutting into its tax base and undermining its formal sector (Schneider and Enste 2002). Others however, point to the informal sector as a developmental alternative to the rigidities and slow growth of the formal sector (de Soto 1987).

### **1.1 Defining the Informal Sector**

Traditional approaches to the study of the informal sector have variably defined it in terms of the formal legal system; in other words, informality is the incompleteness of judicial orders in the realization of certain economic activities. This becomes problematic as an ever-changing and evolving legal system leads to fluctuating boundaries of the informal sector. Heavy government regulations combined with

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<sup>6</sup> On the other hand, studies show that 2/3 of income earned in the informal sector is spent in the formal sector, thus having a positive effect on the latter (Schneider and Enste: 2000, 77).

inconsistent enforcement, for example, has been found to encourage the growth of the informal sector (Schneider and Enste 2000). Laws criminalizing certain activities at a given moment in time may also shift, thereby legalizing those activities that were once deemed illegal. In a similar vein, economic activities which may be prosecuted in one country may be considered perfectly legal in another.

Defining the informal sector in terms of the formal sector also fails to underscore the dialectical relationship between two. The informal sector does not simply passively adjust to changes in the formal legal system, it also “has the capacity to expand and shift its boundaries at the expense of the formal system,” thereby pressurizing the formal system to “redefine itself in terms of affirming its present, previous or new boundaries” (Laguerre 1994, 51). A large and growing informal sector, for example, may induce a government to change its tax regime; it may also provoke a government into legalizing or further repressing certain informal sector activities.

The informal sector defined by the legal/institutional system may also obscure the underlying causes of informality. While the informal sector may respond to changing government policies, and government policies may respond to changes in the informal sector, the informal sector is largely influenced by the dynamics and modalities of the economic model pursued by a given country, its economic climate (depression, up-swing, etc.) and its insertion in the global economy. This underscores the latent nature of the informal sector: given an economic opportunity, the informal sector will spontaneously surface. In former socialist countries, for example, the emergence of the informal sector can be attributed to structural problems in the system of central planning (Pérez-Lopez 1995). A lack of flexibility in central planning leads to imbalances between supply and



demand which is filled by the informal sector. In many developing countries structural changes in the economy brought about by the implementation of neo-liberal policies in the 1990s have also encouraged informal sector growth. For high income countries, increased international competition from newly industrializing countries has provoked businesses to informalize operations in order to reduce costs.

Another problem with dichotomizing the formal and informal sectors is that they are rarely mutually exclusive—many informal activities take place *within* the formal sector. A seemingly “legal” activity may mask a multitude of informal activities. For instance, a fully-licensed family-run restaurant may pay its dishwashers “under the table,” thereby evading the provision of labor benefits to its employees. Many activities exist within the gray area between the formal and the informal. Tokman distinguishes between the legal recognition of an activity (involving the registration), and legality in the operations of the activity (payment of taxes and labor-related issues such as giving contracts to laborers and non-wage benefits) (1992: 5). In this sense the licensing of a given activity should be viewed as only one step in formalizing that activity; to be fully legal means to “comply with all existing regulations” (Tokman, 1992: 5). To fully address all informal activities, one must look beyond the informal sector, uncovering “informal operations” within formal practices.

Varying manifestations of informal sector activities inevitably lead to varying degrees of informality. Although there is no general consensus among researchers in terms of categorizing the differing gradients of informal sector activities, a few general trends can be outlined. Although technically all informal activities are illegal, the most benign of these activities is what is often referred to as the “household economy.”

Included by some researchers in their definition of the informal sector, the household economy encompasses those non-marketized products which are both produced and consumed by the household. This category can be extended to include bartered goods and services among neighbors. A distinction that is commonly drawn with the remainder of the informal sector is the separation of informal activities of illegal character from those of legal character. Drug production and distribution, prostitution, and gambling are all examples of potential informal activities of illegal character. Such “black market” or “criminal sector” activities do not even hold the potential of being formalized within the legal framework of a given country. Informal sector activities of legal character, the “irregular sector,” are on the other hand those activities which do hold the potential of being formalized, defined as those activities “unregulated by the institutions of society, in a legal and social environment in which similar activities are regulated” (Portes 1989: 12)

## **1.2 Frameworks of Analysis**

Over the course of the last three decades, time and place-specific definitions, the result of single-country case studies, have been elaborated and extended to characterize and explain the informal sector phenomena in countries with similar levels of economic development. From these studies, three general streams of analysis have emerged: the “informal sector” in the context of developing countries,” the “underground” or “shadow economy” in the context of high income countries and the “second economy” in the context of transition or former socialist countries. Each of these interpretations is wrought with definitional and conceptual complexities, reflecting the evolution of the concept over time and the purpose of the studies at hand. These approaches are also by

no means mutually-exclusive categories, as overlaps and similarities exist between the varying interpretations. Due to the unique nature of the Cuban informal sector, a hybrid of these interpretations will be used for the purposes of this study.

### *“Informal Sector” Approach*

The “informal sector” approach is a direct outgrowth of Keith Hart’s article on “Informal income opportunities and urban employment in Ghana,” (1973)<sup>7</sup> and the subsequent 1972 International Labor Organization-sponsored Country Employment Mission to Kenya. The mission was only one of many designed to study unemployment in developing countries. What made the mission notable was its change in focus from the study of the unemployed to the study of the “working poor.” The mission observed that migrants from the countryside to the cities were unable to find jobs in the modern sector due to the capital-intensive nature of industry promulgated by the country’s policy of import-substitution. In other words, the emergence of the phenomenon was explained by a growth in population due to rural to urban migration without a commensurate increase in formal employment opportunities in the cities. Without unemployment benefits, these migrants could not afford to be unemployed and therefore entered into what Hart called the “informal sector.”

Although Hart is credited with introducing the term “informal sector,” the phenomenon described by Hart was not new however as it had been noted by earlier

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<sup>7</sup> Although Keith Hart’s article was published in 1973, he presented it first as a paper to a conference on Urban Unemployment in Africa held at the Institute of Development Studies, University of Sussex in September 1971.

writers.<sup>8</sup> The origin of the term should therefore not be confused with the origin of the phenomenon. Here one can distinguish two positions: some who believe it to be a contemporary phenomenon, which constitutes a segment of the new labor market where the component of technology and neo-liberal policies is the fundamental cause of the inability of the formal sector to absorb the workforce. The second stance (neo-marxist) insists that the informal sector is nothing new and the income-producing activities in which distinct members of a family are linked are practices of classic capitalism; what is relatively new is that capitalism itself is reproducing backward production practices.

The “informal sector” concept has been deepened ever since and adapted to Latin America by a number of researchers, most notable Victor E. Tokman from PREALC and Hernando de Soto. The informal sector is fundamentally observed as being a survival strategy of the poor, one of “inventing jobs” to generate much-needed income. The existence of these activities in turn lowers the cost of consumption for the poor by providing less expensive products than those found in the formal markets. The informal sector is generally defined as being those activities that fall outside of state regulation, taxation and supportive frameworks, however which are generally tolerated by the state and not criminal in character. These activities are characterized by the small-scale labor-intensive nature of their operations, family ownership, few employees, low-level of education among employees, low level of production and organization, ease of entry, little capital, use of local resources, low profit and unregulated and competitive markets.

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<sup>8</sup> L. G. Reynolds, for example, in his 1969 paper “Economic development with surplus labor: some complications” had developed a model containing two urban sectors, one of which—the trade service sector—was described as “the multitude of people whom one sees thronging the city streets, sidewalks and back alleys in the LDCs: the petty traders, street vendors, coolies, and porters, small artisans, messengers, barbers, shoe-shine boys and personal servants” (91).

The informal sector approach does not fit well with the Cuban case because unlike unlicensed subsistence activities of legal character in other parts of the developing world which are generally tolerated or even promoted by the state, most unlicensed subsistence activities in Cuba are criminalized and repressed by the state (Ritter 2004). Another reason for which this approach does not fit the Cuban case is that the underlying reason for the emergence of informal activities in Cuba is not rural to urban migration or the implementation of neo-liberal policies, but rather structural problems of the centrally-planned economy, tough regulations and segmented markets. The characteristics of the informal sector in the context of developing countries apply to the Cuban case, although a number of differences can be drawn (Appendix I). One of these differences is the superior educational level of the Cuban participants in the informal sector as compared to the educational level of the participants in other developing countries. Another important difference is the extension of a social safety net to the entire Cuban population, including the participants of the informal sector.

#### *“Underground” or “Shadow Economy” Approach*

The “underground” or “shadow economy” in the context of high income countries has been generally defined as “those activities that would generally be taxable were they reported to tax authorities” (Schneider 2002: 2). The strong incentive for tax evasion by large capitalist enterprises in high income countries emerges due to the penetration of international markets by newly industrialized countries. With lower labor costs and fewer government regulations, these businesses prove competitive vis-à-vis large capitalist enterprises subjected to stringent government regulations that include license

requirements, labor market regulations, trade barriers, and labor restrictions for foreigners. In order to stay competitive in international markets, these large capitalist enterprises may choose to lower their costs of operations by circumventing these cumbersome laws and regulations. Studies have shown that a one point increase in the regulation index (ranging from 1-5) is associated with a 10 percent increase in the shadow economy (Schneider, 2002: 8). Unlike the participants in the informal sector who are generally from the lower classes with little formal education seeking out a subsistence income, the participants in the “underground” or “shadow economy” are generally of the higher classes, well-educated, and well-paid.

While this approach to the informal sector may appear to be least apt for the Cuban case, the approach is indeed relevant given the Cuban government’s high taxes and stiff regulations on the self-employed. Ritter’s article “Cuba’s Underground Economy” clearly demonstrates the relationship between the Cuban government’s tight regulations and high taxes on the growth of the informal sector (2004b).

#### *“Second Economy” Approach*

The “second economy” or “parallel market” in the context of transition or former socialist economies seems to have been coined by K.S. Karol in a 1971 article on the Russian economy entitled “Conversations in Russia.” The “second economy” has been defined as all the activities that lay outside of the central planning structure and which are therefore “viewed as being inconsistent with the ideologically sanctioned dominant mode of economic organization” (Los 1990: 2). Unlike the definitions of the “informal sector” and the “underground” or “shadow economy” which only include activities that fall

outside of government regulations, the “second economy” encompasses both legal private activities such as small farmers and small enterprises, and illegal private activities both within the state and private sectors. The “second economy” seems very well-suited for communist and socialist countries as they generally have rigidly-defined and sharply-delimited formal socioeconomic structures. Yet as many studies have shown, informal activities penetrate well into the formal economy. The emergence of the “second economy” is generally attributed to the structural problems of central planning, namely the lack of flexibility in central planning to respond to unplanned fluctuations in demand. Second economy activities sprout to fill in the gap between supply and demand.

The “second economy” approach can be further distinguished from the “informal sector” and “shadow economy” approaches in that while the latter two deal mostly with value-creating activities, a large portion of second economy activities are non-productive and redistributive in nature. Socialist state property is “broadly regarded as ‘up for grabs’ and is thus easily stolen, embezzled, abused and exploited for private gain” thereby constituting “the main physical base of a large pyramid of second economy activity and informal income” (Grossman: 1989: 152). The second economy is therefore parasitic in nature, sucking its sustenance from the formal sector. The formal centrally-planned sector of the economy however, is paradoxically dependent on the second economy for its survival, as the second economy fills the gap between supply and demand.

The second economy approach fits the Cuban case best and has been utilized most effectively by Pérez-López. This conceptualization of the informal sector is most consistent with the approach used in this study, although the definition adopted here is

narrower in scope and the underlying causes for the emergence of the informal sector differ slightly.

### **1.3 Defining the Cuban Informal Sector**

In this study the term “black market” will be used to describe the informal sector in Cuba as it is the literal translation of “*mercado negro*”—the colloquial term used by Cubans to describe illicit activities in their country. The black market concept as applied to the Cuban case should not, however, be confused with the conventional definition of the black market outline above, as the term used in the Cuban case refers to activities of *both* legal and illegal character that fall outside of government regulations. More specifically, the “black market” in this study will refer to unlicensed activities of *legal* character as they relate to household consumption, namely informal sales and expenditures.



*Chapter II*

**THE EVOLUTION OF THE BLACK MARKET**

**1959-1989**

## *Chapter II*

### **THE EVOLUTION OF THE BLACK MARKET, 1959-1989**

Most historical accounts of Cuba's black market begin with the year 1968 (Nunez Moreno 1997, González and Oberto 2003, Ritter 2004). This year corresponds to the Cuban government's "Revolutionary Offensive"—its final assault on the private sector in which the remaining 55,600 small private enterprises on the island were nationalized. The importance of this event with respect to the Cuban black market is that many of these nationalized enterprises were subsequently shut-down, yet the goods and services they had furnished to the population were not sustained by state-run operations. This opened-up a significant rift between supply and demand that was quickly filled by an unprecedented flowering of black market activities (Ritter 2004). The Revolutionary Offensive however is an inadequate starting point for a historical account of Cuba's black market as this date ignores a series of important socialist-driven policies (full-employment, higher wages, and free public services) geared toward redistributing income. These policies, enacted by the inchoate government between 1960 and 1963, not only laid the groundwork for the emergence of the black market in the late 1960s, but similar policies would lay the groundwork for a resurgence of the black market economy twenty years later following the fall of the Soviet Union. It is important to show how the Cuban government's socialist-driven agenda has led to the emergence of the black market in Cuba.

## **2.1 Prelude to Black Market Growth**

### *Income redistribution*

Between 1959 and 1961 an unprecedented redistribution of income took place under the Revolutionary government benefiting the poorest 40 percent of the population.

Although exact estimates are not known, it has been calculated that in the first three years of the Revolution the income share of the poorest 40 percent of the population more than doubled (Brundenius 1981: 148). Income was redistributed through full-employment policies, higher wages and an extension of free or highly-subsidized public services. New employment opportunities were created through public works projects, housing construction, the armed forces and the First Agrarian Reform which in nationalizing large estates generated approximately 150,000 year-round jobs. Between 1960 and 1970 almost a million people were given employment, signifying a 58.5 percent increase in the labor force of the island (Togores and Alvarez 2003: 169). While employment was extended across the population, many of the jobs created were superfluous “spreading the economic costs to all the population and negatively affecting growth” via underemployment (Mesa-Lago 1981: 17). During this same period, virtually all labor contracts were renegotiated and wages and salaries were increased by 15-30 percent.

The lower classes were not only given greater employment opportunities and higher wages, their expenditures were also cut through rent reduction and the extension of free or low-cost public goods and services. The Urban Reform Law of 1960 dropped rents by up to 50 percent, and in 1961 the maximum rent was set at 10 percent of income. The price of electricity, gas and public transportation was lowered, while basic social services such as education, health care, medicines, and social security was extended to

everyone free-of-charge. School and lunchroom meals, child care, pay phones, water, sports facilities and burial services were other free services provided by the government. With fewer expenses, the disposable income of the Cuban lower classes increased. This increase in disposable income translated into an increased demand for basic food products and consumer goods that had been out-of-reach for almost half of the population just prior to the Revolution.<sup>9</sup> Those who had previously been priced out of the market for luxury foodstuffs such as meat or dairy products, now had the money to purchase them.<sup>10</sup>

### *Scarcity of Goods*

While demand for food and consumer products was increasing as a result of the government's redistributive policies, both external and internal factors led to a decrease in the supply of these products to the population. In the years prior to the Revolution (1946-1958), Cuba imported on average approximately 69 percent of its foodstuffs from the United States (Mesa-Lago 1981: 184). The Eisenhower administration's 1960 embargo on most exports to Cuba therefore not only dealt a severe blow to the food supply on the island but also to the supply of materials and machinery needed to manufacture, package and distribute these products. The island's agriculture also suffered under the embargo as it too was heavily dependent on the import of farm machinery, spare parts, fertilizers and pesticides from the United States. At the same time, the newly-created people's farms and cooperatives were crippled by the flight of

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<sup>9</sup> In 1951 a World Bank team estimated that 30-40 percent of the urban population and 60 percent of rural dwellers were malnourished. A 1956 survey by the Association of Catholic Students of the University of Havana revealed that 98 percent of rural dwellers never ate eggs, 96 percent never ate meat, and 89 percent never drank milk, concluding that 91 percent of farm workers are malnourished and had to spend over two-thirds of their income on food (Collins et al. 1985: 63).

<sup>10</sup> Beef consumption, for example, increased by 50 percent in just two years (Benjamin et al. 1984). Appliances and furniture for the home were also in high demand.

skilled administrative and technical personnel to the United States.<sup>11</sup> The lack of organizational and technical experience on the farms, coupled with fewer agricultural inputs, translated into lowered production and a scarcity of foodstuffs.<sup>12</sup> Supply of consumer goods was also reduced as the government set new priorities for scarce foreign currency expenditures, directing foreign exchange away from the purchase of consumer goods to capital goods purchases, economic growth and social development projects.

### *Price Controls*

The contradiction between an increased demand for products and their limited supply, was underscored by Fidel Castro in 1961 when he stated that “Our problem is precisely that now people have work and have money... While production has gone up since the Revolution, it hasn’t caught up with the increase in purchasing power” (Castro 1961). In a free-market environment this contradiction would be resolved by an increase in price, or inflation. However, worried that the gains in living standards of the Revolution’s greatest supporters—the rural and urban workers—would be greatly undermined by an increase in price, the Cuban government first responded to this challenge by instituting price controls on scarce foods. In March 1959 the government set prices on rice, milk, bread and beef products, adding butter, pork, cheese, potatoes and other items to the list in May. Over the next few months children’s food and almost all other basic necessities were price-controlled. Not only were price ceilings set on many basic food items, but

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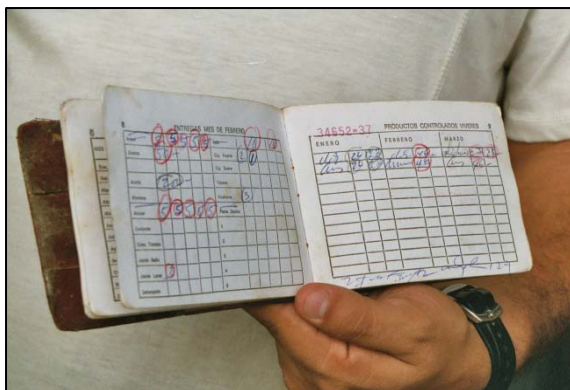
<sup>11</sup> As a consequence of the radicalization of the Revolution, between January 1, 1959 and October 22, 1962, 248,070 Cubans left the island (García 1996).

<sup>12</sup> Statistics on Cuban agricultural production from 1959-1966 are not reliable, however most Cuban agricultural experts and visiting scholars observing the agricultural situation in Cuba tend to agree that production declined during this period. In 1963 French agronomist René Dumont noted “The agricultural production of the country is declining...The situation is serious and runs the risk of becoming a catastrophe” (Forster et al. 1982).

also maximum profit margins, ranging between 10 and 20 percent, were established on wholesale and retail trade in food. However, both price ceilings and profit margins proved difficult to enforce in a highly decentralized system of small merchants. Speculation and hoarding of scarce commodities was so rampant on the island that in 1961 the Cuban government nationalized the wholesale food industry and confiscated 8000 retail food stores accused of profiteering.

### *Rationing*

Initially a temporary emergency measure to insure the provision of affordable basic foodstuffs until production could catch up with demand, the government instituted a rationing system of highly-subsidized items in July 1961. The first item to be rationed was lard, set at one pound per person per week after a “lard census” was taken by the Committees for the Defense of the Revolution (CDR). In March 1962 the rationing system was institutionalized with the creation of the National Board for the Distribution of Foodstuffs to research and administer rationing. Under this system every Cuban was given a *libreta de abastecimiento*, or ration card (more like a small book) which permitted the individual to purchase a fixed quota of designated items (usually the very basics: rice, beans, bread, etc) each month at highly subsidized prices at the local *bodega*, or state-run shop (Figures 2.1 and 2.2). Whenever demand was greater than supply for a



**Figure 2.1 *La Libreta***



**Figure 2.2 *La Bodega***

given product, the National Board for the Distribution of Foodstuffs would add the product to the ration list. Eventually rationing was extended to include most basic foods and consumer items. Rice, beans, cooking oil and lard, were among the first items to be rationed on a nation-wide basis, however soap, detergent, toothpaste, beef, chicken, fish, eggs, salt, sugar, bread, cigars, cigarettes, clothing, cloth and many other household items were soon added to the list (Benjamin et al. 1984). Throughout the years the items on the list as well as their quantities varied according to availability. When the economy was doing well—as it was in the 1970s—the quantity of a given product on the ration was either increased, or altogether taken off the ration to be purchased in unlimited quantities at higher but still subsidized prices.

## **2.2 Rationing and the Black Market**

The rationing system was not only inherently inefficient but it also inadvertently encouraged black market practices. Low prices ensured the perpetuation of the rationing system as they reduced the incentive to produce. Based on egalitarian principle, universal rationing does not take into account consumption habits and individual preferences and therefore can result in large losses of resources. Under the system of

rationing everyone received the same allotment of goods, regardless of their personal needs and preferences.<sup>13</sup> Since the prices of rationed items were highly subsidized and therefore low, remaining frozen for almost twenty years (1961-1981), most people purchased all of the items on their ration card, even if all items were not needed.<sup>14</sup> They then made unofficial adjustments to their fixed basket of goods in the “grey” market by trading unwanted items for items they did want among friends and neighbors (*trueque*) or selling them on the black market for a small profit.<sup>15</sup> Technically illegal, these kinds of exchanges went on everyday in Cuba “converting virtually everyone into a mini-capitalist, searching for opportunities to buy and sell (Ritter 2004).” The relations between people for the barter of rationed goods were by no means trivial as they formed the foundation for larger networks of black market activities that emerged in the late 1960s.

Other offenses related to rationing included the illegal transfers of *libretas*, bribes to officials, and the emergence of “professional” *coleros* and *mensajeros*. The *colero* was someone who made a living by standing in lines outside of stores with the objective of selling their place (in pesos or as a portion of the goods purchased) in line to a potential client. The *mensajero* ran errands for families who did not have the time to run the errands themselves. These “professions” emerged out of the inefficiencies of the distribution system—food deliveries were erratic and when food did get delivered long lines formed outside of stores. “The system of distribution leaves much to be desired;

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<sup>13</sup> Although everyone was to receive the same allotment of goods, there was some regional variation between rations. Also, minor ration adjustments (called *dietas*) were made for people with special nutritional needs such as expectant mothers, children under the age of eight, the elderly (over 65), and those with special medical needs.

<sup>14</sup> For example, approximately 60 percent of the population who receive cigarettes on the *libreta* don’t smoke (González Gutiérrez 1995: 79).

<sup>15</sup> The “grey” market is here defined as those transactions (through barter or sale) involving legally-obtained goods.



only the most patient, or the most cunning, seem capable of collecting their due, and then only after wasting a vast amount of time and energy” (Karol 1970: 406).

### **2.3 Black Market Growth**

In March 1968 the government launched the “Revolutionary Offensive,” nationalizing the remaining 55,600 stalls, shops and private service establishments.<sup>16</sup> While some of these enterprises were incorporated into larger state operations, most were shut down, thereby constricting the availability of goods and services to the population.<sup>17</sup> During this most radical period of the Revolution,<sup>18</sup> goods were practically only available through the rationing system. The only items in the state sector for which money served as an allocative mechanism were meals in restaurants. With no market to turn to, people began making purchases in the black market. As one woman explained: “... the truth is you simply have to buy on the black market right now. You pay a lot more for contraband goods than they are worth, but right or wrong, you’ve got to do it. [Claiming she would not buy luxury items] I wouldn’t buy them if they did. But food...that’s something else” (Salas 1979: 69). Black market purchases became an acceptable means of coping; it was a survival strategy not criminality.

Yet the flowering of the black market in the late 1960s was not only a response to the disequilibrium between supply and demand provoked by the Revolutionary Offensive.

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<sup>16</sup> Apart from agriculture (private farming), transport and medicine (doctors who graduated before 1963), all sectors of Cuba’s economy were fully nationalized following the Revolutionary Offensive.

<sup>17</sup> In Havana alone 16,634 private enterprises were closed following the Revolutionary Offensive (Karol 1970).

<sup>18</sup> At the end of 1965 the debate over what kind of socialism Cuba would attempt to develop (self-finance or central budgeting) came to an end. Between 1966 and 1970, the entire economic structure was centralized along the lines of the central budgeting position that Che Guevara had advocated, placing the primary emphasis on moral verses material incentives and the psychological transformation and creation of the “New Man.”

The black market was fueled by excess liquidity which was pumped into the system to finance policies of full employment, guaranteed annual wages in agriculture, an increase in minimum wages and the expansion of free and highly-subsidized public services. As the prices for rationed products were low relative to average monthly income, people were left with a large sum of disposable income even after purchasing everything on their *libreta*. While the structural imbalance between supply and demand following the Revolutionary Offensive opened-up the economic space for the emergence of the black market, it was this excess liquidity that fueled its growth.

As the sole market for products, the black market fetched high prices. This opportunity to amass liquidity attracted a myriad of suppliers eager to make a profit. “One Cuban told a visitor, ‘If you had the money and wanted it I am sure in a few days, I could produce for you on the Cuban black market a pink elephant with spots’” (Salas 1979: 70). Although there are no published statistics on black market prices in Cuba, data published by Mesa-Lago for the years 1977-78 suggests that the black market premium over the official prices was significant. For instance coffee which sold for 2.0 pesos in the rationed market sold for 10-20 pesos in the black market. In other words, coffee in the black market sold for five to ten times the rationed price. The black market premium varied over time, usually reflecting (1) the scarcity of the item and (2) the risk involved in carrying out the transaction (Pérez-López 1990: 8).

#### **2.4 Acquisition of Products for Black Market Sales**

While some items on the black market were from legal sources—such as the above-mentioned selling of one’s own unwanted rationed allotments, or selling one’s own

home-grown foods such as avocados or mangos—the line separating the grey market from the black was easily blurred. For instance, rather than just selling one's own coffee ration on the grey market, one might buy up several people's rations and sell them on the black market for profit.

Although such activities bordered on the legal and were therefore tolerated by the state, most black market activities involved items acquired through illegal means. Since by 1968 over 90 percent of the nation's economy was controlled by the state, implicit in this was that virtually any item sold outside of state channels was from state origins. In other words, items were generally “borrowed” or stolen from the state and sold on the black market for profit. In this sense the black market in Cuba was not so much about production than as about diversion and mark-up.<sup>19</sup>

Illegal acquisitions of state items for the purpose of selling on the black market ranged from the petty to the regal: some offenses were small-scale and individualized while others were much larger operations. Small-scale offenses usually occurred in the retail food sector. As basic staples in Cuba are most often sold by the pound, anyone who is in the position of handling a scale can potentially short-change a customer by tampering with the weight measures. A person who has just paid for two pounds of beans, for instance, unknowingly walks away from the *bodega* with only 1.5.<sup>20</sup> Workers at cafes and restaurants were also involved in short-changing customers. These activities typically included: selling second quality foods as if they were first, serving smaller meal portions, and using less of a particular ingredient (such as cheese when making pizzas).

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<sup>19</sup> Even items that were produced rather than merely stolen involved the use of stolen inputs. For instance someone who baked pastries at home and sold them on the black market most likely worked at a bakery or had a special relationship with a baker, able to divert or pay a black market price for flour.

<sup>20</sup> Butchers were notorious for short-weighing customers

The excesses acquired through cheating customers were then diverted into the black market for sale. Products were also “borrowed” if not altogether stolen from the state in order to perform unlicensed and therefore black market services such as carpentry.

## **2.5 Agricultural Products and the Black Market**

While almost any item could be found in the black market, the most common and in-demand items were agricultural products. In fact, this was a reversal of pre-1959 pattern: shortages were now more chronic in the cities than in the countryside. Before the opening of “Free Farmer’s Markets” (*Mercado Libre Campesino*, MLC) in 1980, private and cooperative farmers were authorized to sell excess produce after having fulfilled their state procurement quotas (*acopio*). Legally they could only sell their excesses to neighbors and up to 25 pounds of produce per customer to city dwellers who traveled to the countryside for agricultural purchases. The 25-pound limit was established in order to prevent retail sales by middlemen, however this rule was repeatedly violated. Farmer’s either brought their excess produce into the city themselves to sell it in the black market, or sold it to middlemen who did the same. Although the majority of the reported offenders were individuals, there were also cases of organized gangs who brought large quantities of produce into the cities in trucks with hidden compartments (Salas 1979: 71).

## **2.6 Consumer Products and the Black Market**

The black market for consumer goods—although less extensive than that for agricultural goods—was also present. The sale of domestically-produced items involved either the

above-mentioned trade or resale of rationed items in the grey market or direct theft from the state; theft included finished consumer items from state warehouses and stores, and raw materials from factories. Most of the consumer goods that found their way into the black market, however, were imported products. Foreigners residing in Cuba with access to the *diploitiendas* or *tecnotiendas*, such as Russian technicians and military personnel, were known to resell items purchased in these stores on the black market reaping considerable profits (Michalowski et al. 1990: 113). Another source of consumer items were tourist shops opened in the late 1970s by the Cuban government in order to induce tourism and obtain additional foreign currency (mostly dollars). Like the *diploitiendas* these shops sold an assortment of domestically-produced and imported items that were either unavailable to Cubans or in short supply. Although these stores were not open to Cubans, those with access to dollars or dollar-convertible currencies, or those who traded pesos for dollars at exchange rates above those set by the government, were able to have tourists make the purchases for them. While most of these illegal purchases were for personal use, some items were destined for the black market.

## **2.7 Black Market Contraction: Money Supply and Parallel Markets**

Due to increasing black market activity, absenteeism, lowered morale and pressure from the Soviet Union following the failed 10 million-ton sugar crop of 1970, the government made small adjustments to previous policies, limiting the money supply and expanding the state sector via parallel markets. From 1971 onwards, deflationary policies took effect as plans to fully abolish rents and increase wages were postponed, while fees were either restored or increased on public services (payphones, buses, sporting events, and

daycare). Meanwhile, effort was made to increase the officially-available items in order to undercut black market sales. In 1971 material incentives were reintroduced in the workplace in an effort to increase productivity, while in the mid-1970s parallel markets (Table 2.1) were offered where people could purchase unlimited quantities of “liberated” or off-the-ration items at unsubsidized but still controlled prices.

**Table 2.1 Available Markets 1980s**

Rationed market
State-run parallel market (food and industrial products)
Fairs and artisan markets
Free Farmer’s Markets (1980-1986)
<i>Cuenta Propia</i> market (1978-)
Black market

*Source: Prepared by author.*

The prices of these items were higher than those on the ration but lower than for items sold on the black market. Not only were these items made available at the same stores where the rationed items were sold (the *bodega*, the butchers, the fish market, the bakery, and at small fruit and vegetable stands called *puestos*), they were also marketed at the few dozen formally US-owned supermarkets and as well as new stores that the government had built.

In July of 1978, the government passed Decree-Law 14 which allowed for 55 categories of self-employment (or *cuenta propia*) to emerge, bringing some illegal activities to the surface. *Cuenta propia* activities formed only a small part of the economy, amounting to approximately 40,000 *cuenta propista* workers, or 1 percent of all occupations in all of the 1980s (Quintana Mendoza 1997). These private activities, however, contributed to the availability of goods sold through state channels.

With the emergence of parallel markets, the black market not only significantly diminished but also changed in character. While the demand for goods and services was fundamentally satisfied by state-controlled markets, the assortment and quality of the

products however was generally poor, particularly for consumer items. From the mid-1970s until the late 1980s the black market shifted to the background, occupying niches that were left vacant by the formal economy. Whereas previously black market activities had concentrated in agriculture, now with the creation of parallel markets (concentrating in the provision of agricultural rather than consumer products), black market activities shifted to the provision of textiles, shoes, processed foods and services. The population turned toward the black market to compensate for deficiencies in the assortment of goods offered by the state, as well as to improve their material well-being.

## **2.8 Expansion of Private Sector and Black Market Growth**

Between 1980 and 1986 the Cuban government experimented with an expansion of private activities which paradoxically resulted in the parallel expansion of the black market. In May of 1980, with the passing of Decree-Law 66, “Free Farmer’s Markets” (*Mercado Libre Campesino*, MLC) were authorized enabling farmers and cooperative members to sell directly to customers produce in excess of *acopio*. In just a few short months these markets sprouted throughout the country with at least one in each of Cuba’s 169 municipalities. Although the supply, variety and quality of produce in the cities increased, illegal activities augmented as well. Products sold in the MLCs were often “stolen” either directly or indirectly from the state farms. State resources such as tractors, fertilizer and seeds were often diverted to the production of goods sold in the MLCs. At the same time, private farmers were known to either understate the amount of their produce, thereby diverting it from *acopio*, or to sell their poorest quality items to the state, reserving superior products for MLC sales.

Goods were also directly stolen from the state, as the police operation “*Pitirre en el Alambre*” (Kingbird on a Wire) revealed in February 28, 1982. This operation uncovered numerous abuses: misappropriated goods, falsified documents, unlicensed vendors, uncertified animal protein, and the sale of a type of bean that had been withdrawn from circulation because of excess pesticide contamination (Pérez-Lopez 1995: 107). Worst still, the market was being overrun by intermediaries who according to Castro represented 90 percent of the agricultural vendors in Havana. These middlemen—who were for the most part truck owners—illegally transported goods from the countryside to the cities, raised prices to exorbitant levels when demand outstripped supply, and even held back goods until supplies were scarce in order to increase prices.

In response, in 1982 the government instituted greater controls over who and what could be sold, levied taxes on gross sales, and increased the sale of state produce in the parallel markets in an effort to lower MLC prices. In May of 1986, the free-market experiment came to an end. As part of the Rectification campaign, the MLCs and Artisan Markets were shut down and wouldn’t make another appearance until the fall of the Soviet Union and the Special Period.



*Chapter III*

**THE BLACK MARKET**

**1989-1995**

### **THE BLACK MARKET, 1989-1995**

In the early 1990s both the size and character of the black market dramatically changed. In just three years the black market grew seven times its 1989 proportions, from 2 billion pesos in 1989—representing 17 percent of retail sales—to 14.5 billion pesos in 1993—representing 2/3 of all retail sales (Carranza Valdéz 1992: 153). At the same time, black market activities shifted away from services and commodity production to the circulation and recirculation of stolen foodstuffs from state channels. These changes must be understood not only in the context of Soviet Union collapse and the opportunistic tightening of the U.S. economic embargo which together wrecked havoc on an already floundering Cuban economy, but also in the ideologically and politically-driven policy decisions made by the Cuban government in the early 1990s to address the internal economic crisis. As had previously occurred in the late 1960s, the government's commitment to social objectives was directly tied to the growth of the black market.

#### **3.1 Economic Crisis**

The extent of Cuba's reliance on Moscow and its satellites became dramatically exposed with collapse of the Soviet bloc in 1989. In just four years, from 1989 to 1993, the Cuban economy suffered a 35-45 percent fall in GDP as commercial relations with the former Soviet Union declined by more than 90 percent; trade with Eastern European countries ended almost completely (Mesa-Lago 2003: 100). Not only did Cuba lose its principle trading partner, but it also lost Soviet economic subsidies and aid. Soviet

subsidized oil, for example, which had accounted for approximately 90 percent of Cuban energy needs, decreased by 90 percent. The economy fell into paralysis. With the lack of oil, the system of public transportation was devastated; by the end of 1992, nearly 40 percent of national bus and train schedules were suspended. Shortages of fuel, inputs and replacement parts led to the closure of approximately 50 percent of all plants and factories, while those remaining reduced their weekly work hours by half. Plant closures led to production shortfalls, which translated into consumer goods shortages; items as basic as clothing, soap and detergents were scarce commodities. Agriculture was also adversely affected. Shortages of fertilizers (80 percent decrease), herbicides and fuel led to a reduction in agricultural production;<sup>21</sup> while shortages of animal feed (79 percent decrease) hampered domestic production of meat, milk and eggs. Together the lack of food and medicines threatened the health and nutrition of the Cuban people; more than 43,000 suffered from visual and neurological disorders<sup>22</sup>.

Taking advantage of Cuba's vulnerability at a time of severe economic crisis, the US government tightened its embargo on the island.<sup>23</sup> The Cuban Democracy Act, or informally the Torricelli Bill—named after Democratic Congressman Robert Torricelli of New Jersey—went into effect in October of 1992. Intended to inflict even greater misery and suffering upon the Cuban people so as to produce sufficiently desperate conditions to

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<sup>21</sup> For example, sugar production collapsed from 8 million tons in 1989 to 4.2 million tons in 1993.

<sup>22</sup> Out of an approximate total population of 10,662,148 in 1990 (*Anuario Estadístico de Cuba 2003*).

<sup>23</sup> The US embargo was initially imposed on the island in 1961 under the justification that communist Cuba posed a threat to US security interests. Since the fall of the Soviet Union the embargo's rationale has changed, explained by Washington's desire to bring democracy, respect for human rights and a market economy to the island. A more probing analysis reveals however, that the embargo's continued existence is due to a number of Cuban-Americans in Congress, the importance of Florida's 25 electoral votes and New Jersey's 15, and, most importantly, the lobbying power of an effective anti-Castro group, the Cuban-American National Foundation (CANF). As Carlos Alberto Montaner correctly states: "Washington already views Cuba—and will do so for some time to come—as a domestic issue, not a question of foreign affairs" (Alberto Montaner 2003: 521).

incite protest on the island,<sup>24</sup> the Torricelli Bill prohibited US subsidiaries operating in third countries from trading with Cuba, restricted ships engaged in trade with Cuba from docking in U.S. ports for six months after their last visit to the island, and authorized the US president to withhold economic assistance, debt relief and free trade agreements with all countries that engaged in trade with Cuba. While the Torricelli Bill was internationally condemned, no foreign government took open measures to counteract it.<sup>25</sup> In effect, the unilateral passage of the Torricelli Bill by the US government resulted in the imposition of a collective embargo on Cuba, aggravating the already dire reality on the island.

### 3.2 Austerity

In response to the collapse of import-export markets, subsidies, and aid, as well as the US embargo, the Cuban government, in August of 1990, initiated the “Special Period in Time of Peace” (*período especial en tiempo de paz*), a temporary economic austerity program that had originally been conceived as a response to war during the Cold War period. While other communist countries were implementing often painful market-oriented reforms, the Cuban state neither dismantled the system of central planning nor abandoned the principles of socialism. In a speech given to the National Assembly in 1991, Fidel Castro proclaimed: “We will have to improve and perfect socialism, make it efficient but not destroy it. The illusion that capitalism is going to solve our problems is an absurd

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<sup>24</sup> While the embargo did indeed create the desired conditions, it did not achieve its objectives. In fact, it has had paradoxical results. The blatant injustice of the US embargo—a law designed to destroy the Castro regime—has brought the Cuban people together, creating an even stronger sense of national identity. Meanwhile, Castro uses the embargo as an excuse for the deteriorating conditions in Cuba.

<sup>25</sup> Although the Torricelli Bill banned US subsidiaries from trading with Cuba, it did not, however, forbid foreign-owned companies from engaging in such trade. The Bill therefore can be perceived to have economically benefited foreign companies, as they did not have to contend with US competition on the island (Kaufman Purcell 2003: 462).

and crazy chimera for which the masses will pay dearly” (Jatar-Hausmann 1999: 53). The Cuban government’s approach to the crisis must be understood in terms of its steadfast commitment to socialist principles and the achievements of the Revolution—without such a commitment the basis of the state’s legitimacy would have been undermined and its continued existence thereby threatened. Response measures were carefully crafted so as to spread the social cost of the external shock and readjustment across society rather than lay the burden of adjustment on distinct groups of the population. Paradoxically however, these redistributive measures led to the growth of the black market which undermined the measures’ effectiveness.

Under the austerity program, special measures were taken to evenly distribute scarce food and consumer items across the population.<sup>26</sup> Unwilling to allow consumer demand bid up prices of scarce products in the parallel markets thereby laying the burden of the crisis on the poor, the government expanded rationing to cover additional food and consumer products, while at the same time existing rations were cut-back. Rationed products however were not enough to meet the population’s nutritional needs.<sup>27</sup> In 1990 a Soviet economic study revealed that between 1989 and 1990 meat and fish consumption declined by approximately 13 percent, dairy products by 2.5 percent, eggs by 1.3 percent, fruits by 6.1 percent, tubers by 5.8 percent, vegetables by 4.3 percent, textile products by 16 percent, and apparel and footwear by 15 percent (Pérez-López 1995: 137). Between 1990 and 1996 caloric intake was estimated to have fallen by 27 percent (Domínguez et al 2004: 21).

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<sup>26</sup> Efforts were also made to conserve and redistribute scarce energy resources. Blackouts were imposed daily in an effort to ration scarce fuel supplies—often lasting as long as eight to ten hours. Cars and buses were substituted by bicycles; tractors with oxen and mules.

<sup>27</sup> The government was also increasingly unable to guarantee the supply of many rationed products as the economic situation worsened.

Unmet nutritional needs not only opened-up an economic space for black market growth but also changed the character of the black market from the provision of services and consumer products to the provision of foodstuffs and other basic necessities. As state parallel markets dried-up, people began to turn to the black market to supplement their rations. As expressed by a retired military officer in October of 1993: “It isn’t the black market. Period. There’s no other” (Pérez-López 1995: 142). With the state dominating approximately 90 percent of the economy, the products that entered the black market mainly consisted of goods stolen from the state. It has been estimated that between 1991 and 1992 2/3 of black market products came from state supplies (González Gutiérrez 1995). Black market exchanges therefore came at the expense of not only the state but also third party individuals who saw their rations shrink as state supplies ravaged. The large proportion of stolen items entering the black market during this period underscores the parasitic, unproductive and speculative nature of the Cuban black market. Paradoxically, while the black market cut-into state supplies it also sustained the island’s population (and therefore the government in command) during this difficult period.

### **3.3 Black Market Growth**

In just four short years the black market grew seven times its 1989 size, from 2 billion pesos in 1989 to 14.5 billion pesos in 1993, thereby reaching a similar value of transactions as the formal economy (Carranza Valdéz 1992: 153). Between 1993 and 1995 the value of black market transactions surpassed that of formal transactions (González Gutiérrez 1995). Feeding the growth of the black market was an increased

accumulation of money in the hands of the population accompanied by a decrease in the availability of goods and services. Upholding its commitment to social welfare, the government promised no salary adjustments, no unemployment, and the continuation of free public services. As a result, the government's fiscal deficit soared from 1.6 billion pesos in 1989/1990 to five billion pesos in 1993, representing 30.4 percent of GDP (Jatar-Hausmann 1999: 51). Unwilling to suffer the social and political consequences of a sudden currency devaluation, the government addressed the fiscal deficit by printing more money. Between 1989 and 1991, the money supply was reported to have increased by 47 percent while the availability of goods and services fell by 30 percent (Carranza Valdéz 1992: 153). Monetary liquidity jumped 121 percent from 1990 to 1993 (Domínguez et al 2004: 24). Between 1990 and 1994, the number of pesos in circulation increased from five billion to 11.4 billion (Jatar-Hausmann 1999: 51). In a market economy, an increase in money supply leads to inflation, however in a centrally-planned economy where prices are fixed, people have more money to spend than products to buy. As rationed products were distributed in insufficient quantities and parallel markets had gone out of service, people spent their excess money in the black market.

### **3.4 Black Market Prices**

Increased liquidity not only fed black market growth, but also led to dramatic increases in the extra-official exchange rate and black market prices. While the peso was officially pegged to the dollar at one to one, the black market exchange rate soared from 7 pesos to a dollar in 1990 to 130 pesos to one dollar in 1993; during this same period black market prices for some products increased as much as seventy-five-fold.

**TABLE 3.1 Black Market Prices in Pesos, 1989-1993**

<b>Product</b>	<b>Unit of measure</b>	<b>1989</b>	<b>Dec. 1991</b>	<b>July 1992</b>	<b>June 1993</b>	<b>1993/1989</b>
Rice	1 lb.	1	5	10	17	17
Black beans	1 lb.	1.5	8	10	13	8.66
Malanga	1 lb.	1	3	4	6	6
Banana	One unit	0.6	1	1	3	5
Pork	1 lb.	3.5	16	25	35	10
Chicken	One unit	8	30	80	100	22.5
Eggs	One unit	.15	.50	1.5	5	33.33
Bread	One unit	.05	.25	.75	2	40
Beer	One unit	1	5	10	25	25
Soap	One unit	1	8	10	40	40
Detergent	1 lb.	1	10	20	75	75
Cigarettes	One box	1.6	10	8	8	5
Average		1	5.03	9.61	25	

*Sources: ICIODI 1989 and 1991, INIE 1992 and 1993.*

Increased money supply however, was not solely responsible for spiraling black market prices. After 1993 black market price increases outpaced money supply, pointing to the fact that subjective factors such as people's expectations, government repression and the legalization of the dollar were also responsible for the price increases. Worried that black market prices would only further increase, people responded by purchasing even more on the black market thereby inadvertently further increasing prices. Prices also increased as the government began a comprehensive anti-crime campaign drive in 1993, persecuting black market activities. The legalization of the dollar in 1993 also raised prices as people feared that the peso currency would go out of commission; the dollar began to replace the peso as a store of wealth. This fear was reinforced by the rapid depreciation of the peso with respect to the dollar in the black market.

By May 1994 black market prices on average were 50 times black market prices in 1989; during this same period nominal salaries only slightly decreased (González Gutiérrez 1995). The breach between black market prices and salaries caused a double propensity for people to engage in black market activities as suppliers. Elevated prices



on the black market tempted those who had access to state supplies to divert them into the black market for profit. At the same time, the gulf between salaries and prices determined that salaried people, who habitually resolved their needs in the black market, after a certain point could not continue making purchases in the black market unless they also engaged in the market as sellers.

### **3.5 Economic Reforms and Black Market Contraction**

Between 1993 and 1995, the Cuban government enacted a number of reforms that dramatically reduced not only the size of the black market but also prices. Budget reform reduced the money supply which had driven black market growth, an expansion of licensed self-employment activities gave official recognition of many previously illegal activities, and the creation of free farmers markets, artisan and industrial markets and dollar stores cut into the economic space of the black market.

#### *Budget reform*

In 1993 the Cuban government adopted a resolution to strictly adhere to the budget law by reducing expenditures and increasing revenues. The government addressed the expenditure side by reducing government subsidies to certain industries as well as a variety of items such as school lunches, medications, sports and cultural events.

Addressing the revenue side, the government initiated a series of price hikes on non-essential goods and services, and developed a comprehensive and equitable tax system.

These measures brought the budget deficit down to only 7.4 percent of GDP in just a few

short months. Money supply which had driven black market growth and price increases fell by 10 percent (Table 3.2).

**TABLE 3.2 Controlling Liquidity Growth**

	<b>1993</b>	<b>1994</b>	<b>1995</b>	<b>1996</b>	<b>1997</b>
Pesos in circulation	11,043	9,943	9,251	9,534	9,441
Percentage of GDP	67	48	39	37	35

*Sources: ECLAC: La Economía Cubana; Informe Económico de Año 1997; Ministerio de Economía y Planificación, Habana, Cuba.*

While black market prices increased from 1989-1994, they subsequently declined, stabilizing in early 1998. Meanwhile the exchange rate fell from a high of 120 pesos to a dollar in 1993, to 25 pesos to a dollar in 1995, deflating black market prices.

### *Self-employment*

In September of 1993, in order to address the problem of growing unemployment on the island and to satisfy the demand for goods and services, the government expanded limited forms of self-employment (*cuenta propia*) from 55 trades and services<sup>28</sup> to 117, thereby ending the state monopoly on employment. Twenty other occupations were added to the list two months later. Additional occupations were designated for self-employment in June 1995 and June 1996, bringing the total number of authorized occupations to 157 (Appendix II). Within the first five months of the new legislation, 70,000 Cubans had obtained licenses for self-employment, and by the end of 1995, the number of Cubans with self-employment permits had grown to 138,100 workers, or approximately 4 percent of the island's four million-person labor force. The liberalization of self-employment undoubtedly permitted a surfacing of many clandestine activities, thereby cutting into the

<sup>28</sup> As discussed in chapter 2, these activities were authorized in July 1978 with the passing of Decree-Law 14 "Sobre el Ejercicio de Actividades Laborales por Cuenta Propia."

size of the black market. Self-employment and its relationship to the black market will be explored in greater depth in the following chapter.

### *Market expansion*

As explained above, from 1990 until 1993 parallel markets almost ceased to operate forcing people to supplement their rations by making purchases on the black market. In September 1994 the government passed Decree-Law 191 authorizing the creation of farmer's markets (*Mercados Agropecuarios*, MA). Given that the black market during this period was primarily oriented toward the provision of basic needs mostly consisting of agricultural products, the passing of Decree-Law 191 in September 1994 reinstating farmer's markets not only significantly cut into the size of the black market but also provoked a change in its character. Similar to the MLCs of the 1980s, these markets enabled private and cooperative farmers to sell products not subject to or in excess of state quotas on the "free" market. While initially only 160 farmer's markets operated in the country, by April 1995, that number had almost doubled to 301 (Dirmoser and Estay 1997: 469). Small agricultural kiosks (*puestos*) have also been permitted to operate across the country; weekly as well as monthly agricultural fairs are in operation as well. Decree-Law 192 of October 1994 allowed for the reemergence of artisan and industrial markets. Parallel state markets operating in pesos have reemerged, while hard currency stores (*Tiendas de Recuperación de Divisas*) were expanded in conjunction with the dollarization of the economy, specializing mostly in processed and packaged food items, and consumer products.

*Chapter IV*

**DELIMITING THE BLACK MARKET**

## DELIMITING THE BLACK MARKET

Drawing the boundaries of the Cuban black market in the period directly following economic crisis and recovery (mid-1990s) requires first a brief look at Cuba's laws and regulations regarding the operation of formal micro-enterprises on the island. An understanding of the country's formal micro-entrepreneurial sector will bring the country's black market sector into greater relief for examination in the following chapter.

Private legal entrepreneurial activities or self-employment in Cuba (*Trabajo por Cuenta Propia*—"own account work") have only occupied a short temporal scale in the history of the Cuban Revolution. As had been discussed in the previous chapter, the Cuban government liberalized self-employment in the mid-1990s, thereby legalizing many of the economic activities that were practiced in clandestinity as part of personal and family survival strategies. By early 1997, a total of 157 types of activities had been legalized in seven general areas, including transportation, home repair, agriculture, gastronomic services, family or personal services, domestic services and other activities (Appendix II); 16 activities however account for approximately  $\frac{3}{4}$  of all registered self-employed. The number of registered micro-enterprises grew rapidly, from approximately 40,000 in the late 1980s to a peak of 156,000 in 1999 (Tables 4.1 and 4.2).

TABLE 4.1 Licensed Self-Employed (in thousands)

1981	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003
46,5	121,1	138,1	120,0	129,2	112,9	156,6	153,3	152,3	152,9	151,0

TABLE 4.2 Self-Employed as a Percent of Total Labor Force

1981	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003
1.6	3.2	3.9	3.3	3.5	3.0	4.1	4.0	3.8	3.8	3.7

Source of Tables 4.1 and 4.2: *Anuario Estadístico de Cuba 1996 and 2003*

Although some legal micro-enterprises are operated by only one person, most function as small family-run businesses. As hiring family help is permitted within existing legislation, the real level of involvement in legal self-employment activities is higher than the number of licenses issued. The United Nations Economic Commission for Latin America estimated the total volume of legal private sector employment in Cuba at 400,000 in 1994, or 9.4 percent, approximately three times the number of self-employment licenses issued that same year. In other words, for every registered micro-enterprise, four family members are legally employed in the running of the business.

The self-employment or micro-enterprise sector in Cuba operates in a politically-hostile environment. Criticized by the Cuban government as promoting a capitalist mentality incompatible with socialism, as well as attributing to increased income inequalities, the sector is only tolerated in so far as the Cuban government itself is limited in providing employment as well as goods and services for the population. The expansion of the self-employment sector in the 1990s was therefore a temporary coping measure, designed by the Cuban government to weather an unusually difficult economic period.

This is reflected in the regulatory framework which is designed to control and even repress the surge of petty capitalism on the island by limiting the incomes that can be earned in the sector, restricting the size of the individual micro-enterprises, and controlling the size and range of the sector itself. According to the legislation, those who chose to work for themselves are required to obtain a license from the government, pay a compulsory monthly lump-sum fee and at the end of each year pay a tax on their annual revenues on the basis of a tax schedule either in pesos or in dollars. Micro-enterprises are

confined to input purchases in the dollar stores and agricultural markets (where prices are significantly higher than in the peso stores) while at the same time being denied credit, and subjected to stringent rules regarding how their goods and services are marketed to the public.<sup>29</sup> In order to prevent the creation of small businesses, those engaging in self-employment activities are only allowed to carry-out their activity in their home or in a rented market stall, and are prevented from hiring salaried workers outside of their immediate family. Additional limitations are set on specific activities within the self-employed sector, for instance, a twelve-seat maximum is set on private restaurants or *paladares*. At the same time, self-employment is prohibited in all professional areas (medicine, law, etc.) and legislation, at least initially, banned university graduates (who are guaranteed a job by the state) from engaging in self-employment activities.<sup>30</sup>

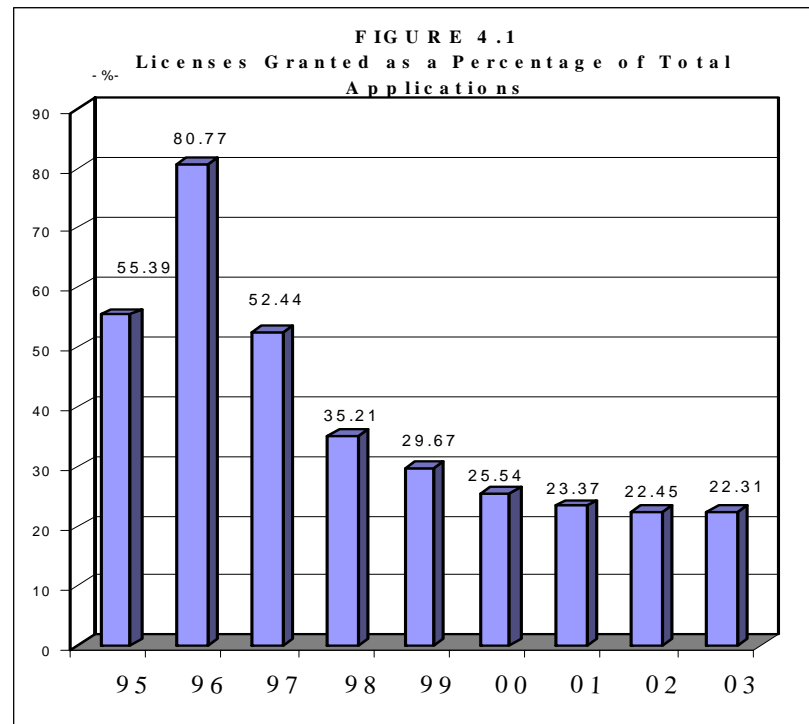
Initial self-employment legislation has been periodically revised with a general trend toward stiffer regulations and more severe punishments for contraventions (Appendix III). According to a study on self-employment carried out by the Cuban National Office of Statistics ¼ of all self-employed surveyed were not in agreement with the tax system, considering the monthly-lump tax too high. Discouraged by new stringent regulations passed in June 1997, between 1997 and 2002, 290,980 licensed self-employed left the sector (González and Oberto 2003: 29). While some people are leaving the sector, others are having a harder time to obtain licenses to enter into self-

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<sup>29</sup> Micro-enterprises are prohibited from hiring intermediaries of any sort, and are restricted on access to markets. Advertising is not allowed.

<sup>30</sup> In June 1996, this law was revised, allowing university graduates to engage in self-employment, albeit not in their own field.

employment work. Since 1996 fewer licenses as a percentage of total applications have been granted by municipal authorities (Figure 4.1).<sup>31</sup>



Source: MTSS

Meanwhile, in 1997 and then again in 2004, the government altogether ceased issuing new licenses for some 40 self-employment activities. This is consistent with the government's desire to constrict private entrepreneurial activity in favor of the state sector. In 2004, licensed self-employed contracted to 151,000 workers, representing 3.7 percent of the labor force.

If the only private legal entrepreneurial activity in Cuba is licensed self-employment or "own-account work," then the Cuban black market can be defined as all non-licensed and therefore non-regulated entrepreneurial activities. Although official

<sup>31</sup> The spike in licenses granted as a percentage of total applications in 1996, is attributed to the passing of the Joint Resolution No. 1 MTSS/MFP, which augmented the number of legal self-employed activities from 117 to 157.



statistics on the black market are unavailable, Canadian economist Archibald R. M. Ritter estimates the number of non-legal self-employed in Cuba to be as high as 21 percent of the labor force (2004a: 123). Using the International Labor Organization's parameter that for every registered self-employed worker in Latin America, there exist 3.5 non-registered self-employed workers, Cuban sociologist Lilia Nunez Moreno estimates the non-registered self-employed in Cuba to be at approximately 18 percent (1997, 46). Some economists contend that while the number of legal self-employed has decreased over time due to more stringent regulations, the absolute number of self-employed has gone unchanged. That is, "People are not leaving the [self-employment] sector, they are going underground and working illegally" (Jatar-Hausmann 1999: 99). This falls along the lines of Friedrich Schneider's proposal who associates tighter government regulations with increases in the shadow economy. Ritter corroborates with Jatar-Hausmann contending that in Cuba "official policies such as tough regulations and heavy taxation...block legal self-employment or 'own-account work' (*Trabajo por Cuenta Propia*) and help push it into clandestinity" (2004b: 1).

Black market activities however extend into the formal sphere, further complicating the matter. Legal and illegal activities rarely exist independent of each other—many informal activities take place *within* the formal sector. A seemingly "legal" or licensed activity may mask a multitude of informal activities. The Cuban black market therefore consists of both non-licensed entrepreneurial activities as well as illegal operations practiced within licensed activities. The full character of the black market will be explored in the following chapter.

*Chapter V*

**CHARACTERIZATION OF THE BLACK MARKET**

## CHARACTERIZATION OF THE BLACK MARKET

While reform measures enacted by the Cuban government between 1993 and 1995 brought about a reduction in the size, scope and prices of the black market, the black market is still an everyday reality for the vast majority of Cubans. In fact, participation—whether as buyers or sellers—in the black market is so highly generalized that the Cuban saying “having one foot in the street and the other in jail” (“*un pie en la calle y el otro en la cárcel*”) applies to almost everyone in Havana—albeit to varying degrees. Indeed, participation in the black market should not be seen as a choice, but rather a as necessity for the vast majority of Cubans (as will be explained in the Chapter VI). The following account of the black market is based on participant observation data collected over a one year period (May 2004-May 2005) in the City of Havana; the vast majority of the data was collected in the neighborhoods of Playa, Vedado, Central Havana and Old Havana, however data was also collected in the town of Trinidad.

### 5.1 Degree of Immersion

The black market consists of a broad spectrum of activities with varying levels of involvement by participants. The most benign activities involve the aforementioned resale of items purchased on the *libreta*. The resale of tobacco, coffee and toothpaste by retirees is a common and easily observable occurrence in Havana; on any given day on *Calle Infanta* in Vedado dozens of retirees display a small selection of products obtained on the *libreta* for sale (Figure 5.1). Although this activity is not legally authorized, it is

tolerated by authorities as the government has been unable to provide livable retirement pensions for the population. Retirees are also often seen selling peanuts and candies on the street (Figure 5.2). Another benign yet common black market activity is to sell produce from one's home. Products, such as home-grown fruits and vegetables (usually bananas, guavas, mangos and avocados), are discreetly displayed by an open window or door, visible to pedestrians (Figure 5.3).

Less tolerated by authorities than the above-mentioned activities, is non-licensed street vending practiced by non-retirees. These activities tend to be segmented by sex: men commonly sell produce in neighborhood streets from small push-carts, while women sell eggs, baked goods and small packaged sweets. The ice cream parlor, Coppelia, in Vedado and movie

theatres all across the city, for example, attract non-licensed women vendors selling small bags of cookies, peanuts, deep fried pasta (*chicharitas*), chocolates, hard candies and other sweets. These vendors, although easily visible to authorities yet seldom approached, nevertheless carry-out their activities in fear of being fined.



**Figure 5.1 Man Selling Coffee and Toothpaste in Vedado**



**Figure 5.2 Woman Selling Candies in Vedado**

Black market activities can also be one-time, localized events. These types of activities are practiced by most individuals and are difficult to track due to their spontaneous nature. In such cases, a black market activity is the response to an opportunity that has presented itself to an individual. For example, an individual receives an article of clothing from a foreigner and then tries to sell it on the black market, circulating it among friends and neighbors. Spontaneous opportunities may also involve the performance of a service such as repairing an appliance or giving tutoring lessons.



**Figure 5. 2 Bananas Sold From Home**

Many black market activities involve intermediaries. Intermediaries are common in Cuba as advertising is not permitted; the only way to learn of a given product or service is simply to ask around. Small fees are generally lumped onto the cost of a given product or service that has been located by an intermediary. For example, if a tourist is taken to a *casa particular* or room-for-rent by a Cuban, the Cuban is given a commission of \$5 for every night that the tourist stays in the home.

The illegality of black market activities becomes more acute as the activities take on an organized character involving numerous individuals. These are the types of activities that the government periodically cracks-down on. For example, a well-organized ring of individuals who diverted frozen chickens from state enterprises to sell on the black market was uncovered in Havana in late 1991. The case was dubbed “*Pluma de Oro*” (Golden Feather) and involved several truck drivers who diverted twenty

to thirty boxes of frozen chicken at a time to the black market. Similar cases have been uncovered by police. Most recently in 2005, workers at the state-owned gas station chain Cupet were dismissed as it was uncovered that large amounts of gasoline were being diverted into the black market.

Black market activities also extend into legal practices. For example, it is not uncommon for a family who is licensed to rent one room in their house, to rent more than one room. The fact that the family is licensed to rent a room legitimizes the presence of tourists in the home and therefore allows the family to discreetly rent-out another room without neighbors noticing. Another common practice by families who are licensed to rent rooms to tourists is to offer tourists meals without being licensed to do so. This is probably the main reason behind the government's decision in 2003 to make payment for gastronomic services mandatory for all individuals who rent rooms to tourists.

The black market also serves as the supplier of many of the inputs used by legal private micro-enterprise. Private gastronomic activities (*paladares* and *cafés*) are notorious for purchasing food and beverages in the black market. The government has tried to counteract this tendency by making it mandatory for the owners of these establishments to present inspectors with receipts for purchased goods.

## **5.2 Participants**

### *Buyers*

Participation in the black market on the demand-side is highly generalized in Havana as products sold in the black market are not only priced lower than products in the hard-currency stores but are also readily available in most neighborhoods. Everyone, from

retirees, to doctors, engineers, university professors, the self-employed, blacks and whites participate in the black market, as everyone has needs to satisfy that are no longer covered in sufficient quantities on the *libreta*. While much attention has been placed on the fact that fewer blacks than whites receive dollar remittances from abroad,<sup>32</sup> which would imply that blacks are more likely participants in the black market, my experience in Playa, an upscale, predominantly white neighborhood, indicates that the white portion of the population is actively involved in the black market. Almost everyone I knew every day in one way or another engaged in the black market. In fact, according to all Cubans I spoke with on the subject, engaging in the black market to satisfy basic needs is not viewed as a crime but rather as a fact of life.<sup>33</sup> The family with which I lived in Havana, for example, on a regular basis purchased milk, coffee, oil, eggs and pork in the black market; anytime anything in the home broke-down and was in need of repair (blender, rice cooker, sofa, bed, front door, etc.) a black market repairman would be called.

### *Sellers*

While no statistics have been published on the supply-side composition of the Cuban black market, statistics on the legal private micro-enterprise sector, or *cuenta propia*, are available from the Ministry of Labor and Social Security in Cuba (MTSS). These statistics can act as rough proxies for revealing the character of the Cuban black market, as both formal and informal self-employment activities are not only very similar in nature but also very much inter-related.

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<sup>32</sup> 84 percent of Cuban living abroad are white, which indicates that fewer blacks than whites receive remittances.

<sup>33</sup> It should be noted however, that the general policy of the Cuban government has been to penalize the seller rather than the buyer

According to 2002 MTSS data on the sex, age, education and background of the registered self-employed, men represent 73 percent of the licensed self-employed, people of the age 60 and over represent 29 percent of participants, those between the ages 30 and 39 represent 22 percent, and those between 17 and 29 years of age represent 9.7 percent of self-employed. In terms of educational level, 32.7 percent of the self-employed have completed middle school, 21.3 percent high school and 18.8 percent grammar school. Most self-employed come either from the state sector, or were unemployed, retired or were house wives. In a survey on *cuenta propismo* conducted in 2003 by Maylín González and Fabián Oberto from the University of Havana, it was revealed that 54 percent of self-employed are white, 16 percent black and 30 percent mixed or *mestiza*.

This data demonstrates that the registered self-employed in Cuba are a heterogeneous group, a complex cross-section of Cuban society. Participation in the black market is even more generalized and heterogeneous due to the fact that there are no real barriers to entry (such as obtaining licenses, paying taxes, etc.). The stereotype of predominantly blacks engaging in the black market in Cuba is incorrect, and driven by the fact that most tourists in Havana stay in the areas around Old Havana and Central Havana, primarily black neighborhoods, where for obvious reasons they encounter black Cubans offering tourist products (such as cigars) on the black market. The Cuban black market is of a heterogeneous character because the primary factor driving black market participation is to augment one's salary—and the vast majority of Cubans need to supplement their salaries<sup>34</sup> as over 76 percent of the Cuban population work for the state, receiving wages in pesos (more on this in Chapter VI). Income in Cuba is also no longer

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<sup>34</sup> In 1994 it was estimated that the lowest salary of a worker in the black market equaled the average salary of a worker in the state sector (Carranza, Gutiérrez, Montreal 1995).



reflective of professional qualification, which means that some of the best educated Cubans receive significantly lower incomes than less educated Cubans who work in any one of Cuba's emerging sectors such as the tourist industry, or in the black market. Indeed it is common in Cuba to encounter university-educated black market participants.

### **5.3 Products and marketing**

The Cuban black market encompasses a broad range of products and services, from basic food items such as milk, eggs, and coffee to complex technological products such as cell phones, laptops, and printers.

#### *Food items*

The most common items sold in the black market are basic necessities that are both distributed in insufficient quantities on the *libreta* and unavailable in the agricultural markets. Milk, eggs, coffee and oil are examples of such products and are possibly the most sought-out and readily available products on the black market. Fresh cheese, pork, beef and fish are also products that appear on the black market however these products are generally considered as luxury food items and therefore are purchased with less frequency by the general population. Milk<sup>35</sup> is neither distributed on the ration nor available in the state-subsidized parallel markets or in the agricultural markets; eggs, coffee and oil are distributed in insufficient quantities on the ration (one small packet of coffee every 15 days per person; eight eggs per person each month) and while eggs are

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<sup>35</sup> Milk is available on the ration, however only to children under the age of seven and senior citizens over the age of 65.

occasionally available in the state-subsidized parallel markets, additional coffee and oil is only available in the hard currency stores.

My experience in Playa can serve as an example of how basic black market products are marketed in different neighborhoods, as this system is mimicked in most neighborhood in Havana. In Playa almost every other morning a woman came by the apartment selling fresh milk to the family I was staying with for 10 pesos a liter. In our neighborhood there were known people selling powdered milk (1 dollar a lb), coffee (1 dollar a lb), and eggs (3 pesos each). Indeed in almost every neighborhood there are known people who sell these basic products. Fresh cheese (25 pesos/lb) and beef (2 CUC/lb) was sold erratically as these items were generally brought in by Cubans from the countryside. Oil was also sold on an inconsistent basis.

In order to understand the system of marketing basic food products in the black market, a distinction should to be drawn between products which are highly controlled by the state due to their scarcity or production for export (and therefore suffer severe penalties such as milk, beef, ham, and coffee) and products which suffer milder penalties. Products which suffer stiff penalties are marketed discreetly door-to-door or from one's own home, whereas products suffering less severe fines are marketed in the open by hawkers in the street (who call out the product they are selling). Many black market vendors also congregated around the entrance to the agricultural market two blocks from where I lived, discreetly marketing their products to Cubans as they entered into the market. For example, in the summer of 2004 almost every other day a woman would stand at the entrance to the Calle 19/76 agricultural market with a backpack. As you walked into the market she would inform you that she had fresh cheese for 25 pesos/lb.

Other items were sold more overtly at the entrance of the agricultural market, such as bottles of cooking oil or bars of chocolate, etc. These products were sold on an erratic basis.

### *Clothing and shoes*

While basic food necessities, that are both supplied in insufficient quantities on the ration and unavailable in the agricultural markets, are the most commonly purchased items on the black market, a host of other products are sold in the black market as well. Clothing and shoes, which are only available legally in hard-currency stores or in used clothing stores functioning in pesos, often circulate in the black market. Purchasing clothing and shoes in the black market is an attractive option for most Cubans as these items are generally of higher quality than similar items sold in the legal markets. In most cases however, these products appear in the black market on an erratic basis as they generally originate from family members or friends visiting from abroad or tourists who leave these items behind as gifts. Clothing and shoes are generally marketed discreetly to friends and friends of friends and priced in dollars or CUCs (5-20 on average).

### *Technology*

There is a saying in Cuba “he who made the law, laid-down the game” (*el que hizo la ley hizo la trampa*). As a 39-year-old professional stated, “Every time that the state stops selling something freely, a possibility opens for theft and speculation” (“*Espacios para el mercado negro*,” 2002). While Resolution 383 of December 15, 2001 restricts the sale of

computers equipment, motor vehicles, electric appliances and construction materials<sup>36</sup> to foreigners by the state-owned Corporación Cublase S.A., many of these products can be found in the black market, it's just a matter of asking around.

**Table 5.1 Black Market Computer Products**

<b>Product</b>	<b>Price in CUC</b>
Pentium I computer	80-100
Pentium II	200-350
Pentium III	400-600
Pentium IV	600-1,200
Printer	60-150
Internet	40-60/month

*Source: Author 2005*

The family with whom I stayed, for example, purchased their Pentium II computer through a friend of a friend on the black market for \$200. The sale of these products generally involves an intermediary who brings buyer and seller together. Depending on the price of the product sold, the intermediary can receive a commission of 5-50 dollars.

### *Services*

Any time something in the home needs repair (appliances, furniture, car, clothes, shoes, etc), Cubans have two options: hire a registered *cuenta propista* or find someone in the black market to do the work. Hiring a black market worker can be less expensive than hiring a *cuenta propista* as black market workers are not subject to state taxes; for this reason hiring a black market worker is a very common practice. Repairmen are generally found through one's network of friends and neighbors. They are usually from the neighborhood and come directly to one's home. Shoe and clothing repair and alteration

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<sup>36</sup> Some of these items include:

Computer equipment: printers, mimeographs, photocopiers, computer accessories,

Motor vehicles: motorcycles, bicycles with motors,

Electrical appliances and equipment: video cassette players, DVDs, air conditioners, stovetops, electric ovens, microwaves ovens, electric equipment to heat showers, dishwaters, electric heaters, toaster ovens, coffee makers, electric rice cookers, irons as well as other items that consume energy,

Construction materials: cement, cement blocks, bricks, granite, etc.

is also a very common black market activity. In the neighborhood where I lived for example, there were several women who performed these activities for a relatively low cost.

#### **5.4 Sources of inputs**

While certain black market activities involve inputs that are legally derived (such as selling one's ration or selling a product that was grown in one's back yard) most black market activities (as well as *cuenta propia* activities) involve equipment and raw materials that are themselves either stolen from the state or derived from black market sources. In this sense many black market activities in Cuba are illegal on two counts: first, the theft of the product, and second, its marketing and sale.

Theft as a source of equipment, raw materials and finished products sold on the black market is highly generalized in Cuba. In fact, "The majority of the people believe that stealing from one's employer, the state, is not a crime" (Clark 1990: 296). As state salaries are insufficient to satisfy basic needs, the right to steal on the job is an implicit and integral part of the conditions of employment. Positions in the state distribution sector are highly coveted precisely because of the opportunities presented to divert state resources for private gain. Socialist property therefore is broadly regarded as "up for grabs" and constitutes the main physical base of the black market.

Theft varies in scale from the individual and petty to the intricate and regal. By far the most common theft practiced is short-changing (refer to Chapter 2) or over-charging customers.<sup>37</sup> Mercado 70, by far the largest hard-currency grocery store in Havana located in Playa, is notorious for over-charging customers. On almost every

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<sup>37</sup> Known as a "*multa*" or a fine.

occasion I shopped there, the correct amount of change was not returned to me. Cheating customers is not unique to Mercado 70 however, this occurs in most hard-currency stores throughout Havana. Theft can also take the form of acquiring goods directly from state supplies by tampering with inventory records; stolen goods are often recorded in the books as spoiled, broken or lost in transit.<sup>38</sup>

While in some cases theft is performed by one person and only known to him or her, in most cases a small group of people are implicated in the activity (such as all workers, including the manager of a small store) and proceeds are distributed among all those who are privy to what happened. For example, at a state-run photo shop in Playa, Foto Service, all of the employees, including the manager were involved in overcharging tourists for passport photos (author). At the famous ice cream parlor in Vedado, Coppelia, management was involved in cheating customers by selling the lower quality and less-expensive “Vedado” ice cream brand as if it were the higher-quality and more costly “Coppelia” brand (author).

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<sup>38</sup> Stolen products are euphemistically referred to as “*faltantes*” or missing items.

*Chapter VI*

**DOLLARIZATION AND THE BLACK MARKET**

## **DOLLARIZATION AND THE BLACK MARKET**

The legalization of US dollar circulation in the Cuban economy and the opening-up of dollar stores across the island in the summer of 1993, has been one of the most controversial measures enacted by the Cuban government during the Special Period. While on the one hand dollarization was in part responsible for the revival the Cuban economy in the mid-1990s, on the other hand, it inadvertently guaranteed the continued existence of the black market. By profoundly diminishing the purchasing power of peso-denominated wages, dollarization has caused the vast majority of Cubans to turn to the black market on a regular basis as buyers (to maximize the value of their peso denominated wages), and on occasion as sellers (to augment their wages).

### **6.1 Dollarization**

Although in the 1970s and 1980s the dollar was rarely seen except in the very small tourist sector and the hard currency stores serving foreigners, in the early years of the crisis dollar circulation became increasingly regularized as remittances from Cubans abroad flowed into the economy illegally.<sup>39</sup> The rapid depreciation of the peso made the dollar an important store of value and the preferred medium of exchange on the black market. In order to capture a significant share of this currency, the Cuban government legalized the dollar<sup>40</sup> and expanded the already existing network of hard currency state-

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<sup>39</sup> US \$311 million flowed into the economy illegally between 1990 and 1993 (CEPAL 1997).

<sup>40</sup> In November 2004 the dollar was taken out of circulation, however the Cuban Convertible Peso (CUC), introduced in 1995 and as of April 2005 pegged to the dollar at 1 CUC=0.94 US dollars, continues to circulate.



owned establishments throughout the island. Originally exclusive to foreigners (tourists, diplomats, students), these sites were now open to the general public. The number of hard currency establishments grew steadily over the years, reaching over 5,500 across the island in the year 2000.

**TABLE 6.1 Number and Types of Establishments Operating in Dollars in the Year 2000**

Stores 1,882	Cafeterias 522	Photographic services 151	Electrical appliance workshops 100
Street and other authorized sale sites 1,286	Bars 77	Service centers 117	Auto rental 53
Restaurants 633	Nightclubs 43	Other commercial services 208	Others 448

*Source: Ministerio de Comercio Interior, 2001.*

More than 2000 of these establishments are small retail stores, highly concentrated in the City of Havana, offering a limited assortment of mostly imported products. These stores generally specialize in one of the following areas: processed foods, hygiene products, clothing and shoes, consumer durables and construction materials.

The majority however are small neighborhood kiosks (Figure 6.1) selling a limited array of essential articles, mostly processed foods such as tomato paste, cooking oil, pasta, milk, and other items which are either unavailable or distributed in insufficient quantities on the *libreta*.



**Figure 6.1 Kiosk in Vedado**

Prices in the hard-currency stores are on average approximately 20 times higher than prices in the regulated peso market (Informe de Cuba 1997). This price difference is in part due to the Cuban government having maintained throughout the years a low and stable price structure in its regulated peso market, assuming international price increases as subsidies on certain key items sold to the Cuban population. The difference is also due to high commercial surcharges (130-140 percent on average) on goods sold in the hard-currency stores. These high surcharges act as an indirect sales tax on the buyer and are applied to all items offered in the hard-currency stores, from processed foods to consumer durables. Commercial surcharges however are more obvious on consumer durables as the price of these products is already high and therefore a doubling of the price is more easily discerned. For example, in 2002 a Chinese “Panda” brand television was sold for 470 dollars in hard-currency stores, while the same television sold in China for 100 dollars (Meso-Lago 2005: 104). This indicates a 370 percent commercial surcharge on the product. These high prices in addition extend to parts of the non-dollar economy, namely the agricultural and black markets, as the prevailing prices in the hard currency stores serve as reference points for price-setting in these markets.

## **6.2 Market Segmentation**

Dollarization and the opening-up of dollar stores across the island has led to the institutionalization of a two-tiered economy: one functioning exclusively in dollars, the other operating primarily in pesos (Table 6.2 and photos in Appendix IV). Since the legalization of the dollar in 1993, the dollar has played an increasing role in the Cuban

economy, representing in 2000 more than 50 percent of total monetary circulation (Togores and Alvarez 2004: 294).

**TABLE 6.2 Existing Markets for Accessing Consumption Goods**

Dollar/CUC	Hard currency establishments (retail stores, etc.)
	Artisan markets
Peso	Rationed market
	State-run parallel markets
	Agricultural markets
	Agricultural fairs (weekly and monthly)
	Industrial and artisan markets
	Self-employed market
	Black market

*Source: Prepared by author.*

The dollar and peso, while both mediums of exchange, do not represent equal purchasing power however. While from the middle of the 1960s until April 2005, the peso was officially pegged to the dollar at a one-to-one exchange rate, the real value of the peso in the Cuban economy has been much less (Tables 6.3 and 6.4).

**TABLE 6.3 Official Exchange Rates: Dollar to Peso 1990-2005**

1990	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
1	1	1	1	1	1	1	1	1	1	1	1	1	0.94*

*Sources: Informe Económico, Banco Nacional de Cuba, Cuba News, January 1998*

*\*Dollar to Cuban Convertible Peso (CUC) exchange rate.*

**TABLE 6.4 Unofficial Exchange Rates: Dollar to Peso 1990-2005**

1990	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
7	100	130	35	22	20	20	22	22	26	26	26	26	24

*Sources: Informe Económico, Banco Nacional de Cuba, Cuba News, January 1998*

While dollars (currently CUCs) are accepted as a form payment in all markets (listed in Table 6.1), pesos are only accepted in markets operating in pesos. For example, at an agricultural market (operating in pesos), payment in 2004 could be made in pesos or

dollars at the unofficial *street* exchange rate of 1 dollar: 25 pesos.<sup>41</sup> On the other hand, hard currency stores would not accept payment in pesos even when offered at the unofficial dollar/peso exchange rate (Author). The dollar (currently CUC) is clearly given preference in the Cuban economy as a medium of exchange. A segmented market along dollar-peso lines, has led to the differentiation in access to consumption, increased inequalities across society, and the perpetuation of the black market.

### 6.3 Basic Needs Deficit

The segmented nature of Cuba's market, with the advent of dollarization and the opening-up of dollar stores across the island, is problematic because basic needs are no longer satisfied in their entirety in the rationed market. A report on poverty in Cuba published in 1997, estimated that state rationing only covered approximately 70 percent of total food intake; the remaining 30 percent needed to be purchased elsewhere. On the other hand, according to Meso-Lago, and corroborated by my own experience in Cuba in 2004/2005, rationing, which once covered a full-month's worth of food intake in 1989,<sup>42</sup> covered only 10 days worth of food intake in the 1990s and by 2004/2005 only covers one week's worth of food intake (Table 6.5). It should be noted that not all items on the ration are available each month even though they are "guaranteed" to the population. Chicken is one item that often does not appear at the *bodega*. Butter (*manteca*) and tomato purée, although still listed in the ration booklet, have not been available to the

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<sup>41</sup> In Habana in 2004, the unofficial exchange rate offered at the CADECA was \$1:26 pesos. That same dollar if exchanged on the street would only receive 25 pesos in return (1 peso is generally charged as an unofficial commission). The same is true in 2005. The unofficial exchange rate offered at the CADECA is currently 1 CUC:24 pesos, while the street rate is 1 CUC:23 pesos.

<sup>42</sup> According to 1978 data, real consumption went over the rationed amount by the following percentages: meat 15%, rice 46%, beans 26 %, butter 100%, potatoes 220% and sweet potato 80% (Togores 2004).

population for a number of years. Delivery of certain items such as eggs and animal protein is unpredictable even though a delivery schedule appears weekly in newspapers (Appendix V).

**TABLE 6.5 Items on the Ration (*la libreta*) 2005**

<b>Product</b>	<b>Monthly unit</b>	<b>Price (pesos)</b>
Rice	6 lb/person	1.50/lb
Beans	1 lb/person	0.40/lb
Cooking oil	½ lb/family	0.20/lb
Refined sugar	3 lb/person	0.16/lb
Unrefined sugar	2 lb/person	0.14/lb
Coffee	1 packet of 115 grams/person every 15 days	5.00/115 grams
Eggs	8/person	1.25/one egg
Chicken	1 lb/person	0.70/lb
Ground meat ( <i>picadillo</i> )	½ lb/person	0.35/lb
Fish	11 ounces/person	0.50/lb
Bread	1 roll/person per day	0.05/unit
Toothpaste	1 tube/family per month	0.60/unit
Bath soap	1/person every other month	0.25/unit
Dishwashing soap	1/person every other month	0.20/unit
Laundry detergent	1 bottle every 3 months/family	3.60/unit
Matches	1 box every 3 months/person	0.60/box
Strong cigarettes	3 packs per person over age 45	2.00/pack
Weak cigarettes	1 pack per person over age 45	2.50/pack

*Source: Author Havana, 2005.*

As a full basket of goods is no longer covered by the state rationed market, people have no choice but to turn to the agricultural and dollar markets to make-up these deficits. The inflated price structure of the non-regulated markets as well as the unofficial dollar/peso exchange rate contributes to the devaluation of income in the national currency and therefore a diminished purchasing power of peso-denominated wages. Togores has estimated that between 1989 and 1998 the average real salary in Cuba fell by 44.4 percent, from 131 to 73 pesos (1999). The United Nations has made a similar calculation, estimating that the average real salary in Cuba fell by 42.5 percent from 1989 to 1998 (CEPAL 2000). Nominal salary increases in 2002 did not improve the situation as price increases in hard currency stores and agricultural markets cancelled-out these

nominal increases. Falling real salaries is a fact of life for the majority of the population as in 2003 approximately 76.2 percent of the population work for the state, receiving wages in pesos (*Anuario Estadístico de Cuba 2003*).

With fewer items offered on the ration and inflated prices in agricultural and hard-currency markets, peso incomes prove insufficient to cover even basic food needs.

Cuban economist Togores has calculated that in 1995 Cubans on average were consuming a food basket with a calorie shortage of 407 kcal, while in 1998 that deficit was 135 kcal (Figure 5.2). In 1998 the average monthly per capita income of those working in the state sector (116 pesos) fell short of 40 pesos to cover basic food needs; to make up for this deficit a 34 percent increase of income would have been required (Table 5.2).

**TABLE 6.6 Contribution to Caloric Intake by Supply Source, 1995 and 1998**

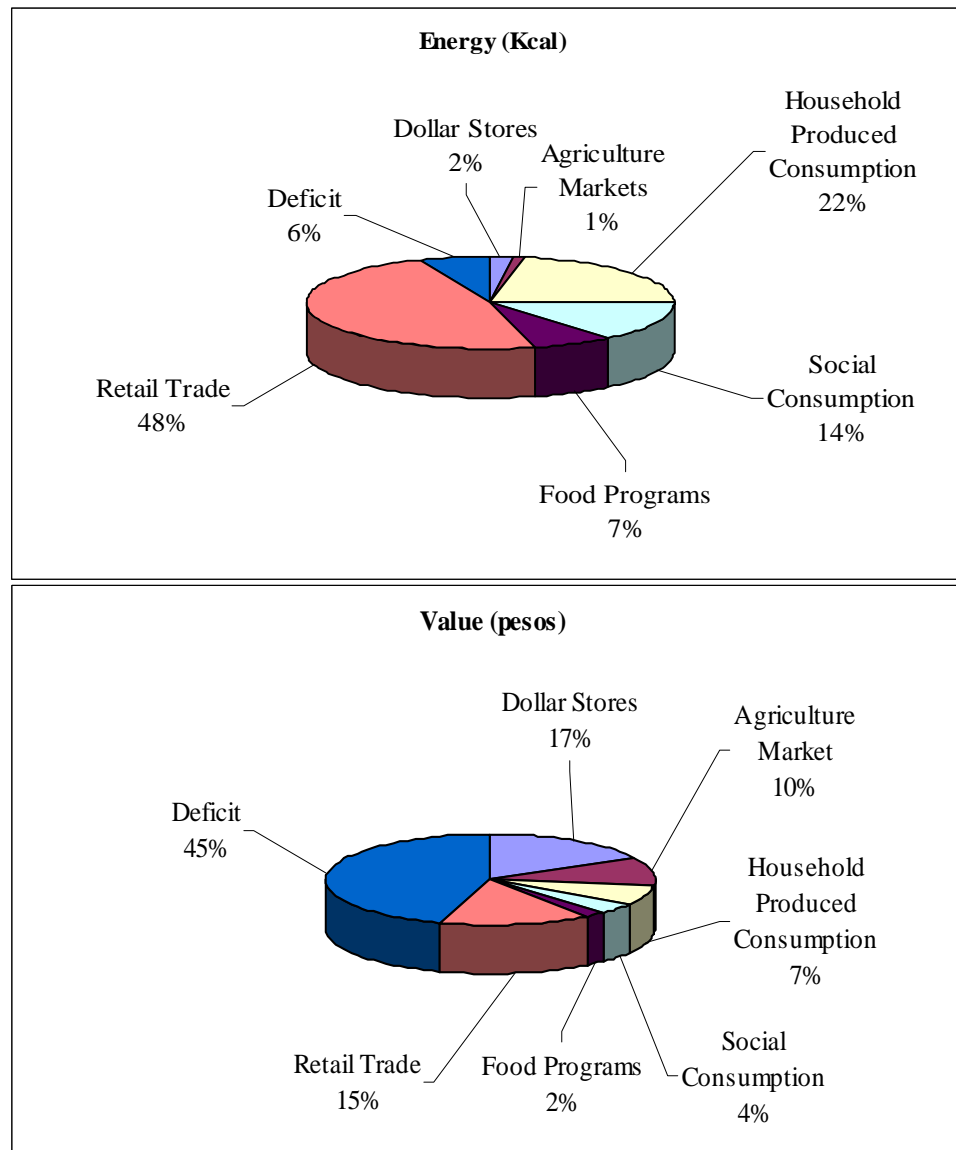
Source	Kcal	1995		Kcal	1998	
		% relative to FAO recommended total kcal	Monthly estimated expenditure (peso)		% relative to FAO recommended total kcal	Monthly estimated expenditure (peso)
<b>State-subsidized consumption</b>						
State-run retail stores	1, 150	48%	23	1,166	49%	23.32
Public food programs	223	9%	4.46	170	7%	3.4
Social consumption	300	13%	6	328	14%	6.56
Household production	254	11%	5.08	520	22%	10.4
<b>Market-based Consumption</b>						
Agricultural Markets	32	1%	16.64	31	1%	16.12
Dollar Stores	34	1%	17.68	50	2%	26
Total	1,993	83%	72.86	2,265	94%	85.8
FAO recommendation	2,400		284.5	135		156
Deficit	407	17%	211.64	2,400	6%	70.2

*Source: Togores and García 2004*

The inflated price structure of hard-currency stores and agricultural markets is illustrated in Figure 6.2. While hard-currency store and agricultural market purchases together only accounted for 3 percent of total caloric intake in 1998, they represented 27

percent of the total cost of a minimum consumption basket. In other words, a disproportionate amount of income is spent on hard-currency store and agricultural market purchases.

**FIGURE 6.2 Structure of Consumption by Distribution Source, 1998**



*Source: Togores and García 2004.*

It should be noted that Togores' study does not include black market purchases.

## **6.4 Poverty**

Falling real incomes of the majority of Cubans—a direct consequence of fewer items offered on the ration and dollarization—has led to an increase in the incidence of poverty in Cuba. While poverty was believed to have been eradicated in Cuba by the mid-1980s due to a rise in economic performance indicators and the universality and free-of-charge nature of Cuba’s social services (Rodríguez and Carranza 1987), poverty in Cuba reemerged in the 1990s. It should be noted however that due to the universality and free-of-charge nature of Cuban social services, in Cuba’s first report on poverty published in 1997 (*Informe de Cuba*), the term “poverty” was substituted by “population at risk” (*población en riesgo*). “Population at risk” has been defined as that segment of the population that is in danger of being unable to cover (or purchase) its basic needs. According to this report, Cuba’s population at risk rose from an estimated 6.3 percent in 1985 to 14.7 percent in 1995. The “population at risk” was estimated to be higher in urban areas, reaching 20 percent in 2002. Togores, however, has estimated the incidence of poverty in Cuba to be much higher, between 61 and 67 percent in 1995, while the severity of poverty at 40-42 percent (Mesa-Lago 2005, 108). In a survey conducted by INIE and ONE in 2002 the two principle problems cited by those surveyed were “not enough money” (27 percent) and “insufficient food/nutrition” (23 percent).

## **6.5 The Black Market**

A reduction in the real value of income of state-salaried workers has had two consequences. First, individuals and families seek-out ways to maximize the value of



their incomes by minimizing costs. In other words, they not only curtail their spending but also purchase the lowest-cost items, usually found on the black market. Second, workers look for ways to augment their incomes by moving into the private sector and/or engaging in black market activities.

### *The Black Market: Minimizing Costs*

The Cuban black market offers a wide-array of products and services at lower prices than in the hard-currency stores, yet higher than prices in the state-subsidized markets.

Indeed, if a product is not available, or is distributed in insufficient quantity in state-subsidized markets, the individual will first seek-out the product in the black market before turning to the hard-currency stores. In this sense, the inflated prices in the hard-currency stores act as protectionist tariffs on the black market.

As was discussed in the preceding chapter, the three most commonly purchased items on the black market are milk, coffee, and eggs. As can be noted in Table 5.5, black market purchases of these three products can amount to considerable savings.

**TABLE 6.7 Prices in Havana 2005**

	<b>State-subsidized price</b>	<b>Hard currency price</b>	<b>Black market price</b>
<b>Milk</b>	1.25 pesos/lb. powdered milk	2.90 dollars/lb. powdered milk 1.75 dollars/liter milk	24 pesos/lb. powdered milk 10 pesos/liter milk
<b>Coffee</b>	5 pesos/115 grams	13.45 dollars 1000 g.	24 pesos/lb
<b>Eggs</b>	1.2 pesos/egg	0.10 cents/egg	3 pesos/egg

*Source: Author*

For example, a one-pound purchase of powdered milk in the black market as opposed to the hard-currency store, can amount to a savings of 46 pesos—the equivalent of almost two dollars. The availability of these three products is highly generalized, to the extent that in almost every neighborhood there are known persons who illicitly distribute each

of these products. While the purchase of these three products offer significant savings, most products purchased on the black market offer only small savings.

As already discussed in this chapter, prevailing prices in the hard currency stores serve as reference points for price-setting in the black market. Since the only alternative for the purchase of certain products are the hard-currency stores, black market prices only need to be incrementally lower than prices in hard currency stores in order to attract customers. For example, the same exact brand of cooking oil which costs on average \$2.15 per liter in a hard-currency store goes for \$2 on the black market (Author). There are also certain products, such as clothes, sold on the black market that are comparable in price to similar products sold in hard currency stores. Again, these products are priced in relation to hard currency prices, however they fetch an equivalent price on the black market as they are generally of higher quality. Most articles of clothing in the black market sell for anywhere from 5-10 dollars; shoes generally sell for slightly more: 5-20 dollars. Most of these items originate from outside of Cuba, they are generally brought in by friends or family or left with Cubans as gifts from tourists.

It is interesting to note that while inflated prices in hard currency stores push people into the black market, black market prices are only on average incrementally lower than prices in hard-currency stores. As noted by writer Corbett: “This is how the majority of Cubans think. In decimals. Their world revolves around stretching the centavo [the cent]” (2002: 2). Yet while the savings generated by each black market purchase is only slight, these purchases in the aggregate prove significant for maximizing income.

### *The Black Market: Augmenting Income*

A reduction in the real value of peso-denominated salaries has also led to the increased engagement in black market activities as sources of additional income. Peso salaries have lost their economic significance as not only sources of income and general welfare but also as a motivational force for labor due to the importance of dollars (Figure 6.3).

While in the 1980s salaries combined with social security represented 87 percent of total family income, in the 1990s that figure dropped to 67.4 percent (Togores and Alvarez 2003: 172). One can assume that the remaining portion of income was accounted for by remittances<sup>43</sup> and/or black market activities. Over the course of the 1990s and early 2000s the general trend in Cuba has been an emigration of laborers away from the state sector,

where wages are paid in pesos, toward the private sector (self-employment, employment in joint ventures, and the black market) where income can be improved and dollar access is more likely (Table 6.8).



**Figure 6.3 Importance of Dollars: “You told me that you wanted our special in pesos.”**  
*Source: Cuban Newspaper*

<sup>43</sup> According to estimates, in 2001 remittances brought in approximately 813 million dollars. If one divides this amount by 62 percent of the population, who according to INIE have access to dollars, then each person would be receive an average \$112 dollars in remittances each year (Mesa-Lago 2005 and INIE 1998).

**Table 6.8 Monthly Salaries in Havana, March-April 2002**

<b>Occupation</b>	<b>Pesos</b>	<b>Dollars</b>
<b>State Sector</b>		
Lowest pension	100	4
Lowest salary	100	4
Teacher (Elementary and Secondary School)	200-400	8-15
University professor	300-560	12-22
Engineer, doctor	300-650	12-25
Garbage collector	300-500	12-19
Police officer	200-500	8-19
Security officer in tourist sector	700-800	27-31
Armed forces official	350-700	13-23
Cabinet minister	450-600	17-23
<b>Private Sector</b>		
Domestic servant	520-1,040 <sup>44</sup>	20-40
Private farmer	2,000-50,000 <sup>45</sup>	77-1,923
Self-employed taxi driver	10,000-20,000	385-770
Prostitute		240-1,400 <sup>46</sup>
Room rental (self-employed)		250-4,000
Famous artist/musician		600-6,000 <sup>47</sup>
Owner of private restaurant ( <i>paladar</i> )		12,500-50,000 <sup>48</sup>

*Source: Mesa-Lago 2005*

While the Cuban government has made an effort since 1994 to reduce worker migration from the state to the private sector by offering state workers in certain sectors of the economy bonuses in dollars or kind,<sup>49</sup> the state is unable to compete with the salaries offered in the private sector. This shift of laborers from the state to the private sector has led to a problematic inversion of the Cuban social pyramid where wages no longer reflect

<sup>44</sup> Those who work in upscale neighborhoods such as Miramar receive not only higher wages but also receive room and board

<sup>45</sup> Those who own smaller tracts of land earn less.

<sup>46</sup> Calculations are based on 10-50 dollar earnings per night and 70-350 dollars per week.

<sup>47</sup> Little known artists earn 10-13 dollars each month, while Compay Segundo (Buena Vista Social Club) earn 6,000 dollars per performance, Silvio Rodríguez, Jorge Perugorría and Los Van-Van earn as much as 200,000 dollars; a percentage of earnings is destined for the state.

<sup>48</sup> Based on 500-2,000 dollar earnings per day, few *paladar* owners make more.

<sup>49</sup> According to estimates, in 2000 approximately 1.2 million state sector workers in tourism, mining, electricity, and shipping received bonuses in dollars averaging \$19 per month. Another 1.5 million received bonuses in kind. A common bonus in kind, for example, is a small box distributed monthly to workers containing various hygiene products (soap, shampoo, toothpaste, deodorant, laundry detergent). These products are offered in insufficient quantities on the *libreta* and are only available in dollar stores or on the black market. Another example, at the Instituto Superior de Arte (ISA) in Habana, foreign language teachers were taken on a day trip to a dollar clothing store where they were given a spending allowance of \$35 as a yearly work bonus in April 2005.

professional qualification. In fact, those who receive some of the highest wages in Cuba, such as licensed self-employed taxi drivers who receive approximately 15,000 pesos per month, perform very low-skilled jobs, while doctors who are highly skilled and work for state receive an average monthly salary of 500 pesos. In 1994 it was estimated that the lowest salary of a worker in the black market equaled the average salary of a worker in the state sector (Carranza, Gutiérrez, Montreal 1995). Indeed, qualitative studies have shown that higher-income families exhibit a greater presence of non-state derived incomes than lower income families (CIPS Department of Household Studies 2001, and Espina 2002).

Black market activities perhaps constitute the most efficient means of obtaining additional income as there are no barriers to entry. Black market activities, by definition, fall outside of law and therefore require no license, no tax payments and no following of regulations; full profits are therefore retained. As has been pointed to in the previous chapter, black market activities involve varying levels of commitment: from a spur-of-the-moment activity to a full-time occupation. While some black market activities, such as selling peanuts on the street, may only bring a few pesos of profit for the amount of time invested (generally several hours to sell a dozen thin cones of peanuts), some of the most lucrative black market activities, such as acting as an intermediary in the sale of computer parts, are spontaneous and conducted in dollars. The simple transaction of an intermediary who connects a computer buyer with a seller can earn the intermediary anywhere from 10-30 dollars—easily one's month's pay in the state sector. In a country where state salaries are losing their economic significance, the black market with its low barriers to entry, flexibility and high returns is an attractive option for the average Cuban

who needs to supplement their peso salary in order to make ends meet. As mentioned in Chapter 5, the black market also extends into the state sector as many black market products have their origins in this sector. In fact, certain official positions in the state sector are coveted (such as the retail trade) precisely for the opportunities they provide for theft and lucrative black market transactions.

## CONCLUSION

The black market has been a constant presence in Cuba throughout the history of the Revolution. Spontaneously adjusting to the economic needs of the Cuban population, the black market has continuously shifted in size, scope and character, reaching dramatic proportions on two occasions—in the late 1960s and early 1990s. These years were marked by profound economic dislocation, brought forth by the severing of economic ties with the United States in the 1960s and the collapse of the Soviet Union in the 1990s. Undoubtedly, economic shortages were the underlying cause of black market growth during these two periods, however well-intentioned government policies, geared toward spreading the social cost of external shock and readjustment across society, paradoxically exacerbated this growth. Although universal rationing guaranteed the population a fix monthly basket of goods, the system proved inefficient as it did not take into account individual preferences and discouraged production. Unmet needs opened-up the economic space for black market growth. Feeding this growth was an increased accumulation of money in the hands of the population as the government maintained its commitment to providing full-employment, salaries, and free public services to the Cuban population despite budget constraints.

In both periods, black market growth was reversed following the enactment of deflationary policies and the expansion of parallel markets by the Cuban government. In the 1990s, however, these reforms included the controversial policy of dollarization. While in part responsible for the revival the Cuban economy in the mid-1990s, dollarization has inadvertently guaranteed the continued existence of the Cuban black

market. By profoundly diminishing the purchasing power of peso-denominated wages, dollarization has pushed the vast majority of Cubans into the black market as both buyers and sellers.

Faced with fewer products on the ration and exorbitant prices in the hard-currency stores, Cubans today turn to the black market to satisfy many of their basic needs. Taken in the aggregate, these low-cost goods and services provide Cubans with considerable savings; the value of their peso-denominated salaries is therefore maximized. The black market also furnishes many Cubans with additional income. As barriers to entry are virtually non-existent, engagement in black market activities is widely practiced.

While in most countries the black market is viewed negatively, in Cuba the black market plays an indispensable role in the lives of most Cubans. The black market, however, is a poor stand-in for a healthy economy and a healthy people. It has bred what some refer to as a “culture of illegality” in Cuba—a generalized disrespect for the law because the law no longer reflects the Cuban reality. It has also instilled a generalized paranoia among the population and an irrational distrust of one’s neighbors, as everyone fears that their extralegal endeavors will be uncovered and made known to authorities. In this sense the population is paralyzed, crippled and caught in the intricate web of the black market.

There are a variety of policy measures that could reduce the size of the Cuban black market. Unification of the current dual exchange rate and monetary systems would be the most effective measure to this end, however at this point in time this seems highly unlikely. While the government, within its economic limitations, has made a concerted



effort to close the gap between dollars and pesos, the dual currency system is still in place, and the exchange rate currently stands at 1 CUC to 24 pesos.

The government could also take another approach. By relaxing the restrictive policies concerning legal private micro-enterprise, many small-scale activities could be brought out of clandestinity. Such an approach, advocated by Canadian economist Archibald R. M. Ritter, would increase tax revenues for the state, improve economic efficiency of micro-enterprises and promote a culture of tax compliance and respect for regulations. This approach, however, is unlikely to be pursued by the government as an increase in private sector enterprise is inconsistent with socialist ideology. Over the past decade, the general government policy has been one of reclaiming state sector “turf” from the private *cuenta propia* sector as the Cuban economy strengthens. This is supported by evidence showing that each year fewer self-employment licenses are being granted by the Cuban government and that the laws regulating these activities have become increasingly more stringent. At the same time in reference to this policy prescription, it should be pointed out that many black market activities in Cuba today are non-productive in nature, that is, these activities are based on the redistribution of stolen items. A relaxation of state regulations would be virtually meaningless for the agents of such activities.

While at this point in time it seems unlikely that the government will pursue either currency unification or a relaxation of stringent laws regulating private micro-enterprise, the negative impacts of dollarization however can be lessened. If the high prices on basic necessities in the dollar stores were reduced, Cubans would have less reason to turn to the black market. Until an action is taken by the Cuban government however, dollarization of the economy will ensure the continued existence of the Cuban black market.

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**APPENDIX 1**  
**Differences Between the Cuban Black Market**  
**and the Informal Sector in Latin America**

- It's not at the fringe or margins of society but rather at the center
- Heterogeneous nature of Cuban black market participants; cutting across racial, educational and class lines
- Higher education level of participants (50 percent have completed middle school)
- Female and child exploitation practically absent
- Existence of social safety provided by Cuban government for participants
- Strong link between formal and informal economy
- Non-productive nature; circulation and recirculation of goods
- Parasitic and paradoxical nature of Cuban black market; the black market compensates for the failures of the official economy however, at the same time undermines it by using it as a source of supplies (theft)
- Prices are considerably higher in Cuban black market than in the formal economy
- Informal sector incomes in Cuba are generally higher than formal sector incomes
- Circular nature of Cuban black market: in order to buy you need to sell
- Underlying cause of informal sector is different: Emergence of informal sector in Latin America is due to lack of formal employment, in Cuba however employment is guaranteed by state. Cubans choose to enter the black market to augment their state wages.
- All activities outside of legal framework are deemed illegal even if of legal character
- Strict regulation in Cuba's self-employment (*cuenta propia*) sector encourages small-scale nature of enterprises

*Source: Author*

**APPENDIX II**  
**Occupations Suitable for Self-Employment**  
**(monthly fee in pesos)**

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<b>Transportation</b>	
Muleteer	20
Automobile or boat operator	20
Pushcart operator	30
Horse wagon operator	60
Automobile driver for hire	80
Bicycle or tricycle cargo carrier	30
Flat tire repairman	30
Bicycle repairman	40
Mechanical and combustion equipment repairman	45
Automobile painter	45
Messenger	No fee
Automobile electrician	45
Automobile washer	20
Automobile battery repairman	45
Automobile lubrication mechanic	30
<b>Home Repair</b>	
Mason	40
Carpenter	45
Locksmith	40
Electrician	45
Blacksmith	35
Painter	40
Plumber	40
Floor polisher	40
Plaster or putty worker	30
Glass worker	30
Roofer	30
Stone mason	30
<b>Agriculture</b>	
Ox driver	20
Yoke maker	20
Charcoal maker	20
Grain miller	40
Well digger	30
Saddle and harness repair	40
Thresher	40
Horseshoe and nail maker	45
Ornamental plant and flower grower/seller	45
Producer of dairy products	50
Producer of agricultural preserves	50
Roaster of grains (including coffee)	40

**APPENDIX II (continued)**  
**Occupations Suitable for Self-Employment**  
**(monthly fee in pesos)**

Woodcutter	20
Road and fence repairman	20
Royal palm trimmer	No fee
<b>Family or Personal Services</b>	
Musical instruments repairman	45
Clothing rental service	45
Barber	35
Knitter or embroiderer	30
Button upholsterer	20
Photographer	50
Shoe shiner	20
Manicurist	30
Typist	30
Seamstress	40
Hairdresser	45
Plastic laminator	30
Watch repairman	40
Costume jewelry repairman	40
Eye glass repairman	20
Lighter repairman	20
Umbrella repairman	20
Shoe repairman	30
Shoemaker	45
Cook	30
Beverages and light snacks manufacturer	30
Broom maker	40
Mattress repairman	40
Masseur	45
Refrigeration equipment repairman	45
Metal polisher	30
Makeup artist	45
Radio or antenna installer	60
Jewelry repairman	45
Wicker products manufacturer	50
Counselor	No fee
Domestic worker	No fee
Real estate manager	No fee
Child care provider	No fee
Janitor	No fee
Newspaper vendor	No fee
Fumigator	40
Companion to sick individuals	No fee

**APPENDIX II (continued)**  
**Occupations Suitable for Self-Employment**  
**(monthly fee in pesos)**

Housing unit night watchman	No fee
<b>Domestic Services</b>	
Water deliverer	30
Knife sharpener	20
Decorator	20
Engraver	30
Gardener	30
Launderer	20
Audio equipment repairman	45
Stove repairman	35
Bed springs repairman	30
Sewing machine repairman	35
Upholsterer	45
<b>Other</b>	
Craftsman	45
Iron worker	45
Physical fitness trainer	45
Natural resources collector	30
Charcoal vendor	20
Herb vendor	30
Computer programmer	40
Tinsmith	40
Book binder	20
Welder	45
Lathe operator	45
Motor recoiler	45
Saddlery worker	30
Raw materials collector	No fee
Agricultural products collector or vendor	30
Pet breeder	50
Pet trainer	50
Automobile body repairman	45
Metal cutter (with oxygen torch)	45
Fabric dyer	30
Children's party entertainer, clown, magician	50
Potter	45

*Source: Pérez-López 1995*

**APPENDIX III Decree-Law 174**  
**Micro-Enterprise Rules, Contraventions, Fines and Punishments**

<b>Contravention of Micro-enterprise Regulations</b>	<b>Fines (pesos)</b>	<b>Seizure of Equipment or Products</b>	<b>Withdrawal of License</b>
1. Exercise of unauthorized activity	500-1,500	Yes	Not relevant
2. Exercise of legal activity by unauthorized person	400-1,200	Yes	Not relevant
3. Violations of regulations in a legal activity:			
a. More than 12 places (seats) in a private restaurant	500-1,500		2 years min.
b. Sale of fish, seafood or beef in a private restaurant	500-1,500	Yes	
c. Sales in \$US when not authorized	500-1,500		2 years min.
d. Sale of alcohol without accompanying food sales	400-1,200		2 years min.
e. Use of seats, benches or tables in street vending	500-1,500		2 years min.
f. Use of other location than one's home	250-750		2 years min.
g. Inadequate receipts for legal purchase of inputs	250-750	Yes	2 years min.
h. Use of family labor without licenses	400-1,200		2 years min.
i. Exhibiting unauthorized films in video rooms	400-1,200	Yes	2 years min.
j. Sale or use of protected flora or fauna	400-1,200	Yes	1 year min.
4. Use of ones home for someone else's micro-enterprise	250-750		
5. Use of intermediaries or specialized sellers	400-1,200		1 year min.
6. Acting as an intermediary for other products	400-1,200		2 years min.
7. Non-payment of rental fee for market space	150-500		
8. Sales to state entity without specific permission	400-1,200		
9. Safety violations	400-1,200		
10. Hiding or falsifying information from activities	400-1,200		
11. Failure to show registration documents at any time	400-1,200		
12. Employment of persons under 17 years of age	500-1,500		2 years min.
13. Acting as a wholesaler to other micro-enterprises	500-1,500	Yes	1 year min.
14. Sales or exhibition of legal products by sellers of other products	500-1,500	Yes	Permanent
15. Organization of producer co-ops or associations unless specifically authorized	500-1,500	Yes	Permanent
16. Resale of industrial products purchased in state sector	400-1,200	Yes	2 years min.
17. Use of prohibited materials or inputs	250-750	Yes	
18. Operation in other provinces from that authorized	250-750	Yes	
19. Failure to update information provided to <i>Registros de Trabajadores por Cuenta Propia</i>	150-500		

*Source: Ritter 2004b*

## APPENDIX IV Market Segmentation, Habana 2005

### *Ration Market*



*La bodega*



*Ration book (la libreta)*



*Butcher*



*La bodega*

### *State-Run Establishments*



*Café*



*Industrial market (recycled clothing)*

## *Agricultural Markets*



**Farmer's Market**



**Weekend Agricultural Fair**

## *Self-employment Market*



**Street café**



**Taxi**

## *Black Market*





*Hard-Currency Establishments*



**Kiosk**



**Kiosk**




***Tiendas de Recuperación de Divisas (TRD)***



***Cubanacan***

## APPENDIX V Distribution of Products



**Distribución de productos**

Continúa la entrega de ocho **huevos** por consumidor, correspondiente al mes de mayo. Para la semana se programa distribuir Boyeros, Playa, Marianao y comenzar Arroyo Naranjo.

Programa de productos cárnicos para la semana:

**Pollo congelado** (1 libra por consumidor). Concluir La Habana del Este. Distribuir Playa, Centro Habana, Regla, Marianao, Diez de Octubre y Cotorro. **Picadillo condimentado** (½ lb por consumidor): Concluir Boyeros y distribuir Plaza.

**Salchicha** (un paquete por consumidor). Concluir Guanabacoa y La Lisa.

Para este mes la Pesca tiene programado abastecer 10 onzas de **jurel sin cabeza y desviscerado** por consumidor y para consumidores con dietas médicas cuatro o cinco libras según dietario.

Concluye en la semana la distribución de ½ libra de **aceite** por consumidor, correspondiente a mayo, en todos los municipios.

Prosigue en todos los territorios, la venta normada de una **junta para olla de presión**, por núcleo familiar, en la red de unidades de venta de productos alimenticios de la canasta básica (bodegas y supermercados) del comercio minorista, con un valor de un peso la unidad.

El precio de la libra de **papa** desde el mes de febrero hasta el 31 de mayo, es de 0.30 centavos.

Recordamos a todos los consumidores que, en el acto de compra y venta del **pollo** de una libra por consumidor, no se puede trocear el producto por parte de los dependientes.

DIRECCIÓN PROVINCIAL DE COMERCIO  
TELÉFONO: 861-8715