



Cuba's New Resolve Economic Reform and its Implications for U.S. Policy

Written by Collin Laverty

Center for Democracy in the Americas
Sarah Stephens, Executive Director

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— IN THE —
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THE CENTER FOR DEMOCRACY IN THE AMERICAS (CDA) is devoted to changing U.S. policy toward the countries of the Americas by basing our relations on mutual respect, fostering dialogue with those governments and movements with which U.S. policy is at odds, and recognizing positive trends in democracy and governance.

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About This Project

Research Series: 21st Century Cuba

The Center for Democracy in the Americas receives support from the Ford Foundation for research and assessment of Cuba's efforts to update its system for the long-term. We gather and analyze data on these issues and publish reports on their implications for use by U.S. policy makers, foreign policy experts, the news media, and the general public.

In our 21st Century Cuba series, we examine:

- Cuba's efforts to develop its offshore oil resources.
- Cuba's efforts to update its economic system.
- Cuba's efforts to broaden participation in government and improve the status of marginalized populations: women, Afro-Cubans, and others.
- Cuba's solidarity with other nations via its medical brigades abroad and free medical education for foreign students in Cuba.

Our first report, "**As Cuba Plans to Drill, U.S. Policy Puts Our National Interest at Risk**," documented Cuba's plans with its foreign partners to extract oil from its offshore fields in the Gulf of Mexico, and how the limits imposed by the embargo harm U.S. environmental, economic, and foreign policy interests. It was released February 24, 2011.

We plan to publish the remaining reports in our series later this year and in early 2012.

Preface

Our series on 21st Century Cuba demonstrates that existing U.S. policy and Cuba's plans for its own future are incompatible. For five decades, U.S. policy has focused on upending Cuba's political and economic system through diplomatic isolation and economic strangulation. Although Cuba, for its part, has been adept at countering that objective, the relentless pursuit of this ill-considered goal is counterproductive to larger U.S. interests and comes with considerable costs. The United States and Cuba's citizens would be better served by policies that favor engagement and recognize Cuba's sovereignty.

Today, the principal peril that Cuba faces comes not from the United States' ineffective threat but from its own crushing economic realities. The country's government is struggling with both demographic burdens and pressures from global creditors. It cannot ignore either. Cuba's nearly intractable problems stem from the limited ways in which its economy produces wealth, its heavy reliance on imports to feed its population, growing domestic economic inequality, and the lack of opportunities for citizens to productively use knowledge acquired through advanced education.

Rather than blaming U.S. policy, as it has in the past, Cuba is addressing its problems in fundamentally different ways. Recent economic reforms have legalized new private sector activities so Cuba's citizens can open small businesses and hire their own workers; facilitated the creation of workers'

cooperatives that can function as small businesses in sectors from farming to manufacturing; reduced government funded social benefits, such as the ubiquitous ration card, and ended some state subsidies altogether.¹

These reforms are linked to institutional changes that aim to reduce the number of workers on the state payroll by one million or more; clarify ministerial responsibilities to increase accountability; and turn over many responsibilities of the State to provincial and municipal governments where legislative and executive functions would be separated, and capacity built so that decisions could be made and implemented locally.

These are important steps for a nation constituted on socialist principles, where capitalism has been long considered anathema. It reflects an acceptance that market forces can play a role in economic policy and that economic growth must be the central criterion to judge economic success.

These restructurings, ratified by Cuba's Communist Party in April 2011, are the biggest economic changes in Cuba since Soviet support ended two decades ago. They represent a significant realignment of the paternalistic relationship that has existed between the State and its citizenry since the revolutionary period began in 1959.

While not overtly political, this shift in thinking shows the Cuban leadership's willingness to reduce its role in certain areas of society and to replace policies that stressed centralized control and moral and ideological incentives with ones that instead emphasize efficiency and sustainability.

Critics of the Cuban Revolution have long argued that maintaining political power has been the government's overriding objective and led them to retract the economic liberalization that took place in the 1990s.

But today's reforms are already leading to the emergence of independent economic actors and decentralized decision making over policies that were once strictly in the hands of Havana. These changes are leading some Cubans to say that they feel greater ownership over their lives.

Because of the ideological and political distance between the two nations, it is difficult for U.S. policy makers to fully comprehend the extent of what is happening in Cuba. Many question whether the latest signs of progress are permanent, and assume that these reforms will be rolled back. President Obama has repeatedly expressed doubts that the changes are significant.

His public posture is as a skeptic, even as Cuba moves—at its own pace and for its own reasons—in directions that U.S. policy has advocated for years.

Experts in Havana believe these reforms will help their country alleviate some of its endemic economic problems while maintaining two core values overall: its commitment to a communitarian ethos and guaranteed access to universal health care and education.

In this challenge, Cuba is charting new territory. No country has ever succeeded in simultaneously upholding such commitments and overcoming major economic problems. Cuba may borrow some plans from Communist governments in China and Vietnam, but no template, no model exists that Cuban leaders can replicate.

Indeed, the reforms announced and implemented to date leave many challenges unresolved. As numerous scholars have concluded, Cuba must sharply increase exports of manufactured goods and services to generate the capital it needs to pay debts and create wealth for the longer-term. As vibrant and filled with potential as its newly created small businesses are, the island's economic future cannot be assured through a retail sector alone.

In the short-term, there will be hardships visited on already vulnerable populations in Cuba. History teaches us that economic transitions produce more insecurity for a greater number of people.² Not all Cubans will be able to cushion the blows by forming their own businesses.

Massive public sector layoffs and the elimination of social benefits will have an uneven and dramatic toll on the Cuban people and may engender new social tensions; pitting young against old, rural versus urban dwellers, private entrepreneurs competing with government workers, and citizens of coastal provinces opposing those in the interior. This is why Cubans—depending on their circumstances—view the future with a combination of excitement, anxiety, optimism, and dread.

If these or potentially subsequent reforms succeed, the Cuban government may be able to modernize its economy and finance those services upon which the legitimacy of its system is based.

We undertook this study to better understand what these changes mean for the future of Cuba and the Cuban people and to use what we learned to inform the debate on U.S. policy going forward. Our research included

repeated trips to the island to interview Cuban government officials, Cuban economists, and a variety of experts.

We also heard from countless other Cubans. From Havana to Pinar del Río to Nueva Gerona, they took us into their homes and into their confidences so that we could understand, to the best of our abilities, how they were experiencing this highly significant process. Several, who were willing to share their views, asked us to maintain their anonymity. Because policies here in the U.S. are all too often adopted by decision makers who've never even asked Cubans what they want for their country or their future, we are pleased that you can hear their voices in this document.

After fifty years of sanctions, and a generation after the demise of the Cold War, it is incumbent upon U.S. policy makers to understand the changes taking place in Cuba today and respond accordingly.

The case for supporting Cuba's reforms can also be an opportunity for policy reform here at home. The success or failure of the reform process will largely be determined in Havana, not Washington, and the benefits and the problems that accompany the changes will fall on Cuban shoulders, not on ours. But the idea that there is nothing we can do or that the U.S. should sit on the sidelines and await the outcome is as great a folly as five decades of trying to get Cuba to "cry uncle."

An economically stable and prosperous Cuba would meet both the national interest and humanitarian goals of the United States and better serve the Cuban people. While CDA advocates specific steps the U.S. should take to support the process, the greatest contribution our country can make is to demonstrate that we want the reforms to succeed in order to improve the lives and living standards of the Cuban people.

Section One:

Raúl Castro Addresses Cuba's Economic Crisis

Upon taking office, Raúl Castro confronted an economic crisis. This is the story behind the conditions he inherited and the steps he has taken to address them. It is also a continuing story about his resolve to strike a constructive balance between facing Cuba's economic realities and honoring Cuba's socialist values.

Milk — An Allegory

Four years ago, on July 26, 2007, then Acting-President Raúl Castro made his first major policy speech as the head of Cuba's government.³ In his speech, Castro described the inefficient production and delivery mechanisms involved in dairy production. He spoke in detail about how hyper-centralized planning and a lack of local input created flawed methods for processing and distributing milk throughout the island.⁴

He noted that milk was often transported dozens of kilometers away to be processed and bottled, only to be shipped back to the area where it was produced for local consumption. Using this essential product to expose and acknowledge the pervasive shortcomings of Cuba's economic model, Castro announced that a pilot program had been launched in several municipalities to fix the distribution of milk.

The program would allow dairymen to cut losses and the cost of fuel by selling directly to nearby state stores. "In this fashion, we have eliminated absurd

procedures through which this valuable food product traveled hundreds of kilometers before reaching a consumer who, quite often, lived a few hundred meters away from the livestock farm,” Castro explained.

As he wrapped up his critique, Castro concluded: “This is but one example of the abundant resources that become available when we organize ourselves better and analyze an issue as deeply as required, mindful of all the involved factors.” With milk, Castro chose an issue that would resonate widely with the general population.

Raúl Castro’s speech was notable for several reasons: his open criticism of a static and highly bureaucratized Cuban system; his brevity compared to the legendary verbosity of his brother and predecessor; and most importantly, his call for change in the established economic model. “I reiterate that our problems will not be solved spectacularly. We need time, and, most importantly, we need to work systematically,” said Castro. “Needed structural and conceptual changes will have to be introduced.”

Castro also acknowledged that state wages “are clearly insufficient” to satisfy the basic needs of the populace, stating his guiding principle that “each should contribute according to their capacity and receive according to their work,” a refrain he has sounded in almost every major policy speech since.

Without defining exactly what he meant by “structural and conceptual changes,” Castro’s speech signaled a sharp departure from the *status quo* that would become the cornerstone of economic reform: a shift to decentralization and increased autonomy of provinces and municipalities in decision-making and production, equal treatment of state and private producers, an implied acceptance of social stratification and income inequality as long as the money earned is the result of hard, legal work, and the centrality of the agricultural sector to reform and increased productivity.

The starkness of his speech—along with his reputation as a pragmatist and the withdrawal of Fidel Castro from the domestic political scene—led to expectations on the island of real reform.

The Origins of Cuba’s Economic Crisis

From its inception in 1959, Cuba’s revolutionary government acted to put idle Cubans to work and to address social inequalities in literacy and medicine,

with educational and public health results that today exceed nations in the developed world. But, the economic model it chose also produced a lasting series of problems that have hamstrung Cuba to this day. In addition, Cuba was soon met with draconian restrictions from the United States that crippled its exports, earnings, and capacity to replenish its economy. Unable to replace spare parts for machinery or even buses, the country lost its industrial base.

In the early 1960s, most non-agriculture economic sectors were placed under the control of the central government. In the subsequent Revolutionary Offensive in 1968, almost all remaining private enterprises were also expropriated. By 1970, the number of officially-recognized self-employed individuals in Cuba had fallen to less than 1.25% of the total labor force, around 30,000 entrepreneurs.⁵

In that era, Cuba depended heavily on the Soviet Union's markets, technological innovations, and military aid and sought Soviet guidance on economic planning. In 1972, Cuba became a member of the Council for Mutual Economic Assistance (CMEA), a global economic organization that coordinated cooperation among socialist-planned economies. For 20 years, until 1993, the single-party state centrally owned all the major resources and industries on the island—nickel, sugar, banks, factories, land, etc.—and controlled virtually all economic activity.

Following the demise of the socialist bloc in 1989, and the collapse of the Soviet Union in 1991, Cuba entered an acute era of economic hardship referred to domestically as the “Special Period.”

Financial assistance from the Soviet Union was rapidly phased out, and the Cuban economy deteriorated sharply along with the living conditions of its citizens. Estimates of the decline in GDP, between 1989 and 1993, range from 29% to 40%.⁶ Cuba experienced a loss of demand for Cuban products at home and abroad as well as a slowdown in the infusion of new technologies into the supply side of the Cuban economy.

The graph on the following page demonstrates the impact of the crisis on the living standards of average Cubans:



Source: Pavel Vidal Alejandro, "Política Monetaria y Doble Moneda."⁷

Facing massive shortages and growing discontent, during the 1990s and early 2000s, Cuba made emergency modifications to its highly centralized planning model, monetary system, and policies regarding internal development goals as well as its policies toward international trading partners and foreign investment.

The government legalized new areas of self-employment, considered at the time a temporary but necessary evil. The legalization of *trabajo por cuenta propia* (literally, "working for one's own account") expanded the non-state sector in over one-hundred occupations, including *cuentapropista* auto mechanics, carpenters and photographers.

Cubans were allowed to possess and spend U.S. dollars at stores previously reserved for foreign tourists, diplomats and businessmen living on the island. The legalization of the dollar coincided with the introduction of the Cuban convertible peso (CUC), which was pegged to the dollar and used interchangeably. While tourism-related services and some imported and exported goods were dealt with in USDs and CUCs, the majority of Cubans continued to be paid in the traditional currency, the Cuban peso (CUP). This

created both distortions in Cuba's finances and, at odds with socialist tenets of equality, a divide between those with access to dollars—mainly through tourism and remittances—and those without.

One important cause of distortions is the difference between individual and business exchange rates. Whereas for individuals 24 CUP are equivalent to 1 CUC,⁸ businesses exchange CUC and CUP through the Central Bank at a ratio of 1:1, causing irregularities in company operations and the banking sector. In addition, many essential goods, like cooking oil, were only available with CUCs, diminishing the purchasing power of Cuban salaries. Although the USD is no longer used, distortions exist today as a result of the disparities between the CUC and CUP.⁹

The agriculture sector saw large state farms divided into smaller, more autonomous agricultural cooperatives. The state legalized farmers' markets, called *agropecuarios*, and allowed farmers to sell a portion of their produce at prices determined somewhat by supply and demand. Markets for the plastic arts and artisanal goods were also established.

In 1995, the government legalized two more important private services catering to tourists. Cubans were allowed to establish bed and breakfasts (*casas particulares*) and also privately-run restaurants located in Cuban homes with up to 12 seats for guests (called *paladares* from the Spanish word for "palate").

That same year, a new law regarding foreign investment was approved, legalizing investments by non-Cubans in all sectors of the economy except defense, health, and education.¹⁰ Foreign investment increased substantially throughout the 1990s. The number of foreign firms engaged in joint ventures, especially in tourism and the extractive industries, such as nickel and on-shore oil, increased four-fold between 1989 and 2000.

By 1996, the number of occupations authorized for self-employment had grown to 160 and more than 200,000 individuals had obtained licenses to work for themselves.¹¹

Many of the difficulties still facing *cuentapropistas* today presented challenges to the private sector at the time. For example, *cuentapropistas* still have no access to credit or the ability to import goods legally.

The crisis-driven economic policy modifications led to corruption and other crimes. No wholesale market was established, meaning the main sources

for inventory and materials were from the state through workplace theft and grey markets in goods and services.

Insufficient salaries and the dollar/peso exchange fueled social and economic inequality. Throughout the 1990s and up to the present day, bellmen and bartenders at hotels with access to hard currency can earn up to ten times as much as doctors, teachers and engineers working for the state. Cubans employed in joint ventures with foreign partners receive tips and cash bonuses in U.S. dollars. Those receiving remittances from relatives in the U.S. also enjoy greater access to consumer goods and a higher standard of living than Cubans with no family or friends abroad.

Cuba began to emerge from the post-Soviet crisis by the late 1990s. Some basic products started returning to store shelves. The bicycles Cubans turned to when fuel shortages crippled public transportation were slowly replaced by cars and buses.¹² As Cuba's recovery started, the government backtracked on many of the changes it made in the midst of the crisis and economic openings diminished.

Fidel labeled self-employment workers as "corrupt parasites on the public sector."¹³

During the Special Period, President Fidel Castro and other Cuban leaders consistently signaled that opportunities for private businesses would be limited. Hostility towards the non-state sector was apparent in state-controlled media and among political elites. High taxes and strict rules limited expansion and made it extremely difficult for many of the nation's self-employed to stay in business. Demonstrating their reluctance to accept market changes, the government used the bureaucratic licensing process to limit self-employment. Of the 156 self-employment activities initially permitted, some were gradually curtailed and 41 were made unlicensable in 2004.¹⁴

The government finally stopped issuing licenses in most areas previously legalized for self-employment, and never relinquished its role as the center of economic planning, the primary engine of economic development, and the source of day-to-day decision making. Authorities insisted that the reforms

had been a temporary deviation from socialism and would be curtailed after a period of adjustment.¹⁵

Fidel Castro's response to the way Cubans had dealt with shortages and inequality was to crack down on the grey market. For example, so-called "social workers" were sent to state gas stations to monitor workers who might siphon off fuel. He also instituted an island-wide debate called the "Battle of Ideas" aimed at rallying support for socialist egalitarian goals.

Against this backdrop of reform and retrenchment, one Cuban scholar explained, "The result is that there is no such a thing as a Cuban economic model. It is more an eclectic mix of all these policies which have never been welded into a well-thought-out model. Improvisation, marches and counter marches, and romantic utopianism have [more] influence than economic policy making."¹⁶

Cuba's Economy in the Last Decade

The emergence of Hugo Chávez as president of Venezuela in 1999 and the formation of an alliance between the two countries is the prime factor in Cuba's economic growth over the last decade. Venezuela provides Cuba with roughly two-thirds of its daily oil requirement. In return, Cuba exports medical, educational, and other services to Venezuela, an arrangement that has helped keep Cuba afloat without making significant market reforms.¹⁷

Today, Cuba's economy is still largely state-controlled, with the government owning almost all productive capital assets and employing over 80% of the labor force. Increased investment from Brazil, Canada, China, Spain, Venezuela, and other countries has benefited the economy.¹⁸ In addition to the export of professional services, mainly doctors, teachers and sports trainers, Cuba receives over 2 million tourists each year which, together with nickel and cobalt mining, and a growing biotechnology and pharmaceutical sector, help generate foreign exchange.¹⁹

Despite these advances, the country suffered a series of market and climatic shocks in 2008.

That year, the price of nickel, Cuba's principal export, declined sharply, while international food and fuel prices increased, driving up the costs of Cuba's main import items. The island was then hit by a series of hurricanes and tropical storms, wiping out homes, crops and farm infrastructure with

damage estimated at over \$10 billion USD.²⁰ The world economic crisis also reduced earnings from Canadian and European tourism and created economic woes in Venezuela, leading to a major decline in the export of goods and services to its top ally.

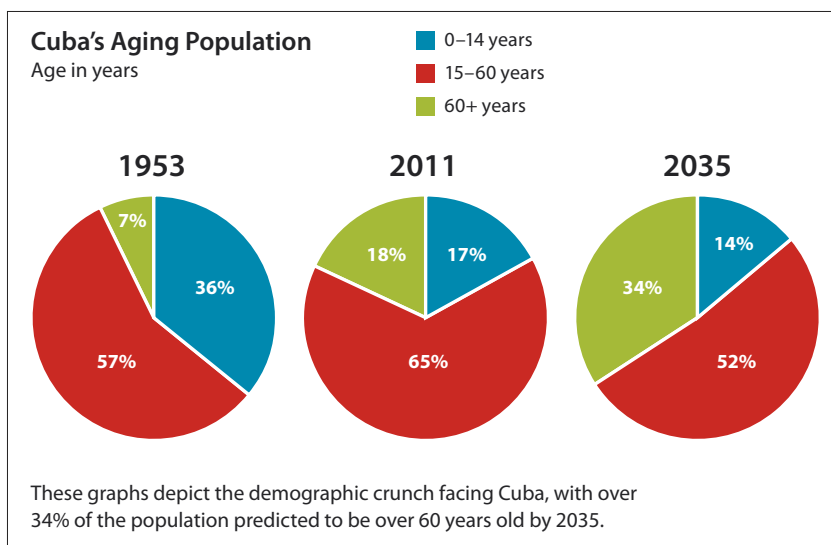
Cuba, cut off from international financial institutions and with a large foreign debt, fell into major debt service trouble in 2009, which forced it to temporarily halt some payments to foreign companies and freeze the bank accounts of foreign businesses on the island. Although, by the middle of 2009, the liquidity crisis was eased and two-thirds of frozen foreign bank accounts were unfrozen, Cuba still had billions of dollars in foreign debt, a social benefit structure it could not afford, and centralized planning rigidities that made productivity gains difficult.

Cubans are leaving the island because they think it will take 20 years for Cuba to straighten out its problems and they don't want to delay their life projects until then.

—A Cuban scholar to CDA delegation²¹

Cuba's demographic crunch only adds to the urgency. Advances in health care that have increased longevity and the number of elderly Cubans, along with emigration spurred by disillusion among the young, have left the country with population conditions similar to those in developed countries. People over 60 years old accounted for over 17% of the population in 2010. As that number could reach 22% by 2020, the state will be ever more burdened with high bills for health care, housing, pensions, and other services for retirees.²² Yet the diminishing percentage of working age citizens poses challenges for increasing production and generating government income to pay for them.

"We have to do it [reform] now because if we wait there won't be anyone left to do it with," joked Omar Everleny Villanueva, an economist and Director of the University of Havana's Center for the Study of the Cuban Economy.²³



Source: Oficina Nacional de Estadísticas de Cuba (www.one.cu)²⁴

Baby Steps

Seven months after his July 26th speech, Raúl Castro became the permanent head of state. From the start, he conveyed both publicly and privately his desire to overhaul the Cuban economic system and deal with its attendant social problems.

Among the first measures he took as president was the removal of restrictions on Cuban citizens owning cell phones, computers, DVD players, microwaves, and other appliances. Cubans now may also utilize facilities previously reserved for foreign tourists such as hotels, resorts, and rental car agencies. These changes were primarily a way to increase personal freedoms for Cubans and a minor stimulant of economic activity, encouraging Cubans to spend more money in stores controlled by the government.²⁵

Demand was high. Cell phone sales surged and Cubans were suddenly making hotel reservations. Though Cuba still significantly lags other developing nations in cell phone ownership,²⁶ by June 2010, two years after the restrictions were removed, 700,000 new cell phone lines had been activated, putting the total number of lines over 1 million. Hotel managers reported

tens of thousands of local Cubans staying in hotels and beach resorts in the summers of 2008 and 2009.²⁷ In July 2010, a hotel chain manager told a CDA delegation that visiting Cuban-American families were bringing their kin on the island to resorts all over Cuba, one result of President Obama's travel reforms.

But the effect of these liberties is uneven. State wages and pensions in Cuba remain extremely low, averaging around \$20 USD a month (not including subsidies for housing and food, etc.). Consequently, many of the newly-available consumer goods remain outside the reach of families without access to hard currency.

The previous restrictions had been established by Fidel Castro as egalitarian measures to ensure that Cubans with access to hard currency were prevented from acquiring or doing things that other Cubans could not afford. Removal of those restrictions by Raúl Castro recognized that inequality exists and will continue to exist in Cuba, but "excessive prohibitions and legal measures... do more harm than good."²⁸

Since he took office, the second President Castro gradually introduced other policy changes that appeared to be a mix of belt-tightening measures and moderate steps toward economic liberalization.

- A new salary system was introduced under which wages in productive sectors of the economy were linked to each individual's contribution.
- Individuals could hold multiple jobs, including full-time students who were previously prohibited from working while enrolled in university programs.
- Financial incentives were provided to attract teachers back into their profession, including pay raises and the ability for retired teachers to continue receiving a pension as well as a salary.
- Restrictions on private taxis were loosened, marking the first time in nine years that new licenses were issued for private cabs.
- State barbershops and beauty salons were turned over to workers under a leasing system whereby they pay the state a set fee for the shop and keep their earnings. Many barbershops and beauty salons already informally functioned in this manner, with employees forced to buy products on their own and charge market prices to make up for their personal investment.

- The age of retirement was raised from 55 to 60 for women and from 60 to 65 for men.

The government also began to reduce and remove items from the *libreta*, the ration card, a near sacred document to every Cuban household. For example, the quantity of coffee provided was reduced and mixed with roasted peas, while potatoes and cigarettes were removed altogether. Items shifted off the ration card were sold in state stores where the government could receive marginal earnings from their sale.

A levy system was put in place for Cuban employees at foreign embassies and companies, allowing the state to capture a share of illegal but previously tolerated cash bonuses from foreign employers. The move signaled the government would allow more salary stratification, while seeking to redistribute some of the earnings through a new tax policy.²⁹

Spending cuts and freezes were also imposed at ministries and state companies. Travel abroad for government officials and state businessmen was reduced by 50 percent. Honeymoon packages and vacation rewards for state employees were eliminated. Workplace cafeterias offering free or subsidized food were closed at most ministries and government workplaces, and workers were instead given a small salary increase and asked to prepare lunch at home or purchase food at state or private cafeterias.

The government announced liberalization of the sale of building materials to citizens, along with the removal of some regulations associated with private construction of new homes. By May of 2011, the *Associated Press* was reporting that more than one-thousand independent shops selling construction materials had opened in Cuba.³⁰

A long-awaited change in foreign investment regulations legalized 99-year land leases for foreign tourist companies to assure potential golf-course and condominium developers in Europe and Canada that investments would be profitable and safe. Four large luxury golf resorts—projects totaling more than \$1.5 billion—were approved. The government's cut of the profits was estimated to be about half. Groundbreaking and construction have yet to be reported.³¹

*[I]n 2011, one Canadian company, Standing Feather International, reported that Cuba's government would allow foreigners and Cuban nationals to purchase property **in perpetuity** at a luxury golf course it is building (emphasis added).³²*

While these steps did not constitute an overhaul of macro-economic or industrial policy, they demonstrated the government's willingness to implement, step by step, concrete actions that represented a transformation in economic thinking.³³ Similarly, each policy change reinforced a sense of rising expectations for more change to follow, adding additional pressure for further reform.

Bigger Steps with Agriculture

Cuba's economic crisis highlighted the nation's need to reduce the costs of imports and address Cuba's chronic failure to grow enough of its own food.

In 2008, Cuba spent \$2.2 billion USD importing food while vast plots of land remained idle or unproductive.³⁴ Cuban government officials told visiting CDA delegations that the country was importing over 80% of its daily food requirements. Increased international prices for food, including such staples as rice and beans, animal feed, and powdered milk forced Cuba to spend hundreds of millions of dollars more on imports in 2008 than 2007.³⁵

After consultations with farmers—from state, private, and cooperative farms—the government took concrete steps aimed at increasing incentives for producing food. The first measures were financial, with the government settling lingering debts to farmers and cooperatives, and honoring farmers' long-standing request to increase prices for many domestically produced foods, including milk, meat and vegetables.

Other policy changes increased access to lands and decentralized the agriculture-related decision-making processes. Agriculture Ministry offices opened throughout the country side.



A tobacco farmer in the eastern province of Pinar del Río

A decree issued in July 2008 initiated a process through which individuals and cooperatives could apply for 10- and 25-year leases to work idle land owned by the state. A year and a half after the decree, 54% of Cuba's 1.7 million hectares of idle land was allocated to private farmers and cooperatives to use for productive activities.³⁶

Supply shops began to open where farmers could buy agricultural supplies such as tools, herbicides, boots, and other equipment with hard currency.³⁷ Previously these items had to be acquired directly from the state, meaning they oftentimes didn't arrive or were delayed.

President Castro called for the equal treatment of private farmers, long neglected by government bureaucrats, and asked for more local input, local planning, and local policy solutions in the agricultural sector.

Farmers in the countryside were granted permission to sell fruits and produce at roadside kiosks. As Cubans and foreign observers know, farmers have long sold food on the sides of rural highways, despite the fact it was illegal, running for cover at the sight of police patrols. The reform brought the practice into the formal economy.

After the implementation of these early reforms, many farmers complained about persistent bureaucratic obstacles in the licensing process. Interestingly and significantly, many of these complaints were aired freely in Cuba's state media. The editorial page of *Granma*, the official newspaper of the Communist Party, was also used to criticize recalcitrant bureaucrats and encourage the process to move forward.

Farmers also complained about a lack of financing. In March 2011, the government announced a proposed policy for providing loans to farmers to purchase farm equipment in newly-established supply stores. Interest rates and contractual terms have yet to be disclosed, but the decision, once fully implemented, should increase farmers' access to credit.³⁸

To date, tangible results have yet to be achieved. Even as policies changed to promote decentralization, distribute land, provide debt settlements and increase prices paid to farmers, production in the farm sector still *decreased* by 2.8% in 2010.³⁹ While 20% of Cuba's workforce tills the land, agriculture only accounts for 4% of GDP.⁴⁰

In a report published in July 2011, the Cuban National Statistics Office said a variety of crops in 2010 (including potatoes, root vegetables, bananas, corn, beans, and fruits) produced yields that were lower than those recorded in 2005.⁴¹ One month later, as Cuba's National Assembly prepared to discuss issues relating to the reforms, the Minister of Agriculture reported that food imports would again grow in 2011.⁴²

Why is agriculture still slumping? According to economists, even though access to productive land improved dramatically, shortages of equipment and technology from the wholesale market, limited access to financing, and state interference in production decisions and pricing have constrained the growth and greater efficiency of agricultural production.⁴³

Accessing suppliers is difficult, and the distribution process remains highly inefficient since it is state-controlled. The supply chain of a typical crop may go through as many as 11 transfers, and the possibility of the crop "going bad" is high, factoring in exposure to inclement weather and "shock" loading and unloading.⁴⁴

Farmers have long criticized problems in the collection and distribution of perishable goods, with tons of food sometimes rotting before being picked

up by state transport. In March 2009, state media announced that Acopio, the vast network responsible for purchasing and distributing 90 percent of farm output, would be transferred from the Agriculture Ministry to the Ministry of Domestic Trade.⁴⁵ Under most conditions, producers are required to sell 70–90% of what they produce to Acopio at fixed prices—which they complain are too low—and can sell the excess goods at market prices at farmers markets.⁴⁶ Aside from the ministerial change, little has been done to reduce Acopio's role or to improve its effectiveness.

All told, agriculture is one area that the government examined as a whole and then began to implement changes to try and address the sector's problems.⁴⁷

Aside from these significant changes, a cohesive plan for reforming the economy was still lacking, and would have to be devised to realize Raúl Castro's economic and social vision.

Personnel is Policy

One of the most dramatic changes made by Raúl Castro took place early in the second year of his presidency when he fired confidants of his brother Fidel Castro.

"For those who still had doubts, these changes demonstrate once and for all that Raúl is the pilot, not co-pilot, of this plane," said Rafael Hernández, editor of Temas magazine, and indicate "the intention to carry out a new economic policy, in other words, reform."⁴⁸

In an official note issued by the Council of State in March 2009, and reported in the state media, Castro announced a major shakeup in his cabinet, merging several ministries and dismissing several of Cuba's best-known leaders. The reorganization involved over a dozen changes in ministerial and vice-ministerial positions. At the same time, several senior members of the armed forces were moved into economics-related civil administrative positions.

Three long-time appointees and members of Fidel Castro's inner-circle

were forced to resign from their high ranking offices. Felipe Pérez Roque, Minister of Foreign Relations, and Economics Minister José Luis Rodríguez, as well as Carlos Lage, Secretary of the Council of Ministers and *de facto* economic czar, were all removed.

Although they had been his appointees, Fidel Castro supported Lage's and Pérez Roque's dismissal writing floridly in state media that the action was related to their "unworthy" ambition. "The sweetness of power for which they had made no sacrifice awoke in them ambitions that led them to an unworthy role. The external enemy was filled with illusions about them."⁴⁹

Pérez Roque was replaced by his deputy, Bruno Rodríguez, and Lage's post as secretary of the Council of Ministers was filled by Major General José Amado Ricardo Guerra. Marino Murillo Jorge, appointed Minister of Economy and Planning, became the public face of Raúl Castro's economic reform program at José Luis Rodríguez' departure.

Cuban economist and dissident Oscar Chepe Espinosa later noted that managers from the armed forces under Raúl Castro had designed reform concepts to improve the system, which had been previously rejected by more conservative sectors of the Party and the government. "The latter officials have now been replaced by those who are more identified with the 'ideology' of the current president."⁵⁰

The next significant change in the new President Castro's trusted lineup came when Francisco Soberón Valdés, head of the Central Bank, stepped down in 2009, marking the removal of a last holdover from his brother's government. While an official statement said that Soberón was replaced by Ernesto Medina at his "own request," in Cuba's financial circles, the shift was attributed to differences over economic policy between Soberón and Raúl Castro's economic advisers.⁵¹

Marino Murillo Jorge, who is credited with increasing control and financial discipline, retained his post as Minister of the Economy. Along with President Castro, he presided over several important economic meetings. In April 2011, Murillo was effectively promoted again as Chair of the Economic Policy Commission (EPC) for the Communist Party Congress. He was one of three new members named to the party's Politburo.

As Chairman of the EPC, Murillo is responsible for implementing reforms

and some now refer to him as a “super minister.”⁵² “He has been put in charge of supervising the implementation of the realization of the Cuban economic model,” a note in the state media read.

Another important member of Raúl Castro’s economic team, Lina Pedraza, became Minister of Finances and Prices following the 2009 cabinet shake-up. Pedraza has taken the lead on reforming the tax structure, and in December 2010 described the tax scale for private businesses to the National Assembly.⁵³ Pedraza also has a reputation for instituting control and discipline in the areas she oversees.⁵⁴ She had served as the Minister of Auditing and Control from 2001–2006 and is a member of the Central Committee of the Communist Party.

In addition to replacing top advisors and ministers appointed by his brother, Raúl Castro has steadily carried out institutional reforms aimed at increasing government efficiency and accountability.

In August 2009, the office of the Controller General of the Republic was established to “bring order, economic discipline, internal control and battle corruption.”⁵⁵ The National Assembly appointed Gladys María Bejerano Portela, previously Minister of Auditing and Control, to head the new department. The office has led investigations resulting in arrests for corruption of several high-profile ministers and businessman, including Rogelio Acevedo, President of the Civil Aviation Institute, and Manuel García, a long-time vice-president of Cuba’s cigar industry.⁵⁶

The Financial Times reported the crackdown has cost “hundreds of senior Cuban Communist party officials, state managers, and employees their jobs and sometimes their freedom.”⁵⁷

These institutional and personnel moves had several objectives: put Raúl Castro’s team firmly in place, streamline the government, deter high-level corruption, and send a message that power grabs and personal ambitions would not be tolerated during the reform period.

High profile shifts at the top of key state institutions helped streamline decision-making. At the implementation level, however, bureaucratic resistance prevented enactment of many proposals. Cuban bureaucrats, powerful throughout the Revolution, oppose reform for reasons ranging from an end to their illegal kickbacks to revolutionary dogma to actual job loss. Policies related to layoffs, tax implementation and land titles have all been held hostage to bureaucratic delays.

Raúl Castro has publicly scolded bureaucrats for resistance to change, which he blames on laziness, corruption, neglect and ideological rigidity.⁵⁸ In an August 2011 speech to the National Assembly, Castro warned that “bureaucratic resistance... will be useless,” and that those resisting laws passed by the state would be held accountable by the law. “Without changing our mentality we won’t be able to make the necessary changes.”⁵⁹

The ongoing corruption crackdown and Castro’s public calls for bureaucrats to embrace change has predicated the reforms’ success on whether Castro and his confidants can win the battle against a powerful bureaucracy.

Calling the First Party Congress in 14 Years

By 2009, Cuba began to recover from its internal financial crisis caused by the hurricanes and global financial crisis. But it still needed to institutionalize and hasten the process of reform.

In September 2010, a plan for massive layoffs of state employees was announced, making it known that some 500,000 government jobs would be eliminated by March 2011. A statement by the Cuban Workers’ Union (CTC) indicated a cooperative spirit: “our state cannot and should not continue maintaining enterprises with inflated payrolls, losses that pull down our economy and make us counterproductive, generate bad habits and distort worker behavior.”⁶⁰ By the end of February, however, virtually no state workers had been fired and President Castro admitted that the layoff schedule was being readjusted.⁶¹

The latter part of 2010 also saw the issuance of new licenses for 178 categories of self-employment, and the announcement that Cuba’s Communist Party Congress would meet in April 2011 for the first time in 14 years.

The decision to hold the long-delayed 6th Congress was accompanied by

the release of a momentous 32-page document, titled “Project of Economic and Social Policy Guidelines for the Party and the Revolution (*Proyecto de Lineamientos de la Política Económica y Social del Partido y la Revolución*)”, broadly outlining proposed changes to the Communist system’s economy.

The draft document included 291 articles “proposing economic policy guidelines,” evaluating “the state of the economy and the problems to resolve, taking into account the principal events and circumstance, both external and internal, since the last Congress [in 1997].”⁶² It served as the focus for a debate conducted at thousands of meetings around the country called to analyze the proposed “modifications” to the Cuban economic model.

According to government figures, more than eight million of Cuba’s 11.2 million citizens discussed the Guidelines in the months leading up to the Congress,⁶³ expressing popular support for reforms such as the right to buy and sell homes, while voicing criticisms and concerns over the loss of subsidized groceries and household items, low wages and high costs of living, the need to unify Cuba’s two currencies, and deteriorating health and education services.

Granma, the Communist Party’s official newspaper, reported that the meetings resulted in “619,387 proposals for deletions, additions and modifications, and expressions of doubts and concerns” regarding the draft Guidelines.⁶⁴

At the same time, in alternative debates that have become increasingly common on the island, various representatives of Cuban civil society and academia circulated their opinions through web sites, blogs, and especially e-mail lists, which reach a growing audience.⁶⁵

As President Castro prepared to attack the bureaucratic obstacles to change and carry out economic reforms unpopular with both ideological elites and leftist academics, Cubans agreed that he used the debates to build support for his reform plan.

One doctor who participated in several debates said, “Raúl is a smart man. Many of the things included in the measures he has taken so far or he is proposing come from the debates that opened up following his 2007 speech in Camagüey. This is going to be a painful process, and he needs to get as much of the public on board as possible. What better way to do so than to include them in the process?”⁶⁶

From the government's perspective, the debate was effective. Foreign Minister Bruno Rodríguez told a CDA delegation in March 2011 that there "has never been a process so thorough and well-rounded that included so many members of the population, as well as an exhaustive effort by the government to take their feedback into account."

Rodríguez said he was proud of the democratic nature of the process, with two economists present at each major meeting to explain proposals in more detail and a vote on each issue. Noting that elimination of the ration card is by far the most controversial issue, he said there also were strong advocates for and opponents of other measures.

Minister Rodríguez also candidly described divisions over the economic planning document within various factions of Cuban society. Traditional believers in the Revolution complained about the "neoliberal" nature of the Guidelines—a rap on the U.S.-led economic orthodoxy of the 1980s and 1990s—and their similarity (minus the widespread privatization of state assets) to IMF shock therapy.⁶⁷ Many critics dismissed the debate as a façade and some economists who advocate a more free-market approach say the changes don't go far enough.

According to Rodríguez, the varying views showed the difficulty of the job the government has ahead of it, but he believes internal consensus-building is possible. "We have public opinion. We have political balances," he said. "People have concerns, and we are tasked with the duty of building consensus."

Based on feedback from the population, the Guidelines were modified before the Party Congress convened, special committees then discussed and debated them, and proposed further amendments.

The Party Congress Acts

The 6th Party Congress began on Saturday April 16th, and coincided with celebrations commemorating the 50th anniversary of the Bay of Pigs battle in 1961, when Cuban forces and militia repelled a U.S.-backed invasion of the island by Cuban exiles.

It was the first time since the Cuban Communist Party was created in 1965 that Fidel Castro was not in the leadership. Nevertheless, there was little vitality in the make-up of the ruling Politburo. Twelve of fifteen Politburo

members kept their posts, and the two top Party offices below Raúl Castro were filled by 80-year old José Ramón Machado Ventura, the first vice president of the Council of State, and 79-year old Ramiro Valdés Menéndez, a vice president who also serves as Minister of Information. Both had been Fidel's *comandantes* during the Revolution.

President Raúl Castro's opening speech at the Party Congress outlined the proposed economic changes, announced that over 180,000 new licenses had been granted to individual Cubans to run their own businesses (a figure that grows weekly), and called for term limits for top government officials.

In a repudiation of his brother's earlier branding of entrepreneurs as "parasites," he reiterated that increased self-employment has become "an active element facilitating the construction of socialism in Cuba," and that the growth of the private economy should enlist the "support, assistance and protection of officials at all levels." The president added that the change "will allow the state to focus on raising the efficiency of the basic means of production...while relieving itself from the management of activities that are not strategic for the country."

Delegates to the Congress approved the Guidelines with modifications suggested during the months-long popular debate process. Significantly, the Party approved a transformative reform that will allow the purchase and sale of homes (also cars and some property), a significant change from the current system where Cubans are only allowed to swap housing.

The real estate reform has broad social and economic significance. By making it easier for Cubans to remodel, rehabilitate, and rent housing, the government will create jobs and demand for such services from the private market, while also satisfying the public's demand for increased housing. The ability of Cubans to buy and sell their homes will also offer them new opportunities for capital formation.

President Castro did, however, warn that *accumulation* of private property would not be allowed, perhaps to address concerns that this reform could intensify inequalities in a society where home values vary widely, many Cubans do not own homes at all, and capital from Cubans abroad will likely arrive to buy up attractive properties.

The resolution adopted by the Party Congress also contained steps to

implement the reforms and overcome bureaucratic resistance. A “Permanent Commission for Implementation and Development” was charged with the responsibility of “controlling, verifying and coordinating the actions of all of those involved in this undertaking, proposing the incorporation of new Guidelines and leading, in coordination with appropriate parties, the administration of the process.”

The resolution requests that “the National Assembly, the government and corresponding bodies write and approve the judicial norms that will support the adopted functional, structural and economic modifications.” It also gives the Communist Party the responsibility of controlling, driving, and demanding that the process of modernizing the economic structure move forward. The full Central Committee is charged with meeting at least two times per year to analyze the process and monitor the progress.

The adopted Guidelines mark a dramatic shift away from the collectivism that essentially guided the Cuban economy since the Revolution in 1959 toward a mixed economy where individual incentives are more prominent.⁶⁸ They outline a strategy of continued reduction of state subsidies and encourage development and implementation of new tax systems to finance social services and pensions.

There’s also a clear push away from excessive government interference in the lives of citizens. “If someone wants to buy a car, why should the government intervene?” questioned one of Cuba’s academic economists. “Stuff like that has to go.”⁶⁹

Predictably, in some areas, the Guidelines and government intentions are extremely vague or undeveloped, making it difficult to predict how fast and far the government is willing to go in reforming the economy. The proposed changes lack timetables and clear action steps of how they will be executed, and goals are not prioritized.

“The questions put to the PCC [Communist Party] concerned the speed, methods, sequence, scope and progression of the reforms,” writes Arturo López-Levy, a Cuban political scientist at the University of Denver. “The report lacks clear answers.”⁷⁰ Dr. Archibald Ritter aptly notes, the document remains “a ‘check-list’ of good intentions.”⁷¹

In Cuba, under socialism, there will never be space for “shock therapies” that go against the neediest, who have traditionally been the staunchest supporters of the Revolution.

—Address by President Raúl Castro⁷²

The reform process is being carried out incrementally—haltingly, some argue—to avoid instability and will include some trial and error to determine how far and how fast the reforms should go. According to President Castro, “the plan of economic adjustments should not be applied hurriedly or in an improvised manner because the possibility of mistakes in its implementation constitutes the ‘biggest threat’ to the Revolution.”⁷³ This effort to determine what works economically is a sharp departure from past reforms, which were rooted in ideology and politics.

Castro concluded by saying a National Party Conference will be held in January 2012 to give greater clarity and force to the reforms agreed upon by the Congress, and address additional political issues related to the Party, such as further high-level personnel shifts.

The U.S. Embargo

No discussion of Cuba's history or economic policy is complete without a greater reference to the U.S. embargo—what Cubans call “the blockade”—and which has existed in varying forms since 1959. To this day, U.S. sanctions against Cuba are the most restrictive our government imposes against any nation on Earth.⁷⁴

With a few exceptions (limited legal travel, some agriculture sales, and highly regulated medical trade) U.S. citizens and corporations are forbidden by the embargo from buying or selling in the Cuban market. Travel to Cuba by Americans is restricted and highly regulated. The embargo limits Cuba's trade with third countries through the extra-territorial reach of sanctions, raises Cuba's trading and financing costs, and excludes Cuba from participating with

international financial institutions. U.S. content restrictions also constrain Cuba from access to technological goods. Adding insult to these injuries, U.S. immigration policy siphons off some of Cuba's most promising thinkers by incentivizing emigration.

What happened in the 1990s should be a powerful lesson for the policy makers of today: As analysts have previously noted, when external demand from the Soviet bloc collapsed, Cuba would have found new and expanding markets in its natural trading partner, the United States, thus speeding its recovery and placing bilateral relations on a much more favorable trajectory had the U.S. embargo not been in place.

Instead of taking advantage of Cuba's economic openings, the U.S. Congress, during the first Bush and Clinton administrations, toughened sanctions against Cuba and tried to extend them internationally by enacting the Cuban Democracy Act and the Helms-Burton Cuban Liberty and Democratic Solidarity Act.⁷⁵

Later, President George W. Bush tightened sanctions further by imposing painful restrictions on Cuban Americans who wished to travel to Cuba and restrained their ability to provide financial support for their families on the island. Bush also eliminated or restricted certain non-tourist travel—including academic programs, cultural exchanges, and people-to-people travel—that offered useful contacts with Cubans and increased their access to information from the United States.

President Bush then erected significant barriers to the legal sale of U.S. agriculture products to Cuba, which have cost U.S. producers hundreds of millions of dollars in sales annually, further increased Cuba's import bill, and encouraged Cuba to turn to other foreign suppliers of food leading to long-term supply relationships at the expense of farmers and workers in the U.S.

In addition, President Bush took other steps to distance the two governments. He cancelled U.S.-Cuba migration talks that existed since 1994 and which afforded the two governments a venue for diplomatic contacts. Before the 2004 election, he empanelled the anti-Castro U.S. Commission for Assistance to a Free Cuba (CAFC), whose plans for dismantling Cuba's successful health care and education systems were widely viewed as an

assault on Cuba's sovereignty and sop to the president's Cuban American constituency in Florida.

Based on recommendations from the CAFC, President Bush exponentially increased "democracy funds" aimed at supporting efforts on and off the island to hasten the end of the Castro leadership. The Cuba Democracy Program, run primarily through USAID, exemplifies U.S. policy over the last five decades and its effect on domestic politics in Cuba.

Under authority granted by the Helms-Burton Act, the U.S. government has spent more than \$150 million on anti-regime activities in Cuba, including support for Cuban dissidents, through USAID. Investigations by Congress and the U.S. Government Accountability Office document widespread waste, fraud, and abuse in these programs.⁷⁶

Cubans who receive funds or support are subject to great risk, as are American employees of the program, sadly demonstrated by the case of imprisoned U.S. subcontractor, Alan Gross.

Aside from being wasteful, ineffective and dangerous to those involved in it, the USAID program actually heightens tensions and limits space for debate. It allows the Cuban government to label dissident thinkers as "employees" and "pawns" of the U.S. government, and increases fear among mainstream economists, politicians and everyday citizens who advocate positions similar to those of activists associated with the U.S. Interests Section or otherwise funded by Washington.

The Obama Administration

Against this backdrop, the U.S. government has been decidedly ambivalent about Cuba's economic reforms.

In 2009, President Barack Obama rolled back the strict Bush-era controls on Cuban Americans wishing to visit family on the island or send remittances to them. As a result, the number of Cuban Americans visiting Cuba grew astronomically and in 2010 made the U.S. the island's second greatest source of visitors after Canada with 450,000 travelers. The growing number of family visits is matched by the continuous and, by some estimates, increasing flow of remittances sent from the United States to Cuba. Both signal the growing role that Cubans abroad are playing in the Cuba of today and the future.

In January 2011, President Obama went further and issued new directives under the rubric “Reaching Out to the Cuban People.” These measures, as the Congressional Research Service reported, make it easier for Americans of all backgrounds to “engage in educational, religious, and other types of people-to-people travel and allow all Americans to send remittances to Cuba.”⁷⁷ *Any* American can now send up to \$500 per quarter to an unlimited number of qualified Cubans. Additionally, the new rules enable airports across the U.S. to serve the Cuban market—anticipating a greater number of travelers and breaking Miami’s near monopoly on travel service to the island.

Allowing a dozen new airports—from Tampa, Florida to Oakland, California—to offer flights to Cuba invests more U.S. citizens, more U.S. businesses, and ultimately, more U.S. legislators in a reformed U.S. policy.⁷⁸

President Obama’s decisions to liberalize restrictions on travel and remittances have unlocked access to human contact and capital at an especially important moment when Cubans need both for the difficult days that are likely to accompany the reforms. Cuban Americans now account for hundreds of thousands of visits to the island annually and contribute well in excess of one billion dollars per year to their families’ well-being.

With the growing role of the diaspora, the Cubans who live abroad and are playing a fundamental role in providing capital and support for relatives on the island, the politics of the Cuban American community will continue to change from favoring policies designed to hasten Cuba’s economic collapse to betting on the ability of economic reform to improve the opportunities and rights of all Cuban nationals.

Unfortunately, along with several laudable policy changes, President Obama continues to enforce harsh aspects of the embargo with surprising vigor. He has kept Cuba on the list of State Sponsors of Terrorism (a designation made by President Reagan and before U.S. foreign policy was forced to confront rogue states that back violent extremism). The inaccurate terrorist description imposes sanctions that penalize Cuba economically. The president also renewed Cuba’s status under the Trading with the Enemies Act, the statutory foundation of U.S. sanctions and, despite its grave problems, maintained the USAID Democracy Program intact.

Further, the administration has been especially active in penalizing multinational financial institutions for facilitating transactions with Cuba, enforcement activities that have a chilling effect on Cuba's commerce and which damage U.S. trade relations with our allies.

While some U.S. officials call the economic changes occurring in Cuba "positive," they criticize them for not being as far reaching or going as fast as is necessary. In a comment that fails to acknowledge the fundamental shifts that have already taken place, one U.S. diplomat at the U.S. Interests Section in Havana told us, "they're trying to address issues of efficiency and productivity, and they may see small advances, but they far fall short of what needs to be done."

In late 2010, just when the Cuban government took some of its most instrumental steps toward reforming its economy and releasing political prisoners, President Obama indicated the actions were not yet sufficient to warrant a response from Washington.

"I think that any release of political prisoners, any economic liberalization that takes place in Cuba is positive, positive for Cuban people, but we've not yet seen the full results of these promises," Obama told Hispanic media at the White House.⁷⁹

Similarly, on May 12, 2011, in an interview broadcast by WLTV, the president said, "I would welcome real change from the Cuban government... For us to have the kind of normal relations we have with other countries, *we've got to see significant changes from the Cuban government and we just have not seen that yet.*"⁸⁰

Despite the evidence of change in Cuba, the resolute, public position of the U.S. government remains pro-embargo and deeply skeptical of whether the reform process is real.

Section Two: How the Economy is Changing for Everyday Cubans

Cuban leaders hope these reforms will remake its economy and ‘keep Cuba Cuba’ for the next generation. While it will take some time to know whether this experiment will succeed, reforms are already altering how Cubans experience life in an economy which had been controlled by the state for decades. The model—in fact and in perception—is changing in ways that will be extremely difficult to reverse.

The Promise of Permanent State Employment is Over

Reforms envision about one-fifth of Cuba’s state payroll—more than a million workers—being laid off.

The government hopes to move redundant state workers into areas of the economy where more labor is needed—such as construction—or have them look for work in non-state sectors of the economy, which ideally will continue to grow. Simultaneously, it plans to use budget savings to increase salaries for the remaining workers as a way to stimulate increased productivity and incentivize better work habits.

Marino Murillo Jorge, Castro’s point person on the reform process, has said the elimination of inflated payrolls and excessive subsidies in the state sector should fund salary increases in the near future.⁸¹

But Raúl Castro’s plan to massively reduce the state labor force caused great apprehension amongst the population and the layoff plan was halted

before it ever really got fully underway. Archibald Ritter said the plan, as originally conceived, was perceived as “shock therapy.”⁸²

The first layoffs began in mid-October, 2010 at Havana’s state-run hospitals and hotels. It was later announced that the government-run security guard agency SEPSA would be completely dissolved.

At the Habana Libre Hotel, Communist Party officials reportedly had to be brought in “to calm workers down.” Similar anger erupted at a Havana hospital and at SEPSA, foreign news agencies reported. Many of the laid-off workers complained the process was unjust, and some even said they would file legal claims. Official numbers were not disclosed, but by February 2011 it appeared that only a fraction of the planned layoffs had taken place.⁸³

In early March 2011, President Castro, addressing a joint meeting of his cabinet and the Council of State, admitted the lay-offs were occurring much slower than originally planned, but did not offer a new target date.

Disgruntlement and the warnings that the layoffs could lead to instability likely have played a role in the delay, along with bureaucratic obstacles and capacity issues. “A job of this magnitude which will affect so many citizens in one way or another cannot be marked by inflexible timetables,” President Castro said.⁸⁴

At the 6th Party Congress, Castro said the restructuring of the workforce is “an ongoing process” that will “continue slowly but uninterruptedly, its pace determined by our capacity to create the necessary conditions for its full implementation.”⁸⁵

The layoffs speak to the core objectives of the reforms: reduction of excessive employment in non-productive sectors, slashing subsidies for unproductive state companies, and stimulating employment in more vital areas of the economy.

But, in a socialist republic, laying off workers, while also reducing other benefits of a paternalistic state, is a highly sensitive process. “There are dual components of learning, both by the applicants of the process, the government, and by the participants, the general population,” said one economist knowledgeable about the government’s approach to the issue.⁸⁶

As for the interruption in the dismissals he concluded: “The layoff process simply wasn’t working. The government is discussing how to adjust it and it will start over. It has to be done.”

Cubans Have to Work

Several measures from the Guidelines indicate the government looks for salary adjustments to link pay to productivity. Guideline 156: “Assure that salaries guarantee that each [worker] receives according to their work...and that salaries are sufficient to satisfy the basic needs of workers and their families.”

What the government is saying is “tú tienes que trabajar (you have to work)!”

— Cuban economist Omar Everleny Villanueva⁸⁷

Reducing payrolls and decreasing government spending on social benefits will undoubtedly free up some cash for modest salary increases, however, industrial output and agricultural production will have to significantly expand to produce substantial increases in workers’ paychecks. The government acknowledges that some workers don’t work because they don’t get paid sufficiently, and don’t get paid because production is limited. Now that reality needs to be confronted.

Fidel Castro tried to eliminate inequality and promote egalitarianism. His brother and successor has made it clear he cannot avoid income stratification of wage earners and is trying to work with it rather than fight it. “These are not tactical decisions, these are structural changes,” said one expert on the Cuban economy.⁸⁸

Cubans Are Encouraged to Start Small Businesses

The Cuban government no longer sees self-employment as a necessary evil, but as a desired dimension of the new economy. An article in *Granma* described the new policy changes: “offering workers another option to feel useful with their personal effort, and to move away [from] the conceptions that condemned self-employment almost to extinction and stigmatized those who decided to take part in it, legally, in the nineties.”⁸⁹

Cubans are entrepreneurial. Virtually every Cuban family depends on grey market activities to make ends meet. In a grey market, there are no

rules but, for this reform to work, Cuba needs to create sensible regulations for business formation, stable systems of taxation and credit, and supports for business owners with no operating experience to find their way in the emerging private sector. This is a key element of the reform program but clearly a work in progress.

President Castro characterized the move to promote private sector employment as “one of the decisions the country is taking in order to increase levels of production and efficiency.” By May 2011, the policy was extended so that a new business could hire additional employees (contracting was previously limited to members of the owners’ household or family).⁹⁰

The government also said it would issue licenses in activities where new licenses haven’t been approved for businesses in years, including food vendors, flower sales, massage therapists, sports trainers, and wine makers. Licenses for seven additional activities were also created, including accountants, tutors, and kiosk vendors of fruit and vegetables.

Paladares, previously allowed a maximum of 12 seats, were allowed 20 under the new rules, a figure that later climbed to 50. (Since their inception in the 1990s, a good number of *paladares* had ignored the limit of twelve customers at a time, including those patronized by government officials.)

According to government figures, the push to expand the scope of self-employment and entrepreneurship has brought the number of *cuentapropistas* in Cuba to well over 330,000.⁹¹ A whopping 68% of the new private-sector business owners had no previous formal employment, suggesting that many entrepreneurs simply legalized their previous grey market activities. Approximately 32% of the licenses were awarded in Havana, home to 2.1 million of Cuba’s 11.2 million people, where there is a substantial market for services and goods.

The licensed occupations are chiefly in services. Over 20% of the licenses granted have been for the “preparation and sale of food,” and another 15% of the licenses granted are for contracting employees, in particular for restaurant owners seeking to hire cooks or servers. Permits to transport passengers and goods also accounted for about 6%.

Economic success in the self-employment sector will depend on the creation of a wholesale market, access to credit and room for growth, as well as

steady demand. The government has acknowledged the importance of credit and a wholesale market, but has yet to take concrete steps to address these deficiencies. According to *Granma*, Cuban banks are analyzing ways to offer credit to potential new business owners and the government has set a goal of creating a market where small businesses can buy goods at lower prices.

Although details were lacking for the program—there was no timeline and no details on the quantity or volume of loans, and interest rates and payment schedules were not addressed—an avenue for private businesses to borrow operating capital was approved at a special meeting of the Council of Ministers on March 25th, 2011. The meeting also approved a new policy “allowing *cuentapropistas* to sell products and services to state institutions.”⁹² These are important steps, although it’s still unclear how the measures will be implemented.

A restructured tax system was also introduced. Based on the concept that “those who earn the most will contribute the most,” taxes were set at very high rates for many of the authorized activities. In some cases, base taxes combined with taxes on gross revenues can result in an effective tax rate exceeding 100%. For example, owners of bed and breakfast *casas particulares*, pay a set fee each month regardless of whether they receive guests or not.

Some economists hoped the abrupt introduction into the world of taxes for many Cubans would have been more gradual. “It’s too bad the system didn’t establish a grace period,” said economist Rafael Betancourt.⁹³

The government has indicated that the tax regime will continue to be analyzed and adjusted. In 2011, it exempted the elderly from Social Security taxes.⁹⁴ In May, the *Associated Press* reported that Cuba instituted “a moratorium on payroll taxes for small business owners” and loosened the limits on private restaurants.⁹⁵ To further spur growth, the government will allow small business owners a tax exemption for “fees accrued... for the first five workers hired between July 2011 and December 2011.”⁹⁶

Ricardo Alarcón, President of the National Assembly, hinted in April that more stratification-related exceptions will be made, acknowledging that it’s “not the same for a person in [upscale] Vedado to be able to let a room in his apartment or house as it is [for someone] in Zapata Swamp. So, if they both have to pay the same taxes, you’re discouraging the possibility of economic

activity in a place because of the huge differences that exist.”⁹⁷

Taxes are a delicate issue within the Communist Party. Conservative party members demand maximum wealth distribution and measures to avoid inequality, whereas moderates are more inclined to listen to economists and *cuentapropistas* who argue excessive taxes will stymie growth in the non-state sector. With several adjustments made thus far, it appears Raúl Castro’s government is searching for the middle ground on the issue.

Cuban reform economists know that expanding self-employment alone will not greatly improve the economy or afford every Cuban the chance to start his own business. The changes will, however, stimulate increased economic activity, bring some grey market activities into legal channels, increase business tax revenue, absorb workers laid off by the state and encourage remittances and goods from Cubans abroad. The reforms in self-employment will also help develop Cuba’s service sector and improve distribution channels making it easier for individuals and households to procure goods and services.⁹⁸

Cubans Will Be Allowed to Own and Sell Their Homes

Cuba suffers from a chronic housing shortage. Much of its housing stock is dilapidated and growing families crowd together in ancestral homes. Homes are officially owned by the state and occupants mostly stay where they are. Currently, Cubans are only allowed to swap housing through a complicated, informal system that often involves under the table financial inducements. The system is inefficient and prevents mobility. The lack of available housing and personal privacy is a barrier to family formation and is a factor goading young Cubans to leave the island altogether.

The creation of an efficient housing market could have a substantial effect on the economy. Some observers expected Cuba’s National Assembly to finalize the rules on property sales when it met in early August 2011. It did not do so and the changes to allow buying and selling are now not expected until the end of this year.

The expected legalization promises to provide thousands of Cubans with equity, by turning their houses into capital assets to use as collateral, convert to cash, or improve and hold as an investment.⁹⁹ A freer market will increase

mobility. A more ready exchange of property will increase the demand for renovations and create both jobs and more efficient living conditions. Finally, this reform will increase the influx of investment capital already taking place by Cuban Americans and others, so that they too can become a part of this new housing market.

Ilda, 69, lives alone in a five-bedroom, ninth-floor apartment with views of the sea. A visiting Cuban-American couple —“chic, very well dressed,” she said—asked to buy her apartment for \$150,000, with little care for any bans on foreign ownership.¹⁰⁰

Problems and Unanswered Questions

The Guidelines and measures thus far, while dramatic compared to decades of inertia, do not address a fundamental shortcoming of the Cuban economy: its inability to produce goods to consume at home and export abroad.

While long-standing investments in human development have led to a booming service sector, and reforms made in the 1990s led to a profitable tourism sector, neither the industrial nor agricultural sectors have recovered to pre-1989 levels. Cuba’s production lags behind that of many of its Caribbean neighbors.

The country is unable to generate wealth by expanding or creating new goods-producing industries due to low investment in manufacturing and agriculture, distorted pricing, low wages and high production costs.

Its poor export performance and chronic deficits in merchandise trade have produced poor savings and investment rates, leading to de-capitalization of productive sectors, and compounding Cuba’s inability to attract significant investment from abroad to offset its large external debt.

Economists contend that Cuba needs to develop policies to attract increased foreign investment in productive sectors and adjust domestic investment schemes so that more funds are directed toward farms and factories.

Productive sectors of the economy will become more competitive and efficient only if state-owned enterprises are given greater autonomy in labor and pricing policies, and forced to go under when unprofitable.

The government has acknowledged the challenge of reigniting productive sectors of the economy to some degree in the Guidelines, but has yet to introduce concrete policy solutions to get this underway.

Although the Guidelines call for increased investment in productive sectors and participation of foreign capital, they do not outline clear policy steps to make those goals reality. Current Cuban law allows for foreign investment in nearly any sector of the economy and the document calls for seeking increased investment in the sugar industry and developing special economic zones. However, aside from development of golf courses and accompanying villas, and large infrastructure projects, no significant new joint-venture projects have yet been announced.

The Guidelines also fail to confront the issue of dual currency. Guideline 55 identifies a plan to “advance toward monetary unification” but admits “its complexity...will demand a rigorous preparation and execution on both the objective and subjective planes.” Arbitrary fixed exchange rates and distorted internal pricing greatly mask the true costs of production and realities of supply and demand, but there remains no timetable or blueprint for a single currency system to transact general market exchanges or government and business banking.

The Party has had difficulty giving up control. In April, the Congress appeared to backtrack on reducing the state’s economic role, specifically in setting prices. The original proposed guideline document stated that in the agricultural sector, “prices of the majority of products will be determined by supply and demand and, as a norm, will not be subsidized.” However, the final document was modified to say that the state will “maintain its regulatory role in setting prices” for food that Acopio, the state distribution company, purchases from farmers and distributes to state stores and requires that a “centralized character of policy decision making and the degree of planning of the prices of products and services... will be maintained.”¹⁰¹

“This is a radical change back to government controls,” worried Cuban-American economist Carlos Mesa-Lago, regarded as one of the top experts on the Cuban economy¹⁰²

Another section of the Guidelines on cooperatives suggests community enterprises will have an expanded role in the economy beyond the agricultural sector, currently their primary sector of operation. But as with other complicated changes, details are lacking on exactly how this will come to pass, beyond advocating “new organizational forms in the construction sector, such as cooperatives...”

Overall, the reforms put contrasting pressures on the government to reduce expenses—by slashing payrolls, benefits, and subsidies—as it also tries to protect its social contract with the Cuban people. Economies in transition undergoing significant reforms create more vulnerable people at the bottom. It is unclear how the poorest Cubans will cope with life in this new economy with cash so short for cushioning the blows yet to come. Many Cubans are unsettled by the *ad hoc* nature of the process.

As several commentators have noted, the approved Guidelines and official discourse about them are largely aspirational. Reforms are being carried out but without a formal plan for what will happen, in what sequence, or reflecting which priorities.

Section Three: Listening to the Cuban People

Underneath Cuba's monolithic image as a one-party state is a much more complicated reality.

Fidel Castro no longer commands public opinion, and his successor has a very different style of leadership. President Raúl Castro, by working to cultivate a debate in Cuba about the reforms, appears to be trying to bring along the general public and counterbalance resistance to change in the bureaucracy and among orthodox economic socialists.

In his infrequent public statements, Raúl Castro tries to explain the reforms and, along with other members of the leadership, asks the public to be patient, to work hard, and to accept Cuba's new economic realities.

The debate about reforms takes place in both formal and informal venues—e.g. in the workplace or letters to the editor in Granma, the state newspaper, as well as in Cuba's streets, stores, and homes.

During several trips to Cuba, CDA interviewed a cross section of Cubans—government officials, working people, new entrepreneurs, vulnerable citizens, disaffected youth, economists, and activists of varying political stripe—to assess the reform debate and determine how Cubans were reacting to the economic changes taking place.

Skeptics from the Beginning

According to many who were present at formal discussions on the proposed

Guidelines, one major obstacle to carrying out inclusive, meaningful debates with true participation is the fact that speaking openly, freely and candidly is still rare in a country where dissident thinkers have suffered consequences.

“We had a great leader in Fidel Castro who made decisions unilaterally—most times the correct decisions, but not always. We were able to opine, show emotions, etc., but there certainly was not any group decision-making process at the top or at the base of government,” said one retired engineer who spoke to CDA. “We don’t really have a culture of debate and building consensus from the bottom. It’s what Raúl wants, but you can’t just turn the switch on and change people overnight.”

Along the same lines, many Cubans complained that the discussions about the Guidelines often turned into “venting sessions” rather than useful analytic debates. “There are so many daily struggles, weird illegalities and complex difficulties within the Cuban system that people have forgotten how to propose solutions, and instead choose to simply complain,” said an academic familiar with the meetings.

Some critics, especially on the left, felt the major decisions about the economic and social reforms had already been made prior to the discussions and the debates could not really produce major alterations to the plan. “I’m glad they invited everyone in to ‘chat,’ but this stuff is already decided,” said another academic.

An administrator at a state company in Havana said she attended meetings at her workplace and in her neighborhood. At the office meeting, the government officials present were open to hearing opinions and helped stimulate a thorough dialogue of the proposed changes. People really engaged in the process. She said the opposite was true at the neighborhood meeting. “Apparently the official was still operating under the old mindset of ‘this is already decided, so let’s get through this and get home.’”

Beyond the debate process, individuals present at the public discussions agree that the most controversial elements of the reform plan by far are the elimination of items on the ration card, and reduced purchasing power, related to lost salaries and higher prices. Although Cubans have complained for years about the quality of goods provided by the ration card and constantly joke about how the goods it buys are insufficient for

survival, they are unhappy about giving it up, especially in light of the looming mass layoffs.

Support Among the New Entrepreneurs

The most visible change in Cuba these days, easily noticeable on a stroll down any major avenue in Havana or on a visit to town centers in Pinar del Río, Trinidad or Camagüey, is the presence of newly-established private businesses.

It's much better than working for the State. You're your own boss and if you work hard your salary is higher.

—Gloria, a cupcake vendor, told CDA

The blocks surrounding Carlos Tercero Mall, Havana's largest shopping mall, are filled with vendors selling food, music CDs, movie DVDs, clothes, shoes, religious artifacts and items used for daily activities, such as lighters, pens, toothbrushes, calculators and umbrellas, which might otherwise be sold in state-owned stores. Twenty-third street in Vedado, known as "La Rampa," is lined with newly-opened *paladares* and food-carts offering popcorn and sweets.



CDA interviews a *cuentapropista* in front of Carlos Tercero Mall in Havana.

In interviews with dozens of street vendors, employees at cafeterias and private taxi drivers, the majority of the people we met with newly-acquired licenses for private enterprise were people who previously worked in the grey market, had been unemployed (retired and receiving pensions, students or house wives), or who continue to work for the state and now *also* work in the private sector.

One significant change we observed, comparing visits in December 2010 to March 2011, was in opinions about whether self-employment and private sector employment were “here to stay.”

In December, at the top of the list of concerns was whether the changes were permanent. “We’ve been through this before. The government is strapped for cash and allows the private sector to operate only to cut it back when they feel like it,” said one taxi driver on the state payroll. His opinion was echoed, often as the primary concern, by others contemplating whether to take a chance on engaging in some sort of self-employment business. By March, this suspicion about the government’s intentions was not mentioned when the newly self-employed were asked about the changes.

We need a lot more places like this. The private business pays a lot more attention to detail and is a lot more careful than the state. This is good for society and, in a few years, the economy will really take off.

—Juan Formell of Los Van Van, a popular Cuban music group¹⁰³

The changes also show that a market for many goods has long existed in Cuba, and Cubans understand, or are quickly learning about, aspects of the market such as the importance of location, quality, and service.

For example, alongside Coppelia, Havana’s famous ice cream store, the streets are lined with vendors selling cookies and other sweets to go along with ice cream. Vendors of sandwiches and other snacks have strategically set up shop outside government ministries and other workplaces where workers no longer receive state-provided lunches.

One customer buying a few caramel and peanut dessert bars to take home to her children told the salesman: “If they like them, I’ll be back tomorrow to buy four more.”

A vendor selling playing cards, pens, toothbrushes, and other small items told CDA, “Competition is good. I think the most important thing in the service sector is that there are quality and good deals being offered. Both of those things are a result of competition.”

“If you offer good service and quality items people will come back,” said the owner of a new cafeteria offering pizzas, spaghetti and refreshments, who has nevertheless retained his job working for a government ministry. His brother runs the cafeteria while he’s working for the state.

One positive sign is that the majority of the new businesses serve the Cuban clientele. Although some of the higher-end *paladares* primarily cater to tourists, less expensive new *paladares* are frequented by Cubans as well. Many small businesses selling food, CDs and DVDs, school supplies, and religious artifacts are clearly targeted at Cubans, as are service providers, such as plumbers and jewelry repairmen.

For some, business is booming. Roberto, an 84-year-old retiree, sold dozens of caramel and peanut dessert bars in a 15-minute span. Business was so good he said he had also gotten licenses for his wife, daughter, and niece so that they could sell at different locations. He said he had no problem finding sugar, honey, peanuts and other ingredients needed and the 150 pesos per month in taxes was not hurting his business. He also pays 251 pesos every three months plus 10 percent of his total sales for Social Security. He said the licensing process only took ten minutes and he can now sell his product anywhere he wants throughout Havana.

Roberto didn’t associate the expansion of private enterprise with the dismantling of Cuban socialism. But after explaining his new business and the tax scheme, he criticized the U.S. blockade, the imprisonment of the Cuban Five, and the defects of world capitalism.

Gloria, who was selling cupcakes along La Rampa in Vedado, said she was previously unemployed and received a stipend as a housewife prior to starting her new business. Along with the cupcakes she sells at three pesos, Gloria sells bags of popcorn for five pesos. While she makes the cupcakes

herself, she buys the popcorn for three pesos from a large distributor who has a license to sell to people like her, who then resell it at a price two to three pesos higher. She said only time would tell if she could survive, but over the first few months she was making enough to get by. "It's much better than working for the state. You're your own boss and if you work hard your salary is higher," she added.

Javier Martínez, the manager of Habáname, a new *paladar* in Vedado, said he's been pleased with the licensing process and his business so far. The *paladar* (named after a hit song by celebrated Cuban singer-songwriter Carlos Varela) opened in January and has done relatively well so far. He pays a set tax of 1,200 Cuban pesos a month, as well as a 10% tax on all sales. The private restaurant accommodates the new maximum 50 seats and offers a variety of imported and domestic wines, tropical cocktails, and signature Cuban dishes. The price of entrees runs the equivalent of \$8–\$20 U.S. dollars.

Martínez currently has six employees, each working three to five days a week and receiving a set salary between 600–700 Cuban pesos, double what they would earn working for the state. They also earn tips, which further elevate their income. The investment for the artwork on the walls, solid iron tables, wood-crafted bar and water fountains that line the front patio came from his cousin who lives in Costa Rica. "In time we'll see how things go. For now, this is a way for my aunt and me to make money. We offer good service and delicious food and drinks. We pay our workers more than they earn from the state and the government says private businesses now have a role in the economy. We'll see," said Martínez. "Oh yeah, and please send your friends here to eat," he added.

According to numerous individuals who have started their own small businesses since changes commenced in October 2010, the licensing process was easy and smooth. Most people said they simply handed in a form which required basic information—their name, address, previous work experience and what business they wanted to take part in. Within five to ten days, they received licenses and a pamphlet explaining the tax structure. Individuals involved in the preparation of food had their kitchens visited by an inspector to assure it met sanitary requirements, but said it did not slow down the process.

Individuals interviewed by CDA said the main challenges are high taxes and limited access to materials. One man selling wooden statues and other decorations said that good wood is hard to find, legally or illegally, which hurts his business. Most people involved in selling sweets said that there weren't any major issues accessing the ingredients needed, although from time to time flour could be hard to find. Everyone in this group hoped taxes would eventually be lowered, but nobody complained that they were so excessive they might not turn a profit.

However, a few people said they had friends who had applied for businesses that have high fixed taxes, such as renting rooms to foreigners, but they quickly closed because it wasn't profitable.

The owner of a *casa particular* in Viñales, a small tourist town in Pinar del Río, said that supply quickly exceeded demand for room rentals when licenses were granted to dozens of new landlords. However, she added, some of the new *casas*—required to pay a standard tax whether they receive guests or not—had already turned in their licenses and others were headed that way. We also heard from several *cuentapropistas* in Havana who received licenses, only to close down within weeks of opening, due to high taxes.

The tax system, similar to the overall economic adjustment, will need to be rolled out through trial and error, said one economist. “We want the businesses to be profitable so they can survive, but also be able to contribute to the tax system. The businesses are just getting off the ground and in the near future an assessment will be done on the tax regime, and it could be adjusted accordingly.”

Adjusting tax policy, reducing excessive regulations, continuing to facilitate and expand the licensing process, and allowing *cuentapropista* businesses to compete with state-owned enterprises will help assure that self-employment continues to grow.

Many Cubans Are Apprehensive

“Uncertainty,” “hesitance,” “nervousness,” “anxiety” and “fear” are five of the words most commonly associated with public sentiment about the reforms. President Castro and other top officials, along with the state media, have repeatedly warned citizens about how difficult the next few years will be.

Cuba suffers from an inverted socio-economic pyramid. The people who don't work and are the least educated can sometimes have the highest incomes, if they have access to remittances from family members living abroad and or engage in grey market activity. Highly educated people and workers in strategic sectors that have no access to hard currency remittances are some of the most underpaid and vulnerable to economic damage in the context of reform. Reversing this trend is a challenge particularly at a time when remittances are increasing and the private sector is expanding. Complicating things further, many highly educated people have left their professions to work in other sectors that earn hard currency.

Particularly vulnerable are retirees on fixed incomes, especially those who do not receive remittances from abroad, and a good part of the rural population that has limited access to services and regular employment. Social unease permeates much of the population, both rural and urban, professionals and manual laborers, young and old.

The Cuban government started off with a bomb by saying "we have to lay off 500,000 people". They should have begun by saying, "we are going to create 500,000 new private jobs," then, once successful, announce the layoffs. They put the solution before the problem.

—Economist Carmelo Mesa-Lago¹⁰⁴

With energy blackouts, transportation woes, and wide-ranging scarcities during the Special Period still in the minds of many Cubans, the current calls to prepare for tough times have people on edge. Most salaries have not increased in the face of inflation.

With subsidies removed and people being laid off, getting by—putting food on the table, paying the electric bill, inventing some way to make a few extra bucks—is the daily challenge for Cubans. After relying on the state for nearly everything for 50 years, being told they will need to more or less fend for themselves in employment, food acquisition, and other vital areas has many Cubans nervous about what the future may hold.

The potential for ongoing cuts leaves 72-year-old housewife Enriqueta Domínguez anxious: “The *libreta* is Cuba. Without it, many Cubans would face starvation.”¹⁰⁵

Dr. Esteban Morales, a specialist in race issues in Cuba, is concerned that Afro-Cubans, still the most marginalized sector of society, will be the most vulnerable to the negative consequences of the changes being implemented.

According to Morales, “It is no secret” that blacks and *mestizos*, have always been, historically, less skilled, the most disadvantaged in the labor field and held the worst jobs, and therefore will be affected the most by



A Cuban explains the products offered through the *libreta*.

the layoffs and reorganization of labor.¹⁰⁶ He’s called on the government to create “affirmative action” programs and to open up a real discussion about race issues on the island, with a focus on how the proposed changes will affect Afro-Cubans.

Cardinal Jaime Ortega, who leads the Catholic Church on the island, has said that the country is in “crisis” and despite differences over how to solve Cuba’s woes, there seems to be “national consensus” that “the necessary changes are made quickly.” Prior to the release of the Guidelines he said

that the mixed signals and delays were producing “impatience and unease among the people.”

We can't all be cuentapropistas and those who do have a business will have to earn a lot to be able to pay for the licenses.

—A university student in Pinar del Río, reported by Freedom House¹⁰⁷

Some Cubans told us about selling much of what they owned, dipping into lifesavings, or taking out informal loans from friends to open up new private businesses. With high taxes, stiff competition and other challenges, they now begin to wonder what happens if they fail.¹⁰⁸

Some Worry about “Shock Therapy”

When the U.S.S.R. collapsed and its former allies underwent rapid economic reforms, Cuba took note of the consequences in Russia and Eastern Europe—rapid price increases and hyper-inflation, high interest rates, and wide-scale privatization contributing to corruption, allocation of state assets to crony capitalists and inadequate institutional transparency. By contrast to the dismaying economic transition of the Soviet countries, Cuban citizens and policymakers also observed many successes of gradual, experimental approaches to economic reforms in Communist Vietnam and China.

Cubans are now nervous that, as has occurred in other transitioning societies, suddenly empowered or re-empowered economic groups will seek to increase their influence in political and economic decision-making. “The government needs to be careful so this thing doesn’t spin out of control,” worried one academic who spoke with CDA about the lessons of the Soviet Union and Eastern Europe. “We need to avoid the same mistakes.”

Despite public debates and consultations, they reasonably fear key decisions are being concentrated in a limited number of hands and will be implemented too quickly.

The reforms represent IMF shock therapy. We're talking about firing state employees and relying on the market to absorb them. Things that the government used to say represented the evils of capitalism—small and medium business and abuse by land and business owners—are now said to be fundamental to a new form of socialism. Is this a bad joke?

—An academic critical of the reforms

Another intellectual CDA interviewed complained that the “de-Fidelization” process had made things difficult. “One guy held on to power for a long time. This possibly resulted in a situation where there can't be transparency and consultation to a substantial degree.” Political decisions were made without proper participation from the base. “I just hope that people in power realize that China is not a model. The Cuban Revolution is a socialist project, it has its flaws, but if we abandon or don't adequately care for the social achievements, it will all be lost.”

Giving muscle to bureaucratic resistance, Cuban's academic left was encouraged by the government's announcement that the timeline would be reassessed. In their view, the delay in cuts to the public sector was a result of popular discontent with the measures being adopted. A university scholar told CDA, “In Cuba there's a saying that ‘you can touch the chain, but not the monkey.’ In this case, the monkey is poverty. If you remove the *libreta* and put 500,000 fired employees in the streets then the monkey is going to jump.”

Notwithstanding their vocal criticism, some purists have not lost hope. “Raúl's a good man. He's smart, he's pragmatic and he's a communist. He wants to do the right thing. We need to work within the new framework to make sure that the Revolution is maintained,” a more hopeful critic argued.

Though average citizens support the process for now they are keeping their heads down. “The problem with this silent majority is that they want to see reform but they are not political activists and are generally skeptical,”

said a Cuban scholar. “If the reforms start producing the results that they have been designed for, [they] will become less silent.”

Cubans Debate Speed and Permanence of Reforms

As for the pace of the reforms, Cubans are culturally patient people. “Objective number one is to carry out measures in the most stable manner possible,” said one economist. “When you’re doing something serious everything goes slowly. You don’t want to explode or implode.”

“The speed of change depends on adaptation and how the process goes. The changes in employment—reducing the state workforce—need to be done in an organized and effective way,” said economist Jorge Mario Sánchez. “We’re changing the rules of the game, adding new players and learning as we go. We need time to accommodate change.”

According to one economist, the reforms are taking place at two levels: the government and the people. “How far and how fast is based on social consensus. It’s a moving target,” he said.

Almost everyone involved in the process agrees that the changes will be permanent. “There’s no turning back,” said another.

Observers are also quick to point out the tough assignment Raúl Castro must carry out. “He has been popular to this point, but he’s now in a very difficult situation. He inherited a tough economic situation and is charged with reforming it without being able to directly criticize many of the people responsible,” said one social scientist. “He’s popular with the people because of his honest talk and the measures he took at the beginning of his presidency, allowing cell phones and access to hotels. Up until now he was able to be the good guy. Now he has to be the one calling for layoffs. Playing the bad guy is not as fun or as popular.”

“It’s all being done in the name of saving socialism, but I wouldn’t want to be Raúl,” an observer told us.

The Disconnected and the Discouraged

Following the Special Period, portions of the population became disconnected from the Revolution, as marches, meetings, and political processes fatigued

them. Many citizens are apolitical, particularly the youth, who were simply not interested in participating in the debate.

Many of these people didn't participate or participated only passively, and many of them will only believe significant changes are occurring when the impact is felt in their daily lives.

Several young adults we spoke to scoffed at participating in debates and had not read the Guidelines document. They responded "*No me gusta la política,*" or "*No me interesa*" (I don't like politics, I'm not interested).

After the Party Congress, CDA interviews in Havana reflected discouragement by many pro-reform Cubans concerned about the lack of progress, missteps over state layoffs, and the many key decisions delayed until another National Party Conference takes place in early 2012.

One *habanera* essentially said this was the regime's last chance to demonstrate its credibility and competence to implement and manage reforms.

Cubans—wary and worried—are hungry for change.

Section Four: Findings and Recommendations

CDA *undertook this study to try and understand what the economic reforms mean for the future of Cuba, and how U.S. policy makers should respond, and to examine these issues from both Cuban and U.S. perspectives. This section attempts to answer critical questions about the prospects for economic reform given ideological and practical obstacles and suggests steps the U.S. should be taking going forward.*

What are the Right Metrics for Judging Progress and Success?

Cuba's ambitious goals are to cut the costs of the state while preserving a socialist system it can afford; to generate foreign exchange to pay Cuba's debts and obtain capital goods that will make the economy productive; to generate private sector jobs for Cubans and raise revenue for the state; and to afford care for an aging population when its younger generation wants to leave the island for better opportunities.

U.S. policy objectives are even more daunting than those of its tiny neighbor. Since the 19th century, the U.S. government has operated on the assumption that we know what is best for Cuba. For the last half century, the U.S. embargo, designed to cause Cuba's collapse, has made it illegal for a U.S. president to normalize relations with Cuba unless this sovereign nation agrees to removing both Fidel and Raúl Castro from its government.

We believe the right way for the United States to assess the reforms is to ask whether they will enable Cubans to lead more prosperous lives and then determine how our country can best support this process. Economic stability in Cuba would allow its citizens to better share in civil society and in participatory politics.

Are the Reforms Real?

Despite doubts on both sides of the Florida Straits, the evidence leads us to conclude that Cuba's reform process is here to stay. The changes are most likely irreversible; and the decisions taken to date show substantial willingness to depart from the *status quo*. The economic team is different than in previous attempts for reform, the rhetoric is more deliberate, the policies are more substantive, and the totality of the changes—the benefits they offer, the expectations they create, and the hardships they will exact on many Cubans—require a long-term commitment by the Cuban State that makes reversal at a later date very unlikely.

Fidel Castro no longer runs Cuba. His periodic communications with the Cuban public—through signed editorial columns called “Reflections”—largely address foreign policy. While President Raúl Castro regularly pays public homage to his retired older brother, he has replaced every member of Fidel Castro's economic cabinet with appointees of his own. By his rhetoric and his actions, Raúl has made it clear that policies that once guided the economy didn't work and had to be discarded.

These statements highlight Raúl Castro's commitment to a new Cuban economic model. “Two generations of Cubans have spent their lives under this rationing system that, *despite its harmful egalitarian quality* has for four decades ensured every citizen access to basic food at highly subsidized derisory prices,” he told the Party Congress. The most durable systemic process of the revolutionary government, the monthly ration book “*has remained with us for too long ...it contradicts the substance of the distribution principle that should characterize Socialism.*”¹⁰⁹

Rhetoric in a top-down society matters. The fact that the Cuban leadership no longer primarily blames the U.S. for all of its economic problems, publicly recognizes the importance of private entrepreneurs, and openly, if

imperfectly, engages in a public debate about ambitious changes to the Cuban system, all demonstrate a new direction to the Cuban public.

I think this moment is different...The bureaucracy resists and will continue resisting, that is evident, but it is also very evident that the people in the government want to continue moving forward with the reforms. I think that the process is unstoppable.

—Orlando Márquez, spokesman for Cuba's Catholic Church¹¹⁰

The policies speak as loudly as the words. As several scholars, including Philip Peters of the Lexington Institute and Archibald Ritter at Carleton University have noted, Raúl is not simply “tinkering around the edges” of the system. Most Cubans are convinced that their lives are going to change and not necessarily for the better.

While disavowing “shock therapy,” the Cuban government is taking steps to reduce the size of the state in ways that remind Cubans of the privations they endured during the Special Period and the impact of the Eastern Bloc’s reforms when economies shrank by as much as 40% and took over a decade to recover.¹¹¹

A long era of economic targets and production goals based on ideology or high aspirations is giving way to the discipline of the market. A range of enterprises will have greater autonomy to hire and fire, set wage structures and prices, and obtaining financing, but also face bankruptcy.

The replacement of the ration book with a system of targeted benefits is being sold to the population as a work incentive, but on a practical level, it means that the majority of Cuban families have to work even harder to make ends meet.

The government layoffs announced but not yet implemented will cost 1 million workers their jobs and also signal that Cuba’s promise of employment for all is finished. To absorb state workers, the new agenda relies on market-friendly reforms to create jobs and growth for the Cuban economy, placing a large bet on the emerging private sector to hire and pay unemployed workers.

Although small businesses, especially so many nascent enterprises, cannot absorb this number of workers without significant additional reforms, hundreds of thousands of Cubans have already stepped up with their own wagers by forming businesses, hiring other Cubans as workers, and making independent decisions about how they will earn their livelihoods.

In turn, consumers will have expanded choices as competition raises the quality of goods and spurs innovations. Cuba is creating a retail sector with little government control. Because the new work largely involves services and not production, the experiment “will not remake the entire economy,” notes the *Chicago Tribune*, “but it’s an important start.”¹¹²

Getting Buy-In from Miami

At the same time that the government is moving to increase self-employment and small businesses, it has also made it easier for Cuban citizens to receive money from Cubans abroad, enabling them to play an increasingly large role in helping to build the private sector. The Cuban government has slowly begun to acknowledge the importance of the diaspora and stepped up remittances from the U.S. will directly increase the buying power of local recipients, who in turn provide greater income to the Cuban state.

Cubans abroad have long been the source of many hard-to-find items and goods destined for the grey market in Cuba. Changes in Cuban and U.S. policy have brought much of this activity into legal, regulated channels. The Cuban government is now tacitly acknowledging that the source of start-up capital and materials for many private initiatives will come from relations in Miami, Union City, New Jersey or Madrid. After years of tension with Cuban Americans, this is a sizeable shift in thinking.

The renewed dialogue and increased cooperation are being broadly felt. Anti-Castro Cuban American businessmen who have long been refused visas to visit Cuba have been able to visit the island over the last year. The government has not placed restrictions on travel by the hundreds of thousands of Cuban Americans visiting Cuba—until recently viewed as the most politicized and threatening type of visitors to the island.

The expatriated relatives in turn invest and offer capital, provide wholesale goods, and supply crucial training and encouragement to Cuban kin forming

their own businesses. Cuban Americans and their money are arriving on the island in rapidly increasing quantities. The scenes at airports in Miami and Havana, and the change in rhetoric from prominent individuals in these cities, show growing interaction between Cuba and its émigrés.

Removing the tax on remittances from the U.S. and allowing Cuban currency to reach parity with the dollar (minus a small transaction fee)—have made it more attractive for Cubans abroad to send money and take advantage of economic openings while making their friends' and families' lives better.

President Raúl Castro has acknowledged the shifting dynamics in the Cuban community abroad, devoting a sizeable portion of his August 2011 speech to the National Assembly to the growing ties between the nation and migrants abroad. Pointing out that most Cubans leave the island simply to improve their economic status, Castro recognized the important contributions they make to Cubans remaining on the island: "The truth is that almost all preserve their love for family and their country of birth and manifest solidarity with their compatriots in many ways."¹¹³

Cuban Americans realize that they can have a positive impact on the Cuban economy and believe the changes occurring there are "real." "The expansion of the private sector is a game changer and we need to engage," said one prominent member of the exile community in Miami.¹¹⁴

Will the Reforms Work?

There are game-changing events outside of Cuba's control that can negatively affect the future success of the reforms. Cuba's economic reforms cannot insulate the island from hurricanes, global fluctuations in food prices, nickel prices, and tourism flows, or the risk that Venezuela's voters or their president's poor health will sever the lifeline of petroleum that flows from Caracas to Havana.

Within Cuba's control, however, is whether the program can substantively achieve the ambitious goals set out by the Guidelines, and whether the leadership will see the process through, and bring the Cuban people along, during a period that is likely to be painful and uncertain.

It is critically important that Cuba is liberalizing the rules. But, the prospects for success should not be exaggerated. The reforms announced and

implemented to date are unlikely to be sufficient to overcome all of Cuba's economic problems. Not every Cuban who is laid-off will be able to form his or her own business or find alternative employment. Not every Cuban has the skill to be self-employed or to work in an enterprise created and run by others.¹¹⁵ Most lack the capital or training required to start or manage such businesses. Many will continue to rely on support from relatives abroad and do jobs that are not a part of the formal economy to get by.

Even though Cubans have historically learned entrepreneurial skills just to make ends meet, they still face problems—identified by observers including the Cuba Study Group,¹¹⁶ Dr. Archibald Ritter, Dr. Manuel Orozco and others—that make forming a business and running it profitably really difficult.

Dr. Orozco explained, “The 178 [licensed] activities pertain predominantly to the service industry, yet these activities have severe limitations. For example, there are provisions to establish a paladar, but not a food manufacturing enterprise. If an entrepreneur wants to establish a manufacturing business in the food sector, such as building a food processing factory, she will need to hire cooking experts, health quality testers, marketing officials, a raw material food buyer, an accountant with legal skills to meet all regulations. The country still doesn't have the incentives to motivate a [Cuban] national to invest \$50,000 ... to carry out such an enterprise, yet it will have a larger, multiplying effect than a paladar. Enterprises like this can be food suppliers to the paladars and motivate greater competition.”¹¹⁷

Such findings have led Dr. Ritter among others to conclude that there is a low probability of sufficient job creation by the micro-enterprise and cooperative sectors to absorb 1,000,000 Cuban workers in the next few years, and that further liberalization will be necessary.¹¹⁸

More broadly, Adam Hersh, an economist at the Center for American Progress, and a scholar of economic transitions in China and Vietnam, told CDA: “The reforms proposed with respect to layoffs and self-employment and the end to the *libreta* are economically important ... and likely to deliver general welfare benefits through improved access to goods and services. But so far the reforms envisioned will do little to address Cuba's fundamental economic problems in the productive structure of the Cuban economy: inefficiency, low productivity, and antiquated capital stock. Cuba's challenge

will be to tackle this next stage of reform while preserving its high level of development in health and education.”¹¹⁹

Cuba needs foreign exchange to import capital goods from abroad. Without it, the island cannot create wealth beyond the retail sector in ways that utilize Cubans and newly-legalized small businesses. Today, no clear avenue to increased foreign exchange is open, and agriculture reforms have yet to reduce Cuba’s import bill.

Similarly, no clear direction exists for large businesses on questions such as production, investment, or how much latitude managers will have to make productivity decisions. Experts tell us this is not a question of private versus public—as reforms in China have demonstrated—but about whether the system, however it is constructed, will allow entrepreneurial and economically rational decisions to be made.

Cubans seem to take on an “I’ll believe it when I see it” attitude toward the most recent round of reforms.

—Matthew Brady and Kira Ribar, *Freedom House*¹²⁰

Cubans are increasingly asking whether the current leadership will fix the economy or leave the toughest issues to the next generation of leaders.

While the Cuban government has taken bold steps, it lost credibility at several decisive moments. Some Cubans expressed disappointment at the “roll-out” of the lay-offs—which were quickly pulled back. The reforms promised action on dual currency, housing ownership, and rights of Cubans to travel freely, but many issues have been postponed until the Party Conference in 2012.

Other Cubans were dispirited by the hold of the *históricos*, like first Vice President José Ramón Machado Ventura, who remained in the leadership to stamp the reforms with their revolutionary imprimatur.

President Raúl Castro celebrated his 80th birthday in June and Machado is 81. The average age of a Politburo member is 67. The recent death of Defense Minister Julio Casas Regueiro served as a reminder of the mortality of Cuba’s leadership.

Cubans will remain skeptical until they see more results. Younger, capable leaders do exist within the party apparatus; however, there are few with national recognition or legitimacy to allow them to easily lead the transition from the *históricos* to a new generation and a reformed economic system. Raúl Castro seems to acknowledge that without ongoing reform Cuba risks losing everything that has been built as soon as his team disappears from the scene.

Raúl is facing a wall. He needs to pull it down brick by brick, he can't just push the wall or everything could crumble.

—Dr. Carlos Alzugaray, University of Havana

Outside observers criticize Cuba for moving too slowly, but one Western diplomat told us: “If things happen too fast we run the risk of having a failed state in the Caribbean. The important objective is figuring out how we can help push the process in the right direction, but in an orderly fashion.”

Older Cubans who remember Cuba before the Revolution are more inclined to give the leadership time. However, a younger generation, better educated, more connected to the world, born in Cuba's greatest periods of economic sacrifice, are losing patience.

A foreign diplomat described the problem this way: “Those below (age) 25 have no allegiance. They don't believe in anything. If you are 25...and the government doesn't believe in the Internet, that is not a recipe for success. You can leave and go to the U.S. if you want opportunity, the right to express yourself, and to get a job.”¹²¹

What More Can Be Done in Cuba to Make the Reforms Succeed?

While Cuban government officials and scholars assure each other there will be no China model or Vietnam model in Cuba and that the process will be purely Cuban, they are studying other socialist transformations and looking for a way the international community can play a role in Cuba's economic reforms.

Improved relations with China in the 1990s coincided with the Cuban military's growing role in the economy and a number of military officials have studied there. Prominent Cuban economists recently traveled to Vietnam to analyze its economic model, and a recent publication of *Temas*, an academic journal widely read among Cuban intellectuals, was devoted to studying transitions in other countries. Furthermore, high-level Cuban officials visited China and Vietnam following the 6th Party Congress to update leaders there on the country's economic plans.

Venezuela and China—and other countries—are making significant investments in Cuba's oil industry, hoping to find commercially viable deposits in the Gulf of Mexico. Meanwhile, hundreds of thousands of Canadians continue to flock to Cuba's beaches and urban centers, while a Canadian company plays a key role in the nickel sector. According to Canadian officials, the country hopes to leverage its trade and travel relations with Cuba to offer technical assistance on economic reforms.

Brazil and Spain have also engaged with Cuba on the reform process, offering funds and technical assistance to make the process run smoother. Spain offered \$5.5 million in microcredit to Cuba to help the development of small businesses,¹²² and Brazil has made a similar offer along with assistance in reforming Cuba's tax structure. The two countries signed an agreement in March 2010 for Brazil to provide technical assistance to Cuba's banking sector.¹²³

The Spanish Agency for International Development Cooperation (AECID) has begun engaging with Cuba in capacity-building measures in several areas of the economy. Canada has also offered assistance on various aspects of economic reform, such as tax policy. Many other nations expect to intensify their engagement with Cuba on microfinance and other technical assistance, once Cuba's government is ready.

The Cuban Catholic Church has played a critical role in pushing for and creating more pluralistic opportunities for debating change in Cuba. *Espacio Laical*, the Church's official journal, has become a frequent platform for important essays about social and economic change in Cuba. Additionally, conferences are held by the Church each year to discuss important themes in Cuban society and have expanded in scope to include Cubans living outside the country and specialists with the government.

The Church also offers leadership classes, focused on building skills related to free-enterprise, such as accounting and marketing. The Church recently announced it will offer M.B.A. degrees to Cubans through a partnership with a Spanish university¹²⁴ and is in talks with the government to expand the limited micro loan program, to a potentially multi-million dollar fund of credit for entrepreneurs.

Each of these efforts—initiated in Cuba and by sympathetic actors—are useful on their own terms.

Unresolved issues in Cuba's economic program that the government is likely to address in what might be called Phase 2 include:

- Steps at the macro-level to identify existing sectors for reinvestment that were previously “de-capitalized,” productive sectors such as oil production and bio-technology that can do better, or new endeavors that can be cultivated to create wealth;
- Steps to increase productivity by clarifying the roles and powers of producers and heads of enterprises to make autonomous decisions;
- Steps to ensure that credit and capital are available for business formation and expansion, and that non-state enterprises are connected, to large scale production for supply chains;
- Steps at the micro-economic level to provide training in entrepreneurship for Cubans who want to start their own businesses;
- Steps to develop a national tax system that is understood and followed by individuals and companies, public and private.

Cuba's caution—its concern about making changes too quickly that fall too harshly on the population and which may not work—is understandable. Whether it can afford cash transfer and income supports, recommended by a number of outside analysts including at the Brookings Institution,¹²⁵ or connect more Cubans to sources of remittances from overseas, remains to be seen. President Castro promised at the 6th Party Congress “The Revolution will not leave any Cuban helpless.”¹²⁶

Keeping this commitment to Cuba's most vulnerable will help sustain the Cuban public as it faces the difficult times that lie ahead.

What Should U.S. Policy Be?

U.S. sanctions are premised on the belief that strangling Cuba's economy will lead the system to fail, motivating the Cuban people to rise up against their government and establish a multiparty liberal democracy. After five decades, it has failed to achieve its goal. Instead, it is inhumane and counter-productive. In addition to inflicting pain on the people we are ostensibly trying to help, the sanctions could even prompt a mass exodus out of Cuba, putting the stability of the Caribbean at risk.

Twenty years ago, amidst the wreckage of the Special Period, U.S. Congress and the Executive Branch tightened sanctions with the hope of capitalizing on Cuba's difficulties. American policy missed the chance to align itself with the humanitarian interests of Cubans and their leadership muddled through. As U.S. sanctions became more restrictive, we ceded the playing field to allies and competitors—Spain and Brazil, China and Venezuela—who are still in Cuba today, investing and trying to help its economy grow.

While the fate of Cuba's economic reforms rests primarily with the government and the Cuban people, actions taken by President Obama, however limited, are now playing an important supporting role. But the United States can do more.

We have a new opportunity to be seen by Cuba's people and its future leaders supporting their efforts to build a new economy and to help the Cuban people lead more prosperous lives. The greatest contribution our country can make now is to demonstrate we want the reforms to succeed, because we want the Cuban people to succeed. If this were a core principle of our democratic policy, a series of logical steps could then follow.

My criterion is that if there are measures being taken within Cuba that benefit Cubans that should be recognized and encouraged.

—Orlando Márquez¹²⁷

First, President Obama and other U.S. policy makers should acknowledge that Cuba's reforms are real; that this program opens the way to a greater role for the market, and the changes are likely to exact great hardships on the Cuban people. They should also acknowledge that the reforms represent an important beginning. Until that all happens, our ambivalence plays into the hands of hardliners in Cuba who oppose reform or rapprochement with the United States.

Second, Cubans lack cash and credit to make full use of their newly-granted right to form businesses. The embargo and its byzantine sanctions prevent U.S. banks and developers from financing investments in Cuba. By loosening restrictions on travel and remittances, President Obama mobilized the financial capital and support of a good portion of the Cuban American community on behalf of Cuba's economic revival. There are additional executive decisions the president can take to ease the flow of financing to Cuba and to spur demand for the activities the emerging private sector is performing.

For example, the president could further loosen restrictions on U.S. citizens to travel to Cuba. Although repeal of the statutory bar against tourist travel to the island would require an Act of Congress, unlikely in this political climate, President Obama could use his executive authority to open and expand categories of opportunities for Americans to visit Cuba.¹²⁸

As Stephen Propst, an expert on international trade and investment laws explained, "Although 'tourist travel' remains prohibited by statute, the President still has room under the current legal framework to significantly expand opportunities for legal travel to Cuba. For example, the existing category of travel for 'professional meetings' could be broadened to include a range of new authorizations for participation in meetings. ... If combined with additional authorizations for the exchange of services with small private businesses in Cuba, the President could authorize travel for purposes of professional meetings with Cuban architects, artists, musicians, consultants and others."¹²⁹

According to this analysis, President Obama can, for example, order general licenses provided to freelance journalists, professional researchers, athletes who want to attend international sports competitions in Cuba, persons engaged in humanitarian activities, private foundations doing research, and

business-related travel for authorized activities such as telecommunications, informational materials, and some marketing. He could also broaden the licensing for advisors from firms who could assist the Cubans in safe drilling and environmental protection as Cuba explores for oil in the Gulf of Mexico (as CDA recommended in the 21st Century Report on energy).

There is a broad consensus extending from the U.S. travel industry to the international human rights community that travel to Cuba should be expanded: travel is a constitutional right of U.S. citizens and has the added virtue of providing U.S. businesses broad opportunities. For Cuba's citizens, it provides a source of profits and jobs for small businesses.

We also encourage the Executive Branch to clarify remittance expansion rules established in January 2011. President Obama has said any American is permitted to send remittances to an unlimited number of qualified Cubans of up to \$2,000 per year each, but guidelines for sending remittances to non-family members are vague and need to be better defined.

The regulation has no mechanism to open the door to Americans without family ties who wish to contribute remittances to Cubans they do not know and, if they could, no means for accountability exists for U.S. citizens to see if their donations were making a difference. Neither does the rule say whether the U.S. government allows Cuban recipients to seek or aggregate remittances from U.S. citizens. And answers are also needed from the Cuban government—it could identify recipient institutions which could distribute remittances to Cubans in need.

A report released this year by the Cuba Study Group (CSG) suggests a number of additional steps that would allow Cuban goods to legally enter the U.S. market and advance the humanitarian goals of our policy. The CSG proposed allowing U.S. individuals and institutions to contract with Cuban scholars, musicians, and artists for their work and allowing independent farms and cooperatives to export agriculture products from Cuba (Obama granted a similar exception to sanctions on North Korea in 2010 for importation of North Korean beer.¹³⁰) Their paper also called for a \$50 million fund for rotating micro-loans and other measures.¹³¹

Cuba should also be removed from the U.S. State Department list of State Sponsors of Terrorism. This designation subjects Cuba to sanctions

including restrictions on U.S. foreign assistance; controls over exports of certain dual use items; and miscellaneous financial and other restrictions. Cuba's presence on the list of State Sponsors of Terrorism is both substantively wrong¹³² and harmful to the Cuban economy, because it punishes Cuba for legal trade and financial transactions and deprives its people access to modern technology. The president can remove Cuba unilaterally from the terror list. He should do so.

The International Financial Institutions (such as the International Monetary Fund and World Bank), have provided useful support to countries undergoing economic transitions but are off limits to Cuba because of U.S. objections. The U.S. should allow Cuba to have access to their experts and advice.

Dr. Richard Feinberg, a scholar with decades of experience in international economics and Latin America policy, has examined in a policy report to be published by the Brookings Institution how Cuba might benefit from the expertise of the International Financial Institutions (or IFIs), as it continues to refine its program of economic change.

Mindful that Cuba has previously regarded these institutions as instruments of "the historic enemy," Feinberg suggests a gradual, step-by-step engagement beginning not with full membership and lending but with technical assistance. He points to the technical assistance the IFIs have previously extended to non-members, including South Sudan, Kosovo, and the West Bank/Gaza.

"Short of membership," Feinberg says, "the IFIs could offer consulting and data gathering help, generate ideas on how Cuba's existing industries, such as tourism, sugar, nickel and bio-technology, could generate more wealth, and provide research capacity on how to measure the progress and better refine the economic reforms going forward."

Cuba would, of course, have to agree; indeed, Cuba would need to take the initiative. Nor would a U.S. endorsement be simple. Under some approaches, existing Congressional mandates might require the U.S. to oppose IFI engagement with Cuba, depending on how the U.S. Treasury interpreted the arrangements. (The U.S. cannot formally veto such IFI activities, but other member states on the IFI's governing bodies might be discouraged by U.S. opposition.)

Our final recommendation is to stop funding the USAID Cuba program. The U.S. government wastes millions of dollars each year to bring about the type of economic and political transition it sees fit for Cuba but the effect of the program increases suspicion and tension between the two governments. A failure of the program in 2009 resulted in the arrest and imprisonment of Alan P. Gross, a U.S. subcontractor. It is impossible, under the current circumstances, for USAID to take part in meaningful programs welcomed by the Cuban government, such as those that Brazilian and Spanish development agencies carry out.

“Development assistance,” USAID’s actual mandate, should be discussed bilaterally between the two countries, leading to the establishment of programs agreed upon by both countries (as is done in the rest of the world). It will take time for trust to be restored, but it’s in the interest of both countries to start now.

In the final analysis, ending the embargo and normalizing relations with Cuba ought to be a foreign policy priority of the United States.

As Steve Clemons, editor at-large of *The Atlantic*, noted: “Failure of the U.S. to finally snuff out the last vestiges of the Cold War in the U.S.-Cuba embargo signals impotence in American strategic vision and capability. Those who support the embargo undermine the empowerment of Cuban citizens, harming them economically and robbing them of choices that could evolve through greater engagement—exactly what we have seen in transitioning communist countries like Vietnam and China.”¹³³

In the interim, these recommendations could make an important difference. They would put the interests of the United States into alignment with the humanitarian interests of the Cuban people, send a long overdue message of encouragement to the advocates of reform on the island, and demonstrate that our country is finally ready to move beyond Cold War policies of the past and modernize our approach toward Cuba for the 21st Century.

None of these actions would sit well with the hardest of the hardliners in the Cuban American community or their representatives in Washington. Their terms of surrender for Cuba, as Phil Peters pointed out in his Cuban Triangle Blog, are written into the statutes of the U.S. embargo. In Congress, legislators including Representatives Mario Díaz-Balart, David Rivera and

others, are trying to reverse President Obama's travel reforms, dialing back family travel and remittances to the levels imposed by President Bush.¹³⁴ They will certainly fight actions that loosen restrictions to help push along Cuba's economic reforms.

Nevertheless, we believe that the political dynamic of the Cuban American community has already shifted—many have moved from supporting isolation and aggression toward the island's government to building on family ties and helping their relatives prosper and live more autonomous lives in Cuba's new economic environment.

The potential for home ownership in Cuba, and the U.S. expansion of travel and remittances, are enabling Cuban Americans to invest in the goal of helping Cuba succeed. But this effort should go far beyond the Cuban family. It should become the motivating force behind U.S. policy.

These changes are in the broad national interest of the United States, and it is time for our policy makers to respond affirmatively and creatively to the process of reform underway in Cuba today.

The Center for Democracy in the Americas' Cuba Program

CDA advocates for the reform of U.S. policy toward Cuba. Our goal is to replace the existing policy of economic sanctions and diplomatic isolation with a policy that will permit travel to Cuba for all Americans, promote diplomatic engagement, and look forward to normalizing relations between the United States and Cuba.

We believe that changing U.S. policy would have a beneficial and lasting impact on both U.S. and Cuban citizens, and also send a powerful signal to Latin America that the United States is ready to write a new chapter in its relationship with the region.

CDA has a license from the U.S. Treasury Department enabling us to travel to Cuba. It permits us to conduct research in the embargoed country and host delegations of U.S. decision makers to the island for a first-hand experience of Cuba and the impact of U.S. policy. Delegations hosted by The Center for Democracy in the Americas—and its forerunner, the Freedom to Travel to Cuba program—have visited the island on nearly forty occasions since 2001. We have taken more than 80 Members of the House and Senate and their professional staffs to Cuba on fact-finding missions.

Through these trips, CDA has also built productive relationships with Cuban officials, leaders of civil society, academics and artists, as well as everyday Cubans in Havana and across the island.

CDA disseminates information from our travel and research to policy makers, the press, and the public at-large. We publish trip reports, formulate strategies for reforming policy, hold colloquies, engage with the media, produce video interviews with citizens from the region and post them on the Internet, and produce a weekly e-newsletter about Cuba and U.S. policy that is read by senior administration officials, Members of Congress, and respected journalists and by subscribers in the U.S. and abroad.

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Noted academics and intellectuals in Cuba—including scholars in several departments at the University of Havana: Dr. Carlos Alzugaray Treto, Dr. Jorge Mario Sánchez, Dr. Pavel Vidal-Alejandro, Dr. Omar Everleny Pérez Villanueva; as well as Dr. Humberto Miranda Lorenzo, Institute of Philosophy of Havana; Orlando Márquez, Archdiocese of Havana; Rafael Hernández, Editor of *Temas*, and Miguel Coyula, the noted urban planner—provided us both facts, and most importantly, insights about how Cubans are viewing the process of reform.

Third, there are several scholars and institutions which have followed the Cuban economy and offered crucial policy analysis and recommendations for a good many years. We need to thank them for blazing a path that those of us trying to understand these issues are fortunate to follow.

These include Dr. Richard Feinberg, Professor, University of California, San Diego; Dr. Carmelo Mesa-Lago, Distinguished Professor Emeritus of Economics and Latin American Studies, University of Pittsburgh; Dr. Manuel Orozco, Senior Associate and Director of the Remittances and Development Program, the Inter-American Dialogue; Philip Peters of the Lexington Institute; Ted Piccone, senior fellow and deputy director for foreign policy, The Brookings Institution; Dr. Archibald Ritter, Professor and Chair, Department of Economics, School of International Affairs, Carleton University; Carlos Saladrigas and others at the Cuba Study Group; and, Mark P. Sullivan, Specialist in Latin American Affairs, the Congressional Research Service.

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Collin Laverty took the lead in researching and writing this report and interviewing Cubans on the island. Collin has a magnificent combination of traits; he is an intellectual, a quintessential American whose personal relationships run deep among Cubans, and a loyal friend to CDA.

Bonnie Goldstein, a journalist and a former CDA board member, transformed this report with her intrepid editorial judgment and skills.

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Thanks to all of them, we've delivered the goods on economic reform and challenged policy makers in the U.S. to modernize our policy toward Cuba.

Sarah Stephens
Executive Director

Endnotes

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