

SANTIAGO VS. HAVANA: CUBA'S UNDERGROUND ECONOMY IN COMPARATIVE PERSPECTIVE

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*El socialismo además de justicia, es eficiencia y es calidad.*¹

This celebratory motto can be found plastered on the walls and storefront windows in dollar-enterprises all across today's Cuba. Whether in retail dollar-stores, cafes and restaurants that cater to a dollar-paying clientele, or in the many newly-built or renovated tourist hotels, the declaration is intended to reassure foreigners and nationals alike that Cuba's development of tourism and acceptance of the *yanqui* dollar as legal tender do not contradict its presumably "irrevocable" socialist character. In fact, it would seem that socialism is just a synonym for "better business practices." However, the above motto takes on a surreal aspect given the fact that both *eficiencia* and *calidad*, not to mention *justicia* and even *socialismo* itself are in surprisingly short supply in the country today.

Of course, declaring over and over again that socialism equals justice, efficiency, and quality does not bring these laudable goals spontaneously into existence, despite the old totalitarian claim that a lie repeated often enough becomes the truth. Thus, in spite of trumpeted claims about the increasing health and wealth of Cuban socialism (especially during the recent 50th anniversary celebrations of the Moncada attack on July 26, 2003), Cuba's emperor continues

to wear a tattered cloak. What's more, given the depth and breath of Cuba's underground economy, perhaps it would be more appropriate to declare: "*El socio-lismo además de justo, es eficiente, inteligente y rentable.*"²

This paper focuses on the current state of Cuba's underground economy. In previous work, I have analyzed the origin and development of Cuba's underground economy over the last decade, with a focus on Cuba's experiments with self-employment (*trabajo por cuenta propia*) in the housing, transportation, and food service sectors. Here, I update my previous findings from Havana by giving attention to the current state of the city's *paladares* (private restaurants) and comparing them with new research carried out on these speak-easy eateries in Santiago, Cuba's second city.

In July, 2003, while in Santiago de Cuba for Carnival, a motley group of 12 Americans, including myself, caught three cabs into the city center in search of *La Azotea Tropical*, a clandestine *paladar*. Given the confusion of the carnival streets and because the address of the place was not public knowledge, we managed to get separated from the group and searched in vain for the restaurant for more than half-an-hour. Finally, we decided to give up on the quirky and un-

1. "Socialism, in addition to justice, is efficiency and is quality."

2. "Socio-lismo, in addition to just, is efficient, intelligent, and profitable." In Cuban Spanish, the term "socio" is often used to refer to a close friend or associate. The term *socio-lismo* is a playful combination of "socio" with "*socialismo*." Fernández (2000: 53, 110) has defined *socio-lismo* as, "the system of access to goods and social standing based on who you know and who you love."

reliable private sector and eat at the large, state-run Casa Granda hotel on the central Plaza de Céspedes.

As we were about to go in, however, we were approached on the sidewalk by a pair of street hustlers who quietly dropped the name *La Azotea Tropical* before we could rebuff them. With our sense of adventure still intact, we decided to follow these two well-dressed, Afro-Cuban touts down a side street to the elusive *paladar*.

Having trouble keeping pace with our young guides, I asked them to slow down. However, one of the pair indicated with deft body language that we should keep our distance since a police officer on the corner had taken note of us. We soon found ourselves ushered through a doorway and up a steep, extremely narrow flight of stairs. Before we could catch our breath, we were then pushed out onto what turned out to be one of three elegant rooftop dining areas complete with six tables, over 25 chairs, and a well-dressed English-speaking waiter armed with silverware, menus, and a healthy sense of humor.

William, our enterprising waiter, apologized for the manner in which we were welcomed to *La Azotea*. "I know it seems like drug trafficking," he said with a smile, informing us that the rest of our party had arrived earlier, but were unceremoniously turned away since they had arrived in the midst of a surprise visit from the police. Luckily, the police did not actually go upstairs, but if they had, they would have found a group of nearly 30 French tourists crouching in the darkness, ready to hurry out the back through a secret escape door. "We had to turn off all the lights and music," said William. "But the cops just wanted to scare the owner into paying higher bribes. If they really want to get rid of us, it would be easy for them to do it. However, it is getting worse. It started with threats, then came the bribes, now it is just plain blackmail."

As I began to translate the Spanish menu to my American companions, William's eyes lit up. Hearing, "sparkling water, root vegetables, shredded pork, etc.," he quickly pulled up a chair and began taking notes, asking me to spell each translation and repeat its proper pronunciation. Despite the fact that few of

their guests are American, English is the language of international business and he was eager to improve his skills. He explained that he had originally started as a part-time waiter during the holidays from his state job as an elementary English teacher in the Sierra Maestra mountains nearby.

However, when he realized that he could earn the equivalent of his \$12 monthly teaching salary in less than a week as a waiter, he quit his teaching position and began working full-time at *La Azotea*. "The thing is that the restaurant pays real money. I can be sure of making at least \$2 each night. That's \$2 today and \$2 tomorrow, and with \$2, I can eat."

Beyond the personal benefits that William sees from his position at the restaurant, he indicated that if given the chance he would make major reforms in the laws that severely restrict private enterprise. However, he does not have much hope that the government will voluntarily choose more reforms. "The government knows that when you have money, you have time. It fears those who have money, because they will try to change the system. This is why it always tries to finish you [off] before you finish [off] the system."

LESSONS

What lessons about the future prospects for Cuba's small private sector can be drawn from this illustrative experience? First, the anecdote indicates that the costs of informality are high. For example, while no *paladar* is allowed to advertise, clandestine ones are especially vulnerable given the fact that the more well-known they become among potential clientele, the more likely it is that their unlawful operation will be detected by authorities—bringing on more and higher bribes, blackmail, or outright closure.

Second, all manner of illegalities, low-level corruption, and bribery are commonplace within the private, self-employed sector.

Third, despite its clandestine character, these operations provide employment and a substantial dollar income to a fairly wide range of people who would otherwise be employed in low-paying state jobs. For example, this operation employed three waiters, one bartender, two cooks, two doormen, at least two

street hustlers, an *almacenero* (shopper), and the owner: a total of twelve people, not counting others employed through backward linkages and supply chains.

Fourth, while some operations, such as *La Azotea Tropical*, have become lucrative, long-established, and relatively advanced in terms of infrastructure, these private businesses are fundamentally unstable given the fact that much of their success is based on a tenuous, shifting, and often unreliable relationship with inspectors and police.

UNDERGROUND SANTIAGO

When compared with Havana's extensive self-employed sector, the private sector and underground economy are much less developed in Santiago. This is due first of all to the relative small size of the city's population (600,000 vs. 2.2 million) and the much less developed tourism infrastructure. Furthermore, given the fact that Santiago's housing and automobile stock is quite modest compared to that of Havana, there is much less space for potential entrepreneurs to operate.

While private lodging seems relatively inexpensive and ubiquitous, Santiago's stock of private restaurants has suffered from a series of crackdowns in recent years. For example, on a visit to the city over two years ago in March, 2001, I had to visit four *paladares* before finding one that was still in business.

During my more recent visit in July 2003, I conducted interviews with waiters from two different *paladares* (one legal, the other clandestine). Both agreed that while there had been as many as 115 legal operations in 1996, there were now only two legal ones remaining. Furthermore, while both the legal and the many clandestine operations seemed to flout the 12-chair limitation, the legal operations were more careful about following laws concerning menu limitations, the origin of foodstuffs, and family employees. The waiter at the legal *paladar* shared that his restaurant paid \$675 each month in licensing fees.

PRIVATE FOOD SERVICE, LODGING AND TRANSPORTATION

In Santiago and Havana alike, the three areas of self-employment that are the most numerous and lucra-

tive of all legal occupations are food-service, lodging, and transportation. Private services have proliferated in these areas first of all because it is precisely the constant demand for food, housing, and transportation that the state has been unable to meet since the start of the special period. They have also concentrated in these areas due to the fact that all three occupations provide their services in both the domestic peso market (mainly for Cubans) and the international dollar market (mainly for foreign tourists), even if they are not always licensed to operate in both currencies.

It is my contention that the differences in the government's approach toward each of these activities is largely determined by whether they constitute a competitive or complementary force vis-à-vis state services. In other words, as long as private operators provide niche services to their fellow Cubans and avoid challenging the state monopoly in the tourist market, they will be tolerated. Therefore, the harsh repression against *paladares* can be explained by the fact that they compete directly with state restaurants.

The relative tolerance toward private lodging operations is understandable given that a majority of them, much like private cabbies, provide necessary services to their fellow Cubans. Furthermore, allowing for the proliferation of private rentals may be the government's way of permitting cross-cultural sexual encounters to take place in private, while simultaneously cracking down against such activities in its more public hotels.

However, this tolerance seems to be coming to an end. Preliminary reports in August 2003, indicate that a new Housing Law (which regulates private rentals) has been approved and will take effect in January 2004. Changes to the current law include: an increase in monthly tax rates, extra charges imposed for the common areas used by house-guests, a limit of two rooms to be legally rented, requiring all renters to pay an extra 30% for the right to offer food service to guests, revoking the right to rent out an entire apartment, and requiring that someone must always be home.

Furthermore, it is not just the Cuban state that is behind this new law. While the state has always had an antagonistic relationship with the private sector, it seems that investors in foreign hotel chains who see private home rentals (*casas particulares*) as unfair and unwanted competition have lobbied insistently. By making deals with the state they can secure a monopoly over the hotel industry and have the state make laws that will effectively enforce that monopoly. Such an odd example of communist and capitalist bedfellows indicates one of the possible lamentable paths future Cuban development could take.

An antagonistic dynamism characterizes the peculiar relationships that sometimes form among operators in these three different sectors. On the one hand, the relationship is mutually beneficial with private cabbies acting as unofficial recruiters of new customers for *paladares* and bed and breakfasts. In turn, operators of these businesses will sometimes call on their cabbie associates when their clients need transportation. In these cases, the unwritten rule is for *paladares* and bed and breakfasts to provide a \$5 commission. These commissions can quickly add up to a significant portion of the revenue earned on meals that rarely cost more than \$15.

As a result of these rising costs, many operators have attempted to avoid using and paying the referring middlemen, relying solely on their established clientele. However, given the legal prohibition against most kinds of advertising, combined with the rising fixed minimum monthly taxes (that must be paid regardless of revenue), few *paladares* or home-stays can survive without the informal advertising and recruitment services provided by cabbies and other middlemen. Only the few well-known (and sometimes well-connected and well-protected) *paladares* and bed and breakfasts can survive without resorting to middlemen, further distancing these “untouchable” operations from their more modest and numerous counterparts in the private food service and housing sector.

THE COSTS OF INFORMALITY

As in much of the Third World and in many former communist countries, in Cuba there are many hidden costs (for both the individual and society) associ-

ated with the existence of an extensive “extralegal” (informal) sector. For example, underground enterprises waste many resources in their efforts to hide their activities from authorities. As a result, they lose income, produce fewer goods and services, and employ fewer people. Most of the self-employed are forced to operate in a small scale and often find that they end up paying more in bribes and commissions than what they would normally pay in taxes.

Furthermore, the extreme restrictions placed on their size and access to resources force most microenterprises to rely heavily on unskilled labor, low-technology production, and unreliable black market inputs. Moreover, with limited legal protection, they have little incentive to invest and can easily lose the small amount they have already invested through closure and/or confiscation of goods and equipment. Finally, Cuba's archaic housing laws deny most owners the right to transfer investments and or ownership to others, further discouraging investment in one's business. Thus, the “costs of informality” include declining productivity, reduced investment, and limits on technical progress (De Soto 1989).

Similarly, the government wastes its own precious resources in its increasing attempts at patrolling and inspecting the self-employed sector. As is abundantly clear from the articles in the official press, Cuban officials have consistently attempted, as Peruvian economist Hernando de Soto has put it, to “blame legislative failures not on bad laws but on inadequate enforcement” (De Soto 2000: 100). However, official law makes no sense if a sizable part of the population lives outside it. Furthermore, the “lawlessness” that is commonly denounced in the official Cuban media is not so much about crime, as it is a clash between rules made at the top and the survival strategies developed by those condemned to live without open protest by those rules, while they must maneuver around them, in silence, to keep their businesses up and running (De Soto 2000: 105-108).

Cubans commonly complain that they have attempted to “formalize” their businesses but have found legalization too costly or they discovered that new self-employed licenses are simply unavailable. However, as De Soto puts it, “most people do not resort to the

extralegal sector because it is a tax haven but because existing law, however elegantly written, does not address their needs or aspirations” (De Soto 2000: 154). Therefore, it is an error to see clandestine work as motivated by a desire to avoid taxes. The government may achieve more success in eradicating the informal sector if its goal were making the costs of operating formally/legally lower than those associated with remaining underground. In the end, the fact is that the self-employed, microenterprise sector is taxed both inside (legal) and outside (clandestine) the legal enterprise system. The real question that must be confronted by Cuban policy-makers is: What is the relative cost of being legal?

In its current state, Cuba’s self-employed, microenterprise sector suffers from what Cuban sociologist Fernández Peláez (2000) has called a “key problem of dysfunctionality”: this nascent private business sector remains disarticulated from the larger restructuring of the Cuban economy. In other words, the existing regulatory and tributary framework for the private sector treats self-employed workers as second-class citizens, refusing to integrate them and their informal survival strategies into a coherent recovery plan for the Cuban economy. Though the Cuban state has by no means declared its intention to embrace capitalism, De Soto has rightly called the kind of restrictive policies in place in Cuba, “capitalist apartheid” (2000).

Intentionally or not, antagonistic state policies turn Cuba’s experiments with capitalism into a “private club” for the government and its foreign partners, leaving the great majority of private capital “dead” in the hands of its holders who are in turn excluded from any legal participation in the national economy. The possibility that these small-scale, private enterprises could be a source of jobs and an aid in the provision of goods and services for both the island’s population and the still-growing tourism sector is largely ignored by the Cuban leadership. As a result, local communities are denied a direct, participatory role in economic recovery.

CONCLUSION

In summary, we can draw six basic conclusions from this update and comparison of the underground

economy in Cuba’s two largest cities, Havana and Santiago.

First, despite an enormous difference in the size, development, and general reach of the underground sectors in the two cities, the underlying structural basis for its existence and persistence is the same in both places. In other words, the differences in the manifestation of informality between the two cities are more a matter of degree than of kind. In Cuba, the underground economy exists as an oppositional survival strategy in the face of the extensive restrictions, inefficiencies, and overall scarcity that characterize the state socialist economy.

Second, the state has been successful at lowering its prices and generally increasing the quality and number of services in its tourism infrastructure. As a result, many private operations are no longer a bargain vis-à-vis state offerings. This is especially the case in the food service and transportation areas. For example, the state has deployed a new fleet of state taxis, “Lada panataxis,” and has cashed in on foreigners’ fascination with classic American cars by transforming these normally 10-peso taxis into convertible state-dollar taxis.

Third, there is a pronounced polarization in the offerings of the second economy. In other words, the big fish have grown bigger, stronger, faster, and more competitive while smaller fish have died off or been eaten. A small number of very successful and presumably well-connected *paladares* thrive, while most others barely survive. Examples of the strategies utilized by some of the most successful operations include: having websites and e-mail addresses for information and reservations, making underground agreements with large tour groups, making major investments and infrastructure renovations, having a diversity of offerings in services and menu, combining with room rental, employing an army of workers, and using two sets of menus based on commissions.

Within Cuba, there is a debate over true nature of many of these very successful *paladares*. Some believe that they are private only in name, having been secretly taken over by state security (in part to gain profits, in part to spy, and in part to find out how these operations work). Others simply reason that the few very successful operations that openly violate

the law with impunity have made semi-official accommodations (commissions and profit sharing in exchange for protection and public relations) with state food service providers and tour operators (beyond low-level corruption) to formalized (if secret) agreements with Palmares, the state-run food service enterprise. Others contend that their success derives from their ability to corrupt low-level police officers and inspectors. Still others argue that they survive due to economies of scale and entrepreneurial skills.

Fourth, most private sector operations (legal and underground) continue to exhibit an amazing inventiveness in the face of harsh laws, repression, and economic conditions. For example, many *paladares* have transformed themselves into bed and breakfasts (B&Bs) in order to avoid harsher requirements. However, the state is not far behind in its efforts at imposing new and harsher regulations on Cuba's B&Bs.

Fifth, many young people continue to be attracted to informal employment as hustlers as the only feasible way to make ends meet. Young people can be found lounging on street corners at all times of the day and night and concentrating around the exits to tourist hotels. There seems to be little incentive for them to work in a state job since they can earn much more as tourist hustlers. As one hustler exclaimed to me, "The only thing left here for us is contraband tobacco, *paladares*, and gypsy cabs."

Thus, there is an antagonistic dynamism that characterizes relations between some private operations and these street hustlers. On the one hand, many licensed operations must rely on hustlers since they cannot legally advertise. Also, clandestine operations must rely

on hustlers as their only means of public relations. Thus, there is a very well developed (if informal) system of commissions. On the other hand, there is a group of *paladares* that totally refuse to pay commissions and have thus alienated many hustlers who will lie to potential guests telling them that the food is bad and/or expensive, or that the *paladar* is closed or has moved to another place. There are also *paladares* that willingly pay commissions but do so only to selected individuals, wanting to avoid the random street hustler.

Sixth and finally, the informal, underground economy has thoroughly penetrated virtually every area of the official, state economy. By and large, Cubans do not go to work in state jobs out of a sense of revolutionary obligation or loyalty (*conciencia*, or moral incentives), and much less for any material incentives. They work in state jobs because such a job provides them with access to state goods that can be "liberated" and resold on the black market.

For example, a routine visit to the state-run Corona cigar factory ends with two visits to the "company store." The first has low, black market prices, is located in a back room, and the profits go directly to the workers, while the second is in the air-conditioned *Habanos* outlet which provides cigars in boxes at market prices with the lion's share of the profits going to the state. While this kind of small-scale, systematic criminality is probably best seen as a form of resistance to the Cuban state's economic "embargo" against the Cuban people, it poses many difficult dilemmas for the building of any kind of transparent, civil society in Cuba in the future.

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