

## FIFTEEN YEARS OF ENTREPRENEURSHIP IN CUBA: CHALLENGES AND OPPORTUNITIES

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The post-Soviet era ushered in new opportunities for Cuban entrepreneurs back in 1993. Attendant changes also included the legalization of the dollar and incentives to attract foreign investment, largely in the form of joint ventures (CEPAL 1997; Pérez-López 1994; Pérez-López 2001). Five years later, Peters and Scarpaci (1998) published the first systematic account of entrepreneurs' experiences in this new realm of limited small-business activity. Since then, intermittent studies have surfaced on the vicissitudes of these new workers (Ellinson 1999; Henken 2002). The literature points to daunting obstacles for these self-employed workers: Government "crackdowns" on alleged violations, rising prospective taxes paid at the first of each month, and increased vigilance by state inspectors are but a few of the challenges that characterize the regulatory setting of this Cuban work environment (Pérez-López 1995).

This paper builds on the work of Peters and Scarpaci (1998) who surveyed 152 workers in 1998. Here I present the survey findings of 154 Havana City self-employed workers (*cuentapropistas*) conducted in 2008, and provide an empirical and descriptive benchmark about this segment of the Cuban labor force. I begin with a review of the salient features of the entrepreneurship literature. Next, I summarize some of the characteristics of self-employed workers in Cuba by highlighting selected trends in the size of the workforce, and offering examples of the nature of work on the island. The main body of the paper compares and contrasts the 1998 and 2008 survey findings. I conclude with some recommendations at the policy and methodological levels of research that would enhance

market operations in the near future and contribute to our understandings of *cuentapropismo*.

### ENTREPRENEURSHIP

Entrepreneurs are well known for their risk-bearing propensity and innovation. The work of Schumpeter (1942) serves as a benchmark for a number of studies of entrepreneurship in the industrial market economies. His conceptualization of entrepreneurs as being distinct from business owners and managers was useful because it shifted the locus of control in the small enterprise to the risk-taking behavior of the solo proprietor. Following WW II, Drucker and others probed the work environment of entrepreneurs, encouraging researchers to resist the urge to praise them and focus more on defining the empirical aspects of their work. Drucker noted "there continues to be an implicit assumption that the entrepreneur contributes disproportionately to the economy of a nation, yet little has been done to isolate this individual for further analysis" (1958, 255).

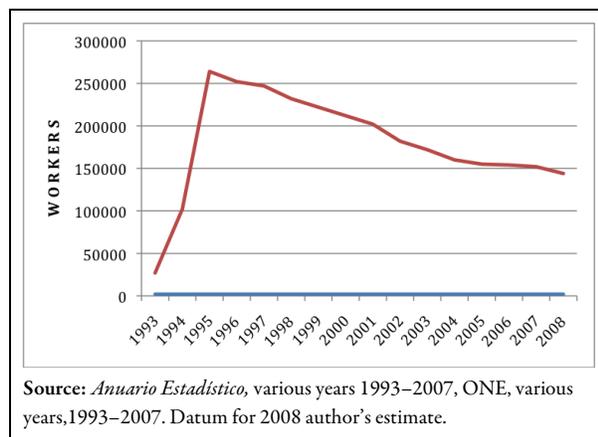
In the following decades, Hofstede (2002) and others offered cultural evidence that workers raised in the market economies of the industrial North Atlantic would have a particular advantage in being successful entrepreneurs because of the broader cultural milieu in which they were raised. Specifically, the variables of individualism, masculinity, time orientation, power distance (among individuals), and related variables were good ways of anticipating which nations would embrace unfettered markets. Reduced to its simplest element, non-Western agrarian societies are unlikely to adapt well to the pressures and risks of industrial capi-

talism. The rise of China, India and other emerging economies would suggest a need for reinterpreting these simplistic assertions about risk and entrepreneurship.

### BRIEF HISTORY OF SELF-EMPLOYMENT IN CUBA

Self-employment quickly disappeared in the first decade of the Cuban revolution. Although almost all workers were tethered to public-sector employment, a small number of workers were granted permission by the communist government to ply their trades. As noted earlier, though, the legalization of the dollar in 1993 moved in tandem with liberalizing work laws (Scarpaci 1995). By 1996, the government reported approximately 200,000 workers (not quite 2% of the labor force in Cuba) as *cuentapropistas*. By 2007, the figure hovered around 150,000 (Figure 1). The more popular of these trades included home restaurants, cobblers, beauticians, bicycle-taxi drivers, lighter refuelers, confectionary and juice vendors, and artists, among others (Scarpaci et al 2002).

**Figure 1. The Rise/Fall of Self-Employed Workers in Cuba, 1993–2008**



The regulatory environment for these workers has always been convoluted. Essentially, small businesses are outlawed in Cuba, presumably because a nascent petite bourgeoisie threatens the socialist system. Home restaurants, for instance, can only employ family members and their place settings are limited to just 12. Moreover, certain foods such as lobster and beef have been prohibited. However, lookouts often alert the operators of approaching state inspectors, thus allow-

ing time to rid the premises of non-familial labor and illegal foods.

Some jobs naturally require collaboration, and Cubans have creatively circumvented legal obstacles. The case of the air pump operator is telling. With the collapse of favorable oil deals for sugar (between the USSR and Cuba), bicycle use soared throughout the island, from about 70,000 in 1989 to several hundred thousand a few years later (Scarpaci et al. 2002). Operating an air pump compressor to inflate tires has been a common self-employment trade. Logically, the ability to patch tires is a parallel service in these settings, but the Cuban government prohibits the same air compressor operator to patch tires. Therefore, many households will have one family member secure a license for the air pump and another labors as a tire patcher. Similar arrangements are repeated across the island and among myriad trades and services.

### SURVEYS OF CUBAN SELF-EMPLOYED WORKERS

#### Baseline Data from 1998

Phil Peters and I administered the first large-scale survey of self-employed workers in 1998. We sought to document the incomes, taxation levels, and challenges of *cuentapropistas* at the five-year mark of their operations. We found they were making more than three times the average monthly wage, paid about 42% of their gross wages for taxes and licenses, and generally cherished this newfound liberty. Having a steady flow of cash allowed them to purchase products that suddenly appeared in the state and black markets. When asked about their main challenges as *cuentapropistas*, the most common response was “no major challenges,” followed by “high taxes and licensing fees.” Surprisingly, illegal shakedowns, bribes and kickbacks were not reported by any of the 152 informants. Rather, the inability to buy wholesale products ranked as their second concern.

Peters and I repeatedly heard stories about the seemingly arbitrary and inexact ways state inspectors determined whether legal (e.g., state-store purchased) inputs into production were used by the *cuentapropista*. A pizza vendor's tale captured this well. She reported that the normal inspection began with the authorities asking how many pizzas had been sold over the past

week. Armed with that data, the inspector would estimate the amount of flour, salt, yeast, cheese, and tomato sauce required for making the pizzas. It would then be incumbent upon the vendor to produce recent state-store receipts for the ingredients; negotiation and compromise are never options at this stage. If the vendor could not provide adequate documentation, sanctions would follow, ranging from a fine, immediate closure of the operation, or incarceration. The logic of the inspector was that if the proper receipts could not be provided, then the pizza owner purchased the ingredients on the black market, which presumably is stocked by stolen items from the state. In the worst of cases, the owner could be charged with “illegal enrichment” or theft of state property, both of which carried stiff finds and years of incarcerations. Tales like these were echoed across of sample of informants (Peters and Scarpaci 1998).

**15 Years of Self-Employment**

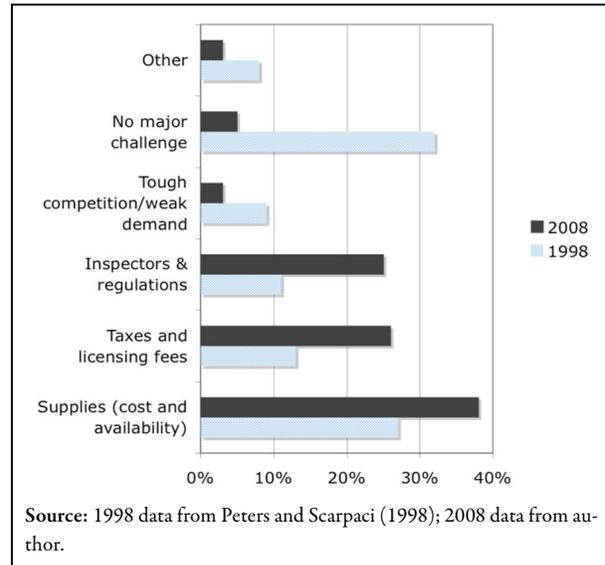
In April of 2008, I used the same survey instrument that Peters and Scarpaci used a decade earlier. My objective was to: (1) examine the changing nature of self-employment in Cuba between 1998 and 2008; and (2) assess marketing and economic development strategies in a post-Castro marketing context. The only significant difference was the area from which the survey was drawn. Whereas the 1998 survey drew on workers from Pinar del Río, Havana, and Havana City provinces, in the new survey I drew only on Havana City self-employed workers. The 2008 survey also enlisted a convenience or snowballing technique to locate these workers since a sampling frame of self-employed worker—available only at county-based offices—was unavailable.

**Findings**

Like in the 1998 report, self-employed Cuban workers surveyed in 2008 valued their independent work setting, enjoyed having a steady cash flow, and relished co-locating work and residence. In this paper I report only on the differences between the two years’ responses about “What principal challenge does your business face?” which led to five nominal response categories (Figure 2). Test results for 1998 data produced a Chi-square of 47.58 which, with five degrees of freedom, were significant at the  $p < .001$  level. The same

nominal response categories for the 2008 were also significant with a Chi-square of 28.03 ( $p < .001$ ).

**Figure 2. Principal Business Challenges Faced by Cuban Entrepreneurs, 1998 & 2008**



Although the number of self-employed workers had shrunk by about one quarter across the island over the previous ten years, the 2008 sample revealed a slightly older, better educated, and greater compensated group of workers than in the earlier survey. *Cuentapropistas* earned more than the average Cuban worker and physicians, and they were also paying about 10% more in taxes than those in the 1998 sample.

**Table 1. Cuban Entrepreneur Profiles, 1998–2008, Mean Survey Results**

Variable	1998 (n=152)	2008 (n=154)
Age (years)	43	45
Years of schooling	12	14.5
Months in business	28	37
Net income (monthly)	743	1157
Net income compared to Cuban physician wage (450 pesos monthly)	165%	192%
Net income compared to average Cuban salary	347%	386%
Tax/Profit percentage	41%	45%

Source: Peters and Scarpaci (1998) and data from author

**DISCUSSION AND CONCLUSIONS**

Levels of self-employment in Cuba have waxed but mostly waned since the inception of this work modality in 1993. Following Drucker’s call a half century ear-

lier, this paper has attempted to isolate and analyze more closely a particular type of entrepreneur. It would appear that nearly 50 years of socialism has not diminished the yearning for self-employment, Hofstede's (2001) expected findings to the contrary. A half a century of central planning has created an important space for these workers to provide products and services in ways that the state cannot do and which consumers yearn.

Survey data from 2008 reveal a smaller but more skilled (better educated) and prosperous set of workers than their counterparts a decade before. In both periods, channels of advertising have been confined to word-of-mouth. No print or electronic-media can promote self-employed workers' services and products. Accordingly, the services and products they offer are transacted within the confines of a few city blocks.

Wholesaling is absent and distribution channels are limited. *Cuentapropistas* resent these constraints. Supply-chain improvements will no doubt add value to a wide array of products and services. Future research based on a national sampling frame provided by the Ministry of Finances and Prices would afford a statisti-

cally representative sample that would further test these market conditions.

Not unlike much of Eastern Europe, retailing in Cuba is largely pedestrian-based, even though shopping malls have appeared in both regions. Unlike parts of Latin America where regulatory measures are numerous and launching businesses require dozens of forms and approvals to be a legally operating business (de Soto 1989), the Cuban regulations—although draconian—are clear. In a less restrictive environment, either during the era of the Castro brothers or in subsequent governments, it would seem appropriate to encourage these small “mom-and-pop” neighborhood-based enterprises, and avoid the rush to development or foreign-aided projects that promote big-box retailing. The latter would only encourage sprawl and competition from international mass merchandisers at the expense of what could be a promising retail sector (Hirt and Scarpaci 2007). Regardless of the short-term prospects, the answer to Ritter's (1998) question is gaining clarity: after 15 years, Cuban solo entrepreneurs cling to a hard place between asphyxiation and containment.

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