After cautiously consolidating his new government once becoming president in 2008, Raúl Castro made a series of unprecedented moves in late 2010 to encourage the reemergence of private self-employment (known as trabajo por cuenta propia or cuentapropismo in Cuba)—explicitly ending Cuba’s previous policy under Fidel Castro that, according to Raúl’s own bold assessment, had “stigmatized” and even “demonized” it. Subsequently, both the number of legally allowed private occupations (up from 178 to 201) and of Cubans licensed to practice them have grown significantly, with the island seeing a veritable “boom” in entrepreneurial activity between 2011 and 2015. Indeed, in that time, the number of Cuba’s cuentapropistas (self-employed workers or micro-entrepreneurs) has more than tripled, growing from less than 150,000 in 2010 to nearly half a million by early 2015. Additionally, 498 new non-agricultural cooperatives have been authorized to operate on the island between 2013 and 2014, with another 300 under review at the start of 2015. Moreover, on December 17, 2014, as part of a momentous diplomatic thaw between Washington and Havana, the Obama Administration announced a new policy of engagement targeted explicitly at “empowering” Cuba’s new class of private entrepreneurs by allowing U.S. companies to “support the emerging Cuban private sector,” in Obama’s historic words.
How might Washington’s new policy of “empowerment through engagement” and the larger bilateral process toward normalization impact the island’s emerging entrepreneurs as well as the emergent “non-state sector” of its economy? While there are many potential economic benefits of concerted U.S. private sector engagement with Cuba’s cuentapropistas, the monopolistic Cuban government poses significant challenges to those who want to do business on the island, reach out to island entrepreneurs, and hire Cuban workers—as many European and Canadian companies can already attest. How will this work in practice, who will be the likely winners and losers (both in Cuba and abroad), and how can the Cuban government deal effectively with the growth in socioeconomic inequality that will inevitably follow an expanded private sector?

Direct U.S. engagement with Cuban entrepreneurs through freer travel and more remittances; access to banking and other financial services; increased exports of badly needed inputs to island cuentapropistas; the import of private or cooperatively produced Cuban goods and services to the U.S.; and technology and know-how transfer are all encouraging elements of Obama’s new Cuba policy. These changes have the potential to both “empower” individual entrepreneurs—the stated goal of the U.S. policy shift—and incentivize the initial, if exceedingly cautious, private sector reforms already begun by the Cuban government.

However, to increase Cuba’s economic independence and overall prosperity, the U.S. should focus on addressing the specific economic needs of Cuban entrepreneurs, rather than framing its engagement as a way to effect “regime change” by other means. That is, given the need to build bilateral diplomatic trust after more than fifty years of mutual antagonism, Washington should eschew any “Trojan horse” approaches to entrepreneurial engagement that aim to empower the Cuban people by undermining the government. Such an antagonistic and
divisive approach has not worked in the past and could derail Obama’s promising effort to encourage the incipient pro-market reforms already underway.

At the same time, a U.S. policy based on empowerment through economic engagement—even when motivated by the best and most transparent of intentions—will be a dead letter if the U.S. Congress insists on clinging to the outdated and counterproductive embargo and the Cuban government stubbornly refuses to ease its own auto-bloqueo (or “internal embargo”) against island entrepreneurs. As it implements a self-described economic “updating of socialism,” will Cuba continue to hold fast to its monopolistic “command and control” economic model—one that “ya no funciona ni para nosotros” (“no longer works even for us”), as Fidel Castro himself famously admitted in a rare moment of economic candor in 2010

A “Cuban Moment” (?) and the Cuban Model

December 17, 2014—“Diecisiete-D” as the date is now referred to in Cuba—represented a seismic shift in hemispheric relations, but had much more to do with the U.S. decision to change its long-standing and uniquely unsuccessful isolationist policy than it did with any changes on the island itself.

Change in Cuba began earlier. In the second half of 2010 and under the leadership of Raúl Castro, the government began a series of unprecedented economic reforms that gave credence to Fidel Castro’s previously quoted quip that the “Cuban model” no longer worked even for Cuba. Just weeks following Fidel’s grim assessment, on September 13, Cuba’s Communist Party newspaper *Granma* published a communiqué from Cuba’s Central Workers’ Union, informing its rank-and-file that half-a-million state workers would be laid off over the next six months, with hundreds of thousands of other state-sector posts to be eliminated over the
coming years. Then, towards the end of the month, Granma published a second article that celebrated private microenterprise as “much more than an alternative” to the state sector, publicly banking on it to both absorb laid-off state workers and lead the reversal of the economy’s long-flagging efficiency and productivity. “We aim,” the article boldly declared, “to distance ourselves from those concepts that condemned self-employment to near extinction and stigmatized those who practiced it legally in the 1990s.” Subsequent legislation was soon issued that breathed new life into the island’s moribund private sector by allowing unprecedented legal space and business opportunity for Cuba’s long-suffering micro-entrepreneurs.

Together with a detailed list of economic reform “guidelines” subsequently published in November 2010 and approved at the April 2011 Party Congress, these announcements ushered in a new understanding of Cuban socialism that sought to recalibrate the “social pact” between Cuban workers and the state. The idea that socialism meant egalitarianism was openly mocked as a grave error leading to economic dysfunction, lack of efficiency, low productivity, and freeriding—something Raúl criticized as “the exploitation of the good workers by the lazy ones.” On the one hand, this new economic orientation assured Cubans that “in a socialist society no one will be abandoned” by the state—though some Cuban workers have certainly felt as such, given the unprecedented layoffs and cuts in many long-sacrosanct social services. Work was declared “simultaneously a right and a duty” that “should be remunerated based on quantity and quality.” The guidelines only made official something Raúl had become fond of repeating since becoming president in 2008: “We must erase forever the notion that Cuba is the only country in the world where you can live without working.”

Cuentapropismo, a.k.a., “On-Your-Ownism”: A Necessary History
It is not Adam Smith’s much celebrated and presumably “natural” human propensity to truck, barter, and trade, or the supposedly invisible hand of the market that acted as the catalysts for the emergence of cuentapropismo in revolutionary Cuba. The more immediate cause of Cubans’ characteristic entrepreneurial bent—often proudly, if guiltily, referred to by Cubans themselves as “el invento cubano”—was hinted at by President Obama himself in his December 17 speech with the words: “No es fácil.” By quoting this standard expression of mocking exasperation that has come to characterize the daily struggle (la lucha) to invent (inventar) often extra-legal solutions and creatively resolve (resolver) all manner of problems over the past 25 years, Obama was indicating that a thick web of legal prohibitions, bureaucratic obstacles, ideological suspicion, and material shortages (some caused by the U.S. embargo itself) have made necessary what had been declared both illegal and illegitimate: Cuba’s ubiquitous underground economy.

It is often mistakenly assumed that Raúl’s 2010 opening created the hundreds of thousands of private microenterprises that exist today. However, in most cases, just the opposite is true. Periodic policies over more than 50 years that suppressed or fully outlawed the entrepreneurial sector forced such activities to incubate informally and extra-legally. Thus, state policies have occasionally legalized and regulated entrepreneurial activities under the euphemistic term “trabajo por cuenta propia” (self-employment or, more literally, “working on your own account”) that already existed in the underground economy.

While the expansion of self-employment should be celebrated given the subsequent growth in economic freedom and productivity, as well as provision of job opportunities, lower prices, and higher quality of goods and services, it is also curious that the Cuban government has embraced it historically only during times of economic crisis when it could no longer provide
enough jobs, goods, or services for the people. Indeed, this is one of the mantras most commonly repeated in the official press when justifying the downsizing of the state sector and the expansion of “on-your-ownism” (a term we intentionally borrow from Enrique Krause’s recent *New York Review of Books* article, “The New Cuba?”): The state must lighten its load so it can focus only on the fundamental elements of the economy. Given such a context, Cuban workers can be forgiven for concluding that Raúl’s much-trumpeted economic reforms, constant calls for greater productivity and efficiency, and sharp criticisms of Cuba’s “inflated state payrolls, bulky social spending, undue gratuities, and excessive subsidies” are simply fancy words for the state’s abandonment of its historic commitment to the people under the Revolution.

Indeed, entrepreneurship has an elastic history in revolutionary Cuba. In 1968, the “Revolutionary Offensive” wiped out virtually the entire private sector (then comprised of some 58,000 small and microenterprises). Then, in 1978, the government allowed a very limited experiment in “self-employment,” legalizing just 48 quite marginal private occupations. Most of these were run out of business once again during the “Rectification Campaign” that began in 1986. Later, in 1993, as a response to the economic crisis of the “special period,” the government changed course once again and re instituted self-employment—as a “necessary evil” in the words of Fidel Castro—this time legalizing 117 occupations, which grew to 157 by 1997.

By the early 2000s, however, the government had instituted policies that ran many of these small enterprises out of business or back underground, and it officially ceased to issue new licenses in 40 of the total 157 legal self-employed occupations. As a result, the total number of licensed *cuentapropistas* dropped from a peak of 209,606 in January 1996 to 149,000 by January 2004, and remained at that level in the six years before Raúl Castro changed economic policy once again in September 2010 with a new round of legislation that legalized 178 occupations,
which eventually grew to 201. By early 2015, the total number of registered cuentapropistas had reached a record 483,000, nearly 100,000 of which were licensed employees of other private enterprises (most working in the food service sector).

**The Promise and Peril of Cuentapropismo Today**

Raúl’s expansion of self-employment since 2010 differs in a number of key respects from his elder brother’s experiments with microenterprise during the “special period” between 1993 and 2006. This time around, licenses are more readily issued to virtually all applicants and potential entrepreneurs have a wider (if still numerically limited) array of occupations in which to do business. They face a much improved, if still regressive, tax policy that allows them to deduct a greater portion of their business expenses—especially important for high value-added and input-dependent operations like paladares (private, family-run restaurants) and boteros (private cabbies). Finally, for the first time since 1968’s “Revolutionary Offensive,” business owners can legally hire and pay private employees—for whom they must pay a special tax if they contract more than five.

Still, many onerous and frustrating obstacles remain that severely (and perhaps intentionally) limit cuentapropista growth, wealth accumulation, flexibility, access to affordable inputs and potential markets, and provision of jobs and much needed goods and services to the Cuban population. Ironically, these obstacles also limit the tax liability that they could contribute to the government’s bottom line. Thus, while Raúl’s reforms seem based on a refreshingly clear and transparent economic logic (especially when compared to Fidel’s halting measures from the 1990s), there are many reminders that his still significant “pauses” in implementing deeper and faster economic changes obey an undeniable political logic as well.\(^{x}\)
For example, the vast majority of Cuba’s legalized “own-account” occupations are not entrepreneurial, productive, or wealth-generating at all, but strictly low-skilled, survival-oriented, service-sector jobs targeted at Cuba’s extremely limited and cash-poor local markets. Nearly all professionals are excluded from the self-employment sector, an especially frustrating and counterproductive policy for such a highly educated work force as Cuba’s. Indeed, only seven percent of Cuba’s nearly half-a-million self-employed are college graduates. As Julia Cooke succinctly put it in a recent *New York Times* editorial, “a Cuban can go into business as a party clown but not a lawyer; she can open a bar but not a private clinic.”xi Indeed, some of the more medieval and laughable of these 201 “private” occupations include party clown, water deliverer, knife sharpener, dandy, fortune teller, mule driver, pushcart operator, parking or public bathroom attendant, palm tree trimmer, charcoal maker and seller, button upholsterer, spark plug cleaner and tester, disposable lighter repairer and re-filler, and sheep shearer.xii

Instead of declaring a broad opening for small- and medium-sized private enterprise, together with a short list of explicitly prohibited jobs or sectors, the state published a list of just 201 jobs, outlawing all others by default.xiii On the upside, this approach has had the effect of successfully bringing much of Cuba’s vast informal sector into the light. An estimated 70 percent of Cuba’s new *cuentapropistas* were previously “unemployed”—i.e., working in the same jobs underground. However, to date, the laudable self-employment expansion has done little to facilitate the creation of new, innovative, modern, or high-skilled and productive occupations that could absorb some of the projected 1.8 million state sector workers slated for layoff. The lesson here is that, even under Raúl’s more pragmatic leadership, Cuba’s *papá estado* (father state) continues micromanaging the limited opening to “on-your-ownism” so as to protect its lucrative monopoly over all professional employment and import-export activity. Such an
approach acts as an effective “auto-bloqueo” (internal embargo) on the productive utilization of Cuba’s highly skilled labor force.xiv

Overcoming Both Embargoes: Recommendations for Havana and Washington

Overcoming Cuba’s “internal embargo” on the optimal development of island entrepreneurship will require Raúl to undertake a second, deeper, and more audacious round of economic reforms that meet halfway both the new Obama “empowerment through engagement” policy and Cuban entrepreneurs themselves. Specifically, he can do this by:

1) implementing affordable wholesale markets for entrepreneurs, among the loudest and most consistent demands of Cuba’s new breed of cuentapropista;
2) providing direct access to foreign exchange, investment, credit, and imports and exports—all fiercely guarded state monopolies;
3) opening the professions to private enterprise; and
4) relaxing the onerous tax burden on microenterprise, which currently discriminates against domestic ventures in favor of foreign investors—who themselves can currently only partner with state enterprises, cutting them off from Cuba’s burgeoning non-state sector.

Progress in all these areas will be greatly facilitated by more fluid, two-way travel, telephone, and Internet communication between the U.S. and Cuba and access to higher levels of U.S. remittances, as well as investors, credit and banking services, and markets—both as sources of desperately needed wholesale inputs and as a place to sell their products. Indeed, to varying degrees, all of these options became theoretically possible during the first two months of 2015, when Obama’s historic policy changes were implemented and financial companies like MasterCard and American Express, Internet behemoths like Netflix, and the New Jersey based
telecom IDT all set up shop in Cuba. However, in order for this “theoretical” and still largely symbolic opening to become a real one that impacts the bottom line for Cuban startups, other things still need to happen on the U.S. side.

The challenge moving forward is the still piecemeal and somewhat ad-hoc reform of U.S.-Cuba policy itself. The continued existence of the U.S. embargo and Cuba’s designation as a “state sponsor of terrorism” directly undermines Obama’s efforts to engage Cuba, forcing him to make U.S. foreign and trade policy with one hand tied behind his back.

On the bright side, the U.S. list of goods and services eligible for import from Cuba's private and cooperative enterprises released on February 13 is purposely a “negative” one in that, instead of listing what is permitted in exhaustive detail (as the Cuban Government has done with its list of 201 self-employed occupations), the State Department only lists exceptions, allowing Cuban entrepreneurs to use their imaginations, be creative, and think outside the box (in other words, to keep “inventing” and finding solutions where there apparently are none). At the same time, although the list aims “to further engage and empower the Cuban people” by “authoriz[ing] the importation into the U.S. of certain goods and services produced by independent Cuban entrepreneurs,” at present it can also be read as a catalogue of woe, which more stringently stipulates what cannot be sold to the U.S. than what can.\textsuperscript{xv}

Also, the fact that these provisions apply only to goods and services that originate in Cuba’s “private sector” (something for which importers must show documentary proof) could be interpreted by the Cuban government as a “Trojan horse of trade,” aimed at undermining the state enterprise sector (and the government monopoly on imports and exports) by “empowering” \textit{cuentapropistas} to become more “independent from the state.”

While most of the services on Cuba’s self-employment list are decidedly low-skilled and
extremely local in their application (ID/photo laminator, umbrella and parasol repairer, floor polisher, etc.), others such as telecommunications agent, real estate broker, photographer/videographer, computer programmer, bookkeeper, and document translator are both potentially lucrative and will be increasingly “exportable” abroad as Cuba’s Internet penetration and speed increase. Indeed, given the strong linguistic, cultural, and familial bonds that already exist between Cuba and South Florida, it would be easy to imagine Cuban-American businesses in Miami outsourcing certain “back office” computer and technical services to Cubans on the island as a way to simultaneously cut costs and support their compatriots. Under Obama’s new regulations, this kind of “off-shoring” of services to Cuba is now legal.\textsuperscript{xvi}

Intelligently, the State Department has also clearly stated that this list is a “living document” that will be expanded over time as it receives feedback from Cuba’s private sector and as conditions (and laws) change on the ground in Cuba. As the U.S. list expands (and laws change), we envisage a series of positive spillover effects within Cuba—inevitably incentivizing the concomitant expansion of Cuba’s own list of permitted self-employment occupations to include more modern, professional, value-added categories of economic activity. In the short term, this should increase the number of licensed \textit{cuentapropistas} (which has virtually flat-lined since 2012 after phenomenal growth).\textsuperscript{xvii} It should also allow them—together with Cuba’s new non-agricultural cooperatives—to link up with U.S. suppliers and markets. In the medium to long term, U.S engagement could stimulate the growth of viable and dynamic nodes of entrepreneurship (such as in food service, hospitality, and transportation), while simultaneously further marginalizing occupations that add to the list but provide little or no economic growth, development, or prosperity (such as the “medieval” occupations listed above).
Strengthening viable entrepreneurship means establishing a new relationship between Cubans and the state, with citizens transforming from passive recipients of subsidized goods into active participants in the nation’s economy. As indicated above, Raúl has repeatedly reminded Cubans that the days of “undue gratuities and excessive subsidies” are numbered. So should the days of a paternalist state that centralizes and monopolizes all vital economic activities. U.S. engagement with Cuban cuentapropistas could very well help tip the balance in this direction. Such increased American involvement with Cuban entrepreneurs could also bring about a transfer of often intangible but always essential “know-how”—understood both in terms of specific technological advancements and products and in terms of the market ethos that is emerging on the island but has yet to take on a firm foothold given the unstable, ad-hoc, and not yet fully legitimate legal environment for private enterprise.

Conclusion: Making the Lives of Ordinary Cubans “un poco más fácil”

It remains to be seen whether Raúl has the political will to intensify the internal reform process. The outright prohibition of economic activities the government prefers to keep under state monopoly allows it to exercise control over Cuban citizens and impose an apparent order over society. On the other hand, the acceptance and regulation of the many private activities dreamed up and market-tested by Cuba’s always inventive entrepreneurial sector would create more jobs, a higher quality and variety of goods and services at lower prices, while also increasing tax revenue. However, these benefits come at the political cost of allowing greater citizen autonomy, wealth, and property into private hands, and open competition against state monopolies.
The “American moment” of historic change in U.S.-Cuba policy that finally arrived on December 17, 2014 will inevitably change the political calculus that underlies the pace and depth of the island’s economic reform. As external obstacles to Cuba’s economic revitalization are eliminated, the onus for Cuba’s chronic economic problems will fall with increasing weight onto the Cuban government itself, spurring it to deepen its initial reforms since it will no longer have the U.S. to blame for poor performance. History may or may not absolve Fidel Castro for how he made Cuban economic policy for nearly half a century, but his legitimacy and legacy as a ruler were tied much more to political and ideological achievements (like the defense of Cuban sovereignty and universal social services) than they ever were to economic growth or development. Raúl, on the other hand, knows that his own legitimacy and legacy are riding on the economic achievements he can bequeath to a new generation of Cuban rulers when he leaves office in 2018. This fact together with the economic and political crises faced by the government of Nicolás Maduro in Venezuela make the stakes of engagement with the U.S. very high indeed.

Obama’s courageous move to replace a failed past U.S. policy of isolation and impoverishment aimed at regime change with one of empowerment and prosperity aimed at the Cuban people is a necessary step toward “making the lives of ordinary Cubans a little bit easier, more free, more prosperous,” as he declared on December 17. However, this historic change remains insufficient to spark real job creation, wealth formation, and economic growth, and sustainable development on the island unless Raúl Castro is equally bold in eliminating the still onerous obstacles to a more enterprising Cuba.

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For example, see Raúl Castro’s speech to Cuba’s National Assembly on August 1, 2010 at <http://www.cuba.cu/gobierno/rauldiscursos/2010/esp/r010810e.html>.


For an excellent analysis of Cuba’s alternating “pragmatic” cycles of policymaking that obey economic logic vs. “idealist” cycles, which follow political logic, see chapter one of *Cuba Under Raúl Castro: Assessing the Reforms* (Lynne Rienner, 2013), by Carmelo Mesa-Lago and Jorge Pérez-López.


A powerful illustration of the idea that Cuba, in fact, faces two embargoes (one external and another internal), came in a surprise improvised lyric from the musician Robertico Carcassés, the lead singer of Grupo Interactivo, during a live nationally televised broadcast of a protest concert directly in front of the U.S. Interest Section on September 12, 2013. “I want free access to information so I can have my own opinion,” Carcassés sang provocatively. “I want to elect the president by direct vote, not another way. Neither militants nor dissidents, all Cubans with the same rights.” He finished with the words: “And an end to the blockade, and to the auto-blockade. Free the Five Heroes (and María)!“ Video of this minute-long snippet is available with subtitles at <https://www.youtube.com/watch?v=DLEcnpR_yWg>.

The U.S. State Department section 515.582 list of Cuban goods and services eligible for importation, published by the Bureau of Economic and Business Affairs on February 13, 2015, is
available at <http://m.state.gov/md237471.htm>, together with a Fact Sheet:

<http://m.state.gov/md237473.htm>.
