

Cuba cautiously dips toe into capitalism

Government has begun to relax state controls on commerce, though it'll cost the entrepreneur

By Girish Gupta
Special for USA TODAY

BAY OF PIGS, Cuba — Sitting at a wooden table at his 3-week-old restaurant, Saturnino Morrejon Ramos surveyed the turquoise water of this inlet on the Caribbean off Cuba's southern coast.

"I still remember the gunfire," Ramos, 64, said, referring to the failed, CIA-backed invasion by Cuban exiles to depose the regime of Fidel Castro in 1961.

Ramos and others like him are taking part in a decidedly capitalistic change in Cuba in which the communist rulers have relaxed state control of the economy to generate wealth. Results appear mixed because of high taxes on profits and restrictions on economic freedoms that could lead to demands for political liberties.

Ramos is happy about the changes. The tables, chairs and kitchen of the restaurant atop his house were bought using \$5,000 worth of remittances, or cash that the family gets from relatives in the USA.

"It's definitely worth paying the taxes to the government because we're earning more money," he said, admiring both the view and the fish caught yards away that lay grilled on the plates of diners. "Everyone's pleased the government has allowed this."

Private restaurants such as this are known as *paladares*. They first appeared in the early 1990s soon after the Soviet Union collapsed, taking with it the financial aid and subsidized fuel that propped up the Cuban economy.

The private restaurants in people's homes were permitted grudgingly by the Castro government to help Cubans contend with the poor economy, which has for decades been subjected to a rigid socialist state that forbids private enterprise.

After an ailing Fidel stepped back from power in 2006, his brother and now president, Raúl Castro, slowly began to relax state controls on commerce. Political repression and denial of rights of speech remain intact, but in an attempt at a China-style system, Raúl Castro has tried to encourage a



By Ty Wright, Bloomberg News

Looser government grip: Cars drive down a street in Havana on June 1. Cuban leader Raúl Castro has begun easing state control of the economy to allow Cubans to seek self-employment in basic professions and buy and sell property.

compared with surviving on state salaries alone.

Payments to private enterprises are made not with the low-value Cuban peso that public employees receive but the Cuban *convertible* peso, a currency roughly equivalent to the U.S. dollar. Given that the average wage in Cuba is \$18 a month, the Cubans who are licensed to run a business are creating an inversion of social norms in the country, Espinosa said.

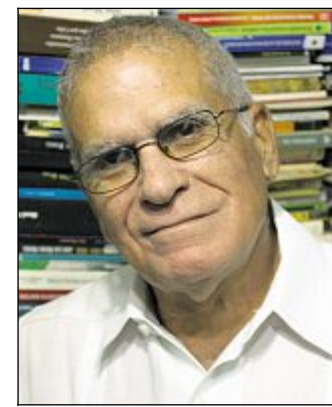
"A porter in a hotel or a taxi driver can earn more than a Cuban doctor," he said. "And they have a grandiose view of themselves. It's a joke."

Espinosa worries that none of the economic changes will survive should Cuba lose the patronage of Venezuelan President Hugo Chávez, who has used his nation's oil wealth to replace the Soviet Union as Cuba's benefactor.

Espinosa said that even the catastrophic loss of

welfare from Venezuela would not prompt the Castros to open the economy in full fashion.

"The problem is that the government is scared," said Espinosa, who was imprisoned in 2003 for 18 months for allegedly receiving money from abroad and possessing newspaper clippings about meetings between representatives of the United States and Cuban dissidents. "They know that economic freedom is linked to political freedom."



By Girish Gupta for USA TODAY

Espinosa: "The reforms are not sufficient," economist says.

See Cuba economy video

Scan with any QR reader or download the code scanner at scan.mobi. (Available on nearly every U.S. smartphone.) The video also is available at usatoday.com.



By Girish Gupta for USA TODAY

Meaty trade: A butcher works in his shop in Havana. Some Cubans are allowed to run private restaurants in their homes.

private sector. Cuba began by cutting more than 20% of the government-employed workforce, which was largely relegated to phantom jobs to make the claim that Cuba's social model created 100% employment. He allowed for an increased number of *cuentapropista*, or self-employment licenses, to spur more small businesses.

The licenses come with fixed amounts of taxes, regardless of the profits made, and restrictions on how many people can be hired.

Only enterprises that hire unskilled workers, such as restaurants and street vendors, are eligible for the licenses. Professionals such as doctors and architects are banned from expanding their practices.

Raúl Castro defended the pace of the changes, saying, "It is proceeding without haste, so that we don't make new mistakes."

There have been some noticeable changes. Farmers have been able to lease government land, and Cubans can buy and sell cars and property. Private guesthouses, normally a spare room in someone's house that tourists can rent for the night, are found all over Havana.

One license-holder who was popping and bagging popcorn for sale on the street said the changes are not without problems. He said he rents out a room in his home, but more than half of the \$20-a-night he charges must go to the government even if the room is vacant.

"The state earns more money from my business than I do," he said, asking that his name not be published for fear of reprisal from the government.

The Cuban government says the level of taxation is necessary to subsidize health care, education and telephone, electricity and water services. Cuban economist Oscar Espinosa Chepe said the taxes are so high that only the tiniest of enterprises can form.

"The reforms are not sufficient; they could be done much quicker," he said. "This government is trying to give the impression that it's changing, but the country is on the edge of a cliff."

Few newer-model cars are seen on the streets of Havana, shelves of stores are bereft of goods and shortages of food are common. Still, driving a taxi or running a guesthouse can be lucrative



By Ty Wright, Bloomberg News

Encouraging small businesses: A repairman fixes shoes at a shop in Havana. Cuba has increased the number of self-employment licenses.