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SELF-EMPLOYMENT IN CUBA SINCE THE VI PARTY CONGRESS

Mario A. González-Corzo and Orlando Justo

The reduction of State sector payrolls and the expansion of employment in the emerging non-State sector has been one of the principal policy measures implemented by the Cuban government to transform the country's socialist economic model. The end of central planning and excessive paternalism in labor practices was officially announced in 2010, when Cuban authorities recognized the urgent necessity to transform the structure and composition of the country's labor market. This was to be primarily accomplished by the reduction of State sector payrolls, and the implementation of a series of policies to promote cooperatives and self-employment.

This process was accelerated with the approval of the "Economic and Social Policy Guidelines of the Economic and Social Policy of the Party and the Revolution" (*Lineamientos de la Política Económica y Social del Partido y la Revolución*) by the VI Congress of the Communist Party of Cuba (CPC) in April 2011. While the 20% reduction of State sector payrolls initially announced by Cuban authorities in 2010 has not been achieved, and the categories of self-employment in the emerging non-State sector have been affected by recent policy reversals, a cursory review of official statistics and data provided by other sources reveals that since 2009 State sector employment has indeed declined, while employment in the non-State sector has increased substantially as Cuba continues to "update" its economic model.

This paper examines the recent evolution of self-employment in Cuba. Given the importance of self-employment as a fundamental element of Cuba's efforts

to "update" its economic model, particularly after the 2011 VI Party Congress, section one briefly describes the principal policy measures implemented since then to expand self-employment. Section two analyzes recent trends in self-employment in Cuba, including data about self-employment in the City of La Habana in 2014. Section three discusses the current limitations and future prospects for self-employment in Cuba

POLICY MEASURES TO EXPAND SELF-EMPLOYMENT IN CUBA SINCE 2011

As mentioned above, in April 2011, the VI Congress of the Cuban Communist Party (PCC) approved the "Economic and Social Policy Guidelines of the Economic and Social Policy of the Party and the Revolution." The (gradual) implementation of the broad policy statements included in the Guidelines has resulted in the following measures:

- The number of authorized self-employed occupations has been raised from 181 to 201. (Most of these activities or occupations, as has been noted by several scholars, e.g., Mesa-Lago, 2010; Pérez-Villanueva & Vidal Alejandro, 2012, require low levels of training and education, which underutilizes Cuba's relatively highly educated workforce and its accumulated human capital.)
- Self-employed workers are authorized to sell products and services to State enterprises and cooperatives.
- Self-employed workers can hire other self-employed workers as "contract workers."

Table 1. Cuba: Employment, State and Non-State Sectors, 2009–2012

	2009	2010	2011	2012	Change	% Change
Total	5,072,400	4,984,500	5,010,200	4,902,200	-170,200	-3.4%
Female	1,934,100	1,900,300	1,876,400	1,802,600	-131,500	-6.8%
Male	3,138,300	3,084,200	3,133,800	3,099,600	-38,700	-1.2%
State Sector						
State Sector	4,249,500	4,178,100	3,873,000	3,684,300	-565,200	-13.3%
Female	1,815,700	1,787,000	1,669,300	1,634,100	-181,600	-10.0%
Male	2,433,800	2,391,100	2,203,700	2,050,200	-383,600	-15.8%
Non-State Sector						
Non-State Sector	822,900	806,400	1,137,200	1,217,900	395,000	48.0%
Female	118,400	113,300	207,100	168,500	50,100	42.3%
Male	704,500	693,100	930,100	1,049,400	344,900	49.0%
Non-State Sector by Category						
Cooperatives	231,600	217,000	208,700	212,600	-19,000	-8.2%
Female	39,400	35,800	30,800	29,800	-9,600	-24.4%
Male	192,200	181,200	177,900	182,800	-9,400	-4.9%
Private Sector	591,300	589,400	928,500	1,005,300	414,000	70.0%
Female	79,000	77,500	176,300	138,700	59,700	75.6%
Male	512,300	511,900	752,200	866,600	354,300	69.2%
Self-Employed Workers	143,800	147,400	391,500	404,600	260,800	181.4%
Female	30,300	29,500	61,900	63,000	32,700	107.9%
Male	113,500	117,900	329,600	341,600	228,100	201.0%
Selected General Ratios						
State Sector as % of Total	83.8%	83.8%	77.3%	75.2%		
Non-State Sector as % of Total	16.2%	16.2%	22.7%	24.8%		
Cooperatives as % of Total	4.6%	4.4%	4.2%	4.3%		
Cooperatives as % of Non-State Sector	28.1%	26.9%	18.4%	17.5%		
Self-Employed as % of Total	2.8%	3.0%	7.8%	8.3%		
Self-Employed as % of Non-State Sector	17.5%	18.3%	34.4%	33.2%		
Self-Employed as % of Private Sector	24.3%	25.0%	42.2%	40.2%		
Selected Gender Ratios						
Female as % of Total (Nation)	38.1%	38.1%	37.5%	36.8%		
Female as % of Total (State Sector)	42.7%	42.8%	43.1%	44.4%		
Female as % of Total (Non-State Sector)	14.4%	14.1%	18.2%	13.8%		
Female as % of Total (Cooperatives)	17.0%	16.5%	14.8%	14.0%		
Female as % of Total (Private Sector)	13.4%	13.1%	19.0%	13.8%		
Female as % of Total (Self-Employed)	21.1%	20.0%	15.8%	15.6%		

Source: Anuario Estadístico de Cuba, 2012; and authors's calculations.

- Food preparers or sellers can employ up to 50 workers.

EMPLOYMENT IN CUBA 2009–2012

As Table 1 indicates, the structural composition of employment in Cuba has been in transition since 2009. The State sector's share of total employment has decreased notably, while the emerging non-State sector's share has moved in the opposite direction. Employment in the cooperative sector, despite official efforts to promote the expansion of employment in cooperatives as an alternative to employment in the declining State sector, has decreased significantly

since 2009. This has been offset by dramatic increases in self-employment during the 2009–2012 period.

Female workers represent a higher share of total State sector employment, compared to their share of employment in the emerging non-State sector. While the number of women working in the emerging non-State sector has grown substantially since 2009, women remain underrepresented, particularly when it comes to self-employment. Males accounted for close to 85% of self-employed workers in Cuba at the end of 2012. This can be explained in part by high entry barriers (e.g., startup costs, opportunity costs,

etc.) associated with self-employment, and the nature of the 201 self-employment activities (or occupations) currently authorized. Female self-employed workers generally have lower access to sources of funding (e.g., funding provided by friends and family, often residing abroad), many of the occupations in which they typically engage require higher amounts of working capital, and a significant portion of the authorized self-employment activities are in traditionally male-dominated fields (e.g., agriculture, construction, transportation, etc.). (More research needs to be done to test these and other explanatory variables.)

The following sections present more detailed analysis of employment for 2009 and 2012 and trends for 2009–2012.

2009

The total number of employed persons in Cuba in 2009 was 5,072,400. Of these, 83.8% (4,249,500 workers) were employed in the State sector, while 16.2% (822,900) were employed in the non-State sector, which includes cooperatives and the emerging private sector (mostly comprised of micro enterprises). Self-employed workers (143,800) accounted for 2.8% of the country's total employed workers in 2009, but represented 17.5% of employed non-State sector workers (822,900), and 24.3% of employed private sector workers (591,300).

A total of 1,934,100 women were employed in Cuba in 2009. Women represented 38.1% of the total number of employed workers in that year (5,072,400); 42.7% of all employed State sector workers (4,249,500); 14.4% of all employed non-State sector workers (822,900); 17.0% of all employed cooperative workers (231,600); 13.4% of all employed private sector workers (591,300); and 21.0% of all self-employed workers (143,800) in 2009.

2012

The total number of employed persons in Cuba in 2012 was 4,902,200. Of these, 75.2% (3,684,300 workers) were employed in the State sector, while 24.8% (1,005,300) were employed in the non-State sector, which includes cooperatives and the emerging private sector (mostly comprised of micro enterpris-

es). Self-employed workers (404,600) accounted for 8.3% of the country's total employed workers in 2012, but represented 33.2% of employed non-State sector workers (1,217,900), and 40.3% of employed private sector workers (1,005,300).

A total of 1,802,600 women were employed in Cuba in 2012. Women represented 36.8% of the total number of employed workers in that year (4,902,200); 44.35% of all employed State sector workers (3,684,300); 14.4% of all employed non-State sector workers (1,217,900); 17.0% of all employed cooperative workers (212,600); 13.34% of all employed private sector workers (928,500); and 21.0% of all self-employed workers (404,600) in 2012.

Trends 2009–2012

- Total employment declined 3.4% between 2009 and 2012, from 5,072,400 workers to 4,902,200.
- Employment in the State sector fell by 13.3%, from 4,249,500 workers to 3,684,300.
- By contrast, employment in the non-State sector increased by 48.0%, from 822,900 workers to 1,217,900.
- Employment in the cooperative sector decreased 8.2% from 231,600 workers to 212,600. The number of female workers employed in this sector suffered a more significant decline (- 24.4%), from 39,400 workers to 29,400.
- Private sector employment rose dramatically (70.0%) from 591,300 workers to 1,005,300. The number of females and males employed in the private sector increased by relatively similar percentages: female employment increased 75.6% (from 79,000 workers to 138,700), and male employment rose 69.2% (from 512,300 workers to 866,600).
- Self-employed workers grew from 143,800 to 404,600 (181.4%); female self-employed workers increased from 30,300 to 63,000 (107.9%), while the number of male self-employed workers increased 201.0%, from 113,500 to 341,600.

SELF-EMPLOYMENT IN 2014

As Pérez-Villanueva and Vidal Alejandro (2012) indicate, self-employment has emerged as one of the

central pillars of Cuba's efforts to "update" its economic model. This alternative to State sector employment has been gaining ground, and greater levels of popular and official acceptance (despite some setbacks at the end of 2013) since 2010. As is discussed below, self-employment has grown significantly nationwide since the beginning of the reforms in 2010. An increasing number of Cubans see it as a viable alternative to improve their incomes and living standards, suggesting that Cuba is indeed moving (albeit gradually) towards a reformed (socialist) economic model. Cuba's employment data since 2009, corresponds with Kornai's (2008) observation that,

the government typically does not have to convince its citizens to enter the private sector through a propaganda campaign. Usually, once certain prohibitions on private activity are lifted, the private sector begins to grow spontaneously, with individual enterprises sprouting like mushrooms in a forest after rain. The explosion of private activity is all the more remarkable as it often follows a period of brutal repression of any form of private venture. As soon as the repression ends, the private sector immediately begins to expand in reform socialist countries in a genuinely spontaneous manner. People do not have to be cajoled into choosing this life. In fact, they are immediately attracted by the higher earnings, the more direct link between effort and reward, and the greater autonomy and freedom the private sector offers.

Official estimates indicate that by the end of February 2014, there were 455,577 self-employed workers in Cuba. Close to two-thirds (67%) were located in La Habana, Villa Clara, Matanzas, Camagüey, Holguín, and Santiago de Cuba provinces.

The most common occupations for self-employed workers were:

- Food preparation and sales: 57,776 (12.7%)
- Passenger transportation: 47,733 (10.5%)
- Residential renting and leasing services: 29,952 (6.6%)
- Contracted workers (i.e. self-employed workers who are hired by other self-employed workers): 91,978 (20.2%)

An estimated 68% of self-employed workers (309,792) indicated that they had no previous employment affiliation before becoming self-employed;

18% (82,000) held another (salaried) job or position, and 14% (63,781) were retirees (CubaDebate, 2014).

Self-Employed Workers in the City of La Habana

Table 2 shows the total number of self-employed workers in the city of La Habana and their principal occupations or activities. Thus, the majority of self-employed workers in La Habana (in February 2014) were employed as contracted self-employed workers (27.5%), food preparers and/or sellers (15%), taxi drivers, truck drivers, and workers in other passenger transportation-related activities (14.6%), intermediaries (leasing or rental agents for residential and small-scale commercial properties) (11.5%), and in construction (builders, plumbers, contractors, repairpersons, etc.) (7.7%).

Table 2. Self-Employed Workers in the City of la Habana, February, 2014, Selected Occupations

Activity or Occupation	Number of Workers	% of Total
Contracted self-employed workers	25,287	27.5%
Food preparation and sales	13,816	15.0%
Transportation	13,385	14.6%
Intermediaries (leasing or rental agents)	10,576	11.5%
Construction	7,037	7.6%
Household products (producers and sellers)	4,368	4.7%
Messengers	3,273	3.6%
Collectors and re-sellers of raw materials	2,682	2.9%
Tailors	2,126	2.3%
Records (CDs, DVDs) buyers and sellers	1,990	2.2%
Agricultural carts owners/operators	1,599	1.7%
Artisanal workers (metal, wood, and other natural products)	1,509	1.6%
Barbers	1,493	1.6%
Electrical appliances repairpersons	1,440	1.6%
Activities related to animals (trainers, keepers, groomers, etc.)	1,411	1.5%
Total	91,992	100.0%

Source: CubaDebate, 2014; and authors' calculations.

The geographic distribution of self-employed workers by municipal districts in the City of La Habana (in February 2014) was as follows:

- Plaza de la Revolución: 11,293
- Boyeros: 11,166
- Diez de Octubre: 10,949
- Playa: 10,923
- Centro Habana: 10,361

Other characteristics of self-employed workers in the City of La Habana as of February 2014 were:

- Workers with no previous official employment affiliation: 80,660 (62.3%)
- Workers that also hold State sector jobs: 19,862 (15.3%)
- Retirees: 15,929 (12.3%)

In terms of their levels of educational attainment:

- 12th grade education: 79,980 (61%)
- 9th grade education: 37,548 (29%)
- University graduates: 10,358 (8%)

FINAL CONSIDERATIONS

The creation of alternative spaces for the emerging non-State sector, particularly privately-owned micro-enterprises, has improved the availability and quality of goods and services in the Cuban economy in key areas such as construction, food preparation and services, and transportation (Pérez-Villanueva & Vidal Alejandro, 2012). Self-employment has emerged as a viable alternative for a growing number of Cuban households wishing to improve their incomes and living standards; it serves as an increasingly important source of tax revenues for the State; and provides alternative employment opportunities for a growing class of micro-entrepreneurs. The expansion of self-employment since 2010 suggests a gradual movement towards a more flexible economic model.

This process, however, has been plagued by excessive restrictions by the State and by what Kornai (2008) considered as “the inner contradictions of market socialism.” At the present time, Cuba’s self-employed workers face a series of State-imposed regulatory limitations and prohibitions that hinder their potential for growth. Although self-employed workers are allowed to sell goods and services to State-owned enterprises (SOES), they are unable to form joint ventures with foreign investors, which would provide expanded access to capital, best management practices, and technological know-how. Export promotion programs to promote the export of goods and services produced by the self-employed are virtually

non-existent. The same applies to wholesale input markets where self-employed workers would be able to purchase essential inputs at market prices using Cuban pesos (CUP).

Existing restrictions on property rights, limitations on the use of tangible assets as collateral to finance business loans, and the structural and technological constraints that characterize Cuba’s State-operated financial system, hinder the financial sector’s ability to facilitate the mobilization of credit in the Cuban economy. They also lack access to capital market (equity and debt) instruments to finance the expansion of low-scale microenterprises, primarily focused on meeting local customer needs, into globally competitive large-scale firms. Unlike self-employed workers in other developing countries, Cuba’s self-employed lack access to international micro-finance (or micro-credit) institutions.

Self-employed workers in Cuba also face an onerous tax burden. The current income tax system applied to self-employed workers imposes a tax ranging from 25% to 50% depending on annual income levels; they also face a sales tax of 10% (for the sale of either goods or services), and a 25% tax for hiring more than 5 workers. In addition, contributions to the system of social security are also subject to taxation (Resolución 298, 2011). This implies that the State continues to perceive self-employed workers primarily as a source of tax revenue rather than an engine for economic growth.

The policy measures to promote self-employment implemented since 2010 represent a positive step, particularly when compared to the more timid reforms that took place in the 1990s. However, the excessive prohibitions and limitations confronted by Cuba’s self-employed workers constrain their expansion possibilities and potential to achieve economies of scale. Eliminating excessive prohibitions and correcting the wide range of distortions that still affect self-employed workers and the rest of the emerging non-State sector are essential to achieve sustainable economic growth and prosperity in Cuba.

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