Cuba to Cut State Workers In Tilt Toward Free Market

Abstract (summary)

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Cuba will lay off more than half a million state workers and try to create hundreds of thousands of private-sector jobs, a dramatic attempt by the hemisphere's only Communist country to shift its nearly bankrupt economy towards a more market-oriented system.

The mass layoffs will take place between now and the end of March, according to a statement issued Monday by the Cuban Workers Federation, the island nation's only official labor union. Workers will be encouraged to find jobs in Cuba's tiny private sector instead.

"Our state can't keep maintaining . . . bloated payrolls," the union's statement said. More than 85% of Cuba's 5.5 million workers are employed by the state.

Cuba's effort to reorient its labor force represents the country's biggest step toward a freer economy since the early 1990s, when Havana embarked on a brief attempt to make changes in a bid to survive without subsidies after the collapse of the Soviet Union, its main benefactor.

The revamp is also the most drastic effort to revive the country's flagging economy since President Raul Castro, the brother of retired dictator Fidel Castro, took the country's helm more than four years ago after his brother fell gravely ill.

Many hoped that the younger Mr. Castro would push through Chinese-style measures to open the economy when he took power in 2006. With the president's ailing revolutionary brother lingering in the background, changes never came.

But pressures have mounted in the wake of the global financial crisis, as the island's economic conditions have deteriorated, analysts say. Earlier this year, the Catholic Church warned that the island was on the verge of economic disaster if the government didn't quickly make the changes required.

Raul Castro has moved cautiously on reforms, but has consistently described the need to overhaul the Cuban economy. He has leased state lands and loosened restrictions on farmers buying supplies and selling produce. Last month, he foreshadowed Monday's announcement, complaining that the state payroll was burdened with 1 million excess workers.

"This is survival economics," says Jaime Suchlicki, director of the Institute for Cuban Studies at the University of Miami. "They don't have liquidity, and have a lousy economy."

Laying off government workers, however, is unlikely to do much to solve the country's problems, Mr. Suchlicki and others warned, since let-go workers have no where else to turn to earn a living. "They won't be absorbed by the private sector because there is no private sector to absorb them," he said.

The changes were announced shortly after the elder Mr. Castro, who remains chairman of Cuba's Communist Party and wields enormous influence on the island, gave a controversial interview to The Atlantic magazine, in which he said the Cuban model no longer worked for any country, much less Cuba. Mr. Castro later said he had been misunderstood, and it was capitalism that didn't work.

The move raised speculation about whether the elder Mr. Castro, long seen as an obstacle to his younger brother's attempts to reform the economy, had given his consent.

On Monday, Julia Sweig, a Cuba policy specialist at the Council on Foreign Relations who was present at the Atlantic interview, said the two Castro brothers may remain on different sides of the issue. But, she added, "When global capitalism takes over the world, Fidel's going to be the last man standing, but he's also not going to get in his brother's way."

To help workers who are laid off, the union said Cuba will issue thousands more licenses allowing citizens to find work on their own.

Cuba also wants to move workers in nonproductive jobs into areas that in the past have not been very attractive, such as construction, farm labor, police, teachers and industrial workers, the statement said.

The statement also said Cuba is investing heavily in areas such as oil, tourism and biotechnology where it hoped that future job growth would take place.

"Job options will be increased and broadened with new forms of non-state employment, among them leasing land, cooperatives and self-employment, absorbing hundreds of thousands of workers in the coming years," the union statement said.

The move to slim down the public sector will create unemployment in the short term, which could create some political turbulence for the government.

But the result will likely be higher wages for those in the private sector, said Philip Peters, a Cuba expert with the Lexington Institute, a think-tank in Arlington, Va.

Citing surveys he has conducted in recent years, Mr. Peters said private-sector employees make salaries three times as high as those in comparable public-sector jobs. "If they carry this thing out fully, it will vastly improve the welfare of thousands of families," he said.

It remains to be seen, however, just how many private-sector jobs Cuba can create. Cuba now has only 591,000 people working in the private sector, most of them family farmers, as well as another 143,000 workers classified as self-employed, according to government figures.

Cubans who decide to go into business for themselves will find a series of obstacles, including very high taxes, lack of access to credit and foreign exchange, bans on advertising, limits on the number of people they can hire, and a litany of small-print government regulations.

Cuba's government has a list of 124 "authorized" activities for people who want to employ themselves. Among them: toy repairman, music teacher, pinata salesman, and carpenter. Carpenters are allowed only to "repair existing furniture or make new furniture upon the direct request of a customer." They cannot make "furniture to sell to the general public."

A government attempt this year to get Cuban farmers to produce more by allowing them to lease land, has been hampered by an acute lack of fertilizer, farm machinery and herbicides.

That has made it difficult to cultivate land overrun by a thick, thorny scrub brush. And earlier this year, Cuba announced big drops in agricultural production despite the land reforms.

Economic growth could pick up if Cuba continues to open itself to privatization in coming years, but the process will be a slow one, said Arch Ritter, an economist who studies Cuba at Carleton University in Canada.

Growth would "require a major change in the way the private sector is treated," he says.

Cuba is one of the last true Communist economic systems in the world, a place where the state dominates nearly all spheres of life. Foreign investment is restricted to joint ventures with the government and limited to some sectors like tourism and oil.

After running up a huge current-account deficit in 2009, Cuba has had to cut back sharply on its imports, including critical inputs for agriculture and manufacturing. That has driven down agricultural and industrial production.

To save money, Cuba stopped foreign joint ventures from repatriating profits.

In recent years, Cuba has largely depended on nickel exports, tourism, and an estimated $5 billion a year in subsidies from Venezuela to get by.

But tourism has been flat, nickel prices fell sharply last year, and many question how long Mr. Castro's ally, President Hugo Chavez of Venezuela, can afford to ship close to 100,000 barrels a day of oil products.

Cubans Set for Big Change: Right to Buy Homes: [Foreign Desk]

Abstract (summary)

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Private property is the nucleus of capitalism, of course, so the plan to legitimize it here in a country of slogans like "socialism or death" strikes many Cubans as jaw-dropping. While the plan seems to prohibit foreign ownership, Cuban-Americans could take advantage of Obama administration rules letting them send as much money as they like to relatives on the island, fueling purchases and giving them a stake in Cuba's economic success.

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HAVANA -- Jose is an eager almost-entrepreneur with big plans for Cuban real estate. Right now he works illegally on trades, linking up families who want to swap homes and pay a little extra for an upgrade.

But when Cuba legalizes buying and selling by the end of the year -- as the government promised again this week -- Jose and many others expect a cascade of changes: higher prices, mass relocation, property taxes and a flood of money from Cubans in the United States and around the world.

"There's going to be huge demand," said Jose, 36, who declined to give his last name, stepping away from the crowd and keeping an eye out for eavesdroppers. "It's been prohibited for so long."

Private property is the nucleus of capitalism, of course, so the plan to legitimize it here in a country of slogans like "socialism or death" strikes many Cubans as jaw-dropping. Indeed, most people expect onerous regulations and already, the plan outlined by the state media would suppress the market by limiting Cubans to one home or apartment and requiring full-time residency.

Yet even with some state control, experts say, property sales could transform Cuba more than any of the economic reforms announced by President Raul Castro's government, some of which were outlined in the National Assembly on Monday. Compared with the changes already passed (more self-employment and cell-phone ownership), or proposed (car sales and looser emigration rules), "nothing is as big as this," said Philip Peters, an analyst with the Lexington Institute.

The opportunities for profits and loans would be far larger than what Cuba's small businesses offer, experts say, potentially creating the disparities of wealth that have accompanied property ownership in places like Eastern Europe and China.

Havana in particular may be in for a move back in time, to when it was a more stratified city. "There will be a huge rearrangement," said Mario Coyula, Havana's director of urbanism and architecture in the 1970s and '80s. "Gentrification will happen."

Broader effects could follow. Sales would encourage much-needed renovation, creating jobs. Banking would expand because, under newly announced rules, payments would come from buyers' accounts. Meanwhile, the government, which owns all property now, would hand over homes and apartments to their occupants in exchange for taxes on sales -- impossible in the current swapping market where money passes under the table.

And then there is the role of Cuban emigrants. While the plan seems to prohibit foreign ownership, Cuban-Americans could take advantage of Obama administration rules letting them send as much money as they like to relatives on the island, fueling purchases and giving them a stake in Cuba's economic success. "That is politically an extremely powerful development," Mr. Peters said, arguing that it could spur policy changes by both nations.

The rate of change, however, will likely depend on complications peculiar to Cuba. The so-called Pearl of the Antilles struggled with poor housing even before the 1959 Revolution, but deterioration, rigid rules and creative work-arounds have created today's warren of oddities.

There are no vacancies in Havana, Mr. Coyula pointed out. Every dwelling has someone living in it. Most Cubans are essentially stuck where they are.

On the waterfront of central Havana, children peek out from buildings that should be condemned, with a third of the facade missing.

Blocks inland, Cubans like Elena Acea, 40, have subdivided apartments to Alice in Wonderland proportions. Her two-bedroom is now a four-bedroom, with a plywood mezzanine where two stepsons live one atop the other, barely able to stand in their own rooms.

Like many Cubans, she hopes to move -- to trade her apartment for three smaller places so the elder son, 29, can start his own family. "He's getting married," she said. "He has to move out."

But despite reassurances -- on Monday, Marino Murillo, a top official on economic policy, said selling would not need prior government approval -- Ms. Acea and many neighbors seemed wary of the government's promise to let go. Some Cubans expect rules forcing buyers to hold properties for five or 10 years. Others say the government will make it hard to take profits off the island, through exorbitant taxes or limits on currency exchange.

Still more, like Ernesto Benitez, 37, an artist, cannot imagine a real open market. "They're going to set one price, per square foot, and that's it," he said.

Of course, he added, Cubans would respond by setting their own prices. And that might be enough to stimulate movement, he said.

He certainly hopes so. Mr. Benitez and the woman he has lived with for nearly a decade broke up 18 months ago. Each is now dating someone new and there are nights, they admit, that get a little awkward. Only a narrow bathroom separates their bedrooms.

Katia Gonzalez, 48, whose parents gave her their apartment before they died (which Cuba allows) said she would consider selling for a fair price. What did she think her two-bedroom just blocks from the ocean, in Havana's best neighborhood, could command? "Oh, $25,000," she said. "A little more, maybe $30,000."

In Miami, a similar apartment might cost nearly 10 times that -- which is what many Cuban-Americans seem to be thinking. Jose and several other brokers in Havana said real estate transactions on the black market routinely involved money from Cubans overseas, especially Florida.

"There's always money coming in from Miami," said Gerardo, a broker who withheld his full name. "The Cuban in Miami buys a house for his cousin in Cuba and when he comes here in the summer for a couple of months, he stays in that house."

Technically, this is a violation of the trade embargo that began under President Dwight D. Eisenhower. According to the United States Treasury Department, deals or investments with Cubans are prohibited. Receiving money or profit from Cuba is also illegal.

But the rules are muddy in practice. Family transactions -- mainly involving recent emigrants -- seem to be expanding with a wink from the White House. Supporting private business is now encouraged under the general license that lets Cuban-Americans visit relatives, and in 2009, President Obama established a new policy letting Cuban-Americans visit the island whenever they want, and send unlimited remittances to relatives.

Beyond that, enforcement against individuals, as opposed to businesses, is practically nonexistent: in the past 18 months, only one American was penalized for violating the sanctions, with a fine of $525, according to a Congressional report published last month.

Experts say the Cuban diaspora has already begun to create a tiered social system in Cuba. Cuban emigrants sent back about $1 billion in remittances last year, studies show, with an increasing proportion of that money financing budding capitalists in need of pizza ovens or other equipment to work privately. Homes would simply expand the bond, experts say, and offers are already arriving.

Ilda, 69, lives alone in a five-bedroom, ninth-floor apartment with views of the sea. A visiting Cuban-American couple -- "chic, very well dressed," she said -- asked to buy her apartment for $150,000, with little care for any bans on foreign ownership.

"I told them I can't," Ilda said. "We're waiting for the law." Even when the law changes, she said she would prefer a "permuta," a trade, because she would be guaranteed a place to live.

Her fear of having nowhere to go is common. One recent study, by Sergio Diaz-Briquets, a Washington-based demography expert, found that Cuba has a housing deficit of 1.6 million units. The government says the number is closer to 500,000, still a serious problem.

Mr. Coyula said money from sales might not be enough to fix it, since there is almost no construction industry, permitting process or materials to build with.

Other thorny issues might have to be revisited. "Evictions haven't happened here since 1939," he said. "There's a law forbidding them."

For now, though, Cubans are trying to grasp basic details. How will the mortgage system work? How high will taxes be? What's a fair price?

There is even a question of how buyers and sellers will come together. Classified listings are illegal in Cuba, which explains why brokers like Jose, known as corredores, spend their days moving through open air bazaars with notebooks listing apartments offered or desired.

He already has two employees working for him and when the new law arrives, whether his services are legal or not, he expects to hire more. "We have to get coordinated," he said. "It's coming."

In Shifting Economy, Cubans Savor Working for Themselves: [Foreign Desk]

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BAUTA, Cuba -- Marisela Alvarez spends much of the day bent over a single electric burner in her small outdoor kitchen. Her knees are killing her. Her red hair smells of cooking oil.

She hasn't felt this fortunate in years.

"I feel useful; I'm independent," said Ms. Alvarez, who opened a small cafe in November at her home in this scruffy town 25 miles from the capital, Havana. "When you sit down at the end of the day and look at how much you have made, you feel satisfied."

Eagerly, warily, Cubans are taking up the government's offer to work for themselves, selling coffee in their front yards, renting out houses, making rattan furniture and hawking everything from bootleg DVDs to Silly Bandz and homemade wine.

Hoping to resuscitate Cuba's crippled economy, President Raul Castro opened the door to a new, if limited, generation of entrepreneurs last year, after warning that the state's "inflated" payrolls could end up "jeopardizing the very survival of the Revolution."

The Cuban labor federation said the government would lay off half a million of about 4.3 million state workers by March and issue hundreds of thousands of new licenses to people wanting to join Cuba's tiny private sector, in what could be the biggest remodeling of the state-run economy since Fidel Castro nationalized all enterprise in 1968.

By the end of 2010, the government had awarded 75,000 new licenses, according to Granma, the Communist Party's official newspaper, swelling the official ranks of the self-employed by 50 percent.

That is still a long way from the amount needed to create alternatives for all the workers who will eventually be laid off, and there is no guarantee that the market will support hundreds of thousands of freelancers. But licenses have been granted quickly, and the government has been encouraging the bureaucracy to keep them flowing.

Streets once devoid of commerce in towns like this and in Havana are gradually coming to life as people hang painted signs and bright awnings outside their houses and mount roadside stalls. An electronics engineer, who for years operated in the shadows, now publishes leaflets that claim he can mend every appliance under the sun. A practitioner of Santeria sells beaded necklaces, ground sardines and toasted corn used in ceremonies at the tin-roofed shop in her yard.

Ms. Alvarez and her husband, Ivan Barroso, took out a license for the cafe and another to sell meat and fish. Now the couple does a brisk business serving soft white rolls filled with garlicky pork and fresh tuna for 60 cents at a wooden counter in the gateway of their house. Ms. Alvarez, a former school librarian who gave up work several years ago, runs the cafe with her stepson. Mr. Barroso goes fishing, culls pigs and delivers produce to clients in Havana.

"If you have the ability, the dedication to achieve something, you should enjoy it," said Mr. Barroso, who until November sold fish and pork without a license to a close circle of friends and clients.

About 85 percent of all Cubans with jobs are employed by the state, earning about $20 per month in exchange for free access to services like health and education, and a ration of subsidized goods.

Fidel Castro grudgingly allowed the private sector to take root in the early 1990s, after the collapse of the Soviet Union brought the Cuban economy to its knees. Over the years, however, the government stopped issuing new licenses and suffocated many businesses with taxes and prohibitions.

This time Raul Castro, who took over from his brother Fidel in 2006, says things have changed. In a speech to the National Assembly in December, he urged members of the government and the Communist Party to help the private sector, not "demonize" it.

"It is essential that we change the negative feelings that no small number of us harbor toward this kind of private labor," Mr. Castro said.

Many remain skeptical. Juan Carlos Montes ran a private restaurant on the patio of his Havana home for five years but became worn down by nit-picking inspectors and closed it in 2000. Now he is reluctant to try again.

"When someone who has made the same argument for more than 40 years suddenly changes their tune, you have to have a lot of faith to believe them," he said.

His wife, Yodania Sanchez, has been trying to change his mind. She has a license to rent two rooms in their higgledy-piggledy house and pays about $243 in taxes every month, whether the rooms are occupied or not.

"The changes are really positive; there are new opportunities," she said on a recent morning as she cleaned their tiny kitchen. "People want Cuba to become Switzerland overnight, and that's not possible."

But Mr. Montes swears he will not open a new restaurant until there is a wholesale market.

"People can't get what they need to run a business," he said. "The carpenter has no wood. The electrician has no cable. The plumber has no pipes. Right now, there is no flour in the shops. So what are all the pizzerias doing? They have to buy stuff that is stolen from bakeries."

The government says it will set up a wholesale market -- though it might take years -- and this year will import $130 million worth of goods and equipment for the private sector. It is also planning microloans and business cooperatives and mulling allowing people to buy and sell cars and houses, measures that some analysts speculate might be announced ahead of the Communist Party Congress in April.

For now, carpenters like Pedro Jose Chavez are allowed only to do repairs, rather than make things, because there is no legal market for wood. His workshop, perched on a rooftop in the Vedado area of Havana, is filled with crude machines made of salvaged parts because proper tools are too expensive.

"It's absurd that they will give you a license to work but they won't give you access to materials," Mr. Chavez said. "Cuba is falling apart," he added, gesturing to the crumbling buildings nearby. "We could help rebuild it."

For the private sector to thrive, the government should vastly expand the list of occupations open to the self-employed to include mainstream professions like engineering or law, said Ted Henken, an expert on the Cuban private sector at Baruch College.

The list of 178 jobs currently open to self-employed Cubans -- among them, fixing parasols and mending bed frames -- is highly specific and seems intended mainly to legalize and tax people working on the black market.

"There is a lot more to be done for the state to get out of the way and for people to produce and employ," Professor Henken said.

The government will also need to confront the question of civil and political rights that will emerge with the growth of a commercial class, including potentially divisive issues like growing disparities in wealth.

"There's no end to the chaos and demands of a private economy," Professor Henken said.

In the meantime, Ms. Alvarez and Mr. Barroso are relishing life on the almost-free market. Mr. Barroso pores daily over an exercise book where he calculates profit margins. Total sales for the two businesses are around $270 a week, he said. He and his wife each pay about $37 a month in taxes, plus 10 percent on profits at the end of the year.

Ms. Alvarez vies for customers with a couple of cafes that have opened within two blocks of hers. On a recent morning, all three had more clients than the bleak state-run bar on the same street, whose offerings included omelet sandwiches, hand-rolled cigars and condoms.

"I think the government has realized that state business doesn't function," Mr. Barroso said. "It's the private sector that generates competition. We have a habit of doing things poorly in Cuba, but competition is going to put this straight."