DIASPORAS AND DOLLARS: TRANSNATIONAL TIES AND THE TRANSFORMATION OF CUBA

Susan Eckstein
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ABSTRACT

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For many Third World countries, remittances are becoming a more important source of funds than foreign aid, bank loans, and foreign investment, as families find their own transnational solutions to limited homeland economic opportunities. This is true in socialist Cuba as well as in poor market economies. The impact of remittances, however, is contingent on the social relations and social structures in which the foreign currency becomes embedded. What may be good for recipients may be a “mixed bag” for states with their own institutional concerns. Although as a Communist regime Cuba appears to be a strong state with a weak society, remittance dynamics are transforming and undermining as well as bolstering the state. Concomitantly, remittances are strengthening society, but within a transnationalized context, and differentially. Conditions conducive to remittance-sending and the results of the informal dollarization are described and analyzed below, with comparisons made to trends in Central American countries with similar “open” economies but different regime types.
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<th>Description</th>
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<tr>
<td>CADECA</td>
<td>Casa de Cambio</td>
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<tr>
<td>CCR</td>
<td><em>Cuba Country Report</em></td>
</tr>
<tr>
<td>D.F.</td>
<td>Distrito Federal</td>
</tr>
<tr>
<td>D.C.</td>
<td>District of Columbia</td>
</tr>
<tr>
<td>ECLAC</td>
<td>Economic Commission for Latin America and the Caribbean</td>
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<tr>
<td>EIU</td>
<td>Economist Intelligence Unit</td>
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<tr>
<td>FIU</td>
<td>Florida International University</td>
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<tr>
<td>GDP</td>
<td>Gross Domestic Product</td>
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<tr>
<td>INS</td>
<td>Immigration and Naturalization Service</td>
</tr>
<tr>
<td>IPOR</td>
<td>Institute for Public Opinion Research</td>
</tr>
<tr>
<td>PRB</td>
<td>Population Reference Bureau</td>
</tr>
<tr>
<td>UCTEC</td>
<td>U.S.-Cuba Trade and Economic Council</td>
</tr>
<tr>
<td>UNFPA</td>
<td>United Nations Fund for Population Activities</td>
</tr>
<tr>
<td>U.S.</td>
<td>United States</td>
</tr>
<tr>
<td>USBC</td>
<td>United States Bureau of the Census</td>
</tr>
<tr>
<td>USDJ</td>
<td>United States Department of Justice</td>
</tr>
<tr>
<td>WB</td>
<td>World Bank</td>
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</table>
Diasporas and Dollars: Transnational Ties and the Transformation of Cuba

Susan Eckstein

I. Introduction

Third World governments have long depended on foreign funding to supplement limited domestic private and official sources. Foreign sources include financing from private, public, bilateral, and multilateral institutions, as well as direct investment. Governments have also depended on foreign exchange from exports or tourism and, more recently, from remittances, to finance imports, loan repayments, and local development. At different times and in different countries, the mix of foreign sources of capital and foreign exchange has varied, depending on global as well as domestic economic and political conditions. In the neoliberal post Cold War world order, slimmed down Third World governments have had fewer disposable domestic fiscal funds and less access, in the main, to multilateral and especially bilateral sources of capital. They have been pressed to rely increasingly on market options. With the gap in income opportunities widening within and across borders, ordinary people in the less developed world have become increasingly creative. Through emigration to countries with better economic opportunities, they have become their own capital fundraisers, remitting some of their earnings to family left behind.

As of the year 2000, remittances infused more money into Latin America than foreign bilateral and multilateral aid, and in some countries more money than direct foreign investment and bank loans. Remittances amounted to some $20 billion, with individual Latin Americans sending home, on average, an estimated $250 monthly. In six Latin American countries, income from remittances represented more than 10 percent of GDP. The money has raised recipients’ material and social welfare and provided seed capital for small businesses. On a national scale, the cross-border transfers have had multiplier effects on the economy. ²

It is important to understand contextually the conditions conducive to remittance-sending and their effects, distinguishing their impact on individual and institutional levels. Such

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¹ Boston University, Department of Sociology, Boston, MA 02215. seckstei@bu.edu. The author thanks the Andrew W. Mellon Foundation and The Mellon-MIT Program on NGOs and Forced Migration for financial support of the research on which this study is based. My thanks also to Lorena Barberia for help in field work and data acquisition that I draw upon in this article, to Manuel Orozco, who graciously shared data with me, and to Emily Morris, who provided me with very informed, detailed comments on an earlier version of the paper. And thanks also to William LeoGrande, Luciano Martins, Jorge Perez-Lopez, and Archibald Ritter for helpful comments, and to Sharon Stanton Russell and Cynthia Thompson for comments and editorial assistance.

distinctions are needed because, first, remittances that may be good for individuals are not necessarily unequivocally good for states, as states have their own institutional economic and political interests that may differ from the narrow interests of individual remittance recipients. Second, while remittances benefit recipients, in the Third World individuals vary in access to transnational income-sharing networks. As a consequence, remittances are not a substitute for other sources of assistance. Third, remittances may generate consequences recipients or the state do not envision or even desire. Effects depend on the social context in which remittances become embedded.

Below, this paper illustrates these propositions in Cuba in the post-Soviet era. After a brief discussion of previous studies of remittances and of state/societal dynamics that shape cross-border people-to-people monetary flows at the macro level, the paper depicts in depth how societal and state dynamics have shaped remittance flows in Cuba since 1990, with what effects, and why. The theoretical significance of the Cuban case is addressed in the conclusion.

Previous studies of remittances at the individual level focus on attributes of immigrants who send remittances. Immigrant earnings and time-lag since emigration are two factors found to correlate with transnational family transfers: the former is indicative of émigré ability to forego income, while time-lag reflects the likely strength of homeland ties. Motivation for migration is also found to be of consequence. Refugees generally remit less than economic immigrants because they oppose the regime from which they fled.3

Previous studies on the macro level show how remittances help finance imports, improve national income, and stimulate economic growth directly and indirectly.4 While previous studies have paid some attention to the role of governments in inducing remittance-sending, analyses are needed of conditions shaping how, when, and why governments induce remittance-sending and the full range of effects of remittance-sending on both state and society, and why. This paper addresses the lacunae.

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From the standpoint of the role of the state, the Cuban case is particularly instructive. During the Cold War, Communist regimes were portrayed as strong states with weak societies, even when state cohesion was recognizably constrained by partially disparate interests of different public bureaucracies. During the Soviet era in Cuba, when state ownership of the means of production was perhaps the most extreme in the world, and after the Cold War with the state still committed to socialism, Cuba should, in principle, represent a “most likely case” of a state able to regulate remittance inflows and the uses to which they are put.

The domino collapse of Soviet bloc Communism and then the Soviet Union’s dissolution showed such regimes to be weaker and society stronger than Cold War paradigms suggested. Comparative analyses, benefiting from hindsight, show that a shift in the balance of power between state and society occurred in the 1980s, when elites competed for fewer resources as productivity faltered, and society, homogenized by egalitarian wage policies, became more unified, autonomous, resourceful, and empowered.

The strength of a state, however, must be assessed in an international, not merely domestic context. At the global level, from the close of World War II until the collapse of the Soviet Union, Cold War rivalries shaped options for poor countries such as Cuba. Since the Cold War’s end politics of the single remaining hegemon, the U.S., and to a lesser extent the politics of other industrial countries, individually and collectively, have shaped Third World country options.

Similarly, global market dynamics influence Third World options. In Cuba this influence occurred already during the Cold War. After the Cold War, Cuba, along with other

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7 Valerie Bunce, *Subversive Institutions: The Design and Destruction of Socialism and the State* (Cambridge: Cambridge University Press, 1999). Laszlo Bruszt and David Stark, in “Remaking the Political Field in Hungary: From the Politics of Confrontation to the Politics of Competition,” *Journal of International Affairs* vol. 45 no. 1 (Summer 1991): 201-45, however, take issue with this interpretation. They argue that East European Communist countries could better be described as weak states/weak societies. This paper, meanwhile, argues that society, in its informal if not formal expression, has been quite vibrant and influential in certain institutional arenas in Cuba since the 1990s, within a transnational context.

remaining regimes dominated by Communist parties, have had to reintegrate themselves into the global market economy for trade and financing, despite any remaining efforts domestically to regulate market features.

Subaltern studies suggest that formally weak domestic groups may further constrain seemingly strong states through informal, covert, and illegal activity. ⁹ Even in the absence of formal channels of organization and interest articulation, people can evade official rules and regulations through black market and sideline activity, hoarding, tax evasion, and the like, which affect what states can accomplish. In economies with non-convertible currency, dollar activity may involve covert illegal transactions that in effect, if not intent, undermine official plans, priorities, and power.

The state itself must be “unpacked” to understand fully what it does, why, and with what societal effects. Official institutions designed to address political or administrative needs may have divergent priorities from those dealing with economic exigencies, and policies supporting one state concern may undermine another. Regimes often face trade-off’s between consumption and investment, and between long and short-term, political and technical/economic concerns. Accordingly, official remittance-linked policies may be based on institutional political concerns and not merely economic rationality, with the two preoccupations possibly conflicting. Policies designed to bring remittance dollars to the central government’s treasury, thereby addressing official fiscal and other economic exigencies, may, for example, have the unintended effect of eroding the state’s capacity to maintain law and order, if people seek dollars illicitly or for purposes not legally permitted.

While state and society may be analytically separable, and each internally “unpacked,” in practice they may be mutually interactive and transformative. Joel Migdal persuasively argues how and why this may be so. ¹⁰ The analysis below, however, shows that the social field in which state and society engage may go beyond the nation-state as conventionally conceived.

The following analysis of Cuban remittance dynamics draws on United Nations and other multilateral data, as well as on official U.S. and Cuban sources. Where appropriate, trends in Cuba are compared with trends in the Dominican Republic and El Salvador, two

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countries with similar externally driven economies, of roughly comparable size but subject to different economic and political constraints. The comparisons help highlight which remittance dynamics are distinctive to a socialist economy and which are shared with other small, weak Third World economies (of which there are many), and why. In addition, the analysis draws on news sources and secondary materials. Supplementary information comes from semi-structured interviews with Cuban-Americans, both leaders of different institutions and rank-and-file residents in the two historically most important U.S. Cuban-American settlements, in Greater Miami/Dade County (Florida) and Greater Union City/Hudson County (New Jersey), and with Cuban authorities, scholars, and ordinary people in Havana.

II. Crisis Caused by the Shift from “Socialist Solidarity” to Socialist Solitary

The Soviet bloc at the eve of its collapse accounted for 85 percent of Cuba’s trade. Four years later former bloc members accounted for a mere 20 percent. With trade in 1989 accounting for about half the gross national product, the decline in bloc exports and imports sent the island economy into a tailspin. The economy contracted over 30 percent by 1993.

A hard currency debt, dating back to the 1970s, also weighed on Cuba’s capacity to adjust to the new world order. In 1989, Cuba had the second highest ratio of hard currency debt to hard currency exports in the region. Short of foreign exchange, the government suspended servicing its Western debt in 1986 losing access to new credit lines as a result. Yet, owing to the accumulation of interest and principal arrears, the debt continued to mount. In the 1990s it increased over 60 percent. Cuba owed additional

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11 Although Mexico receives more remittances than any other Latin American country, the scale of its economy makes for different remittance dynamics there than in small “open” economies.

12 For a discussion of the range of people interviewed and the range of interview topics, see Eckstein and Lorena Barberia, “Grounding Immigrant Generations in History: Cuban-Americans and Their Transnational Ties,” International Migration Review vol. 36 no. 3 (Fall 2002), pp. 799-837. Since this paper focuses on macro-level remittance dynamics, it draws only selectively on the Miami/Union City survey.


14 Eckstein, Back from the Future, p. 222.

money to Russia, which took over responsibility for the island’s 15 billion ruble debt to the former superpower. As of 2002, Moscow and Havana had yet to agree on the convertible currency value of this debt.\textsuperscript{16}

The external constraints notwithstanding, by 2000 the economy rebounded somewhat (but unevenly) from its 1993 nadir.\textsuperscript{17} However, Cuba received little foreign capital to help out. Comparisons with the Dominican Republic and El Salvador, summarized in Table 1, highlight this. A first reason for difference was that Cuba received little aid. The Dominican Republic and El Salvador received over three times as much net official aid, 4 ½ to 6 times as much on a per capita basis, and they received, proportionally, substantially more multilateral aid. Second, Cuba attracted about one-seventh as much direct foreign investment as the Dominican Republic, and somewhat less than El Salvador. Meanwhile, Cuba’s exports remained weak, less than one-third their 1990 level. Dominican export earnings, about half Cuba’s in 1990, were over three times Cuba’s at the turn of the century. Cuba’s export earnings from sugar plunged to their lowest level in thirty years ($450 million), owing partly to a dramatic drop-off in output. Sugar had accounted for about three-fourths of export earnings for most of the twentieth century. Earnings from expanded nickel production partially offset the decline in sugar revenue, but not enough for trade to serve as a principal engine of growth.

The government more successfully developed tourism. Tourism became the most vibrant economic sector and principal source of foreign exchange.\textsuperscript{18} While the island’s gross tourist earnings remain behind those of the Dominican Republic, they came to far exceed those of El Salvador.

Cuba’s economic marginalization results partly from the “weight of history,” from problems rooted in the statist political economy inherited from the Soviet era. It also results from global politics, specifically from Washington’s tightening of the embargo, at a time when the U.S. opened opportunities for other Latin American countries, such as El Salvador and the Dominican Republic, e.g., through the Caribbean Basin Initiative. In turn, world market forces, in particular the decline in world sugar prices, and Cuba’s complete dependence for the first time on the open market for trade in the commodity, along with the decline in production, contributed to the island’s trade marginalization.


\textsuperscript{16} \textit{Cuba Business} January-February 2001, p. 4.

\textsuperscript{17} See ECLAC and Carmelo Mesa-Lago, \textit{Market, Socialist, and Mixed Economies} (Baltimore: Johns Hopkins University Press, 2000).

\textsuperscript{18} Throughout the 1990s the dollar served as the tourist currency. In 2002 the government encouraged European tourists to use the Euro to reduce the importance of the dollar, mainly for symbolic reasons, the dollar being “enemy currency.”
## TABLE 1
Official Hard Currency Sources: Aid, Investment, Exports, and Tourism in Cuba, the Dominican Republic, and El Salvador in Select Years

<table>
<thead>
<tr>
<th></th>
<th>Cuba</th>
<th>Dominican Republic</th>
<th>El Salvador</th>
</tr>
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<tbody>
<tr>
<td><strong>(1) AID</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>(a) multilateral aid (millions of dollars)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1999</td>
<td>8.7</td>
<td>126.4</td>
<td>68.3</td>
</tr>
<tr>
<td>(b) net official development assistance or official aid</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>(1) millions of dollars</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1994</td>
<td>47</td>
<td>60</td>
<td>305</td>
</tr>
<tr>
<td>1999</td>
<td>58</td>
<td>195</td>
<td>183</td>
</tr>
<tr>
<td>(2) aid per capita (dollars)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1994</td>
<td>4</td>
<td>8</td>
<td>55</td>
</tr>
<tr>
<td>1999</td>
<td>5</td>
<td>23</td>
<td>30</td>
</tr>
<tr>
<td><strong>(2) TOURISM</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>(a) in-bound tourists (thousands)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1990</td>
<td>327</td>
<td>1,305</td>
<td>194</td>
</tr>
<tr>
<td>1995</td>
<td>1,100</td>
<td>1,552</td>
<td>--</td>
</tr>
<tr>
<td>1999</td>
<td>1,561</td>
<td>2,649</td>
<td>658</td>
</tr>
<tr>
<td>2000</td>
<td>1,952</td>
<td>--</td>
<td>--</td>
</tr>
<tr>
<td>(b) tourist receipts (millions $)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1990</td>
<td>243</td>
<td>900</td>
<td>18</td>
</tr>
<tr>
<td>1999</td>
<td>1,714</td>
<td>2,524</td>
<td>211</td>
</tr>
<tr>
<td><strong>(3) DIRECT FOREIGN INVESTMENT</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>(millions of dollars)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1990</td>
<td>54.0</td>
<td>133</td>
<td>2</td>
</tr>
<tr>
<td>1999</td>
<td>178.2</td>
<td>1,338</td>
<td>231</td>
</tr>
<tr>
<td>2000</td>
<td>399.9</td>
<td>--</td>
<td>--</td>
</tr>
<tr>
<td><strong>(4) EXPORTS</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1980</td>
<td>--</td>
<td>962</td>
<td>967</td>
</tr>
<tr>
<td>1985</td>
<td>--</td>
<td>739</td>
<td>695</td>
</tr>
<tr>
<td>1990</td>
<td>5,100</td>
<td>2,170</td>
<td>582</td>
</tr>
<tr>
<td>1995</td>
<td>1,507</td>
<td>765</td>
<td>998</td>
</tr>
<tr>
<td>2000</td>
<td>1,630</td>
<td>5,200</td>
<td>1,164</td>
</tr>
</tbody>
</table>

\(^{a}: 1993\)

III. Remittances: Induced by Society and the State

Because Cuba was unable to attract sufficient conventional sources of hard currency for full recovery, remittance revenues seemed an attractive alternative. Indeed, they were Cuba’s fastest growing hard currency source in the 1990s. Latin American offices of the United Nations (ECLAC) claim that cross-border people-to-people money transfers surged from $50 million in 1990 to over $700 million at the decade’s end (see Table 2[a]).\footnote{Remittances are difficult to estimate and politically charged. With minimal official information, different sources vary in their remittance calculations. This paper uses United Nations ECLAC estimates. ECLAC is a respected international institution, and its remittance figures are widely cited. Its estimates are based on inferences from “net current transfers” in official balance of payments figures. The figures may include informal tourism earnings, e.g., tips, room rentals, and prostitution. Indicative of the range of estimates, the well respected Cuban economist, Pedro Monreal (in “La remesas familiares en la economia cubana,” Encuentro 14 [Fall 1999]: 50), believed remittances in the latter 1990s to total $500 million. Remittances, it should be noted, may also be in-kind, e.g. medicines, consumer goods, and material inputs for businesses.}

Remittances brought in more dollars than any single island export, with the possible exception of nickel in some years, and about twice as much money as the government attracted in foreign investment.

The state and ordinary Cubans both had reasons for courting remittances. Though these two groups are analytically separable, concretely, their efforts were intermeshed, sometimes mutually reinforcing. However, each sought to maximize dollars captured for themselves.\footnote{Individual state institutions, in turn, had independent incentives for attracting dollars. The central government requested agencies to raise hard currency to cover their own hard currency expenses. Institutional revenue-generating benefited individual members indirectly, if not directly, e.g., in sponsoring an internationally attended conference, at which employees might cultivate foreign contacts that could come to be personally useful, they might be treated to dollar meals, and they might gain access to computers for personal as well as institutional use.}

A. Society-Driven Initiatives

Islanders faced hunger and malnourishment when the economy contracted following the fall-off of Soviet aid and trade.\footnote{A new vitamin deficiency, for example, caused an epidemic of optic neuritis, in which tens of thousands of islanders lost their eyesight. Through a mass distribution of vitamin tablets, the government ended the epidemic.} Average caloric and protein intake dropped some 30 percent between 1989 and 1993.\footnote{19}
## TABLE 2

Family Remittances from the U.S. to Cuba, the Dominican Republic, and El Salvador

<table>
<thead>
<tr>
<th></th>
<th>Cuba</th>
<th>Dominican Republic</th>
<th>El Salvador</th>
</tr>
</thead>
<tbody>
<tr>
<td>(a) millions of dollars remitted, in</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1980</td>
<td>--</td>
<td>183</td>
<td>11</td>
</tr>
<tr>
<td>1985</td>
<td>--</td>
<td>242</td>
<td>126</td>
</tr>
<tr>
<td>1990</td>
<td>50</td>
<td>315</td>
<td>322</td>
</tr>
<tr>
<td>1995</td>
<td>537</td>
<td>794</td>
<td>1,061</td>
</tr>
<tr>
<td>1999</td>
<td>800</td>
<td>1,519</td>
<td>1,374</td>
</tr>
<tr>
<td>2000</td>
<td>750</td>
<td>1,689</td>
<td>1,750</td>
</tr>
<tr>
<td>(b) average annual amount remitted (in dollars) per Cuban, Dominican, and Salvadoran foreign-born living in the U.S. in:</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1980</td>
<td>--</td>
<td>1,083</td>
<td>116</td>
</tr>
<tr>
<td>1990</td>
<td>67</td>
<td>882</td>
<td>681</td>
</tr>
<tr>
<td>1999</td>
<td>848</td>
<td>2,237</td>
<td>1,805</td>
</tr>
<tr>
<td>(c) average annual amount remitted (in dollars) per home country resident, in:</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1990</td>
<td>5</td>
<td>45</td>
<td>64</td>
</tr>
<tr>
<td>1995</td>
<td>$98^a$</td>
<td>99</td>
<td>177</td>
</tr>
<tr>
<td>1999</td>
<td>73</td>
<td>211</td>
<td>291</td>
</tr>
<tr>
<td>(d) annual amount of total remittances as a % of GDP</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1990</td>
<td>.5^b</td>
<td>5.3</td>
<td>6.0</td>
</tr>
<tr>
<td>1999</td>
<td>4.5</td>
<td>15.2</td>
<td>16.9</td>
</tr>
</tbody>
</table>

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a: based on mid-1995 population
b: 1991


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When the food supply dropped, the Cuban government tried to “equalize sacrifice,” to ensure everyone a minimum affordable diet through rationing, and to concentrate scarce resources on subsistence by eliminating non-essentials from the economy. This approach differed markedly from that of neoliberal-bent governments elsewhere in the region. The other governments drove consumer costs up by removing price subsidies. The Cuban ration book came to cover, however, no more than half of monthly family needs. Under the circumstances, Cubans turned to a black market the scarcities fueled, for supplementary food and other items they might want and afford. The value of black market trade came to exceed official retail sales. But prices in the emergent illegal economy became unaffordable with people’s official paychecks. A chicken or a pound of cheese, for example, came to cost one-fourth to one-third of the average monthly peso salary.

Against this background, government wage policy, dating back to the era of Soviet subsidies, caused havoc to the new economy. Workers had received a so-called social wage that included, along with a subsidized diet, cradle-to-grave social benefits, such as free education and health care, on a scale unknown in most countries in the region, as well as inexpensive housing. Average take-home pay through the 1980s, of somewhat under 200 pesos a month, made no one rich, but it was adequate, given the state’s generous welfare policies. Yet, once islanders needed black market purchases for sheer survival, peso earnings no longer sufficed.

Goods unaffordable in pesos were, however, affordable to those able to get a modest amount of dollars. Although dollar possession had been illegal, in the black market the value of the dollar soared. In 1993 the illegal peso/dollar exchange rate rose to 130:1, while officially the two currencies remained on par. The de facto peso devaluation led Cubans to seek assistance from family abroad, defying three decades of normative political pressure to cut ties with émigrés who had rejected the revolution.

Although Cuba differed from other Latin American countries in its political economy, Cubans, in the main, sought remittances for the same purposes as other Third World peoples. An estimated 96 percent of Cuban remittances are used to finance family consumption.

But families in the diaspora wound up financing a Western consumer lifestyle in Cuba that the revolution until then had scorned, as well as basic subsistence. Some families

23 Personal interview with an economist in Cuba, June 1993.


also financed home improvements and small business ventures, in defiance of both U.S. and Cuban laws. Although the island government guaranteed that no one paid more than 10 percent of earnings on housing (and most spent less), by the 1990’s the housing stock was in disrepair.

While Washington’s embargo prohibited Cuban-Americans from investing in Cuba and restricted the amount of money they could legally send, Havana restricted private business activity, whether or not it was based on remittances, except under highly circumscribed conditions. Businesses had to be owner-operated, to employ only family members, and to pay high (and regressive) taxes, in hard currency. As a result of the combined constraints, the self-employed, whether or not drawing on remittances, reportedly earned on average a mere $34 monthly at the turn of the century. This level of income may appear a slim return on so-called migra-dollar investment or base for capital accumulation on any scale. Yet, it has proven essential for both macro economic growth and for the reduction of Cubans’ dependence on the good-will of family abroad. In fact, when converted at the turn-of-the-century unofficial exchange rate, described in more detail below, such average earnings equaled 650 pesos, about two and one-half times the then average monthly income of a state employee.

Cubans received remittances in ways that by-passed official regulations on both sides of the Florida Straits. Some 60 to 75 percent of remittance dollars are believed to come to Cuba covertly. Paradoxically, Cubans rely more on informal remittance channels than Latin Americans in less regulated economies. Why? For Cuban-American émigrés the informal channels are both cheaper and more user-friendly. Funds given by visiting overseas family involve no service charges, and to send money from the U.S. Cuban-Americans can use new informal neighborhood-based middlemen who not only are trustworthy but also underprice formal wire transfer services and require no legal documentation. On frequent trips to the island middlemen carry goods and money. So-called mulas, a name taken from the drug trade, make no attempt to enforce Washington’s embargo. On a smaller scale, Cuban-Americans also send money to island kin through “mini-banks” that circumvent both U.S. and Cuban monetary regulations. Through the “banks” émigrés deposit money that their Cuban relatives can withdraw almost immediately.

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27 Licensing fees are a regressive tax within the self-employed sector, in that all persons are charged the same flat fee, irrespective of earnings. But in diminishing the income gap between those privately and publicly employed, the fees serve as a progressive tax.


29 Estimates by employees in wire service companies interviewed in the U.S. and Cuba, and personal discussion with Manuel Orozco.

30 Such informal couriers take on other names in other countries, such as viajeros in El Salvador.
U.S. regulations have the unintended effect of encouraging most Cuban-Americans to prefer such informal transfer services. First, Washington imposes a cap of $300 quarterly, at a time when Latin American immigrants remitted, as noted, an average of $250 per month. The U.S. restricts no other Latin American immigrants from sending remittances. The constraints on Cuban émigrés were designed to squeeze the regime economically, along with aspects of the embargo restricting trade, bank lending, and foreign investment. Macro data show that Cuban-Americans, on average, complied with the embargo-related restrictions in years when permitting dollar sending (see Table 2[b]), an average that includes non-senders as well as senders. Yet, the Miami/Union City interviews conducted for this study suggest that if Cuban-Americans want to send more than $300 in a three-month period, they do so, but informally. Second, U.S. regulations have the effect of inducing Cuban-Americans to send money informally because the émigrés dislike the documentation process required for sending money through formal channels. Owing to the embargo, Washington demands affidavits. This causes uneasiness with Cubans wary of government, on both sides of the Florida Straits.

In general, the remittance economy reflects a society that is transnationally grounded, able, willing, and wanting to operate according to its own networks and norms, in defiance both of U.S. and Cuban official regulations that interfere. Islanders’ reliance on dollars from abroad, the way they acquire the money, and the uses they make of the funds all reveal a stronger society and weaker state than theories of state socialism suggest and than a socialist state desirous of regulating economic activity would choose.

**B. State-Driven Initiatives**

In desperate need of hard currency, the Cuban government introduced measures not only to induce remittance-sending but to channel the money to its treasury. Initiated in response to islanders’ informal and illegal outreach to family abroad, the measures stimulated additional cross-border dollar-sending: an example of interaction between state and society.

Authorities, it should be noted, encouraged remittances with institutional and moral ambivalence. The leadership understood that people-to-people transnational dollar flows are difficult to regulate and embedded in social networks and norms that defy precepts of the revolution. The Communist Party Central Committee, a top political organ of the regime, for example, worried that dollars were ideologically contaminating, encouraging individualism and materialism. Yet, the Party, the ideological apparatus that theoretically guides other state organs, faced a situation in which such moral principles became a luxury no longer affordable. As the government sought to gain a hold over the informal cross-border dollarization of the economy, perhaps its most important initiative

was to legalize dollar possession in 1993. Informal dollarization had become so pervasive that repressing it was nearly impossible, practically or politically. In making legal what had been occurring illegally the government could, in theory, regulate the activity better. And without fear of dollar confiscation and arrest Cuban-Americans would be more likely to send money (or give it on visits), and islanders would want more of the foreign currency.

Meanwhile, authorities developed a strategy that simultaneously addressed both islanders’ consumer yearnings and state institutional interests in appropriating dollars that came to circulate in the economy. In the process, the former anti-materialist regime became a chief agent as well as beneficiary of consumerism. Officials extended to all Cubans access to state-linked dollar stores previously reserved for diplomats and other foreigners, and they expanded the range of dollar stores and their stock. The consumer strategy became so important that, as of 1997, two-thirds of the state’s total hard currency income came from sales at official retail stores, compared to only 11 percent from exports and 22 percent from tourism. Some 60 percent of sales transactions are said to have shifted to dollars. Dollar stores offered items unavailable through official channels, or not in sufficient quantity, including some removed from retail outlets in the early 1990s by authorities when concentrating resources on subsistence. In wire service facilities located deep within dollar stores, recipients of formal dollar transfers were tempted to spend their money immediately. The very name of the dollar outlets, Hard Currency Recuperation Stores, made apparent the state’s strategy for appropriating consumer dollars.

By selling items at dollar stores at a considerable mark-up (and raising prices periodically, as in 2001), the government generated profit while collecting hard currency in people’s hands, the latter essential for continuing its control over the economy. Authorities justified what they claimed to be an ideal mark-up—140 percent—on grounds of equity: a hidden tax on dollar holder spending to support programs benefiting those without dollar access.

The government also set up exchange booths called CADECAs (bursars of change) that honored the informal “street level” dollar-for-pesos exchange rate. It hoped thereby to soak up dollars not spent at dollar stores. Following legalization of dollar possession, a combination of policies helped bring the black market exchange rate down from 130 to the dollar in 1993 to around 21 pesos to the dollar in 2000, although the informal peso/dollar exchange rate rose to 26 or 27:1 in the fall of 2001. The “street rate” gave

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32 Monreal, p. 51.


34 This means an item that cost $100 to produce (or import), with a 140 percent tax, would sell for $240.
dollar-holders more pesos, at the state’s expense, than conversion at the official 1:1 exchange rate. But continued insistence on the official exchange rate would have offered no inducement to Cubans to discontinue exchanging the foreign currency illegally and informally. Accordingly, the exchange rates CADECAs offered reflect yet another state accommodation to society.

In a further effort to absorb dollars from consumer sales, the government in 1994 opened Farmer Markets. The markets were designed to stimulate food production and alleviate the subsistence crisis, thereby reining in the black market that thrived on scarcities. At the markets farmers could sell any surplus they produced beyond their commitments to the state, at prices consumers were willing to pay. The government required sales in pesos to prevent the new markets from keeping dollars circulating informally in the economy. With exchange booths located in markets, prospective buyers could easily trade their dollars for pesos before making purchases. Regulations notwithstanding, dollar-holding islanders did not always comply, leaving dollars circulating among the populace.

The government also modified its savings and fiscal policies to capture circulating dollars. The government instituted interest-bearing dollar bank accounts, to stimulate savings. It also introduced personal taxes on the self-employed, in hard currency as well as in pesos. Yet, authorities did not tax remittances directly, so as not to discourage cross-border money-sending. Since most money is remitted outside official channels, taxing the family transfers directly would have been nearly impossible.

The government itself even entered the remittance business. Because of the embargo, it could not set up direct wire or bank services in the United States. Beginning in 1999, though, the government established partnerships with such internationally known money transfer businesses as Western Union, and then with the Canadian firm TransCard (affiliated with MoneyGram in the U.S.). With negligible formal wire service competition, the agencies charged remittance senders higher fees for transfers to Cuba than to Mexico, Central America, and elsewhere in the Caribbean. 36 The higher rates enabled the Cuban state to profit from formal transfers directly, at a time when the Inter-American Development Bank and other Latin American governments promoted lowering transaction costs so that recipients received more of the money immigrants allotted for remittances, and intermediaries less. If most remittances were sent through formal channels, the Cuban government could directly profit from transfers not only through service charges but also through controls on exchange rates.

For hard currency remittances to be forthcoming, overseas Cubans had to be convinced not merely to forego earnings but to send money to a regime that, in many instances, they

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35 The Economist (October 23, 1999: 37) notes that the government keeps the exchange rate low because price subsidies inflate peso incomes, increasing the demand for dollars.

politically despised. Aware of the hostile attitudes, the government in the mid-1990s modified its public stance toward the diaspora, facilitated transnational bonding, and more openly supported economically motivated migration. The émigrés whom Castro previously had pejoratively portrayed as *gusanos*, worms, to be spurned by good revolutionaries, were redefined as the “Cuban community abroad.” To foster ties, the government opened a special office within the Ministry of Foreign Relations that focused on the diaspora, and authorized the Ministry to sponsor conferences on the Nation and Migration. These conferences addressed ways to normalize relations between émigrés, their island families, and authorities. In promoting emigrants’ homeland identification, Cuba followed a growing trend among Third World governments, including those of the Dominican Republic and El Salvador, to reclaim their emigrant populations.\(^\text{37}\) Politically, the Cuban government’s shift in attitude, however, was more dramatic.

At the same time, the Cuban government reduced restrictions on émigré visits. It introduced multiple entry visas, and for the first time it allowed Cuban-Americans to stay with island relatives and remain for longer than in the past. Except for a period in the late 1970s, authorities formerly had allowed few Cubans from the diaspora to visit. Cuban-Americans took advantage of the easing of restrictions.\(^\text{38}\) The number of Cuban-American visitors rose from an estimated 7,000 in 1990 to some 100,000 in 2000.\(^\text{39}\) When visiting, Cuban-Americans do not go empty handed. They bring money, as well as medications and other gifts. Moreover, the informal bonding makes visiting family members more likely to send dollars upon return to their adopted homeland. Although there thus was an economic logic to the government’s new visitation permissiveness, the intermingling was politically risky. Officials faced the possibility of “another Mariel,” referring to the 1980 mass exodus that followed the previous large-scale travel opening. The deep economic recession led the government to take the political risk.

The government also became more supportive of migration, and in so doing broadened the potential overseas remittance-sending base. For example, it negotiated a new immigration accord with Washington in 1994. At Cuba’s insistence, the U.S. agreed to accept a minimum of 20,000 immigrants annually (at a time when Washington no longer honored country quotas). Here, Castro’s immediate concern was political. The accord came on the heels of the regime’s largest public protest, in Havana, stirred by the subsistence crisis caused by the deep economic recession. The government sought to


\(^{38}\) For several reasons, Cuban-American interest in travel to Cuba picked up in the 1990s. See Eckstein and Barberia for details.

\(^{39}\) See ibid., Figure 2, p. 814, and the references therein. See also *Cuba Business* May 2001, p. 6.
defuse tensions by opening up the option to leave, thereby encouraging “exit” over “voice,” to borrow Albert Hirschman’s terminology. To Washington’s dismay, Castro brought the tumult to bay by allowing islanders to seek refuge in the U.S., in make-shift rafts, without entry permission. Some 33,000 balseros (rafters) took advantage of the opportunity before the two countries signed the new accord. In the early 1990s Washington had only granted entry permits to 50 to 75 percent of a 20,000 yearly cap in place since the mid-1980s, with the hopes of inciting pressure for regime change in Cuba. The new accord bound both countries to respect an orderly processing of the agreed-upon minimum number of annual immigrants. And with Cubans as of the 1990s increasingly “wanting out” for economic reasons, as every day living became problematic, the government for the first time sent abroad on a large scale the archetypal remittance-sender.

In addition, the government for the first time allowed islanders to work abroad on a temporary basis, for up to 11 months, without losing island benefits and rights. Cubans with internationally marketable skills could take advantage of the window of opportunity to earn hard currency for family left behind, without permanently breaking with their homeland.

The embargo, however, set limits on the Cuban government’s ability to encourage the diaspora to send dollars to family left behind in their homeland. Not only did Washington restrict the amount of money émigrés could remit, it also prevented Cuban authorities from promoting in the U.S. the range of remittance-sending strategies used by other governments in the region.


41 The government also sought official overseas temporary hard currency work contracts, such as for doctors and teachers, capitalizing on the revolution’s massive training of social service professionals. In such instances the state, but laborers only minimally, earned foreign exchange. The government initially sought such contracts in the late 1970s, when first faced with a Western debt (see Eckstein, *Back from the Future*, chap. 7). It promoted such state labor contracts at the same time that it obstructed the independent emigration of professionals. Official overseas skilled labor contracts brought hard currency to the state coffer, while the emigration of professionals deprived the government of a return to its human capital investment.

IV. Impact of Remittances

Remittances, spurred initially by islanders’ survival needs, transformed both state and society, and not only in ways they intended or wanted. Not all members of society benefited in a uniform manner, and remittances eroded de facto state command over the economy, law enforcement, and the moral order, while simultaneously providing the government with much needed hard currency revenue. The impact of remittances was shaped by the political economy in which the informal transnational income became embedded.

A. Societal Impact

Viewed comparatively, remittance-coveting islanders are at a disadvantage. First, Cubans, on average, were less likely than Salvadorans to have kin abroad to whom to turn, though about as likely as Dominicans (see Table 3[c]). Second, émigrés from Cuba on average remitted substantially less money than émigrés from both El Salvador and the Dominican Republic (see Table 2[b]), even though the Cuban diaspora tended to be wealthier. The Cuban diaspora remains, from a remittance vantage point, dominated by the “wrong Cubans”: immigrants without close kin still on the island who sought political refuge some thirty to forty years ago. Official U.S. obstacles are only one reason why Cubans send relatively less than other nationalities.

Cuban émigrés send less also because of informal pressures by Cuban-American leaders to honor a personal embargo of Cuba. In contrast, the Dominican and Salvadoran émigré leaders advocate remittance-sending. Reflecting continued Cuban-American resistance to income sharing, 74 percent of the Miami based diaspora surveyed in 2000 by Florida

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43 The Immigration and Naturalization Service (INS) data summarize legal immigration. The disparity between Cuban and Dominican/Salvadoran immigration rates in the 1990s would be greater if immigrants who entered illegally were factored in. The INS estimated 75,000 Dominicans and 335,000 Salvadorans in 1996 to be undocumented in the U.S.. United States Department of Justice (USDJ), INS, Statistical Yearbook of the Immigration and Naturalization Service 1997 (Washington, D.C.: INS, 1999), p. 200. After Cubans touch U.S. soil they qualify for legal residency status in a year and a day, even if they entered the country illegally. Cuban-Americans are believed to account for 89 percent of the island diaspora, with 80 percent of island Cubans acknowledging receipt of remittances receiving the transfers from the U.S. (see José Alejandro Aguilar Trujillo, “Las remesas desde exterior,” Cuba: Investigación Económico (Havana: Instituto Nacional de Investigaciones Económicas, 2001), p. 84.

International University reported having close relatives on the island, but only 40 percent said they or other Miami relatives sent money.\textsuperscript{45}

Viewed from the island side of the Florida Straits, Cubans vary in access to income-sharing cross-border networks. Access, above all, is heavily race-based. The diaspora is

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<td>Immigration into the U.S. in Select Years from Cuba, the Dominican Republic, and El Salvador</td>
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<th>Year</th>
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<th>El Salvador</th>
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<td>15,100</td>
<td>17,245</td>
<td>6,101</td>
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<td>1985</td>
<td>20,300</td>
<td>23,787</td>
<td>10,156</td>
</tr>
<tr>
<td>1990</td>
<td>10,645</td>
<td>42,195</td>
<td>80,173</td>
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<tr>
<td>1995</td>
<td>17,937</td>
<td>38,512</td>
<td>11,744</td>
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<tr>
<td>1998</td>
<td>17,375</td>
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<tr>
<td>1980</td>
<td>608,000</td>
<td>169,000</td>
<td>94,000</td>
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<tr>
<td>1990</td>
<td>751,000</td>
<td>357,000</td>
<td>473,000</td>
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<tr>
<td>1999</td>
<td>943,000</td>
<td>679,000</td>
<td>761,000</td>
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<tr>
<td>1999</td>
<td>9</td>
<td>8</td>
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\textsuperscript{a} mid-1991 population


predominantly white. As of the late 1990s 96 percent of all Cuban immigrants in the U.S. classified themselves as white.\textsuperscript{46} Blacks, who in prerevolutionary Cuba were the most

\textsuperscript{45} Florida International University (FIU), Institute for Public Opinion Research (IPOR), \textit{FIU/Cuba Poll} (Miami: FIU-IPOR, 2000), pp. 53, 56.
disadvantaged group, benefited most under Castro—relative to their situation under the former regime. For this reason they were least likely to emigrate, a loyalty that put them at a decided disadvantage in the emergent cross-border based informal dollarized economy. Access to transnational remittance networks is also heavily urban and regional. Havana, with 20 percent of the island’s population, has the highest percentage of residents enjoying remittances. Approximately 60 percent of remittances go to Havana (and mainly to selected neighborhoods there), with remittances accounting for 70 percent of dollars Cubans informally access.

Data on health welfare point to new inequities that are partly remittance-induced. The proportion of the population that is undernourished, with insufficient food intake to meet dietary energy requirements, rose from 5 to 17 percent between 1990-91 and the mid-to-latter 1990s. Although in 1990 Argentina was the only country in the region to have fewer malnourished people (0 percent), by the end of the decade only 6 Latin American countries had a higher percent undernourished, and no country in the region experienced a higher rate of increase than Cuba. Malnutrition, which rose while average per capita caloric and nutritional intake partially rebounded from the 1993-94 nadir, undoubtedly follows the dollar/nondollar divide, because rationed food, covering no more than half of family monthly needs, is affordable to all. Average peso earnings no longer cover basic needs, since items at Farmer Markets instituted in the 1990s (where vendors set prices)

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50 Per capita daily consumption dropped from over 3,000 calories in 1988-1989 to 2,000 in 1993, but within four years it rebounded to nearly 2,500 (Eckstein, Back from the Future, p. 226; ECLAC, p. 261).
and at state stores cost 10 to 100 times as much as their price-regulated rationed equivalents.\footnote{Viviana Togores Gonzalez, “Enfoque social del desempeño de la economía cubana en 1996,” in La Economía cubana en 1996: Resultados, Problemas y Perspectivas (Havana: Universidad de la Habana, Centro de Estudios de la Economía Cubana, 1997), pp. 96-97.}

How inequitable has income distribution become as a result of unequal access to remittances (and other dollar sources)?\footnote{Although remittances are the main source of dollars (cf. Archibald Ritter and Nicholas Rowe, “Cuba: From ‘Dollarization’ to ‘Euroization’ or ‘Peso Re-Consideration’?,” Latin American Politics and Society [Summer 2002]), Cubans acquire dollars through informal tourism, e.g. tips, prostitution, room rentals, and through dollar-charging activity that is informal, small-scale, and often illegal (or partially illegal).} Claes Brundenius estimates that the Gini coefficient rose from 0.22 to 0.41 between 1986 and 1999, with remittances one of the factors contributing to the new inequality.\footnote{Claes Brundenius, “Whither the Cuban Economy After Recovery? The Reform Process, Upgrading Strategies and the Question of Transition,” Journal of Latin American Studies 34 part 2 (May 2002): 365-96.}

The effects of remittance income distribution in Castro’s Cuba differ from those in market economies in the region. In the other countries, where income inequality ranks among the worst in the world, remittances, channeled to the poorer population, reduce earnings differentials. In Cuba, though, where the revolution, through land, wage, and welfare reforms dramatically reduced historical inequities, remittances countered this trend by widening the income spread. Whereas in the pre-dollarized economy the ratio between the highest and lowest salary had been 5 to 1, in the 1990s some Cubans came to earn several hundred times more than others.\footnote{The Economist September 23, 1999, p. 37.} Society accordingly is becoming more differentiated by income.

Some of the new upper income stratum, comprising high-level joint venture employees and the most financially successful participants in the informal (and often illegal) economy, as well as the largest remittance recipients, employ gardeners, housekeepers, babysitters, and drivers, and they flaunt material wealth. Conspicuous consumption not only defies the revolution’s egalitarian precepts but it would have been considered socially egregious in the anti-materialist, morally driven early years of Castro’s rule. Reportedly, by the start of the new century Cuban awareness of U.S. brand names was among the highest for any non-English-speaking country.\footnote{New York Times Section 3 May 26, 2002, p. 4.} In contrast, consumerism had been so stigmatized during the first decades of the revolution that islanders hid money
and goods obtained from family in the States. Remittances accordingly are also corroding the revolution’s culture and value system, restoring mores partially reminiscent of the prerevolutionary social order.

Conspicuous consumption, in turn, fuels resentments among the peso-dependent populace. Labor union and public forums make the resentment apparent. Worker dissatisfaction, according to one study, rose from 27 to 41 percent between 1989 and 1999. The devaluation of the peso in 2001 undoubtedly intensified such dissatisfaction.

Reliance on remittances, meanwhile, makes Cubans more directly and personally vulnerable to the very market vicissitudes the revolution had sought to eliminate. Whereas prior to the revolution economic opportunities varied, above all, with the effect world sugar prices had on the macro economy, islander income in the new economy has become subject, in no small part, to the impact global market conditions have on family abroad. As the U.S. experienced a recession that deepened after the September 11, 2001 terrorist attacks, overseas relatives sent fewer dollars. New immigrants, in particular, are typically employed in jobs most vulnerable to business cycle vicissitudes.

Cubans with dollar access have yet, however, to solidify into a new privileged social class. First, for many Cubans dollar access is erratic. While some 62 percent of the population were estimated to have dollar access in 2002, only around 27 to 35 percent were believed to have continual access. Second, Cubans differ in the amount as well as regularity of remittances received. The dollar stratum accordingly is itself internally divided. Third, at the time of writing, the government still managed to contain dollar-based capital accumulation, through, for example, heavy taxation of private economic ventures. Fourth, remittance access did not reinforce political privilege. Families of Party members, loyal to the revolution, were less apt to emigrate than the population politically indifferent. Without overseas networks to tap into, those in this political cadre were at a disadvantage in the new economy.

Meanwhile, the new consumer culture that eroded revolutionary precepts and values has fomented rent-seeking, corruption, and theft among islanders otherwise without dollars. The peso-dependent populace turned to such illicit and immoral activity so as to participate in the dollar economy. Islanders pilfer, pirate, and illegally appropriate supplies from state jobs to sell on the black market, and they bribe authorities to gain


access to jobs offering such opportunities.\textsuperscript{61} Pervasive economic crime and corruption provoked the Communist Party and the state-controlled media to campaign against them and “social indiscipline.” In 2001 the government created a Ministry of Audit and Control to strengthen economic monitoring, and it tried to reinvigorate the largely defunct CDRs (Committees for the Defense of the Revolution, state-linked block organizations) to mobilize against crime, delinquency, and indiscipline.\textsuperscript{62}

\textbf{B. Impact on the State}

From the state’s vantage point, remittances have had contradictory effects. Officially channeled remittances provided much needed revenue to finance imports, economic development, and foreign loan repayments. However, the income transfers have failed to offset Cuba’s difficulties in attracting bilateral and multilateral aid, direct investment, and hard currency generating exports. Even with the infusion of “migra-dollars, Cuba imported less in 1999 than in 1990, a decade during which imports to the Dominican Republic and El Salvador nearly tripled.\textsuperscript{63} And Cuba’s foreign debt in 2000 stood 2 and 4 times greater than that of the Dominican Republic and El Salvador respectively.

Remittance-linked dollarization of the economy in certain respects has helped the state politically as well. Although stirring resentments among the peso-dependent populace, the stepped-up dollar-based consumption has defused survival-linked political pressures.

The transnationally based informal dollarization, however, at has generated problems for the state. The government officially has maintained a monopoly on the vending of most nondurables and all but fresh fruits, vegetables, and meats, but in so doing has unintentionally contributed to black marketeering. Vendors who have offered items to dollar-holders at below official agency prices have created a market for their products.

Remittances, furthermore, have fueled a black market in housing that has undermined state control over allocations of dwelling units and building supplies. Illustrative of this problem, in 2000 the government confiscated more than 2,000 illicitly obtained homes in the capital and imposed fines amounting to more than $1 million.\textsuperscript{64} Furthermore, although authorities targeted building supplies for the state tourist sector which has

\textsuperscript{61} While scarcities alone might induce pilfering and the like, the new dollar-based consumer culture made islanders covet more material goods at a time when peso earnings bought less.

\textsuperscript{62} EIU, \textit{CCR (August 2001)}, p. 13.


\textsuperscript{64} EIU, \textit{CCR (May 2001)}, p. 19.
brought in hard currency, islanders with dollars have illegally purchased much needed and wanted home improvement supplies, involving goods largely stolen from state jobs.

The informal dollarization has also adversely affected state sector peso-based productivity. The peso economy has remained the main source of employment and the base both for the cradle-to-grave welfare state, on which regime legitimacy has rested, and for production of most foreign exchange generating exports. But in the new dollarized economy islanders have calculated peso earnings in their hard currency equivalency. Since few state jobs have paid more than the equivalent of $10-20 a month, far less than average remittance earnings secured without any work effort whatsoever, incentive has eroded to labor at most peso-paying jobs, which had paid the social wage. Peso-paid workers have absented themselves from their state jobs with frequency, partly to pursue dollar-earning sideline activities in the underground economy. Labor motivation was highest in those peso-paying state jobs that provide access either to dollars (informally, if not formally) or to goods that can be pilfered for black marketeering.

Disillusioned peso-dependent skilled state workers have fomented a domestic, and not merely overseas, brain drain. Because the government has wished to ensure the free delivery of public social services central to its legitimacy, it has prevented professionals from engaging in private activity. The restrictions, however, have generated unintended consequences. Professionals instead have left their state jobs for low-skilled work which provides informal access to dollars, e.g. in tourism. Some university-educated women have turned to dollar-earning prostitution in the tourist sector.

With peso jobs unattractive and restrictions imposed on work options for university graduates, the younger generation has showed declining interest in higher education. One of Latin America’s most educated populations “deschooled” as well as “deskilled.” The proportion of the school-aged population enrolled in post-secondary studies dropped from 17 percent in 1980 to 12 percent in 1997. During these years the percentage enrolled in higher education rose from 18 to 23 in the Dominican Republic and from 9 to 18 in El Salvador.

65 Government restrictions on graduates led students to acquire training, such as in computer skills, but quit before graduation.

66 World Bank, World Development Indicators (Washington, D.C.: World Bank 2001), p. 86; www.worldbank.org/education/pdf/tertiary. A shift in state education policy also contributed to the deschooling. In 1991, when the crisis first set in, authorities tried to retrack the school-aged population from university to technical studies. See Granma International May 26, 1991, p. 8. Here too the government met with resistance, as families did not happily accept children’s lowered status implicit in the rechanneling. But with the university drop-off rate higher than the government intended, and with students resisting rechanneling to more technical and vocational education, Castro directly appealed to youth to reintegrate into higher education at the turn of the century through a massive expansion of social work/social inquiry studies.
To minimize losses in productivity and labor in the new economy, the revenue-poor government initiated some costly worker-incentive reforms. The most economically and socially valued state enterprises began to feed, clothe, and house their workers, to offer performance bonuses, and to pay employees a portion of their salary in hard currency, especially in a new so-called convertible currency with dollar value, but only in Cuba. The government also raised base-pay peso earnings. In 1999, for example, the government announced salary increases of 30 percent for teachers, doctors, and police. Two years later 40 percent of the labor force received hard currency or convertible currency bonuses, up from 30 percent in 1997. Bonuses amounted to 1 to 7 times the monthly base peso wage, costing the state $228 million in scarce hard currency, the equivalent of one-fourth to one-third of the estimated total remittance intake at the time (and a higher percentage, according to the most conservative remittance estimates). The added peso and hard currency outlays, which have left the government reduced funds for investment, have been spill-over costs in the state economy that governments in market economies need not absorb. Remittances have indirectly contributed to the pressure for the fiscal concessions, although they have not been the only force at play.

In monopolizing most permitted retail trade, the government, in addition, has assumed more responsibility for consumer spending, including that in hard currency, than governments in market economies. By 2000 consumer goods accounted for one-fourth of the government’s slimmed-down import bill. While domestic light industrial output by then had rebounded to the point that half the value of sales in dollar shops was locally produced, industry drew on substantially more hard currency financing than any other sector. To make matters worse, the state’s official near-monopoly on retail trade has had the unintended effect of stimulating black market commerce to the extent that it too

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67 Workers received debit cards usable only at designated stores. In this manner the government addressed consumer demand while minimizing the circulation of money that could fuel the black market.

68 Earlier in the 1990s authorities raised salaries of employees in activity generating hard currency for the state.

69 UCTEC (March 17, 2002), p. 12.


71 EIU, CCR November 2001, p. 5.

has absorbed a higher portion of consumer spending than in market economies, where most transactions transpire through legal private businesses.

Government efforts to channel towards savings the informal dollarization not absorbed through consumption, moreover, has proved only partially effective. Dollar bank accounts have absorbed few of the informal dollars islanders possessed, although their use has gradually increased.\textsuperscript{73} Most Cubans have preferred to hoard dollars they did not use for immediate consumption. They have feared possible government appropriation of their deposits, a fear with some historical base. Castro, upon taking power, froze bank accounts and confiscated other assets, such as land. Cubans have also preferred that authorities not know their dollar holdings, often obtained in ways not fully compliant with the law. Furthermore, low interest rates (of 0.5 percent annually for depositors of more than $200) have provided people with little incentive to bank money.\textsuperscript{74}

The taxes initiated both to raise revenue for the cash-strapped state and to reduce dollar/non-dollar holder income disparities have also met with dollar-holder resistance. When the government, for example, introduced license fees, private activity went underground. The number of officially registered self-employed islanders, some utilizing remittances for their operations, dropped 23 percent between the mid-1990s and the decade’s end, after levies were introduced.\textsuperscript{75} And, in 2000 personal income taxes accounted for a mere 3 percent of total tax revenue.\textsuperscript{76} From the moment the government announced direct taxation, which was without precedent in Castro’s Cuba, the government has encountered resistance.\textsuperscript{77}

\textsuperscript{73} EIU, \textit{CCR} August 2001, p. 20 and \textit{CCR} June 2000, p. 19.

\textsuperscript{74} Ritter and Rowe 2002.

\textsuperscript{75} EIU, \textit{CCR} May 2001, p. 18. Of the 162,000 islanders registered to pay income tax, 89 percent paid in domestic currency, 11 percent in hard currency (EIU, \textit{CCR} May 2000, p. 17). No doubt, the government had greater difficulty collecting taxes in hard currency, both because islanders valued their dollars more and accordingly concealed their full dollar earnings, and because the government had more information about peso-acquired earnings, making evasion of peso taxes more difficult.

\textsuperscript{76} EIU \textit{CCR} August 2001, p. 18.

\textsuperscript{77} Eckstein, “The Limits of Socialism in a Capitalist World Economy,” pp. 142-47.
V. Conclusion

When compared with the experiences of countries having economies of roughly similar size but different polities, different dominant patterns of economic ownership, and different global constraints, the experience of Cuba in the post-Soviet era suggests several propositions about conditions conducive to remittances. Cuba’s experience, in comparative perspective, also suggests propositions about the range of effects remittances may have and why, on both states and society.

First, the analysis suggests that the unequal opportunities in the global economy that have spurred Third World immigration since the late twentieth century have raised living standards not merely of those who leave but of family left behind. Third World peoples have become their own capital fund-raisers, through the development and cultivation of transnational kinship ties. Their success at eliciting remittances depends, however, not merely on the wealth (and the presumed disposable income) of overseas family or even on how recently relatives emigrated. It is also contingent on how politically predisposed overseas kin are toward sharing their earnings, and on institutional mediating factors at the transnational/bilateral, national, and community levels.

Second, the Cuban experience suggests that whether Third World peoples secure remittances depends more on their needs and wants and their transnational networks than on state policy and the law. Official regulations shape mainly how remittances are transmitted: whether legally and overtly, or illegally and covertly. Remittance-senders and recipients who evade official rules and regulations do so because regimes prioritize state interests over constituents’ interests.

Third, the stances of both society and state toward remittances must be understood in the context of alternative revenue sources. In the absence of sufficient aid, investment, and trade, remittances may become essential not merely for peoples’ survival but also for a state’s ability to address its own institutional concerns.

Fourth, remittances are not necessarily equally or simultaneously beneficial to state and society. While recipients can use money from family abroad to raise their material living standards and sometimes also to invest in housing and to finance capital-accumulating ventures, the state’s institutional interests are best served by maximizing the hard currency it appropriates, through exchange rate regulations, taxation, control over consumption, and the like. Even from the state vantage point remittances may generate contradictory dynamics, as authorities balance long term with short term, investment with consumption, and economic goals with political goals.

Fifth, remittances may generate consequences that senders and recipients, as well as authorities, may not intend, foresee, or favor. Because the effects of remittances are shaped by structures in which the foreign currency becomes embedded, their results differ in market and in socialist economies. In the Cuban socialist economy, informally circulating dollars also tend to undermine regime priorities, plans, and power, including control over cradle-to-grave welfare as well as income and consumer equality. Informally
circulating dollars are likely to create indirect labor market distortions that undermine productivity and erode regime legitimacy. To offset the distortions Cuba’s socialist government incurs costs that governments in market economies do not.

Difficulties Cuban authorities encounter in regulating remittances reveal a regime economically weaker than models of strong states/weak societies under Communism suggest. Moreover, the weakness results from informal social, cultural, political, and economic dynamics that are transnationally, not nationally rooted. At the same time, the Cuban experience reveals that society is not uniformly able to assert itself, because of differential access to transnational dollar-generating networks. Those Cubans whose families were transnationalized in the post-Soviet era and whose relatives emigrated for economic reasons are best positioned to receive remittances. Cuba has become more socially differentiated, not more homogenized as other Soviet bloc countries became at the eve of the collapse of their Communist regimes.

In sum, in the context of a socialist political economy, remittances may serve to erode a society’s social and cultural fabric and plant seeds of economic transformation, quite independently of the reasons people turned to overseas kin for assistance. They may have such system-erosive effects while generating regime-bolstering hard currency revenue. The informal transnational dollar flows, with all the contradictory tendencies they set in motion, at the time of writing, nonetheless, left Cuba’s formal polity intact. Whatever the long-term political effects of remittances, by the start of the new century they had transformed socialism as historically constructed in Cuba.  

78 Although analysis of political structures and ideology are beyond the scope of this paper, it is noteworthy that Cuban authorities shifted emphasis from Marxist-Leninism to nationalism in the 1990s. The shift reflects the regime’s effort to redefine its base of legitimation at a time when Soviet bloc Communism was internationally discredited and when Party and ideological loyalty left basic needs unaddressed.