



LUND UNIVERSITY

School of Economics and Management

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# Inequality and the Informal Market in Cuba

Structural Barriers of Income Distribution in Light of Tourism and  
Economic Growth for Afro-Cubans

by

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*Abstract:* This research focuses on Cuba's economic changes that have been unraveling since the 1990s but has had significant impacts in the past decade. The removal of economic restrictions paired with a rise in tourism has had several outcomes including economic growth for the country but a dismantling of the equality for which it has been previously praised. The changes in the economic atmosphere of Cuba have especially affected the Cuban minority of Afro-Cubans. The empirical research attempts to understand the limitations of income distribution contributing to the rise of inequality as well as a larger informal market due to the dual currency system that operates to capture hard currency. The research shows that barriers are ultimately a result of inheritance patterns and racist ideology that limits Afro-Cubans' participation in the emerging sectors of the economy. This has particular relevance as Cuba continues to slowly transition into more capitalist ventures under a communist regime.

*Keywords:* Economic Development, Cuba, Dual Economy, Inequality, Race, Informal Market.

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# Table of Contents

- 1 Introduction ..... 1**
  - 1.1 Research Aims and Objectives..... 2
  - 1.2 Research Limitations..... 2
  - 1.3 Outline of the Thesis ..... 3
- 2 Theory and Literature Review..... 4**
  - 2.1 The Tourism Industry in Cuba: Past and Present..... 4
  - 2.2 Economic Growth and Dual Economy..... 6
  - 2.3 Informal Market ..... 8
  - 2.4 Inequality..... 9
  - 2.5 Theoretical Approach..... 11
- 3 Data..... 14**
  - 3.1 Source Material ..... 14
- 4 Methods..... 16**
  - 4.1 The Approach..... 16
  - 4.2 Limitations ..... 16
- 5 Empirical Analysis..... 18**
  - 5.1 Institutional Obstacles to Income Distribution..... 18
    - 5.1.1 Race Inequality in Cuba ..... 18
    - 5.1.2 Inheritance System ..... 23
    - 5.1.3 Barriers to High-Income Jobs ..... 26
    - 5.1.4 Limited Access to Credit..... 28
    - 5.1.5 Distribution of Property and Wealth ..... 32
  - 5.2 Discussion ..... 36
- 6 Conclusion..... 40**

# List of Tables

Table 2.1: Breakdown of Participation in New Economy (Author).....12

Table 3.1: Overview of Interviewees.....15

Table 5.1: Variables Stimulating Remittances to Cuba (Havana Consulting Group and Tech, 2017).....24

Table 5.2: Asset Ownerships among Remittance Recipients (Orozco and Hansing, 2011)....25

Table 5.3: Number of Self Employed Workers by Category (Ministry of Labor and Social Security).....30

# List of Figures

Figure 2.1: Conceptual Framework and Relationship (based on Harris, 1993).....13

Figure 5.1: Map of Cuba (Rough Guides, 2018).....19

Figure 5.2: Cuban Ethnicity Using Genetic Markers by Region (Marcheco-Teruel et al., 2014).....19

Figure 5.3: Thousands of Workers per Industry from 1998 until 2010 (Oficina Nacional de Estadísticas, 2016).....26

Figure 5.4: Self-Employed Workers in Thousands (Oficina Nacional de Estadísticas, 2012).....29

Figure 5.5: Number of Accommodations by Provinces (Cuban Government, Census 2012).....35





# 1 Introduction

Cuba has been in an economic limbo over the past two decades, with an influx of tourism, a booming service industry, and new opportunities for self-employment, all while maintaining its hold as an authoritarian centrally-planned socialist economy. The major driver of the economy in Cuba has become its tourism industry since the 1990s and is increasingly more relevant in the global market as a destination, particularly as US and Cuban relations continue to improve, bringing in a new wave of tourism and revenue (St. Martin and Thompson, 2003). While economic growth seems to be in favor for Cuba, it undermines the economic strategies that have long existed and has turned Cuba into a dual economy on the cusp of a slow and unsteady transition. The influx of tourism has caused the resurface of Afro-Cubans' struggles with racism, stimulating inequality in a country that although has high levels of poverty has had virtually almost no inequality for 50 years.

As changes continue in Cuba and new opportunities for joining the wave of capitalism present themselves, more Cubans are working in the informal economy and leaving state jobs to be able to capitalize on the dollars available in the tourism industry. Globally, there has been a widening awareness of the lack of proper institutions and call for inclusive growth, which is partly linked to expanding the benefits of the formal economy and bringing in economic activity from the informal economy which is largely populated by marginal groups. A large informal economy, according to Singh, Jain-Chandra, and Mohommad (2012), can be potentially detrimental to the formal economy, discouraging growth and limiting the benefits to fewer people meanwhile politically limiting state capacity, and institutional development, offsetting even more in the case of Cuba the equalities that have long been established.

Income inequality in development literature and global politics has been an increasingly important topic, addressed in the Millennium Development Goals by United Nations and linked to many other world issues such as poverty, gender and racial discrimination, world hunger, and universal education. Many studies on inequality focus on formal economic variables such as GDP and trade and largely ignore the prevalence of informal economies in developing countries. Cuba remains a special case, while it is a developing country it is also one of the few countries left under an authoritarian government and centrally-planned economy, although that is changing. It has been estimated that over 30% of the world economy operates in the informal or shadow economy, a fairly large percentage that although difficult to measure and examine should be paid more attention to in economic studies and theories (Hassan and Schneider, 2016; Elgin and Oztunali, 2012; Alm and Embaye, 2013).

A large informal economy, while necessary for many groups of people to survive in a developing country and make up for the shortcomings of the state, can be detrimental as governments with large informal economies may raise tax rates to makeup revenues, further enlarging the underground economy (Singh et. al, 2012). This in turn limits the institutional capacity of the government and in its fragility can offset a cycle that can be difficult to overcome. Moreover, large informal economies render official statistics unreliable and incomplete, complicating matters of informed policies to addresses institutional deficiencies.

Within this cycle, the benefits of a formal economy such as property rights protection and access to credit markets are not widely available, further discouraging potential economic growth and denying economic opportunities to more marginalized groups (Singh et. al, 2012).

## 1.1 Research Aims and Objectives

In order to design and promote policies and movements aimed at improving inequality and a better welfare state within a transition economy, this study aims at examining and analyzing the institutional and structural forces responsible for the inequality and informal economic activity resurfacing as a consequence of a growing tourism and private sector in Cuba. The study is focused on the income inequality that is rising with an emphasis on its effect in terms of racial discrimination. Both economic and social consequences will be analyzed to provide a better understanding of the current state of Cuba, and the future consequences that a full economic transition will have on its people, particularly minorities. Such an analysis will help bring Cuba into more consideration for global politics and economics as its unique case affects not only its citizens but those engaging in global trade and tourism.

Building on previous research the thesis seeks to answer the following questions:

- How do the institutional factors contributing to inequality and a large informal market manifest themselves in the social and economic context of Cuba?
- How do these factors in particular affect the Cuban minority made up of Afro-Cubans?

The thesis will contribute to the empirical research in informal economies and transition studies by focusing on a post-socialist satellite country which has not yet been seen in the light of transition studies. By highlighting the issues of race and inequality present in a post-socialist satellite country, the thesis also touches upon the areas of human development. Thus, the study will provide a platform for insight and discussion as to how the Cuban government can continue expanding its capitalistic ventures and become an asset to the economy of the Caribbean and the global economy while maintaining intact what it has achieved in terms of social welfare and equality.

## 1.2 Research Limitations

The analysis of authoritarian countries such as Cuba presents difficulties in the reliability of the data and thus creates limitations in the analysis and results of the study. Due to Cuba's small role in the world economy, few economic studies and fieldwork has been performed in Cuba, and much of the literature remains ethnographic and anecdotal. The scarce data available on Cuba, and the limited household surveys and economic studies done in the country already presents a challenge, but it is necessary to explore as Cuba becomes an increasingly popular Caribbean tourist destination. Studies on the informal economy present a similar obstacle as the ability to measure the size of the informal economy in such a country is

not possible in the capabilities of this thesis. For this reason a mixed-methods approach of qualitative data using semi-structured interviews and secondary data available on the web were used to obtain the maximum amount of understanding and reliability of the issues presented in the thesis.

### 1.3 Outline of the Thesis

This thesis consists of six core sections and begins by introducing the topic and the general purpose of the research. The second part presents the literature review which provides context of the tourism industry in Cuba and a historical perspective, following more detailed background on the dual economy and informal market. The framework and theories related to the topic will be used to provide a wider understanding and will be addressed in the subsequent section. In the third and the fourth sections data collection, source material, and methodological issues are introduced and discussed. The fifth section provides the findings and discussion regarding the inequality trends in Cuba. Finally, the paper is concluded with some remarks regarding the future research in the field of inequality and transition studies with prospects of Cuba's own future transition.

## 2 Theory and Literature Review

### 2.1 The Tourism Industry in Cuba: Past and Present

Prior to the revolution, Cuba was an island that was predominantly controlled by the United States mafia. They had control over the international tourist industry in Cuba that was an icon of gambling, prostitution, and drugs with exotic attractions of sun, sea, and sand. On the eve of the Revolution, tourists from the United States made up about 86% of the visitors to Cuba. However, tourism and sugar production meant the social landscape, particularly in Havana, was riddled with injustices. There were more than approximately 5000 beggars and homeless individuals in Havana in 1958, many of whom were homeless women with children (Taylor and McGlynn, 2009). Crime and juvenile delinquency was a rising issue, and prostitution among children was rampant (Taylor and McGlynn, 2009). Among these issues was inequality, especially race-based.

Pre-revolutionary Cuba was characterized by delayed political independence, which was then perpetuated by U.S. neo-colonialism that became pervasive for 32 years. With its history of colonialism and slavery, Afro-Cubans suffered from the remaining institutional racism and segregation in the pre-revolutionary era (Ogden, 2015). Afro-Cubans were more likely to suffer from health issues characterized by poverty such as infant mortality, low life expectancy, and other issues indicating poor living standards. They were overrepresented in prisons and had limited access to education and vocational opportunities. They were also overrepresented in lower-level job sectors, including the tourist industry, because the laws did not prevent the discrimination of blacks from professional workplaces. Before 1959, Afro-Cubans were segregated from many beaches, bars and restaurants that were prime tourist zones (Ogden, 2015).

When the Revolution took form in 1959, many reforms were made, a lot of them wanting to eliminate the image tourism had made out of Cuba. Fidel Castro wanted a sort of “moral cleanse” of the economy and implemented programs that would eliminate occupations associated with tourism, namely prostitution. One program aimed at training former sex workers to teach and become seamstresses (Ogden, 2015). Another initiative was aimed at eliminating the work of female domestic servants that served in wealthy and foreign homes, as well as mafia-associated households, by enrolling them in educational and training programs. When the Cuban *rebeldes* seized power in 1959, they promised a society that would receive food, housing, health care, and education as basic human rights of citizenship, and priority would be with the popular classes. After 1959, international tourism was practically eliminated. The government wanted to erase all history of corruption, prostitution, drugs, inequality, and racism, which had become associated with capitalism (Taylor and McGlynn, 2009). Between 1959 and 1989, the Soviet Union was an ally to Cuba through trade agreements, making Cuba a communist-party satellite state. With the USSR’s support, *rebeldes* were able to develop their model of a capitalist-free society.

After 1989, there was a massive change brought on by the dissolution of the Soviet Union, which had been a long-time economic supporter of Cuba. Cuba had extensively relied on Soviet goods and produce. With the collapse of the Soviet Union and the Eastern European Communist Bloc, Cuba lost almost 75% of its international trade (Taylor and McGlynn, 2009). In 1991, the Cuban government declared that “socialism was under siege” and, thus began the “Special Period in Time of Peace” or *período especial* (Brotherton, 2008). The Special Period was a time of economic depression in Cuba, during which those earning a high salary, such as lawyers and doctors, were making around 300 to 400 pesos a month, at 40 pesos being equivalent to one dollar (Calderon, 1995). There was a severe food crisis, with many lacking anything beyond a small amount of staple foods, routinely lacking even salt and sugar. Hygiene was of concern as lack of running water and electricity were frequent. The shortages propelled an increasing appearance of *jineterismo*, which is a form of prostitution in Cuba for dollars. There was a growing anxiety of unemployment, and issues surrounding the elderly’s incapability to work (Calderon, 1995).

During this period, Cuban people even had difficulty of obtaining goods in the black market, and many resorted to “re-selling their quotas of cigarettes and rum for dollars, supplying a wide variety of services for dollars, producing and selling crafts, weavings, sweets and knick-knacks on the dollar market (Calderon, 1995).” The black market was pervasive in all the residential neighborhoods, where one could get food and other consumer goods at half the price of government-operated stores. Although there was an important reform surrounding the legalization of the holding of dollars, which enabled Cubans to purchase goods that were only previously available on the black market, the prices were still considered steep (Smith, 1999). The amount of nourishment given through the Cuban ration system was only sufficient to last two weeks out of the month, therefore dependence on the underground market was necessary (Calderon, 1995).

Due to the hardship brought on by the Special Period, the Cuban government intensified its investment in tourism hoping it would enable the country to survive in a worldwide capitalist market. Living conditions were declining, and Castro proclaimed that tourism needed to be developed as an economic necessity (Taylor and McGlynn, 2009). As in other former socialist bloc countries, the Cuban government could no longer provide the extensive employment and social-welfare for all Cubans (Smith, 1999). By 1999, although state subsidies in the areas of food, housing, transportation, health-care, and education still existed, most consumer goods could only be purchased in dollar stores (Smith, 1999). It was at this crucial moment that international tourism began to increase significantly. The government introduced some reforms allowing a response for the world market, such as legalizing the circulation of hard currency, meanwhile searching for foreign capital and technology (Brotherton, 2008). Introducing tourism once again would allow for the government to secure hard currency, simultaneously using these resources to maintain the social and political structure of communism. This spelled capitalist means for socialist ends. This period was thought as the new beginning in Cuba's revolutionary history, a sort of quasi-post-communist era.

During the 1990s one-fifth of total investment in the country was concentrated in the international tourism sector, at \$3.5 billion (Carty, 2009). In the 1990s and 2000s the industry took off as more tourism was encouraged and the numbers doubled. Then in 2004 it reached the outstanding amount of two million tourist arrivals, which had not been seen before. The revenues from tourism were substantial, with the gross amount reaching 1.9 billion U.S. dollars in 1999 to 2.25 billion dollars in 2004 (Taylor and McGlynn, 2009). Gross income from tourism multiplied eightfold between 1990 and 2000, increasing an average of 23% every year (Carty, 2009). Now Cuba is the second most popular destination in the Caribbean

after the Dominican Republic, taking on 3,016,655 tourist arrivals in 2014 (Laitamaki et. al, 2016). Cuba's tourism industry is different from most others in that it is nationally controlled. Tourism had surpassed the country's oldest and most popular industry, sugar production, hailing back to colonial times, which has also been the primary source of hard currency and famous cash crop (Taylor and McGlynn, 2009). The tourism sector drives the Cuban economy and employs a large fraction of the workforce. It is responsible alongside mining for the country's economic expansion in recent years. Tourism, the last economic sector to undergo major change, has become once again the economy's most important source of income.

## 2.2 Economic Growth and Dual Economy

The political culture in Cuba strives for social justice and equity in its propaganda, but has since dismissed an egalitarian society as an idealistic phase. Raúl Castro's de facto leadership after Fidel Castro's death has brought in more reforms since and has significantly opened the market. For one, he has cut jobs where there has been guaranteed state employment for years since the Revolution, to promote greater efficiency in the workplace and prevent over-staffing (Laitamaki et. al, 2016). Many of the new policies introduced have been focused on economic opportunity available to Cubans. One such significant change has been lessening the legal restrictions on owning small business, such as *paladares*, which are popular home restaurants and cafes that have typically in the past run illegally in the informal market. This simply has meant legalizing what is already occurring in the shadows. *Paladares* used to be limited to only accommodate 12 people at a time but since then has moved to 50 people, increasing the revenue for these locally run private enterprises (Laitamaki et. al, 2016). In addition to being able to host more people, policies have been changed which previously required proprietors to only hire within their family, in order to avoid capitalist operations (Laitamaki et. al, 2016). *Casas particulares*, which are rooms to rent in private home, similar to the AirBnB tend have also been legalized and permitted to develop (Hingtgen et. al, 2015).

In the case of *paladares* and *casa particulares*, two previously informal ways Cubans were earning self-employed income in their homes, the legalization of selling and buying property is allowing owners to have control over the value of their property, which is beneficial for touristic purposes as well. Now citizens can alter their homes to better suit the tourist market's demands and desires, especially as more people travel and have aesthetic expectations in terms of location, architecture, and layout, as well as amenities in correspondence with more developed countries. At approximately \$2.5 billion in profits (Laitamaki et. al, 2016), tourism is now more than a savior from economic crises, it is an economic driver. Though Cuba's attempt to develop international tourism began primarily as a temporary solution to the growing hard currency gap in external accounts, it has acquired a dominant role in Cuba's long-term development strategy (Carty, 2009).

In 2014, tourism accounted for 10.4 percent of GDP and 9.6 percent of employment. It has been expected to grow through 2024, with a 4.6 percent increase in total contribution to GDP (Laitamaki et. al, 2016). National GDP has increased from \$30.69 billion in 2002 to \$114.1 billion in 2010, 72.9 percent generated by the services industry (Hingtgen et. al, 2015). Cuba has achieved success in the tourism industry without the largest available and affluent market

in close proximity: The United States. Unlike other Caribbean countries, which benefit from the almost constant tourism influx from the United States, Cuba has managed to grow its tourism despite having an embargo placed by the United States. It has also developed its tourism infrastructure and potential without the United State's source of investment capital, foreign expertise, and industrial technology (Henthorne and Miller, 2003).

The benefit of the tourist industry for Cubans is the addition of tips in dollars and other hard currency paired with gifts from sympathetic travelers on top of their salary, which is paid in Cuban pesos. Working in this industry also has the benefit of being exposed to social worldview, norms, and experiences outside of the socialist bubble the government has tried to protect Cubans from. In order to subdue the growing popularity of jobs in the sector and keep people working in state jobs, in 2005, the Ministry of Tourism established policies that forbid Cubans from receiving tips, gifts, or accepting dinner invitations from foreigners (Taylor and Glynn, 2009). However, Cubans have always managed to find a way to navigate through these set rules. The majority of Cubans, regardless of their educational levels, make about \$20 to \$24 a month (Henthorne and George, 2009). Employees in the tourism sector earn about five dollars more a month, but generally still accept tips on top of their pesos.

With the rise in tourism, all sorts of hospitality workers now expect and work for tips. The unofficial tip earnings have swayed young Cuban professionals to choose work in the tourism industry rather than in their field of study or to choose tourism as their field, if they are able to qualify for it. This has also shifted other sectors, as the number of agricultural workers has decreased and mining has stayed stagnant. Cuban hotels and restaurants do not have trouble filling the positions of housekeeper, waiter, cook, bartender, hostess, however these positions, unlike in the United States and other Western countries are not considered entry-level and getting one of these jobs requires being accepted to a Formatur School for Tourism Education (Henthorne and George, 2009).

Although the US dollar has been legalized again, specifically in tourist areas, most currency used in Cuba for tourists and for most material consumption is the Cuban convertible peso or CUC, which became widespread in 2004 when the government declared that all US dollar-based transactions were to be conducted in CUCs. One CUC is now equivalent to approximately 24 CUPs, or Cuban pesos (Hingtgen et. al, 2015). Dollar-equivalent salaries are paid in CUC, and dollars received from remittances or foreign tourists must be converted to CUC, with a 10 percent surcharge. The reason for this is to reduce the ability of the United States to interfere with the flow of hard currency to Cuba, particularly through restrictions on foreign banks handling dollars that Cuba obtains from tourism and remittances (Blue, 2008). However, most Cubans still receive salaries in pesos and consume with pesos; thus the dual currency system has created price distortions, as many basic goods are only available for purchase in stores that accept only CUCs (Hingtgen et. al, 2015).

Retail outlets sell a variety of material goods and imported items at high prices and these items were available only in the dollar stores. The government however has maintained peso stores, fully knowing that inflation and high priced merchandise is an issue for most Cubans (Taylor and McGlynn, 2009). A sales tax of 140 percent was applied in dollar stores, further producing extraordinarily high prices (Mazzei, 2012). Prices were marked a striking 240 percent above regular cost, on equity grounds, however this tax on hard currency consumers presumably was to fund programs for citizens without access to dollars (Mazzei, 2012). The peso stores, however, lack both quality and variety. Common items found in Western countries at any grocery store, such as a can of tomato sauce, may not be available at a peso store, and may cost a large fraction of someone's salary at a dollar store. It results in

some being able to participate in a lifestyle that is not available to others if they do not have family abroad or work in the tourist sector, regardless of education or experience.

Since the majority of Cubans are still paid in pesos, it has led to black market activities similar to those of the Special Period, slowed the development of financial markets, and complicated economic measurement tools, ultimately complicating implementation of effective policy (Hingtgen et. al, 2015). The influx of dollars into the economy, both from exile remittances and tourism, has meant that the government needed to find a way to “capture” them. The purpose of legalizing the dollar in the first place was to be able to produce hard currency needed to pay for imports, subsidize social services, and to increase the supply of goods and services into the country (Taylor and McGlynn, 2009). Part of the issue is that Cubans do not have a consumption habit of direct spending, especially with dollars they receive as remittance, but spending is needed to further economic activity and growth.

## 2.3 Informal Market

The informal economy has various definitions and names. It is often times referred to as the underground or shadow economy, and includes both illegal and legal activities. A popular definition is Smith’s (1994): “market-based production of goods and service whether legal or illegal, that escape detection in the official estimates of GDP.” A more specific definition developed by Schneider et. al (2010) states that the informal economy is that “which includes all market-based legal production of goods and service that are deliberately concealed from public authorities to avoid the payment of income, value added or other taxes, to avoid payment of social security contributions, having to meet certain legal labor market standards, such as minimum wages, maximum working hours, and safety standards, and complying with certain administrative procedures.”

Many studies have been done on the informal economy both in emerging economies and transition economies with relation to income inequality and have found a positive relationship. Schneider and Enste (2000) contended that developing economies tend to have a larger size of the shadow economy due to greater tax burden and regulative procedures by centralized factors. Straub (2005) investigated such a relationship using credit market channels and argued that the positive relationship between income inequality and the informal economy is due to lack of access to formal credit by firms. Chong and Gradstein (2007) further concluded that the shadow economy is positively related to income inequality and negatively related to wealth and Pashardes and Polycarpou (2008) found a positive relationship between shadow economy and income inequality from higher income earning individuals that avoided taxes compared to low-income individuals in their case of Cyprus. Mishra and Ray (2010) concluded that higher inequality leads to a larger informal economy when testing data from over 63 countries; however their data was based on firms and not individuals. Alesina and Perotti (1996) found that the unequal distribution of income is linked to incentives for the poor population to participate in illegal economic activities and rent-seeking to accommodate for the gap in income. Income distribution affects the response of the shadow economy to differentiate fiscal policies, either demand or supply oriented. The informal economy also is found to threaten stability and property rights. There are studies that have also witnessed a negative relationship between income inequality and the informal or shadow economy. Okumu (2014) used dynamic stochastic general equilibrium model to find



such relationship, as did Bhattacharya (2011) who stated that the shadow economy in urban areas draws in the poor from rural areas that join this economy and reduce some of the income inequality present in the urban-rural dynamic.

When it comes to both formal and informal self-employed work, especially in the tourism sector of Cuba, Smith (1999) found that the self-employed generally earn more than their state worker counterparts by nearly fourteen times more, although it varied across occupations. Since this study was performed, we can posit that this amount has only one up as tourism has increased. Entrepreneurs in Cuba have created a market for themselves as well as for tourists. However, those that are self-employment have an increased risk of official harassment (Smith, 1999). The government established costly fines for various infractions, while police and government inspectors intensified their monitoring and regulation of the self-employed sector, especially wary of *jineteros* or hustlers and prostitutes working informally and in constant interaction with tourists (Smith, 1999). Inspectors at times visited private homes at night to monitor self-employment and their manufacturing. Another issue is the lack of wholesale markets for self-employed workers, making profit margins very slim (Smith, 1999).

The importance of the black market to the self-employed affects virtually every aspect of daily life in Cuba. Prices on the black market were and still are generally lower for the goods that are also available at state stores. Other goods, such as beef and lobster, are available only on the black market, as one could get prison for selling or buying such items. Entrepreneurs' improved purchasing power has stimulated the Cuban economy, particularly the black market (Smith, 1999). Salaries in Cuba often do not reward education, and those employed even in the best of careers must often moonlight in the tourism sector to make ends meet. Consequently, a rising number of high school and college students in Havana left their studies to find tourist-sector and informal employment rather than state-sector jobs. Meanwhile, those already employed in professional careers have abandoned them to work in tourism as well. Only those professionals involved in the health, education, and the defense establishments were prohibited from becoming self-employed, but often moonlight (Smith, 1999).

## 2.4 Inequality

Previous research on inequality and tourism in Cuba has focused on the dynamic between Cubans and tourists (Taylor and McGlynn, 2008; Henthorne and George, 2009; Mazzei, 2012). Although the intention of opening tourism was to avoid an economic disaster, it has had several consequences, and it remains an open-ended question of whether tourism has benefited citizens at all both economically and socially. The dual economy and similar policies were introduced to offset radical change and preserve the system. Castro has told Cubans that they are improving socialism rather than saving it and the country from collapse. Some of the efforts to "improve socialism" has included restricting Cubans from using the tourist facilities and stores, forming what most call a "tourist apartheid." This was also initiated as an effort to "protect" Cubans and "the revolutionary spirit," and restrictions were only lifted for as employees (Mazzei, 2012). The "tourist apartheid," has highlighted a class

and social divide between Cubans and tourists, meanwhile keeping the public under socialist propaganda.

Another bubble of literature concerning Cuba focuses on how Cuba has managed to introduce capitalism while maintaining its socialist values (Brotherton, 2008; Carter, 2008; Carty, 2009; Babb, 2010; Ogden, 2015) ranging from supply chain analysis, to affective capital, and their effect on Cuba and its citizens. Economic literature and interest on Cuba's tourism industry has grown as many try to understand how Cuba can become competitive in the global market (Henthorne and Miller, 2003; Miller et.al, 2008; Romeu, 2008; Laitamaki et. al, 2016; Duffy and Kline, 2018). There is also anthropological literature on Cuba that pertains to tourism and inequality which are ethnographic accounts that are a valuable source of knowledge for a country that remains difficult to examine in depth. Babb (2010) offers a detailed ethnography on the tourism industry with a focus on sex tourism and fetishism of Afro-Cuban women; similarly, Roland (2013) takes a look at the "tourist apartheid" in relation to race. St. Martin and Thompson (2003) the manifestation of white supremacy and colonization in Cuba's tourism sphere. Bodenheimer (2013) explores tourism through racial politics and music. While there exists literature based around Cuban tourism few have bridged together the relationships between the informal economy, race, and inequality between Cuban citizens.

Inequality in Cuba has grown in recent years, and although Cuba does not publish statistics on income distribution, the estimated Gini coefficient went from 0.250 to 0.407 between 1989 and 1999. A Gini coefficient has been estimated to be .38 in 2000 and to have risen since, although there have been no new numbers (Espina 2008). The estimate however, excluded CUC and remittances which makes up a large difference in income for Cubans; the number would be considerably larger otherwise (Espina 2008). Cubans receiving remittances and gifts from abroad are able to consume more and have higher standard of living than those who only have an income of pesos. This paired with tourism jobs has created a distinct divide between Cubans. As more technology is being introduced and sold in the island, we are seeing the threads of the Revolution come apart. The large-scale increases in inequality with the rise of self-employment, particularly informal employment, has brought about new frictions between those with access to dollars and those without, and deepened old ones across poverty lines, such as between blacks and whites. Cuban nationalism has made it difficult for Afro-Cubans to talk openly about racism, because it contradicts the political culture of the Revolution which was based upon equality, those that oppose this take power away from the Revolution and its efficient and are thus seen as traitors to the Revolution (St. Martin and Thompson, 2003).

One particular issue is the commodification of Afro-Cuban culture, particularly Rumba music and Santeria, while simultaneously prohibiting Afro-Cubans, though not legally, from working in the tourism sector (Bodenheimer, 2013). The housing scenario also traces historical patterns of racism, in which white or light-skinned families tend to live in nicer homes in tourist-friendly areas (Roland, 2013). Importantly, the majority of Cuban exiles were white. Moreover, their remaining family members in Cuba benefit from the remittances that are especially useful in the dollar stores that have mushroomed. They have access to a great deal more than Afro-Cubans, many receiving a monthly or weekly allowance from foreign family members. With this additional money they are also more prone to self-employment in *paladares* and *casa particulares* because they are able to put money into their small businesses.

Cubans of color have to rely on more informal and often more ethically-compromising forms of income (Roland, 2013). These informal sources of dollars have also been more of an issue

for women, as many young women turn to prostitution for dollars, or even engage in longer term relationships with foreigners for money (Baab, 2010). Many of these young women are also of color. However, there is a distinct separation between Afro-Cuban women being associated with sex tourism, while white Cuban women are more often involved in “romance tourism” and have more opportunities to use this to get married to foreigners and obtain a visa to leave the country (Baab, 2010). These prostitutes and *jineteros* might well be professionals who turn to prostitution and hustling to support their families because state salaries are often insufficient and the wave of tourism opens a window to make dollars. The resulting *jineterismo* has been regarded with embarrassment by the Cuban government alluding to the less than virtuous history of tourism before the Revolution (Baab, 2010). Many have called tourism a necessary evil, as inequality, racism, and sexism continue to creep in. However, the issues have been underlying in the fabric of Cuban society for years, even with the Revolution. It may well be the only plan for development if the government wants to continue preserving socialism.

## 2.5 Theoretical Approach

The inequalities that have surfaced can be structured in four different ways. The tourism sector and service industry have brought about chances for Cubans to not only make a salary but additional tips for their services, which in dollars and other foreign currencies, can amount to a month’s full salary in one or two days. Those not employed in the service sector lack the advantage of participating in the dual economy and obtaining many goods and services that are only possible with a larger salary or with dollars. The other major change tourism has brought to the island is a growing number of self-employed individuals and small business. Especially popular in the tourism industry are *paladares*, or restaurants and cafes that are privately owned, and *casas particulares*, which are Bed and Breakfast locales where tourists can stay in authentic Cuban homes. Others are employed in tourism through different avenues such as being a self-employed taxi driver. This seeking of the dollar through the tourism industry has in turn produced a wave of informal economic activity ranging from prostitution and hustling, also known as *jineterismo*. The lack of opportunities for working in the most important industry can be seen across the regions, as only Havana and Varadero have developed the infrastructure to hold the growing number of tourists. Table 2.1 demonstrates the unequal participation in the economy as previous economic restrictions are lifted to promote growth and development.

*Table 2.1: Breakdown of Participation in New Economy (Author)*

<b>Avenues for Obtaining Hard Currency</b>	<b>Cubans with Access</b>
Careers in Tourism	Those in Havana and Varadero who can attend tourism schools
Private Businesses	Those with licenses and capital to obtain private property
Informal Self-Employment	Anyone that can come in contact with tourists in Havana or Varadero
Remittances	Those with families outside of Cuba

A more indirect consequence of tourism has also been the ability of Cubans to obtain visas to leave the country, sometimes for a maximum of five years. This has allowed for many Cubans to either work abroad illegally or to seek political asylum, and thus maintain their remaining families in Cuba with remittances. These diverse direct and indirect effects of a booming tourism industry has unraveled racial inequalities in the island, and has separated not just the tourists from the Cubans, but the Cuban people themselves who have long been in a system used to egalitarian policies. In order to analyze the effects of income inequality caused by the influx of tourism and how in turn this create inequalities of a racial nature, we must take a look at how inequality has been understood in other developing countries.

Many researchers have tried to find correlations between inequality and other variables that can affect it such as education, factor endowments, population growth, economic growth, government intervention, political systems, ethnic conflict, urbanization, and agricultural productivity (Fields, 1989; Alesina and Rodrik 1991; Adelman and Fuwa, 1994; Jha, 1996; Mátyás, Kómya and Macquarie, 1998; Montalvo and Reynal-Querol, 2005). Barriers to entry into high-income jobs, limited access to credits, distribution of property, and the inheritance system (Harris, 1993) are particularly important in the Cuban context as Cuba's recent issues of inequality have stemmed from the inability of all members of the population to benefit from the new policies and growth of the tourism and service sectors. These underlying factors form a resistance to the reduction of inequality in income distribution. Additionally, the cyclical properties of growth and the slow rate of overall growth, as well as the need to restructure the economy as part of the growth process, are made more difficult to overcome due to these aforementioned structural obstacles in reducing income inequality that occur with or without growth. All of these factors are also compounded by the effects of racial and sexual discrimination (Harris, 1993). Consequently, barriers exist for the minority of the population, Afro-Cubans, to be admitted into tourism based schools and jobs, to obtain licensure for operating private business, to be able to obtain property for the establishment of said businesses, and to inherit capital and remittances that would allow for possibility to participate in capitalist ventures.

Further literature argues that political, economic, and social institutions are the main drivers of increased underground economic activity, aggravated by income inequality and the inability to overcome institutional barriers. Friedman et. al (2000) concluded that higher taxes are not

correlated with a larger informal economy, rather it is increased bureaucracy, corruption, and weak legal environments. Strict regulations placed on economic activity, such as license restrictions, are particularly correlated with a larger informal economy as firms and individuals find loopholes around them. De Soto (2000) highlights that productivity can be hindered due to institutional weakness, therefore limits participation in the formal economy. In the development process, this only benefits few groups and thus lower participation in the formal economy is linked to underdevelopment as the potentially productive capital does not include secure property rights. Property rights are an important part of development economics, as they are essential for the leverage of capital.

Harris’s conceptual framework of structural factors that limit income distribution and further propel income inequality will be used to understand the role these play for Afro-Cubans and how they influence the participation in the informal market. The framework presented will allow for an analysis of Cuba’s complex political and economic system in which tourism sector thrives and informal economy enlarges. Figure 2.1 presents the relationships between the various elements surrounding the Cuban economy and the frameworks place within the system.

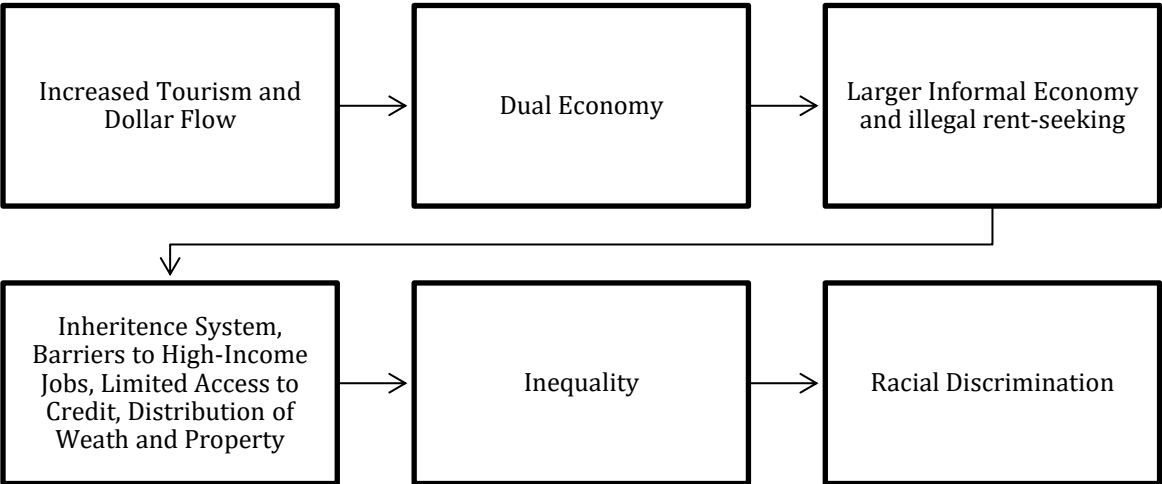


Figure 2.1: Conceptual Framework and Relationships (based on Harris, 1993)

## 3 Data

The nature of this study demands a qualitative based research approach in order to adequately illustrate a clear picture of the social and economics issues present in the case of Cuba and employs primary and secondary sources in an exploratory format. Alongside literature review the study uses the theoretical framework as an aid for analyzing the data sources and descriptive statistics.

### 3.1 Source Material

This thesis uses primary data in the form of semi-structured interviews to form an analytical exploratory narrative that aims to answer the research questions. The interviews offer a more expansive understanding of racial disparities and the informal market for which statistical data is gravely scarce. Given that Cuba does release data on race apart from the most recent census, and due to the fact that there are no official statistics accounting for the informal market, the primary data will be most useful for this analysis. Additionally secondary sources were collected from literature review, as well as quantitative data consisting of descriptive statistics. A previous study conducted in Cuba, which remains the only household survey ever done is Cuba, is used for a comparative analysis to better understand income inequality and informality in relation to race.

Interviewees were chosen at random for purpose of unbiased sampling. A questionnaire was developed and the study was dispersed through the Miami, Florida area in the United states and interviewees were asked to contact the researcher for an in-depth interview. The criteria for interviewees demanded that respondents be Cuban immigrants with a maximum of 10 years since emigration from Cuba, or visiting with a travel visa but permanently reside in Cuba. This follows the timeline of when tourism began growing and economic restrictions have loosened in Cuba from 2008 until 2018. The reason that the Miami area was chosen for selecting interviewees is because of the large amount of immigration from Cuba to the city, as travel to Cuba is outside of the capabilities of this research. Interviewing those that are visa travelers living in Cuba extends the ability of the study include populations that might be underrepresented by choosing to conduct the study outside of Cuba. The participants amounted to 12 individuals, from various career backgrounds that were in some form involved in the tourism sector, the informal economy, or both. Interviewees were aged 18-55 and consisted of different gender and racial backgrounds benefiting the scope of the study and ability to appropriately answer the research question. The identities of the respondents are to remain anonymous throughout the thesis in order to protect individuals as personal information regarding delicate legal matters were present in the interviews. Thus, interviewees are referred to as Interviewee 1-15. The interviewees and their characteristics are displayed in Table 3.1.

Table 3.1: Overview of Interviewees

Reference	Description	Role in Economy
Interviewee 1	Female, White. Immigrant, 8 years.	Worked informally full-time: Hairdresser at home, and sold stolen goods.
Interviewee 2	Female, White. Immigrant, 5 years.	Worked in state sector. Photographer for the state, informal photographer for tourists.
Interviewee 3	Male, Black. Visa Holder.	Works self-employed. Artist and gallery owner.
Interviewee 4	Female, Black. Immigrant, 9 years.	Worked in tourist service sector. Cook for hotel restaurant.
Interviewee 5	Male, White. Immigrant, 10 years.	Worked in state sector. Worker at sand factory and informally as an electrician.
Interviewee 6	Female, White. Immigrant, 3 years.	Worked in tourist service sector. Waitress.
Interviewee 7	Male, White. Immigrant, 9 years.	Worked in state tourism sector. Security guard for hotel.
Interviewee 8	Male, Mulatto. Immigrant, 6 years.	Worked in state sector. Doctor.
Interviewee 9	Female, White. Visa Holder.	Works in state sector. Lawyer.
Interviewee 10	Female, Mulatta. Immigrant, 2 years.	Worked informally full-time. Seamstress and sold handmade clothes.
Interviewee 11	Male, White. Visa-Holder.	Self-employed. Licensed Taxi-Driver.
Interviewee 12	Male, Black. Immigrant, 4 years.	Worked in state sector. Horse carriage driver, sold food informally from family farm.

# 4 Methods

## 4.1 The Approach

Interviews were conducted in person, recorded, and transcribed, each interview lasting approximately 30-60 minutes. The interviews, unlike the secondary data available, were focused on the social implications of the changes occurring in Cuba and were compared to secondary data for a comprehensive understanding of Cuba's case. The questions presented in Appendix A were focused on income and involvement in the formal and informal economy, as well as on personal internalization and understanding of institutional discrimination and inequality on the basis of race. This allowed for flexibility within the interviews as respondents were asked to discuss their perspectives on the issues.

Secondary data is discussed alongside the results of the interviews and evaluated through the theoretical lens of the framework used to attempt to answer the research questions as efficiently as possible. Correlations between economic growth and the dual economy, inequality and the informal market, and the resulting racial inequalities were made with the assistance of the interviews, literature, comparative study, and statistical data available online from the Oficina Nacional de Estadística, or National Office of Statistics (ONE) of the Cuban government. Graphs and charts were presented to illustrate points from literature review and provide a comparison to what is available in terms of national statistics. Using a limited source of statistical spreadsheets from the Cuban government, charts were executed highlighting the tourism sector. Additional charts were used that were created by a variety of researchers that have conducted field research in Cuba, as well as international and NGO sources that document indexes and other limited data of Cuba. These were all compiled to reveal the network of inequality present in Cuba and related to the theoretical framework.

## 4.2 Limitations

The data available from ONE lacks certain important demographic indicators pertaining race and is limited in scope to use for extended research or for econometric testing. There are no household surveys available from Cuba, with the exception of an independent survey procured by Sara Blue (2007) which conducted household data from over 300 Cuban households in Havana in 2000. No other extended household surveys have been done in Cuba since, and no data of the kind is available from other provinces and cities outside of Havana. Cuba also lacks specific indexes pertaining to inequality, such as the Gini Coefficient, although an estimate has been generated as previously stated. Due to these limitations and the inability to travel to Cuba, the interviews conducted in Miami offer an alternative for



collecting relevant data for the purpose of this study and fills in some gaps that are present from the lack of statistical information. However, it is important to note that subjectivity and bias from either from the interviewer or interviewees can occur given the nature of this method.

## 5 Empirical Analysis

This section presents the empirical research related to the research question and is structured by Harris's (1993) framework. The chapter discusses the relationships between the tourism growth, the informal market, and inequality alongside primary and secondary data that will aid in building correlations.

### 5.1 Institutional Obstacles to Income Distribution

Economic systems like all systems are interconnected and thus the economic system overlaps with social and political systems. To understand how minority groups are affected in Cuba, we can identify the institutional limitations suggested by Harris (1993) that are related with inequality and analyze the structural dynamics by which racial inequality exists in the complex Cuban economy. The first subsection provides an overall historical context of racial inequality in Cuba and presents Blue's (2007) study results from her field work and household surveys in Cuba that go back to 2000 for comparison. The remaining subsections relate to the four dimensions of structural institutional obstacles suggested by Harris and analyzed in depth to reveal how they are affecting both the unequal distribution of income and the dependence on the informal market, as well as their relation to race.

#### 5.1.1 Race Inequality in Cuba

Less than ten percent of Cubans identified themselves in the most recent 2012 census, making it difficult to identify accurate demographics, according to an article published by the Thomson Reuters Foundation (Arsenault, 2016). However, statistics have shown that Cuba's racial makeup is ethnically mixed stemming from periods of colonization and immigration alongside a native population. Cubans also identify racial categories through a complex system, as part of a long history of a widely mixed population. Much like other Latin countries, Cuban races do not fall under white and black, but rather various categories in between that define levels of being mixed such as *mestizo*, *mulatto*, and *jabao*, and more in between (Roland, 2013). Many of these categories still constitute Afro-Cubans which are estimated to represent close to 50 percent of the population (Gonzalez and McCarthy, 2004). On average, shown in Figure 5.1 and 5.2, the Cuban population by region is mostly white throughout, or specifically of European descent, as the study conducted by Marcheco-Teruel et. al (2014) using genetic autosomal and uniparental markers to estimate the racial percentage of the population demonstrates. However, as is often noted and affirmed by the study, the Eastern tip of Cuba is that which holds the most African racial groups, and has been historically the most affected, where the areas of Granma, Las Tunas, and Guantanamo.



Figure 5.1: Map of Cuba (Rough Guides, 2018)

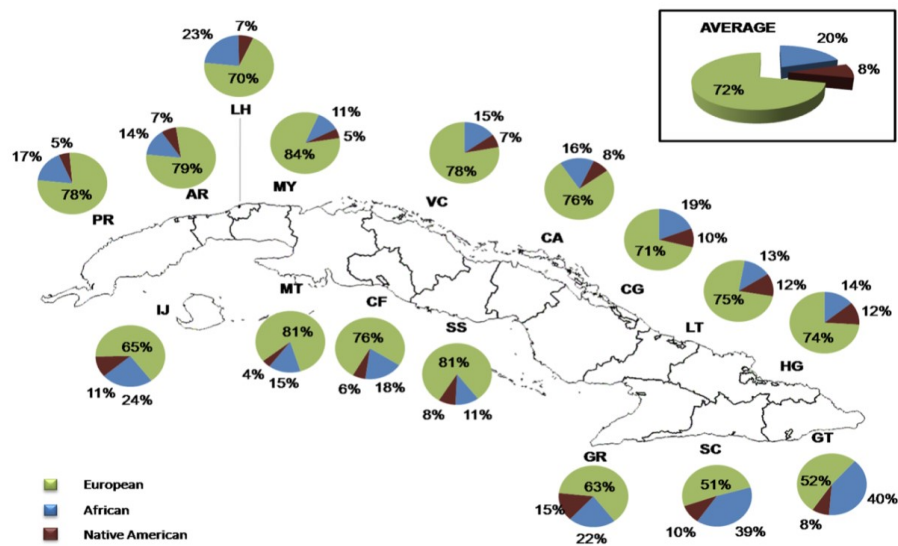


Figure 5.2: Cuban Ethnicity Using Genetic Markers by Region (Marcheco-Teruel et al., 2014)

Before the Revolution there existed a small and wealthy class of landowners and government officials, and a large impoverished population in rural and urban areas, much like other Latin American countries. Havana was considered a cosmopolitan urban center while the rest of the country remained underdeveloped. Prior to the 1960s three-quarters of Cubans were illiterate, and modern health care unavailable. When Castro took power he seized landholdings and companies in order to nationalize and redistribute wealth in efforts to eliminate the middle and upper classes, as well as absolute poverty of the lower classes (Meso-Lago, 2002). The Revolution did not set specific laws against racial discrimination, but it did introduce policies that were aimed towards the low-income population, which was predominately black. One example is allowing previously private beaches and clubs to be open to the club, which due to their exclusivity did not allow blacks or the poor, and this indirectly this ended some forms of segregation. Education and healthcare were nationalized so that everyone could receive free education, thus reducing illiteracy especially in younger populations (Mesa-Lago, 2002). These sorts of policies seemed to have solved any race problem that the country could have had, as privileges that were previously granted to white elites were dismantled. However, because the new government wanted to maintain an image of eliminating such issues, they prohibited public debates on race, in addition to banning Afro-Cuban religious sects, societies, and clubs that had a previously negative social view (Mesa-Lago, 2002). The banning of public discussion on race further perpetuated racial stereotypes and did not allow for solutions to be presented.

Although it seems that the Revolution's changes were beneficial to Afro-Cubans, there were still efforts to "de-Africanize" Cuba. Women were once arrested for wearing their natural hair in public up until the 1970s, all in efforts to mask African signifiers (de la Torre, 2018). Persecutions of Santería, an Afro-Cuban religion began in the 1960s until the 1980s. The first National Congress on Education and Culture in 1971 stated juvenile delinquency is partially caused by "religious sects, especially of African origin." Santeria was seen more as "folklore," rather than religion, but became restricted and practitioners were arrested, imprisoned, and in at least one case, executed. These persecutions subsided in the 1980s, as soldiers returning from Angola had an the increased interest in Santería and Castro's religious views expanded, but importantly, the Castro regime initiated an unprecedented campaign to court the practitioners of Santería, finding value in the folklorization of Santería for the benefit of tourism. The cultural features of Santeria were domesticated and commodified to produce tourist dollars (de la Torre, 2018).

By 1981, life expectancy in Cuba was not only close to that of developed countries in absolute numbers, but this figure was actually as meaningful for the black and mulatto residents in the island as it was for whites (de la Fuente, 2001). Life expectancy reflects broad social conditions, including access to nutrition, health care, maternal care, and education, thus the significance of higher life expectancy for all. Educational achievements included the almost absolute elimination of illiteracy by the 1960s, and the elimination of educational inequality by the 1980s, up to university level. The proportion of blacks and mulattos who had graduated from high school was in fact higher than the proportion of whites, indicating that blacks were able to engage in the opportunities created by the revolutionary government in this area (de la Fuente, 2001). Despite this, during the 1980s, 20 years after the Revolution, blacks were still living in the poorest housing conditions, were overrepresented in prison, but were underrepresented in high income and managerial positions.

Throughout Special Period of the 1990s, this trend continued, as the urban population in the Eastern provinces was at risk at 21.7 percent, almost twice as much as the at-risk population

in Havana which was 11.5 percent. Less than 50 percent of houses in Eastern provinces were considered to be in good condition, faring much worse than the western Havana province. Even potable water and sewage access which was almost completely accessible in Havana and less than 50% in Las Tunas, Granma, and Guantanamo showed disparities between provinces (Mesa-Lago, 2002). While Cuba prides itself on its nearly perfect literacy rate, some children do not enter the school system in rural areas, thus by the end of the Special Period in 2000, these Eastern provinces had the lowest average enrollment rates in elementary school. A total of 15.4 percent of blacks had a lower level of education in 2000 compared to 6.1 percent of *mulatto* Afro-Cubans, and 3.6 percent of whites, diminishing the gains in education that were favorable to them in previous years (Gonzalez and McCarthy, 2004). Therefore, Afro-Cubans are more likely to work as in the traditional sector of state jobs as a laborer, or be unemployed compared to any other group, leading to more instances of poverty and transition to the informal economy.

In the eastern provinces, there are fewer facilities for tourism and joint ventures by foreign capital which has made up the new market economy, considering this is the major source of employment and access to dollars, the economic situation is more difficult for Afro-Cubans in this region. In 1997, Havana had the highest income per capita while the other three provinces located in the East, Las Tunas, Granma, and Guantanamo, had the lowest incomes. Granma had the highest open unemployment rate at 14 percent, and coinciding, data shows that Havana has the highest internal immigration rate of all provinces at 7.3 percent. Parallel to this are the highest emigration rates from Guantanamo and Granma at 7.4 percent and 11.4 percent respectively (Mesa-Lago, 2002). Approximately 50,000 people migrated to Havana in 1996 according and 92,000 people attempted to legalize their presence in Havana by the spring of 1997. Further internal migration was banned and immigrants considered illegal were fined and deported. In the meantime, racial prejudice intensified as Havana experienced a steep increase in violence, petty crimes, and prostitution, which was attributed to the influx of *Palestinos*, or Easterners (Gonzalez and McCarthy, 2004).

Many Cubans outright deny a race problem and consider everyone to be equal, but it is not the case when looked at through various channels. The success of the revolutionary government in terms of creating equal opportunities in education, employment, and health are now being used to demonstrate that blacks have not managed to escape inferiority and have propelled a racist ideology (Gonzalez and McCarthy, 2004). Today there still exist discrepancies among the different regions and this is not only remnants from the past that have not been eliminated, but reinforcement of racist ideology, even by some that are black themselves. Cubans romanticize and associate light skin, straight hair, and European facial features with beauty and better presence. The influx of white foreign tourists in pursuit of sex through the informal economy has further reinforced perception of white traits being more desirable (Baab, 2010). Cuban nationalism influences identity where blacks do in fact downplay the importance of race and see themselves as equal participants along with whites and mulattoes in the national project (de la Torre, 2018). While outright discrimination is not the main cause of the increasing income gap between races, migration networks, remittances, and broader economic changes are considerable factors.

Sarah Blue (2007) has been one of the few researchers that has conducted a household survey in Cuba. In 2000, she and her team collected information from over 300 households in Havana. In order to examine whether the dual economy has benefited whites more, she used income categories representing low-middle, middle, and upper middle, and the highest ten percent of salaries involving all sources of income by racial category. Blue's study shows that

blacks were less likely to earn in the highest income category. Blue ran a chi square test on the top ten percent income category to determine whether these income differences by race were a product of random distribution or a pattern of preference, which revealed that the categories of race and income distinguished as less than the highest 10 percent or more were significantly different at a 90 percent confidence interval ( $P=.073$ ) The reasoning behind this is because almost all of the highest incomes were earned due to dollar access, from which blacks had limited access.

The limited access to hard currency is correlated with the type of employment that blacks and whites have. Blue (2007) found that 84 percent of all blacks and 81 percent of *mulattos* had official state employment, compared with 70 percent of whites. More whites were unemployed or a reported as housewife than did *mulattos* or blacks. Those under these categories also reported to be full-time informal entrepreneurs. Only two percent of blacks and two percent of *mulattos* from this survey were formally self-employed workers, with whites making up six percent.

The income inequality currently correlated to race relates to state employment. Lower salaries and fewer dollar earnings and bonuses means blacks are over-representing the lowest earning category and under representing the highest. Lower peso earnings may be due to lower education or professional status, but it is also partly related to racial discrimination and the loyalty or favor economy that leads to promotions. Blue (2007) collected anecdotal information along with the household survey that describes experiences in which whites are prioritized to take trips to foreign countries, to receive private education, to pursue higher degrees, and are promoted to better positions.

While it is expected that blacks are *more* likely to engage in informal economic activities, Blue's (2007) study revealed that participation is fairly consistent among racial groups. More than half of the respondents felt that race did not affect the need for an extra job, but 36 percent felt that blacks were likely to struggle more for extra income. A large percentage of households reported to earn informal income, 38 percent of white households, and 40 percent of black households. At the individual level, 21 percent of the sample population, reported "other activities" as a source of income. In fact, Blue (2007) found that whites accounted for 34 percent of all individuals who reported informal income from full-time informal activities, and blacks only made up 11 percent. However, blacks were more likely to engage in part-time informal work in addition to other employment at 89 percent, while whites consisted of 66 percent. In contrast to state salaries and self-employment, the informal economy allows blacks to earn high incomes, similarly to whites and at rates approximately even with whites. Whites still tended to have more access even in the informal sector, but with less stark differences in contrast to state employment or regulated formal self-employment.

An analysis of the types of informal work did reveal, however, that race is a key difference. In Blue's (2007) sample population, whites were likely to engage more frequently in "tolerated" informal activities, such as providing services for carpentry, cleaning, or hairdressing. Blacks and *mulattos* appeared to engage in riskier informal activities, such as selling black market goods or hustling. One group is centered around unlicensed activities, while the other around more illegal activities. All groups were equally likely to make and sell food or artisan goods, but the hustlers or *jinteros* are far more visible to foreign tourists, even though hustling is a relatively small means by which blacks or any other group earns extra income.

Blue (2007) concluded that with the growing market liberties, there is no longer a direct relationship between achieving a higher education or a professional job and earning enough money to satisfy material needs or desires. As reflected in her survey data, perceptions of these changes and their material manifestations vary by racial group. The majority of the respondents, 85 percent, agreed that a professional job no longer was enough for a good standard of living. Blacks, however, still had the perception of education and a professional job as means for a better living standard, at 19 percent compared to five percent of whites. Nevertheless, these attributes have lost relevance in the market economy as salaries are still paid in pesos and the dollar sector provides more in material wealth.

### 5.1.2 Inheritance System

Remittances are a central factor of the Cuban economy, Fitzgerald et. al (2016) found that approximately 40% of Cubans living in Havana receive remittances. This flow of money into Cuba was growing at 15% annually from 2010 through 2014, resulting from a larger population of Cubans living in the United States, and it is estimated to reach 20 billion by 2020 (Fitzgerald et. al, 2016). As Cuba's economy continues to evolve and remove economic limitations, the income divide between those with access to hard currency and those without is likely to keep growing, alongside tourism and private enterprise. These trends increases the percentage of Cuban workers that are receiving income outside of formal employment and government channels, raising their purchasing powers but dismantling some of the benefits that have existed for Cubans in terms of social welfare, as government salaries are moving at a much slower pace.

During the 1990s foreign remittances were crucial for survival. Almost 90% of Cubans abroad were white at the time, and almost 40% of the population back on the island were black, struggling considerably more (Mesa-Lago, 2002). The predominately white business elite had left during the revolution when their properties were seized, with a large immigration in Miami, Florida. These elites who had the means of leaving the island were sending remittances home for their relatives to live off of. As more Cubans emigrate, those receiving remittances are now able to invest in the few private businesses allowed in the island (Interviewee 10, personal communication, June, 2018). In Table 5.1 below, the variables responsible for a stronger influx of remittances are presented. This situation paired with lack of access to tourism jobs for blacks and mulattos as a result of domestic prejudices from foreign companies further deepens inequality. The private sector that has emerged has some discriminating practices, and do not have government intervention in the hiring process. In poorer neighborhoods, the larger black population stops them from opening *paladares*, or other private businesses, and few blacks are private farmers in more rural areas (Mesa-Lago, 2002).

Table 5.1: Variables Stimulating Remittances to Cuba (Havana Consulting Group and Tech, 2017)

Variables	Actions
Real Estate	Ability to purchase property and own more than one home.
Automotive Sector	Elimination of the restriction of buying and selling cars and potentially improving overall transportation.
Investments of Cubans Living Abroad	Allowing Cubans to invest while living abroad.
Private Sector	Approval of new categories for self-employment and less restrictions.
Internet Access	More Internet engagement now available in homes.

Remittances are a critical divider of race in Cuba. Remittances flow to Havana more than to Santiago de Cuba on the Eastern end, which is the second largest city. Consequently, the pattern of inequalities that arise from this source of valuable income is marked by race, but has underlying structures in class and region (de la Fuente, 2011). The Afro-Cuban community did not have powerful or wealthy families before the Revolution, or even today, and it persists as a generational problem. Landlords and business owners now in the emerging economy are still white because the remittances have allowed for the old structure to creep its way in and shift the strict policies that were established during the Revolution (Hansing, 2017).

In 2000, remittances were estimated at \$720 million and approximately 60 percent of the population received them; by 2012 the number reached \$2.6 billion (Morales 2012). When the values were divided and analyzed, they reveal that on average, those that receive remittances could live off the money and stay home or have the same income as someone working for the state while working another job, thus doubling their annual income (Orozco and Hansing, 2011; Interviewee 11, personal communication, June, 2018). Although the numbers vary among households and individuals, there are several consequences, one being a disincentive to work, thus pushing down the economy as a whole. It is difficult to precisely measure the distribution of remittances but it has been estimated that they are largely concentrated in Havana to white households. There have been indications that the further away from Havana the less remittances are received (Mesa-Lago, 2002).

Remittances are sent through three different channels. One way is through personal delivery of cash by relatives or friends of Cubans that are able to visit, or by the family themselves that were not exiled. This is the most popular channel of distribution. Other people charge Cuban families abroad a fee to transport dollars and goods to the island, they are usually individuals with connections both in Cuba and the United States, and these are known as “mules”. Another less popular way is via direct transfers made by wire or agencies for a fee. This last channel presents limitation in the amount of money that can be sent, which is set at a



maximum of \$300 annually by the U.S (Interviewees 1, 4, and 5, personal communication, June, 2018). The amount of the remittances cannot be precisely calculated because of the informal channels that are used, however, measures have been conducted by calculating how much is used at the state dollars shops that sell to both Cubans and tourists, and by the CADECA agencies that exchange currency, from dollar to CUC (Meso-Lago, 2002). Since remittances sent with individuals are not registered by any bank or government, it is difficult to track the actual amount of yearly remittances, but it is estimated to be much higher than \$2.6 billion (Hansing and Orozco 2014).

The advantage of having remittances goes beyond being able to afford consumer goods or creating a private business, as seen in Table 5.2, but in the socialist system, hard currency is important in every channel. In the public health sector, many health care workers continue to earn low state wages and thus are incentivized to accept tips and “gifts” in the form on dollars or other goods in order to perform favors and give priority to those that are able to provide such gifts. This spells out better or faster medical attention (Hansing, 2017; Interviewees 8 and 10, personal communication, June, 2018). Those without these means or personal connections in the healthcare system wait longer for medical care or fail to receive the same quality. In the education system, the advantage of hard currency allows for children to be better educated by hiring private tutors, who can also teach foreign languages (Hansing, 2017). This has become more commonplace as the state workforce has been cut due to the low wages, and teachers are moving into private work. A class system has emerged within these two important sectors that have been celebrated for their development even though Cuba remains a poor country. Once again, Afro-Cubans who do not have the means to offer gifts or tips are left out of the most important aspects the Cuban government has wanted to maintain.

*Table 5.2: Asset Ownerships Among Remittance Recipients (Orozco and Hansing, 2011)*

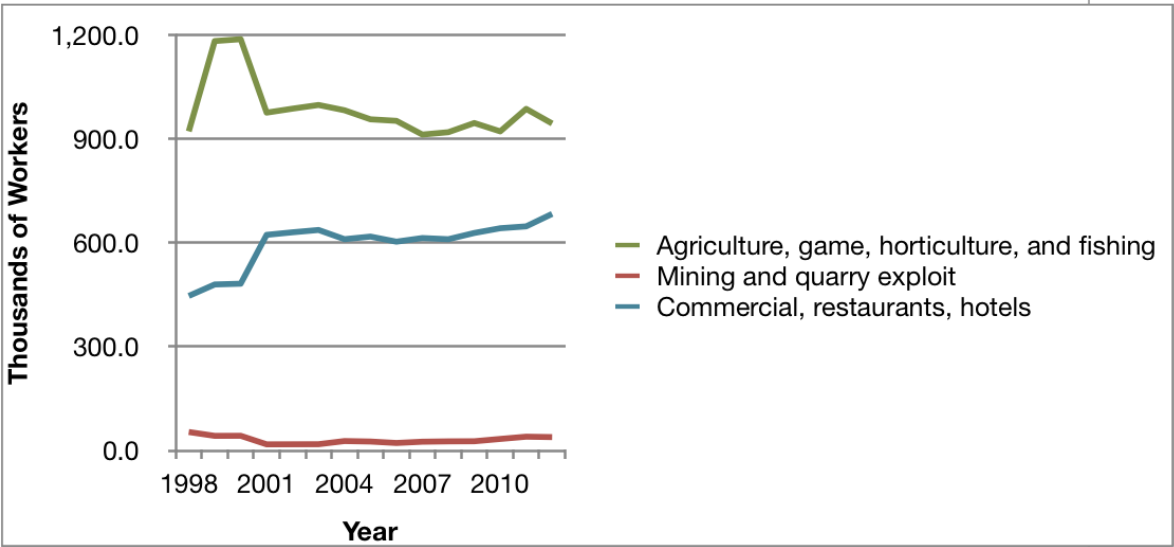
<b>Asset type</b>	<b>(%)</b>
Land	6.3
Machinery and equipment	23.3
Computers	51.5
Furniture and office supplies	5.8
Cars	18.0
Cell phone	81.6

Another less known factor contributing to inequality related to inheritance and along racial lines is the liberalization of travel for Cubans and the ability to obtain visas or passports from other countries. Foreign citizenship offers many opportunities, not only to leave the island, but to amass wealth through private enterprise that comes with the ability to purchase goods abroad and sell in Cuba, taking advantage of the material scarcity and consumer desires, or have enough capital to start a business (Hansing, 2017). Cubans on the island with dual citizenship are either typically married to foreigners or have immigrated and become naturalized abroad then repatriated to Cuba. This growing phenomenon involves the ability to buy property as a Cuban national. The largest group of dual citizens in Cuba, are those with recent Spanish decent that may obtain a Spanish passport by having a parent or grandparent of

Spanish origin and whom can offer evidence from a birth certificate, known as the “Historical Memory Law” passed in 2007. Because of a great influx of Spanish immigration to Cuba throughout several decades, of the 500,000 international applicants under the law, 40.7 percent were Cubans (Golías Pérez, 2014). Most of these individuals able to claim citizenship through ancestry are phenotypically white. Having an EU passport is a valuable asset, particularly when an exit visa is no longer required to travel. This allows for almost worldwide visa-free travel, alongside the possibility to legally live and work anywhere in Europe. Finally, after many years, Cubans are allowed some increased mobility, but for many, especially the Afro-Cubans the island remains a tropical prison.

### 5.1.3 Barriers to High-Income Jobs

In the emerging hard currency sector of services, particularly tourism, there is a lower percentage of black and *mestizo* workers, suggesting barriers in the shift from the agricultural and traditional sectors to the service sector. Meanwhile, the service sector continues to grow in labor force, while the agricultural sector dwindles, and mining remains stagnant, as shown in Figure 5. 3. Blacks and *mestizos* make up a grand majority of the blue-collar workers, and are underrepresented in professional, managerial, and technical jobs, especially in the tourism industry, where they only make up five percent (Espina and Rodriguez, 2010). Blacks and *mestizos* also take on many entry-level service jobs in the tourism industry that are limited in their interaction with tourists, meaning that they have less access to tips for their services, which are often paid in dollars and could easily make up a month’s salary (Espina and Rodriguez, 2010). The existence of barriers for blacks to move through the sectors and gain high-level jobs are not due to educational deficiencies, however, other obstacles are at play creating barriers. Jobs in tourism and foreign companies are perceived as being the most prestigious and profitable types of employment in Cuba, more so than those requiring higher levels of education. These perceptions have changed the structure of how class and social mobility work.



*Figure 5.3: Thousands of Workers per Industry from 1998 until 2010 (Oficina Nacional de Estadísticas, 2016)*

Weighing in on the economic divide along racial lines is “the tendency to give Cuban tourism a White face (de la Torre, 2018).” The effects of growing socioeconomic divisions are manifesting themselves in various ways and are increasingly visible, if not recorded. Many private businesses in Cuba and foreign companies are not only owned by white Cubans or maintained by white investors, but are managed, staffed, and visited by white Cubans or tourists (Interviewee 3, personal communication, June, 2018). Hiring discrimination such as placing predominately white staff members in hotels or restaurants, partly explains blacks’ under-representation in the tourism sector (Espina and Rodriguez, 2010).

Moreover, as job competition in tourism and other highly sought out sectors has intensified since the special period, racist arguments have been used to limit black Cubans’ access to them (de la Fuente, 2001). Such ideas have included the concept of “good presence” which has been used to target against Afro-Cubans in the tourism industry as they are to constantly interact with foreigners. Afro-Cubans looks have been criticized and early on after the Revolution have even led to arrests they appeared with their hair naturally styled in public (de la Torre, 2018). Though these extremes have ended since the 1970s, the racist ideology has persisted that Afro-Cubans’ looks are “ugly” or “indecent.” Thus, although the practice of hiring all-white employees has been criticized and has lessened, there are still many more white Cubans employed in important positions both in tourism and joint venture corporations.

Aesthetic and cultural factors are used to justify the exclusion of blacks in touristic settings, on the basis that they inherently lack the physical and educational attributes needed to interact with tourists. Many new private establishments are looking much like those in high-end cities of the United States, and have led to whitewashing (Interviewee 9, personal communication, June, 2018). The “good presence” concept extends beyond the belief that Afro-Cubans do not look the part to harness positive feedback from tourists, but even with a formal education, they are believed to lack manners, morals, or education to participate in a setting that requires social relationships with foreigners (Interviewee 3 and 4, personal communication, June, 2018). This has gone so far as to not only give preference to white workers, but to lay-off black workers in programs labeled “rationalization (de la Fuente, 2001).” Afro-Cubans not only have to cope with prejudices of managers, but of foreign investors, and because these investors are a prime element of Cuban developmental strategy, Afro-Cubans’ power to combat how they are treated remains thin.

It is especially rare to find Afro-Cuban women in tourism, which even goes as far as to instigate rumors concerning possible sexual involvement with owners for job positions. Black men working in tourism are often those that participate in hard manual labor, such as operating heavy machinery, working in warehouses, or driving trucks with merchandise (Interviewee 6, personal communication, June, 2018). Afro-Cubans that have the opportunity to work in the tourism sector are still limited in their ability to move up to higher-income positions or to even work directly with tourists which could increase their chances of obtaining hard currency through tips (de la Fuente, 2001). Anecdotal evidence suggests that even those that are highly educated with degrees and specializations, and speaking multiple foreign languages, are denied job in tourism without receiving specific reasons, as owners cannot openly deny personnel on the basis of race. Some owners have the sentiment that “Blacks do not finish what they start,” implying an inherently poor work ethic based on racial

prejudice (de la Fuente, 2001). Alejandro de la Fuente (2001) and other scholars have noted that not only are blacks pushed away from tourism, but there is an absence of them in state-sponsored media and are often denied opportunities for jobs, promotions, or education. They are often targeted by police, and stereotyped when entering tourist locations as are often suspected of hustling. Unfortunately the State does not offer any official channel through which individuals can report discrimination (Clealand, 2013). This goes back to Revolutionary times when discussion on racism was eliminated and shut down; therefore the state is blind to these incidences.

The government has no control over the distribution of remittances that are sent to the majority of the white population, but this does not explain Afro-Cubans' underrepresentation in the tourist sector or in foreign corporations. Afro-Cubans have attained similar and comparable educational levels to those of whites and have had opportunities in white-collar employment. Their over-representation in service jobs should suggest a competitive advantage in the tourist industry. However, the issue is not one of structural conditions, the barrier lies within the racist ideology. Due to growing competition for resources and their scarcity, the ideology serves to justify exclusion a large population from the benefits of one of the most lucrative sectors.

#### 5.1.4 Limited Access to Credit

There are three types of earners in Cuba in the formal market. Salaried Cubans are paid in CUPs, or *pesos*, by the government and rarely have access to CUCs either through tourism dollars or remittances. This group represents approximately half of the population, with a larger ratio in rural areas. Those with salaries have the least purchasing power and earn about \$300 to \$400 per year, meaning they struggle to meet their basic needs (Fitzgerald et. al, 2016). The emerging group consists of Cubans who are starting to receive income from private enterprise not completely controlled by the state. This includes those that earn a state salary but also get tourism dollars or remittances, as well as *cuentapropistas*, or the self-employed. Those in the emerging group of consumers have a median annual household income of \$600 to \$700, and consist of 30 percent of Havana's overall population. However, this group still struggles to obtain basic goods, yet can make ends meet (Fitzgerald et. al, 2016).

The third group are those that are self-sustaining, and although they may receive a state salary, they do not depend on this source of income. Many are *cuentapropistas* or employed in tourism, as well as recipients of remittances. This group makes up the rest of the 20 percent of the population. Figure 5.4 shows the rise in self-employment in Cuba in the past two decades since the Special Period, demonstrating how tourism and loosening of restrictions has allowed for this sector to flourish. In Havana, about 25 percent of government workers not only receive remittances in money, clothing, and presents from friends or family abroad, but also get tips from tourists and similar sources. Self-sustaining Cubans represent up to 20 percent of the population in Havana and other cities, and have the highest median household

income between \$1,800 and \$2,000 per year. This group is able to not only meet their basic needs but to obtain other consumer goods (Fitzgerald et. al, 2016).

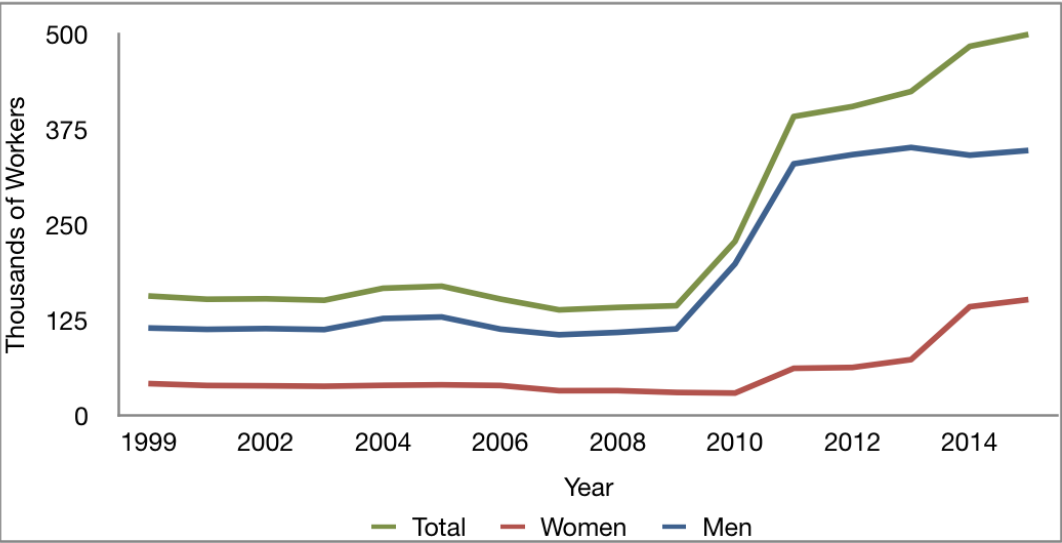


Figure 5.4: Self-Employed Workers in Thousands (Oficina Nacional de Estadísticas, 2012)

Those with access to hard currency including tourism workers, recipients of remittances, and those who are able to work with foreign business have most of the real purchasing power. Citizens in Cuba’s emerging private sector also have access to CUCs. Those that can obtain licenses for self-employment, have benefitted from market-based reforms that the Cuban government has rolled out over the past several years. The reforms have added other sectors that qualify private ownership and have allowed entrepreneurs to hire a small number of employees. According to the Wall Street Journal, in an article written by Althaus (2016), since 2010, the Cuban government has been allowing self-employment in about 200 different categories of businesses or jobs, and those entrepreneurs now make up a third of the five million workers in Cuba. Cuba’s Ministry of Labor and Social Security reported a total of 578, 421 self-employed workers. Table 5.3 demonstrates the most popular broad categories of private employment in Cuba and the amount of workers per type of employment as of 2017. There now even exists cooperatives that are independent of the state and operate farms and other businesses. Many of these businesses cater to tourists, but Cubans with hard currency can now participate in the same luxuries. Since these businesses are beyond the state’s control, they may price their merchandise and pay employees more than the standard provided by the government (Fitzgerald et.al, 2016).

Table 5.3: Number of Self Employed Workers by Category (Ministry of Labor and Social Security)

Category	Number of Workers
Food Services	61,874
Cargo and Logistics	57,911
Accommodations and Rentals	39,595
Telecommunications	24,744
Other	150,343

*Cuentapropistas*, however, are taxed heavily by the state and face demanding regulations, which keeps private businesses from continuing to expand in Cuba. This is one of the reasons why the informal economy is large in Cuba, to avoid taxes and regulations many businesses or *cuentapropistas* operate without licenses in their own homes (Interviewee 2 and 10, personal communication, June, 2018). Prior to the economic crisis in the 1990s, only 1.7% of the revenue came directly from population (Mesa-Lago 2002). A large portion of companies closed or suffered severe declines, and thus government revenue deteriorated. As a solution, a tax reform law passed in 1994 implemented a sales tax that replaced the turnover tax. Furthermore, taxes were imposed on alcohol and tobacco, profits of all enterprises, labor and social security, exploitation of natural resources, hard-currency earnings from abroad except remittances, real estate, inheritance and public utilities. Several taxes were later imposed on self-employment, *paladares*, house rental for tourists, and other private activities (Mesa-Lago 2002). Those getting paid dollars or receiving bonuses and tips do not pay these taxes. Others that are illegally self-employed or speculators in the black market do not pay personal taxes either. This has led to an increase in informal activities of all types. Hence, those that do not have access to credit work informally, and those that do have access try to curve taxes to get the most out of their ability to obtain hard currency and remain with a profit.

Small businesses need more than the legal permission to operate, they require access to capital. Today, many Cubans who receive money in the form of remittances from relatives in the United States or Europe are able to start up their own businesses and become *cuentapropistas*. Overseas financing of this type is the leading source of capital for entrepreneurs, meaning they are contributing to income inequality and a stratified class system (Hansing, 2017). According to research by Davis and Piccone (2017), other forms of foreign capital will only be possible if the country addresses its lack of a sound financial infrastructure and banking system, transparent accounting and legal assurance, and strong logistical and communications infrastructure, which are possible even with the United States embargo and their own foreign investors.

Kahn (2015) reported that Cuba's Internet penetration stands at only 5% of the population, among the lowest in the world. Cubans cannot participate in e-commerce due to this, but additionally very few people are able to own credit cards, therefore they cannot get paid online. Internet banking and ATMs are virtually non-existent because of underdeveloped

telecommunications infrastructure. The Internet is yet another marker of privilege, and particularly for the white population in Cuba. Internet is mainly available in public urban spaces such as internet cafes, and remains expensive for the majority of the population unless they are able to receive hard currency to pay for such services (Interviewee 3 and 9, personal communication, June, 2018). Some Cubans have managed to install internet connections in their own homes, as it became legal in 2017, but it is limited to those that can afford exceedingly high prices or have government authorization, such as diplomats (Hansing, 2017). This serves as an advantage particularly for those wanting to become *cuentapropistas*, as it provides them with access to private and professional communication, international news, and social media and offering online banking and shopping. Websites such as AirBnB have been introduced to Cuba, but remains a privilege for those who have both the luxuries of internet connection and a place to rent out for tourists, whether legally or illegally (Hansing, 2017). This requires a great deal of capital, and most of it comes from foreign relatives.

The banking system in Cuba is severely limited as all foreign banks were nationalized, and are not separated for business and state purposes. There are almost no foreign banks, with only nine having representative offices only. Eight of the nine commercial banks are owned by the Cuban state and the ninth is owned by the Venezuelan government, and is currently not in use. There are no banks to support consumers and tourists, and as for Cuban nationals, there is very limited lending to households for mortgages or car loans (Gabilondo, 2005). Credit cards are not provided in Cuba, therefore, Cuban banks prioritize lending to state enterprises and some private agricultural producers which maintain the country (Interviewee 9, personal communication, June, 2018). Lending would need to be increased to provide credit for the private sector and it would have to support trade finance for international commerce as well. According to an article published by the British Broadcasting Channel in 2013, the minimum lending has been reduced from 3,000 to 1,000 pesos, or \$67. People are allowed to use their houses or jewelery to guarantee their loans, and the the maximum period of the loans has been extended from five to 10 years, alongside extended grace periods.

*Cuentapropistas* can apply to the People's Savings Bank of Cuba for loans of as much as 10,000 Cuban pesos, approximately a little over 300 dollars, and they are able to build up a financial base for future transactions, as banks are now willing to open a savings account in his or her name. The 10,000 peso limit is due to the riskiness of these loans for the bank, but the process can be done without putting down collateral. The process of savings involves monthly repayments, and for every payment of approximately 200 pesos, the bank will transfer a small percentage to a savings account. The money then becomes a guarantee for future larger loans. The bank's decision to grant the loan however, is still dependent on the borrower's records and the chances of the business becoming successful (Interviewee 3, personal communication, June, 2018).

While more Cubans are using savings accounts, because of the devaluation that comes with a dual currency system, Cubans tend to avoid banking altogether. Those Cubans with a foreign passport, usually a Spanish one obtained through ancestry, find it easier to open a bank account outside Cuba, while living in Cuba and taking advantage of the comparably lower prices (Interviewee 5, personal communication, June, 2018). This allows them to have access to international banking and transactions not possible for other Cubans without a dual passport. Cubans who are connected to the private CUC economy, whether *cuentapropistas*,

artists, or other often ask their clients to transfer the payment directly into their foreign bank account, thus escaping the effects of the dual economy (Interviewee 3, personal communication, June, 2018). Similarly, private property sales are handled through foreign bank accounts, both which are only common for those with access to a great deal of capital compared to the average Cuban.

Many negative trends regarding rising inequality in Cuba are associated with state employee layoffs, cuts in social spending, alongside continuously low state wages and increasing consumer prices particularly on food and gas. The Cuban government has so far failed to provide the population with the necessary and appropriate credit system consisting of loans, and microcredit, infrastructure for markets, and resources such as entrepreneurial training in order to start small businesses (Hansing, 2017). As the government expects to reduce state employment and have more Cubans join the private sector, these are notable weaknesses that have yet to be organized on how to overcome. This is resulting in only those with private capital taking advantage and having an opportunity for entrepreneurship. Not only are remittances key, but other forms of private capital include physical capital in the form of private property such as homes and cars; financial capital in cash; material capital in consumer goods; social capital such as networks; and transnational capital such as citizenship ability to travel (Hansing, 2017).

In order to participate in the dual economy individuals must have access to at least one form of private capital, and not surprisingly, Afro-Cubans are the least likely to obtain any as it all ties to having a friend or family member that can provide such capital, and with cuts to government payrolls, they must find other ways to access capital. In many cases, white Cuban women are more likely to enter romantic relationships with foreigners, so-called “romantic tourism,” while Afro-Cuban women are likely to engage in prostitution (Baab, 2010). In many instances, a foreigner might buy property in Cuba through their Cuban partners to go against restrictions, but these women keep the capital and property, breaking off any romantic relationship. Although these cases are not common, they are a practice used to gain capital when Cubans do not have a consistent or reliable source of private capital (Interviewees 3, 9, and 11, personal communication, June, 2018). Relatives or friends abroad provide the capital, while the Cubans run legal, logistical, and practical matters when it comes to real estate or business. However, since the right to own private property or a small business in Cuba is reserved for Cuban nationals residing in Cuba, all these partnerships and hence illegal.

### 5.1.5 Distribution of Property and Wealth

Property in Cuba is an issue not only concerning property rights, but the distribution of property. This involves both distribution in terms of state enterprises and private property by regional standards, but on household levels as well. According to the Cuban Constitution (1992), there are property rights guaranteed to the citizens and to the state. Citizens have the right to material and cultural possessions, their own homes, and to the tools of their trade, as long as these are not used in the exploitation of other workers. Additionally farmers have a right to their land as long as it is used for agricultural production, but they are not allowed to



mortgage or lease the land, they may only sell or transfer land and form cooperatives. Apart from small farmers, the government has control of all natural resources and their corresponding machinery and factories, such as mills that were seized and nationalized from former landholders. State property cannot be transferred to a person or a legal entity, and this includes forms of media as well. Moreover, the U.S. embargo of Cuba cannot be lifted until property claims filed by people who were American citizens at the time of seizure and owned vacation homes, investments, or businesses in Cuba are somehow settled. For those that were Cuban citizens and fled, they can only be compensated under Cuban law, which is far from reach. There were about 5,900 certified claims on property now worth an estimated \$8 billion in 2011 (United States Senate, 2017). Those claims must be resolved before the embargo can be dropped, but Cuba lacks hard currency to pay those claims.

Since the Special Period the state has loosened property rights. For example, Raul Castro has legalized the sale of electronic devices, with cell phones becoming widely popular (Interviewee 6 and 9, personal communication, June, 2018). While they were sold in the black market before, allowing personal property rights has expanded opportunities for foreign exporters as well as brought the prices down for Cuban consumers. Additionally, according to an article published by Cave in the New York Times, Cubans are able to buy and sell property such as homes and cars as. However, there is a limit to owning a maximum of two homes each, with one being designated a "holiday home". A stamp duty of 4% is be charged to both the buyer and the seller, and the buyer will have to prove that the source of any funds is through legitimate means (WOLA, 2011). Cuban officials argue they are protecting socialism while moving towards economic reform, and the new law with its restrictions aim at including provisions to controlling both speculation and the concentration of wealth. With an average income amounting to \$20 monthly, few are able to participate in these transactions, and may struggle to explain where thousands of dollars for purchases may come from (Interviewees 2, 8, 10, and 11, personal communication, June, 2018). Although the new property market has the ability to transform daily life in Cuba, there are still obstacles present for many to access any kind of property.

Most residents were given their homes by the state, or took them over from family members after the Revolution and properties are continuously passed down through generations. Few residents pay rent in Cuba, therefore it is uncommon for extended families to live together throughout their lives, as it is difficult to attain a home through any means other than to have it passed down. Residents are responsible to only pay a small tax on their property and must maintain it on their own (Interviewees 5 and 7, personal communication, June, 2018). The state has also not built new housing for Cubans to either buy or attain in any other way, therefore property is scarce and sought after by any means. Most of the crumbling buildings were built before the Revolution and are in poor states, but homeowners on average peso salaries cannot afford upkeep and repair (Interviewees 5 and 7, personal communication, June, 2018). Many practices in Cuba involve marriages to make deed transfers easier, or taking advantage of the elderly needing care in order to inherit a home. Other families live in crowded housing with several generations (Interviewee 9, personal communication, June, 2018). During the Revolution, many of the upper and middle-class Cuban exiles had their property expropriated by the government. Many of these went to poorer Cubans or the caretakers that the families left behind. In many ways the Revolution benefited those that had little chance of any property and property distribution was fairly equal, at least in Havana

(Interviewees 5 and 7, personal communication, June, 2018). Havana thus became heterogeneous as it was now racially mixed. Now, those families that had been given property are in possession of valuable assets. However, not every person in a household will be available to reap the benefits, especially while other property prices goes up and there is not enough new housing units built.

Additionally, while it is illegal for foreigners to buy homes in Cuba, transactions are still occurring in the housing black market. Many houses in Havana are considerably low priced, less than \$100,000, but this is impossible for any Cuban resident to afford, even at the least expensive price range of \$15,000 is out of reach for the average Cuban resident (Interviewee 3 and 9, personal communication, June, 2018). The value for these properties are rising as they are becoming more popular with foreigners, and most of the money moving into this market is actually from Cuban exiles who send remittances to family members or friends and register the properties in their name (Interviewee 9, personal communication, June, 2018). Although those that use a Cuban contact to buy property do not have a guarantee that the person will respect the agreement making dealing with property rights insecure and risky, it creates other issues as more foreigners enter the property market.

The purchases made by foreigners is beginning a trend of re-gentrifying the city along racial lines and class divisions, particularly because white and mulatto Cubans are more likely to have relatives abroad with money to invest. This problem deepens as the government fails to produce more housing availability. More than 130,000 city residents are living in shelters or substandard housing meanwhile, many homes are mostly vacant, as many elderly residents have been left in homes while their children have emigrated to the United States and elsewhere (Hansing, 2017). Furthermore, due to Afro-Cubans' concentration in areas with run-down and overcrowded housing, most black families cannot turn their own housing into a *paladar* or *casa particular*, two of the most popular legal private businesses that Cubans can have from home (Zabala,2008). Due to this and other economic barriers, many Afro-Cubans resort to working in the state sector and moonlighting on the side. Property is increasingly valuable not only for selling, but because almost all private businesses can be started from home, giving Cubans who already own a house and whom share it with few relatives more chances of taking the step towards becoming a *cuentalpropista*. Most of the successful private businesses are located in central Havana or other upscale neighborhoods, and most tourism is located in Havana or Matanzas, leaving the rest of the island with few opportunities to obtain any hard currency (Hansing, 2017). Most of the money circulating tends to benefit those that are phenotypically white based on a pattern on inheritance from the wealthy elite that left the island and the current government elite.

Out of the 3,885,900 accommodations in Cuba, 690,973 have are in Havana alone, as seen in Figure 5.5. The rest are distributed rather evenly across the other provinces, showing a disproportion between Havana and the rest of the country in terms of tourism development. The Cuban government is aware of the advantages of expanding cultural tourism beyond Havana, consequently in the past years it has provided resources to invest in other urban centers in the Eastern provinces, including Cienfuegos, Trinidad, Santa Clara, Camaguey, Holguín, and Santiago (Carty, 2009). However, these have not reached their maximum potential and are outshined by the tourism structures in Havana and Matanzas. In order to

promote tourism for Americans, different avenues have been sought to loophole the existent trade restrictions. One popular method has been to promote educational and cultural learning experiences and tours, rather than vacation holidays. This has helped Cuba not just in expanding tourism by incorporating a once prohibited customer base but has turned tourism from the beaches to other centers that showcase what the other provinces have to offer, which include colonial architecture, factories and plantations for rum and tobacco, and other historical points of interest (Carty, 2009). However, this has not been enough to balance out the distribution of hard currency.

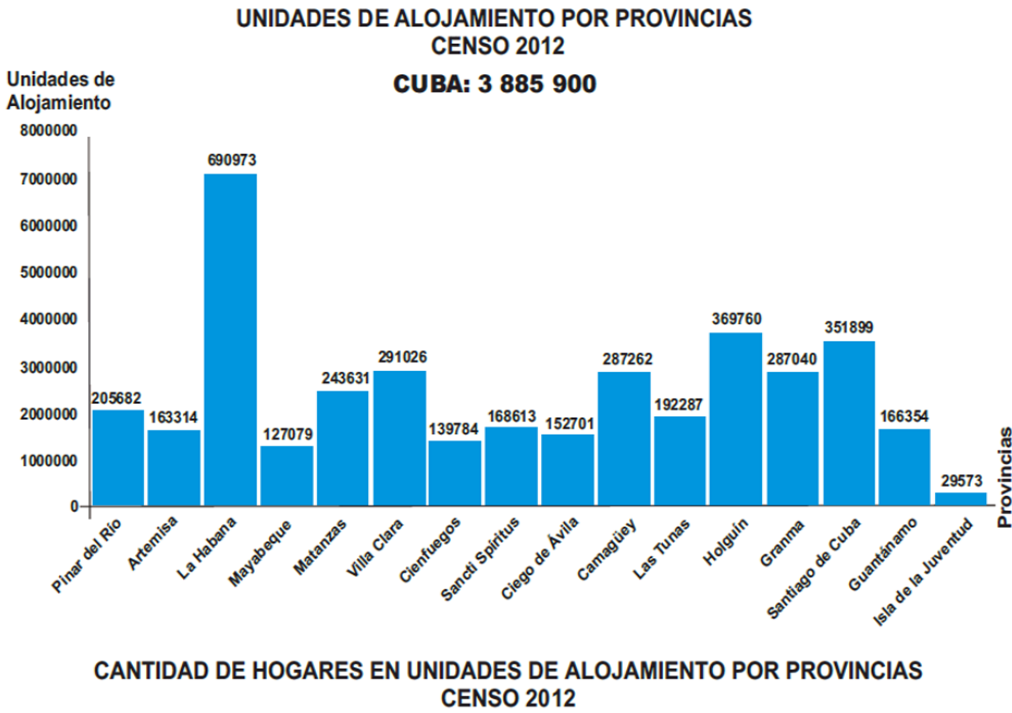


Figure 5.5: Number of Accommodations by Provinces (Cuban Government, Census 2012)

While traditionally the rural poor of Cuba have always struggled more than the urban poor, particularly because of factors such as lack of transportation, running water, or electricity, the rural location had the benefit of being close to food sources that were especially necessary during the Special Period (Interviewee 5, personal communication, June, 2018). Still, outside of Havana, most of the population is considered rural and housing is an issue that marks the inequality between regions. This becomes more apparent as construction for tourism has been concentrated in Havana. Most buildings have not been properly maintained or repaired since 1959, and there has not been new construction oriented towards housing. This has proven to be even dangerous as many buildings have collapsed from their condition. Even with these conditions, rural areas are worse off (Interviewee 3 and 5, personal communication, June, 2018).

Migrants from eastern Cuba, which is predominantly Afro-Cuban and remains the poorest region, have settled in shanty towns around the city or live in overcrowded housing units, or *solares*, that have not been yet affected by growing interest in the property market (Hansing 2017; Interviewee 11, personal communication, June, 2018). These internal migrants look for work opportunities in the informal market in Havana where there is a larger concentration of

tourist, and thus hard currency. Many people live anyway they can on a day to day basis to meet their basic needs. Internal migration in Cuba is prohibited and thus this pattern, alongside the informal work, is illegal. Due to this, they are not able to use their food ration cards and obtain state subsidized goods, but migrants risk this in hopes of earning dollars which stretches far more than the peso in terms of obtaining basic goods. Because the majority of dollar stores are also located in Havana, it controls this pattern of migration (Hansing, 2017). Shantytowns have existed in the past, but the newer ones on the outskirts of cities in the Havana province are made with any sort of material that migrants can obtain and are not safe shelters, as they lack running water and electricity.

Due to the influx of Eastern migration, racist ideology continues to persist and worsen, so far as to be interpreted as “black assault on the city (de la Fuente, 2001).” Unfortunately, the divide caused by the seeking of hard currency has turned into a self-fulfilling prophecy for Afro-Cubans, whom aside from being denied opportunities based on the continuing racism, must adapt with strategies for survival and coping that are perceived as indecent and immoral and further reinforce the stereotype of being criminals or unfit to be at the forefront of tourism or high-income professions (de la Fuente, 2001). Many Afro-Cubans must resort to hustling or prostitution as a means of informal work. As a result, the issues surrounding inequality become an issue of race.

## 5.2 Discussion

The analysis of the four contributing factors to income inequality most negatively affecting Cuba’s most vulnerable group, Afro-Cubans, reveals that the most important obstacles in order to combat the social issues arising are ideological or based on a patterns of inheritance. The study sheds light on the causes that are slowly unraveling the equality in social welfare Cuba has created through decades, while it is going through a process of economic transformation that is yet to see a whole transition. The process is more similar to China, than to other post-Soviet and satellite states that have undergone a quicker full structural change from socialism to capitalism.

The changes in the economic atmosphere and the resulting rise in inequality and participation in the informal sector began in the 1990s after Cuba’s connections with Russia were eliminated by the dissolution of the Soviet Union. Paired with the embargo placed by the United States, Cuba began to allow tourism to grow as a form of saving the economy, and in their view, socialism. In the past two decades, since the 2000s, Cuba has continued this pattern and has introduced private enterprise and foreign investors and has loosened restrictions for their citizens including allowing private businesses and visa travel. The gradual opening of the economy towards liberalization and capitalism has had benefits both to Cuba as a whole with the flow of hard currency, but has leaned more towards benefiting white Cubans more than *mulatto* or Afro-Cubans.

Being that Cuba was a country colonized by Spain, the effects of colonization and its racist undertones can be found in the social structure of Cuba and has manipulated the economic reality towards Afro-Cubans in a system that is inherently racist and discriminatory. While many are unaware or refuse to acknowledge the situation in Cuba due to its progress in

human development markers such as healthcare and education, which has previously benefited blacks indirectly, as changes continue to occur, the past victory for Afro-Cubans is beginning to slide away. While Cuba continues to grow in foreign tourism and has allowed American visitors, it has prompted a worldwide interest in the country as a sought-after destination frozen in time that may soon be changed by capitalism. This has created not only a class system between foreigners and Cubans, but between whites and blacks, and between the elite and the poor, much like its past.

From the increase in both tourism and remittances, the class system that has developed is benefitting white Cubans far more than their black counterparts, as as Cuba continues to liberalize, the socialist factors such as state employment, rations, and housing that were available to all are disintegrating and affecting black Cuban nationals to a greater extent. The dual currency system is especially debilitating for Cubans. The Cuban government plans to eliminate the system and unify the peso and CUC through a “day zero,” although this comes with tremendous risks of monetary instability, fiscal balances, and further inequality (Klein and Alejandro, 2016). Furthermore, due to the flow of hard currency and challenges of the dual currency system, the formal economy in Cuba is being overshadowed by the informal economy that continues to grow as Cubans find more ways to earn dollars or avoid taxes and regulations in their new private businesses. Such actions have consequences for the greater wellbeing of the economy and the future of the island.

The study reveals that that the solution is not to make remittances more equitable, but to focus on finance and make dependence on remittances unnecessary. Additionally, public discussion must be opened significantly especially on issues of inequality and racial discrimination. Afro-Cubans should be allowed to form associations or unions, as well as public movements in order to defend their rights, and should have a resource available to report instances of discrimination. The government should come to understanding with foreign enterprises to eliminate hiring discrimination in the tourism sector specifically to allow for a more equal income distribution especially concerning hard currency. Housing additions and conditions should be prioritized, and the illegal transactions regarding the property market should be regulated.

Morales (2013) claims that Cuban women, especially those of color, and young people are at a disadvantage. They often lack formal training and education, or capital and resources for transitioning into the private sector. Moreover, a significant percentage of the urban population is considered poor, and with an increasing 76 percent of the population living in cities, social policies need to be introduced to tackle the various obstacles faced by those that do not have private foreign assistance for capital and living expenses. Espina and Rodriguez (2010) claim that recent reforms do not prioritize social aspects, although the government wishes to maintain a socialist nation, but are ignoring the increasing issues of poverty and inequality that comes with mishandled and unregulated economic growth.

In order for the market to thrive, new institutions must be created, particularly in the financial and legal areas. The transitional stage of Cuba which is currently underway needs to involve drafting and implementation of modern banking and laws that property rights. These are some of the first steps to not only allow the country to follow a path of economic development, but to set up a foundation that will benefit all of its citizens. While countries continue to be increasingly globalized and emerging economies are experiencing growth, a banking system corresponding to global standards must be a priority. Several countries have already implemented BASLE Guidelines for Capital Standards and Supervisory Principles (Shelton,

2014). Technological advance is equally as important for foreign consumers as it is for Cubans in order to efficiently enter the private sector. Without proper infrastructure regarding internet and banking, it will not be able to join the ranks of other emerging economies. Foreign investment laws must be further liberalized in order to benefit from the competition among markets and their international clients. However, Cuba must be careful to not allow foreign banks to rule, as during the weak and unstable transitional period, foreign investors will want to set up new banks (Shelton, 2014). The Cuban banking authorities must have clearly defined long-term goals to avoid the risk of mortgaging their future if they deviate from these objectives.

During the transitional period, there must be great care taken towards handling foreign aid and emergency loans and thus they must have select financial institutions operating to ensure this until a regulated financial market is achieved (Shelton, 2014). One possibility is the Cuban government to create a multi-nation bank with institutions serving as shareholders with an interest in establishing branches in Cuba later on. Another option to aid a transition would be establishing multiple temporary emergency banking facilities throughout the country. If it becomes possible for Cuba to have a freely elected government, and to own its own currency eliminating the need for dual currency system, alongside strong banking regulations, then the need for emergency Federal Reserve branches would no longer be needed (Shelton, 2014). Cuba can only begin to play catch-up with the rest of the developing world if it operates in a concise regulatory framework throughout all its industries, but especially in finance. Cuba must begin to separate the economy from political influence, and if it can meet democracy paired with some of the social conscience already existing in many of its citizens, it will be able to maintain its socialist values stable and beneficial to all.

Additionally, Cuba needs to grow its private sector in a way that is more inclusive, as it is currently built on remittances. While government payroll cuts have been implemented to counter the effects of the loss of Venezuelan connections, the government must find a way to make the transition into the private sector easier for its citizens (Feinberg and Piccone, 2014). Currently, there is a small list of approved private businesses categories, and this must continue to expand to allow for more citizens to partake and for the economy to grow. However growth cannot occur without any foreign investment which will allow for more access to capital and employment opportunities. As long as the embargo mandated by the United States congress persists, this severely leaves out a potential source of investment and revenue. The Treasury Department stated in January 2015 that micro-financing through a few U.S. would be allowed, although none have yet emerged (Feinberg and Piccone, 2014). Microfinance is only available through local, state-owned banks, but is not enough to provide the financing the country needs. Moreover, it is an expensive need, paired with the little experience with microloans and credit scoring Cubans have. Non-governmental organizations and international microfinance banks should be gradually introduced to address these deficiencies, alongside prioritizing business training for those entering the private sector. One such organization already exists, Cuba Emprende, which is a training program for entrepreneurs run by the Catholic Church (Feinberg and Piccone, 2014).

Cuba's path toward developing the private sector is comparable of the efforts of China, Bolivia, and Singapore, and Vietnam, which have all undertaken similar measures in moving from a centralized market system to a semi-private open market supporting entrepreneurship (Hingtgen et. al, 2015). Similar to China's efforts in allowing more flexibility for workers, the Cuban government has instilled a similar model by expanding the number of legal categories for private enterprise, permitting business licenses in more than one of these categories, and

letting entrepreneurs work outside of their home municipality, which was a system similar to China's *hukou* system (Hingtgen et. al, 2015). Government regulations, finance reform, and programs to improve infrastructure as well as human capital are all elements that are continuing to change in Cuba, but there must be an effort to guarantee the changes are inclusive to all groups. Fortunately, a commitment to human development especially in health and education aids the potential for Cuba in the aspects of economic growth, especially domestically (Ranis and Kosack, 2004). The Chinese government has introduced further reforms after initial reforms were "tested" in order to not threaten the power of the state. It could be that the Cuban government is following a similar road, merely improving the socialist system and not making a full transition. A fast marketization reform would expose a large number of employed workers to harsh market forces and cause substantial increases in unemployment, more inequality, and probably be seriously destabilizing for a society accustomed to stability and equity (Ranis and Kosack, 2004). A transition of any sort will have to depend on strategies implemented by the government in mitigating the situation, and they must make a greater effort of structurally adjusting if they continue to liberalize while keeping a socialist system committed to equality.

## 6 Conclusion

The changing dynamics brought about by the loosening of economic restrictions in Cuba and the heightened influx of tourism leading to a probability of an economic transition required an analysis of the effects of these factors on inequality in the island especially in regards to the most vulnerable minority group. The objective of this thesis focused on the analysis of the several indicators contributing to rising inequality in the context of a socialist authoritarian government and economy. Due to the nature of the political system of Cuba, the method of interviews and analysis of secondary data were used to form an understanding of the factors that interplay the economic and social atmosphere of an evolving Cuba. The thesis used a framework by Harris (1993) to examine the relationship between several players including economic growth, inequality, the informal market, and racism. In order to understand the causes and effects that economic growth has on inequality through racial lines and the growth of the informal market, important elements were considered and analyzed: the inheritance system, barriers to high income jobs, limited access to credit, and the distribution of property and wealth.

The research extends our understanding of inequality experienced by Afro-Cubans and contributes to the ongoing academic discussion of Cuba's situation, in turn helping address public policy changes. There is a concentrated body of literature focused on inequality affecting Afro-Cubans, however, the paper adds to the debate by analyzing the factors that contribute to inequality and categorizes them in a way that can be broken down and used to tackle the issues at their source. By focusing on the inheritance system, barriers to high income jobs, limited access to credit, and the distribution of property and wealth, we can conclude with a potential model for the issues surrounding inequality in Cuba and connect them with race, giving visibility to the issue which is largely ignored by the government and many Cuban citizens. Furthermore, it extends Harris's framework which has not been applied to a case study for further analysis, particularly in a centrally-planned or transition economy.

The implications of this research suggest that, in the context of growing inequality and a growing informal market, the Cuban government needs to take measures if they are committed to growth while "preserving socialism" in ensuring that their minority groups are able to participate in the new economic liberalization and the advantages it offers. With more field research, the private sector can expand and become more inclusive if the Cuban government makes it a priority to continue placing human development in the forefront as the country grows.



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# Appendix A

Interview Questions based on Harris's (1993) framework

*The language of all interviews was in Spanish.*

- How would you identify yourself racially?
- What is your gender identification?
- Do you feel like you had less opportunities because of your skin color?
- Do you think there is racism in Cuba or that it was eliminated by the Revolution?
- Do you think racism is becoming more prevalent to Cuba because of increased tourism and capitalist ventures? Explain.
- Describe your experience with the tourism sector— did you partake in tourism yourself or work in tourism?
- Do you believe more whites work in tourism than blacks? Are the opportunities equal?
- Do you think there is an unfair advantage for those that work in tourism, even more so than being self-employed?
- If you worked in the tourism sector, did you work for the state or are you self-employed?
- If you did not work for the tourism sector please explain your job or career.
- Were you self-employed or work in the tourism sector legally or illegally?
- Have you ever moonlighted (worked "under the table" or after hours)?
- What type of moonlight activity did you partake in, and did you choose to moonlight by interacting with tourists? Please explain.
- Did you make more money moonlighting or in your regular job?
- Did you ever have to practice hustling (jineterismo) as a moonlighting economic activity?
- Did you moonlight out of necessity or to fulfill wants?

## Inheritance System

- Did you receive remittances from family members abroad?
- How much did you receive in remittances on average, was it more than your income/salary?
- Did you need an additional source of income alongside remittances?
- If you did receive remittances, what were you able to purchase with remittances?
- Did remittances include goods and food items?

## High-Income Barriers

- Those that worked in state jobs, was it difficult to be promoted, and was this tied to your race?
- Did you receive bonuses at your job working for the state?
- Did you ever consider that you have been denied a position because of race, or hired because of it?
- In your work environment, do you perceive a higher number of whites than blacks?
- What are your thoughts on the concept of "good presence" in a work environment especially in relation to race? Would you agree more value is placed on white individuals for representation of the business?

### Limited Access to Credit

- Is it difficult to become self-employed and obtain a license, and do you believe this has to do with your race?
- If you are self-employed and run without a license, what is the reason?
- How can you enter the self-employment sector? What capital are you in possession that would allow a change?
- Do you have friends or family outside of Cuba that could become potential investors for you in Cuba?
- How do you perceive banking and internet in Cuba? Is this debilitating in terms of transitioning to self-employment?

### Distribution of Property and Wealth

- Do you own real-estate Cuba? If so, do you plan to sell your home?
- If selling, what are your plans with the additional source of capital?
- Do you own a vehicle?
- What is your take on the removal of restrictions on buying and selling? Is it possible to engage in this as a national?
- How do you perceive Eastern Cuba in comparison to Western Cuba?
- Do you believe Western Cuba has more of an advantage than Eastern Cuba?
- Are you located near tourist facilities and do you have access to such facilities?