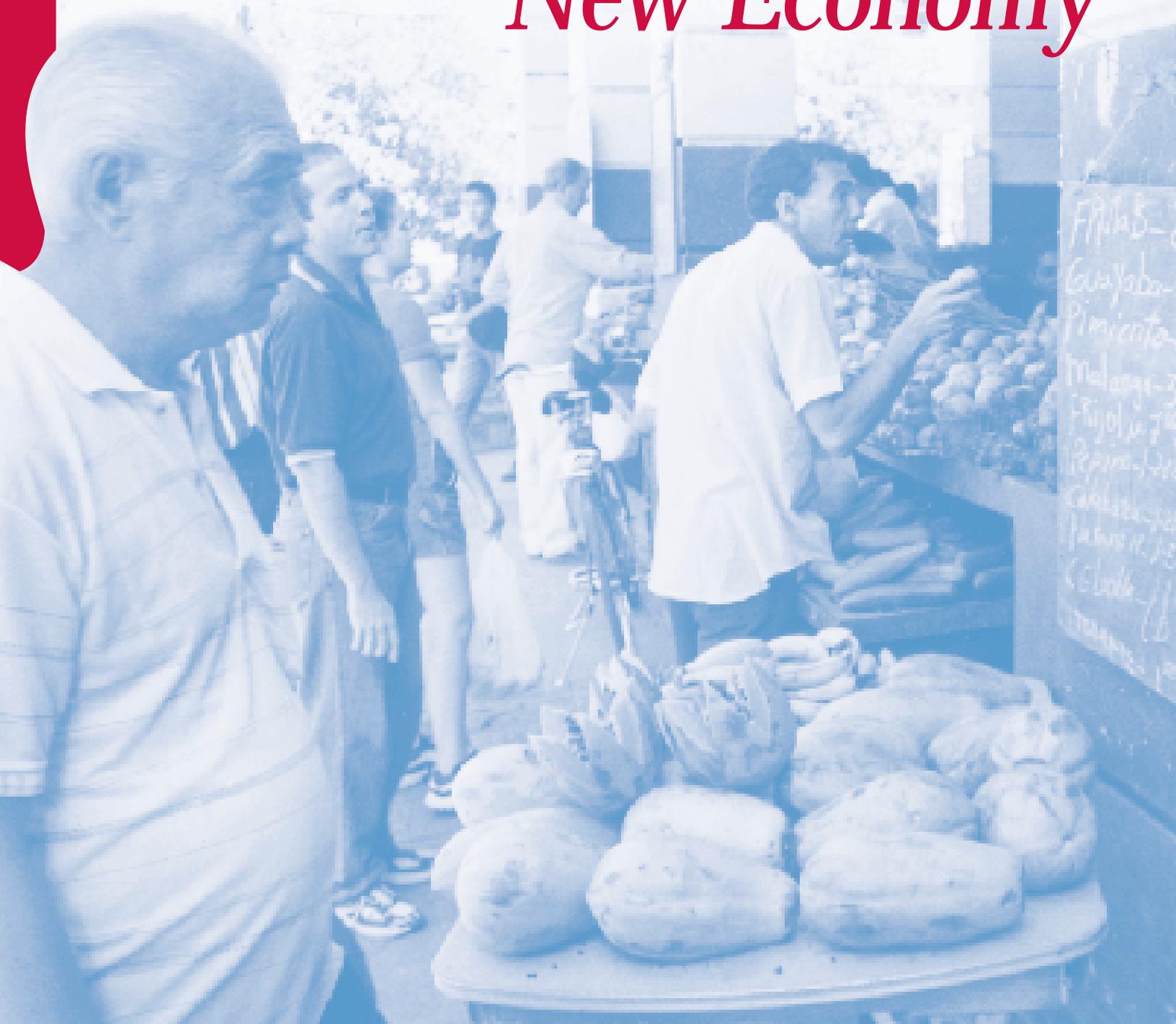


THE FARMERS MARKET:

Crossroads of Cuba's New Economy



THE FARMERS MARKET:

Crossroads of Cuba's New Economy

by Philip Peters ★ October 2000



1655 North Fort Myer Drive, Suite 325
Arlington, Virginia 22209
www.lexingtoninstitute.org
703-522-5828

Farmers markets stand out as an exception to the economic rules that govern socialist Cuba. They rely on production incentives, market-based pricing, and a large measure of independent economic activity to help perform the economy's most vital function: putting food on the tables of 11 million citizens.

Since 1994, these markets have served to increase the supply, diversity, and availability of food; they generate important revenues for independent farmers and other producers; and they provide high-paying jobs for vendors. However, farmers markets are only a partial solution to Cuba's food and nutrition needs, and their prices put them out of reach for many Cubans. To drive prices down, the Cuban government is working to increase the supply of produce that flows to farmers markets, and has created new types of markets.

This paper attempts to illustrate how Cuba's farmers markets function, how they are governed, and what they mean to the Cuban people and the economy in which they live. It relies on interviews and field research conducted in Cuba, principally in March and July 2000.



Backdrop: economic crisis and reform

The opening of Cuba's farmers markets came as part of a package of reforms implemented in 1993 and 1994 in response to the loss of economic support from the Soviet Union and the end of Cuba's extensive, long-established trade and investment relationships with the Soviet bloc. The dissolution of these relationships was a catastrophic shock for the Cuban economy; it severed the structures on which three decades of economic policy and planning had been built. In the short term, it brought acute hardship to the Cuban people.

The reforms did not alter the basic socialist structure of the economy, but they injected elements of capitalism into it. The result is a new economic sector in which hundreds of thousands of Cubans are exposed to market mechanisms and have higher earnings.

Cuba's farmers markets are at the hub of this new economic sector. For their supplies, they depend on farmers and cooperatives that have been free since 1993 to sell their surplus. For their customers, they depend in significant part on the increased purchasing power that other reforms have generated.

These reforms include:

Ending prohibitions on holding foreign currency. This step enabled Cubans to receive and spend family remittances from abroad. Remittances are estimated to bring up to \$1 billion annually into the Cuban economy; these funds are used by Cubans to improve their living standards or to start microenterprises, and they are spent in farmers markets, microenterprises, or in retail businesses operated by the government.

Legalizing small enterprise. About 160,000 Cubans, or 4 percent of the labor force, work today in a small service economy of taxi drivers, messengers, repairmen, family restaurants, seamstresses, tutors, and the like. Taxation, competition, and regulatory enforcement have reduced the ranks of licensed entrepreneurs by about 25 percent since 1996, but their impact remains significant. They have brought commerce back to streets that were devoid of it for three decades, they provide important services, they are teaching the skills of small enterprise, and—most importantly from the point of view of a

Food supply in the 1990s: the ups and downs of production...

Total production (thousands of metric tons)			
	1989	1990-4 (average)	1995-9 (average)
Vegetables	610.2	440.7	622.5
Rice	536.3	332.4	343.7
Beans	14.1	10.6	19.5
Pork	110.4	92.8	80.6

Production per capita (kilograms)				
	1989	1990-4 (average)	1995-9 (average)	1999
Vegetables	57.7	40.6	56.1	90.6
Rice	50.7	30.6	30.9	30.5
Beans	1.3	0.9	1.7	3.1
Pork	10.4	8.5	7.3	5.8

Source: Official data as presented in *La Economía Cubana en la Década de los 90*, Armando Nova González, University of Havana, February 2000.

...and consumption...

Food consumption averages, kilograms per person per year				
	1989	1994	1997	Recommended requirement
Meat	39	21.3	18.5	29.4
Fats	17	2.5	2.7	9.2
Vegetables	59	26.8	29.1	51.3
Fruit	56	41.4	37.6	55.7
Milk, dairy products	144	53.7	82.7	117.6

Cuban data presented above show the impact of the economic crisis on food consumption. According to the United Nations Food and Agriculture Organization (FAO) and Cuban data, caloric intake fell from approximately 3,000 calories per day to 1,900 in 1993. In 1996, when economic recovery had begun, it reached 2,500 calories per day. By 1998, Cuban data reflected an improved diet that provided near the recommended levels of calories, iron, calcium, and vitamins B-1 and C, but fell short in other essential nutrients. Overall, a 1998 report of the National Office of Statistics said, the diet "does not fulfill nutritional recommendations." Current FAO data places Cuba in the category of "moderately low" undernourishment. ■

farmers market vendor—their average income is more than triple the average Cuban salary.

Opening to foreign investment. After three decades of shunning capitalist investments, Cuba made a selective opening to joint ventures with foreign corporations beginning in 1993. The volume of capital invested to date—about \$2 billion—is low by regional standards, but it has helped to revive tourism, oil and mineral exploration, telecommunications, and other sectors. Tourism has boomed from about 50,000 visitors annually in the late 1980s to nearly 2 million today—a change that helps Cuba's balance of payments and provides both direct and indirect revenues to Cuban entrepreneurs. Typically, Cuban workers in joint ventures are paid well above average wages, often in dollars.

State enterprise reform. Cuba is embarking on a process of *perfeccionamiento empresarial*, a re-engineering of state enterprises designed to make them efficient, market-conscious, and economically self-sufficient. Managers are to receive autonomy, and workers are to be paid not for effort but for results. This process is in its early stages, and it is too soon to tell how its ambitious agenda will be carried out or how significant its impact will be. However, apart from this formal process, many Cuban state enterprises are already paying productivity bonuses in both pesos and dollars to their workers, a practice that expands the pool of potential customers at the farmers markets.

Incentive-based farm production. To increase food production, Cuba redistributed about two-thirds of state lands to cooperatives and individual farmers, and provided material incentives to increase production. Cuban farms and cooperatives, regardless of size, type of organization, or ownership, receive supplies from the state, and in exchange they are required to deliver a contracted amount of their product to the state. All producers are now permitted, once they deliver their contracted quota to the state, to sell their surplus on the open market. (Not all farm production is covered by this change, however; items such as beef, dairy products, and potatoes are delivered in their entirety to the state.) Farmers markets were opened in October 1994 to bring this surplus to consumers. The markets created a separate, legal channel of food supply that complements the state's distribution system.

Taken together, the impact of these reforms has been to create a hybrid economy where the state dominates, but socialist planning is eroding and market mechanisms are increasingly relied upon. From the perspective of the average citizen, there are two major impacts. Cubans who participate in these reforms earn higher incomes and are able to "escape" aspects of the economic crisis by buying food on the open market, no longer relying on state supplies and a state income. Second, there is a new inequality. "For us living here, there's a big difference in the economy," a Havana taxi driver explained. "If I have money and others do not, who has options? I can buy chicken in the store, that guy over there can't. Before, all were equal."

► **What's for sale?**

At Havana's Cuatro Caminos market, a two-story, one-city-block structure, this is what was available one day in March 2000: lime, orange, papaya, banana, plantain, pineapple, coconut, guayaba, chirimoya, mamey, coconut, watermelon; fresh parsley, cilantro, yerbabuena (mint), bay leaves, and assorted dried herbs; many varieties of cut flowers; eggplant, lettuce, tomato (and puree), peppers (many varieties), onion, garlic, cabbage, radish, green bean, cucumber, carrot, okra, malanga, sweet potato, yuca root; rice, beans (black, red, white), peanuts; lamb (all cuts), pork (all cuts), sausages, ham, live chicken and live quail. All around the market's perimeter, small entrepreneurs operate a variety of sales and service businesses, and individuals create an impromptu sidewalk flea market as they gather with old equipment, tools, or other items to sell.

The state enterprise that operates the farmers market (La Empresa del Mercado Unico, a unit of the provincial department of the internal commerce ministry) has other businesses on the site: a senior citizens' center that offers entertainment and meals, 8 cafeterias, and two restaurants. The Chinese restaurant, which offers Chinese food, Cuban food, and sandwiches that walking vendors sell outside, reflects a change occurring throughout the state sector: The workers receive a basic salary plus a production bonus that depends on their performance and the restaurant's revenues. In February 2000, according to one of the enterprise's administrators, the cook received a bonus equal to 51 percent of his salary, and the other 22 employees received bonuses of approximately the same size.



Farmers markets—the 1980s version

Today's farmers markets are not the first to appear in socialist Cuba. In 1980, *mercados libres campesinos*, or free farmers markets, were created to allow independent farmers to sell their surplus at unregulated prices.

The markets soon became a source of controversy. Fidel Castro, addressing the National Association of Small Farmers (ANAP in its Spanish acronym) convention in May 1982, expressed concern that produce contracted for delivery to the state's distribution system "began to appear on the free market." Middlemen were earning large sums in transportation and sales, he noted, and large numbers of small farmers and squatters were working independently, not joining ANAP. The solution, Castro said then, was not to close the markets but to ensure that all producers join cooperatives, where they would belong to institutions that would resist the urge to speculate. "The disorder will end once all peasant land is held by cooperatives," he said. "Then incentives can be provided for both cooperatives and farms. ... We can reward those who produce surpluses ..."

Four years later, however, those concerns were not allayed, and the *mercados libres campesinos* were ordered closed in May 1986. The intermediaries were driving prices up, Castro said, engaging in "illicit enrichment" and creating "a great obstacle to the development of the cooperative movement." This move "again eliminated all free-market mechanisms and the marketing of food passed completely to the state sector," writes University of Havana professor Angela González Vásquez.

How the *agros* work today

The return of farmers markets, or *mercados agropecuarios*, or “*agros*,” was established by a presidential decree issued on September 19, 1994, and by regulations issued the following day. The decree’s preamble says, “It is necessary to increase the level of farm produce directed to public consumption [using all available means including] giving producers the ability to deliver to a broader market at free prices ... after complying with their obligations to the state.”

The decree and regulations contain these features:

- All producers may sell at the markets—state farms and enterprises, all types of cooperatives, individual private farmers, and families that cultivate small parcels of land distributed in recent years to increase food production.
- Prices are not regulated.
- Market vendors must be producers or their designated representatives.
- Vendors pay tax for their business activity and a fee for the space they rent.
- Producers are permitted to sell their surplus and any produce for which the state does not contract, such as lettuce and other perishable vegetables. Producers are subject to penalties if they sell products at the farmers market while failing to deliver their quota.
- Producers are not restricted to markets in their own geographic area; they may sell anywhere in Cuba. The rates of tax imposed on vendors are skewed to create incentives to increase supply and lower prices in Havana and provincial capitals. The tax, paid daily based on the value of the product vendors have on offer, is 5 percent in Havana; 10 percent in provincial capitals; and 15 percent elsewhere.
- Local authorities determine the number and location of the markets in each municipality.

Sales in Farmers Markets

	Measured in bulk... (quintales, or 100-lb. quantities)	...in cash... (billions of pesos)	...and as a percentage of household expenditures.
1995	3,876,000	1.484	10.3%
1996	4,593,000	1.158	7.6
1997	4,517,000	1.216	7.8
1998	5,208,000	1.372	8.1
1999	11,259,000	1.733	10.1

Source: Ministry of Agriculture, National Office of Statistics.

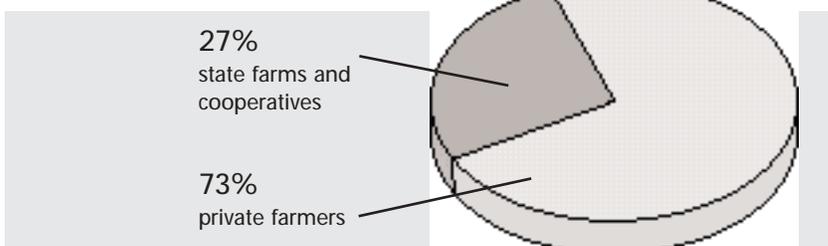
The market response was dramatic. In 1995, the first full year of operation, the *agros* sold nearly 390 million pounds of produce. According to price surveys published by economist Armando Nova González of the University of Havana, the farmers markets immediately undercut black market prices. In Havana, the price of rice fell 75 percent; beans, 14 percent; and pork, 49 percent.

By 1999 the sales volume exceeded three times the 1995 level, and the *agros* were generating more than 5 million pesos in tax revenue. There are 304 in operation across Cuba today.

Havana’s 49 markets, serving 20 percent of the population, account for 48 percent of the sales. Prices are generally higher in Havana. It seems that the small tax incentive mentioned above is outweighed by the concentration of higher-income population in the capital, which allows vendors to charge what the traffic will bear.

On a Sunday in Santa Clara, a provincial capital in central Cuba, a farmers market bustles in the shadow of the Augusto Cesar Sandino stadium.

Who supplies the *agros*?



Source: Ministry of Agriculture

► A Villa Clara chicken en route to a dinner table.



The value of the peso

Cuba's peso is not a convertible currency. An official exchange rate used for certain international transactions places the peso at parity with the dollar, but in Cuba's domestic economy the peso-dollar ratio has been stable near 20:1 since 1996.

At this rate, the average Cuban monthly salary of 223 pesos translates to \$11.15. This figure does not give an accurate comparison of purchasing power or family welfare, because Cuba's price system is only partially based on market factors, and many household expenses are subsidized or free.

More usefully, it shows the dramatic increase in purchasing power that a Cuban family can experience if it earns even a small dollar income.

A Cuban government survey conducted in 1999 estimates that 62 percent of Cuban households have some level of foreign currency income—from remittances, their own enterprises, joint venture employment, state employment, or other sources—in addition to their peso earnings. A survey conducted by Cuba's National Office of Statistics in late 1995 found that families with dollar income receive on average \$8 per person per month. ■

The market offers a wide variety of produce, and interviews with vendors indicate that the market is being supplied largely by private farmers—both individuals and members of small Credit and Service cooperatives—rather than larger cooperatives and state farms.

A private farmer who does not belong to a cooperative brought his produce 40 kilometers to the market; he says he and his partner have sales of 100 pesos that day. A second farmer came from a cooperative 25 kilometers away; he says he has never reached 100 pesos in sales. A larger stand with a greater variety of fruits and vegetables is manned by two farmers from a 62-member cooperative 50 kilometers away; they say they can reach 600 pesos in sales on a good day.

The market spawns ancillary businesses. A "bicitaxi,"—a bicycle reconfigured to have two rear wheels and two canopied passenger seats behind the driver—takes shoppers home for 15 pesos. A man pushing a hand cart is a personification of tax evasion; he carries vegetables from storage to the market all day long, replenishing vendors' stocks. This enables the vendors to declare less merchandise and pay less taxes every morning—and from their tax savings they pay the man for his transportation service.

In the Regla neighborhood of Havana, across the bay southeast of the city's colonial core, there is a medium-sized *agro* where a

large truck full of produce stands out among the many small stands. The truck belongs to a private farmer from southwest Havana province. The 35-year-old farmer, joined by several members of his cooperative, barks out his prices and attracts a steady business. His family has the rare fortune of owning the truck, allowing him to travel to market easily and to sell at retail. He doesn't think of using an intermediary—"I do better with my merchandise, and earn more profit like this," he says. His tomatoes, cabbage, and onions are 25 to 50 percent less expensive than other vendors' produce.

The *agros* attract a wide variety of consumers. In Santa Clara, a teacher shops carefully and comes to the *agro* "only when I can—it's not easy," he says, on his 400-peso monthly salary (which reflects a 30 percent pay increase recently granted to all educators). His friend, a mechanic, earns 150 pesos per month, but only can shop at the *agro* because he earns 500 to 1,000 pesos more "in the street," he says, as a handyman. "That's how I am able to buy this chicken," he explains. An elegant elderly woman, retired with a pension of 80 pesos monthly, haggles with a vendor in central Havana. She says her salary and the state's food distribution system provide "very little," so she depends on remittances from a son in Spain and a son-in-law in the United States. But these are not reliable. "When they take their first drink of Coca Cola they forget about their family here," she says. In Havana's Vedado neighborhood, a man buys two vendors' entire supply of bean sprouts for a Chinese restaurant nearby. He usually buys direct from a grower at 4 pesos per pound, he explains, but he is in a hurry and is willing to pay 10 pesos to these vendors. A 45-year-old man who left teaching to work as an unlicensed taxi driver earns \$150 in an average month, more than ten times his previous salary. He shops regularly at Havana's most expensive farmers market, and sometimes buys food at the most expensive food source of all, the government-operated stores that sell imported goods for dollars.

The complicated business of shopping for food

"You have to plan, you have to economize all the time," said a retired Havana woman as she walked slowly, arm in arm with her sister, from one of Havana's farmers markets. She patiently explained the range of food shopping possibilities in her neighborhood and pointed out the locations of the various outlets. She knows her sources and follows prices closely to stretch the two pensions that are her family income.

Food shopping can be complicated business for Cubans at any income level.

The most basic source of food is the *libreta*, the booklet given to each family to keep track of the supply of basic products that the state provides at very heavily subsidized prices. Next to the farmers market that the ladies above were departing, a state food supply outlet was offering rice, beans, evaporated milk, coffee, cooking oil, cookies, toothpaste, tobacco, matches, and other items. The *libreta* prices rice at 0.25 pesos per pound—5 percent of the price offered at the adjacent farmers market. However, it lists products (e.g. potatoes, meat) that were not available that day, and are only sporadically available.

Cubans appreciate the state's subsidized prices—the *libreta* is described as "fundamental" even by a taxi driver whose monthly earnings average four to eight times the average national salary. Cubans typically add, however, that the *libreta* "does not reach;" the products it actually delivers only provide a partial diet for the month.

According to a Havana father of two, the *libreta* usually provides the following for each person in his family: 6 pounds of rice, 6 pounds of sugar, 1 1/4 pounds of beans, a dozen eggs, 3/4 pound of a beef or soy product (*picadillo*), a half pound of pasta, and a half pound of cookies. Approximately 4 times a year, the family receives frozen chicken, and about 3 times a year, beef is provided. His children are in their teens, so they do not receive allotments of milk provided to children up to age 7. —————continued on page 8



Intermediaries—by the rules, and outside the rules

Like nearly all markets, Cuba's farmers markets rely on intermediaries who deliver products from producer to consumer and are paid for this service. In Cuba, this natural attribute of a market raises a sensitive ideological issue. Some socialists perceive an intermediary as someone who benefits from the fruits of another worker's labor, and as a potential cause of speculative or exploitative pricing.

For these reasons, intermediaries were not permitted in the 1980s experiment with farmers markets. Then, only farmers could sell in the markets, and they were required to sell their own produce. In fact, however, intermediaries did exist, and their economic success was one of the factors that led to the closing of the markets in 1986.

Today's rules reflect a change in government thinking. Without abandoning their socialist philosophy, authorities are allowing intermediaries to function in farmers markets. This can be seen in laws and regulations, and in the degree to which these are enforced.

Unlike during the 1980s, vendors are permitted today—they are called "representatives" who are designated by a farm or cooperative to sell at an *agro*. This concept is accepted by Fidel Castro, who recognizes that they may "earn plenty of money," but are necessary "because farmers are not going to be going every day [to the markets]; someone has to exercise this function."

In addition, there are other kinds of intermediaries whose services are essential to the functioning of the *agros*, but are not permitted by law.

These include wholesalers and transporters who make bulk purchases in the countryside and sell to vendors in the city. One Havana vendor, a 30-year-old former English teacher,

Hence the Cuban family puts food on the table each month by playing a series of options that vary in affordability and quality.

"A la libre." "Freely priced" is shorthand for farmers markets, where food is plentiful and quality seems high. Cubans of average means can afford to shop there occasionally, but not regularly.

Placitas. Smaller food stands where controlled prices are below those of farmers markets, and quality seems not as high.

Ferías. One-day-per-month "fairs" where state farms bring truckloads of produce to cities and sell at lower prices still.

Organopónicos. Streetside sales of very fresh produce at moderate prices.

"El shopping." Successors to the diplomatic stores that offered the only dollar shopping opportunities before foreign currency holding was legalized in 1993, the dollar stores have Gerber's, Marlboro, Coca-Cola, imported frozen chicken, and a wide variety of household goods and supplies at very, very high prices.

Black market. It is impossible to gauge the significance of illegal sales, but there is an "underground market that laughs in the face of the authorities," one Havana resident says. A conversation in one Cuban home was interrupted when a young woman came calling carrying small plastic bags of beef for sale; in another neighborhood, another conversation was interrupted by women who pass by weekly with paper bags full of cheese. A single mother in Santa Clara says that vendors called "*marianas*" come through her neighborhood selling from their cars "at prices one can afford." She earns a modest salary of 148 pesos monthly as a child care worker; she acknowledges that she and her neighbors sometimes have difficulty making ends meet. Nonetheless, she says, "Here no one goes hungry because people always hold out their hand to each other." ■



► At a Havana market, a truckload of tomatoes is delivered for sale by a state enterprise as part of an effort to expand food supply and reduce market prices.

said, "I have to buy from them. They are the ones who buy from the farmers at 2:00 or 3:00 in the morning." This vendor seems to resent the intermediaries for the prices they charge him, but he notes that they fill several gaps: they have steady supply relationships with farmers, they have cars and trucks to reach the countryside, and they operate in the early morning hours. He arrives between 4:00 and 6:00 a.m. to make his purchases from them.

Other intermediaries act as brokers between those who deliver produce to the city and vendors who will sell it. A 30-year-old woman who sells vegetables at a small *agro* in Havana's Santos Suarez neighborhood earns a fixed salary of 40 pesos daily from a man she calls "the owner of the merchandise"—an intermediary who buys in bulk and employs her to sell at retail. (Her wages are a big improvement from the 196 pesos she earned monthly at a textile factory that closed, laid her off, and paid her 60 percent of her salary while she looked for a new job.) In another Havana *agro*, a man shuttles between vendors whom he employs in two neighborhoods to sell produce, making no effort to conceal his activity. One of his vendors says he is paid 30 pesos daily, three times the average Cuban salary.

These "wholesale intermediaries," according to one Cuban analyst, fill a void that exists in part because of the scarcity of transportation capacity. "There may be things we don't like," a Cuban official says, "but we have to recognize that the markets have to function."

The result is a legally ambiguous situation where certain transportation, wholesaling, and resale functions are not permitted, but the prohibitions are not enforced. Indeed, when the government sent signals in December 1998 that enforcement would be performed "by the book" and vendors would have to certify their links to the farm producers for whom they sell, vendors withdrew from the farmers markets. The markets revived the following month when it became clear that this enforcement effort would not proceed.

Free-market food: what it costs...

Market basket prices at selected markets

December 1996, Havana	50.5 pesos
March 1998, Havana	46.00
October 1998, Havana	49.50
February 1999, Havana	44.25
February 1999, Santiago	35.50
March 2000, Havana	39.25
March 2000, Santa Clara	33.60
August 2000, Havana	43.40

Basket consists of one pound each of pork chops, rice, and black beans; two pounds of tomatoes; three limes; and one head of garlic.

...and who can afford it.

Work time required for Cubans in selected occupations to pay for a market basket

Retiree with pension	7.2 days
Day care worker	5.8 days
Cuban earning average national salary	4 days
Teacher	2.7 days
Deputy director, state enterprise	1.9 days
Emergency room doctor	1.9 days
Average entrepreneur	1.2 days
Nickel worker in joint venture	1.1 days
Cigar factory custodian	7 hours
Farmers market meat vendor	6 hours
Private taxi in Havana	3.5 hours

Calculations based on March 2000 prices in Havana farmers markets and salary levels recorded by author during the past two years. Average national salary (223 pesos in 1999) published in official Cuban data; average entrepreneur earnings based on author's survey of 152 entrepreneurs in 1998; all other salaries are based on interviews with individuals; they do not represent occupational averages. Cigar factory custodian's earnings include salary and performance-based bonus. Market basket prices recorded by author. Havana prices are averages of prices at several markets. ■

The push for lower prices

Cuba has met the challenge of establishing farmers markets and making them a significant new element of food supply. Officials are now concerned with finding ways to make them more affordable. While production recovered in the 1990s and today—Ministry of Agriculture figures indicate a 25 percent production increase in the first quarter of 2000 compared to 1999—prices have remained relatively stable at levels that officials view as too high to be accessible to the general public.

Many potential causes and solutions have been identified. One senior official believes that intermediaries “have the effect of cartelizing prices;” an analyst believes that many prices are determined “by agreements among suppliers, particularly in the private sector.” Others search for ways to make large cooperatives more productive so that they will deliver more to the *agros*.



► A small *placita* in Havana.

Unlike in 1986, the Cuban government is reacting today not by attacking intermediaries or closing farmers markets entirely, but by creating new sources of supply to place downward pressure on food prices generally.

A resolution adopted in early 1998 (Resolution 2-98) by the Ministries of Agriculture and Internal Commerce addresses that goal. It permits the state to deliver its supplies to *agros* for discounted sales, and it allows the state to buy producers' surplus at “differentiated prices”—higher than standard state contract prices, but lower than market-based wholesale prices paid by intermediaries. The intention is to bring new producers into the supply stream, to save farmers the time and money it takes to bring product to market, and to take intermediaries (and their markup) out of the marketing process.

The following new marketing mechanisms have resulted:

Small markets with “capped prices.” These markets, known as *placitas*, sell at prices lower than those at the *agro*, but well above the subsidized prices of the *libreta*—“kind of a logical price that covers the costs of production and transportation,” an official says.



About 2,800 operate nationwide. "They don't have the variety, quality, or steady supply of *agros*, but they exercise a downward pressure on the *agros*' prices, especially if they are nearby," he adds. Observations show that *placita* prices are approximately one fourth to one third lower than those in the farmers markets. In the first four months of 2000, official statistics showed that sales in *placitas* reached two thirds the value of sales in *agros*.

Monthly low-priced sales of state produce. *Ferías* ("fairs") occur once a month in cities where state trucks bring large quantities of produce to a single location for sale at prices well below those in the *agros*. At the Santa Clara market discussed above, a monthly *feria* ("fair") was in progress. Trucks from a state enterprise and nearby cooperatives were alongside the *agro*, selling tomatoes, plantains (at half the market price), and live chickens. In

Havana, a more extensive *feria* is held on a boulevard near the national theater.

Low-priced state sales in farmers markets. The *Acopio*, the state's basic food collection and distribution enterprise, occasionally brings its produce or that of large cooperatives to the *agros*. This seems to be an *ad hoc* practice where produce is sold directly from the truck at prices below those in the rest of the *agro*.

It would seem that the introduction of lower-priced produce would reduce the profit margins of established vendors in the *agros* and the private farmers who supply them. Indeed, a vendor in Havana's Kolhy neighborhood complained sharply that the state brought a truckload of tomatoes to his market one afternoon and put them on sale for one-sixth his price: "Yes, it affects me. I have to cut my price to the same level or else I lose it all." However, many vendors seem to feel scant pressure. Business continues "same as before," many say, as if the competition is too infrequent to take a significant share of their market. In Regla, a market administrator says some vendors are affected by the new competition, but the market as a whole is expanding, and additional sales space is under construction.

The Urban Garden



► In a Havana *organopónico*, basil is grown at the end of each row of plants to ward off insects; it is sold for cooking and for use in *santería*, one worker says, to “keep away the spirits of the dead.” Santa Clara’s cathedral tower is visible from this small hilltop *organopónico*.



Since 1995, the *organopónico* has been a new feature of Cuba’s urban and agricultural landscape. On large tracts on the outskirts of cities or tucked into smaller lots in residential neighborhoods, 2,611 urban gardens have created a new source of fresh produce, a source of gainful employment, and because of their location, a link in the food supply chain that does not burden Cuba’s strained transportation system.

The crops are worked intensively by hand on raised beds of dark, organically enriched soil. Produce is sold on the spot in streetside stands that workers replenish as needed with fresh-picked produce.

Organopónicos are small enterprises that receive start-up assistance such as financing or materials from the government, and function with a large degree of autonomy.

A small *organopónico* in Santa Clara has operated on a 600-square-meter lot since 1994. Three men operate it, none of whom rely on it as their sole source of income—one is a retiree, one a former military officer, one a part-time taxi driver. While they decline to discuss their earnings, they say they are pleased with their income and they describe as “cheap” the 350-peso monthly rent they pay for their land. Their prices fluctuate according to supply and demand, and according to their competition at Santa Clara’s main farmers market, located a few blocks away. Their best

earnings, they say, come in the off-season when they charge higher prices for vegetables that are not available in the *agros*. They have more than a dozen products on sale, including carrots, celery, and varieties of greens and herbs.

A larger *organopónico* operates amid apartment buildings and open fields in the southwest Havana neighborhood of Ciudad Deportivo. Tomato, celery, malanga, papaya, green beans, carrots, cabbage, garlic, beets, and varieties of lettuce and herbs are on sale.

The *organopónico* has been in business since late 1998. A state construction enterprise cleared and graded the land and built the sales stand and a small office and storage building. Revenues from produce sales are amortizing a 15-year loan that covered this start-up expense.

The 16 workers, all of whom live nearby, cultivate 3,061 square meters of land on raised beds of soil. The workers’ base salary is 245 pesos per month, slightly higher than the average Cuban salary. However, they have opportunities to earn considerably more through bonuses if their personal productivity exceeds measured norms, and if overall revenues are high. One worker, the head of the union, explained that in peak months the production bonus can provide 800 to 900 additional pesos. In February 2000, he earned a 630-peso bonus. This worker, the head of the *organopónico*’s labor union, was weeding rows of carrots with a sprig of basil behind his ear—“to keep the gnats away,” he said.

The *organopónico*’s manager seems pleased to have left a desk job in a state enterprise in May 1999. “This is a business,” he says, and a profitable one that he wants to expand to grow additional produce and a small fruit grove. He says he is required to keep prices at least 20 percent below those charged at farmers markets. The prices at the sales stand seem to be in that range; they generate a steady flow of customers on a weekday morning. One customer, a retired cigar maker, haggles with the vendor and complains that the prices are too high. She economizes by comparing prices here and at local farmers markets, and by raising chickens at home in the courtyard of her apartment building.

In January 2000, the *organopónico*’s expense ledger shows that 2,740 pesos were spent on basic salaries, and only 721 pesos on non-salary expenses. The month’s operating profit allowed nearly 8,000 pesos to be added to the workers’ pay in production bonuses. ■



► Woven strands of 50 heads of garlic being delivered at Santa Clara's farmers market, near the city's sports stadium.

Vendors earn high incomes

While analysts pore over policy options, it is clear that the markets have succeeded in providing high-paying employment to large numbers of vendors, including many who lost their jobs when the government stopped subsidizing the unprofitable state enterprises in which they worked.

A 32-year-old man who lost his job when his assembly plant closed has earned eight times his previous salary for more than a year selling vegetables at an *agro* in Havana's Santos Suarez neighborhood. A meat vendor in the San Miguel del Padron section of Havana earns 2,400 pesos monthly, 10 times the average Cuban salary, paid directly by the farmer whose pork he sells. In the same farmers market, a vegetable vendor who works part-time as a criminal investigator for the police earns more than 1,000 pesos monthly. Elsewhere, a meat vendor who sells lamb—all cuts are displayed, including skinned heads for soup—earns 1,200 pesos per month. (He keeps his tax liability down by declaring only part of his merchandise and re-stocking as needed from a refrigerator he rents a few blocks away.) In the *Cuatro Caminos* market, a vendor sells produce from a cooperative in Guira de Melena; he earns 1,000 pesos per month, and in good months several times that. "This is a good job if you want food security," he says.

Results and future issues

To a foreign visitor, Cuba's agricultural markets do not look like a recent innovation. They seem to function smoothly and naturally. Nothing about their operations, the vocal vendors, and the often-haggling customers gives a sense that they are in a setting that only came into being a few years ago.

After six years of operation, it is possible to assess some results and to identify issues that will be resolved in the years ahead.

Food supplies are expanded, but are not affordable for everyone. Official data show that *agro* sales account for about 10 percent of household expenditures. A true representation of expenditures on non-state food sources is surely higher. Spending on goods and services of Cuba's small entrepreneurs, which according to official data consumed an additional 11 percent of household expenditure between 1994 and 1998, includes

substantial spending on private restaurants and lunch vendors. Both these categories are likely to be underestimated in official data; for tax reasons, many entrepreneurs and market vendors are inclined to under-report their sales.

It is clear that while Cubans of all income levels are observed shopping in the *agros*, only those of higher income levels can afford to shop there regularly. The lower-priced market variants (*placitas* and monthly *ferias*) have already attained considerable sales volumes. The result is that they seem to be extending the market-based food supply to lower-income Cubans, with no evidence of significant adverse impact on the freely priced *agros* themselves.

Still, *agros* have not solved food and nutrition supply problems. Cuba's acute food supply crisis has passed, and its public health indicators rank relatively high among developing countries.¹ However, the Cuban diet continues to fall short of the Cuban government's own nutritional standards.

Farmers markets represent a decisive policy shift. Farmers markets are an important anomaly in Cuba's socialist economy. They represent a decision to rely on market mechanisms—production incentives, the movement of prices by



¹ In the World Health Organization's "healthy life expectancy" survey, Cuba ranks second in Latin America and 33rd in the world at 68.4 years. (Chile ranks 32nd at 68.6 years, the United States 24th at 70.) A "human development index" devised by the United Nations Development program combines life expectancy, per capita income, and education; it ranks Cuba 56th of 174 countries, above Peru, Colombia, Venezuela, and Brazil.

supply and demand—in a critical sector. At the “micro” level, they create countless customer-supplier relationships, restoring the habits of private commerce. Their sales provide essential revenues for Cuba's 140,000 independent farmers and for cooperatives that increase their income by selling surplus production.

The decision to tolerate intermediaries is particularly important. To date, it represents a decision not to return to the thinking that closed the farmers markets in 1986. As future policy develops, it may indicate a continued focus on expanding and diversifying supply to solve the food affordability problem.

Policy options. While Cuba's agricultural reforms represent important departures from the previous three decades under socialist government, they are not radical or even bold by any other yardstick.

Indeed, one can envision measures that would stimulate additional production even without dramatically changing Cuba's economic system.

Currently, vendors are taxed at the beginning of the day based on inventory available for sale, not at the end of the day on actual sales. This increases their costs, raises consumer prices, and creates an incentive to limit the amount of produce they bring to market—a factor that creates additional pressure for prices to increase.

Functions of the farm economy could be decentralized, as is being done in other sectors. Instead of centralizing the supply of farm inputs in a single state enterprise, the Cuban government could permit a competitive marketplace that could include state enterprises, joint ventures, or private enterprises. This would create incentives to provide a better mix of product and service, and it could increase farm productivity.

Most importantly, Cuba could explore ways to reduce or end the contracting system that anchors every farm producer to a transaction with the *Acopio* state enterprise each growing cycle. High production quotas imposed on cooperatives currently leave them little surplus to deliver to *agros*; in response the state could reduce quotas, increasing incentives to boost production and to deliver surplus to the *agros* where the cooperatives earn a higher return.

► Workers at an organopónico in Havana.



This is a difficult policy issue and a complicated political issue in Cuba, but it is at the crux of the supply problem. The greater the state's commitment to maintaining *Acopio* and its universal, low-cost distribution system, the greater the need to keep producers' quotas high to supply that system. In turn, this maintains a situation where private farmers' deliveries to *agros* are high, and cooperatives' deliveries are low. As a result, the productive capacity of the cooperatives only partially supports the state's effort to apply downward



➤ *Vendor and customer at a farmers market in Havana's San Miguel del Padron neighborhood.*

pressure on prices. Some of the measures implemented since 1998—the monthly *ferias* and the “differentiated” prices paid by the state to farmers—are addressing this issue, and to some degree they represent an erosion of the basic distribution system represented by the *Acopio* and the family *libreta*.

This question reaches far beyond the farmers markets and is fundamental to Cuba's agricultural production policies. Its treatment in the years ahead will be a sign of the degree to which Cuba continues to rely on market mechanisms to make food more plentiful and affordable for all Cubans. ♦



Further reading

La Ultima Reforma Agraria del Siglo, Hans-Jurgen Burchardt, editor, Nueva Sociedad publisher, Caracas, Venezuela, 2000. Contains chapters by Cuban and foreign authors on the history of Cuban agriculture, current reforms and market conditions, the state of cooperatives, and detailed analysis of farmers markets.

The Cuban Way: Capitalism, Communism and Confrontation, by Ana Julia Jatar-Hausmann, Kumarian Press, 1999.

“Cuban Agriculture: Slow Road to Recovery,” Philip Peters, Alexis de Tocqueville Institution, March 1999. See also “Cuba’s New Entrepreneurs: Five Years of Small-Scale Capitalism,” August 1998 (text available at www.adti.net); “Cubans in Transition: The People of Cuba’s New Economy,” March 1999; and “A Different Kind of Workplace: Foreign Investment in Cuba,” March 1999; all available for sale at the Alexis de Tocqueville Institution (www.adti.net).

Havana: Two Faces of the Antillean Metropolis, Roberto Segre, Mario Coyula, and Joseph L. Scarpaci, John Wiley and Sons, 1997.

Speeches, announcements, decrees, other official information, and news on Cuba’s economy can be obtained from www.cubaweb.cu, which carries *Granma*, *Trabajadores*, other Cuban publications, and Cuban wire services.

The Georgetown University Cuba Briefing Paper Series is a wide-ranging series of papers on current economic, political, and social topics. See www.georgetown.edu/sfs/programs/clas/Caribe/cbps.htm.

The Association for the Study of the Cuban Economy compiles each year a wide variety of papers on all aspects of the Cuban economy. Some reflect research in Cuba, others are essays or analyses based on secondary sources. See (www.lanic.utexas.edu/la/cb/cuba/asce/)

**The Lexington Institute gratefully acknowledges
the Ford Foundation's financial support for this research product.**

Photos by Philip Peters. To contact the author: peters@dgs.net.



1655 North Fort Myer Drive, Suite 325
Arlington, Virginia 22209
www.lexingtoninstitute.org
703-522-5828