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(Article begins on next page)

The Impact of Market-oriented Reforms on Inequality in Transitional Countries: New Evidence from Cuba

Sara Romanò - Davide Barrera

Abstract

In the 90s the Cuban government implemented a set of market-oriented reforms in order to cope with the economic crisis caused by the collapse of the Soviet Union. These reforms were followed by a sharp increase in inequality. This rise in inequality can be best understood by looking at what profitable economic exchanges are made possible to which actors by the reforms. Using survey data specifically collected in Havana we show that new opportunities to accumulate wealth accrue to actors who occupy positions whereby they can legitimately access exchanges that take place in hard currency. This advantage holds for both entrepreneurs and state-employees who work for state-owned enterprises operating in emergent sectors (intrapreneurs), suggesting that the distinction between market and plan is not paramount to explain inequality. Furthermore, actors that do not have legitimate access to exchanges in hard currency benefit from their personal ties to those actors that do.

JEL classification: Z130 Economic Sociology; P20 Socialist Systems and Transitional Economies

1. Introduction

The relationship between institutions and inequality is a classical theme in sociology; the historical transformations leading to the emergence of market structures in formerly socialist economies provided interesting cases to study how institutional change affects the distribution of wealth. This historical opportunity motivated the rise of a wide research program that is known as market transition debate. The market transition literature includes two interrelated research problems that are analytically distinct: the dynamics of institutional changes, and how institutional change affects the distribution of wealth and thereby transforms stratification (Cao and Nee, 2000, cf. pp. 1184).

Our study contributes theoretically and empirically to the second research problem: it examines the micro-mechanisms underlying the rise of inequality in Cuba in the period following the institutional reforms of the early 90s. Theoretically, we move the focus away from the traditional dichotomy between returns from human versus political capital and, following the new economic sociology approach, we concentrate on the structures that emerge as a consequence of the reforms. We argue that institutional changes are typically grafted onto a pre-existing institutional setting that, in turn, is the result of a historical process. Thus, changes in the distribution of wealth are not a straightforward consequence of the reforms, but rather the end result, often unintended, of a complex process involving changes in the opportunity structure that depend on how modifications of the formal rules interact with individual characteristic, personal relationships, and social norms and values. The Cuban reforms unintentionally generated patterns of economic exchange that resemble Zelizer's (2005) *circuits of commerce*. In Cuba, the commercial circuits are associated to social norms regulating the access that, in turn, drive economic benefits towards those who have privileged access. Empirically, the Cuban case has been largely neglected in the market

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3 transition debate, possibly due to the lack of statistical data as well as to Cuba's distinctive
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5 historical path (see Galbraith, 2012 and Whitehead, 2007 on Cuba's various anomalies).
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7 Moreover, the Cuban case provides an interesting example, because the Cuban reforms were
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9 enacted – as an emergency measure – by a government that remained institutionally
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11 committed to promote equality among its citizen (Galbraith, 2012). Yet, our data show that,
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13 due to differences in the opportunity for profitable exchanges created by the reforms, some
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15 categories of actors could profit from the institutional change and began accumulating
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17 wealth.
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21 Researchers who studied the implications of institutional change in post-communistic
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23 societies generally agree on two important points. First, state socialism is considered a
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25 particular type of institutional arrangement in which the integration – in Polanyian terms – of
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27 state, economy, and society is achieved by means of a wide redistribution of resources
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29 (Szelényi, 1978). Accordingly, in a socialist “redistributive” economy privileges accrue to a
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31 few so-called redistributors (i.e., current or former cadres). Second, it has been observed in
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33 various countries that inequality typically tends to increase shortly after centralized
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35 redistribution begins to give room to market, well before a full-fledged market economy is in
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37 place (Hellman, 1998).
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42 The scientific debate has centered on the transition mechanisms, aiming at identifying
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44 those actors who emerge as winners out of the institutional change. The market transition
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46 debate was initiated by Nee's (1989) market transition theory. In a nutshell, Nee argued that
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48 the introduction of market institutions inherently favors entrepreneurs at the expense of
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50 redistributors and leads to higher returns from human capital than under a centrally planned
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52 economy. Empirically, support for market transition theory was found in Hungary (e.g.
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54 Szelényi, 1988) and rural China (e.g. Nee 1989; 1991), but in various other post-socialist
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56 societies and in urban areas of China the power of cadres did not fade after the transition (e.g.
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Bian and Logan, 1996; Walder, 1996).

Three different arguments have been proposed to account for the resilience of the cadres' power and influence when their formal control over the mechanism of redistribution weakens due to marketization. First, the *technocratic continuity* argument (Róna-Tas, 1994) claims that the people who hold (or held) political positions in the socialist system succeed in maintaining their privileges during the transition, due to the technocratic expertise that they acquired through their role. Second, Staniszkis (1991) argued that the members of the old elite thrive during market transition by means of *power conversion*, i.e., by simply converting the power accumulated during state socialism into profitable assets in the new market economy (cf. also Rona-Tas, 1994). Third, Nee (1991) described the resilience of cadres' influence as *power persistence*, arguing that during a phase of reforms, the market does not supplant bureaucratic coordination at once, but is rather grafted onto it, creating a segmented system. In such a segmented system, cadres continue to redistribute resources by virtue of their positional power, while market action may reinforce redistributive power (cf. also Bian and Logan, 1996).

Some scholars variously attempted to integrate these different perspectives (Szelényi and Kostello, 1998; Cao and Nee, 2000). However, more generally there is increasing consensus that looking at market and redistribution as opposite ideal types of resources allocation constitutes a poor basis to predict how inequality changes in transitional economies (Walder, 1996). Market reforms differ enormously in their pace and nature between different countries, as well as between different regions within the same country. Hence, the different socioeconomic and political circumstances in which the reforms take place should not be overlooked (Szelényi and Kostello, 1998; Walder, Luo and Wang, 2013; Zhao and Zhou, 2017). Following this line of argument, for example, Walder *et al.* (2013) argued that changes in the allocation of property rights predict changes in inequality in transition societies.

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3 However, as our study shows, the economic benefits of institutional reforms are not
4 necessarily confined to those individuals that are directly affected by changes in the
5 allocation of property rights.
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10 Consistent with the new economic sociology approach, in this paper we focus on
11 emerging market structures, conceived as sets of exchange relationships to which some
12 categories of actors have privileged access. In particular, we show that the effects of
13 marketization on inequality in post-socialist societies can be predicted by looking at what
14 profitable economic exchanges are made possible by the reforms, and which actors occupy
15 the positions that benefit from these exchanges. Focusing on emerging exchange relationships
16 allowed us to provide an accurate description of the Cuban case where reforms remained
17 partial, and to specify the causal mechanism through which newly introduced forms of
18 economic activities interact with the actors' network and normative embeddedness.
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22 In the Cuban case, the effects of the economic crisis following the collapse of the
23 Council for Mutual Economic Assistance (CMEA, hereafter) were particularly strong
24 because Cuba's international trade was heavily dependent on CMEA partners. In addition,
25 unlike the European post-communist countries that were similarly struck by the economic
26 crisis, Cuba's trading alternatives were severely limited by the economic sanctions imposed
27 by the US, as well as by the lack of credit from international agencies (e.g., World Bank and
28 IMF). Accordingly, the marketization of some economic sectors was the only possible
29 strategy to attract foreign investments. However, we argue that, in order to isolate these
30 market segments, the Cuban policies created niches between "structurally semi-independent
31 coexisting economies" (Dominguez, 2004, pp. 31) – to which we refer as commercial circuits
32 (Zelizer, 2005) – that segregated the product markets that operate in dollars from those that
33 operate in pesos. Consequently, the reforms had the perverse effect of increasing inequality
34 by benefiting those actors who occupied the niches. From a theoretical point of view, we
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3 argue that inequality is affected by the availability of resources that are embedded in various
4 types of social relationships. Using data from the first quantitative survey ever conducted in
5 Cuba by foreign scholars, we show 1) how the reforms determined the emergence of new
6 exchange relationships that benefited specific categories of actors, thereby causing an
7 increase in inequality: 2) how actors resort to their personal contacts to mitigate inequality. In
8 the conclusion, we will briefly discuss the implications concerning the path of institutional
9 change in Cuba.
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22 **2. The emergence of commercial circuits**

23 In the 1990s, after the collapse of the Soviet Union, Cuba's international trade faced a sudden
24 dramatic shrinkage, both in volume and in value terms. The ensuing economic crisis was
25 exacerbated by the United States government's comprehensive economic sanctions and by
26 the internal inefficiency of the Cuban economic system. In that situation of sudden and deep
27 isolation, the Cuban government implemented a set of market-oriented reforms in order to
28 reintegrate Cuba into the global economy.
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38 Between 1990-94, the most remarkable changes included: 1) a partial opening of the
39 Cuban economy to foreign investments; 2) a partial dollarization of specific segments of the
40 economy, leading to monetary duality; 3) an enlargement of the list of jobs that could be
41 carried out by self-employed workers; and 4) a raise in the prices of "non-essential" products.
42 The depenalization of USD's possession and the legalization of self-employment were
43 approved, among other things, to incorporate part of the widespread informal economy into
44 the formal economy. Nonetheless, these market-oriented reforms were not accompanied by
45 any major political reforms and the Cuban government insisted on presenting them as a
46 "necessary evil". The implementation of these market-oriented reforms was thus very
47 cautious and accompanied by a series of adjustments designed to mitigate some of the effects
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3 of the earlier liberalizations (Hernández and Domínguez, 2013). Yet, since the so-called
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5 “periodo especial”, i.e., the special period, in which the Cuban government relaxed
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7 centralized economic planning, economic inequality – which had been previously in steady
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9 decline since the 1960s – started to grow. Despite the Cuban government never published
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11 statistics on income distribution (Mesa-Lago, 2015), this raise in inequality is commonly
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13 accepted both by foreign and Cuban scholars (Togores-González and García-Álvarez, 2004;
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15 Espina-Prieto and Togores-González, 2012; Spadoni 2014).
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20 The reforms implemented in Cuba during the special period are documented in details
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22 elsewhere (e.g., Dominguez, 2004; 2012). However, two points need to be addressed because
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24 they are essential to understand the effects of the institutional change. The first one is the
25
26 partial opening of the Cuban economy to foreign investors. The second one is the
27
28 introduction of the monetary duality. The opening of the Cuban borders was a slow process
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30 that started at the end of the 1980s when CMEA began to weaken. As intended by the
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32 government, foreign tourists and investors brought hard currency to the Island, allowing the
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34 state to obtain indispensable resources to support its planned economy. International tourists
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36 were almost completely absent from Cuba until 1990, but their number increased rapidly in
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38 subsequent years reaching over 2.5 million per year in the period when the data presented
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40 here were collected (Cuban National Statistics Bureau – ONEI, 2012).
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45 The current dual currency system came into existence in two steps. First, the
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47 possession of US dollars was de-penalized (1993-1994), in order to attract remittances and
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49 investors from abroad. At a later stage (2003-2004), in order to impose a greater control on
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51 financial resources held in USD, the Cuban government replaced the dollar with the
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53 convertible Cuban peso. Thus, since 2004, two domestic currencies circulate simultaneously
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55 in Cuba: the Cuban peso (or Moneda Nacional, MN hereafter) and the convertible Cuban
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57 peso (CUC hereafter). The exchange rates are fixed but they differ for natural and juridical
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3 persons. More specifically, individual holders of foreign currency are obliged to purchase
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5 CUC, whose exchange rate is linked to the USD (currently 1:1) and is decided by the Cuban
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7 government. The CUC/MN exchange rate is 1:25 to buy CUC and slightly lower to sell CUC.
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9 However, for Cuban enterprises and institutions, the MN and the CUC are equal in value.
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11 Thus, unlike natural persons, juridical entities (companies and institutions) operate at a fixed
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13 1 \$: 1 CUC: 1 MN exchange rate, but they are forbidden to change MN into CUC¹. The
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15 existence of multiple (and unrealistic) exchange rates alters the state's as well as enterprises'
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17 accounting system in at least three ways. First, the CUC/MN exchange rate (1:1) makes
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19 State-owned enterprises (SOEs, hereafter) who officially operate in MN, but export part of
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21 their products, appear to be less profitable than they actually are. Second, the artificial parity
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23 between MN and USD paradoxically incentivizes import at the expense of internal
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25 production (Dominguez, 2012), because imports are paid in USD but registered on the
26
27 account books in MN, at the (artificial) 1:1 exchange rate, thereby making import look
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29 cheaper than internal production. Third, the impossibility for SOEs to convert MN into CUC
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31 stimulates them to focus on activities that bring CUC rather than MN (Hidalgo de los Santos
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33 and Doimeadiós-Reyes, 2003). These distortions reverberate on supply and demand causing
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35 scarcity of some goods and relative abundance of others.
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43 The presence of a dual currency system accompanied by formal and informal norms
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45 regulating exchanges (in addition to a rationing distribution system) determines the existence
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47 of commercial circuits (Zelizer, 2005). Commercial circuits are defined as “sets of social
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49 relationships and shared economic activities, accompanied by a common accounting system
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51 (e.g., local currencies, tokens or vouchers), shared understandings, and boundaries between
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53 members and non-members” (Preda, 2009, pp. 87). As noted by Zelizer (2005), by definition
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55 every circuit consists of dynamic, meaningful, incessantly negotiated interactions among
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57 social sites – be these sites individuals, households, organizations, or other social entities.
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Circuits include distinctive sets of goods and services that can be exchanged and specific morals and rules that have shared meanings for the people within a circuit. In its original formulation Zelizer (2005) introduced the idea of commercial circuits in order to highlight that every market relies on culturally meaningful interpersonal relations. We argue that commercial circuits are applicable to the Cuban case for three reasons. First, commercial circuits allow escaping the dichotomy between plan and market ideal types as institutional basis for inequality, and providing a deeper account of the emerging patterns of economic exchange. In addition, focusing on commercial circuits leads to more specific predictions, especially in the Cuban case where market reforms remained partial and the socialist redistributive system is still prevalent. Second, the relevant exchange relationships can be explicated in the framework of commercial circuits, thereby linking embeddedness and economic action. Third, commercial circuits do not reduce the explanation to the co-existence of multiple currencies, because circuits include both formal and informal norms that regulate the exchanges that take place within the circuits. For example, as we argue in the theory section, the emergence of commercial circuits in Cuba is accompanied by the establishment of social norms and stigmas that further isolate the circuit in which the most desirable goods are exchanged.

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Given the dual currency system (with multiple exchange rates) illustrated above, at least three institutionalized circuits of commerce are currently active on the island, each circuit is identified by the media in which exchanges take place: the *libreta* circuit (rationing distribution system), the MN circuit, and the CUC circuit.

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2.1 The *Libreta* Circuit

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Since 1962, on the basis of an egalitarian redistributive principle, some goods are provided for free or at a trivial price to all the population, in the *libreta* circuit. These goods include

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3 basic commodities as well as housing-related services (repair, ordinary and extraordinary
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5 upkeep). The State distributes the same goods and services to every citizen and resident
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7 belonging to the same age group with similar health conditions – regardless of her/his
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9 employment status or working position.
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11 12 13 14 **2.2 The MN Circuit**

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16 The MN circuit concerns various goods and services produced by SOEs, cooperatives and
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18 self-employed workers. In the MN circuit prices often are regulated, i.e., either they are
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20 centrally determined, or an informal ceiling is imposed, sometimes also for products and
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22 services provided by self-employed workers or micro-enterprises (Mesa-Lago, 2009). In
23
24 some cases, the right to purchase some goods ordinarily sold in MN is subordinate to other
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26 priority rules. For example, access to internet and home phones is not guaranteed to every
27
28 potentially MN-solvable buyer, but only to those who are eligible according to their
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30 professional position. Officially, both residents and nonresidents can enter the MN circuit.
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32 However, the access to health care and medicines, tourist accommodation, transportation and
33
34 cultural and leisure-related services is restricted to residents only. The authorities monitor
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36 self-employed workers operating in MN to ensure that they comply with such restrictions.
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38 Nonresidents rarely participate in the MN circuit anyway, because: 1) they simply do not
39
40 know that some MN goods and services exist; 2) when they know they typically assume –
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42 often due to misperceptions – that these goods and services are of very poor quality; 3)
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44 residents generally frown upon nonresidents who try to purchase MN goods; 4) nonresidents'
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46 requests to exchange CUC into MN are seldom granted.
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54 The MN circuit serves the Cuban workers, who generally receive salaries or pensions
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56 in MN, as the public sector still employs the largest number of people (83% of Cuban labor
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58 force in 2010). The distortions caused by multiple exchange rates concur in making the
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3 supply of goods and services circulating in this circuit, as well as in the *libreta* circuit,
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5 unreliable.

6 7 8 9 **2.3 The CUC Circuit**

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12 The CUC circuit was created on the remains of the dollar-based market formerly restricted to
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14 diplomatic staff. The commodities and services circulating in this circuit are produced and/or
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16 distributed by SOEs, joint ventures and self-employed workers. Prices in the CUC circuit are
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18 ostensibly regulated by supply and demand, but the state intervenes heavily with taxation.
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22 The CUC circuit includes leisure and opulent commodities (such as tourist accommodations,
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24 discos, air and bus transportation, cellular phones, internet points, and household appliances),
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26 but also groceries and basic goods whenever they happen to be missing or in short supply in
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28 the other two circuits. The existence of multiple CUC/MN exchange rates generates
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30 incentives to import and sell products in CUC, thereby making shortages uncommon in this
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32 circuit.
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36 Although at the beginning almost exclusively nonresidents could access the CUC
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38 circuit, today formally everybody (whether resident or not) can purchase goods and services
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40 in the CUC circuit due to the progressive elimination of formal prohibitions. From a legal
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42 viewpoint, in order for a resident to make a purchase in CUC, it is sufficient to prove that the
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44 necessary sum was earned from legal activities (e.g. job or remittances). However, CUC
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46 circuit goods are very expensive (because of high taxes) and residents who routinely buy
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48 goods in this circuit risk to be controlled by the police or by the fiscal authorities. Moreover,
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50 the authorities generally discourage social interactions between actors with differential
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52 accesses to the circuits (i.e., between residents and non residents). For example, being
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54 observed repeatedly in the company of foreigners, while lacking any apparent legitimate
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56 work- or family-related reason to do so, may easily elicit the intervention of the police
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(Taylor, 2009).

3. Theory and hypotheses

As stated earlier, the government de-penalized the possession of USD and introduced the monetary duality in order to attract investments and remittances from abroad and collect the hard currency already present on the Island (Dominguez, 2004). The incoming flow in CUC was supposed to be distributed in the MN and *libreta* circuits, thereby benefiting the Cuban residents, particularly the most vulnerable part of the population. Nevertheless, both Cuban and foreign scholars argue that, despite its original purpose, the partial dollarization of the economy provided the institutional basis for exclusion and inequality (Dominguez, 2004; Toghres-González and García-Álvarez 2004; Santiso and Dayton-Johnson, 2012). In order to uncover the mechanisms by means of which the institutional reforms had such perverse effects, we focus on the exchange relationships through which individuals can accumulate wealth. In particular, we consider: 1) the favorable economic exchange relationships that are made possible by the coexistence of multiple commercial circuits, and 2) the personal exchange relationships that actors can mobilize in order to obtain scarce resources.

Since the existence of multiple CUC/MN exchange rates determines scarcity in the MN circuit, the satisfaction of essential needs has become closely dependent on the access to hard currency. Besides remittances, the possibility to obtain hard currency depends on the extent to which a Cuban can operate on the CUC circuit without incurring formal or informal sanctions. While the MN and *libreta* circuits are supposedly reserved to ordinary Cuban residents, both formal barriers and social norms make access to CUC rather difficult for them. However, some actors have privileged access to all circuits, including *legitimate* opportunities to interact routinely with those actors formally confined to the CUC circuit (i.e., mainly foreigners or Cuban expatriates, we refer to these as "CUC actors", hereafter). The

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3 legitimacy of these opportunities is emphasized because in Cuba relationships with CUC
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5 actors, and particularly foreigners, are rather ambivalent. On the one hand, interactions with
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7 actors carrying heavy currency are understandably desirable; on the other hand, contacts with
8
9 foreigners are generally discouraged or stigmatized, because they can be easily perceived as
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11 opportunistic². The possibility to interact legitimately with CUC actors is primarily a function
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13 of one's occupation, but other factors – such as personal networks, reputation, and prestige –
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15 play a role too. For example, all front office occupations in the international touristic sectors
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17 have legitimate contacts with foreigners, by definition. However, also individuals with other
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19 occupations, such as sales representatives, academics or doctors, can have legitimate contacts
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21 with nonresidents, depending on their international prestige and their reputation with the
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23 Cuban authorities. The impact of market-oriented reforms on inequality cannot be simply
24
25 related to economic sector or occupational title or status, it requires new analytical categories.
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27 Facing a similar problem in a Chinese context, Bian and Logan (1996, pp. 744, 748)
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29 described the advantage enjoyed by some workers as a function of their “market
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31 connectedness”, i.e., their involvement in transactions outside their working units. However,
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33 in China the degree of marketization was (and still is) higher, there was no monetary duality,
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35 and the advantages depended on the workers' involvement in transactions involving direct
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37 producers and clients. Conversely, in Cuba the advantages depend on the workers'
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39 involvement in transactions that take place inside niches created by the existence of multiple
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41 commercial circuits.
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49 The access to the CUC circuit provides individuals with two types of advantages. On
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51 the one hand, they can act as gatekeepers (Corra and Willer, 2002) between otherwise
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53 disconnected categories of actors, i.e., foreigners and Cuban residents. On the other hand,
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55 they can easily profit from arbitrage, e.g., buying goods in the MN circuit and selling them in
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57 the CUC circuit. These activities include both formal transactions and exchanges in the
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3 informal economy and are analogous to a form of brokerage between structurally separate
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5 groups that Burt (1992, pp. 148) describes as “institutional hole”.
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8 Actors enjoying these opportunities for gatekeeping and arbitrage can be distinguished
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10 in two types, depending on their form of employment: state employees who work for SOEs
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12 operating in the CUC circuit, and self-employed workers who hold a license to operate in
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14 CUC (*cuentapropistas*). This distinction is important for two reasons: first, while both can act
15
16 as gatekeepers due to their occupation, the latter face entrepreneurial risk, the former do not.
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18 In fact, state employees often operate a “private business” within the state organization that
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20 employs them, sometimes exploiting its infrastructure. Hence, we refer to self-employed
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22 workers as *entrepreneurs* and to state employees as *intrapreneurs*, hereafter³. Second, the
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24 public perception of these two categories of workers is different. Self-employed workers are
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26 perceived as extraneous to the principles upon which the socialist state is built, and
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28 stigmatized as “new rich” (e.g., see Castro, 2005; Ritter and Henken, 2014). By contrast, state
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30 employees ostensibly contribute to the collection of hard currency on account of the state.
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32 Technically, they are two very different categories. Entrepreneurs are market actors who
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34 work for profit; *intrapreneurs* are state employees who earn a fixed salary. Our analysis of
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36 the commercial circuits highlights two similar but distinct mechanisms. On the one hand,
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38 benefits accrue to those individuals who are formally entitled to transactions in the CUC
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40 circuit, because they act as gatekeepers. On the other hand, those actors who are not formally
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42 entitled to exchanges in the CUC circuit but – due to their job – face similar constraints,
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44 manage to avoid the social stigma and enjoy similar benefits.
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51 The predicted advantage enjoyed by entrepreneurs is consistent with some previous
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53 research findings from Cuban qualitative studies according to which entrepreneurs operating
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55 in CUCs are effectively becoming richer in spite of heavy taxation (see CEPAL, 2000;
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57 Espina-Prieto, 2004). Therefore, we propose the following hypothesis.
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3 *Hypothesis 1a: because of gatekeeping opportunities, entrepreneurs who*
4 *operate in CUCs are wealthier than normal workers who have no legitimate*
5 *reason to interact with CUC actors*
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11 By contrast, intrapreneurs work in SOEs. Therefore, under the redistributive system
12 they receive a fixed salary without any additional benefit⁴. Nevertheless, their position inside
13 organizations operating in the CUC circuit allows them to exploit the same opportunities for
14 gatekeeping and arbitrage as the entrepreneurs. Thus, although they should formally be as
15 rich as any other state employee, we predict that they will be richer than regular workers who
16 lack those opportunities.
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26 *Hypothesis 1b: because of gatekeeping opportunities, intrapreneurs (i.e., state*
27 *employees who interact routinely with CUC actors) are wealthier than normal*
28 *workers who have no legitimate reason to interact with CUC actors*
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34 The second type of exchange relationships that we consider are those connecting
35 actors to personal contacts through which they can obtain scarce resources. The extensive
36 literature on social capital amply demonstrated that personal networks play an important role
37 in the accumulation of both wealth and status (e.g., Burt, 1992; Lin, 2001). In particular, an
38 individual's social capital depends on the resources possessed by his/her contacts that can be
39 mobilized through the membership in social networks or larger social structures (Lin, 2001).
40 Which personal relationships are most important with respect to inequality however, depends
41 strongly on the institutional context and on what type of inequality is considered. In planned
42 economies, income inequality tends to be generally low because salaries are centrally
43 determined, but sudden shortages of goods are endemic (Kornai, 1980). In Cuba, shortages
44 have been aggravated by the economic crisis following the fall of the Soviet bloc.
45 Accordingly, personal wealth is affected by the capability to procure scarce goods and
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3 services and individuals need to form relationships with others who can help acquiring such
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5 assets. These types of relationships, called *provision ties*, are peculiar to shortage economies
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7 (Völker ad Flap, 2001).
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10 As we argued in the background of the previous two hypotheses, the access to the
11
12 CUC circuit is a main determinant of inequality in Cuba. Therefore, provision ties to actors
13
14 who have some sources of income in CUC – either through remittances or through their
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16 occupation – are particularly valuable. Consequently, we propose the following hypothesis:
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20 *Hypothesis 2: independent of own circuital position, the more an individual*
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22 *has provision ties to actors having frequent revenues in CUCs, the wealthier*
23
24 *he/she is.*
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28 Furthermore, as various scarce (and expensive) goods can be purchased only in the
29
30 CUC circuit, we expect that provision contacts having revenues in CUCs are particularly
31
32 important for those individuals who do not have opportunity to access the CUC circuit
33
34 themselves.
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38 *Hypothesis 3: The possibility to access indirectly the CUC circuit, through*
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40 *personal contacts, has a stronger positive effect on individual wealth for those*
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42 *who do not have direct access to the CUC circuit, than for those who do.*
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47 As provision ties serve the purpose of coping with shortages, the variety of goods that
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49 individuals can obtain through their provision network increases with the network's
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51 heterogeneity in terms of resources controlled by the contacts. Empirically, evidence from
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53 former East Germany shows that indeed provision networks tend to be highly heterogeneous
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55 (Völker and Flap, 2001). Accordingly, assuming that personal wealth increases with the
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57 efficacy of the provision network, we expect that network heterogeneity positively affects
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3 individual wealth.
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6 *Hypothesis 4: independent of own circuitual position, the higher the*
7
8 *heterogeneity of an individual's provision network, the wealthier he/she is.*
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11 As described earlier, in spite of the reforms, in Cuba the mechanism of centralized
12 redistribution maintains an important role. For example, key positions inside SOEs, including
13 those operating in emerging sectors (i.e., sectors in which exchanges in CUC are highly
14 prevalent, such as the touristic sector), are still appointed by the central government.
15 Accordingly, we expect that redistributors continue to exert some control over economic
16 resources as it typically occurs when market and redistributive principles coexist (Nee, 1991;
17 Szelényi and Kostello, 1998). Therefore, we hypothesize that individuals who can mobilize
18 redistributors as provisional contacts enjoy various advantages: not only a preferential access
19 to resources directly controlled by their contacts, but also referrals and protection.
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34 *Hypothesis 5: independent of own circuitual position, the more an individual*
35 *has provision ties to redistributors, the wealthier he/she is.*
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39 Under the same line of reasoning, one would expect that redistributors themselves are capable
40 to accumulate wealth, even more so if they exert their authority in the CUC circuit. However,
41 this hypothesis cannot be tested because redistributors are by definition very few (about 5%
42 of the state-workers, according to ONEI 2011) and it is practically impossible to obtain data
43 on them. We will return to this issue when discussing the implications of our analyses.
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4. Data and analyses

4.1 The Sample

Data collection took place in Havana between May 2010 and January 2011. Interviewers were recruited among top sociology students and trained by the authors. As we were forced to collect data without a sampling frame, we designed the sample as to ensure that the data included enough observations from individuals with different access to the commercial circuits, in order to obtain the required statistical power to test hypotheses 1a and 1b. Circuital positions – associated with the opportunity for legitimate contact with CUC actors or lack thereof – constitute our main independent variable. We identified three commercial circuits, related to the currency in which goods and services are exchanged. However, while the access to two of them – the MN and *libreta* – is universal and inconsequential in terms of wealth, we argue that the possibility to interact routinely with CUC actors is a major determinant of inequality. Thus, our main distinction is between individuals that have legitimate contacts with CUC actors and those who do not. As we explained earlier, having access to CUC actors depends on a number of factors, including personal characteristics, and of course, no complete list of these individuals is available. In addition, it is not always evident whether a given individual has contacts with CUC actors (e.g., for a university professor it depends on her international prestige). Thus, in order to avoid excessive screening costs (Sudman, Sirken and Cowan, 1988), we selected respondents from segments of the population that have legitimate contacts with CUC actors *with certainty*. Accordingly, we sampled gatekeepers among those who hold front office positions in the touristic sector – either self-employed (entrepreneurs) or state employees (intrapreneurs) – and non-gatekeepers among workers lacking any legitimate reason to interact with CUC actors. Note that, although we do not have quantitative data on the normative dimension that regulates the

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2
3 access to exchanges with CUC actors, our sample choice is based on the assumption that
4
5 access to these exchanges is regulated by social norms, in line with Zelizer's (2005)
6
7 definition of commercial circuits. We supported this assumption with a detailed description
8
9 of Cuba's commercial circuits, based on extensive fieldwork. Thus, our sample consists of
10
11 three groups:
12
13

- 14 1) *entrepreneurs* (n = 95, 26% of the whole sample);
- 15 2) *intrapreneurs* (n = 116, 32% of the whole sample);
- 16 3) *MN workers* (n = 149, 42% of the whole sample).

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21
22 Entrepreneurs are self-employed owners of bed and breakfast who are licensed to sell
23
24 their services in CUCs. Intrapreneurs are tourist guides or entertainers working as employees
25
26 in SOEs, who are routinely in contact with CUC actors. MN workers constitute our reference
27
28 category, consisting of ordinary workers who, due to their job, have no legitimate chance to
29
30 come in contact with CUC actors (45% of them are professionals and bureaucrats, 5% are
31
32 military officers, and the remaining are semi-skilled or unskilled workers). Note that highly
33
34 educated high-status individuals are overrepresented among MN workers. This introduces a
35
36 conservative bias with respect to the test of our main hypotheses, i.e., overrepresentation of
37
38 presumably privileged individuals within the group that we predict to be poorer. For each
39
40 group the initial target was to reach at least 70-80 cases. Fortunately, the data collection
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42 process worked better than expected, the response rate was about 87%, and a sizeable
43
44 statistical sample (N = 360) could be reached. The data collection procedure and sample
45
46 characteristics are described in appendix.
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51 52 53 **4.2 Measures**

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55 The questionnaire consisted of questions concerning personal characteristics, social
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57 relationships, and wealth. Concerning social relationships, we included a name generator
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3 (i.e., a question eliciting information on personal contacts) that was specifically designed to
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5 collect information about the contacts to whom the respondent turns in order to attain scarce
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7 goods and services. As for wealth, respondents were asked to indicate which goods they
8
9 possessed from a list of items that are either expensive or simply difficult to obtain in Cuba.
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11 12 13 14 15 *4.2.1 Dependent variable.*

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17 Most studies on economic inequality use data on income. However, as recently discussed by
18
19 Ward (2014) despite their popularity, monetary measures are particularly problematic,
20
21 especially in developing countries, as monetary incomes routinely exhibit great seasonal
22
23 variations, while consumption expenditures tend to be naturally smoother. Moreover, in Cuba
24
25 asking for the individual or family income was not advisable for at least two further reasons.
26
27 First, salaries tend to be rather equal (Galbraith, 2012) and do not reflect standards of
28
29 individual wealth (García-Álvarez and Anaya, 2015). On the contrary, wealth actually
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31 depends on other things such as additional revenues, remittances, and individual ability to
32
33 obtain scarce resources, for example through personal relationships (Togores-González and
34
35 García-Álvarez, 2004; Echevarria-Léon *et al.* 2018). Second, Cubans are generally reluctant
36
37 to provide detailed information on their income, especially if part of it stems from activities
38
39 not directly related to the formal job and sometimes even illegal (note that salaries are
40
41 estimated to account for less than half of the income, see Galtès-Galeano, 2017). Moreover,
42
43 as shown by Echevarria-Léon *et al.* (2018), the universal provision of basic non-monetary
44
45 assets (health, education, housing etc.) still represents a key underpinning for the well-being
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47 of the Cuban population and the access to these essential goods has remained rather
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49 egalitarian and constant since 2006 (see Galbraith, 2012 for the period 1989-2006). House
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51 ownership likewise does not discriminate between rich and poor in Cuba⁵ where selling
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53 houses was illegal for decades. Only in 2011, after the data collection, a fledgling legal
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3 private market for houses was legalized. Yet, most Cubans still today live in dwellings that
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5 were originally provided by the state, or were self-built with the help of generous state
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7 subsidies (Echevarria-Léon *et al.* 2018). Accordingly, wealthy people tend to consume rather
8
9 than invest their income (see Szelényi and Kostello, 1998). Therefore, we opted for a
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11 measurement of wealth based on the possession of durable goods, which is often used to
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13 study wealth and living standards (e.g., Filmer and Pritchett 2001; Kakwani and Silber, 2007;
14
15 Ward 2014). Similar to income, declaring the possession of scarce and expensive goods could
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17 be subject to a bias (i.e., individuals hiding expensive goods, unlikely to have been accessible
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19 given their formal salary). However, this bias is conservative with respect to our hypotheses
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21 because it is likely to apply in particular to goods purchased with income obtained through
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23 gatekeeping activities. From an initial set of 23 items included in the battery on the ownership
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25 of durable goods and transportation capital, seven goods, fitting the requirements of the
26
27 Rasch measurement model were selected to be included in the wealth index: mobile phone,
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29 computer or notebook, camera, microwave, air-conditioning, car, and freezer. We constructed
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31 the index using the *raschtest* command in stata (Hardouin, 2007). In addition, an alternative
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33 index was constructed using polychoric principal component analysis (Kolenikov and
34
35 Angeles, 2009) on 20 items. The two distinct indexes of wealth correlated strongly ($r = 0,95$),
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37 but the Rasch index is theoretically superior because it is more restrictive as it ensures that
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39 the selected items only depend on the latent trait (i.e., the ability to acquire the goods) and it
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41 excludes items that do not match the model's requirements⁶. Furthermore, the rasch index is
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43 straightforwardly interpretable as a variable counting the number of luxury goods. Therefore,
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45 the analyses presented below are conducted using the Rasch index. We included the
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47 alternative model using the scale constructed with polychoric PCA in appendix. The Rasch
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49 index is a count variable, ranging from 0 to 7. As it is typical of income distributions, our
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3 wealth index is slightly right skewed. Descriptive statistics of this index and of all
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5 independent variables are reported in Table 1.
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8 9 10 *4.2.2 Independent variables*

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12 Circuital position (hypothesis 1a and 1b) is operationalized using two dummy variables, one
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14 for *entrepreneurs* and one for *intrapreneurs*. The reference category is our control group,
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16 consisting of workers who do not have access to CUC and thus no gatekeeping opportunities.
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18 Social capital was measured using a name generator eliciting provision ties (i.e. contacts to
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20 whom respondents ask for help whenever they need “any scarce good or service – for
21
22 example, home repair, help with legal matters, automobile repair, electronic appliance etc.”).
23
24 Respondents could name up to six contacts. In addition, respondents provided information on
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26 several attributes per each contact, including sex, education, nationality (whether Cuban),
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28 profession, time of acquaintance, type and strength of the relationship, and whether the
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30 contact has income in CUC (always, almost always, almost never, never). The role of
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32 provision ties to actors accessing the CUC circuit (hypothesis 2) was operationalized simply
33
34 counting the number of ties to actors who receive “always” or “almost always” income in
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36 CUC. The variable *CUC ties* is discrete and ranges between 0 and 6. Hypothesis 3 –
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38 concerning the relative importance of provision ties to actors accessing the CUC circuit for
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40 those who do not have access themselves – was operationalized with an interaction effect
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42 between circuital position and the variable *CUC ties*. As we hypothesized that these ties are
43
44 especially important for those individuals who do not routinely access the CUC circuit
45
46 themselves (i.e., our reference group with respect to circuital position), we interacted the
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48 variable *CUC ties* with a dummy variable taking value 1 if the respondent belongs to either
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50 one of the other two groups (*intrapreneurs* and *entrepreneurs*) and 0 otherwise.
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3 The heterogeneity of the individual provision network (hypothesis 4) was
4 operationalized in terms of the occupation of the contacts. The occupation of the contacts was
5 coded using a slightly adjusted version of the Cuban Standard Classification of Occupation
6 (CNUO). This classification consisted of nine categories; we created a specific category for
7 foreigners because they are valuable ties as such, irrespectively of their occupation. For the
8 same reason self-employed workers were likewise put in a specific category. We
9 operationalized occupational heterogeneity of the provision network by means of an index for
10 qualitative variation (IQV), which takes value 0 when all contacts belong to the same
11 occupational category and 1 when each contact belongs to a different category (Agresti and
12 Agresti, 1978). The variable *heterogeneity* was computed as follows:

$$IQV = \frac{1 - \sum_{i=1}^k p_i^2}{1 - \frac{1}{k}}$$

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36 where k is the number of categories (in our case restricted to six because respondents could
37 name up to six contacts) and p_i is the proportion of observations in category i .

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41 Ties to redistributors (hypothesis 5) were likewise identified using the occupation of
42 the contacts: legislators, senior officials, and managers were counted as redistributors. 27
43 respondents (7.5%) had one tie to a redistributor, seven (1.9%) had two, and nobody had
44 more than two. Therefore, we operationalized hypothesis 5 with a dummy variable taking
45 value 1 if the respondent had one or more contacts to redistributors and zero otherwise.

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51 *Control variables.* The statistical model presented below includes dummy variables for sex,
52 race, (*college*) education, whether the respondent receives *remittances*, and whether the
53 respondent is a member of the Cuban Communist Party. Furthermore, we controlled for *age*,
54 modeled as a quadratic function.
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TABLE 1 ABOUT HERE

4.3 Statistical model

The dependent variable is measured by the number of goods owned by respondents. This variable is a discrete count, its distribution is right skewed but not zero inflated, nor overdispersed (likelihood ratio test of the overdispersion parameter alpha: $\chi^2 = 0.00$, $p = 0.5$). Accordingly, the hypotheses were tested using a poisson regression model (deviance goodness of fit $\chi^2 = 384.9$, $p = 0.07$, indicating that a poisson model is appropriate). In order to check for the robustness of our results we also estimated a linear regression on the wealth scale obtained using a polychoric PCA (included in the appendix) and the results were substantively the same.

5. Results

Table 2 presents the results of three poisson regression models on individual wealth. Model 1 only includes control variables. Model 2 includes also the five independent variables referring to hypotheses 1a, 1b, 2, 4, and 5. In Model 3 the interaction term between circuitual position and CUC ties was added (hypothesis 3). Hypotheses 1a and 1b are supported. Both entrepreneurs and intrapreneurs are richer: ceteris paribus entrepreneurs are predicted to own 141% goods more than the reference group and intrapreneurs 78% more. It is important to recall that as MN workers and intrapreneurs are both state employees, they are formally subject to the same egalitarian wage regime. In addition, entrepreneurs are significantly richer than intrapreneurs ($\chi^2 = 12.09$; $df = 1$; $p < 0.01$). Pairwise comparisons between the groups are affected by two conservative biases. First, our intrapreneurs consist mainly of highly educated but low-level employees as we could not access any manager of SOEs, who are

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3 presumably richer. Therefore, the difference in wealth between intrapreneurs and MN
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5 workers (hypothesis 1b) could be underestimated while the difference between entrepreneurs
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7 and intrapreneurs (for which we presented no hypothesis) could be overestimated.
8
9 Furthermore, the idea that high-ranking intrapreneurs (e.g., managers of SOEs) could be
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11 accumulating wealth is also consistent with the results of studies conducted in other post-
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13 socialist countries, who found that a privileged class of redistributors manage to benefit from
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15 the reforms (cf. Nee, 1991; Rona-Tas, 1994; Bian and Logan, 1996). Second, as already
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17 mentioned in the sample section, professionals and bureaucrats are over-represented among
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19 MN workers (about 45%). These occupational categories enjoy the highest salaries in MN
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21 and they have more chances of enjoying some goods/services distributed as rewards by
22
23 government agencies. Consequently, the difference between our reference group and the
24
25 gatekeepers (hypotheses 1a and 1b) could be underestimated.
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31 Concerning the hypotheses on the effects of personal relationships, each additional
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33 provision tie to a person with revenues in CUCs yields a 10.5% increase in the expected
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35 count⁷, *ceteris paribus*. However, this effect *only* holds for those individuals who do not have
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37 direct access to the CUC circuit themselves (i.e., our reference group for hypothesis 1a and
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39 1b). Comparing model 2 and model 3, the main effect of CUC ties is only significant when
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41 the interaction is added. In model 3, main effect and interaction cancel each other out,
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43 suggesting that entrepreneurs and intrapreneurs do not obtain additional benefits in terms of
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45 wealth from CUC ties. Thus, hypothesis 2 is not supported, while hypothesis 3 finds support.
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50 Hypothesis 4, concerning the heterogeneity of the provision networks is likewise
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52 supported: the expected count of an individual with a maximally heterogeneous network –
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54 i.e., one in which every contact has a different occupation – is 31% higher than that of an
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56 individual with minimum heterogeneity – i.e., one in which every contact has the same
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58 profession. Finally, personal wealth is not significantly affected by having ties to
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3 redistributors. Therefore, hypothesis 5 is not supported. As anticipated when discussing the
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5 hypotheses, we could not check whether redistributors themselves are wealthier, because it
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7 was not possible to interview enough redistributors to have the statistical power. In particular,
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9 redistributors operating in the CUC circuit (such as, for example, managers of SOEs
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11 operating in the emergent sector) are predicted to be wealthy by two mechanisms:
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13 redistribution and gatekeeping. However, such rare figures were inaccessible to our
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15 interviewers. Nevertheless, ten redistributors were included among the MN workers (i.e.,
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17 individuals with no gatekeeping opportunities): nine managers and senior officials and one
18
19 senior military officer. They correspond to 6,7% of our MN workers sample and, according
20
21 to ONEI – but based on a broader categorization – they were 5,5% of the workers population
22
23 in Havana (ONEI, 2013). These ten respondents do not appear to be richer than the other MN
24
25 workers. Excluding them from the models does not substantively affect the results. Therefore,
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27 these ten observations were eventually included in the models presented below⁸.
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33 Among control variables we found significant effects of age and receiving
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35 remittances. As typically found in the literature on economic inequality, the effect of age on
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37 wealth is parabolic. Wealth increases with age, with a negative quadratic effect. As
38
39 remittances provide an additional source of income, by definition in foreign currency, they
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41 have a positive effect on personal wealth (Barberia, 2004; Eckstein, 2010). Interestingly, in
42
43 our sample we found no effects of party membership, race (only marginally significant in
44
45 model 1), and gender, and only a weak effect of education (in model 1 and 3). To be more
46
47 specific, if we look at zero order effects we find that blacks are poorer than white ($p < 0.01$),
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49 but no significant difference between men and women, even when all controls are removed (p
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51 = 0.741). These results deserve to be considered in the light of findings from previous
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53 researches conducted in Cuba. Other scholars (e.g. Espina-Prieto and Tогores-González,
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55 2012) found that women are poorer than men and blacks are poorer than whites, using
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3 qualitative interviews. By contrast, our results suggest that race differences could be
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5 explained away or sensibly reduced when other factors are controlled for – in particular,
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7 whether respondents have regular access to the hard currency circuit, while gender
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9 differences appear insignificant in our sample. However, addressing this issue would require
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11 further research with larger national samples. Popular belief holds that the Cuban Communist
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13 Party maintains political consensus by rewarding its own members. Yet, while we cannot
14
15 exclude that – as argued by Corrales (2004) – highly attractive positions are indeed
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17 strategically attributed to loyalists by the party, we found that party members are not richer
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19 than non-members. For party affiliation, the zero order effect is actually negative. Although
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21 this effect is only almost significant ($p = 0.088$), it could be an indication that, as long as
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23 emerging business activities are considered strategic as much as they are viewed as a
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25 potential threat to the socialist values, most party members are insulated from the CUC
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27 circuit (Romanò, 2016; cf. Szeleny and Kostello, 1998).
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TABLE 2 ABOUT HERE

6. Discussion and conclusions

The present study focuses on the effects of a set of market-oriented reforms implemented in Cuba starting at the beginning of the 1990s in order to cope with the economic crisis, while protecting its redistributive system. We argued that two reforms were particularly important factors in the subsequent increase in inequality: the opening to foreign investments, trade, and people, and the partial dollarization of the economy. Inequality was investigated in light of two mechanisms. These two mechanisms share a common theoretical perspective: in both cases inequality results from the availability of resources embedded in exchange

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2
3 relationships. First and foremost, the reforms lead to the emergence of new socio-economic
4 structures that we described as commercial circuits (Zelizer, 2005). As the opportunities to
5 access different commercial circuits are not uniform among residents, the existence of
6 barriers between the circuits provides the basis for the emergence of asymmetric exchange
7 relationships. In particular, privileged access to the circuit where transactions occur in hard
8 currency is associated to various advantages, such as opportunities for gatekeeping and
9 arbitrage. This idea finds support in our data: those actors (i.e., entrepreneurs and state
10 employees who work in SOEs operating in emergent sectors) who, due to their occupation,
11 are free to exchange regularly with both residents and nonresidents, are substantially richer
12 than those who are restricted to exchange predominantly with residents.
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26 Second, inequality is generally affected by individual social capital, i.e., the ability to
27 mobilize resources through personal contacts. In “shortage economies” social capital includes
28 contacts through which the individuals can obtain scarce goods (provision ties) (see Völker
29 and Flap, 2001). In the institutional context described above, provision ties to individuals
30 who have revenues in hard currency have a significant influence on individual wealth.
31 However, this effect only holds for those actors who cannot rely on revenues in hard currency
32 from direct exchanges with nonresidents. In addition, individual wealth is moderately
33 affected by the heterogeneity of personal contacts with respect to their occupation.
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45 This study innovates on the existing literature concerning the effects of marketization
46 in planned economies in several ways. From a theoretical point of view, marketization
47 substantially alters the existing structure of economic exchanges, allowing for new forms of
48 exchange to emerge. Thus, we argue that in order to explain the effects on inequality it is
49 necessary to focus on the emerging structures, the informal rules that regulate them, and the
50 new opportunities for exchange with resourceful actors that are made possible by
51 marketization, rather than on specific professional categories. For example, state employees
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3 working in SOEs turn out to be almost as wealthy as entrepreneurs, because they enjoy the
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5 same exchange opportunities.
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8 From the empirical point of view, to our knowledge this is the first Cuban quantitative
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10 study based on individual survey data and not on aggregated data released by the national
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12 statistical office. Concerning the generalizability of our results, this study is based on a
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14 sample of Havana residents selected on the basis of their opportunity to access the circuit
15
16 where transactions are held in hard currency, as a function of their occupation. On the one
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18 hand, the sample choice is the result of a formal constrain, i.e., the Cuban government does
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20 not release any micro data and does not authorize large-scale surveys. On the other hand, as
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22 we argued in the method section and in the appendix, the sample was specifically designed to
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24 test our main hypotheses, concerning wealth differences between hidden populations (defined
25
26 by having gatekeeping opportunities) for which no sampling frame exists. Nevertheless, our
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28 sample reflects reasonably well the general population in terms of the main demographic
29
30 variables. In terms of the geographical distribution of economic inequality, the phenomena
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32 described here are representative of the most urbanized and developed areas. As opportunities
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34 to access the circuit where transactions occur in hard currency are concentrated around urban
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36 and more developed areas, we expect that higher inequality would be found in a national
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38 sample including rural areas.
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44 Our results are superficially consistent with market transition theory (Nee, 1989)
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46 because new categories of market actors that did not exist prior to the reforms, namely
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48 entrepreneurs, are accumulating wealth, while neither having ties to redistributors nor being a
49
50 party member is associated to higher wealth. However, our analyses cut across the distinction
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52 between market and state as opposite realms and postulate a different mechanism,
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54 gatekeeping. Consistent with this idea, the benefits related to the reforms are not confined to
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56 market actors. Furthermore, based on the data discussed here, the reforms did create some
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3 room for upward mobility for new actors. However, the possibility to commodify political
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5 power cannot be excluded altogether. For example, it is quite plausible that powerful
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7 gatekeepers, such as executives and managers of SOEs operating in emergent sectors, are
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9 selected among the political elite (Corrales 2004), because these SOEs are strategically
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11 important to maintain the inflow of hard currency into the state coffers.
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15 Studying the Chinese transition, Bian and Logan (1996) argued that the economic
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17 inequalities caused by market-oriented reforms generally do not subvert the inequalities
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19 based on political authority and both entrepreneurship and political power are rewarded. We
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21 hypothesize that something similar might be happening in Cuba as well, even though the
22
23 Cuban transition is hardly comparable to the Chinese case. According to the typology of
24
25 political economy in post-socialist countries, offered by King and Szeleny (2005), the Cuban
26
27 reforms belong to the model of “capitalism from below”, because the Communist Party
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29 enacted them to cope with economic difficulties, often incorporating spontaneous processes,
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31 e.g., the dollarization. However, unlike in China, the Cuban government did not privatize and
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33 re-allocate property rights. Consequently, we find that in Cuba, the cleavage is not associated
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35 to ownership of the means of production, but to access to the circuit of commerce where the
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37 hard currency circulates.
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43 The effects of the reforms were attenuated in the early 2000s (e.g. the incoming flow
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45 of hard currency was used to increase the investments in public education and health care), as
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47 soon as the Cuban government established favorable commercial relationships with new
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49 partners, especially Venezuela. Nonetheless, the adjustments of the early 2000s did not affect
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51 the commercial circuits. In 2011, as a result of changes in the international scenario
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53 negatively affecting the sustainability of Cuba's balance of trade, a second wave of market-
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55 oriented reforms was implemented. In Cuba, the reforming impulse – mainly driven by
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57 adverse economic contingencies – seems to be accompanied by a constant concern for the
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3 consequences of liberalization in terms of social inequality, leading to a counter-reforming
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5 impulse. The correcting policy measures typically aim at limiting the rise of market actors
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7 and generating opportunities for those categories that suffered more from marketization (e.g.,
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9 medical doctors, teachers, academics, army officers, etc.). Note that these categories, who
10
11 represent about half of the reference group in our sample, appear in fact to be poorer. The
12
13 Cuban ongoing fluctuation between reforms and adjustments possibly indicates that rewards
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15 accrue both to entrepreneurs as well as supportive people. As a matter of fact, what typically
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17 passes as market reforms could be seen as simple adjustments in the redistributive policies
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19 (cf. Bian and Logan, 1996).
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24 As far as the present study is concerned, the mechanisms that we described will
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26 remain effective as long as the commercial circuits are in place. The distortions in the
27
28 economy and the worsening conditions of some categories, e.g., professionals, have prompted
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30 the government to announce (repeatedly) that the monetary duality will soon be eliminated.
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32 However, removing the double currency *per se* will not suffice to neutralize the commercial
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34 circuits. Arbitrage is possible only when two currencies circulate simultaneously, but the
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36 opportunities for gatekeeping depend on the existence of formal and informal barriers
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38 preventing some categories of actors from exchanging freely. Given Cuba's structural
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40 economic dependency, it is rather probable that the government will maintain as much as
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42 possible its control over the inflow of hard currency. Therefore, actors with legitimate access
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44 to exchanges with foreigners are likely to maintain their privileges. Moreover, it cannot be
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46 excluded, that these privileged actors actively lobbied to defer the overruling of monetary
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48 duality and the further liberalizations approved by the last Party Congress in 2011 (cf.
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50 Hellman, 1998). To this end, they can use the argument that present structures are supposed
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52 to redistribute resources across different segments of the population and protect the most
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54 vulnerable categories of Cubans workers and citizen. However, even in the unlikely event
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3 that in the near future all barriers between the circuits are eliminated, opportunities for
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5 gatekeeping will not disappear, but more likely become a function of personal relationships.
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For Peer Review

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Endnotes

¹Here we provided an accurate description of the situation until 2013. Slight changes occurred since 2014, but the mechanisms that we describe remained generally true.

²Generally, a person who repeatedly hangs around with foreigners is called *jinetero/a*, literally jokey. This expression communicates a mixture of audacity, venality, and status seeking.

³Note that in the business literature intrapreneurs are conceived as a legitimate and desirable element of innovation while the activity of intrapreneurship described here, albeit often tolerated, is formally illegal and does not benefit the organization. We thank Victor Nee for suggesting the term intrapreneurs.

⁴The state employees who deal routinely with foreign customers actually receive a productivity incentive from the state. However, this incentive is very small and is typically returned to the state in the form of solidarity donation. This solidarity donation was instituted as a consequence of the increasing perception that tourism workers benefit disproportionately from their front office position vis-a-vis foreigners.

⁵In 1960 the “Ley de Reforma Urbana” (Law of Urban Reform) confiscated the great majority of houses and forbade the sale, rental and private construction of houses. In addition, the law permitted former lessors to become owners after paying a monthly rent to the state for 20 years. Accordingly, about 85% of the Cuban population own their dwellings.

⁶The requirements of the Rasch Model are: 1) unidimensionality: the item responses depend on only one latent trait; 2) monotonicity: the probability to answer correctly or yes (as in the case that we are examining) is a monotone non decreasing function; 3) local independency: the variables reaction to the test are independent.

⁷Note that respondents mentioned relatives, friends, or acquaintances of long standing as provision ties. The duration of these relationships is generally high for all three groups, on average pre-dating the reforms (MN workers: mean = 18.45 years, sd =9.94; economic entrepreneurs: mean = 24.57 years, sd =13.83; social entrepreneurs: mean = 20.62, sd = 11.79). Therefore, reverse causality between wealth and provision networks is not plausible.

⁸We also tried replicating our model using a broader definition of redistributors (i.e., including low-level officials and managers, e.g., jefe de departamento, supervisor, jefe de brigada etc.) and including a dummy variables to separate them from the rest of the MN workers. In this model redistributors increase from 10 to 28 and individuals with at least one tie to a redistributor increase from 27 to 88. However, the results of the model remain the same. In addition, the 28 redistributors are not significantly richer than the rest of the MN workers and having a tie to a redistributor (defined broadly) has no significant effect on the expected count.

TABLE 1. Descriptive statistics of the variables

	Full sample (N=360)		MN workers (n=149)		Entrepreneurs (n=95)		Intrapreneurs (n=116)	
	Mean	S.D	Mean	S.D	Mean	S.D	Mean	S.D
<i>Dependent variable</i>								
Wealth	3,01	1,96	1,87	1,69	4,28	1,80	3,44	1,58
<i>Independent variables</i>								
College	0,6	-	0,5	-	0,4	-	0,89	-
Age	43,79	13,89	40,42	13,62	53,59	13,67	40,10	10,14
Female	0,61	-	0,62	-	0,67	-	0,53	-
Remittances	0,2	-	0,15	-	0,26	-	0,21	-
White	0,65	-	0,62	-	0,66	-	0,67	-
Party affiliation	0,21	-	0,29	-	0,14	-	0,16	-
CUC ties	1,46	1,40	1,46	1,40	1,49	1,41	1,40	1,16
Redistributors ties	0,09	-	0,08	-	0,09	-	0,11	-
Heterogeneity	0,55	0,31	0,68	0,25	0,45	0,34	0,48	0,31

TABLE 2. Poisson Models on Wealth

	Model 1	Model 2	Model 3
College (degree)	0.16* (0.066)	0.13 (0.073)	0.14* (0.074)
Quadratic Age	-0.00* (0.000)	-0.00* (0.000)	-0.00** (0.000)
Age	0.02** (0.008)	0.02** (0.009)	0.02** (0.009)
Female	-0.06 (0.063)	-0.05 (0.064)	-0.05 (0.064)
Remittances	0.34*** (0.070)	0.20** (0.073)	0.20** (0.073)
White	0.13* (0.066)	0.11 (0.066)	0.12 (0.066)
Party affiliation	-0.15 (0.080)	-0.03 (0.082)	-0.04 (0.082)
Entrepreneur		0.85*** (0.088)	0.88*** (0.090)
Intrapreneur		0.56*** (0.085)	0.58*** (0.087)
CUC ties		0.04 (0.024)	0.10** (0.038)
CUC ties* entre-/intra-preneurs			-0.10* (0.047)
Redistributors ties		0.02 (0.105)	0.03 (0.106)
Heterogeneity		0.23* (0.110)	0.27* (0.112)
Constant	0.52*** (0.132)	0.01 (0.164)	-0.14 (0.180)
Observations	360	360	360
L1	-725.58	-670.13	-668.08

Standard errors in parentheses
*** p<0.001, ** p<0.01, * p<0.05

Appendix

Data collection took place in Havana between May 2010 and January 2011. As we were forced to collect data without a sampling frame, we selected the sample in order to ensure that the data included enough observations from individuals with different access to the commercial circuits (independent variable), in order to obtain the required statistical power to test hypotheses 1a and 1b. Accordingly, our sample consists of three groups:

- 1) *entrepreneurs* (n = 95, 26% of the whole sample);
- 2) *intrapreneurs* (n = 116, 32% of the whole sample);
- 3) *MN workers* (n = 149, 42% of the whole sample).

As explained in the paper, the opportunities to exchange with CUC actors depend primarily on one's job, but also on hidden individual characteristics. Accordingly, the sampling procedure differs for the three groups. As our grouping variable (legitimate access to the CUC circuit) depends on hidden characteristics, we selected respondents from segments of the population that have legitimate contacts with CUC actors with certainty. More explicitly, we selected the first two subsamples, entrepreneurs and intrapreneurs, among workers employed in the tourist sector. Note, however, that we selected front office workers specialized in services for nonresident tourists because they can interact with CUC actors without drawing unwanted attention, and not because of their economic sector of employment. Irrespective of their employment sector, Cuban workers who sell goods or services in MN have no gatekeeping opportunities because nonresidents are not allowed to purchase services intended for residents (i.e., belonging to the MN circuit). As we explained in the section where we describe the MN circuit, typically there are no legal barriers, but residents and nonresidents are segregated by a set of informal norms and sanctions. The normative component in Zelizer's (2005) idea of commercial circuit clarifies the gatekeeping mechanism that we describe because the difference between having and not having gatekeeping opportunities does not only depend structural aspects, but also on those informal norms determining who can legitimately have

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3 contacts with CUC actors and who cannot. Entrepreneurs are self-employed owners of bed and
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5 breakfast who are licensed to sell their services in CUCs. Intrapreneurs are tourist guides or
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7 entertainers working as employees in SOEs, who are routinely in contact with CUC actors. The third
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9 subsample, MN workers, constitute our reference category, consisting of ordinary workers who, due
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11 to their job, have no legitimate chance to come in contact with CUC actors. Hence, the latter is a
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13 subsample representing the general population of Havana's workers employed in traditional
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15 segments of the economy.
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21 *Data collection procedure*

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23 Interviewers were recruited among top sociology students and trained by the authors. The students
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25 conducted the interviews as part of a methodological laboratory. They received no financial
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27 compensation because the university regulation forbids paying students. Interviews were held face to
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29 face, research assistants contacted respondents in their homes, except the intrapreneurs who were
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31 interviewed on their workplace. Interviewees were assured about data confidentiality, independence
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33 from the government, and scientific scope of the research. We grouped the interviewers in teams of
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35 three to five students and gave every team the target to conduct 10-15 interviews, equally distributed
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37 with respect to the subsamples (entrepreneurs, and MN workers), and respecting quotas of the main
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39 demographic variables, i.e., an equal number of men and women, one third of non-white
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41 respondents, and equal number of interviewees per each of three age categories (18-34, 35-49, and
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43 over 50). Furthermore, we instructed interviewers not to contact relatives or people they knew
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45 personally and people living on remittances. Respondents were also asked their phone number so that
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47 the researchers could check that the interviews had taken place correctly. The data collection process
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49 was closely monitored during both the regular methodology lab meetings as well as ad-hoc meetings
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51 involving the students' teams and the researchers. In particular, we took care that the interviewers
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53 took all necessary measures to maximize heterogeneity with respect to the individual characteristics.
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The data collection strategy was similar for entrepreneurs and MN workers: both subsamples were interviewed at home, in order to protect their privacy, and selected on a geographical base. Considering that Havana's urban area is very large, public transportation is lacking and, as a rule, students could not be reimbursed, we assigned interviewers' teams to quarters using a criterion of proximity with respect to the interviewers' area of residence. We instructed students to select respondents randomly by choosing a residential street and then contacting every other household. If more household lived in one house, students were instructed to pick only one household. At the time of data collection no statistical information on the population composition of each quarter (*municipios*) was available (the Cuban National Statistics Bureau, ONEI, began to release some aggregated statistics only in 2013). As it is not uncommon in former socialist countries (e.g., see Flap and Volker 1997), all Havana's *municipios* are rather heterogeneous in terms of social class, because since the early years of the revolution, housing policies aimed at minimizing inequality and residential segregation (Íñiguez 2014). Accordingly, a mix of nationalizations, centralized allocation of houses, and the absence of a housing market ensured that 85% Cubans own their house. In our sample, only 10% of the respondents cannot advance any claim on the house where they live, the rest either own their houses, or can legally claim the right to occupy the house where they live indefinitely, in accordance with the Cuban law. In addition, as houses could not be sold or purchased, but only swapped, geographical mobility remained very low (see Mesa Lago 2017 on Cuban housing policies and regulations). Some housing mobility appeared only after data collection when a law formally re-introduced the housing market (*Decreto Ley No. 288, 22 noviembre 2011*).

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As the entrepreneurs in our sample are mainly owners of bed and breakfast, they are not equally distributed in all of Havana's *municipios*. Most of them are located in the central areas of the city: *Centro Habana, La Habana Vieja, Playa, Plaza de la Revolucion*, and near the beaches that are most popular with foreign tourists (e.g., *Habana del Este*). For this reason, there is a concentration of entrepreneurs operating in those areas in our sample (see table 1.1). These entrepreneurs are called

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3 *arrendadores* (literally lessors). *Arrendadores* operating in CUC are the majority among workers
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5 licensed to operate in CUC, the others are artists and restaurant owners (Pèrez, Calderòn, and
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7 Gonzalez, 2008). Artists are few and they are difficult to identify and, at the time of data collection,
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9 interviewing restaurant owners was extremely difficult because, due to scandals involving tax
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11 evasion and other irregularities committed by restaurant owners, Cuban authorities were monitoring
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13 restaurants closely and the owners were very reluctant to be interviewed. Therefore, we chose to
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15 concentrate on bed and breakfast owners. The province of Havana has the highest number of bed and
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17 breakfast licensed to operate in CUC (*ibidem*: 122). Bed and Breakfast operating in CUC can be
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19 easily identified because they display a specific blue sign.
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24 The last subsample consists of intrapreneurs, i.e., workers employed in SOEs operating in the
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26 tourist sector, who due to their job have a privileged and legitimate access to customers carrying
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28 CUC. For this type of actors, we had no other choice than to select them from their workplace. To
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30 this end, we contacted two of the main state agencies providing services to tourists in Havana
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32 (Cubatur, Habaguanex see table 1.2). We also interviewed some workers from other agencies that we
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34 contacted through the state training agency that provides ordinary training courses to state workers
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36 who are employed in the tourist sector. Unlike the other two samples, intrapreneurs were interviewed
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38 directly by the researchers (the first author and some collaborators from the University of Havana),
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40 often with the help of the students. We varied the day of the week and the time of the day of the
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42 interviews in order to cover all possible work shifts. We do not know the area of residence of these
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44 workers. However, we have no reason to suppose that they live near the agency because, given the
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46 lack of public transportation, these agencies offer an ad hoc commuting service to their workers.
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Table 1.1 – Descriptives statistics by district (municipios in Spanish)

<i>Municipios</i>	Total residents*	Female (%)	Area (km2)*	Population Density*	MN workers	Entrepreneurs (CUC)	Total cases
Habana vieja	90.682	52%	4,37	20.751,03	8	3	11
Diez Octubre	212.171	53%	12,28	17.277,77	20	7	27
Cerro	129.196	53%	10,19	12.678,7	13	.	13
Plaza de la Revolucion	152.318	54%	12,3	12.383,58	19	25	44
Centro Habana	151.174	53%	12,3	12.290,57	14	39	53
San Miguel del Padron	158.268	51%	25,5	6.206,588	3	.	3
Marianao	132.976	52%	23,17	5.739,145	5	.	5
Playa	176.614	53%	35,81	4.931,974	11	8	19
Regla	42.707	51%	10,22	4.178,767	.	.	0
La Lisa	133.350	51%	37,14	3.590,468	9	3	12
Arroyo Naranjo	210.214	51%	82,18	2.557,97	2	.	2
Boyeros	184.647	51%	134,8	1.369,785	5	2	7
Habana del Este	172.783	51%	141,49	1.221,168	33	8	41
Cotorro	74.670	51%	65,9	1.133,08	2	1	3
Guanabacoa	113.728	51%	129,48	878,3441	4	.	4
Total	2.135.498	52%	737,13	2897,044	148**	96	244

*Elaboration of the authors, source ONEI 2010

** 1 missing case on the information municipios

Table 1.2. Frequencies of intrapreneurs by company

Company	Freq.	Percent
Agencia San Cristobal	24	20,7
Cubatur	75	64,7
Cubanacan	11	9,5
Turarte	4	3,4
Havanatur	1	0,9
Gaviota	1	0,9
Total	116	100

Post- hoc evaluation of the sample representativity

Because we could not select respondents from a sampling frame, we evaluate our sample ex post, comparing descriptive statistics of personal characteristics with available population statistics, and search for possible sources of bias. As stated in the paper, the sample reflects the characteristics of

60 the population with respect to race (cfr *Censo de Población y Viviendas* 2012). For our control

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3 sample (MN workers), we managed to cover all *municipios* (see table 1.1) and obtain a sample with
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5 the required distribution of personal characteristics. The only *municipio* for which we have no
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7 respondents is *Regla*, which is a large industrial area. At the time of data collection, official statistics
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9 on the population age distribution among state workers were not available (cfr. ONEI 2011).
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11 Therefore, we sampled the MN workers aiming to maximize age heterogeneity. The subsample of
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13 MN workers includes 36,2% of respondents aged between 18-34; 40,9% aged between 34-49; and
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15 22,8% aged over 50. In order to do a post-hoc evaluation of the representativity of the subsample of
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17 MN workers, we use statistics on the Cuban workers population (ONEI 2010) for comparison,
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19 because statistics on the Havana working population are not available. Statistics on the age
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21 distribution among Cuban workers do not distinguish among types of workers, i.e. state workers or
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23 entrepreneurs. However, as the bulk of Cuban workers are state-employees, we compare the age
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25 distribution of MN workers and intrapreneurs (both state-workers) with the population statistics of
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27 the Cuban workers. Table 1.3 shows that our sample reflects quite well the population age
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29 distribution among state workers in Cuba. However, the Cuban official statistics classify Cuban
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31 workers according to age-classes (i.e. 17-19, 20-29, 30-39, 40-60, 60+ years) that differ from those
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33 that we chose in the sampling design (i.e. 18-34, 35-49, 50+years). The comparison between our
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35 sample and official statistics shows that the age-class 20-29 is overrepresented among MN workers.
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37 However, this overrepresentation is largely a consequence of the age categorization that we used, for
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39 example one quarter of MN workers that in our subsample are included in the age class 17-29 was
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41 actually 28 or 29 years old (8,7% of the total MN workers that we sampled). On the contrary, the
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43 post-hoc evaluation of the subsample of intrapreneurs indicates that in this group the age distribution
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45 is consistent with the population age distribution among state workers (see. table 1.3.). In the
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47 subsamples of intrapreneurs and MN workers, older workers (60+) are slightly underrepresented.
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49 However, for intrapreneurs this is probably due to the type of job, which generally requires workers
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51 to be relatively fit.
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4 By contrast, among the entrepreneurs it was impossible to keep an equal distribution with
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6 respect to gender and age. In particular, among the entrepreneurs interviewers had difficulties finding
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8 enough male respondents and enough respondents in the lowest age category. The subsample of
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10 entrepreneurs includes: 8,4% of respondents aged between 18-34; 37,9% aged 35-49 and 53,7% aged
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12 over 50. However, older people are indeed generally prevalent in the population of entrepreneurs due
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14 to the licensing policies concerning private enterprises adopted until 2011 (Romanò and Echevarria
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16 2015). According to a study focusing on the entrepreneurs population, most entrepreneurs are 60
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18 years old or older (32% of the men and 48% of the women) and the younger age categories have
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20 lower frequencies (Pèrez, Calderòn, Gonzalez, 2008, p.116). Therefore, the age composition of the
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22 entrepreneurs in our subsample substantively reflects the general population of entrepreneurs. The
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24 gender bias can be explained by the type of activity. Bed and breakfasts are most often managed by
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26 women. However, the overrepresentation of women constitutes a conservative bias, as *ceteris*
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28 *paribus*, women are generally poorer than men and they are overrepresented in the group that we
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30 predict to be the richest.
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35 Finally, according to ONEI (2013) – these are the earliest data available for Havana –,
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37 workers holding managerial or apical positions as well as low-level officials and managers
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39 (*directivos y quadros*) in state institutions or enterprises are about 5.5% of the population in Havana.
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41 Although there was no way to sample redistributors, using a more restrictive definition of
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43 redistributors than the one found in ONEI, we identified 10 redistributors in our control sample, i.e.,
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45 about 6.7% of the MN workers. By contrast, if we used ONEI's broader definition, we would have
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47 an overrepresentation of redistributors among MN workers, as they account for 18,8% of the
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49 subsample. As, by definition, redistributors occupy apical positions, this overrepresentation
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51 determines a conservative bias with respect to our main hypotheses.
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56 To conclude, in general the deviations of our sample from the population statistics tend to be
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58 conservative with respect of the paper's hypotheses.
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3 *Table 1.3. Age distribution among MN workers and entrepreneurs and post-hoc evaluation.*

4 Post-hoc evaluation: Age distribution among state workers in Cuba (ONEI 2010)

5 Age-classes	6 Cuban workers*	7 Intrapreneurs	8 MN workers
9 17-29	10 22,10%	11 21,60%	12 31,5%
13 30-39	14 24,90%	15 25,90%	16 14,10%
17 40-59	18 46,60%	19 50,90%	20 46,30%
21 60 +	22 6,30%	23 1,70%	24 8,10%
25 Total	26 100%	27 100%	28 100%

29 *Elaboration of the authors, source ONEI 2010

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32 ***Robustness check: an OLS model using the wealth index computed with polychoric PCA***

33 In the paper, we present the results of three nested Poisson regression models on individual wealth, using a wealth index constructed with the Rasch measurement model. This index is a count variable following a Poisson distribution, not overdispersed and not zero inflated. Negative binomial regression models are often used with Poisson distributions, but when the estimated dispersion parameter α is equal to zero, as in our case, the binomial negative model reduces to a Poisson model (Long 1997).

35 We also constructed an alternative index using polychoric principal component analysis on the wealth items concerning ownership of durable goods. The polychoric PCA wealth index is a continuous variable with a right-skewed distribution. Thus, we are able to check the robustness of our results using an OLS regression model on this alternative measurement of wealth. Below, we present the results of the full OLS model, next to the full Poisson model (model 3 in the paper). The coefficients of the OLS model cannot be interpreted because the dependent variable is a standardized factor score, while the Poisson log link function can be used to compute predicted changes on the expected count of the wealth index (in the paper we reported the predicted changes for the effects related to the hypotheses supported by the model). Although the coefficients magnitude cannot be compared, the results of the two models are substantially equivalent. The only noticeable difference

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is that the significance level of three variables is slightly reduced in the OLS model. The p value of

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3 the interaction effect between circuital position and the number of ties to CUC actors goes from
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5 0.042 to 0.063. Thus, the effect remains significant at $p < 0.05$ only with a one-tailed test. Similar
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7 variations affect two control variables: education and the main effect of age, although the latter
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9 remains significant at $p < 0.05$ with a two tailed test. Besides allowing the use of predicted changes
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11 to interpret the results, we chose to put the Poisson model in the paper because the polychoric index
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13 rests on the assumption that each binary item is determined by a latent continuous normally-
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15 distributed variable, in this case the ability to acquire the good. However, it is more reasonable to
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17 assume that for many of our items the distribution of the ability to acquire the good is skewed, rather
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19 than normal, as generally typical of wealth measurements. In the paper, we provide arguments
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21 supporting the claim that the Rasch model is superior to the polychoric PCA index. The model
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23 comparison provided here shows that our results hold even if we use a less precise measurement
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25 model for our dependent variable.
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Table 1.4. Poisson and OLS full Regression models on wealth

	Poisson model	OLS Model
Dependent variable: wealth	Rasch index	Polychoric PCA index
College (degree)	0.14* (0.074)	0.29 (0.154)
Quadratic Age	-0.00** (0.000)	-0.00** (0.000)
Age	0.24** (0.009)	0.04* (0.017)
Female	-0.05 (0.064)	-0.15 (0.138)
Remittances	0.20** (0.073)	0.59** (0.170)
White	0.12 (0.066)	0.08 (0.140)
Party affiliation	-0.04 (0.082)	-0.09 (0.170)
Entrepreneur	0.88*** (0.090)	1.99*** (0.191)
Intrapreneur	0.58*** (0.087)	1.06*** (0.174)
CUC ties	0.10** (0.038)	0.23** (0.068)
CUC ties* entre-/intra-preneurs	-0.10* (0.047)	-0.18+ (0.097)
Redistributors ties	-0.00 (0.011)	-0.09 (0.237)
Heterogeneity	0.27* (0.112)	0.52* (0.243)
Constant	-0.14*** (0.180)	-2.22*** (0.333)
Observations	360	360
Adj. R-squared	Nap	0.33

Standard errors in parentheses

*** p < 0.001, ** p < 0.01, * p < 0.05, + p < 0.1 (two tailed tests)

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