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THE SOCIAL AND ECONOMIC EFFECTS OF ENDING  
U.S. TRAVEL AND REMITTANCE RESTRICTIONS FOR  
CUBAN-AMERICANS

by Anne Hobson



The opinions expressed in this Graduate Policy Essay are the author's and do not represent official positions of the Mercatus Center or George Mason University.

## **Abstract**

This paper explores the economic and social effects of remittances sent from the United States to Cuba. The quantity of remittances sent to Cuba has steadily increased to above \$3.5 billion since remittances from the U.S. began with the legalization of the dollar in 1993. The arrival of Western Union in 1999 and remittance policy changes implemented by the Obama administration beginning in 2009 had a noticeable effect on remittance flows. An analysis of the data available on remittance flows suggests a positive association between these policy changes and the amount of remittances sent from the United States to Cuba. Nineteen interviews with Cuban citizens conducted in June 2016 in and around central Havana provide insights into the narratives behind the increasing remittance flows. We found that Cubans spend remittances primarily on food and other basic necessities. Economic need coupled with distrust of banks, lack of banking infrastructure, restrictions on private ownership and the type and scale of private enterprise, and limited access to capital prevent widespread savings or investment are driving factors for this trend. Whereas Cubans perceive that remittances are good for individuals and families, they disagree as to the long-term social and economic effects. Some interviewees observed that remittances further incentivized unemployment among the Cuban youth. Others saw remittances as a much-needed source of capital for entrepreneurs. Several of the interviewees pointed out that US and Cuban policies will have to change before economic development can be realized.

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## **I. Introduction**

In 2009, President Barack Obama permitted unlimited remittances from Cuban-Americans to their families in Cuba. Now the United States is the largest source of remittances sent to Cuba. Remittances include both cash and in-kind person-to-person transfers such as appliances or toiletries. The Havana Consulting Group estimated that in-kind remittances comprise half of the value of all remittances sent—measured at \$5.1 billion in 2012 and estimated at more than \$6.85 billion in 2015 (see table 1). Cuba registered the highest growth in Latin America—a 116 percent growth rate in monetary remittances since 2008 (Morales 2016). It has become the seventh largest market for remittances in Latin America (Morales 2016). These remittances reach a majority of Cubans. But what are the effects of remittances according to the recipients? How do they use their remittances? Do remittances have positive consequences for economic and social liberalization in Cuba? In June 2016, I traveled to Havana to explore these questions by conducting qualitative interviews.

Cubans living or traveling abroad pack luggage filled with toiletries and other necessities as well as software and hardware—including computers, TVs, iPods, cell phones, and USB drives. They bring them to Cuba and distribute them to their family and friends. They send billions of dollars back to Cuba through wire transfer services. Because of these transfers, Cuban families can afford to buy more meat to eat or to make repairs to their houses and appliances. In other words, remittances stabilize household consumption in Cuba (Combes and Ebeke 2011). Remittances also provide economic security and increase financial inclusion. For instance, an analysis of household survey data in El Salvador revealed that remittances increase the use of deposit accounts (Anzoategui 2014). This paper is unique in that it will explore firsthand accounts of what remittance money means for both the families that receive them and the

families that do not. Do Cubans perceive remittance money as temporary or permanent income? Did this policy change have an effect on the perception of economic gain in Havana? Have Cubans used remittance money to start or fund businesses? I argue that remittances are a source of pressure for economic and social liberalization, a force that outweighs the buttressing effect of adding tax dollars and wealth for the Cuban government.

I will identify remittance trends in Cuba over time to glean the economic effects of policy changes to the Cuban Assets Control Regulation under President Obama. This information will provide the background through which to explore the narrative of the social and economic effect of remittances for individuals. I will use evidence from qualitative interviews to identify the unseen effects of these policy changes. First, I will lay out my theoretical approach and methodology. Then I will set up the historical, political, and economic context. Third, I will highlight findings in remittance literature. Then I will comment on some of the challenges and limitations of the study. Finally, I will analyze narratives and themes I found in the qualitative interviews and identify the conclusions. I conclude with recommendations for policymakers in both the United States and Cuba.

## **II. Methodology and Lens**

I hypothesize that an unlimited remittance policy has led to positive social and economic outcomes for Cubans. The data show that remittance flows have increased exponentially since the policy changes in 2009 and 2011. With the goal of applying a narrative to the data, I conducted 17 qualitative interviews with Cubans in Havana in June 2016. I interviewed participants in their homes or in a public location of their choice.

Our interviews revealed that many Cubans refrain from sending remittances because such a practice helps prop up the Castro regime. Sociologist Susan Eckstein documents this sentiment

and points out that remittances perpetuate a tension between providing hard currency revenue for the government while simultaneously eroding the government's legitimacy through informal markets and exchange (Eckstein 2004, 328). Remittances constitute a double-edged sword, helping the regime whether economic crisis while eroding the incentive to work, increasing crime among non-recipients, and undermining the government by aiding in non-compliance with rules when remittances are used in non-sanctioned ways (Eckstein 2010). I will use an economic lens to determine whether US remittance policy changes paired with increased economic and social engagement between governments and populations have led to better outcomes than hard power solutions such as sanctions.

Sanctions are a type of intervention, defined by Ludwig von Mises as “a limited order by a social authority forcing the owners of the means of production and entrepreneurs to employ their means in a different manner than they otherwise would” (von Mises [1929] 1976, 4). Because of the embargo, businesses and people in the United States that would normally exchange with Cuba are forced to employ their means in less productive ways. There are economic gains left to be realized by facilitating more exchange, and this is exactly what recent policy changes allowing more remittances and travel have accomplished.

Ludwig von Mises further argues in *A Critique of Interventionism* ([1929] 1976) that interventionism begets more interventionist policies without mitigating the problem. When applied to Cuban politics, the Austrian approach to the perils of interventionism can explain the failure of US policy to incite regime change. Given this claim, it is not surprising that decidedly noninterventionist policies—the allowance of specific types of trade and remittance transfers—have had a significant liberalizing political and economic effect. In other words, deregulation can beget more deregulation when the political climate allows for it. For example, Cuba's



legalization of some types of private occupation in 2011 laid the groundwork for further US policy changes regarding remittances. Such economic gestures of goodwill between Raul Castro and Barack Obama allowed for diplomatic relations to be renewed in July 2015.

Economist Sanford Ikeda argues that interventionist policies have unintended negative consequences owing to the realities of dispersed knowledge, radical ignorance, and economic complexity (Ikeda 1996). In other words, regulators do not have all of the information to be able to apply sanctions only on undesired economic or political activity. The indiscriminate application of sanctions will suppress private entrepreneurial activity as well as public activity and have costly network effects. Intervention can lead to a mixed economy where these suppressed activities, such as the Cuban market for foreign goods, are relegated to informal markets. The urge to intervene can be overcome at a policy level if the preferences of decision makers are strong enough. Decision makers have to overcome political constraints, policy constraints, and norms that govern the US relationship with Cuba. The US executive branch has a history of using US-Cuba policy as a foreign policy signal. Through defiant public statements and an increase in restrictions on remittances, President George W. Bush signaled that he was not willing to cooperate with the communist regime. In contrast to previous interventionist policies, President Obama ceased this rhetoric and implemented policies to move toward a diplomatic solution. His actions reversed a norm that dominated half a century of American posturing toward Cuba that manifested itself in the Cuban embargo.

### **III. OFAC and El Bloqueo**

The first US sanction was issued in the War of 1812 in retaliation to Great Britain for the harassment of American sailors. This established precedent for the US Department of the Treasury to use offensive economic tactics. The United States employed economic sanctions to

undermine the political regime of the targeted nation. The body that became OFAC, or the Office of Foreign Assets Control, was established in 1940. It administered wartime import controls, put enemy states on a trade blacklist, and took a census of foreign-owned assets in the United States and American assets abroad with the power to freeze the removal of such assets from the United States in wartime.

President Dwight Eisenhower officially broke diplomatic relations with Fidel Castro in January 1961 after Castro overthrew US-backed, elected President Fulgencio Batista. In response to the Castro revolution in 1962, OFAC took on its modern role of preventing prohibited transactions, identified as “trade or financial transactions and other dealings in which US persons may not engage unless authorized by OFAC or expressly exempted by statute” (OFAC 2009). These sanctioned countries include Cuba, Iran, North Korea, Sudan, Syria, and Myanmar. The US embargo against Cuba is known as “el bloqueo” or “the blockade” in Cuba. Between 1994 and 2003, OFAC collected more than \$8 million in violations of the Cuban embargo. Between 1995 and 2003, OFAC had 10 times more agents tracking financial activities in Cuba than tracking financial activities related to Osama bin Laden, according to the 9/11 Commission Report (Kean and Hamilton 2004). Cuban Assets Control Regulations were issued on July 8, 1963 under the Trading with the Enemy Act of 1917 (OFAC 2009).

Appealing to humanitarian good will, the Obama administration abandoned restrictions on family travel and remittances to Cuba in May of 2009. Obama stated: “It’s time to let Cuban-Americans see their mothers and fathers, their sisters and brothers. It’s time to let Cuban-American money make their families less dependent upon the Castro regime” (Meckler 2009). Cuban-Americans are still prohibited from sending money and goods to Cuban government

officials and to members of the Communist Party of Cuba (PCC), but they can send resources home to family members who are not official government employees or members of the PCC.

Before 2009, travel to visit relatives in Cuba was limited to once every three years. Travelers were limited to spending \$50 per day on living expenses and \$50 per trip on transportation in Cuba. The amount of remittances allowed before 2009 was capped at \$300 in any three-month period and was restricted to “immediate family” only. The 2009 amendment to the Cuban Assets Control Regulations permitted unlimited remittances at whatever amount and frequency to “close relatives.” Close relatives are defined as any individual related by blood, marriage, or adoption, who is no more than three generations removed. The new rules also removed travel restrictions for family members, expanded the list of goods Cuban-Americans can send to their families—notably personal hygiene items, clothing, and fishing gear—and permitted American telecommunications companies to operate in Cuba. In 2011, another amendment to the regulations allowed any US citizen to send remittances to nonfamily members in Cuba (Sullivan 2016). In January 2015, another ruling extended the general license to all forms of travel as long as it could be classified as something other than tourism. These categories of authorized travel include family visits, journalistic activity, professional research, humanitarian activities, educational, and religious activities.

The beneficial effects of these policy changes were threefold. First, it lowered transaction costs for Cubans living in America to find ways to get money to their families. Second, it allowed for more competition in the electronic remittance transfer market (dominated by Western Union), which in turn lowered the charges for wiring money (Western Union 2016a). Last, it made further policy changes more palatable in both Havana and Washington, DC.

Efforts in Washington, DC, were paralleled by changes in Cuban policy. During the “special period” of economic recession that occurred after the dissolution of the Soviet Union in 1989, Castro legalized possession of the US dollar. In 1993, he begrudgingly permitted remittances to enter the country. His brother, Raul Castro, took over in 2008 and in his first year, he denationalized land for farming, permitted the rental and sale of residential property and cars, legalized some private enterprise previously run on the black market (most notably, the private restaurants known as *paladares*), and removed restrictions against the purchase of many electronic products including microwaves and DVD players. He changed the salary structure of government employees so that harder-working employees could be paid higher. In 2011, he announced a plan of 300 economic reforms in line with the Chinese model (Frank 2011). This increased opportunity and incidence of private enterprise increased access to foreign capital and paralleled the rise of remittance flows.

#### **IV. Remittances in the Literature**

Remittances reached more than 62 percent of Cuban households in 2016 (Western Union 2016b). Remittances have been credited with sustaining 90 percent of the country’s retail market and employing tens of thousands of Cubans. A majority of Cuba’s phone market is financed from abroad. Following the 2009 policy change, remittances have nearly tripled from \$1.44 billion to \$3.50 billion (Morales 2013). Moreover, remittances now amount to over three times the amount paid to state employees in Cuba in one year (Morales 2013).<sup>1</sup> Four of every five Cubans are employed in state-run enterprises. The Cuban government confiscates 10 to 20 percent of this money as “taxes” (D. Acosta 2006). Furthermore, there is a 10 percent tax on exchanging US

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<sup>1</sup> In Cuba, 4.08 million **state employees** made an average of \$750 each in 2012. Thus, the state paid its employees less than one-third the amount of official remittance money entering the country (totaling \$2.6 billion). This ratio is now likely closer to 5:1, not including the value of in-kind remittances (**Morales 2013**).

currency (D. Acosta 2006). Despite these taxes, remittance flows are a major source of income for Cubans. Individuals are motivated to send remittances for a mix of reasons including altruism, self-interest, inheritance, insurance, and investment in human capital (Page and Plaza 2006; Yang 2011).

Research conducted in Guatemala using a household dataset found that Guatemalans tend to view remittance earnings as a transitory stream of income (Adams and Cuecuecha 2010). As is consistent with Milton Friedman's permanent income hypothesis, Guatemalans invested more of the money in human capital rather than spending it on consumption goods. By asking questions about spending and saving, I will explore whether Friedman's permanent income hypothesis explains Cuban behavior. If consumers view their remittance income as transitory and have adequate opportunities for saving and investment, they will smooth their consumption over time, save money, and invest long term.

Literature has shown that remittances reduce poverty and inequality, increase investment and growth, and help countries adjust to external shocks (Fajnzylber and López 2008). However other academics argue that migration and remittances increase income inequality in poor countries by effectively creating the division between those who are fortunate enough to have family abroad and those who do not (Barham and Boucher 1998; P. A. Acosta 2008). Remittances have a positive impact on financial deepening (Hunte 1960) and on financial openness (Beine, Lodigiani, and Vermeulen 2012). Using a cross-cultural econometric approach for 69 countries, researchers identified that remittances improve primary and secondary school attainment, increase life expectancy, and reduce infant mortality (Zhunio, Vishwasrao, and Chang 2012). In Latin America as a whole, studies conducted using surveys and econometric models showed how remittances increase growth and lower poverty levels, yet only modestly

(Acosta, Fajnzylber, and López 2007; Acosta et al. 2008). Some papers have found that remittances have no effect on long-term growth (Gammage 2006), whereas others have found a positive effect (Mundaca 2009; Ramirez 2013) because increased savings, access to credit, and financial inclusion increase capital investment. Remittance flows strengthen economic relations, generate demand for migrant tourism, increase business competition and consolidation, and are associated with diversification of export economies in Central America (Orozco 2010).

Determinants of remittances to Cuba include changes in state policy, migration during an economic crisis, having immediate relatives in Cuba, and gender—with females sending more remittances than males (Blue 2004). Economic crises in the remittance-sending country such as the housing crisis and US recession beginning in 2008 negatively affected the amount of remittances sent from the US to Central America (Borja 2012). In Latin America and the Caribbean, a key determinant of sending remittances is the household, family or personal income of the sender (Pérez-López and Díaz-Briquets 1998).

Autocratic countries like Cuba rely on remittances to reduce their expenditure on welfare goods. According to political economist Faisal Z. Ahmed, high levels of remittances to autocratic states reduce the likelihood of government turnover, regime collapse, and outbreaks of political discontent (Ahmed 2012). This is the reasoning behind US Senator Marco Rubio's and some of the Cuban-American community's frustration with Obama's policies (Kumar Sen 2016). They believe that remittances prop up a regime that would otherwise fall. However, 40 years of full sanctions did not topple the Castro regime. Furthermore, sanctions hurt the Cuban people more than the government, thus limiting their ability to enact change in Cuba. Whereas remittances do provide a source of hard currency, Eckstein argued that they have a strong destabilizing effect in the long term by reducing regime credibility (Eckstein 2004). In fact, the lifting of these

sanctions for remittance senders paved the way for a wave of liberalizing policies by the Cuban government.

Eckstein has done pioneering work on behavior in the context of US-Cuban remittances. From her survey work in the Cuban-American community, she identified that increased interactions between Cuban-Americans and Cubans incited social, cultural, and economic changes that serve to erode state control. In encouraging and allowing remittances and travel because of economic desperation, the Cuban government had unintentionally set into motion liberalizing dynamics that authorities can no longer control (Eckstein 2002). Moreover, out-migration flows are positively correlated with the amount of remittances sent. In other words, individuals who more recently left are more likely to remit more. Cuban policies have also encouraged remittances. The legalization of select private enterprises, such as private restaurants and taxi services, led to capital investments from abroad. Furthermore, Eckstein argues that “informally circulating dollars are likely to undermine the Castro regime’s priorities, plans, and power, including control over cradle-to-grave welfare and income and consumer equality” (Eckstein 2004, 327). They do so by reducing reliance on the state, disrupting the government employment labor model, and allowing for disparities in income.

Eliminating barriers to remittances and lowering travel barriers constitute a strategy political scientist Joseph Nye calls “soft power.” Soft power is defined as “the ability to get what you want through attraction rather than coercion” (Nye 2004, 34). America holds its soft power in the form of culture, domestic values, and policies. The United States currently uses its economic strength and cultural influence to incentivize liberalization in Cuba instead of implementing sanctions or using military force (what Nye calls “hard power”). As opposed to isolation, economic integration provides an opportunity to change Cuba over time (Coyne 2008,

187). Integration in this way encourages Cuba to liberalize trade to capture the full benefits of growth. Exposure to US money, goods, and people changes the social and economic institutions in a positive way to incite further political and economic liberalization.

The insights of Eckstein and Nye, as viewed through the lens of interventionist literature pioneered by von Mises and Ikeda, will help to identify remittance policy tools as a positive force in economic and social liberation. Mises and Ikeda argued that interventionism can breed interventionism and that these policies have negative systemic economic effects. Deregulation can result in more deregulation within Cuba and between Cuba and the United States provided that politics does not get in the way. Eckstein, Coyne, and Nye point out that trade can reduce regime credibility through soft power.

## **V. Measuring Remittance Flows and Searching for Meaning**

Remittances to Cuba are notoriously hard to measure, although some individuals have tried to pinpoint a valid methodology. Researchers are unsure what percentage of money sent to Cuba is wired through official channels as opposed to being transferred by informal methods. An undetermined amount of money is carried by *mulas*—relatives or friends who visit on planes. It is hard to create a consistent picture of flows accounting for both the economic downturn as well as the amount of remittances that switched from informal to formal routes after the policy changes. The flows are likely underestimated because of the inability to account for informal transfers.

The Inter-American Development Bank, World Bank, and the International Monetary Fund do not have sufficient data to consistently report remittance statistics. Existing reports, often based on survey data, often contradict one another (Pérez-López and Díaz-Briquets 2004). The most accurate remittance statistics were calculated by the Havana Consulting Group of



Miami, Florida, based on its own estimates and statistics released by the Oficina Nacional de Estadísticas e Información in Havana. The estimates are graphed in figure 1. The vertical blue lines are added to demonstrate the years in which Obama’s policy changes occurred. The 2009 policy change ended restrictions on family travel and on sending remittances to family members. The 2011 change allowed Americans to send remittances to nonfamily members. General licenses for travel were extended in 2015.

*i. Table 1*

Remittances Sent to Cuba

2012—\$2.60 billion

2013—\$2.83 billion

2014—\$3.13 billion

2015—\$3.35 billion

In-Kind Remittance Estimates<sup>a</sup>

2012—\$2.5 billion

2013—\$3.5 billion

Totals

2012—\$5.1 billion

2013—\$6.33 billion

2014—more than \$6.63 billion

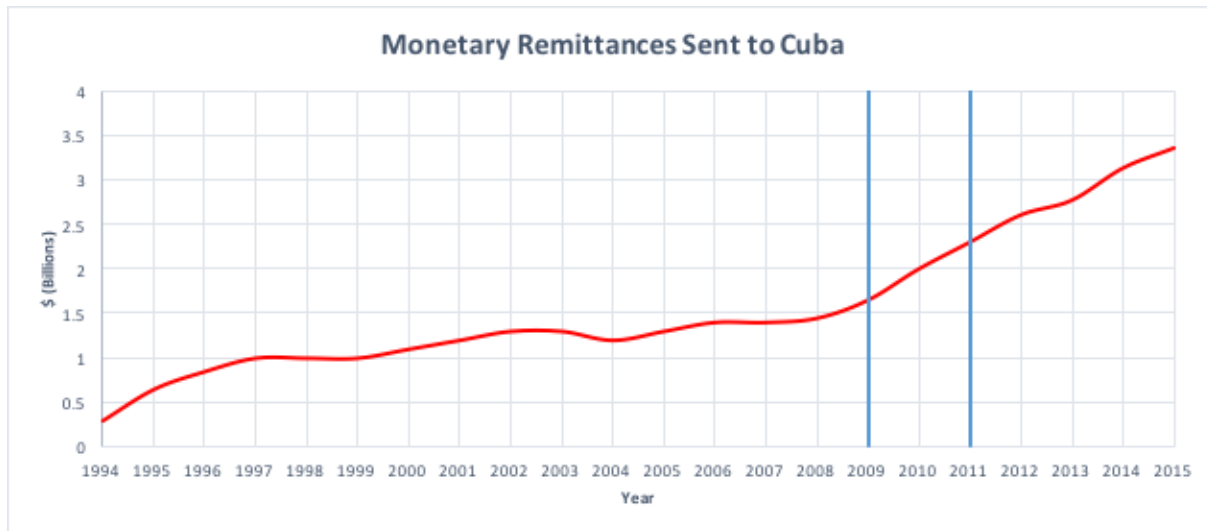
2015—more than \$6.85 billion

Source: Havana Consulting Group. <http://www.thehavanaconsultinggroup.com/en-US/Articles/Article/30>.

Sources for In-Kind Remittance Estimate: Havana Consulting Group. <https://www.havanatimes.org/?p=94444>; <http://marcotradenews.com/noticias/emigrados-cubanos-enviaron-mas-de-3-500-millones-de-usd-en-remesas-en-especie-en-el-ano-2013-24187>.

a. Estimates for 2014 and 2015 were not available, so the author can only approximate 2014 and 2015 totals by projecting that in-kind remittances amounted to at least \$3.5 billion in each of those years.

*ii. Figure 1*



Sources: Havana Consulting Group, Association for the Study of the Cuban Economy, US Government Accountability Office. [https://www.washingtonpost.com/news/worldviews/wp/2014/12/17/5-graphs-that-explain-cuba/?utm\\_term=.9b723dcf972f](https://www.washingtonpost.com/news/worldviews/wp/2014/12/17/5-graphs-that-explain-cuba/?utm_term=.9b723dcf972f)

Remittances are the largest source of hard currency in Cuba, outstripping the leading four sectors of the Cuban economy combined—nickel, sugar, tourism, and pharmaceutical exports (Washington Post 2014). Remittances in Cuba have become the fastest-growing sector in Latin America (Morales 2016). Furthermore, cash remittances outweigh government salaries by 3 to 1 overall; and roughly 80 percent of the Cuban workforce received government salaries in 2012 (Morales 2016). The inflation-adjusted total of \$3.5 billion does not include the value of in-kind remittances such as gifts, appliances, clothing, and other goods brought to the island. According to the Havana Consulting Group and its president, Emilio Morales, in-kind remittances were

estimated at \$3.5 billion in 2013, roughly equivalent to the value of cash remittances for that year (Morales 2014).<sup>2</sup> Travel grew 328 percent from 2007 to 2015, with a total of 538,433 people traveling to Cuba from the United States in 2015 (Morales 2014). Cell phones were legalized in 2007; 70 percent of the cell phones in use on the island are paid for by Cubans living abroad (Morales 2013).

It is clear from figure 1 that recent US remittance policy changes are associated with an increase in remittances to Cuba. According to the World Bank Country Data, the increase in remittances also parallels increases in gross domestic product, government spending, consumption spending, and investment (World Bank 2013). The empirical data alone cannot tell us how remittances are perceived, how they are used, or what social and economics affects they have on individuals. However, interviews with Cubans about their experience and perceptions of remittances shed light on these important questions.

## **VI. Finding Meaning through Qualitative Interviews**

My colleague Katarina Hall and I conducted 17 interviews in Havana over 19 days in June 2016. It may go without saying that the political situation in Cuba is tenuous. None of the questions we asked referenced politics, and we were purposefully forthright about the questions. Two of 19 individuals we engaged with declined to be interviewed, citing either disinterest in the topic or desire to refrain from providing opinion in lieu of their lack of facts or data. Some of the older individuals pointedly avoided mentioning the Cuban regime by name or self-censored to avoid getting into politics. Others openly criticized Castro's policies and decision-making. We mitigated distrust by using a hub-and-spoke methodology of interviewing. The first few people

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<sup>2</sup> The Havana Consulting Group estimated that 42 percent of goods accounting for \$1.5 million were sent through an agency; 54 percent of goods totaling \$1.9 million were shipped with passengers (Morales 2014).

we interviewed were friends known from previous trips to the island. They introduced us to the second round of interviewees, and the second round introduced us to more interviewees. In this way, we were able to increase trust and honesty, as well as to collect a diversity of responses.

Eleven of the interviewees received monetary remittances from the United States. Fourteen of the interviewees received in-kind remittances. Of the 15 that reported receiving some form of remittance, 13 received them from family and 2 received them from friends. The average age of interviewees was 53. Ages ranged from 21 to 80. Of the interviewees, 7 had high school degrees and 10 had higher-level degrees. We interviewed 7 males and 10 females. The interviewees live in six different subneighborhoods of Havana. Thirteen of them live in Old Havana. Of the 17 interviewees, 5 are retired state employees, 6 are government employees, and 6 work in the private sector. Many of these individuals held an extra job or continued to work past their retirement. The interviews averaged 54 minutes. Five interviews were conducted jointly with two interviewees, while seven were conducted with a single interviewee.

Speaking about the social and economic effects of remittances often led to discussion about the origins of economic need. Participants shared narratives about the sacrifices of family members abroad and the everyday instances of perseverance and innovation of the Cuban people. These narratives are explored in the following subsection.

“Cubans are inventors,” said Oleda, age 58, “we always come up with solutions. We are always creating and we always come up strong. That is why when Cubans go to another country, they have survived.” Cubans take pride in their ability to pull together incomes, fix old appliances, and generally make something out of nothing. In the face of such necessity, it became apparent that remittances are a source of relief and comfort and an effective form of foreign aid. Interviewees estimated that between 50 percent and 70 percent of their friends

receive remittances. Each of the respondents viewed remittances as necessary and good for the recipient. Thus, they were generally forthcoming and willing to offer personal narratives.

The qualitative data collected in the 17 interviews supports the hypothesis that while remittances reduce need, they cannot single-handedly drive economic development without policy changes. Through the fieldwork, I identified a few major narrative themes that I address below. These include the history of economic need in Cuba; the history of remittance transfer to Cuba; cultural, social, and economic barriers to receiving remittances; individual and familial remittance use on consumption and investment; and the effects of remittances on Cuban society and the economy as a whole.

*i. History of Economic Need*

Interviewees highlighted several economic “problems” that remittances help to relieve.

Remittances help you solve problems. Food problems, hygiene problems, housing problems, clothing problems, every kind of problem.—Veronica, age 80

For example, government-issued ration books do not provide enough food for a family to live on.

Interviewees mentioned the difficulty of acquiring food, especially nutritious or quality food:

The biggest challenge is food. Because with our national currency [CUP], you can't have the same amount, or quality, that you could otherwise get. All of the things that are sold in national currency don't compare with what you can buy in the stores that accept CUC. The chocolate is not the same, the cheese is not the same.—Oleda, age 58

Ration cards do not take preferences into account. They allocate the same number of items to each individual no matter their age, dietary restrictions, tastes, weight, or metabolism.

My only passion is coffee. With my rationing card, I get a small package of coffee, four ounces for a whole month. For a month! It's only good for three or four times. The rest of the month, what coffee can I drink? The cheapest coffee you can get costs a little over 3 CUC. That is almost 100 CUP for a bag of coffee. When I earn 200 CUP of retirement money per month, what can I do? Can I buy the bag of coffee to have some for the whole month? I can't. So you have to live without it, wanting it because you like it.—Veronica, age 80

The second most mentioned economic challenge is the inability to make a living. A majority of retired workers receive a pension of 200 CUP a month, roughly 8 US dollars. The government also fixes wages for public-sector jobs, which still employ a majority of Cubans. “We pretend to work, and [the government] pretends to pay us,” was one saying mentioned by three interviewees. The private sector is nascent and heavily regulated. Nalda, age 53, described the job market as an upside-down pyramid wherein highly trained professionals such as doctors and dentists work the hardest and make the least whereas lower-skilled entertainers, tour guides, and waiters make the most. “My husband is an engineer,” Teresa, age 52, recounted. “He stopped working and started selling popsicles in order to survive, in order to eat.” Cuba’s dual-currency reinforces this wage gap. The government pays wages in the national currency (CUP) and tourists and other foreign money comes into the country as Cuban convertible pesos (CUC). The CUC is valued around 24 times as much as the CUP. Therefore, driving a bicycle taxi for tourists often results in more income per day than a brain surgeon earns in a month.

There are many doctors in this country that don’t have a decent home. I know a doctor, the one that diagnosed my hernias, that lives in the hospital because he doesn’t have anywhere else to live. And no one is solving his problem. So you have to care a lot about your profession, and you have to care a lot about people to be able to function among so much necessity. . . . So a lot of professionals end up working as waiters, as house employees, in the black market. The most important thing here is foreign currency. Everyone looks for those kinds of jobs. There are a lot of doctors that have ended up baking and selling cakes. And they bake because there is nothing better to do. You can sell a cake for 5 pesos, or 10, or 15. So if you make two cakes per day, you make some money and you don’t have to deal with a 9-to-5 job where you are pressured and where you can’t earn a living. I think that there are some doctors here that don’t even make 1,000 CUP a month. And that’s the best of the cases. There is not a doctor that I know of that makes more than 50 CUC a month. And tell me, is that a life? That is not a life.—  
Anita, age 59

Furthermore, the prices for nonsubsidized items are prohibitively high. Interviewees cited price level as a challenge that remittances help solve. There are several economic forces at work that have resulted in higher prices for goods. Import controls result in scarcity. High government taxes are also implicit in the food price. Moreover, many goods are subject to price controls. The influx of foreign money for a fixed number of items also serves to inflate prices. Carlos, age 27, noted an example: “Everything that is imported to Cuba is raised 210 percent to sell . . . that is why sometimes you find technology that is 10 years old that has the same price that it would have had back then.”

Artificial scarcity owing to import restrictions and sanctions results in empty shelves. Many of the interviewees described a situation in which they needed to go to several stores to find an item such as eggs, salt, or condensed milk. This is a constant frustration, as Francisco pointed out: “When we ate best, we would have fish. And I’m telling you, sometimes I try to get fish but it’s hard. And Cuba is surrounded by water.” Nalda, age 53, insisted that the true measure of the economy’s failure was that people have been willing to risk their lives to leave. In general, interviewees felt that the economic situation of the country was an undue burden that left them devoid of a sense of human dignity. Remittances have minimized this burden.

#### *ii. History of Remittance Transfers*

Before the legalization of the dollar, Cubans invented ways to acquire dollars and exchange money. They did so at great risk. Not only was it culturally frowned upon, but also Cubans who were caught with US dollars were often put in jail. “For the first two decades after the revolution, it was seen as a bad thing if you received remittances. It was as bad as saying the word GOD,” remembered Ernesto, age 71. Some were able to trade money with foreigners:

We have a lot of friends that travel back and forth, so they would send [dollars] with someone who was coming to visit the island. Cubans invent things and ways. We always

come up with solutions [to exchange the money]. We would find foreigners.—Rosalyn, age 53

Those who didn't have direct access to foreigners had the option of receiving CUP in a government-issued, fixed-value card.

We didn't receive [remittances] in dollars. We would get the money through a card or something like that, we wouldn't get the physical money. [The government] would give you a card with a certain value, for example, 100 CUP. . . . They would let you know when you had money on it, and when you used it at the store they would just discount the money from the card.—Veronica, age 80

The 1990s were a time of economic hardship in Cuba. The fall of the Soviet Union resulted in blackouts and shortages, known as the “special period.” The CUP devalued, leaving Cubans with no purchasing power.

Before, in the special period you couldn't receive remittances in dollars. And those were bad times. A lot of people lacked things. Some people thought they were eating steak, but in reality they were eating tiles. People would cook it and sell it as if it were a steak. They would cook it with onion and garlic. A lot of people ate tiles for a while. Other people thought they were eating picadillo [ground meat] and what people actually sold was banana peel that was grounded and cooked.—Oleda, age 58

Remittances are a way to mitigate the effect of such downturns. Allowing family members to send individual aid in times of need makes remittances one of the most effective forms of foreign aid. Castro legalized the dollar in 1993. In 1994, the regime created a new currency—CUC—and tied its value to the dollar. However, access to this money was limited to foreigners and government uses. Many stores with higher-quality items accepted only CUC. The US government granted Western Union, a money transfer service, a license to do business in Cuba in 1999 and permitted the transfer of up to \$300 every three months. For the first time, Cubans had access to CUC. In 2015, the Cuban government required that stores accept both currencies.



There are many ways to receive remittances. Western Union's direct money wiring service is the quickest and most popular method. Of the 11 individuals who received monetary remittances, 10 used Western Union.

Western Union is very practical. Someone sends the money and two hours later, at the latest, you can retrieve your money in any Western Union office. There are a lot of offices. You get a number, and you just call the office, give them the number and your name. You receive the given amount in CUC. They pay the difference [in taxes] when they deposit.—Ezmeralda, age 67

Western Union greatly lowered the transaction cost to sending and receiving money.

Interviewees mentioned that money transfers from other countries are not as simple because money has to come through a Cuban state-owned bank.

You have to go to the bank to make sure your money is there, and that can take a long time. It happened to me. It took me three months with money that was sent to me from Spain when we needed the money. Three months went by, and by the fourth month when I personally went to the bank, after calling and calling, I finally got the money. Their response? "Oh yeah, the money didn't come in through here."—Teresa, age 52

Cuban banks did issue a type of stored value debit card; however, it takes weeks to receive one, add money, and use it: "For the magnetic card you need at least 50 CUC and about a week later you get a card. A week after, you can use the money that is in the card," said Javier, age 21.

Another method mentioned is the transfer of money electronically to an AIS (American International Service) debit card. Two interviewees used this method in addition to Western Union.

There are several options for sending in-kind remittances. People could send packages through DHL international shipping services, via Copa Airlines, or through regular mail from another country. Three interviewees had received mail in this way. Because these items have to

go through customs unattended, the method often results in time delays, broken cargo, or lost items.

There is a report that someone made, reporting two packages from the US, which were supposed to have coffee and razors, but when the package arrived at the person's house only the razors arrived. The coffee was gone.—Francisco, age 51

The most reliable service cuts out the government intermediaries. As noted previously, *mulas*, or mules, is the term for individuals who are paid to transport goods and money to individuals on the island. Six interviewees of the 14 that received in-kind remittances have received packages this way.

Businesses and people that send packages to Cuba hire people that are not economically well off to travel to Cuba and bring things. If one person came in with a lot of things it would be very expensive. So what do these companies do? They hire two or three people, buy them plane tickets for Cuba, and the company sends things with them. Generally it's people that don't have the money to come to Cuba and see their family, and through these companies they get a free flight to Cuba, and they only have to use their luggage to bring packages to other people.—Landa, age 32

On the receiving end, entrepreneurs with private cars get paid to pick up and deliver the packages. A private informal industry has evolved to complement and support the remittance industry.

The mula is the safest way for you to receive a package. The [mula] agency would bring you packages. If you send a television through that agency, you receive it. A pair of shoes, you get them. I myself worked with the agency for a bit. With my car, I helped deliver packages. And we were super efficient. I would pick it up at the airport with a name and address, and I would distribute them throughout the whole city and some other areas. And nothing ever got lost, because we worked in private enterprises.—Francisco, age 51

The cheapest and most popular way to send and receive packages is to wait for a friend or family friend to visit the island. The friend would bring small care packages with them to Cuba. Ten of our interviewees have received packages informally in this way. Finally, direct mail service

through the US Postal Service was scheduled to resume a few weeks after we visited the island in June. Four of the respondents said they were interested in trying the service.

Interviewees noticed an increase in remittances over time, especially in the past few years. “There’s more people that receive remittances than those that don’t. I think that this whole block receives remittances,” said Ezmeralda. There is also a sense that remittances are a major source of income for Cuba: “Cuba truly lives on remittances and has for a while. It does not even make much from sugar, nickel, or anything else. It’s just from remittances,” said Francisco. Thus, the legalization of the dollar, the introduction of Western Union, and the subsequent marginal policy changes have led to a higher standard of living.

The greatest influence, I think, is that remittances help a little bit in raising the standard of living because people can buy food or other things. Besides, I believe that as the relationships between Cuba and the US improve, that will help Cuban society. I think that people here are awaiting those changes.—Oleda, age 58

### *iii. Challenges to Sending Remittances*

While the number of methods to send monetary and in-kind remittances is increasing, there are still many difficulties and limitations with the current system. These include corruption, theft, taxes and delays, cultural differences, weak capital infrastructure, and red tape. Interviewees shared countless stories of delayed and mismanaged packages arriving with lost, broken, or changed items.

People are scared to use [the mailing system here]. Another thing that happens, now that I remember, is that some time ago, about three years ago, a relative of mine sent from England some products, and all of the products were replaced. At the end, what is sent from there is not what you receive here. Most of the products are elaborated here with the ones that they sell in the markets here. For example, someone sent me an iron, and the iron that I got was the one that they have in the store here. The beers were Bucaneros, the ones that are made in Cuba. Do you understand? What people send from abroad is not what you get.—Teresa, age 52

I had some friends that went to China to buy winter clothes. By the time they got it out of customs it was summer.—Francisco, age 51

Sometimes you don't get your whole package. That is a negative experience. For example, one sent from Florida in February took more than a month to get to the place where you have to pick it up. And a lot of the things she sent arrived broken. Sometimes the people handling the packages steal things from it. They open boxes and take some things out.—Carlos, age 27

Those in power view wealth as forbidden, and this attitude has become entrenched. For a long time, the dollar was associated with the Batista regime—vice, excessive opulence, and imperialism. Those found with dollars or caught interacting with Americans without a guide license were detained or put in jail until the late 1990s. For many, there is still an uneasiness associated with having money. Interviewees noted this tension between a desire to consume and the political stigma associated with it.

There are so many things that human beings yearn to have. And I'm not talking only about a car, a house; they want to be independent. Here you can't. Because even if they paid you to buy things, you have to explain where you got your money. No one here gets paid enough money to buy nice things, to go to a hotel and spend 100 [CUC]. You'd have 40 police on your tail asking you where you got the money. You can't do the things that other people normally do.—Ricardo, age 49

The desire for a higher standard of living is culturally stigmatized:

Cuban politics is not people politics because consumerism is criticized here. It's seen as evil. But if you don't consume, you don't develop . . . and here, to spend is a crime. It is seen as something wrong.—Francisco, age 51

Another chief limitation to sending remittances is the 10 percent government tax or “gravamen” on the dollar. This tax was instituted in 2004 as a response to the strengthening of US sanctions. Thus, the cost of sending remittances from the US to Cuba is the second highest in Latin America at 12.43% of the total amount sent (Orozco 2010). The average amount sent from the US to Cuba in 2010 was \$150. In March 2016, the Cuban government announced that it will

remove this tax if the US government allows access to certain international banking measures.

Because the majority of remittances are in dollars, Cubans express frustration at this extra cost.

Who does this hurt? The people. It's a measure against the Cuban people; against those that receive remittances. Because if my relative sends 100 dollars through Western Union, I lose 10 . . . this is a measure directly aimed at the heart of the people and to all of those that receive remittances and their families. It's the most stupid thing that they have implemented. They are not punishing the dollar; they are punishing the people.—  
Francisco, age 51

Furthermore, there are taxes on goods coming into the country. The limitation on suitcase weight is 44 pounds. Extra bags can be screened, reweighed, and charged on the other end.

The Cuban banking system is similarly troubled. Banks are understaffed, undersupplied, and often lack technology. In 1959, there were 29 Cuban commercial banks with around 200 offices and 6 American-owned banks (Shelton 2014). In 1960, these banks were nationalized, effectively eliminating credit operations and the circulation of money. Any money stored in these banks became used for the purpose of granting credit to government agencies and enterprises. In 1984, Cuban banking legislation allowed for foreign banks to have representative offices. Since then, one Spanish finance company has established an office. From the interviews, it became apparent that there is minimal trust in Cuban banks:

It is very rare to find someone who keeps a big amount of money in the bank because of its infrastructure. The lines at the bank are huge. Just to take out 4 pesos, it'll take you a whole day.—Teresa, age 52

Now there are debit cards and a few ATMs, but there are also limits on how much money you can take out per day:

Say I have my bank account and I have to travel tomorrow to the US, and I have 5,000 dollars and I need it, I won't get it. To get it out of the bank account, I need to get out 100 CUP per day. 100 in one location, 100 in another location, and so on. When you have to take it out you have to fill out a form stating what you're using it for, whether it is a house or a car. So it's a hassle to get money out of your account, especially if it's in big

amounts. And the line kills you. You lose time and money—and it's your money.—  
Francisco, age 51

Cubans do not use banks because of high transaction costs to accessing money, distrust of state-owned banks, and lack of capital. “It's safer to carry your money around in your pocket because the government can cheat you. You don't know that they won't [take it],” explained Javier, age 21.

It's not a habit to use the bank because credit does not exist here. And the debit system that we had before used a ledger, and if you wanted to get the money out it required a lot of paperwork. Now it is different, you have the magnetic cards with which you can just go to an ATM to get your money. But most Cubans don't have that habit, they save their money at home . . . Cubans do not trust in banks.—Carlos, age 27

Banking infrastructure and lack of capital are examples of some of the red tape and policies that limit the exchange of goods and money. Restrictions on imports and wholesaling also serve to starve businesses of capital:

The embargo that most affects us is internal. Because I don't need the United States, I can go to Mexico and Panama and buy things. I can buy parts for my car, but I can't bring parts in because I would have to pay [customs fees]. I can't open a hardware shop. I can't open dry cleaners. All of the Cubans here have, for example, bed sheets hanging on their balconies to dry. A good business here would be a dry cleaners. I can't import detergent. I can't import anything. I can't buy these things in great quantities here; you can't if you are a *cuentapropista* [private-sector business owner].—Francisco, age 51

Taxes, theft, delays, cultural stigmas on wealth, import restrictions, and inadequate banking infrastructure limit the exchange of money and goods in Cuba. These high transaction costs to sending, receiving, consuming, and investing continue to constrain remittance use. They also represent areas of opportunity for policy change and reform.

#### *iv. Remittance Use*

Because there are immediate economic needs, impediments to acquiring capital, and restrictions on starting certain types of businesses, Cubans use remittances on basic needs. Food—chicken,

coffee, salt, powdered milk—was repeatedly stated as the number one use of remittances. Secondary uses include medicine, toiletries, clothing, fixing appliances (blenders, fans, refrigerators), home and car repair, and special events such as weddings and birthday parties. Three of the interviewees mentioned that their relatives in the United States prepaid their cell phones. There are many services that allow relatives and friends to add phone credit to Cuban cell phones.

Some Cubans invest remittance money in small businesses. There is a perception that entrepreneurship is expanding: “Before, [remittance senders] only sent the money for you to eat,” Francisco recounted, “now they send it so you can open a business.” In 2013, the government authorized 201 legal occupations for *cuentapropistas* or entrepreneurs. This list most notably includes taxi drivers, food vendors, café and restaurant owners, and repair shop owners.

Some of the Cubans that have been in the US for years, that are able to have some savings, instead of sending remittances back, they are going to come back and invest it. At the end that is more important. The important thing is not that people send you money, but that that money helps you set up your own sustenance. It’s not that someone gives you a fish, someone should teach you how to fish.—Alberto, age 79

High barriers to accessing capital dampen entrepreneurship. There is evidence that access to capital, legal certainty, and lower regulatory barriers to exchanging goods and money would result in much more entrepreneurship and investment. If he had remittances, Francisco, an entrepreneur taxi driver, said he “would buy a newer, bigger car with a better engine.” Another interviewee had dreams of opening up an art studio:

I studied plastic arts. I am a painter, sculptor, and photographer. One of the reasons why I quit plastic arts and took up restoration was because of money. If I wanted to do a big and important project I needed money. Where was I supposed to get the money from?—Carlos, age 27

For those who open a business, remittances are a key source of capital:

All of those big *cuentapropistas*, through the help of remittances of their relatives in the US, have money. Because, if I, for example, would want to open a diner, I have to buy a freezer, I have to remodel the place, and I would have to get the money from my brother. . . . Almost 90 percent of them have their businesses because of remittances from family members they have in the US.—Francisco, age 51

Nevertheless, there are still impediments to entrepreneurship in the form of scarcity of inputs, corruption, time, and licensing:

I used to sell flan. I lived from selling flan. . . . You go through a lot of trouble making them. You don't always find milk, you don't always find eggs. It's too much work. It takes a lot of effort to maintain a business. It's hard to run a private business, you don't find milk, you don't find eggs. And I can't buy a lot of eggs at once either. Everything is a problem here.—Isabel, 48

To rent a room legally, there is a monthly fee of 150 CUC. For one interviewee, this fee would be two-thirds of that person's revenues. In light of this fee, many choose to bribe inspectors.

I don't remember the number but let's say 90 percent of the population lives from inventing things. I used to give piano classes before to kids. Oscar gave English classes to kids. Now we rent a room. . . . I think that people here always have to have something extra to do because you can't live with salaries here.—Landa, age 32

Demand continues to outpace supply in Cuba. It is a constant battle for disposable income. We asked interviewees what they would buy if they had the money. The answers were instructive and heartwarming. "I would like to buy a cake for my mom, but I have to prioritize milk, coffee, and chicken," said Anita, age 59. "I want to buy a nice dress for [my goddaughter's] birthday for her to look like the princess that she is," said Ramira, age 80. Other mentioned items included house paint, coffee, and furniture. One 21-year-old that we interviewed expressed a desire to earn remittances in the United States with the goal of buying his mom a house. Carlos, age 27, echoed this sentiment:



First, I would make my mom's life more comfortable. I would tell her not to work any more, and I would pay for everything. Secondly, try to live like a person. I like to go to my house and eat whatever I want, study whenever I want. I would like to read comfortably in my house, with lights. . . . Once I solved that, I would like to travel. I would do it internal to Cuba and then externally. I would visit, travel, get to know countries I don't know.

Many Cubans expressed the desire to travel. Ramira desired to see Asturias in Spain, the land of her heritage. Isabel wanted to visit her elderly mother in the United States. While remittances are perceived as a temporary solution to fulfill needs and some wants, there is a general understanding that the economic system is broken and more substantial changes have to occur. According to interviewees, remittances have both positive and negative secondary effects on social ties, happiness, cultural values, and the economy.

*v. Social and Economic Secondary Effects*

Interviewees agreed that remittances are generally a good thing for Cuba. They make life easier, relieve some of the daily stresses, and are a direct form of aid, allowing Cubans to prioritize their greatest needs. Respondents were split on whether remittances had positive secondary effects on Cuba's economy and Cuban society in general. The interviews revealed a sense of familial sacrifice that stresses social ties, transforms relationships, and exaggerates differences between social classes.

Many people receive [remittances]. It has become a kind of family business. Sometimes they sacrifice the youngest member of the family and make them leave the family home. They send them in boats or through marriages or with a job offer and they stay. That is a way to survive economically. It has become an alternative.—Carlos, age 27

Isabel, age 49, spoke of familial distance as “the bad thing that comes from this good thing.”

Both Nalda and Oleda mentioned that a majority of their friends had left the island because of

economic need. Whereas remittance relationships are characterized by physical distance, there are deep sentimental bonds couched in gratitude and pride.

The first time I received money from my son, I cried. I cried. My husband kept asking me why I was crying. But I cried because I felt that because until that point I have given everything I could for him, I even helped him leave the country through my job. I left for an international mission in Africa, and I earned money as a doctor. . . . And in one year, I earned what I didn't make in 24 years of working here. . . . And I felt empowered, I was happy. I saw that with my money, with my efforts, I could achieve things. Then when I came back, the money that was left over, I gave to my son because he wanted to leave. . . . And over there, he became a good man. He left as a boy. He was 21 years. Now he is 34. So the first that I got money that he had made with his own effort, well, I cried. I felt that for him to be sending me money from another country was heartwarming.—Oleda, age 58

Interviewees are proud to have family abroad. Their remittance senders had jobs that included construction worker, waitress, factory worker, and an industrial mechanic. They understood that their loved ones work hard. Only the youngest interviewee had an expectation that remittances come monthly and indefinitely. For the rest of the interviewees, remittances came sporadically or were tied to specific moments of need. “If family wants to send us something, then it’s a blessing. But if not, then that is okay too,” explained Isabel. Remittance senders are respected in Cuban society. According to some interviewees, remittances have transformed the traditional family structure:

The person who used to be most respected in homes, in the family hierarchies, used to be the oldest person, like a grandfather, then the father, then the son. In Cuba, the person with the most respect is the one that provides the most money. It doesn't matter if that person is young or old. The one that provides more for the family is the one that gets the most respect. It has also influenced society because people have the money to buy things with, so other people want to be close to that person. In relationships, it has become a problem.—Carlos, age 27

Furthermore, the promise of remittances incentivizes young Cubans to leave the country:

There is a large exodus of doctors. . . . They get paid more abroad, they can help their families, they can acquire things that they can't buy with their money, their

salary, here in Cuba. So what do they do? They leave to other countries.—Oleda, age 58

Some argue that the exodus of young Cubans, and especially skilled workers, has negative social and economic effects. Interviewees noted that familial social hierarchy wasn't the only thing disrupted. Remittances are perceived to exaggerate differences in social class:

It seems that the social influences that it has is more negative than positive. . . . There are poor people all over the world. There are rich people all over the world. I am not a fan of egalitarianism. But in Cuba, the entry of remittances has unleashed the social differences that already existed. That is all because of remittances. . . . For many years, we were made to believe that we lived in an egalitarian society. When people began to receive remittances, which was in one of the most economically critical moments the country has been through, you started noticing the differences that you didn't really notice before. You noticed that there wasn't egalitarianism. You realized that there were some people that could live a little bit better through the remittances they received. I am talking about the year 1993 until today. Because before that, not a lot of people received remittances.—Nalda, age 53

There are also social benefits to increased remittances. “The more remittances we have, the more social life we have,” Isabel noted. Javier, age 21, used some of his remittances to go dancing at *Fábrica del Arte Cubano*. However, some interviewees noted that the influx of easy money incentivizes younger people to pursue lives of leisure. In Alberto's opinion, remittances are only good if they go to people who cannot work: “If an older person receives the money, then that's good. But if a young person receives it, then that can lead him to drugs, to an easy living.” Concerns about secondary social effects often accompanied concerns about the economic effects of remittances.

Some interviewees argued that while remittances help people day to day, they do nothing to change Cuba's economic course. These individuals saw Cuba's poverty as endogenous—a result of mismanagement of the economy.

[Remittances change] the mentality of those that receive them. Because a person that earns 242 CUP, like [my cousin] does, if she didn't get remittances nothing would change. But her mentality has changed. So now she is able to have a little bit less worries. But it's not that it changes the poverty levels of the country. The country is still poor, miserable, and there is scarcity. What changes is the life of one person, but the rest of the country remains poor.—Ricardo, age 49

Nalda, age 53, predicted that policies will have to change for the economic situation to improve.

She sees privatization, increased exchange of ideas, entrepreneurship, and relations with the

United States as positive forces:

I think that the changes will come as long as there is a greater opening and as long as there are more people with new projects and new ideas that can spread. That is what I think. But we still need a lot of changes. Obama has at least improved our situation. But the exodus is huge. A lot of people have lost faith and have left. They have tried to do things here, and Cuba always imposes a new law that doesn't let them move forward. . . . Cubans ask if the private sector works, well, it does. Because when you have a business and you make it profitable with your efforts and by sacrificing things, and you see that it's slowly improving, then you'll take care of it. When things don't belong to someone, people don't take care of them.

There is a sense that peoples' suffering is the result of bad government policy on both the US side (a majority of interviewees mentioned the embargo) and on the Cuban side:

They are mistakes that the government made, but who pays for the mistake? The government doesn't pay for it. The people do. And we are still paying for it. No ruler in any part of the world suffers the consequences of his actions. The ones that suffer the consequences are the people.—Nalda, age 53

Alberto, a professional journalist in Cuba, suggested that remittances have an inflationary effect on price levels, leading to more inequality: "There are also a lot of inequalities. Before, everyone was the same. Not everyone is the same because the prices are set by those that have greater purchasing power." Because imports are limited, there is a relatively fixed amount of goods available for purchase. Central control of imports and distribution means that supply is relatively inelastic and thus inflexible to changes in demand. Access to remittances results in more money

and more demand for these scarce goods. Therefore, the seller can charge a higher price. The purchasing power of remittance receivers can drive up prices, making some goods harder to obtain for those that do not have access to foreign money:

Today there are a lot of people that have large incomes, because they are intermediaries, they come up with ways to make money. They are the ones that when I go buy something, and one of those people that already have money bought one before me, and they paid one dollar or two dollars, then I can't buy the same thing with 5 CUP. And there is not enough supply, because there is no wholesale market.—Alberto, age 79

Nevertheless, the influx of in-kind remittances means that more goods become available in private home-front stores. “[In-kind remittances] help people here because you can't find things,” said Teresa, age 52. “You can't find good clothes, or anything else to wear like shoes. So those goods have made it easier for people to make some money.” There is a sense that remittances are keeping stores afloat: “If we didn't receive remittances, the majority of stores in Cuba wouldn't have customers,” said Rosalyn, age 53. Remittances also sustain the economy and promote entrepreneurship in other ways. One interviewee explained how the trickle-down effect of remittances leads to dispersed wealth:

After the fall of the Soviet Union (Campo Socialista), remittances are what sustain our country. Say for example that I don't receive remittances, and our elderly neighbor asks me to take her to pick up her remittances, by taking her and waiting in the car for her, I get money. From what I earn, I buy the glue from someone else. And so on. At the end everyone benefits, because it's a chain. Do you understand? There is a very large black market, which is the real market of Cuba. It's what the people live on.—Francisco, age 51

There is evidence that remittances help the Cuban regime and allow the government to pass off costs to the Cuban diaspora. The 10 percent tax on the dollar generates a large pot of revenue for the state. The most obvious example is cell phone service. The diaspora pays the bill for a majority of cell phones in Cuba. Several of our interviewees confirmed that this was a

common occurrence. Government-issued ration cards used to include soap and toothpaste, but now they include barely enough food to sustain a person. Electricity used to be a flat “symbolic” fee; but the government stopped subsidizing it. Now you have to pay for the amount that you use. “You pay two or three pesos every month for water and for gas. However, electricity is not like that anymore. 1,600 pesos,” explained Landa, age 32. Cubans received more electronics in the form of in-kind remittances. It is possible that by charging for electricity, the government is trying to extract rents by targeting those who receive remittances. The diaspora also sends money to pay for internet access costs at \$2 per hour. The government does use remittances to subsidize some services, but Nalda argues that this is not a valid reason to refrain from sending them:

There are people outside of Cuba that don't want to send money to Cuba because they don't want to send money to the government. But in reality, you are not sending money to the government, you are sending money to your family. Of course, your family lives in Cuba, and they will use the money in Cuba. But they are using the money for their benefit, so that they can get food, get clothes. But there are people that don't want to. For me, that is a mistake. You are not helping the government, you are helping your family. And they could really use the help.—Nalda, age 53

Ultimately, remittances help people survive, grow private businesses, spread wealth, and have access to things they otherwise would not have, such as internet, telephones, and televisions. Having access to information can make people more productive and facilitates the spread of ideas. Perhaps consumerism should not be vilified; perhaps wealth is not a bad thing for society; perhaps egalitarianism is not a virtue; perhaps policies need to change. Interviewees expressed these sentiments. Remittances also have secondary effects that are difficult to quantify. On the one hand, they affect the structure of Cuban families and of society as a whole. Remittances inflate price levels for some goods, are a source of government revenue, and incentivize emigration. On the other hand, remittances cause more goods to enter the country, allow for the exchange of culture and ideas, and promote entrepreneurship.

## VII. Conclusion and Policy Recommendation

These narratives suggest that while many Cubans see remittance money as temporary income, they spend it primarily on consumption. High barriers to investing and saving combined with immediate economic need create unique conditions in Cuba. Because of the high regulatory costs to saving or investing money or accumulating capital, Cubans do not have the opportunity to view income as anything other than temporary. This means that no clear inference can be made about whether Friedman's permanent income hypothesis holds true in Cuba. As more barriers to entrepreneurship and investment are lowered, it is more likely that remittance use in Cuba will mirror remittance use in Guatemala or El Salvador; namely, investment in businesses and human capital will increase. The more appropriate lens through which to classify remittances in Cuba is international development. Remittances serve effective means of foreign aid:

We are not in war here in Cuba, but remittances are like a humanitarian help. Cuba is a place of disasters. We don't have earthquakes or volcanoes, but we have a chaotic economic system that makes us living in a constant state of alert due to any upcoming crisis. We can have two or three months of higher income, but we always worry that in any moment the situation can turn around and then you have to figure things out.—  
Alejandro, age 35

Remittances alleviate worry and help mitigate the effects of economic uncertainty. Remittances are also linked to the rise of the entrepreneur or *cuentapropista*. To use Alberto's metaphor, remittances are primarily used to "buy fish," and secondarily used to help people "learn to fish" and run their own businesses. This metaphor is especially significant because the fishing sector in Cuba is heavily regulated and Cubans are prevented from owning boats. Remittances facilitate the exchange of ideas and cultures so people can understand, for example, that fishing and owning a boat are not bad. There are numerous policy opportunities the Cuban government can pursue to reduce uncertainty, increase remittances, and boost investment. As Cubans successfully

run businesses and get exposure to the culture of ownership and mutually beneficial exchange, it puts pressure on government to allow more types of private activity. The Cuban government appears to be moving away from a model of government employment and full bans on private enterprise to one where some enterprise is allowed but heavily taxed through licensing fees and other restrictions on business size, labor, and capital. This new approach is marginally better than a complete ban and provides a clearer path to further reforms.

*i. Cuban Policy*

Allowing the transfer of remittances has positive economic and social benefits. There are several ways to encourage continued remittance sending. Allowing for competition in the money transfer business reduces transaction costs and boosts growth. Changing the fee structure and amount, upgrading the technology in payment systems, improving financial literacy, and using regulatory and policy mechanisms can also reduce transaction costs. Permitting more forms of electronic payment will lower the transaction costs to direct money transfer and encourage exchange. The Cuban government should ease up on restricting internet access so people can have access to digital currencies, microfinancing, and crowdfunding. Providing migrants access to different types of savings accounts in recipient countries can also increase remittances because senders have more control over how the money is used (Ashraf et al. 2015). The government can also supply matching funds for remittances allocated to human or capital investment in order to promote growth (Ambler, Aycinena, and Yang 2015). In other words, the government can subsidize demand for education rather than the supply; however, this would require deregulating the education system in Cuba.

The Cuban government should also permit more private enterprise in different sectors, and remove red tape for current businesses. The state still has a monopoly on a majority of



sectors in the economy. Owning property was allowed only as recently as 2011, and Cubans were limited to one residence and one summer home. According to interviewees, these restrictions are burdensome:

The only things that you can own are restaurants, cafeterias, rooms to rent. If I wanted to open a small hotel, I couldn't. Hotels are owned by the state. If I wanted to open a school, a kindergarten, I can't because education is run by the state. So these businesses make money for Cuba, but they don't give enough money for Cuba to get out of the crisis. . . . They have not authorized, for example, that a private individual can run a sugar mill. Sugar mills still belong to the state.—Nalda, age 53

Advertising is also currently prohibited in Cuba. Despite this restriction, there is a budding digital advertising industry that bundles ads with a weekly packet (*el paquete semanal*) of entertainment, news, and mobile apps sold and passed around on USB sticks and the internet.

The Cuban government would do well to refrain from cracking down on this behavior.

You know that here you can't advertise anything? Not even if you pay. The TV and radio stations are dying because they can't survive without advertisement. It's forbidden. They say it's bad. But if an artist pays to get promoted, he should be able to.—Francisco, age 51

Allowing businesses to advertise and to have access to capital would incentivize entrepreneurship and permit more remittances to be used to start businesses. Moreover, allowing for private sector banking, denationalizing, and deregulating the banking sector will promote investment through competition. One economist points out the following:

The lesson to be learned from what has happened to the banking system in Cuba indicates that the banking system, if properly used and regulated, is a powerful instrument of economic development, but that it can only flourish in a scenario of a free market system under a democratic environment where competition dictates the use and price of money (Shelton 2014, 5).

In fact, interviewees noticed that prices tend not to make sense in Cuba:

Public transportation is not free, but what you pay is only symbolic. It's the same with the electricity here. The prices are symbolic. Paying for gas is only symbolic. They don't have real prices.—Landa, age 53

The influx of remittances, coupled with opportunities to own small businesses, has the potential to lead to more goods provided at lower prices. For example, it was impossible to find a Venus razor head (or any nondisposable razor) in Cuba until a few years ago. Now razors are sold out of peoples' homes at high prices. If anyone who wanted to sell a razor could import them, then the price of razors would go down. It is important to note that being able to buy a razor at a high price, as a result of in-kind remittances, is better than not being able to buy a razor at any price. In this way, remittances are opening the market.

Removing restrictions on businesses sourcing labor or goods will also result in more investment from abroad. Arbitrary restrictions on business size keep prices high and stunt economic development. For example, restaurants are limited to a certain number of seats. There are no private franchises. Any legal private enterprise such as restaurants or home rentals requires an expensive municipal license granted by the Cuba's Ministry of Labor. There is no wholesale market in Cuba, and businesses have to jump through regulatory hoops to import food or certain types of technology.

In Cuba, we are all poor. So no matter how small your business is, you need to have capital to start it. And most people don't have that initial capital. Most people don't have a house large enough to use part of it as a restaurant or as a cafeteria.—Nalda, age 53

The Cuban government can encourage the productive use of remittances by permitting wholesaling, lowering barriers to securing imports, and making it easier to have employee turnover. Furthermore, demonstrating judicially that courts will protect property rights will signal to businesses and individuals that it is valuable to invest in Cuba. Likewise, removing the

tax on the dollar and allowing foreign businesses to deal in dollars will bring in capital. This would open up the market to foreign companies and promote investment. Investment has suffered since 1994 because the creation of the dual currency increased the cost of doing business in Cuba:

Foreign investors would have products here, especially Spaniards, because they would get their money back because you paid in dollars. But when they changed the dollar for CUC, those investors left. Why would you exchange your money with the government? They lose part of their investment there.—Francisco, age 51

There are many approaches the Cuban government can take to increase remittance flows. In short, the Cuban government need only get out of the way. Cubans should not have to ask for the government's permission to save and invest money, own property, acquire capital, start a business, or grow their business. Lowering transaction costs and breaking down regulatory barriers to exchange will ensure that remittance flows go to their highest valued use in the market, rather than being funneled into a pattern of consumption.

#### *ii. US Policies*

US policy toward Cuba has had negative secondary effects as well. The embargo diminishes exchange and disincentivizes good economic behavior. Restrictions on travel, on the amount of remittances Americans can send, and on what industries and players can trade and operate with Cuba have increased the transaction costs of doing business with Cuba. The Helms-Burton Act of 1996 extended limits on operation to non-US entities. In other words, if a Spanish company chooses to do business with Cuba, then it is prohibited from doing business with the United States. This political peer pressure increased the amount of sanctioned activity. In this way, the US government is effectively choosing winners and losers by granting permissions and exceptions in certain industries such as pharmaceuticals and agriculture. Five airlines, one bank,

and two cell phone operators were recently authorized to enter Cuba (White House 2016). Western Union is now allowed to open branches in Cuba, and the US Postal Service now cooperates with Cuban post (White House 2016). Switching the paradigm from “having to ask for permission” to instead “granting permission” and punishing bad actors will result in mutually beneficial exchange.

In June 2016, the US Department of State added coffee and other products to the list of items Americans can import from Cuba (White House 2016). These items should have never been restricted. As Don Boudreaux, professor and co-director of the Program on the American Economy and Globalization at the Mercatus Center at George Mason University, is quick to point out, trade restrictions often hurt both players (Boudreaux 2015). This result is because the restrictions do not achieve political change and, instead, have the unintended consequence of prohibiting mutually beneficial exchange on both sides. The United States has the potential to be the largest foreign consumer of Cuban goods—cigars, rum, and coffee. Prohibiting Americans from purchasing Cuban products serves to punish Americans and to make them less free.

Apart from the economic damage, the embargo is the favorite talking point of the Castro regime. The Castros have blamed el bloqueo for the scarcity of goods on the island, for building collapses, and for price inflation. The late Gary Becker, an economist at the University of Chicago, argued that “there is no sense in continuing to punish the Cuban people with an embargo on trade, nor to provide excuses to its leaders for the poor performance of the Cuban economy” (Becker 2014). Moreover, easing the restriction on travel will help both Americans and Cubans.<sup>3</sup> Before 2016, only a few charter companies were allowed to operate flights to Cuba. The entry of new airlines into the market will lower the cost of travel to Cuba. It is

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<sup>3</sup> Visa restrictions manifest as added costs to exchange. For example, I created a GoFundMe page to raise money to buy items to donate, such as undergarments, toiletries, and electronics. The website suspended my account until I could provide travel documents that showed I was traveling legally.

estimated that travel from the United States could increase from 700,000 visitors in 2015 to 10 million per year according to the International Monetary Fund (Romeau 2008). More cross-cultural interactions and exchange of ideas may incite an appetite for change in Cuba.

The Cuban government has long used *el bloqueo*—or blockade—as a scapegoat for the failures of Cuban politics and the economy. Robbing the government of this argument may bring to light the true culprit—harmful policies. International pressure and interaction with foreigners have resulted in positive changes in Cuba. Nalda, who shared her anti-authoritarian views with us, mentioned that her friend had given her a copy of George Orwell’s 1945 book *Animal Farm*. This exchange is a form of soft power:

Much as Adam Smith observed that people are led by an invisible hand when making decisions in a free market, our decisions in the marketplace for ideas are often shaped by soft power—an intangible attraction that persuades us to go along with others’ purposes without an explicit threat or exchange taking place. (Nye 2004, 39)

The power of cross-cultural interaction was most visible when Pope Francis visited Cuba in September 2015. As a “humanitarian gesture” on the eve of his visit, Cuba released 3,522 political prisoners (Watts 2015). This was the largest number of people ever released by the either Fidel or Raúl Castro. Our interviews revealed high approval ratings for Obama. Many mentioned that Cubans are infatuated with him, especially after his visit in March 2016. They see his policy changes as a boon for Cuba. Allowing more interaction and exchange will allow Americans to leverage soft power to pressure for more liberal policies.

It is important to note that ending the embargo will not immediately and single-handedly lead to the economic liberalization of Cuba. In *A Critique of Interventionism*, von Mises explains that the effects of liberalizing exchange are not instantaneous:

We must not assume that an immediate abolition of all the obstacles to the smooth functioning of the capitalist economic order would instantly eradicate the consequences

of many decades of intervention. Vast amounts of producers' goods have been destroyed. Trade restrictions and other mercantilistic measures have caused malinvestments of even greater amounts that yield little or nothing. The withdrawal of large fertile areas of the world from the international exchange system has led to unproductive readjustments in primary production and processing. Even under the most favorable conditions, many years will pass before the traces of the fallacious policies of the last decades can be erased. But there is no other way to the greater well-being for all. (von Mises [1929] 1976), 16)

There are still hard economic realities and Cuban policies in place to minimize investment and stunt growth. As Francisco told us, Cuba has an “internal embargo”—examples include Cuban government restrictions on what you can import, whom you can hire and fire, where you can conduct business, and with whom. Furthermore, the interviews revealed that Cubans do not trust the banks and have virtually no access to capital on the island. Foreign businesses also distrust the regime. There is no legal recourse if the government decides to nationalize foreign-owned businesses as it did in the 1960s. Therefore, the cost of investing in Cuba will still be prohibitively high for many companies even without the embargo in place.

Ending the embargo and allowing unlimited travel and remittances will be mutually beneficial for both parties. It will lead to more economic exchange on the margin; it will allow more Americans to travel to Cuba, facilitating the exchange of ideas; and it will be one more straw on the camel's back. Holding true to Ikeda's theory of interventionism, policy changes in the past five years have shown that deregulation on the US side begets deregulation in Cuba. Both governments should leverage the political momentum to break down barriers to economic exchange.

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## **IX. Appendix**

### *i. Interview Instrument*

Because this research is qualitative in nature, questions will vary based on the background of the individual being interviewed. We anticipate that many questions will prompt follow-up questions asking for elaboration on certain experiences. Interviews will be conducted in a semi-structured format. The questions listed here will form the basis of interviews.

#### **Interview Instrument—For Remittance Recipients**

From whom in the United States do you receive remittances? What is your relationship with this person?

How long have you been receiving remittances? Do you receive them monthly, annually, or at random? Were they consistent?

Did you receive more remittances after the 2009 policy change implemented by President Obama permitting unlimited remittances and travel from the United States to Cuba? Tell me about this change.

Would you be willing to share how much you receive (goods and money) from the United States?

What kind of in-kind or nonmonetary remittances (goods like TVs or computers) do you receive?

How often do you stay in touch with the remittance sender?

Are you the only one who receives money from that remittance sender?

Do you expect this money to keep coming for the next 10 years, or do you expect it to end?

How do you receive the money? Do you receive it physically from someone visiting? Do you withdraw it from a bank or money wiring service? Please describe this process? Is the money in dollars, CUC, or Cuban pesos?

Is there anything about the remittance process in Cuba that you would change?

Tell me about remittances in Havana. Do many people receive them? What do they spend them on?

Can you think of any positive or negative stories you have heard about remittances?

What do you spend your remittance on? Why? Give us some examples.

Do you ever invest the money in a bank? Or save it in some other way?

How many of your close friends and relatives in Cuba receive remittances, would you say?

In your opinion, are people who receive remittances better off than people who don't?

What are the biggest challenges facing those people who do not receive remittances?

Would you tell me about a time where it was hard to get by financially? Did your remittance payments help you get through it?

What do you think your life would be like if you did not receive this money?

Are you proud to receive remittances?

If you received larger remittance payments, what would you do with the additional money?

Does your remittance sender ever ask you to spend the money on certain goods or services?

Thank you for your time. Is there anything else you want to tell me, or is there anything else I should have asked?

### **Interview Instrument—For Subjects Who Do Not Receive Remittances**

Tell me about remittances in Havana. Do many people receive them? What do they spend them on?

How many of your close friends and relatives in Cuba receive remittances, would you say?

In your opinion, are people who receive remittances better off than people who don't?

What are the biggest challenges facing those people who do not receive remittances, such as yourself?

Do you know anyone who receives remittances? How do those people receive the money? Do they receive it physically from someone visiting? Do you withdraw it from a bank or money wiring service? Please describe this process. Is the money in dollars, CUC, or Cuban pesos?

Can you think of any positive or negative stories you have heard about remittances?

What do you spend your money on? Why? Give us some examples.

Do you ever keep your money in a bank? Or save it in some other way?

Would you tell me about a time where it was hard to get by financially? How did you get through this time?

If you were to receive remittance money, how do you perceive your life changing? What do you think you would do with the money?

Thank you for your time, is there anything else you want to tell me or anything else I should have asked?

### **General Questions**

What is your profession?

What level of education do you have?

What is your ethnic background?

What is your approximate age?

Are you religious?

Where were you born?

How many siblings do you have? How many children? Do any of them live in the United States?

*ii. Consent Form*

**The Social and Economic Effects of Ending Travel and Remittance Restrictions  
for Cuban-Americans**

This research is being conducted to explore the social and economic effects of remittances sent from the United States to Havana. If you agree to participate, you will be asked to speak with us about your perceptions of remittances and your experiences. Our conversations typically last around 45 minutes.

This research is being conducted by students and scholars of the Mercatus Center at George Mason University. The Office of Research Integrity and Assurance requires that we make you aware of the following:

**RISKS:** We do not foresee any risks to participants.

**BENEFITS:** There are no benefits to you as a participant other than to further social science research. We anticipate that the results of our research will help scholars and policymakers better understand the implications of policy changes regarding remittance flows.

**CONFIDENTIALITY:** The data in this study will be confidential. With your consent, we will make an audio recording for reference only, which will be destroyed after we have transcribed the interview, and it will exist no more than one year after the interview is conducted. We will not record this interview without your permission. We will not use your real name or personally identifiable information. If at any time you say something you would rather have “off the record,” we will ensure that such remarks are not attributed to you, and we will change or leave out any detail that could identify you. Access to interview materials will be limited to the research team. Confidentiality in published materials is ensured by assigning pseudonyms and changing specific detail that might indicate the identity of participants.

**PARTICIPATION:** Your participation is voluntary, and you may withdraw from the study at any time and for any reason. You may decline to answer any question. If you decide not to participate or if you withdraw from the study, there is not penalty. There are no costs to you or any other party.

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**OUR CONTACT INFORMATION:**

This research is being conducted by Stefanie Haeffele-Balch and Anne Hobson at the Mercatus Center at George Mason University. Stefanie Haeffele-Balch can be reached at (703) 993-8938. Her email address is [shbalch@mercatus.gmu.edu](mailto:shbalch@mercatus.gmu.edu). You may contact George Mason University’s Office of Research Integrity & Assurance at (703) 993-4121; by mail at 4400 University Drive, MS 6D5 Fairfax, VA 22030; or by email at [irb@gmu.edu](mailto:irb@gmu.edu) if you have questions or comments regarding your rights as a participant in the research.

This research has been reviewed according to George Mason University procedures governing participation in this research.

**CONSENT:**

I have read this form and agree to participate in the study. (Circle the appropriate sentence)

I give permission to use my name.

I do not give permission to use my name.

Please select one:

I agree to be audio taped.

I do not agree to be audio taped.

Note: The audiotaped material will be deleted within two weeks of the interview date. The transcribed content will be stored confidentially.

Name:

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Address (optional):

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Signature:

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Date: \_\_\_\_\_

*Please contact us if you have any questions or if you later change your mind about being quoted.*