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Cubans To Get More Money And More Goods To Spend It On

by LADB Staff

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Cuba has revalued its currencies against the US dollar in a move the government promises will be accompanied by a greater availability of goods and the eventual revocation of the rationing system. The revaluation affects the common peso, the currency in which most Cubans are paid, and the convertible peso, which can be used to purchase consumer and foreign goods and is generally unavailable to the average citizen. The currency move is accompanied by a series of other economic changes that include a comprehensive energy policy and salary increases.

In April, President Fidel Castro announced an increase in the minimum wage that amounts to more than doubling the salaries of 1.7 million workers. Beginning May 1, workers at the very bottom of the pay scale, who earned the equivalent of US\$4.20 a month, saw their pay swell to US\$9.40. An increase for economically inactive people, like senior citizens without economic resources and the disabled, began on the same date. The average worker earns 300 pesos a month, about US\$12, in a society where most pay no rent, education and health care are free, and utilities and transportation are heavily subsidized.

Cutting down on currencies

The currency revaluation is somewhat complex because of the two types of money in circulation. According to reports, the regular peso is slated to be withdrawn. With the US dollar already taken out of circulation (see NotiCen, 2004-11-18), the convertible peso, or CUC, will then be the sole currency. The CUC was revalued by 8%. Formerly pegged at parity with the dollar, after April 9, a dollar would theoretically only cost .92 CUC. However, as of October, a 10% surtax on exchange was imposed, so, in practice, after exchange, a dollar will only fetch .82 CUC. A CUC can now be bought for 25 pesos and sold for 24 at the official rate in exchange houses. Prior to the revaluation, the rate was 27 and 26.

The CUC came into circulation in 1994 to substitute for the dollar in internal transactions. With it, Cubans can buy nonrationed food, clothes, shoes, and other items. The regular peso is used for rationed food, agricultural products, public services, and other essentials. It is the currency in which most workers are paid. The plan is for the regular peso to be withdrawn at some point, giving all Cubans access to the same goods. The currency changes were generally well-accepted by the population, largely because of the favorable terms on which Cubans could convert to the CUC and the wide publicity the measure was given.

On the radio program Mesa Redonda Informativa, Banco Central de Cuba (BCC) president Francisco Soberon presented a detailed analysis of the changes, stressing, "They are aimed at giving ever greater value to our money, especially the Cuban peso, which is the monetary symbol that

interests us most because all Cubans receive it in one way or another, and it represents the basis of our salaries." Soberon also stressed the equalizing effect of the surcharge on dollar-to-CUC transactions, since Cubans receiving dollar-denominated remittances from relatives in the US already have an enormous economic advantage over Cubans not so well-connected. "What has been done is something that benefits the population, and we believe that, from all points of view, it is something correct, beneficial, and doesn't mean harm to anyone."

The monetary measures were not intended to stop the flow of dollars from abroad. "We have nothing against citizens who have and receive dollars from the exterior; this is legal, and it is normal that people residing in other countries want to help their families in Cuba," said Soberon. "But having dollars places nationals and foreigners in advantageous positions, and the Revolution has the moral obligation to seek improvements for all the people." It is also probable that people sending dollar remittances will at some point see wisdom in sending other currencies.

Cubans with dollars in bank accounts were given the option of trading at the old rate of 1 to 1, knowing that the CUC would subsequently be worth US\$1.0425. Failure to do that by mid-April would leave these people with dollars that cannot be spent in Cuba, so account holders would have to buy CUCs at the new higher rate, plus pay the transaction surcharge, a very bad deal. Soberon also explained the financial benefits to the national economy in moving away from the US currency, whose value has diminished substantially in relation to the euro in recent years. "The budget and fiscal deficits of the government of the United States are a challenge to the imagination," he summed up for his listeners. "To have our money tied to the dollar is to prostrate ourselves. It is like being tied to a lunatic; there is no control over the emission of dollars. They don't have a responsible policy."

The CUC is no longer tied to the dollar, but rather to a basket of several currencies, including the euro and the Canadian dollar. The banker told Cubans that the US dollar's fall was so "unmeasured and disproportionate" that not even the 8% revaluation corrects for the decline. He said that the revaluation also benefits visitors to Cuba who come with currencies other than the dollar. The CUC will be more expensive across the board, but holders of other currencies will not be subject to the dollar-exchange surcharge. These monetary measures the 10% surcharge on dollar exchanges, the withdrawal of the dollar from circulation, and the revaluation are all part of a coordinated strategy that, according to Soberon, is still evolving.

The text of the law that revalued the CUC by 8%, for instance, used the phrase "for the moment" to indicate that further adjustments could be on the way. The surcharge and repegging the CUC to a mix of currencies encourages tourists and other visitors to come with euros or other currencies in hand. This helps Cuba effect international transactions that have been severely hampered in the recent past by US efforts, including lawsuits, to get foreign banks to refuse cash dollars and transfers coming from the island. Lest it be thought that putting more money in the hands of Cubans signals a move toward a consumer society, during the same period that the revaluations were taking place,

Castro told the nation, "All the time, I feel more attracted by the ideas of Marx, Engels, and Lenin." He said this in a speech in which he announced that the government was making available to workers thousands of Chinese televisions at hugely subsidized prices. Other items distributed free

or at a very small price included rice cookers, fans, and the promise of refrigerators in the near future.

Coordinated energy policy

These are not gratuitous giveaways. The electrical items replace aged household appliances that consume far more electricity than do the Chinese products, and the replacements are part of a coordinated energy policy that contemplates every step of the energy cycle, from oil production, to generator renovation, to renewable supplies, to domestic consumption.

Castro said the appliances would go to workers according to socialist principles. "We must defend this formula firmly within a spirit of social justice and aid to whoever needs it, because if someone has a need and cannot fulfill it, that person will not go without." Castro said that, as Cuba emerges from the privations of the special period brought about by the Soviet Union collapse, "we are the ones confronting the challenge that these [socialist] ideas advance over enormous obstacles, perhaps unimagined by the very creators of the doctrine of Marxism and Leninism."

Castro called the Cuban development plan "an economic and social counterpunch of the Cuban Revolution against efforts to asphyxiate and liquidate us." More goods through free-trade Castro's bright outlook (see NotiCen, 2005-03-03) is bolstered not only by new oil discoveries in Cuban waters, but also by a free-trade deal with Venezuela that could substantially lessen the effect of the US-imposed embargo on imports to the island. As purchasing power increases in Cuba, however incrementally, so now does everything from condensed milk to work boots through the Venezuelan agreements.

Cuban prospects are also improved on the production and capital-investment side, as the two countries have announced a joint shipyard project in Venezuela. The agreement was signed during a recent visit by Venezuela's President Hugo Chavez to Havana. Also brightening Cuba's economic outlook was an announcement that Venezuela's commitment to providing the island with 53,000 barrels of oil daily has risen to 90,000 barrels. In return, Cuba will increase the number of its doctors in Venezuela to 30,000 by the end of 2005, and it will help train 40,000 new Venezuelan doctors.

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