

Cuba to eliminate dual-currency system

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An October 22 announcement in the Cuban Communist Party's (PCC's) official newspaper *Granma* stated that the Cuban government has approved a plan that will eliminate the current dual-currency system and move "toward monetary unification." Though widely resented by ordinary Cubans for promoting inequality, the current system is being scrapped in order to encourage the development of an export-oriented economic sector that can take advantage of low-wage Cuban labor and aid in the mass closure of state enterprises.

Cuba currently has two legal currencies, the Cuban peso (CUP) and the convertible peso (CUC). The CUC is pegged to the value of the US dollar, for which it essentially functions as a stand-in. The CUP can be exchanged with the CUC by individuals at official currency exchanges at a fixed rate of 25 CUP for one CUC, or one CUC for 24 CUP.

Following the dissolution of the Soviet Union, the Castro regime legalized the possession and use of the US dollar, especially for the tourist industry, in order to capture currency needed for imports. In 2004, the government ended circulation of the dollar, promoting use of the CUC by tourists and levying a 10 percent surcharge on conversions.

Although the vast majority of Cubans receive their wages in the form of CUP—on average, 500 pesos per month (about US\$20)—those with access to the tourism industry stand to earn much more, either through tips or from wages partially paid in CUC. This has resulted in such widely reported phenomena as trained doctors and other professionals abandoning their jobs in favor of driving taxis or cleaning hotel rooms. Another significant source of CUC is remittances sent by relatives living in foreign countries.

The arrival of the dollar and the convertible peso was accompanied by the introduction of "dollar shops" in which those with access to dollars could purchase

luxury goods as well as imported items not available in regular stores. Since restrictions were lifted on purchases by Cubans in these shops, it has become increasingly common—to the point of necessity—to seek out certain basic goods and staples in them that are otherwise unavailable in the traditional stores.

One Cuban, Margarita Nieves, told the Associated Press, "It's totally absurd that you get paid in one currency, but in order to live you need to pay with another."

A peculiarity of Cuba's dual-currency system is that while the currency exchanges value the CUC at 25 CUP for individuals, the government has maintained an exchange rate of 1 to 1 for internal accounting purposes for state-owned businesses. This has had the effect of making imports very inexpensive for state-owned enterprises. For inefficient state enterprises, which due to low productivity are unable to compete on the world market, it means they have been subsidized by those sectors earning US dollars, such as tourism, agriculture, and medical/pharmaceuticals.

One of the main goals of the currency reform, as the government statement in *Granma* puts it, is to create "the conditions for an increase in efficiency, improve measurement of economic facts, and stimulate sectors that produce goods and services for export and the substitution of imports." No longer receiving import subsidies through the exchange rate, the result will be the mass shuttering of state enterprises and an increase in unemployment.

For this reason, those items currently priced in CUC throughout the economy are going to be repriced in CUP over the next few months, as those goods now priced in CUP and subsidized by cheap imports disappear.

This will have profound effects throughout the economy, as even social services such as health care are subsidized by imports. The former president of the

Association for the Study of the Cuban Economy, Rafael Romeu, expressing skepticism about any quick changeover, said: “They would be basically confronting their budget constraint in a serious way, and I don’t think they are ready to do that.... They would have to cut a lot of social services.”

More-detailed information about the implementation of the currency unification or its timetable has not been released, except it has been stated that these changes are to occur over the next 18 months. Limited experiments with modified exchange rates have been carried out over the past two years. In the sugar industry, exports worth US\$1 million can now be exchanged for 12 million CUP instead of 1 million, while imports of US\$1 million now cost 7 million pesos.

The currency unification is part of an acceleration of the dismantling of the reforms instituted by the petty-bourgeois nationalist Castro regime, which is moving in the direction of establishing openly capitalist property and exchange relationships on the island.

Whatever remains of the limitations on the personal accumulation of wealth and property are intended to ensure the bureaucracy’s own privileges until such time as they are able to claw the state enterprises free from the state and appropriate them for themselves.



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