

USA- Cuba Migration Policy: A Political Economy View\*

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## **Title: USA-Cuba Migration Policy: A Political Economy View**

### **Abstract:**

In this paper I bring out the impact of and interactions between four factors that generate important general equilibrium effects and strategic considerations in US migration policy towards Cuba. These factors are 1) Cuba's reform of its migration laws in January of 2013 (CMR); 2) Abuses of the US welfare system by Cubans admitted as refugees under the Cuban Adjustment Act (CAA) highlighted by the Sun-Sentinel in 2015; 3) Obama's normalization policy (NP) announced December 17 of 2014; and 4) Cuba's current migration crisis (CMC). These four factors and their interactions imply potential changes in either the CAA and/or the Migration Accord. A conclusion discusses implications from a political economy perspective in light of recent insights on the economics of migration.

**Key Words:** US migration policy; Migration Accord; Cuban Adjustment Act; political economy; normalization policy; Cuba's reforms.

**JEL Code:** F2: F5; F22; J47; P26; P33

## USA- CUBA MIGRATION POLICY: A POLITICAL ECONOMY VIEW

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Considering the inconsistencies in U.S. migration policies and a number of recent events, it is wise to ask if an unusual turn on migration policy with respect to Cuba is in the works and/or should be in the works. Four factors come together to increase the probability of change in U.S. migration policies toward Cuba under current circumstances:

- 1) Cuba's reform of its migration laws (CMR) implemented in January of 2013. The latter expanded Cubans' ability to travel everywhere substantially, including the U.S.
- 2) Abuses of the U.S. welfare system by Cuban migrants admitted as refugees under the Cuban Adjustment Act (CAA). Specific abuses and recent increases were exposed, for example by Florida's *Sun Sentinel* in 2015.
- 3) President Obama's normalization policy (NP) vis-à-vis Cuban announced December 17 of 2014. It has led to few concessions from the Cuban side throughout its implementation.
- 4) Cuba's migration crisis (CMC) and its consequences, e.g., a recent manifestation led to an international crisis between Costa Rica and Nicaragua.

In this paper I bring out interactions between these issues and other aspects of migration from a political economy perspective. The paper proceeds as follows: first, background on formal migration policies in both countries is provided. This is followed by four sections in

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which I discuss each of the four factors mentioned above and its interactions with some of the others or other relevant aspects of Cuba's economy and potential reforms. A political economy perspective underlies the analysis of this process. In the conclusion, the analysis is explicitly integrated with recent insights from the economics of migration literature and its implications in the USA-Cuba context.

## **FORMAL LEGAL INSTRUMENTS GOVERNING CUBAN MIGRATION TO THE U.S.**

One reason why it is hard to make sense in general of U.S. migration policy is that it responds to a broad variety of influences and it changes over time. A brief description of this history was provided in a keynote address to ASCE's 2013 conference by a well-known immigration expert (Borjas 2013). Among the most salient points in the address is his description of the four classes of immigrants currently admitted (starting in 1965) to the U.S. which are: Family Preferences, Employment-Based Visas, Refugees, and Diversity Visas. These accounted, respectively, for 6.8 million, 1.6 million, 1.3 million and, 450,000, of about 10 million legal immigrants to the U.S. in the 2002-2012 decade (the time frame relevant to the address).

Cubans have been entering the U.S. since the late 1960's under either the Refugee class or the Family Preferences class. In principle, the family preference class functions in the same manner for Cubans as for former residents of every other country. That is, a U.S. resident or citizen is entitled to sponsor the entry of certain people in his or her family. The Refugee class, however, functions differently for Cubans than for almost all other countries as a result of the Cuban Adjustment Act (CAA) of 1996 (amended in 1976). One important difference is that a Cuban refugee only needs a year of residence in the U.S. before being able to apply for permanent residence. A resident from any other country needs to wait five years. Furthermore, this applies regardless of how the Cuban refugee arrived in the U.S., legally or illegally. A

second important difference is that refugee status under the CAA entitles the status holder to welfare benefits during that first year of residence.

In 1994, Cuba and the U.S. signed a Migration Accord (MA) (amended in 1995) that combined entry of migrants under the Diversity class and one or more of the other three classes of immigrants. The MA requires the U.S. to admit a minimum of 20,000 Cuban citizens to the U.S. every year as permanent residents. In order to be able to migrate, Cubans residing in the island must declare their wish to do so to the U.S. Interests Section (now the U.S. Embassy) and be selected via a lottery carried out by the U.S. Government. The last lottery held by the U.S. government took place in 1998. Over 500,000 Cuban citizens took advantage of the process and filed documentation indicating their desire to emigrate. Most of those are already in the US, having satisfied and paid for a medical exam requirement and an exit visa fee imposed by Cuba (at least up to January 2013). Betancourt (2013) provides background on the Migration Accord. He notes that: it represents a substantial lifting of the embargo by the U.S. with respect to the flow of persons of Cuban origin; it was agreed upon by the Cuban government; and impetus for the agreement on both sides arose out of a “balsero” (individuals seeking to leave the island using on small boats or rafts) crisis in 1994.

Last but not least in terms of policies affecting migration of Cubans to the U.S. was the recent Cuban Migration Reform (CMR), Decree-Law No.302, which was implemented in January of 2013. It allows Cubans to leave the island for up to two years without loss of citizenship privileges and without requiring exit visas but simply a valid Cuban passport, Mesa-Lago and Pérez-López (2013). Moreover, migrants can renew their two-year permission to leave twice, for a total of six years, without loss of citizenship privileges. The demand for U.S. tourists visas was so great that the U.S. Interests Section responded in August of 2013 by issuing five-

year visas with multiple entries rather than the six month visas originally intended. This was done, presumably, to handle the increased volume of applications for tourist visas without major increases in available staff. The same decree also allows Cuban emigrés to stay on the island up to three months on a visit. It is a popular reform on both sides of the Florida Straits.

Succinctly put, these three formal policies govern legal Cuban migration, both temporary and permanent, to the U.S. They provide economic incentives of various types for different migration patterns among Cubans. They respond to different objectives of both governments with respect to Cuban migration to the U.S. and they are affected differently by the impacts of other events that determine individual migration decisions and their patterns. These are the issues to be explored in more detail in subsequent sections.

## **CUBA'S MIGRATION REFORM: ITS INTERACTIONS WITH MA & OTHER REFORMS**

Cuba's migration reform has been described by Mesa-Lago and Pérez-López (2013) as one of Cuba's 'structural' economic reforms. It is an accurate descriptive label in that it represents a major departure from a very rigid prior system that imposed heavy costs, economically and bureaucratically, on any individual attempting to leave the country. For instance, it eliminated the need for an exit visa to leave the country as well as associated high fees. It also changed the loss of citizen privileges or rights, including access to property, for individuals leaving the island from taking place after a year to after two years. This delay in the loss could also be extended for up to six years, since the CMR Law allows leaving the country continuously for up to 6 years.

According to the CMR Law, all a citizen needs to exit Cuba is a passport costing about \$100 provided that the citizen does not fall in various restricted categories such as national defense or other public interest reasons. Those in these restricted categories would have to go

through far more complex procedures. Some substantial financial obstacles, however, remain on the U.S. side. For instance, the U.S. Interests Section (Embassy now) charges \$160 for the visa interview application and evidence of financial support while in the U.S. must be provided.

Notwithstanding these remaining obstacles, the law is very popular and frequently used. It has generated a substantial amount of travel since its enactment. Indeed, the large volume of travel generated by this reform in its first year is indicative of a profound and substantial loosening of the restrictions. Between 2012 and 2013, the number of Cubans visiting the U.S. with non-immigrants B-2 (or tourist) visas jumped from 20,200 to 36,787 or 78 per cent (Rosenblum and Hipsman 2015). Both friends and foes of the Cuban regime seem to agree on estimates of the average monthly salary in Cuba ranging between \$20 and \$25, or between \$240 and \$300 a year. Thus, the fixed costs of a trip from Cuba to the U.S. before any transportation costs are included are \$260, or more than 8 percent greater than the lower bound (and 80% of the upper bound) of the average annual salary of a Cuban citizen. Hence, an immediate question is: How are these trips financed? One likely factor is the largesse of family members in the U.S. and its interactions with short-term and long-term measures undertaken by the U.S. government with respect to Cuban migration.

In terms of the impact of long-term measures, the MA and its interaction with the CMR stand out as an important facilitating factor. The number of persons residing in Cuba that obtained lawful permanent residency in the U.S. rose from 159K in the decade of 1990-1999, when the MA was first signed in the middle of the decade, to 278K in the decade of 2000-2009, when it had been fully operational for a whole decade (US Department of Homeland Security 2014, Table 2). Note that the yearly average for the 1990s was 15.9K, well below the minimum specified in the Migration Accord, while the yearly average for the 2000s was 27.8K, well above

the minimum. More recent annual data between 2004 and 2013 yields a yearly average of 35.5K (calculated by the author from US Department of Homeland Security 2014, Table 3).

Incidentally, these numbers represent the total number of individuals becoming lawful permanent residents of the U.S. regardless of whether they achieved this status through the MA or other mechanisms such as former refugees becoming permanent residents. Nonetheless, the majority of persons achieving permanent residency in any one year since at least 2000 acquired such status through the Accord, which began to function on a more regular basis following the 1998 lottery. In general recent migrants are more likely to retain strong links to family and friends left behind in the country of origin than long-term migrants; they are also more likely to send remittances home once they establish themselves than long-term migrants, unless the latter are planning to return to the country of origin.

For instance, the percentage of migrants in the U.S. sending money home to Latin America after six years of sending remittances decreases from 30% to 16% and after nine years it further declines from 16% to 4% (Orozco 2013: Table 2.2, p.14). Hence, recent migrants – most of whom came to the U.S. through the MA – are most likely to have provided financing for the B-2 visas and other costs (including transportation and lodging costs) of travelers. Moreover, they will continue to do so for many years to come given the numbers above and the absence of dramatic changes in economic conditions in Cuba or the MA.

Among short-term factors interacting with this new policy of the Cuban government are the relaxation of restrictions on travel and remittances to Cuba by the Obama administration, starting in 2009 and 2011 (Sullivan 2012) and leading to the recent normalization of relations announced on December 17, 2014. One of the practical results of this evolution has been substantial increases in travel and remittances by Cuban–Americans and others between 2007



and 2012 (e.g., Betancourt 2013). Subsequent elimination of restrictions due to NP (e.g., raising the limit to remittances from \$200 to \$2,000 per quarter) interacts with Cuba's 2013 migration reform to provide a facilitating mechanism, through their friends and relatives residing in the U.S., for overcoming the relative high costs that average Cubans incur to travel on B-2 visas. Interestingly, a recent article (Morales 2016a) reports that remittances to Cuba increased by about 10 percent per year, i.e., from about \$1.682 billion in 2008 to a record amount of \$3.354.12 billion in 2015. The author mentions five explanatory factors driving this growth: Cuba's migration policy, Cuban-Americans' trips to Cuba, private sector reforms in Cuba, U.S. policy leading to and including normalization, as well as increased migration. While he does not explicitly distinguish between temporary and permanent migration, the discussion makes clear that Cuba's migration reform generates remittances primarily through temporary migration and increased migration generates them presumably through permanent migration.

Mention must be made that the absolute amounts of these estimates of remittances are likely to be substantial overestimates of actual remittances by U.S. migrants but the yearly rates of growth of around 10% are likely to be far more accurate as the method used to calculate them is the same over time. This was stressed by the author in a recent presentation at the 2016 ASCE meetings (Morales 2016b). In the same presentation, however, the author justified his estimation method by arguing that the estimates were close to what was spent at the dollar stores. Of course, those dollar store expenditures include many purchases that are paid for with earnings from activities other than what we normally call remittances, e.g., earnings from informal legal and illegal activities by island residents. Just as in elementary econometrics, my argument is that slopes (growth rates) are estimated with far less bias than intercepts (absolute amounts).

Cuba's other economic reforms announced by Raúl Castro after 2008, and approved by the VI Party Congress in 2011, also interact with CMR to provide a potential source of financing for the B-2 visas. For instance, the ability to participate in businesses associated with self-employment in Cuba provides an incentive for Cuban-Americans as well as others to finance these trips. They could be attractive to friends and relatives in the U.S. either in exchange for future benefits (e.g., acquiring property in Cuba), or for present ones through helping the self-employed acquire materials or less tangible assets such as knowledge to use in joint businesses at home. While many of these arrangements might be illegal under Cuban law, detection and enforcement would be difficult. From our perspective they illustrate an interaction between CMR and private sector reforms in Cuba similar to those inducing remittances. The extent of these possibilities is best illustrated by an anecdote involving seamstresses, which was one of the 200 or so occupations approved as part of the economic reforms.

Seamstresses and/or their friends travelling to and from the U.S. around 2013 began to bring into Cuba apparel such as blouses to add to the assortment of goods and services sold by private businesses. An indication of the profitability of this activity is that it began to make a dent in the monopoly business of the government-owned stores selling the same items at prices that were 240% over cost. In October of 2013 the government issued a decree re-establishing its monopoly by forbidding resale of imported apparel goods. The announcement of the decree explicitly stated that seamstresses were supposed to be self-employed in sewing activities and this did not include enhancing what they did by selling other items purchased from abroad (Betancourt 2014). How successful has been this prohibition is uncertain.

In practice, however, the seamstresses' episode is an insightful illustration of the myriad of economic opportunities that arise from the ability of Cubans to travel to the U.S. generated by

the migration reform's interaction with other economic reforms in the face of remaining restrictions, regulations and distortions in the Cuban economy. More specifically, it illustrates U.S. residents' potential economic incentives to supply financing that satisfies the demand for B-2 visa travel by Cubans in the island as well as potential limitations. While both the opportunities and the incentives to finance economically-oriented travel with B-2 visas may be greater for Cuban-Americans, they also exist for non-hyphenated Americans with similar economic interests in acquiring property or joint participation in self-employment activities.

### **ENTITLEMENTS ABUSES BY CUBAN REFUGEES: INTERACTIONS BETWEEN CMR & CAA**

One provision of the CAA can interact with the CMR to make it extremely attractive for temporary migrants on B-2 visas to apply for refugee status and scam the U.S. welfare system. The CAA allows Cubans on refugee status to collect a number of government benefits such as welfare, food stamps, Medicaid and Supplemental Security Income (SSI). For instance, the latter entitles those claiming old age or a disability that prevents them from working to a benefit of \$733 per month, which is about 37 (29) times the lower (upper) bound of average Cuban monthly income. This is a substantial incentive for abuse. One of the forms of the abuse is for refugees to claim it and qualify for it, designate someone to receive the payment in the U.S. under power of attorney, for example, and return to Cuba where the person can live quite well with that sum. (U.S. law prevents persons who are outside the country more than 30 days to collect the benefits, but enforcement depends on self-reporting!) While abuses have gone on for a number of years, the Obama administration's relaxation of travel and remittances have amplified opportunities for misdeeds.

One consequence of CMR is to amplify opportunities for further abuse. For, it allows substantial increases in the numbers of potential refugees through a process in which those who migrate under temporary visas, including B-2 visas, apply for refugee status. The *Sun Sentinel* has provided a thorough exposé of the extent of fraudulent activities available since at least 2002 (Kestin, et al. 2015). This exposé also reveals substantial increases in the number of Cubans with refugee status in 2013, 2014 and 2015, e.g., from about 32,000 in the full year 2014 to about 42,000 in the first eight months of 2015. Similarly, welfare expenditures in the State of Florida on Cuban refugees increased more than 23% in 2014 compared to 5% on expenditures for refugees from all other countries. The expenditure amounts in 2014 are substantial, e.g., \$300.9 million for Cubans. For comparison, expenditures on the next highest category of refugees in Florida (Haitians) that year amounted to \$16.9 million.

While many Cuban refugees have benefitted from this generosity in the manner intended, becoming economically self-sufficient and willing U.S. taxpayers, the exposé reports a number of cynical attitudes among some Cuban residents in Florida who view themselves as entitled to these benefits. One example of the latter from the exposé describes a U.S. relative complaining to his congressional representative about the failure of the system to continue the benefit owed to his relative because of his residing in Cuba! Not surprisingly, in an editorial accompanying the exposé on the same day of publication, the *Sun Sentinel* called for an end to fraud and noted that one of the problems perpetuating the fraud is the inability of U.S. government agencies to communicate with each other since the problem first arose in 2002. A former presidential candidate was commended by the *Sun Sentinel* for introducing a bill that substantially would reduce and perhaps eliminate the possibilities of benefit abuses (if passed and enforced) by requiring proof of persecution to attain refugee status.

From our point of view, the interaction between the CMR and the benefits provided by the CAA increase the opportunities for fraud and abuse. While the increases in numbers of refugees and expenditures reported in the exposé do not necessarily provide causal evidence of a connection -- the way a controlled experiment would -- they certainly provide extremely suggestive evidence and raise the need to pursue this issue in serious considerations of USA migration policy and any potential changes. An efficient solution to one of the most substantial problems would be for the Department of Homeland Security and the Department of Health and Human Services to provide information to each other on international travel by welfare beneficiaries. That it has not yet happened is hard to believe. An alternative or a complement to this solution would be requiring proof of political persecution for the granting of refugee status to Cubans on temporary visas of any kind.

#### **NORMALIZATION POLICY & INTERACTIONS WITH CMR, MA, CAA & OTHER REFORMS**

In 2004 the U.S. Geological Service reported the possible presence of substantial offshore oil reserves in Cuban waters. This potential oil bonanza led to unsuccessful explorations in Cuban waters relying on a modern deep-water drilling rig, Scarabeo 9. By August of 2014, however, the Cuban government formally announced abandonment of further offshore explorations and the pursuit of other alternatives to Venezuelan oil, Frank (2014): namely, onshore oil production with help from Russia and China and renewables with help from potential foreign investors. At this point Cuba and the U.S. were well on their way to the normalization of relations announcement of December 17, 2014. Negotiations reportedly started 18 months before the announcement, or around June of 2013.

One surmises that the failure of expectations about the oil bonanza associated with the offshore oil reserves played an important role in the adoption of CMR by Cuba after a lengthy

period of prior discussion with no action. The first two exploratory wells drilled by multinational oil companies Repsol and Petronas had already failed by early 2012 and Scarabeo 9 was already committed to exploration in Brazilian waters after the next two explorations in Cuba by PDVSA (which failed by late 2012) and Sonangol (Orsi 2012). CMR provides a potential escape valve for Cubans inside the island which is more attractive than 'balsero' crises from a diplomatic or public relations perspective. Furthermore, this failure of expectations about the oil bonanza is even more likely to have played an important role in Cuba's decision to normalize relations with the U.S. since by the summer of 2014 it was a more certain outcome. In addition, the Maduro administration's economic problems in Venezuela were also becoming quite evident to outside observers, Luis (2013), and Cuba's leaders had expressed misgivings about dependence on any particular country, including Venezuela, as early as 2009 (Mesa-Lago and Pérez-López 2013:p.98.) Indeed, these problems and their implications for Cuba may have also played a role in the Obama administration decision to impose sanctions on Venezuela the day after the announcement of the intention to normalize relations with Cuba, i.e., December 18, 2014.

Normalization policy and the subsequent elimination of more U.S. restrictions on travel and remittances accentuate the incentives associated with the interactions previously described. They provide additional incentives to take advantage of CMR by providing a friendly image of the U.S. as well as more opportunities and greater demand for financing Cubans travelling to the U.S. under the B-2 temporary visas relied upon by beneficiaries of CMR. NP puts more pressure on the US administration to accept more permanent immigrants both under MA as well as under the standard family preferences category as a sign of goodwill. It also strengthens Cuba's bargaining position in establishing procedures for a soon-to-be-needed new lottery for continued implementation of the MA.

Finally, NP creates new incentives for American businesses to participate in Cuba's reform process indirectly as well as directly. In the indirect case, online press reports indicate that non-hyphenated Americans who are old "Cuba hands" have already started consulting firms to take advantage of their prior knowledge, e.g., the recently-incorporated and appropriately-named consulting firm D17 Strategies. One way of doing so is by financing B-2 travel of Cuban individuals to the U.S. -- allowed by CMR as tourists or as business related visitors -- for two different business situations. In one case these Cuban individuals are or can provide contacts with Cuban entrepreneurs who need help in navigating U.S. regulations; in the other, these Cuban individuals are useful contacts for U.S. entrepreneurs who want to participate in businesses in Cuba relying on people with detailed knowledge of Cuban regulations and/or decision networks.

In the direct case, NP allows participation in Cuba's reform process directly through investments in the Mariel Special Development Zone. For instance, a recent Associated Press (Weissenstein 2016) article reports a couple of entrepreneurs planning to build a factory in the ZEDM for small tractors (which will be sold under the name Oggun) that will start assembling tractors from parts (as soon as 2017) and is expected to move within three years to the fabrication stage. These investments interact with CMR whenever Cubans need to come to the U.S. for training, which they can do with a variant of the B-2 visas, and perhaps more importantly with many of Cuba's other economic reforms.

The legal basis for the direct investment in the factory from the U.S. point of view is that it does not violate formal embargo provisions because it will sell the small tractors to the private sector and cooperatives in the agricultural sector. While the initial investment is expected to be between \$5 and \$10 million dollars, the entrepreneurs have already discussed other agriculture-

oriented equipment that can also be produced there. Incidentally, employment estimates for the factory range from 30 to 300. Each Oggun small tractor will cost about \$10,000. This investment generates linkages to other agriculture-oriented activities that are allowed under Cuba's economic reform process through the demand for small tractors. It also increases the demand for capital to finance the acquisition of these tractors and, thus, the demand for travel through CMR to acquire this capital.

In so far as any of the above investments in the ZEDM or in economic activities indirectly related to them, generate travel by Cubans for training purposes, the CAA is a potential vehicle for them to stay as refugees and eventually apply for permanent resident status. Their desire to do so as well as that of entrepreneurs searching for finance capital will be influenced by economic and political conditions in Cuba at the time of their travel as well as by their connections with recent long term migrants in the U.S., which under MA are increasing at least by 20,000 a year indefinitely. Indeed, as concessions by the Obama administration fail to generate actions by the Cuban government that improve the economic and political situation, the attractiveness of taking advantage of refugee status under the CAA by B-2 visitors on tourist or training visas increases.

More specifically, given the need for the Obama administration to characterize the NP as successful as part of Obama's legacy and Cuba's explicitly expressed reluctance to make concessions during the recent VII Party Congress (in mid-2016, after Obama's visit), additional policy relaxations by the U.S. are to be expected through the end of Obama's term. One aim explicitly stated by presidential advisor Ben Rhodes is for the U.S. to make sufficient concessions that generate positive results so as to ensure that NP is irreversible by the next President (DeYoung 2016). If these attempts to improve economic conditions substantially in



Cuba through NP fail, which seems likely at this point due to the lack of effective reforms on the Cuban side, Obama's legacy could easily be an intensification of Cuba's migration crisis.

## **CUBA'S MIGRATION CRISIS (CMC) & ITS INTERACTIONS WITH EVERYTHING ELSE**

At the end of 2015 a migration crisis in Central America developed when about 8,000 Cubans were stranded in Costa Rica as a result of Nicaragua's refusal to let them cross on their way to the U.S. In turn, Costa Rica refused to provide entry visas for Cubans coming from Panama, which stranded about 2,000 Cubans in Panama. At about this time, Ecuador decided to impose a visa requirement on Cubans wishing to travel to Ecuador, closing this exit option for Cubans and presumably stranding in Cuba potential migrants to the U.S., depending on the nature of the visa requirement. The 8,000 stranded in Costa Rica were allowed to continue their trip to the U.S. through a temporary agreement between Costa Rica, El Salvador, Guatemala and Mexico (EFE 2016). The Costa Rican government called for an international meeting of all countries involved, including the U.S., in April 2016 to deal with the issue on a permanent basis (Melendez 2016).

The sources of this migration crisis are rooted in CMR, MA, CAA, NP and their interactions with the Cuban economy's inability to provide for the basic needs of its citizens, including or excluding education health or sports depending on one's appraisal of these accomplishments for the average Cuban.

- 1) Cuba's inadequate reforms do not seem to provide hope of much economic improvement in the future from many of its citizens' point of view; as long as this is the case, migration by whatever means (or abuses of CAA through CMR) will continue to be an attractive option for many.

- 2) The MA does not provide an exit mechanism for any potential migrants remaining in Cuba that did not win the 1998 lottery, since no announcement has been made on a new lottery.
- 3) The CAA is an option only for those Cubans who have relatives in the U.S. or can make it to U.S. soil.
- 4) CMR is an attractive mechanism to get to U.S. soil for those Cuban who can afford a passport and the cost of a U.S. visa (\$260), but managing to get the U.S. visa may be difficult even if you can pay for it (e.g., Albee 2016).

One feature of the recent migration crisis, however, is reliance on two high risk mechanisms to leave the island. First is the increased use of rafts to get to the U.S., which entails high personal safety risk of death and low probability of success since rafters caught at sea by the U.S. authorities are returned to Cuba. Second is the increased use of the Ecuador/Central America/Mexico route, which has become attractive even though a coyote charges \$15,000 to get a person through the U.S. border, according to Costa Rican authorities. It also entails substantial risks of death and failure. Another far less risky and unnoticed mechanism that anecdotal evidence suggests may be playing a role in the recent crisis is the ability of Cubans to claim Spanish citizenship if at least one of their grandparents was born in Spain. One consequence of CMR is the far lower costs for a Cuban migrant of Spanish descent to go to Spain, acquire a Spanish passport, travel to Canada and/or Mexico and show up at the border claiming refugee status without, of course, showing the Spanish passport.

An important reason for the current wave of migrants through these routes is fear that the CAA would be eliminated in the near future. The Obama administration has denied these rumors. Nonetheless, it is a lame duck administration and their successors would not be bound

by their denials. If the formal embargo were lifted as proposed by some, the basic logic of the CAA would be undermined just as much as it is by people who claim to be refugees from political persecution and spend substantial amounts of time in Cuba, the country that supposedly persecuted them. Interestingly, one feature of the international meeting on the migration crisis was the explicit statement of the Costa Rican foreign minister pointing to the CAA as the source of the problem, which is also the position of the Cuban government.

Finally, a broader perspective on the previously described current migration crisis is provided by a recent report of the Center for Immigration Studies (Luna 2016). It provides annual data on the number of Cuban migrants arriving as visa-less aliens since 2004 (Table1). Briefly put, it shows close to a doubling in the number of visa-less Cuban migrants entering the U.S. as refugees, from 24,277 in 2014 to 43,154 in 2015. Indeed, given the monthly rate of 13,000 such arrivals in the first few months of 2016, it has been projected to reach some 156,000 for the whole year (May 2016). A less dramatic estimate is suggested by a Congressional Research Service report (Sullivan 2016). It shows 45,000 arrivals up to July 2016 which would imply an estimate of 90,000 over the whole year, still a substantial increase over 2015. This range of estimates encompasses the 125,000 Cubans who arrived in the U.S. during the Mariel crisis in 1980.

A reasonable conjecture is that a substantial number of these visa-less arrivals into the U.S. in 2016, perhaps most of them, entered the country as a result of Cuba's migration reform through B-2 visas and their interactions with normalization policy. Many of them have been motivated by the expectations of elimination of the CAA, their inability to benefit from the MA, and the failure of Cuba's timid economic reforms to provide hope for an attractive economic future.

## **THE DEMAND AND SUPPLY OF MIGRATION OPPORTUNITIES: A POLITICAL ECONOMY PERSPECTIVE ON MIGRATION POLICY.**

One would expect that the Cuban economy will not improve substantially in the near future on the basis of three important factors. First, the failure of the VII Party Congress in April of 2016 to consider substantial new reforms or effective measures to implement ongoing ones and with it missed opportunities to generate significant expectations of positive change in the economy. Second, Venezuela's crisis jeopardizing its subsidies to Cuba. And, third, difficulties in Brazil (including Odebrecht's legal issues) undermining an important anchor for the ZEDM. In the absence of a new economic "angel" putting in substantial resources, there will be strong economic incentives for the Cuban population in the near and foreseeable future to increase the demand for migration opportunities of both a temporary and a permanent nature.

It has recently been noted that the academic literature has concentrated on permanent migration to the neglect of temporary (Dustmann and Görlach 2016). While both respond strongly to economic incentives, the economic behavior of migrants can be substantially different. For instance, the failure of the reforms would generate a higher than otherwise wage differential which would lead a temporary migrant to work harder during the intended period of stay abroad and enjoy leisure later on in the home country. In contrast, this same higher wage differential would provide a permanent migrant with an incentive to spread consumption more evenly through the life cycle in the host country. Similarly, improvements in economic conditions in the home country after migration would affect the behavior of the temporary migrant more substantially than the permanent migrant, e.g., by altering the decision on length of stay of the temporary migrant substantially and immediately while having no immediate effect and perhaps no eventual effect on a permanent migrant's reconsideration of the original decision.

Will recent and future Cuban migration be mainly temporary or permanent? In Europe about 50% of immigrants had left the destination countries ten years after arrival; however, in Australia, Canada, New Zealand and the U.S. only 20% had done so (Dustman and Görlach 2016, p.99). Less distance in all dimensions, i.e., culturally, economically, historically and geographically, is probably important in explaining this differential between Europe and the so-called "newly settled regions". In Cuba's case, if the two economic systems remain as different as at present, one would expect Cuban migration to the U.S. to be as or more permanent than the current U.S. average. Interestingly, the differential behavior of temporary and permanent migrants suggest that successful economic reforms in Cuba would not only decrease the incentive to migrate for both temporary and permanent migrants, but it would also change the composition of migration by providing greater incentives towards temporary migration with shorter stays, and especially if accompanied by political reforms.

An interesting piece of evidence that may be explained by this distinction between permanent and temporary migrants is an anomaly in Cuba's migration statistics noted in a recent paper (Hernandez-Catá 2016). This paper points out that from 2000 to 2012, Cuba experienced substantial net emigration of about 30,000 per year, which turns to *net immigration* in 2013 and 2014 (3,302 and 1,922 persons, respectively). This sudden change suggests that the substantial lowering of the costs of emigration due to the CMR, together with the potential promise of the reforms, may have converted many permanent migrants into temporary ones. Whether or not they become permanent migrants or remain temporary ones might be critically influenced by the failure or the success of the reforms in actually improving the expected path of the Cuban economy, as perceived by the migrants. In addition CMR's provision of allowing émigrés to

stay for 3 months can also play a role in these statistics, depending on how they are treated in the statistical system which is not clear.

In general the more successful Cuban economic reforms are, the less will be the pressure on politicians to change any of the four current formal policies identified here (CMR, MA, CAA and NP).<sup>2</sup> Nevertheless, my view is that the intensity of economic and political incentives are fundamental determinants of migration decisions by individuals. All four policies mentioned in the previous paragraphs, and the interactions among themselves as well as with the economic and political environment, simply play the role of formal and informal constraints under which migration decisions are made. Yet, some of these interactions are more or less powerfully connected than others in affecting or constraining migration decisions. We indicate how and why below.

Economic improvements as a result of reforms are unlikely to eliminate the demand for migration by Cubans in the short-run or even in the long-run. In the short-run because these improvements take time to materialize even under the best of circumstances, as in Eastern Europe; and in the long-run because the demand for migration responds to complex economic considerations once temporary migration is considered as well as to issues beyond strictly economic ones, e.g., stemming from ideological, political, racial and religious considerations.

Consider the economic incentive to migrate temporarily given the interaction between CMR and CAA brought out by the entitlement abuses discussed in an earlier section, which also illustrates the strength of short-run incentives to migrate in Cuba's case. Based on existing

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<sup>2</sup> In the specific context of NP it has been argued recently that it generates dual dilemmas for Obama and Castro, Sanguinetti (2016). That is, the more liberal Obama's lifting of restrictions under NP, the less Castro has to do in terms of structural economic reforms and conversely the more liberal Castro's economic reforms, the less Obama has to do under NP in terms of lifting restrictions.

experience, there is no conceivable improvement in average income over the next twenty-years caused by structural economic reforms that would reduce current incentive for fraud to less than 50%! It took Poland (the most successful of the reformers) twenty years to increase per capita income by 100%. That is, if Cuba were to double per capita income from \$20- \$25 to \$40 -\$50 per month, the ratio of supplemental income to Cuban average income would decrease from about 37 or 29 to 1 ( $733/(20 \text{ or } 25)$ ) to 18 or 14 to 1 ( $733/(40 \text{ or } 50)$ ). Why should anyone expect Cuba's economic reforms to work so much better than Poland's on this dimension? Dealing with the fraud through enforcement by the U.S. government is relatively easy compared with dealing with the incentive to migrate due to the high wage differential between Cuba and the U.S. with or without reforms.

One of the interactions that is usually missing when considering migration policy is that a logical conclusion of the NP is eventually to make the CAA irrelevant. The CAA is the reason given for the current migration crisis by Cuba and the Costa Rican deputy foreign minister, and its possible demise by the Cuban would be migrants involved in the international crisis. Of course the mentioned government officials cynically ignored that the lack of economic and political opportunity on the island is an important reason for the existence of the CAA as well as for the incentive to migrate. Meanwhile the Obama administration washes its hands with denials of possible elimination of the CAA that lack credibility.

Given the evolving pattern of positive steps toward normalization by the U.S. and the persistent absence of reciprocity by the Castro government, these denials seem to have had little impact on the potential migrants. This is not surprising as the logic of NP's success eventually implies elimination of the CAA. Perhaps a closer connection with reality by Cuban and U.S. government officials would start the process of easing the current "international" Cuban

migration crisis and the potentially broader one -- which is likely to be much larger in terms of the number possible migrants.

On the demand side, Cubans on the island will have a strong economic incentive to want to migrate to the U.S. both on a temporary and a permanent basis for a long time to come regardless of the success or failure of the structural economic reforms. Indeed, one can easily argue that considerable migration from Cuba to the U.S., legal or illegal, would occur irrespective of the success of the reforms and a complete normalization with Cuba, although there would be a change in demand composition towards temporary migration if the embargo were fully lifted, the CAA eliminated and Cuba's political system began to evolve towards a more democratic alternative.

On the supply side, migration opportunities are provided by the MA with respect to permanent residents. Yet unless a new lottery is held in the near future, the number of potential migrants in Cuba who would be able to benefit from these opportunities will dwindle to zero at a rate of at least 20,000 per year and probably at a higher rate, given the 35.5K annual average of Cuban migrants becoming permanent residents in the US during the 2004-2013 decade cited in an earlier section. Temporary opportunities are provided unwittingly through the interaction between the Cuban migration reform and the CAA , which allows Cuban visitors to apply for political asylum and attain refugee status (as well as those who arrived via other means, including the wet foot/dry foot policy).

Recent research on migration suggests that migration policy should be developed with both temporary and permanent migration in mind. From the U.S. point of view, having a policy instrument focused solely on permanent migration, i.e., MA, and another one that ignores the distinction between permanent and temporary migration, i.e., the CAA, is anachronistic. In so



far as the Cuban regime fails to adopt market reforms or implement political reforms, the incentives for Cuban migrants are towards permanent migration. Only distortions allowed through fraud or as a result of the weakness of the reform process in Cuba provide incentives for temporary migration. The former should certainly be eliminated; the latter might be strengthened by relating temporary migration opportunities to the progress of the reform process in Cuba.

Some observers believe that the main concern with respect to all Cuba-related policies is the underlying fears of American politicians regarding how uncontrolled Cuban migration, Mariel style, would affect their careers or their parties' standing with the electorate. From that perspective it is noteworthy that the greatest source of stability with respect to Cuban migration to the U.S. would be a policy effectively promoting a Cuban society that provided economic and political opportunity, on an equitable basis, to its citizens. Ironically, current U.S. normalization policy has been promoting and supporting a society evolving towards a dynastic dictatorship covered with a socialist "fig leaf". It may be time to change.

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