

Labour and Economic Reform in Cuba

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A changing political context

The Cuban economy is unique in many regards; its exceptionality mainly lies in its persistence in building socialism within a largely neoliberal globalised world. The disintegration of the socialist bloc, which accounted for more than 80% of the country's foreign trade, had a severe impact on Cuba. Since the crisis of the 1990s, provoked by internal structural distortions spurred by the collapse of European socialism, the Cuban economy has been constantly struggling. The nadir point of the crisis was reached in 1993 when GDP was nearly 35% lower than in 1989. Subsequent data showed a remarkable recovery in the performance of the main macroeconomic aggregates. However, the statistics of the last five years reveal an exhausted economic model.

The combination of external factors (global crises, natural disasters, and the US economic blockade) with internal structural distortions, resulting from incomplete reforms initiated in the early 1990s, has produced an ailing economy. Some of the salient symptoms of the current situation include: unsustainable fiscal deficits as a percentage of GDP (amounting to 6.7% in 2008 and 4.8% in 2009); permanent deficits in the trade balance, and especially in the goods sector since exports of professional services help maintain some level of equilibrium; large-scale withholding of payments to foreign creditors and investors; and wages in the state-owned enterprises (SOEs) which are not acting as incentives to increase productivity. Wages do not foster productivity growth due to their low purchasing power, the egalitarian distribution of many goods and services (besides health, education and food), the government policy of full employment, and the undesired but increasing weight of non-labour sources of income. These factors are particularly relevant in a context lacking any big or medium private enterprises. It is also important to note that the public sector (including SOEs) employs 83.8% of the official labour force¹.

The sources of poor performance in the public sector are diverse. They include the lack of work motivation of public servants due to an egalitarian wage structure which does not contain performance incentives (the highest wages are just 4 or 5 times higher than the lowest ones); inefficient public productive activity (10% of GDP in the last four years was used to subsidise a few SOEs); and distortions in planning processes at micro- and macro-levels. To this, one should also add the very ambitious social policy, which remains the most important feature of the Cuban revolutionary project. In the last four years, the weight of public expenditure in education, health, and social security continued to increase and accounted for 15%, 11% and 8% of GDP, respectively, in 2010.

Government's Policy Agenda

A remarkable feature of the government of Raul Castro, who has been President of the State and Ministers Council since July 2006, has been the explicit will to remove harmful political and economic practices and place the country on a path towards growth, stability and development whilst simultaneously seeking to maintain the sustainability of the Cuban socialist project. In fact, Raul's government seems to be responding to a generalised demand of the Cuban people for increased welfare whilst eliminating old bureaucratic rules that restrict social and economic interactions.

A discernible policy agenda has emerged over the last three years, first in speeches and later in laws and measures. Some of the changes associated with it depart dramatically from the secular practices developed during the earlier years of the Revolution. Some of the most important changes include: the restructuring of Government to make it more effective; the expansion and relaxation of rules pertaining to small private enterprises to allow them to hire labour directly (something that was forbidden until then); and a recent announcement that allows private enterprises to trade with the SOEs with no restrictions². Most of these changes have been supported by the majority of Cuban people with massive participation in the national debates around the guidelines to the 6th Congress of the Cuban Communist Party (PCC; see <http://tinyurl.com/79euo99>).

Perhaps the most controversial measures are those related to the restructuring of employment in the public sector while fostering small private enterprise and other non-state ownership forms, and the non-state management of public sector assets and land. In September 2010, a set of measures were published announcing an extension of the activities in which private initiatives can engage, the rules for hiring in non-state businesses, a reformulation of the tax system, and a process of *labour mobility* - looking to discharge the SOEs' overdrawn plant of workers. The distortion on state employment is best illustrated by the example of the state's construction enterprises employing more security personnel than bricklayers. This process entails revising the functions of every worker employed by the State in order to enhance efficiency and productivity. This would make it possible to reallocate workers towards sectors which experience labour shortages. However, if workers disagree with their redeployment, the SOEs are in theory allowed to terminate their contracts.

The first schedule announcing the reduction of public sector employment concerned 497,000 jobs for 2011, with approximately 146,000 public employees being without immediate reallocation to other State or non-state activities. It was forecasted that 351,000 employees would be absorbed by the non-state sector, with 100,000 of these going into private entrepreneurship. This process has actually been "smoothed over time", prompting Marino Murillo³ to call for a "change of pace" during a session of the National Assembly of People's Power, the supreme legislative institution in Cuba, in August 2011. The main reason for the slower-than-planned implementation of the initial policy proposal was that the people of Cuba found that the process would be unfair to the population as a whole. The policy framework was therefore adapted and resulted in drastically different outcomes. The reallocation of jobs follows the restructuring of sectoral ministries through merging, abolishment, or transformation into state-owned holdings. It seems that the labour market has until now absorbed the changes because the unemployment rate is not rising significantly. It would be naïve not to recognise as well the natural tendency of bureaucratic structures towards their self-preservation.

Thus, it is apparent that the resistance of Cubans to the labour mobility policy ignores the compelling economic arguments that support a necessary reform of employment relations, in order to guarantee the economic sustainability of the Cuban socialistic system. But popular perception reflects several important challenges in the Cuban private sector which the policy has failed to address, and to which attention has shifted.

Challenges to the implementation of government's policy agenda

The first aspect to take into account is that the non-state sector does not have the capacity to rapidly absorb the large influx of workers which the reduction of public sector employment would generate (actual estimates of labour absorption capacity remain unreliable according to state officials). There are further uncertainties linked to the absence of any serious short-term wage reform addressed to increase purchasing power of work that could expand the demand, foster non-state activities and thus employment. Furthermore, the sustainable expansion of private enterprises over time is constrained especially when considering the rather limited list of 180 permitted activities.

The alternative deployments offered by government comprised public employment in the agricultural and construction sectors. These were not particularly suitable to the urban workers who were sometimes aged and unskilled for such jobs. On the other hand, there are questions about the capacity of the labour force to start new enterprises in a complicated regulatory context (including the limitations of the "list"), and in an environment dominated by small but established producers who have adopted relative oligopolistic practices as a consequence of long-lasting government restrictions on new initiatives. Further, many would-

be entrepreneurs nurture unrealistic profit expectations as they are lured by the super-profits made currently in the private sector as a result of these practices. The increase in competition would nevertheless probably reduce average incomes in most activities, and drastically diminish the earnings threshold in some, making the future expansion of the sector slower. Already, more than 20% of the 240 000 new licenses allocated between October 2010 and June 2011 have been returned to government.

Conclusion

The timing of government's policy agenda and measures has been questioned, even by the National Assembly of People's Power. While the expansion of private enterprises was supposed to absorb workers who had lost employment through the reduction of the public sector, the actual opening of the private sector took place before the application of the state's labour mobility policy, relatively reducing the opportunities for participation by workers to be dismissed from the public sector.

The Cuban government and workers face a huge challenge given the restructuring of employment which is part of the greater structural and strategic reforms the country needs to undertake. Such transformative processes must be articulated with complementary policies (e.g., wage reform, expansion of the activities allowed for the private sector, creation of competitiveness and regulatory entities), in order to be successful. It is only on such a synergistic basis that people will retain their confidence in government policies and cooperate towards the achievement of collective goals.

- [1] Cuban economic and social statistics are available at www.one.cu
- [2] A thorough analysis of Cuban economic changes can be found at <http://www.temas.cult.cu/catalejo.php> and www.eumed.net/coursecon/ecolat/cu/2011/ofe.html
- [3] Vice President of the Ministers Council, Former Minister of Economy and Planning (2008-2011), and currently in charge of State Commission which oversees the implementation and development of the guidelines of the 6th PCC Congress.

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