Social and Economic Policy in Cuba: A Model of Integral Development for Latin America?

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Theme: In contrast to affirmations that Cuba is an example of integral development for Latin America, this article discusses the characteristics of Cuban economic and social development in recent years.

Summary: A recent book published by ECLAC/CEPAL’s Mexican Office, Cuba’s National Institute for Economic Research (INIE) and the United Nations Development Program (UNDP) makes an extremely favourable assessment of social and economic development in Cuba in recent years. It is even suggested that the Cuban model could be a good example of integral development to be followed by other Latin American countries. This analysis is based on a response to the book published by ECLAC itself in its Review. It contests the book’s affirmations and provides numerous statistics that document Cuba’s economic and social development from 1989 to 2004, and questions the thesis that it is indeed a model for the region.

Analysis: Until 1989, Cuba’s social policy led to very significant advances in education, health care, social security, employment and distribution. The collapse of the socialist bloc, as well as other internal and external factors, caused a severe crisis that peaked in 1993, dealing a blow to almost all the country’s social indicators. Modest market reforms in 1993-96 achieved partial recovery, but these were then frozen and indicators have dropped since 2003. Social indicators improved after 1994, but by 2003 several of them had not yet recovered to 1989 levels and poverty and inequality had increased. This text summarises the conclusions of a recent article published in the ECLAC Review/Revista de la CEPAL (see “Problemas sociales y económicos en Cuba durante la crisis y la recuperación”, Revista de la CEPAL, no. 86 (2005), available at http://www.eclac.cl/publicaciones/SecretariaEjecutiva2/LCG2282PE/G2282eMesaLago.pdf). This analyses Cuba’s economic development and, in particular, its social development in 1989-2004 (based on Cuban statistics and publications, as well as on ECLAC documents), while evaluating a book on social policy in Cuba published in 2004 by ECLAC’s Mexican Office, Cuba’s National Economic Research Institute (INIE) and the United Nations Development Program (E. Álvarez and J. Mátter (coords.), Política social y reformas estructurales: Cuba a principios del siglo XXI, LC/L.2091, ECLAC Subregional Office in Mexico/Instituto Nacional de Investigaciones Económicas (INIE)/United Nations Development Program (UNDP), Mexico D.F., 2004).

Is Cuba a Good Model of Integral Development for the Region?
The introduction to the book reaffirms an ECLAC axiom that is correct: economic growth is not sufficient in itself, since it does not automatically lead to greater equity. However,

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neither can social welfare be achieved in the absence of a sustained growth in production, making it necessary to include both in an ‘integral development’. The introduction also argues that Latin America had unsatisfactory socio-economic results in the 1990s, making it necessary ‘to find a new political, social and economic balance that foments greater social protection in a framework of equity and development’ (p. 11-13). One of the book’s authors suggests that Cuba is an ‘interesting case’ of ‘growth with justice, as it has dealt simultaneously with economic and social problems’, using an integral development model which, over the past four decades, has increased social welfare and equity, despite the collapse of the socialist bloc, the underlying crisis and external restrictions (p. 58-59). The book’s final chapter confirms that ‘The contributions… of the Cuban model are of great use in the international consideration of the opportunities for achieving productive development with equity’ (p. 306). Another chapter maintains that Cuba simultaneously achieved economic growth and social equity between 1959 and 1989 but, due to the crisis, GDP fell 33% from 1989 to 1993, though it then rose at an annual rate of 3.4% from 1998 to 2002. The author argues that although the growth rate has dropped in the past three years, this has been due to exogenous factors, such as the drop in world sugar and nickel prices, less international tourism and the damage inflicted by three hurricanes. They add that Cuba’s growth rate rose in 2003, indicating dynamism, and conclude that this rate was higher than the 1.3% average for Latin America, meaning that it contrasts favourably with a regional ‘levelling out’ and ‘six lost years’ (p. 44-48). However, my analysis indicates that although exogenous factors exacerbated the situation, deceleration was mainly the result of an internal factor: the paralysis of economic reform –a point of view also held by several Cuban economists–.

In its analysis, the book does not offer complete historical data for the ‘Special Peacetime Period’ (1989-2003), but focuses instead on the 1998-2003 period (of partial recovery). It therefore projects much more positive results than if it had compared the situation in 2003 with that of 1989, before the crisis. This is precisely what my article does systematically, providing abundant evidence that contradicts both the thesis that Cuba simultaneously achieved economic growth and social development between 1990 and 2003, and the presentation of the Cuban model as an example for the region of how to balance economic and social goals for integral development.

Economic Development
The article shows that Cuba is not a model of economic development for the region for several reasons:

(1) Cuba’s GDP fell 1.4% a year from 1991 to 2000 –the lowest rate in Latin America and the Caribbean–. Although the change in base year at constant prices and the incomplete GDP series make a proper calculation impossible, I have estimated that between 1991 and 2003 the average rate was 0.5%, though it is not possible to make comparisons with the region as a whole. By 2003, per capita GDP had probably not recovered to the 1989 level, meaning that Cuba had lost 14 years of development, compared with the supposed ‘six lost years’ in the region.

(2) Although there are different sets of data on gross investment, all of them indicate a significant reduction in investment between 1989 and 2003, and a severe process of decapitalisation affecting growth; the Cuban investment coefficient is low in the regional context.

(3) Despite the recovery, in 2003 the main agricultural and manufactured products remained between 20% and 89% below 1989 levels; important exceptions were oil and
nickel, despite the drop in nickel production in 2002 and 2003.

(4) The value of exports in 2003 remained 70% below the 1989 level and imports were 43% lower; exports continue to be primarily traditional products, while import levels suggest reduced self-sufficiency in food production, import substitution and industrialisation; terms of exchange worsened by 56% between 1989 and 2003; the trade deficit in goods in 2003 was US$3 billion, and had been growing since 1995; foreign debt rose 77% in 1989-2003; on average, only US$200 million a year in foreign direct investment was disbursed in the entire period of 1991-2002 and has fallen even further since then.

(5) Tourism and remittances are the main source of foreign currency, but do not compensate for the severe reductions in other areas.

Social Development

Virtually all social indicators deteriorated during the worst years of the crisis (1990-94) and although several of them had recovered to 1989 levels by 2003, others remained low and still others dropped steadily:

(1) Although there are no official statistics on the incidence of poverty, Cuban estimates of the urban population at risk rose from 6% in 1988 to 20% in 2002; the poverty severity index among the general population was 0.39-0.42 in 1995 and the incidence of poverty was 61%-67% the same year, while 31% of the population of Havana was considered poor in 2002.

(2) Neither are there official statistics on income distribution, but Cuban and foreign estimates indicate that distribution became more unequal, that the Gini coefficient rose from 0.22 in 1986 to 0.407 in 1999 and that the ratio between the richest and the poorest quintiles rose from 3.8 in 1989 to 13.5 in 1999; segmented markets and the remittances received by part of the population increased inequality.

(3) The official unemployment rate fell from 8% in 1989 to 2.3% in 2003, but these figures are questionable: they seem to include people who are not employed, but who study or receive unemployment benefits, and they also conceal a considerable underemployment; my rough estimates suggest 21% unemployment in 2000, compared with the official rate of 5.4%; employment expanded mainly in services, but this is the sector where productivity fell the most (3.7 points between 1991 and 2002), which is another indication of subutilisation.

(4) Before the crisis, rationing satisfied basic food needs, but at present it covers only about one week of consumption, so that the rest of the month the population has to buy food in the free markets and hard currency shops at prices four to 49 times higher than those of rationed goods; there are contradictory figures on whether the nutritional levels of 1989 had been regained by 2003.

(5) The primary school enrolment rate remained steady during the crisis, while it dropped for secondary schools, but virtually recovered its 1989 level. By contrast, university enrolment in 2003 was still 20% below the 1989 level; it dropped between 32% and 57% in key disciplines for development (agronomics, natural sciences and mathematics, and technical fields), but rose 343% in education (although the teacher/student ratio was already the lowest in the region) and 565% in arts and social sciences. Serious questions can be raised regarding the efficiency and results of the attempt to provide universal higher education in 2002-03.

(6) In 1989, Cuba had the best health indicators in the region, but the crisis took its toll on almost all of them, except for infant mortality, which continued to decline and in 2003 was the second-lowest in the continent; the maternal mortality rate rose from 29 per
hundred thousand live births in 1989 to 42 per hundred thousand in 2002; the mortality rate among those over age 65 rose until 1996 and then dropped, but in 2001 it was still above the 1989 level; morbidity indicators show a mixed performance and there has been a decrease in prevention through immunisation against transmittable diseases; the quality of health services and drinking water has diminished and there are indicators of inefficiency, including a reduction in the bed occupation rate and a persistently high rate of long stays in hospital.

(7) Cuba has the second oldest population in the region, but has among the lowest retirement ages and the second-longest life expectancy. This means long retirements at a continually increasing cost which, in 2003, was equivalent to 6.5% of GDP. The 12% contribution to pensions is provided by companies (only 2% of employees contribute), which is insufficient to cover costs. The deficit is financed by the state and increased from 1.3% of GDP in 1986 to 2.3% in 2003. To balance the system over the long term, it would be necessary to increase contributions to between 39% and 86% of the payroll. Real pensions dropped to half during this period. Social assistance covers only 1.7% of the population, although 20% of the population is considered to be at risk or poor. The retirement programme for the armed forces and the Interior Ministry has much better conditions and benefits than the general system; it would take 118% of wages to balance it.

(8) Housing is the most serious social problem in Cuba. Although there is no systematic statistical data, an average of 6.1 houses were built per 1,000 inhabitants between 1981 and 1989; this dropped to 2.8 in the worst part of the crisis and rose to 4.5 in 1995-2003 (2.2 in 2003), though this remained well below the average in the 1980s. There is contradictory data on the housing shortage, but it was likely above a million units in 2003.

The Lack of Balance Between Social and Economic Development
My article shows how Cuba often gives excessive priority to social development over economic development, with adverse effects. The book in question alludes to this problem, although the authors take different views of the issue. One of them affirms that one of ‘the main goals [of Cuban policy] has been to increase social welfare and equity, at times even postponing goals in the economic sphere; [however] to reduce the problems of poverty, inequality and vulnerability it is necessary to make headway with economic conditions, since growth is also a necessary condition for social development’ (p. 59 and 88). The other author proposes that in the early 21st century ‘Cuba faces the challenge of achieving the economic sustainability of the social goals reached in recent decades’ and vaguely suggests that ‘this situation has led to insufficient growth in production’ (p. 19). By contrast, the final chapter of the book argues that although ‘the balance between social and economic goals has not always been even’, there has been ‘great ability to adapt policies to limit adverse effects’. It concludes that Cuba’s strategy ‘is based on ongoing evaluation... aimed at simultaneously achieving results in... equity, development and welfare’ (p. 305-307). In a previous work I showed that the excessive emphasis that Cuban policy-making placed on social goals to the detriment of economic goals –especially during the idealistic periods of 1966-70 and 1986-90– caused imbalances and harmful effects. This article reaches the same conclusions for 1991-2003, given:

(1) The priority given to job creation at the cost of lowering labour productivity.
(2) The plan to make higher education universal and to emphasise the arts, social sciences and education –even though Cuba had already long had the lowest student/teacher ratio in the region, while key disciplines for development suffered considerable
abandonment– without considering the need to give productive employment to graduates.

(3) The great effort to continue reducing infant mortality— even though Cuba had years before achieved the lowest rate in the region and the second-lowest in the continent— while there were serious deficiencies in nutrition, housing and drinking water and sanitary infrastructure, among others.

(4) The resistance to closing unnecessary hospitals (especially in gynaecology and paediatrics) or turning them into homes for the elderly, despite the drop in the hospital bed occupation rate.

(5) Maintaining the retirement age at 55 for women and 60 for men (the lowest in the region, after Haiti) at an enormous and growing cost to social security pensions, while reducing resources available for investment and growth.

(6) Continued price subsidies and absolutely free social services, regardless of income, which results in subsidies for high income groups, instead of creating a universal social assistance system focused on the poor population.

Conclusions: The book does not offer an integrated set of social policies for Cuba. Rather, it focuses on timid economic policies aimed at greater decentralisation and room for the non-state sector of the economy— recommendations that Cuban government policy has ignored since 2003, as economic decision making has been recentralised and the small private sector has been reduced—. The final chapter of the book offers some general recommendations but does not discuss them in detail. In some cases the book confuses its own recommendations with policies that are now being implemented by the Cuban government. Certain persistent social problems are also identified, but no policies are suggested to deal with them. There are no recommendations of any kind on education, nutrition, housing, drinking water or sanitation, while in other areas it is necessary to read between the lines to find solutions. In general, the book gives the impression that the vast majority of the policies implemented by the Cuban government have been successful in solving the island’s social problems.