

**SOCIAL SERVICES IN CUBA:  
IS THE CURRENT ECONOMIC SYSTEM CAPABLE OF  
FINANCIALLY SUSTAINING THEM IN THE LONG RUN?**

**Carmelo Mesa-Lago**

**Distinguished Professor Emeritus of Economics  
University of Pittsburgh**

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# Overview of Current Economic Situation and Perspectives

- **GDP growth rate averaged 10.6% annually in 2005-2007 (7.5% in 2007) but it's overestimated, actual rate probably 3.8% in 2007; growth rate projected to 8% in 2008**
- **Capital formation/GDP 13.5% versus 25.6% in 1989 (average 19.6% in Latin America)**
- **Inflation 5.7% and growing**
- **Dismal agricultural production forces food imports of \$1.5 billion in 2007. Output in 2007 was below 1989: 86% in sugar, 68% fish and seafood, 57% milk, 56% citrus, 33 tobacco, 24 cattle heads, 13% eggs; only tubers and vegetables were above**
- **Mining successful with foreign investment, output in 2007 was above 1989: 3.5 times in natural gas, 303% in petroleum and 62% in nickel (the last two declining since peaks in 2001 and 2003). Potential for oil discovery**
- **Desindustrialization and decapitalization processes, output in 2007 was below 1989: 90% fertilizers, 86% textiles, 50% cement, 9% steel, 75% shoes, 59% soap; but 13% above in electricity (stagnant per capita) and 38% above in cigars**

## **External Sector: Problems and Advantages**

- **Exports in 2007 were 31% below 1989 level but imports were 25% above, hence balance of trade (merchandise) was a deficit of \$6.4 billion, 137% higher than in 1989**
- **But balance of services (professional services abroad and tourism) generated about \$6 billion, almost compensating deficit in merchandise trade**
- **External debt (excluding Russia, Eastern Europe and Venezuela) was \$16 billion in 2007, 154% above 1989**
- **Number of foreign business decreased 41% since 2002; government is only interested in major investors in strategic sectors**
- **Number of tourists in 2007 was 2.2 million, 8 times that in 1989, whereas gross tourist revenue was \$2.2 billion, 13 times that of 1989, but both declining since 2005**
- **Number of tourism hotel rooms doubled in 1989-2007, but occupancy in 2007 was 45% and expenditures per day fell 45% (Cuba losing to competition from Dominican Republic and Cancun)**
- **Venezuela is subsidizing the Cuban economy: sells oil barrel at \$27 versus \$100 world price (\$2.5 billion subsidy in 2007); paid \$5 billion for Cuban professionals working there; granted Cuba \$3 billion in credit/investment in 2006-2007. If Chavez loses power or the price of oil falls, Cuba could face a second Special Period**

## **Welfare Expenses as Percentage of State Budget and GDP, 2007**

<b>Welfare expenses</b>	<b>Budget Expenses</b>	<b>GDP (current prices)</b>
<b>Health care</b>	<b>17.3</b>	<b>11.9</b>
<b>Education</b>	<b>14.0</b>	<b>10.4</b>
<b>Social security pensions</b>	<b>9.4</b>	<b>6.5</b>
<b>Social assistance</b>	<b>2.9</b>	<b>2.0</b>
<b>Housing</b>	<b>0.8</b>	<b>0.5</b>
<b>Total</b>	<b>44.4</b>	<b>31.3</b>

## Mixed Social Welfare Outcomes

- **Open unemployment 1.8% in 2007, the lowest in Latin America, but overestimated; recent official data report that 20% of the working age population in Havana is not employed**
- **Real wage (adjusted for inflation) in 2007, 76% below 1989; whereas real pensions 61% below. Salary grossly insufficient to cover basic needs due to rising prices of goods and services**
- **Infant mortality 5.3 per 1,000 born alive in 2007, 61% below 1989 and lowest in the Hemisphere after Canada, but maternal mortality 49.4, 69% above 1989.**
- **Inhabitants per one physician was 158, half of 1989 but, after subtracting physicians abroad, 30% higher, many physicians working in other jobs; potable water and sewage infrastructure badly deteriorated**
- **Registration in higher education increased 172% over 1989, but concentrated in humanities, social sciences, pedagogy, whereas rose only 12% in agricultural science and declined 40% in natural sciences and math; scarcity of teachers due to low wages**
- **Housing units built per 1,000 inhabitants 4.6 in 2007, 25% below 1989, only 0.8% of the budget allocated to housing in 2007 budget**
- **Social Assistance: 5% of the population receives social assistance but 20% of the people in Havana are poor, and 23% considered themselves poor and 23% almost poor**

## Capacity of the Economy to Sustain Future Welfare Expenditures: Analysis of Social Security Pensions

	<b>1986</b>	<b>2006/07</b>
<b>Cost of pensions (% of GDP)</b>	<b>4.6</b>	<b>6.5</b>
<b>Deficit (revenues minus expenses, % of GDP)</b>	<b>1.3</b>	<b>2.5</b>
<b>State-covered deficit (% of expenditures)</b>	<b>26.0</b>	<b>39.2</b>
<b>Real monthly pension (pesos adjusted for inflation)</b>	<b>56.00</b>	<b>22.00</b>
<b>Current wage contribution (%)</b>	<b>10.0</b>	<b>12.0</b>
<b>Contribution needed to eliminate deficit (%)</b>	<b>13.5</b>	<b>19.7</b>
<b>Population age 60 and older (% of total pop.)</b>	<b>10.9</b>	<b>15.9</b>
<b>Comparisons with Latin America:</b>	<b>Cuba</b>	<b>Region</b>
<b>Ages of retirement (women/men)</b>	<b>55/60</b>	<b>59/62</b>
<b>Years life span at retirement (women/men)</b>	<b>27/20</b>	<b>22/17</b>

## **Social Welfare Model to Best Fit Cuba's Economic Capacity**

- **Cuba's current economic capacity is unable to sustain its social welfare system in the long run; hence it needs structural reform (as stated by Raul Castro and acknowledged by several Cuban economists/experts), hence need to increase fiscal revenue and efficiency, and cut social expenditures:**
- **Pensions: expand worker wage contribution from current 20% of labor force to all workers; establish wage contributions in all non-state firms with a minimum number of employees; raise ages of retirement by 5 years for men and women in a 20 year period; integrate the costly armed forces pension scheme into the general system; create a reserve for new workers and invest it to generate a yield; increase minimum pensions**
- **Health care: give priority to water/sewage infrastructure; reallocate resources from infant mortality to import of medicines, etc.; halt health aid/fellowships to other countries unless they pay for services; increase ratio of nurses relative to physicians; charge full cost of private rooms to high income groups; attract more foreigners to receive care in Cuba; authorize self-employment of health personnel and medical coops to compete with state**

- **Education: place more emphasis on superior education careers geared to development, management/business, and vocational education; shift funds from elementary education to pay better salaries to teachers; authorize self-employment of teachers; allow entrance of non state universities.**
- **Housing: facilitate access to construction materials to repair and build homes by the population; authorize investment of remittances in these activities and free selling and buying homes, as well as using own housing as collateral for loans for investment**
- **Social assistance: gradually end the rationing system in tandem with output increases and target subsidies on vulnerable population; create wide social safety net; allow churches to establish/expand free asylum facilities**
- **Reform current tax system that is regressive into a progressive system, reducing sales and public utility taxes and replacing them with a progressive personal income tax and corporate tax**