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External Opening, Labor Market and Inequality of Labor Incomes

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PROJECT ON GLOBALIZATION AND SOCIAL POLICY

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INEQUALITY OF LABOR INCOMES**

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INTRODUCTION

The external opening that took place in the Cuban economy in the nineties has unique characteristics that differentiate it from the experience of other countries. In the first place, the Cuban opening was accompanied by a severe external adjustment of magnitude much greater than that experienced recently by other economies of the region. Also this opening has been part of a wider process of modification of the economic model. There has been a transformation from a highly centralized system based on balancing the distribution of material resources, to a system based mainly on financial mechanisms as well as a greater degree of managerial autonomy.

Although it is a well-known fact, it is important to keep in mind that Cuba is the only socialist economy in the Western Hemisphere. After thirty years of existence, its economy was greatly affected by the political changes that took place in Eastern Europe. In spite of the economic trauma that this represented, the social and political objectives of the socialist model remained in full force. The nineties is significant because of the existing tension between the purpose of adapting the economy to the new environment and the desire to preserve—among other things—the achievements in equity obtained previously. This process of economic transformation and external opening presents characteristics which are quite different from those of other countries, because of the way economic variables react to one another, and also because of the priorities and objectives given. In particular, social concerns, not just economic considerations, were considered. Emphasis has also been given to the gradual implementation of changes, to achieving political consensus, and to the active participation of the State in the management of the economy.

On the other hand, the transformations occurring in Cuba have had a greater impact on its economic system than the process of external opening taking place in other countries. They have required important modifications to institutions, the legal framework, and managerial culture. However, the final objectives are much more limited with respect to the prevalence of the market in determining socioeconomic relations.

Once said, it becomes necessary to explain what Cuba's external opening has consisted of. Briefly it has consisted of the opening to foreign capital by way of direct investments. It has also included the decentralization of external trade and the reduction of tariffs. Also, an internal market in foreign exchange had been created, in which national enterprises compete with products offered by international firms. Free trade zones have also been created. There are some investment funds, although further development of portfolio investments is not foreseen. On the other hand, it should be pointed out, that no restrictions have been placed on the repatriation of profits to joint businesses.

A notable feature of Cuba's reinsertion into the international market, has been the formation of a *dual* economy. Activities linked to the external sector, in general, carry out all their operations in foreign exchange, while the remaining activities are conducted in the national currency. This alternative has permitted the avoidance of a devaluation, under conditions of strong monetary imbalance, and given the lack of financial and price mechanisms.

The division of the economy into two sectors explains in part why the official exchange rate has remained unchanged, at its traditional level of one peso to one dollar. The only important function of the official rate is its role in determining internal prices in national currency, since convertibility does not exist. The alleged advantage of maintaining this fixed rate is the maintenance of stable internal prices under conditions of structural disequilibrium. A modification in the rate of exchange of the magnitude required under these conditions, would have resulted in a high increase in the cost of living, with a strong regressive effect on income distribution.

To understand the purpose of this dual exchange rate system, it is necessary to explain the form in which foreign exchange circulates and how economic activity is regulated. Enterprises generating revenues in foreign exchange cover their expenditures with their own revenues and give part of their earnings to the central budget. In turn, foreign exchange is centrally allocated to activities related to the internal market that do not have revenues in foreign exchange. It was possible in this way to assign and distribute foreign exchange according to economic and social priorities, particularly when the available total foreign exchange decreased 75 percent.

For example, in the public health sector, strong restrictions on imported medicines were imposed, yet patient care remained a priority. This would not have happened if a general budgetary restriction had been applied. In this manner, with the strengthening of preventive medicine attended to by the doctors, a certain substitution effect was achieved, thus preserving the main achievements attained in this area.

The fact that the GDP decreased by over a third, while imports decreased by three fourths can be explained to a great extent by this peculiar adjustment mechanism, implemented to face the external shock. It is evident that in the long run, segmentation of the economy and the lack of a system of prices based on a more representative exchange rate can limit a more effective readjustment of the economy. But at present, the mechanisms previously described govern the links between the internal and the external economy.

Enterprises that carry out their operations in foreign exchange, as well as those entities that receive a central allocation in foreign exchange, have the possibility to acquire their inputs by way of imports or by financing a national producer. In this manner an internal market in foreign exchange has been created, to which producers have been progressively incorporated. This, in fact, has become one of the main mechanisms to stimulate the economy. Tourism, transport and telephone services, traditional exports like sugar, nickel, fishing, tobacco and others, have become the locomotive pulling the remaining sectors. New jobs are generated through these links, and they are generally better paid than already available jobs.

A significant amount of dollarization has also taken place, influencing the process of external opening. The holding of foreign exchange by the population was legalized, facilitating the reception of remittances from abroad. Together with this, a network of state stores was created with the purpose of collecting this foreign exchange. In this way, the internal market in foreign exchange was enlarged, and the incorporation of additional

producers of consumer goods was made possible. This paper analyzes the effects of the dollarization process on the distribution of revenues and also on poverty.

Like other centrally planned economies, the Cuban economy in 1989 was basically restricted on the supply side. The introduction of these reforms has meant a progressive incorporation of market elements in the determination of economic activity. Yet these changes do not prevent the economy from being planned in a centralized way, although the focus and methodological instruments have been modified.

Activities that carry out their operations in foreign exchange, have their activity level conditioned by the demand of the market and its competitiveness; while internal market activities, that receive foreign exchange through a central allocation, have their production restricted on the supply side. In the critical years in which the external adjustment took place, the main form of regulation was through the conformation to the import plan and the allocation of foreign exchange. Later on, as systems of self-management in foreign exchange have expanded, demand elements have attained a growing importance.

Another significant aspect to be considered while interpreting the causal relationships that govern economic processes in Cuba, is the existence of strongly segmented markets and spheres. Besides the differences between enterprises that operate in foreign exchange and in national currency, there is also a division between the monetary circulation that takes place in the population and that of the business sphere. Until recently, the savings of the population remained practically inactive; now they are being employed for bank lending, but still at a relatively modest scale.

In the general population, there is a market rationed at low prices; a state market at supply and demand prices; a non-state market also at unregulated prices; and a state and non-state market based on foreign exchange. In general, there has been a shift, from the market rationed at low prices, toward other segments governed by demand with non-regulated prices. However the role of the rationed market and the distribution of foods through social channels still carry an important weight.

Exchange firms have been created to allow the population to purchase and sell foreign exchange, according to a non-official exchange rate. But currency exchange operations are not foreseen in the immediate future for enterprises.

In recent years, enterprise deposits in foreign exchange have been mobilized for bank lending, which has already reached significant volumes. The interest rate employed is linked to the rates obtained in the international market, and is relatively high, at around 12 percent. However, most financing is composed of external trade credits, determined by conditions prevailing in the financial market, with an increase in rates reflecting the difficulty Cuba faces in obtaining international credit.

In summary, it can be stated that Cuba's external opening has had a strong impact on all social and economic structures. It has become an important stimulating factor helping to reinsert the Cuban economy into the international economy. This is so, despite the difference in approach of Cuba's insertion with those of other economies, in conformity

with the purpose of carrying out economic changes in a gradual way and within the limits of a model that restricts the influence of the market.

In what follows, there is an exposition of the main characteristics of the economic reform, with emphasis on the external opening, changes in the labor market, and social policy measures. Subsequently, three aspects are analyzed: macroeconomic performance, mesoeconomic dynamics, and changes in the labor market, including workers remuneration. All those cases that reflect a direct relationship between the opening of the economy and labor revenues obtained by the population, are also examined. Lastly, we analyze the relationship between the labor revenues of households and their economic situation. The study ends with some general conclusions.

REFORMS, OPENING AND THE LABOR MARKET

Since 1989 the government has adopted measures aimed at increasing foreign exchange revenues while at the same time, minimizing the social consequences of such external adjustment. Development programs were implemented such as tourism and biotechnology. Food production was also encouraged with the intention of replacing imports. The opening to foreign capital was promoted mainly through the creation of joint ventures. At the start of this period, state workers were guaranteed employment and wages. Priority was also accorded to social programs like health and education, within the limits of available resources.

In 1992 the Constitution of the country underwent changes to take into account new ownership forms. The state monopoly on external trade was eliminated and planning was given a more flexible role. In 1994, as monetary imbalances worsened, including a high budget deficit, measures were adopted to face this situation. Since 1992 important organizational and institutional measures have been implemented to achieve permanent changes in the working of the economy, with the intent of increasing the effectiveness of resource use. Along with what has been mentioned, measures were also adopted to achieve a larger decentralization of enterprise management. Table 1 in the Annex shows measures classified by spheres, with their chronology and main impact from the macroeconomic, social, and microeconomic points of view.¹

With respect to the external opening, it should be pointed out that foreign capital investing directly in Cuba typically enjoys greater guarantees than those found in other countries. This includes the unrestricted repatriation of their profits and capital. The approval of associations with foreign capital is done on a case-by-case basis, with decisions based on three fundamental criteria: that they contribute technology, market or capital. Total liberalization linked to privatization, prevailing in the external opening of other countries, has not been present in Cuba. Concerning capital flows, it is important to point out that since 1964, Cuba has had no access to financing from the International Monetary Fund (IMF), the Inter-American Development Bank (IDB) or the World Bank. The effect of the

¹ The classification of the reform is based on González, A. See for example *Economía y Sociedad. Los retos del modelo económico*. Revista Temas No.11, 1997.

United States economic blockade², worsened under the Helms-Burton law, has been to increase significantly the cost of credits obtained³. This situation has forced the government to take import steps to mobilize available commercial credit and face the external gap.

Cuba's trade opening has brought about three main changes: (1) the emergence of an extensive entrepreneurial network dedicated to external trade activities, transforming the state monopoly⁴; (2) the creation of internal markets in foreign exchange; and (3) the reduction of tariffs. In 1990 the average rate for the Most Favored Nation was 17.7 percent. With the reductions, this was lowered to an average of 10.7 percent in 1996.

Social measures began in 1990 with the decision to keep state workers in their jobs and to preserve their nominal incomes, despite the abrupt contraction of the economy that was taking place. Also, almost all consumption goods available were transferred to the rationing system. Additionally, there was an expressed will to preserve as much as possible of the health and education programs. Later on, new measures were incorporated that showed an incipient trend in achieving more efficiency in social policy.

The macroeconomic measures adopted in 1994 were very significant. They embraced an increase in prices for products not considered essential goods, the eradication of certain gratuities, an increase in user rates (such as in electricity consumption), and tax reform. Also, specific actions were carried out to decrease losses faced by state enterprises, as well as other measures to reduce the budget deficit.

Another component of reform was the expansion of the area corresponding to non-state activities. Besides the opening to foreign investors, the State gave rent-free a large share of state agricultural land to newly created cooperatives⁵ and also gave greater scope to self-employment activities.

An additional change has been the creation of distinct markets based on unregulated prices, both in foreign exchange and national currency. The State conceived these markets in a stratified or segmented manner,⁶ for the sphere of consumer goods and services.

² Although the United States rejects the term *blockade* and prefers the word *embargo*, it is impossible to ignore the different measures implemented with the intention of involving third-party countries in the sanctions.

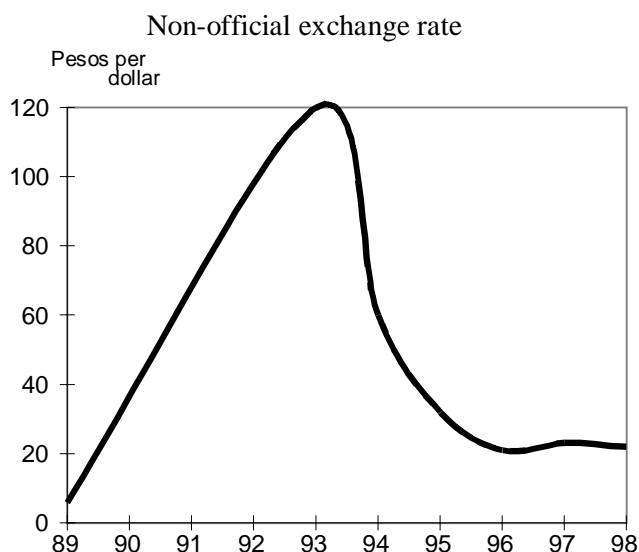
³ Other consequences of the blockade are: excessive freight expenses, lower prices of Cuban exports compared with prices in the world market, losses due to changes in currency exchanges as compared with the dollar, and others.

⁴ Between 1989 and 1995 external trade among Cuban enterprises increased six fold. Moreover, external trade has also been carried out by foreign trade representations and associations with foreign capital, who outnumber the Cuban enterprises three-fold.

⁵ In 1989, 78 percent of the land was in the hands of the State. By the end of 1997 that proportion was 33 percent (*Cuba en Cifras, 1997*, Oficina Nacional de Estadísticas).

⁶ A segmented market is one that possesses strata with different access defined for both buyers and sellers. There are different rules concerning the general formation of prices (due to the use of trade rates, margins, tariffs and taxes), the use of different currencies, and in general, mechanisms to catch surpluses formed in the different strata. They can be found in the agricultural market and in the industrial and handmade goods market. It includes state sales at fixed and unregulated prices, stores in national currency, stores in foreign currency, the sale and purchase of dollars, and earnings from self-employed services.

Nevertheless, the different market segments influence each other; and the non-official exchange rate also links purchasing capacity in both currencies.



Before the reforms, the labor market was highly structured and regulated.⁷ Direct recruiting by enterprises excluded a number of jobs. For example, it included neither the labor force in the capital, nor university graduates undertaking social service⁸. Additionally, all economic enterprises had to set aside a percentage of their jobs to employ workers assigned in a centralized way. A wage scale was centrally established—with a very narrow range—together with nation-wide rates, based on work complexity and required skills⁹.

The reforms in the labor sphere adopted some new measures but still maintained a great deal of what was previously legislated. The most important changes besides greater flexibility of self-employed activity, have been:

- Increase the protection given to surplus workers as a result of the managerial resizing processes, especially regarding wage guarantees.
- Establish new job opportunities for university graduates, when there are no possibilities for permanent contracts, including a specific wage treatment.

⁷ The labor policy pretended to achieve full employment, to eradicate unemployment as a social problem, to guarantee equal payment for equal work, and to maintain wage differences within an appropriate range. It also managed to negotiate the formation of a necessary qualified labor force that automatically places graduates. To execute these ambitious objectives, centralized labor legislation was conceived and was uniformly employed in the whole country. It was negotiated with certain decentralization in Municipal Labor Offices, but always with the direct supervision of the corresponding Ministry.

⁸ The Law of the Social Service No.1254 of 1973 states that university graduates upon completion of their studies will work for three years at an enterprise assigned to them. There, they will receive training to complete their formation and they will put the acquired knowledge (gratuitously) to the service of society.

⁹ The salary scale sets a minimum wage of 100 pesos and a difference of 4.5 times between the highest and lowest wages.

- Implement wage-incentive schemes, as a complement to the existing wage system. These can be either in foreign exchange, national currency, or in kind. They are applied mainly to activities generating foreign exchange.¹⁰
- Design municipal employment programs; condition resizing of enterprises to the creation of new employment.
- Create a mechanism that intermediates with foreign investors, with respect to recruiting workers, wages and social security.

In summary, the labor reforms have been very moderate with respect to liberalization, and have attained wide scope only with regard to worker protection under the new environment.

Reforms of a more structural character started in 1993 and have had their sequence and development. Although it can be said that the period of reforms started mainly in 1993,¹¹ it should be noted that some of these processes can last several years.

MACROECONOMIC PERFORMANCE

When the collapse of the socialist countries took place at the end of the eighties, Cuba lost its main trade links—in 1990, 85 percent of Cuban trade was with them. At first sight the most significant element of the large external shock was the abrupt reduction of imports. The rate of imports decreased from almost 29 percent in 1989 (with respect to the aggregate supply) to barely 15 percent in 1993-1994.

GDP (at 1989 prices) fell 30 percent between 1989 and 1993. After that, a moderate recovery process began, with only 1996 standing out, with growth of around 8 percent. In the other years between 1994 and 1998 the dynamics of the internal product did not surpass 2.5 percent in any one year. Thus, though the reform and economic opening have contributed in reversing the contraction of GDP, the dynamism has been limited.

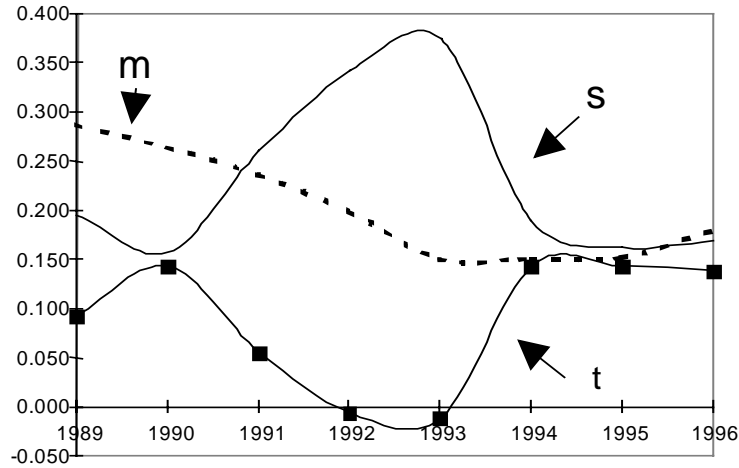
The external imbalance that gave rise to the adjustment had as an important component, an initial trade deficit in 1989 equivalent to 12 percent of GDP.

The rate of imports (m in graph 1) contracted dramatically, not as a result of a devaluation process, but due to the government's decision to contract supply. Because of this, activities not directly linked to imports were not at first effected. Later on the rate of imports recuperated to 62 of its 1989 level.

¹⁰ The remuneration in foreign exchange can be directly in foreign exchange or through access to purchase in stores that sell in that currency. In some cases it consists of the delivery of consumption goods. Remuneration modalities in foreign exchange in all their forms encompassed in 1997 the 37 percent of the labor force employed by the State or that works in agriculture cooperatives (Basic Cooperative Production Units). Taken from Rodríguez, J.L., *Resultados económicos en 1997 y el plan económico para 1998*. Informe a la Asamblea Nacional, Diciembre 1997.

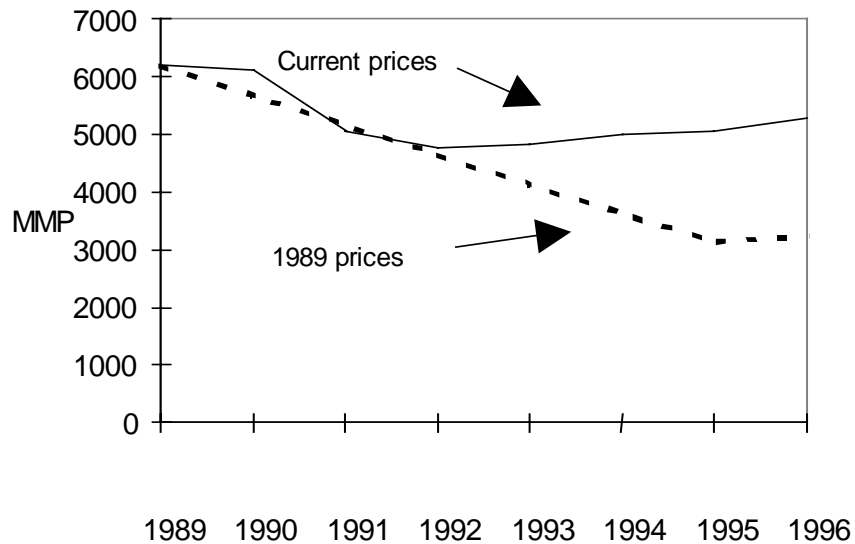
¹¹ The opening to foreign capital and the external trade decentralization began before 1993, but have only begun to have an important share in the economy since this year.

Graph 1. Imports, private saving and tax rates

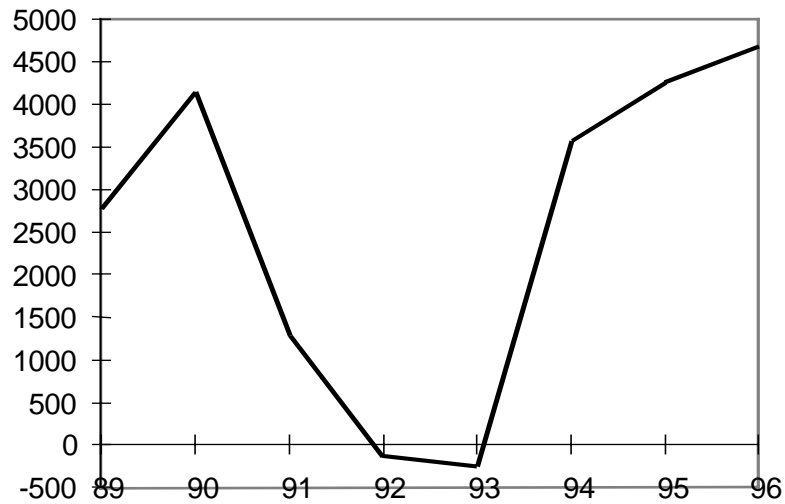


The rate of net taxes (t), which was already low in 1989 due to the high proportion of intergovernmental credits received from socialist countries, fell as a result of the policies to subsidize the population and enterprises against the ill effects of adjustment. Since 1993 the fiscal gap was almost eradicated, and as will be shown below, this was due partly to the growth shown by transfers from population and enterprises to the government; and partly —although in smaller measure— to the contraction of government expenditures.

Graph 2. Government Expenditures



Graph 3. NET TRANSFERS GOVERNMENT-PRIVATE SECTOR

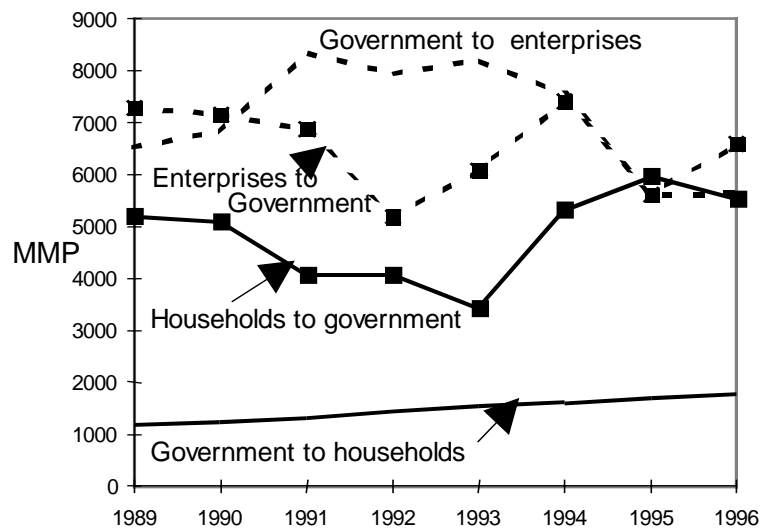


The growth experienced in the rate of private savings up to 1994, reflects mainly the increase in circumstantial savings of the population, due to the lack of consumer goods and services available.¹² The decrease later on of the saving rate stems is a result of the package of financial measures implemented, aimed at decreasing the monetary supply and stimulating the depressed household consumption.

The magnitude and nature of the changes is evident in the analysis of the flow of financial transfers between the government on one hand, and the managerial sector and population on the other.

¹² It should be remembered that for Cuba there is a certain financial independence between the population and the enterprise spheres. This is why this saving is not directly applicable to the investment.

Graph 4. TRANSFERS GOVERNMENT-PRIVATE SECTOR



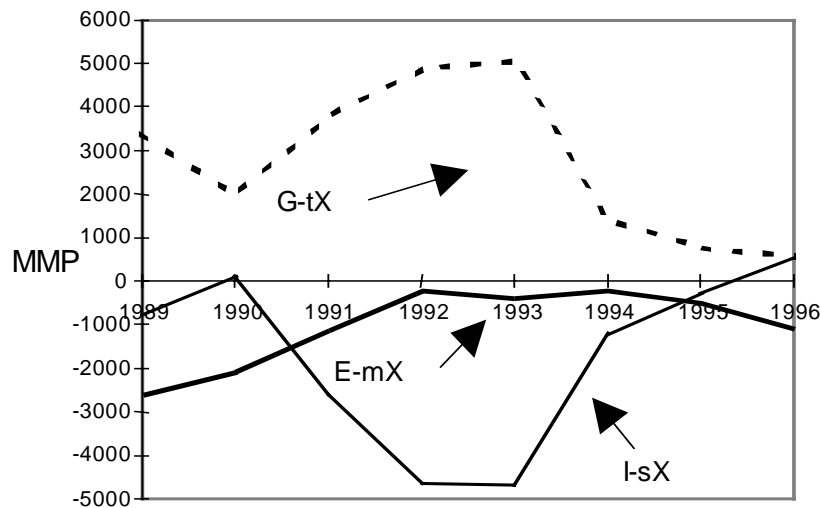
As can be observed, it was decided that social security and welfare transfers would be preserved and increased during the whole period, both during the initial years of GDP contraction, up to 1993, and during the economic recovery. Transfers from households to the government (composed almost entirely up until 1989 by consumption taxes) were reduced up to 1993, because the supply of household consumption goods decreased. Later on these transfers grew, due to the recomposition and positive dynamics of the consumer goods market (with the creation of new market segments at supply and demand prices), but also as a result of the implementation of the new tax system. During the period covered, the consumer price index increased, with a conservative estimate given at 81 percent between 1989 and 1993. This inflation was concentrated in the informal economy, where prices multiplied 10 times in those years, while subsidy prices for the rationed market remained constant. Later on, prices fell around 5 percent per year between 1994 and 1996.

With regard to relations between the government and enterprises, from 1989 to 1993, they reflect the drop in economic activity, on the one hand, and on the other, the growth of state subsidies to maintain managerial capacities, without labor discharges or salary decreases. After 1993, the effect of the reform is to bring about a reversal of the previous tendencies.

The dynamics of financial imbalances can be appreciated in graph 5.¹³

¹³ In the graph, the notation is the following: deficit or commercial surplus: E-mX; deficit or fiscal surplus: G-tX; deficit or surplus of private saving. In the first one the minus sign indicates deficit. In the others, the minus sign indicates surplus.

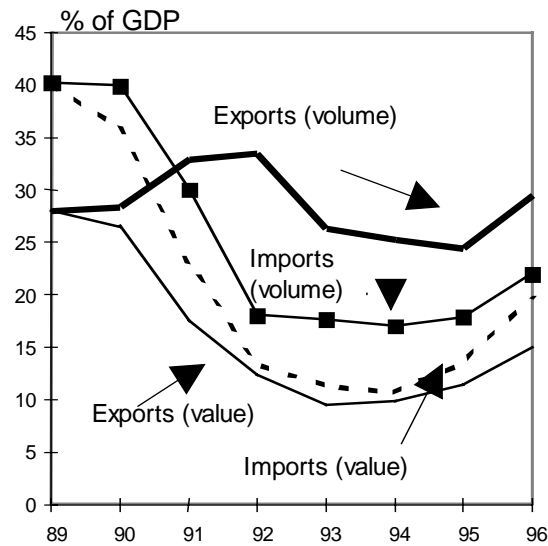
Graph 5. Financial gaps (current prices)



The improvement observed in the trade deficit up to 1992 stems from the severe slowing of economic activity caused by the above-mentioned lack of inputs. Scarce available resources were concentrated on export activities. In the phase of external opening, the trade deficit remained under control, partly due to decisions to restrict imports. Also significant were the positive export dynamics, which increased 70 percent between 1993 and 1996 (at current prices). Another important structural change was the increase in the share of services (mainly tourism, air transport, and communications) in the value of total exports. This share grew from 11 percent in 1989, to 50 percent of the export revenue share.

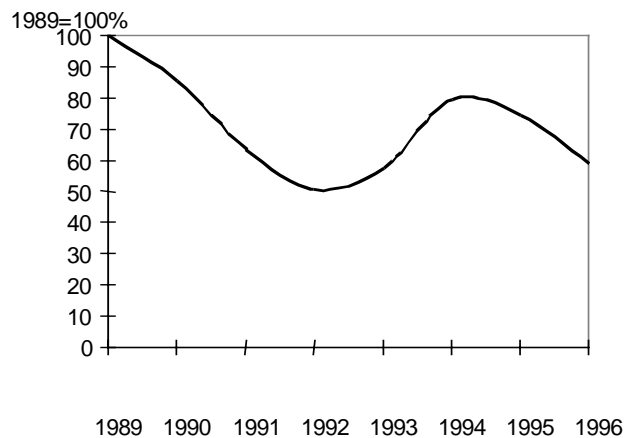
The export bias of the economic reform and the corresponding structural changes can be better understood, when seen at constant prices. Maintaining the official exchange rate of 1 peso per dollar, the trade imbalance disappears. The share of exports in GDP at 1989 prices (see Graph 6, below) surmounts that of imports. This takes place under conditions of economic recovery after 1995. In that graph, it can also be observed that the structural change is modest in terms of value. An exchange rate that reflects more objectively the relationship of the Cuban peso with other currencies would show higher levels of external aperture for the Cuban economy than those observed in Graph 6.

Graph 6. EXPORTS & IMPORTS



The terms of trades have been adverse for the country; especially the prices for sugar and nickel—decisive items in the case of Cuba—, which have shown very depressed levels since 1994.

Graph 7. EXCHANGE PRICES RELATIONSHIP



The greater share of export goods (at constant prices), coincided with the appreciation of the national currency in transactions for the population (where the non-official exchange rate operates). But as enterprise finances are separated from those of the population, this did not imply a loss of national competitiveness. The main consequence of the appreciation of the currency was a process of redistribution that took place in household incomes, shifting purchasing power from those that possessed foreign exchange, to those that did not have it; thus bringing about a decrease in income inequality.

In the following breakdown of aggregate demand and its components (at constant prices), the particular interpretation of the Cuban case must be borne in mind; as changes are not entirely demand-driven, but reflect to a large extent government decisions in the distribution of resources.¹⁴

Up until 1993, investment experienced the largest contraction (excluding household consumption). Exports, followed by government expenditures, had priority. Later on, the relative importance of investment recovers, mainly at the expense of government expenditures. In the final years—when the most dynamic activities start to operate based on demand—aggregate demand and its components seem to be reflecting, to a certain extent, the multiplying effect of the increase in exports. The important role of investment as a factor in economic growth also becomes evident.

It is convenient to analyze what were the effects to the above-mentioned financial imbalances (fiscal, external, and private saving), of interest on external debt and external current transfers (by way of remittances and donations, mainly).

PROPORTION COMPARED TO GDP						
	Before transfers			After transfers		
	lp-spX	G-tX	E-mX	lp-spX-iDg+ei*Fp	G-tX+iDg+ei*Fg	E-mX-ei*F
Current prices						
1989	-3.7	15.9	-12.2	-2.7	16.7	-14.0
1990	0.5	8.7	-9.3	1.6	9.8	-11.4
1991	-12.9	18.5	-5.6	-12.2	19.3	-7.1
1992	-22.8	23.9	-1.1	-22.4	24.5	-2.1
1993	-22.2	24.1	-1.8	-23.1	24.8	-1.8
1994	-5.4	6.3	-0.9	-6.1	7.3	-1.2
1995	-1.1	3.2	-2.1	-2.1	4.3	-2.2
1996	2.3	2.5	-4.8	-3.2	3.9	-0.7
	lp-spX	G-tX	E-mX	lp-spX-iDg+ei*Fp	G-tX+iDg+ei*Fg	E-mX-ei*F
Constant prices						
1989	-3.7	15.9	-12.2	-2.7	16.7	-14.0
1990	-0.9	9.2	-8.3	0.2	10.2	-10.4
1991	-17.5	21.1	-3.6	-16.8	21.9	-5.1
1992	-30.6	28.7	1.9	-30.2	29.3	1.0
1993	-37.5	28.9	8.6	-38.3	29.7	8.7
1994	-14.3	6.7	7.6	-15.0	7.6	7.3
1995	-9.5	3.0	6.5	-10.6	4.1	6.4
1996	-9.5	2.0	7.4	-14.9	3.4	11.5

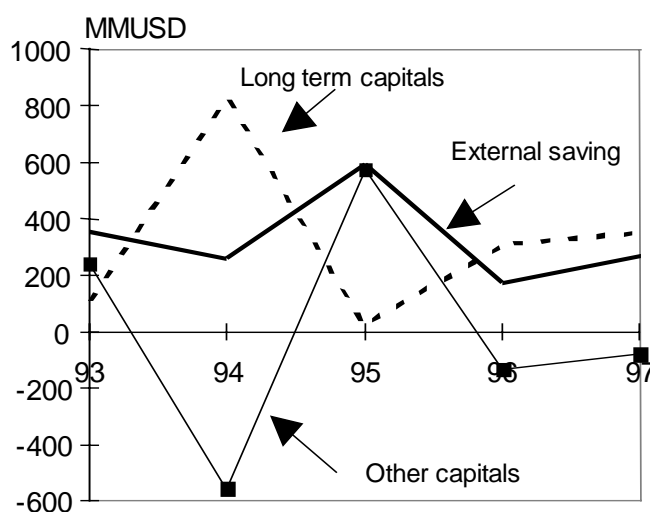
¹⁴ The decomposition of the aggregate demand is as follows:
 $X = ((s/(s+t+m))(I/S) + (t/(s+t+m))(G/t) + ((m/(s+t+m))(E/m))$ where X is the aggregate supply (GDP plus imports), s is the private saving rate, t is the net taxes rate, m is the imports rate, I is investment, G is government expenditure and E is exports.

Source: Calculations by the author, based on data from the Anuario Estadístico de Cuba, ONE, 1996, and the book *La Economía Cubana*, CEPAL, 1997¹⁵.

The table reflects a change of a certain importance. Before the opening, and at current prices, the net balance of debt payment and transfers from donations and remittances, meant for the country a worsening of the trade imbalance, even under non-payment of the existing debt since 1986¹⁶. After 1993, although the interest payments increased slightly, the dynamics of the remaining net average transfers increased gradually. This already had a positive effect of a certain magnitude in 1996. The money transfers favored the enterprise and household sectors, causing the fiscal deficit to increase after making those transfers.

Incorporating an analysis of external savings gives a more complete picture. Before the external opening, the position of the capital account reflected the negative impact of the disappearance of the links with the former socialist countries. In the later period, the opening has not yet translated into growing capital flows. The net effect on the capital account since 1993 —excluding 1995—has not exceeded 10 percent of the 1989 balance.¹⁷

Graph 8. CAPITAL ACCOUNT BALANCE



Short-term credits have had an important role in the capital flows. In practice, a situation of chronic liquidity deficit has resulted, thus hindering the performance of the economy.

In synthesis, the reform implemented, with its external opening component and restrictive monetary and fiscal policies, resulted in a reduction of the current account and fiscal

¹⁵ Additional notation: D_g is the internal government debt; $e_i * F$ is the interest payment on the external debt; $e_i * F_g$ is the interest payment of the government external debt and $e_i * F_p$ is the interest payment of the private external debt.

¹⁶ The external debt of Cuba in foreign exchange amounted at the end of 1997 to 46 percent of GDP (estimate). Of this, 58 percent corresponds to official bilateral debt, 25 percent are obligations contracted with financial institutions and the remaining 12 percent corresponds to commercial firms.

¹⁷ Between 1959 and 1989, 66 percent of Cuban external credits were obtained from Socialist countries, with favorable financial conditions.

deficits, with a decrease in the forced savings of the population. At constant prices the external balance presented a surplus, which reflects the structural change implemented in the exports/imports relationship. The fiscal deficit was diminished significantly, due both to the contraction of expenditures and to a decrease of net transfers to the private sector. As can be appreciated, external and internal balances improved at the same time. It must be noted that changes in the pattern of operation of the economy happened during this period. This in fact was an economic opening that tended to compensate for the contractionary policies implemented.

What share of the changes was the result of effects from external opening? It is not a simple task to delineate the different components of the reform in the analysis. In principle, in the conception of the reform itself and due to the external shock that gave rise to it, a necessary condition for any economic activity to be able to recover, is the contribution to the external balance. On the other hand, the positive effect of current net transfers coming from abroad, seems a direct consequence of the opening. Next, we will try to determine the relationship between the external opening and economic performance, through a mesoeconomic approach.

SECTORAL PERFORMANCE AND CHANGES IN PRODUCTIVITY

The composition of GDP by sectors does not reflect great changes. Traded production¹⁸, which represented 34 percent of total GDP in 1989, decreased to 29 percent in 1993, though its participation later recovered. With respect to 1989, more important contraction and recovery processes are observed.

Growth index (1989=1)	1990	1991	1992	1993	1994	1995	1996
Traded	0.961	0.825	0.710	0.605	0.630	0.676	0.745
Non-traded	0.989	0.918	0.851	0.747	0.739	0.742	0.790

The opening has not brought about a diversification of export goods. Exports are concentrated in four product groups: foods (mainly sugar, fish and shellfish), non-edible raw materials (mainly nickel); beverages and tobacco; and chemical products (mainly pharmaceutical products).

Exportable productions of nickel, fishing, and tobacco, in that order, have recovered to pre-crisis levels, and even to higher ones in the case of nickel.¹⁹ The export of traditional and biotechnological pharmaceutical products has been increased, although with limited growth when compared with existing potential.²⁰ The sugar industry, the main source of external

¹⁸ Traded production includes agriculture, forest and fishing; mines and quarries; and manufacturing industry. All services were considered in the non-traded sector. This classification does not permit to appreciate in all its magnitude the impact of tourism.

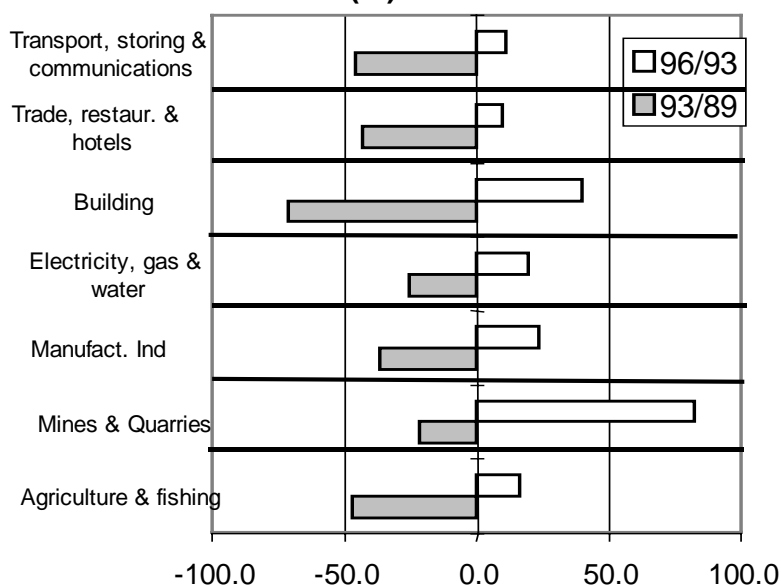
¹⁹ With respect to nickel, it can be said that the formation of joint companies with foreign capital and the application of pay-incentive systems in foreign exchange have been relevant to the results achieved. What were significant in fishing and tobacco were the organizational changes, the new managerial methods, and the application of labor incentives in foreign exchange.

²⁰ Marketing problems and lack of access to markets with an oligopoly structure have affected the results.

revenues, still performed poorly despite improvements in efficiency parameters in the 1989-1999 crop. It has not yet recovered to its previous level.

Tourism has become the main activity generating foreign exchange revenues.²¹ International transport and communications have also contributed to the increase in internal product, but the increase has not yet been able to compensate for the contraction of production that occurred between 1989 and 1993. This is shown in Graph 9.

Graph 9. PRODUCT SECTORAL DYNAMICS
(%)



The experience of the manufacturing industry highlights the strategy implemented by the economic reform and the external opening. When the external shock took place there were no massive industry closings, causing sub-utilization of industrial capacities, underemployment of the labor force, and progressive de-capitalization.²² A gradual economic revival was conceived by creating joint ventures and linking industrial enterprises to activities generating foreign exchange. This was combined with managerial resizing. After 4 years, three groups of products can be distinguished in industrial production. The first one with a positive dynamics, composed of those industries that have established markets in foreign exchange abroad, or that are needed by tourism, or construction linked to that sector. Products that show no significant signs of recovery compose the second group, embracing activities requiring agricultural inputs. The third group is composed of products that have almost stopped being manufactured due to lack of

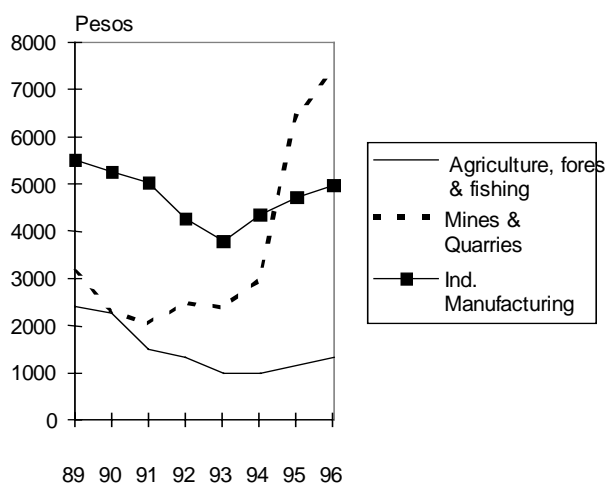
²¹ An element influencing its development has been the opening to foreign investments. Also, relevant is the reorganization of management as well as contracts for hotel administration with foreign firms.

²² In 1989 the industrial network faced high coefficients of energy and material consumption, and excess capacity. Several studies have been carried out on the Cuban manufacturing sector. See, for example, Colectivo de autores, "Elementos para una reorganización del sistema empresarial cubano," *Revista Cuba: Investigación Económica* No.1, 1995.

competitiveness as a result of technological inadequacies, in which foreign partners have not arisen to assist technological re-conversion.²³

Until 1993, sectoral productivity reflects the policy of maintaining workers in their jobs and subsidizing underemployment during the period of adjustment. After the opening, productivity increased an average of 4 percent per year, an increase that was due mainly to the group of traded products whose productivity increased at an average rate of 11 percent per year. Within this group, mining showed exceptional growth. This sector received foreign financing, underwent technological re-conversion, was guaranteed a sure market, as well as pay incentives in foreign exchange. These factors explain the productivity increase observed. In the manufacturing industry, productivity increased during 1993 and 1996 at an average of 9.5 percent per year, after experiencing a contraction of similar magnitude between 1989 and 1993. This sector has benefited from the growing demand for Cuban products brought about by tourism and from the stores that sell in foreign exchange in the country.²⁴ In non-traded sectors, productivity increased after 1993 mostly in construction (15 percent annually), but starting from very depressed levels. Investments in building works were to a large extent devoted to activities generating external revenues. Construction completed in recent years has mainly been for tourism and housing.

Graph 10. ANNUAL PRODUCTIVITY



The breakdown in growth of total productivity (see table 4 in the Annex) demonstrates that productivity increases are not due to changes in the structure of production or worker reallocations, but rather that the decisive factor for this growth has been increases in the productivity of specific sectors. The biggest contribution has come from the manufacturing industry, and trade, restaurants and hotels. Agriculture and fishing also appear as important contributing sectors, particularly after 1993. However, in this case the increase was not due to a rise in efficiency, but to a decrease in its share in production and employment.

²³ The dynamics of the physical volume was analyzed by products, with a selection of 197 products according to the UN International Uniform Industrial Classification, valued at 1995 constant prices.

²⁴ The share of Cuban products as supplies for tourism and in stores selling in foreign exchange was 35 percent in 1996 and 41 percent in 1997 (*Report on the Economic Results from 1997 and the Economic and Social Plan for 1998*, speech by the Minister of Economy in the National Assembly, December, 1997).

LABOR MARKET AND LABOR COMPENSATION

During most of 1989-1997, the share of the economically active population with respect to the working age population decreased. Employment—in correspondence with the government protection policy—was fairly stable, with decreases of only 0.2 percent per year between 1989 and 1993 (when the abrupt contraction of economic activity was taking place), and of 0.5 percent per year during the period corresponding to the external opening. Unemployment, however, experienced more marked decreases in the years of economic contraction (a drop of 6.5 percent per year), and increases of 2.9 percent per year during the recovery. This points to a certain lack of motivation for the population to search for formal employment, which is consistent with the peak reached by the submerged economy up to 1993. With respect to the labor force, potential underemployment amounted to 12 percent of the total in 1993, a share that decreased to 6 percent in 1996²⁵.

The stage of external opening meant a decrease in the share of the working age population employed, to which all economic sectors contributed (excluding that of social and personal services), but particularly the traded sector.²⁶ This occurred because the expansion of per capita production was smaller than the increase in labor productivity, hence giving rise to a trade-off between productivity and employment. Moreover, reorganization and resizing processes are still pending. They had been postponed during the adjustment, but were restarted in 1995.

The external opening also coincided with a decrease in the contribution of state activity in employment and with an increase in the share of employment from activities in private enterprises (national and joint enterprises with foreign capital), in cooperatives, self-employment and the informal sector.²⁷

On the other hand, the increase in skilled employment²⁸ took place during the whole period and was not linked only to the opening of the economy. This is consistent with the policies for educational development and labor guarantees applied to qualified personnel. In 1996 there were around 13 university graduates per one hundred employees, while 37 of the 100 were at least high school graduates.

It is regrettable that no general information exists regarding the educational level of those employed, broken down by economic sector. Nevertheless, individual surveys seem to point out that the attraction exerted by the sector linked to foreign capital and within other

²⁵ Potential underemployment measures the magnitude of workers in formal employment that could be done without, using the previous year's productivity as a reference. This magnitude is also adjusted according to capital/work relationships by sectors. The underemployed population had as a distinctive characteristic in Cuba in the fact that the nominal wage remained unchanged. (See Ferriol, A., "El empleo en Cuba 1980-1995," *Revista Cuba: Investigación Económica*, No.1, 1996, INIE).

²⁶ The Annex shows a calculation of the decomposition of changes in the occupation rate by economic sectors, by ownership forms, and by qualification of the labor force.

²⁷ The decomposition exercise carried out does not reflect the entire impact of agricultural cooperativization, since the decomposition was for the years 1994-1996 and most cooperatives were created in 1993.

²⁸ Skilled personnel is defined as persons with 12 or more years of education.

similar activities with special systems of labor retribution, caused a migration of highly qualified workers, although their new tasks might have not required all of their qualifications. Looking at other available data sources, such as change in job structure broken down by occupational categories (executives, technicians, administrative, workers and service staff)²⁹, it was found that only the service staff increased while the remaining categories decreased. This seems to support the above-mentioned hypothesis that foreign sector-linked jobs were more lucrative.

Labor incomes are another topic of interest.³⁰ During the economic contraction, total wage revenues decreased together with a slight reduction in state jobs. However, overall income for some workers increased from earnings in the submerged economy. Since 1993, several changes are observed: on one hand, special systems of wage incentives, in national currency and in foreign exchange were applied in a growing extent. On the other hand, other labor revenues (from workers that sell their products in markets at unregulated prices) decreased due to a fall in prices. Between 1993 and 1996, prices dropped at an average of 5.3 percent per year. As a result, nominal revenues diminished by an average of 9 percent per year.

Average Annual Increase in Incomes(percent)

	1993/1989	1996/1993	
		Official Exch. Rate	Non-official Exch. Rate
Wage Income	-8.0	3.8	7.2
Other Income	208.9	-23.7	28.8
Total Income	37.0	-9.0	17.3

An additional element in the analysis of labor compensation is the existence of an operating non-official exchange rate within the population. Its impact has two apparent outcomes. In the first place, it increases considerably the nominal revenues (expressed in national currency) of those workers that participate in special pay-incentive systems in foreign exchange, or whose labor incomes are perceived in relation to the foreign exchange market. In the above table it can be observed that, based on the non-official exchange rate, there is a 17 percent increase per year in revenues for workers during 1993-1996, with a larger effect on other labor revenues.³¹ The other effect results from changes in the non-official exchange rate. With the appreciation of the national currency, wages in this currency increase their share in total revenues and consequently improved real revenues for salary

²⁹ The occupational category constitutes a way to classify manpower by work characteristics and nature. It includes: Workers, those who facilitate the operation of production means or change the work product; Technicians, those who apply knowledge and scientific methods; Administrative personnel, those who develop under supervision the administration of state enterprises; Service workers, those who satisfy personal and social demands; and Leading personnel, those who plan, direct, organize and coordinate the work.

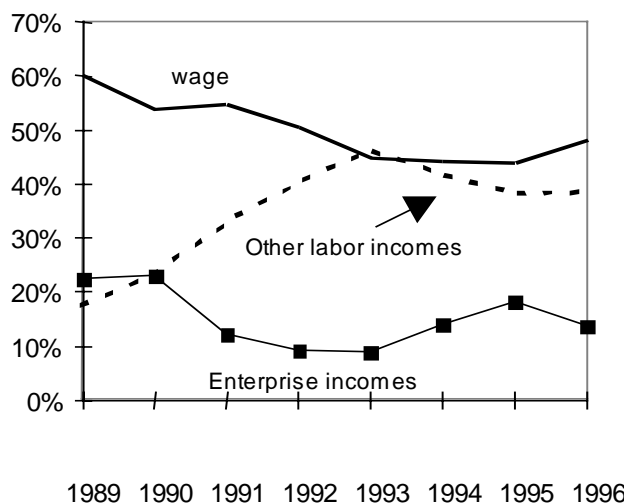
³⁰ Revenues related to work have been grouped by wages and other labor revenues. The last includes revenues of agricultural cooperativists, of individual peasants, of self-employed workers and of informal workers. The cost in foreign exchange of the non-monetary special systems of remuneration was added to wages.

³¹ A smaller exchange rate that better reflects the purchasing power of the national currency in the entire market of consumer goods and services, offers more moderate dynamics of the effect of labor revenues in foreign exchange, but without allowing it to lose its importance. In this respect, studies of sensibility have been made.

earners without a change in wages. Thus, an important objective of monetary policy since 1997 has been to appreciate the Cuban peso.

In a detailed analysis of tendencies related to labor compensation, it was observed that until 1993 wages lost their share in the value added (at factor cost), with a more marked decrease in non-traded sectors. The remaining labor revenues, from work linked to unregulated markets, favored well. Enterprise income (from the capital), with low participation, experienced an abrupt fall in its share of the product. This result coincided with the above explained policy for the protection of state workers (See graph 11).

Graph 11. Share of Labor Incomes in the GDP



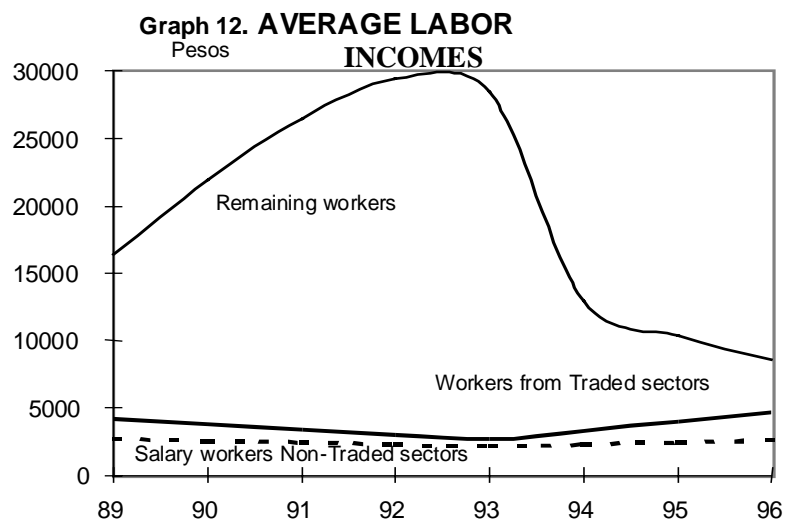
Along the recovery, and in correspondence with the reform and opening, revenues from other labor incomes falls in share while wages gains share, although slightly.³² The improvement of the wage share in total revenues was two points greater in traded than non-traded sectors. Within the traded sector, the share of industrial wages grows, while the largest increase in the non-traded sector is in electricity, gas and water. As can be appreciated in graph 11, the most marked increase in GDP corresponded to enterprise incomes, thus strengthening the thesis of a link among enterprise incomes and external opening. As was commented previously, activities that have recovered are those that can be reinserted into the foreign exchange market (either externally or internally).

The growth of average work revenues shows inequality with regard to labor revenues, due to the development of the submerged economy. Graph 12 supports this assertion, although the difference up to 1993 may be exaggerated, as there was a learning curve with respect to estimates of informal worker earnings.³³ After 1993 the gap between wages and revenues for workers linked to markets, is reduced significantly. Salaries increase mainly in the traded sector, amplifying the difference in labor earnings within salary earners. On the

³² The conversion of labor revenues in foreign exchange to national currency for graph 11, was carried out at the official exchange rate.

³³ Previous studies by this author indicate that available estimates of informal occupation are undervalued up to 1993, but that later on this undervaluation decreases as the methodologies applied improve.

other hand, the reduction in the difference between average wages in traded sectors with respect to other revenues explains the increase in the economically active population and unemployment at the end of the period, as formal jobs start offering attractive salaries again.³⁴



The effect of the non-official exchange rate, for example in 1996, was to counteract to a certain extent the rise in earnings dispersion by increasing the difference between wages and other labor revenues. This compensated, in some measure, the relatively larger inequality between revenues of workers from traded and non-traded sectors.³⁵

The decrease in productivity between 1989 and 1993 corresponded to an even greater decrease in real wages (except in the building sector where the decline in employment facilitated a slight increase in productivity). Sectors where this greater decrease in real wages occurred extensively included transport and communications, trade, restaurants and hotels, and the manufacturing industry. The drop in real wages became a factor for labor disincentive, with repercussions in terms of bigger productivity decreases.

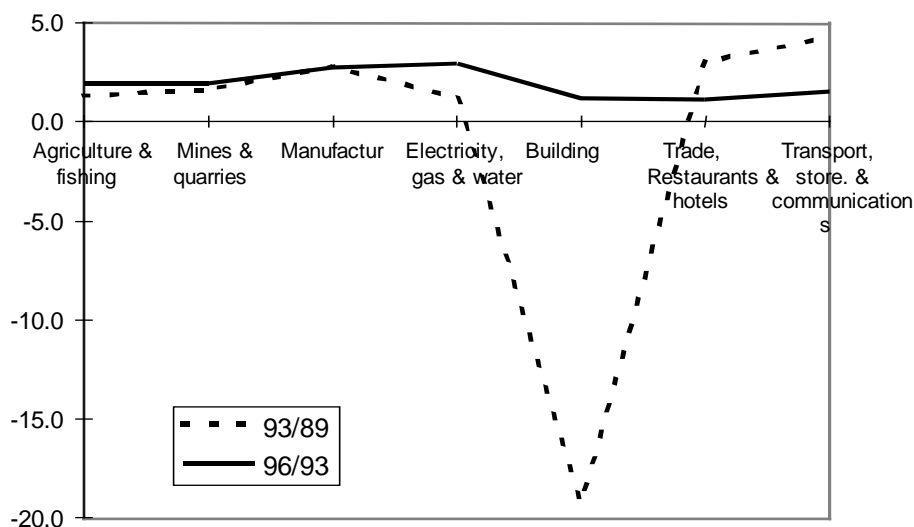
During the period of external opening, real wages increased more than productivity, mainly in the manufacturing industry and in sectors such as electricity, gas and water. The limited information available could not offer conclusions about trends in the capital/product

³⁴ In 1996, the average annual wage of salary earners in traded sectors was 1.8 times higher than the average wage of workers in non-traded sectors. The average annual income of the remaining workers was 3.3 times higher than the average wage in non-trade sectors. These estimates are based on the official exchange rate.

³⁵ Changes are of little magnitude because of the special systems for labor remuneration in place. These consist not only of monetary retributions, but also of payments in kind, that have a predominant weight. According to preliminary information, almost 58 percent of that remuneration is applied to non-traded sectors, and the rest to traded ones. It should be kept in mind that tourism, international communications and air transport are classified as non-traded sectors, although they are important sources of foreign exchange.

relationship by sectors and their rate of profit, to evaluate if there was a decrease of capital endowment or a decrease of its yield.

Graph 13. INCREASE IN REAL SALARY AND PRODUCTIVITY PROPORTION



Although since 1993 the increase of the real average wage has exceeded the increase of productivity, only in the sectors of agriculture, fishing, mining and quarry does the average real wage for 1996 exceed that of 1989. This could still be exerting a labor disincentive effect, deterring a larger productivity growth.

To conclude the analysis of the labor market and its compensation, it is convenient to synthesize the main conclusions from this study:

- During the time period under study, there was a peak in informal occupation, which diminished with the creation of a larger legal area for the non-state economic activity. For this reason, the sector of workers linked directly to the operation of markets gains a presence alongside wage earners. Informal occupation coexists as a complementary labor activity due to the high average earnings it offers.
- The external opening increasingly transfers the supply of manpower to traded sectors and tourism; which correlates with the increase in average wages in those activities.
- During the opening a trade-off took place between productivity and employment. This was influenced by the fact that, in correspondence with the policies applied, this period was made to coincide with measures for labor reorganization that had been postponed during the economic contraction.
- The educational level of the labor force followed its increasing trend, but symptoms were observed concerning a certain insufficient return to education.
- Wages have lost share in value added.
- The economic crisis brought about greater inequality in average labor revenues among formal and informal sectors, in favor of the latter. The reform and the opening have decreased that range, although important differences remain between the average earnings

of salary earners and those of the remaining workers³⁶. With respect to salaried workers, the opening has increased inequality among the wages of workers in the traded and non-traded sectors. However, a smaller difference is observed among workers in these two sectors whose labor revenues are linked to the market.

- The effect of the non-official exchange rate has been to deepen the difference between the average revenues of salary earners and the remaining workers, while shrinking the difference in average wages between the traded and non-traded sectors.

OPENING, INEQUALITY AND POVERTY: REFLECTIONS

In the case of Cuba, in correspondence with the results of a recently concluded investigation,³⁷ the concept of *population at risk* will be employed instead of poverty. Population at risk are those members of the population with insufficient revenues for the acquisition of a basic basket of foods and non-food products, but that at the same time enjoy benefits and social protection that surpasses what is received internationally by poor families through social policies. According to the socioeconomic system of the country, Cubans have universal and gratuitous access to things such as university studies as well as to specialized high technology medical services. They are also able to own their houses through a system of advantageous payment, among other benefits.

The percentage of population at risk increased between 1988 and 1996, more than two-fold in the urban area of the country. The information available showed that this risk situation was sharper between 1990 and 1995,³⁸ and since that latter year the incidence of risk has descended in the urban population.

On the other hand, in 1996 the unemployed and the non-economically active population were the groups with higher risk percentage. Among employed workers, the incidence was larger for salary earners. There is no previous survey that allows a comparison with the 1996 data on the incidence of risk according to employment situation. The above analysis of the labor market gives a basis to the hypothesis that non-active persons and salary earners, in that order, probably had higher risk indexes than in 1996.

An interesting fact is that changes in the index of population at risk resulted from changes in income distribution, and had very little influence from variations of average revenues. In the eighties, different studies made on income distribution in Cuba concluded that were very small income spreads in Cuban society. The Gini coefficient obtained was 0.22 to 0.25.

³⁶ This inequality is qualified as relative, because it is high compared with the situation existing in 1989, but is very moderate when compared internationally.

³⁷ "Efecto de las políticas macroeconómicas y sociales sobre los niveles de pobreza; el caso de Cuba en los años noventa," Capítulo 9, *Política Macroeconómica y Pobreza en América Latina y el Caribe*, PNUD. Ediciones Mundi-Prensa. 1998.

³⁸ For example, in the capital of the country the percentage of population at risk almost quintupled between 1988 and 1995, and everything indicates that the situation in 1993 was more critical.

Since then, sources of income have diversified causing shifts in relative importance. The present paper shows that revenues of workers linked to markets, particularly those that work in foreign exchange, have earned revenues that accentuate the difference with average labor revenues. Nevertheless, the trend seems to point toward a stabilization—or slight decrease—of these differences, with a relative improvement in the salary earnings from traded sectors. The Gini coefficient calculated for 1996 to 1998 has the inconvenience that it does not incorporate all labor earnings, because it only computes directly special pay-incentive systems in foreign exchange or in national currency, and not those that are materialized through funds for the purchase in stores or in kind. With this important limitation, a Gini coefficient of 0.37 to 0.39 was obtained.

It is important to note that in the case of Cuba, the government decision to preserve social policies during the period of adjustment and economic reforms was an important factor in compensating the inequality in monetary revenues. Estimates carried out for the Gini coefficient which take into account public expenditures in health and education, as well as for housing ownership, are around 0.30 for 1996 to 1998.

Between 1988 and 1995, the increase in the percentage of the population at risk was accompanied by a widening of the income distribution, under conditions in which the growth of average revenues contributed in decreasing the risk. Between 1995 and 1996, the opposite took effect; average revenues fell and inequality decreased, resulting in a reduction in the incidence of risk.

It is not easy to establish a relationship between the external opening and its impact on labor revenues, income distribution, and the incidence of the population at risk. In short, the situation of risk and the position attained in the distribution of incomes do not only depend on labor revenues, but also on two important additional factors that must be taken into account. On one hand, the population also has revenues not related to work (for example remittances). On the other hand, the socio-demographic and socio-occupational composition of the family can be decisive.

The characteristics of the population classified according to per capita household income were analyzed based on the household survey for 1996. A comparison is shown between the population with the lowest and highest income.

PERCENTAGE	POPULATION AND EMPLOYMENT STATUS	
	Lower incomes	Higher incomes
Total household members	100	100
State workers	14.5	47.3
Non state workers	3.5	8.2
Unemployed	8.4	2.6
Pensioned	10.4	10.5
Others Non active	33.2	16.5
0-14 years old people	30.0	14.8

Source: INIE, based on the 1996 household survey.

As can be seen in the table above, the demographic dependency has a decisive influence in the economic situation of the household. The 73 percent of the population whose household is classified as having the lowest incomes is composed on children or other non-active people. This proportion diminishes to 41 percent for those in the high end of the income scale. On the other hand, changes in average labor revenues of all occupation categories influence all the strata of household incomes.³⁹

This paper has shown some aspects of the reform and the opening that must be influencing the dynamics of the population at risk, although without been able to quantify their impact. They are: the shift of workers toward non state activities, traded sectors and tourism; the greater spread of labor incomes; changes in the relative share of wages in total revenues from work; and the workings of the non official exchange rate, with its differentiated effect based on the share of foreign exchange revenues, for the different worker categories.

CONCLUSIONS

The external opening in Cuba has taken place under conditions quite different from those of other Latin American countries. The analysis carried out shows some similarities but also significant differences. The main factors that give place to such differences are:

- a) A socialist economy with a predominant state sector.
- b) A large scale economic reform including the external opening as well as a significant external adjustment.
- c) An economic blockade, which places obstacles to the opening; and non-access to financing from international financial organizations.

Because of Cuba's unique history, its external opening was carried out with different premises, often times contrary premises to those of other countries in the region. This includes the importance given to social issues over economic ones, active participation of

³⁹ With these facts, we are not pointing to a kind of demographic fatalism of households with smaller revenues. It is considered that an interrelation exists in both directions, among life conditions reached, especially regarding education, health and employment, with social status and household behavior in the demographic, economic and social spheres.

the State in economic activity, and a planned economy that restricts the influence of the market.

The essential components of the external opening have been the promotion of direct foreign investment, the decentralization of external trade, the reduction of tariffs, the creation of an internal market in foreign exchange, and the establishment of free trade areas. Additionally, important changes have been implemented in the institutional, legal and managerial workings of the economic model.

Together with the external opening, measures were applied to rectify fiscal and monetary imbalances. Labor reform mainly took the form of a restructuring of jobs by ownership sectors, and also by measures designed for the protection of workers. Proposals in social policy were also implemented with the purpose of offering additional protection to families and achieving a greater political consensus with respect to the changes.

It is not possible to separate the impact of the external opening from the effect of the rest of the reform, especially from the effect of the economic decentralization. In practice, enterprises generating foreign exchange or substituting imports, were incorporated at the same time to both processes. Nevertheless, the following economic facts linked to the external opening of the economy were observed in this study:

- ◆ The contraction of the GDP was reverted, and a process of recovery started, which has become increasingly consolidated.
- ◆ The export strategy achieved a certain amount of results. Exports of goods and services increased at a rate greater than GDP. There was also a structural change in the participation of services in total exports. However, export products were not diversified.
- ◆ The trade deficit at comparable prices was eliminated. Nevertheless, the unfavorable terms of trade determined that at current prices the trade deficit persisted, although at controlled levels.
- ◆ Net current transfers from abroad began to impact positively on decreasing the financial imbalance of the country.
- ◆ The fiscal deficit decreased to acceptable levels, as a result of the combined effect of the contraction of expenditures and the decrease of net transfers to enterprises and the population.
- ◆ Capital flow increases have not been achieved. A large proportion of the capital that enters the country is short-term credits. This, combined with the difficulty in obtaining credit, has caused a chronic situation of scarce liquidity that hinders the performance of the economy.

- ◆ Labor productivity was increased, especially in traded sectors. This increase responded to real growths of sector productivity.
- ◆ Labor supply shifted towards non-state activity, traded sectors and tourism; which corresponds with the increase in the average wage in those activities.
- ◆ Although the range of average labor revenues is wider than in 1989, it decreased with respect to 1993. There is a tendency to diminish the difference between the average salary of workers from traded sectors, with respect to the higher revenues of workers that, like self-employed and informal ones, obtain their income from direct sales in the market of goods and consumer services.
- ◆ Real wages were increased more than productivity, but they continue to be lower than in 1989.
- ◆ The educational level of the labor force followed the growing trend it showed before the opening. Yet there were symptoms that returns to education were insufficient in relation to non-state workers incomes.

There is a sector of the population, which has been termed population at risk, that has insufficient revenues to buy a basket of foods and basic non-food products, but that at the same time enjoys benefits and social protection above those received by poor families in other countries. The population at risk was estimated at 15 percent for the urban area of the country in 1996. This can be described as a moderate incidence if compared with the levels of poverty in Latin America. The reform and opening have diminished the proportion of population at risk, with respect to the initial levels brought about from the economic adjustment.

The inequality of monetary incomes has increased with respect to the eighties, although Cuba is still among the countries having lower income inequality in the region. Wide inequalities at the beginning of the period, associated to the external adjustment, reached their highest level in 1993 and 1994. Later on these inequalities were caused by the larger role of the market in generating household revenues and also from the external opening, due to the wider range introduced into labor revenues, as well as from other sources. It should be noted that social policies compensated to a significant extent inequalities of monetary revenues, bringing the Gini coefficient estimate down to 0.30 for 1996 to 1998.

Summarizing, it can be said that the external opening in Cuba has had a significant impact on all economic and social structures. It constitutes a decisive factor in reanimating and reinserting the Cuban economy into the international economy. This process has had its social costs, but at a smaller scale than what has been observed in other countries. In the Cuban case, neoliberal prescriptions recommended by international organizations were not followed. However, conditions derived from the pattern of neoliberal globalization, have proven a very complex barrier to overcome. This is exemplified by the deterioration of the terms of trade for primary products, which hinders many underdeveloped countries, so that their search for new ways to participate in the international economy brings few results.

Cuba is still involved in such a process. Another important consideration, derived from the Cuban experience, is the role that should be played by social policy in order to diminish the adjustment and reform impacts. This strengthens the criteria for the need of an active government social policy, especially to avoid exclusion and poverty.

Table 1. CLASSIFICATION AND CHRONOLOGY OF MEASURES FROM THE CUBAN REFORM

	Start Date	Macro economic	Micro economic	Social
RECTIFICATION OF THE EXTERNAL IMBALANCE				
1. Development of tourism and other activities generating foreign exchange	1989	X		
2. Stimulate the opening to foreign capital, mainly through the creation of joint ventures	1990	X		
3. Creation of a sector that operates directly in foreign exchange	1992		X	
4. Eradication of the state monopoly on external trade	1991		X	
5. Higher use of commercial credits; renegotiation of foreign debt with some countries	1990	X		
6. Creation of markets and internal sales in foreign exchange	1993	X	X	
7. Reduction of tariffs	1996		X	
8. Creation of free trade areas and authorization for state business	1996	X	X	
9. Opening of offices of foreign banks	1995	X		
10. Special systems for remuneration in foreign exchange	1993		X	
11. Authorization of remittances and legal holding of foreign exchange	1993	X		
12. Creation of exchange houses and saving accounts in foreign exchange for the population	1995	X		
13. Creation of new mechanisms for the control, circulation and assignment of foreign exchange	1990	X		
SOCIAL				
14. Employment and salary guarantees for workers and gradual restructuring of state jobs	1990			x
15. Invigoration of social security and creation of a net of public feeding services at subsidized prices for low-income people	1996			x
16. Maintenance of social security coverage and benefits	1990			x
17. Prioritize health and education services based on currency restrictions, changes to achieve more effectiveness	1990			X

	Start Date	Macro economic	Micro economic	Social
INTERNAL FINANCES				
18. Rise in prices and rates for non-essential products and services	1994	X		
19. Eradication of some gratuities	1994	X		
20. Measures to decrease losses from state enterprises	1994	X		
21. Creation of a tax system	1994	X	X	
22. New tax law for enterprises	1994		X	
23. Creation of a national auditing office	1994		X	
24. Larger decentralization of budget incomes and expenditures	1995		X	
25. Updating of the accounting system	1994		X	
26. Restructuring of the bank system	1997		X	
AGRICULTURAL SECTOR				
27. Transformation of state companies into cooperatives	1993		x	
28. Delivery of free land to families	1994		x	X
29. Delivery of land to organizations for self-supply purposes	1992		x	
30. Development of urban orchards and organoponics	1993		x	
31. Development of acuiculture	1990		x	
32. Creation of agricultural markets to sell surpluses at free prices.	1994		x	
33. New scheme of integral financing in foreign currency for the agricultural sector	1996		x	
INDUSTRY AND SERVICES				
34. More possibilities for self-employment	1993		X	
35. Creation of a market of industrial and handmade articles	1994		X	
36. Rearrangement of the managerial system	1992		X	
37. Resizing of available capacities	1994		X	
38. Change of the enterprise management system	1998		X	
LABOR				
39. Decrease in state jobs and their transfer to the non-state sector	1993		X	
40. Increase in the protection given to spare workers	1992			X
41. Wage increases in activities generating foreign exchange as well as in health, education and interior order	1992		X	
42. Upgrading of the payment system to improve relationships between retributions and productive results	1992		X	
43. Employment programs for Easter provinces	1995			X
OTHERS				
44. Decrease in the number of ministries and other national entities. Decentralization of economic decision-making for enterprises	1994		X	
45. Use of new planning approaches and tools	1995		X	

Table 2. MACROECONOMIC INDICATORS

		1989	1990	1991	1992	1993	1994	1995	1996	1997**
Trade liberalization										
Average rate			17.7						10.7	
% Change									-39.5	
Exports (current prices)	MMP	5993	5940	3563	2522	1992	2197	2687	3380	
Exports /GDP		0.280	0.265	0.175	0.124	0.095	0.098	0.114	0.150	
Imports (current prices)	MMP	8608	8017	4702	2737	2373	2408	3187	4462	
Imports/GDP		0.402	0.358	0.231	0.134	0.113	0.107	0.135	0.198	
GDP (current prices)	MMP	21418	22394	20378	20399	20993	22411	23616	22491	
Exports (1989 prices)	MMP	5993	5480	4967	4453	3940	3893	3846	5019	
Exports/GDP		0.280	0.277	0.273	0.268	0.263	0.253	0.244	0.294	
Imports (1989 prices)	MMP	8608	7117	5626	4135	2644	2731	2818	3748	
Imports/GDP		0.402	0.359	0.309	0.249	0.176	0.178	0.179	0.220	
GDP (1989 prices)	MMP	21418	19811	18204	16597	14990	15376	15761	17061	
Liberalization capital account										
Portfolio investments/GDP		0	0	0	0	0	0	0	0	
Direct investment	MMP					54	563.4	4.7	82.1	442
DI/GDP						0.003	0.025	0.000	0.004	
Other capitals	MMP					302.1	-301	591.5	91.8	-171.8
Other capitals/GDP						0.014	-0.013	0.025	0.004	
Total	MMP	3122	2469	1487	421	356.1	262.4	596.2	174.4	270.2
Total/GDP		0.146	0.110	0.073	0.021	0.017	0.012	0.025	0.008	
Debt										
Total external debt	MMP					8785	9082.8	10504	10465	10146
Total external debt/GDP						0.418	0.405	0.445	0.465	
Total internal debt						0.418	0.405	0.445	0.465	
Total internal debt/GDP										
Real exchange rate										
% Exchange		1	0.856	0.6636	0.506	0.575	0.797	0.746	0.591	
Fiscal policy										
Public expenditure	MMP	6185	6111	5053	4746	4814	4997	5033	5263	
Public expenditure/GDP		0.289	0.273	0.248	0.233	0.229	0.223	0.213	0.234	
Transfers and taxes	MMP	2781	4153	1288	-123	-236	3576	4268	4695	
Transfers and taxes/GDP		0.130	0.185	0.063	-0.006	-0.011	0.160	0.181	0.209	
GDP growth	%		-7.5	-8.1	-8.8	-9.7	2.6	2.6	8.2	
Population growth	%	7.9	7.3	7.7	6.1	6.2	6.7	7.9	6.8	
Population (in thousands)		10577	10694	10793	10869	10940	10960	10999	11028	
Labor market										
Rate of unemployment	%	7.9	7.3	7.7	6.1	6.2	6.7	7.9	6.8	
Average real wages (1989=100)		100	77.0	61.7	50.3	41.9	51.4	58.4	69.6	
Minimum real wage (1989=100)		100	83.1	71.1	62.1	55.2	56.3	57.5	65.0	

** Available figures for 1997 are still preliminary and not complete.

Source: Calculations from the *Anuario Estadístico de Cuba 1996* and *La Economía Cubana*, CEPAL, 1997.

Table 3. CHANGES IN THE RATE OF ECONOMIC SHARE, LABOR, AND UNEMPLOYMENT RATES

					Employed	Unemployed	Share
	P	E	L	U	TE.TO	TD1.TD	(1-TD1).-TP*
1989	6210	4728	4356	372			
1990	6399	4742	4394	348	-0.020	-0.005	-0.025
1991	6490	4737	4374	363	-0.017	0.003	0.014
1992	6549	4635	4352	283	-0.013	-0.012	0.028
1993	6645	4597	4313	285	-0.022	0.001	0.021
1994	6659	4496	4195	301	-0.027	0.006	0.022
1995	6677	4484	4131	353	-0.016	0.014	0.005
1996	6695	4550	4240	310	0.022	-0.009	-0.011

Notation: P: Population in working age; E: economically active population; L: Working; U: unemployed. TP: Share rate; TD: Unemployment rate; TE: Employment rate; TO: Rate of employment

Source: Author's calculations based on data from the *Anuario Estadístico de Cuba de 1996*, ONE and *La Economía Cubana 1997*, CEPAL

Table 4. ANALYSIS OF PRODUCTIVITY CHANGES

1989-1993	$(X_i/X)pi^*$	$((X_i/X)-(L_i/L)L_i^*$
Agriculture, hunting, forestry and fishing	-6.0	-2.6
Mining and Quarries	-0.2	0.0
Manufacturing Industry	-7.2	-0.2
Electricity, gas and water	-1.1	0.6
Construction	-3.5	1.2
Trade, restaurants and hotels	-9.8	0.5
Transport, storing and trade	-2.3	0.0
Financial establishments, Real estate and services enterprises	2.4	-1.4
Social, community and personal services	1.3	0.2
Total	-29.4	0.0
Traded	-15.1	-0.7
Non traded	-12.4	-0.6
1993-1996	$(X_i/X)pi$	$((X_i/X)-$
Agriculture, hunting, forestry and fishing	2.5	2.1
Mining and Quarries	1.7	0.1
Manufacturing Industry	6.5	-0.1
Electricity, gas and water	0.7	-0.1
Construction	1.3	0.4
Trade, restaurants and hotels	3.9	-0.6
Transport, storage and trade	0.6	0.0
Financial establishments, real estate and service enterprises	2.8	-1.9
Social, community and personal services	-4.8	0.9
Total	12.7	0.0
Traded	10.9	1.6
Non traded	0.2	0.9

Notation: X_i : product of the i sector; X : GDP; L_i : sector i employment; pi^* : productivity growth

Source: Author's calculations based on data from the *Anuario Estadístico de Cuba de 1996*, ONE and *La Economía Cubana 1997*, CEPAL.

Table 5. ANALYSIS OF CHANGES IN THE EMPLOYMENT RATE

1989-1993	Toi(xi*-pi*)
Agriculture, hunting, forestry and fishing	1.05
Mining and Quarries	-0.02
Manufacturing Industry	-1.30
Electricity, gas and water	0.10
Construction	-1.10
Trade, restaurants and hotels	-0.11
Transport, storage and trade	-0.66
Financial establishments, real estate and service enterprises	-0.59
Social, community and personal services	-1.88
Total	-4.51
Traded	-0.32
Non traded	-4.73
1993-1996	Toi(xi*-pi*)
Agriculture, hunting, forestry and fishing	-2.76
Mining and Quarries	-0.97
Manufacturing Industry	-1.05
Electricity, gas and water	-0.66
Construction	-1.01
Trade, restaurants and hotels	-0.06
Transport, storage and trade	-0.28
Financial establishments, real estate and service enterprises	2.74
Social, community and personal services	-4.12
Total	-4.39
Traded	1.64
Non traded	0.2

Notation: Toi: rate of employment in the i sector; xi* increase in the productivity of sector i (in reference to the population in labor age);pi*: increase in the productivity of the sector

Source: Author's calculations based on data from the *Anuario Estadístico de Cuba de 1996*, ONE and *La Economía Cubana 1997*, CEPAL.

Table 6. EMPLOYMENT BY SKILL LEVEL

1986-93	$S_i/L(S_i/P)^*$
Primary or lower	-0.06
Medium	-0.07
High School	0.07
University	0.03
SUBTOTAL	-0.04
Not classified	-0.02
Total	-0.05
Skill	0.10
Remaining ones	-0.15

Notation: S_i : employed with i qualification; L total of employed people; P population in working age

Table 7. EMPLOYMENT BY OWNERSHIP FORMS

1994-96	$S_i/L(S_i/P)^*$
State	-0.079
Cooperative	0.005
Joint enterprises and mercantile societies	0.007
National private enterprises	0.011
Self-employment	0.000
Informal	0.038
Others	0.001
Subtotal	-0.017
Not classified	0.027
Total	0.005

Notation: S_i : Employed by ownership sector i ; L : total employed; P : population in working age

Source: Author's calculations based on data from the *Anuario Estadístico de Cuba de 1996*, ONE and *La Economía Cubana 1997*, CEPAL.

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