

***Factors Affecting Human Capital Efforts in Developing Economies:  
A Case Study on Cuba***

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**Abstract**

Cuba faces considerable domestic and global challenges as they strive to compete in the global marketplace and increase their population's quality of life. Cuba has invested in human capital development activities (i.e. universal access to education and guaranteed healthcare, food rations and housing) which are unique to the region. While these efforts have made an impact, research reveals a more holistic human capital development strategy is needed to maximize internal and external resources. Therefore, the researcher will use the outcome-based *Model for Effective Human Capital Development in Developing Economies* (Muger, 2017) as a means to examine the domestic factors impacting Cuba's human capital development efforts. The domestic factor from Muger's (2017) model will be used to discuss how workforce planning, talent and resource management, governance, and marketplace opportunities have impacted Cuba's development strategy. The researcher argues the Cuban population would greatly benefit if the Cuban state instituted a truer participative governance model, gradually increased marketplace opportunities for small and medium private enterprises, incentivized the educated and talented workforce to stay or return to Cuba, and encouraged private enterprises in domestic production through tax reductions and other forms of incentives. The paper concludes with a discussion of future research areas.

Keywords: human capital, developing countries, majority countries, developing economies, development, Cuba, relief and development, economic development

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## Introduction

Cuba has a unique and sophisticated structure for human capital development yet continually fails in delivering sustainable economic growth (Corrales, 2012). Cuba has instituted a specialized and universally accessible education system that promotes equality and a highly skilled workforce that is unparalleled in the Caribbean (Corrales, 2012). Therefore, other barriers must be present that restrict effective human capital development outcome achievement. The *domestic* factor within *The Model for Effective Human Capital Development in Developing Economies* (Figure 1) emphasizes intrastate elements that significantly impact the country's population to thrive. The *domestic* factor in the model includes workforce planning and talent management, capable, participatory and transparent governance, marketplace opportunities, effective resource management, and a milieu of trust. Select domestic factors are discussed below with proposed policies to improve human capital development efforts in Cuba.

## Background on the *Model for Effective Human Capital Development in Developing Economies*

The *Model for Effective Human Capital Development in Developing Economies* (Figure 1) provides key stakeholders that have an interest in nation building with a framework for understanding how effective human capital efforts can impact individual and social well-being. The model takes into account individual, domestic and global factors.



Figure 1: *Model for Effective Human Capital Development in Developing Economies* (Muger, 2017)

## **Workforce planning & talent and resource management**

Even though Cuba has developed a large workforce through education and skill development programs, there is a lack of job opportunities (Monreal, 2006). If there is an unbalance of a highly educated workforce with a lack of work and business opportunity, there is a negative impact on society (Čadil, Petkovová, & Blatná, 2014). The imbalance leads to talented individuals leaving the country in search for better opportunities. Cuba has experienced significant migration of talent over the last 30 years, which has resulted in a brain-drain phenomenon (Cobas Valdés & Fernández Sainz, 2014). The majority of migrants are between the ages of 41 and 49 and have higher education levels than the rest of the population (Cobas Valdés & Fernández Sainz, 2014). To combat brain drain requires multiple steps including governments increasing resource allocation to science and technology development, reducing bureaucracy, and fostering entrepreneurialism through policies and structures to support business creation (Solimano, 2002).

The quality of conditions in the home country should be improved to attract talent back to their home country or not leave at all (Solimano, 2002). Therefore, the Cuban government should create incentives and develop policies to increase opportunities for their workforce and encourage talent to stay in Cuba or to return to Cuba. Cuba should open up the market and allow foreign investment and encourage small and middle-sized businesses to expand through deregulation of the size of businesses, removing salary caps (Monreal, 2006), and reducing corporate taxation rates. In addition, Cuba should spend more money on research and development, which will increase future productivity and competitiveness (Solimano, 2002). Cuba should ask for aid and other forms of assistance in the major areas where they lack competencies like technology to help increase market competitiveness, help retain home grown talent, and attract workers and students that studied abroad (Solimano, 2002). Research indicates tight policies on emigration or heavily taxing migration is counter-productive (Solimano, 2002). Therefore, Cuba should gradually deregulate business travel and other forms of travel over time to encourage a more open-market system that doesn't encourage individuals to operate in black markets.

International students are challenged to utilize their learning as they come back to their home countries for work (Perna, Orosz, & Jumakulov, 2015). Research shows that helping this group contextualize, adapt and integrate learning within their home culture is critical and requires supportive governance, economic and social structures (Perna, Orosz, & Jumakulov, 2015). It is recommended to offer expatriate talent special incentives and opportunities to encourage them to return to their country; like providing a reintegration program that allows them to network in-country and be introduced to local and international business contacts, and offering more deregulated business opportunities.

## **Capable, transparent & shared governance**

Due to the reign of authoritarian regimes in Latin America in the 1960s and 1970s, there was a significant emigration of scientists and intellectuals (Solimano, 2002). Once those regimes were replaced with democratic systems, research shows a healthy number of these talented individuals returned to their home country (Solimano, 2002). In Cuba, the Fidel regime imposed tight restrictions on commerce, political freedom

and property rights when it first came to power. In part, these restrictions led to a significant migration of talented Cubans and also to an economic downturn especially after the subsidies from Russia ended in the early 1990s. In 2011, Cuba ranked as one of the weakest economies globally (Corrales, 2012). The state eventually recognized reforms were necessary. The power transition from Fidel to Raul Castro ushered some reforms introduced in 1996 and passed by Cuba's Congress in 2011 called *The Guidelines of the Economic and Social Policy of The Party and The Revolution*. The guidelines, also known as *Lineamientos*, made policy changes in domestic and international economic practices which included limited property rights for Cubans, allowed Cuban Americans to act as creditors for Cuban citizens, and various changes in industry management and social programs. *Lineamientos* guidelines moved Cuba away from a true socialist state closer to a market socialism system (Vidal Alejandro, Pérez Villanueva, & González-Corzo, 2011). It also proved the Cuban state to realize that a talented workforce and social programs were not enough for nation building efforts and more open-market solutions were required for economic growth (Vidal Alejandro, Pérez Villanueva, & González-Corzo, 2011). The Cuban government should allow the general population and international investors and governments to introduce solutions to the Party and the Cuban government to better balance the socialist ideals with the reality that a more open-market in Cuba is more advantageous for most stakeholders in the 21<sup>st</sup> century.

A population's perception of government leadership is an important aspect of successful governance. Cuba has communicated state agendas and norms effectively through its tight control over the media since the Castro regime took office. The regime has created a strong sense of collective identity through communicating national pride, a plan for national prosperity and focusing on social and human capital development programs over the past 40 years (Benjamin-Alvarado & Petrow, 2012). These actions have led to higher than average confidence and trust in the Cuban government (Benjamin-Alvarado & Petrow, 2012). From a policy perspective, government control over media is short-sighted as the general Cuban population is gaining access to the internet and social media which introduces new ideas and challenges the status quo. Therefore, the Cuban government should gradually allow more media outlets to operate independently and without fear of government intervention to provide the Cuban people with a non-governmental but Cuban perspective on global events.

Even though popular confidence in the government exists, there is criticism. When the Castro regime took control, there was strong state control over economics and social life. There was a shift in Cuban policy in the late 1960s with the development of an assembly called *Popular Power* to develop policy and distribute economic surpluses. *Popular Power* was introduced by the media as an example of participatory democracy, but top management positions in the organization were taken by government placed leaders, which stifled a healthy participative governance model (Chaguaceda, 2011). *Popular Power* is an example of how Cuba's authoritarian governmental model views participation as a means to mobilize for the Party (Chaguaceda, 2011). High single party government control over political participatory activities substantially limits individual freedom and does not incentivize authentic participation in co-developing and implementing policy. Therefore, the Party should allow lower governments to manage their respective areas (Ben-Meir, 2015). Non-

government participation should be allowed to affect policy development for an appropriate governance model to cultivate greater trust and productivity.

### **Marketplace opportunity**

Education and social reforms by the Castro regime along with significant subsidies from Russia from the 1960s through the 1980s provided the means for the population not to be as dependent on an open marketplace. With the collapse of communist Russia and Cuba's subsidies from Russia in the early 1990s, Cuba's economic strength declined, and Cuba was forced to develop new policies and economic models to encourage growth. Entrepreneurship was deemed legal by the Cuban government in 1993, and it proved to create new job opportunities and benefits for Cuba (Ritter, 1998). This growth was short-lived due to a change in policy in 1996 which included tighter regulations, a regressive tax system, and competition from the state which led to growth in the black market (Ritter, 1998). As an example of state competition, in the late 1990s, Cuba hired a large fleet of food vendors to bring competition to the food service micro-enterprise system. The private micro-enterprises were not able to compete with the state-funded vendors because state-funded vendors did not have to buy taxed goods to sell to the general population (Ritter, 1998). Since that time, government restrictions have been lifted and reestablished.

One possibility to spur marketplace opportunities is to allow the state to control production and to limit any growth in micro-enterprise. These actions allow the government to gain more revenue in the short-term but would substantially limit the long-term stability of their economic engine. As regulations increase, the general population will move towards the black market for jobs and goods which weaken the political establishment (Ritter, 1998).

Another option would be to open the private economic system rapidly. This option would include allowing private firms to take over government-operated endeavors, eliminate the vast amount of regulations on private business, and to allow more foreign investment. There is precedence for this approach in particular sectors (Ritter, 1998) though is not recommended because of the unknown implications to the social fabric and long-term stability of the country.

A third approach supported by research (Ritter, 1998) would be to gradually and strategically open up the micro-enterprise system. This option would include policy changes in regulations and a less-burdensome tax system to encourage business growth. Policy changes would include giving business access to credit at competitive rates, opening up markets by reducing state competition with the private sector and reducing regulations, and allowing business owners greater flexibility in managing the size of their workforce and employee pay. This option requires the government to trust its population more which is shown to be more economically beneficial (Gur, 2015).

Cuba relies on its service export industry especially in the health services sector which makes it an export dependent economy (Monreal, 2006). Export-heavy countries should balance export income with domestic production and distribution for greater stability

(Monreal, 2006). There has been an increase in domestic production to replace dependence on imports, but Cuban technology and production abilities are limited (Monreal, 2006). This reliance on service exports without other forms of revenue is putting significant pressure on Cuba's economic future and is creating an overdeveloped workforce without ample work opportunities (Monreal, 2006). A policy change is needed to encourage domestic production which should include food production and construction (Monreal, 2006). Also, individual incomes need to increase to stimulate the local economy (Monreal, 2006). Cuba must encourage innovation in various sectors to be competitive through economic decentralization (Monreal, 2006; Vidal Alejandro, Pérez Villanueva, & González-Corzo, 2011), attract foreign investment, and allow a free flow of small and medium business development (Vidal Alejandro, Pérez Villanueva, & González-Corzo, 2011).

In summary, research shows that advancements in several areas simultaneously are needed for effective nation building. Feng et al. (2008) state that domestic factors such as political freedom, a stable environment, technological advancements and capable governance are needed for human flourishing (p.436). Any country in today's global economy cannot survive in isolation but does not necessarily need to conform to specific economic and social norms (Shreve, 2012). Though some experts believe the Cuban state can be successful economically within current political ideology (Shreve, 2012), more sweeping reforms are necessary to allow effective human capital development efforts to thrive.

## **Conclusion**

As stated earlier, Cuba has heavily invested in select human capital development activities. Cuba is highly regarded for its social programs that emphasize equity, social welfare, and fostering individual talent. Cuba's universal access to education and guarantees of healthcare, food rations and housing along with other social programs is unique in the region. These programs require large investments on the government which comes from taxes. As income increases, taxes generally increase. Part of what makes these programs succeed is a collective belief that one's labor is for the benefit of all. A future area of study is to understand the impact of the government wage in Cuba that lacks financial incentives for working harder. A hypothesis is with appropriate economic incentives, productivity would increase, which would increase tax revenue that the government could spend on infrastructure improvements.

The impact of social entrepreneurialism in Cuba is another area for research. With the gradual reduction of Cuban government control on small and medium-sized businesses and a greater openness towards foreign investment, are there greater opportunities for social entrepreneurialism which could decrease the demand for the government to use tax dollars and other forms of revenue to provide resources to the population? This research could be a catalyst to develop a social entrepreneurship model suitable for a socialist state.

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