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Perspectives on Unemployment in Nigeria: Lessons from Cuban Economy

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ABSTRACT*:* *Unemployment is a ubiquitous phenomenon in all economies. Though most empirical studies assert that unemployment is higher in less developed economies as compared to developed one; it is an established fact that no country has the capacity to provide jobs for all its citizen at same time. Hence, the attainment or maintenance of an acceptable rate of unemployment is a major concern of public policy formulators. Despite the numerous economic challenges, Cuba has the one of the lowest rate of unemployment in the world. How has it managed to achieve and maintain this? What did they do particularly different? The developing countries need this information to be able to deal with this seemingly intractable problem. Thus, the paper examined the economic strategy used by Cuba to tackle unemployment and identify some lessons for developing economies like Nigeria.*

KEYWORD*:* unemployment, developing economies, economic strategy, empirical studies.

INTRODUCTION

All economies whether developed or developing have at one point or the other suffered the scourge of unemployment. For instance, data gleaned from the International Labour Organization (ILO) show that the youth unemployment rate in Asia and the Pacific rose by 1.6 percent between 2019 and 2022, which is more than proportionate to that of the adult population. The unemployment rate of those in Asia and the Pacific was estimated to be 14.9 percent in 2022. In Europe, Spain and Greece recorded the highest level of unemployment, while Czech Republic had the lowest rate ate 2.9 percent (Eco, 2019). According to the International Labour Organization (ILO) report on employment in Africa, nearly 34 million persons are unemployed. Furthermore, the employment rate for women (7.5 percent) is higher than that of the men (6.3 percent).

The social and economic consequences of high rate of unemployment cannot be overemphasized. High rates of unemployment leads to loss of aggregate income, dampening in self-confidence of the unemployed, and a spike in social vices (Clever, 2007). Rising Unemployment is indicative that there are idle resources yet to be maximized by the economy. As a result, there is a loss in the additional income that these unemployed persons could have produced if gaining employed. In addition, the army of unemployed persons are potential triggers of social vices (except in developed climes were the unemployed are paid stipends by the government). Thus, Dogrul and Soytas (2010) asserted that unemployment has serious negative social- economic consequence on the economy; hence, it is imperative for policy maker to not only identify its determinants, but to formulate policies to ameliorate its effects. It is in light of the aforementioned that the attainment of an acceptable rate of unemployment has been the key concern of economies the world over. This is because it is one of the most visible indicators of the economic status of a country (Jeffrey, 2010). Various theories on unemployment have been propounded each seeking to explain the origin, causes, effects as well as the possible mitigation strategies. Accordingly, relevant literature on unemployment shall be fastidiously treated in this paper. Firstly, we shall review the various theories on unemployment which includes, but are not limited to; the Classical Theory of unemployment, the Keynesian Theory of Unemployment, and the Factor Price Distortion Theory.

In our analysis of the above theories of unemployment, we shall be looking out the various postulates or explanation as to the cause of unemployment in an economy, their underlying assumptions as well as their model constructs.

Some Theories of Unemployment

The Classical Theory of Unemployment

The classical theory of unemployment is one of the oldest theories of unemployment. Traditionally, the classical economists are known for their liberalist approach or methods in addressing economic issues. According to them, markets will function better if unimpeded by government law and regulations. In other words, the government should hands-off their grip on the economy and allow the market forces of demand and supply to determine the optimum level of economic activities. The automatic alignment of the market forces of demand and supply that tends to lead to equilibrium in a capitalist economy is the main thrust of the classical economist. In the view of Neva et al. (2006), the classical stance on unemployment is predicated on the tenets of a single market economy characterized by perfect competition, spot transactions, and institutions for double-auctioning bid. According to them, involuntary unemployment exists when market forces (demand and supply) are deliberately interrupted.

In line with the postulates of the classical economists, the market forces of demand and supply automatically adjust themselves to ensure that the economy is at equilibrium. Thus, the economy is always at full employment at any given point in time. In their view, the existence of unemployment in an economy is an anomaly which will automatically disappear on its own by the workings of the market mechanism (Jhingan, 2008). The big questions is, if the classical stance on unemployment holds true, why do we still have episodic unemployment in an economy? Two notable Classical economists, Pigou (1933) and Solow (1980) posited that unemployment ensues when demand for labour is less than proportionate to its supply. Demand

and supply of labour are both a function of the wage rate. Accordingly, a rise in wage rate ceteris paribus will result to an increase in labour supply by households and a decrease in demand for labour by firms. Equilibrium is attained in the labour market at the wage rate at which demand for labour equals supply for labour. The flexibility of prices and wages is such that at any given point in time, demand and supply will adjusts to ensure that the economy is at full employment (Kalu, 2001).

Keynesian Theory of Unemployment

Before the advent of the Keynesian school of economic thought, the theories of the classical economist held sway till midway through the 18th Century. However, the economic hardship that struck the world in the great depression of the 1930's with its attendant debilitating consequences shook the foundations of the classical beliefs which at the time was impotent in restoring economic sanity. It was the fallout of the aforementioned scenario and the search for a more coherent and effective solution to the economic ails at the time that heralded the advent of a new economic ideological leaning called the Keynesian school of economic thought.The British economist John Maynard Keynes is the founding father of the economic school of thought known as the Keynesian School. Unlike the classical economists, Keynes advocated for the deliberate intervention of the government in achieving specified macroeconomic objectives such as price stability and full employment. He debunked the assumptions of price and wage rate flexibility which according to the classical school are the machinery for economic stabilization in the absent of government interference. To Keynesians prices are sticky downwards; meaning that, once there is an increase in prices it is very difficult for it to come down. In addition, they posited that it is difficult to find an economy that is perfectly competitive given that monopolies and unions tend to be permanent fixtures in our economy, and the prices they create tend to be inflexible, at least downwardly (Keynes, 1936).

The crux of the Keynesian school is the emphasis of effective aggregate demand as a tool to achieve specified macroeconomic objectives. They propose the adoption of an interventionist approach, by stressing the need for government involvement in the economy. By government involvement, we mean, the use of taxation and public expenditure to regulate aggregate expenditure.

According to Keynesians, aggregate demand determines the level of GDP and therefore the level of employment in the economy. Hence, the answer to why unemployment persists in an economy lies in the machinery of aggregate demand (Mouhammed, 2010). In the words of Gotheil (1999)*," It never occurred to Keynesians that they would ever have to choose between policies to control unemployment and policies to control inflation".*

The Factor Price Distortion Theory of Unemployment

The factor price theory of unemployment is a variant of the classical theory of unemployment. Like the classical theory, it is predicated on the tenets that the workings of the market mechanism are the key determinant of the level of unemployment. However, the theory posits that in the case of Less Developed Countries (LDC), the high rate of unemployment is as a result of the distorted prices of factors of production such as; labour and capital (Kalu, 2001).

Specifically, the price of labour is more than proportionate to its shadow value i.e. the market determined price based on the interplay of demand and supply, while the price of capital is more than proportionate to its shadow value (Robert, 1980).

Government policies that makes labour price higher than its shadow price includes but is not limited to; minimum wage laws, hiring subsidies, union pressures and other employee benefits. Factors that make capital cheaper than its shadow price include; investment stimulants such as tax holidays, tax rebates, exemptions, subsidies etc. The above postulates has been empirically verified by Alessia et al. (2009), according to them, they analyzed the relatively impact of fiscal stimuli in eradicating unemployment in the labour market. The outcome of the study show that there was a positive and significant impact of fiscal stimuli such as hiring subsidies, tax holidays etc. on the rate of unemployment.

The Agiobenebo's Hypothesis of Unemployment

Agiobenebo (1998) rationalized government intervention in an economy with several reasons which include the presence of externalities, to ensure economic growth, for economic development, for economic stability and sustainability, for security, to supply and control money, the maintenance of the philosophy and ideology of the nation, technological advancement and the existence of market failure. For the purpose of this paper the most relevant of the various reasons is market failure especially failure by incentives and signal.

Market failure refers to situation where the idealized price mechanism failed to produce or sustain a desirable outcome or prevent an undesirable activity or phenomenon. It is also seen as a situation where market is transmitting inappropriate signal or information that misdirect the allocation of resources (Agiobenebo 1998).

Among the four types of market failure (market failure by existence, market failure by enforcement, market failure by structure and market failure by signal and incentive) market failure by signal and incentive best illustrates the challenge of unemployment the developing countries are facing. The incentive to an investor to invest is profit and the signal is rising price of the commodity. Where price does not exist or the price is too low or uncertain, the signal is zero or low profit and therefore there is no incentive for the private sector to invest hence the market mechanism will fail in allocating resources to that sector.

If we take job opportunity as a input commodity that has available close substitutes (close substitutes because there are different labour saving techniques and equipment that has been developed and today, we even have robots), a profit maximizing investor will choose a basket of inputs that will minimize job opportunities (labour) and cost of production. He will prefer equipment and machines to labour. This is because while labour continues to demand for payment of income on daily, weekly or monthly bases, the equipment or machine, once purchased will not demand any other money for some years, hence, saving him a lot of cost and increasing his profit. So if it is possible to operate his business without hiring labour, the investor will be better off doing so.

The foregoing demonstrates why the market fails to create employment opportunities hence unemployment. The labour market emits signals that misdirect the allocation of resources toward reduction of unemployment. Left alone the market will never solve unemployment problems in the LDCs. Hence government intervention is needed. John Maynard Keynes was right.

Government Effort to Minimize Unemployment in Developing Countries

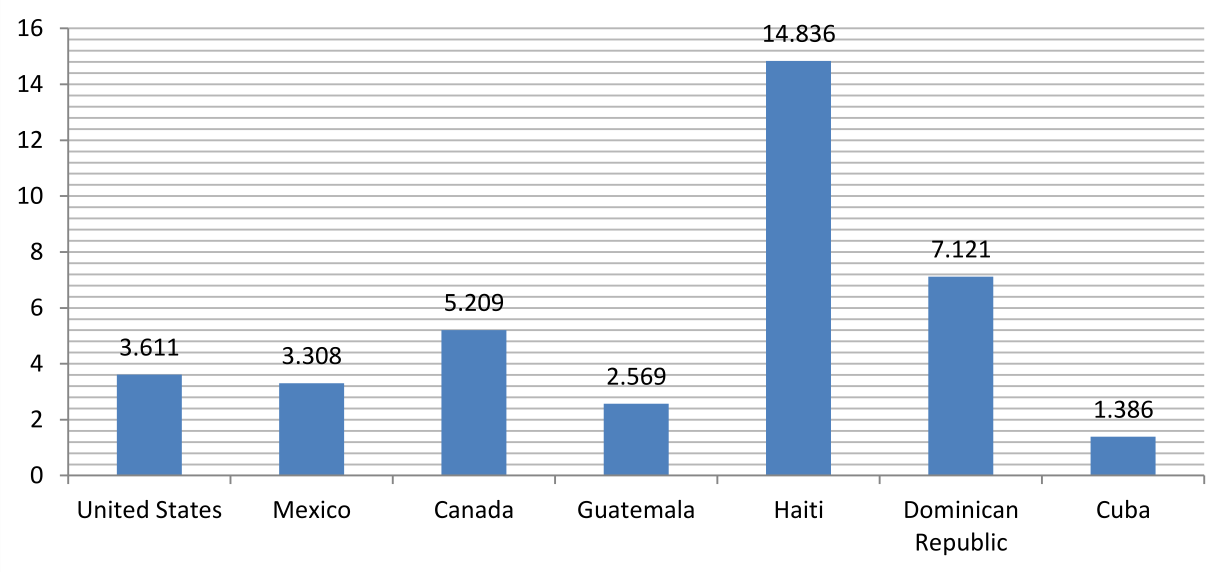
While the job market is congested with cheap labour, the government is busy spending more time and available resources shopping for foreign investors. This is based on the traditional belief that a foreign enterprise comes with capital and creates employment opportunities for citizens of the recipient economies. Being on the begging side, the LDCs government have little or no bargaining power, and so the foreign investors capitalize on that opportunity to request for and get more than conducive environment before they accept to invest in the LDCs. In the process almost all the so called benefits of foreign investment are forfeited by the recipient economy. Experience have shown that the foreign investors are not interested in the development of the recipient economies but in profit. So they do everything possible not to employ citizens and even come with their own staff and equipment from their parent country. Following the prescriptions of the classical economists this very important objective of minimizing unemployment should be achieved by the private sector. The public sector should be down-sized to create enough room for the private sector. Today even when vacancies exist in the public sector, the government is reluctant to employ hence creating more unemployment.

Symnopsis of Cuban Economy

Cuba operates a mixed economic system where both public and private enterprises are involved in the production and distribution activities. However, state-run enterprises are dominant and play major roles in key industries of the economy. Data show that 65% of the labour force in the country is employed by the public sector while the remaining 35% is employed by private sector (Kudlyak, 2017). Though their constitution gives room for the private sector to operate, approval is required before investment is undertaken by private enterprises. The ranking of the Cuban economy of 83rd out of 191 on human development index is testament to high degree of efficiency in their public enterprises.

In 2021, the Cuban economy recorded a relatively low economic growth. This follows the economic sanctions imposed by the Unites states on Cuba which makes it illegal for any US corporations to do any business with Cuba. The economy has been further hit by challenges such as; conflict between Russian and Ukraine, natural disasters such as the hurricane Ian and the energy crisis confronting the country. The aforementioned set-backs have resulted to high inflation rate, and high exchange rate. Notwithstanding, the country's GDP witness more than five times growth from 107.352 billion Cuba peos (CUP) in 2020 to 542.218 billion Cuba peos (CUP) in 2021. Presently, Cuba has the lowest rate of unemployment (1.3%) in the world. As stated earlier, 70% of the labour force is employed by state-owned enterprises. Table 1.0 below shows the unemployment statistics of selected North American countries.

Table 1.0: Unemployment Rate of Selected North American Countries in 2022



Source: World Bank Economic Indicators (2023)

As seen from the above graph, Cuba's rate of unemployment is the lowest with (1.386%) this is followed by Guatemala with unemployment rate of 2.569%. Haiti has the highest rate of unemployment (14.836) in North American continents. The unemployment rate for women (2.0%) is was higher than that of men (1.7%) in 2022. In terms of labour force participation, there was a decrease from 66.9% in 2020 to 65.6% in 2022. The labour force participation figure was higher for men (77.1%) than for women (52.7%). The minimum monthly wage of the country as at 2022 was set at CUP 2,100 ($87.5), while the average monthly wage was CUP 4,217 ($178.1).

The rate of inflation in the country was 39.1% in December 2022 which indicates a significant fall compared to the inflation rate of precious year which was about 77.3%. The drastic fall in the rate of inflation was as a result of the "monetary restructuring" programme of the Cuban government which was implemented in January 2021. The monetary restructuring programme lead to the removal of subsidies from certain products in the economy leading to hikes in prices. However, to ameliorate the impact of price increases, the government instituted an increase in wages and pensions to compensate for the increase in prices. Food and alcoholic beverages were greatly affected by the removal of subsidies by the government accounting for about 70.2% of the total rise in the price level (World Bank, 2023).

Cuba recorded 10.3% increase in the exportation of goods and services as the end of 2022. The countries major exports are seafood, charcoal and honey. However, they had very low patronage in the service sectors such as tourism and telecommunications. The exportation of sugar has continued to witness downward trend within the past five years. The fall in the exportation of sugar has been attributed to the shortages of sugar cane, fuel, and other inputs. Notwithstanding the challenges faced by the government, they were still able to attract foreign direct investments. Specifically, in 2022 thirty five new foreign firms with a total of US$ 400 million committed capital were approved by the government. The key sector into which these foreign investments were approved includes tourism, food production, manufacturing, and mining & energy. Additional, nine new foreign firms with committed capital of US$125 million were approved in the first quarter of 2023.

Challenges faced by the Cuban Economy

Cuba is among countries with the least rate of unemployment in the world. A cursory look at the unemployment rate and labour force statistics of the Cuban economy might give the impression that they were not faced with challenges, and that they had all they needed to tame unemployment. Ironically, the reverse is the case. Cuba was beset with a lot of challenges ranging from the imposition of sanctions by the United States of America for more than six decades and which have been tightened in recent years. A recent report by the Cuban government reveal that the economic, financial and commercial blockade of the United States cost the country US$3.807 billion between August 2021 and February 2022. The inclusion of Cuba in the list of State sponsored terrorism by the United States in early 2021 further aggravated the issue, and consequently posed serious obstacle to the participation of the state in international trade and the attraction of foreign direct investment (ECLAC, 2022). The Economic crisis in Cuba was further compounded by the conflict between the Russian Federation and Ukraine. Consequently, key macroeconomic variables such as gross domestic product, price stabilization, employment generation, and balance of payment position were all negatively affected (Perez, 2000).

Cuban Economic Strategies

The strategies used by the Cuban government to ameliorate the rate of unemployment despite the myriads of challenges faced by the economy shall be briefly highlighted in the following section

i.) **Implementation of Macroeconomic Stabilization Programme**: To tackle the challenge of high inflation occasioned by the sanctions of the United States and subsequent restrictions on international trade relations, the Cuban government employed 70% of its labour force to ameliorate the multiplier effects of unemployment in the economy. Also, following the removal of subsidies on selected goods in the economy, the government increased the salaries of workers to cushion further hardship that is likely to ensue following the removal of subsidies.

ii.) **Fiscal Discipline**: Due to absence of public debt market, the Cuban government finances its fiscal deficit through the issuance of government bonds to state banking system. The fall in tax-revenue and absence of public debt market to augment government expenditure needs indicates that the government will continue to issue new money (expand the money supply) to meet its budget deficits. The printing of new notes will further aggravate the already worst state of inflation in the country. Data shows that the Cuban government has shown high level of fiscal discipline by reducing the level of public expenditure (fiscal deficit). The country’s total expenditure reduced from 58.8% to 49.8% in 2021 and 2022 respectively. The above data show that in terms there was a 45% decline in public expenditure. The above stance was yet another strategy of the government to reduce inflation in the economy.

iii.) **Encourage Foreign Direct Investment**: To facilitate foreign direct investment with non-state sector, the Cuban government in April 2023 removed the restriction on the acceptance of dollar cash deposits over the counter in the country's banks. The aim of the above action is to encourage households and agents involved in foreign exchange market business, increase cash liquidity, and meet the cash needs of holders of foreign currency accounts.

iv.) **Introduction of Subsidies**: Subsidy was introduced to offset the cost of importation of oil from Venezuela by domestic enterprises. This subsidy was introduced in 2001 and witnessed an increase through the year 2011. However, after 2011 the ONEI suddenly stopped publishing the breakdown of the oil transaction between both countries.

v.) **Monetary Reforms**: A key factor in the reduction of unemployment in Cuba is the relaxation of banking lending rate to important sector of the economy. For instance, a total of 67 million peos was accounted for as bank lending in the first quarter of 2023. 69.7% and 30.3% were used in financing of Cuba peos and freely convertible currency out of which 83.4% were absorbed by state owned enterprises (associations, commercial companies, agencies of central state administration and others), while other legal entities absorbed the remaining 8.3%. Out of the 2.4%of total financing absorbed by private individuals, the largest of them i.e. 1.7% was allocated to small-scale farmers.

Lessons for the Developing and Nigerian Economy

The Cuban economy showed great resilience in the face of the numerous economic challenges (both internal and external). Their government through deliberate formulation and implementation of economic policies has ensured that key macroeconomic objectives such as employment and price stabilization are achieved. In this section we shall look at some of the lessons for the developing countries and the Nigeria economy.

Fiscal Discipline: There is high level of fiscal discipline in the Cuban Public sector: Due to the limited access to public debt market occasioned by the economic sanctioned imposed by the United States, the Cuban economy reduced its total public expenditure. The country's total expenditure reduced from 58.8% to 49.8% in 2021 and 2022 respectively. Rather than embark on the issuance of new currencies which would have further aggravated the already high inflation rate in the country, they resorted to prudent management of the public agencies. The above stance was a strategy of the government to reduce inflation, save scarce resources and plough the resource into the economy to create and save jobs.

Government Employment and Maintenance of High Labour Force: The Cuban economy has a highly coordinated public sector and a government that is committed to gradual economic reforms. For instance, to tackle the challenge of high inflation occasioned by the sanctions of the United States and subsequent restrictions on international trade relations, the Cuban government ensured that 70% of its labour force to ameliorate the multiplier effects of unemployment in the economy. This strategy helped to reduce unemployment in the economy.

Sustain Demand and Market for Producers: Following the removal of subsidies on selected goods which raised prices in the economy, the government increased the salaries of workers to cushion the hardship that was to be faced by workers. The expected reaction was a declined demand for goods and service with is attendant negative effects but the government didn't wait for the market to respond that way. It intervened by raising workers and pensioners' salaries. This strategy helped to sustain demand and market for producers and therefore minimized the tendency of laying-off workers.

SUMMARY & CONCLUSION

The Cuban economy has shown great resilience in the face of the numerous challenges faced over the years. Some of the challenges faced by the country includes; imposition of sanction by the United States; power supply shortages; as well as the intermittent natural disasters. Despite the aforementioned obstacle, the country relied mainly on strategic government intervention in the economy in ensuring high level of fiscal discipline, highly coordinated monetary and fiscal policy, and most of all, ensuring that 70% of its labour force is employed by the government. The government refused to leave the problem of unemployment to the hands of the market forces as prescribed by core capitalist economists. With these strategies it has been able to maintain one of the lowest rates of unemployment in the world. The developing countries are hereby advised to take these lessons seriously if they want to minimize unemployment in their economies. The market forces will always work in favour of the advanced economies.

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