

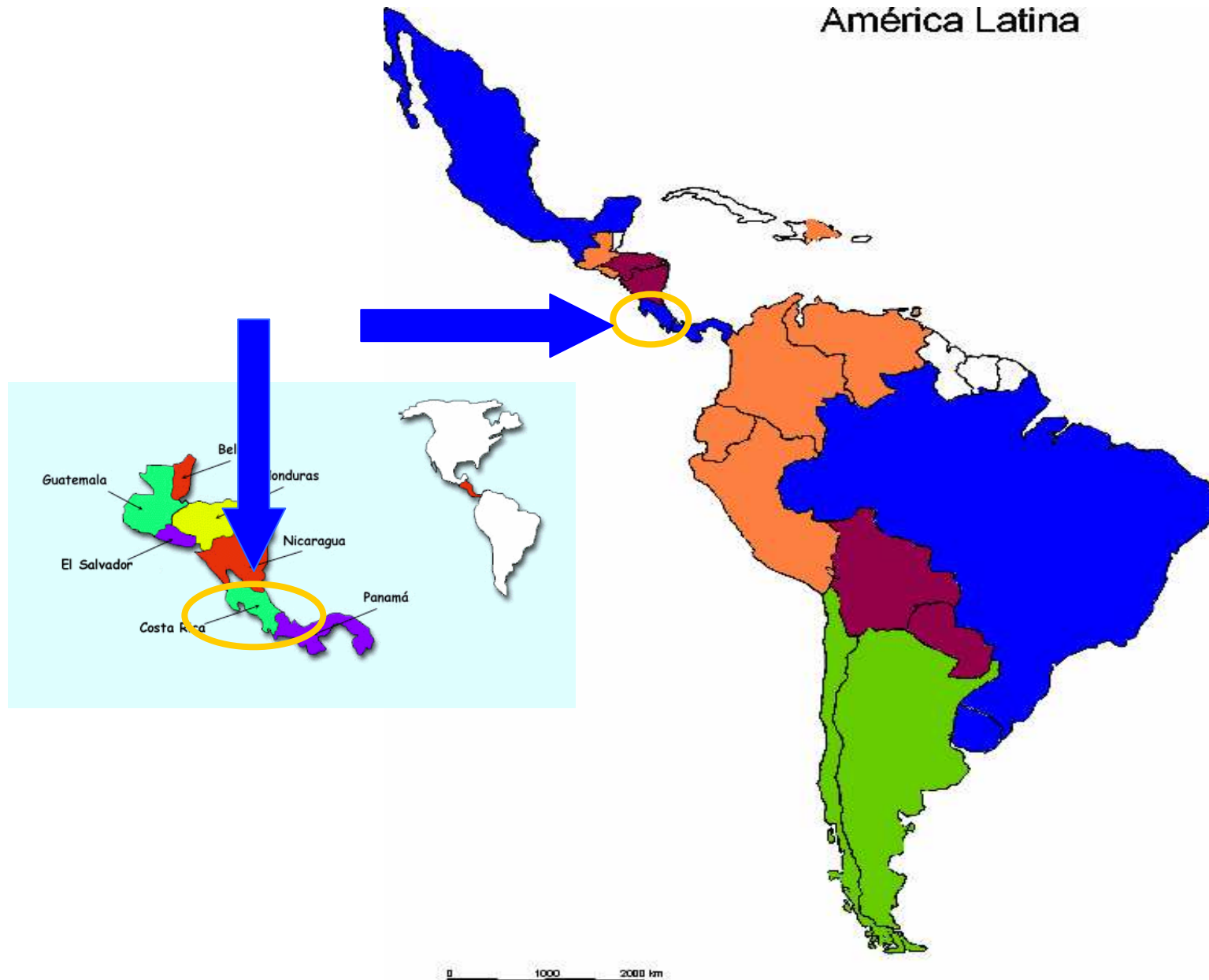
Policy Regimes and Poverty Reduction The Costa Rican Case

**Juliana Martínez Franzoni
Universidad de Costa Rica**



**Policy Regimes:
Overview of the Costa Rica Case**

América Latina



What can we learn from CR?

- On the one hand, during the second half of the 20th Century, CR maintained:
 - ✓ a democratic political regime
 - ✓ a reasonable level of economic growth, and,
 - ✓ above average social performance both in terms of the production of human capital and its social protection
- On the other hand, during the last decade:
 - ✓ Gini coefficients of income inequality have worsened systematically
 - ✓ voting turnout has rapidly declined
 - ✓ major corruption scandals have tainted the highest levels of public office, and
 - ✓ economic growth has been highly volatile

Research questions

- What has been the Costa Rican performance in terms of equity and poverty throughout two historical periods, the so-called “golden age” (1950-1978) and the “long transition” (1984 onward) after a (short) economic crisis (1978-1982)?
- To what extent are these changes accounted by: demographic and population conditions, economic policy, social policy, and, institutional/political dimensions?
- Responses are for now me own, largely drawn by my work with Mitchell Seligson, rather than the research team's I put together for UNRISD

This presentation

- Historical background
- Policy reforms
- Policy performance

Historical Background



The Costa Rican “Golden Age,” 1950-78

- Experimented with building an advanced social welfare state in an underdeveloped, small, dependent country
- Relied on the private sector and direct public intervention in strategic areas such as energy, as well as selected goods
- Achieved outstanding accomplishments in terms of:
 - ✓ ***growth and economic diversification***: growth rates ranked consistently among the highest in Latin America
 - ✓ ***social development***: impressive reduction of poverty and infant mortality; improvements in income distribution and life expectancy
 - ✓ ***consolidation of a political regime***: based on representative democracy with a competitive party system, along with a fairly respect of human rights

From the Golden Age to the Economic Crisis

- The country's success rested on substantial vulnerability: reliance on foreign borrowing
- A sharp drop in coffee prices coupled with the oil price shocks of 1973 and 1979 had a strong negative impact
- Resulted in a financial crisis that ad roots in the limitations of the export agriculture model
- The Golden Age came to an end; as Feinberg puts it, this was “the end of the fiesta”
- And it did so with the worst crisis since the Great Depression years

The unraveling of the economic crisis, 1978-82

- The GNP dropped 16%; growth dropped from an average of 6.2% (1950-80) to -3% (1980-82); fiscal deficit reached 14% of the GNP
- Inflation increased from an average of 7.8% in 1976-79 to 81.8% in 1982; unemployment reached 9.4% (twice the historical figure)
- The previous social safety net unravelled
- Broad sectors of the middle classes suddenly found themselves impoverished

The role of the US to overcome the crisis

- Costa Rica had an unusually advantageous geopolitical position with respect to U.S. foreign policy interests in the region
- Between 1983-85 U.S. aid amounted to 35.7% of the Costa Rican government's budget, one-fifth of export earnings and about 10 percent of GDP
- Which helped cope with the crisis but also made the country highly dependent on foreign—more specifically US—policy

The Policy Legacy that Followed

- Tight interplay between actors favoring pro market reforms and actors resisting it, with increasing power of the latter
- Civil coexistence of paradigms and mutual veto powers led to neither radical adoption nor radical rejection of reforms

Policy Reforms 1980s-2000



Selective, Piecemeal and Contradictory

- *A piecemeal set of solutions*
 - ✓ incremental change rather than radical transformation, across all public policies considered
- *A selective, deliberate ordering of reforms*
 - ✓ policy makers decided which policies to pursue when and first and which left unreformed
- *Contradictory trajectories in policy design*
 - ✓ between primary policy areas, economic, on the one hand, and social and institutional, on the other
 - ✓ reforms maintained state intervention, furthered the role of the private sector and managerial practices, while state capacities deteriorated

Policy Reforms: Economic Policy

- The new model was based on economic liberalization, FDI and export-promotion
- Embracing of the new model was piecemeal, selective fashion and with heavy state interventionism for trade promotion and financial liberalization
- By the end of the 90s everything the new model needed was already in place and agencies and stakeholders developed under the ISI were largely bypassed, financially and otherwise

Policy Reforms: Social Policy

- Reforms were piecemeal, selective and embedded within a social-democratic trust
- Social policies underwent reforms in key areas such as pensions, education and health care
- Reforms were hybrid:
 - ✓ Health care and pensions continued to be universal and based on *principles* of equity and solidarity
 - ✓ What changed were policy *instruments* in these areas, which showed an increased reliance on a mixed market, quasi-market and state-directed modalities

Policy Reforms: Institutional Changes

- Legislation protecting civil, political and social rights increased considerably during the period so did specific mechanisms to enforce these rights
- Increased the creation of autonomous agency, particular for horizontal and vertical accountability
- Autonomous agencies are in charge of 65% of the public budget while the Executive is in charge of 35%
- While state resources have dropped
- There has been a growing tension between a pro-rights body of laws and insufficient state capacities and resources to enforce them all: *the state has more obligations but shrinking resources to meet them*

As a whole, reforms

- Showed an imbedded tension between the neoliberal turn of economic policy, the social-democratic resistance of weakening social policy, and the expansion of civil and social rights acknowledged by the political reform
- All along a deterioration of state capacities
- The result has been neither solid interventionism nor sound regulatory institutions producing neither an effective nor an indifferent state

Policy Performance



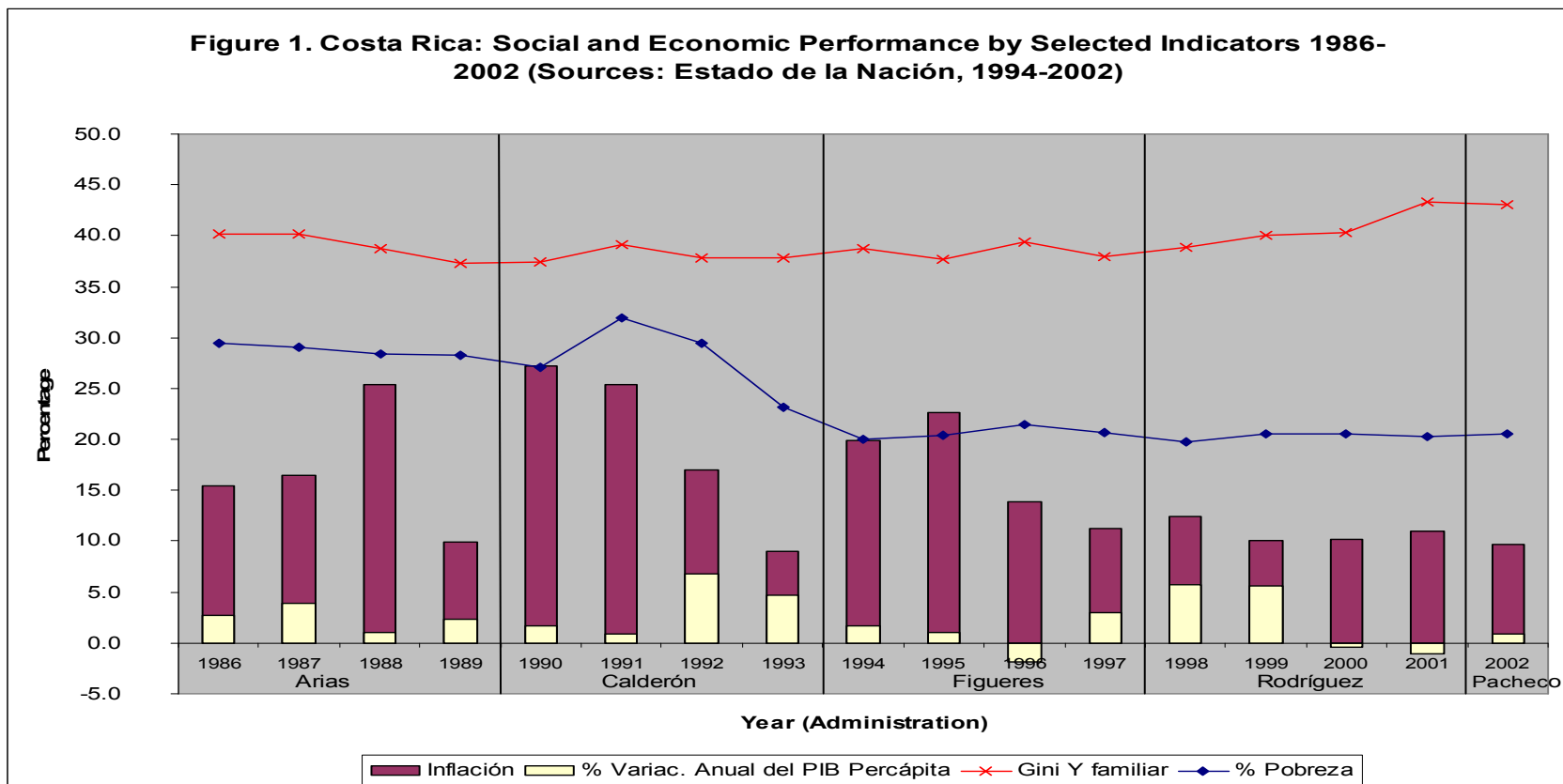
Overall

- Economic performance: stability and satisfactory economic growth, though uneven and in few hands
- Social performance: human development with increased inequality
- Institutional and political performance: democratic endurance with growing skepticism and exit

Economic Performance

a) Macro-Economic Stability

- Macro-economic stability was the primary goal of structural adjustment but results were modest: inflation was irregular, unstable and, except for 1993, was in the two-digit figures



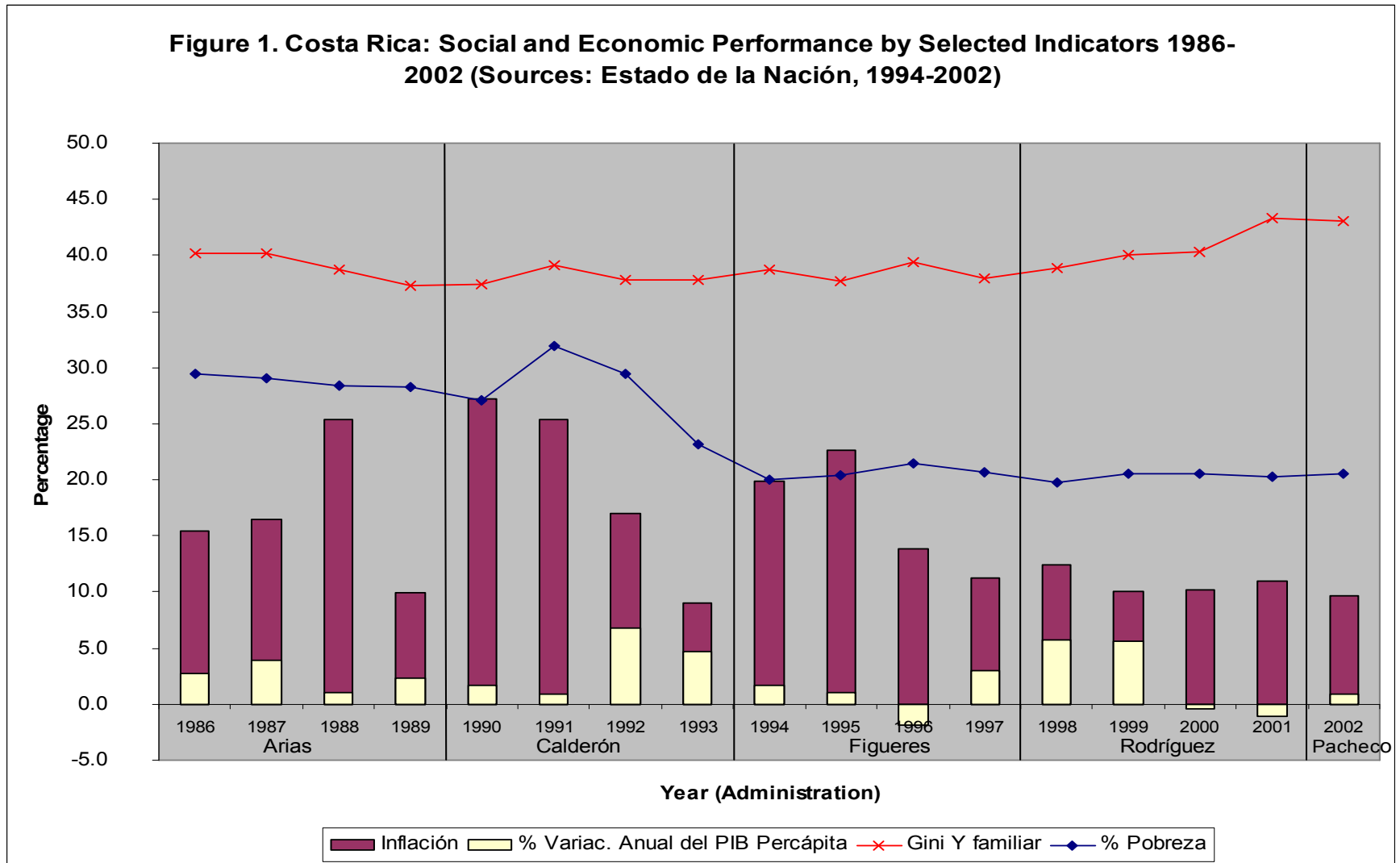
Cont. Economic Performance

b) Growth

- 1994- 2003: along with Chile highest average rate of Latin America (4.3%); total value of exports increased from US\$ 1.676 millions in 1991, to US\$ 5.277,4 millions in 2002 (export-processing zones)
- A more diversified export structure emerged while traditional exports such as a coffee and bananas declined; by 2000, the number of exported products were more than 3,342 and 53% of all export value was concentrated in seven products (e.g., pineapple, electronic circuits, textiles...)
- However, growth was volatile, following a stop-and-go pattern

Policy Regimes: Overview of the Costa Rica Case

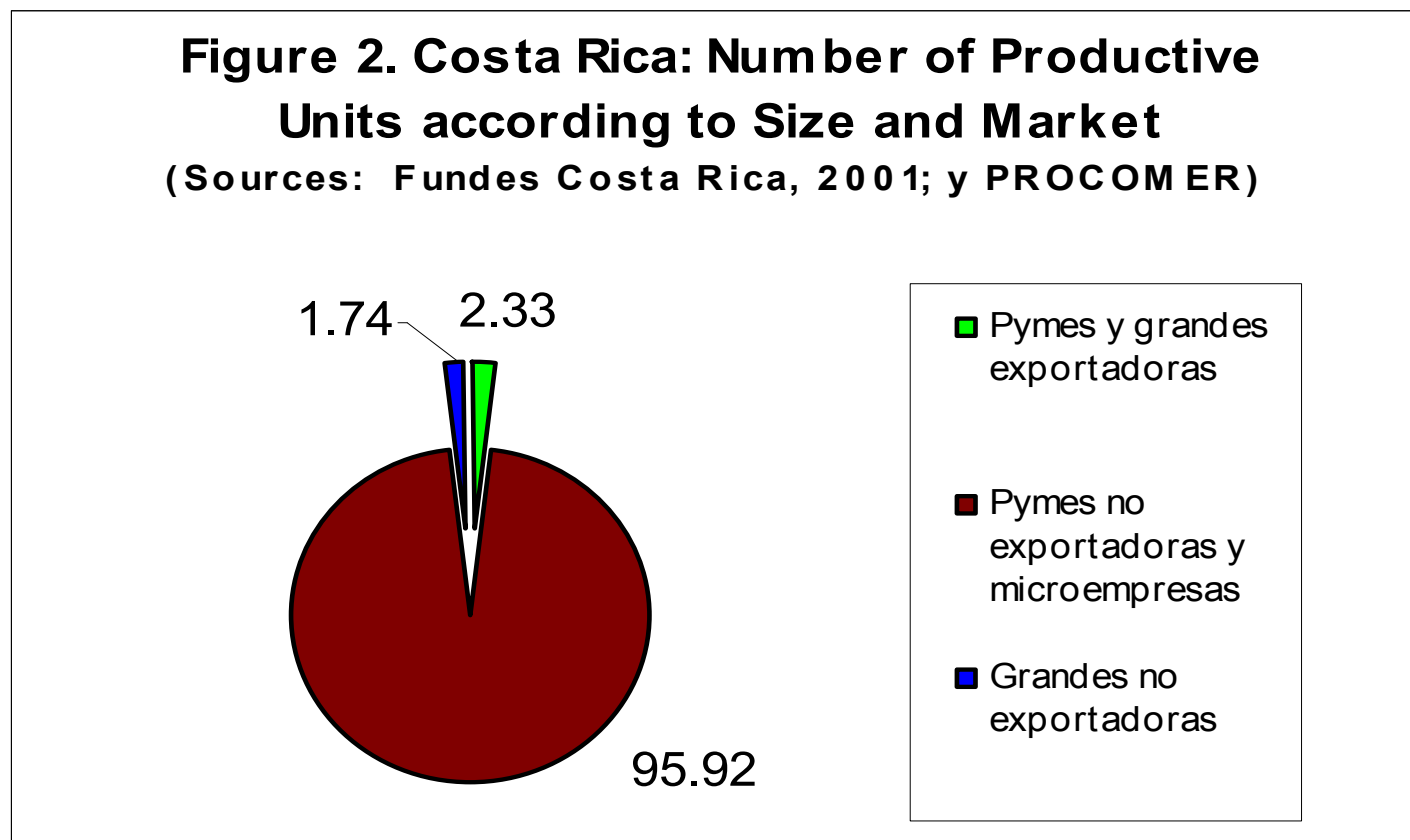
Figure 1. Costa Rica: Social and Economic Performance by Selected Indicators 1986-2002 (Sources: Estado de la Nación, 1994-2002)



Cont. Economic Performance

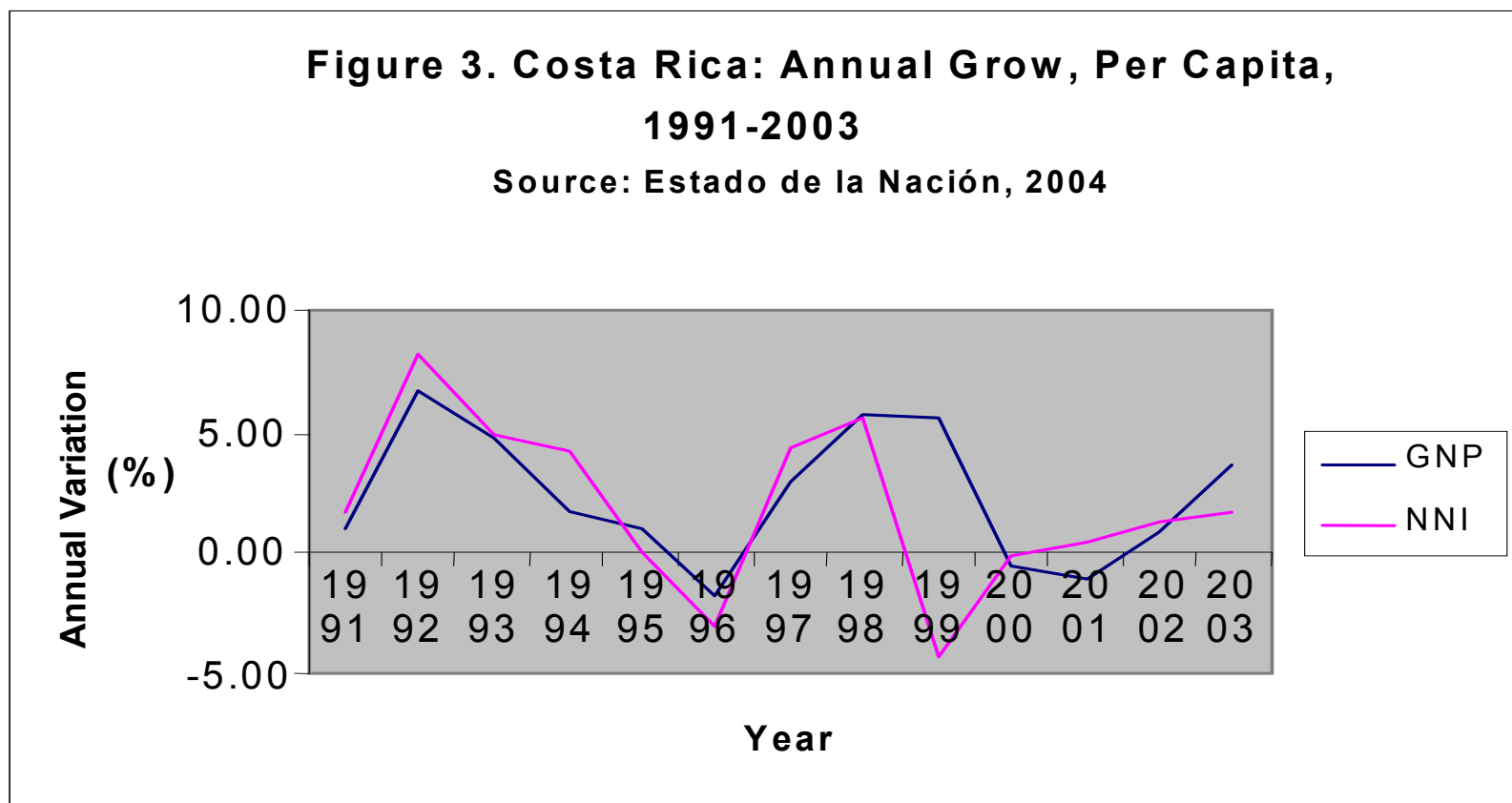
c) Distribution

- Only 2.33% of all domestic business are exporters (1,745 firms) while the rest, mostly micro, small and medium-size business, produce for the domestic market



Cont. Economic Performance

- The Net National Income (NNI) (GNP minus purchases to external factors, such as repatriation of profits) shows how income generated has been distributed



Cont. Economic Performance

In short, the economy has done:

- Moderately well in terms of stability
- Moderately yet unevenly in terms of growth
- Poorly in terms of distribution, producing more rather than less inequality

Social Performance

Despite the crisis by the mid-1990s Costa Rica was at the top of Latin America in most social indicators

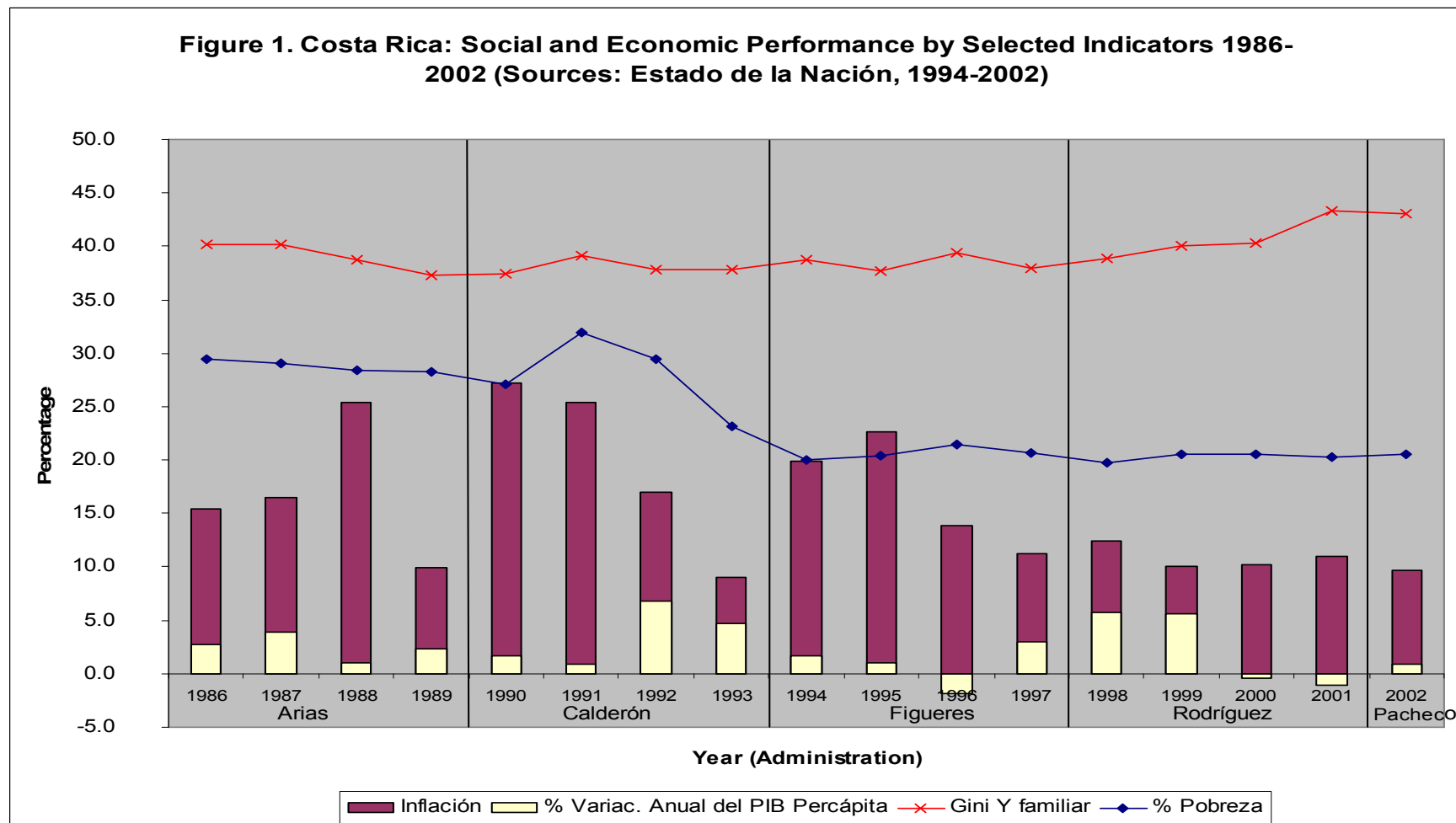
- UNDP's Human Development Index: ranks in the "high" category of human development (45th), along with Argentina, Chile, Uruguay and Mexico
- Does best in terms of social accomplishments, more specifically health (the highest life expectancy in the region at 78.6 years and infant mortality is second lowest in the region)
- Does worse than countries with a similar ranking in the HDI in terms of income per capita
- Social performance owes more to secondary than to primary distribution

Cont. Social Performance

- Lack of interaction between dynamic (external) and domestic sectors reflected in job creation:
 - ✓ Less than 3.5% of EAP works in export zones; 30% if being very optimistic in considering indirect jobs
 - ✓ Most Costa Ricans still depend on jobs related to the domestic market
 - ✓ In 2003 unemployment was 6.3%, the highest level of the past two decades
 - ✓ 5 to 7 jobs out of 10 are currently informal
- Human capital: only 3.6 youths out of 10 actually finish high school
- Social protection: contributory pensions cover less than half of the EAP (45%)

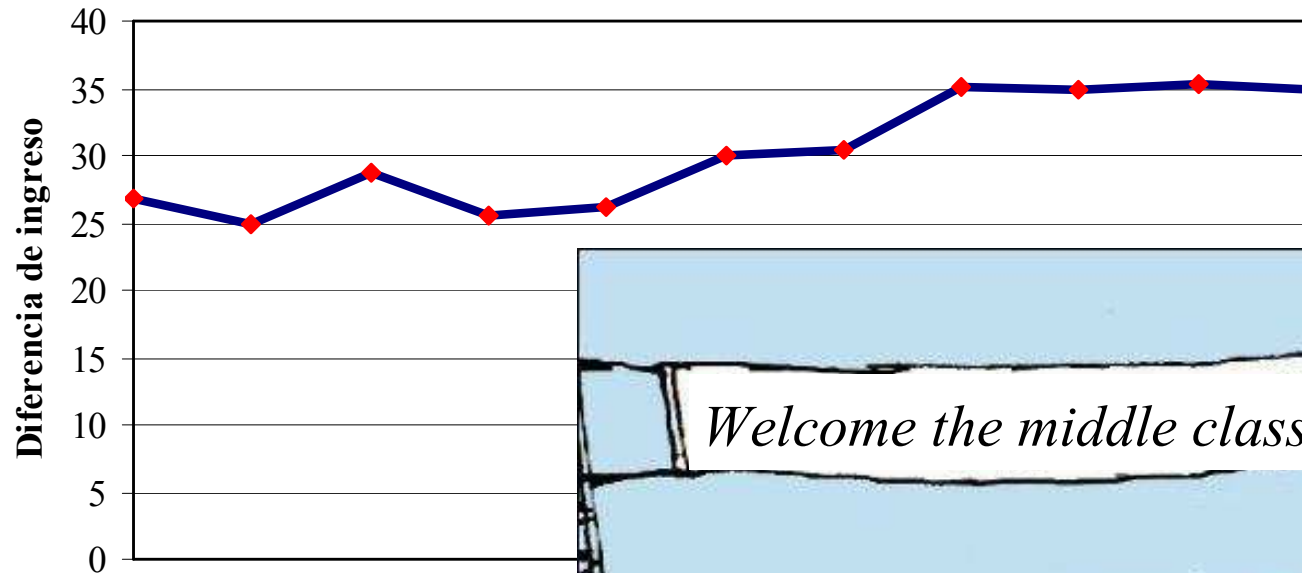
Cont. Social Performance

Social investment has not been able to compensate for the sustained polarization of income



Policy Regimes:
Overview of the Costa Rica Case

Diferencia de ingresos entre el primero y el décimo decil
1993-2003



Fuente: Juan Ml.
Villasuso

Cont. Social Performance

In short:

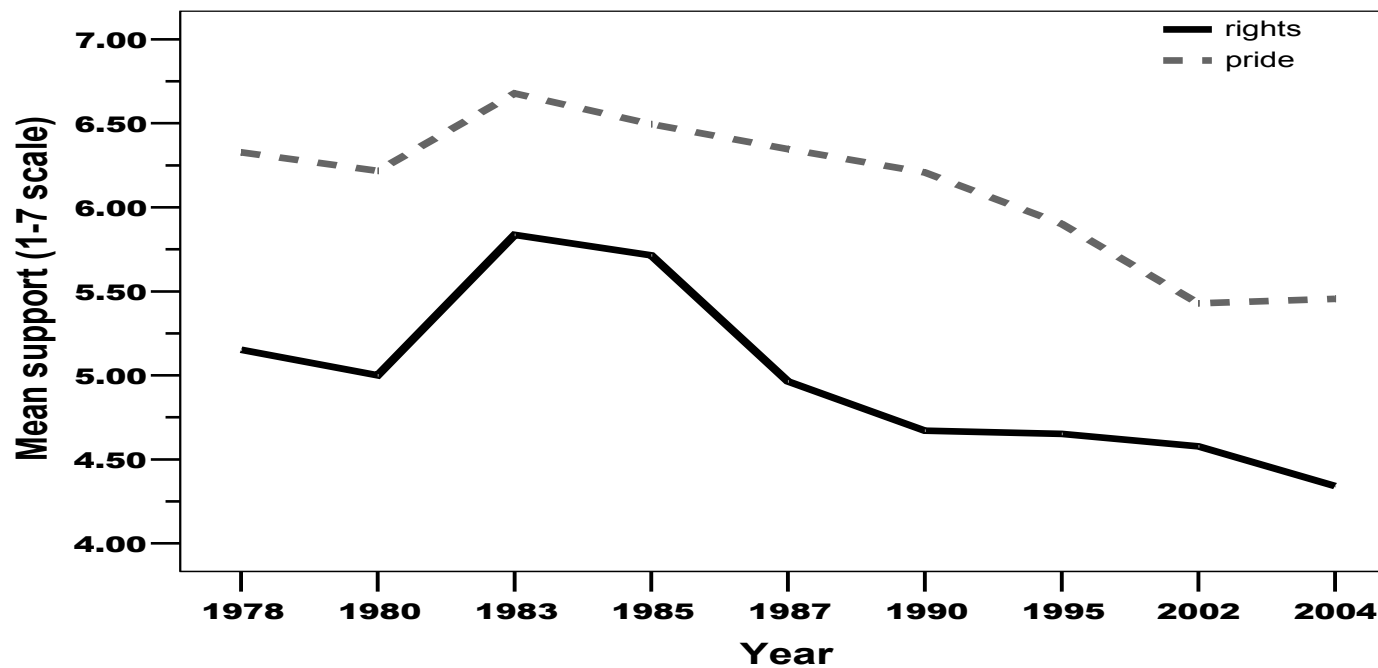
- CR is doing well in terms of living conditions that reflect earlier long-term investment (e.g. life expectancy)
- Yet not so well in terms of living conditions that reflect current social investment for the future
- In addition, families have still not recovered their purchasing capacity prior to the economic crisis of the 1980s

Political and Institutional Performance

- Costa Rica has had a competitive party system for more than a 100 years and a democratic regime only temporarily interrupted in 1948
- With limitations such as the banning of Marxist parties between 1950 and 1970, and the lack of unions and collective bargaining in the private sector

- CR remains as one of the, if not *the* most legitimate political systems in all of Latin America
- Yet, in the eyes of its citizens, there has been an erosion of that legitimacy

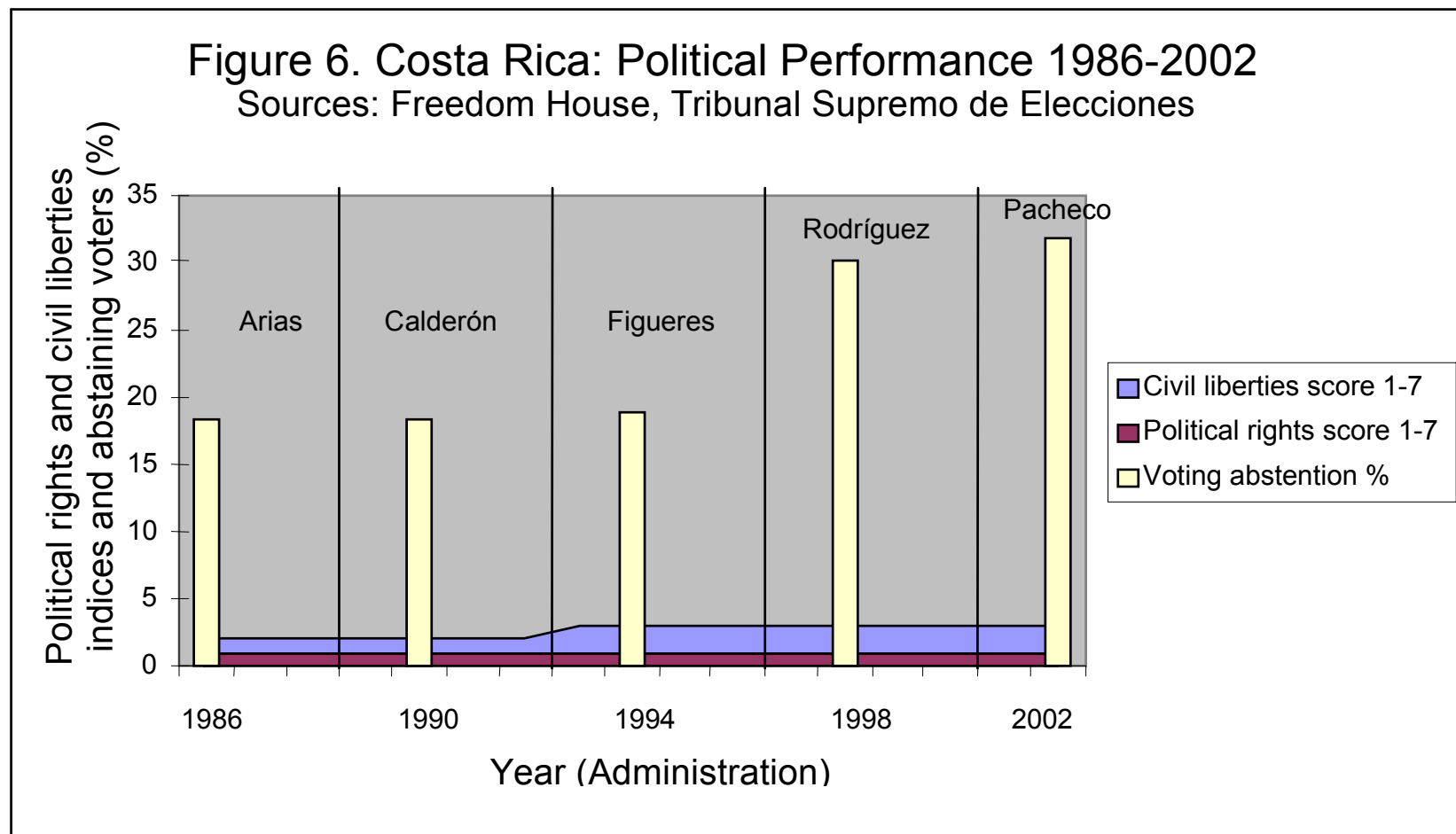
Figure 5. The Erosion of Political Legitimacy in Costa Rica, 1978-2004



Source: Latin American Public Opinion Project (LAPOP), Vanderbilt University

Cont. Political and Institutional Performance

Voting abstention indicates erosion of support to the political system



- Sir
- Co
- Gr
- pol
- Co
- an

And farewell to bipartisan politics!



Policy Regimes: Overview of the Costa Rica Case

- Mismatch between elites pro-neoliberal reforms and elites / citizens attached to welfare state institutions
- Discontent shown on the street (major roads were blocked and the country paralyzed 2000, 2004)
- The constant protest marches over the entry of CR into CAFTA (even troubles "super star" president Arias and so does the fiscal reform)



Cont. Political and Institutional Performance

- In short, whether we look at electoral turnout or social protests, the evidence suggests that Costa Rican democratic arrangements are becoming threadbare
- Yet, so far, democratic channels have proved more of coping with conflict in a peaceful manner



What has Changed...

- The payoff of the political bargain struck in the mid-80s seems to have come an end
- Costa Rican heterodoxy made the country socially, economically and politically successful over the past 20 years, based upon the coexistence – rather than actual hybridization – of two ideological projects
- These projects reflected in:
 - ✓ economic policy strongly influenced by a neoliberal project;
 - ✓ social policies entrenched in social-democratic ideals that carried over from the Golden Age; and,
 - ✓ the expansion of recognized civil, political and social rights – from gender equity to environmental issues
- Is the country to “align” policy by changing economic or social policy? That is the question!

Wrapping-up

- In 1987, social scientist Jorge Rovira claimed that the structural damage caused by the 1929 crisis was only resolved some twenty years later in 1948; we might be witnessing the resolution of the crisis of the 1980s
- Hopefully the research plan we have put together under the UNRISD research project will help:
 - ✓ Provide an interdisciplinary, multivariable analysis
 - ✓ Systematically compare periods (i.e., the Golden Age and the long transition)
 - ✓ Look at policy principles, tools and outcomes (or as Hall would put it, 1st, 2nd and 3rd order changes)

Wrapping-up

- The Costa Rican style approach to structural reforms that made the country successful over the pasts 20 years may be coming to an end
- The never fully compatible coexistence of protectionist social policy with neoliberal economic policy along with expanded civil, political and social rights may have reached their limits
- It is no longer clear if the formerly highly successful Costa Rican model will survive in its present form
- The research plan we have put together will help to fill in the gaps of current voids in the interactions between social, economic and political factors

Thanks

