EXPLORING THE IMPACT OF NEOLIBERAL ECONOMIC DEVELOPMENT ON POVERTY IN COSTA RICA: *WHAT WENT WRONG*?

by

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Neoliberal economic development has in many ways hindered poverty reduction in Latin America. Costa Rica is a prime example of this. As one of the least poor countries in the region, Costa Rica might be seen as evidence of the success of neoliberal economic development. However, such a perception is generally misleading. In Costa Rica, neoliberal economic policies leave many people poor through uneven growth. In fact, the most significant neoliberal economic reforms in this country are on balance aggravating poverty levels. Ultimately, however, in its attempts to reduce poverty in an atmosphere of increasing neoliberal globalization, Costa Rica should continue to liberalize select aspects of its economy while strengthening social services for the poor and vulnerable. At the same time, the state should try to link these disadvantaged people into fruitful niches of the international and domestic economies while simultaneously increasing their social and political participation in development. Ultimately, in order for economic development to complement poverty reduction, the state, as a democratic entity, should have more rather than less control over the economy than is currently the case.

For the people of Costa Rica

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I. Introduction

Many people believe that neoliberal globalization[1] will lead to prosperity. In Latin America, neoliberal economic reform,[2] the impetus of this current form of globalization, has included trade and financial liberalization, industry deregulation, privatization, elimination of barriers to foreign investment and a general weakening of the state's control over the economy. Perhaps of all its components, free trade is the most debated and central part of this reform. Proponents of free trade argue that less industrialized economies will benefit from free trade agreements (FTAs), since their interaction with stronger economies will introduce capital which will increase their exports, in turn benefiting future economic development (Instituto del Tercer Mundo, 2002b: 149). However, free trade and neoliberal economic development in general is in many ways not sustainable environmentally, culturally or socially. In this thesis, I will examine how the neoliberal economic model affects poverty in Latin America in general and Costa Rica in particular.

The implementation of the neoliberal model began in Latin America primarily in the early 1980s[3] because of the economic debt incurred by the previous economic model of Import Substitution Industrialization (ISI). Under ISI, Latin American countries tried to promote and expand domestic industries by imposing tariffs or quotas to protect them

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[1] In this thesis, neoliberal globalization refers to the current paradigm of globalization. Other paradigms could exist, however, leading to different outcomes given the right circumstances. A more populist form of globalization, for example, while generating less wealth concentration, may lead to less exploitation of human and natural resources.

[2] In this thesis, the phrase neoliberal reform is used in a primarily economic sense where the word reform refers to the fact that there was once another form of development that the current model replaced. In Latin America, this old form of development would be Import Substitution Industrialization. The term neoliberal development is used in a similar manner, but without the implied reference to an earlier form of development. Neoliberal globalization on the other hand, refers a much larger process with economic, political, social, cultural and environmental implications.

[3] Chile actually began implementing the new model in the 1970s under the Pinochet regime.

from imports, at least initially. However, Latin America had to import capital goods in order to upgrade these industries. Unfortunately, the steep prices for these imports generally induced heavy borrowing and debt. The debt worsened with the decline in world prices for Latin American agricultural exports and the 1979 increase in oil prices, leading to the Latin American debt crisis of the early 1980s. As a way out of debt, international monetary lending agencies promised economic aid in return for implementing their prescribed neoliberal reforms. However, these reforms have since failed to live up to the economic expectations of their creators and followers.

Originally, the neoliberal economic model followed the "Washington Consensus" on development policy and was adopted by the International Monetary Fund (IMF), the World Bank, and many important U.S. agencies. Named after its association with international financial organizations located in the U.S. capitol, the Consensus always included fiscal discipline, taking steps against inflation, opening up economies to foreign trade and investment, reducing the role of the government in general, and promoting new exports (Skidmore and Smith, 2005: 59). As complementary to these goals, the Consensus also advocated tax reform including cutting marginal tax rates (reducing taxes for the rich), creating a unified and competitive exchange rate, and securing property rights (particularly for foreigners in developing countries) (Todaro and Smith, 2006: 538). Any country that implemented all of these goals into their development strategy, was taking on neoliberal development in its most orthodox form. However, this orthodox policy made no mention of reducing inequality or the need to eliminate absolute poverty as a meaningful way to achieve development (Todaro and Smith, 2006: 548).

In the Americas, policy makers and politicians, who, since the early 1990s began to awaken to the fact that economic growth under neoliberal economic development did not always translate well into progress in the social sphere of development, adopted the New "Santiago"[4] Consensus as a more complete development model. While an important component of the New Consensus constitutes the government's responsibility to focus on poverty elimination, the general view is still one of market-based development with very limited government intervention (Todaro and Smith, 2006: 549).

As a result, the general view on neoliberal economic development has remained relatively orthodox with some reformist ideology. However, some wonder if a more radical reform of the orthodox neoliberal policy is in order, one that involves shifting power back to public bodies and away from actors of private enterprise in order to ensure more effective forms of social protection for the majority, particularly in terms of poverty. While the debate on neoliberal economic development is often polarized into a model that is considered either "good" or "bad," leading economists and social scientists who analyze the issue generally see shades of grey.

However, even these researchers have considerable disagreement. While regression models and the use of reform indexes are often used to support or refute various aspects of the neoliberal model, the results are always a product of the samples selected and the control variables used (Indart, 2004: 7). Throughout the world and in Latin America in particular, the data collected is often inconsistent and incomplete across countries, thereby complicating analysis. Even with the same numbers and indexes, researchers can still reach very different conclusions depending upon the type of

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[4] It policy makers named it the Santiago Consensus because of its adoption at the 1998 Summit of the Americas in Chile.

statistical analyses used.[5] Nevertheless, quantitative measures, if used in an appropriate manner, may still lead to important insights. However, since I intend to create an explanation of the relationship between neoliberal reform and levels of poverty that is accessible to a non-technical audience, I will limit myself to a simple analysis of quantifiable data. Furthermore, by analyzing variables for which only qualitative analysis is generally available, such as labor conditions and community autonomy, I will reveal insights inaccessible to mere econometric measures.

While the first chapter of this thesis is dedicated to analyzing the overall negative effects of the neoliberal economic model on poverty in Latin America, the rest of the thesis is devoted exclusively to the case study of Costa Rica. In chapter two, I begin my analysis of Costa Rica by examining the country's unique history within the context of Latin America as it relates to the onset of neoliberal reform. In chapter three, I study the possible positive and negative sources of impact on income that have resulted in an overall stagnation of poverty in Costa Rica, and conclude that on balance, neoliberal policies have held back overall poverty reduction through their promotion of unequal income distribution, loss of employment and changes in societal behavior. Chapter four then examines how neoliberal policies have created an overall unbalanced economy that deprives individuals of healthy long-term economic participation. Based on these findings it then suggests a more selective means of liberalization that is regulated by a more powerful state, a state that in turn empowers its people to guide development at both the local and national levels in order to reduce poverty. In light of these conclusions

[5] See, for example, Huber and Solt (2004) and Walton (2004) in *Latin American Research Review*.

and the country’s short-term prospects, I conclude the thesis in chapter five by reminiscing on what the future might hold for Costa Rica in an international context.

II. Neoliberalism and Poverty in Latin America

How neoliberal reform affects poverty in Latin America, or anywhere else in the world ultimately depends on how one both defines and measures poverty. Furthermore, in order to understand why this relationship developed in the first place, the reader must first understand neoliberal economic theory. In light of these two needs, I expand upon poverty and neoliberal economic theory respectively in the next two sections of this chapter before developing my argument in the third section that neoliberal economic development has in many ways hindered poverty reduction in Latin America. Finally, I end the chapter by narrowing down my focus to the impact of neoliberal economic development of poverty in Costa Rica in preparation for the remainder of the thesis.

What is Poverty and How is it Measured?

In this thesis, I am concerned with how the neoliberal economic reforms have affected levels of poverty in Latin America in general and Costa Rica in particular, where I define poverty as a lack of satisfying the basic physiological needs of individuals.[6] One way to measure this poverty is to measure direct indicators of health such as hunger level, access to clean water, lifespan, and the presence of diseases. Nevertheless, I will primarily examine the nexus of neoliberalism and poverty as measured by income since an analysis of money not only refers to the end state of poverty, but can also be used as a way to help trace the causes of the condition in the first place. Even so, it is pertinent to reveal that even income has limited utility since one person's poverty level as defined by a set income, is not necessarily the same as somebody else's poverty level at that same

[6] Physiological needs refer to physical health based needs that are necessary in order to enjoy a healthy life. These needs include adequate food, clean water, and freedom from sickness.

level of income. Indeed, Nobel economics laureate Amartya Sen identifies five causes of such disparity. They are outlined below (1999: 70-71):

Personal heterogeneities: Everybody is different. Two people with the same income may vary in their personal health, abilities, age or gender. Hence, an older person with an illness may need more money than a young healthy person would.

Environmental diversities: Geographic settings have influence on what people get out of a certain level of income. People who live in a climate prone to natural disaster, for example, will need more aid—monetary or otherwise—to compensate for those disasters.

Variations in social climate: factors such as educational and healthcare arrangements, crime and violence as well as social capital formation in a particular community have an impact on the conversion of income into physiological wellbeing.

Differences in relational perspective: the income level required for a set level of physiological wellbeing in different communities depends in part on established patterns of behavior.

Distribution within the family: Families tend to share their incomes among members. How members decide to utilize this income affects the individual members in various ways.

While an in-depth analysis of these causes for disparity between income and poverty is beyond the scope of this thesis, it is nevertheless important to keep these factors in mind as areas of further research for a more precise study of the topic at hand. While some of these sources of disparity are endogenous in nature, such as age, they are factors for which we can and should nevertheless compensate when searching for ways to reduce poverty.

Neoliberal Theory in Latin America

Neoliberal theory holds that a market-led economy is necessarily better than a government-led economy in terms of development in general and poverty alleviation in particular, but the concept is both incomplete and partially flawed. The concept rides on the relatively simple notion of efficiency. Neoliberal theory holds that markets can more efficiently distribute capital, goods, and services, throughout the world than governments can. The driving force behind this is competition. Due to this competition, corporations search the world for cheap, efficient labor, offering employment to those people who would otherwise be worse off economically. They also provide potential for countries to raise the output of their exports, thereby allowing for an increase in gross domestic product (GDP)[7]. For these reasons, proponents of neoliberal reform recommend reducing barriers to foreign investment, especially foreign direct investment (FDI). This can be achieved by liberalizing the financial system of a government through the reduction of taxation on foreign companies, among other means.

Simultaneously, while employing the poor, the cheaper labor mentioned in the previous paragraph translates into cheaper prices for consumers. In order to further reduce prices for consumers, neoliberal supporters such as the United States and the World Trade Organization (WTO) have strongly lobbied for and succeeded to a considerable extent in reducing trade barriers (such as tariffs) throughout the world. Finally, by advocating the privatization of state-owned enterprises and by encouraging states to give markets (the private sector) more influence within particular industries

[7] According to Todaro and Smith (2006), gross domestic product is the output of goods and services produced by the country's economy within the country's territory, in monetary terms by residents and non-residents alike.

(deregulation), neoliberal proponents hope to continue this process of efficient economic development that in theory should benefit everybody including the poor.

Perhaps the greatest expectation for neoliberalism in Latin America is that greater competition and trade will increase international demand for Latin American products through comparative advantage. In other words, Latin American economies, under the invisible hand of the market, would find competitive market niches that would allow for greater income through increased exports. This would simultaneously increase the need for employment. Further, transnational corporations would be able to provide the technical and managerial know-how to create more efficient and profitable business for everybody (Kirby, 2003: 57).

Is Neoliberal Economic Development Helping the Poor Economically?

At first glance, it might appear that neoliberal reform has worked out well for Latin America in terms of decreasing poverty. GDP growth increased overall from the 1980s to the 1990s from 1.2 percent to 3.3 percent (ECLAC, 2002: 32) while exports grew by an average of 8.9 percent per year, the fastest in the region's history (Kirby, 2003: 65). Meanwhile income-based poverty[8] per household decreased from 48.3 percent in 1990 to 44.0 percent in 2002 (ECLAC, 2004b: 63). Along with this, the proportion of people living on insufficient food has declined from 13 percent (1990-1992) to 10 percent (2000-2002) (United Nations, 2005: 7) while life expectancy at birth has slowly increased (ECLAC, 2004a: 76).

[8] ECLAC determines the poverty line at incomes amounting to less than twice the cost of a basic food basket. Likewise, the extreme poverty line is determined to be at incomes at less the cost of a basic food basket. Unlike the World Bank's measure of poverty at $1 dollar a day for extreme poverty and $2 dollars a day for (normal) poverty, ECLAC's measure is personalized to each country's purchasing power and therefore reflects a generally higher and more accurate picture of income-based poverty in Latin America and throughout the world.

However, on closer inspection, these feats are not as great as they might seem. On the economic front GDP growth has not recovered to its originally high levels of over five percent in each of the three decades from 1950 to 1980 (ECLAC, 2002: 32) and from 2000-2004[9] the GDP growth dropped to an average of only 2.6 percent. Furthermore, throughout the whole period from 1990 to 2004, growth was extremely volatile from year to year ranging from -0.6 percent to 5.5 percent. This volatility is due in part to the fragility of the region's financial systems as they increasingly integrate into the world economy. Such examples as the Mexican crash at the end of 1994 and Argentina's 2002 economic implosion stand out as stark examples.[10]

Meanwhile, while the percentage of households[11] in income-based poverty appeared to have declined overall since 1990, more recent trends from 1997 into the new millennium have shown a general stagnation in percentages of poverty, if not an increase (ECLAC, 2004b: 63). According to Kirby, poverty was worse at the turn of the century than it had been in 1980 (2003: 109).[12] Likewise, as the population of Latin America has grown, the absolute number of people in poverty has continued to increase. While Latin

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[9] The figure from 2004 is based on a preliminary estimation.

[10] The Mexican peso crisis was caused by artificially rising prices creating a strong investment climate and euphoria. This was followed by a period of distress due to the insecurity brought about by the indigenous Zapatista movement and democratic uncertainty among other factors. This caused a contagious panic where everybody pulled out his or her investment thereby creating a balance of payment crisis where more money was lost than gained and where the bank ran out of money. This forced Mexico to devalue the peso. In Argentina, the economy collapsed under the weight of rising internal fiscal and external trade deficits that were caused in part by linking the peso to the dollar (Todaro and Smith, 2006: 129, 690).

[11] The percentage of the actual population in poverty tends to run at about 7-8 percent above household rates, but both increase and decrease at about the same rate.

[12] Kirby's assertion should be taken with caution since ECLAC warns that changes in the sampling of household surveys since 1980 could have significant impact on the number of people reported to be in poverty (ECLAC, 2004a: 119).

America contained 200.2 million people below the poverty line in 1990, that number increased to 221.4 million by 2002 (ECLAC, 2004a: 56).

Latin America has not faired well in terms of levels of income inequality either. Throughout the 1990s and into the new century, the region has maintained the distinction of being the area with the highest levels of inequality in the world. In every country except Uruguay, the richest 10 percent of the population receives over 30 percent of the income. At the other end of the spectrum, the bottom 40 percent receives 9 to 16 percent of the income in all countries except Uruguay where they receive 22 percent (ECLAC, 2004b: 339-40). Although there have been issues in being able to collect enough accurate data to be certain, it appears inequality in the region increased as a whole during the 1990s under neoliberal policies (Morley, 2004: 94-99).

This is unfortunate since income inequality often leads to economic inefficiency and adverse social consequences such as increases in poverty. Indeed, the rich tend to spend money on luxury goods from other countries and keep their money in those countries (capital flight), which drains a nation's productive resources. Had the money stayed in the country, it could have benefited the local economy. Even within the nation, inequality leads to inefficient allocation of assets. For example, the rich are more likely to support private schools and university education at the expense of quality universal primary or secondary education (Todaro and Smith, 2006: 207-209). Indeed, there is a tendency to support one's own social networks at the expense of the marginalized. In positions of power, this can lead to corruption.

Ultimately, in Latin America, the high and growing inequality reflects concentrated ownership of human capital,[13] the relative scarcity of skilled labor, and the limited presence of skill intensive growth[14] (Morley, 2004: 114). It also reflects the fact that most jobs are being created in low-wage, low-productivity sectors characterized by insecure conditions of employment. Indeed, ECLAC estimates that the informal sector[15] generates 7 out of 10 new non-agricultural jobs in the region, primarily micro enterprises and independent workers. In addition, while wages increased throughout the 1990s, only in 2000 did they finally surpass the 1980 levels (Alarcón and Zepeda, 2004: 170). To further compound things, unemployment showed a general increase from 5.7 percent in 1991 to 8.5 percent in 2000. While one can blame the increase in the size of the working age population, such demographic growth has always been present in Latin America and is now starting to show signs of slowing down (ECLAC, 2004b: 71-72). Such trends in the labor market have lead to increased social vulnerability. According to ECLAC, "in the 1990s…social vulnerability took its place alongside poverty as a dominant feature in the lives of vast segments of the population including the middle income strata who, in the previous development stage, had come to symbolize upward social mobility" (2000: 49-50).

Furthermore, within the context of the opening up of China and other Asian countries to international trade, the comparative advantages of unskilled labor in Latin

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[13] Concentrated ownership of human capital reflects the idea that knowledge through advanced education (primarily formal), such as from a university, is only attained by a rather small sector of the population.

[14] Skill intensive growth refers to economic growth based on the utilization of individuals with skills that require some form of advanced education.

[15] The informal sector, also known as the informal economy covers a range of economic activities including self-employed workers, domestic services, microenterprises, and unpaid workers in family enterprises. The informal economy tends to pay lower wages than the formal economy and does not necessarily adhere to minimum wages.

America continue to decline. To compensate for this unfortunate effect of liberalization, countries are forced to rely more on the advantages of their natural resources (if they have these) to turn out profits (Altimir, 2004: 135). However, while this may increase GDP, it also continues to exploit workers.

Given this bleak outlook, one may very well ask how direct indicators of poverty such as a decline in hunger and less direct indicators such as increased lifespan have come to unfold. The biggest factor involved was probably an increase in social spending during the 1990s. As ECLAC makes clear in its 2001 *Social Panorama of Latin America*:

> The greater effort made by Latin American countries to allocate more public resources to social sectors in the 1990s resulted in a sizeable increase (around 50%) in per capita social spending. Although much of this rise was due to the reactivation of economic growth, especially during the first half of the decade, it is significant that around two fifths of it stemmed from the reallocation of public revenues for social purposes and a smaller part, around one fifth, from increased resources for the public budget. As a result, the percentage of gross domestic product (GDP) devoted to social sectors climbed from 10.4% to 13.1% (116).

While increased social spending (not a part of the neoliberal model) has helped the poor, it is only one method of doing so and must be complemented with a more complete economic and social development scheme to be truly helpful in the long run. If not, Latin America would inevitably fall into unsustainable debt, perhaps similar in size to the one neoliberal structural adjustment and international loans helped to alleviate in the 1980s.

Although neoliberal reform has helped reduce national debt (particularly external debt), it has, on balance, increased the debt of individual citizens by helping to create a culture of consumerism. Although neoliberal reform helps connect countries with each other by increasing the rate at which they import and export culture, knowledge, goods and services, these resources are very unevenly distributed across the population creating a sense of relative disparity both on a national and international level, especially in urban areas. Due to marketing and advertising, people want what they cannot afford in order to fit in with what is perceived to be a socially superior class, a class that is associated with increased power and happiness. One result, especially in light of credit-card citizenship,[16] is debt, which in turn leads to an increased risk of poverty. Unfortunately, the money which was spent will very often line the coffers of multinational corporations rather than staying inside the country. This in turn aggravates inequality and poverty in the region.

A culture of consumerism in a region of inequality has probably also increased the crime rate in the region. However, crime, whether or not it is in order to simply stay out of poverty, has a myriad of negative consequences. For example, it may demoralize the labor force, cause corruption and produce fear among business owners, and help create economic instability, which in turn can hurt economic growth and the potential for greater poverty alleviation.

Perhaps one of the most well known implementations of neoliberal reform in Latin America is that of the North American Free Trade Agreement (NAFTA) between Mexico and the U.S. and Canada. Put into effect in 1994, NAFTA has been a general disappointment in terms of poverty alleviation. Mexican agriculture provides the best example that simply creating market access to the U.S. economy will not automatically advance major development goals, but instead may actually work against them. While access to the U.S. market for Mexican fruits and vegetables led to a 50 percent growth in the horticultural sector under NAFTA, it came at the heavier cost of the country losing its national markets to cheap imports, most notably corn. As a result, a very few number of

[16] The term credit-card citizenship refers to belonging to a society in which the individual in essence buys their identity and acceptance within a society (social status) by living off credit.

large farmers have benefited from the export of fruit and vegetables while grain imports have devastated thousands of farmers throughout the country. In fact, nearly two million farmers have left the land since the start of NAFTA, but few have found other quality employment, leaving 18 million living on less than two dollars a day (Carlsen, 2005: 2). In a society where many of the poor aspire to the lifestyle of the rich it would not be surprising to find more than a few of these impoverished ex-farmers trying to spend beyond their means and turning to crime in frustration.

Sobering as this analysis may be, neoliberal reforms have not been completely negative in a relative sense. Indeed, while countries with aggressive reforms and with a relatively high growth rates may not necessarily lead to reduced poverty and inequality, blocked reformers with poor growth (such as Venezuela, Paraguay and Ecuador) have only increased their poverty and inequality (Kirby, 2003: 123). This supports the conclusion that while neoliberal development may not on balance be very helpful in alleviating poverty, there nevertheless exists aspects to this form of development that do have positive effects. Even so, what are ultimately needed are pro-poor and pro-vulnerable growth strategies of development that reduce inequality.

Neoliberalism in Costa Rica

The discrimination inherent in neoliberalism which results in inequality and sustained poverty is primarily a systemic problem which takes on a life of its own, but is fueled by the needs and desire of individuals and the actions or omission of the state and international agencies. Despite the negative consequences of neoliberalism in terms of poverty alleviation, various aspects of this economic development scheme may still be beneficial in a broader developmental context that includes strategic social spending, transparency and efficient organization among and between public institutions, private enterprises, international agencies, non-governmental organizations and ordinary citizens. However, there is no one solution to alleviating poverty. What works in one country or community may not work in another due to local realities, something orthodox neoliberal policy fails to understand.

In the following chapters, I will examine the effect of neoliberal economic development on poverty in Costa Rica. As one of the least poor countries in Latin America, Costa Rica might be seen as evidence of the success of neoliberal economic development. However, such a perception is, on balance, misleading. In Costa Rica, neoliberal economic policies leave many people poor through uneven growth. Ultimately, however, in its attempts to reduce poverty in an atmosphere of increasing neoliberal globalization, Costa Rica should continue to liberalize select aspects of its economy while strengthening social services for the poor and vulnerable. At the same time, the state should try to link these disadvantaged people into fruitful niches of the international and domestic economies while simultaneously increasing their social and political participation in development. In the end, in order for economic development to complement poverty reduction, the state, as a democratic entity, should have more rather than less control over the economy.

III. <u>Exploring the Rise of Neoliberalism in a Country of Relatively Low Poverty</u>

In the Beginning…

At a quick glance, Costa Rica could be seen as a country that successfully implemented neoliberal reforms, not only because of its economic performance, but also because of its low poverty rate in Latin America. In 2002 for example, while the whole of Latin America had a 44 percent poverty rate, Costa Rica remained at less than half that average (ECLAC, 2004: 119). However, Costa Rica's relatively low level of poverty in the region is arguably due more to its unique historical heritage from before the neoliberal reforms.

To begin with, the country consists of an area demographically and economically unique since the beginning of colonization. Although called the "rich coast" in Spanish, Spain found the country of little economic significance. There were few Indians on the land and little if any gold to be found. Consequently, there was no wealthy oligarchy. During the nineteenth century, many family farms began cultivating coffee and exporting the crop to Europe. This economic activity created an unusually large middle class for the time (Skidmore and Smith, 2005: 371). However, we must not confuse the middle class of then with the middle class of now. There were no sources of employment except a small military and political administration. Instead, Costa Rica was a land of independent farmers, artisans and merchants. Consequently, each family worked hard for a livelihood, although sometimes with the mutual support that came with community solidarity (Desanti, 2003: 246-47).

Later, in the beginning of the twentieth century, the United Fruit Company began creating banana plantations in Costa Rica. However, because of the better pay associated with the small coffee plantations and the sparsely populated land, scarce labor was hard to find. Consequently, Nicaraguans and Jamaicans were brought over to fill the labor gap (Pérez, 2004: 32-33). Nonetheless, by 1925 only four percent of the population consisted of blacks, while about 80 percent of the population were white, 14 percent were mestizo and a meager one percent Indian (Skidmore and Smith, 2005: 371). Unlike other Central American countries, Costa Rica did not have an abundant labor force of Indians and other proletariat to tax, put in debt and ultimately exploit (Pérez, 2004: 32-33). Hence, from the beginning Costa Rica did not develop the severe social stratification that led most other Central and South American countries into a situation of extreme inequality and poverty.

The Boom between Crashes

However, Costa Rica like all the other Latin American exporters at the time was not immune to the crises of other countries. As a result, the stock market crash of 1929 created pay cuts among laborers, who then complemented their work with subsistence farming on their land, a luxury not available in more densely populated areas such as El Salvador (Pérez, 2004: 32-33). Nevertheless, this gave rise to social discontent and a progressive social security system and labor code were put in place in the 1940s and upheld and strengthened in the 1950s (Itzigsohn, 2000: 38). In 1948, Costa Rica abolished its army and levied new taxes. Throughout the 1950s, Costa Rica expanded its agricultural production and signed a new contract with the United Fruit Company that increased the state's share of the profits from 10 to 30 percent (Skidmore and Smith, 2005: 371).

By the 1960s, Costa Rica jumped onto the Latin American bandwagon and implemented Import Substitution Industrialization (ISI), an economic policy popular throughout the region from the 1950s through the 1970s. The concept of the ISI economy was to displace the production of imported goods with local goods in order for Latin American countries to respond to an increasing trade debt with Europe and the United States. In essence, the governments increased tariffs on particular goods in order to protect infant industries and attempted more regionalized trading. As a result of all this, Latin American governments played a strong role in the national economy.

In Costa Rica, the state played an especially large role. During the ISI years, the state grew in size and began employing large sections of the population. Between 1950 and 1973, public employment grew at an average yearly rate of 6.7 percent (Pérez, 2004: 37). This caused a massive urbanization movement, the growth of a large urban middle class and a considerable reduction in poverty. In fact, poverty dropped from 50 percent in 1960 to 19 percent in 1980. During the same years, the average years of schooling for the population of adults 25 years and older increased from 3.6 to 5.9 (Proyecto Estado de la Nación, 2004: 398). Relatively low inequality in wealth and income before ISI, and the large welfare state[17] during ISI, along with a culture of peace, liberty and democracy, helped make Costa Rica stand out from the rest of Latin America before the onset of neoliberalism.

However, the welfare state of Costa Rica and the rest of Latin America fell into a huge economic crisis at the beginning of the 1980s. The root of this problem lies in the ISI model, but exogenous world events made for a much more acute catastrophe. In essence, Latin American countries ended up relying on imported capital goods from industrialized nations in order to produce manufactured goods. However, the steep prices

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[17] The state's emphasis on a strong and affordable health care system, free and compulsory elementary education, and public employment are what make it stand out as a welfare state.

generally induced heavy borrowing and debt, as in the case of the Costa Rican state, and often severely limited production and job growth. The debt of Latin American countries increased as world prices for agricultural and other basic products steadily declined. Furthermore, the 1979 increase in oil prices exacerbated increasing deficits while the early 1980s saw the elimination of the Central American market as a destination for Costa Rican products (Itzigsohn, 2000: 52). In Costa Rica, as elsewhere, the informal urban economy began to grow as a result, creating a population vulnerable to the unfavorable conditions of the world economy.

As early as 1979, in response to the building crisis, a business sector of the Costa Rican National Association of Economic Promotion (ANFE)[18] supported a series of neoliberal reforms that the World Bank would endorse the following year. Their proposals included limiting the function of the state and its growth through such means as privatization, reducing tariffs, and the elimination of business taxes to promote foreign direct investment. However, disagreements between and within political parties and social sectors of society failed to establish any immediate agreement on if, and to what extent, these reforms should be implemented (Altmann, 1998: 131-132). However, as the debt crisis worsened and interest rates rose for international borrowing at the beginning of the 1980s, Costa Rica came to enough of a political consensus to yield to the will of international monetary lending agencies and follow their prescribed structural adjustment programs in return for promised debt relief. Thus began neoliberalism in earnest.

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[18] In Spanish: *Asociación Nacional de Fomento Económico*

The Recovery and Ensuing Neoliberal Policies

In 1985, Costa Rica signed its first of two structural adjustment loans with the World Bank. (Trejos, 1999: 25). One of the main concepts behind these loans was to restructure the economy by lowering protection for local industries, reduce subsidies for agricultural products, and further promote exports beyond the Central American market, especially the United States. In a gradual fashion, Costa Rica implemented these ideas. The government imposed new policies to more deeply insert itself into the world economy by promoting new sectors of growth of goods and services that it could use to sell to developed nations. These sectors of growth began with nontraditional agriculture exports, expanded to tourism and assembly manufacturing (maquilas), and later included the high technology industry (Itzigsohn, 2000: 52).

Export Free Zones or just Free Zones (FZs) were one of the tools the Costa Rican government created in order to develop these areas of growth. In particular, FZs offer duty-free imports, and a variety of tax exemptions, most importantly for profits. In response to the initial failure of FZs, legislation was enhanced, allowing for private operators in 1984 and in 1990 to include service provisions as well, thereby increasing foreign autonomy and the types of transnational businesses allowed in the zones respectively. These significant changes in turn brought increased investment in the zones and through investment, success. Ultimately, FZs have provided incentives for transnational corporations to bring their businesses to the country and foster export led growth (Paus, 2005: 140). One of the major results has been that these businesses have provided new types of jobs for Costa Ricans. Large national companies have also been able to take advantage of the new markets. By diversifying its markets and products, Costa Rica has created a more stable economic base than it would have otherwise (under the export growth model). In addition, by reducing subsidies for the agricultural industry, the government has lessened its expenditures in the face of public debt. At the same time, lowering protectionist tariffs for local industries has allowed consumers to purchase products, especially agricultural products, at lower international prices.

Also, during the 1980s, the state was able to continue pursing its welfare policies, although to a somewhat limited extent, primarily because of U.S. foreign aid, part of which was in the form of geopolitical rent.[19] However, the Reagan administration, in power during this time, also wanted to showcase Costa Rica as a country that thrived with an increasing capitalistic and liberalizing market economy, and therefore spared the country the worst of the structural adjustments in order to achieve this image. Nevertheless, the money was subject to several conditions, namely: privatization of public companies, the deregulation of the banking system, and the creation of institutions that paralleled state functions. With the defeat of the Sandinistas, U.S. aid dried up in 1990 (Itzigsohn, 2000: 54). This was unfortunate in terms of funding for social policies, but at least by that time Costa Rica had worked its way out of a massive external debt.

Initially, a large portion of the aid, which totaled 3.15 percent of Costa Rica's GDP between 1982 and 1990, was used for balance of payments support[20] which enabled Costa Rica to come out of the recession earlier than most other Latin American countries. The U.S. later financed the growth of the private banking sector in the late 1980s.

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[19] Costa Rica allowed the United States to use its land as a staging ground against the Sandinistas in Nicaragua. This was likely part of the reason the U.S. favored Costa Rica with money.

[20] A country's balance of payments shows its financial transactions with the outside world. When a country is in a lot of debt to the outside world, it often accepts aid to reduce that debt, thereby supporting a healthier balance of payments.

Additional aid was used to create new institutions, perhaps most importantly the Costa Rican Coalition for Development Initiatives (CINDE),[21] in charge of attracting foreign direct investment (FDI). The U.S. also established the Ministry of Exports in 1986 and covered its costs for the first three years of operation. The fact that the U.S. was the brainchild behind CINDE (and other institutions) is particularly relevant here because as Paus explains, "building CINDE outside the existing structure of government institutions allowed continuation of policy direction irrespective of the government in power, which constitutes a major challenge for FDI-led development in Costa Rica in the early twenty-first century" (2005: 142). Indeed, the export-led growth model imposed upon and taken up by Costa Rica through a large increase in FDI has benefited the wealthy while ignoring vast segments of the population, thereby increasing inequality while sustaining poverty as we shall see later.

While institutions supporting FDI development sprang up, those that supported smaller scale development of small and medium businesses with more of a local focus disappeared. In particular, this began with the government privatization of the Costa Rican Development Corporation (CODESA)[22] in 1990. CODESA was established in 1972 and expanded the role of government from regulator to producer (Paus, 2005: 138). Its purpose was to create a more diversified economy and more aggressive business class. However, faced with the failure of many of these businesses and the ideological onset of neoliberalism, it never stood a chance of revitalization. In this way, the participation of the state was reduced. The government favored the reduction of the fiscal deficit through

[21] In Spanish: *Coalición Costarricense de Iniciativas para el Desarrollo*

[22] In Spanish: *Corporación Costarricense de Desarrollo Sociedad Anónima*

the selling of public enterprises, but at the cost of public investment. Consequently, cash strapping the government has hindered the effectiveness of social services (Fallas, 2005: 298). Nevertheless, the new economic strategy, with the blessing of a strong enough world economy at the time (except for a recession in 1991, which temporarily increased poverty [Sauma, 2004: 5]) created enough economic growth and employment opportunities to lower the poverty levels to 20 percent by 1994 (Fallas, 2005: 299). Since the mid 1990's, however, the neoliberal economic model as implemented in Costa Rica[23] has shown signs of exhaustion and ineffectiveness.

Ultimately, the United States and other international lending agencies led and coerced Costa Rica into implementing neoliberal policies during the 1980s. However, with reduced aid from the U.S. and the creation of a dynamic export led growth model divorced from vast segments of a stagnating economy, the result has been an increase in inequality and stagnation in poverty levels in recent years.[24] Since the 1990s this issue has remained at the forefront of politics in Costa Rica, which has, at least in part, lead to the creation of an unhealthy mix of political reshuffling and legislative bottlenecks as politicians struggle to find the best way to solve this multifaceted problem, a problem that has only been further compounded with a culture of consumerism also of neoliberal economic origin.

[23] By 1995, Costa Rica had implemented neoliberal policies (as dictated by the Washington Consensus) to about the same extend as the average Latin American country as measured by reform indexes for key areas of implementation (Paus, 2005: 140).

[24] In Costa Rica, the National Institute of Statistics and Census (INEC), the original source of all income-based poverty levels cited in this thesis unless stated otherwise, defines the poverty line as based on a basic food basket (an established list of staple foods considered the minimum necessary for a families survival) and the cost of some non-food necessities. Households whose income falls at or below the cost of the basic food basket are considered to be in extreme poverty. The poverty line for rural areas is lower than that of urban areas based on differences in lifestyle. Note also that the percentages cited for poverty are based on households, rather than individuals or families, unless otherwise explicitly stated.

IV. Why Poverty is Stagnating: A Look at the Winners and Losers of the Neoliberal Economic Model in Costa Rica

In Costa Rica, since 1994, poverty has stagnated at around 20 percent of households with the percentage of people in rural poverty higher than the percentage of people in urban poverty (Proyecto Estado de la Nación, 2004: 408-09). In 2005, the last year for which data is available, 21.2 percent of Costa Ricans households were in poverty[25] including 5.6 percent in extreme poverty (INEC, 2005b: 2). Given these statistics, it is natural to ask why poverty has not decreased.

Many Costa Ricans blame immigrants, particularly Nicaraguans, as one of the reasons for stagnating poverty levels. Between 1984 and 2000, the number of residents of Nicaraguan origin increased from 1.9 percent to 5.9 percent of the national population[26] (Proyecto Estado de la Nación, 2004: 76). According to popular belief and initial intuition, one might assume that almost all immigrating Nicaraguans are poor and searching for a better life. After all, Nicaragua has one of the highest poverty rates in all of Latin America while Costa Rica has one of the lowest. However, the average Nicaraguan immigrant has one more year of schooling than the average Nicaraguan and two years less than the average Costa Rican (Vargas, 2004: 6). Not too surprisingly then, the percentage of Nicaraguan heads of households in condition of poverty only averaged six percent higher than the Costa Rican born average between 1997 and 2003 (Vargas, 2004: 9). Given the relatively small numbers of Nicaraguan immigrants who enter the country per year relative to the size of the population at large, and given that the

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[25] Includes extreme poverty

[26] During this same period, the overall percentage of foreigners grew from 3.7 percent to 7.8 percent.

difference in poverty level between the different nationalities is not that extreme, the impact of Nicaraguan immigration on poverty in Costa Rica is almost negligible.[27]

Another factor that needs to be analyzed is minimum wage, especially in comparison with the cost of the basic food basket. From 1995 to 1999, both of these rose (at a similar pace) faster than the rate of inflation. Then from 1999 to 2003, minimum wage stagnated while the cost of the basic food basket decreased slightly (relative to inflation) (Proyecto Estado de la Nación, 2004: 167). However, poverty did not appear to be especially sensitive to these changes. Other factors then must be contradicting such trends.

Perhaps demographics can help explain things. Shifting demographics have also been hypothesized as contributing significantly to the stagnation in poverty, especially since the proportion of older Costa Ricans has been increasing relative to the population as a whole due to lowering fertility rates.[28] However, Costa Rican social scientists Jorge Barquero and Juan Diego Trejos have ruled out the possibility of demographics being the cause of increased poverty because the increase in the proportion of the older population is offset by decreases in the percentage of households that are in stages of the household lifecycle where poverty is greatest, especially the expansion stage[29] (Barquero and Trejos, 2005). What then is causing this stagnation in poverty? Is it changes in education

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[27] If we were to assume that from 1994 to 2005, the same percentage of immigrants came in per year as between 1984 and 2000, and that the average difference in poverty between Nicaraguans and Costa Ricans was 6 percent from 1994 to 2005, just as the head of households were from 1997 to 2003 (and if we ignore the immigrant population from countries besides Nicaragua), then we can conclude that Nicaraguan immigration contributed to about a 0.17 percent increase in poverty from 1994 to 2005. (0.06x0.25=0.0150 and 0.0150x11 years=0.17).

[28] The fertility rate has gone down for the poor and non-poor alike.

[29] The expansion stage refers the part of the household lifecycle when the number of children in the household increases due to their births.

or social spending? How about the economy? While many factors are at play and not everything can be accounted for down to a science, I nevertheless build a case that the most significant neoliberal reforms in Costa Rica on balance are not alleviating poverty levels, if anything, they are aggravating them.

Skewed Growth

In 1990, Costa Rica made a strong commitment to integrate itself into the world economy by joining the General Agreement on Tariffs and Trade (GATT).[30] Since then, the government has signed several Free Trade Agreements with countries such as Mexico, Canada and the Dominican Republic thereby expanding trade. In general, the neoliberal model has promoted considerable economic growth for Costa Rica. Distancing ourselves a little from the crisis of the early 1980s, we see that the average yearly growth of gross domestic product (GDP) was a solid 4.3% between 1994 and 2003, higher than the average for Latin America (Proyecto Estado de la Nación, 2004: 158). In October 2005 *The Tico Times*, reported that Costa Rica was the number one exporter per capita in Latin America (Kimitch, 2005b: 4). However, such a superficial look at the country tells us little about the well-being of its people.

Taking a closer look, we see that the average rate of real growth of gross domestic product per person was a meager 1.9 percent between 1993 and 2002 (Proyecto Estado de la Nación, 2004: 152). This offers us our first evidence of an economy with uneven growth, growth that does not easily reach the pocketbooks of the nation's people.

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[30] In 1995, GATT became known as the World Trade Organization.

However, averages are deceptive. According to the gini coefficient,[31] Costa Rica's inequality steadily increased (with stagnation in the last couple of years) from .374 in 1990 to .425 in 2003 (Proyecto Estado de la Nación, 2004: 409). Not surprisingly then, we see that in 1990 the richest fifth of the population had 8.35 times greater income than the poorest fifth of the population and that by 2002, this disparity had increased to 11.59 times more income among the richest fifth as compared to the poorest fifth (Proyecto Estado de la Nación, 2004: 98). If we had a measure for wealth (a person's net worth), we would probably find that inequality to be much more severe. Obviously then, some Costa Ricans are not benefiting as much as others from the new opening up of the economy, or perhaps not at all.

The Upper Class versus a Slipping Middle Class

During ISI, new social groups in combination with the government took on the tasks of starting businesses, especially in manufacturing and expanding production and employment. However, in the present era of neoliberal economic policies, those who are already wealthy are the ones who have the means to commit themselves to the main two new economically lucrative areas of business: private financial activities (especially in tourism where one can invest in hotels and the service economy) and the exportation of non-traditional products. These individuals are consolidating among themselves and with foreign investors to reap great economic benefits from the country (Villasuso, 2003, 336). Their lifestyle entails the luxuries of gated communities, private clubs, and expensive private education for their children.

[31] The gini coefficient is an aggregate numerical measure of income inequality which varies between 0 (perfect equality) and 1 (perfect inequality). This means the higher the coefficient, the greater the inequality in the income distribution; likewise, the lower the value, the more equitable the distribution.

Meanwhile, large segments of the middle class, especially farmers and small and medium sized business owners, are increasingly unable to sell their products or services within the national market because of outside competition through economically more efficient large businesses within the country and because of cheaper imports. At the same time, these same individuals are not able to sufficiently link up with larger export businesses to become profitable on the world market. Probably partly as a result of this, the country has seen a rapid increase in the number of university students trying to become professionals. To take meet demand, unregulated private universities have sprung up and granted overvalued professional titles such as lawyer or dentist. As the labor market for these positions becomes saturated, the result will increasingly be underemployment. Furthermore, the state, which once employed a large portion of professionals, is also decreasing in relative size (Villasuso, 2003: 332).

The Loss of the Traditional Farmer and an Ensuing Culture of Poverty

As alluded to earlier, the groups that have been forced out of business and in some cases into poverty include the small and medium sized farmers who have traditionally provided rice, beans, sugar, meat and other basic agricultural products to an internal (national) market. In light of reduced state support and falling tariff rates for imports, these farmers have become susceptible to international competition to feed the domestic market, especially cheaper U.S. imports (thanks to subsidies) (Vargas, 2003: 276). This is part of a larger trend in which the average tariff rate for the country at large fell from slightly over 60 percent in 1985 to 11.7 percent in 1995 to 5.8 percent in 2004 (Paus, 2005: 138). As a result, there has been a relative loss of employment in the agricultural sector. In addition to that, however, it is important to know if those displaced farmers have moved on to other activities from which they can improve or at least maintain their previous incomes. According to the *Proyecto Estado de la Nación*, among the employed poor in 1994,[32] 42.3 percent were in activities pertaining to agriculture or livestock while 37.7 percent were employed informally (two mutually exclusive categories). In 2003, while the percentage of employed poor dedicated to agricultural labors declined to 37.1 percent, the percentage of employed poor who worked in the informal labor market increased to 44.5 percent. Given the relatively low wages in the informal labor market (that don't follow the logic of minimum wages), this trend suggests that cheaper imports[33] have increased poverty among this segment of the population (2004: 163).

While it is true that Costa Ricans can feed themselves with less money given the cheaper imports, such a strategy discriminates against the welfare of farmers, not only in an economic sense, but also in a cultural-historical sense. Ultimately, by destroying what the traditional Costa Rican farmer stands for, neoliberalism is also undermining a deep-rooted historical identity shared by the population at large, and ultimately the peoples' sovereignty. Losing such a source of pride and identity while a culture of consumerism is imported into the country, has had grave consequences for Costa Ricans. In particular, I think it makes them more likely to spend money beyond their means, creating a lifestyle that is much more susceptible to poverty, although poverty not so much in terms of income, but rather in terms of purchasing power.

[32] For our purposes here, the employed poor are broken up into the following three categories: non-agricultural formal employment, non-agricultural informal employment and agricultural (and livestock) employment.

[33] Imported goods grew from 11 percent of the total goods consumed in the country in 1991 to 19 percent of the total goods consumed in 1998 (Fallas, 2003: 305) due to decreasing tariffs.

Nevertheless, the variable nature of income in Costa Rica, as demonstrated by a study completed by Pablo Slon Montero and Edwin Zuñiga Rojas using statistics from the Costa Rican Multiple Purpose Household Survey, makes spending beyond one's means just that much more of an issue. In their thesis, Slon and Zuñiga analyzed the magnitude of household movements from poor to not poor and from not poor to poor for the years 2000, 2001 and 2002. Ultimately, they determined that over these three years, 37 percent of the population was poor at least once. Given that the national Household Survey used for this study is the same one that has shown a general stagnation in poverty levels since 1994, one can safely conclude that a large portion of the population is vulnerable to poverty (Castro, 2004: 12). In an increasingly consumerist society, such a statistic is sobering.

Family Breakdown and Increased Crime in an Age of Economic Reform: Who's benefiting?

Another trend that parallels and is likely induced in part by the consumerist tendencies that accompany the neoliberal model is the break up of the traditional two-parent family. Between 1987 and 2002, the number of two-parent households with children (and without extended family) dropped from 56.1 percent to 49.7 percent (Proyecto Estado de la Nación, 2004: 78). The recent increase in women-headed households among the poor and non-poor alike reflects that the women are left with the burden of raising their children on their own as the male abandons the relationship and responsibility. Indeed, according to the SIPO database,[34] during 2000-2001, 89 percent of

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[34] The SIPO database has been assembled by the Mixed Institute of Social Help (IMAS) in 1999-2001 on the basis of a census of poor areas -urban and rural- previously identified by poverty maps made by the National Institute of Statistics and Census (INEC). By mid-2001, the database contained 207,000 families

male heads in extreme poverty had a spouse while only 8 percent of female heads under the same conditions did. These percentages became less imbalanced at 80 percent and 12 percent respectively for heads in near poverty and probably despite becoming more balanced at higher income levels, such percentages likely remain imbalanced at all economic income levels (World Bank, 2003: 23). Given this likelihood that female-headed households are probably single-parent households, and that single parents have a harder time economically raising children, especially among poorer families, I conclude that the increase in the number of female-headed households is a contributor to an increase in poverty.[35] In 1997, the number of female-headed households was 20.7 percent. This number increased steadily each year to 27 percent in 2005 according to the Costa Rican National Institute of Statistics and Census (INEC). The parallel trend among poor households is of greater concern. In 1997, INEC reported that females headed 27.1 percent of poor households. By 2005, this percentage had steadily increased to 33.5 percent. As might be expected, the numbers tell an even starker tale for households in extreme poverty where the percentage increased from 31.4 percent to 43.5 percent during the same period (INEC, 2005b).

One hypothesis that accounts for this change is that males, under new pressures to obtain the lifestyle of the higher social strata, are willing to abandon their families (or impregnate their partners and leave them). There is an imported "American Dream" in Costa Rica, which is communicated repeatedly to the poor through such means as

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or 808,500 people. It contains information on sociodemographic and labor force characteristics including age, education, kinship relations among household members, civil status, activity, work type, and income. It also contains housing characteristics and coverage of many social programs provided by government agencies (World Bank, 2003: 173).

[35] Aggravating the situation even more is the fact that women earn about 5 percent less than their male counterparts in public employment and about 25 percent less under private employment (Ruiz, 2002: 132).

television and newspapers, which equate that type of lifestyle with happiness. The only way to achieve that lifestyle is with money. If the money is not spent on raising a family, one could more easily pursue that dream. However, the result, especially for the poor, is a man who sacrifices his children's (and partner's) prospects of escaping poverty while simultaneously destroying the social nucleus of the Costa Rican culture. Also troubling, is the prospect that someone who avoids the responsibility of a family may be more likely to commit a crime.

Perhaps this is one of the reasons crime, particularly urban crime, has risen since the 1980s. Walking around the country's capital, San José, or the outlying suburbs, barred windows and barbed wire fencing are amenities to almost all buildings. Most people know somebody who has been robbed at gunpoint or knifepoint. Talking to people who have lived in the country all their lives, one learns that Costa Rica never used to be that way before the neoliberal reforms.[36] From 1990 to 2003, the reported assault rate against life increased from 118 to 158 per 100,000 inhabitants. Reported sexual assaults have increased from 52.3 to 102.4 per 100,000 inhabitants during the same time period (Proyecto Estado de la Nación, 2004: 423). The actual numbers are in all probability significantly higher. Probably in part because of these trends, the rich are increasingly segregating themselves from the poor, especially in urban areas. Gated communities are becoming more and more common, even among the middle class.

Meanwhile, the poor who live in overcrowded communities or shantytowns toward the outskirts of cities are at a disadvantage in virtually every respect. The story of

[36] These observations are based on personal observation from living in San José for five months. I knew two people who were robbed at gun or knife point during my stay, and a few others who had been assaulted in general during their lives inside the country.

Julia Peréz as given by the *Tico Times* is a good example of many of the issues the poor face. Peréz has five children living with her, including one daughter with two babies. The fathers offer no economic support. Her family survives on the sale of lottery tickets that some days bring in as little as US $2 or nothing at all. They receive some money from charity as well as government support that amounts to almost nothing according to Peréz. She said she used to clean houses and wash clothes, but she does not want to work all day because she is afraid of leaving the home unprotected. The door has no lock and the windows lack bars or glass. The family's possessions consist primarily of a small television, a worn out couch, an unstable table, a broken refrigerator and a few pots donated by neighbors and family. From the family's small income, they have to pay for food as well as water and electricity bills. Even school for the children costs money. Despite the country's free education system, students must buy uniforms and pay about US $1 a month for costs such as photocopies (Kimitch, 2005c: 1,6).

Factoring in Public Social Spending and Education

At this point, we might well ask what role the state has had in poverty reduction so that we get a clearer idea as to what extent neoliberal economic policies leave many people poor through uneven growth. Perhaps the most telling statistic[37] is that from 1990 to 2002 we see an increase in public social spending[38] per capita (inflation held constant) of 21.4 percent. In particular, there is an 8.1 percent increase in the health sector which likely contributed to the 25 percent drop in infant mortality and the increase in average

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[37] All the statistics from here until the next in-text citation come from the *Proyecto Estado de la Nación*.

[38] Public social spending includes the following sectors: education, health, social security, land and housing, and culture and recreation.

lifespan from 76.87 years to 78.51 years during the same period. There was also a 40.4 percent increase in social security aid. Although there is a 6.8 percent decrease in the land and housing sector of public social spending (Proyecto Estado de la Nación, 2004: 93, 399), the net effect on poverty ought to be positive. Although the distribution and impact of public social spending is arguably far from perfect, the *Proyecto Estado de la Nación* statistically verifies that this spending has reduced the inequality created by economic growth because it helps the poor proportionately more than it helps the rich (97-98). Hence, we now have a starker picture of the effects of the neoliberal model.

It is also important to note that the percent of social public spending per capita increased 36 percent between 1990 and 2002 in real terms (Proyecto Estado de la Nación, 2004: 93). However, because it takes considerable time to see the effects of increased spending on education in the reduction of poverty, such spending cannot be counted against the exclusionary neoliberal model of economic growth as other forms of social spending more readily can. Nevertheless, the increase in the average number of years of education among the poorest fifth of the population (18 years of age and older) from 4.5 years in 1990 to 5.1 years in 2003 (Proyecto Estado de la Nación, 2004: 99), demonstrates that poverty still stagnated despite a more educated work force among the poor.[39] This may be in part because the world standard in education is rising faster than the increase in education of the poor in Costa Rica.[40] With the rise of the Asian Tigers in the world economy, this hypothesis appears realistic.

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[39] The percent increase in education among non-poor sectors of the population was greater (Proyecto Estado de la Nación, 2004: 166), thereby helping to increase inequality.

[40] The lack of social spending on education in the 1980s may also be partly to blame.

Employing the Poor: A Case Study of the Pineapple Industry

Interestingly, since the onset of the more liberalized economy around fifteen to twenty years ago in Costa Rica, we see that the informal job market, which provides low and unstable wages, has grown faster than the formal economy (provided in large part by transnationals) which has consistently higher wages (Kimitch, 2005b: 4). This is due in part to the relative decrease of formal employment in both agriculture and public employment. It also suggests that the relatively high labor standards and pay in Costa Rica (compared to other countries in the region) do not attract many transnational corporations, especially in areas that require little education, such as the *maquila*[41] industry. Of course, if the poor had had higher skill and educational levels relative to minimum wage and labor standards, then it would have been more likely to see the formal economy grow at a faster pace. Nevertheless, it is important to keep in mind that while the formal economy has higher wages overall, the wages for the poorest people in the formal economy may even be lower than many of the incomes in the informal economy.

Indeed, the minimum wage in Costa Rica, while strong in comparison to its Central American counterparts, is today similar in real terms to the minimum wage of the mid 1980s when the country was still hurting from the crisis (Kimitch, 2005b: 4). This demonstrates a complete lack of correlation between minimum wage and economic growth. A case in point is the pineapple industry. Pineapple had, for the first few years of this decade, wrestled with coffee for the number two spot on the list of export crops and

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[41] *Maquila* is a Spanish word for a factory that produces products for export, often under sweatshop conditions.

surpassed it in 2003 (Goodier, 2005a: 1).[42] The fact that pineapple exports grossed $121 million in 2000, $257 million in 2004 and $214.5 million in the first six months of 2005 (Goodier, 2005a: 10) only underscores the growing success of the pineapple industry.

However, this success does not translate to quality employment for the vast majority of the industry's 14,000 workers (Goodier, 2005b: 20). The minimum wage for these peasants is a meager $8.60 per day (Goodier, 2005b: 20). If one were to assume that a person works an average of 23 days a month harvesting pineapple, then that person's income is $197.80 per month. As of the end of 2004, the poverty line for urban and rural areas per person per month was $80 and $63 dollars respectively (Kimitch, 2004: 5). Consequently, it appears that Costa Rica's minimum wage is quite high. In reality, however, the poor often work these jobs. Poor families, which averaged 4.4 family members in 2003 with an average of 1.0 members economically active, (Proyecto Estado de la Nación, 2004: 108) means that the demographically average poor family with the father working a minimum wage job, earns about $45 per family member per month, an income which is closer to the extreme rural poverty line of $32 than to the basic rural poverty line (to say nothing of the urban poverty line). While Del Monte's Costa Rican pineapple division president says his company pays about 40 percent above the minimum wage on average, human rights activists counter by pointing out that interviews with hundreds of field workers, indicated that they are paid only minimum wage without compensation for overtime (Goodier, 2005b: 20). In all likelihood, there are probably a few people in management positions who receive a handsome salary, thereby skewing the average pay away from the median pay.

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[42] Bananas are the number one exported crop.

Nevertheless, Guillermo Acuña from the Services Association of Labor Promotion (ASEPROLA) explains that those who speak positively of the pineapple industry point out that it brings jobs to poor rural areas and they view the activity as a way for families to meet their most basic needs (Acuña, 2005: 54). On the other hand, he points out throughout his report that the chemicals the workers are exposed to can cause acute cases of asthma, allergies and sickness that help offset the net contribution basic wages contribute to meeting basic health needs. The destruction of clean aquifers by large pineapple corporations also goes against the net health benefits of many communities.[43] Meanwhile, the long workday (people work long hours to make extra money) destroys family and community solidarity. In the end, he explains that the government does not have plans to address these issues because as one national governmental representative explained to him, "nothing can be done because it is an activity that gives work to people. (54)." However, one has to wonder if, before the transnational corporations bought up large tracts of land, rural farmers were better off from subsistence living on the land. Clearly, the present situation with the growing pineapple industry is not a viable way to create healthy communities free of poverty. While other plantation workers who help cultivate such exports as banana do not face quite as bad of conditions, the prospects for most of these workers are still grim as well.

Ultimately, while the dynamic external sector of the economy has grown tremendously, providing the well-educated with rather well-paying English language based and high-technology jobs through such companies as Intel (obviously the entire middle class is not disappearing), those traditionally living in poverty do not benefit

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[43] Deforestation and eventual exhaustive use of the land are other environmental consequences that may hinder sustainable development and poverty alleviation in the long run.

(Kimitch, 2004: 5-6). Furthermore, if foreign firms do provide employment for the poor, it generally does not help them out of poverty. One of the newest corporations to enter the Costa Rican market is Wal-Mart, which in March of 2006 became the owner of most of the country's supermarkets. While Wal-Mart is expected to create thousands of jobs in Costa Rica as well as the rest of Central America, labor conditions under Wal-Mart have been criticized in the United States and other countries and leave doubt as to the end result in Costa Rica. Aquileo Sánchez of Wal-Mart's International Corporate Affairs division boasts that Wal-Mart's presence in Costa Rica will increase the number of Costa Rican products on the shelves of North American stores. In fact, he cites as an example that the company recently signed an agreement to sell Costa Rican pineapple in Wal-Mart stores in the U.S. and Canada. The goal is to have 10 percent of all pineapple sold in these stores to come from Costa Rica (Stanley, 2006b: 1, 19-20). Consequently, this is a recipe for ignorant U.S. and Canadian consumers to support a culture of poverty in Costa Rica.

In Search for Better Answers

In the end, neoliberal theory has proven disappointing. As this chapter has shown, the increasing economic wealth generated through its practices seldom if ever reaches the pockets of the poor. If prices for consumption have lowered, and modernization has progressed, it has by no means offset poverty. While Costa Rica should take advantage of exporting to an international market, it must do so in a way that is better linked to the wellbeing of all its residents. The same is true for the growing service industry inside the country, particularly tourism. Finding such links is the topic of the next chapter.

V. <u>Creating Quality Employment: Connecting the Missing Links and Building an Alternative Vision</u>

In recent years, Costa Rica's economy has grown considerably as a whole as measured by gross domestic product (GDP) and exports. Perhaps the largest benefit to national welfare from this growth has been the creation of new jobs. According to the *Proyecto Estado de la Nación* report, between 1990 and 2003, Costa Rica generated 570,190 new jobs (2004: 164). While the report indicated a slight general increase in the percentage of employment among the working age population between 1994 and 2003 from 53.1 percent to 55.5 percent,[44] there has nevertheless been an increase in open unemployment[45] during that same period from 4.2 percent to 6.7 percent (400). Underemployment also increased during that time. Of all the age groups, those hurt most by unemployment have been the 12-24 age group. Further, among this sector of the population, those with lower levels of education (namely the poor) have been most affected by this problem (165).

As a solution, some policy makers might suggest lowering the minimum wage in order to attract more foreign direct investment (FDI) to be able to employ more of the poor. While such an approach could potentially slightly reduce poverty, particularly extreme poverty, the evidence presented in the previous chapter suggests that in terms of the overall wellbeing of society, the drawbacks outweigh the benefits. Indeed, such a policy would not prove to be a beneficial poverty reduction strategy in the long run because international competition for cheap labor would exploit the poor and vulnerable.

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[44] The larger workforce in proportion to the size of the working age population means more people in the household are working which should theoretically raise household income. However, not enough information is available to determine which households this most affects.

[45] Open unemployment is the fraction of those unemployed as a percentage of the total labor force population (not as a percentage of the total working age population).

In this chapter, I examine many of the malaises plaguing each sector of the economy and conclude that opening up the economy indiscriminately to FDI has not and will not reduce poverty in Costa Rica. Rather, I argue that poverty, as a concept influenced by environmental, cultural and political factors, must be addressed by the very people it affects with the assistance of the government and other actors such as non-profits, NGOs (non-governmental organizations) and international organizations in order for it to be reduced. In the end, a more prosperous and egalitarian society will come from a more empowered and educated lower class.

Recent Changes in the Make-Up and Importance of Economic Activities: An Overview of Problems and Solutions

The Primary Economy

During the last several years, Costa Rica has seen major shifts and changes among its primary, secondary and tertiary sectors of the economy.[46] The first of these, the primary industrial sector, is the part of the economy that specializes in agricultural products and the extraction of raw materials. The major industry here is agriculture, although the sector is also composed of mining, forestry, and fishing. Between 1990 and 2003, the percentage of the economically active population employed in this sector of the economy dropped from 25 percent to 14.8 percent. The absolute number of employed dropped as well. Meanwhile, between 1991 and 2003, the primary sector fell much less significantly in terms of relative GDP from 13.2 percent to 10.9 percent of the total GDP (Proyecto Estado de la Nación, 2004: 162). This primarily reflects a loss of small and

[46] These three sectors represent about 99 percent of the Costa Rican economy. The other 1% is classified as “other.” (Proyecto Estado de la Nación, 2004: 162)

medium scale farming and its limited replacement by more efficient, mechanized and lucrative larger scale farming (for the owners and managers, not the workers).

Currently, there is questionable potential for overall growth in this sector of the economy. While non-traditional crops such as pineapple appear to be doing quite well, traditional crops such as coffee and bananas appear to be shrinking in market size due to falling agricultural prices. This sector is not only threatened in terms of export output and prices, but also in terms of its domestic market due to cheaper imports from reduced tariffs. If Costa Rica ratifies a pending free trade agreement with the United States,[47] these imports will become even cheaper; however, such an agreement, while hurting producers for the local market, has the potential to increase profits for some exporters due to gradual increases in their allowable quota of crop shipments to the United States.

Ideally, however, the government should reduce the speed at which it decreases protection for threatened small and medium scale farmers as part of a larger effort to better integrate these farmers into other sectors of the economy. This should be a priority even if it comes at the cost of increased exports for some farmers because the farmers who have the most to lose (from their current state) should be attended to first. While such a priority may cause the country to lose in overall profits, it is nevertheless more conducive to reducing both poverty and inequality. At the same time, the government should continue to focus attention on integrating the other remaining small and medium scale farmers into the role of producers for the larger companies. Up until this point, it appears the government has been relatively successful at this (Antillón et al., 2005: 35). Nevertheless, the government has made huge budgetary cuts to the Ministries of

[47] This Pending Agreement, DR-CAFTA, is talked about at greater length in chapter five.

Agriculture and Livestock and other institutions related to agriculture in recent years thereby putting the future of many farmers in peril, while continuing to ignore the hardships faced by many others over the last couple of decades. Difficult access to credit is another problem. One of the reasons for difficult access to credit may have to do with a 1995 law that allowed private banks to compete with public banks. While public banks responded to the competition with modernization and increased effectiveness, the survival of the public banks rested upon eliminating their ability to provide affordable credit to micro and small businesses (Seligson, 2005: 9-10).

Another way the government may be able to help, is by putting a greater emphasis on tapping the growing demand for organic farming in general. This would allow for a more sustainable use of the land, thereby better retaining important natural resources for future generations. In turn, retaining natural resources is an essential element to any long-term poverty reduction strategy because retaining the land's natural ability to create or grow domestic raw materials allows for greater levels of value added[48] (in terms of the final product for consumption) within the country, creating the potential for more quality employment,[49] especially in more skill-intensive industries as explained a little later on in this chapter.[50]

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[48] Value added is the amount of a product's final value added at each stage of production. This value increases inside a country as import levels of inputs decrease, everything else held constant.

[49] Greater levels of domestic value added do not *necessarily* mean more quality employment. The businesses in which the value is added must be able to compete in their respective markets. Just because a natural resource exists, does not mean it ought to be actively utilized (even in a sustainable manner) if it cannot compete in the domestic or world markets. However, such a resource may become of active economical use later on. Furthermore, a natural resource generally helps support, directly of indirectly the preservation of other economically viable resources. In general then, resource conservation is a good way to combat poverty in the long-run.

[50] In other words, there are industries besides farming that use natural resources. For example, the manufacturing industry can use plants to make medicine.

The Secondary Economy

Another major area of the economy is the secondary industrial sector which deals exclusively with manufacturing intermediate producer goods from raw materials and final products from either the raw goods or the intermediate goods. Between 1991 and 2003, the sector's share of the country's total GDP increased from 22.4 percent to 23.8 percent (Proyecto Estado de la Nación, 2004:162). This change reflects an increase in output (particularly exports) due to an increase in the number of transnational corporations in Free Zones (FZs). Indeed, according to Paus, total manufacturing output was 29 percent higher in 2003 than in 1997, reflecting both a 200 percent increase in FZ production and a 4.6 percent decrease in non-FZ production.[51] As a reflection of this, during this same period, overall employment in the sector stagnated—increasing in the FZ sector while declining in the non-FZ sector (2005: 153).[52]

The non-FZ stagnation of the manufacturing sector and its correlating decline in employment appear to be due in part to the rising competitive pressures that have come with tariff liberalization. In essence, the influx of cheaper imports undermines the ability for non-FZ manufacturing enterprises (most of which are nationally owned) to compete. Difficult access to finance capital is another factor that has affected growth negatively. One of the reasons for difficult access to credit may have to do with opening up the public banking sector to private competition as explained in the previous section. The net out-transfer of development funds during most of the 1990s did not help either (Paus,

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[51] Non FZ production is a fairly good indication of the production of domestic businesses (run by Costa Rican residents).

[52] As of 2003, 14.5 percent of the population was employed in manufacturing (Proyecto Estado de la Nación, 2004:162).

2005: 136). Finally, a lack of government support in the transition from a protected market to a market with international prices and competition has also contributed to this stagnation in the non-FZ manufacturing sector. Indeed, over the last twenty years, there has been a weakening in the institutional support and promotion of traditional productive activities in not only agriculture, but also manufacturing as the money allotted to these areas has decreased (Proyecto Estado de la Nación, 2004: 168). Just as disturbing however, is the downsizing of The Ministry of National Planning and Political Economy (MIDEPLAN), one of the key institutions charged with national development planning (Proyecto Estado de la Nación, 2004: 58). Indeed, the lack of a cohesive network of proactive government institutions to implement any sort of comprehensive development strategy puts the future of the country at risk (Paus, 2005: 136).

Simply opening up the economy to FDI in manufacturing without an active government role in development, will lead to undesirable outcomes, including increases in poverty. Although as of the late 1990s FZ[53] wages were 25 percent higher than non-FZ wages in manufacturing (Paus, 2005: 149), creating a secondary economy based mostly or entirely on employment by foreign companies would require a much more educated work force (and therefore more technologically advanced employment) if Costa Rica wanted to potentially significantly reduce national poverty in that way.[54] However, even

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[53] Between 1986 and 2000 about 35,000 jobs or 2.5 percent of the total labor force in Costa Rica was dedicated to employment in the FZs (Antillón et al., 2005: 33).

[54] Some may argue that the knowledge gained from increasingly high-tech employment by transnational corporations would spill over into the rest of the manufacturing industry, and create Costa Rican-run industries that could compete with the foreign companies. Indeed, this is precisely what happened in China. However, Costa Rica does not yet have a strong enough base of human capital or infrastructure to successfully carry this out. Perhaps just as importantly though, the country does not have the bargaining power that China had to do this. As Todaro and Smith explain, “Government played off potential investors who wanted access to China’s billion-plus consumers, demanding and getting extensive technology

with a more educated workforce in place, such a strategy would leave the country vulnerable to capital flight due to relative changes in the demand of goods and the price of labor on the world market.[55] Furthermore, in light of the precarious world market and the control they would have over employment,[56] transnational corporations (TNCs) could potentially use blackmail to lower the minimum wage, or to receive other benefits not in the interest of the Costa Rican people, thereby reducing the power of the nation's people to create their own democratic change. This in turn would likely cause demoralization, increased crime, popular unrest and further risk of capital flight (as well as hurting the booming tourism industry). In essence then, a long-term poverty reduction strategy must keep in mind the need for a sense of national belonging and power among all its residents (i.e. democracy) as well as the vulnerabilities of the world market.

Given the need for democracy then, the country should take advantage of the relative importance of small and medium sized enterprises (SMEs).[57] According to one recent article in the Univeristy of Costa Rica's newspaper, *Semanario Universidad*, 51 percent of the jobs in the private sector are supplied by enterprises with less than 20 employees (Flórez-Estrada, 2005). In the manufacturing sector in particular, SMEs represent 80 percent of total jobs. This highlights the importance of smaller sized enterprises in terms of employment. (Organization of American States, 2003).

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transfers, public and private Chinese business partnerships, local content and other concessions in exchange for the right to sell to Chinese citizens" (2005: 176).

[55] Costa Rica provides a prime example of the volatile nature of the world market. The $2.56 billion earned in the high-tech electronics industry in 1999, dropped to a mere $913 million in 2001 before finally picking up again to earn $1.41 billion in 2003 (Proyecto Estado de la Nación, 2004: 163).

[56] In a small country such as Costa Rica, each TNC would have more power over the government than in a larger country.

[57] According to the Social Security Institute of Costa Rica (CCSS), micro-enterprises (micro-businesses) operate with 1-9 people, small sized enterprises (businesses) operate with 10-19 people and medium sized businesses have 20-99 employees.

Unfortunately, according to a 2002 *Social Watch* report, less than 17 percent of nationally owned SMEs[58] (and none of the country's micro-enterprises) produce directly for export (Instituto del Tercer Mundo, 2002: 103). This low percentage likely reflects the primary sector just as much as it reflects the manufacturing sector given the similar sizes of each economic sector respectively (in addition to taking into account their relative hardships).

Given then, the unpleasant position faced by the national manufacturing sector in terms of unfavorable competition in the domestic market, difficult access to the international market, and relatively low wages, the government must execute a plan to increase the quality of employment for the population at large in this sector of the economy in order to help reduce poverty.

A High-tech Approach to Reducing Poverty

Despite its current struggling situation, one of the most promising areas for improving employment opportunities for Costa Rica in the long run is in the manufacturing industry. In recent years, Costa Rica has taken a high-tech approach to manufacturing by attracting FDI in this area. In fact, between 1997 and 2003, about one third of manufacturing FDI was in the electronics sector, most notably Intel's $300 million investment (Paus, 2005: 143). While only a limited part of the Costa Rican population can benefit from this sort of high-tech investment because of the sophisticated skill sets that it involves, in theory, there should be positive knowledge spillovers into the rest of the economy through a sort of trickle down effect. Paus highlights three ways this is possible.

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[58] It should be noted that almost all SMEs (if not all of them) are domestically owned.

First, TNCs may help local input producers[59] upgrade their technological capabilities directly through technology acquisition or knowledge sharing (2005: 26). However, it is logical that a TNC would do that only if such producers were already competitive with producers in other countries. This is generally not the case in Costa Rica. Indeed, foreign companies under the special exportation regimes[60] bought only an average of 3.2 percent of their inputs domestically from 2000 to 2003. Even more shocking is that this was a .2 percent drop from the 1998-1999 two-year average (Proyecto Estado de la Nación, 2004: 160). Furthermore, this missing link between the local business and foreign companies limits the market to which local businesses can sell, helping reduce the profitability of the local manufacturing sector. Considering local businesses have to pay taxes and TNCs generally do not,[61] this lack of forward linkage capabilities on the part of the local manufacturing sector signifies a corresponding lack of potential government tax revenue.

The second way in which knowledge may spill over into the rest of the economy is through the human capital effect, where employees of high-tech TNCs use the knowledge they gain from these corporations and apply them when they move to a domestic company or establish their own business. The final way in which knowledge may be transferred is through the demonstration effect, as domestic producers are

[59] Input producers make and sell the supplies (components) necessary for the next stage in the manufacturing process.

[60] The special exportation regimes include both FZs and Active Processing Regimes. The latter allows duty-free import of inputs used in the production of exports (Paus, 2005: 140).

[61] The tax exemptions within FZs are allowed in Costa Rica and throughout the world by those countries that belong to the World Trade Organization. The WTO will eliminate these allowable exemptions in 2007 (Proyecto Estado de la Nación, 2004: 159). However, not too many countries are likely to raise taxes very significantly for TNCs in fear that these corporations will simply move to another part of the world if they are already in the country, or will choose another more profitable country in which to locate instead if they have not yet chosen to invest in the country.

exposed to the TNC's products, marketing strategies and different production processes.[62] However, these last two methods of knowledge spillover do not seem to have worked very well so far given the preliminary evidence of a stagnating manufacturing sector as previously mentioned.

Unfortunately, if the country cannot rely heavily on TNCs inside the country for necessary technological know-how to strengthen national companies, trying to obtain that knowledge from other countries is even harder. In fact, the World Bank asserts that "even basic research does not flow easily or costlessly across borders so developing countries cannot simply rely on what is being generated in the advanced countries" (Country Innovation Brief: 1). Perhaps then, Costa Rica should put more money into research and development (R&D) in areas in which it has potential such as chemistry, plastics or software. The amount of money spent on R&D as a percentage of GDP during the 1990s (0.23 percent)[63] was below the average for countries that have had similar levels of GDP, similar size labor force, and similar value of merchandise exports to the United States since the 1960s (World Bank, Country Innovation Brief: 3-4). This is perhaps one of the many reasons countries such as Finland, Korea or Israel have been more successful in their technological advancements and their Human Development Index rankings[64] in

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[62] In each of these cases, the knowledge may be in the form of process know-how, generalized management know-how, or, probably the least transferable, product design know-how (Paus, 2005: 26).

[63] The United Nations Development Programme (UNDP) lists Costa Rica's R&D expenditure to be at 0.4 percent of GDP. If the World Bank and the UNDP used the same type of calculations for these measurements, then Costa Rica has begun to increase its expenditure on R&D considerably.

[64] "The human development index (HDI) is a composite index that measures the average achievements in a country in three basic dimensions of human development: a long and healthy life, as measured by life expectancy at birth; knowledge, as measured by the adult literacy rate and the combined gross enrolment ratio for primary, secondary and tertiary schools; and a decent standard of living, as measured by GDP per capita in purchasing power parity (PPP) US dollars" (United Nations Development Programme, 2005: 214).

general (United Nations Development Programme, 2005: 262). Given that average returns to R&D are higher in less developed countries, Costa Rica may very well benefit from putting more into research and development. The World Bank in particular suggests the state should invest between two and eight times more in R&D than it did in the 1990s (World Bank, Country Innovation Brief: 4).[65]

The question then becomes how to do this strategically. One solution would be to better link the knowledge generated in the country's universities with the manufacturing industry. According to Láscaris, the greatest scientific-technological capacity in Costa Rica is in the public sector, particularly the state universities. She further states that about 45 percent of national manufacturers have sought and received help through state universities. These include principally small businesses in the areas of food, beverage and tobacco and medium and large businesses in the areas of chemicals, rubber and plastics. However, only a third of exporting manufacturing businesses have come to universities in search of advice (Láscaris, 2004: 79-80). In light of this, the government should help facilitate a stronger link between universities and the manufacturing industry. In order for this to take place, there must be a long-term plan that spans multiple governments through some sort of decree or law.

The ultimate goal of the domestic manufacturing industry should be to become a stable competitor on the world (and to a lesser extent, domestic) market. If Costa Rica wants to create domestic companies that can afford to pay employees well in a sector that is resistant to price swings and market saturation, then an emphasis should be put on a long-term goal of exporting as diverse an array of goods as is possible (given

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[65] See also, for example, Láscaris, 2004: 64-67.

international competition), especially in the area of high-tech, medium-tech and innovative goods. In particular, areas such as biotechnology, plastics and software are a good place to start because of the promise these industries already show in development and their (in some cases) potential to forward-link to high-tech TNCs that include Intel and makers of medical supplies.

In terms of exporting their goods, domestic companies have two options: indirect internationalization (selling to foreign corporations inside the country) or direct internationalization (selling to corporations outside the country) (Láscaris, 2004:129-30). I believe exportation should be done primarily through indirect internationalization (at least in the short and medium terms) because of the competitive advantages TNCs have in exporting; however, direct internationalization should be considered for those enterprises that find it profitable. Furthermore, all companies should attempt to obtain their inputs through local suppliers, thereby keeping money inside the country, and supporting further employment. All of this will require a more efficient and coordinated government and a more educated population. A more accessible and higher quality university education with greater emphasis on science, technology and business administration may help in this regard. In order for a larger segment of the population to have the opportunity to benefit from a university education, more students must graduate from high school. Social spending on public education and educational scholarships through the high school level is important in terms of a development plan that is economically beneficial for all sectors of society, in particular the poor.

Indeed, the quality of instruction as well as graduation rates in primary and secondary education are vital concerns in terms of developing a competent workforce.

Between 1990 and 2002, the graduation rate from primary school (for those starting school at the same time) increased from 76.7 percent, to 84.1 percent.[66] However, the high school graduation rate made only a slight general increase during the same time period from 39.9 percent to 42.0 percent[67] (Proyecto Estado de la Nación, 2004: 86). The lack of confidence the public has in the quality of secondary education in public schools (versus private schools) is one reason that while 93.8 percent of students attended public secondary schools in 1980, only 88.0 percent did so 2004 (Proyecto Estado de la Nación, 2005: 90). Unfortunately, only the middle and upper classes can afford the better education of private universities thereby encouraging future income inequality.[68] This highlights the need to put more money into public education, which in turn requires a stronger government with more money to spend.[69]

In the end, a stronger, more high-tech national manufacturing sector has the potential to lead to higher quality employment for more people. It would also allow for greater tax collection from the manufacturing industry (especially considering TNCs will not stay in the country if tax rates are too high[70]) which could in turn be used for more

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[66] These statistic includes those who repeated various grades up to a maximum of three times. The graduation rate of students who never had to repeat a grade during their primary education (six years of education) increased from 44.6 percent in 1990 to 53.7 percent in 2003.

[67] As is the case for primary education, these statistic includes those who repeated various grades up to a maximum of three times. The graduation rate of students who never had to repeat a grade during their secondary education increased 22.7 percent in 1990 to 25.3 percent in 2003.

[68] In addition, in Costa Rica, like anywhere else, not all public schools have the same quality education. Public schools in poorer areas are more likely to be of a lower quality.

[69] I write about the financial situation of the government later in this section.

[70] This is true even when the WTO will end its rule (starting 2007) on allowing tax exemptions on income profit for companies in FZs. This is because countries can adopt other preferential tax-related policies that do not violate WTO regulations thereby allowing for an unhealthy “race to the bottom” in terms of tax incentives in developing countries (Paus, 2005: 204-05). As a result, TNCs will continue to become richer without sharing very significant portions of their large profits within the countries they operate.

social spending on the poor and population at large. However, the manufacturing industry in Costa Rica faces some serious obstacles to development. For one thing, the international market can be potentially volatile in terms of prices, even for a wide range of goods. Second, many of the opportunities in the high-tech market will continue to be taken by other countries. In particular, TNCs will continue to relocate a large share of their high-tech production to lower-wage Asian countries that contain large numbers of skilled and unskilled labor. The key then is for Costa Rica to find niche markets where production is not so sensitive to economies of scale,[71] and where original ideas can be protected through intellectual property rights (Paus, 2005: 204). However, Costa Rica's successes in these fields are limited by the extent to which the country can improve its level of human capital (education) in science, technology and business administration, by the extent to which it can improve its infrastructure (especially roads), and ultimately by its ability to coordinate a development plan that can successfully rival other competing countries.

The Tertiary Economy

Despite the potential of the manufacturing sector of the economy, it is not an appropriate place for Costa Rica to hinge most of its bets for the future elimination of poverty and development in the country. Instead, it should be seen as one pillar of a grander scheme that caters to the needs and lifestyles of as many Costa Ricans as possible. The other major area of the economy that shows future promise is the tertiary industrial sector, also known as the services and commerce portion of the economy. In

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[71] As defined by Todaro and Smith, economies of scale is economies of growth resulting from expansion of the scale of productive capacity of a firm or industry, leading to increases in its output and decreases in its cost of production per unit of output (2005: 811).

Costa Rica, this includes communal, social and personal service activities,[72] basic services,[73] financial activities, wholesale and retail commerce, and construction[74]. This sector of the economy jumped from employing 56.1 percent of the population in 1990 to employing 70.2 percent of the population in 2003. Meanwhile, its percentage in terms of total GDP increased slightly from 64.1 percent in 1991 to 65.2 percent in 2003 (Proyecto Estado de la Nación, 2004:162).

The growth of this industry is due in large part to an increase in tourism, particularly ecotourism. Between 1990 and 2003, the number of tourists entering the country increased almost three fold from 435,000 to 1,239,000 per year. Meanwhile, the income from tourism during this same period increased from US $275 million to US $1.2 billion (Proyecto Estado de la Nación, 2004: 412). While only 40 percent of all money spent by tourists stays in Costa Rica, this is still almost four times higher than the corresponding percentage for other prime tourist locations in the Caribbean and Mexico (Proyecto Estado de la Nación, 2004:162). Nevertheless, this percentage could be higher and its allocation among the local economy could be more evenly distributed if the government supported a community-based development that empowered the local population more than TNCs and larger businesses, especially since Costa Rica is now known worldwide as a prime tourist destination. While big businesses do attract tourists, they also tend to threaten the long-term sustainability of the industry through

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[72] This includes such occupations as cleaner, babysitter, teacher, or hotel receptionist.

[73] These are service jobs that deal with electricity, gas, water, transportation, storage and communications.

[74] Construction is often considered part of the secondary industrial sector, but in Costa Rica, it is considered tertiary.

environmental exploitation and by turning unique aspects of tourism into a generic offering that can be found the world over (Proyecto Estado de la Nación, 2004: 202).

The best type of tourism for Costa Rica is sustainable tourism, particularly ecotourism. People come to Costa Rica to enjoy not only the natural beauty and wildlife of the country, but also the local flavor of the communities. However, natural resources, as a foundation for this tourism, must be maintained by the communities that are nearest to them, with strong regulatory oversight by the government, so that the country can enjoy the income from this unique activity long into the future. If local communities do not have a say in the development process of tourism and if the government cannot sufficiently regulate the development process, then tourism will cease to be a long-term form of poverty alleviation. Although the Costa Rican tourism boom is a relatively recent phenomenon, the government must make critical decisions early on involving the environment. For example, in the dry northwest region of Guanacaste, where water shortages are starting to become more severe, the government, with input from the communities affected, must decide which and how much water goes to rapidly expanding beach resorts, and how much will be allotted to local communities, huge cattle ranches and rice farms (Schott, 2005: 6).

However, the government does not always work on behalf of its people. Take, for example, the case of the luxury resort *Villas del Caribe* in the southern Caribbean coastal town of Puerto Viejo built in the early 1990s by the Canadian corporation Desarrollos Ecológicos (Ecological Developments). This resort advertises a place to sleep and relaxation on the beach in addition to such activities as horseback riding, snorkeling and a 250-acre private reserve where tourists can soak in nature. What the resort advertisers fail to communicate to potential tourists however, is that it illegally occupies both part of a government-owned wildlife refuge and part of the Kéböldi Indian Reserve. Although the company offered $5,000 to a local native organization, it did not consult indigenous leaders or offer to pay them some form of rent or share of the resort's profits. While the Costa Rican government never authorized this takeover, it did not step in to defend the rights of the indigenous population either, which has lost its land without any significant compensation (Kardos, 2005: 6).[75] The government's laissez faire (deregulated) approach to planning, control and zoning in general have led to many "exceptions to the rule." The construction of both locally and foreign owned hotels and restaurants are often completed in some of the most pristine locations with little regard for their impact on the environment and the local people (Van Der Duim et. al, 2002: 163) and with little or no government initiated consequence.

Concentrating in particular on the financial end of community-centered tourism development, it is discouraging to find failures in the integration of local economies into tourism, despite local entrepreneurs' strongly demonstrated interest in providing services to growing numbers of tourists. This has happened in such places as Tortuguero, where the pace of outside investment has not allowed the villagers time to accumulate their own capital to invest in tourist facilities and services. In this case, the government ignored the efforts of local entrepreneurs and instead focused limited resources on foreign investors (Buchsbaum, 2004: 28). If the ecotourism industry is to develop in a sustainable manner,

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[75] Multimillionaire Maurice Strong, the owner of Desarrollos Ecológicos, organized the 1992 UN Earth Summit in Brazil. The Summit, a conference on environmental development, resulted in the creation of Agenda 21—a set of guidelines for corporate responsibility and sustainable development. However, the guidelines revolve around neoliberal ideologies such as lifting trade restrictions and deregulating the tourism industry, while stressing stronger self-regulation. One of the consequences of this form of development, as embodied by the actions of Strong himself, is alienation of the local community from the profits of sustainable development, if indeed the development is truly sustainable.

the government must become more active in finding additional ways to provide poor local people with micro-credit financing and training skills. The government could also be more proactive in providing subsidies, duty exemptions and other incentives (Buchsbaum, 2004: 36).

Another problem with mass tourism development is that it raises the cost of living in the areas it takes over. One study of the Osa peninsula demonstrated how ecotourism actually made local residents poorer (Buchsbaum, 2004: 28). If tourism is going to make communities richer then, the local community must have control over the pace of development, while at the same time receive the necessary education to take on the jobs necessary for carrying out that development. Successful community-based sustainable ecotourism involves more than just minimum wage room cleaners. It often involves people who speak English, know about the natural world around them, know and participate in the local culture, know how to design arts and crafts, know how to run small service-based businesses such as high adventure repelling and know how to run successful advertising campaigns. It also involves creative construction workers, talented chefs and people who genuinely care for the wellbeing of the community, the environment and the tourists.

While tourism is in many ways harming communities in some areas, in others it is allowing people sufficient income to maintain their identity, culture and live comfortably. Rural community-based tourism[76] is a relatively new and growing type of tourism in Costa Rica which organizers and community leaders see as perhaps the most sustainable and equitable type of tourism yet. It is made up of local cooperatives and organizations

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[76] More information on community-based rural development in Costa Rica can be found at www.actuarcostarica.com.

that lead tours that focus on the people (farmers, fishermen and indigenous populations), the land and the traditional culture of the particular areas involved. In this way, various groups of people such as small organic farmers have enough supplemental income so that they do not have to leave their primary activities. At the same time, if tourism were to slow or stop because of a war or crisis, these people would still have their original primary activity. The lead actor behind this new movement is the Costa Rican Association for Rural Community Tourism (ACTUAR), an NGO that came into existence in 2001 as a way to help publicize and market the country's growing rural community tourism projects, many of which the United Nations Development Program (UNPD) helped finance (Baxter-Neal, 2005: 1, 6-7).

This grassroots organization transcends many ill thought-out development theories, perhaps the most dangerous of which is the idea that the economic benefits of mass ecotourism trickles down to communities on its own. As we have seen, this is not the case. Simply transferring resources to compensate groups for their poverty does not work well either, because it only provides temporary relief and can destroy the fabric of communities. Rather, ACTUAR understands that an integrated set of productive projects that offer rural communities and families the opportunity to generate goods and services, will contribute to raising their living standards while simultaneously improving or maintaining the environment in which they live (Asociación Costarricense de Turismo Rural Comunitario; Barkin, David, 2001: 202). This is not only true for tourism related development, but for all sectors of the economy, at least to some extent. I believe it also has the potential to be applied to poor neighborhoods and shantytowns within cities and suburbs as well, although this would likely involve the need for the greatest government and NGO infusion of resources.

Within this whole framework of thinking, it is always necessary to keep in mind the importance of integrating the community into the decision making process in order to combine potential social, cultural and economic competencies. With the participation of the entire or even the majority of the community, individuals can better understand and resist future economic exploitation. However, to be truly able to avoid exploitation, communities must be integrated into the political power structure of the country thereby influencing more sweeping national policies (Barkin, 2001: 194). In this sense, greater democratic participation among the marginalized of Costa Rican society could bring about more equitable development schemes that in turn would be able to reduce poverty (Barkin, 2001: 197) and allow for more strategic links with the international economy.

The Need for a Stronger Government

In order for the government to be an effective catalyst for change in national development, it must have sufficient money. Unfortunately, from 1993 to 2003 old and new public expenditures reflect a growing public debt (primarily internal debt) in terms of dollars, while in relative terms, this debt remains at about 60 percent of GDP (Proyecto Estado de la Nación, 2004: 198). However, the debt to GDP ratio is not a good indication in and of itself, at least not in Costa Rica, of whether debt growth is under control. This is because the growth in GDP primarily reflects a growth in exports, especially among TNCs, and among income generated from tourist expenditures. It does not necessarily have a strong causal correlation with government income, which is generated primarily through taxes. Fortunately, however, between 1991 and 2003, income from taxes increased from 11 percent to 13 percent of GDP[77] (not including social security). However, while it now appears evident that the growing debt can be and has been managed in the short term, the question now at hand becomes at what cost.

In order to answer this, we must know what percent of government expenditures has been used to service the debt. This is where things get ugly. Indeed, the amount spent per year by the General Government[78] on servicing the total public debt increased from about 28 percent expenditures in 1990 to about half of expenditures in 2003 as the interest rates on the debt grew (Proyecto Estado de la Nación, 2004: 198). Still, under these circumstances, the government was able to increase social spending during the 1990s, while cutting back its institutional spending in areas such as agriculture. Nevertheless, the welfare state has started to burst at the seams. During 2003 and 2004, some of the money that the government would normally have used for social spending went instead to service an increasing debt. As a result, social spending decreased during these years as a whole. One notable exception, however, is education. Social spending in education increased from 3.8 percent of GDP in 1990 to 5.9 percent of GDP in 2003 (Seligson, 2005: 13). Nevertheless, the government could still use more money for education in order to make it completely free for the poor, and to improve the quality to be on par with private education at the elementary and high school levels.

Unfortunately, the booming export economy is not able to contribute much to taxes (and has actually decreased as a percentage of total taxes) because of the tax

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[77] These percentages are based on the taxes collected by the Central Government. For taxes collected by the General Government the percentages increase to 13. percent and 15.2 percent of GDP respectively. The General Government includes the Central Government plus additional public service entities and local governments.

[78] See footnote 77 for an explanation of what constitutes the General Government.

exemptions stipulated under the FZ incentives. Meanwhile, income and sales taxes continue to remain low. Ironically, Costa Rica, one of the most developed states in Latin America, simultaneously remains among one of the most poorly funded (Seligson, 2005: 13). Indeed, the liberalization of the economy has not been able to replace the role of a strong government in terms of economic and social development.

In order to generate more money for purposes such as infrastructure development, social spending, and business development, the government must ultimately revamp its tax plan. The Permanent Fiscal Reform Package, first introduced to the Legislature at the beginning of Abel Pacheco's term as president in 2002, aims to do just that. While the current tax system is territorial, meaning that people and corporations are taxed only on income earned inside the country, the proposed worldwide system would tax all foreign earned income as well. Just as importantly though, it would make tax evasion much harder, given that under the current law people and businesses can (and do) claim that unexplained and untaxed sums of money, properties and other assets came from abroad. The plan would also lower income taxes for anyone making under $3,000 a month while raising taxes for everyone who earns more than that amount. The tax rate for corporations meanwhile would be a flat 30 percent. This would include TNCs in FZs once their income tax exemptions expire in 2007. Finally, the plan calls for an expansion of the 13 percent sales tax to include all goods and services (not just a handful) except for certain services the government deems vital such as limited quotas of water and electricity. In addition to all this, a National Tax Administration would be created to oversee and help create a more efficient and transparent tax collection process (Baxter-Neal, 2005c: 14-15).

The only part of the plan that appears to work against poverty alleviation is the sales tax, which would make basic goods more expensive for the poor. Nevertheless, the legislation, if it were to pass would likely do the poor more good than harm. Unfortunately, Pacheco, who spent his whole term advocating the Permanent Fiscal Reform Package as an important means of poverty alleviation, finished his term in May of 2006 without seeing it pass due primarily to the resistance of the right-winged Libertarian Movement party. According to Pacheco, his greatest failure as president was not getting the tax plan approved (Kimitch and Stanley, 2006: 2).

Unfortunately, the type of opposition faced by the tax plan has become a relatively common phenomenon in recent years due at least in part to unstable political parties resulting in not only strong disagreements between parties, but also strong disagreements within parties. Over the last twenty years, Costa Rica's historically most powerful political party, the National Liberation Party (PLN) shared power with the Social Christian Unity Party (PUSC). However, during this time, the PLN left its social democratic roots, particularly the concept of fighting for greater social equality, and leaned increasingly toward neoliberal reforms. As a result, many legislators who left the party created or joined other parties to the political left (Lubliner, 2005:10). After the 2006 elections, the PLN replaced PUSC as the dominant right-of-center political party and the Citizen Action Party (PAC) took up the PLN's old left-of-center position in the political spectrum. However, it remains to be seen whether this will result in more stable political ideologies (among individual parties) that in turn lead to a more efficient legislative assembly.[79]

[79] Another problem that needs to be resolved, is a more efficient way of passing bills without excessively long filibustering.

Despite all its financial and political difficulties though, the government has still made some efforts in the right direction, particularly in the area of education. For example, the state-funded National Training Institute (INA) has grown tremendously over the last few years. Since May 2002, it has served about 28 percent of its total students (640,000, or the equivalent of over one seventh of the country's population) due to an increase in funding. This is impressive given that the institute first opened its doors over 40 years ago back in 1965. The institute teaches everything from English to computer training. Over 50 percent of its students have not graduated from high school and its clients vary from women trying to prepare themselves for a career to indigenous groups looking to start tourism projects and export goods. The Maleku indigenous people, for instance, from the province of Alajuela have benefited from course offerings in arts and crafts, English and business, in part because of their own requests. Due to their training, the Maleku are now selling their crafts throughout the country and offering tours of their reserve. This year the institute plans to create a Center for Productive and Competitive Micro, Small and Medium Businesses in conjuncture with the Ministries of Public Education, Economy, and Agriculture. The center's objectives range from product design to marketing to access to credit (Stanley, 2006: 6). This recent accomplishment by the government in spending and inter-institutional cooperation is a strategic investment that will undoubtedly pay dividends for the poor and marginalized long into the future.

However, even with a tax reform, the government will still need additional help from outside actors in order to more efficiently and effectively reduce poverty. Currently, the government has received such help in multiple ways. Fundes, a Costa Rican-based nonprofit organization dedicated to the promotion of small and medium businesses, has reduced the time required to register most small businesses from 45 days to one day in the 14 Municipalities with which the organization works (Goodier, 2005: 15). Meanwhile, the Inter-American Development Bank (IDB) has recently given the country a $116.8 million loan to help small businesses (Kimitch, 2005: 3). There is also the example of ACTUAR among many others. Nevertheless, the government remains the most important actor in poverty alleviation and for the development of the country in general. Indeed, if the state does not receive more money to provide for the wellbeing of its people and if it cannot more effectively regulate the economy and its industries, then the people of this country will face a rising tide of crime, environmental destruction, disintegrating family values and an increase in poverty that will ultimately put the future economy at risk even for the most well off Costa Ricans.

VI. <u>Thoughts on the Future</u>

DR-CAFTA

As Costa Rica hangs on to its social-democratic roots while simultaneously opening up its economy through piecemeal neoliberal reform, the question of how to best develop a sustainable and healthy society becomes ever more pertinent. Neoliberal economic development in Costa Rica, like Latin America in general, has proven disappointing in its ability to reduce poverty because the wealth brought into the society has been distributed unevenly, leaving many people poor while forcing others into poverty through either exploitation or competition. Even worse, most of these people are left with little or no recourse to improve their lives. Within this context, Costa Rican society is divided on whether or not to ratify the U.S.-Dominican Republic-Central American Free Trade Agreement (DR-CAFTA). An extension of neoliberal policies, this trade agreement, as a contract between the United States and Costa Rica, would affect Costa Rica in multiple ways: it would continue to lower tariffs, particularly on agricultural imports, it would open up Costa Rica's state run monopoly on insurance and telecommunications to competition, it would strengthen U.S. property rights in Costa Rica, and it would continue to reduce the government's control over the economy through foreign investment. At the same time, it would further open the U.S. market to Costa Rican imports.

In reality then, Costa Rica faces more than a simple agreement on free trade; it faces a contract involving multiple dimensions of the neoliberal model.[80] Some aspects of the agreement are simply deepening or reaffirming the right for the United States to

[80] The agreement also has similar conditions for each of the other signatory countries. In light of this, DR-CAFTA is essentially several bilateral neoliberal package agreements between each of the involved countries and the U.S.

continue its current level of exploitation under neoliberal policies. Take, for example, article 10.9[81] on performance requirements under the chapter concerning investment. This article stipulates that a corporation from the United States that resides anywhere in Costa Rica is allowed to bring or buy from the United States (or anywhere else) all the inputs it needs, without the obligation of creating backward links to Costa Rican suppliers. As a result, the only obligation of the corporation (besides limited taxes) is providing wages to employees. In this way, the United States reaffirms (and solidifies) that it is acceptable for its corporations to make huge profits through use of the country's labor, with no obligation to share any substantial portion of that wealth with a disadvantaged country. Considering that between 1999 and 2003, 54.1 percent of foreign direct investment (FDI) in Costa Rica came from the United States, this reaffirmation carries a lot of weight for Costa Rica (Antillón et al., 2005: 30).[82]

One of the more immediate concerns of the agreement, however, is that of intellectual property rights. Securing property rights was, from the beginning, part of the Washington Consensus. However, even the Consensus may not have foreseen the way in which the United States contemplates using intellectual property rights to outlaw the sale of affordable generic drugs. According to DR-CAFTA, the U.S. pharmaceutical companies would have exclusive rights to distribute brand name drugs for five years during which time Costa Ricans would not be able to buy the cheaper generic versions of

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[81] The US-DR-CAFTA official text can be found on the U.S. Trade Representative's website http://www.ustr.gov/Trade_Agreements/Bilateral/CAFTA/CAFTA-DR_Final_Texts/Section_Index.html.

[82] Another area where the United States can continue to exploit Costa Ricans without sufficient compensation is through trade liberalization. Chapter four under "Primary Sector" briefly contemplates the potential results of this for farmers.

these drugs[83] (Antillón et al., 2005: 48). With the Costa Rican Social Security System (the universal healthcare provider) in financial hardship, and the cost of medicine rising, Costa Ricans will have to pay more to stay healthy (Fischer, 2006: 5) and the poor may be forced to suffer as a result. Stricter patent laws would affect farmers too. The seed industry, a $30 billion a year business with six companies holding 70 percent of the profits, would have copyright protection in Costa Rica for seed strain patents that exist on some of the most basic agricultural products such as rice, wheat and corn (Fischer, 2006: 5). The patents would be good for ten years (Antillón et al., 2005: 48) and force many farmers to discontinue use of their own seed supplies while only allowing the most profitable to begin buying from multinationals. And even these farmers would be hard-pressed or unable to compete with cheaper imported products due to tariff reductions (Fischer, 2006: 5).

The agreement also threatens to essentially privatize part of the Costa Rican Electricity Institute (ICE) by opening it up to private competition. ICE provides two basic social services that are indispensable for the wellbeing of Costa Ricans: electricity and telecommunications. While neoliberal supporters see the competition as a way of forcing ICE to increase efficiency and lower costs, others feel that many poor people will suffer in the end. Take telephone service for example. Currently, ICE provides services to the poor at below cost and covers these costs by making higher profit margins in more lucrative settings where businesses and families can afford to pay more. However, the competition, it is feared, will provide cheaper services in the more lucrative settings,

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[83] While Costa Ricans may have the opportunity to enforce copyright laws in these areas on the United States, its ability to do so is almost non-existent. To give you an idea of the asymmetry between the two countries, in 2002 the number of patents granted to Costa Rican nationals was two. In the United States, for that same year, the number of patents granted to U.S. citizens was 84,271 (Antillón et al., 2005: 45).

thereby undermining ICE's ability to provide what is considered a universal service by the state. While DR-CAFTA explicitly recognizes the state's social objectives of universality and solidarity, and mentions the need to create a regulatory agency that would have jurisdiction over the granting of licenses to new participants in the market and rate establishment, many doubt whether the government will be able to set up a sufficiently strong institution so that ICE can continue to provide its services to poor populations (Antillón et al., 2005: 51-53). Moreover, even if ICE is able to do this, it will likely be with significantly less profits from which to work from and with the potential need for government subsidies.[84]

In the end, DR-CAFTA reaffirms and deepens neoliberal policies that have up to this point brought inequality to the country and ignored the wellbeing of many of the nation's poor. Although the agreement on balance would likely increase poverty in the nation, the country can pass legislation that would help offset the agreement's negative affects, and may allow the country to lower poverty rates despite ratification. With or without DR-CAFTA however, the state needs to make these changes. Most of the areas in which the country could use this legislation have already been touched upon. In particular, the country needs a tax reform that would help facilitate continued increased investment in education, more social spending, the strengthening of small and medium businesses, and stronger linkages between various enterprises within (and also between) different sectors of the economy. In addition, different state institutions need to become more efficient in their functions as providers and regulators to make better use of limited money. Furthermore, environmental legislation needs to be strengthened and more

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[84] Automobile insurance and job risk insurance also would also be privatized making it imperative to establish an independent regulatory agency for insurance as well (Antillón et al., 2005: 53-54).

strongly enforced, especially in light of the developing tourist industry. Once DR-CAFTA is ratified, new laws that would violate provisions of the trade agreement cannot be passed. This would in effect prevent stricter environmental legislation (or labor legislation) from being approved (Gabriela Díaz, 2005: 5) because of the detrimental affect it would likely have on the earnings of U.S. companies. If there are disputes over the legitimacy of a law under DR-CAFTA between a TNC and the Costa Rican government, the problem must be resolved outside Costa Rican courts, thereby weakening the government's ability to enforce its own laws and costing the state money to resolve the issue.

Unfortunately, with a new president (Oscar Arias) and a new composition of congressional representatives in the legislative assembly that view DR-CAFTA in an overall favorable light, Costa Rica will likely ratify the agreement in a matter of months, despite stiff popular opposition. Even more regrettably, Arias has not yet mentioned an intention to open discussions regarding how the country can prepare for the adversities to development that DR-CAFTA would create. Nevertheless, to his credit, he has made a commitment to improvement in public education in addition to using foreign investment to fund critical areas of government policy, such as social spending to relieve extreme poverty (Fischer, 2006: 5).

The Larger Picture

The hardships facing Costa Rica manifest themselves in terrible and unique ways throughout Latin America. They are the result of the discrimination inherent in the neoliberal economic model and they are perceived through inequality and sustained poverty. This is primarily a systemic problem that takes on a life of its own through the desires of individuals to earn a profit in a cutthroat world of competition, fueled by consumers' desires to choose the lowest price possible on goods or services that by all other accounts are perceived to be equal. However, the lower economic cost generally reflects not only increased efficiency through economies of scale, but also the use of lower cost labor and often the exploitation of the environment, particularly on the part of transnational companies located in developing countries for the benefit of the consumption patterns in more developed countries. The United States, for example, would not be able to achieve its current average standard of living if it did not take advantage of the labor and resources of less developed countries.

Consequently, we take more than we give to these countries. Over the last decade or so, Costa Rica has maintained low levels of poverty more in despite of cheaper imports, increased exports and foreign direct investment than because of them. As long as the primary interest of foreign investors is to make money, with a false notion that the side effect on the nation's people is, on balance always positive, and as long as those that stand to win in the developing country see a market-run economy in the same light, then the poor and vulnerable will continue to be exploited. While minimum wage jobs may allow employment for poor people who would otherwise not have a job, the income generally is not enough to end that poverty. Meanwhile the reduction of the size of the state and the loss of agricultural jobs has displaced many people with previously decent incomes.

Indeed, the market has done little to cure the ills of Costa Rica. Strong investment in health and education are key components to reducing poverty that FDI does little to support because such an investment is not lucrative in and of itself. It takes a state with sufficient funds to maintain the health of the poor so that they can achieve an education and earn a better job. Electricity, sufficient housing and affordable water are also necessary to provide for the poor. Indeed, the poor will not attend school if they must work all day to achieve what they deem is a minimum level of comfort, which in this day and age often involves electricity, water and phone bills. The cost of school only makes this problem more severe. Poor people are also at a disadvantage because the lower level of education in their families makes it harder to find support for homework. Finally, a lack of interest in formal education due either to uninspiring educators or because of dissonance between the work involved in completing education and its relationship with the promise for a better future, create a situation where students drop out. In a survey completed in Costa Rica in 2001, 71.6 percent of Costa Rican students aged 12 to 17 cited their absence from school was primarily either because of work (11.6 percent), because they were not interested in formal education (27.9 percent), because studying was too hard (11.9 percent) or because they could not pay for their studies (20.2 percent) (Castro, 2002: 21).

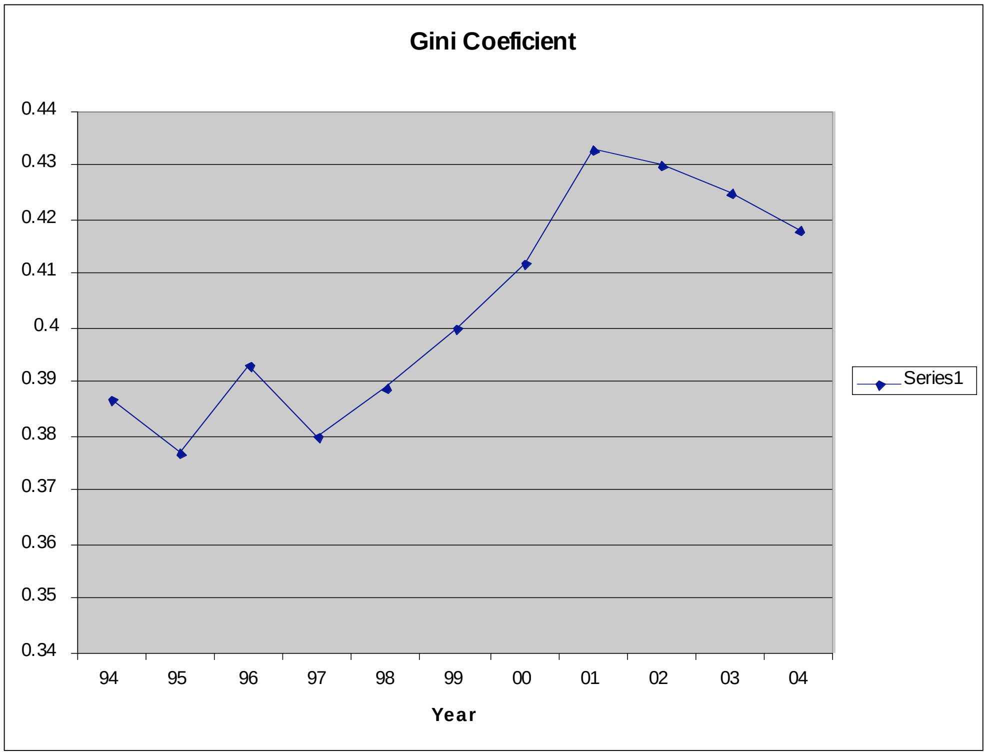
However, in order to provide a strong investment in health, basic services and formal education for the poor, the state must find financing. While taxation on income is one method, state-owned services such as telecommunications and insurance provide another way for the government to redistribute wealth to the poor in a strategic manner. However, the government, with the help of non-profits and other good-willed organizations also has the responsibility of informing and empowering the poor of possible methods of sustainable community development. Costa Rica, as a welfare state, has always tried to provide for its poor, but has insufficiently tried to help them help themselves in a coordinated manner. With sufficient education, access to credit and community coordination, the marginalized have the opportunity to become vibrant, thriving citizens and residents by taking strategic advantage of local assets in relation to domestic and international demands for various products or services. In this way, communities can design job-based poverty alleviation strategies that best fit the social and cultural needs of the community (under the guidance of labor and environmental laws of course). This would also have the additional advantage of helping alleviate the social disintegration plaguing Costa Rica as seen through increased crime and more female headed poor households—both of which, as we have seen, have ways of blocking poverty alleviation.

Nevertheless, the exploitation of individuals and communities in Costa Rica and around the world will probably not disappear anytime soon. However, Costa Rica has some advantages that other developing countries do not have which the country can use for its benefit. In particular, the country has an abundance of natural attractions, some unique cultures and a stable image that attracts tourists. It also has a government that is still capable of providing significant resources for its disadvantaged. Even so, the country as it exists within the current neoliberal paradigm remains vulnerable to the international winds of change. While exports and imports can provide opportunities for development and growth that could not otherwise be achieved, they simultaneously create an economy that is vulnerable to changes in demands, supplies and costs of goods and services. In other words, periods of prosperity are vulnerable to bust. In a small, open economy like Costa Rica, the country can diversify its imports and exports only to a limited degree so as to reduce risk. Even so, certain commodities like petroleum have far-reaching effects on all aspects of the economy. Given this, it would be wise for Costa Rica to maintain some economic self-sufficiency in areas of life essential to health such as production of food or energy sources, but preferably with as little degradation to the environment as possible. While the country may never be able to escape poverty in a sustainable manner in the foreseeable future, it can at least avoid the worst pitfalls of neoliberal globalization.

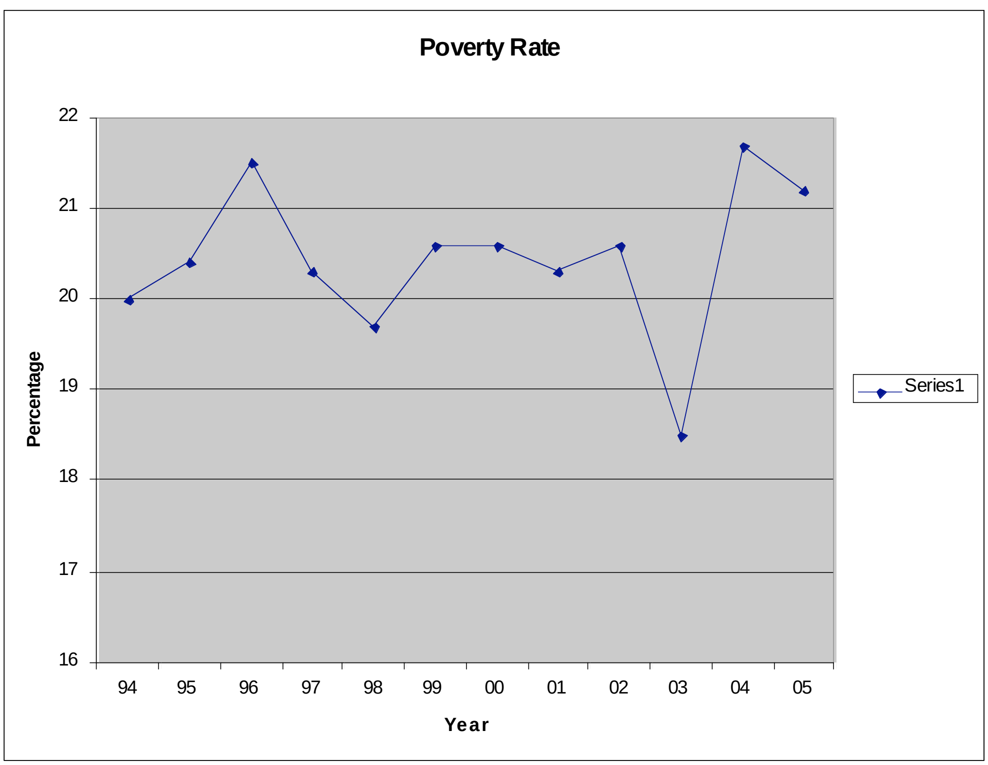
APPENDICES

A. Graphs of Economic and Social Indicators of Costa Rica

Source: Banco Central de Costa Rica



Source: Proyecto Estado de la Nación (2004, 2005)



Source: Instituto Nacional de Estadísticas y Censos (2005b)

B. A List of Acronyms

DR-CAFTA (U.S.-Dominican Republic-Central American Free Trade Agreement)

ECLAC (Economic Commission and Latin America and the Caribbean)

FDI (foreign direct investment)

FTA (free trade agreement)

FZ (Free Zone)

GPD (gross domestic product)

IMF (International Monetary Fund)

ISI (Import Substitution Industrialization)

NAFTA (North American Free Trade Agreement)

NGO (non-governmental organization)

R & D (research and development)

SME (small and medium enterprise)

TNC (transnational corporation)

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