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The Economic Development of Costa Rica, 1945-95

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Introduction

The main purpose of this paper is to present a consistent overview of the economic development of Costa Rica during the last fifty years In doing so, one must be aware of the difference between economic growth and economic development Thus, while the former refers to a rise in gross domestic product (i e production of goods and services in a nation), by whatever means, economic development means something else, that is, fundamental changes in the structure of the economy For example, the rising share of industry, along with the falling share of agricultural, in the GDP, what it is possible only through increases in agriculture-labor productivity

In all this process people of the country must be major participants in both enjoying the benefits as well as producing those benefits, what Gillis et al (1992) call a *development continuum* So, actions to reach a good income distribution and a reduction of poverty should be part of the policies package Nevertheless, it should be pointed out that economic growth is the key for an economy to reach the multidimensional process involving major changes in social structures, popular attitudes, and national institutions, as well as the reduction of inequality and poverty That is, there can be no development without economic growth

Given the period covered and the events that happened in Costa Rica during the last fifty years, I divide these fifty years in four specific periods The first one goes from 1950 up to 1962 and it is called the last days of the agro-exporting model of development in Costa Rica[1] The second period (1962-70) starts with the implementation of the import-substitution industrialization strategy of development in Costa Rica (ISI) and its joins to Central American Common Market (CACM) as part of the Economic Commission for Latin America (ECLA) proposed strategy (ISI-1) The third period goes from 1970 up to 1984 and it is characterized by both high government intervention and two main foreign shocks, oil-crisis and coffee booms This period is called the state dirigisme within the import-substitution industrialization model (ISI -2) Finally, in last period, called new economic development model of Costa Rica (NEM), I comment on the outcomes from changing the earlier model towards an opening-oriented growth strategy, based on an opening process of the economy instead of a simple liberalization of trade barriers This strategy still has, however, some caveats such as state monopolies

[1]Another way to call the economic model during this time is the last days of the export-led growth model of the pre-1930 period

and a domestic price-distorted protectionism scheme for both good and service activities [2]

In trying to understand the reasons behind model changing, on the other hand, I discuss in addition to quantitative indicators of what had happened, the main strands of development thinking by politicians and other non-economists as well as interest-group considerations in each one of the phases of change In short, I present evidence that support the hypothesis that a change of model in Costa Rica has only occurred when three events simultaneously happen an external shock, the impossibility of current model to overcome the negative effects of the shock, and a key group of technocrats that undertake actions in a way consistent with necessary changes [3]

The paper is organized in six sections The first four sections discuss each one of the periods cover by the paper, respectively There I address the question of what has been the government s role in the evolution and configuration of the economic situation in Costa Rica since 1945 up to 1995? In so doing, an analysis of the relationship between government behavior and economic performance of Costa Rica is done, focusing on trade flows shifting, balance of payment situation, size and role of government, employment, income distribution, and specific sectors' performance Two additional questions addressed there are where USAID fit into the competition among interest groups in Costa Rica in each one of the studied period? and whose side was AID on?

Section V presents a description on Costa Rican standard of living changes during the last fifty years, based on census data, secondary references as well as a community analysis So, one can reach some ideas on how development has occurred in this country The last section, Section VI, presents the concluding remarks

Section I The Last Days of the Agro-exporting Model in Costa Rica 1950 - 1962

The recent history of economic development in Costa Rica can be divided into three episodes or strategies of development (a) the agro-exporting model (AGM), (b) the import-substitution strategy (ISI), and (c) the opening-oriented strategy or new

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[2]Damill and Keifman (1992) claim that it is important to distinguish between "opening" and "liberalization", since the former applies to a policy package designed to orient an economy towards international markets as part of an export-led process, while the later concept refers only to the dismantling of protective barriers and other government controls as part of an import-led process

[3]This approach includes a political point of view, which goes beyond traditional economics to study, among other things, the social and institutional processes through which certain groups of economic and political elites influence the allocation of scare productive resources now and in the future, either exclusively for their own benefit or for that of the larger population as well

economic model (NEM) [4] This section briefly describes the last days of the first one of these models, doing a political economy analysis of the changes in Costa Rica since 1950 up to 1962 Here, I attempt to analyze the extent to which the changes faced by this economy have been the result of maintaining historic patterns of preferential "treatment" for particular groups, consistent with the requirements of changing market and political realities, both at home and abroad

I assume that Costa Rican economic agents, as with other agents in the world, have all the time followed market signals in order to allocate their scarce resources among alternative investment opportunities They have been consistently capable of identifying and exploiting investment opportunities through a careful evaluation of market conditions and anticipation in satisfying consumer needs They have followed signals resulting from changes in consumer choices and in technology, as reflected by the prices of final goods, intermediate goods, inputs, and factors of production Unfortunately, these signals have been often distorted by Costa Rican authorities through taxes, subsidies, price controls, and macroeconomic policies during all the period under study Thus, through wrong government interventions this economy has faced misallocation of resources and welfare costs for the society as a whole

From the early nineteenth century and for more than one hundred years, Costa Rica adopted an agro-exporting model of development This model was the result of the social and political conditions of this country during its colonial period

One of the most important characteristics of Costa Rican history is that, unlike the rest of Central America, during colonial times, settlers had no Indians to enslave or a surplus of precious metals to export These two factors, along with geographic isolation, led to the development of what Seligson (1980) calls a strong yeomanry As a result, Costa Rican society from 1600 to 1800 was a rural democracy, in which class distinctions of any kind were almost absent (Monge Alfaro, 1980)

Isolation and low productivity meant very poor economic conditions during the colonial times It was not until this country obtained its independence from mercantilism Spain in 1821, and thanks to the coffee activity introduced at the beginning of the nineteenth century, that Costa Rica found its engine for economic growth Although attempts had been made earlier to produce and export other agricultural goods, such as cacao and tobacco, the scarcity of labor, the frequent pirate and Indian raids, and the

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[4]Even no every body agree on agro-exporting strategy of development as a model, it is commonly accepted that economic policies in Costa Rica, as in most Latin American countries, were guided by the classical theory of international trade until the Great Depression (Corbo, 1992) An issue I am interested in pointing out from calling so such an model

poor quality of the tobacco leaf prevented Costa Rica's economic growth (Gonzalez-Vega and Cespedes, 1993)

Six factors contributed to the fast growth of the coffee activity after independence (a) most of the country was uninhabited, (b) land was unexploited, (c) mercantilistic regulations on coffee exports or heavy taxation were nonexistent, (d) public and private initiative combined to create the required physical infrastructure, (e) an institutional organization that would promote the new crop while preserving the existing social structure was adopted, and (f) a very high productivity per hectare was achieved for this crop (op cit)

The coffee activity was very important in the establishment of what has been called the *coffee social contract*, which consisted of the privatization of land, the development of small, independent farmer-proprietors who consolidated the country's rural democracy, through the co-existence and development of large and small coffee producer relationships

During the implementation of the AGM, another agricultural activity of importance was the banana industry Unlike coffee, the latter was not directly integrated into the rest of the Costa Rican economy, this activity was developed as an enclave Thus, whereas the banana plantations experienced labor conflicts, in the coffee activity small producers not only survived along with large landowners, but were also helped by them, since their crops were very important in order to satisfy the international demand for this product This was so, since large coffee producers were at the same time who sell this product at international markets

In summary, during the agro-exporting model of development, given Costa Rica's endowment of natural resources, a relative abundance of unskilled labor relative to capital, and the demand for primary goods by industrialized countries, Costa Rica used its comparative advantages in order to produce and export agricultural commodities that would require a very low degree of industrialization, such as coffee, bananas, cotton, sugar, and beef (Figure 1) All of what is consistent with the classical theory of international trade

From an economic point of view, the last days of the agro-exporting model can be considered satisfactory Indeed, major macroeconomic indicators show a good performance of Costa Rican economy during that period The real GDP grew 4 3 percent from 1950 up to 1962, while the per capita real GDP grew only 0 7 percent, but real per capita-apparent-consumption did it at 4 7% (Table 1 and Figure 2) [5]

The openness of Costa Rican economy, on the other hand, was very important during this period, where the sum of exports and imports accounted for 45 percent of the GDP as an average during the period 1950-62 Besides, exports grew at 1 9 percent as an average during whole the period, while imports grew at 5 3 percent, what allowed a rise of real per capita-apparent-consumption during those years (Figure 2)

Inflation rate was only 0 3 percent during all the period The little deterioration of trade balance pressure on the exchange rate (Figure 3), but because the external debt grew 6 5 percent per year, representing 13 percent of the GDP during all the period, devaluation was only around 6 8 percent (Table 1) Indeed, from Figure 4 one can conclude that external debt remained stable during most of the AGM Government deficit, on the other hand, was a little more than one percent of the GDP per year, what meant an stable financial situation for Costa Rica during the AGM

A predominant structural characteristic of development in the Costa Rica case is the growing share of both income produced and labor employed in industry Indeed, from 1950 up to 1963, agricultural share in the GDP has been reduced substantially from 40 9 percent to 25 9 percent, while all other sectors except two (manufacturing and banking) increasing their share, respectively (Table 2) A similar result is also obtain if one uses labor instead of output as variable (Table 3)

Two additional points that are worthy to comment here with respect to the labor market during this period are first, the share of people working in the public sector increased significantly, passing from 6 1 in 1950 to 13 3 percent in 1963, what means a significant public sector expansion even before the implementation of the Import-Substitution Strategy of development (ISI) at the beginning of 1960s (Table 3) At the same time, the unemployment rate almost doubled, during the same period (7 percent) In short, it seems that public sector expansion begun while the AGM was still in place in Costa Rica, at the end of the 1960s, and that even such expansion was not enough to bring out an equal unemployment rate to that from 1950

In general, up to 1962 Costa Rica economic situation was in several aspects better than twelve years ago, real percapita GDP account for US$1399 1, inflation was nonexistent (-0 6%), and trade deficit was only 4 2 percent of GDP Some negative

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[5]Some authors claim that in order to measure the growth of an economy economists estimate the growth of real GDP rather than the growth of real gross national expenditures Since GDP include exports but not imports, whereas expenditures do just the opposite, the growth rate as conventionally measured omits much of the growth in the gains from trade (Bailey, 1991) Thus, in what follows I will comment always both the growth of real GDP per capita and real apparent-consumption per person

outcomes, however, has to be mentioned an external debt that account for 66 percent of total foreign earnings This outcome was the result of a continued government deficit (Table 1), which could not offset a high unemployment rate (7 0 percent)

From a political point of view, on the other hand, the behavior of the Costa Rican government during this period can be considered consistent with what Rausser (1982) has called PERTs approach[6] Indeed, the government played an important role in the development, evolution, and strengthening of the agro-exporting model, by securing the availability of land and its use for the exporting activities through an adequate definition of property rights In addition, it helped in the supply of the infrastructure required by the exporting activities, such as roads, railroads, ports, and the like (Lizano, 1992)

All this behavior was supported by the aid coming from U S government since this focused on technical assistance to Costa Rica, through projects in agriculture, health/sanitation, public administration, education, transportation and housing Thus, the main goal of US help during this period was, therefore, to reduce transaction costs in this economy

Costa Rica's government behavior, on the other hand, was consistent with PERTs until the Great Depression At that time, Costa Rica was very vulnerable to the fortunes of coffee exports, since coffee accounted for more than one half of total export earnings, the other one-half came from bananas Consequently, the National Association of Coffee Growers, created in 1930 mainly by larger producers who did not own *beneficios* (huller or processing plant), pressured for government action (PESTs) that interfered in the relationship between producers and exporters, achieving lobbying success in 1933

The last days of the agro-exporting model responded to several factors Some Costa Rican economists have claimed that the strategy ended (a) because the model faced some cracks and social problems, and (b) due to the deterioration of the economic and financial interests of the agro-exporting groups, which started in the 1930s and

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[6]Rausser has differenciated two terms Political Economic Resource Transactions (PERTs) and Political Economic-Seeking Transfers (PESTs), in studying the role of the government in an economy According to him, government interventions can be called PERTs if they are undertaken in order to reduce the transaction costs of the private economic system and improve welfare With PESTs, on the other hand, government interventions are consistent with the predatory theory of the state, which sees government as a *gigantic transfer mechanism* for redistributing wealth and income among different members of society That is, government has no separate autonomy, but is manipulated by powerful interest groups seeking their own welfare, to the detriment of society as a whole (North, 1990)

continued through World War II According to this point of view, the fall of agricultural commodity prices in world markets, followed by the War dealt a big blow to the Costa Rican dominant groups Thus, they began to search for alternative investment opportunities that would not necessarily replace their traditional activities, but that would generate additional incomes (Lizano, 1992)

Another point of view about how the agro-exporting model ended in Costa Rica argues that, in addition to the fall of agricultural commodity prices in world markets, from the end of the nineteenth century onwards a new rural middle class emerged thanks to the (market-determined) distribution of wealth within coffee activities This middle class continued to expand, as economic diversification and structural transformation progressed, with the growing domestic market size Further, this middle class, formed by small trade and manufacturing entrepreneurs, artisans, professionals, teachers, technicians, white-collar employees, and managers began to actively participate in the political dialogue (Gonzalez-Vega and Cespedes, 1993) When these groups came into power in 1948, a change in the strategy of development was initiated and was fully established by 1959, after new reductions in world coffee prices and a significant deterioration on the terms of trade (Figure 5)

The end of the agro-exporting model in Costa Rica constitutes a good example of a political economy event, since as showed before, political and economic markets were not completely separable Thus, neither are its economic characteristics enough to explain all forms and shapes of government intervention during that period, nor were these restricted to pure lump-sum transfers all the time Actually, some PESTs emerged towards the end of this period In general, however, government intervention was more consistent with the Political Economic Resource Transactions (PERTs) approach than with the Political Economic-Seeking Transfers (PESTs) approach

In short, one can conclude that the end of this model has been the result of three necessary and sufficient conditions First, some foreign shocks such as the Great Depression and terms of trade fall (Figure 5), second, structural caveats of the model to face successfully such foreign events, and finally, a group of Costa Rican that understood the situation and proposed solutions trying at the same time to put then in practice That is, a broader conception of how the country could solve its economic and social problems, along with an important spectrum of people believing in it, although this may still be wrong

Section II Costa Rica in the Central American Common Market (ISI-1) 1962 - 1970

After the civil war of 1948, some interest groups pursued new legislation to promote activities beyond the traditional exports and a new strategy of development was chosen import-substitution[7] Both domestic and external factors contributed to the establishment of the import-substitution strategy in Costa Rica Krueger (1991) claims that " there were essentially three basic ideas underlying support for industrialization through import substitution in developing countries The first of these was the infant industry argument The second was pessimism about the possibility of developing exports of primary commodities And the third, related to the second, was Arthur Lewis theory of surplus labor" (p 5)

On the other hand, following Corbo (1992), Costa Rica was forced to adjust as a result of these large external shocks and the lack of foreign financing Facing such a situation the country had three adjustment policies or policy combinations available to it First, reduce money within the economy -monetary contraction- and through domestic deflation reducing imports and increasing exports Secondly, to alter the exchange rate so as to accelerate the switching of expenditures, without waiting for domestic deflation And third, to encourage selective switching through import restrictions, combined with exchange controls and expansionary demand policies

Costa Rica as well as many Latin American countries ended up following the third option, which discriminates imports through trade restrictions (tariffs and non-tariff restrictions), also adopting expansionary demand policies and exchange rate controls The first attempt toward industrialization in Costa Rica was undertaken in 1940, through passage of the New Industries Law which, according to Gonzalez-Vega and Cespedes (1993), granted limited tariff and tax benefits to new manufacturing endeavors This legislation was in effect during nineteen years and promoted the development of industries with high national value added Indeed, the duty free import of inputs not produced in the country was granted only if the share of such inputs was less than 25 percent of the total value of raw materials used

The Chamber of Industry, organized in 1943, became an influential interest group By 1953, this Chamber had about one hundred affiliates, when it proposed a draft of a new industrial promotion law In contrast with the 1940s legislation, it proposed relaxing the requirement of domestic raw materials to be used in the industrial process It also included as benefits to firms tariff protection and, for the first time, privileged access to credit from the nationalized banks Since coffee prices where very high by 1953, however, such initiative did not find support in the Costa Rican Congress (Figure 5)

It was not until 1959 that Congress approved a new industrial promotion law,

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[7] For more details about these events, including the civil war, see Gonzalez-Vega and Cespedes (1993)

which granted significant fiscal incentives to manufacturing activities Such legislation though reflecting the idea that industrialization should be based on the use of domestic raw materials, granted a full slate of incentives including, for the first time, exemption from income tax and national and municipal taxes on invested capital

As shown in table 2, during the first period of manufacturing development in Costa Rica (1950 - 1962) this sector grew three times more than the agricultural one, and for the period 1962-70, it grew twice the agricultural sector Besides, agricultural share in total GDP decreased during both periods Although, one could conclude that the dynamic growth element, instead of being the export sector (mainly primary goods), was private and public investment in import-competing industries, during all these periods, this is not necessarily the case Indeed, Jung and Marshall (1985) conducted a Granger "causality" test between exports growth and output growth, using data from 1960 up to 1980, and found that total exports growth causes GDP growth in the case of Costa Rican economy Besides, as it is showed in table 4 and figure 1, between 1951 and 1970 more than 75% of the total Costa Rican exports were primary commodities, which had not been exported to CACM but towards third markets

External factors strongly contributed to the adoption of the new strategy of development (ISI) (a) the movements toward industrialization started in Guatemala and El Salvador in 1951, (b) the proposal of the United Nations Economic Commission for Latin America (ECLAC) regarding the formation of a Central American Common Market (CACM), (c) the downward trend of coffee prices from 1953 to 1961 and the consequent deterioration of the terms of trade (Figure 5), and (d) the pressure coming from the United States that Costa Rica join the CACM [8] Indeed, the US Government pressured Costa Rica to join the CACM as a pre-condition to have access to the Alliance for Progress Program (McCamant, 1968) All these factors not only favored passage of the new industrial promotion law in 1959, but also the accession of Costa Rica to the CACM at the end of 1963, even though Costa Rican manufacturing sector was reluctant to incorporate to CACM, since its members felt that they could not survive against the competition of countries like Guatemala or El Salvador (Melendez,1994) [9]

The U S government played a major role in the implementation of the ISI in Costa Rica not because it lent money to develop industrial projects, but because its aid to Costa Rica was partially coupled whit the ideas underlying the new strategy of development Thus, as discussed by Fox in the next chapter, during this period in which

[8] Although such a pressure was only from 1961

[9] An analogous argument had been used by manufacturing entrepreneurs during the recently trade reform in Costa Rica, this time with respect to third-countries (i e outside CACM)

U S Government created the U S Agency for International Development (AID), it supported regional economic integration among Central American countries From a political point of view, the need to prevent another Cuba may perhaps have played a key role for US government to accept economic integration, even though such a policy could hurt american manufacturing exports toward the region (Mata, 1995)

Some economists claim that by recognizing the basic limitations of an import-subtitution strategy of development for a small country like Costa Rica, it was argued that establishing a closed block of countries, such the Central American one, this could overcome the welfare losses associated with the strategy Besides, a larger market would help industries to exploit scale economies, and therefore, grow faster

With respect to the above claim, it is worthly to remmember that from an economic perspective protection to one activity implies a burden on other activities that does not enjoy the same level of protection [10] Thus, according to Lerner (1936), an import tariff is at the same time an export tax of the same magnitude, given its impact on relative prices Following the *shifting analysis* developed by Sjaastad (1980, Clements and Sjaastad 1981, and Greenaway and Milner 1984), an extension of the Lerner theorem to take into account the role of home (nontraded) goods, an import tariff increases the price of nontraded goods with respect to tradables and implies a loss of the export sector's purchasing power in terms of home goods (Sjaastad 1980)

If protection to import-competing activities hurts exporters, a question that must be answered in the present context is why the agro-exporting groups did not strongly oppose the modification of the former strategy, if they knew that such change would hurt them? As pointed out by Gonzalez-Vega and Cespedes (1993) from 1951 to 1963 there was strong opposition by the traditional exporting groups to entry into the CACM and to forced industrialization in Costa Rica Once it became inevitable that protection was going to be adopted, however, these groups reacted and took advantage of the new opportunity to earn rents Thus, the agro-exporting sector had the ability to compensate for the higher costs coming from protection, in producing commodities for export, with the greater gains from the diversification of their portfolio, as they invested in the highly protected manufacturing activities geared to the domestic market as well (Lizano, 1992) At the same time, pronounced competitive advantages in the main export crops (coffee and bananas) allowed them to continue earning high profits, in spite of the Lernner symmetry theorem prediction What was really hurt by the new strategy was the potential emergence of new, non-traditional exports

The outcomes of the period from 1962 to 1970 within an import-substitution

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[10] That is, the *Lerner symmetry theorem* (Lerner, 1936)

model, ın terms of output growth and per capıta GDP growth measured at domestıc prıces, were "favorable" [11] Indeed, the rates of growth of real GDP and per capıta GDP were 5 8 and 1 8 percent per year, respectıvely, whıle real apparent consumptıon grew 4 7% All these ındıcators are hıgher than those from the last days of the agro-exportıng model (Table 1) Although exports grew at 8 4 percent, as an average, that ıs, a rate several tımes more than that from the prevıous perıod, ıt ıs ımportant to poınt out that whıle the whole world was growıng up very fast, Costa Rıca chose to ısolate ıtself along wıth the rest of Central Amerıcan countrıes Thus, welfare ımprovements and sustaınable economıc growth opportunıtıes from potentıal non-tradıtıonal exports were forgone [12]

Along wıth exports growth ımports grew faster durıng thıs perıod (10 0%) The exchange rate stood almost unchanged durıng all the perıod so, as shown ın Fıgure 3 a deterıoratıon of the trade balance resulted Accordıng to table 1, the deficıt ın the trade balance passed from US$ 75 8 mıllıons ın 1962 to US$ 242 9 mıllıons ın 1970, ın real terms Consequently, the external debt ın thıs economy grew sıgnıficantly (Fıgure 4), representıng a burden of almost 20 percent of the GDP per year, and 70 8% of total foreıgn earnıngs at the end of the perıod (Table 1)

In general terms, the Costa Rıcan economy was not more open durıng the first years of the CACM than a decade before Indeed, accordıng to the openess ındıcator (ı e the share of the sum of exports and ımports on the GDP) thıs had not ıncreased so much between both perıods Fınally, gıven government's role as promoter of development and an unhealthy fiscal system, as descrıbed by Vargas, ıt ıs not surprısıng that government deficıt ıncreased ıts share ın the GDP, passıng from 1 4 percent per year durıng the AGM up to 3% durıng the ISI-1

As a result of the ISI-1 manufacturıng share ın GDP grew from 1963 up to 1973, reachıng a 18 7 percent ın the last of these two years Although agrıcultural sector grew durıng the same perıod, ıts share ın GDP decreased A result consıstent wıth tradıtıonal wısdom on a characterıstıc of a developıng country's progress towards a better state of development Besıdes, as claımed later on by Pomareda, sınce food-

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[11] It ıs often forgotten that durıng these years a hıgh protectıon level exısted ın the Costa Rıcan economy, so prıces were no longer close to those from ınternatıonal markets Thus, whıle ın the AEM prıces were close to those from world markets, a hıgh prıce-dıstortıon was ın place durıng the ISI-1 and ISI-2

[12] In fact, as shown by Monge (1993) and Monge and Gonzalez (1994), any protectıon to ımport substıtutıon means an ımplıcıt tax on Costa Rıcan exports Thus, from any tarıff 48 percent ıs shıfted as ımplıcıt tax on non-tradıtıonal exports and 68% as new burden on tradıtıonal ones Therefore, ISI prevented tradıtıonal exports to grow faster as well as the development of new non-tradıtıonal foreıgn sales durıng such a perıod

processing activities are included in the manufacturing sector and not in the agricultural one, the later's relative importance is hidden in some extend when using data from table 2 or figure 1

In the labor market an important unemployment rate was registered in both years 1963 and 1973 (i e 7 0 and 7 3, respectively), even though the increase in the share of the public sector in total employement (Table 3) Along with government expantion, Costa Rica developed also in the political and social field through strong government intervention (Lizano, 1995) The accompanying enlargement of government, however, was not a major concern then, since the costs to producers generated by the inefficiency of government institutions were easily transferred on to consumers, through increased manufactured commodity prices, which enjoyed a very high level of protection from foreign competition, and because much of the government expansion was financed with foreign borrowing (Gonzalez-Vega, 1989 and Figure 4)

In summary, the shift toward the import substitution strategy of development required substantial government intervention (PESTs) During this period, government behavior responded to pressure groups

(a) to isolate the Costa Rican economy from foreign competition, through protectionist tariff and non-tariff barriers to imports (to be achieved within the framework of the CACM),
(b) to adopt a set of additional policies to encourage the domestic production of import-competing goods, including duty exonerations on imported inputs, income tax exceptions, direct subsidies, preferential credit and price controls,
(c) to promote integration programs among the Central American countries, in order to enlarge the relatively small size of the protected domestic market and thereby increase opportunities for investment and specialization, and
(d) to participate as a direct producer in so-called strategic activities, through the public investment corporation (CODESA), that not only competed with private activities but also had unrestricted access to Central Bank credit (Gonzalez-Vega, 1989) [13]

Government intervention through the enactment of new laws, regulatory controls, and the like generated opportunities for DUP activities to arise, as shown by Krueger (1974) and Bhagwati (1980) in other country cases The rents earned as a result of these DUP activities introduced all kind of distortions in the Costa Rican economy, resulting

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[13]An important feature of this government intervention was the fact that "between 1976 and 1983 none of CODESA's subsidiaries ever made a profit, while the accumulated loss (CR$ 2 059 million) represented 35 percent of all of their assets" (Gonzalez-Vega and Cespedes, 1993, p 198)

in an inefficient allocation of resources and a negative impact on output growth as well as reduced welfare for most of the population (Monge, 1994) Government actions were in the service of the interest groups that received most of the rents, this case from the import-substitution model If Lizano (1992) is correct, these were the same groups that benefited the most from the agro-exporting model Other observers claim that new interest groups arose within the import-substitution strategy of development, who had no prior links to the agro-exporting sector Such groups adopted the new strategy to modify forces in the political arena as well (e g , create a class of public employees) and replace the old agro-exporters with new state-sponsored businessmen (Gonzalez-Vega and Cespedes, 1993)

Whichever the composition of the interest groups that promoted the new model, mostly former agro-exporters or the new entrepreneurs, they were successful in shifting the country's strategy of development New interest groups gradually emerged as a result of the new strategy, such as the urban labor force (workers in manufacturing), the bureaucracy (fueled by growth of the public sector), the industrial middle class, and the professional middle class (managers, economists, lawyers, technicians) who attempted to capture a larger portion of the pie through their participation in the political process [14] A high degree of participation by these new groups in the political arena and in the distribution of the economic rents so created characterized the system, in addition to a high degree of misallocation of resources and welfare losses, especially for the poor (Lizano, 1987)

Although government was a promoter of the nacional development during this period, it grew so much, and therefore, had undesirable consequences for Costa Rica As pointed out by Lizano (1995), the "social democracy" conception of the government felt prisoner of interest groups, so government was organized and used by these groups for their own benefit Consequently, the original model evolved toward a populist and guilds-man model based on paternalism, because it had a very broad set of instruments to control the economy In short, it became an ***intervening, promoting, distributive mechanism of rents and a producer***, in contrast to the ***regulator*** role that it had played during the agro-exporting model Even worse, the government was no longer a key element for development but it became an obstacle and a shackle for it (Lizano, 1992)

Section III State Dirigisme within the Import-Substitution Model (ISI-2) 1970-84

[14] In Costa Rica this process is characterized by democratic procedures formal and informal negotiation rounds are common, and new collective organizations (labor unions, chambers of businessmen, professional associations, community organizations, cooperatives, and others) increasingly take part in policy decisions

Dunng the last fourteen years of the ISI model, real GDP grew only 2 6% per year This rate is lower than that from the first period of the import-substitution strategy (1962-1970) It is worthly to point out, however, that in per capita terms Costa Rican economy continued steady growing up to 1980 (Figure 2), in the following two years the economy real GDP strongly felt and since 1983 it begun recuperating, so per capita real GDP decrease at a rate of 0 2% per year during the ISI-2 period Besides, per capital real apparent consumption grew only 2 1 percent per year during this periods in contrast to 6 4% as an average during the ISI-1 period

Although during the ISI-2 exports grew to a rate less than haft of that from the ISI-1 (3 8% vrs 8 4%), once again were the exporting sector who led the economic growth of Costa Rica, from 1970 up to 1984 Manufacturing sector and services grew more than agricultural sector (Table 2) For the first time the manufacturing sector contributes more than agriculture in the GDP, but the latter was still the most important employer in this economy, hiring 35 percent of the total labor force Besides, since manufacturing sector is relative capital-intensive government had to hire new incumbents from the labor market so, almost one out of five Costa Rican employees worked for the government or public institutions during the ISI-2 This meant a heavy burden on the rest of the economy (Table 3), which let me claim that since 1950 the share of people employed in public sector was steady growing up in Costa Rica

Along with the increase of governemnt expantion and a continuum trade balance deterioration during this period (Figure 3), Costa Rica's external debt increased so much during ISI-2 (24 3 percent per year) Indeed, as shown by Figure 4, it is during this government intervention period that external debt shows the higher rate of growth in Costa Rica history since 1950

Despite of some positive economic, social and political results from the import-substitution model cited so far, this strategy of development allowed the search for economic rents to include a wide and diversified array of specific interest groups [15] In fact, during this time, the government became lobbying by two different interest groups the government bureaucracy and public sector unions, for one side, and private labor unions and entrepreneurs by other (Lizano, 1995) This government behavior was consistent with the predatory theory of the state, a *gigantic transfer mechanism* of wealth and income among different members of society, manipulated by powerful interest groups which seek their own welfare, to the detriment of society as a whole

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[15] In fact, Lizano (1995) argues that the model work satisfactory during some period, producing significant political progress in Costa Rica, as well as social indicators improvement and financial stability In all of these areas Costa Rica was at the top of most of the Latin American countries

(ı e PESTs) [16]

Durıng the 1980s several events contrıbuted to the deepest economıc crısıs ın the recent hıstory of Costa Rıca (Fıgure 2) Thıs crısıs evıdenced the necessıty once agaın to revıse the strategy of development According to Gonzalez-Vega (1989), the crısıs resulted from a combınatıon of structural and short-term factors The structural determınants of the crısıs reflected a contradıctıon between the country's basıc characterıstıcs (a small domestıc market, relatıve labor abundance, and very specıalızed natural resources) and features of the ımport-competıng strategy of development Hıgh costs and dıstortıons resulted from the penalızatıon of agrıculture and the antı-export bıas of trade polıcıes (Monge and Corrales, 1988) Indeed, among the sources of the economıc crısıs the accumulatıon of the effects from the own weaknesses of the ımport-competıng strategy of development ıs perhaps the most ımportant one Fırst, the lack of regıonal ıntegratıon ın agrıcultural commodıtıes as well as servıces Second, ınvestment was financed not through domestıc savıng but foreıgn borrowıng (Fıgure 4) Thırd, protectıonısm pretended to be the maın ınstrument to drıve productıon ın the country Fourth, ımprovement of the standard of lıvıng ın many socıal groups was mostly related to lobbyıng rather than ıncrease ın productıvıty and productıon share

The short-term determınants of the crısıs ıncluded, on the other hand, the oıl shocks and the coffee boom after the mıd-1970s, and the unfortunate domestıc polıcıes adopted ın response to those shocks, followed by the ınternatıonal ınflatıon-recessıon at the end of the decade and the begınnıng of the 1980s

In short, ıncreases ın oıl prıces and other ımport prıces, ın general, and the fall of export prıces (see terms-of-trade deterıoratıon ın Fıgure 5), the rıse ın ınterest rates ın ınternatıonal capıtal markets and the related debt problems, matched wıth both ıncorrect domestıc macroeconomıc polıcıes and a wrong strategy of development, led to the deepest economıc crısıs that Costa Rıca had experıenced sınce the 1930s [17]

Major macroeconomıc ındıcators sharply deterıorated Inflatıon reached 80 percent per annum, the open unemployment rate became 9 percent of the labor force, GDP fell 10 percent ın one year, there was a strong devaluatıon of the colon wıth respect to the US dollar, and a bıg ıncrease ın the publıc deficıt (Lızano, 1992) In summary, ın the early 1980s the structural shortcomıngs of the ımport-substıtutıon

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[16]For example, Monge (1994) estımated the upper-bound of the deadweıght-loss assocıated wıth some DUP-actıvıtıes lınked to protectıonısm ın Costa Rıca from 1986 up to 1992 Accordıng to hıs fındıngs welfare losses may represent as much as 21 percent of Costa Rıcan GDP ın 1986 and 18% durıng 1992

[17]I agree wıth some economısts who argue that the crısıs would be taken place even ıf foreıgn adverse events have not occurred, although thıs may be not have happened at the begınnıng of the 1980s

model along with adverse short-term external factors generated the crisis Thus, the need to change the strategy again was perceived by all interest groups that so far had benefited from the import-substitution model

While the new ideas were gradually accepted by wider professional, academic, and political circles, international aid and financial institutions, such as the USAID, International Monetary Fund (IMF), the World Bank, and the Interamerican Development Bank (IDB), targeted their loans to projects that supported the new strategy of development [18] Thus, the new interests of the dominant groups, the ideas coming from the intelligentsia, and loan conditions of international lenders worked side by side since 1984 to shift the model of development (Lizano, 1992)

USAID played an important and possitive role during the crisis period, since it became the most important international donor to Costa Rica, granting more than haft of total multilateral assistance from 1982 up to 1984 (i e 66 % as an average) [19] Some authors claim that USAID aid and cooperation with Costa Rican government was justified on military grounds [20] But from an economic point on view, however, I thing that such a help was very useful in supporting president Luis Alberto Monge reforms Indeed, as it is pointed out by Vargas "Monge's reforms were backed by significant capital inflows, from multilateral institutions as well as from USAID This influx contributed to reduce the (social) pain that the necessary strong adjustment would otherwise have implied " (p)

Thus, at the beginning of 1980s USAID took place favoring reformers and changing its former role of helping Costa Rica to fait against natural fragmentation (i e through technical assistance, alleviation of poverty and basic needs) In this sense one can argue that USAID was more directly evolved in shifting the ISI strategy towards a new model (NEM), than when it pressure for regional integration at the beginning of 1960s as part of the Alliance for Progress Program

Section IV The New Economic Development Model (NEM) of Costa Rica 1984 to present

Through the NEM Costa Rican authorities sought a greater insertion of the economy into the world market, as the domestic and Central American markets were

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[18] It is important to point out that more than fifty percent (53 3) of the overall international development assistance to Costa Rica was granted during the last days of the ISI-2 (1983-1984) and the NEM

[19] According to Table 10 in Muench (1995)

[20] See Mata (1995)

not large enough to offer a source of growth in the long run In order to reach this objective, the Costa Rican economy must become more competitive in third-country markets, which required *getting prices right* Thus, the policy reformers look for a reform that included

(a) the reduction of protection to import-competing activities by further opening the economy to foreign competition This meant the elimination of the associated distortions and "rents" in domestic factor and goods markets,
(b) the reduction of the size of the state and its modernization, so that it would not crowd out the private sector, but rather facilitate its development,
(c) temporary compensatory subsidies and other incentives to non-traditional exporters in order to offset the anti-export bias generated by the import-substitution strategy, and
(d) adoption of consistent and stable macroeconomic policies

Since 1984 the Costa Rican authorities adopted several policies to implement the NEM, in areas such as trade, macroeconomic stabilization and financial system In the latter case, authorities were concerned about reducing the financial represion (McKinnon, 1973) and promoting financial deepening (Shaw, 1973), while in the trade reform the first task was to eliminate redundant-tariff protection (Monge, 1987) and promoting non-traditional exports [21] Indeed, Monge and Corrales (1988) found that the most important policies that facilitated the growth of non-traditional exports were the reduction of tariff and non-tariff barriers to imports, the establishment of new incentives for non-traditional exports, and the adoption of a flexible exchange rate policy These measures sought to grant non-traditional exports what Rhee (1984) has called a **neutral commercial policy regime,** namely a set of policies that allows exporting activities to compete in international markets in conditions similar to those prevailing in the absence of policy distortions [22]

The positive outcomes from all this set of policies did not wait to arise In fact, Costa Rican entrepreneurs following the new market signals re-allocated their scare resources among different investment opportunities during the NEM period so, many import-competing activities shifted the destination of their shipments toward third-country markets at the beginning of the NEM, as a result of the new policies (Monge and Corrales, 1990a) Besides, Monge and Lizano (1995a) found that several firms that produced mainly for the domestic market, have sucessfully shifted their earlier

[21] According to Balassa (1971), part of a tariff is said to be redundant if the difference between the international price and that of a domestic substitute is lower than the tariff

[22] For a broad description of this neutral commercial policy regime in the case of Costa Rica, see Monge (1992), Chapter II

production lines towards a new more competitive ones, avoiding to be out of bussines due to foreign competition Such outcomes have reduced the opposition to change in the ISI model in Costa Rica

Costa Rica begun the NEM period with a population twice than that at the begining of the ISI-1 model and with a real GDP per capita of US$ 1572, higher only in US$ 173,oo than that from 1962 Nevertheless, after ten years of the NEM Costa Rica enjoys a real GDP per person of US$1915, which represents a 2 0% rate of growth per year, that is the higher rate of growth registered in this country for any of the four periods considered so far In terms of apparent consumption the rate of growth is even more significant (5 3%), although lower than that form the ISI-2 period (Table 1 and Figure 2)

With respect to this latter result, Bailey (1991) has shown that current economic methods understate the gains an economy makes from policy liberalization (NEM), specially when measuring economic growth This is so, because there are problems related to (a) the introduction of new, improved models of previously existing products, (b) the introduction of entirely new products, into the price indexes we use as deflator for either current per capita GDP or apparent consumption per person, and (c) measuring the gains from trade [23] In general the author claims that to the extent that measured price changes contain an element of quality change, the corresponding index of real output will be understated Thus, the author points out

> "It is therefore also fair to suppose that errors of measurement (of price changes) in other countries, especially the less developed ones, are even more serious and <u>understate</u> real growth to an even greater extent in those cases where new products come into the market as freely as they do in the United States By contrast, highly regulated, statist economies that do not have comparable flows of new products and that manipulate their price indexes to understate endemic inflation, will have less of this type of bias and may <u>overstate</u> their real growth rates " (emphasis are mine)

Based on the Bailey's arguments seems to me that the economic growth rates from ISI model reported in Table 1 are overstated, while both real GDP per capita and real apparent consumption per person NEM growth rates are understated This outcome is very significant because this implies that the improvement in Costa Rican living standard during the NEM could be much higher than that from the ISI model Thus, if once considers the growth rate of Costa Rican economy during the NEM reported in

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[23]For example see Romer, P (1994) "New goods, old theory, and the welfare costs of trade restrictions," *Journal of Development Economics*, 43, pp 5-38

Table 1, such an improvement means that the present generation will enjoy about 35 percent improvement in its living standard after fifteen years, but, if Bailey's argument is correct and one assumes that the ***true*** rate of growth adds 3 percentage points to the reported growth rate for the first fifteen years, then, the effect on living standards is that next Costa Rican generation will enjoy a level more than double in fifteen years

Other indicators show similar positive trend during the NEM For example, the rate of growth of Costa Rican exports during the period 1984-1994 has been impresive (5 1 percent per year), specially if one see that the traditional ones has grown less in a growth rate less than 3 percent as an average during all this time, which means that nontraditional exports have provided most of Costa Rican foreign earnings during the same period Indeed, the Costa Rican exports rate of growth is one of the highest in Latin America [24]

The Costa Rican imports, on the other hand, has shown a relative higher rate of growth (7 3 percent per year) with respect to exports, which may come from the lack of compensated devaluations during all the liberalization period as well as an expansionist monetary policy [25] Thus, it is not a surprise the higher deficit that has been growing up in the trade balance of this country, which passed from real US$ 94 9 millions in 1984 up to real US$ 614 6 millions ten years later, representing a 9 3% of total GDP in 1994 (Table 1 and Figure 3)

Monge and Lizano (1995b) shown that a reactivation of the Central American Common Market (CACM), since the begining of the 1990s, has resulted in an increase in its relative importance for Costa Rican exports but not for its imports Indeed, according to the authors Costa Rican exports to CACM have grown significatively at a rate of 16 percent per year The CACM, on the other hand, has kept its small relative importance as a source for Costa Rican imports, around 8 percent

The production destiny has changed significantly in the Costa Rican economy since the middle of the 1980s Indeed, while production growth was 4 9 percent per year from 1985 up to 1993, exports grew twice such a rate (Op cit) Thus, it can be concluded that during the NEM the economic growth of Costa Rica has been associated with the opening of such an economy, as defined by Damill and Keifman (1992) [26]

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[24]Many economists agree that this is one of the most important positive effects coming from the trade reform undertook by this country at the middle of 1980s

[25]A compensated devaluation means that nominal exchange rate is adjusted at the same time barriers on imports are removed so, import flows keep unchanged while exports are encouraged

[26]These authors claim that it is important to distinguish between "opening" and "liberalization", since the former applies to a policy package designed to orient an economy towards international markets as part of an export-led process, while the later concept refers only to the dismantling of protective

Indeed, Corrales and Monge (1990a) found that durıng the trade reform, the exports share ın total output grew ın all nontradıtıonal Costa Rıcan sectors, agrıcultural, manufacturıng and food processıng actıvıtıes

Cespedes and Jımenez (1994) shown, on the other hand, that as a result from the openıng of Costa Rıcan economy, ıt has faced ımportant changes ın ıts trade structure Thus, there has ocurred an exports dıversıficatıon, an ıncrease ın the share of servıces wıthın the total foreıgn earnıngs, and an ıncrease ın those ımports of capıtal and final goods Wıth respect to total foreıgn earnıngs ıt ıs worthy to poınt out that although the share of Costa Rıcan tradıtıonal exports ın ıts GDP fell from 15 to 11 percent durıng the trade reform, the foreıng earnıngs comıng from nontradıtıonal exports (both agrıcultural and manufacturıng), draw back and tourısm ıncreased durıng the same perıod Thus, the share of total Costa Rıcan foreıgn earnıngs on the GDP passed from 28 percent ın 1985 to 36 percent ın 1993 (Monge and Lızano, 1995b)

The structure of ıts GDP has not changed so much, however, durıng the openıng process Indeed, the structure from 1984 ıs quıte sımılar to that ın 1993 (Table 2), where manufacturıng ıs the maın productıve sector, followıng by agrıculture Splıttıng out the GDP ın two sectors, agrıcultural and manufacturıng as well as servıces, one can conclude that the Costa Rıca economy ıs a servıces one (60 percent eıther ın 1984 or 1994) Although all the sectors have grown durıng the NEM, the most dynamıc ones are servıces such communıcatıons, bankıng and ınsurance The agrıcultural and manufacturıng grew as an yearly rate of 3 5 and 4 5 percent, respectıvely

The tourısm sector has been one of the most dynamıc ın the Costa Rıcan economy sınce the begınıng of the NEM Between 1986 and 1993 the foreıgn earnıngs for tourısm have ıncreased at an annual average rate of 23 percent, becomıng by 1993 the prıncıpal source of foreıgn earnıngs of thıs country, over bananas or coffee exports (Monge and Lızano, 1995b) Thıs sector has become one of the most ımportant productıve sectors ın Costa Rıca not only as a maın source of foreıgn earnıngs, but also because of the multıplıer and lınkage effects on productıon, employment and ınvestments ıt generates Thıs outcome ıs assocıated wıth a government ıncentıves support program, whıch ıncludes subsıdıes, tax exemptıons, buıldıng facılıtıes, and ınfrastructure ınvestment, as well as the changes ın relatıve prıces between tradables and nontradables that the openıng process has produced ın thıs economy All that has reduced the relatıve prıces dıstortıon and resource mısallocatıon

Studyıng the labor market performance durıng the NEM, Cespedes and Jımenez (1992) found that by 1989 real wages reach the same level they have ın 1980, before

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barrıers and other government controls as part of an ımport-led process the crisis, and growth rate of such real wages was higher than that from the overall economy The increase in real wages occurred mainly in those activities favored by the openness process of the Costa Rican economy, exporting activities and nontradables goods, with higher education requirements The poverty was also reduced in Costa Rica during the NEM period at levels lower than those before the crisis As these authors point out, this is also a long-run characteristic of the Costa Rica labor market, which is supported by Gonzalez and Cespedes (1993) findings on the positive relationship between the increase in employment and real wages and the reduction of poverty in Costa Rica

With respect to the effects of the NEM on income distribution, Morely (1994) claims that it was not until 1993 that the rapid growth of Costa Rican economy brought the poverty index back down to the level of the mid-eighties In this country the recession from 1989 to 1991 was shallow and the recovery was rapid In 1992, the country began to show the positive effects of the structural adjustment process, including the trade reform begun in 1984 The adjustments efforts led first to a slowdown in the growth rate over the period 1990-1991, then by 1992 the country grew strongly again, and by the end of 1993 real GDP was 15% higher than in 1991 The renewed growth in 1992-93 supported a big increase in employment and real wages both of which had a favorable impact on poverty That is, poverty in Costa Rica is countercyclical, because it rises in recessions and declines in recoveries

Looking at the estimates of Gini coefficient during several years (*poverty trends)* made by different researchers, it seems that in the case of Costa Rica, at the beginning of 1990s poverty was much less than when adjustment began (1984) In fact, according to Morley and Alvarez (1992) estimates of the Gini coefficient for Costa Rica, this decreased from 0 27 to 0 10, between 1986 and 1989 A similar result is showed in the Socioeconomic Report of Costa Rica by the Inter-American Development Bank (IDB, GN # 1777, Oct 1992), where the Gini coefficient from 1986 to 1990 shows a reduction, from 0 29 to 0 25, respectively

Since 1991, the real wages in the agricultural sector have risen faster than in the urban sectors (industry, construction, services), narrowing therefore the rural-urban wage differential That trend is the result of growth and has had a big effect on rural poverty (Op cit) On the other side, growth has led to the widening of the skill differential in the urban sector, because of the wage premium on skills in tourism and other sector activities At the same time, however, the rise in real wages at all levels reduced also urban poverty Contrary to the period 1980-89, when a better income distribution played a fundamental role reducing poverty, since 1989 it is the wage increase due to the increase demand for labor caused by the growth of the economy what seems to explain the poverty reduction (trickle-down)

The current rate of growth based on tourism, non-traditional exports and supporting urban service activities such as construction, has been so rapid that it has pulled labor out of low wage agriculture plus migrant labor into higher paying occupations With regard to the occupational and sectoral structure of the labor force, Morely found that, there has been a sharp reduction in the share of agriculture and an equivalent rise in the share of services What is supported by the Cespedes and Jimenez (1994) findings It is agreed that what has happened is that labor requirements in agriculture are increasingly being filled by Nicaraguan immigrants while Costa Rican migrate to better paying jobs in non-traditional agriculture or in the urban sector However, there has been an increase in the real wages of the unskilled agricultural labor force, although not as significant as in the other productive sectors

Morely claims that in the case of Costa Rica, economic growth resulting from trade reform and structural adjustment (NEM), together with the investment in education, helped to reduce the supply of unskilled labor, and therefore shrink the poverty wage earners A similar conclusion is argued by Gindling and Robbins (1994), who found that in Costa Rica inequality fell during the NEM period, although the rate of change in inequality is not as great as the rate of change prior to the trade liberalization In fact, they show that inequality in monthly salaries and hourly wages fell rapidly between 1976 and 1980, increase during the recession of 1980 and 1982, and then fell more slowly with trade reform from 1987 to 1993 Besides, they found that trade reforms and structural adjustment was accompanied by a fall in the wage gap between workers of different skill levels (different levels of education and experience), which indeed, is different from the experience of Chile, for example, where successful adjustment and trade liberalization was accompanied by an increase in inequality (Gindling and Robbins, 1994)

Implementation of the NEM, however, is still incomplete in Costa Rica, since today, there exist important political and economic pressure groups which support the shift of the strategy of development as well as groups that want to preserve the statu quo, under a slight modification of the original import-substitution model Thus, as Lizano (1992) claims, implementation of the NEM requires not only to remove trade restrictions on imports and to get prices right, but also favor the creation of new interest groups for whom the import-substitution strategy is incompatible with their interests For example, for the new group of exporters of non-traditional goods, protection to import-competing activities is unacceptable, since in exporting their products to third-country markets, instead of selling them in the domestic market, they can not transfer to foreign consumers the higher costs associated with domestic protectionism and government inefficiencies[27] Therefore, reduction or elimination of domestic protectionism and the modernization of the state are in the interest of this new pressure group

USAID has supported Costa Rican reformers in favor the creation of new interest groups for whom the import-substitution strategy is incompatible with their interests, such as the non-traditional exporters and the private banking system As explained later on by Camacho, for the case of non-traditional exports, and by Loria in the case of the banking system, USAID has been crucial in supporting the NEM Besides, according to Rajapatirana (1995) in order to reach a sucessful implementing of the NEM, it is required not only a good policy framework, but also an institutional set up Thus, since USAID has played an important role in promoting and funding NGOs that support the NEM in Costa Rica, such as CINDE, one can claim that without such a support Costa Rican economy could not have moved as far as it did in shifting the ISI model since 1984 In fact, during this period, Costa Rica was granted by US government with more than half (57 7%) of the total USAID to this country from 1946 up to 1994 (Column 1, Table 5)

Section V Costa Rican Standard of Living Changes 1945-1995

Section VI Concluding remarks

[27] Costa Rica is a small economy with neither monopoly nor monopsony power in the world markets, it is a price taker